

Trends and Issues in Household Economic Security

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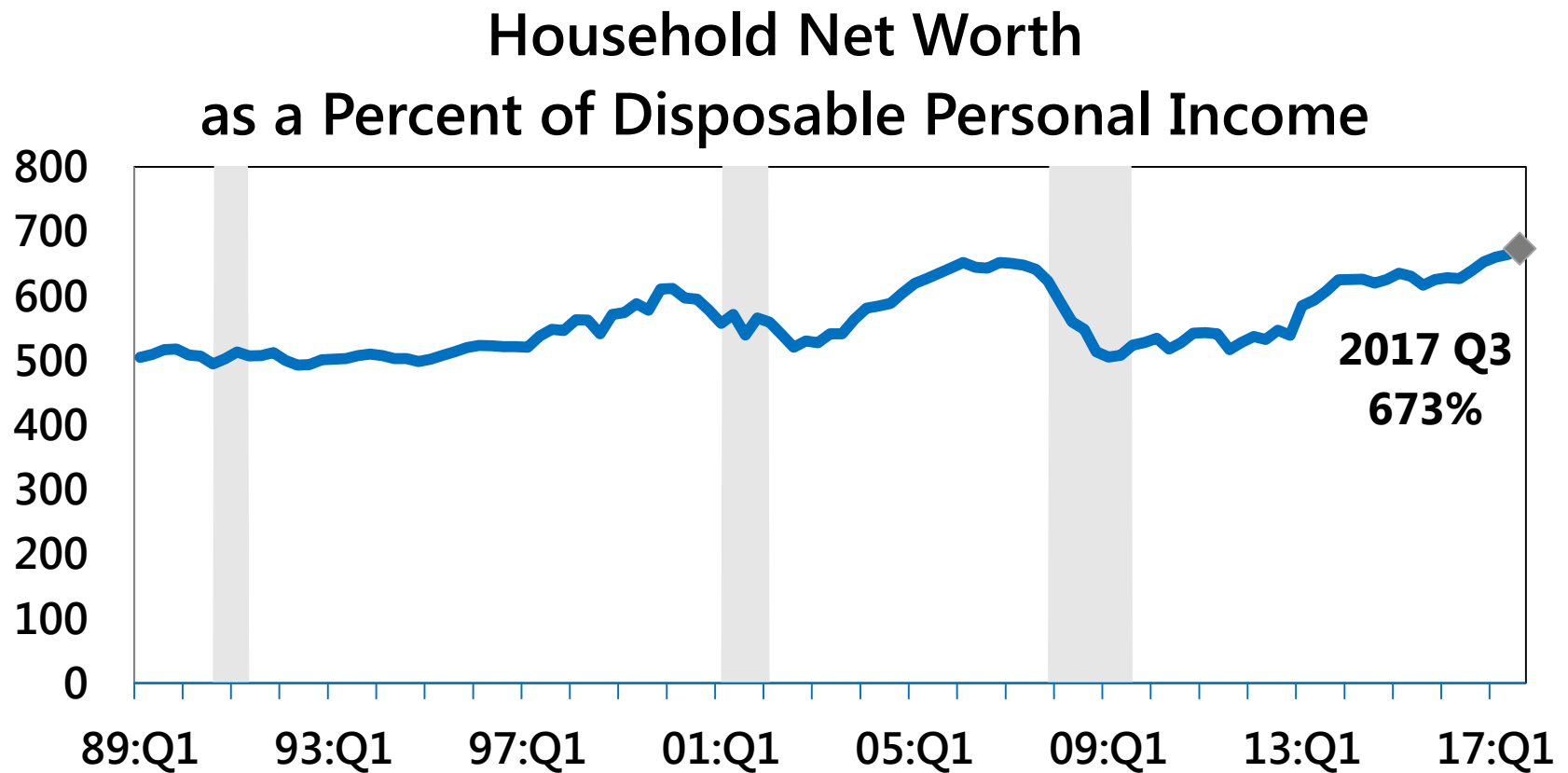


Outline of Remarks

- ▶ Trends in household economic security
- ▶ Two key moments of financial decision-making in the life cycle
 - Young adulthood
 - At retirement

Macro indicators show considerable recovery from the recession.

