A report from THE PEW CHARITABLE TRUSTS | Jan 2015

The Precarious State of Family Balance Sheets

The Pew Charitable Trusts

Susan K. Urahn, *executive vice president*
Travis Plunkett, *senior director*

Project team

Erin Currier
Joanna Biernacka-Lievestro
Diana Elliott
Sheida Elmi
Clinton Key
Walter Lake
Sarah Sattelmeyer

External reviewer

The report benefited from the insights and expertise of Signe-Mary McKernan, senior fellow at the Urban Institute, who commented on an earlier draft. Neither she nor her organization necessarily endorses its conclusions.

Acknowledgments

The financial security and mobility team thanks Pew staff members Daniel Berger, Mark Wolff, and David Merchant for providing valuable feedback on the report. We also thank Dan Benderly, Jennifer V. Doctors, Sara Flood, Bernard Ohanian, Liz Visser, Lisa Plotkin, and Jennifer Peltak for their thoughtful suggestions and production assistance. Many thanks also to other current and former colleagues who made this work possible.

For additional information, please visit:

economicmobility.org

Contact: Mark Wolff, communications director
Email: mwolff@pewtrusts.org
Project website: economicmobility.org

Contents

Overview

The U.S. economy is five years removed from the Great Recession, and most national indicators point to a steadily increasing recovery. The stock market has more than doubled since its low in 2009, housing values have slowly increased nationally, foreclosure rates have declined for four years in a row, and unemployment has continued to trend slowly downward from a high of 10 percent during the recession to the current 5.6 percent.[1] But these aggregate statistics obscure the financial insecurity that many Americans still face.

Between 2010 and 2013, most household incomes fell, particularly among families of color and those without postsecondary education.[2] Over that period, stock ownership decreased for households on all but the top 10 percent of the income ladder, with a particularly steep decline among those on the bottom half.[3] And almost a third of working-age adults reported having no retirement savings or pensions.[4]

It is not surprising, then, that recent public opinion polling found American adults pessimistic and anxious about the economy and their own economic stability. They question whether the American Dream is within reach, and many doubt that their children will fare better than they have.[5]

This report seeks to develop a clear picture of the current state of household financial security. It begins by exploring three components of family balance sheets—income, expenditures, and wealth—and how they have changed over the past several decades, and concludes with an examination of how these pieces interrelate and why understanding family finances requires that they be examined holistically.[6] Taken together, the data in this study reveal a striking level of financial fragility:

- **Although income and earnings have increased over the past 30 years, they have changed little in the past decade.** The typical worker had wage growth of 22 percent between 1979 and 1999 but just 2 percent from 1999 to 2009.
- **Substantial fluctuations in family income are the norm.** In any given two-year period, nearly half of households experience an income gain or drop of more than 25 percent, a rate of volatility that has been relatively constant since 1979.
- **The Great Recession eroded 20 years of consumption growth, pushing spending back to 1990 levels.** Over the 22 years before the start of the downturn, household expenditures grew by 16 percent. But households tightened their purse strings after the start of the recession in 2007, and spending has yet to recover. As a result, the net increase in average annual household spending is just 2 percent since 1990.
- **The majority of American households (55 percent) are savings-limited, meaning they can replace less than one month of their income through liquid savings.** Low-income families are particularly unprepared for emergencies: The typical household at the bottom of the income ladder has the equivalent of less than two weeks' worth of income in checking and savings accounts and cash at home.
- **Even when pooling all of its resources—including from accounts that are potentially costly to access, such as retirement accounts and investments—the typical middle-income household can replace only about four months of lost income.**
- **Most families face financial strain across all balance sheet elements: income, expenditures, and wealth.** In addition to being savings-limited, households face other financial challenges; just under half of families are "income-constrained," reporting household spending greater than or equal to their income; and 8 percent are "debt-challenged," with payments equal to 41 percent or more of their gross monthly income. Fully 70 percent of households face at least one of these problems, with many confronting two or even all three.

The data tell a powerful story about the state of household economic security and opportunity: Despite the national recovery, most families feel vulnerable and stressed, and could not withstand a serious financial emergency. This reality must begin to change if the American Dream is to remain alive and well for future generations.

Examining Family Security and Mobility

Pew is embarking on an ambitious research agenda to investigate the choices and trade-offs that households make to survive and thrive in today's economy and critically examine promising policy innovations that may empower households to save and be more economically secure. As we explore the health and status of family balance sheets, we will provide a nuanced fact base to help policymakers and funders develop a variety of programs and policies that target the various points where Americans families are economically vulnerable.

Income

Although income and earnings have increased over the past 30 years, they have changed little in the past decade

Measuring total household income is a complicated task. Government transfers and taxes can have a significant effect on overall income, and which of those should be counted is a topic of great debate among experts.[7] For instance, some analysts include only those transfers that come in the form of cash, such as public assistance and Social Security; others include the estimated cash value of such assistance transfers as food stamps, housing vouchers, and health insurance. Furthermore, income will be higher or lower for some families after accounting for taxes. As shown in Figure 1, this report uses data from the Congressional Budget Office, which includes both cash and noncash government transfers in its income measure.[8]

Before taking taxes or government transfers into account ("pretax, pre-transfer" in Figure 1), median income has been relatively flat over the past three decades. Conversely, accounting for taxes and transfers ("post-tax, post-transfer") reveals an increase in median household income, underscoring the important role government transfers and taxes play in supporting financial security for the typical American family.[9]

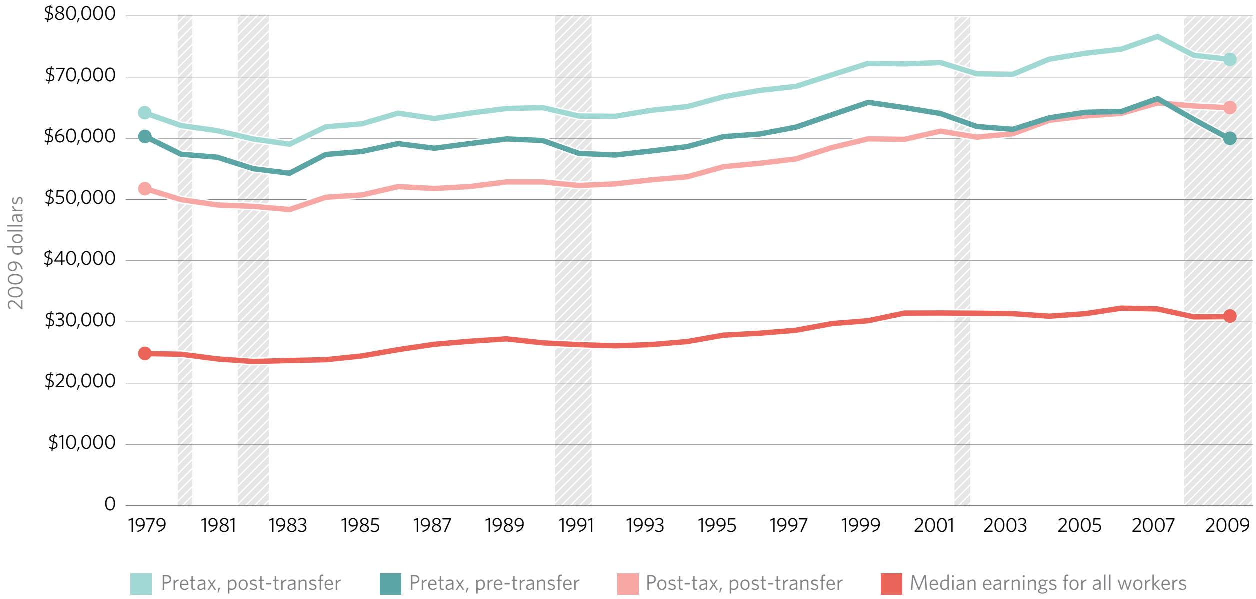
Within the larger category of household income, which includes money coming in from all household members, an important measure of family balance sheets is earnings. Earnings represent wages or salary from employment at the individual level, and illustrate what a typical person is paid in the labor market. Median earnings grew in the 1980s and 1990s but began to stagnate in the 2000s: From 1979 to 1999, the typical worker saw his or her wages grow by 22 percent; but between 1999 and 2009, earnings grew just 2 percent.

