A LIFE-CYCLE AND GENERATIONAL PERSPECTIVE ON THE WEALTH AND INCOME OF MILLENNIALS

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Young adulthood is the life stage when the greatest increases in income and wealth typically occur, yet entering into this period during the Great Recession has put Millennials on a different trajectory. As a result, this generation will need to make very large gains in the years ahead to compensate for these shortfalls.

Understanding the dynamics of how the recession has impaired the financial outlook of Millennials, such as identifying how far behind they are compared to previous generations of young adults, the impact of the recession on their current wealth holdings and earning potential, and the pace at which they're recovering, is essential to developing appropriate policy interventions that can put them back on track.

Current Conditions

The Great Recession exacted an enormous toll on the incomes and wealth of most families. The real income of the median U.S. family was 12.1 percent lower in 2013 than in 2007, falling from $53,114 to $46,668, both in 2013 inflation-adjusted dollars.[1] Real median wealth among all families declined 40.1 percent during that period, falling from $135,858 to $81,400.

As bad as it was in the aggregate statistics, younger adults generally fared even worse. This is true whether one focuses on young adulthood as a stage in the life cycle through which everyone passes or, alternatively, if we track groups of individuals born at a certain time using a generational framework. Moreover, young adults and families with less education and those who are African-American or Hispanic typically suffered more than their better-educated and white or Asian contemporaries.

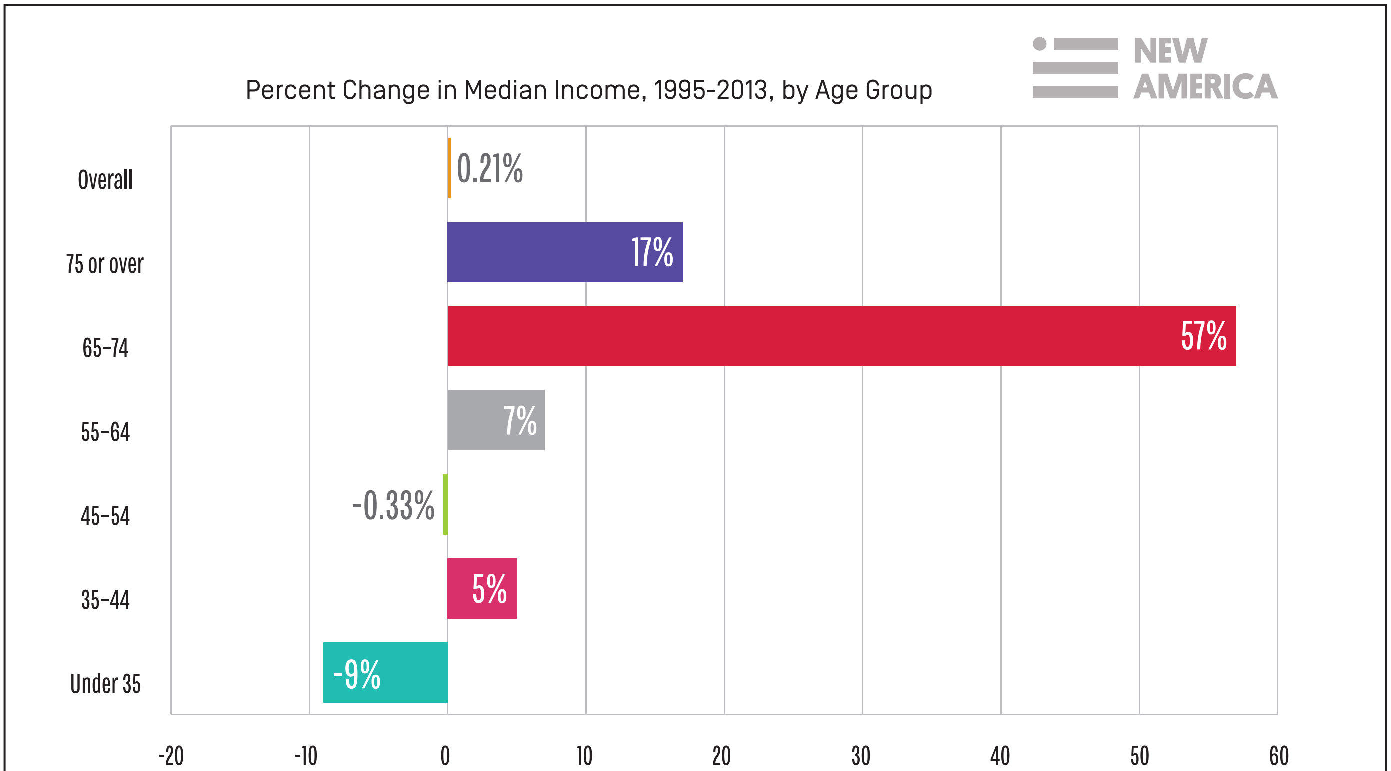
The economic and financial setbacks suffered by young adults during and after the recession—especially among those of color and those without college degrees—are particularly discouraging because members of the Millennial generation (born 1981-2000) had been doing a bit better at comparable ages than their immediate predecessors, the members of Generation X (born 1965-80). Prospects have dimmed for getting back on the steep upward trajectories of income growth and wealth accumulation that are characteristic of people in their 30s and 40s and which are essential for building life-long economic security.

