Financial vulnerability and capability across the life course: A theoretical and empirical exploration

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Financial vulnerability

- Although we think of older age as a stage in life when people are better off financially, this is not true for all groups of older adults (El Nassar, 2012)
- Some groups are significantly more likely to be financially vulnerable in old age than are others (e.g., race/ethnicity, class position, gender) (Banerjee, 2012)
- 78% of senior households are financially vulnerable (lack sustainable economic security) (Polivka, 2012)
- Financial resources available to the elderly also depend on educational attainment through their subsequent work history and financial decisions (Card, 1999)

Life course

The concept of life course adds sociological dimensions to the lifespan perspective:

- *Historical time and place*: "When times change, lives change"
- *Linked li*ves: People's lives are interdependent
- *Human agency*: Individuals shape their own lives through decisions and actions
- *Timing*: When events occur in a person's life has differential impact on people's trajectories

(Elder, 2003, p. 14)

Financial capability

The ***ability to act*** (knowledge, skills, confidence, and motivation)

plus

the ***opportunity to act*** (access to beneficial financial services and products.

An illustration:
Financial capability across the life course

- Transitions in an individual's life span
- Life events that have significant financial implications
- Financial knowledge and skills that help people successfully navigate life events
- Financial products and services that make it possible for people to navigate life events successfully

Data Source: Survey of Consumer Finances

- Triennial Federal Reserve survey of US households, 1989-2010
  - 6,492 families surveyed in 2010, somewhat fewer in earlier waves
  - Panel dataset available for 2007-09 only
- SCF contains data on household demographics, financial asses and liabilities, sources of income, and other financial information such as reasons for saving
- We focus on two demographic dimensions across the life span
  - <u>Race or ethnicity</u>: (a) African-Americans and Hispanics of any race, together termed “Historically Disadvantaged Minorities” (HDM); (b) White, Asian, and other non-disadvantaged minorities (WOM)
  - <u>Educational attainment</u> : (a) no HS degree; (b) HS degree or GED; (c) either a 2- or 4- year degree (“college grad”)

For off-line discussion: Why use race and education to sort families?

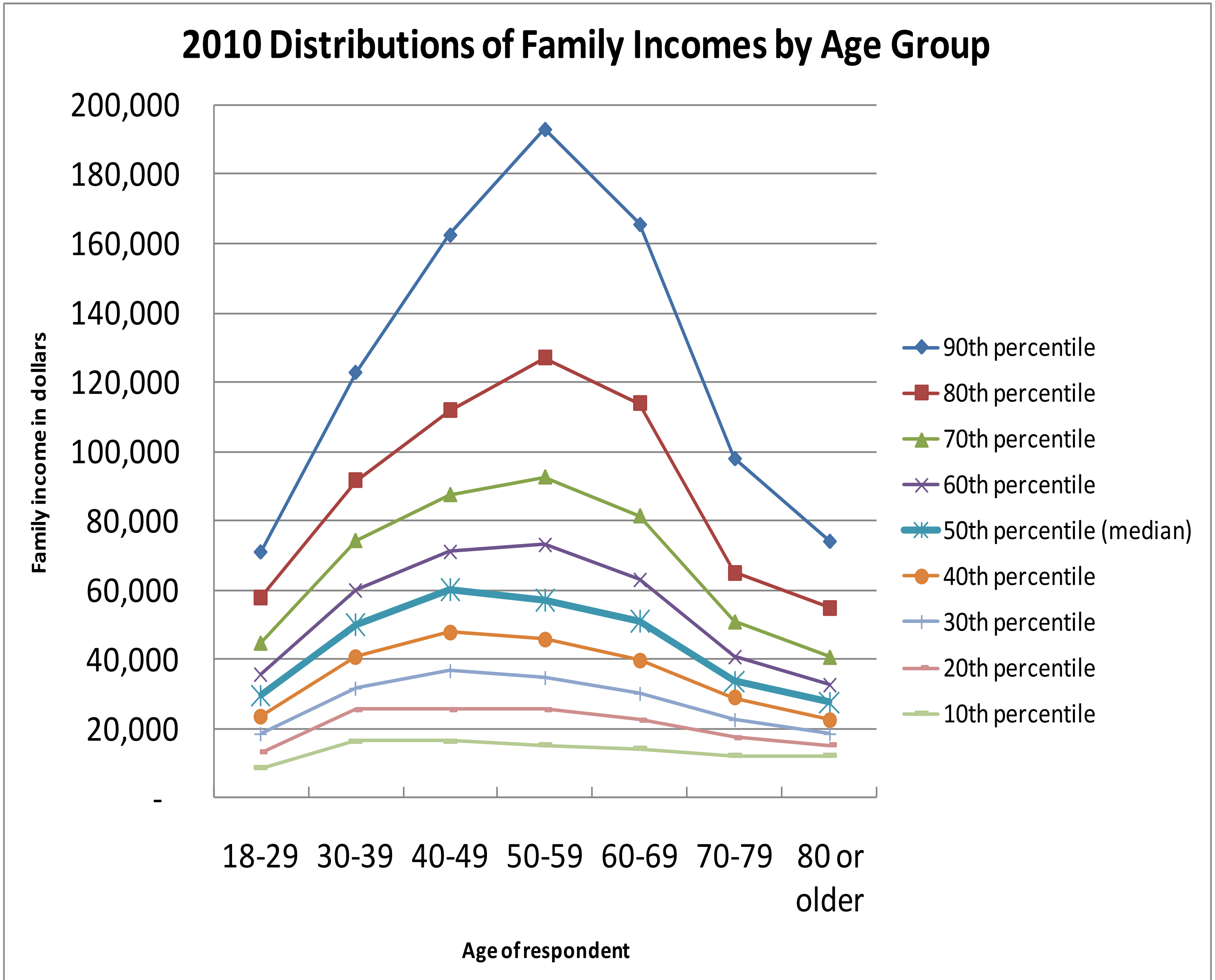
- *Race and educational attainment are stable for a given individual—we can track and group people with these characteristics over time and place*
    - *In contrast, income, wealth, homeownership status, state of residence, etc. may change over time for many individuals*
    - *The SCF is a series of cross-sectional samples, so we need stable identifying characteristics to link successive survey waves*
- *Using demography rather than outcomes like income or wealth to sort people effectively rules out reverse causation, the bane of much empirical work*
    - *Example of reverse causation: "High income causes high wealth" but "High wealth causes high income", also… a "chicken-or-egg problem"*
    - *Our approach: "Low education causes low income" but "Low income does not cause low education", which is pre-determined*

FAMILY INCOME

Family income across the life span: Basic facts

- <u>Fact 1</u>: The cross-sectional distribution of family income moves like an accordion over the life span (see Figure 1)
- 90-10 ratio: Income at 90th percentile divided by income at 10th percentile
  - Families under 30: 8 times
  - Families in their 50s: 13 times
  - Families in their 70s: 8 times

Figure 1



Source: Federal Reserve Survey of Consumer Finances, 2012

The role of race and ethnicity

Fact 2: The historically disadvantaged minority income distribution lies substantially below that of non-minorities (see Figures 2 and 3)

- Among HDM families across all ages, median family income was about 61% of non-minority families in 2010 ($31,735 vs. $52,289)
- Disparities were largest when comparing middle-aged minority families to their non-minority counterparts.

Income distributions for HDM families vs. non-HDM families across the life span

Figure 2

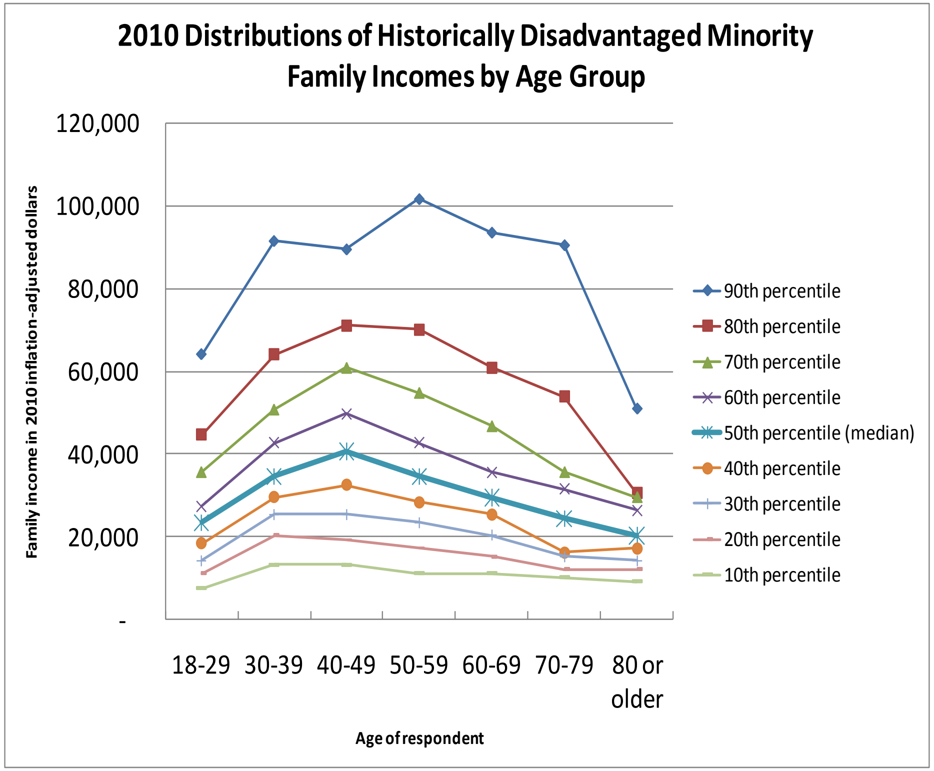
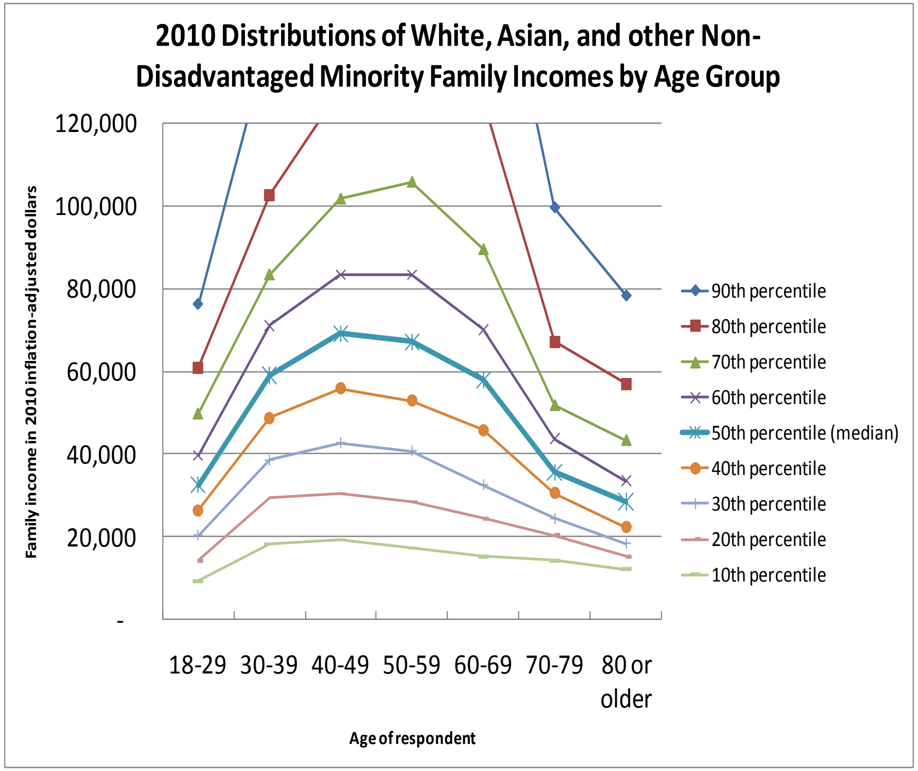


Figure 3



Source: Federal Reserve Survey of Consumer Finances, 2012

The role of education

Fact 3: The distribution of income for less-educated families lies substantially below that for more-educated families (see Figs 4 & 5)

- Among families without a high-school degree across all ages, median family income was about 26% of non-minority families in 2010 ($33,698 vs. $128,567)

- Disparities are largest among middle-aged less-educated families vs. their better-educated counterparts.

Income distributions for no-high-school-degree families vs. college-degree families across the life span

Figure 4

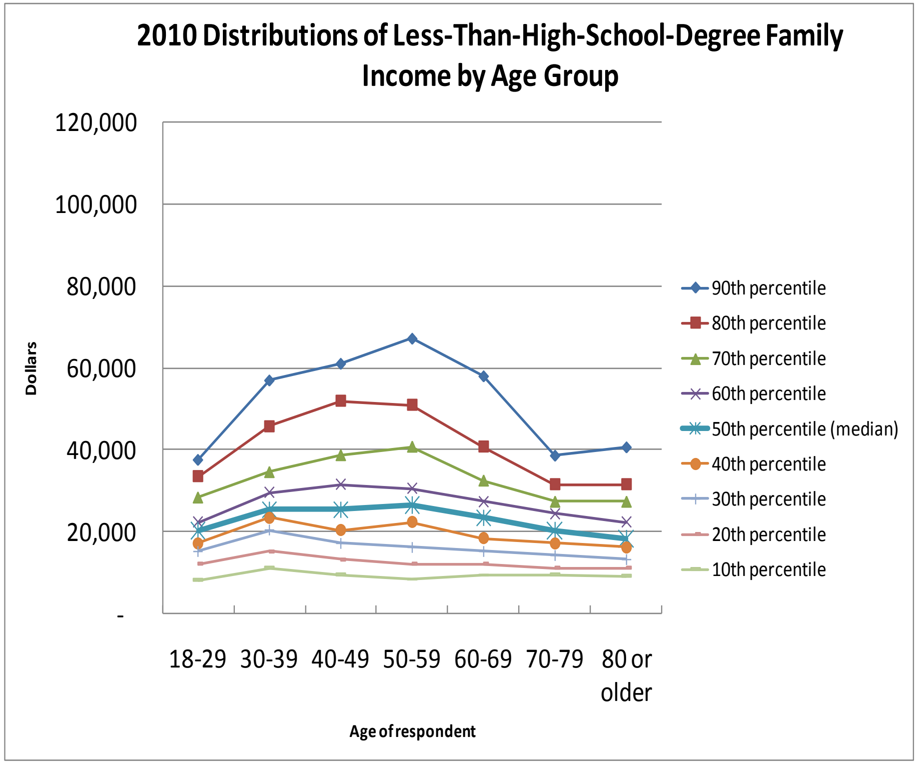
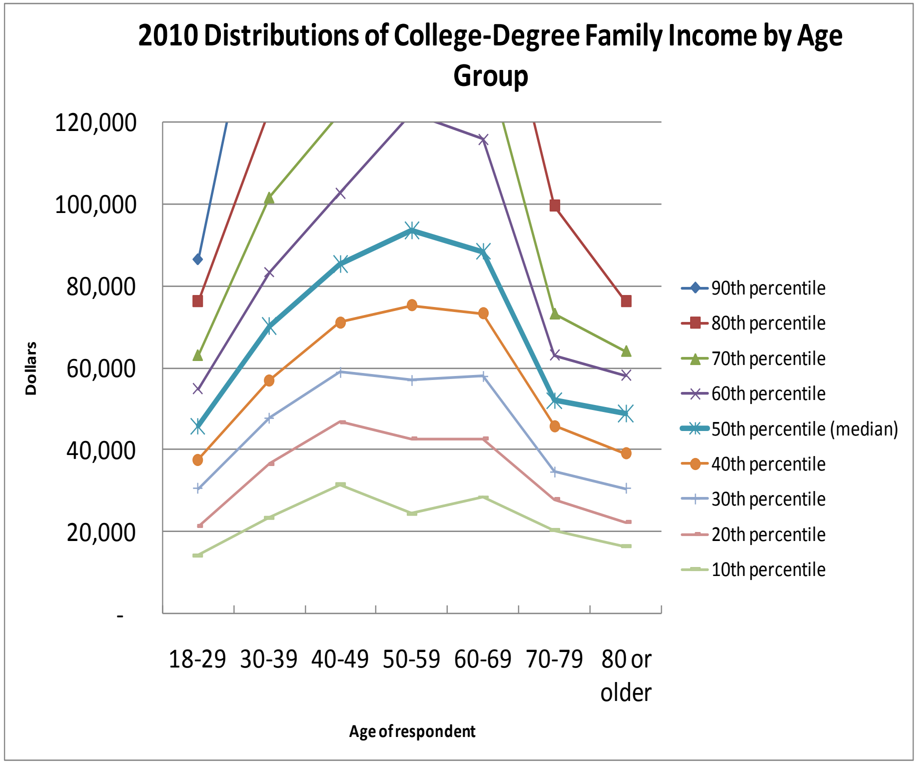


Figure 5



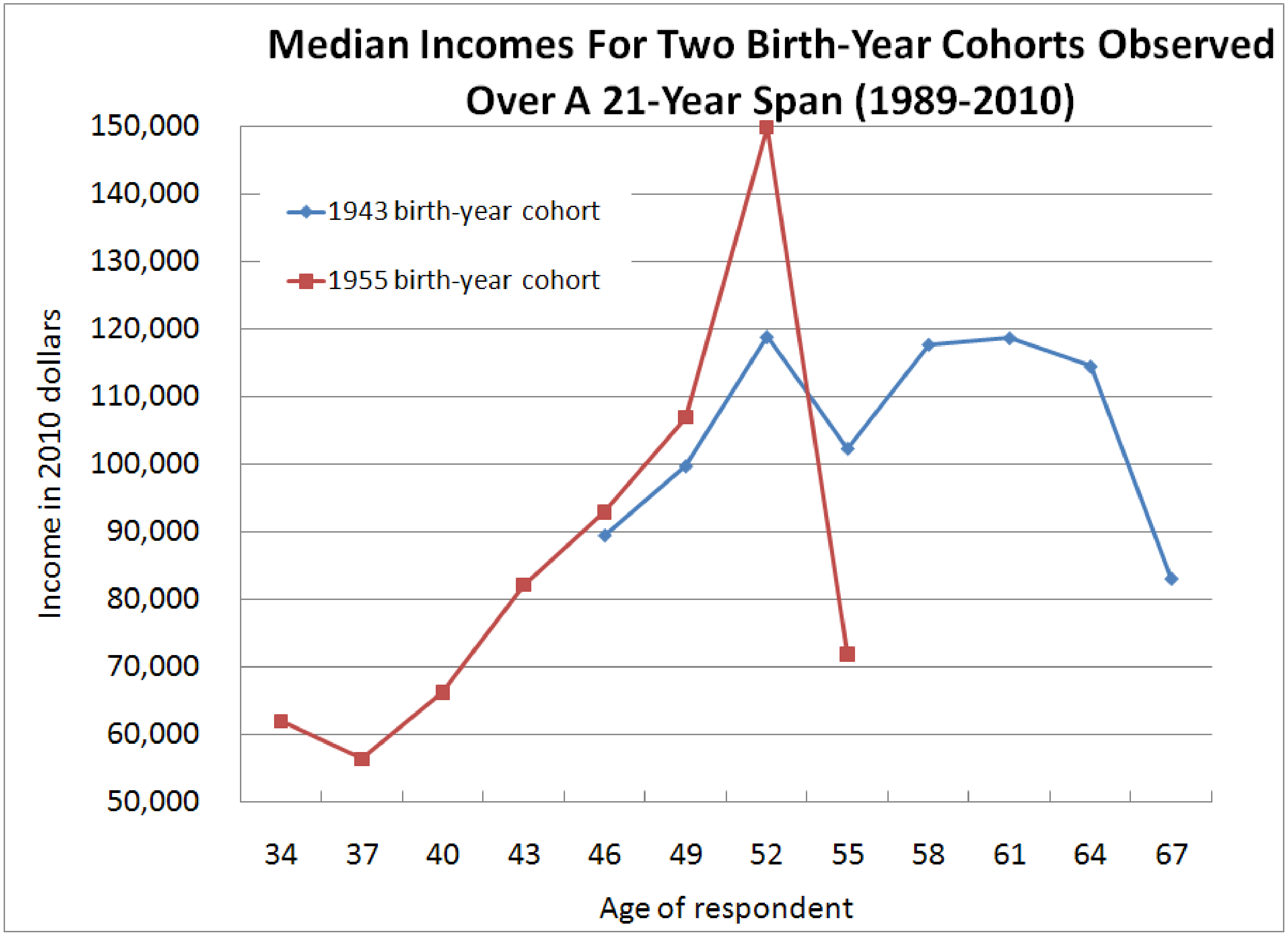
Source: Federal Reserve Survey of Consumer Finances, 2012

Life course perspective: Impact of the economic crisis on different cohorts

Fact 4: Timing matters! (see Figure 6)

- The 1955 birth-year cohort enjoyed higher real incomes at every age compared to the 1943 birth-year cohort…
- … until 2010:
  - The 1955 cohort was in its peak earnings years when the financial crisis hit
    - Median income dropped 52 percent between 2007 and 2010
  - The 1943 cohort was past its peak earnings years when the crisis hit
    - Median income dropped only 28 percent between 2007 and 2010
- The 1955 birth-year cohort may follow a lower income trajectory than the 1943 cohort for a long time, diminishing the financial prospects of the '55ers as they age

Figure 6: 1955 birth-year cohort was hit hard by the financial crisis



Source: Federal Reserve Survey of Consumer Finances, 2012

FAMILY NET WORTH

Net worth across the life span: Basic facts

- Fact 1: Unlike income, net worth generally does not fall in old age back to the level of youth (Figs. 7 and 8)
- Net worth (total assets minus total liabilities):
  - Rises steadily through the 60s
  - Retreats somewhat among most higher wealth groups after 60
  - Remains roughly constant among families with median wealth or below as they age
- Fact 2: Dispersion between the wealthiest and the poorest families becomes and remains very large over the life span (Figs. 7 and 8)

Net worth distributions across the life span: The role of race and ethnicity

Fact 3: Disparities in net worth are even larger across racial and ethnic groups than income gaps

- Net worth of older HDM families in the 90^{th} percentile of income was only 22 percent as much as the wealth of its non-HDM counterpart ($479,200 vs. $2,189,400).
- Figures 7 and 8: Distributions of family net worth for 7 age groups in HDM and non-HDM families

Net worth for HDM families vs. non-HDM families across the life span

Figure 7

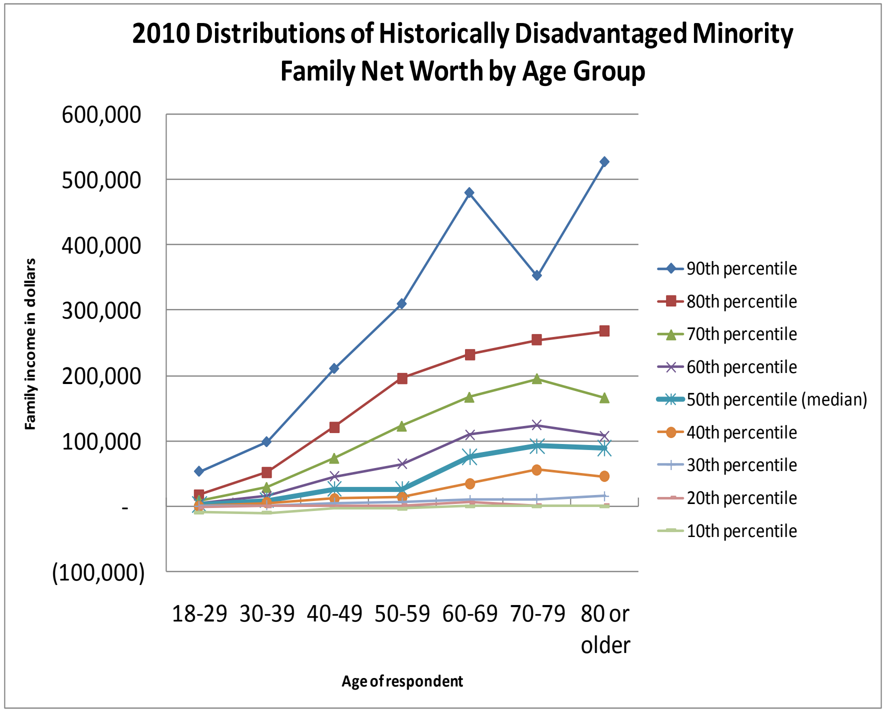
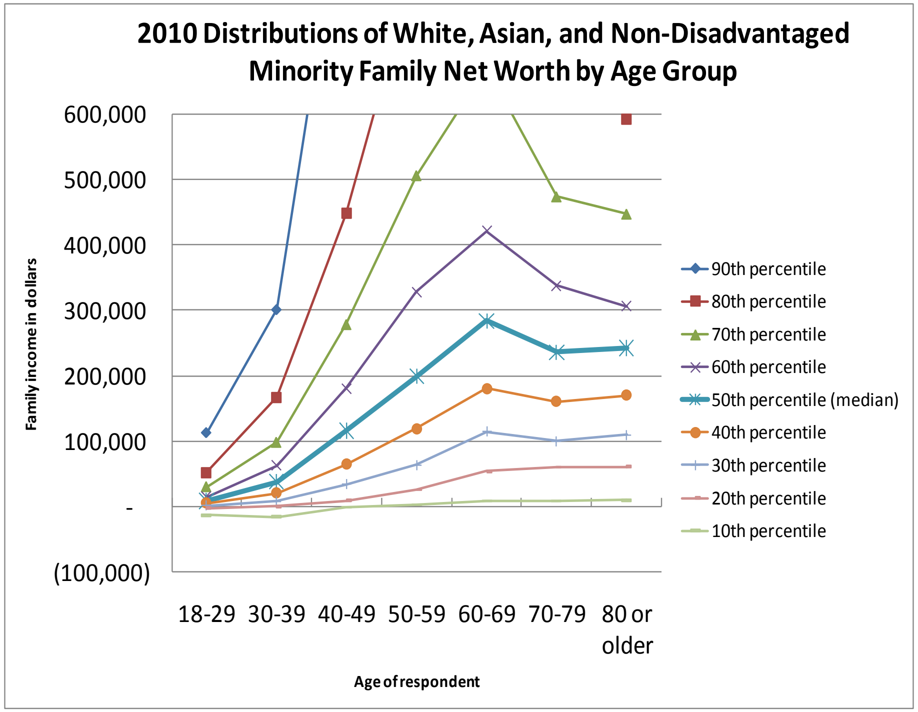


