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## The Demographics of Wealth: How Education, Race and Birth Year Shape Financial Outcomes

University of Central Arkansas

March 28, 2019

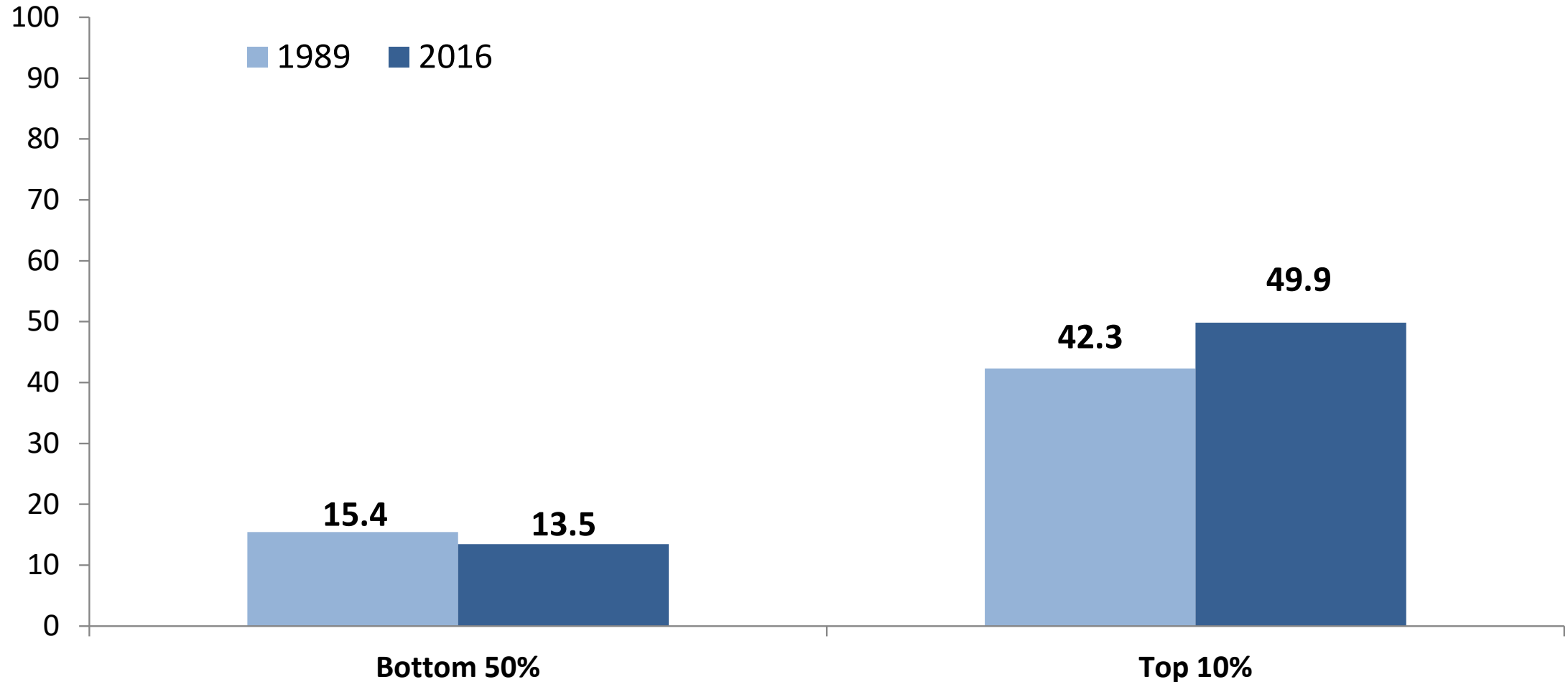
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*\*These are our views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

# Income Inequality Overall

## Share of Total Pre-Tax Income

Percent



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

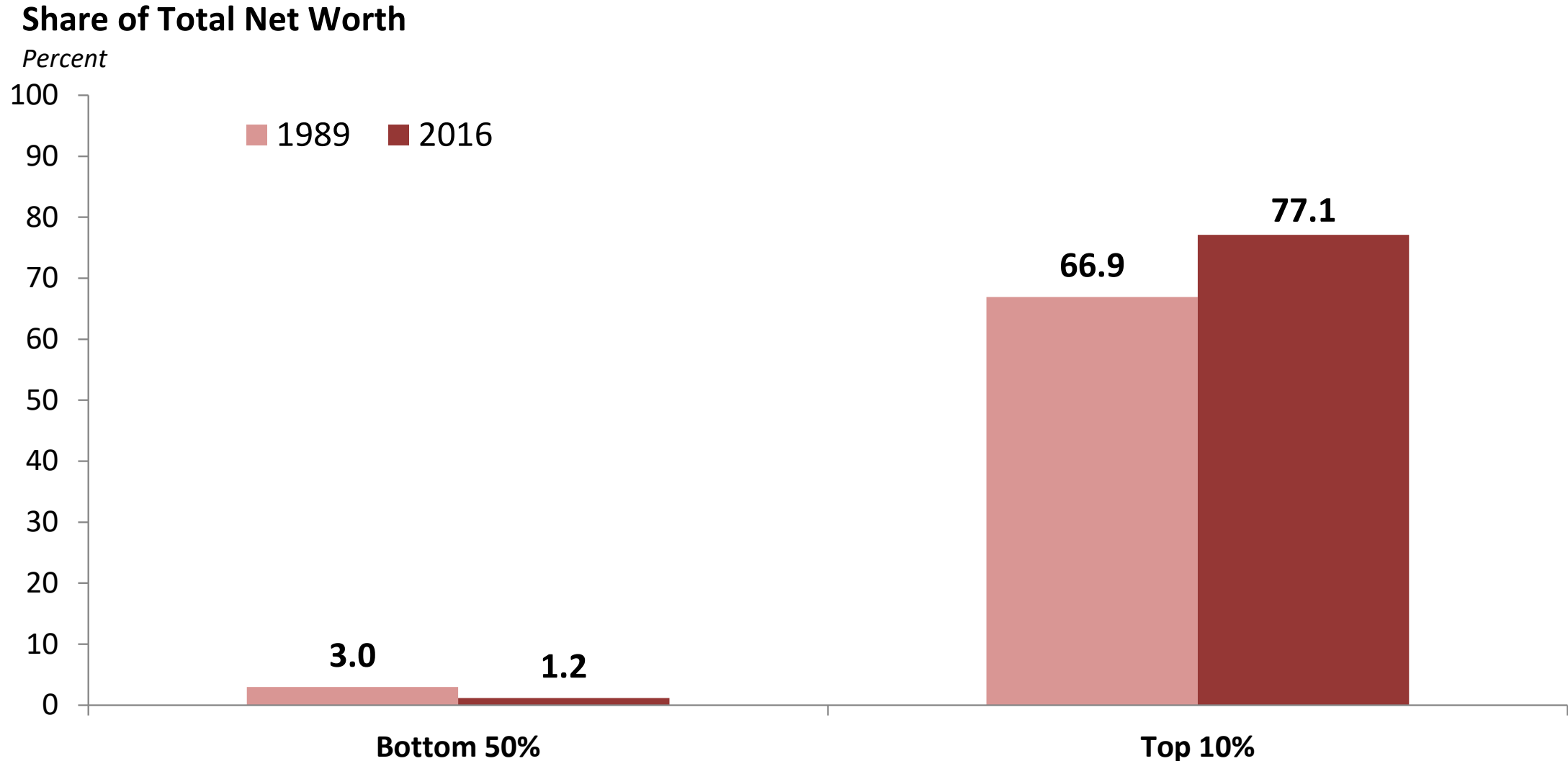
# Why Study Wealth?



**IN FOUR**

- Assets matter for economic security and upward economic mobility in ways income does not; balance sheets reveal dimensions of financial stress and health not otherwise apparent.
- Holding assets is associated with distinct social, psychological, emotional, child well-being, health, and civic outcomes.
- Lack of income means you don't get by; lack of assets means you don't get ahead. (Boshara 2002)

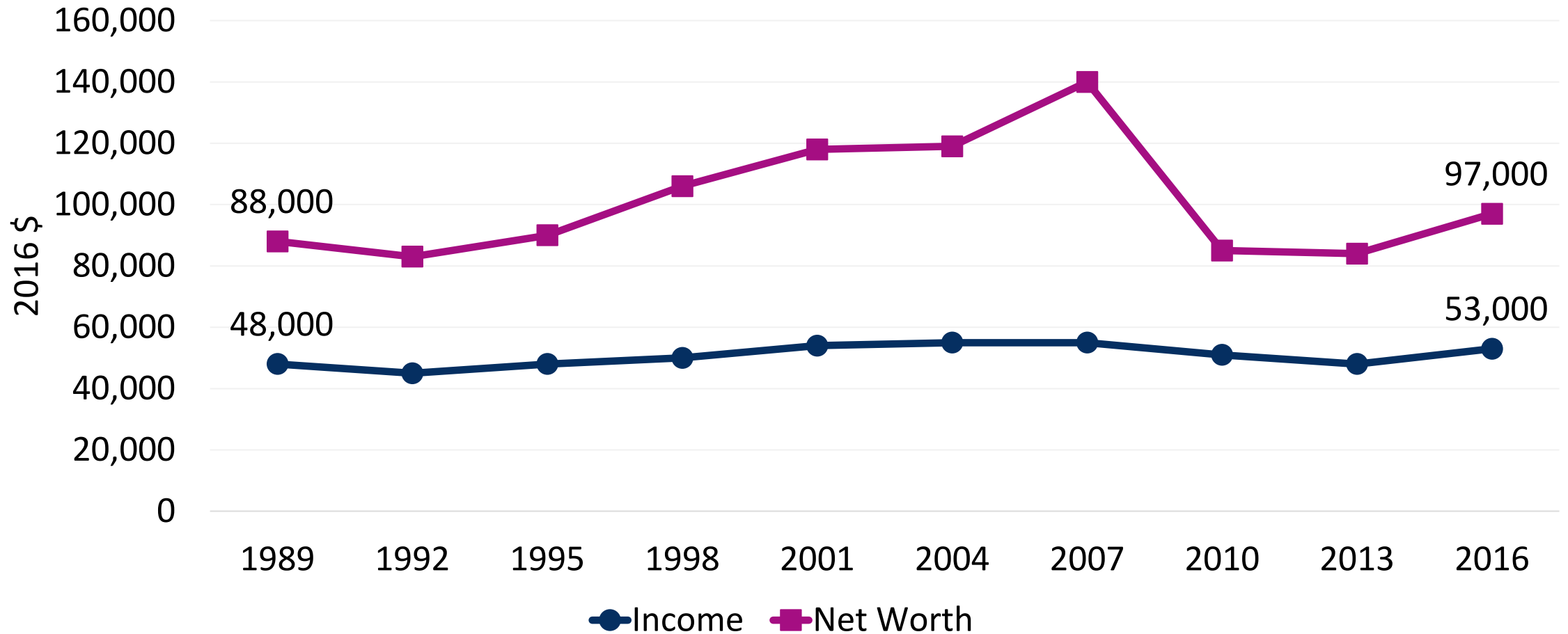
# Wealth Inequality Overall



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Median Income and Wealth Trends

