A Demographic Approach to the Financial Challenges of Economically Vulnerable Families

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These comments do not necessarily represent the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Outline of Today’s Talk

- Center purpose and overview (Ray)
- A demographic approach to wealth trends and inequality (Bill)
- The demographics of balance sheets and wealth, 1989-2013 (Bill)
- Research implications (Bill)
- Policy implications and directions (Ray)
“Researching family balance sheets to strengthen families and the economy” [www.stlouisfed.org/hfs]

Why balance sheets?

From asset building to balance sheets

• Balance sheet “failures”
• How an asset is financed matters as much as the asset itself

Connection to CFPB’s “Financial Well-Being” framework
A Demographic Approach to Wealth Trends and Inequality

- The advantages of a demographic framework
- The evolution of wealth and household balance sheets using the demographic approach, 1989-2013
The Demographics of Wealth: An Essay Series

- Part 1: Race, Ethnicity and Wealth (Feb. 2015).
The Demographics of Wealth: An Essay Series

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The Demographics of Wealth: An Essay Series

- www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth
- Part 1: Race, Ethnicity and Wealth (Feb. 2015).
- Part 3: Age, Birth Year and Wealth (July 2015).
Conventional wisdom: “The rich are getting richer, the poor are getting poorer.”

But who are the rich and the poor? Why are they rich or poor? Are the same families and groups of families rich or poor throughout their lives and across generations?

Many datasets—including ours, the Survey of Consumer Finances—provide merely snapshots at a point in time.

Our solution: Create “quasi-panels” based on stable, demographically defined groups or track cohorts over time.
### Why It Pays To Track Demographic Groups: The Overall Median is Misleading!

<table>
<thead>
<tr>
<th>Group</th>
<th>Percent change in median wealth, 1989-2013 (inflation-adjusted)</th>
<th>Percentage-point change in the share of all families</th>
</tr>
</thead>
<tbody>
<tr>
<td>All families</td>
<td>-4.8</td>
<td>0.0</td>
</tr>
<tr>
<td>White</td>
<td>3.0</td>
<td>-4.7</td>
</tr>
<tr>
<td>Black</td>
<td>44.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Hispanic</td>
<td>50.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Other (mostly Asian)</td>
<td>42.5</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances
A Simple Illustration of Misleading Medians

- Percent Change in Overall Median = -80%
- Percent Change in Each Coin’s Value = 0

Median Value of Coins = 5 cents

Median Value of Coins = 1 cent
Why the Demographic Approach to Wealth Trends and Inequality is Fruitful

- Allows us to create quasi-panels (time series) using cross-sectional SCF data.
- Allows us to interpret correlations as causal—for example, your birth year may “cause” your wealth but your wealth does not cause your birth year.
- More intuitive than rankings—everyone knows their race or ethnicity, education level and birth year but not necessarily where they rank.
  - Changes in the “top 10%” or “the bottom half” reflect different groups of people over time.
  - Do you know where you rank in the income or wealth distributions? Where you or your parents ranked in 2001 or 1989??
Part 1: Race, Ethnicity and Wealth

Groups based on race or ethnicity of family head

- Non-Hispanic white
- Non-Hispanic black or African-American
- Hispanic of any race
- Other (mainly Asian)
Wealth Gaps by Race or Ethnicity Were Huge in 1989

Median Real Net Worth by Race or Ethnicity

2013 dollars

African-American or black: 7,773
Hispanic of any race: 9,038
Asian or Other: 65,434
White non-Hispanic: 130,470

Source: Federal Reserve Board, Survey of Consumer Finances
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

2013 dollars

Source: Federal Reserve Board, Survey of Consumer Finances
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

African-American or black  Hispanic of any race  Asian or Other  White non-Hispanic

Source: Federal Reserve Board, Survey of Consumer Finances
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Source: Federal Reserve Board, Survey of Consumer Finances
Why Were Wealth Losses Higher Among Black and Latino Families After 2007?

Percent Loss of Net Worth Between 2007 and 2013

- All families: 40%
- African-Americans: 42%
- Hispanics of any race: 46%
- Asians and other minorities: 10%
- Non-Hispanic whites: 27%

Source: Federal Reserve Survey of Consumer Finances
Non-White Families Increased Already High Housing Exposures

Average Share of Assets Invested in Housing

Housing exposure remains higher now than before the boom period.

Source: Federal Reserve Survey of Consumer Finances
Non-White Families Increased Debt

Average Debt-to-Assets Ratios

Debt ratios remain higher now than before the boom period.

Source: Federal Reserve Survey of Consumer Finances
Part 2: Education and Wealth

Groups based on highest educational attainment of family head

- Did not complete high school or GED
- High-school diploma or GED
- 2- or 4-year college degree
- Post-graduate degree
In 1989, College Grads Were 28% of Families But Owned 55% of Wealth

1989 SCF Sample Shares by Educational Attainment

- No college: 72%
- Less than high school: 24%
- Graduate or professional degree: 9%
- Associate's or Bachelor's degree: 19%
- High-school diploma or GED: 48%

1989 SCF Wealth Shares by Educational Attainment

- No college: 45%
- Less than high school: 11%
- Graduate or professional degree: 24%
- Associate's or Bachelor's degree: 31%
- High-school diploma or GED: 34%

All college graduates: 55%

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances
In 2013, College Grads Were 39% of Families But Owned 75% of Wealth

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances
Only College-Graduate Medians Are Higher Now Than in 1989

Change in Median Net Worth From 1989 to 2013

Percent

Source: Federal Reserve Board, Survey of Consumer Finances

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.
Housing Exposure Increased More Among Less-Educated Families

Average Share of Assets Invested in Housing

Housing exposure remains higher now than before the boom period.

