Introduction

Bryan Noeth and Ray Boshara

The Great Recession exposed many fault lines in the finances of American families. Younger adults, in particular, were susceptible to the perils of the downturn. Many faced elevated unemployment risk and had overleveraged balance sheets and undiversified portfolio allocations that left them vulnerable to the economic shocks of 2007-09 and the subsequent slow recovery.

The combination of these wealth losses and daunting economic challenges (e.g., intensifying global competition for good-paying jobs; continuing rapid rates of technological change; rising costs of higher education and reliance on loans to finance that education; delayed family formation; and demographic shifts) suggests that the American Dream may well be threatened for a growing number of younger Americans.

With these issues in mind, the Center for Household Financial Stability and the Research Division of the Federal Reserve Bank of St. Louis partnered with the Center for Social Development at Washington University to convene experts at the St. Louis Fed on May 8 and 9, 2014, to better understand the balance-sheet issues facing younger Americans. In this second annual balance-sheet symposium at the St. Louis Fed, research focused on families in their 20s and 30s.

Many topics affecting the balance sheets of younger Americans were discussed at the two-day symposium. Among them were economic mobility, student loans, the state of younger adults' balance sheets, homeownership, savings and balance-sheet portfolio allocation, financial decisionmaking, and Child Development Accounts (CDAs).

This issue of the Federal Reserve Bank of St. Louis *Review* includes four papers from the symposium. The remainder of this introduction discusses why the organizers emphasized younger Americans. It also offers a basic synopsis of the research presented and provides themes emerging from the symposium.

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BACKGROUND

Younger families face a unique set of economic challenges and were particularly hard hit by the recent recession. With respect to labor markets, young families encounter elevated economic risks compared with older cohorts. When macroeconomic conditions deteriorate, younger workers are more likely to find themselves unemployed—likely because of lower levels of human capital derived from fewer on-the-job experiences. This effect can be elevated in particular for young people first entering the labor market.

Figure 1 shows the unemployment rate since 1980 partitioned by age group. A general monotonic pattern prevails that unemployment rates tend to decrease with age. In May 2007, the unemployment rates were 7.2 percent, 4.4 percent, 3.3 percent, 3.1 percent, and 3.2 percent for age groups 20 to 24, 25 to 34, 35 to 44, 45 to 54, and 55 years of age and older, respectively. Three years later, in May 2010, those same unemployment rates were 14.7 percent, 10.5 percent, 7.9 percent, 7.6 percent, and 7.1 percent, respectively. All age groups were hit by the recession, but the youngest cohorts had the largest percentage-point increases in unemployment.

Unemployment at young ages can be particularly troublesome: Young people tend to have lower levels of liquid savings than their older counterparts and are, accordingly, much less resilient to lapses in income. Additionally, unemployment spells earlier in life tend to reverberate throughout the rest of the career path (for example, see Kahn, 2010). Even further, research suggests that unemployment has negative impacts on health and well-being.

Over the same time period, there was little growth in wages for year-round, full-time wage-earning younger American workers, regardless of the wage measurement method or the earnings distribution. Figure 2 shows Census data from the Current Population Survey Annual Social and Economic Supplement from years 1989 to 2014. The figure shows that the mean income and 75th percentile of wages for those 18 to 39 years of age increased through the 1990s but have remained flat through the 2000s. The median and 25th percentile of wages, arguably, have remained flat over the entire time span.

