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

State of Wealth Equity Webinar
June 30, 2020

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Federal Reserve Bank of St. Louis

These views are our own, not necessarily those of anyone else in the Federal Reserve System.
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
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
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
Thousand of 2016 $, Natural Log Scale on Y-Axis

Age

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

Experience of 1940s cohort

Experience of all birth cohorts

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

Experience of 1960s cohort

Experience of all birth cohorts

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

Experience of all birth cohorts
Experience of 1980s cohort

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

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

2016 Share of Family Income by Education of Family Head
- 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**
- Less Than A 4-Year College Degree: 50%
- At Least A 4-Year College Degree: 50%

**Population Shares in 1989**
- Less Than A 4-Year College Degree: 77%
- At Least A 4-Year College Degree: 23%

**2016 Share of Family Wealth by Education of Family Head**
- Less Than A 4-Year College Degree: 26%
- At Least A 4-Year College Degree: 74%

**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

More-educated parents

<table>
<thead>
<tr>
<th>Continuing-Generation</th>
<th>More-educated children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both parents earned four-year degree or higher</td>
<td>Bachelor’s or Higher: 82, Associate/Certificate: 7, Left College: 1, Never Attended College: 2, Current College Student: 8</td>
</tr>
<tr>
<td>One parent earned four-year degree or higher</td>
<td>Bachelor’s or Higher: 59, Associate/Certificate: 14, Left College: 2, Never Attended College: 15, Current College Student: 11</td>
</tr>
<tr>
<td>Parent(s) earned two-year degree or certificate</td>
<td>Bachelor’s or Higher: 35, Associate/Certificate: 25, Left College: 3, Never Attended College: 20, Current College Student: 17</td>
</tr>
<tr>
<td>Parent(s) attended college (but no degree)</td>
<td>Bachelor’s or Higher: 31, Associate/Certificate: 16, Left College: 4, Never Attended College: 27, Current College Student: 23</td>
</tr>
<tr>
<td>No college experience, either parent</td>
<td>Bachelor’s or Higher: 18, Associate/Certificate: 13, Left College: 2, Never Attended College: 17, Current College Student: 50</td>
</tr>
</tbody>
</table>

**Percent**
RACE AND ETHNICITY
• 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.

ROC Local
Little Progress Closing Black & Hispanic Wealth Gaps

Median Net Worth by Race or Ethnicity of Family Head

- White
- Hispanic
- Black
- Other

Source: Federal Reserve Board, Survey of Consumer Finances
Whites (68%) Receive 80% of All Income

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

**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
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

Source: Distributional Financial Accounts and Kent's calculations. Vertical pink bars indicate recessions.
Wealth Losses After COVID: Wealth Gap Narrows in Q1:2020, Though it is Early and Actual Levels Remain Quite Low


<table>
<thead>
<tr>
<th></th>
<th>Average Net Worth</th>
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<tbody>
<tr>
<td></td>
<td>December 31, 2019</td>
</tr>
<tr>
<td>Top 10%</td>
<td>$5,635,991</td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>$22,766</td>
</tr>
<tr>
<td>Gap</td>
<td>248X</td>
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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.
**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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IN THE Balance
Perspectives on Household Balance Sheets

Newsletter

The Demographics of Wealth
2018 Survey

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2018 Survey

The Demographics of Wealth
2018 Survey

What is the state of U.S. HOUSEHOLD WEALTH?

FEDERAL RESERVE BANK OF ST. LOUIS

Median Net Family Net Worth, 2018

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