> Median earnings grew in the 1980s and 1990s but began to stagnate in the 2000s.

Figure 1

Income and Earnings Increased Slightly Over 3 Decades

Median household income and individual earnings, 1979-2009



Notes: Shaded areas represent National Bureau of Economic Research recessionary periods. Pretax, pre-transfer income is market income, and includes labor income, business income, capital gains, capital income, and other income. Pretax, post-transfer income is market income plus government transfers. Post-tax, post-transfer income is the sum of market income and government transfers, minus federal tax liabilities. Income data are not adjusted for family size. Earnings include wages, salaries, and self-employment income. For more details on these definitions, see the methodology.

Sources: Congressional Budget Office (income data), Current Population Survey (earnings data)

> From 1979 to 1999, the typical worker saw his or her wages grow by 22 percent; but between 1999 and 2009, earnings grew just 2 percent.

Substantial fluctuations in family income are the norm

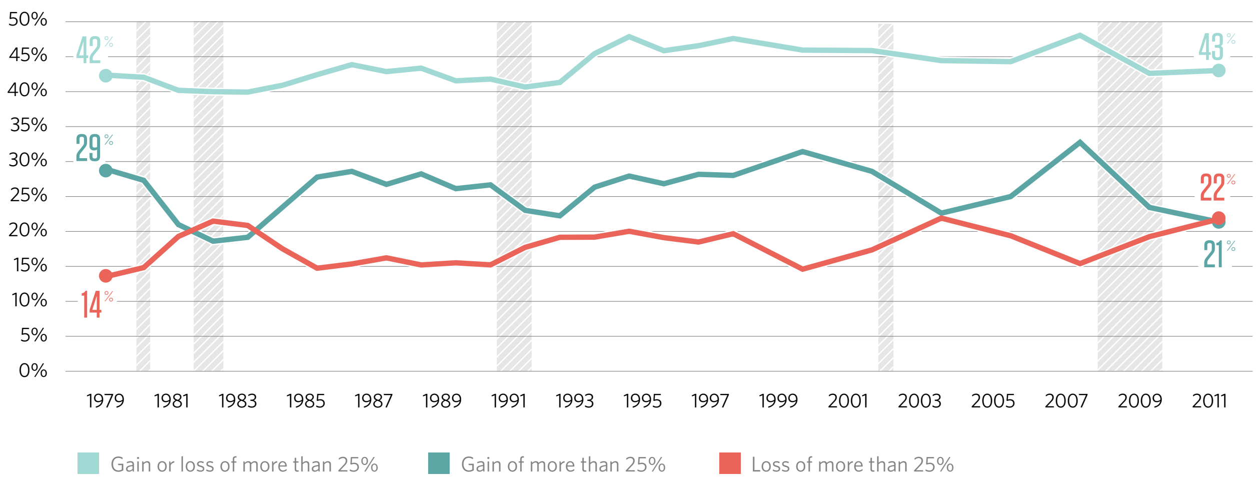
Nearly half of households experienced an income gain or drop of more than 25 percent in a given two-year period, and this rate of income volatility has been relatively stable since 1979.[10] (See Figure 2.) On average, more families experienced an income gain than a drop, but in recent years the frequency of gains and losses has converged and was about the same in 2011.

Unpredictable income can put significant, long-term stress on family balance sheets. Of those experiencing an income drop of more than 25 percent in 1994, a third had still not recovered financially when their income was measured 10 years later.[11]

Figure 2

Rates of Income Volatility Remained Relatively Stable

Share of population experiencing 2-year gains or losses of more than 25%, 1979-2011



Notes: Shaded areas represent National Bureau of Economic Research recessionary periods. Population is restricted to those ages 26 to 59. Income shown is pretax, post-transfer family income. Gain of more than 25 percent plus loss of more than 25 percent may not exactly equal gain or loss of more than 25 percent due to rounding. Income was adjusted to 2011 dollars.

Source: Pew's analysis of Panel Study of Income Dynamics data

Expenditures

The Great Recession eroded 20 years of consumption growth, pushing spending back to 1990 levels

To understand how much the average American household spends each year, it is helpful to view expenditures in two ways: "current" dollars, which are not adjusted for the effects of inflation, and "constant" dollars, which are.[12] Current dollars reflect how much households are spending in absolute terms and therefore demonstrate the magnitude of consumption growth over time. Constant dollars show in the aggregate how households have adjusted their spending over time, with the variation reflecting the strength or weakness of the economy as a whole: When the economy grows, households tend to spend more money; and when the economy contracts, households are generally more financially conservative. Figure 3 shows the change in spending over time according to these two measures.

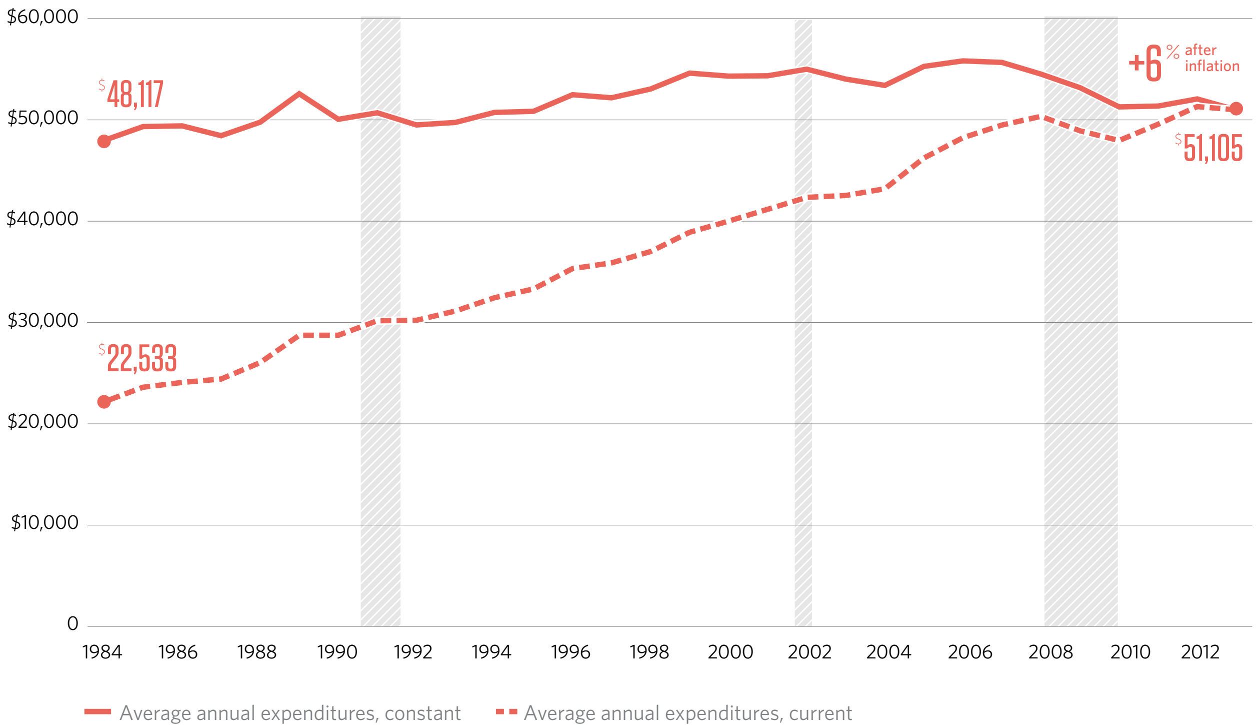
In current dollars, expenditures steadily increased each year since 1984: The average household spent about $22,000 in 1984 and approximately $51,000 in 2013. However, this research does not show whether households are buying more because their disposable income is higher or because prices for fixed expenses such as rent, insurance, and utilities have gone up.[13]