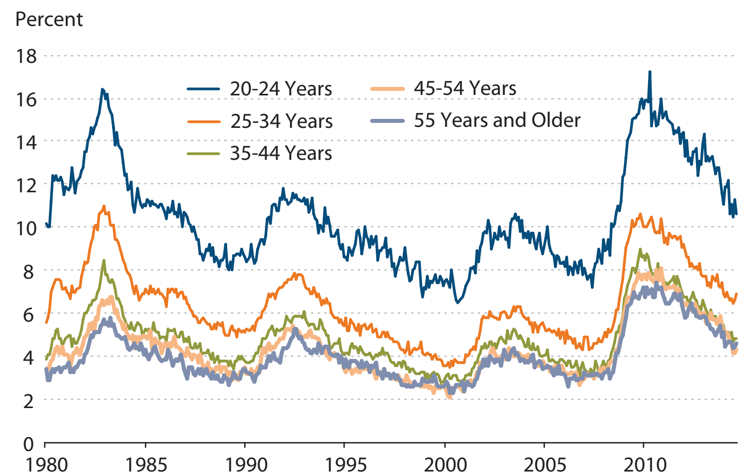
Younger families generally hold riskier portfolios in several aspects. In general, people borrow earlier in life to smooth consumption over time. They obtain mortgages to purchase homes, incur debt for education, and borrow for a host of other expenses, running up debt in their 20s, 30s, and 40s. In general, this debt is paid down in middle to old age. This leaves younger families with much higher debt burdens than their older counterparts.

Figure 3 shows the average total debt-to-average total income (DTI) ratio using the triennial waves of the Survey of Consumer Finances (SCF). Younger families had much higher DTI ratios throughout the time series. Families across the age distribution ran up debt burdens prior to 2007. Young families, in particular, had DTI ratios of around 102 percent in 2001. The DTI ratios increased to around 167 percent in 2007 before returning to around 131 percent as of 2013. These debt levels were quite elevated from historical norms, which had substantial effects.

The vast majority of household debt is secured by housing, but young people are increasingly borrowing to attend college. Between 2005 and 2014, aggregate balances of student loan debt grew from $364 billion to $1.118 trillion (Figure 4). This occurred as households were

Figure 1

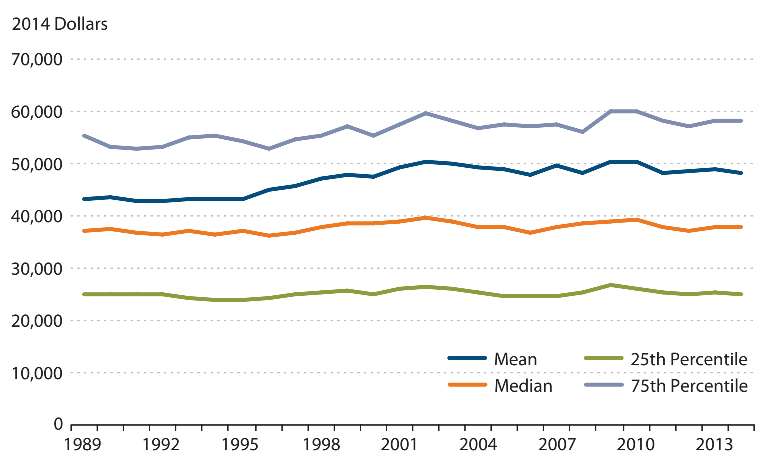
Unemployment Rates by Age



SOURCE: Bureau of Labor Statistics.

Figure 2

Income: Ages 18-39

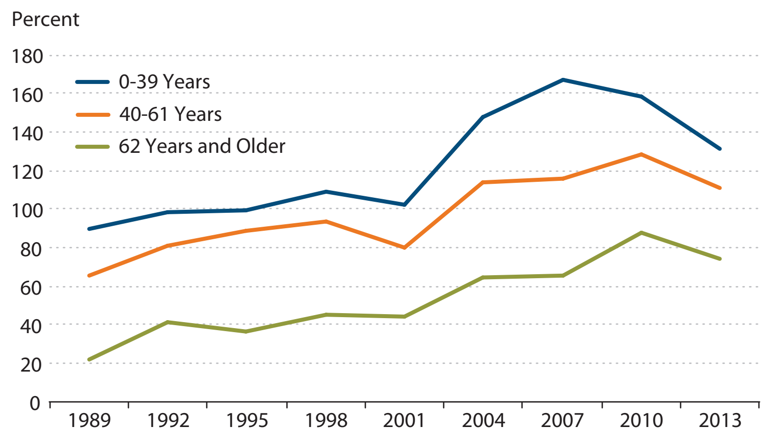


NOTE: For year-round, full-time employees only.

