Financial Health of Young America: Update

For the First Time, Young Adults with Student Debt Have Negative Net Wealth

Tom Allison, April 2018

YOUNG INVINCIBLES

Last year, Young Invincibles released the Financial Health of Young America, a comprehensive report documenting the financial decline of Millennials compared to Baby Boomers. This was a true generational comparison, comparing each generation when they were 25-34 years-old in 1989 and 2013 respectively. We found Millennials earned lower incomes, were less likely to own a home, and had lower net wealth than their parents at the same stage in life. **In fact, Millennials had amassed just half the net wealth Baby Boomers had at the same age.** That report was based on 2013 data (the latest available when released), three and a half years into the recovery from the Great Recession. Young Invincibles has now analyzed an updated dataset, released fall of 2017, which demonstrates young adults' challenges have persisted beyond the recession and recovery. Despite low unemployment, a strong stock market, and consecutive annual GDP growth, **young adults are not reaping the same benefits as the economy at large**. The updated findings also shed light on new trends, including the impact of student debt and widening racial inequality.

This update, like the original report, is filtered by what makes this generation of young people unique in the first place: the increased need for skills and postsecondary education, growing reliance on student debt to finance it, and the demographics of the population. After all, Millennials are the most educated, most diverse, and most indebted generation in America's history.

SHORT TERM RECOVERY NOT SOLVING LONG TERM PROBLEMS

In the three years between 2013 and 2016, markers of financial security for young adults tracked with the incremental recovery of the larger workforce. In 2016, the unemployment rate for young adults continued its downward trend seen throughout most of the Obama Administration, and real median household income finally exceeded pre-recession levels. Similarly, young adults made incremental gains in financial security indicators, with small increases in income, retirement savings, and assets. Homeownership, however, declined, dipping by 3 points.

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The short-term gains in income and asset accumulation, however, do little to address the systematic financial deterioration facing today's young adults. Our updated analysis shows young adults still earn significantly lower incomes, own homes at lower rates, and have accumulated fewer assets and net wealth than young adults twenty-five years ago.

MILLENNIAL COLLEGE GRADUATES HAVE NEGATIVE NET WEALTH

When subtracting all of their debts from all of their assets, **today's young adults with college degrees and student debt are left with a median net wealth of -$1,900.** This is a decline of approximately $9,000 from 2013, a continuation of the trends revealed in the original report, though even more disturbing given the recent economic recovery. Moreover, negative net wealth serves as a powerful symbol of student debt weighing down on young adults' ability to achieve financial stability. After investing tens of thousands of dollars and years into their education, these young people have not yet broken even. While we know that on the whole a college education is still the best pathway to long term financial security, student debt is blunting some of the benefit that a college degree should have on wealth accumulation.

