

## **Wealth Loss During the Great Recession: Facts, Impacts, and Policy Remedies**

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Clear declines in wealth during the Great Recession have been documented in the existing studies. This study will build on previous research by examining changes in family net worth, along with the various components of asset and debt holdings, overall and for subgroups of families by age, race, educational attainment, and income, using the Survey of Consumer Finances (SCF) from 1983 through 2010. We will answer the following research questions: (1) How has wealth changed over the past three decades? How large have the wealth losses been since the onset of the Great Recession and which groups were hardest hit? To what extent were families protected by previous wealth accumulation? (2) Are there any fundamental changes in financial behaviors, especially for those families who are behind on housing payments or underwater?

This study contributes to the literature in three ways: First, we go back to 1983 to trace the wealth trajectory of families by birth cohort, so that we can measure not just the change in wealth before and after the Great Recession, but the change in wealth relative to what wealth would have been given that cohort's lifecycle wealth trajectory. Second, this study examines differential effects of the Great Recession by race, educational attainment, income group, and, importantly, for families at different points in the life cycle. How are families near retirement affected as compared with younger families who might have recently purchased a home or accumulated savings to send their children to college? A life cycle approach to assets helps researchers and policymakers see how wealth accumulates over a lifetime. It distinguishes assets by their relative importance for typical households at different stages in the life cycle, and it demonstrates how the power of compounding works on steady saving patterns over time. This compounding can help protect families who invested in homes or other assets earlier and leads to the study's third contribution: examining the extent that families are protected from the Great Recession by previous wealth accumulation. The results of these analyses will help researchers and policymakers understand the disparate impact of the financial crisis and will shape policy that aims to better prepare families for financial emergencies and asset building. This study uses the triennial SCF from 1983 through 2010 (1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007 and 2010). These data provide detailed information on the wealth and finances of U.S. families. To examine wealth over the lifecycle, while accounting for general shifts in savings by generation, we construct overlapping synthetic cohorts, following Browning, Deaton and Irish (1985) and Deaton (1985). These synthetic cohorts allow us to use cross-sectional data to examine how the

Great Recession differentially affected the wealth of people at different points in the lifecycle. Our primary analyses focus on nine-year cohort groups. To answer the first research question, we carry out both descriptive and multivariate analyses. Using the synthetic cohorts we will produce graphs of families' wealth holding (net worth and key components of net worth such as home equity, financial assets) for each cohort group over time. These graphs will indicate the timing of the Great Recession for each cohort, and also identify prior recessions (1990 and 2001) to facilitate comparisons between the Great Recession and these earlier recessions. In addition, we will provide subgroup analyses by race, educational attainment, and income quintile, as a first step toward understanding which groups of families were hit hardest by the Great Recession.

The multivariate analyses include both aggregate cohort-level and family-level regressions. In the cohort-level regression models, net worth is aggregated to the cohort level in each SCF survey year. The dependent variable is defined as the three-year change in net worth for cohort group  $c$  in year  $t$ . The explanatory variables include an indicator variable for whether the observed wealth change (between  $t$  and  $t-3$ ) took place during the Great Recession (between 2007 and 2010). Also included are indicator variables for the cohort group and interactions between the Great Recession and the cohort indicator variables. The coefficients on these interaction terms provide information on the extent to which families in different age (or cohort) groups were hardest hit by the Great Recession; whether it is younger families who were in the mist of purchasing their first home or the generation who are near retirement. Control variables in the model include average age and educational attainment and percent minority in each cohort in each year

The individual level regression analyses use family net worth as the dependent variable in each SCF survey year. Our regression model measures the effect of the Great Recession on different cohorts taking account of the wealth-age trajectory. The explanatory variables include indicators of cohort group, the third polynomial in age to controls for life-cycle wealth accumulation, an indicator of the Great Recession, interactions between the Great Recession and cohort groups, indicator variables controlling for decades, and demographic variables such as race, education, and region of residence.

To examine the second research question - fundamental changes in financial behaviors, we examine the following changes in financial behavior: withdrawal from IRA/Keogh account; loan balance against employer-based pension; falling behind on scheduled loan payment; and spending more than 100 percent of income and how those costs were covered. We analyze these financial behaviors before, during and after the Great Recession. By doing so, we provide information on the extent to which families reduced their contributions to savings and retirement, whether families borrowed against existing investment and retirement accounts to stay afloat, and the change in consumer confidence. We will pay special attention to families who experience a significant decline in housing wealth (e.g., underwater homeowners), and families who are behind on home mortgage payments, as these families are most likely to experience some fundamental changes in financial behaviors.