COMPOSITION OF THE PERSONAL WEALTH OF AMERICAN HOUSEHOLDS AT THE START OF THE EIGHTIES

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In spite of the proliferation of investment opportunities available today, the equity people have in their own homes constitutes the single largest element in their overall wealth. According to the results of the 1979 HHS Income Survey Development Program (ISDP) Survey,[2] home equity accounted for about one-third of all recorded personal wealth at the close of that year, compared to about one-quarter in financial assets of all kinds. Most of the remaining household wealth was in equities in unincorporated or closely held businesses or farms or in rental properties and other real estate. Home equity was a dominant factor in asset portfolios among nearly all major demographic and socioeconomic groups in the population for which statistics were available. Only for households in the upper income range were financial investments of clearly greater importance.

Among the financial resources people have, relatively liquid assets such as checking and savings accounts and savings bonds account for only about a quarter of the aggregate, but are more prevalent among younger and less affluent households. Older and relatively wealthy households have an especially large part of their financial assets in more costly and less liquid instruments, such as certificates of deposit and corporate bonds and stocks.

The composition of wealth revealed by the 1979 Survey differs in some respects from that found in the last prior large-scale U.S. survey in this field, the 1963 Federal Reserve Board (FRB) Survey of Financial Characteristics of Consumers, relating to wealth at the close of 1962 [5]. A comparison of the major findings is presented in Table 1. It is limited to those categories for which valuation data were obtained in both surveys (which, however, comprise the preponderance of total wealth). The estimates from both sources are subject to appreciable sampling and nonsampling errors and the methods and concepts do not correspond exactly.[3] Small differences should be disregarded, therefore, and even some of the larger ones should be viewed with caution.

The principal changes which have occurred over these two decades are the increases in the relative importance of home equity and equity in ren-

TABLE 1

DISTRIBUTION OF AGGREGATE WEALTH AND PERCENT OF HOUSEHOLDS OWNING SPECIFIC ASSETS: YEAR END 1979 AND 1962

Asset category	Percent distribution by category		Percent of households** owning specific assets	
	1979	1962	1979	1962
Total wealth	100.0	100.0		
Equity in own home	35.9	29.8	60	57
Equity in vehicles***	3.2	3.4	68	73
Financial assets--total	29.9	38.1		
Checking accounts or cash	1.6	2.2	89	*
Savings accounts	6.1	9.5	74	59
Savings bonds	0.6	2.4	21	28
Certificates of deposit (CD's) bonds, loans	10.3	4.4	16	5
Stocks or mutual funds	11.3	19.6	20	16
Equity in rental property	16.4	8.3	14	11
Equity in own business or farm	14.6	20.5	*	*
Total financial assets	100.0	100.0		
Checking accounts or cash	5.4	5.7		
Savings accounts	20.4	25.0		
Savings bonds	1.9	6.3		
CD's, bonds, loans	34.4	11.6		
Stock or mutual funds	37.9	51.5		

NOTE: This table is limited to categories for which reasonably comparable estimates were obtainable from the two sources. Certain miscellaneous types of assets, such as patents and royalties, home durables, etc. which were included and valued in one survey but not the other are excluded.
*Not available on a comparable basis.
**Households in 1979, consumer units in 1962.
***All vehicles in 1979, automobiles only in 1962.

Sources: 1979 ISDP Survey and 1963 FRB Survey of Financial Characteristics of Consumers.

tal property in overall personal wealth. Reflecting both a rise in home and property ownership (including condominium-dwelling) and the spectacular uptrend in property values, which has exceeded by far the rate of inflation, the percent of wealth residing in home and rental property equity amounted to 36 and 16 percent, respectively, of the total, for the categories common to the two surveys, compared to 30 and 8 percent in 1962. Over the same period, financial assets--which had previously been the principal repository of wealth--fell sharply, from 38 percent to 30 percent of the portfolio. Even within the financial composite, however, there were some nascent developments. Securities other than corporate shares, including certificates of deposit, money market funds, and mortgage and other loans to persons outside the household, have risen in importance both in terms of overall wealth and especially within the financial sector.[4]

In contrast, there appears to have been some dropoff between the two dates in low-yield holdings, such as savings accounts and savings bonds, in spite of a rise in the proportion of households reporting the former. The principal offset, however, was the decline in the relative standing of corporate stocks, which fell from 20 percent to 11 percent of wealth in the common categories and from a half to only three-eighths of the financial portfolio. The lag in stock prices behind inflation during much of this period was probably the main cause of this drop, since about as large a proportion of households own stocks now as then. The relative importance of business and farm equities also seems to have dipped somewhat, probably in part because of the long-term decline in private farming operations. For reasons already cited, these differences should be regarded more as indicative of trends than as precise measures.[5]

Similar changes in the pattern of investment were generally noted among the various age and income groups in the population. Nevertheless, the differences in portfolio composition among population groups revealed in the 1979 survey, which are the principal focus of this paper, corresponded in the main to those observed in the earlier study.