By contrast, average annual household expenditures in constant dollars show only modest change over the past several decades, increasing 6 percent since 1984 and just 2 percent since 1990. But this result is largely due to the outsized impact of the Great Recession. During the 22 years before the start of the downturn, household expenditures grew 16 percent, with 69 percent of that growth (11 percent) occurring between 1990 and 2006.[14] Since the start of the recession in 2007, American households have tightened their purse strings, reducing spending by almost 9 percent.[15] Further, the typical rebound in expenditures following recessionary periods (marked by vertical shaded lines in Figure 3) has not occurred since the end of the latest recession. This delayed recovery in consumer spending is probably a reflection of constrained consumer credit, pessimism about future earnings, and a reduction in disposable income and wealth in the aggregate.[16]

Figure 3

Inflation-Adjusted Spending Increased 6% Over Nearly 30 years

Average total annual expenditures in current and constant dollars, 1984-2013



Notes: Shaded areas represent National Bureau of Economic Research recessionary periods. A consumer expenditure is the purchase of goods and services by consumers not including payment of principle on mortgages. Examples include home repair, transportation, education-related costs, entertainment, medical services, health insurance premiums, groceries, and clothing, among many others. Constant dollar expenditures are shown in 2013 dollars.

Source: Pew's analysis of Consumer Expenditure Survey data

More than 80 percent of household spending falls into six categories, with housing being the largest

Six categories—housing, transportation, food, health care, entertainment, and insurance/pensions—made up the vast majority of household spending since 1984. (See Figure 4.) The proportion of spending that each category represents has changed over time. But for the average household, expenditures for housing, health care, and personal insurance and pensions have grown the most relative to other areas, while food, entertainment, and transportation have decreased or stayed relatively flat.[17]

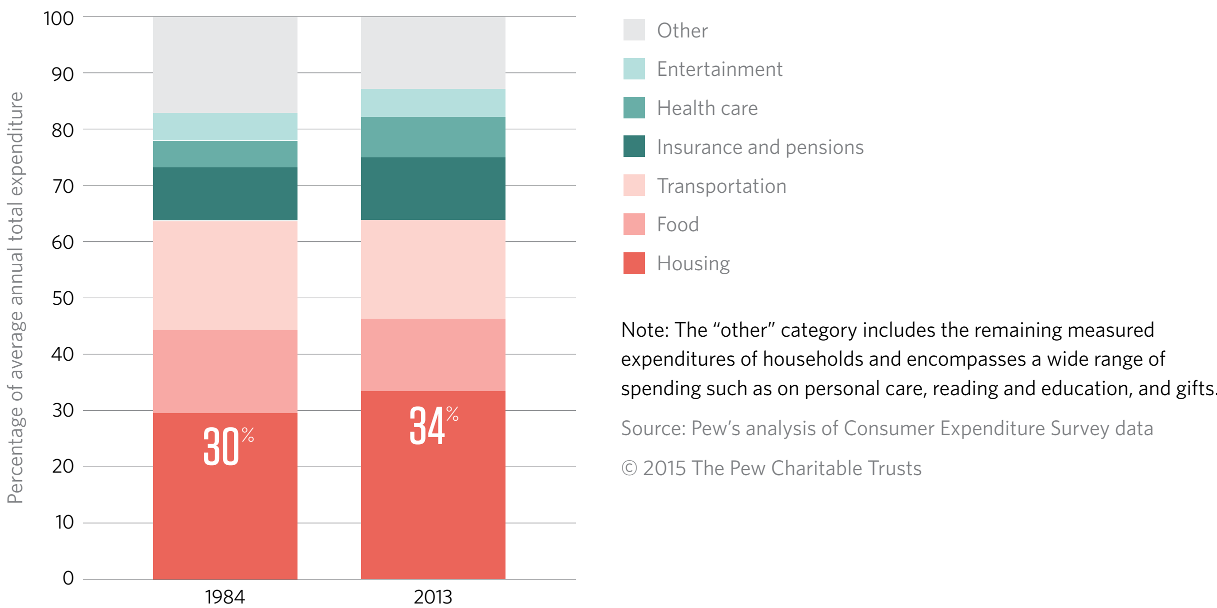
Increases in these expenditures have occurred for a variety of reasons, some well-understood and some not. For example, research on health care spending indicates that growth in this area is driven by technological advances, an aging population, and rising rates of chronic health conditions; other market, demographic, and medical factors also influence regulatory requirements and health care payments.[18]

Changes in the proportion of spending by category have not been uniform across income quintiles. For example, housing costs comprise 31 percent of average annual expenditures for a household in the top income quintile but 40 percent for a household in the bottom quintile.

Figure 4

Housing Remains Americans' Largest Expenditure

Proportion of total annual expenditures by category, 1984 and 2013



Note: The "other" category includes the remaining measured expenditures of households and encompasses a wide range of spending such as on personal care, reading and education, and gifts.

Source: Pew's analysis of Consumer Expenditure Survey data

> Housing costs comprise 31 percent of average annual expenditures for a household in the top income quintile but 40 percent for a household in the bottom quintile.

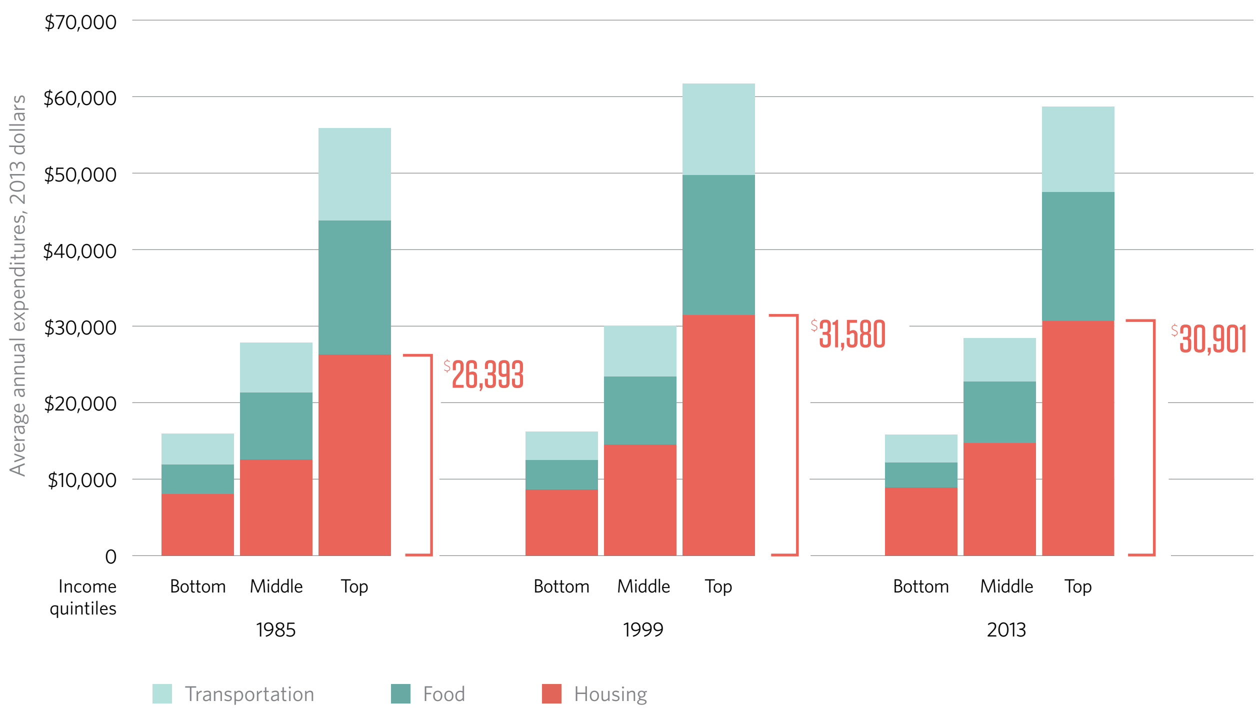
Expenditures vary considerably along the income ladder, with those at the top spending more on housing alone than those in the middle and bottom spend on all core needs combined

In constant dollars, the amount that households at the bottom, middle, and top spend on core needs has changed very little over time. (See Figure 5.) However, across the income distribution, spending on housing, food, and transportation shows significant variation. In 1999 and 2013, the top quintile's spending on housing alone outpaced what the middle quintile spent on all core needs, and in turn, the middle quintile spent nearly as much on housing as those at the bottom spent in total across these categories.