## Real Median Income and Net Worth



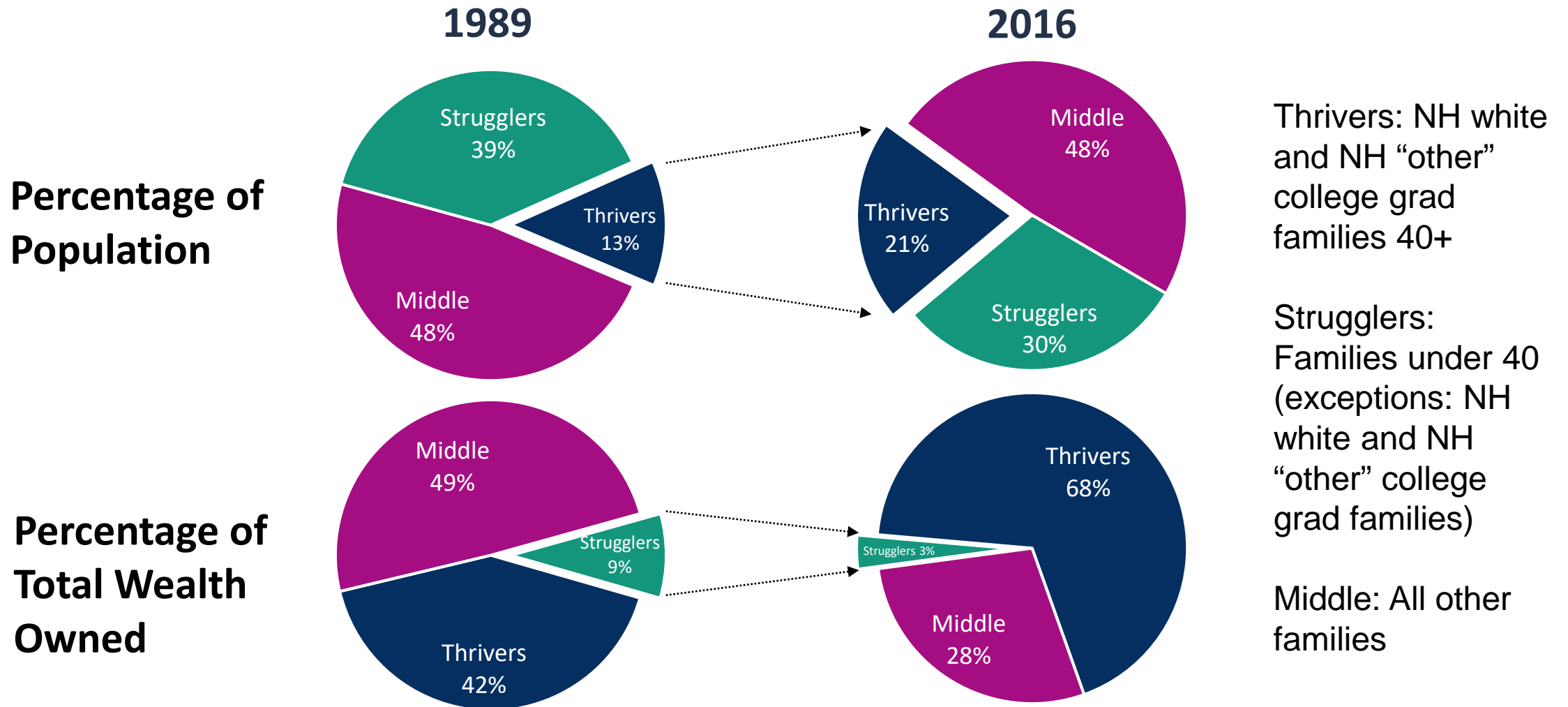
Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# The Demographics of Wealth



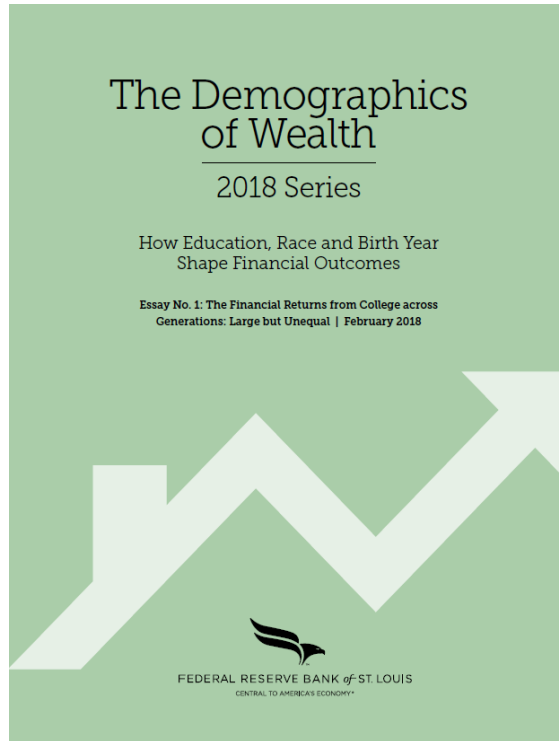
- Explore connections between wealth and a person's race/ethnicity, own education, parents' education, and age and birth year
- These factors are related to which families struggle and thrive
- 2015 series; redux in 2018

# Thrivers vs. Strugglers: A Growing Economic Divide



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

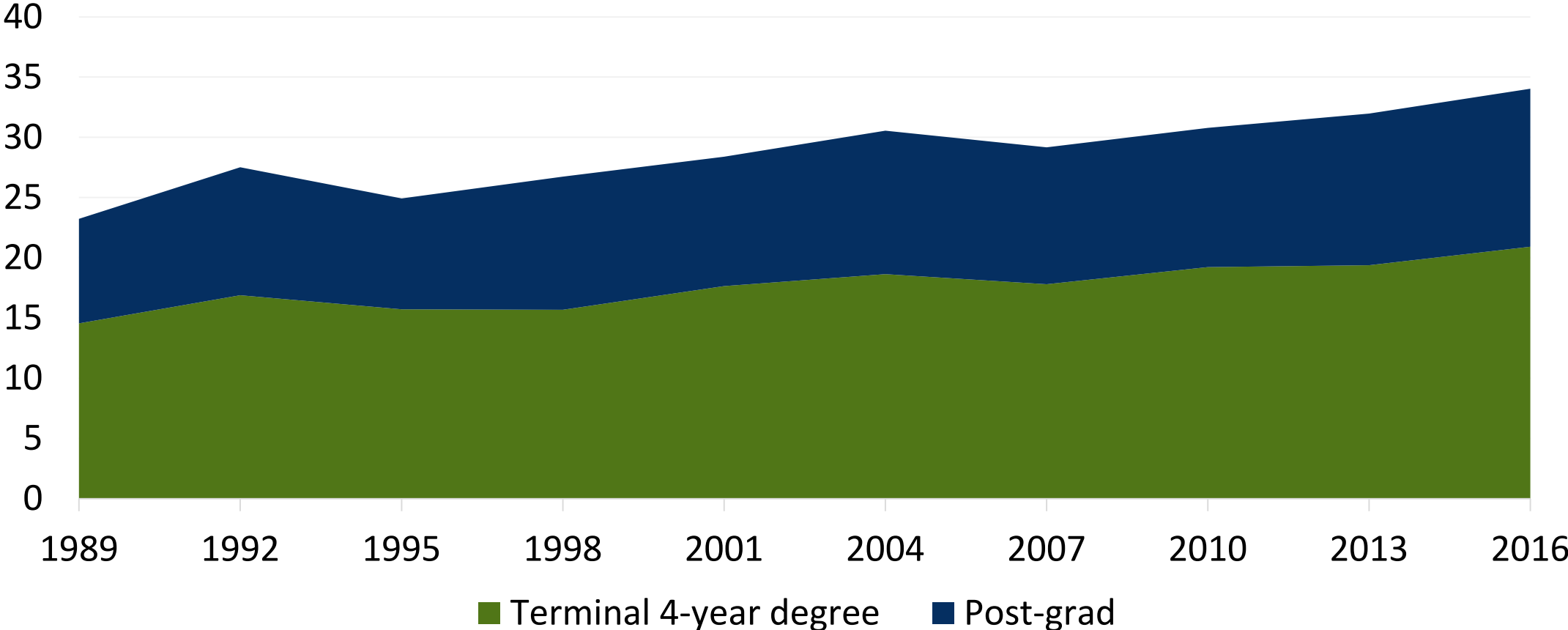
# Essay 1: The Financial Returns from College Across Generations: Large but Unequal





# Share of College Households Increasing

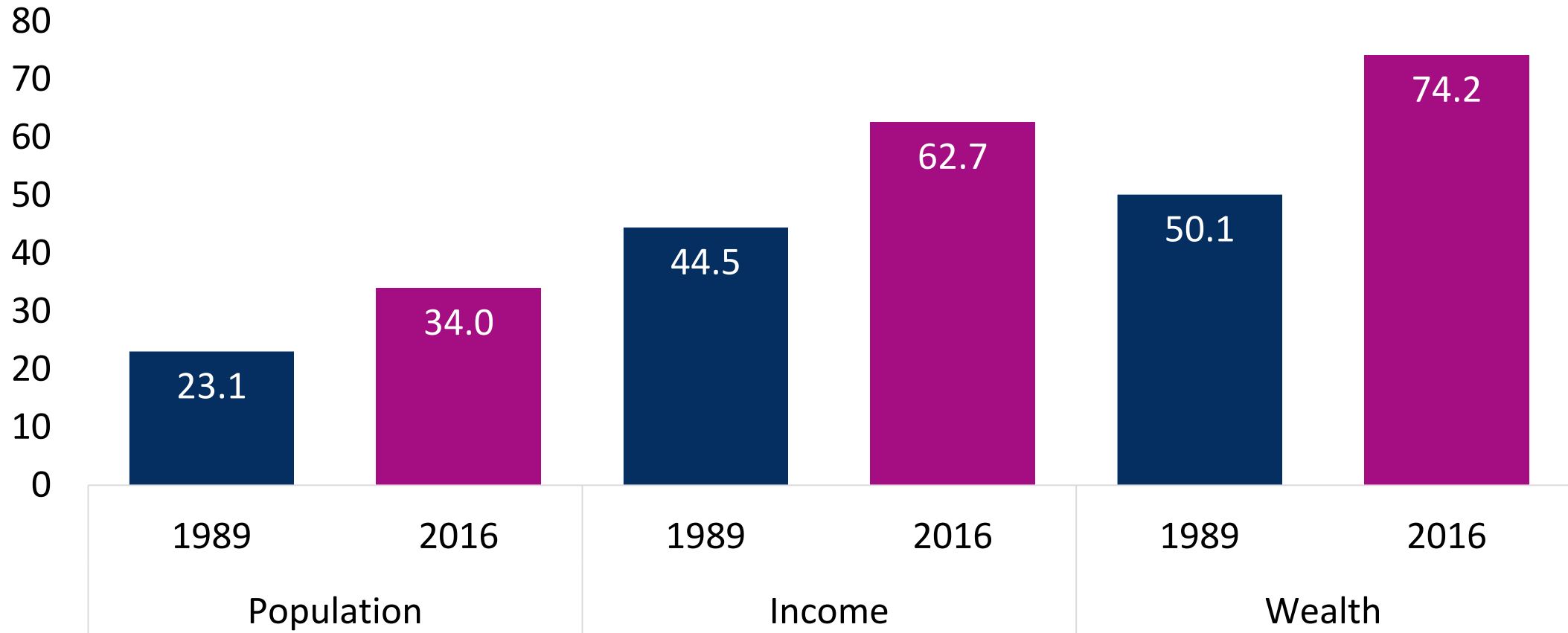
## U.S. Families Headed by Grads and Post-Grads