Caution should be exercised not only in making comparisons with the past, but in interpreting internal relationships in these data. First of all, asset ownership--except for a few categories such as homes, cars and other durables, and checking and savings accounts--resides in only a relatively small minority of the population, so that sampling errors even in a survey of this size are substantial. This is particularly the case for estimates of the size or value of holdings. Even more important, wealth data are characteristically subject to especially large nonsampling errors. As has been repeatedly demonstrated in past surveys, and the present undertaking is no exception, ownership of financial holdings and certain tangible assets is substantially understated [2] [3]. Moreover, a large proportion of admitted owners fail to report the size of their holdings, so that a good deal of imputation is required.[6] These problems could distort the observed distribution of resources among asset categories and population groups to some degree, although probably not to the extent of invalidating the general conclusions cited earlier.

The remainder of this paper will be devoted primarily to the composition of the wealth portfolios of different income and age groups in the population. The data presented here are limited in scope because they are based on aggregate data for the separate asset categories for the various population groups and do not reveal what are undoubtedly significant variations within each group.

Net Worth Concepts

Before proceeding with the actual survey results, we should review what was and was not included in the definitions of wealth and net worth as used in the tables. Included were most financial categories, ownership of homes and most real property, business and farm equities, motor vehicles, and household durables. No attempt was made in the survey to obtain cash value of life insurance, equity in pension plans, or value of personal belongings such as jewelry or collections, because of the serious measurement problems entailed. One category of real property--ownership of undeveloped land--was covered in the survey, but because of serious problems of imputation of missing values, has been omitted from our analysis.

Liabilities associated with or secured by specific assets have been deducted from those assets to determine equity. Unsecured debts are shown separately in the last column of Tables 2 and 3. These include store or credit card debt, medical debt, loans for general purposes, and educational loans.

Wealth by Income Class

The distribution of wealth by broad income class is shown in Table 2. Actually, the income variable used--overall household income in the month preceding the interview--is not an ideal or very precise measure, but was the only one available for purposes of this analysis.[7] Annual income data, in considerable detail, will be available later for purposes of more intensive analysis. Equally or more useful might be a distribution based on level of overall wealth. Except in one or two possible instances, it is unlikely that the general conclusions would be materially different regardless of the variable used to depict economic level.

As is evident, possession of assets and the average size of holdings clearly move upward as we ascend the income ladder. The range in overall wealth between the highest and lowest income categories--about 8 to 1--was consistent with the income differential. Not surprisingly, the correlation between income and wealth is most evident for financial assets and equities in own business. The pattern is rather erratic for farm enterprises, but we are dealing here with a very small percentage of households with exceptionally large holdings, thus subject to especially large sampling variation.

Another way of examining the data is to compare the manner in which wealth is distributed within each income class, that is, the composition of the respective portfolios, remembering of course that the overall size of wealth is much smaller at each successively lower income level.

