



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

State of Wealth Equity Webinar  
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Center for Household Financial Stability

Federal Reserve Bank of St. Louis

*These views are our own, not necessarily those of anyone else in the Federal Reserve System.*





# Center Overview

- The [Center for Household Financial Stability](#) was launched by the Federal Reserve Bank of St. Louis in 2013 to research and strengthen the financial health of struggling families in the U.S.
- We especially focus on what a family saves, owns and owes—also called family wealth or its balance sheet. Three questions guide our work:
  - (1) What is the state of U.S. family wealth?
  - (2) Why does wealth matter for both families and the economy?
  - (3) What can we do to strengthen family wealth?



# Overview of Remarks

- I. Why study wealth?
- II. The demographics of wealth
  - A. Age / birth year / generations
  - B. Educational attainment
  - C. Race and ethnicity
- III. Can “structural change” overcome the power of demographics to shape financial outcomes?
- IV. The initial impact of COVID-19 on the wealth gap, and possible responses



# Why Study Wealth?



- Wealth matters for economic security and upward economic mobility in ways income does not; wealth reveals dimensions of financial health not otherwise apparent.
- Holding assets is associated with distinct social, psychological, emotional, child well-being, health, and civic outcomes.
- The U.S. has a long history of promoting property ownership, but many families have been and remain excluded from these policies, contributing to wealth inequality.



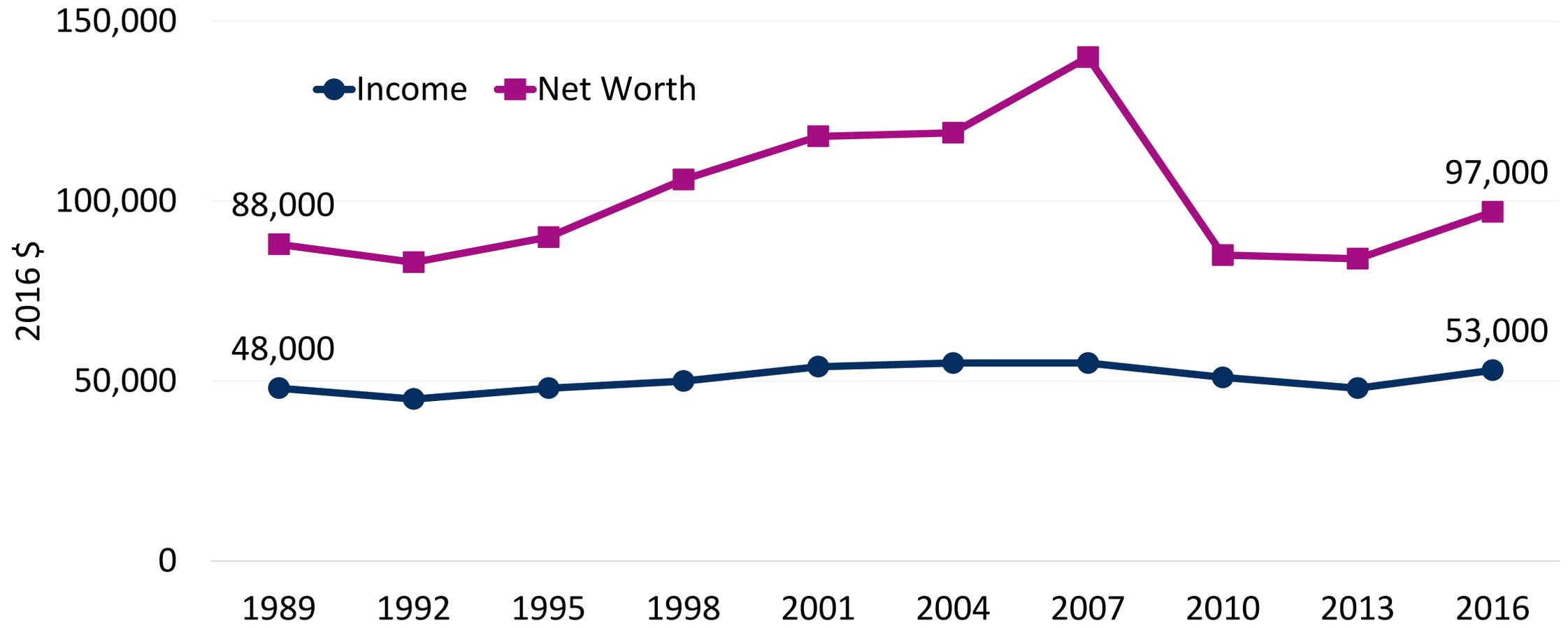
# The Demographics of Wealth: How Birth Year, Education and Race Shape Financial Outcomes

- Demographics: Measurable innate or unchanging characteristics that define members of a group.
- Demographic characteristics we use to form groups:
  - When you were born, hence, how old you are in a given year and the generation to which you belong
  - How much completed education you (and your parents) have
  - With which race or ethnicity you identify
- Can “structural changes” overcome the power of demographics to shape financial outcomes?



# Income and Wealth Trends: Entire U.S. Population

## Inflation-Adjusted Median Family Income and Net Worth



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



# The Demographics of Wealth: 2018 Series



- We explore connections between a family's demographics...
  - Birth year and age
  - Education (own and parents')
  - Race/ethnicity
- ... and the family's income, wealth and other outcomes (homeownership, marriage, health).