Figure 5

Americans at the Top Spend More on Housing Than Those at the Bottom and Middle Spend on Housing, Food, and Transportation Combined

Average annual expenditures in select categories by income quintile, 1985, 1999, and 2013



Source: Pew's analysis of Consumer Expenditure Survey data

> In 1999 and 2013, the top quintile's spending on housing alone outpaced what the middle quintile spent on all core needs.

Wealth

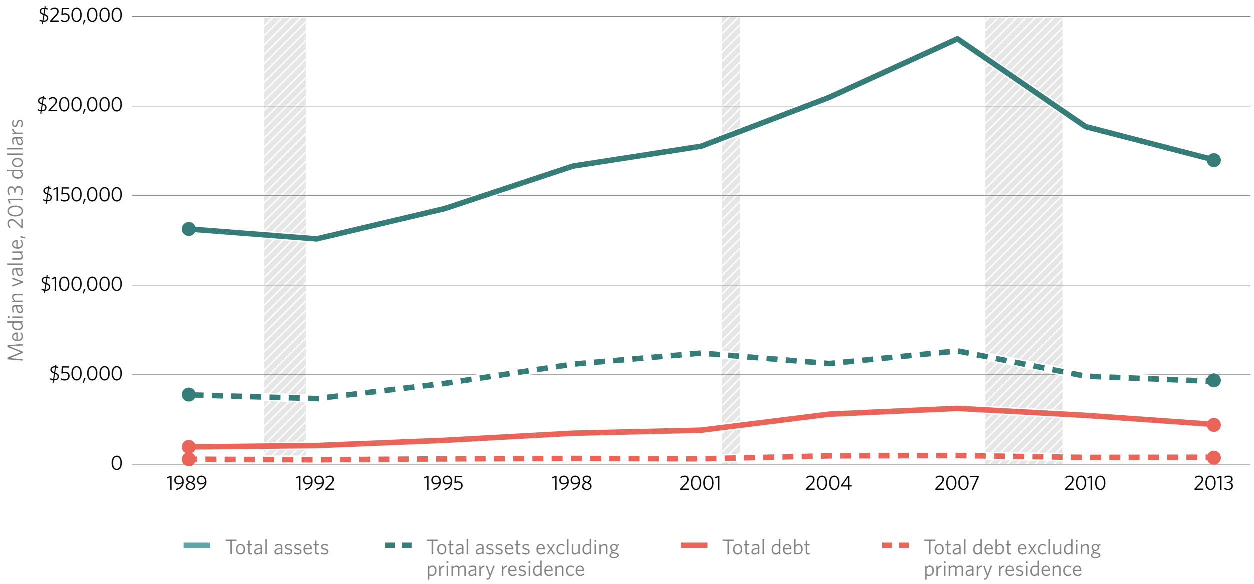
The wealth of the typical household grew over the past two decades

Thinking about a family's balance sheet, income represents inflows of money to the household, expenditures are the outflows (including paying off debt), and wealth is the assets that households retain. Wealth is defined as total assets minus total debts.[19] Since 1989, the median value of American households' assets has grown, outpacing the increase in total debt for the typical family. (See Figure 6.) However, this wealth gain was largely fueled by home values before the Great Recession, much of which was lost during the downturn. Still, the wealth of the typical household in 2013 was higher than in 1989.

Figure 6

The Typical Household's Wealth Grew Over the Past 2 Decades

Median values of assets and debts, with and without primary residences, 1989-2013



Notes: Shaded areas represent National Bureau of Economic Research recessionary periods. However, because data are collected triennially, all measurement points may not correspond exactly to the NBER start and end dates. Mortgages, home equity loans, and home equity lines of credit are included in debt on primary residence.

Source: Pew's analysis of Survey of Consumer Finances data

> The wealth gain of the typical American family was largely fueled by home values before the Great Recession, much of which was lost during the downturn.

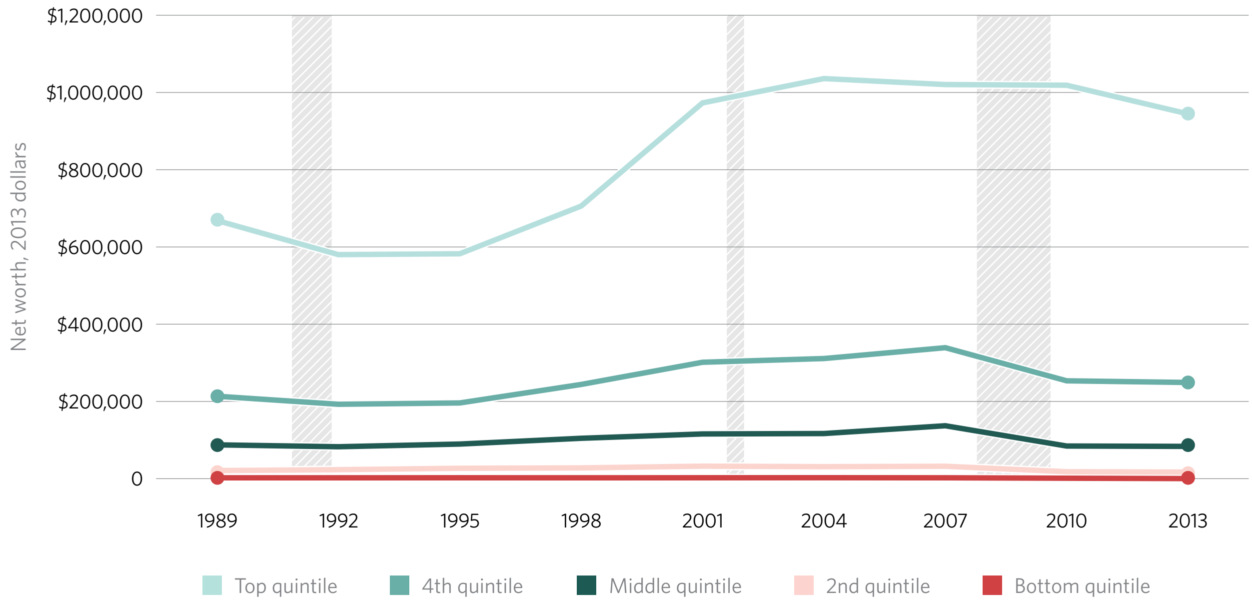
Gains in wealth have not been shared equally

Although overall wealth has grown, an examination of the wealth distribution reveals a markedly different story across quintiles. After a slight decline starting in 1989, the typical household at the top saw its wealth grow substantially between 1995 and 2004. To a limited extent, households in the fourth wealth quintile shared in this prosperity. But after the recession, median wealth of that group was only slightly above 1989 levels. Wealth for typical households at the bottom remained flat, with any earlier gains lost during the Great Recession. (See Figure 7.) In 2013, the median household in the bottom quintile had about the same amount of wealth as in 1989.

Figure 7

The Bottom 3 Quintiles Gained Little Wealth Over the Past 20 Years

Median net worth by wealth quintile, 1989-2013



Notes: Shaded areas represent National Bureau of Economic Research recessionary periods. However, because data are collected triennially, all measurement points may not correspond exactly to the NBER start and end dates. The increase in net worth in the late 1990s is often attributed to the rapidly rising value of stock equity and the concentration of assets of this type among households with higher net worth. Net worth, often referred to as wealth, is defined as the sum total of a household's assets less the sum total of its liabilities.