A life-cycle perspective on young adults

Many aspects of our economic and financial lives are shaped principally by our stage in life.[2] Income typically rises rapidly during the first few decades of one's working life, peaks in late middle age, and then declines at retirement. Wealth usually begins at a very low level—and can even be negative if student loans are needed to complete schooling—and grows at an increasing rate during the working lifetime. In contrast to income, many families' wealth peaks at a somewhat later age and declines only slowly after retirement or, in the case of wealthy families, may keep rising until death.

From a life-cycle perspective, young adults fared poorly during the recession and its aftermath. The median income of a family headed by someone under 40 was 88 percent of the overall median income in 2004 and reached 91 percent in 2007; but the median income of young adults was only 87 percent of the overall median in 2013.[3] This remains below the 88-96 percent range seen during the 1989-2004 period.

Meanwhile, the median wealth of a family headed by someone under 40 was 22 percent of the overall median in



Source: Board of Governors of the Federal Reserve System, "2013 Survey of Consumer Finances," 2014.

2004, before falling to 16 percent in 2007 as the housing bubble began to burst. While the median wealth of people under 40 recovered to 18 percent of the overall median by 2013, this remains far below levels reached during 1989-2004, when it ranged from 22 to 30 percent.

Thus, families and individuals who were under 40 during and after the recession generally have experienced historically low incomes and wealth. Young adults without college degrees and young African-American and Hispanics likewise suffered greater than average income and wealth shocks.

A generational perspective: Sizing up the Millennials

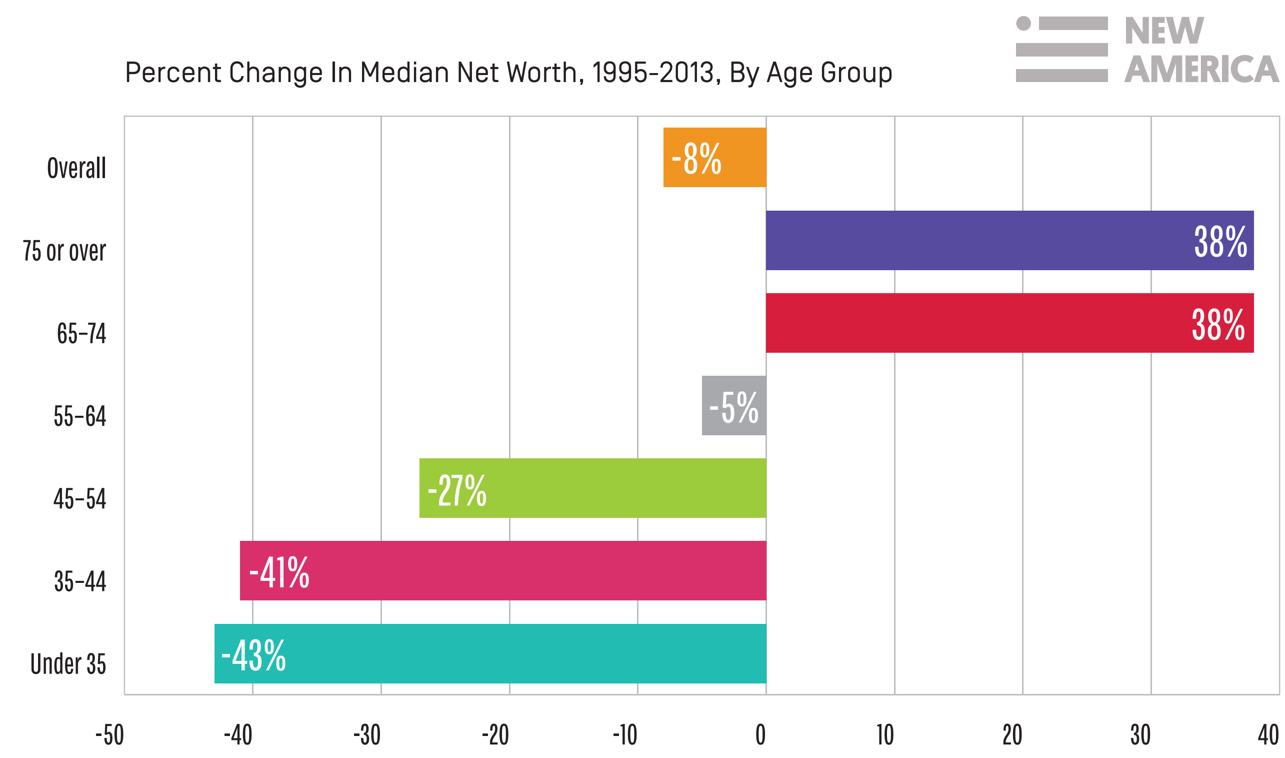
Economic, financial, and sociological research on the Millennial generation as young adults has just begun.[4] Millennials appeared to be doing relatively well before the recession compared to their predecessors. The recession hit the typical Millennial hard, however, pushing median income and wealth levels among people born in the 1980s and early 1990s below the trajectories traced out by people born in the 1960s and 1970s when they were the same age. Young adulthood is the period when income and wealth typically grows most rapidly, so it matters for the Millennials' long-term economic and financial well-being how long it takes to get back on track—or whether they ever will catch up.