SOURCE: Annual Social and Economic Supplement of the Current Population Survey/U.S. Census Bureau.

Figure 3

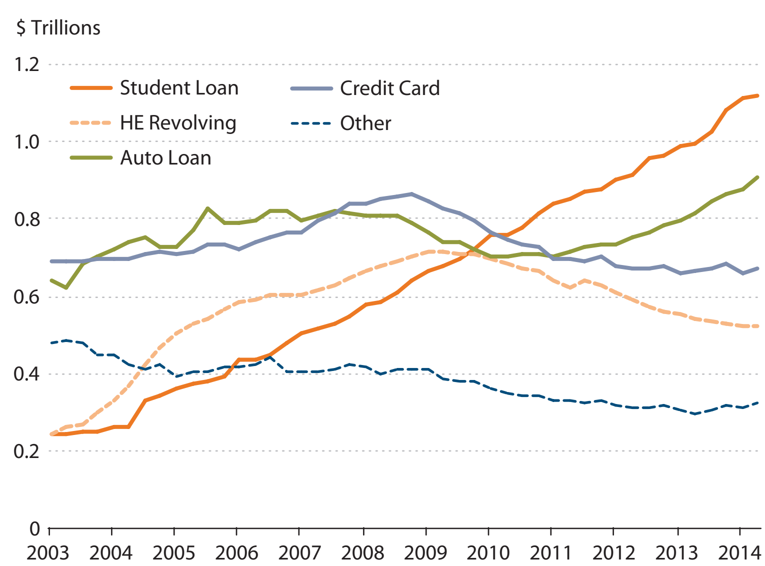
Debt-to-Income Ratios by Age



SOURCE: Survey of Consumer Finances.

Figure 4

Aggregate Debt by Category (excluding mortgages)

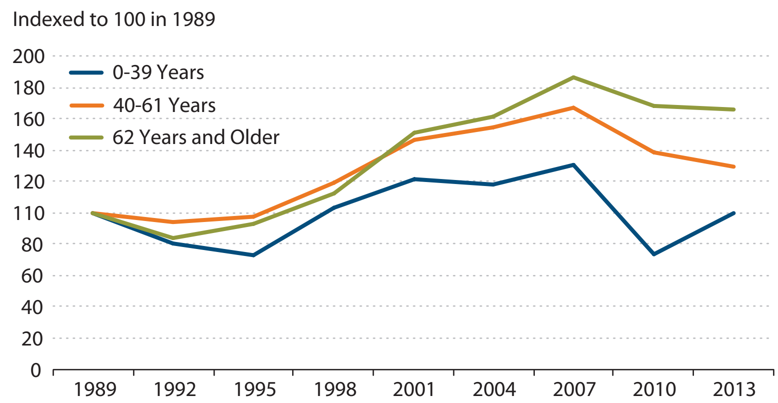


NOTE: HE, home equity.

SOURCE: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit/Equifax.

Figure 5

Real Net Worth by Age



SOURCE: Survey of Consumer Finances.

generally deleveraging with respect to their other debt categories. Much of this increase in student debt can be attributed to the increasing costs of attending college, though other reasons prevail.[1] Regardless of the causes, student debt is increasingly becoming a concern for younger generations.

On the asset side of the balance sheet, young families are not as well diversified as their older counterparts. Those between 18 and 39 years of age were much more heavily invested in housing. In 2007, housing-related assets represented roughly 55 percent of young adults' balance sheets. Conversely, housing-related assets represented 39.0 and 34.1 percent, respectively, of the assets for those 40 to 61 years of age and those 62 and older.