Source: Pew's analysis of Survey of Consumer Finances data

> In 2013, the median household in the bottom quintile had about the same amount of wealth as in 1989.

Among households in the middle, most wealth is in housing

For households in the middle of the wealth distribution, housing accounts for the largest share of both assets and debt.[20] (See Figure 8.) The middle quintile has few liquid savings or financial assets, although retirement savings have grown as a share of total assets. Notably, the middle wealth quintile's holdings of both assets and debts increased until 2007 but have declined since the recession.

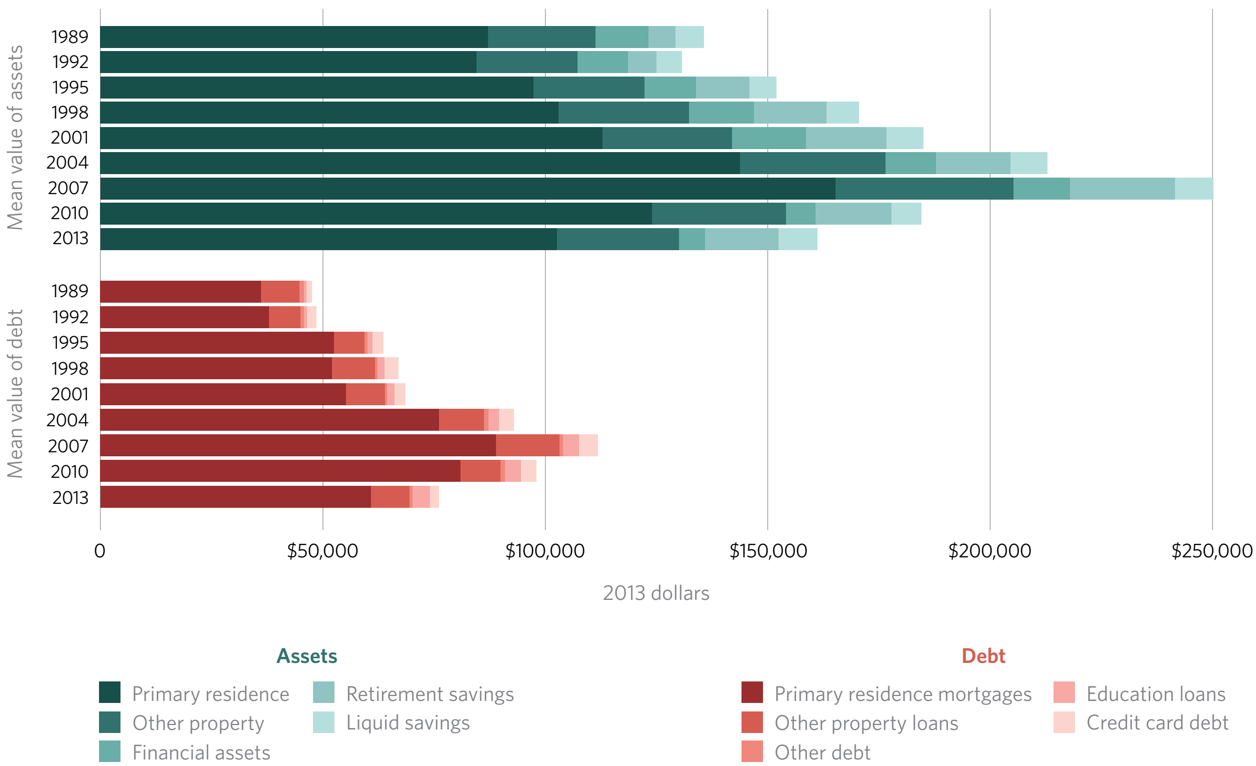
Importantly, the data only capture assets on the balance sheet, meaning that other retirement resources that could bolster the reserves of many households, such as defined-benefit pensions and potential Social Security payments, are not included. Similarly, households may have access to credit that could provide them with greater spending power or financial security than their balance-sheet assets suggest.

On the debt side, credit card and student loan debt have grown since 1989, but credit card debt has shrunk somewhat since the recession. Still, for those in the middle, housing remains their greatest source of debt.

Figure 8

Housing Dominates the Average Middle-Wealth Household's Balance Sheet

Mean value of assets and debt among households between the 40th and 60th net worth percentiles, by type, 1989-2013



Notes: Primary residence refers to the home one resides in. Other property refers to physical property of value such as cars, boats, or land. Retirement savings include the current cash value of retirement-specific savings products such as IRAs and 401(k)s, but does not include Social Security or defined benefit pensions a household may expect to have. Liquid savings include cash and the value in checking and savings accounts. Financial assets include all other financial assets outside of retirement and liquid savings, such as stocks, bonds, certificates of deposit, or money market accounts.

Source: Pew's analysis of Survey of Consumer Finances data

Most American households are savings-limited, meaning they can replace less than one month of their income through liquid savings

One critical component of wealth is readily accessible liquid savings, such as money in checking and savings accounts, which families can draw on in a financial emergency. Financial advisers often recommend that people keep three to six months of income in liquid savings as a precaution. But at all levels of income, most Americans do not have the recommended amount of savings. (See Figure 9.)

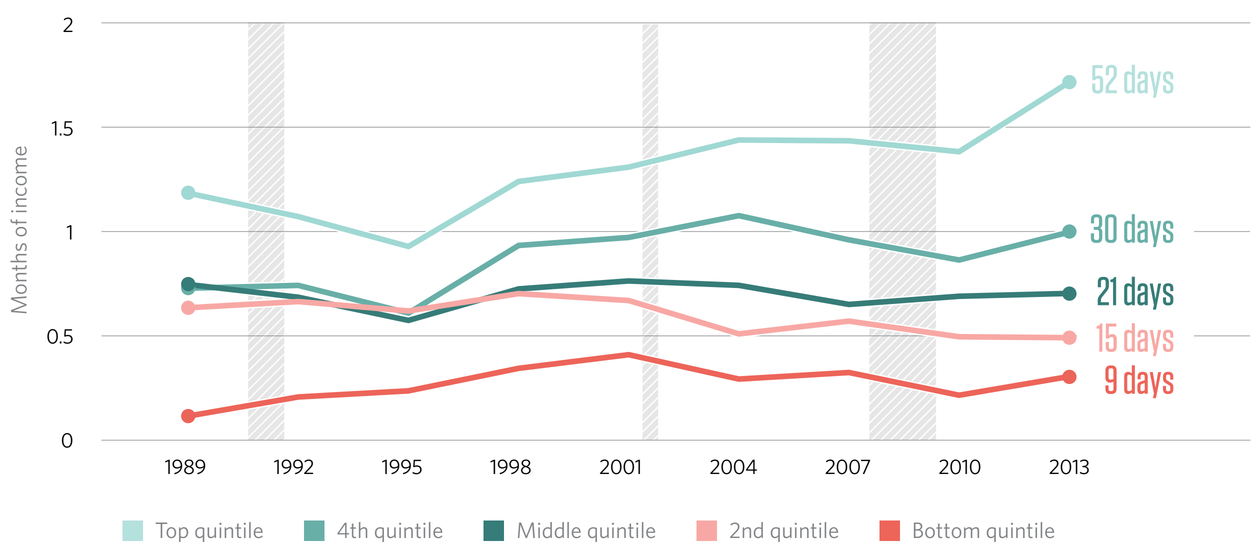
The typical household at the bottom has access to less than two weeks' worth of income in checking and savings accounts and cash at home. It is important to note, however, that some or all of those funds may be earmarked for upcoming regular expenses such as food or housing.

In the higher income quintiles, households maintain larger reserves of liquid savings and may have greater access to credit and other resources in an emergency. Still, even for these relatively advantaged populations, the easy access and low cost of liquid savings can be beneficial, and households may benefit from maintaining larger amounts than are observed in this population.