# **BIRTH YEAR AND AGE**

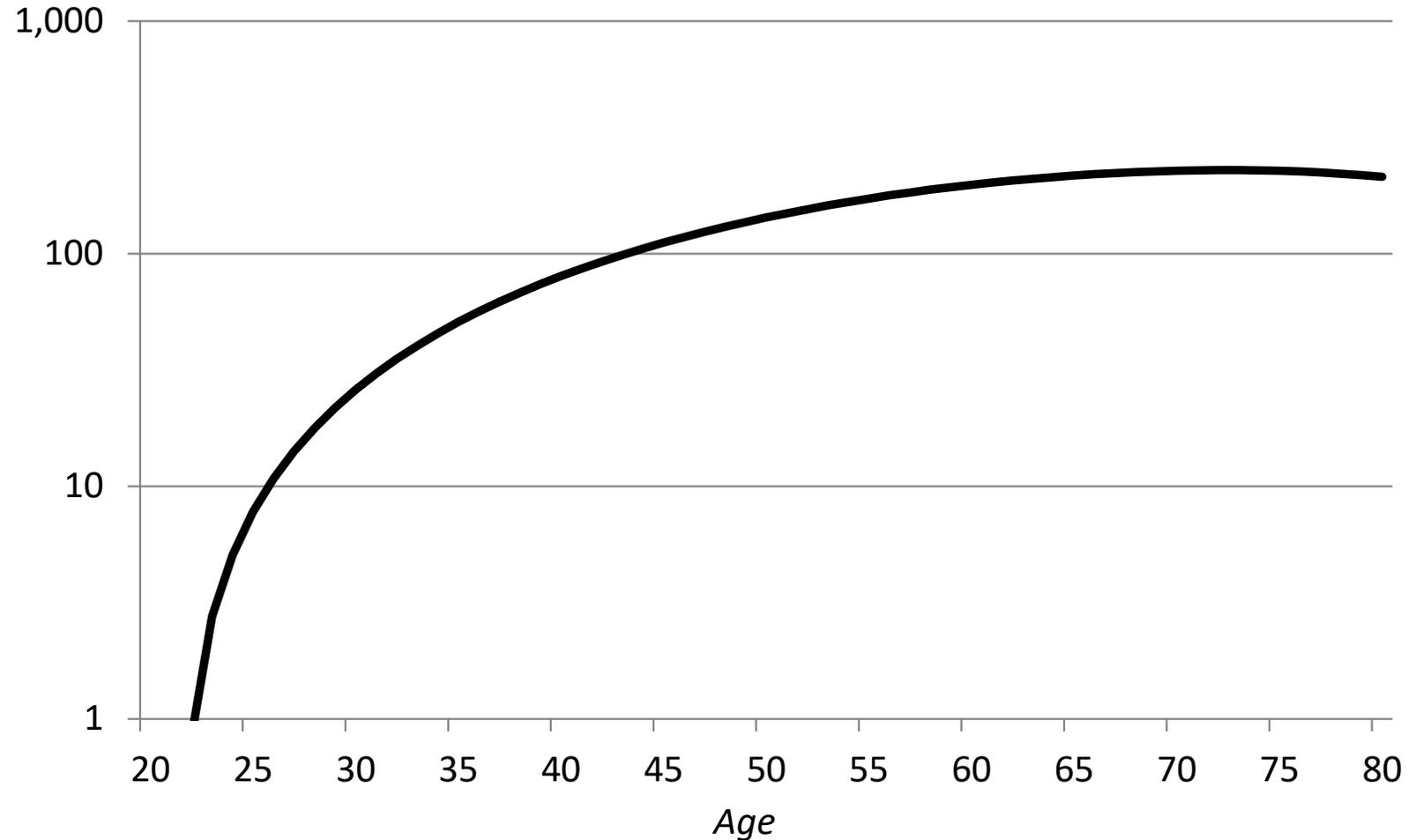
## **PART 1: YOUR DECADE OF BIRTH**



# The Life Cycle of Wealth for A “Typical” Family

## Predicted Median Net Worth by Age

*Thousands of 2016 \$, Natural Log Scale on Y-Axis*



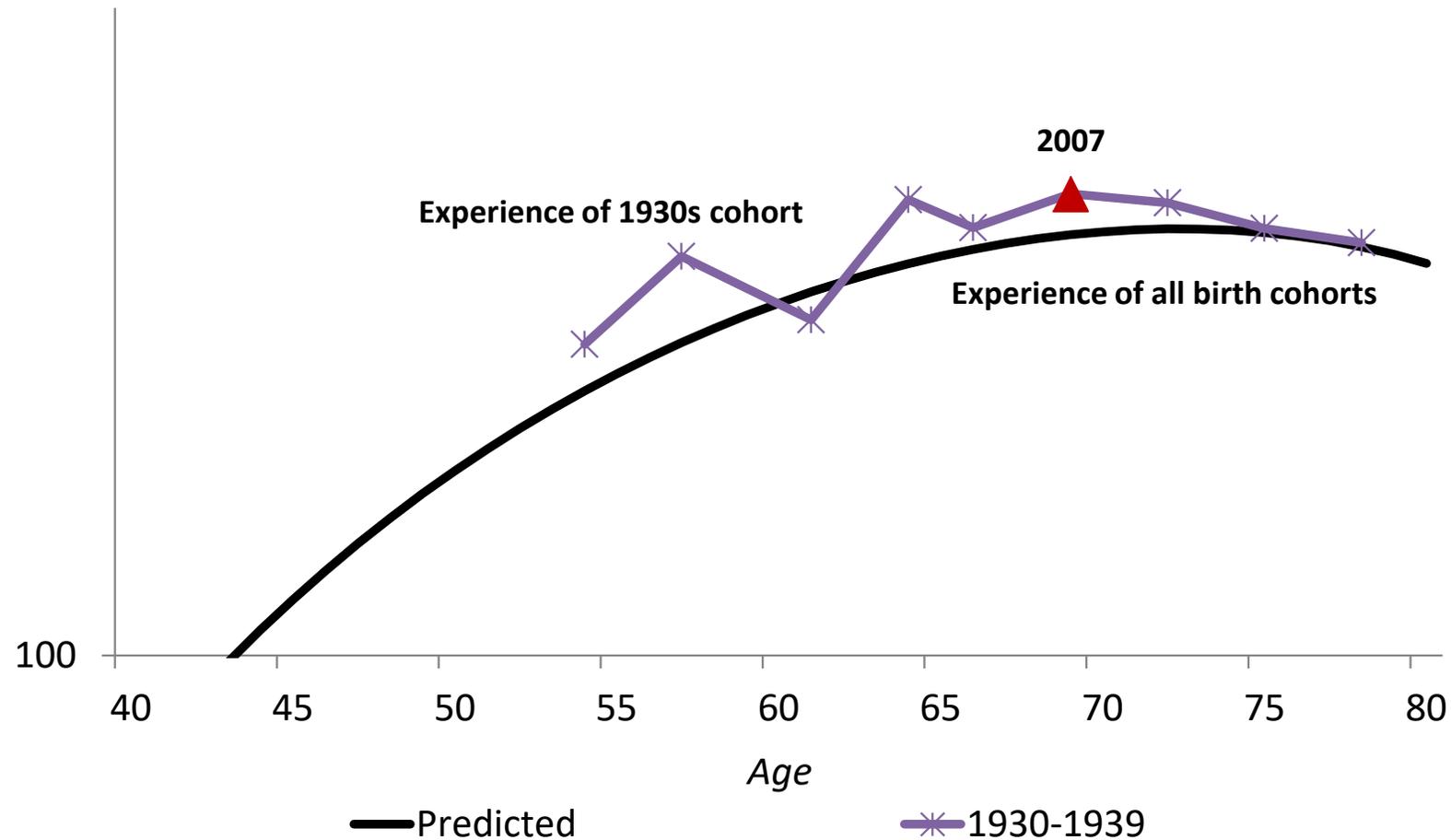
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Family Heads Born in the 1930s Were Lucky

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



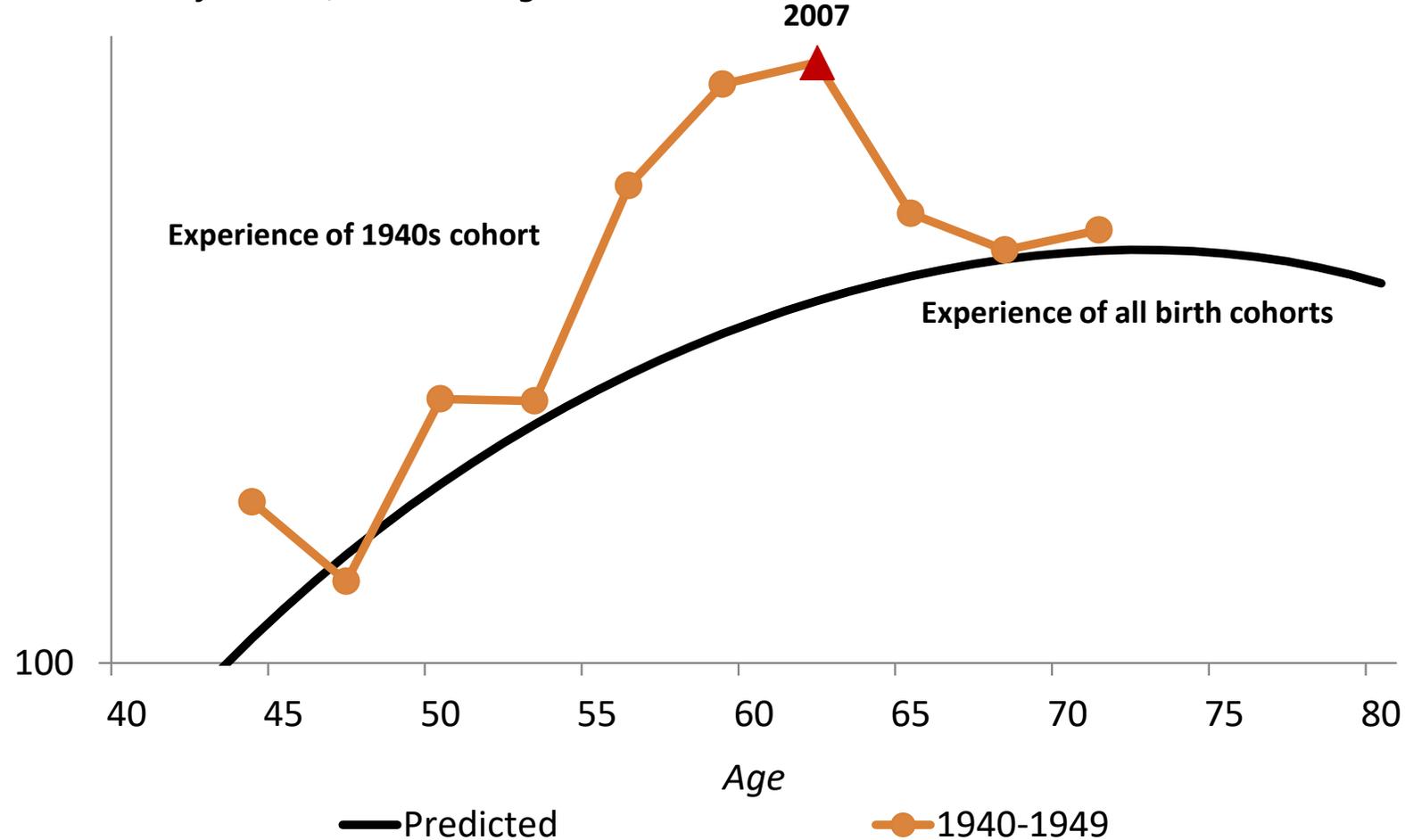
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Family Heads Born in the 1940s Were Very Lucky

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



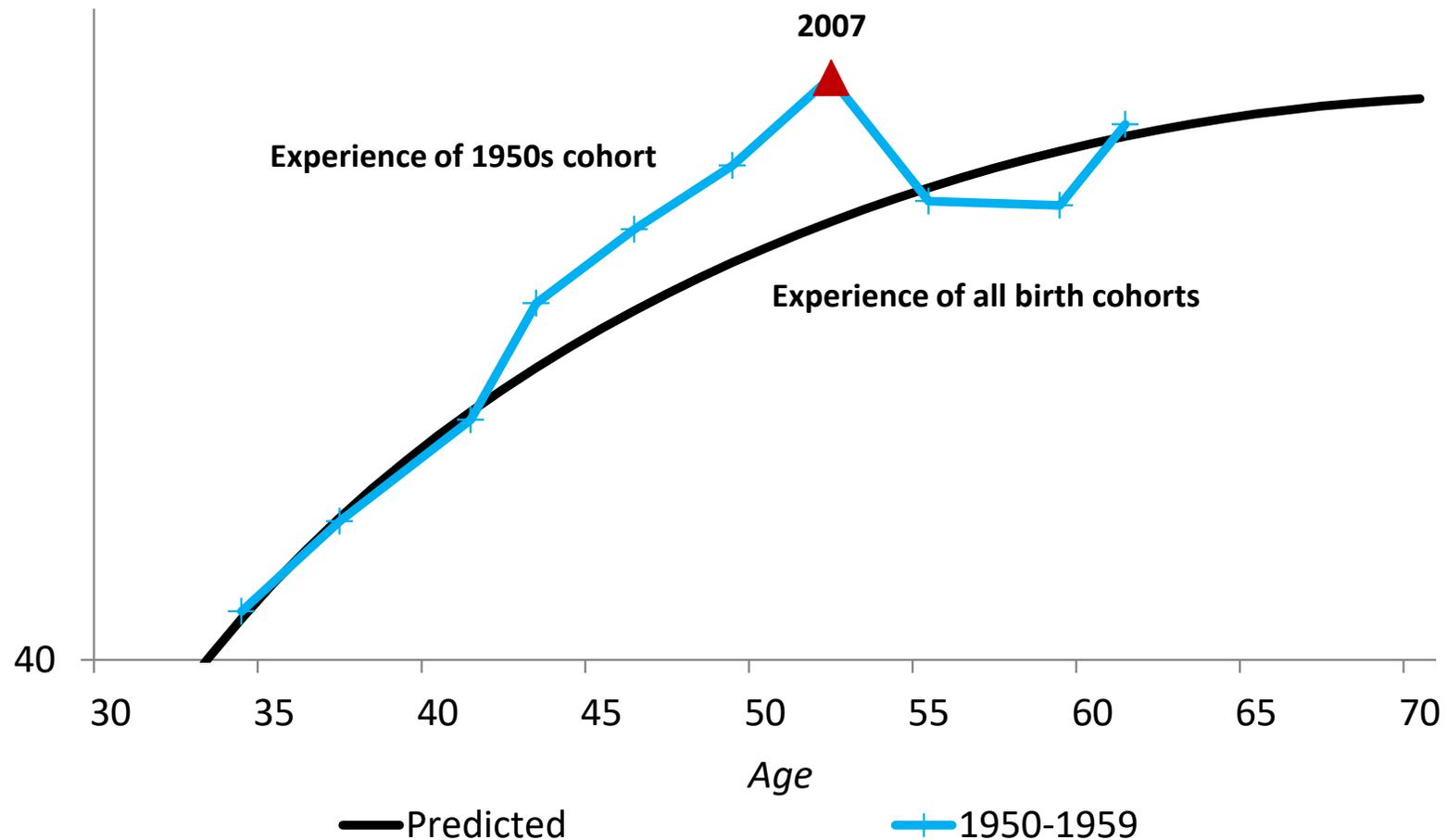
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Still Lucky if Born in the 1950s

