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The Wealth of Households: An Analysis of the 2016 Survey of Consumer Finance

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Executive Summary

This paper presents new data on the wealth of households by age cohort from the 2016 Survey of Consumer Finances (SCF). It shows that the rebound in the prices of homes and equities helped grow households' net wealth from 2013 lows. Nevertheless, the gains were disproportionately concentrated in the wealthiest households, with the top 2 percent increasing their share by 3 percentage points.

Furthermore, this analysis does not factor in the fall in defined benefit pensions — which are not included in the Fed's wealth measure. A recent study from the Census Bureau, using tax filings, showed that estimates of retiree income from survey data substantially understated income from defined benefit pensions. An implication is that trends in wealth accumulation over the last three decades are more pessimistic than previously believed.

The data show that:

1) The average net wealth of the middle quintile of near-retirees (households headed by someone between the ages of 55 and 64) was $195,500 in 2016, up slightly from $181,000 in 1989 but well below the 2004 peak of $329,300. (All numbers are in 2016 dollars.) The homeowners in the middle quintile among this age cohort had a 58.5 percent equity stake in their homes in 2016, up from 54.6 percent in 2013, but far below their 81.0 percent stake in 1989. Their non-housing wealth in 2016 averaged $99,200, down from a peak of $165,700 in 2004.

2) The second quintile in this age group on average had a 45.6 percent equity stake in their home. Their non-housing wealth averaged just $25,200.

3) The equity stake for the middle quintile of older prime-age workers (ages 45 to 54) averaged 43.8 percent in 2016, down from 72.2 percent in 1989. Their non-housing wealth averaged $62,700.

4) The equity stake for the second quintile of older prime age workers averaged 26.7 percent. This compares with an equity stake of 63.9 percent in 1989. Non-housing wealth for the second quintile averaged $18,000.

5) The net wealth for the middle quintile of mid-career workers (ages 35 to 44) averaged $61,100 in 2016. This is down from $107,100 in 1989. The average housing equity for this group was $27,500. That compares to $65,500 in 1989.

6) The average net wealth among the middle quintile of students and young workers (ages 18 to 34) was $12,200 in 2016. This is down from a peak of $20,200 in 1995. The bottom quintile among this age group had net debt averaging $88,700, most of which was student loan debt.

7) The average net wealth among the middle quintile of recent retirees was $228,300. This is up from $147,500 in 1989, but 18 percent below the peak of $279,200 in 2007.

On the whole, the SCF shows a picture in which most households have seen reasonable gains over the last three years despite a longer-term decline in their wealth. This is of greatest concern for near-retirees, most of whom cannot count on a traditional defined benefit pension apart from Social Security. The situation is not notably better for younger workers, but with more time until retirement, there is more hope that their income and wealth prospects will improve.

Introduction

This paper presents a brief analysis of the data in the recently released 2016 Survey of Consumer Finance (SCF). The SCF is conducted every three years by the Federal Reserve Board and presents the most thorough analysis of wealth of any government data set.

Between 1989 and 2016, mean household net wealth rose 95 percent — from $353,300 to $689,600. However, these gains are exaggerated by the fact that the population of the United States was older in 2016 than it was in 1989. Further, looking across the distribution of wealth it is clear that the gains were not evenly received; median net wealth rose only 11 percent over the 27-year period — from $87,800 in 1989 to $97,300 in 2016. Finally, these numbers do not include the value of defined benefit pensions which were much more common in 1989.

The wealth numbers present a much more pessimistic view of economic progress in the United States than the simple average suggests. In this paper, we observe the progression of household net wealth by quintile for various age groups.

In general, wealth grew from 1989 to 2007 and shrank thereafter as the bubbles in residential and commercial real estate burst, and the stock market fell. By 2013, the stock market had nearly recovered in inflation-adjusted terms from its 2007 peak and rose another quarter over the next three years. House prices, however, have not — having regained only half their inflation-adjusted losses since their 2006 peak. Thus, housing equity rates for the highly leveraged households in the bottom three-fifths plummeted and have only recently started to recover. The pattern in house prices matters less for those at the top of the wealth distribution since housing accounts for a much smaller share of their wealth. This dynamic has helped increase the differences in wealth between the top and bottom.

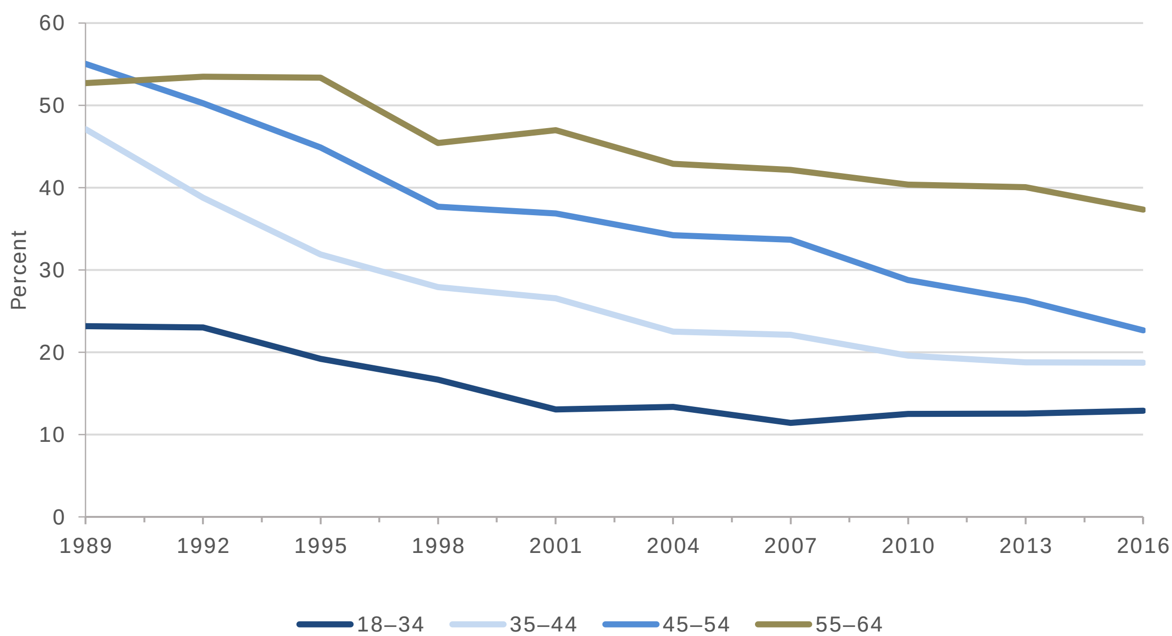
Defined Benefit Pensions

A recent study by two economists at the Census Bureau found that retirees had considerably more income than indicated in data from the Current Population Survey (Bee and Mitchell 2017). Their analysis, based on tax filings, showed that the median income for households over age 65 in 2012 was $44,371, more than 30 percent higher than the figure obtained from the CPS. The main reason for the difference was households received considerably more income from defined benefit pensions than was being picked up in the CPS. This analysis indicates that defined benefit pensions are considerably more important in sustaining income in retirement than had been previously recognized.

For this reason, the decline of job-related defined benefit pensions is likely to be very important for the living standards of future retirees. At every age, today's workers are less likely to have some claim to a defined benefit pension than their previous cohorts. Even if today's workers pick up such pensions later in their careers, they will accrue far smaller benefits than their predecessors. The availability of defined contribution pension plans was supposed to offset the loss of defined benefit pensions, but today's workers have little — if any — more wealth than their predecessors, indicating that defined contribution pension plans have failed to make up for the loss of defined benefit pensions. (See **Figures 1a** and **1b**.)

FIGURE 1a

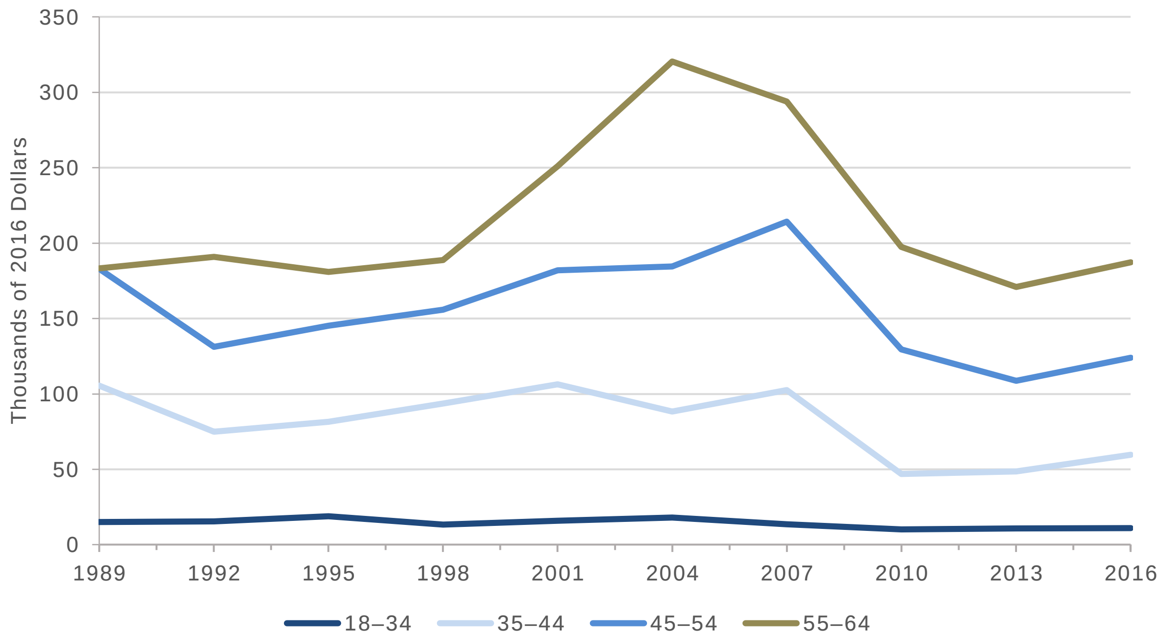
Percent with Defined Benefit Pension



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years).