Figure 9

At All Income Levels, Households Could Not Replace 2 Months of Income With Liquid Savings

Median months of income in liquid savings by income quintile, 1989-2013



Notes: Shaded areas represent National Bureau of Economic Research recessionary periods. However, because data are collected triennially, all measurement points may not correspond exactly to the NBER start and end dates. Liquid savings include cash and the value in checking and savings accounts and represent the funds that a household can access directly, with no or low transaction costs, when needed. Months of income is the ratio of the value of liquid savings to monthly gross income from all sources. Days of income in liquid savings assume 30-day months. Liquid savings are shown in 2013 dollars.

Source: Pew's analysis of Survey of Consumer Finances data

Even when pooling all of its financial resources, the typical household could replace only about four months of lost income

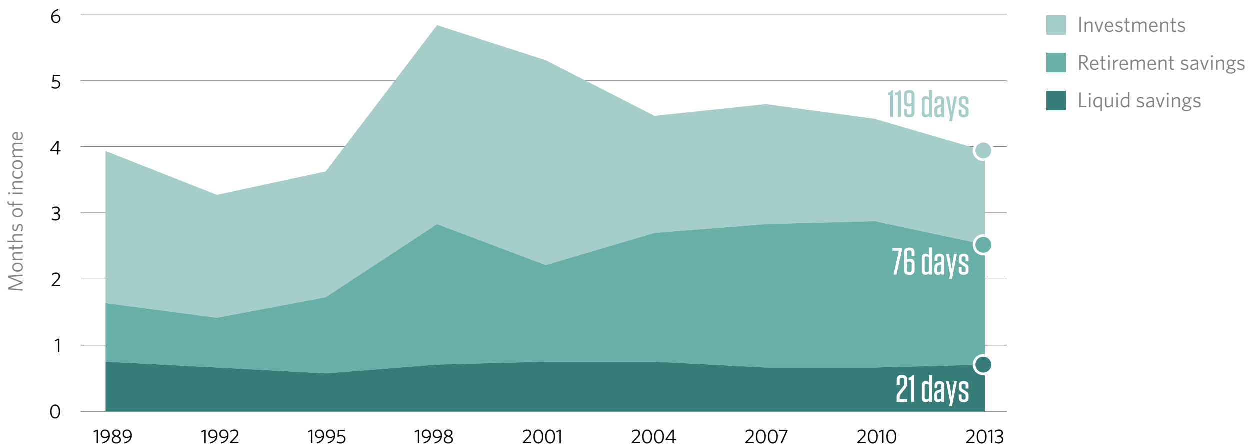
In an emergency, households that do not have sufficient liquid savings may turn to less liquid resources to make ends meet. For example, they could take on debt through the use of formal and informal credit, or, though it takes time and results in additional costs, they could liquidate investments and savings in accounts dedicated for retirement. But even when including all financial resources, many households are unprepared for emergencies.

In 2013, a financial shock consuming the equivalent of approximately four months of income would have erased the positive side of the balance sheet for the typical American household.[21] (See Figure 10.) What's more, those on the bottom half of the income ladder—whose access to credit, savings, and investment options are much more limited—would face even greater challenges than those in the middle.

Figure 10

The Typical Middle-Income Household Is Unprepared for a Major Economic Shock

Median months of income in liquid savings, retirement savings, and investments for the middle quintile, 1989-2013



Notes: The categories of assets represented are, for most households, the totality of the resources that they can quickly access as cash. Though retirement savings and investments may incur delays, taxes, and other transactions costs, many households report using them in response to financial shocks. Medians are nonadditive; the median of liquid savings plus the median of retirement savings does not equal the median of (liquid savings plus retirement savings). In this figure, the upper bound of the bottom section is the median level of liquid savings. The upper bound of the middle section is the median of the sum of liquid savings and retirement savings. The upper bound of the top section is the median of the sum of liquid savings, retirement savings, and investments. Days of income in liquid savings assume 30-day months. Income is in 2013 dollars.

Source: Pew's analysis of Survey of Consumer Finances data

Putting the pieces together provides a startling picture of household financial fragility

This report has thus far examined three separate components of family balance sheets—income, expenditures, and wealth—individually. Although this exercise is informative, families rarely think about their balance sheets in such a compartmental way. Rather, they feel financially secure or insecure depending on how these components overlap.

Unfortunately, a majority of American families are experiencing financial strain at the intersection of these balance sheet elements:

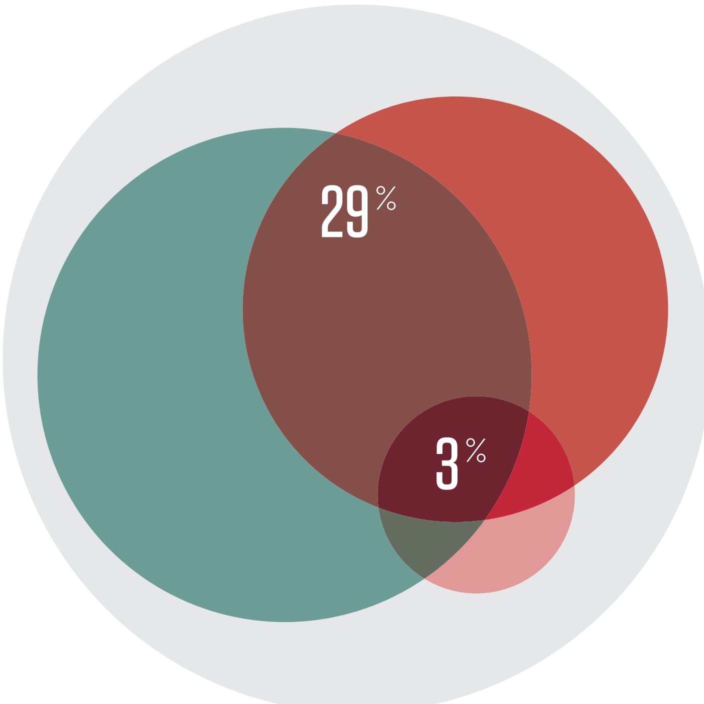
- Almost 55 percent of households are savings-limited, meaning they cannot replace even one month of their income through liquid savings (money in cash, checking accounts, and savings accounts).[22]
- Just under half of households are income-constrained, meaning they perceive that their household spending is greater than or equal to their household income.[23]
- And 8 percent are debt-challenged, which means they report debt-payment obligations that are 41 percent or more of their gross monthly income.[24]

Seventy percent of U.S. households face at least one of these three challenges, and more than a third face two or even all three at the same time. (See Figure 11.) These statistics have been fairly stable, including before and during the recent recession.

Figure 11

Most Households Are Facing a Financial Challenge

The intersections among savings-limited, income-constrained, and debt-challenged households in 2013



Notes: The perimeter of the largest circle is sized proportionally to represent 100 percent of the population. The circle representing each financial challenge is drawn proportional to its incidence in the population. The spaces where the circles overlap are proportional to the joint incidence of the financial challenges in the population.

Source: Pew's analysis of Survey of Consumer Finances data

Conclusion

Previous Pew research has shown that family finances are a critical component of future economic mobility, not just for individuals but also for their children. However many families, even those with relatively high incomes, are walking a financial tightrope, and have little, if any, cushion to absorb an unexpected financial emergency. What's more, this is not a new phenomenon. While the most recent recession shined a spotlight on the fragility of family balance sheets, the downturn alone did not cause households' financial insecurity; many of the indicators explored here have been stable for the past 30 years.

No single solution exists for stabilizing family balance sheets. Putting families on solid financial footing and the road to upward economic mobility will require a selection of thoughtful and strategic policy interventions. As policymakers strive to increase opportunity for all Americans, policies and programs that support asset accumulation will be key. These efforts will also require careful design and rigorous evaluation to ensure that they are effective in helping families improve all elements of their balance sheets.

Appendix: Methodology

To show the current and historical financial state of American families, this analysis draws from multiple nationally representative data sources, each uniquely suited to studying income, expenditures, or wealth. This section describes these sources and explains the figures created from each one.