These high levels of debt, increased unemployment risk, and more exposure to housing shocks left young families vulnerable to the effects of the recession in three ways: First, young homeowners were particularly susceptible to the falling asset values. Second, leveraging magnified those losses. And third, the wealth of these families tended to be concentrated in housing, so they missed the bounce back in stock prices that occurred after 2009.

These factors combined to create massive wealth losses for younger families. While older families lost more wealth in absolute terms, this was generally because they had more wealth to lose. In percentage terms, younger families tended to lose the most in the wake of the financial crisis.

Figure 5 shows the SCF data on average wealth by family in 1989. The average young family in 2010 had 43.9 percent less wealth, in real terms, than the average young family in 2007. Those 40 to 60 years of age and those 62 and older had 16.4 percent and 10.3 percent less wealth, respectively

The loss in median wealth for all groups tells a similar story. Median wealth for the youngest group was 37.6 percent lower in 2010 than in 2007 compared with losses of 42.9 percent and

6.7 percent, respectively, for those 40 to 60 years and 62 years and older. The 2013 survey shows that young families have made up some ground but still remain well below their pre-crisis levels.

Looking forward, current and future young families face several uncertainties. How will skill-biased technological change affect the wage profile of young Americans? Will education costs continue to rise, and what implications with this have on the accumulation of human capital? Patterns of household formation seem to be changing: How will this affect macroeconomic growth? The U.S. population is aging. With a much higher percentage of Americans reaching retirement age, how will this affect the economic opportunities of younger cohorts? For these reasons, the symposium organizers decided to focus on younger generations to develop a better understanding of the social and economic forces shaping their financial lives, especially with respect to wealth.

SYNOPSIS

Keynote Address

The symposium began with opening remarks from James Bullard, president and CEO of the St. Louis Fed, and Ray Boshara, director of the Center for Household Financial Stability. Both noted the importance of focusing on the young and their balance sheets.

The opening session featured a keynote address by Neil Howe, a demographer/economist and founding partner and president of LifeCourse Associates. He discussed balance sheets within the context of generational differences. His generational perspective was laid out by analyzing various birth year cohorts (1901-24, the GI Generation; 1925-42, the Silent Generation; 1943-60, the Baby Boomers; 1961-81, Generation X; and 1982-2004, the Millennials). He examined how each generation defined the American Dream and the events that shaped their perspectives.

One theme recurred throughout the symposium: The generation most affected by the Great Recession seems to have been Generation X. Their position in the life cycle, especially their greater likelihood to be homeowners, made them vulnerable to the effects of the crisis. One consequence is that older Generation Xers might have difficulty repairing their balance sheets in time for retirement.

A Micro and Macro Look at Younger Americans' Balance Sheets

The first plenary session examined younger Americans' balance sheets from micro and macro perspectives. The rationale was to explore the current state of younger Americans' balance sheets while also looking at trends over time. The session then turned to the implications of these trends for macroeconomic growth.

Lisa Dettling and Joanne Hsu—both economists at the Board of Governors of the Federal Reserve System—discussed their paper "The State of Young Adults' Balance Sheets: Evidence from the Survey of Consumer Finances" (pp. 305-30). The authors found that young adults experienced a decline in wealth between 2001 and 2010 because of increasing liabilities and decreasing asset values. They corroborated Howe's observation that Millennials are faring slightly better than Generation Xers in terms of relative changes in net worth and delinquency. Dettling and Hsu also found that most of the changes in finances occurred at the top end of the distribution.

In the same session, William Emmons and Bryan Noeth of the St. Louis Fed discussed links between younger Americans' balance sheets and economic growth. They examined the more aggressive borrowing by young adults, their heightened reaction to price increases, and the greater likelihood of the young to be homeowners in 2007 than in the past. These characteristics and other evidence suggest that young people contributed disproportionately to the housing bubble and crash.

Student Loans

The second plenary session studied a particular topic affecting the balance sheets of younger Americans—student debt. As noted previously, the aggregate balances of student loans have now surpassed $1 trillion dollars. This session was designed to examine the implications of rising student debt levels for younger generations.