The Survey of Consumer Finances, conducted by the Federal Reserve every three years, offers a valuable snapshot of the family balance sheet.[5] The oldest cohort of Millennials, born during the 1981-83 period, was surveyed in 2004 when they were ages 21-23; in 2007 when they were 24-26 years old; in 2010 when they were 27-29 years old; and in 2013 when they were 30-32 years old. Thus, the survey permits direct comparisons of income, wealth, and debt of a specific cohort over its observed life cycle to other cohorts.

The Income and Wealth of Millennials

Income at ages 21-23

The median real family income among the 1981-83 cohort of Millennials at ages 21-23 (in 2004) was $21,530. This was somewhat above the median among all the earlier-born cohorts shown (born 1966-80 and observed during the 1989-2001 period), which was $20,208. The 1984-86 cohort of Millennials also had median real income (in 2007) that was higher than the 1966-80 median at that age, at $24,248. The 1987-89 and 1990-92 cohorts, however, had lower median



Source: Board of Governors of the Federal Reserve System, "2013 Survey of Consumer FInances," 2014.

real incomes, of $19,609 and $16,233, respectively. These figures were observed in 2010 and 2013, respectively, during the weak post-recession economy.

Income at ages 24-26

The median real family income among the 1981-83 cohort at ages 24-26 (in 2007), $39,258, likewise was higher than the median among earlier cohorts at that age ($31,489), here spanning birth years 1963-80. The 1984-86 cohort also had higher median income at ages 24-26 (in 2010) than cohorts born during 1968-80, at $35,950. However, the 1987-89 cohort fell short of the 1963-80 median, at $30,436, due to their reaching this age in 2013.

Income at ages 27-29

The median real family income among the 1981-83 cohort at ages 27-29 (in 2010), was $44,665. This was $112 higher than the median among earlier-born cohorts at that age, who were born during the 1960-80 period. The 1984-86 cohort's median real income at ages 27-29 was only $38,552, again influenced by economic conditions in 2013.

Income at ages 30-32

The oldest Millennial cohort (born 1981-83) was 30-32 in 2013. The median real income of this cohort was only $47,683, some $4,056 below the median income of the cohorts born between 1957 and 1980.

The impact of the Great Recession on the median incomes of Millennials is clearly evident. In general, Millennial cohorts received higher incomes than earlier-born cohorts at the same ages through 2007, but mostly fell behind the benchmarks set by older cohorts as a result of the recession. In the case of the oldest Millennial cohort (1981-83), the relative slide was dramatic—from about 125 percent of the earlier-born median at ages 24-26 to about 92 percent of the median at ages 30-32. The 1984-86 cohort fell from 20 percent above to 13.5 percent below the older groups' median. The youngest Millennial cohorts considered here—born 1987-89 and 1990-92—entered adulthood during the recession and its aftermath and began their working lives earning significantly less than Baby Boomers, members of Generation X, and their older Millennial counterparts.

The income shortfalls of Millennials are particularly noteworthy because they are the best-educated generation ever. Whether any of the Millennial cohorts can catch up to the income trajectories achieved by earlier generations is uncertain.

