2024 ■ Number 2
https://doi.org/10.20955/es.2024.2

ECONOMIC Synopses

Assets and Liabilities of Younger vs. Older Households

Yu-Ting Chiang, Economist
Mick Dueholm, Research Associate

The balance sheets of US households have undergone large changes in the past seven decades. We document how they have changed for the overall household sector and for different age groups. The assets-to-income and liabilities-to-income ratios for the sector have grown steadily—from 2 to 5 for assets and from 0.5 to 1.5 for liabilities. This overall increase masks a difference between age groups: The assets-to-income ratio for younger households (under 45 years of age) has increased only moderately, whereas the ratio for older households (45 years of age and over) has more than doubled. The increase in the liabilities-to-income ratio, however, is similar for both age groups.

This imbalanced growth has led to a 20% increase in the liabilities-to-assets ratio for younger households, while the ratio stays relatively constant for older households. These changes are possibly driven by the increase in life expectancy and the aging of the population.

Figure 1 compares household assets-to-income and liabilities-to-income ratios over time using Survey of Consumer Finance (SCF) data and calculations from Kuhn et al. (2020). Assets reported in the SCF include house values, real estate, vehicles, pensions, life insurance, bonds, and other non-financial assets. Liabilities include mortgages, car loans, credit cards, student loans, and other miscellaneous consumer credit. We calculate these ratios as the total value of assets or liabilities for all households divided by their total income.

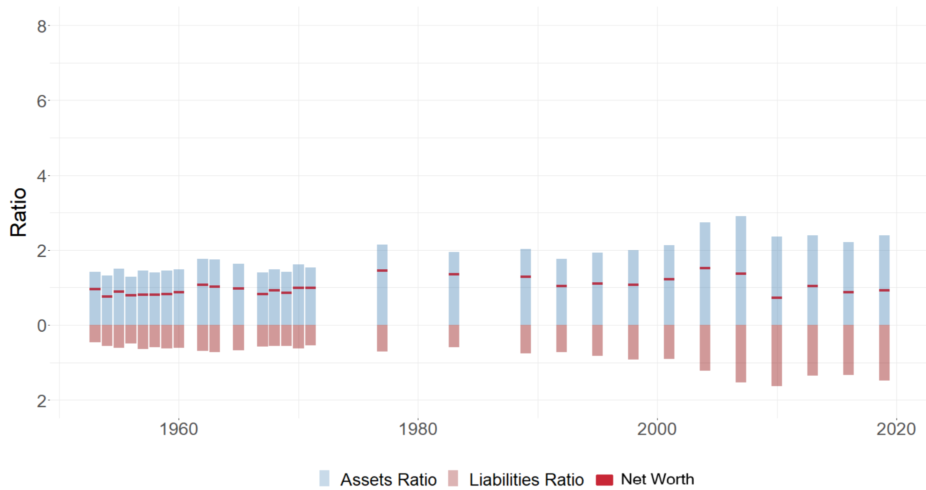
For 1953-2019, the assets-to-income ratios (blue bars) have increased steadily, from around 2.05 to 5.04. The liabilities-to-income ratios (red bars below zero) have also increased, from 0.49 in 1953 to 1.49 in 2010, after which they decreased slightly to 1.26. The red lines represent total household net worth (assets net of liabilities) relative to income: The general trend of the household net worth-to-income ratio has been upward, increasing from around 1.5 in the 1950s to almost 4 in the 2010s. We find that the liabilities-to-assets ratio (the ratio between the red and blue bars) is roughly constant at around 0.25.