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# Rising Income and Wealth Shares

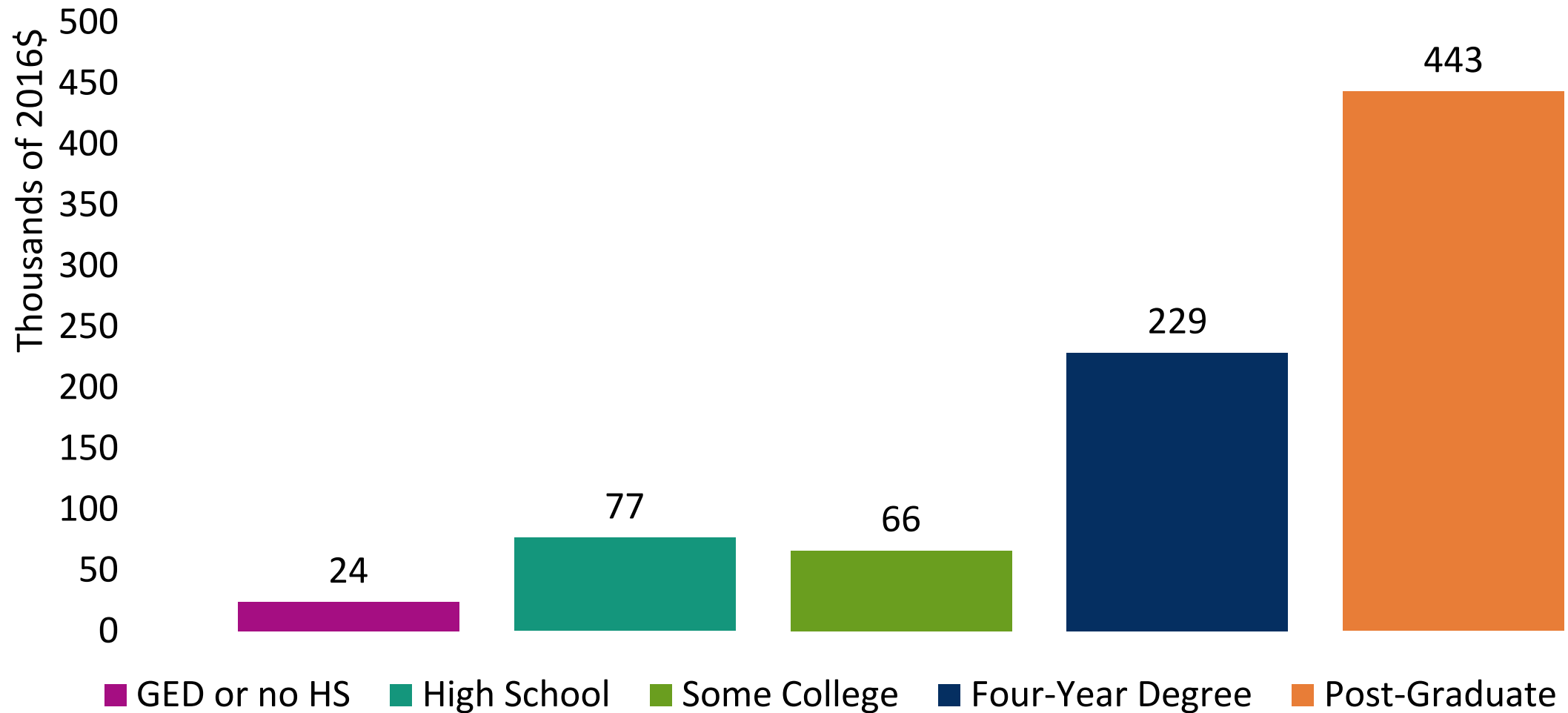
## Shares Among College Graduates



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# Education Wealth Differences in 2016

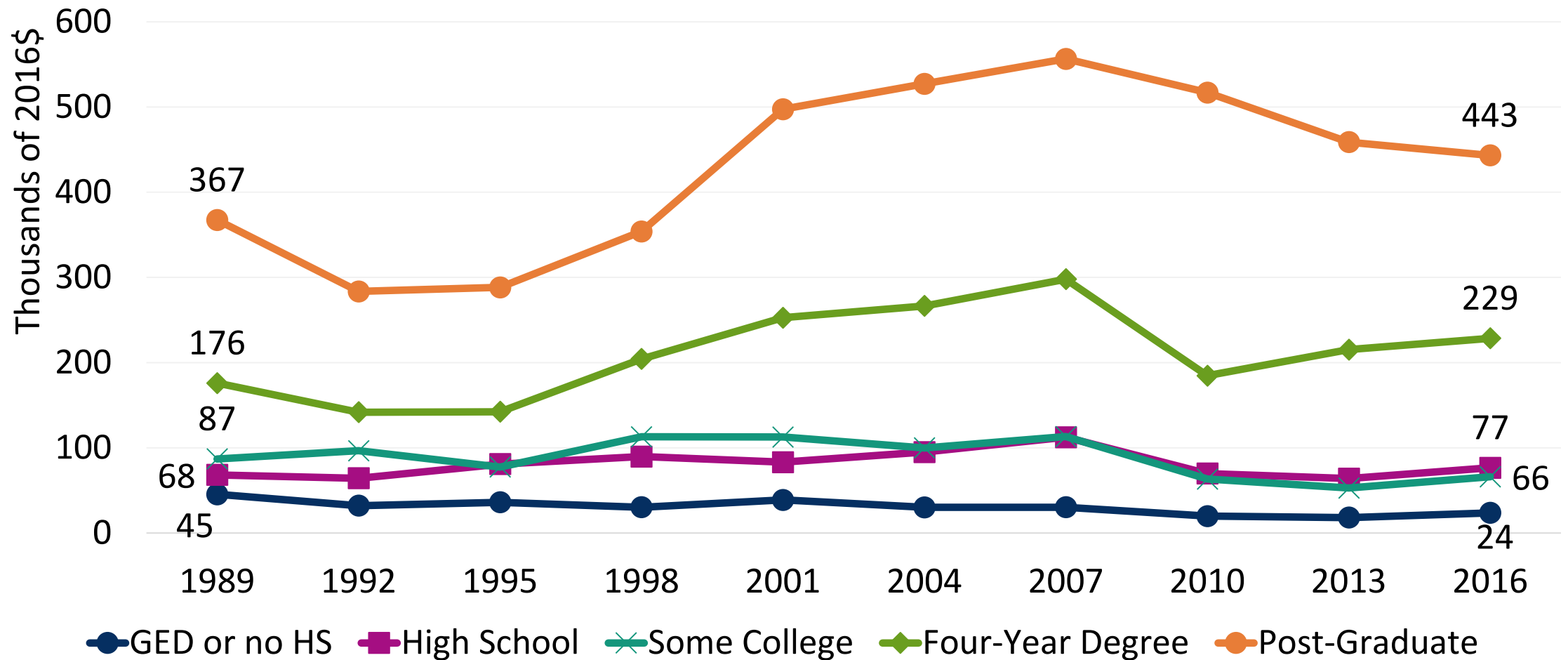
Real Median Household Net Worth, 2016



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# Education Wealth Gaps Increasing