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



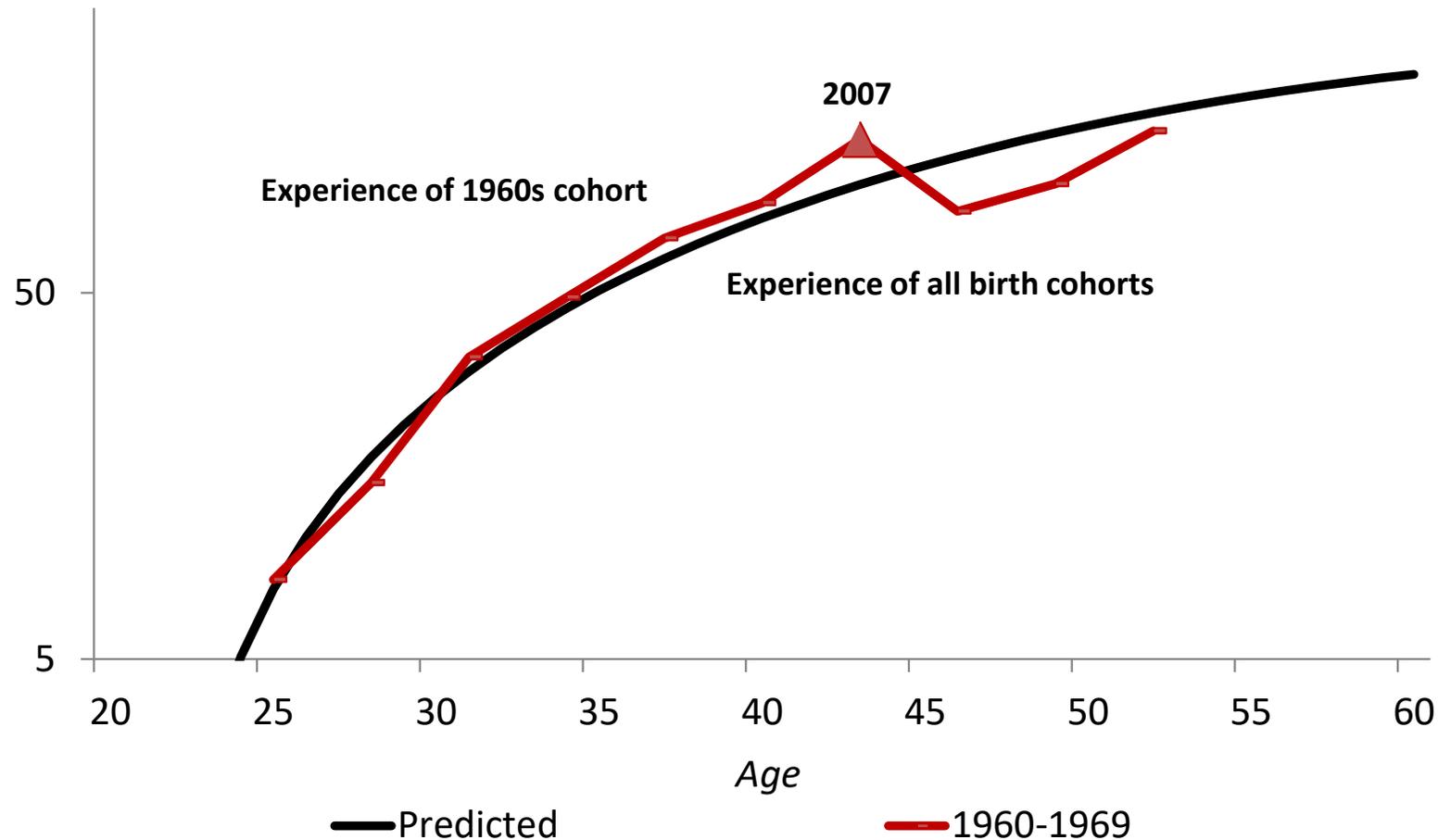
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Not So Lucky if Family Head Born in the 1960s

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



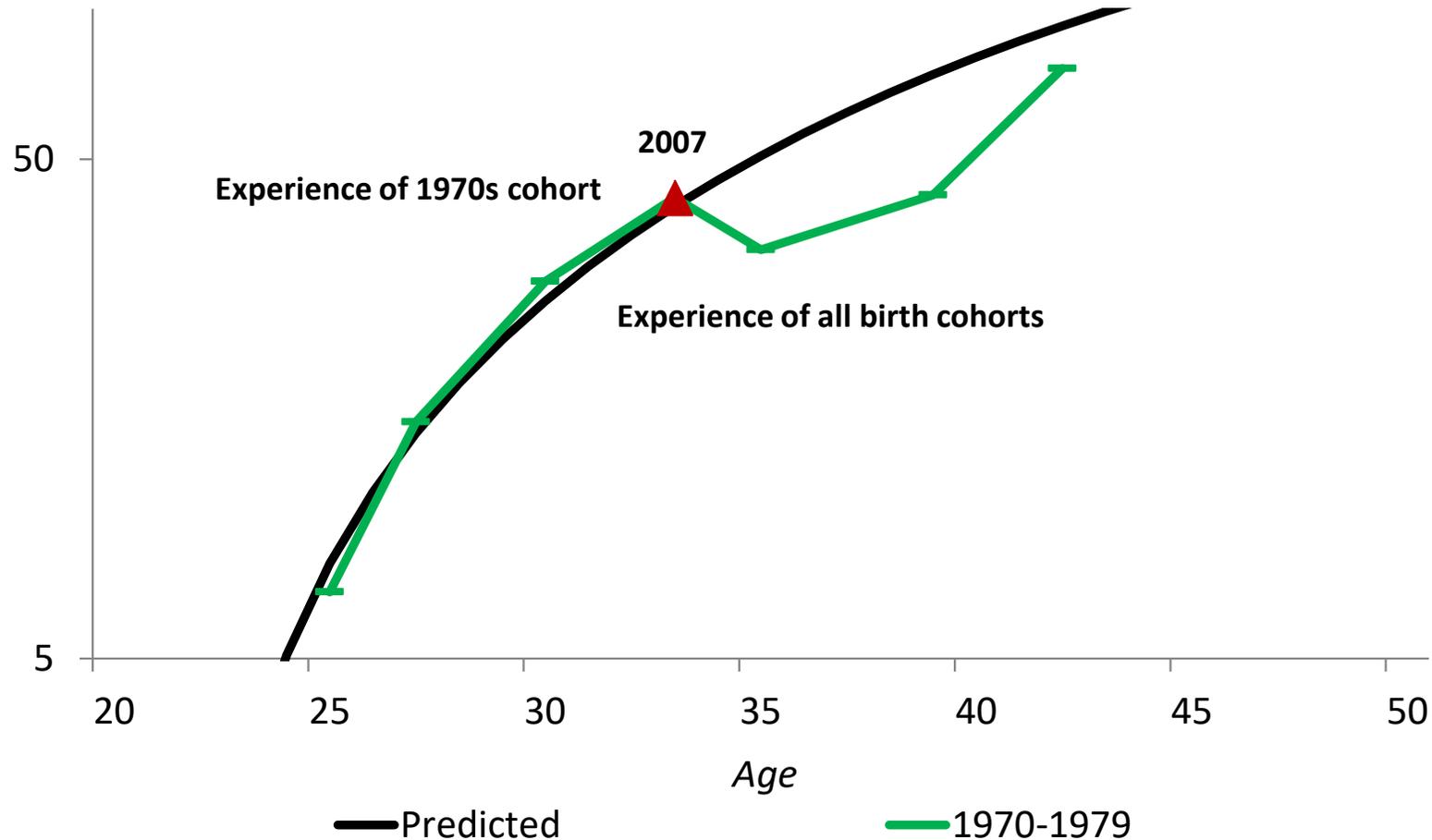
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Family Heads Born in 1970s Are Very Unlucky

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



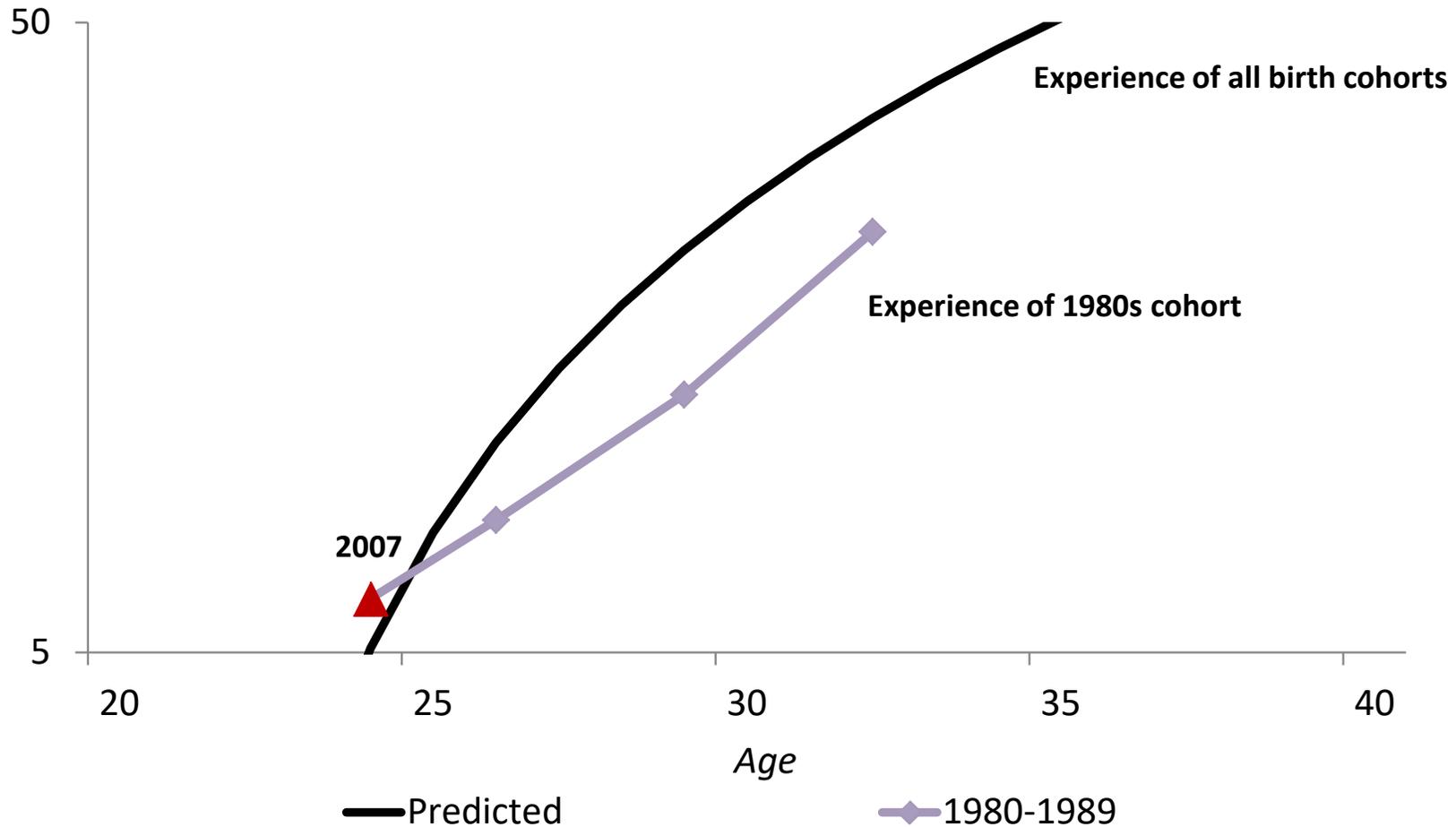
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Family Heads Born in 1980s: A Lost Generation?

