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Lost Generations? Wealth Building among Young Americans

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Despite the Great Recession and the fragile economic recovery, the wealth of Americans has grown significantly when a longer-term view is considered. Average household wealth approximately doubled from 1983 to 2010, and average incomes rose similarly. For many, the American dream of working hard, saving more, and becoming wealthier than one's parents holds true.

Unless you're under 40. Today, those in Gen X and Gen Y have accumulated less wealth than their parents did at that age over a quarter-century ago. Their average wealth in 2010 was 7 percent below that of those in their 20s and 30s in 1983. Even before the Great Recession, younger Americans were on a strikingly different trajectory. Now, stagnant wages, diminishing job opportunities, and lost home values may be merging to paint a vastly different future for Gen X and Gen Y. Despite their relative youth, they may not be able to make up the lost ground. If these generations cannot accumulate wealth, they will be less able to support themselves when they eventually retire. This financial uncertainty could reverberate throughout the economy, since entrepreneurial activity, saving, and investment tend to build on a base of confidence and growing wealth.

Meanwhile, the country's budget crises and public debt burden loom large, and the younger generation could be facing much higher tax bills, both in total and as a share of their incomes, than their parents. Today's political discussions often focus on preserving the public wealth and benefits of older Americans and the baby boomers. Often lost in this discussion is how much of this preservation comes at the greater expense of younger generations who have already been losing out on their share of private wealth.

How Has Wealth Changed Over Time?

Households typically save more as they age, at least until they start drawing down assets in their 60s and 70s. Most generations accumulate a fair amount of wealth during their lifetimes (figure 1).

As a society gets wealthier, children are typically richer than their parents, and each generation is typically wealthier than the previous one at any given age. For example, near peak wealth accumulation in their mid-50s to mid-60s, those born in 1943–51 are wealthier than those born in 1934–42, who are wealthier than those born in 1925–33. This pattern does not hold for the younger among us. People born starting in 1952 no longer find their wealth above the prior cohort by 2010. Nor is the most recent 1970–78 cohort's average above prior cohorts. Younger cohorts' average wealth is simply no longer outpacing older cohorts.

Looking at it another way, 65- to 73-year-olds today have far more wealth than 65- to 73-year-olds did in 1983 (figures 2 and 3). More generally, the net worth of those 47 and older is roughly double that of someone the same age 27 years earlier. Today's adults in their mid-30s or younger — the prime time for career and family formation — benefited little from the doubling of the economy since the early 1980s and have accumulated no more wealth than their counterparts 25 years ago.

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Why Has Wealth Changed?

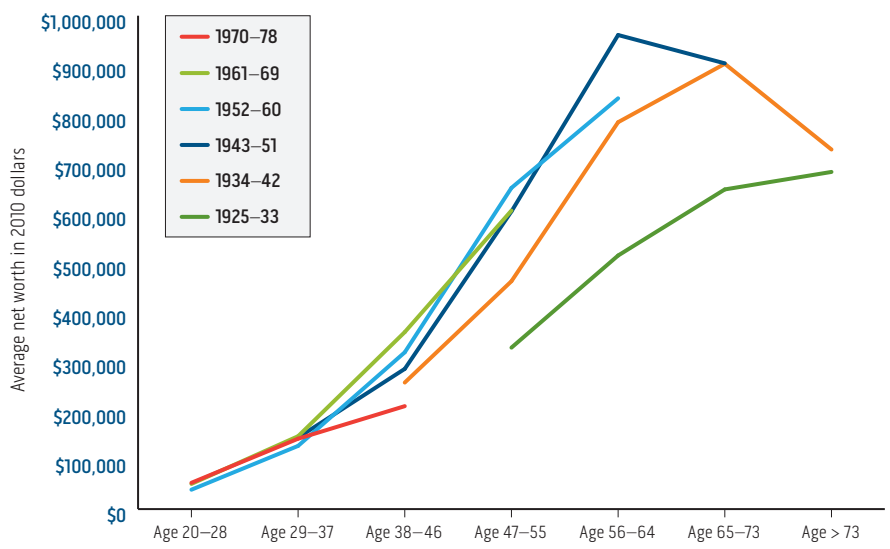
Many factors lie behind these generational disparities. The Great Recession's impact on homes and retirement accounts — two keys to saving — certainly played a part. When the housing market crashed, recent homebuyers who owed the most on their mortgages relative to their home values were hit hardest. Not surprisingly, that was mostly homeowners in their late 20s and 30s. Their higher ratios of debt to asset value left many underwater when the value of their homes fell. People who had purchased their homes before, or even just as, prices began rising in the late 1990s had gains that tended to protect them when home values fell nearly a decade later. The government's response to the housing crisis — which led to lower interest rates — did not benefit many younger families because their lack of equity denied them access to lower-cost loans.

The stock market also crashed in the Great Recession but has mainly recovered since then. Despite some older Americans selling early, as a group older Americans fared relatively well. Older generations are likely to have a larger share of their portfolio, including their retirement accounts, in recovered assets (such as stocks) and appreciated assets (such as bonds). Adults born before 1952 are also more likely to hold annuities from defined benefit pension plans and Social Security, whose values increase when interest rates fall (though the data noted in the figures exclude these assets). Younger generations mostly have defined contribution pension plans and are less likely to hold annuities.

But the young, on average, were falling behind even before the Great Recession. Factors likely include their reduced job prospects, lower employment rate, and lack of educational attainment that was higher than previous generations.