Meta Brown of the Federal Reserve Bank of New York presented research from her paper "Student Loans and Economic Activity of Younger Adults," with her coauthors Zachary Bleemer, Donghoon Lee, and Wilbert van der Klaauw. The authors used the Federal Reserve Bank of New York Credit Panel data provided by Equifax and found a trend toward more younger adults living with their parents. Particularly, student borrowers showed a stronger trend of retreating from homeownership. The authors also analyzed the effect of local labor markets on the residence of young adults finding. For example, they found that local, well performing local economies actually drive young adults back to their parents, likely a function of increasing housing costs. They also stated that high local college costs were associated with higher rates of young adults moving back in with their parents and lower rates of moving out.

Melinda Lewis of the University of Kansas presented a paper—cowritten with William Elliott, Michal Grinstein-Weiss, and IlSung Nam—of the session entitled "Student Loan Debt: Can Parental College Savings Help?" (pp. 331-57). They addressed whether parents' college savings can help reduce student debt. The authors used data from the Educational Longitudinal Survey and found that students whose parents had saved for college had less debt on average than those whose parents did not save. Citing research on the negative effect of student loans on household net worth, the authors concluded that greater policy emphasis on savings-based financing of higher education might help protect students from large debt balances and poor outcomes.

Concurrent Sessions on Younger Americans' Balance Sheets

The second day of the symposium started with concurrent sessions. Two papers were presented in each of two concurrent sessions (four papers total) revolving around balance-sheet issues affecting young people. The topics ran the gamut from portfolio choices of younger Americans to the effects of CDAs on parental educational expectations.

In Concurrent Session A, Terri Friedline of the University of Kansas presented her paper "Toward Healthy Balance Sheets: Are Savings Accounts a Gateway for Young Adults' Asset

Diversification and Accumulation" (pp. 359-89), stemming from work with coauthors Paul Johnson and Robert Hughes. The basic premise is that savings accounts allow individuals to meet low-level financial needs and "ascend the hierarchy of financial products." The authors used Survey of Income and Program Participation data and showed that savings accounts are associated with more diverse portfolios and contributed to the accumulation of liquid assets.

Wenhua Di of the Federal Reserve Bank of Dallas and Sherrie Rhine of the Federal Deposit Insurance Corporation presented work with coauthors William Greene and Emily Ryder Perlmeter titled "Financial Decisions of Young Households During the Great Recession: An Examination of the SCF 2007-09 Panel." The authors examined the SCF 2007-09 panel to understand how the financial behaviors of younger households differed from those of older households. They found that younger groups and older groups differed in their response to the recession. They also found differences in the interaction of age with race/ethnicity, number of children, changes in health insurance, liquidity constraints, employment status, and marital status and their effects on financial decisions.

In Concurrent Session B, Michael Sherraden, Youngmi Kim, Jin Haung, and Margaret Clancy presented work titled "Child Development Accounts and Mother's Educational Expectations: Impacts From a Statewide Social Experiment." The authors used data from a randomized experimental design from Oklahoma's SEED OK CDAs; they noted that mothers in the treatment group had higher educational expectations of their children. The authors contend that mothers maintain a positive outlook on their children's future education when they have savings earmarked for learning. This, in turn, affects both parental and child well-being.

Ellen Merry of the Board of Governors of the Federal Reserve System presented "Asset Holdings of Young Households: Trends and Patterns" (pp. 391-411), cowritten with Logan Thomas. The authors studied the ownership decisions of asset types by young households. They used SCF data and found that demographic characteristics are correlated with choice of asset holdings and these holdings are affected by economic conditions.

The Role of Homeownership

The second session of the second day revolved around homeownership for younger Americans. Homes continue to play a large role in the balance sheets of younger Americans. This panel discussion focused on the implications of owning a home, especially in the wake of the recent housing downturn.