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



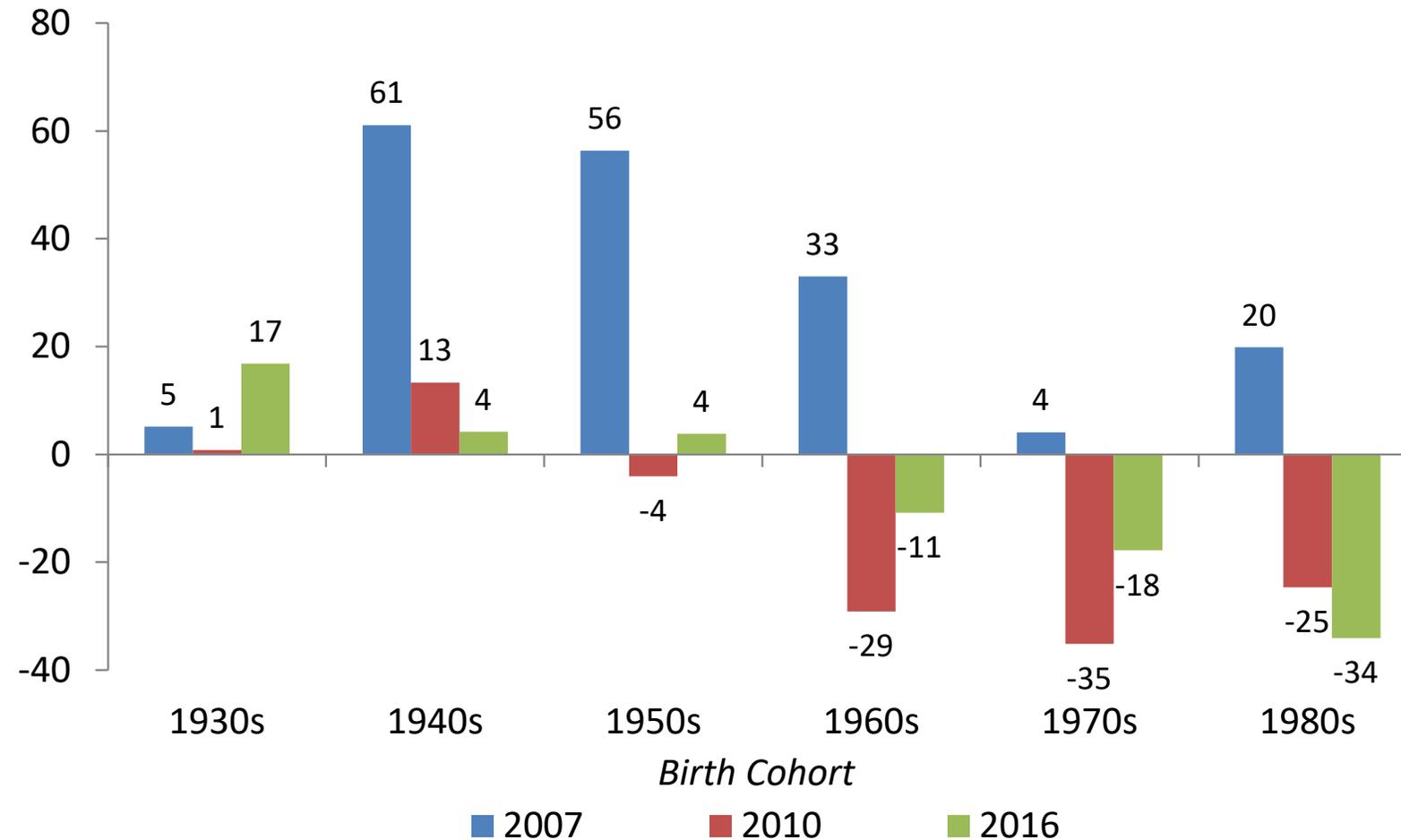
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.