All dollar amounts have been adjusted for inflation using the Bureau of Labor Statistics' Consumer Price Index Research Series Using Current Methods (CPI-U-RS) deflators. Throughout the document, wealth is used to denote net worth, which is defined as the sum total of a household's assets less the sum total of its liabilities. Assets and liabilities are summed from component parts. All values for asset and debt components represent the self-reported values respondents provided for their households.

In several instances (Figures 5, 7, 8, 9, and 10), the data are presented using income or wealth quintiles: The respective income or wealth distribution is first divided into five equal parts. The quintile represents a household's standing relative to other households at the same point in time.

The following sections detail the decisions and methods that were used for each data set to arrive at the results of this analysis.

Congressional Budget Office analyses and Current Population Survey data

Figure 1 was created from data published by two data sources: the CBO and the CPS. To show income before and after taxes and government transfers, this figure draws upon data that the CBO sourced, constructed, and published.[25] Its income data are based on the Statistics of Income from the Internal Revenue Service, a nationally representative sample of income tax returns, as well as matched demographic data records from the CPS.

Having detailed income tax return data allows the CBO to construct three measures of income. First, pretax, pre-transfer household income (or "market income") includes labor, business, capital, and other income, as well as capital gains. Next, pretax, post-transfer household income (or "market income" plus government transfers) includes pretax household income as well as income from government programs such as Social Security, Unemployment Insurance, and Temporary Assistance for Needy Families, as well as the estimated cash value of received in-kind benefits such as Medicare, Medicaid, and the Supplemental Nutrition Assistance Program (SNAP). Finally, post-tax, post-transfer household income includes the value of market and government transfer income, less any federal taxes that were withdrawn. Of note, the CBO's estimations of the cash value of in-kind benefits such as Medicare, Medicaid, and SNAP are based on assumptions about their worth. Although it could be argued that such programs are not equivalent to cash income, they are treated as such by the CBO in post-transfer estimates.

The income data for Figure 1 are pulled directly from Supplemental Table 5, "Median Household Income, 1979 to 2009," from the CBO's "Distribution of Household Income and Federal Taxes, 2008 and 2009" (July 10, 2012), http://www.cbo.gov/publication/43373. The CBO data were originally published with the personal consumption expenditures (PCE) deflator applied to them. To have consistency across the chart book, CBO income data were transformed to remove the PCE deflator and apply CPI-U-RS deflators.

The earnings data for Figure 1 are from the U.S. Census Bureau's historic income table for all races, Table P-43, "Workers (Both Sexes Combined—All) Median and Mean Earnings: 1974 to 2013," https://www.census.gov/hhes/www/income/data/historical/people. Data points are from 1979 to 2009. Dollar amounts for income and earnings were adjusted for inflation and are expressed in 2009 dollars.

Panel Study of Income Dynamics data

Figure 2 was created from Pew's analysis of PSID data collected by the University of Michigan. Individuals ages 26 to 59—those in their prime working years—were selected from PSID public data files for every year from 1979 to 1997 and then biennially through 2011. To have a consistent comparison over time, samples introduced to the PSID in the 1990s (including the immigrant and Latino samples) were excluded from this study. Individuals were also excluded if they were not viewed as a part of the full PSID sample and were thus not followed in later years.

Figure 2 represents two-year changes of more or less than 25 percent of total family income for individuals from 1979 to 2011. Total family income in the PSID includes the labor income of all members of the household, as well as any government transfer or Social Security income. If income data for an individual was missing for either the start or end point in a given two-year data interval, that person was not included in the results for that year.

Consumer Expenditure Survey published summary data

Figures 3, 4, and 5 were created using data from the Bureau of Labor Statistics' Consumer Expenditure Survey. The BLS CE data were constructed using consumer and household responses from two surveys that collect information about consumers' perceptions of their personal spending habits and income. The data for this analysis were accessed through the CE annual calendar year tables, using the quintiles of income-before-taxes tables for 1984 through 2013. The data were downloaded from http://www.bls.gov/cex.

Figures 4 and 5 examine annual expenditures by specific categories, defined by the BLS as follows:

- Food includes all household spending for food consumed at and away from home, including meals for pay.
- Housing includes all expenditures for shelter, utilities (fuel oil, electricity, water, etc.), property taxes, mortgage interest, repairs, maintenance, rent, and other household costs related to occupying a dwelling except for mortgage principal payments, which are substituted for using rent equivalency.
- Transportation includes all costs related to owning, leasing, renting, and maintaining a vehicle for legal operation and costs related to the use of public transportation, excluding tolls.
- Health care includes expenditures for health care, health insurance premiums, medical services, prescriptions, and medical supplies.
- Entertainment includes fees for admission, electronics purchases (such as TVs, radios, portable audio players, etc.), and expenditures related to pets, playgrounds, and other forms of entertainment not specified.
- Insurance and pensions includes payments made to Social Security, life insurance plans, other nonhealth personal insurance, and retirement accounts.

Survey of Consumer Finances

Figures 6 through 11 use data from the Federal Reserve Board of Governors' Survey of Consumer Finances (SCF), which are collected triennially with the aim of assessing the finances of American households. In each year of the survey, a new sample of the population is drawn. The data used were the summary extract public data files for 1989 through 2013.[26] The Fed's sample weights were applied to make the data set nationally representative. Because the 1989 through 2010 data files contained monetary values denominated in 2010 dollars, these values were adjusted for inflation and are expressed in 2013 dollars.

The Fed imputes all missing survey data and releases each year's data as five complete versions of the same data set. The analyses were performed on each version and are then integrated into the final figures presented. In

Figures 7, 8, 9, 10, and 11, the income and wealth quintiles are identified within each of the five data sets for each year. A given household, then, could be identified in different quintiles in different versions of the data set, and the thresholds between quintiles may vary both by year and by version.

In the SCF, the level of analysis is the primary economic unit and represents the economic activity of a family household. Pew follows the convention of referring to the primary economic unit as a household in the presentation of findings.

In Figure 6, the data points are median values for each year of the survey. Total assets, excluding primary residence, is the total value of assets, less the value of the household's home (if owned). Total debt excluding primary residence is the total value of liabilities, less the value of debt held on the household's primary residence, including any outstanding mortgages, home equity loans, and home equity lines of credit.

The asset and debt categories presented in Figures 8, 9, and 10 are defined in Table A.1 below.

Table A.1

Assets		Debt	
Primary residence	• Respondent's perception of the current market value of household's primary residence (if owned)	**Primary residence mortgage(s)**	• Mortgage loan(s) • Home equity lines of credit • Home equity loans
Other property	• Vehicles • Other residential real estate • Nonresidential real estate • Business assets • Other nonfinancial assets	**Other property loans**	• Loans on vehicles • Loans on property other than the primary residence • Other installment loans
Financial assets	• Certificates of deposit • Mutual funds • Stocks • Bonds • Savings bonds • Cash value of life insurance • Other managed assets • Other financial assets	**Other debt**	• Other debt • Other lines of credit
Retirement savings	• Individual retirement accounts • Keogh accounts • Thrift savings accounts • Future pensions • Currently received pensions	**Education loans**	• Education loans (subsidized and unsubsidized)
Liquid savings	• Cash • Checking accounts • Savings accounts • Money market accounts • Call accounts at brokerages	**Credit card debt**	• Outstanding credit card balances that revolve month to month

In Figures 9 and 10, income is the respondent's self-reported total, pretax income from all sources in the calendar year before the survey wave (e.g., 2013 respondents reported 2012 income). Monthly income is generated by dividing income by 12.

In Figure 10, medians are nonadditive; the median of liquid savings plus the median of retirement savings does not equal the median of the sum of liquid savings plus retirement savings. In Figure 11, households are considered income-constrained if they report spending that equaled or exceeded their income. This is a perceptual measure of the respondent's income sufficiency. Respondents were not asked this question until 1992, so data for this question are not available for the 1989 wave of the SCF.