Figure 1
Household Assets- and Liabilities-to-Income Ratios, 1953-2019

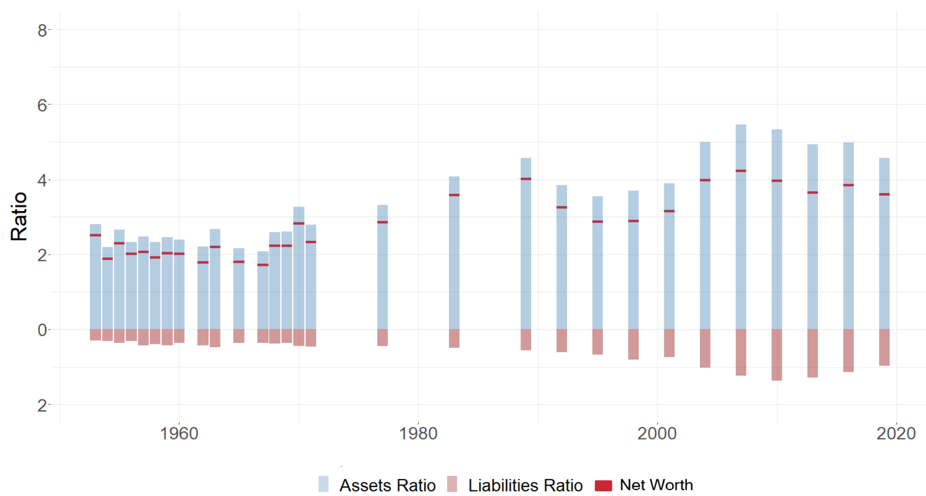
NOTE: Ratios of total assets, liabilities, and net worth relative to total income for the household sector.
SOURCE: Survey of Consumer Finance and authors' calculations.

Figure 2
Household Assets- and Liabilities-to-Income Ratios by Age Group, 1953-2019

A. Households Under 45 Years of Age



B. Households 45 Years of Age and Over



NOTE: Ratios of total assets, liabilities, and net worth relative to total income for the household sector by age group.
SOURCE: Survey of Consumer Finance and authors' calculations.

Table 1
Household Ratios Comparison, 1950s to 2010s

	Young		Old	
	1950s	2010s	1950s	2010s
Assets/income	1.41	2.34	2.93	6.75
Liabilities/income	0.57	1.45	0.37	1.25
Liabilities/assets	0.41	0.62	0.13	0.18

NOTE: Assets-to-income, liabilities-to-income, and liabilities-to-assets ratios, averaged across the 1950s and 2010s (1953-2019) for young and old.
SOURCE: Survey of Consumer Finance and authors' calculations.

Differences Between Young and Old Households

The overall trend masks different patterns among household groups. Figure 2 splits the sample at age 45 into young and old households. Panel A plots the same assets-to-income ratio as before but is restricted to those with household heads under 45 years of age, while panel B shows those with household heads 45 years of age and over.

Table 1 and Figure 2 show the results: The assets-to-income ratio for younger households increased from 1.41 in the 1950s to 2.34 in the 2010s, whereas for older households it more than doubled, increasing from 2.93 to 6.75 and driving the overall increase in assets-to-income (Figure 1). The liabilities-to-income ratio increased from

0.57 to 1.45 for younger households and from 0.37 to 1.25 for older households, peaking for both groups around 2010. These changes are reflected in an increase in the liabilities-to-assets ratio of 21 percentage points for the young (from 0.41 to 0.62) and 5 percentage points for the old (from 0.13 to 0.18).

An explanation for these changes among different age groups may be the aging of the population, as the average age of households in the older group increased from 58 to 62 years. Typically, assets owned by households increase with the age of the household head, as older individuals have more time to build their wealth through savings, returns on their investments, and pension accumulation. They accumulate these assets in preparation for spending during retirement, medical needs in old age, and perhaps as bequests for offspring. As life expectancy increases, households have a stronger incentive to save, as they expect to live longer after retirement.[1]

In conclusion, we found that (i) the household assets-to-income ratio has increased steadily from 1953 to 2019, and the liabilities-to-income ratio likewise grew, peaking in 2010; (ii) older households contribute the most to this increase in assets, while younger households largely stagnate; and (iii) the liabilities-to-assets ratio increased for both groups. These changes are possibly driven by the increase in life expectancy and the aging of the population. ■

Note

[1] The changes in assets-to-income and liabilities-to-income ratios for older households are not driven by the fact that the older group consists of more retirees with zero income. When we restrict to households between 45 and 65 years of age, the ratios increase from 2.46 to 4.95 (assets) and from 0.36 to 1.19 (liabilities).

Reference

Kuhn, Moritz; Schularick, Moritz and Steins, Ulrike I. “Income and Wealth Inequality in America, 1949–2016.” *Journal of Political Economy*, 2020, *128*(9), pp. 3469–519; https://www.journals.uchicago.edu/doi/full/10.1086/708815?-mobileUi=0.

Posted on February 2, 2023

ISSN 2573-2420