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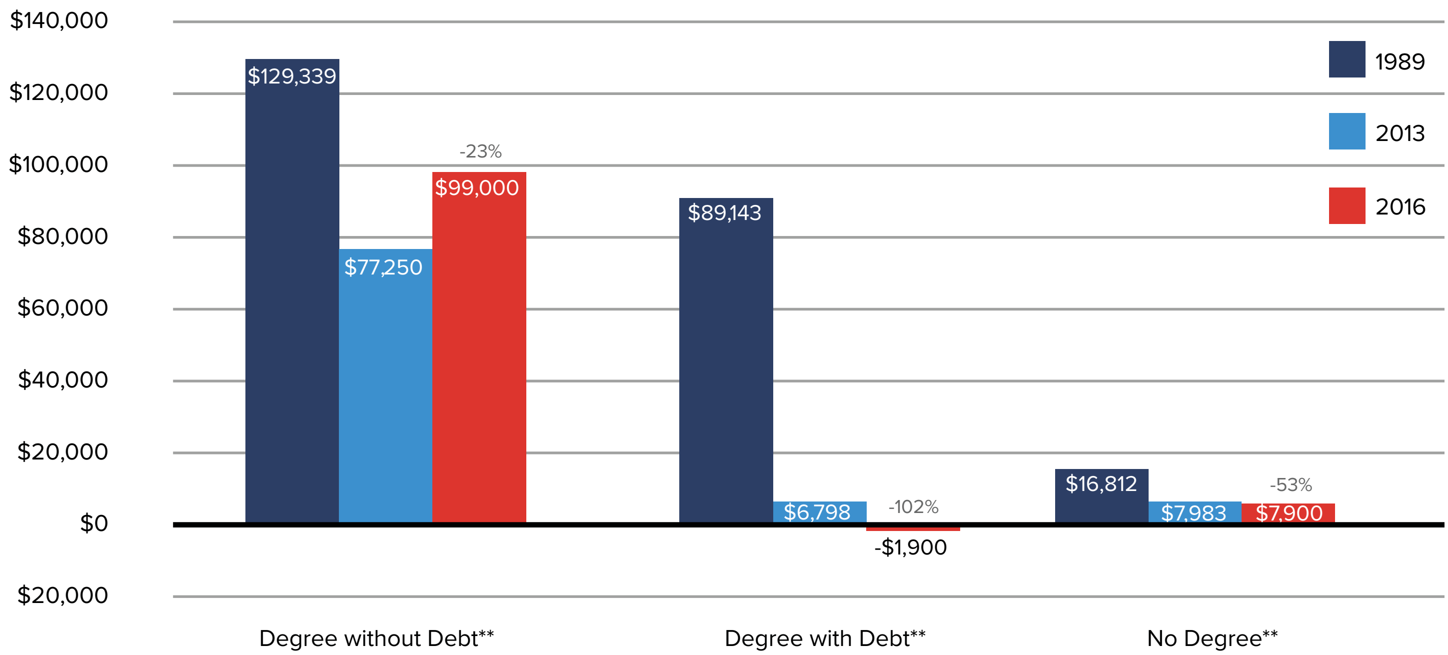
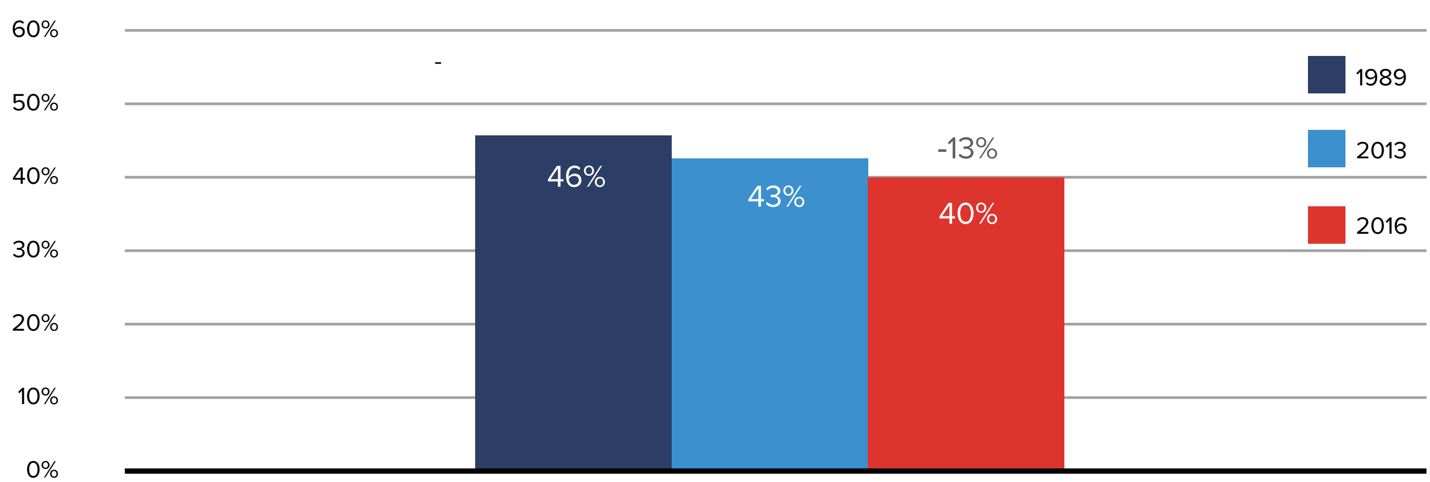
Chart 1 – Median Net Wealth of 25-34 Year-Olds by Degree Status