As with income, Millennials' wealth trajectories have been affected greatly by the recession. Comparing the net worth of three-year birth cohorts makes this clear.

Wealth at ages 21-23

The median real family net worth among the 1981-83 cohort of Millennials at ages 21-23 (in 2004) was $5,093. This was higher than the median wealth among all the earlier-born cohorts shown (born 1966-80 and observed during the 1989-2001 period), which was $3,796. The three other Millennial cohorts considered here—1984-86, 1987-89, and 1990-92—all fell short of the older groups' median at ages 21-23, ranging from $3,150 to $3,494. Recall that these observations were from the years 2007, 2010, and 2013, respectively.

Wealth at ages 24-26

By ages 24-26, the two older Millennial cohorts (1981-83 and 1984-86) had lower median wealth than their older counterparts had at the same age, falling short by 13 and 10 percent, respectively. The 1987-89 cohort, on the other hand, had 3 percent higher wealth, at $8,800. It seems likely that this is a statistical fluke, as no other Millennial cohort came close to the older groups' wealth median in 2013 (at corresponding ages).

Wealth at ages 27-29

The severity of the recession is reflected in the low median wealth levels of the two older Millennial cohorts observed at ages 27-29. The 1981-83 cohort (observed in 2010) had median wealth of $11,038, falling 38 percent below the median of the older groups. The 1984-86 cohort (observed in 2013) had median wealth of $9,340, falling 48 percent below the older groups' median.

Wealth at ages 30-32

The oldest Millennial cohort (born 1981-83) was in the 30-32 age range in 2013. Their median real wealth of $17,400 was 49 percent below the median wealth of the cohorts born between 1957 and 1980. This means that the oldest Millennials—those entering what should be the prime of their working life and earning potential—have on average amassed half the wealth of previous generations at the same age.

Can Millennials Catch Up?

Life-cycle wealth trajectories are critical for interpreting the experiences of different cohorts. For example, the median real wealth of the 1981-83 cohort (the oldest Millennials) increased by 30 percent between ages 21-23 and 24-26; by 67 percent between ages 24-26 and ages 27-29; and increased again by 58 percent between ages 27-29 and 30-32. These seem like sizable gains, but increased wealth growth is expected given their age and increased earnings. When compared to older cohorts, it appears that Millennials are being left behind on the process of accumulating wealth. During the 12-year period of 2001-2013, the share of the oldest Millennials median wealth versus older cohorts dropped from 134 to 51 percent. This is because the gains for the older groups' median wealth between the respective age groups nearly doubling every three years. Millennials have not kept up this pace and it remains to be seen if Millennials can regain the steep wealth-building trajectory critical for life-long financial security.

Unfortunately, a number of contemporary trends will make the wealth building process more challenging in the future, including the rising cost of higher education; a greater reliance on debt to finance that education; weak labor markets following the recession; the decline of traditional defined-benefit retirement plans; greater income and expense volatility along with more temporary work; uncertainty around homeownership as a route to building wealth; and delayed family formation.

Encouragingly, though, Millennials seem to have learned some lessons from the Great Recession: for example, they generally participate in retirement plans (when offered) at higher rates, tend to save at higher rates and, generally, are financially more risk averse.

Moving forward, public policy needs to account for the unique conditions that Millennials are navigating; the substantial barriers they continue to face as a result of structural changes in the economy, including labor market opportunities and employment practices; as well as the individual characteristics that position this generation to surmount these challenges.

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Endnotes

[1] Board of Governors of the Federal Reserve System, "2013 Survey of Consumer Finances," 2014.

[2] A life-cycle perspective compares a snapshot of all the people in a particular stage of life at one time with the people in that stage of life at a different time. The purpose of this analytical framework is to highlight the factors that are unique to a life stage; factors unique to a particular cohort or generation are kept in the background.

[3] *See* Ray J. Boshara, William R. Emmons, and Bryan J. Noeth, "The Great Recession Casts a Long Shadow on Family Finances," Federal Reserve Bank of St. Louis, *On the Economy*, September 9, 2014.

[4] See the May 2014 conference held at the St. Louis Fed that focused on the Millennial generation.

[5] All figures presented here are from the Survey of Consumer Finances and are adjusted for inflation to be comparable to 2013 levels. The number of observations of any cohort is limited by the coverage of the tri-ennial survey, which runs from 1989 to 2013. The survey does not highlight the historical time period as clearly as the life-cycle framework; nonetheless, period effects are very important to consider.