The Demographics of Wealth

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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.
Overview of The Demographics of Wealth

- What are the “demographics of wealth?”
- Three demographic factors that affect your wealth:
  - When you were born
  - How much education you have
  - Your race or ethnicity
- How demographics are related to wealth.
Wealth and How Demographics Matter

- How we define wealth
  - Wealth = Net Worth
  - Net Worth = Assets – Liabilities
    - Assets = Tangible assets + Financial assets + Business assets
    - Liabilities = Mortgage debt + Non-mortgage debt
  - We adjust all wealth figures for inflation to make them comparable to 2013.
  - Data: Federal Reserve’s Survey of Consumer Finances.

- What we mean by the “demographics of wealth”
  - How do key aspects of your identity that you cannot choose or change influence your financial choices and opportunities and how much wealth you accumulate?
Your Demographic Endowments

- When you were born
  - Your generation (Greatest, Silent, Baby Boom, Gen X, Gen Y)
  - Your age when we observe you in the data ("life-cycle effect")

- Your highest level of completed education
  - Less than a high-school diploma
  - A high-school diploma, GED or vocational training
  - A two- or four-year college degree
  - A post-graduate or professional degree

- Your race or ethnicity
  - Non-Hispanic white
  - Non-Hispanic black
  - Hispanic of any race
  - Non-Hispanic Asian (and groups such as Native Americans)

Education is:
- Chosen early; unchanging later in life.
- A proxy for socio-economic status.
Balance-Sheet Choices/Opportunities
Shape Financial Outcomes

- We define risky balance sheets as having:
  - A low level of liquid assets
  - High concentration of your assets in a house, cars or other “things”
    - This is the same thing as saying, “Low concentration in financial assets, like mutual funds, and business assets.”
  - High level of debt (compared to assets or income)

- Groups of families or individuals that we find are most likely to have risky balance sheets are:
  - Young
  - Less-educated
  - Black or Hispanic

- These groups also have the lowest wealth.
A Proxy for Risky Balance Sheets: High Real-Estate Share in Total Assets

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).

- The relative importance of income vs. portfolios
- Short-term vs. long-term trends

www.stlouisfed.org/~media/Publications/In%20the%20Balance/Images/Issue_12/ITB_August_2015.pdf
## Summary of Results: How Are Demographics Related to Wealth Accumulation?

<table>
<thead>
<tr>
<th>Demographic variable</th>
<th>Average effect <em>ceteris paribus</em>, 1989-2013</th>
<th>Changes between 1989 and 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td>W increases at a decreasing rate.</td>
<td>W increased for 62+, decreased for &lt; 62.</td>
</tr>
<tr>
<td><strong>Birth year</strong></td>
<td>Increases until about 1940, then decreases until 1970.</td>
<td>Appears to be a robust finding across samples.</td>
</tr>
<tr>
<td><strong>Educational attainment</strong></td>
<td>Virtually no wealth accumulation w/out college.</td>
<td>W increased for college grads, decreased o/wise.</td>
</tr>
<tr>
<td><strong>Race or ethnicity</strong></td>
<td>White &gt; Asian &gt; Black = Hispanic</td>
<td>B &amp; H increased rapidly until 2004, then crashed; W &amp; A more moderate.</td>
</tr>
</tbody>
</table>

*Evidence: Wealth regression*  
*Evidence: Charts below*
Regression Evidence: Average Relationship Between Age and Wealth

Wealth at age 20 equals 100

This result controls for:
- Education
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health

Estimated Effect of Age on Standardized Wealth

Age of family head

Wealth at age 20 equals 100
Regression Evidence: Average Relationship Between Birth Year and Wealth

This result controls for:
- Age
- Education
- Race/ethnicity
- Family structure
- Health
- Financial health

Wealth per $100 Owned by A Family Headed By Someone Born 1938-42

Benchmark group born 1938-42

Year of birth of family head
Regression Evidence: Average Relationship Between Education and Wealth

Wealth Per $100 Owned By A College Graduate

- College grad: 100 dollars
- Some college, no degree: 11.7 dollars
- High-school grad: 5.3 dollars
- High-school drop-out: 1.3 dollars

This result controls for:
- Age
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health
Regression Evidence: Average Relationship Between Race/Ethnicity and Wealth

Wealth Per $100 Owned By A White Family

- White: 100
- Asian: 66.6
- Hispanic: 22.0
- Black: 11.0

This result controls for:
- Age
- Education
- Birth year
- Family structure
- Health
- Financial health

Dollars
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
Changes in the Age Distribution of Wealth, 1989-2013

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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

Median Real Net Worth By Age of Family Head

Source: Federal Reserve Board, 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
Changes in Wealth By Educational Attainment

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.
Only College-Graduate Medians Are Higher Now Than in 1989

Index levels equal 100 in 1989

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

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 1989, College Grads Were 28% of Families But Owned 55% 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
In 2013, College Grads Were 39% of Families But Owned 75% of Wealth

No college: 61%
- Less than high school: 11%
- High-school diploma or GED: 50%
- Associate’s or Bachelor’s degree: 26%
- Graduate or professional degree: 13%

All college graduates: 39%

No college: 25%
- Less than high school: 2%
- High-school diploma or GED: 23%
- Associate’s or Bachelor’s degree: 36%
- Graduate or professional degree: 39%

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
Wealth Gaps by Race or Ethnicity Were Huge in 1989

Median Real Net Worth by Race or Ethnicity

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>African-American or black</td>
<td>7,773</td>
</tr>
<tr>
<td>Hispanic of any race</td>
<td>9,038</td>
</tr>
<tr>
<td>Asian or Other</td>
<td>65,434</td>
</tr>
<tr>
<td>White non-Hispanic</td>
<td>130,470</td>
</tr>
</tbody>
</table>

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

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

Source: Federal Reserve Board, Survey of Consumer Finances

2013 dollars

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

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

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

Source: Federal Reserve Board, Survey of Consumer Finances
Evolution of Median Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

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

2013 dollars

Source: Federal Reserve Board, Survey of Consumer Finances
Only Asians Have Converged Significantly Toward Whites

Median Real Net Worth by Race/Ethnicity as Share of White

Percent

Source: Federal Reserve Board, Survey of Consumer Finances
Asians Already Have Surpassed White Median Incomes

Median Real Income by Race/Ethnicity as Share of White

Source: Federal Reserve Board, Survey of Consumer Finances
What Can (and Cannot) Be Done?

- **Recognize that some things cannot be changed.**
  - Your parents and earlier ancestors
  - Your year of birth
  - Your race or ethnicity
  - Your native abilities, aptitudes and interests

- **Focus on things you can affect.**
  - Realizing your potential in school, at work, at home
  - Make better day-to-day financial decisions
  - Make balance-sheet choices that provide adequate liquidity, broad diversification and prudent leverage

- **Advocate for social policies that address inequities of birth and circumstances.**
Making Wealth-Building Changes in Financial Behaviors

Day-to-day financial decision-making
- Save regularly.
- Pay all bills and debts on time.
- Minimize use of high-cost credit.
- Keep plenty of cash reserves on hand.
- Don’t allow debt to strain your budget.

Balance-sheet recommendations
- Allocate at least 5% of your assets to cash reserves.
- Allocate at least 30% of your assets to financial assets (college accounts, retirement accounts) or business assets.
- Use debt cautiously and pay it off as quickly as possible.
  - For families under 40: Debt-to-assets ratio of <50% by age 40.
  - For families over 40: Have a plan to be debt-free by age 60.
For More Information

Center for Household Financial Stability
www.stlouisfed.org/household-financial-stability

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