# Born After 1960? Your Generation Is Behind

## Deviation of Birth Cohort Median Wealth from Predicted Value

Percentage Points



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



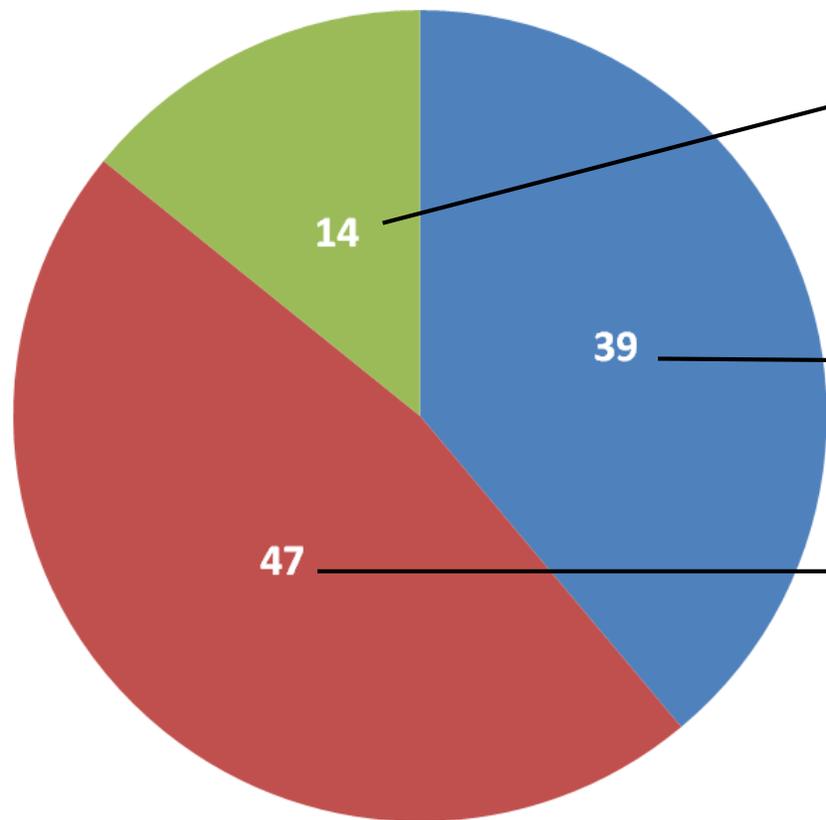
# **BIRTH YEAR AND AGE**

## **PART 2: YOUR AGE**

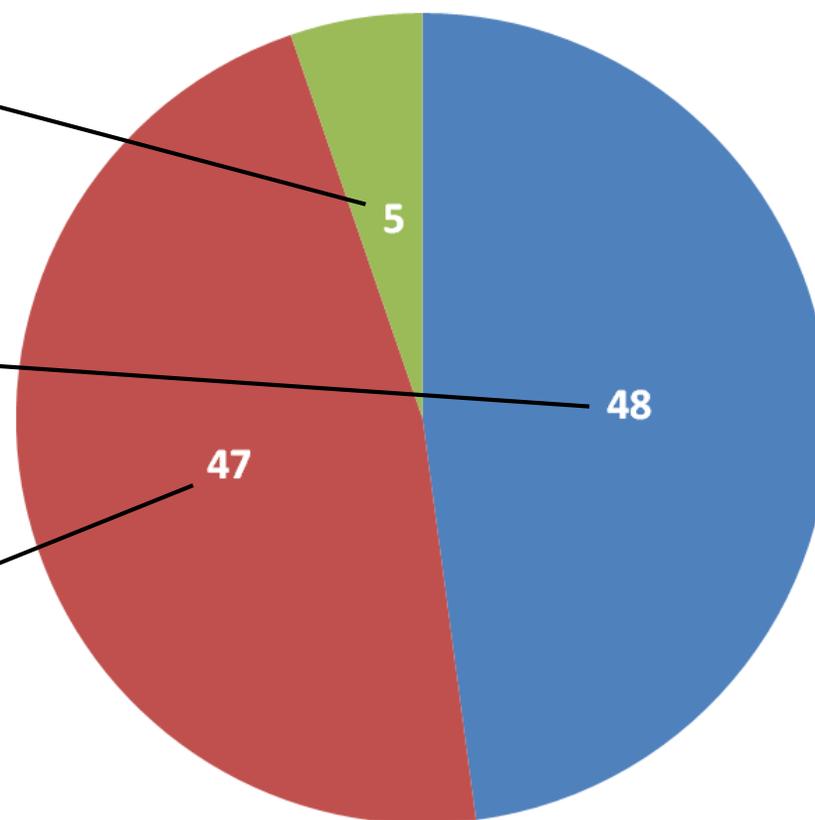


# Old Families (31%) Now Own 48% of All Wealth

## 1989 Share of Family Wealth by Age of Family Head



## 2016 Share of Family Wealth by Age of Family Head



### Population Shares in 1989

Young	38%
Middle-aged	36%
Old	26%

### Population Shares in 2016

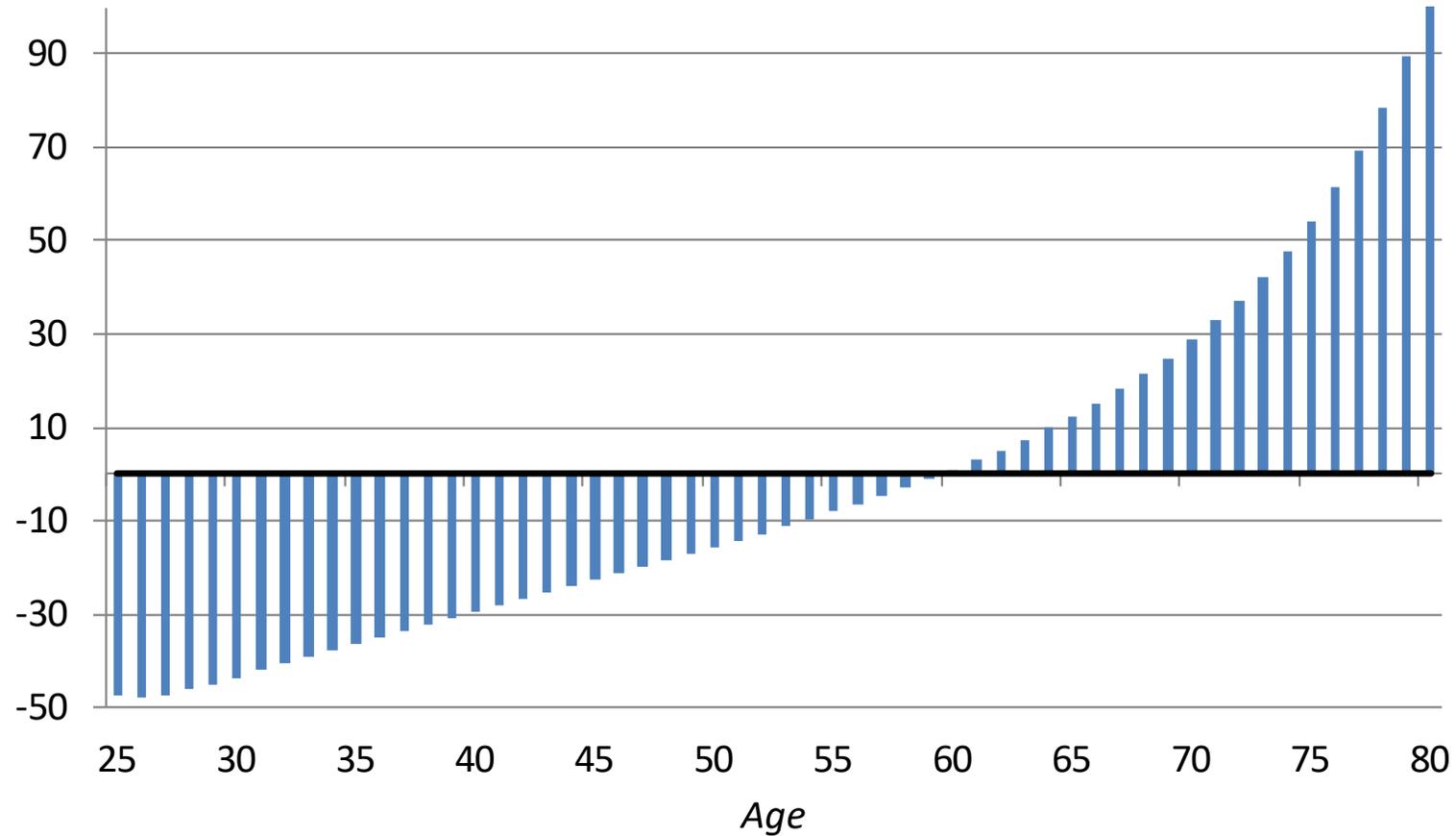
Young	28%
Middle-aged	41%
Old	31%



# Wealth Has Shifted from Young to Old

## Change Between 1989 and 2016 in Predicted Wealth

*Percentage Difference*



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

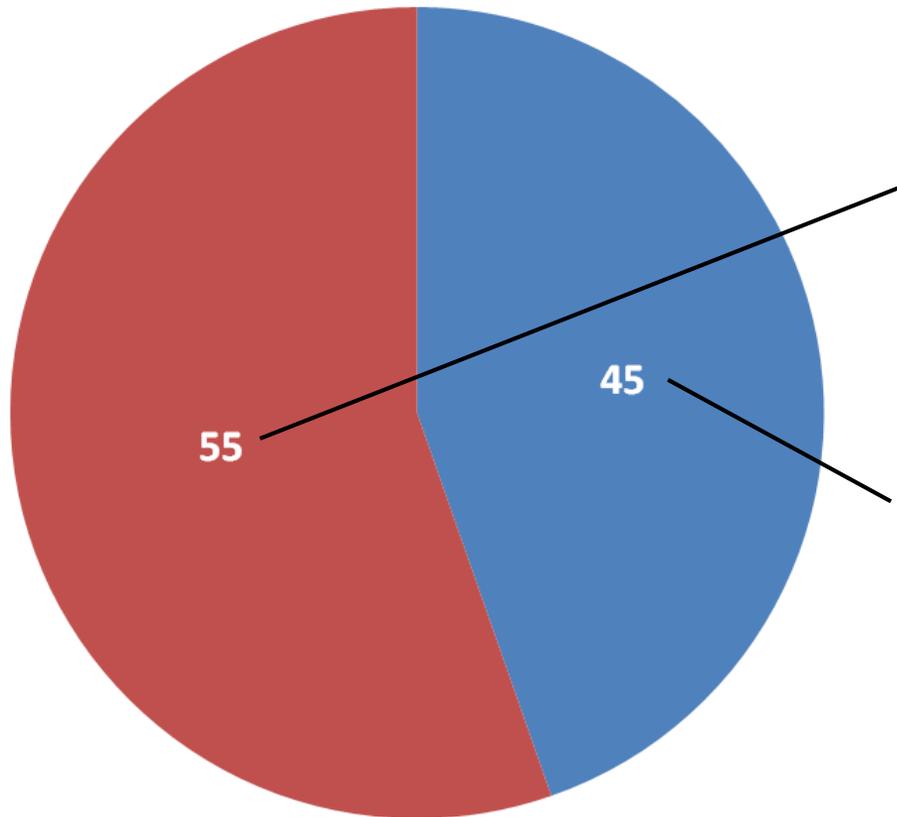


# EDUCATIONAL ATTAINMENT

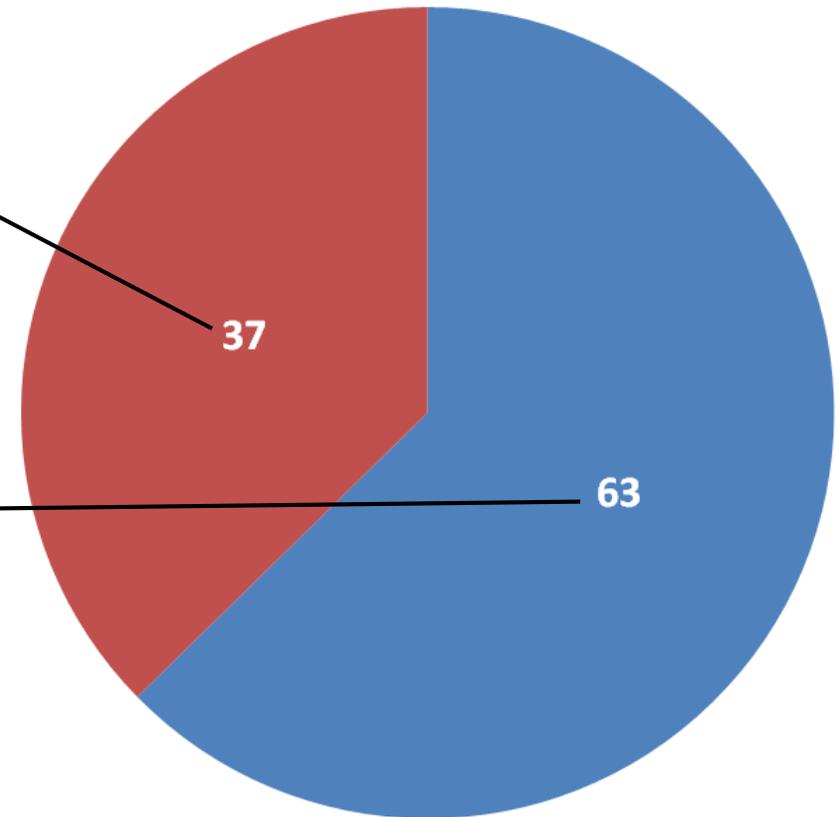


# 63% of Income Goes to College Grads (34% of Families), Up from 45% (23%)

1989 Share of Family Income by Education of Family Head



2016 Share of Family Income by Education of Family Head



**Population Shares in 1989**

GED or no HS Diploma	24%
HS Diploma	53%
4-Year College Degree	14%
Post-Graduate Degree	9%

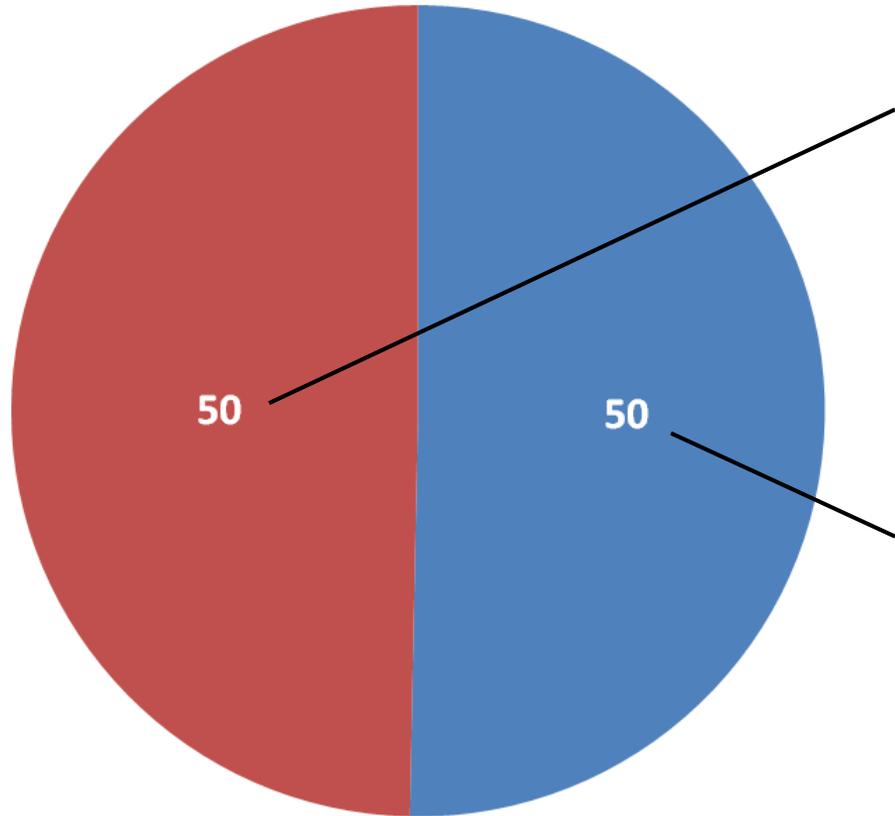
**Population Shares in 2016**

GED or no HS Diploma	16%
HS Diploma	50%
4-Year College Degree	21%
Post-Graduate Degree	13%