TABLE 2

WEALTH DISTRIBUTIONS OF HOUSEHOLDS, BY HOUSEHOLD INCOME IN MOST RECENT MONTH: YEAR END 1979

Household income in most recent month	Net worth	Total wealth	Assets												Total unsecured debt
					Financial assets							Equity in:			
			Equity in own home	Equity in vehicles	Total	Cash, checking accounts	Savings account	Savings bonds	CD,s, bonds, loans	Stocks, mutual funds	Equity in rental property	Own business	Own farm	Household goods & other assets	
Percent distribution by category of assets															
All households	100.0	103.4	33.8	3.0	27.8	1.5	5.8	0.5	9.7	10.8	15.5	8.8	4.6	9.3	-3.2
Less than $900	100.0	103.1	40.2	4.2	18.6	1.6	6.8	0.2	6.9	3.2	17.3	5.3	8.2	9.1	-3.0
$900 - $1,999	100.0	104.3	39.7	3.8	23.7	1.7	6.3	0.7	8.8	6.9	14.0	8.6	2.9	10.9	-4.2
$2,000 - $3,999	100.0	102.7	30.0	2.4	34.1	1.2	4.8	0.5	11.1	17.1	16.4	7.5	2.1	9.8	-2.6
$4,000 or over	100.0	103.6	20.3	1.5	36.3	1.8	5.1	0.8	12.5	17.0	14.1	16.8	7.3	6.5	-3.6
Percent of households owning a given asset or debt															
All households			60.5	68.4	93.3	88.8	73.8	21.4	15.7	19.6	13.8	10.0	2.4		68.1
Less than $900			45.0	54.9	86.9	81.7	55.8	10.0	10.5	6.8	8.4	5.8	2.1		54.9
$900 - $1,999			65.7	76.5	96.3	91.2	81.4	25.0	14.3	19.8	12.0	10.3	1.4		77.0
$2,000 - $3,999			81.5	81.5	99.6	97.7	94.2	38.6	23.7	38.4	23.9	14.0	2.4		81.0
$4,000 or over			78.0	78.1	99.8	99.1	91.2	33.6	43.9	64.1	42.1	33.9	13.4		74.9
Average size of holding per household owning a given asset (dollars)															
All households	61,688	63,753	34,626	2,753	18,709	1,065	4,851	1,728	38,271	33,886	69,868	67,976	121,781	6,043	3,033
Less than $900	31,672	32,643	28,289	2,446	6,871	633	3,896	1,011	20,818	15,034	65,368	38,899	127,117	2,984	1,770
$900 - $1,999	51,382	53,588	31,052	2,551	13,035	972	4,033	1,599	31,710	17,787	59,947	47,019	105,110	5,824	2,863
$2,000 - $3,999	109,931	112,879	40,475	3,258	38,083	1,321	5,594	1,438	51,299	48,902	75,446	73,872	103,040	11,280	3,639
$4,000 or over	257,660	266,942	66,925	4,845	95,841	4,600	14,511	6,483	73,046	68,034	86,188	171,754	141,722	17,913	12,384

Source: 1979 ISDP Survey: Second and fifth waves.

Here we find that home equity accounts for about two-fifths of overall wealth at lower income levels and gradually drops in relative importance as income rises and wealth accumulates in other sectors. For the highest income group shown, home equity has dipped to only about a fifth of overall wealth as compared to over a third for financial investments. Equity in automobiles and other vehicles follows a similar path, constituting a small but appreciable percentage of wealth at the lower levels but dropping to a fairly negligible proportion as we move up the scale. Household goods hold at close to 10 percent of net worth, before dropping off at the upper income range. If we consider the three categories taken together--homes, automobiles, and household goods--these essentials for daily living constitute half of the wealth of lower income households but only one quarter of the total for the wealthy.

On the opposite side of the coin, financial assets as a whole are about twice as important a factor for higher as compared to lower income groups and the composition of the portfolios also differs a good deal. Small and relatively liquid assets, such as checking and savings accounts and savings bonds, constitute about half of the financial asset total for the less affluent, but only a fifth of the aggregate for upper income households, where certificates of deposit, corporate stocks, and the like dominate the portfolio.

Equity in an unincorporated or closely held business or farm enterprise is a significant element in wealth for both the highest and lowest income classes shown, dipping somewhat in relative importance in the middle income ranges. Entrepreneurial income is especially concentrated in the farm sector for the low income group, although a farm business is held by only a small percentage of the households with very large asset holdings. We may be witnessing in these cases the so-called "land poor" phenomenon, that is, a heavy investment in the land and the enterprise but with only a small return in terms of income. However, farm income is notably unstable and subject to many cyclical and other fluctuations, and the monthly income measure used in this analysis is particularly questionable in this case. If economic level were based on annual income or, better, overall wealth, we would probably not find much farm wealth in the lowest category.

Unsecured debts, that is, those not related to or secured by an asset, were generally small in relation to net worth and did not vary too much in relative terms by income category. The much higher absolute level for upper income households obviously reflects their greater access to and use of credit. In any event, unsecured debt in the aggregate accounted for only around one-tenth of all outstanding household liabilities (including "secured" debts reflected in asset equities).

Age Patterns

The age patterns affecting wealth distributions are exhibited in Table 3. The data are presented in terms of the age of the "reference person," who is generally the individual in whose name the living quarters are owned or rented.

Probably the major impact of age as it concerns asset formation is the cumulative opportunity for acquisition of wealth as life extends into the middle and upper years. For most individual categories ownership rates rise rapidly after the early years, reaching a peak in middle or upper middle age before dipping downward. The average size of holdings, however, clearly continues to rise until upper middle age before some element of dissavings sets in.

