Thrivers and Strugglers: The Balance Sheets and Financial Health of U.S. Families

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These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors.
Net Worth by Age/Birth Year, Education, and Race/Ethnicity:

(Emmons and Noeth, 2015. The Demographics of Wealth, Federal Reserve Bank of St. Louis)
New Economic Divide

Percentage of Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Thrivers</th>
<th>Strugglers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>14.6%</td>
<td>85.4%</td>
</tr>
<tr>
<td>2013</td>
<td>23.6%</td>
<td>76.4%</td>
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Percentage of Total Wealth Owned

<table>
<thead>
<tr>
<th>Year</th>
<th>Thrivers</th>
<th>Strugglers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>44.5%</td>
<td>55.5%</td>
</tr>
<tr>
<td>2013</td>
<td>32.7%</td>
<td>67.3%</td>
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Source: Survey of Consumer Finances
Financial Health Scorecard
(Source: Survey of Consumer Finances; N=38,385 families, 1992-2013)

- Did you save any money last year?
- Did you miss any payments on any obligations in the past year?
- Did you have a balance on your credit card after the last payment was due?
- Including all of your assets, was more than 10 percent of the value in liquid assets?
- Is your total debt service (principal and interest) less than 40 percent of your income?
Observations

- Large disparities in wealth are driven, in part, by *already* economically vulnerable families assuming too much balance sheet risk – too much wealth in homeownership, financed with too much debt, and holding too few liquid assets – while encountering institutions not geared toward accumulating wealth. That is, both economic decision-making *and* institutions matter.

- Age, even controlling for education and race, appears to be the strongest predictor of balance sheet health.

- Differences in age and education explain very little of racial wealth gaps; the racial wealth gap is similar across age and educational levels.

- Blacks and Hispanics have, on average, significantly lower incomes than whites and Asians, but also appear to have fewer opportunities to “convert” their incomes into appreciating assets.

- The median income of Asian families has long surpassed that of whites and, if current trends continue, median Asian wealth will surpass median white wealth as well.

- Education itself matters for wealth accumulation but other characteristics of people who obtain college and graduate degrees – family background, cognitive skills, “grit” – also contribute. In other words, even if everyone had the same college degree, a wealth gap would still exist.

- No strategy alone – homeownership, education – is likely to result in closing the wealth gap. In fact, the returns on key assets such as homes, education, and savings, appear to be weaker among minority families.

- A realist goal should not be to close the wealth gap, but to improve the financial health, balance sheets and lives of more struggling Americans.
Economic Trends Impacting Family Balance Sheets

- Increasing income and expense volatility (U.S. Financial Diaries; Dynan et al.)

- Debt overhang and prolonged recovery (Sufi and Mian; Emmons and Noeth); long shadow of a severe “balance sheet recession”

- Family structure, especially the rise of single-parent households without college degrees (Putnam; Wilcox; Cahn and Carbone; Cherlin; Sawhill, etc.)

- Returns to capital v. returns to labor; growing income and wealth inequality (Piketty; Stiglitz; Chetty; Saez; Krueger, etc.)
Ideas for Moving Forward

- Consider demographic drivers of economic vulnerability, not just income

- Start as early in life as possible to build a healthy balance sheet

- Strive toward balance sheet diversification, beginning with the shorter-term liquidity needs of families

- Think about influencing institutions, not just products and people