* % Change - 1989 to 2016
** Associate's Degree and above
Young Invincibles Analysis of Survery of Consumer Finances Adjusted to 2016 dollars

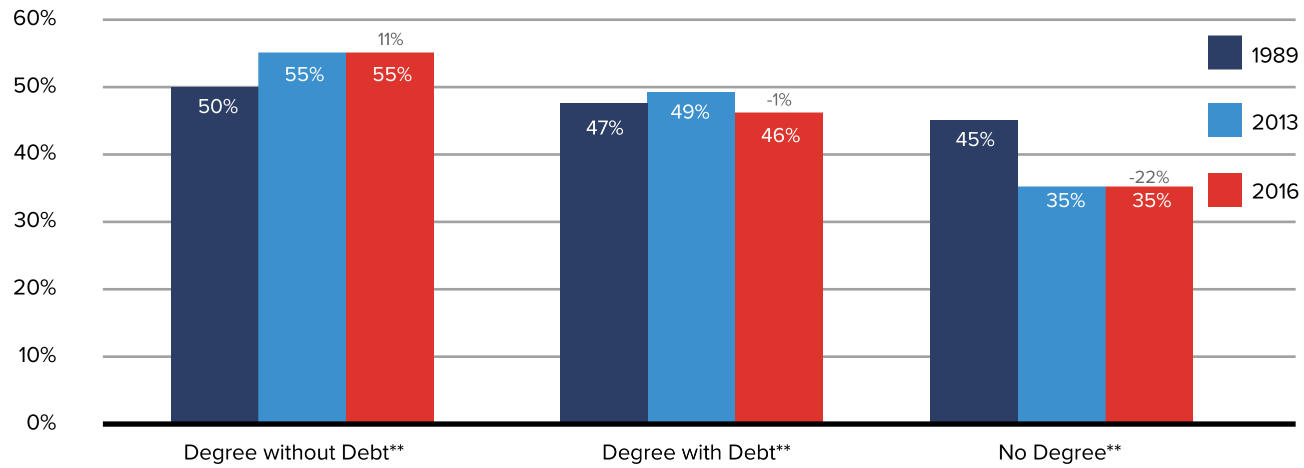
Research shows that home ownership continues to be the primary means for families to build and transfer wealth. Home ownership declined for young adults from 43 percent in 2013 to 40 percent in 2016. This trend is entirely driven by college graduates with student debt, as the rate of homeownership for the those with degrees but no debt, as well as those with no degree, remained stable. This does not mean the debt is causing the decline in homeownership, but the correlation is persuasive.

Chart 2 – Percent of 25-34 Year-Olds who are Homeowners by Year



* % Change - 1989 to 2016
Young Invincibles Analysis of Survery of Consumer Finances Adjusted to 2016 dollars