The distribution of holdings within age categories provides a somewhat different view of these tendencies. Among young households under 35 years of age, home equity is a rather dominant element in net worth, even though home ownership rates are well below average at that stage of life. The explanation for this apparent contradiction is that young families, in general, have little in the way of accumulated resources and those in a little stronger financial position have probably invested almost everything they have in their first homes, which are often condominium dwellings. The sizable percentage of the net worth of the young represented by automobile equity and household possessions reflects a similar circumstance. In fact, fully three-quarters of the wealth of young households is concentrated in these three tangible components. The relatively high ratio of debts to assets for the young can logically be attributed to their need for acquisition of possessions at this stage of life.

With the gradual build-up of financial assets in the middle years, home equity drifts downward to a more typical level of about one-third of overall wealth. It is in these active years that equities in business and farm enterprises attain their greatest relative importance within the portfolio. Equity in rental property becomes more significant and remains so as age increases.

Home equity represents almost the same proportion of asset holdings among older households as among those in the middle years, in spite of the reduction in home ownership at those ages. One reason is that older people remaining in their homes generally own them outright or have little mortgage indebtedness to offset their equity. The increase in condominium ownership, sometimes involuntary, has probably affected the elderly a good deal, as well as the young.

The most striking difference for older households is the very large proportion (a third or more) of their net worth which is invested in financial assets. Moreover, a much larger proportion of the resources of older people is concentrated in costly and less liquid categories (certificates of deposit, corporate stocks and bonds, etc.) than is the case for younger households. The low ratio of debts to assets for the elderly mirrors the diminution of their need to acquire possessions. In addition, Medicare and Medicaid could be playing an important role in keeping the elderly out of debt in spite of rising medical expenses.

Other Demographic Characteristics

Space does not permit discussion of the analysis of wealth by education, marital status, sex, or race. The distributions by education and marital status follow patterns generally similar to those described in the section on wealth by income class, while those by sex or race reveal

TABLE 3

WEALTH DISTRIBUTION OF HOUSEHOLDS, BY AGE OF REFERENCE PERSON: YEAR END 1979

Age of reference person	Net worth	Total wealth	Assets												Total unsecured debt
					Financial assets							Equity in:			
			Equity in own home	Equity in vehicles	Total	Cash, checking accounts	Savings account	Savings bonds	CD,s, bonds, loans	Stocks, mutual funds	Equity in rental property	Own business	Own farm	Household goods & other assets	
Percent distribution by category of assets															
Under 35	100.0	111.8	42.0	7.1	16.9	2.1	5.6	0.4	3.0	6.1	9.2	11.5	1.6	23.1	-11.8
35 - 44	100.0	104.8	36.2	2.9	19.5	1.1	3.7	0.3	6.0	8.6	12.7	17.6	5.3	10.4	- 4.7
45 - 54	100.0	103.6	36.4	2.8	23.2	1.3	4.4	0.6	9.2	8.2	18.6	8.6	5.2	8.3	- 3.5
55 - 64	100.0	101.5	29.1	2.3	34.0	1.5	5.7	0.6	12.6	14.2	15.4	9.0	4.2	6.9	- 1.5
65 - 69	100.0	101.0	31.8	2.7	33.0	1.8	8.0	0.6	12.4	10.8	16.4	3.7	5.7	7.2	- 1.0
70 or over	100.0	100.5	31.6	2.5	36.2	1.8	8.4	0.5	12.3	13.7	18.4	0.3	5.1	5.8	- 0.4
Percent of households owning a given asset															
Under 35			42.9	60.9	92.5	86.4	72.2	20.6	5.3	11.8	6.1	9.0	1.4		80.5
35 - 44			65.7	73.0	93.4	89.6	73.6	23.5	11.0	25.0	15.2	15.5	2.6		82.6
45 - 54			70.9	77.9	92.0	89.4	76.7	25.4	17.9	26.2	21.0	11.8	4.2		73.8
55 - 64			74.0	78.0	94.6	90.2	76.3	24.2	24.0	22.4	18.6	11.8	2.6		61.4
65 - 69			68.5	66.5	93.6	90.4	69.1	19.9	28.8	23.1	14.0	4.9	2.4		44.5
70 or over			64.1	60.1	96.1	90.9	74.7	13.5	27.1	18.1	16.1	3.4	1.9		34.4
Average size of holding per household owning a given asset (dollars)															
Under 35	20,056	22,428	19,650	2,345	3,752	485	1,579	466	11,599	10,416	32,688	30,590	22,476	4,819	2,945
35 - 44	65,386	68,501	36,001	2,592	13,865	827	3,333	860	35,760	22,495	54,518	80,592	132,792	7,251	3,769
45 - 54	74,889	77,562	38,420	2,671	19,348	1,113	4,355	1,837	38,593	23,441	66,247	75,688	92,487	6,649	3,624
55 - 64	108,574	110,230	43,621	3,149	39,739	1,797	8,197	3,322	57,141	68,469	89,989	102,889	190,012	7,901	2,698
65 - 69	88,300	89,227	40,975	3,576	31,709	1,711	10,323	3,606	38,018	41,061	103,494	85,247	206,958	6,779	2,082
70 or over	73,450	73,795	36,282	3,057	28,144	1,460	8,354	3,846	33,381	55,271	84,280	15,725	196,650	4,323	1,002