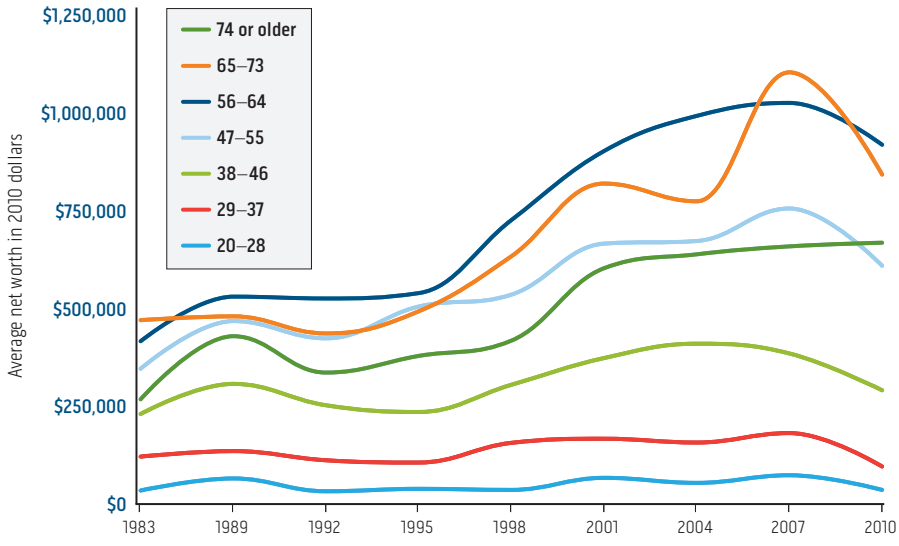
Conventional wisdom tends to attribute any particular disparity, such as the young

Figure 1. Younger Generations Are No Longer Successively Wealthier



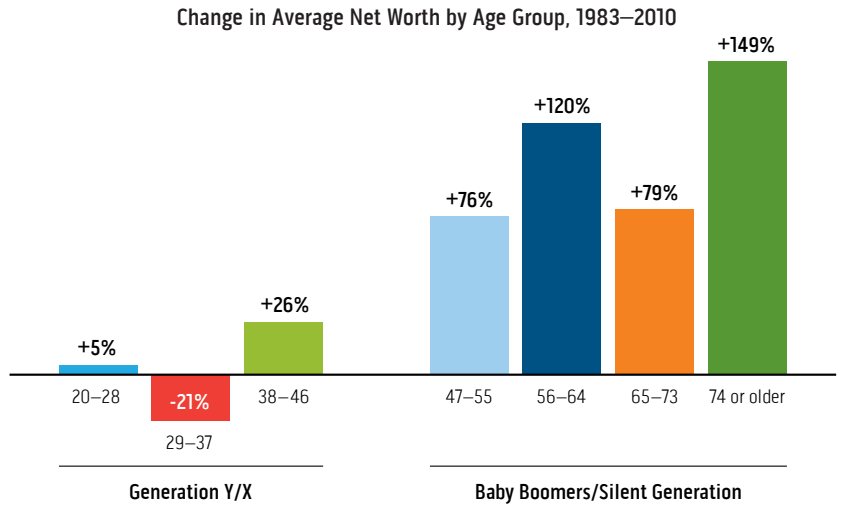
Source: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
Notes: All dollar values are presented in 2010 dollars and data are weighted using SCF weights. The much lower wealth of the 1970–78 cohort at age 38–46 is partially explained by the fact that this cohort was at the younger end of this age range in 2010. The same is true for the 1952–60 cohort at age 56–64.

Figure 2. Younger Generations Are Not Gaining Over Time



Source: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
Notes: All dollar values are presented in 2010 dollars and data are weighted using SCF weights.

Figure 3. Older Generations Accumulate, Younger Generations Stagnate



Source: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
Notes: All dollar values are presented in 2010 dollars and data are weighted using SCF weights. The comparison is between people of the same age in 1983 and 2010.

falling behind in wealth holdings, to the growth in income inequality in society. But the two need not be correlated. Disparities can grow within both younger and older generations without the young necessarily falling behind as a group.

How Do We Fix This?

In both the private and public sectors, the younger generations have been hardest hit, whether looking at their share of private wealth or the additional student and government debt with which they are being saddled. Meanwhile, education, homeownership, and pensions are all currently threatened. Education has declined in importance in public budgets, post-recession policy has tended to discourage access to homeownership, and pensions and retirement plans still prove inadequate if not in decline for substantial portions of the population.

Whatever the causes, the decline in the attention given to the young in government budgets should raise some concern. The federal government spends hundreds of billions of dollars each year to support long-term asset development, such as homeownership via the mortgage interest deduction and retirement savings via preferential tax treatment of money saved in 401(k) and other retirement accounts. These subsidies primarily go to high-income families. A greater sharing of those benefits with the young likely would improve both their lifetime accumulation of wealth and the economic well-being of the nation as a whole.

The reduced status of education in federal and state budgets, limited private and state government pension contributions to the young, and a post-recession subsidy system with a great deal of ambiguity toward new homeowners are among the many wealth-related policies worthy of examination and possible reform.

If current trends for younger generations are not reversed, within a few decades they may become more dependent than older Americans today, especially in retirement, upon safety net programs less capable of providing basic support. As we grapple with broad issues of budget, tax, and educational reform, we need to be sure that such efforts include a focus now, not at some distant future point, on asset building for generations X and Y and successor generations. ▪

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