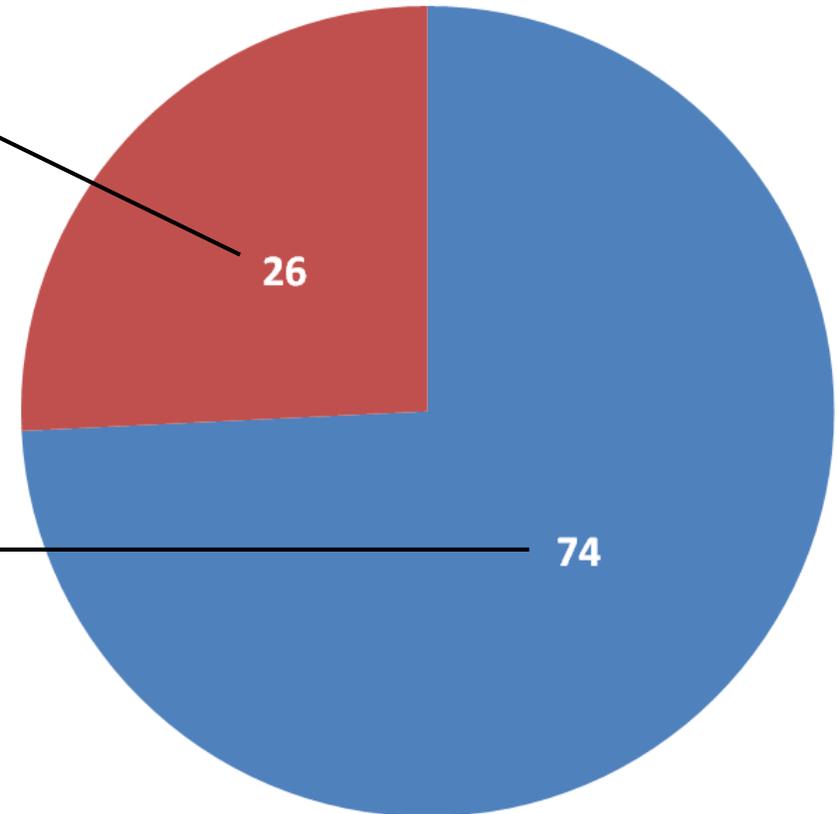


# College Grads (34%) Now Own 74% of Wealth

1989 Share of Family Wealth by Education of Family Head



2016 Share of Family Wealth by Education of Family Head



Population Shares in 1989

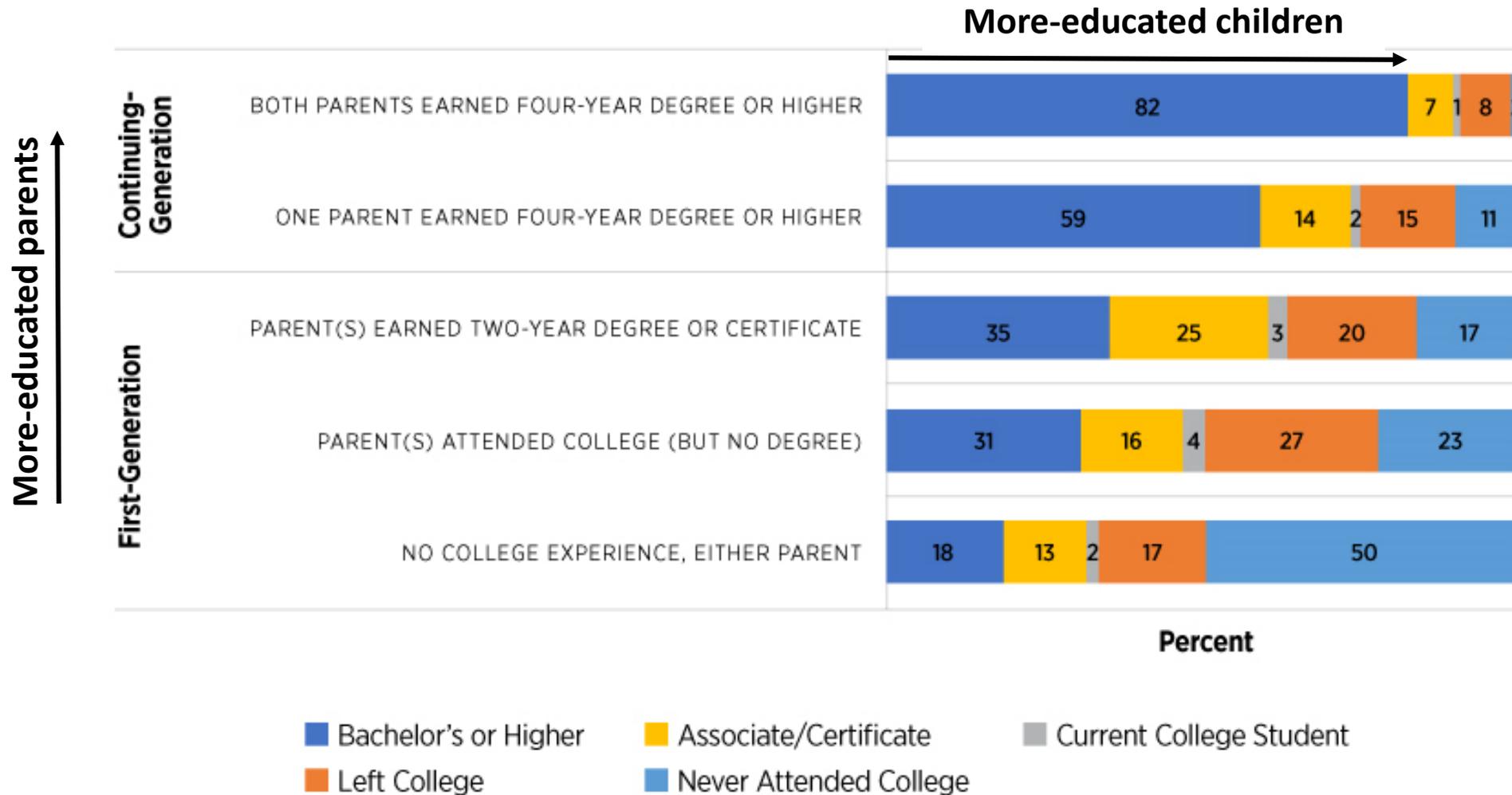
Less Than A 4-Year College Degree	77%
At Least A 4-Year College Degree	23%

Population Shares in 2016

Less Than A 4-Year College Degree	66%
At Least A 4-Year College Degree	34%



# Kids Track Parents' Education; Wealth Follows





# RACE AND ETHNICITY



# Race and Ethnicity of the Family Head

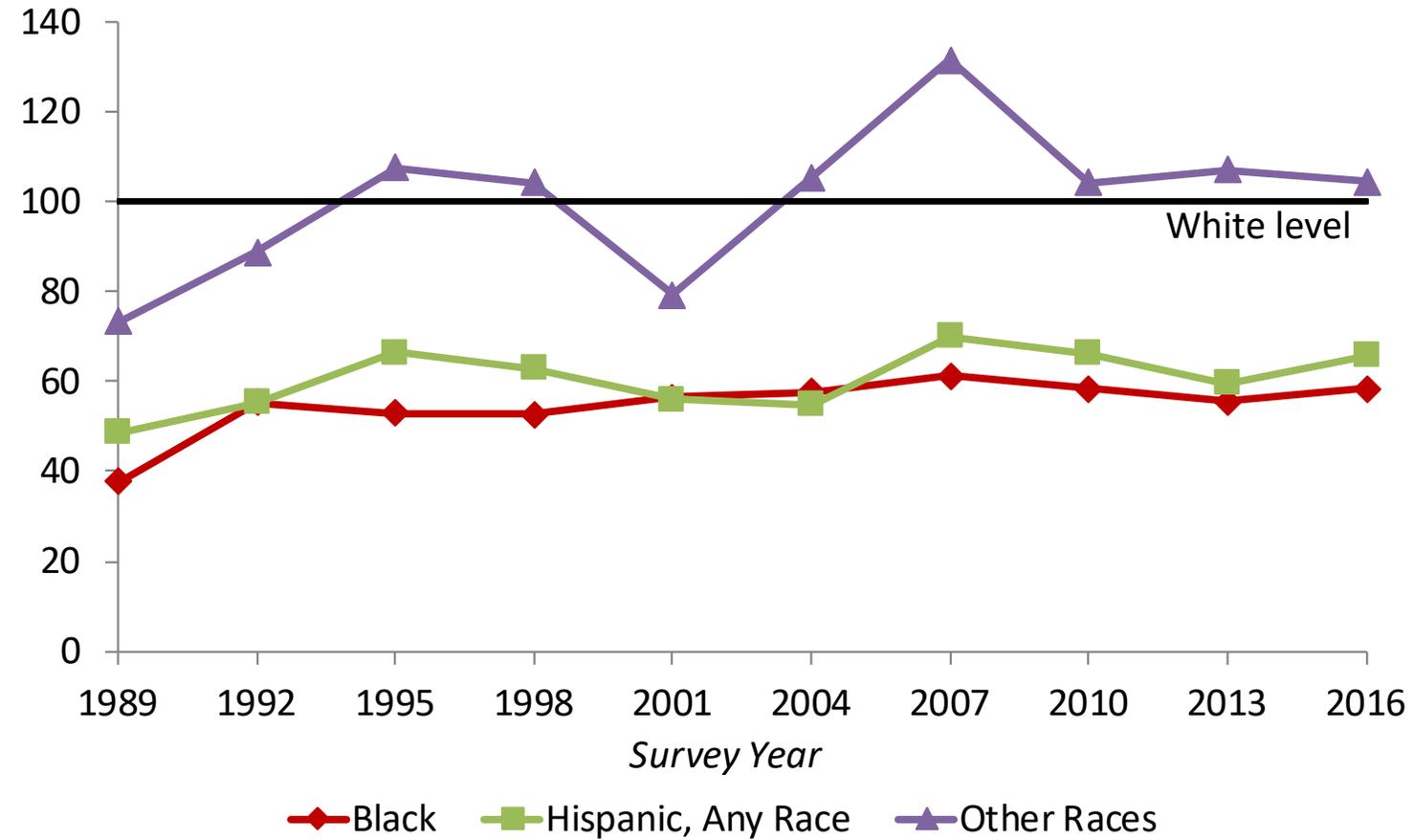
- We track four groups based on the primary racial or ethnic self-identification of each survey respondent:
  - White
  - Black or African-American
  - Hispanic
  - Other or multiple races (Asian, American Indian, Alaskan Native, Native Hawaiian, Pacific Islander, other race, identifies with more than one race)



# Black & Hispanic Income Gaps Remain Large

## Median Real Income, Relative to Non-Hispanic White Families

Percent

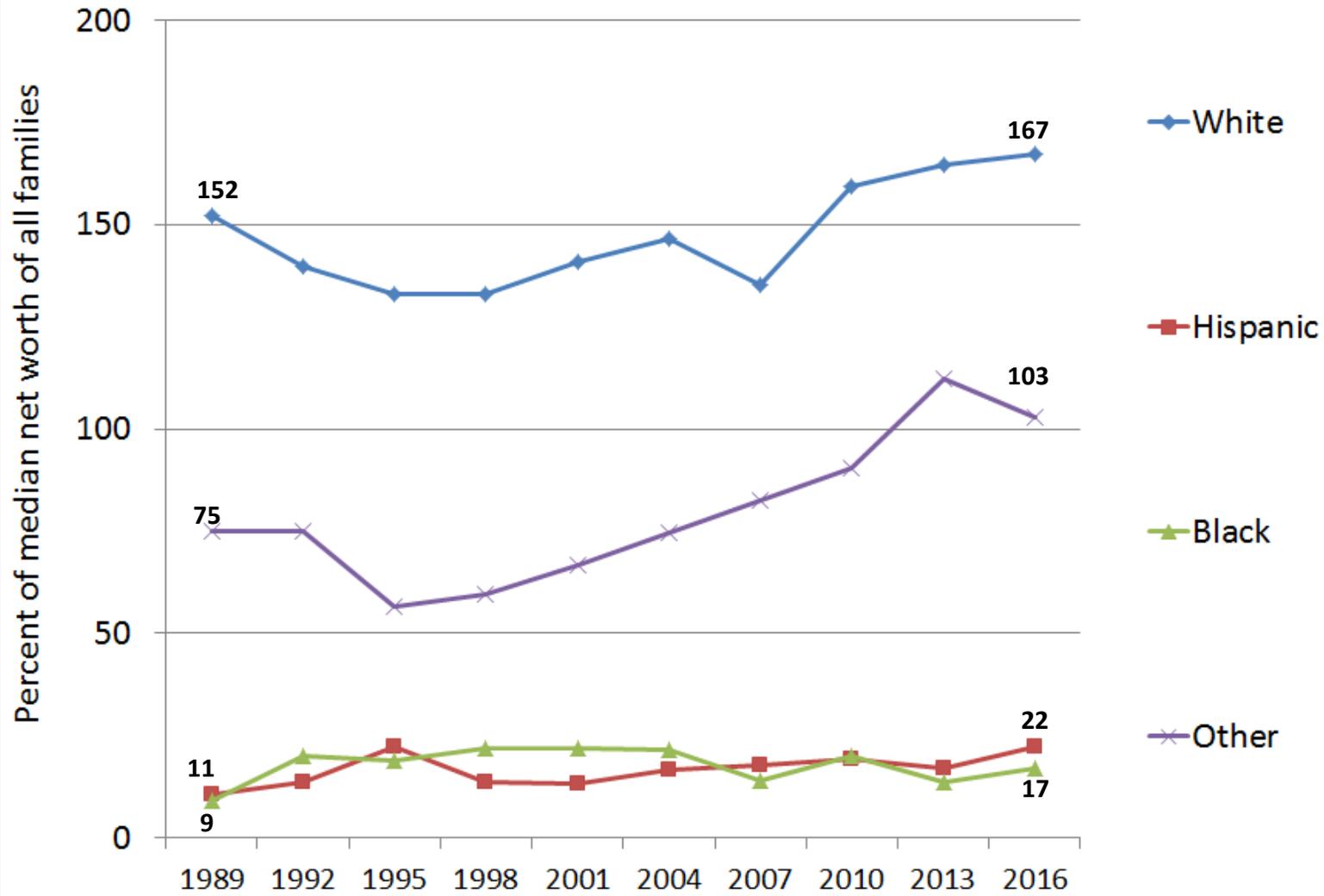


Source: Federal Reserve Board's Survey of Consumer Finances.