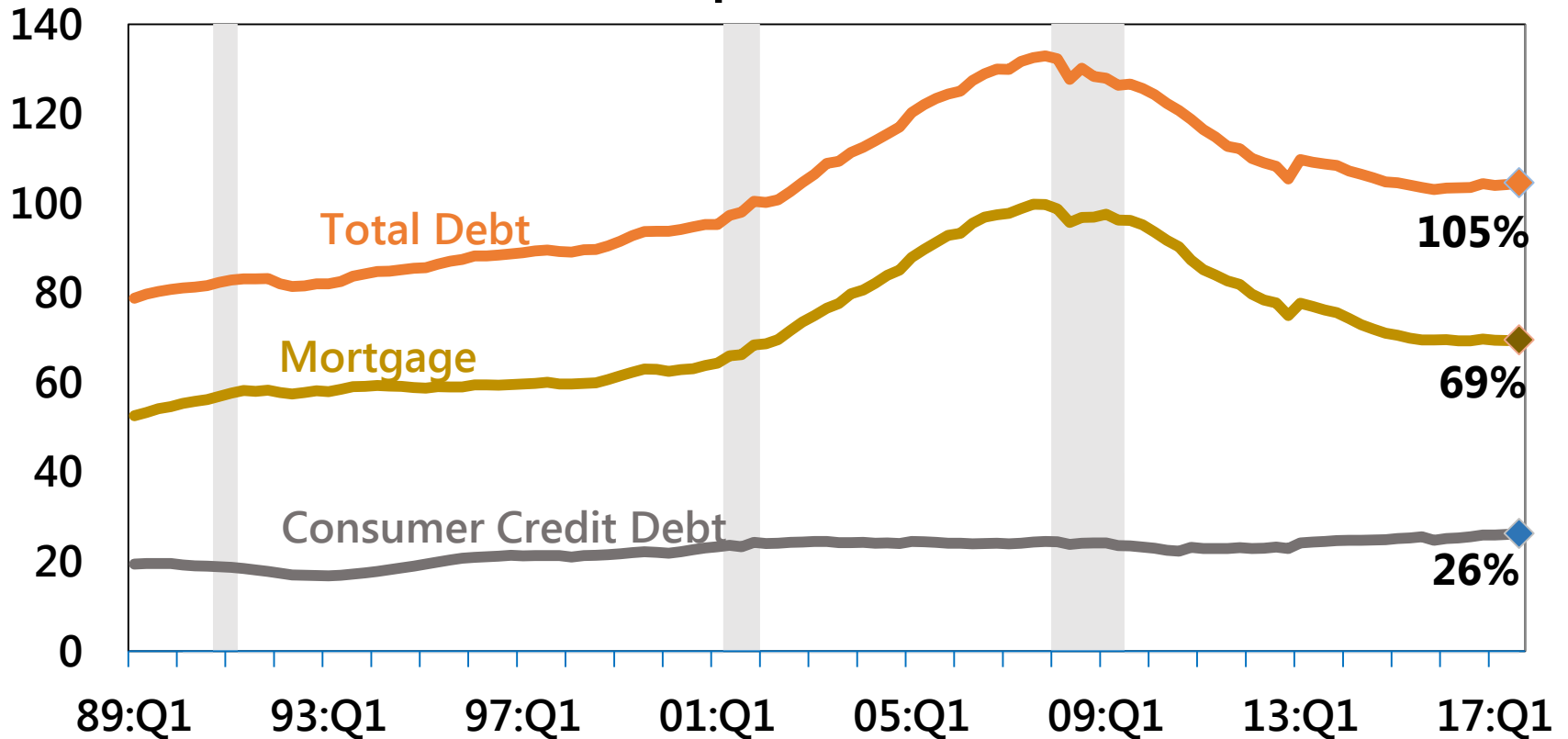
- ▶ Household net worth has reached a record high.



Source: Federal Reserve Board, Financial Accounts of the United States Q3 2017

Debt burdens have also fallen.

Household Debt as a Percent of Disposable Personal Income



Source: Federal Reserve Board, Financial Accounts of the United States Q3 2017

The median family has not seen a complete recovery in terms of wealth.

	Median Net Worth (thousands of 2016 \$)	Change		
	2016	1989-2016	2001-2016	
All families	97.3	9.8	-20.0	
<i>Age of head (years)</i>				
Less than 35	11.0	-3.6	-4.9	
35-44	59.8	-45.5	-45.3	
45-54	124.2	-60.0	-58.2	
55-64	187.3	4.7	-63.9	
65-74	223.4	80.3	-17.5	
75 or more	264.8	129.6	54.4	

Source: Federal Reserve Board Survey of Consumer Finances, 1989-2016

Household wealth rises with age.