Source: 1979 ISDP Survey: Second and fifth waves.

the familiar impact of past and present economic discrimination as well as, in the case of sex, differential age composition.

Effect of Reporting Errors on Findings

The serious reporting errors which afflict surveys of this kind might be of less concern if they affected the various categories of assets and debts in a more-or-less uniform manner. Unfortunately, the evidence does not support this rather hopeful thesis. Most evaluations have revealed especially large understatements in most of the financial asset categories in comparison with benchmark data from financial institutions and other independent sources. At the same time, reporting of home or vehicle equity, although subject to considerable problems of valuation, is believed to be relatively complete. This belief may be predicated in part on the absence of reliable independent data for the latter categories, but also on the notion--supported by some evidence--that persons will report the possession of a house or car more willingly than that of a financial asset. Moreover, they are less likely to overlook inadvertently these large tangible assets in the course of a survey inquiry.[8]

An examination of the possible impact of differential reporting of net worth categories in a large-scale Canadian wealth study suggests that the data on concentration of wealth among economic groups may not be affected very much, largely because of fortuitous offsetting errors [1]. However, the distribution of wealth within various demographic and economic classes, which we have been emphasizing, would be altered if a correction were made for differential reporting. If we accept the conventional wisdom concerning differential reporting, this would imply that the proportion of wealth in home and automobile equities, in particular, would be generally lower and the relative importance of financial assets, especially, would rise, conceivably to the point of at least parity with property values. Home equity would still be a far greater factor than any single category of financial investments. Corrections of this kind, however, would probably not alter materially, and could even accentuate, the relative differences among population groups in the composition of their portfolios.

FOOTNOTES

[1]The authors wish to acknowledge the invaluable assistance of an SRL computer systems analysis team, headed by Richard Williams and including Martha Ewing and Karen Woodrow, in compiling these data. The opinions presented here are those of the authors and do not necessarily reflect the views of the government agencies responsible for the survey results cited in this paper.

[2]For a description of the program, see [6].

[3]For example, the 1979 survey results are in terms of households, whereas the 1962 results relate to consumer units. This difference would not affect the distribution of wealth among the various asset categories which are based on aggregates. However, the percent of survey units reporting a particular type of asset would be affected to some extent.

[4]It is not possible to distinguish cleanly between these newer types of instruments and more conventional investments such as bonds and mortgages, since combined amounts were obtained. However, it is clear from other evidence that the uptrend has been almost entirely in the former.

[5]These general trends in the financial asset structure are generally substantiated by the FRB Flow of Funds aggregate series for the two dates, with one exception. The Flow of Funds data do not indicate a drop in the relative importance of savings accounts within the financial total. However, certain possible definitional problems, such as how certain bank-issued time deposit certificates are classified in the two series (whether as savings deposits or certificates) make it difficult to assess this disparity.

[6]In the present study, the imputations were made via a "hot deck" procedure, using household income and age as the main classifiers. This procedure assumes that nonreporters, on the average, have holdings of about the same size as reporters having similar characteristics. For a further discussion of the imputation procedures and effects, see [4].

[7]This income measure was collected via a checklist in class interval form. It was intended primarily to screen the survey households into broad classes for purposes of guiding the subsequent questioning.

[8]The ISDP data for homes and automobiles are generally consistent with the results of specialized surveys in those sectors. A possibly encouraging indicator for the home sector is that the ISDP aggregate for home mortgage debt corresponds pretty well with FRB Flow of Funds data.

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