FIGURE 1b

Median Net Wealth



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years).

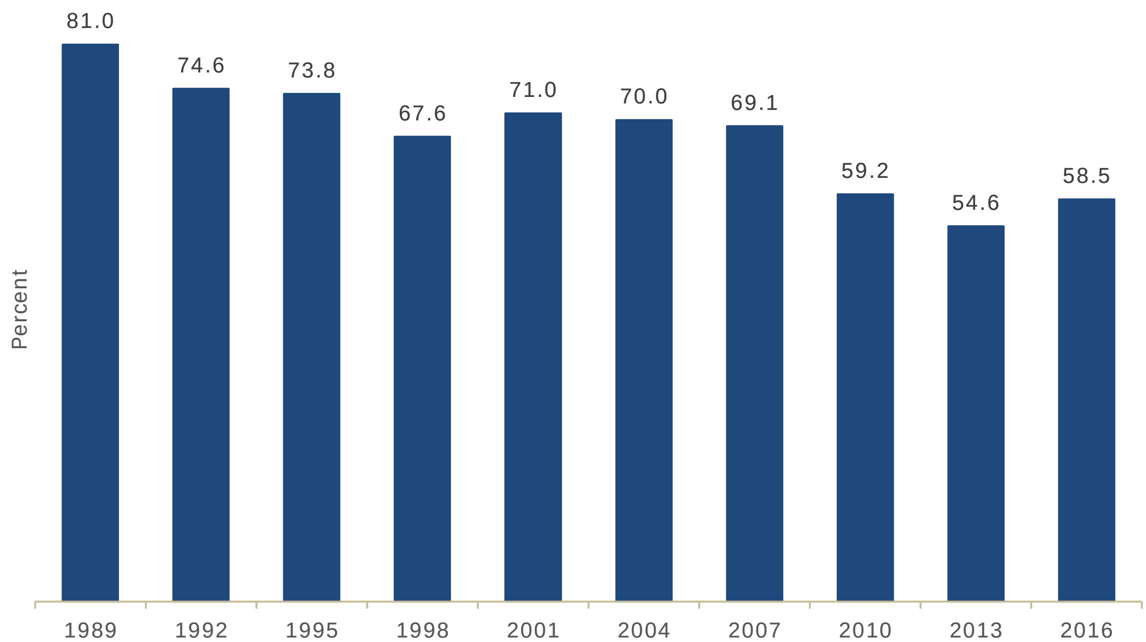
Net Wealth of Near-Retirees: 55–64

Among households with heads aged 55–64, the average net wealth of the middle quintile is up slightly from $181,000 in 1989 to $195,600 in 2016. The average net wealth of the bottom 60 percent has fallen 4 percent— with losses heavily concentrated in the equity of their primary residences. Only 60 percent of the bottom three-fifths of households own their homes, and even they only average 52 percent equity. (Though this is up from 39 percent in 2013, the corresponding figure for 1989 was 77 percent equity among the 69 percent who were homeowners in that year.) This implies that these households will be paying off a mortgage long into retirement if they stay in their homes.

Households in the middle quintile had on average a 58.5 percent equity stake in their homes. This compared to an 81.0 percent equity stake in 1989. The equity stake for homeowners in the second quintile was on average 45.6 percent in 2016, down from 71.6 percent in 1989. In 2016, homeowners represented 23 percent of families in the bottom quintile. On average they had negative equity, maintaining housing debt of 120 percent of the value of their homes. In 1989, they had a 33.1 percent stake which had risen to 47.1 percent in 1992. (See **Figures 2a** and **2b**.)

FIGURE 2a

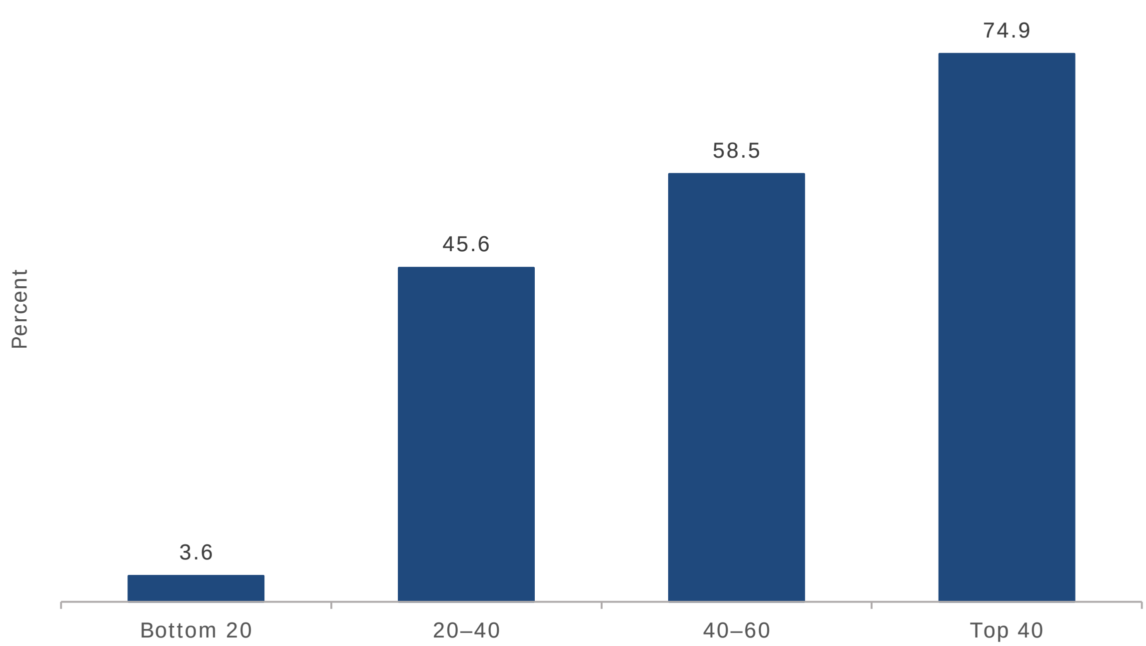
Equity Stake for Middle Quintile Each Year, Ages 55–64



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years), and authors' calculations.

FIGURE 2b

Equity Stake for Each Quantile in 2016, Ages 55–64



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years), and authors' calculations.

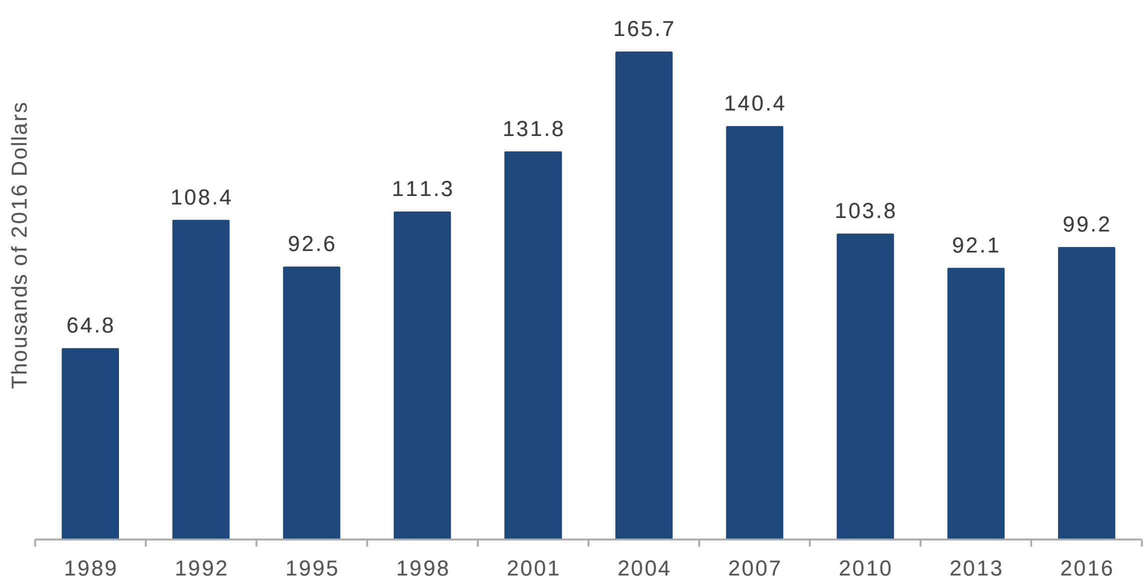
Net wealth outside of equity in primary residences for families in the middle quintile was $99,200 in 2016. This is up from $64,800 in 1989, but down by 40 percent from the peak of $165,700 in 2004. The most recent figure would be sufficient for an annuity of roughly $600 a month at age 65.[1] The second quintile had an average of $25,400, down by 15 percent from its $32,000 level in 1989 and by half from its peak in 2004 of $51,800. The bottom quintile had an average non-housing net wealth of -$2,900. This group had modest positive wealth until 2010. Only one in four of households in the bottom quintile have any private defined benefit pension.

Such pension-holders were more likely to be homeowners than others in the bottom quintile. The homeowners with defined benefit pensions had 12.7 percent equity in their homes, compared to negative equity for homeowners without a defined benefit pension. Outside homes, however, the bottom quintile's non-pension holders in 2016 had only 30 percent of the net debt as those with defined benefit pensions.

For the bottom three quintiles, the average non-housing wealth of those with defined benefit pensions was $49,500 compared to $36,400 for those without defined benefit pensions. Clearly, for those who have them, defined benefit pensions will dominate their retirement income; others will have precious little outside Social Security. (See **Figures 3a** and **3b**.)

FIGURE 3a

Average Net Wealth Outside Primary Residence of Middle Quintile in Each Year, Ages 55–64

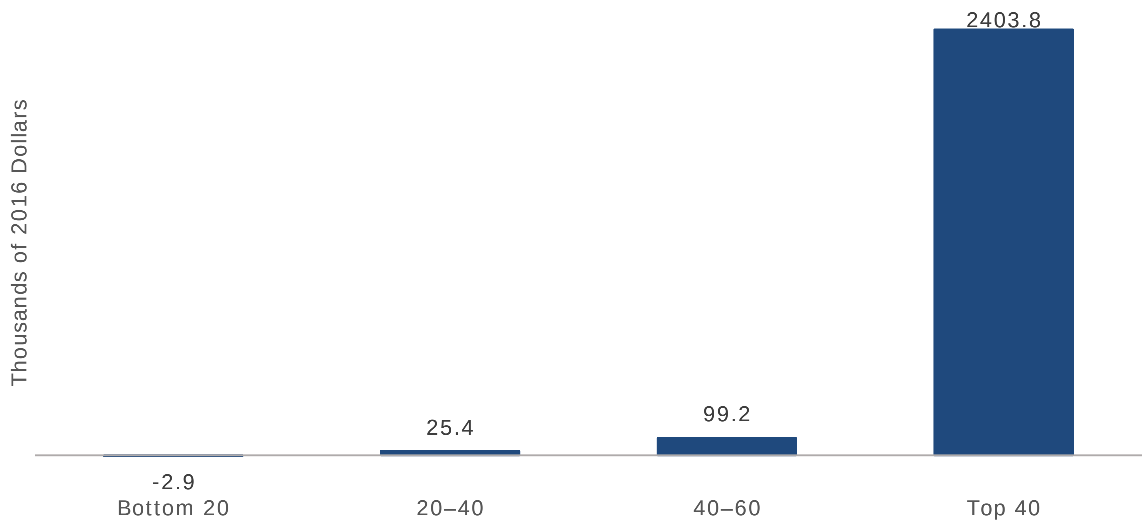


Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years), and authors' calculations.

1 This assumes a real interest rate of 3.0 percent and a life expectancy of 20 years.

FIGURE 3b

Average Net Wealth Outside Primary Residence of Each Quantile in 2016, Ages 55–64

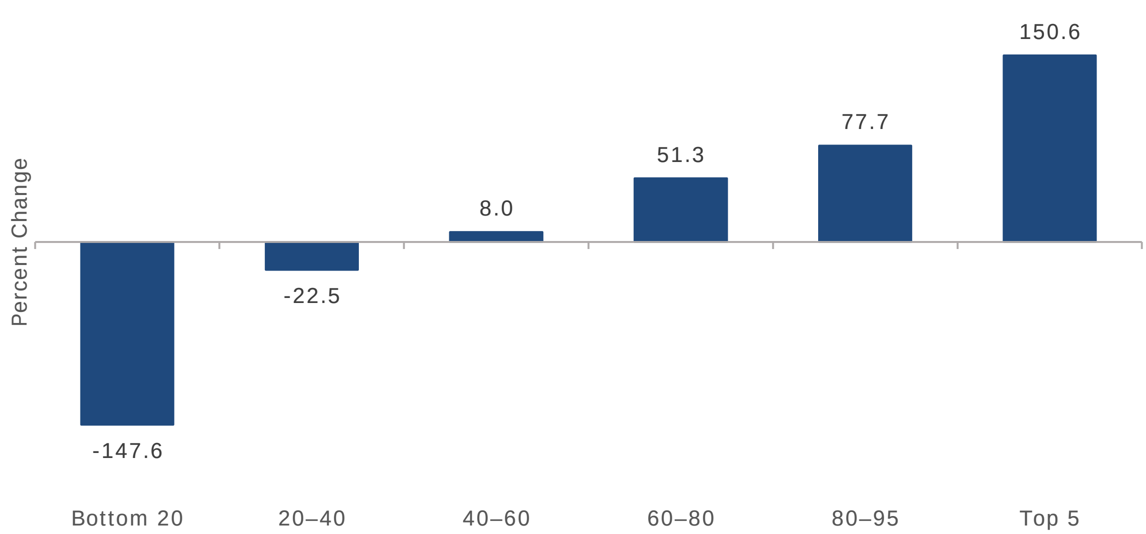


Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (year 2016), and authors' calculations.

By contrast, the wealthiest 5 percent of households with heads aged 55-64 have fared much better. With an average net wealth of $14.3 million, this group has seen wealth increase over the course of the Great Recession — up from $11.3 million in 2007. Yet the average wealth of those at the top stood at only $5.7 million in 1989 and we observe a 150 percent increase since then. Furthermore, 32 percent of households at the top have a defined benefit pension, compared to 26 percent 27 years ago. (See **Figures 3c**, **4a**, and **4b**.)

FIGURE 3c

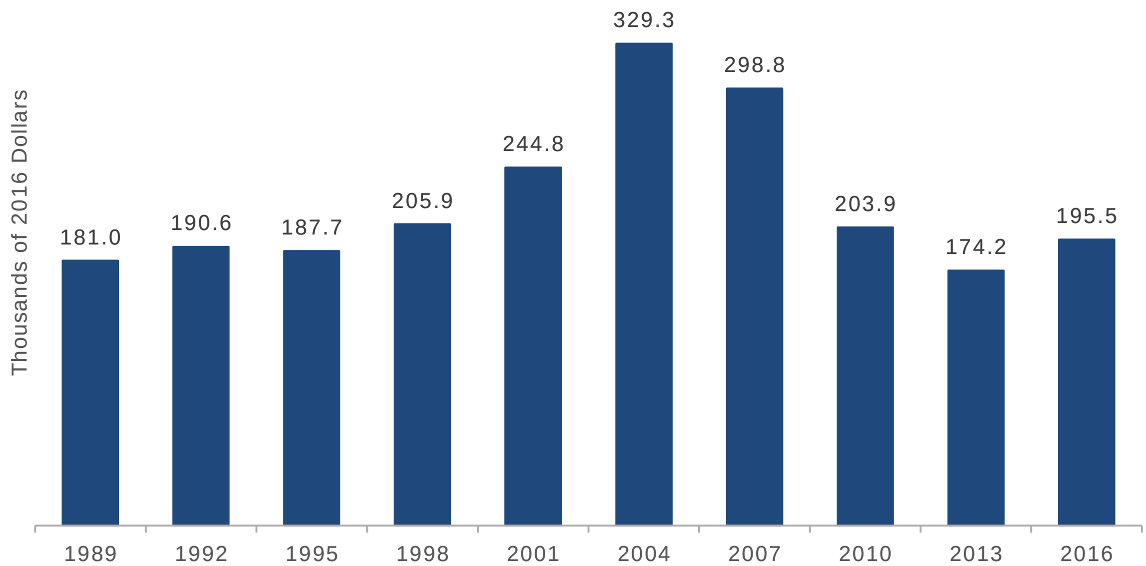
Percent Change in Average Net Wealth, 1989–2016: Ages 55–64



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (years 1989 and 2016), and authors' calculations.

FIGURE 4a

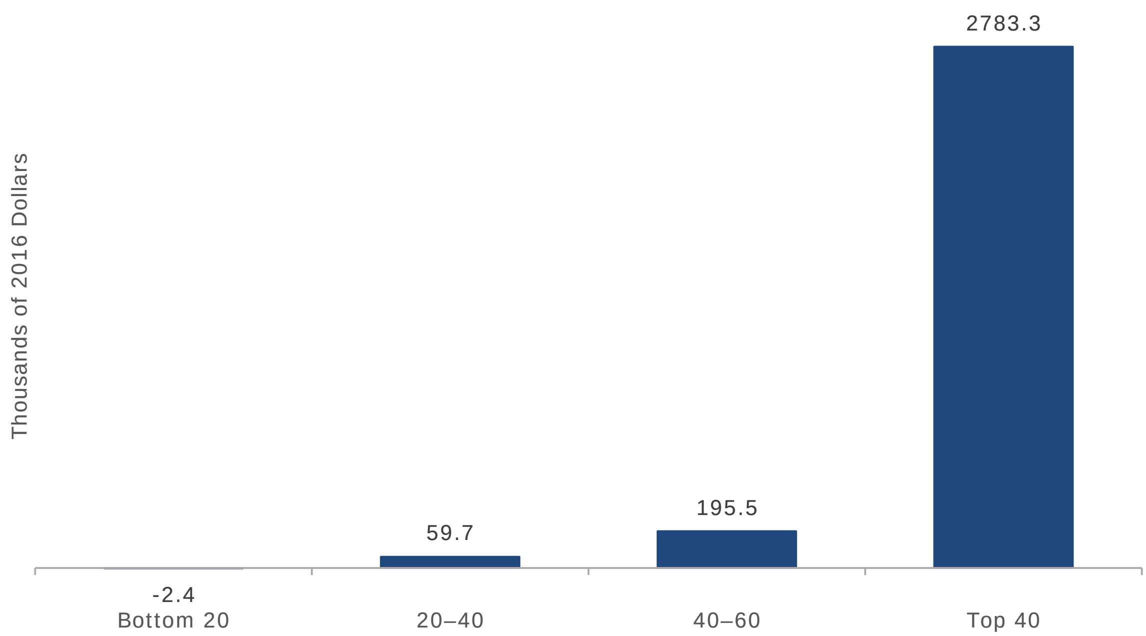
Net Wealth for Middle Quintile in Each Year, Ages 55–64



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years), and authors' calculations.

FIGURE 4b

Net Wealth by Quantile in 2016, Ages 55–64



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (year 2016), and authors' calculations.

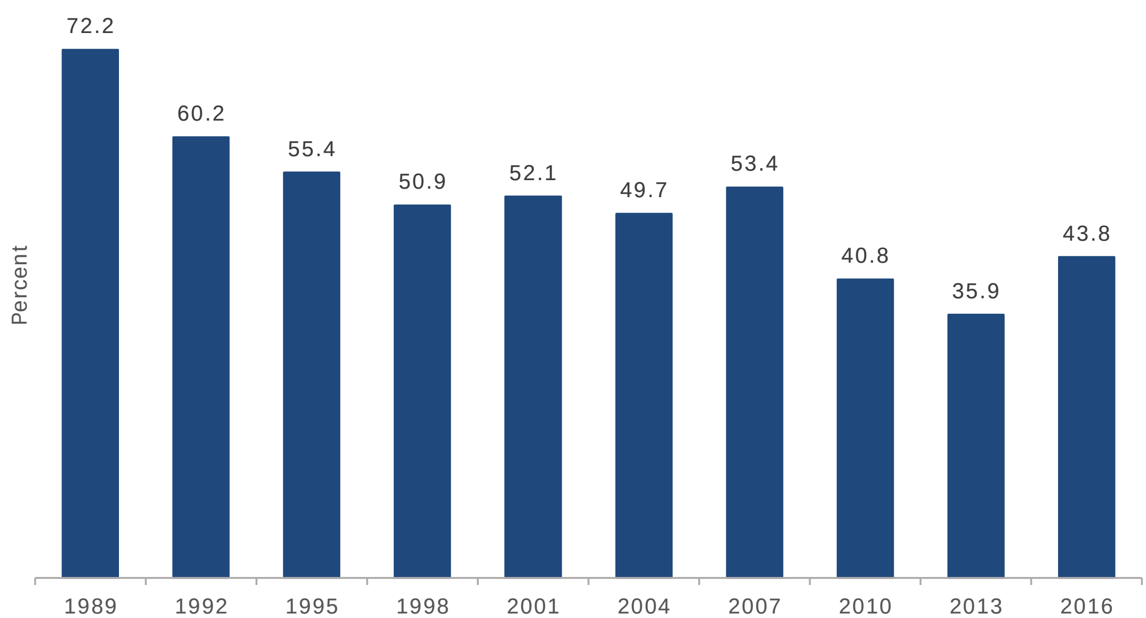
Older Prime-Age Workers: 45–54

In 1989, the average net wealth of the middle quintile of households headed by those aged 45–54 was nearly identical to that of their older cohort — $183,900 compared to $181,000 for those aged 55–64. With younger households having much lower rates of defined benefit pensions, these families should have seen more rapid growth in net wealth than the older households. However, by 2016 the average of the middle quintile had fallen 30 percent to $129,300.

Much of the drop in net wealth is attributable to a decline in home equity in the middle quintile driven by a fall in homeownership and an increase in leverage among homeowners. The rate of homeownership fell from 95.2 percent in 1989 to 87.8 percent in 2016. This level was up slightly from 85.5 percent in 2013. The fall in homeownership coincided with a sharp drop in the group's equity stake from 72.2 percent in 1989 to just 43.8 percent in 2016. Still, this is an improvement from 2013's 35.9 percent, likely the result of rising house prices. The more highly levered equity stake for homeowners in the second wealth quintile of this age group likewise improved from 11.2 percent in 2013 to 26.7 percent in 2016-- down from 63.9 percent in 1989. The bottom quintile had equity averaging only 4 percent in 2016. (See **Figures 5a** and **5b**.)

FIGURE 5a

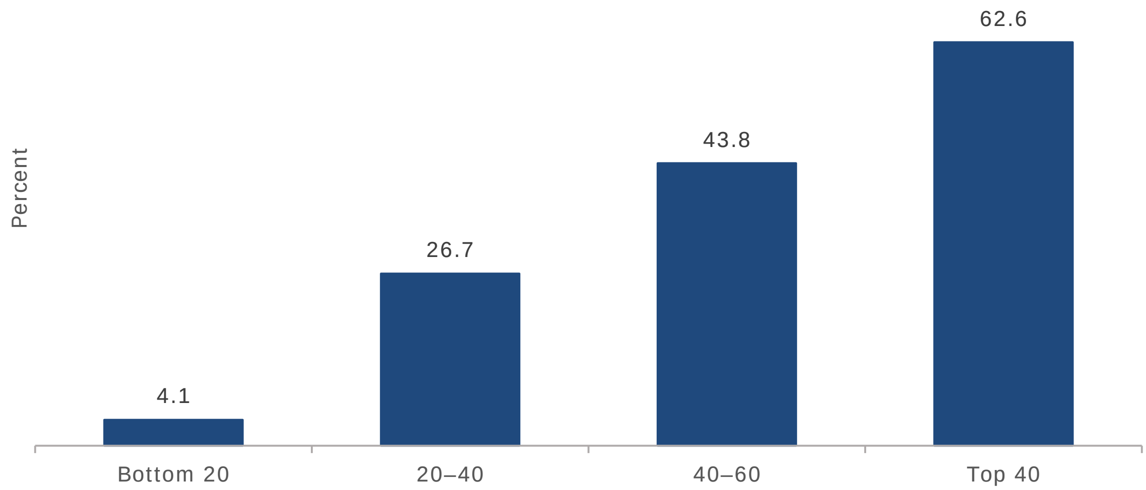
Equity Stake for Middle Quintile Each Year, Ages 45–54



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (various years), and authors' calculations.

FIGURE 5b

Equity Stake for Each Quantile in 2016, Ages 45–54

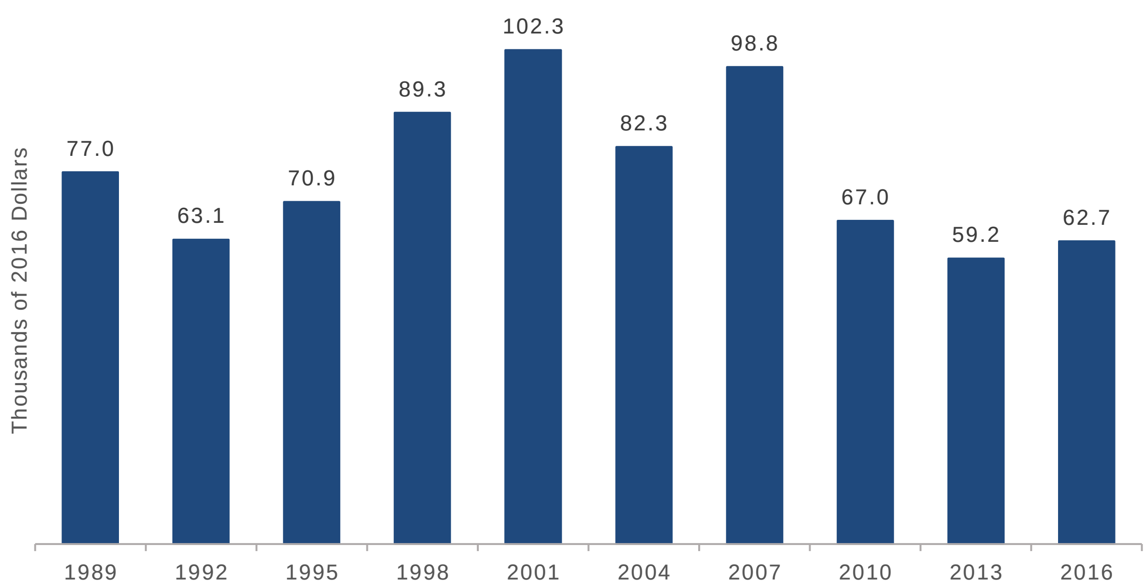


Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (year 2016), and authors' calculations.

Wealth outside of housing is essentially flat for the bottom three quintiles. For the middle quintile, it averaged $62,700 in 2016, up slightly from $59,200 in 2013, but down by 39 percent from a peak of $102,300 in 2001. The second quintile in this age group had non-housing wealth of $18,000 in 2016 down from $26,200 in 1989 and a peak of $33,700 in 2004. (See **Figures 6a** and **6b**.)

FIGURE 6a

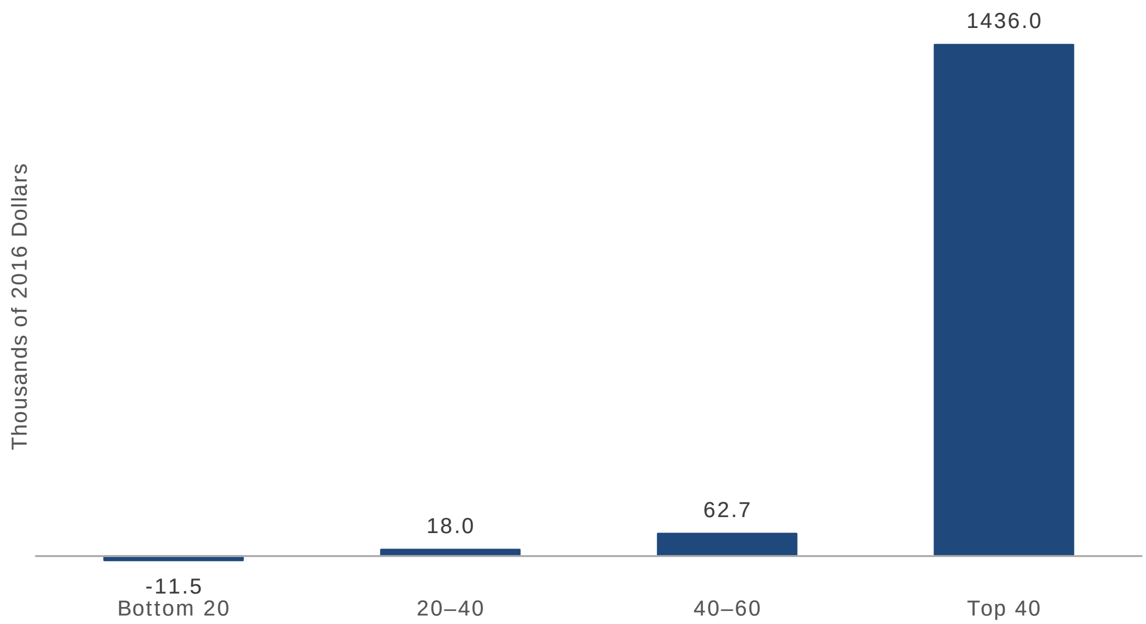
Average Net Wealth Outside Primary Residence of Middle Quintile in Each Year, Ages 45–54



Source: Board of Governors of the Federal Reserve System (2017). Survey of Consumer Finances (various years), and authors' calculations.

FIGURE 6b

Average Net Wealth Outside Primary Residence of Each Quantile in 2016, Ages 45–54



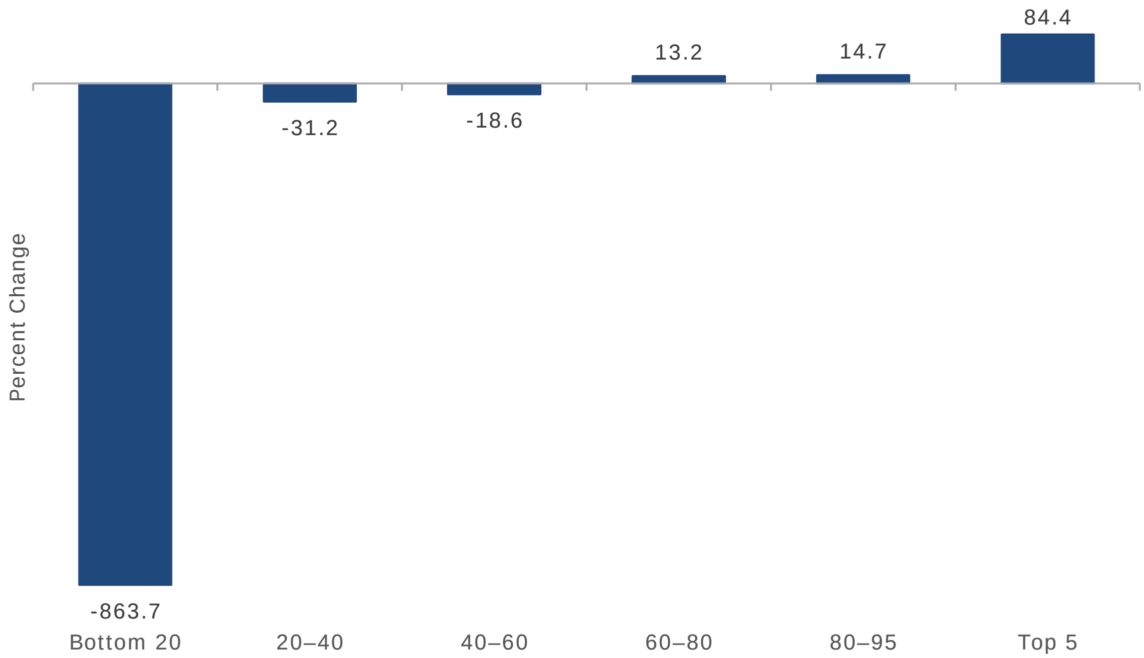
Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (year 2016), and authors' calculations.

The position of the bottom quintile is much more precarious than that of the next two-fifths. These households average $10,700 in net debt and the 16 percent who own their homes have only $4,600 net equity compared to $19,000 net equity in 1989. Outside of primary residences, the average net *debt* of households of the bottom fifth averaged $11,500, and only 13 percent had any private defined benefit pension, down from 35 percent in 1989.

Even including an average of $7,500 in home equity, the average net debt of those with such pensions was $16,800 in 2016, compared to $9,800 for those in the bottom fifth who lack defined benefit pensions. Again, pension income will be critical for this group and will more than make up for the difference in personal wealth. (See **Figure 6c**.)

FIGURE 6c

Percent Change in Average Net Wealth Outside Primary Residence of Each Quantile, Ages 45–54



Source: Board of Governors of the Federal Reserve System (2017), Survey of Consumer Finances (years 1989 and 2016), and authors' calculations.

Wealthier households in this age group have seen a sharp rebound in net wealth since 2013 and their wealth approaches or exceeds 27-year highs. The wealth of the 80–95th percentiles has jumped 17 percent since 2013 to $1.1 million after a 24 percent decline from a 2010 peak of $1.2 million to only $908,700 in 2013.

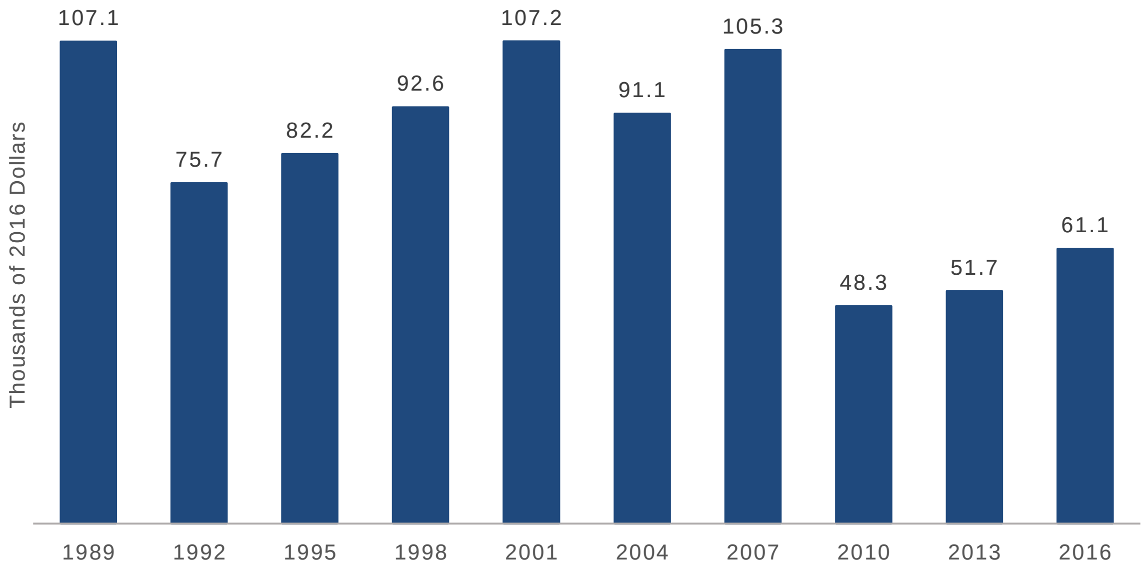
By contrast, the average net wealth of those in the top 5 percent has grown by nearly 82 percent since 1989 — from $5.1 million to $9.4 million. Their average net wealth exceeds their 2007 peak by more than 8 percent.

Mid-Career Workers: 35–44

The net wealth for families in the middle quintile stood at just $61,100 compared with a peak $107,200 in 2001. The average net wealth of families in the second rose slightly since 2013 to just $12,900 in 2016, down by nearly two-thirds from its 1989 level of $35,700. The bottom quintile had a negative net wealth of $24,200 in 2016, worsening from a negative net wealth of $21,300 in 2014. The quintile's average debt burden in 1989 was only $4,100. (See **Figures 7a** and **7b**.)

FIGURE 7a

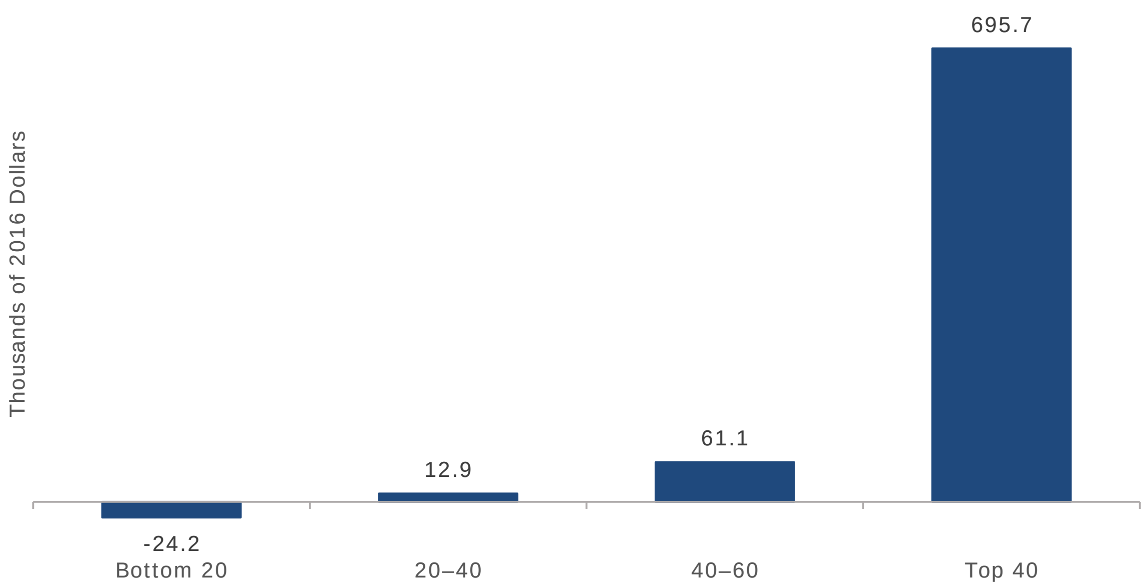
Net Wealth for Middle Quintile in Each Year, Ages 35–44



Source: Board of Governors of the Federal Reserve System (2017). Survey of Consumer Finances (various years), and authors' calculations.

FIGURE 7b

Net Wealth by Quantile in 2016, Ages 35–44

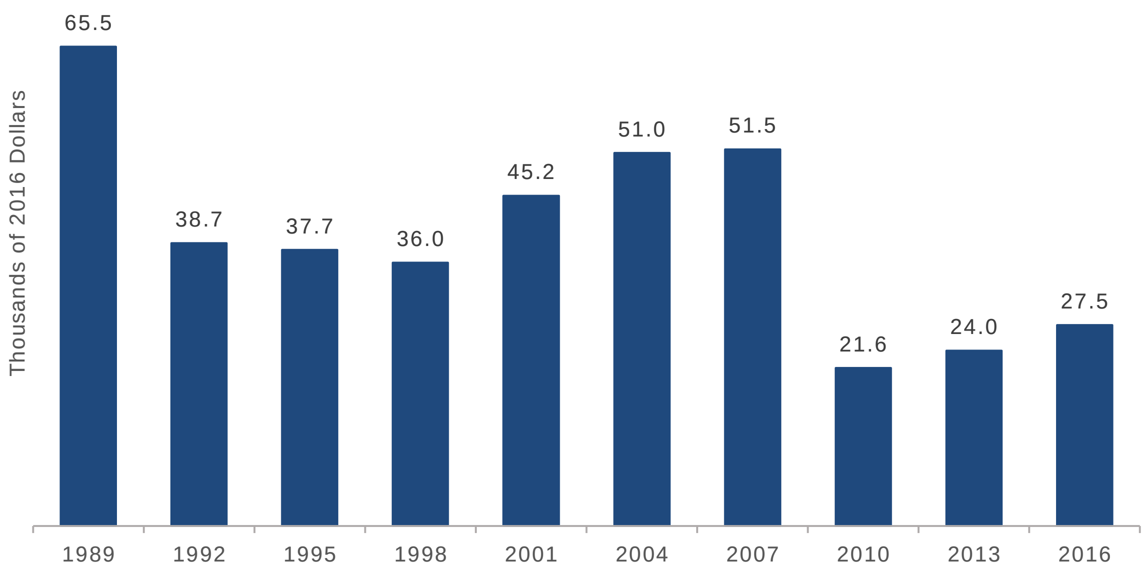


Source: Board of Governors of the Federal Reserve System (2017). Survey of Consumer Finances (year 2016), and authors' calculations.

Housing is the major part of this story. Average housing equity for the middle quintile was $27,500 in 2016, up little from $24,000 in 2013, yet well below the average of $65,500 in 1989. The second quintile averaged just $4,900 in housing equity compared with $14,300 in 1989. The bottom quintile had zero equity in 2016, down from an average of $2,100 in 2004. Many of these homeowners are highly leveraged in their houses, and equity rates will fluctuate wildly with prices. One-quarter of homeowners in the bottom fifth had negative equity in 2016 — down from 67 percent in 2013, but above 2007's 11 percent. (See **Figures 8a** and **8b**.)

FIGURE 8a

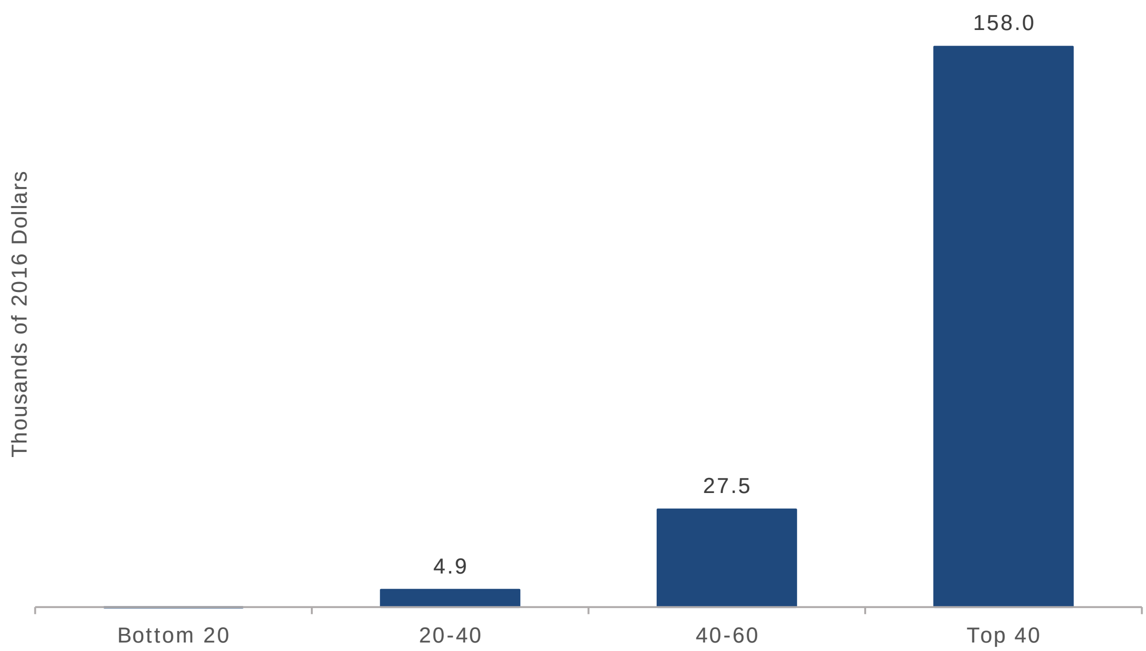
Housing Equity for Middle Quintile in Each Year, Ages 35–44



Source: Board of Governors of the Federal Reserve System (2017). Survey of Consumer Finances (various years), and authors' calculations.

FIGURE 8b

Housing Equity by Quantile in 2016, Ages 35–44



Source: Board of Governors of the Federal Reserve System (2017). Survey of Consumer Finances (year 2016), and authors' calculations.

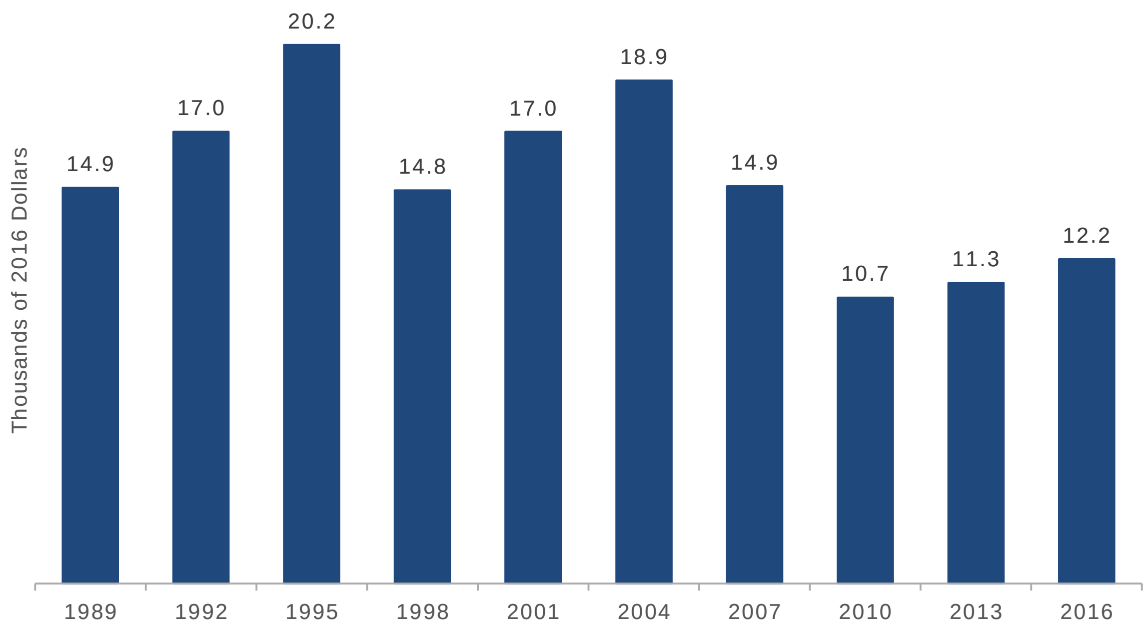
At the top, however, net wealth fell 27 percent between 2013 and 2016 to an average of $3.4 million. Business equity fell by an average of $774,600 over the three years, and home equity by another $177,100. Still, over the last 27 years, the average net wealth of the top 5 percent has grown considerably. Since 1989, home equity among the top 5 percent has increased by more than 50 percent, and other net wealth has climbed 30 percent.

Students and Young Workers: 18–34

The bottom three-fifths in wealth for this age group have never had much wealth. In 1989, their net wealth averaged only $3,400. By 2016, the bottom 60 percent averaged $10,200 in net *debt*. While the real value of their assets did rise by 43 percent over those 27 years, average debt burdens more than doubled from $18,100 to $41,100. Chief among these debts are installment loans for education. Education debt among the bottom three-fifths averaged only $2,000 in 1989 compared to $19,500 in 2016. (See **Figures 9a** and **9b**.)

FIGURE 9a

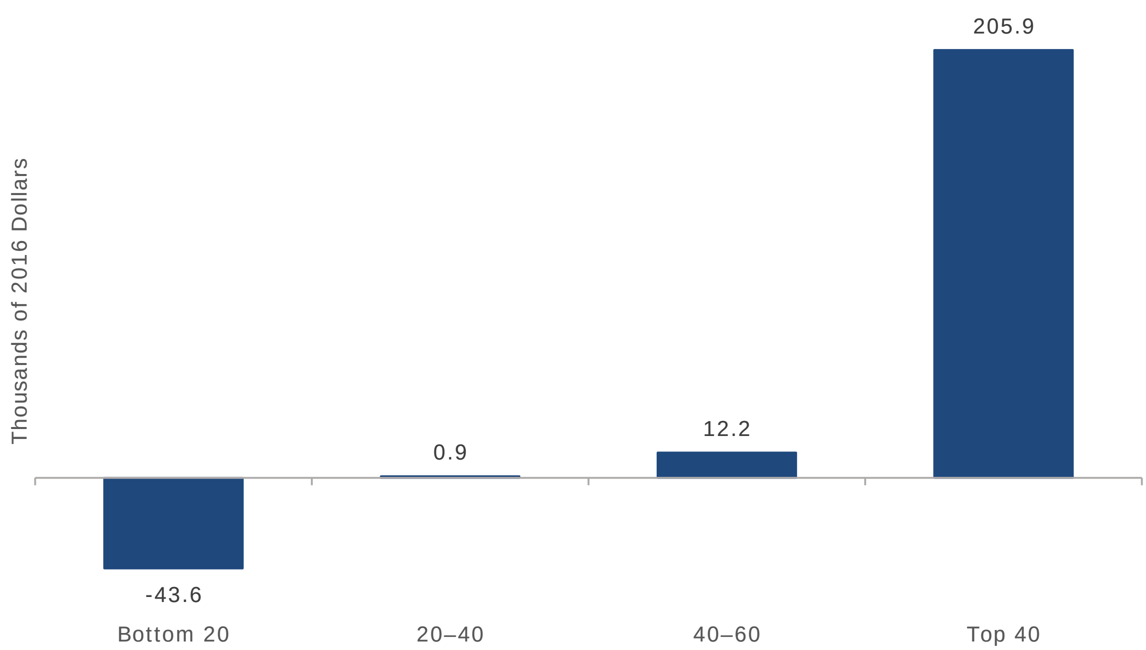
Net Wealth for Middle Quintile in Each Year, Ages 18–34



Source: Board of Governors of the Federal Reserve System (2017). Survey of Consumer Finances (various years) and authors' calculations.

FIGURE 9b

Net Wealth by Quantile in 2016, Ages 18–34



Source: Federal Reserve, Survey of Consumer Finances (2016) and authors' calculations.

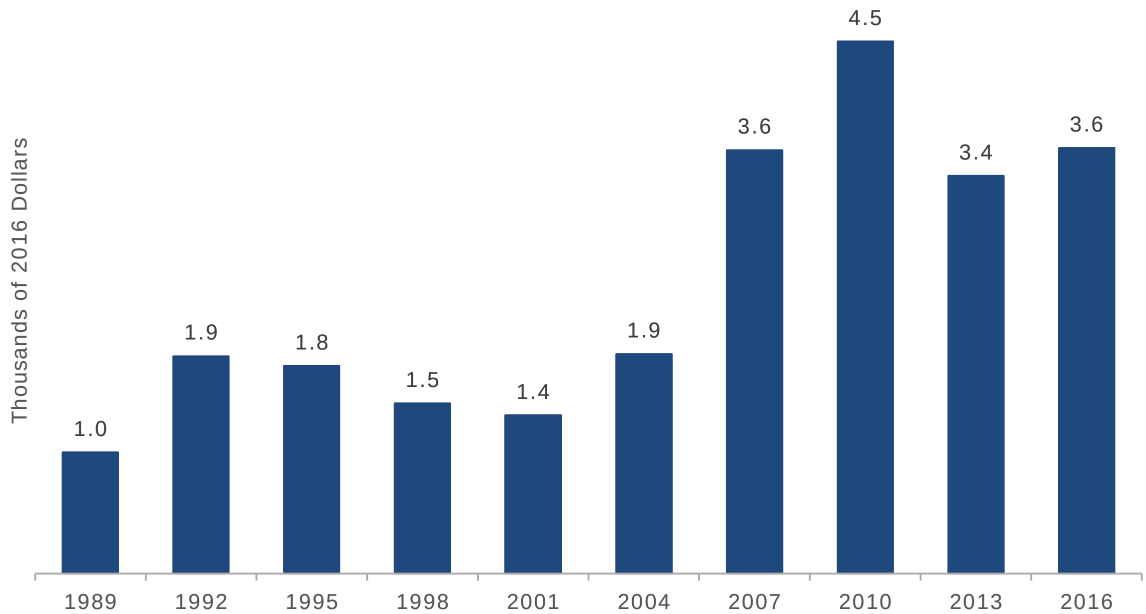
Thus, the rise of student loans accounted for more than three-fourths of the increase in overall debt, and 130 percent of the fall in net wealth. Obviously, those that took on large student debt would be more likely to find themselves with relatively low net wealth. It should be noted that the household heads in this group are somewhat more educated than they were 27 years ago; in 2016, 24 percent had completed at least a bachelor's degree, compared to 17 percent in 1989. Those in the 80–95th percentiles of net wealth in 2016 were more educated on average (42 percent with at least a bachelor's degree) and yet owed only $6,400 in student loans. This amounted to 26 percent of their non-mortgage debt, compared to 69 percent for the bottom 60 percent.

The role of student debt is made even starker when examining each of the bottom three quintiles individually. Overwhelmingly, those in the bottom fifth are better-educated and far deeper in debt than either their 1989 counterparts or those in the 20–40th percentiles. In 1989, 81 percent of the second quintile had graduated high school, compared to 71 percent for the bottom; by 2016, the second quintile had raised their graduation rate to 85 percent while the bottom consisted of 97 percent high school graduates. The rate of college degrees (at least associate's or bachelor's) in each of the bottom two quintiles were comparable in 1989: 22 and 21 percent in the first and second fifths, respectively. In the most recent survey, 63 percent of those in the bottom quintile held college degrees, compared to only 20 percent in the next quintile. Indeed, the rate at which the second quintile held at least a four-year degree fell from 18 to 10 percent over the last 27 years.

Meanwhile, those in the 20–40th percentiles had increased their education debt from an average of $500 to $3,400. By contrast, the average student debt of the bottom quintile rose from $4,400 to $51,600. (See **Figures 10a** and **10b**.)

FIGURE 10a

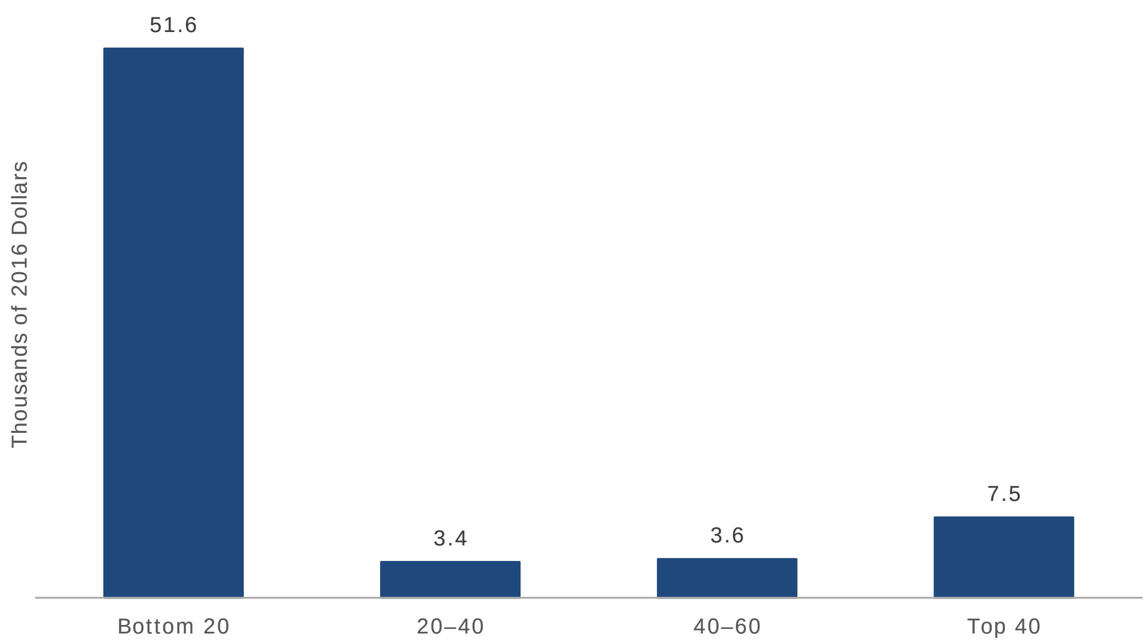
Average Student Debt of Middle Quintile in Each Year, Ages 18–34



Source: Federal Reserve, Survey of Consumer Finances (various years) and authors' calculations.

FIGURE 10b

Average Student Debt of Each Quantile in 2016, Ages 18–34



Source: Federal Reserve, Survey of Consumer Finances (2016) and authors' calculations.

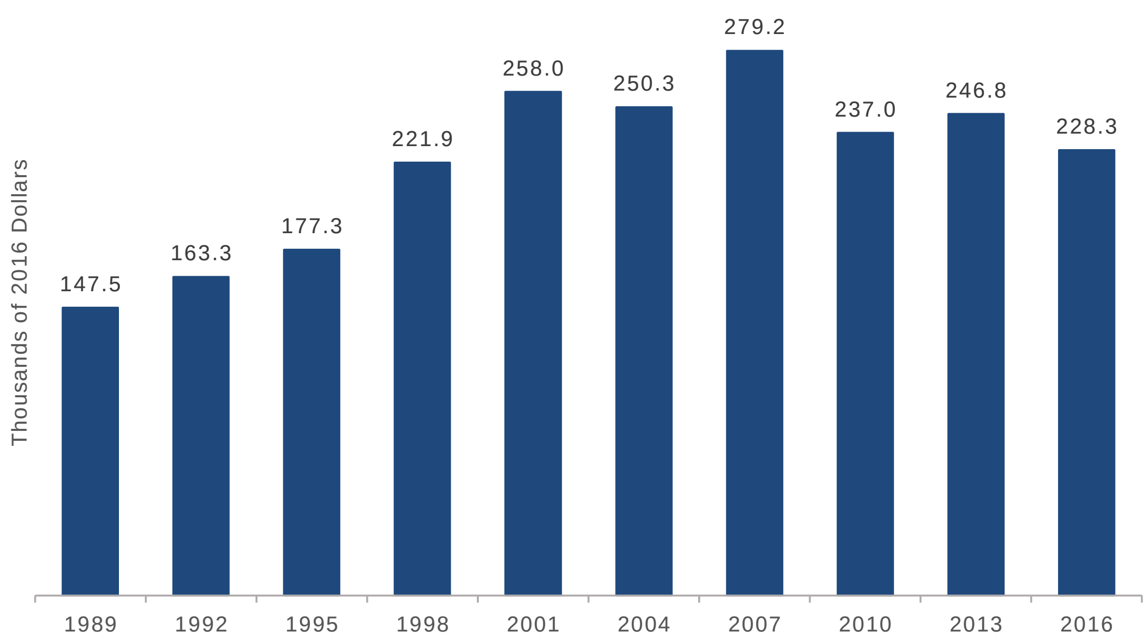
For the top 5 percent, net wealth fell slightly between 2013 and 2016 and remains 33 percent below its peak in 2007. Since 1989, the average net wealth of the top 5 percent has remained flat — at $1.02 million. In large part, the recent decline in net wealth for this group had been in housing. In six years, the average value of their primary residences has fallen by nearly $300,000 before recovering one-third of that since 2013. However, business equity has plummeted over that time — from $785,600 in 2004 to $403,000 in 2013 and $111,200 in 2016.

Recent Retirees: 65–74

Average net wealth of the middle quintile for recent retirees fell 8 percent between 2013 and 2016, reversing all of the gains the prior three years. Their net wealth had seen relatively steady gains over the last couple decades, with the middle-quintile average climbing 89 percent since 1989 to $279,200. (See **Figures 11a** and **11b**.)

FIGURE 11a

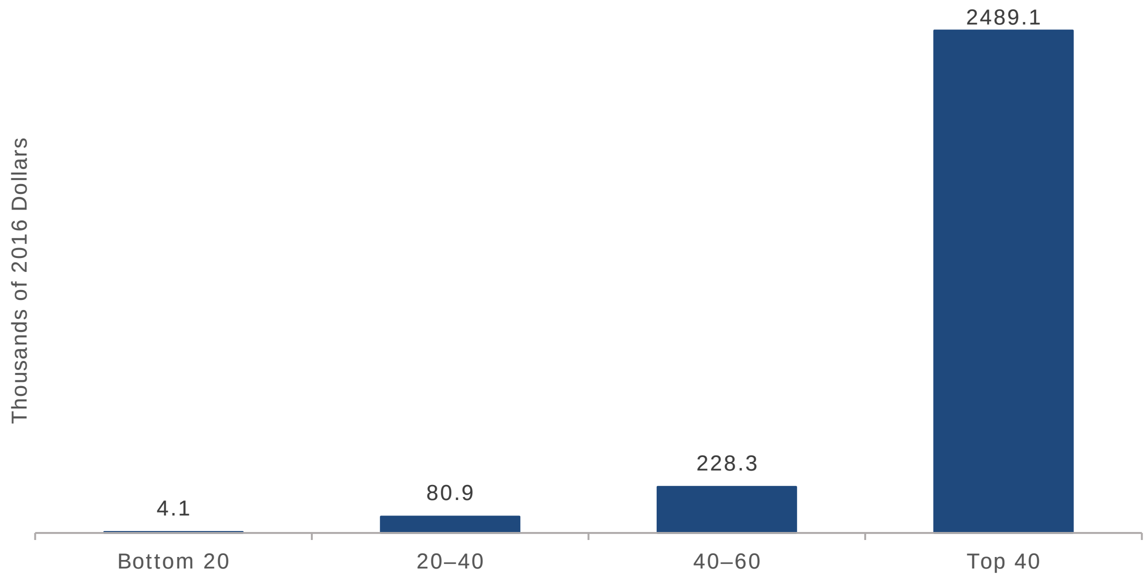
Net Wealth for Middle Quintile in Each Year, Ages 65–74



Source: Federal Reserve, Survey of Consumer Finances (various years) and authors' calculations.

FIGURE 11b

Net Wealth by Quantile in 2016, Ages 65–74

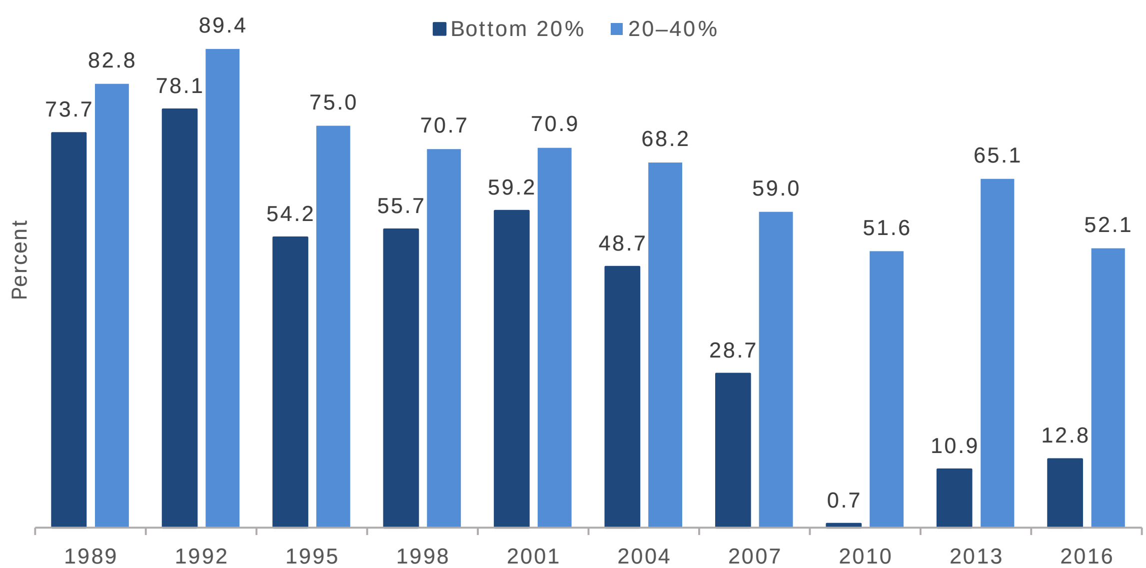


Source: Federal Reserve, Survey of Consumer Finances (2016) and authors' calculations.

The rise in wealth over this period came in spite of the fact that this group saw a sharp drop in the share of equity in their homes. For families in the middle quintile, the equity share fell from 96.7 percent in 1989 to 75.5 percent in 2016. The equity share for the second quintile fell from 82.8 percent to 52.1 percent. For the bottom quintile, the equity stake for homeowners plummeted from 73.7 percent in 1989 to just 12.8 percent in 2016. (See **Figure 11c**.)

FIGURE 11c

Average Equity Stake for Bottom Two Quintiles in Each Year, Ages 65–74

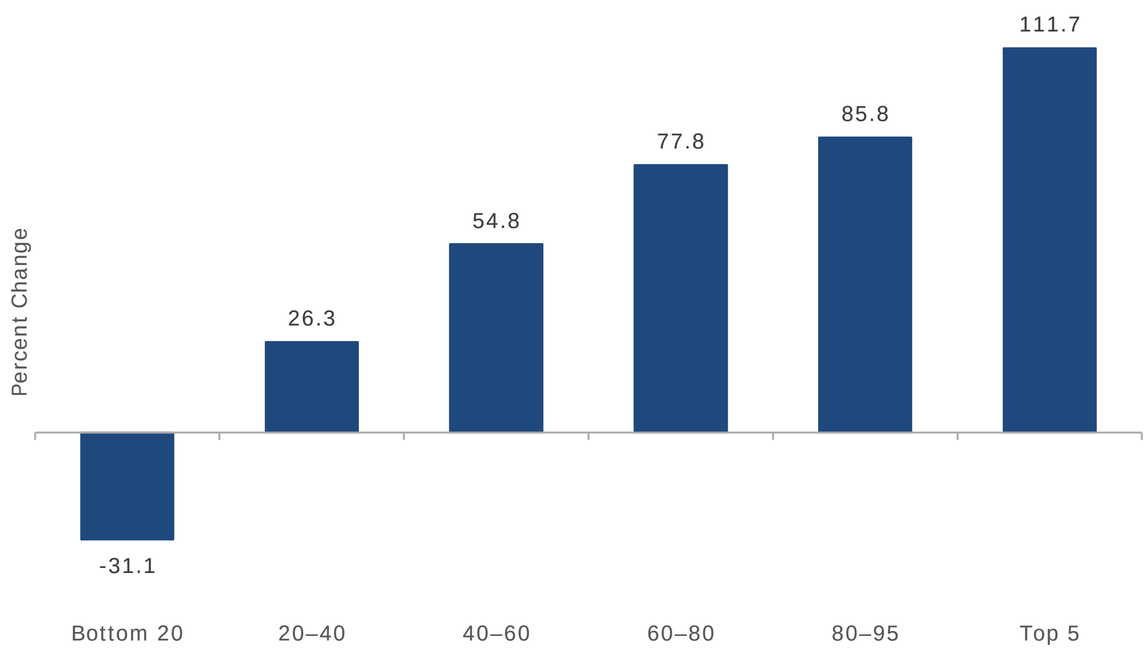


Source: Federal Reserve, Survey of Consumer Finances (various years) and authors' calculations.

Fortunately, private defined benefit pension rates for these retirees are relatively high, and in 2016, 46 percent of recent retirees in the bottom 60 percent of net wealth had some such pension — compared to 50 percent 1989. Their average income in 2016 stood at $43,300. This amount included but was not limited to all private pensions, annuities, Social Security, and withdrawals from retirement accounts. (See **Figure 11d**.)

FIGURE 11d

Percent Change in Average Net Wealth, 1989–2016: Ages 65–74



Source: Federal Reserve, Survey of Consumer Finances (1989 and 2016) and authors' calculations.

Even so, only 27 percent of the bottom one-fifth of households had any private defined benefit pension and averaged only $4,100 in net wealth, and only 22 percent owned their own home. Those that did own their homes held 13 percent equity — so on average, the bottom 20 percent must still pay for 97 percent of their residence and yet received only $28,700 in income. It would be difficult to overstate the importance of Social Security and Medicare to these households.

At the other end of the spectrum, the top 5 percent of households aged 65–74 averaged $12.4 million of net wealth in 2016 — up 22 percent since 2010 and nearly reversing a 23 percent fall between 2007 and 2010. Since 1989, the net wealth of the top 20th is up 112 percent. These households have an average annual income of $813,200, or about 6.5 percent of net wealth. Since 1992, they have seen income generally in the range of 5–6 percent of net wealth. By contrast, households in the bottom 60 percent are more dependent on defined benefit pensions and generally, claim income in the range of 30–35 percent of average net wealth.

Conclusion

Consistent with other data, the 2016 SCF shows a picture of the economy where the bulk of the benefits are going to those at the top of the income distribution. The situation is perhaps most disturbing for near-retirees since there is little prospect that their wealth situation will appreciably improve before they retire. This cohort will be heavily dependent on Social Security since most have little wealth outside of their homes, have substantial debt left on their mortgage, and have no private defined benefit pension to provide additional support. The situation of older prime-age workers (45–54) looks worse based on the much lower rate of defined benefit pensions. In light of the new research showing the greater importance of defined benefit pensions for retirement income, this cohort of workers may fare considerably worse than current retirees or those now at the edge of retirement.

References

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