# Little Progress Closing Black & Hispanic Wealth Gaps

## Median Net Worth by Race or Ethnicity of Family Head

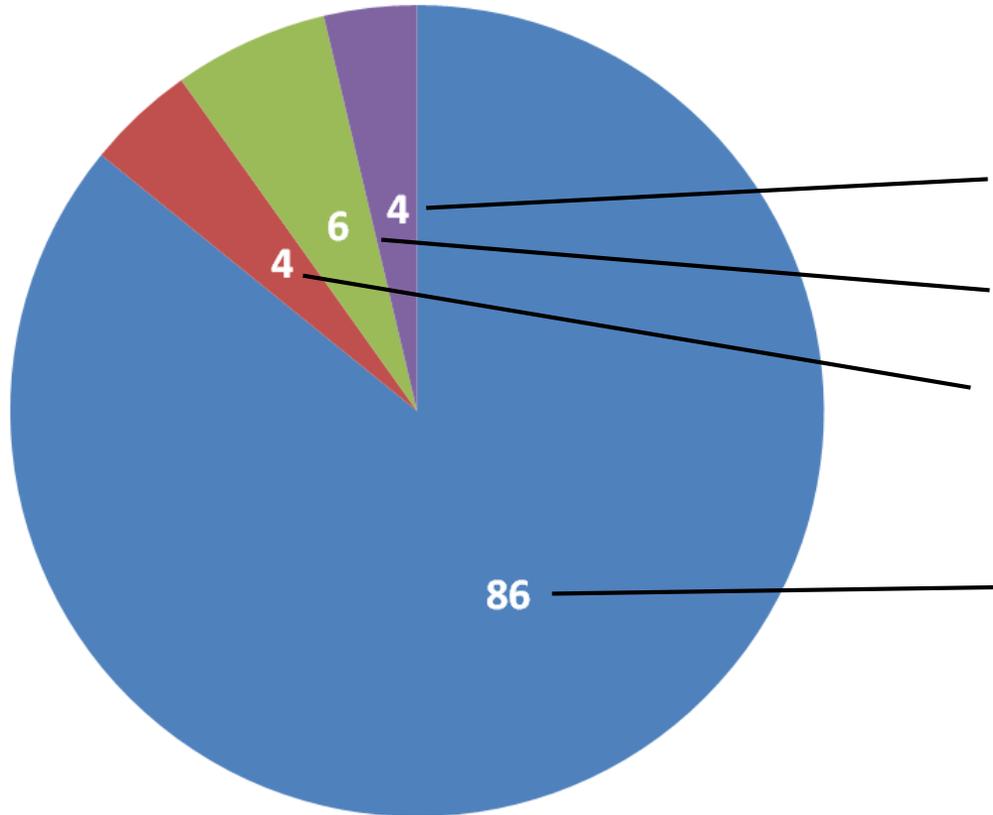


Source: Federal Reserve Board, Survey of Consumer Finances

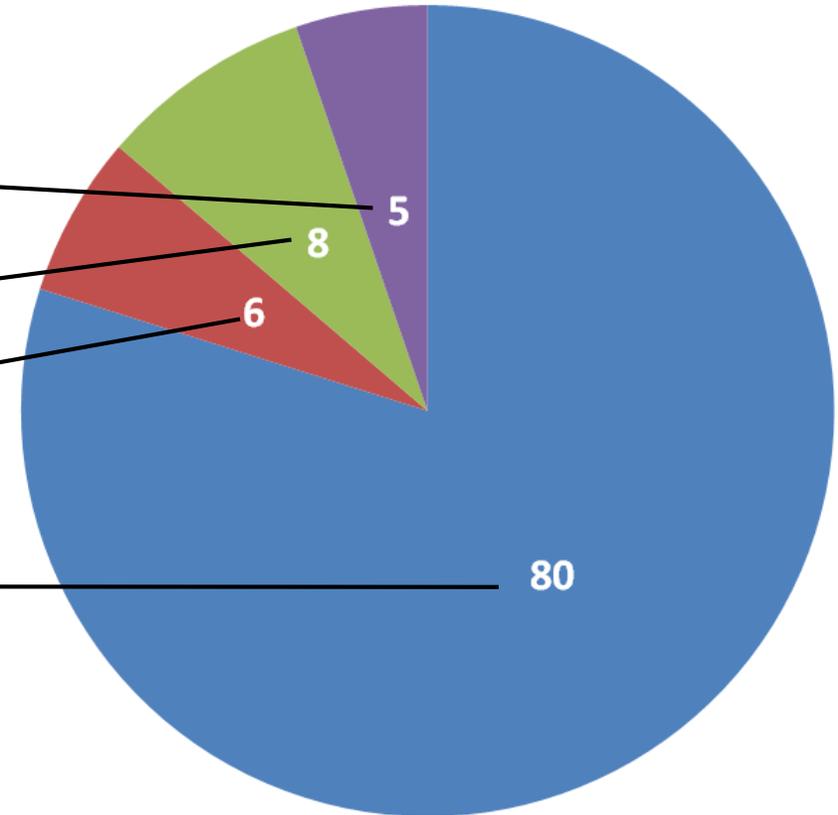


# Whites (68%) Receive 80% of All Income

1989 Share of Income by Race or Ethnicity of Family Head



2016 Share of Income by Race or Ethnicity of Family Head



**Population Shares in 1989**

White	75%
Hispanic	8%
Black	13%
Other	5%

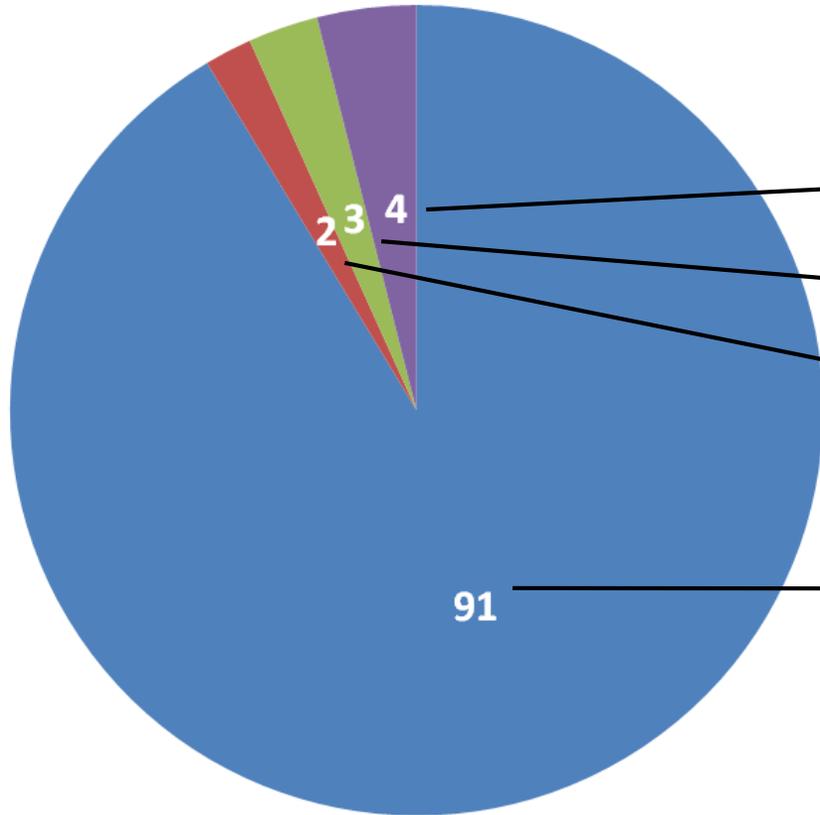
**Population Shares in 2016**

White	68%
Hispanic	11%
Black	16%
Other	5%

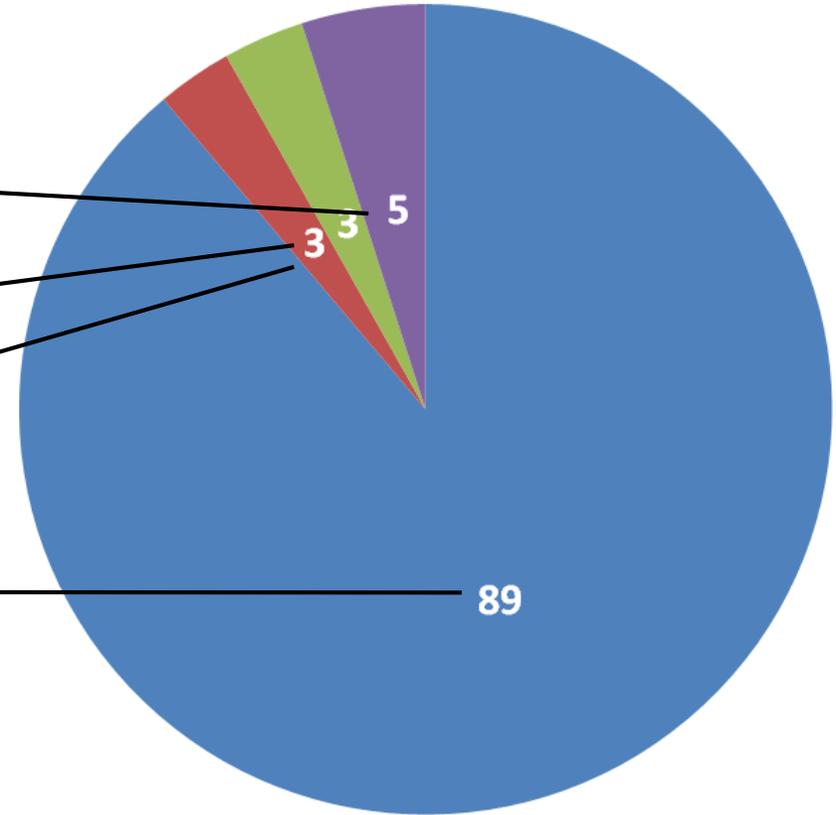


# Whites (68%) Own 89% of All Wealth

1989 Share of Wealth by Race or Ethnicity of Family Head



2016 Share of Wealth by Race or Ethnicity of Family Head



Other

Black

Hispanic

White

Population Shares in 1989

White	75%
Hispanic	8%
Black	13%
Other	5%

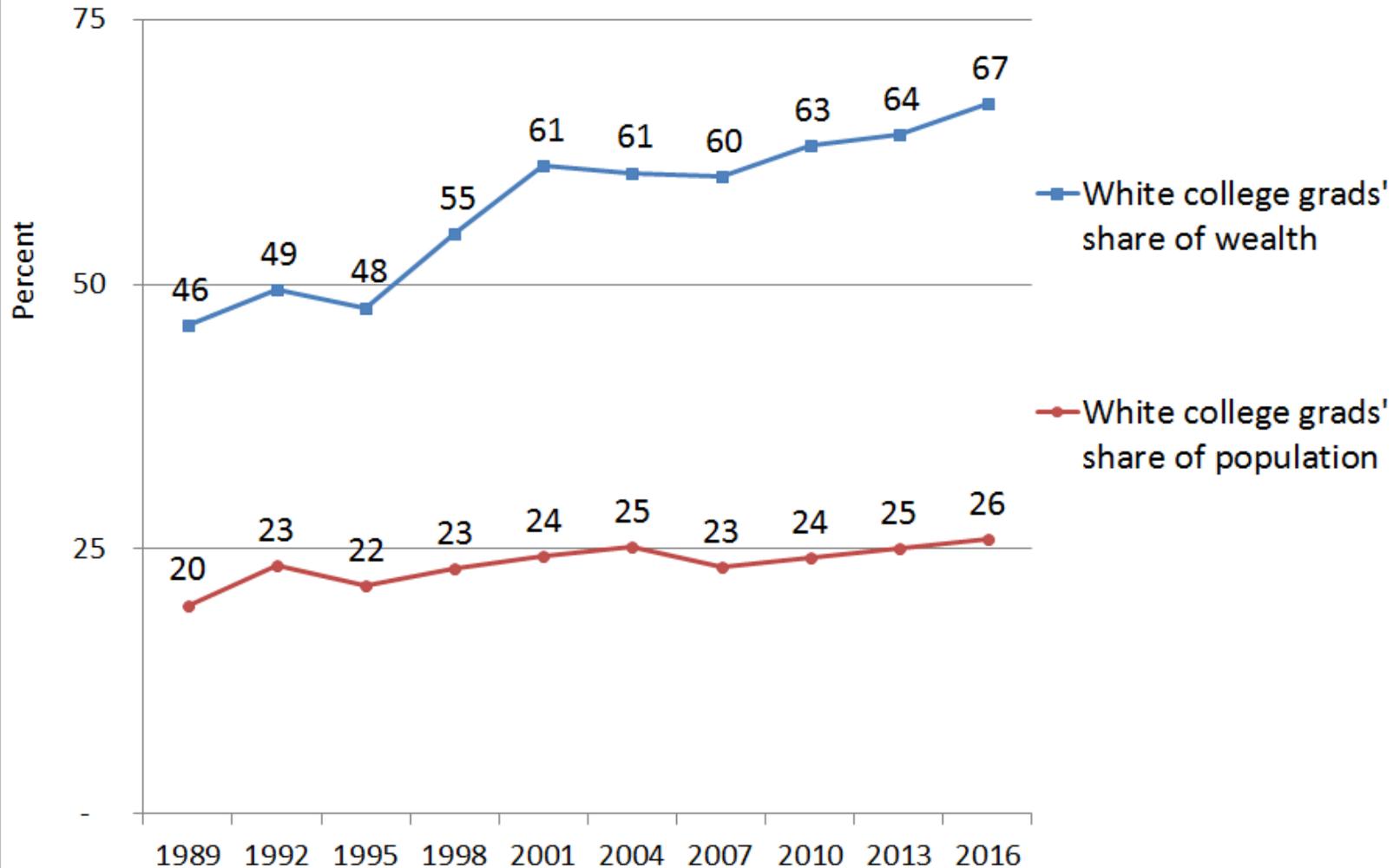
Population Shares in 2016

White	68%
Hispanic	11%
Black	16%
Other	5%



# White College Grads (26%) Own 2/3 of the Wealth

## Population and Wealth Shares of Families Headed by A Non-Hispanic White Four-Year College Graduate





# **CAN “STRUCTURAL CHANGES” OVERCOME THE POWER OF DEMOGRAPHICS TO SHAPE FINANCIAL OUTCOMES?**



# Can “Structural Changes” Overcome Demographics?

- Age-based and generational inequities: Policy changes like Social Security, the GI Bill, Medicare, cheap public higher education, housing subsidies and tax cuts benefited currently old generations at the expense of others, so new policies could, in principle, rectify the balance for younger generations.
- Educational inequities: Local control and funding of primary and secondary education, “meritocratic” college admissions and the rising cost of higher education perpetuate educational disparities across generations; change is possible but would not be popular.



# Can “Structural Changes” Overcome Demographics?

- Inequities related to race and ethnicity:
  - Race- and ethnicity-based exploitation, discrimination and exclusion were practiced for centuries.
  - Elements of structural and systemic racism persist today.
  - White privilege is part of structural racism.
  - Psychological, social, emotional, educational, health, economic and financial damage inflicted on generations of black and brown Americans will not magically disappear in the current generation.
  - Only large-scale, long-lasting, privilege-reducing change matters.
  - Is there sufficient political will—?



## In Sum: The Demographics of Wealth

- Demographic characteristics are powerful predictors of economic, financial and other outcomes (homeownership, marriage, health).