Blair Russell of Washington University discussed his paper—cowritten with Michal Grinstein-Weiss, Lucy Gorham, and Clinton Key—titled "Homeownership and Wealth Among Low-Income Young Adults: Evidence from the Community Advantage Program." The authors used various waves of a Community Advantage Program Survey (CAPS) and found there was less growth for young households than for older households, but the CAPS homeowners did relatively better than young renters.

Don Schlagenhauf of the St. Louis Fed presented his paper, "Aggregate and Distributional Dynamics of Consumer Credit in the U.S.," cowritten with Bryan Noeth and Carlos Garriga. The authors studied the dynamics of credit, including mortgages, through the recession. They examined the evolution of the age distribution of various debt categories over the past 15 years and found significant changes in younger cohorts. They also examined how age interacts with foreclosure and bankruptcy as a vehicle of debt discharge.

Economic Mobility: Income and Asset Accumulation

The final session of the symposium focused on economic mobility, particularly the ability of young adults to move up both the relative and absolute economic ladder with respect to wealth and income.

In her paper, "The Balance Sheets and Economic Mobility of Generation X," Diana Elliott of the Pew Charitable Trusts discussed the balance sheets and economic mobility of Generation X. She used data from the Panel Study of Income Dynamics and found that while most Generation Xers earned more than their parents, they had less wealth at the same age. Additionally, the relative quintile of net worth and income in which Generation Xers find themselves as adults was highly correlated with the incomes and wealth of their parents.

The final paper, "Coming of Age in the Early 1970s vs. the Early 1990s: Differences in Wealth Accumulation of Young Households in the United States, and Implications for Economic Mobility," was presented by Daniel Cooper of the Federal Reserve Bank of Boston. The author used Panel Study of Income Dynamics data to determine whether wealth accumulation patterns of young households changed from the 1970s to the 1990s. The main finding was that there seems to be a persistent pattern that young households were, in fact, not accumulating assets as in previous generations.

The symposium concluded with comments by Julie Stackhouse, senior vice president of Banking Supervision and Regulation at the St. Louis Fed; Ray Boshara; and Michael Sherraden, director of the Center for Social Development at Washington University.

Sherraden remarked on a key symposium theme that cohorts matter and, in particular, that Generation X was particularly hurt by the recession. He also noted the seriousness of racial disparities, especially the disturbingly low wealth levels among African-Americans and Hispanics. He noted that despite this difference, homeownership should not be "off the table" as a path to wealth creation for these racial groups going forward. He urged policymakers to consider implementation of more automated methods to stimulate early saving and assist disadvantaged groups in attaining financial security.

Boshara also noted vastly different outcomes among the generations, as well as earlier generations receiving far more in public benefits than they have paid in taxes. He closed his remarks with some reflections on the possibility of an "age-based social contract." While tax policy and welfare policy have income triggers, could entitlement policies have more age-based triggers? Could successful and prosperous generations be asked, by means of social policy, to provide more for younger or less successful generations at, for example, birth or ages 5, 11, or 18 to help them build education and human capital? Could existing CDA policies serve as a model for an age-based social contract? This would, of course, be a modest variation on current social policies where current generations generally support older generations (as in Social Security, in which workers support retirees), but such a possible change merits serious consideration by policymakers and others.

CONCLUSION

Each generation faces a unique set of challenges with regard to its financial well-being. This symposium touched on several of the issues affecting young people, and the research presented during the symposium has helped shed light on many of these topics. The organizers thank all of the participants for their thoughtful research and comments and all who contributed to the symposium in countless other ways. ■

NOTE

[1] These include previous vintages of loans not being paid off as quickly (e.g., deferment, forbearance, delinquency), more students attending postsecondary institutions, transition toward more expensive schools (e.g., for-profits), job loss and lower income driving people to incur debt to pay for higher education, and lower use of other forms of credit (e.g., home equity lines of credit and credit cards) to pay for expenses.

REFERENCE

Kahn, Lisa B. "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy." *Labour Economics*, April 2010, *17*(2), pp. 303-16.