Figure 8



Source: Federal Reserve Survey of Consumer Finances, 2012

Net worth distributions across the life span: The role of education

Fact 4: Disparities in net worth are enormous between families with very low and very high levels of education (Figs. 9 and 10)

- The median net worth of a family in their 50s without a high-school degree is just 4% of the median net worth of a college-educated family in their 50s ($15,800 vs. $413,600)

Fact 5: Disparities in net worth continue to expand over the entire life span (Figs. 9 and 10)

Net worth of less-than-high-school-degree families vs. college-degree families across the life span

Figure 9

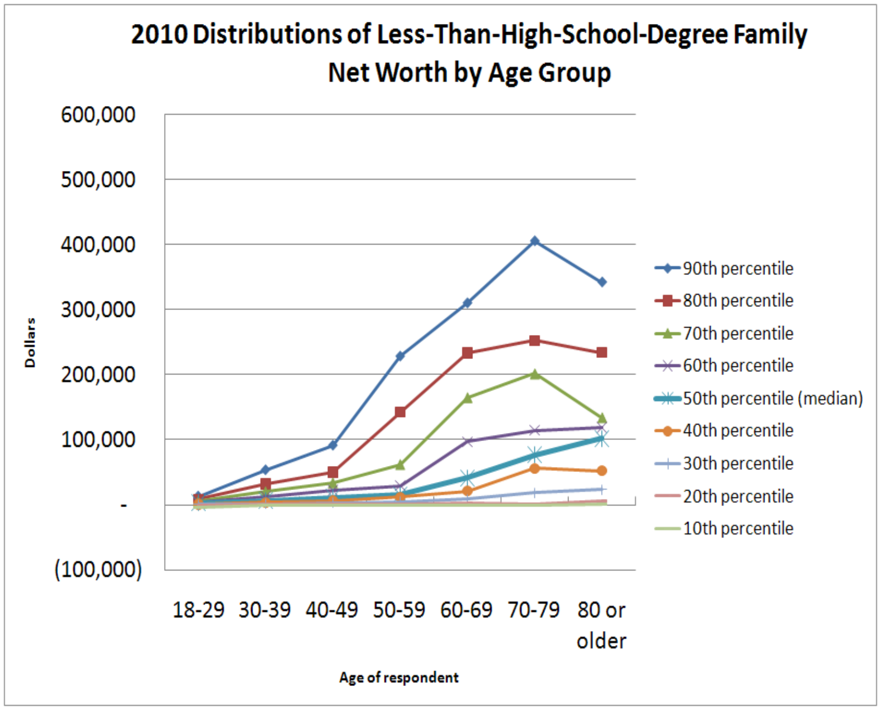
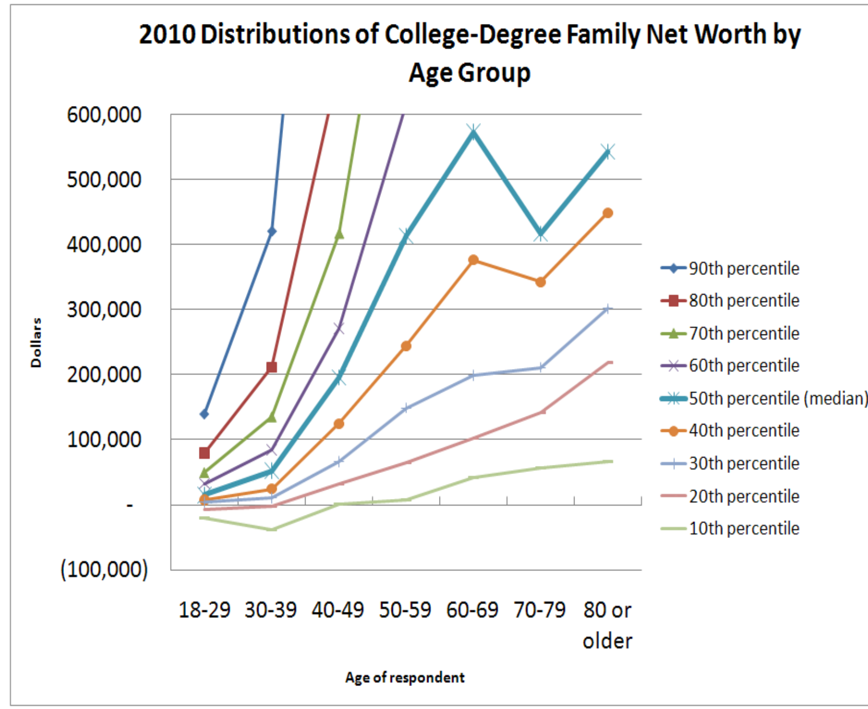


Figure 10

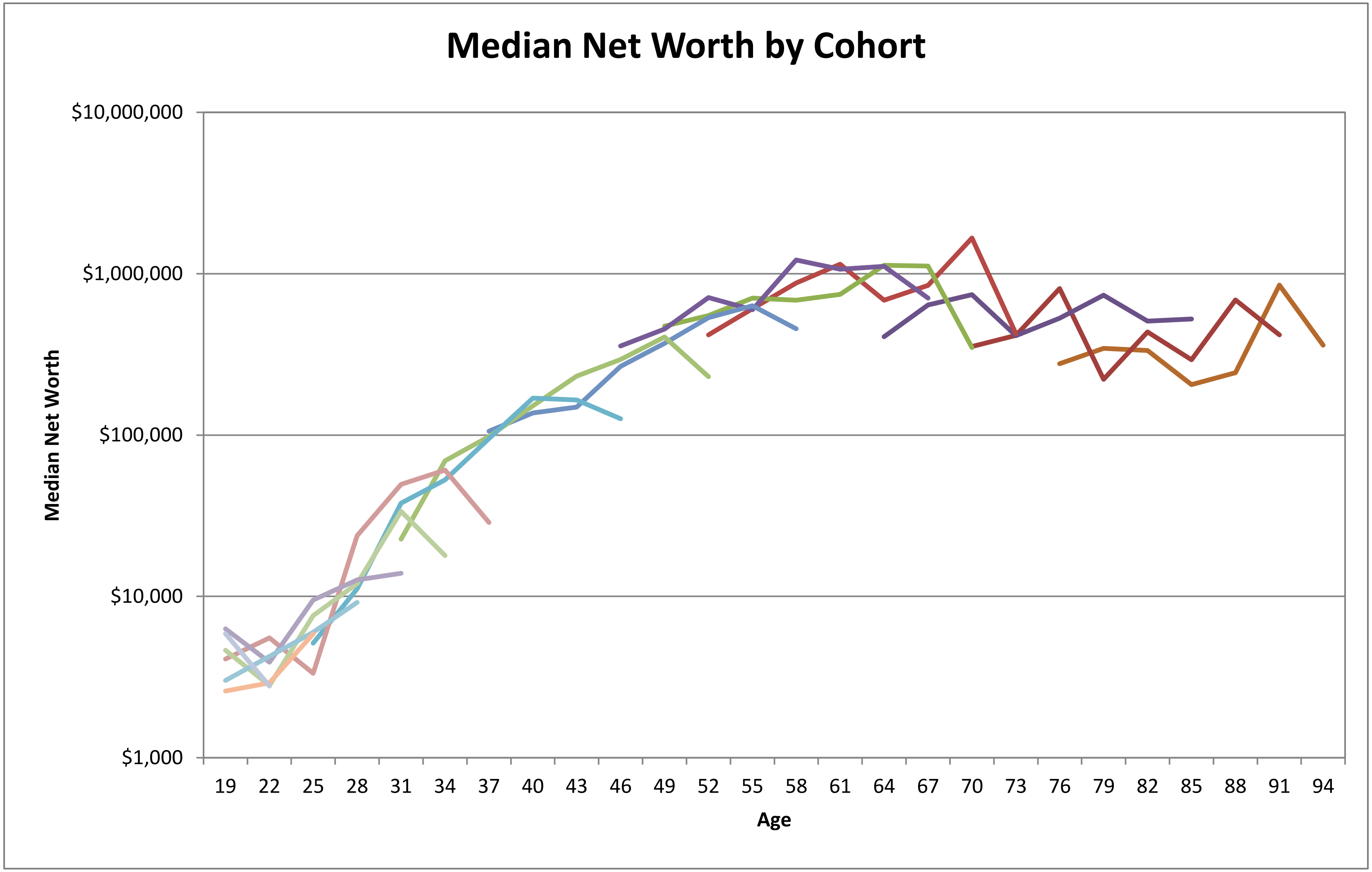


Source: Federal Reserve Survey of Consumer Finances, 2012

Life course perspective: Impact of economic crisis on net worth across cohorts

- Among all families, mean net worth declined 15.2%, median net worth declined by 39% (2007-2010).
- Younger and middle-aged groups suffered higher losses of net worth (43.9% and 17.4%) compared to older adults (10.3%).
- Older adults' (62 and over) average debt increased 5 times ($12,201 to $60,846) between 1989-2010.

Figure 11: Median net worth by cohort



Source: Federal Reserve Survey of Consumer Finances, 2012

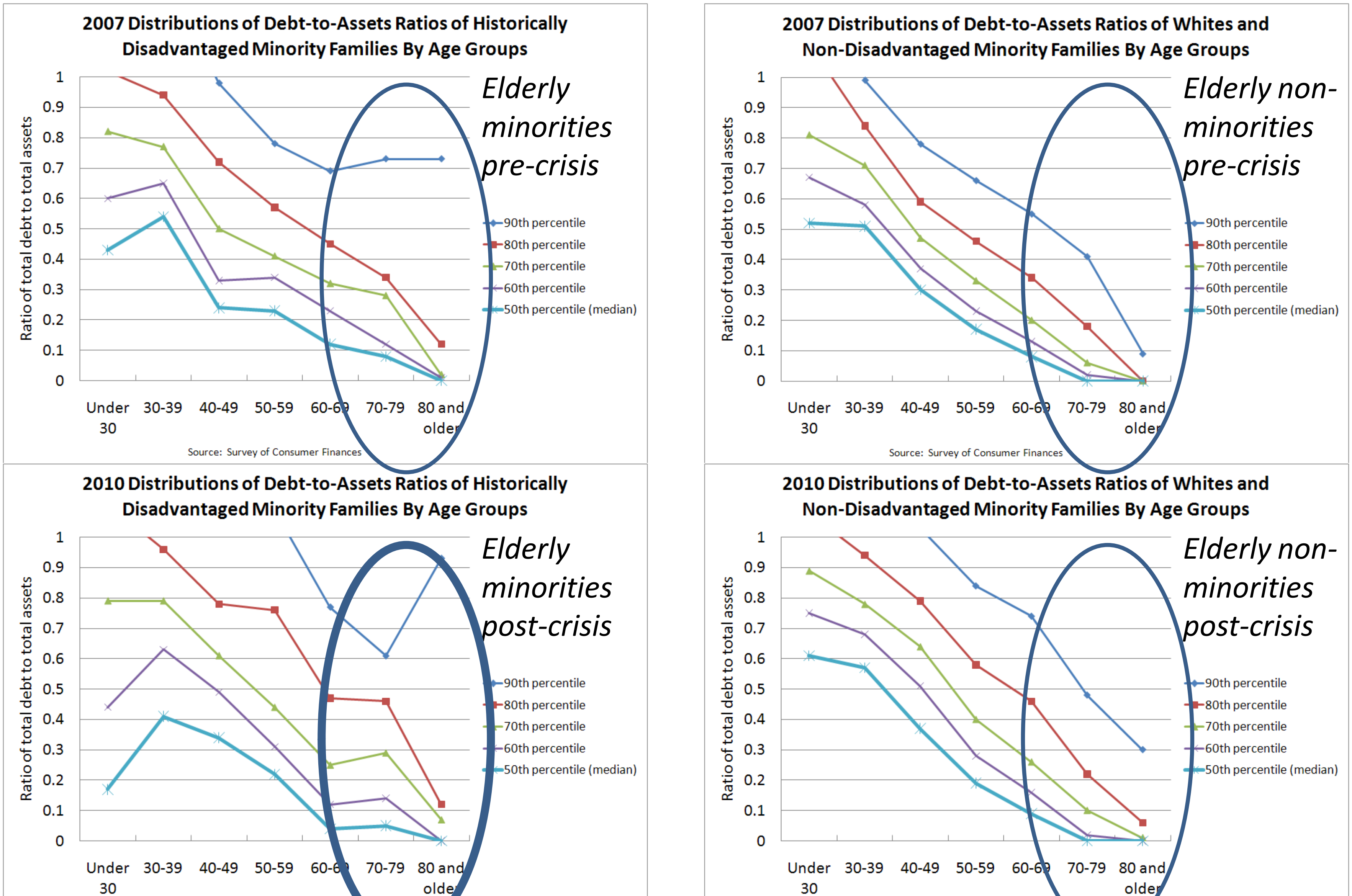
Older minority families in debt

Figure 12: Elderly minority families have more trouble paying off debt—especially after the financial crisis

- Minority families generally carry more debt later in life than non-minority families (measured by the debt-to-assets ratio).
- The financial crisis was a setback for older families reducing their debt burdens, especially for minority families at the extreme high end of the debt-to-assets ratio.

Figure 12

Older minority families have more trouble paying off debt—especially after the financial crisis



Balance-sheet setback: The number of "virtually debt-free elderly" declined during the crisis

Approximate Share of Subgroup That is "Virtually Debt-Free" (debt-to-assets ratio of 10 percent or less)				
	Age of household head	Pre-crisis (2007) debt-free share in %	Post-crisis (2010) debt-free share in %	Difference: 2010 minus 2007
Historically disadvantaged minorities	**60-69**	**45**	**57**	**12**
	70-79	**55**	**55**	**0**
	80 and older	**78**	**74**	**-4**
White, Asian and other non-disadvantaged minorities	60-69	56	53	-3
	70-79	77	70	-7
	80 and older	91	82	-9

Source: Survey of Consumer Finances

Summary

- People come to old age with financial vulnerabilities because of their race/ethnicity, class position, and gender.
- The most vulnerable older families are most likely to be among those we identify as vulnerable in earlier life stages: minorities, low education levels, and/or low incomes.
- Since the recession, as a whole, older adults are doing better than younger families, because (a) they are less likely to have lost wage income during the recession and (b) they were less exposed to housing debt and had much less debt.

Effects of the crisis on future generations of older adults?

- It may take a long time for hard-hit families to recover from the economic crisis.
- Younger (especially minority) homeowners appear to have been hit the worst but they have longer to recover.
- Older families were least affected, but those who were have less time and means to recover.
- Understanding full effects of the crisis on future generations of older adults requires more research.
- We need panel data to determine long term effects of the crisis.

Financial capability

- Can interventions that increase *financial capability* change the financial life course?
- Or are initial conditions dominant?
- It remains to be seen if by building *financial capability* throughout a person's lifetime can help them catch up with those who are more well-endowed.