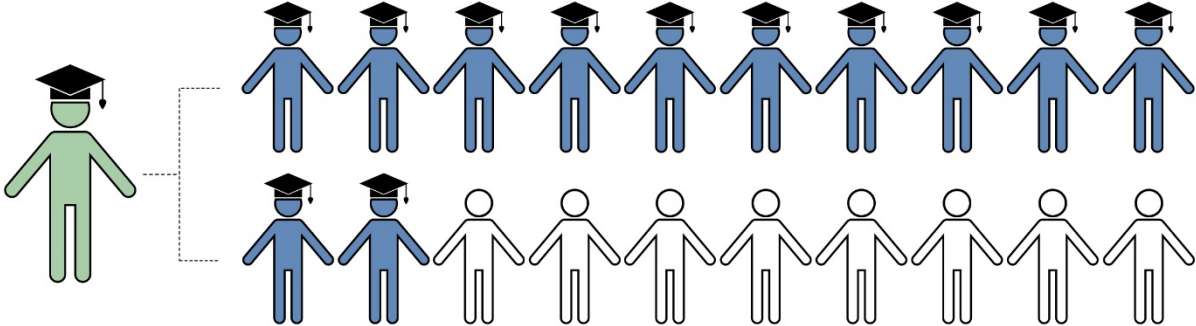
## Real Median Household Net Worth



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

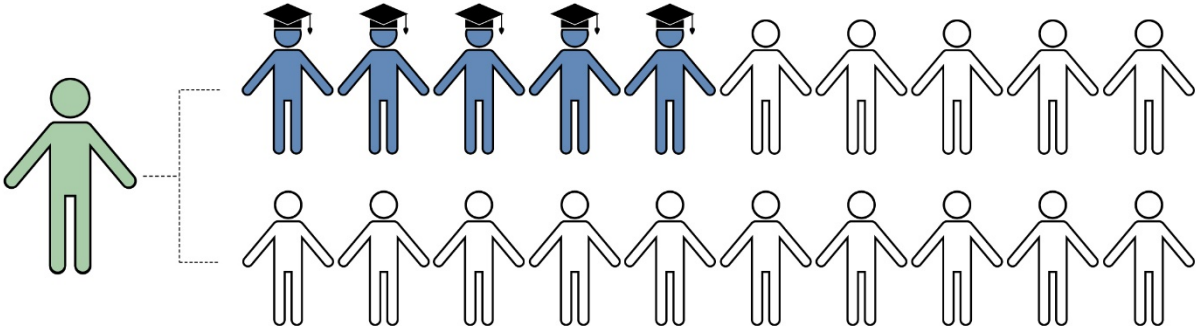
# Intergenerational Education

At least one parent has a four-year college degree



60 percent likelihood that adult children household heads also have degrees

Neither parent has a degree



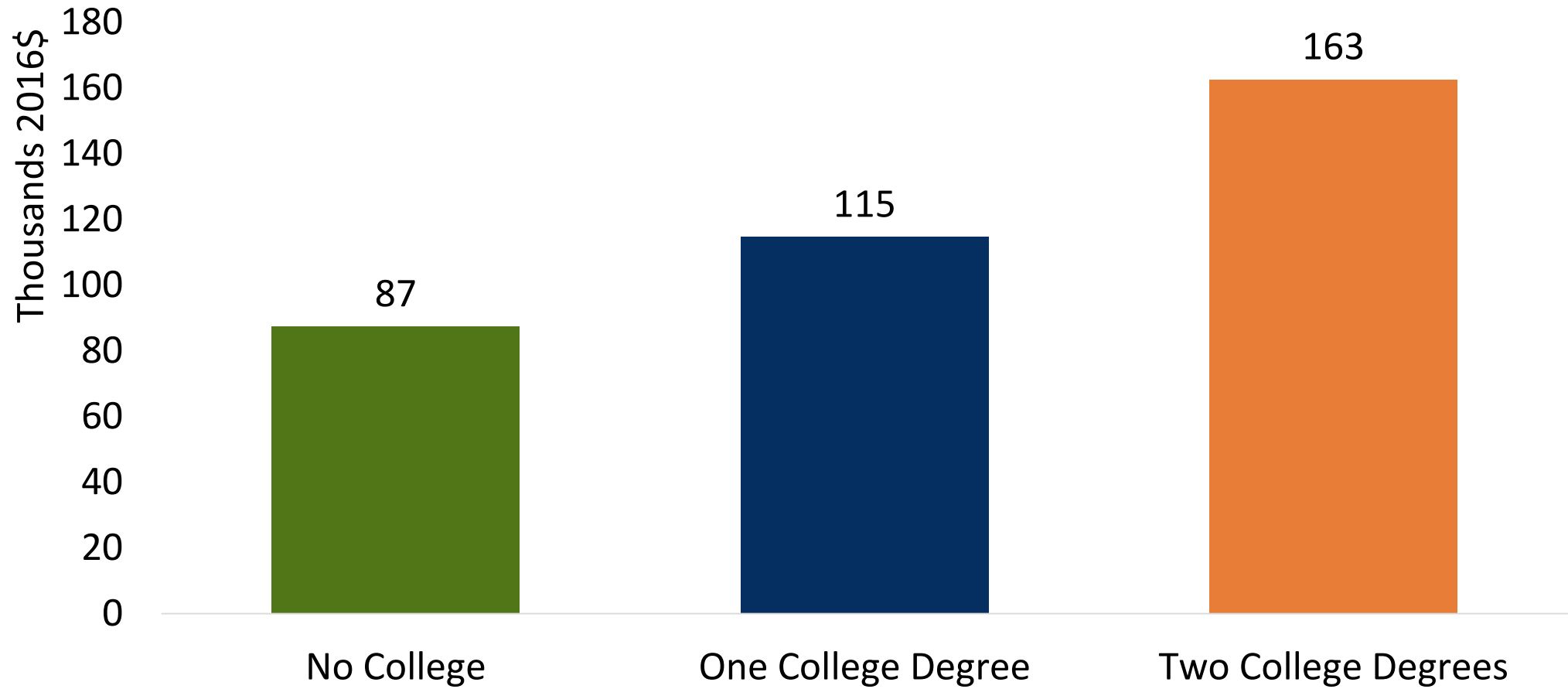
24 percent likelihood that adult children household heads have degrees

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Source: <https://www.stlouisfed.org/publications/in-the-balance/2019/children-of-college-graduates>

# Wealth Patterns by Parental Education

Median Household Net Worth by Parental Education



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# Demographics Combined

## Own Effort

- College income and wealth premiums – individual efforts to complete the degree and the benefits of the learning itself?



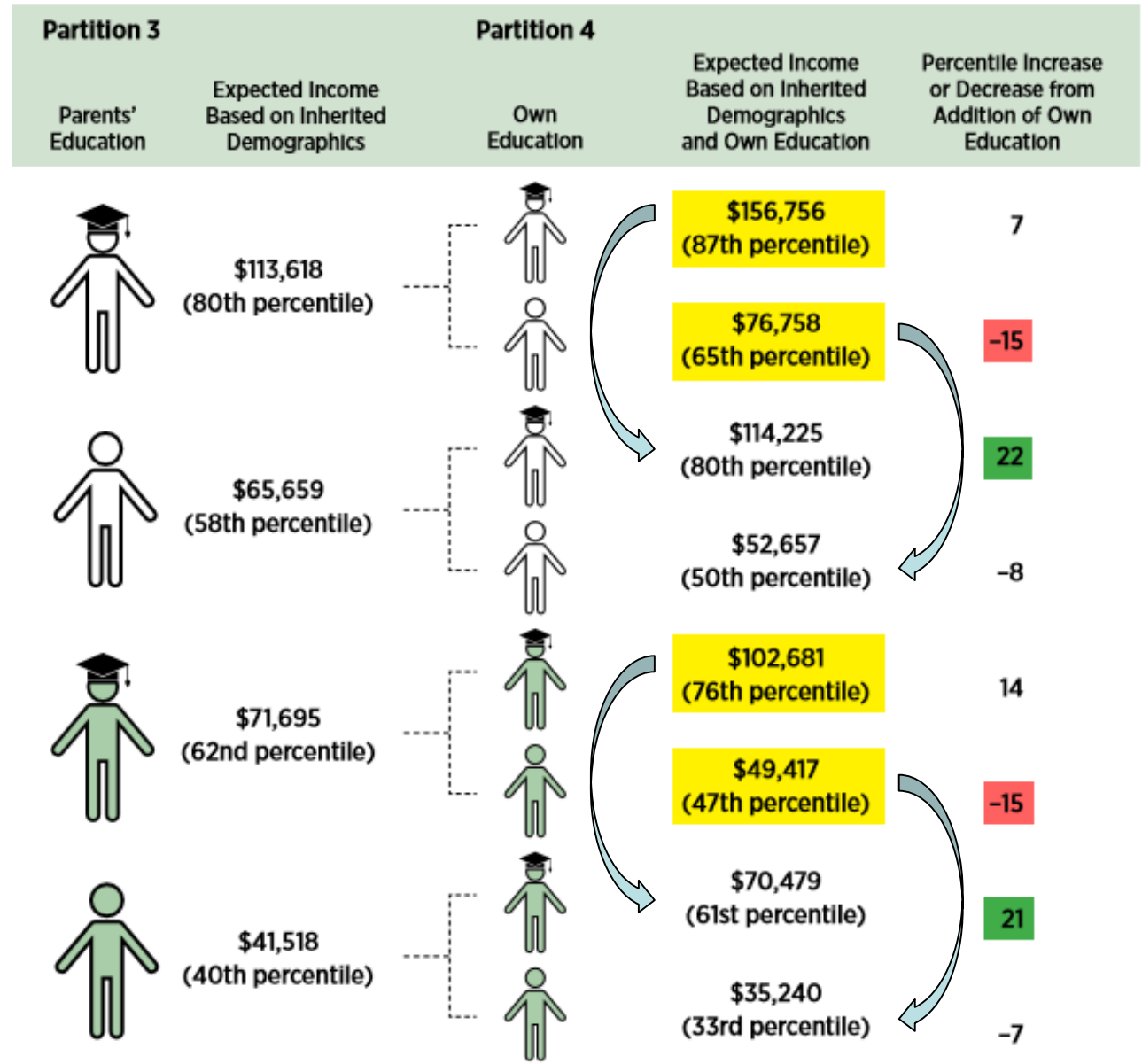
## Inherited Traits

- Or – inherited demographic traits both in predisposing someone to complete a degree and in boosting later financial achievement?





**The Head Start effect:** Families with “favorable” (white, middle-aged or older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.

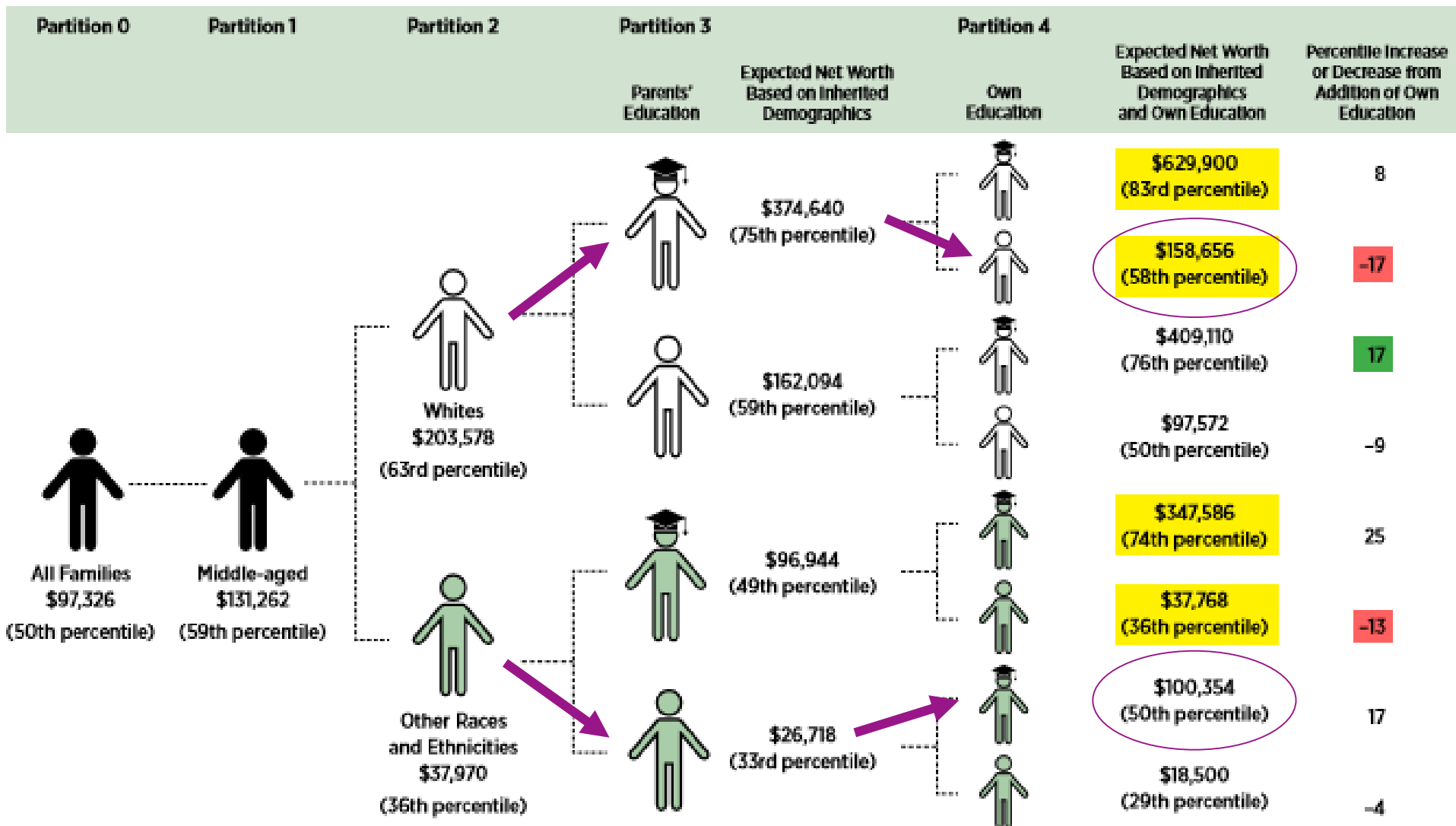




Inherited

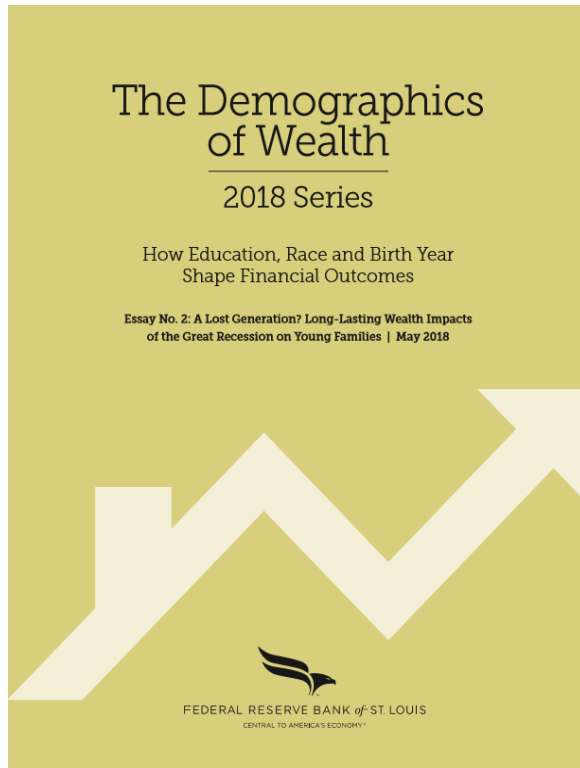
Acquired

Figure 6. Median Middle-Aged Family Net Worth by Inherited Characteristics and Own Education