	Median Net Worth (thousands of 2016 \$)	Change	
		1989-2016	2001-2016
	2016		
All households	97.3	9.8	-20.0
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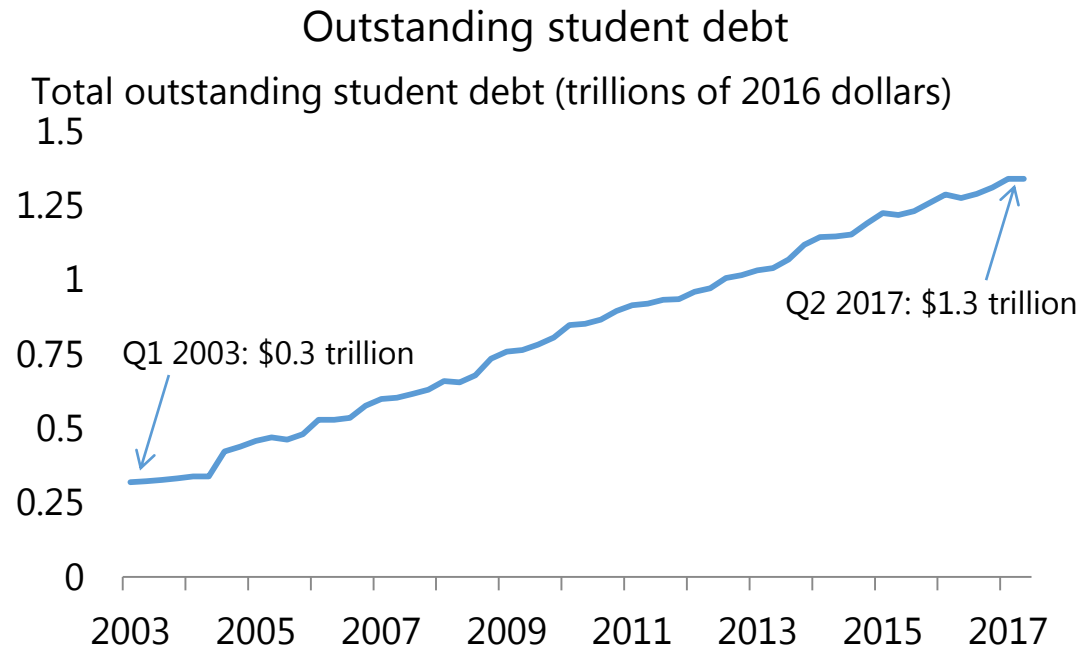
Recent gains in wealth have accrued to older households.

	Median Net Worth (thousands of 2016\$)	Change (thousands of 2016\$)	
		1989-2016	2001-2016
	2016		
All households	97.3	9.8	-20.0
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Young adults: Student loan balances have quadrupled in the last 15 years.

- ▶ The burden of financing higher education has increasingly fallen on the students themselves.
- ▶ Young adults with student debt may delay other major decisions, like home purchase, with implications for wealth building.