- The 2008 financial crisis amplified the long-term financial benefits of certain groups; will the 2020 COVID crisis do the same?
  - Being born before 1960
  - Having more education and having better-educated parents
  - Being a member of an historically advantaged race or ethnicity
- Can “structural changes” overcome the power of demographics to shape financial outcomes?
  - Some inequities will be easier to address than others
  - Would require greater political will than currently visible

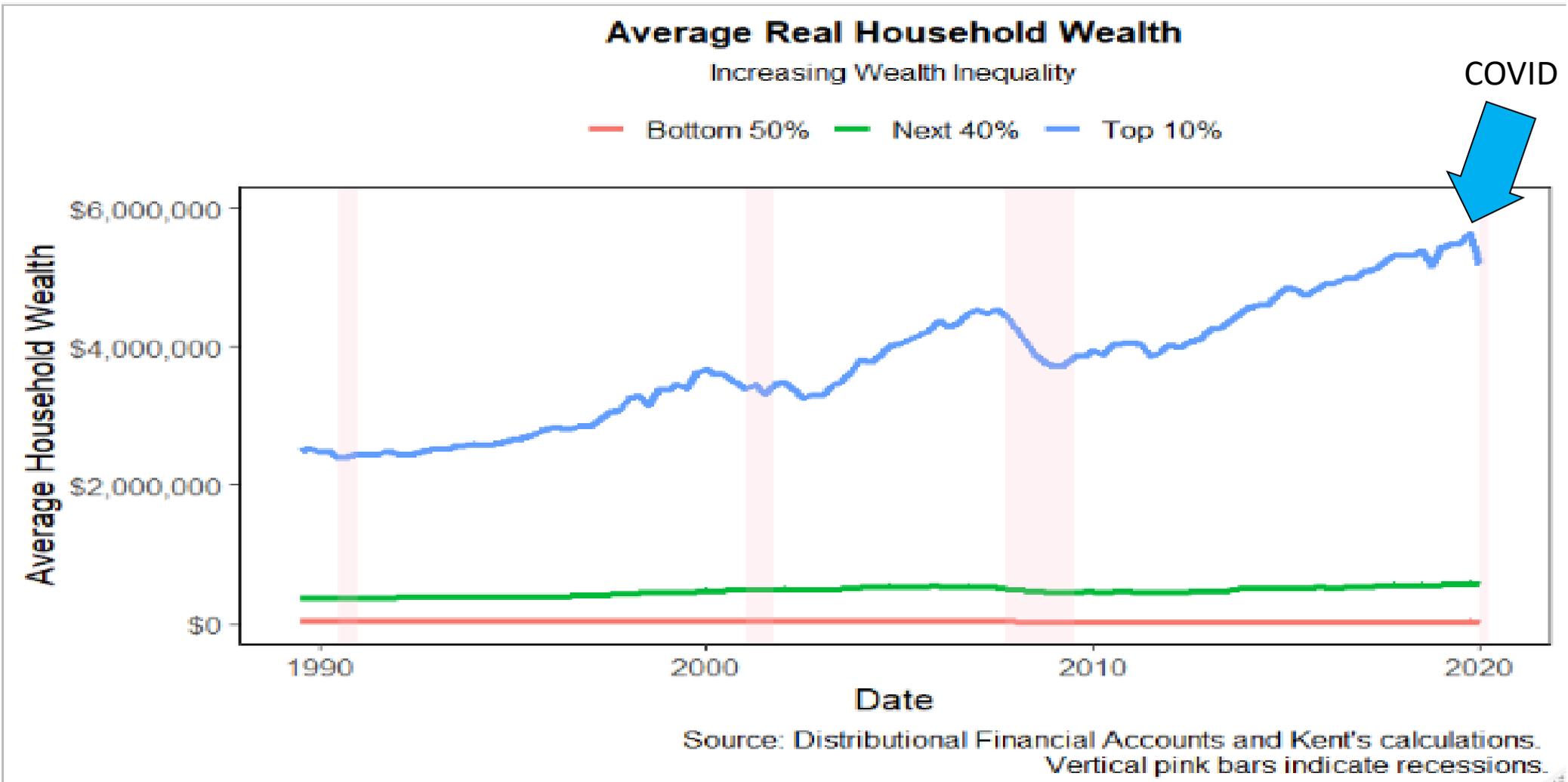


# **INITIAL IMPACT OF COVID-19 ON THE WEALTH GAP, AND POSSIBLE RESPONSES**



# Wealth Inequality After COVID:

Quarterly (Q4:2019→Q1:2020) Decline Largest Among Wealthiest, Though Their Wealth Has Steadily Risen Over Time





# Wealth Losses After COVID:

## Wealth Gap Narrows in Q1:2020, Though it is Early and Actual Levels Remain Quite Low

Calculations by Ana Kent of Distributional Financial Accounts of the Board of Governors:  
<https://www.federalreserve.gov/releases/efa/efa-distributional-financial-accounts.htm>

	Average Net Worth		
	December 31, 2019	March 31, 2020	Change
<b>Top 10%</b>	\$5,635,991	\$5,191,327	-\$444,664 (-7.9%)
<b>Bottom 50%</b>	\$22,766	\$21,673	-1,093 (-4.8%)
<b>Gap</b>	248X	240X	-3.1%



# Four Observations on Initial Impact of COVID-19 on the Wealth Gap

1. Due primarily to fluctuations in the stock market, the overall wealth gap has narrowed since COVID-19—though it is still early and, longer term, the gap has increased significantly.
2. Racial, generational and educational wealth gaps have persisted or have grown over the last few decades. This partially reflects the limited exposure of non-white, less-educated, and younger Americans to the stock market.
3. However, we should be more concerned about actual levels of wealth among struggling Americans, and less concerned about the gaps.
4. Health and labor market trends since COVID-19 suggest that the wealth of struggling Americans may be even further reduced—regardless of whether the overall wealth gap grows or narrows.



# Responses

## Near Term

- Extend safety net protections
- Consider [student debt relief](#)
- Promote emergency savings and liquidity:
  - [Which Families Are Most Vulnerable to an Income Shock such as COVID-19?](#)
  - [Cash on Hand Is Critical for Avoiding Hardship](#)
  - [Five Lessons About Financial Well-Being](#)

## Longer Term

- Promote both better financial choices (behavior change) and, especially, having better financial choices to make (institutional change)
- Promote racial economic equity
- Post-COVID, think big: “Rebuild, Insure, and Reimagine Family Wealth”



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