Source: <https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth>

# Essay 2: A Lost Generation? Long-Lasting Wealth Impacts of the Great Recession on Young Families

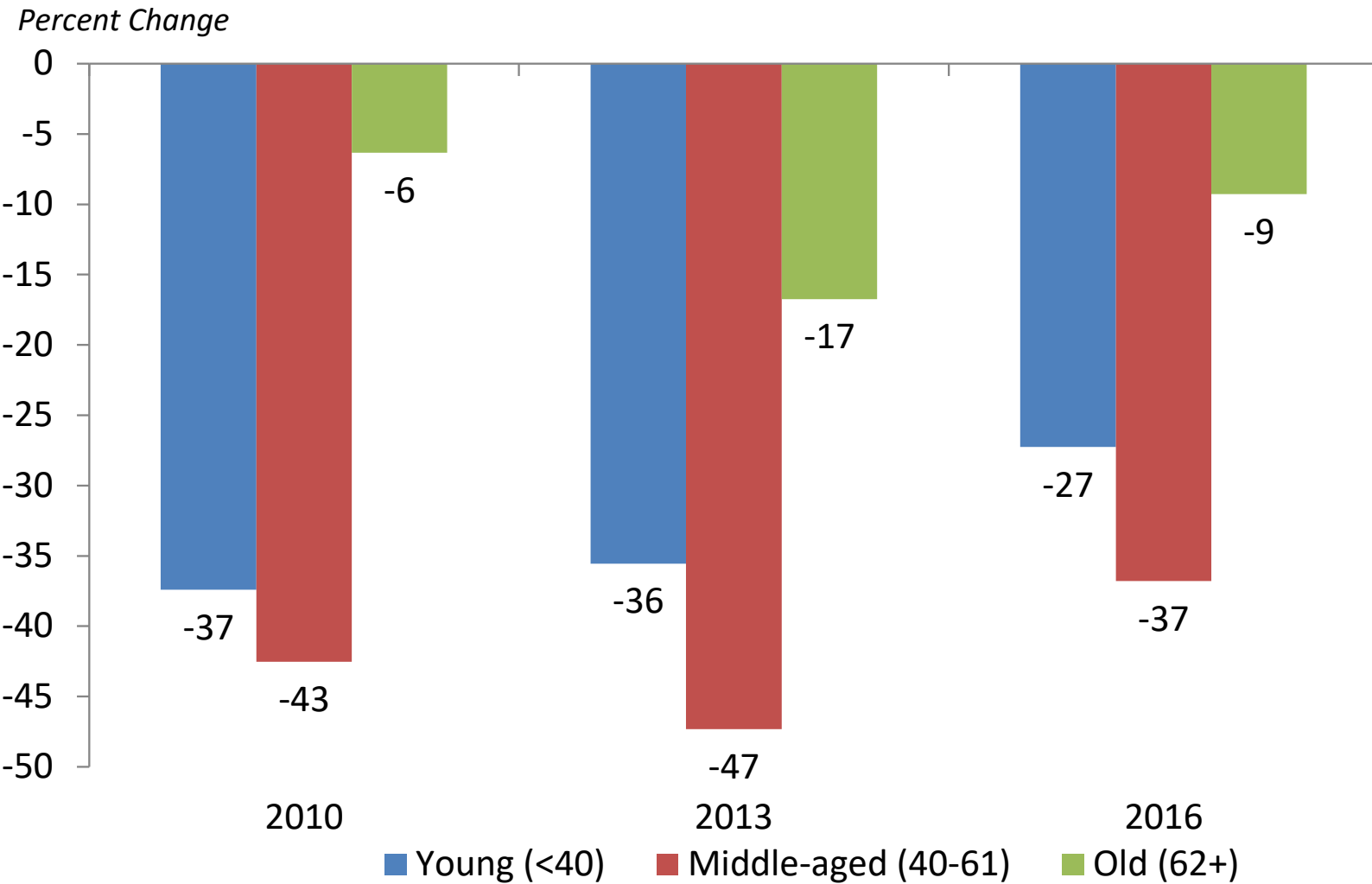


- The Great Recession of 2007-09 inflicted deep and widespread losses to wealth across American families.
- While wealth losses occurred across the age spectrum, the extent of the damage has been unequal.
- Younger families suffered the most and have rebounded slowly.



# Great Recession Hit Under-Retirement Age Families Harder

Change in Median Net Worth by Age Group, Relative to 2007

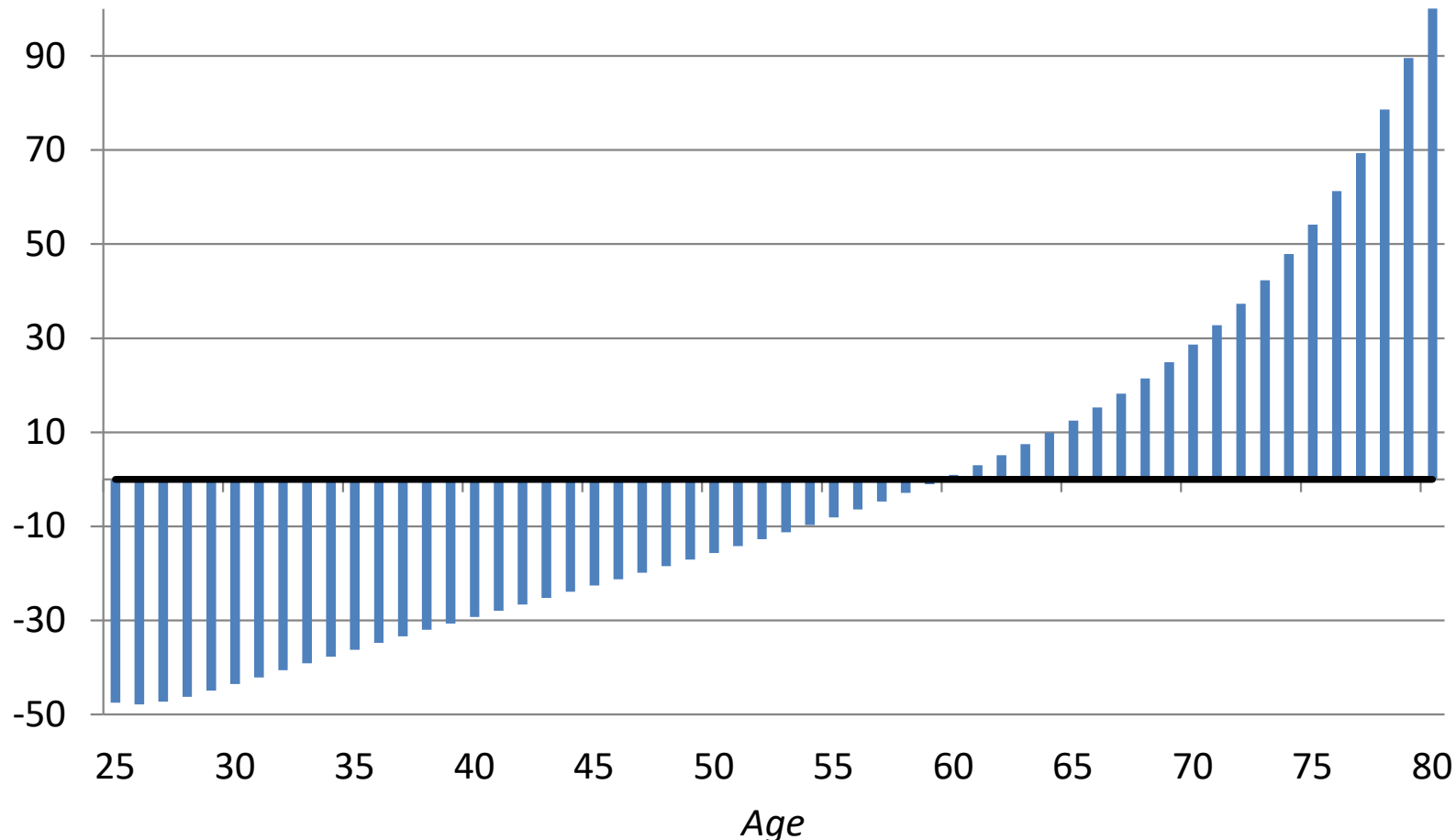


Source: Federal Reserve Board, Survey of Consumer Finances.

# The Changing Fortunes of Age: 60 Marks Turning Point in Wealth Outcomes

Change Between 1989 and 2016 in Predicted Wealth

*Percentage Difference*



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



## When You Were Born Matters

- Given substantial shifts in predicted wealth by age, when you reach age milestones is important.
- To understand how members of particular birth years have fared, we track six decade-long cohorts over time:
  - Family heads born in the 1930s, 1940s, 1950s, 1960s, 1970s and 1980s.
- To be clear, we don't track individual families across time; instead, we track outcomes among all families with a shared birth-cohort.