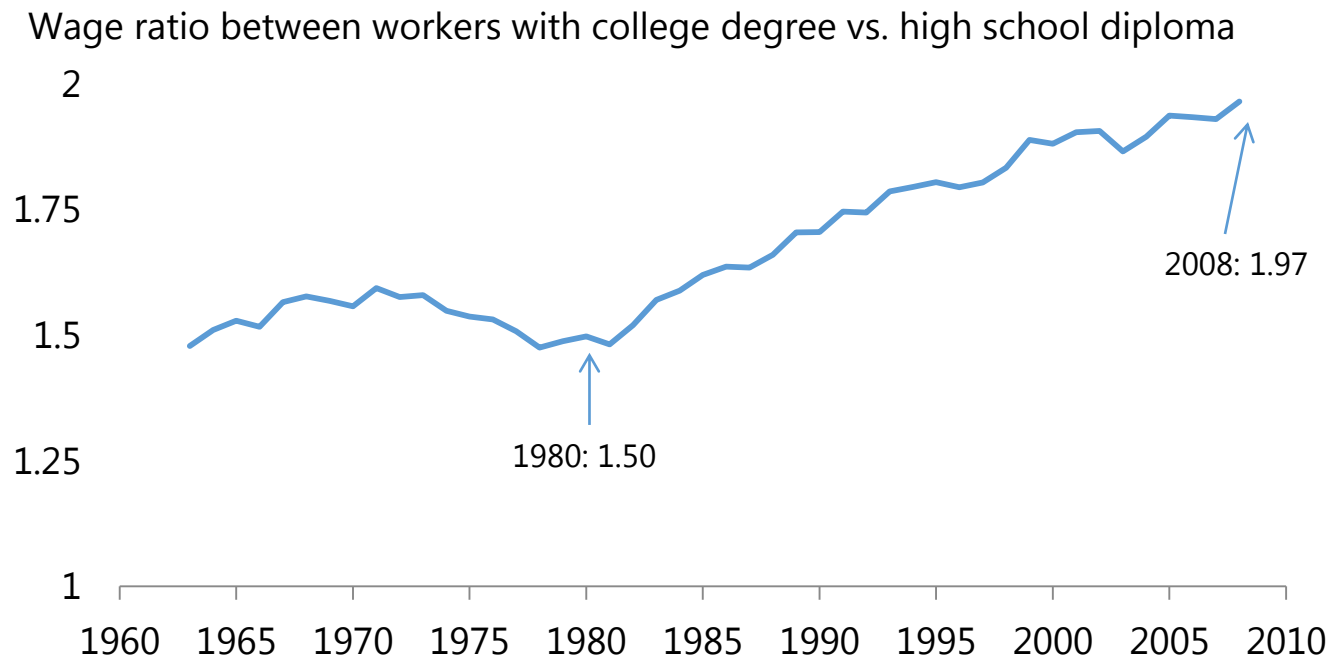


Source: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, Q2 2017.

Higher education is still a good investment, however.

- ▶ College graduates earn twice as much as high school graduates.

Weekly wage ratio, college degree vs. high school diploma



Source: Figure 10, Autor (2010). Based on weekly wages from the March CPS, adjusted for worker characteristics.

While there is a college wage premium, there is considerable variation in outcomes among individuals.

- ▶ Many students attend schools that have systematically low repayment rates.

Student Loan Repayment Rate by Institution		
Institution's cohort 5-year repayment rate	Implied repayment term	Share of undergraduate borrowers
Below 0%	Neg Am	4%
0% to 15%	20+ years	27%
15% to 20%	15-20 years	19%
20% or above	<15 years	51%

Notes: Covers undergraduate loans that began repayment in 2009 and observed five years later.
Source: Chou, Looney & Watson (2017).

What education the student loan finances matters.

- ▶ Key financial decision is not just whether to take on student loan debt, but what education that debt is financing.
- ▶ Although repayment rates vary by school, it's not just an issue of selectivity—lots of unselective schools have excellent repayment outcomes.
- ▶ Completion of degree matters.
 - Outcomes of “some college” converging with those of high school only.
- ▶ Field of study matters.
 - Some majors earn more than others. Among mid-career prime-age workers, the median earnings for STEM majors are \$15,000 higher than for all majors (\$76,000 compared to \$61,000).

Older households: The typical older household has some wealth, but most of it is concentrated in housing.

Median Household Wealth by Marital Status, and Disability Status (65+)

	Total wealth	Non-housing wealth
All households	\$231,311	\$87,379

Source: Health and Retirement Study (2000-14) and Treasury calculations

Married households with no one disabled are considerably better off than the median elderly household.

Median Household Wealth by Marital Status, and Disability Status (65+)		
	Total wealth	Non-housing wealth
All households	\$231,311	\$87,379
Married, not disabled	\$368,928	\$163,098

Source: Health and Retirement Study (2000-14) and Treasury calculations

Households with a disabled member, however, have much less wealth.

- ▶ Long-term care costs are high and not broadly covered by traditional health insurance.

Median Household Wealth by Marital Status, and Disability Status (65+)		
	Total wealth	Non-housing wealth
All households	\$231,311	\$87,379
Married, not disabled	\$368,928	\$163,098
Married, one or more disabled	\$157,586	\$31,747

Source: Health and Retirement Study (2000-14) and Treasury calculations

Single (including widowed) households are also considerably less wealthy.

Median Household Wealth by Marital Status, and Disability Status (65+)		
	Total wealth	Non-housing wealth
All households	\$231,311	\$87,379
Married, not disabled	\$368,928	\$163,098
Married, one or more disabled	\$157,586	\$31,747
Not married, not disabled	\$123,752	\$31,365

Source: Health and Retirement Study (2000-14) and Treasury calculations

The typical single, disabled household has virtually no wealth.

- ▶ Disability and widowhood present major risks to economic security among elderly households, even more than aging itself.