Chart 3 – Percent of 25-34 Year-Olds who are Homeowners by Degree Status



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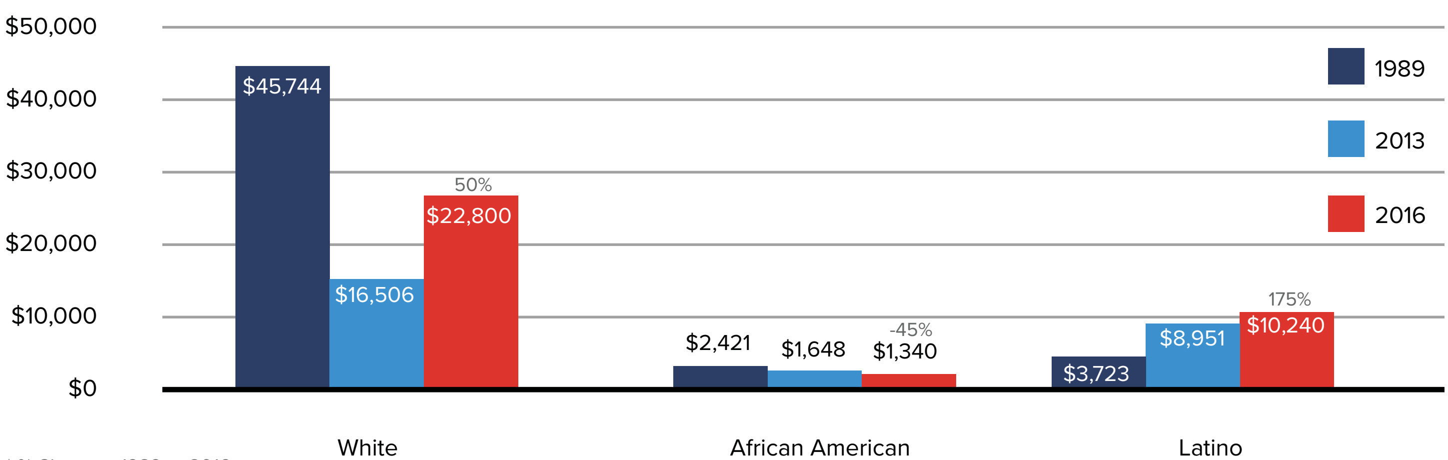
DISTURBING TRENDS FOR YOUNG AFRICAN AMERICANS

Even more disturbing is the financial decline for young African Americans. Though between 2013 and 2016 the economy improved as a whole, home ownership, median net wealth, and the percentage of those saving for retirement all declined among young African Americans. Between 2013 and 2016, young African Americans (across degree attainment levels) saw:

- Homeownership decline from 26 percent to 20 percent
- Median net wealth dip from $1,648 to $1,340
- The portion of those who had started saving for retirement decline from 31 percent to 29 percent

Chart 4 – Median Net Wealth of 25-34 Year-Olds by Race/Ethnicity



* % Change - 1989 to 2016
Young Invincibles Analysis of Survery of Consumer Finances Adjusted to 2016 dollars

These trends support young people's views, particularly those held by African Americans, that the economy is not working for them. While most Millennials have pessimistic views about the state of the country, young African Americans are more likely to say the economy is "very poor" and that the country is "off on the wrong track" at higher rates than other demographic groups.

As has been documented in numerous reports and analyses, African American families face significant disparities in wealth creation. But while median net wealth increased slightly for African American families overall in the last three years, median net wealth for young African Americans declined. In order to close wealth gaps, young people must save and invest now, when they are young. Our estimates forecast the wealth gap between black and white families widening in future years.

It is encouraging to see that our economy has recovered from the worst recession since the Great Depression, but the benefits are not universal. Young people are being left behind, especially young people of color. **It is clear that the $1.4 trillion dollars of student debt this nation has amassed is preventing young people from getting ahead.** It has driven college graduates with debt, who constitute the majority of today's graduates, into negative net wealth.

The decline in wealth, further exacerbated in the last three years, should come as a grave concern to not just Millennials but to the whole nation. As this generation has become the greatest share of the workforce and soon to be the greatest share of the electorate, **the financial health of young America is the financial health of all of America.**

Methodology: All estimates are Young Invincibles' analysis the Survey of Consumer Finances, a large survey of households conducted by the Federal Reserve Board of Governors. We compared 25-to-34 year olds in 1989, when the youngest Baby Boomers were 25-years old, with Millennials, defined as 25-to-34 year-olds in 2013 and 2016.

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