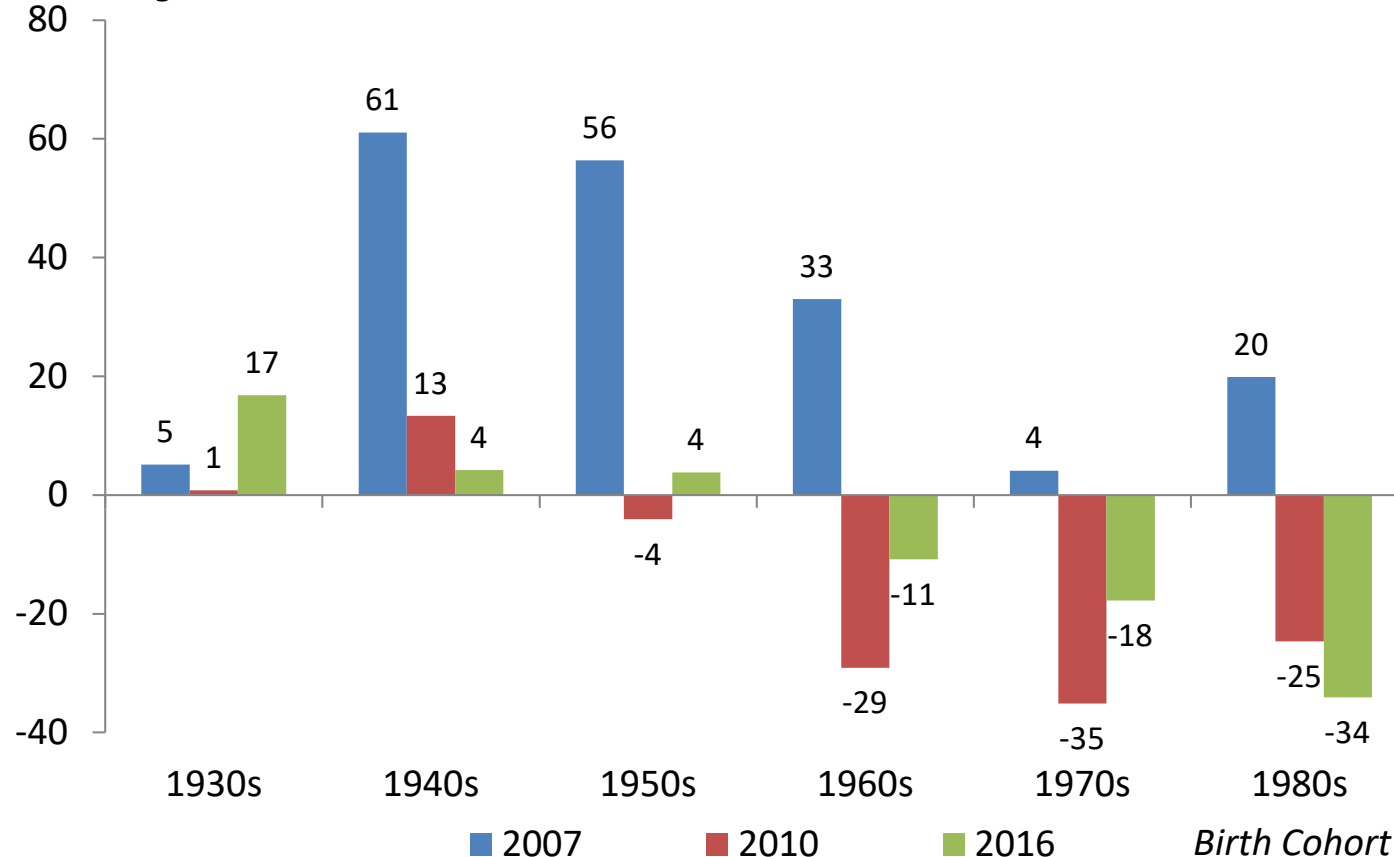
## Can Families Recover What They Lost?

- For the families which lost the most wealth, how likely are they to recover in time for major goals?
  - First-time home purchase
  - College tuition for their children
  - Retirement
- Will families in younger birth cohorts become part of a “lost generation” that struggles to achieve life’s financial milestones?

# Which generations are back on track?

## Deviation of Birth Cohort Median Wealth from Predicted Value

Percentage Points



Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.

- Cohorts born before 1960 were above benchmark levels in 2016.
- Cohorts born in 1960 or later were below predicted wealth levels.
- The 1980s cohort slipped noticeably further behind between 2010 and 2016.

# Housing Was Key for 1960s, 1970s Cohorts

- Together, high debt ratios, high homeownership rates and high delinquency rates spelled trouble for families born in the 1960s and 1970s.
- Housing and mortgage debt likely played a role in the wealth losses seen during the Great Recession.
- Conversely, as home values recovered in recent years, many of these homeowners benefited, as evidenced by closing gaps between actual and predicted wealth.



# Families Born in the 1980s Are Different

- In 2007, only 19 percent of 1980s families were homeowners.
- Instead of mortgages, student loans, credit card debt, and auto loans were a key source of leverage.
- Unlike stocks and real estate, these debt-financed assets haven't rapidly appreciated in the last few years.
- The 1980s cohort was unusual in falling further behind wealth benchmarks from 2010-2016.

# Is the 1980s a “Lost Generation”?

- The high returns on housing and financial assets in recent years are unlikely to continue in future years.
- Thus, catching up to the wealth benchmarks set by earlier generations is possible – but no simple feat.
- Income and homeownership trends have been unexceptional for the 1980s cohort so far.
- The challenge faced by the typical 1980s family should not be underestimated.

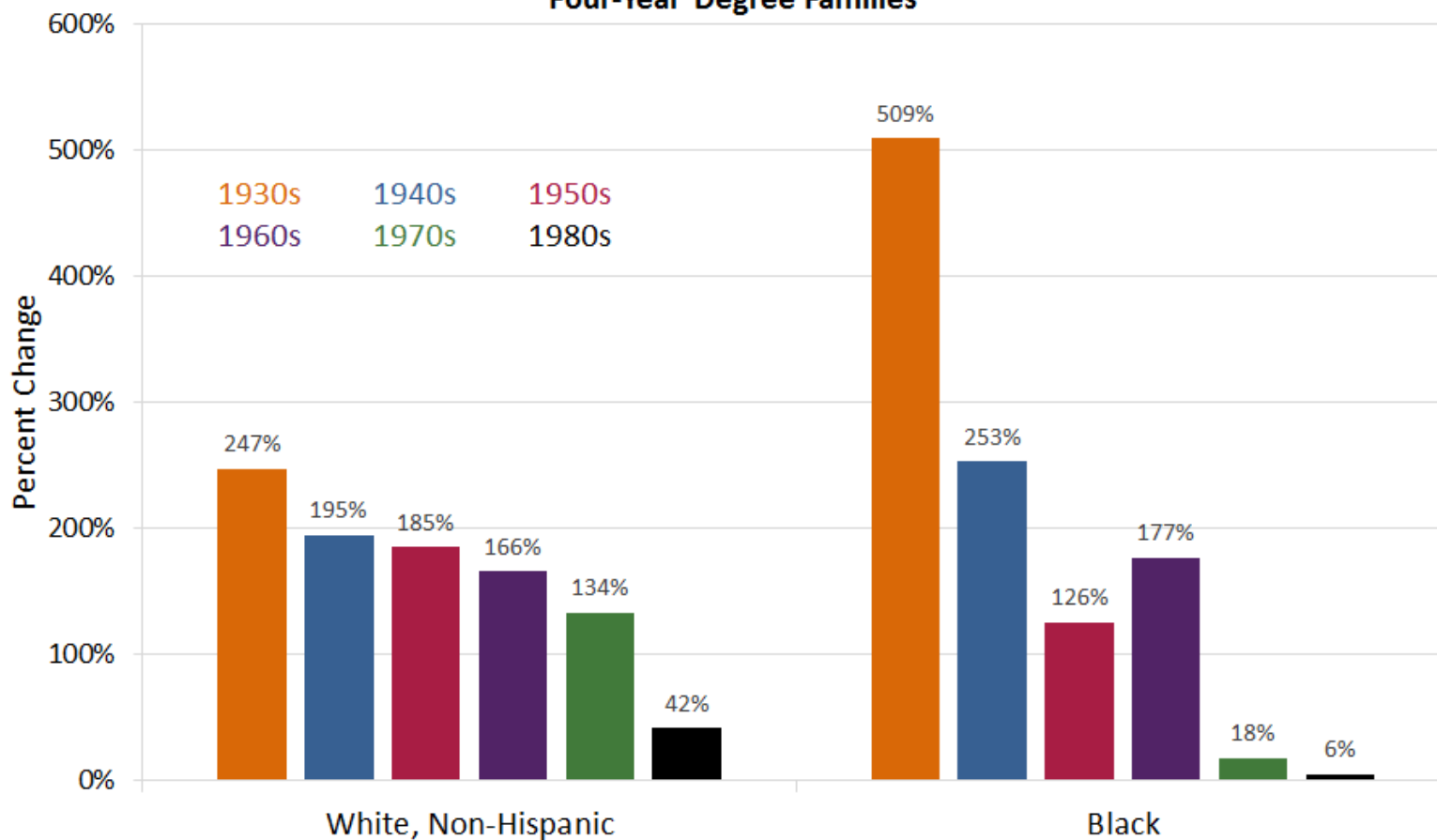
# A Case for Optimism

- Two key factors on the side of 1980s-born families are time and education.
- These families have many more years to earn, save and accumulate wealth.
- This is the most highly educated generation; it's possible that their income and wealth trajectories will be steeper.
- It's far too soon to know whether families born in the 1980s will catch up; we will have to wait and see.

# A Case for Pessimism

## Change in Expected Wealth

Four-Year Degree Families

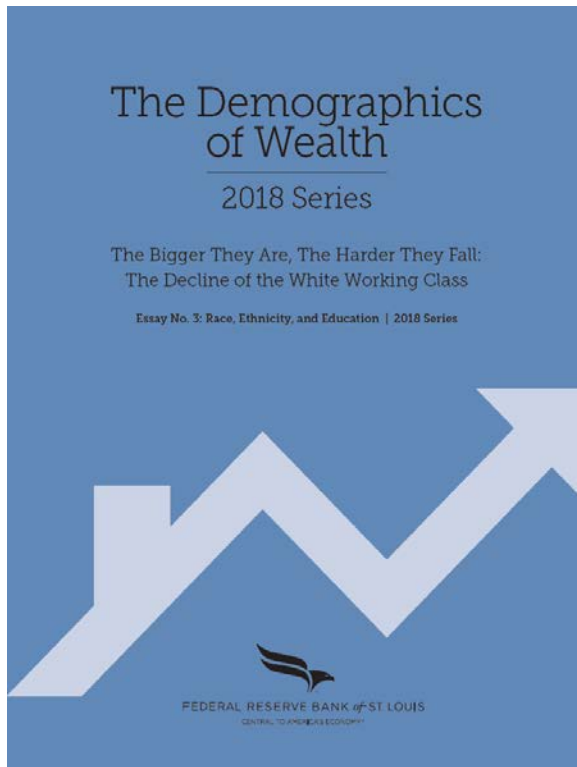


SOURCES: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

NOTE: Percent change is relative to nongrad families of the same race born in the same decade.