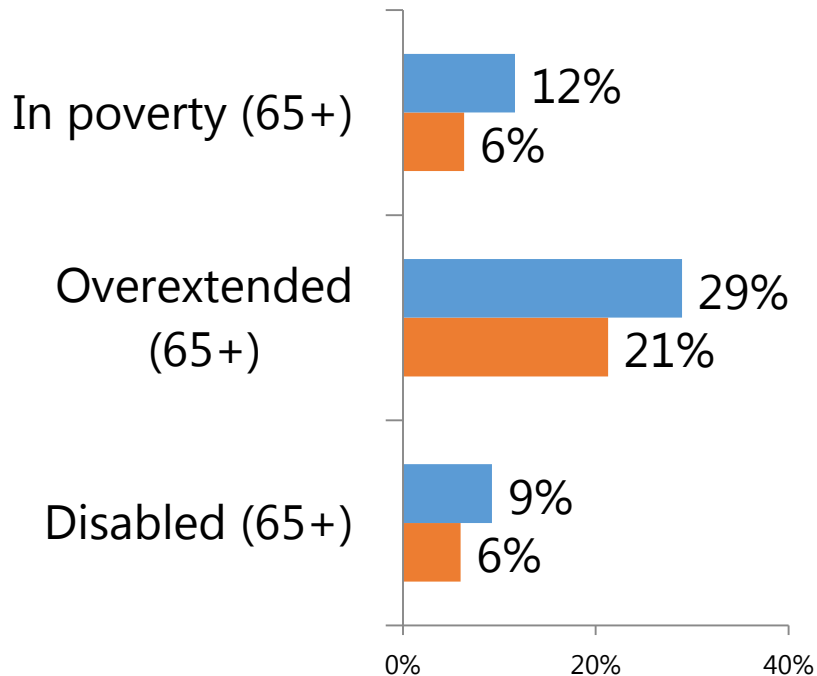
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Married, one or more disabled	\$157,586	\$31,747
Not married, not disabled	\$123,752	\$31,365
Not married, disabled	\$9,289	\$1,255

Source: Health and Retirement Study (2000-14) and Treasury calculations

Older women are especially vulnerable.

Economic security of the 65+ population, by gender

■ Women ■ Men



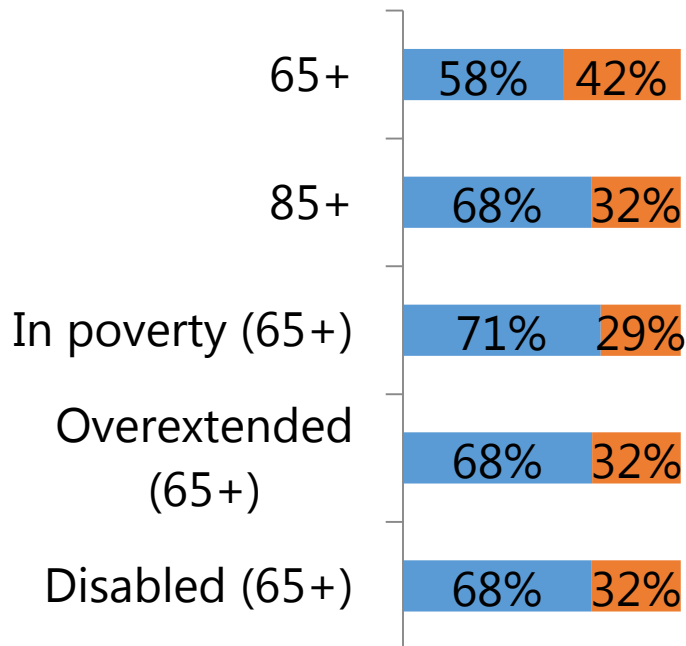
- ▶ Older women are twice as likely to be in poverty than men.
- ▶ Nearly 30 percent of women are overextended—their spending exceeds what their income and wealth can sustain.
- ▶ Women are more likely to be disabled.

Source: Health and Retirement Study, Treasury calculations

The vulnerable older population is mostly women.

Gender distribution of age and economic security indicators among the 65+

■ Women ■ Men



Source: Health and Retirement Study, Treasury calculations

- ▶ Because women make up a large share of the older population, they also make up a disproportionate share of the vulnerable population.
- ▶ Along many metrics, women make up over 2/3 of the vulnerable older population.

Strategic wealth decumulation is key in mitigating risks in retirement, but there is low take-up of relevant products.

- ▶ A lot of wealth is tied up in housing, but reverse mortgages have not been widely taken up.
 - Only about 50,000 reverse mortgages are sold each year.
- ▶ The decline in defined benefit plans has not been offset by private annuities.
 - The median elderly household receives no income from private pensions or annuities.
- ▶ Only about 12 percent of the elderly population has private long-term care insurance.

Concluding thoughts

- ▶ With weak wealth accumulation across most households, financial decision-making becomes even more important.
- ▶ Households face different issues at different stages of the life cycle.
 - Early adulthood decisions have long-term repercussions for wealth building.
 - Decisions made at the time of retirement can shape economic security for the remainder of one's life.