Endnotes

1 The Dow Jones industrial average hit a low of 6,547 points March 9, 2009. At the time of this writing, the Dow was above 16,000 points. See CNN, "Markets Overview," accessed Oct. 10, 2014, http://money.cnn.com/data/markets. For foreclosure rates, see the S&P/Experian First Mortgage Default Index at http://us.spindices.com/indices/specialty/sp-experian-first-mortgage-default-index, accessed Nov. 1, 2014. Unemployment rate taken from the Bureau of Labor Statistics' Employment Situation Summary, Jan. 9, 2015, http://www.bls.gov/news.release/empsit.nr0.htm.

2 Jesse Bricker et al., "Changes in U.S. Family Finances From 2010 to 2013: Evidence From the Survey of Consumer Finances," *Federal Reserve Bulletin,* 100, no. 4 (September 2014), http://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf.

3 Ibid.

4 Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2013* (July 2014), http://www.federalreserve.gov/econresdata/2013-report-economic-well-being-us-households-201407.pdf.

5 See, for example, Pew Research Center, *Emerging and Developing Economies Much More Optimistic Than Rich Countries About the Future* (Oct. 9, 2014), http://www.pewglobal.org/2014/10/09/emerging-and-developing-economies-much-more-optimistic-than-rich-countries-about-the-future; and CNN and ORC International, "CNN/ORC Poll" (June 4, 2014), http://money.cnn.com/2014/story-supplement/cnn-orc-poll.pdf?iid=EL.

6 This report uses the Survey of Consumer Finances, the Current Population Survey, the Consumer Expenditure Survey, and the Panel Study of Income Dynamics to evaluate the health and status of American family finances. Details on these data sets can be found in the methodology section.

7 Different deflators—statistical methods that convert current dollars into inflation-adjusted dollars in order to compare prices over time—also have an impact on the median income trend line. This chart book uses the CPI-U-RS, but using the PCE deflator shows higher income growth over time.

8 See the methodology section for more information on CBO's income measure.

9 Notably, these measures do not account for shifting household and labor force composition over this period, such as changes in family size, number of household earners, or rates of single parenthood, which add further complexity to income and earnings patterns.

10 See also Steven J. Rose and Scott Winship, *Ups and Downs: Does the American Economy Still Promote Upward Mobility?* The Pew Charitable Trusts (June 2009), http://www.pewtrusts.org/~/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/EMP20Ups20and20Downs20Full20Reportpdf.pdf.

11 Ibid. Adults recovered financially once their income returned to its prerecession level.

12 For more on the difference between current and constant dollars, see the methodology section.

13 Here, "household" is used to indicate a consumer unit. The Consumer Expenditure Survey defines a consumer unit as any of the following: "(1) All members of a particular household who are related by blood, marriage, adoption, or other legal arrangements; (2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or (3) two or more persons living together who use their incomes to make joint expenditure decisions. Financial independence is determined by spending behavior with regard to the three major expense categories: housing, food, and other living expenses. To be considered financially independent, the respondent must provide at least two of the three major expenditure categories, either entirely or in part." For more information, see the Consumer Expenditure Survey glossary at http://www.bls.gov/cex/csxgloss.htm.

14 However, some economists posit that among middle-income households, much of the increase in consumption prior to the height of the Great Recession was fueled by debt as homeowners leveraged home equity. See, for example, Atif Mian and Amir Sufi, "House Prices, Home Equity-Based Borrowing, and the US Household Leverage Crisis," *American Economic Review* 101, no. 5 (2011): 2132–56, doi:10.1257/aer.101.5.2132; and Atif Mian and Amir Sufi, "Household Leverage and the Recession of 2007–09," *IMF Economic Review*, 58, no. 1 (2010): 74–117, doi:10.1057/imfer.2010.2.

15 However, changes in expenditures are not uniform across all income quintiles. In 2013, the lowest income quintile spent nearly 4 percent less than in 1984, suggesting that this income group has experienced reductions in living standards as compared with higher income groups during the same period. Between 1990 and 2006, the average household increased its spending by 16 percent, while the lowest quintile increased spending by just over 1 percent. In the same period, the spending of the highest income quintile grew by nearly 22 percent.

16 See Jonathan McCarthy, "The Slow Recovery in Consumer Spending" *Liberty Street Economics* (blog), Federal Reserve Bank of New York (Aug. 6, 2014), accessed Dec. 1, 2014, http://libertystreeteconomics.newyorkfed.org/2014/08/the-slow-recovery-in-consumer-spending.html#.VHx6LPnF_AQ; Congressional Budget Office, "What Accounts for the Slow Growth of the Economy After the Recession?" (November 2012), https://www.cbo.gov/sites/default/files/43707-SlowRecovery.pdf; and LaVaughn Henry, "Consumer Spending Reflects New Priorities After the Recession," Federal Reserve Bank of Cleveland (Feb. 5, 2014), accessed Dec. 1, 2014, https://www.clevelandfed.org/Newsroom%20and%20Events/Publications/Economic%20Trends.

17 The insurance and pensions category includes payments made to Social Security, life insurance policies, other nonhealth insurance, and retirement accounts.

18 See, for example, Bipartisan Policy Center, *What Is Driving U.S. Health Care Spending? America's Unsustainable Health Care Cost Growth* (September 2012), http://bipartisanpolicy.org/wp-content/uploads/sites/default/files/BPC%20Health%20Care%20Cost%20Drivers%20Brief%20Sept%202012.pdf.

19 Assets refer to physical property, such as real estate, vehicles, and farms or businesses, as well as financial "property," such as the value of checking or savings accounts, stocks, and individual retirement accounts.

20 Figure 8 examines the assets and debts of households between the 40th and 60th percentiles of wealth. Pew used these percentiles to reduce the influence of outlying values such as households reporting unusually large levels of assets or liabilities on estimates. Using the middle quintile allows an examination of means instead of medians. This is crucial because many households do not own assets and debts in all of the categories studied, choosing to concentrate their holdings in fewer classes. For instance, most households do not owe student loans, and a bare majority own retirement accounts. Thus, medians tend to understate the role of an asset class in household balance sheets.

21 The increase in investments and retirement savings observed between 1995 and 1998 is probably related to the large gains in stock markets generally in this period. See Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results From the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, 86 (2000), 1, http://www.federalreserve.gov/econresdata/scf/files/1998_bull0100.pdf.

22 Less than a quarter of households in 2013 had liquid savings equal to three months of household income, the level recommended by financial planners. Savings-limited should not be confused with the concept of "liquid asset poverty," having savings less than the value of three months of poverty-level income, used by the Corporation for Enterprise Development in its "Assets & Opportunity Scorecard" (http://scorecard.assetsandopportunity.org/2014/measure/liquid-asset-poverty-rate).

23 The Survey of Consumer Finances question asks, "Over the past year, would you say that your (family's) spending exceeded your (family's) income, that it was about the same as your income, or that you spent less than your income?" Pew defines respondents who answer "about the same" and "spending exceeded … income" as income-constrained.

24 The calculation of the debt-service-to-income ratio presented here diverges from the estimate used by loan officers in that this analysis relies on respondent reporting of current loan servicing obligations rather than the amount that would be required to retire the principal of the debt on schedule. The latter value is not calculable from available data. The 41 percent cutoff is used by the Department of Veterans Affairs (http://www.benefits.va.gov/BENEFITS/factsheets/homeloans/VA_Guaranteed_Home_Loans.pdf) and the U.S. Department of Agriculture (http:/www.rurdev.usda.gov/supportdocuments/ca-sfh-grhunderwritingguide.pdf). The Federal Housing Authority uses a maximum ratio of 43 percent (http://www.fha.com/fha_requirements_debt).

25 See Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2008 and 2009* (July 2012), http://www.cbo.gov/sites/default/files/43373-06-11-HouseholdIncomeandFedTaxes.pdf.

26 Board of Governors of the Federal Reserve System, "2013 Survey of Consumer Finances," http://www.federalreserve.gov/econresdata/scf/scfindex.htm. The 1989–2010 files were downloaded May 27, 2014, and the 2013 file was downloaded Sept. 25, 2014.

THE PEW CHARITABLE TRUSTS