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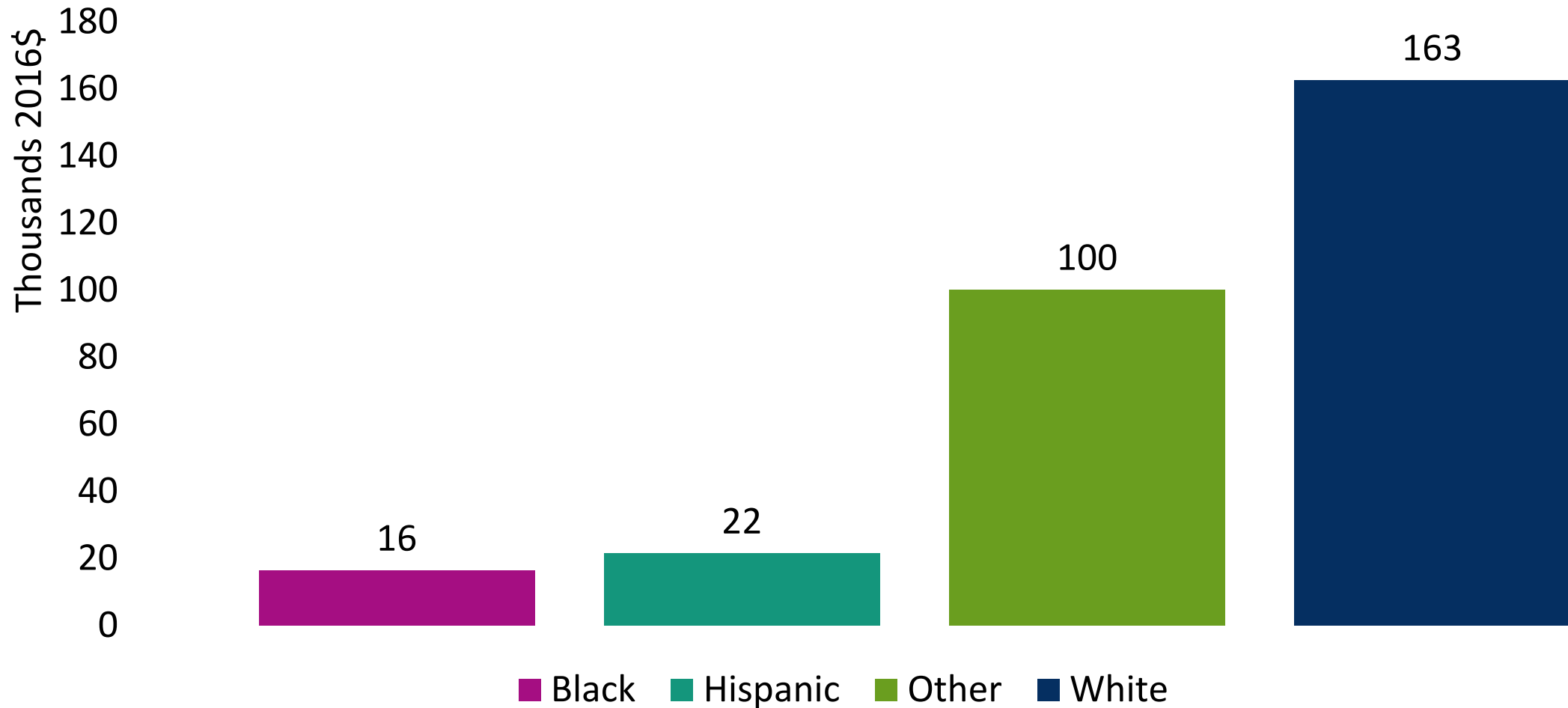
# Essay 3: The Bigger They Are, The Harder They Fall: The Decline of the White Working Class



1. Largest race/ethnicity by education subgroup
2. Outcomes have diverged from similar groups
3. Focus of intense scholarly and popular discourse

# Race/Ethnicity Wealth Differences in 2016

## Median Family Net Worth

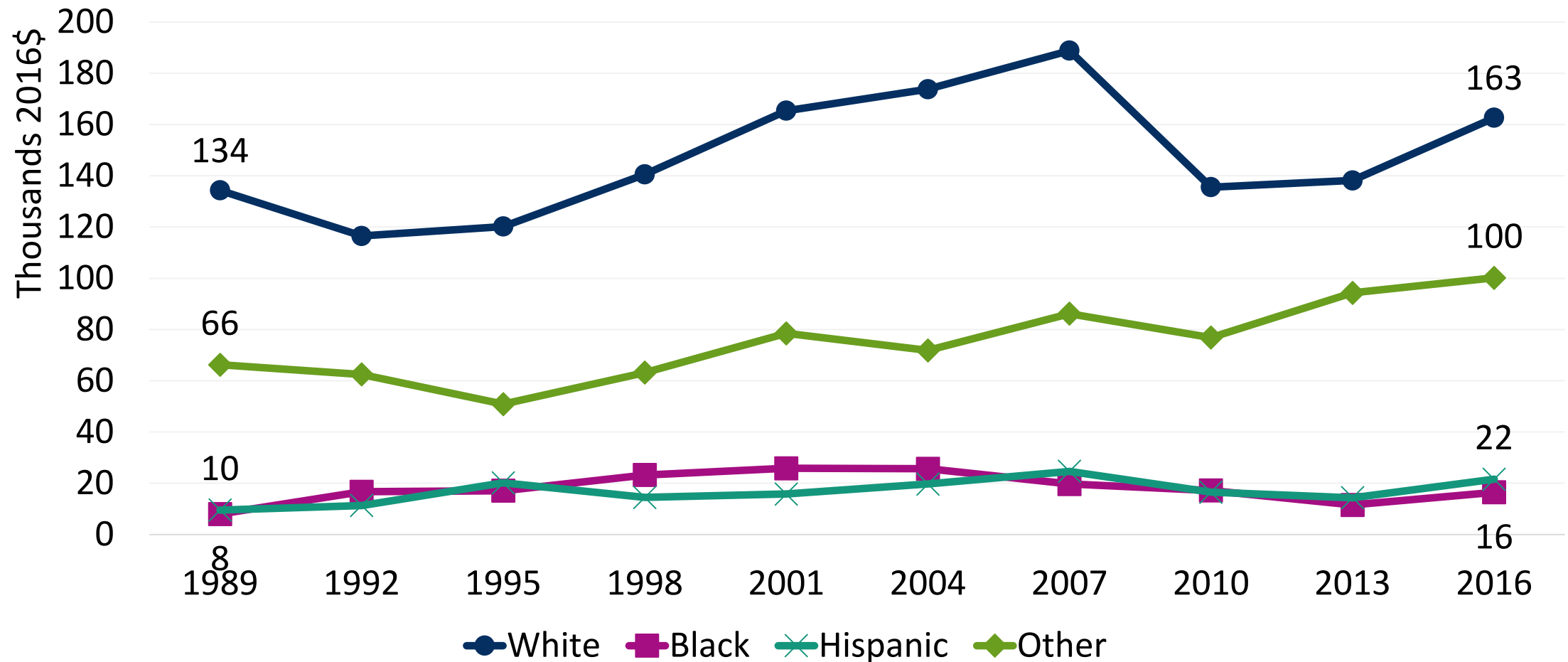


Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations



# Race/Ethnicity Wealth Gap, Persistent Over Time

## Real Median Family Net Worth

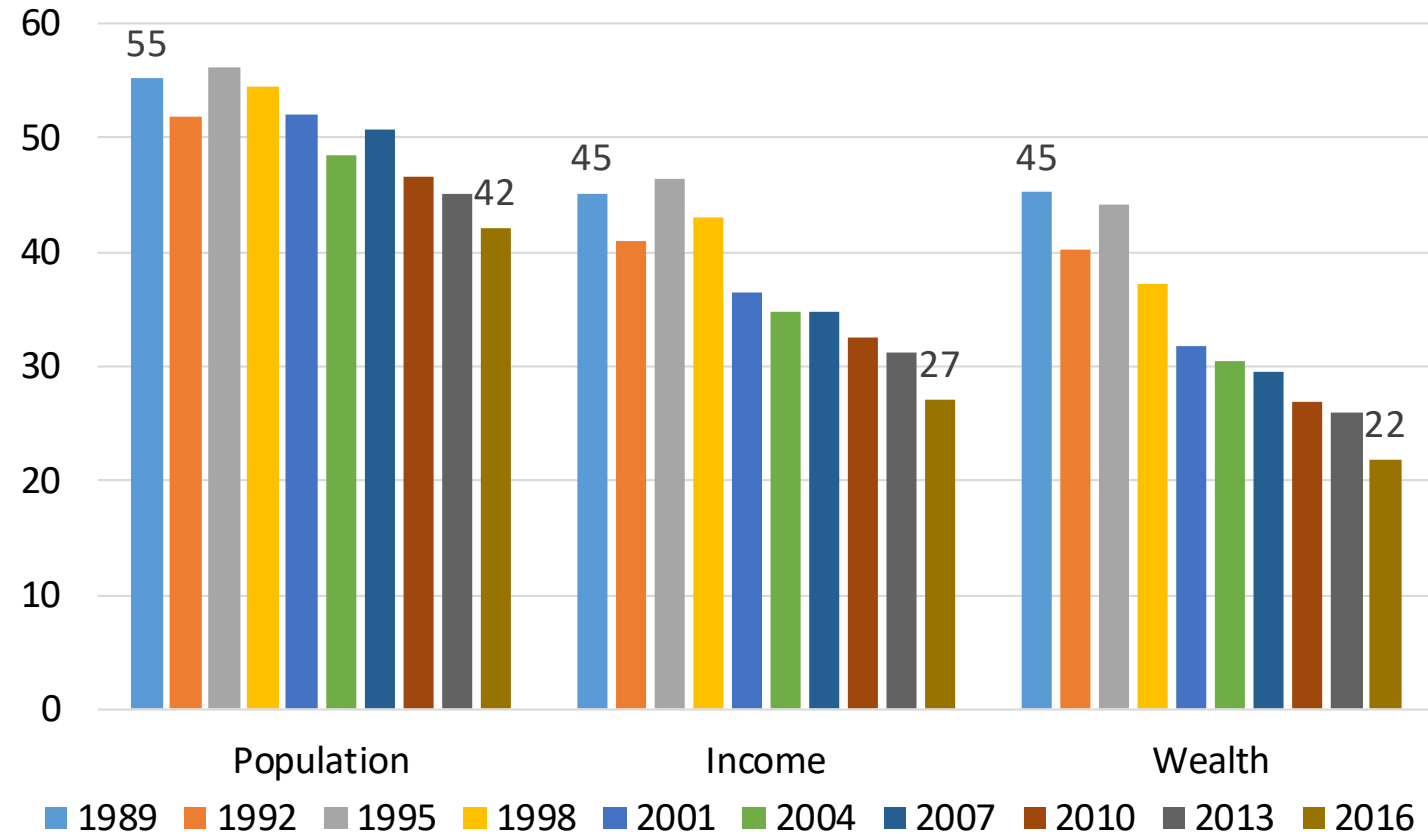


Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# The Decline of the White Working Class