Source: Federal Reserve Survey of Consumer Finances
Debt Ratios Increased At All Education Levels Except Postgraduate

Debt ratios remain higher now than before the boom period.

Average Debt-to-Assets Ratios

Source: Federal Reserve Survey of Consumer Finances
Less-Educated Families Lost More Wealth Than Better-Educated Families

Percent Loss of Net Worth Between 2007 and 2013

- Median NW
- Mean NW

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>All families</td>
<td>40</td>
</tr>
<tr>
<td>High-school dropout</td>
<td>54</td>
</tr>
<tr>
<td>High school or GED</td>
<td>45</td>
</tr>
<tr>
<td>2- or 4-year college graduate</td>
<td>42</td>
</tr>
<tr>
<td>Postgraduate degree</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finances
Part 3: Age, Birth Year and Wealth

Groups based on age of family head
- Young: Under 40
- Middle-aged: 40-61
- Old: 62 or older

Cohorts based on birth year of family head
- 5-year cohorts centered on years ending in 0 or 5
- Beginning in 1900, ending in 1990
Changes in the Age Distribution of Wealth, 1989-2013

Medan Real Net Worth By Age of Family Head

Source: Federal Reserve Board, Survey of Consumer Finances
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Changes in the Age Distribution of Wealth, 1989-2013

Median Real Net Worth By Age of Family Head

Source: Federal Reserve Board, Survey of Consumer Finances
Only Age Groups 60+ Have Higher Median Wealth in 2013 Than in 1989

Source: Federal Reserve Board, Survey of Consumer Finances
Result: Young and Middle-Aged Families Lost More Wealth Than Older Families

Percent Loss of Net Worth Between 2007 and 2013

- Median NW
- Mean NW

- All families: 40%
- Young (<40): 36%
- Middle-aged (40-61): 47%
- Old (62+): 17%

Source: Federal Reserve Survey of Consumer Finances
All Age Groups 60+ Are Richer Now; All Age Groups Under 60 Are Poorer

Change in Median Net Worth From 1989 to 2013

Source: Federal Reserve Board, Survey of Consumer Finances
Young and Middle-Aged Families Increased Exposure to Housing the Most

Average Share of Assets Invested in Housing

Housing exposure remains higher now than before the boom period.

Source: Federal Reserve Survey of Consumer Finances
Young Families Increased Debt Loads More Than Middle-Aged or Older Families

Debt ratios remain higher now than before the boom period.

![Average Debt-to-Assets Ratios](chart)

Source: Federal Reserve Survey of Consumer Finances
Americans Born Around 1940 Won the 20th-Century Birth Lottery

Figure 15. Marginal Effect of Family Head’s Birth Year on Transformed Family Wealth Relative to Being Born in the Period 1938-42

Bars represent the estimated percentage difference in wealth between a family in a five-year birth-year cohort centered around the given year and the cohort of families with heads born in the five-year cohort centered around 1940. The bars are coefficient estimates from the regression reported in Table 6.

Solid green bars are statistically different from zero at the 10-percent confidence level. Outlined bars are not statistically significantly different from zero at the 10-percent confidence level.

The coefficient estimate for the 1990 cohort is 150.0, but the number of observations is very small.

In Sum: A Demographic Approach to the Financial Challenges of Economically Vulnerable Families

- Age, birth year, education and race/ethnicity are strong predictors of both wealth and balance-sheet risk.

- The recession hit the most-vulnerable (least-wealthy, highest-risk) groups the hardest.

- We need to understand why economically vulnerable families have become so financially fragile and what measures can assist them.
Research Questions

- How much did household financial fragility increase before the recession? How fragile are families now?
  - Many families were heavily exposed to house-price declines.
  - Heavy debt burdens amplified income (job-market) and housing shocks.

- Why did families with certain demographic characteristics increase their vulnerability to economic and housing disruptions so much?
  - Young
  - Less-educated
  - Families of color
A Growing Economic Divide
Changes in the Distribution of Net Worth by Age, Race and Education, 1989-2013

Percentage of Population

1989
- Strugglers: 85.4%
- Thrivers: 14.6%

2013
- Thrivers: 23.6%
- Strugglers: 76.4%

Percentage of Total Wealth Owned

1989
- Thrivers: 44.5%
- Strugglers: 55.5%

2013
- Strugglers: 32.7%
- Thrivers: 67.3%

Source: Survey of Consumer Finances
Is Demography Economic Destiny?

Implications for public policy:

- How to assign greater weight to demographic factors in targeting consumer protections and public resources?

Implications for financial capability:

- How can policy compensate for stronger “headwinds” faced by struggling families?

Promising Policy Directions

1. Early-in-life and youth savings, integrated into the fabric of other early interventions

2. Diversification, beginning with liquidity

3. College savings, affordability, completion, and better repayment options

4. Retirement savings

5. Homeownership as a “capstone” financial event
Further Information & Upcoming Events

Center for Household Financial Stability
www.stlouisfed.org/hfs

Does College Level the Playing Field?
Racial and Ethnic Differences in Family Wealth Among College-Educated Families
A Research Symposium  May 25-26, 2016  St. Louis

In the Balance articles
www.stlouisfed.org/publications/in-the-balance

Demographics of Wealth series
www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth