



How Well Have Middle Class American Families Accumulated Wealth?

Net Worth over the Life Cycle between 1989 and 2007

Robert I. Lerman

Many commentators have worried about the low savings rates and high debt levels of American families. Those who save little, spend nearly all of their income (including capital gains from housing and other assets), and borrow for today's consumption will be unable to accumulate sufficient assets to retire and to achieve gains in living standards. Does this picture of unbridled consumption and low asset accumulation fit the American family? Let's first note that families might indeed consume nearly all of their earned income but still accumulate wealth, if the prices of their homes and other assets go up rapidly and families do not consume these gains. Increases in net worth resulting only from asset price booms can be reversed with a subsequent decline in asset prices. Certainly, the sudden declines in 2008–2009 house prices, stocks, and bonds have sharply reduced American families' wealth. But, did these declines reinforce stagnating wealth or offset solid growth in wealth that took place over the prior two decades?

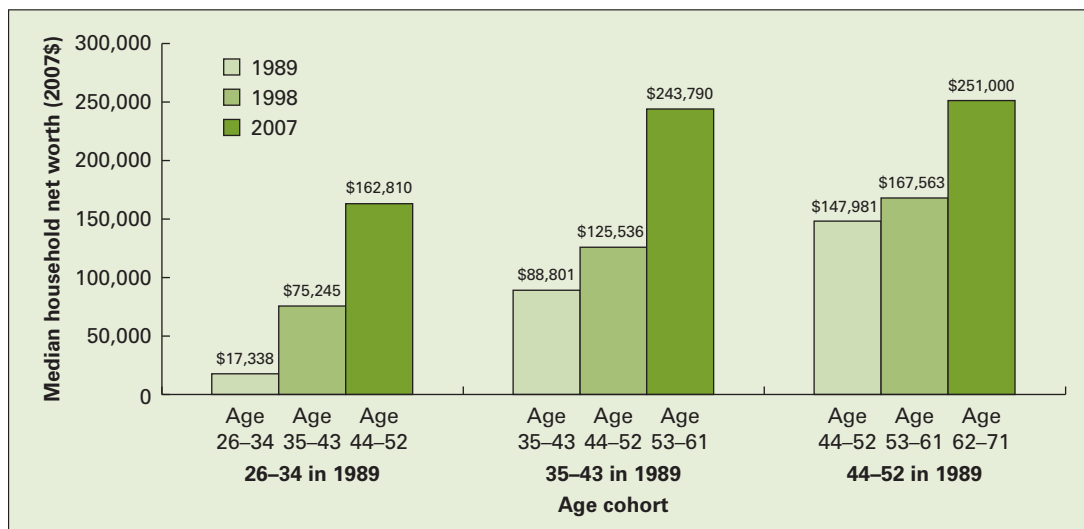
This fact sheet shows that from 1989 to 2007 American families were accumulating wealth at a healthy rate as individuals and families moved through their life cycle. The data come from the 1989, 1998, and 2007 Surveys of Consumer Finances (SCF). Although the SCF does not follow the same families over time, we can replicate family experiences over the life cycle by following age cohorts. The specific comparisons are between the net worth of families headed by people in one age group in 1989 (say, 26–34 year-olds) with the net worth of the same cohort when they were 9 and 18 years older (or 35–43 in 1998

and 44–52 in 2007). The three years (1989, 1998, and 2007) were all at or near business cycle peaks.

Figure 1 reveals that the median family achieved rapid growth over the life cycle in its net worth (all figures are in 2007 dollars). The median net worth of all 26–34 year-olds was only about \$17,300 in 1989. By 2007, when these former 26–34 year-olds reached 44–52, their net worth had jumped more than ninefold to about \$162,800, for a growth rate of over 12 percent per year. The median net worth of the other two age cohorts, those of ages 35–43 and 44–52 in 1989, rose by a slower but still rapid 5.6 percent and a moderate 2.9 percent annual rate, respectively. For the entire 26–52 year-old cohort, median net worth grew at a healthy 7.2 percent annual rate.

At least half of the growth in net worth took place because of rising home prices. Equity in middle-income families' homes accounted for about 50 percent of the added net worth accumulated by the youngest two cohorts (26–34 year-olds and 35–43 year-olds in 1989) and about 65 percent of the added net worth of the oldest cohort (44–52 year-olds in 1989).

FIGURE 1. From 1980 to 2007 U.S. Household Net Worth Rose



Source: Author's calculations based on data from the Survey of Consumer Finances. All survey data adjusted to 2007 dollars.



THE URBAN INSTITUTE

2100 M Street, NW
Washington, DC 20037-1231

Nonprofit Org.
U.S. Postage
PAID
Easton, MD
Permit No. 8098

Return service requested

To download this document,
visit our web site,
<http://www.urban.org>.

For media inquiries, please
contact paffairs@urban.org.

Given the chance, many low-income families can acquire assets and become more financially secure. Conservatives and liberals increasingly agree that government's role in this transition requires going beyond traditional antipoverty programs to encourage savings, homeownership, private pensions, and microenterprise. The Urban Institute's *Opportunity and Ownership Project* policy brief series presents some of our findings, analyses, and recommendations. The author is re grateful to the Annie E. Casey Foundation and the Ford Foundation for funding the policy briefs.

THE URBAN INSTITUTE

2100 M Street, NW
Washington, DC 20037

Copyright © 2009

Phone: 202-833-7200

Fax: 202-467-5775

E-mail: pubs@urban.org

The views expressed are those of the author and do not necessarily reflect those of the Urban Institute, its board, its sponsors, or other authors in the series.

Permission is granted for reproduction of this document, with attribution to the Urban Institute.