## White Working Class Share of Population, Income and Wealth

Percent



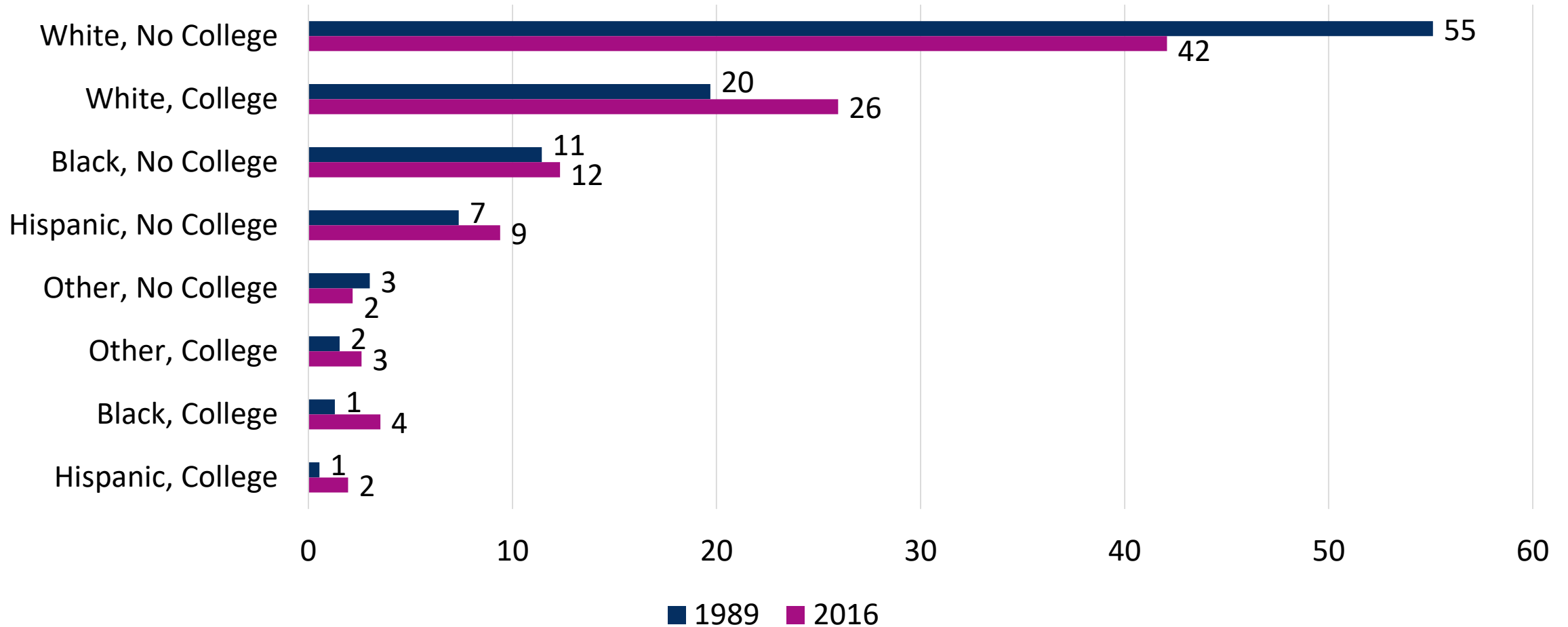
Source: Federal Reserve Board's Survey of Consumer Finances

- White working class defined as white, non-Hispanic families lacking four-year college degree.
- Decline in total income and wealth share outpaced decline in population share.
- Aside from college-grad whites, most other groups experienced little change.



# White Working Class Falling

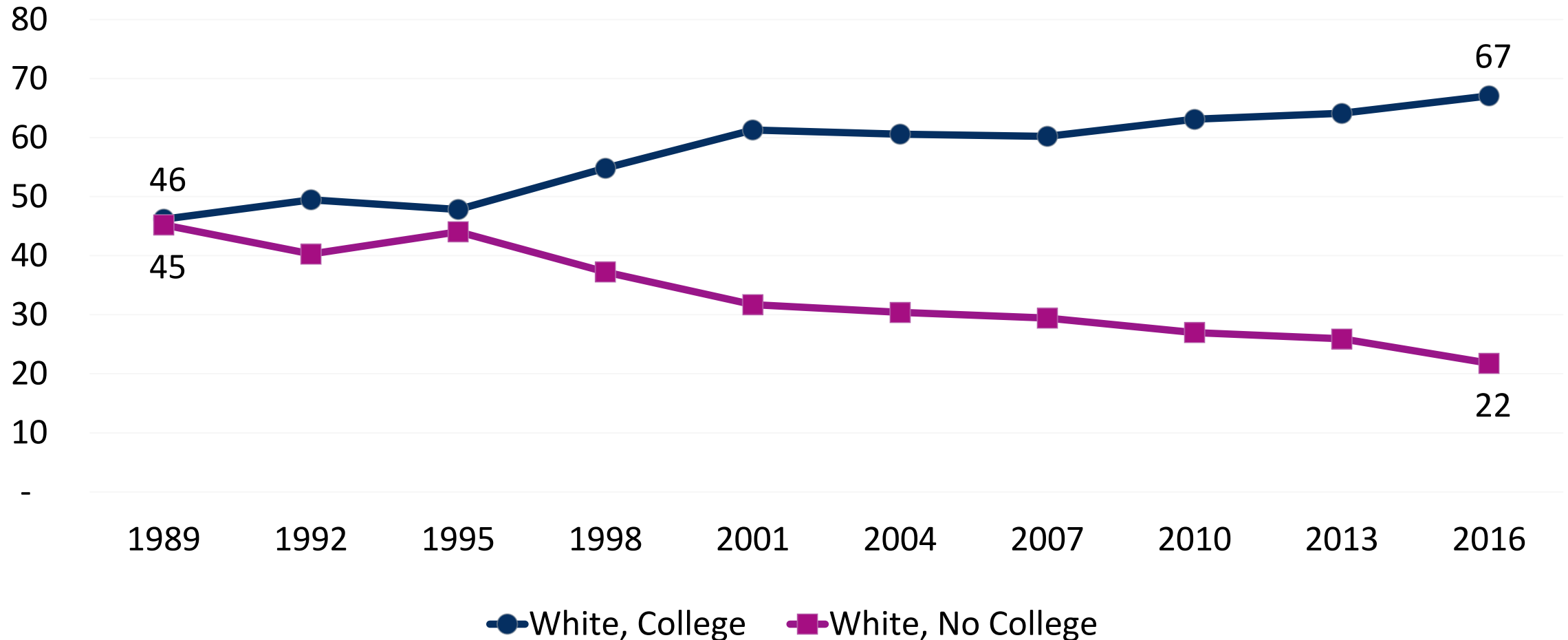
Share of Families in Population



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# Diverging Trends for Whites by Education

Share of Total Family Wealth in the U.S.



Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations

# Parallels with Black & Hispanic Grads

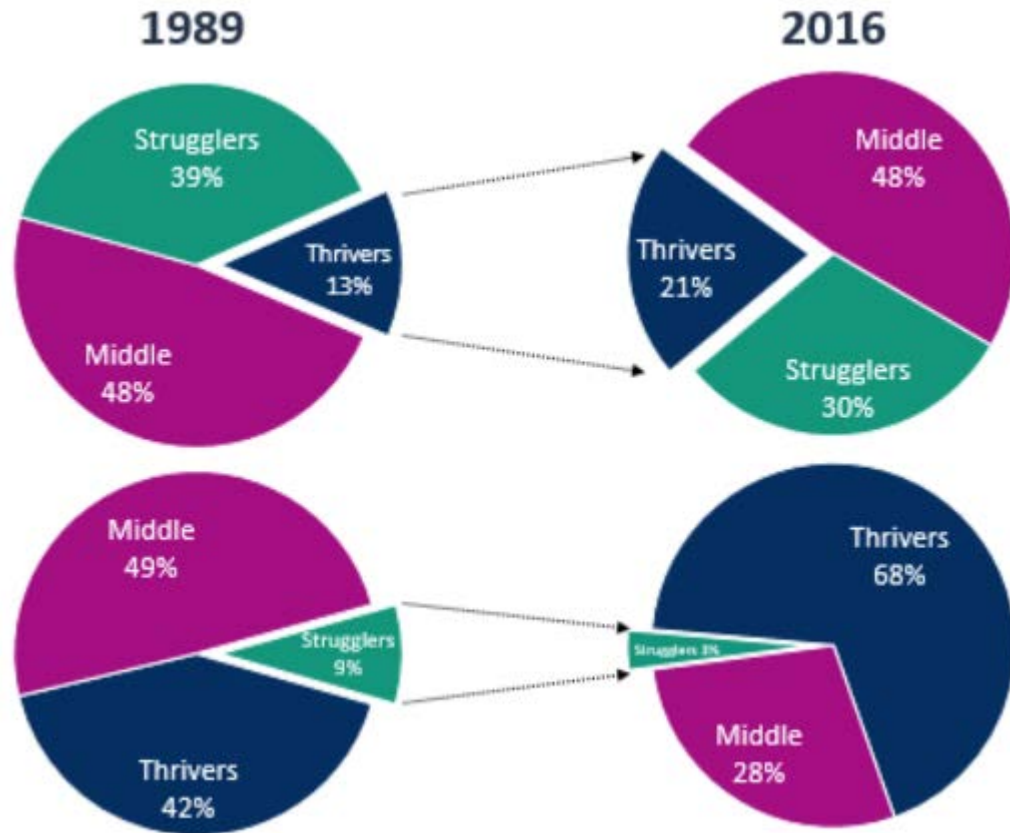
- Median income and wealth fell among white working class families as well as black college-grad families between 1989-98 and 2010-16.
- Over the same period, nonfinancial measures of well-being declined for both groups. Such as:
  - Homeownership rate
  - Marriage or cohabitation rate
  - Share self-reporting as in good or excellent health
- Results are similar among Hispanics, with some exceptions.

# Does Race or Education Explain the Decline?

- Our evidence suggests that neither race nor education in isolation explains the decline of the white working class.
- White college graduate families are doing *very* well, suggesting that disadvantages related to identifying as white are not a plausible explanation.
- As for education, Hispanic and black working classes, while still clearly disadvantaged in many respects, are making broad-based progress over time.

# CONCLUSIONS AND SOLUTIONS

# Is Demography Economic Destiny?



*No, but....*

- Demographics are strongly correlated with financial outcomes
- Ongoing structural and systemic barriers make it difficult to narrow income and wealth gaps
- Can do more to equalize the playing field

# Solutions

## 1. Wealth to promote stability

- Start build saving early, diversify assets/risks and lower debts
- Help families build a rainy day fund; i.e., have cash on hand
- “Households should be encouraged to maintain at least a small buffer of liquid savings, even if the cash in that buffer is not being used to pay down high-interest debt.” (Gallagher, 2018)
- Avoid over-investing in housing; a home purchase shouldn’t deplete your liquid savings buffer



## 2. Invest in education

- Invest in early childhood (e.g. childhood development accounts)
  - Invest also in schools, teachers, first-gen students
  - Many working class children are not applying or not being admitted to elite colleges despite having the academic credentials (Jerrim et al., 2015)
- Build education and skills early, and update throughout life

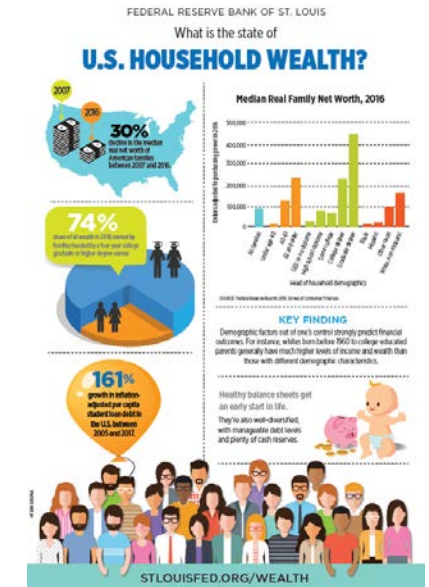
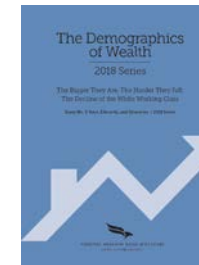
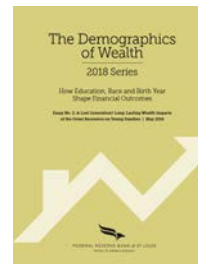


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