

## Trends in Household Wealth Dynamics, 2005-2007

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## **1. Introduction.**

Based on PSID data, this note provides estimates of household cross-sectional wealth holdings in 2005 and 2007.<sup>1</sup> The results indicate that mean CPI-adjusted per family net worth increased between 2005 and 2007. At the same time, median net worth increased modestly. The results also show that rates of ownership of portfolio assets, such as home equity, business, stocks and IRA's, declined slightly between 2005 and 2007.

The first three tables provide information on ownership rates and values of wealth holdings and its components. The results for the whole sample are reported in Table 1. Tables 2 and 3 cover black and white families separately. Tables 4 and 5 report net worth and the value of financial assets for different age, education, and racial groups.<sup>2</sup> We also review long term trends based on Appendix Tables A.1 and B.1.

## **2. Household wealth holdings and household portfolio assets**

### **2.1 Net worth**

The average value of family net worth, including home equity increased 15%, from \$328,800 to \$377,000 between 2005 and 2007 (see Table1). During this time the median of family net worth rose 3 percent to \$88,000. Among black families, the average family net worth has increased from \$61,900 to \$79,000, but the median family net worth has fallen some from a modest base - by 11 % to \$9,500.<sup>3</sup> Based on the sample of white

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<sup>1</sup> This analysis was supported by a grant from the National Institute on Aging, R01 AG16671, "Life Course Wealth and Health in the PSID."

<sup>2</sup> The calculations use weighted cross-sectional samples of PSID families in 2005 and 2007. There are 8002 families in 2005 sample and 8289 families in 2007 sample. All nominal values are adjusted for inflation and reported in 2007 dollars.

<sup>3</sup> Results based on the subsample of African American families should be treated with caution due to rather small sample size. Additionally, to limit the influence of extreme values, 5 observations with business values greater than \$1,000,000 were excluded from the 2005 subsample of black families.

families, the mean net worth increased by 14% to \$425,400, and the median value rose slightly from \$115,800 to \$116,500.

## **2.2 Longer term trends**

A longer term pattern for the wealth distribution can be seen in Appendix Tables A.1. and B.1. During the 1984-2007 period, net worth including home equity has become increasingly negative at the 5<sup>th</sup> percentile (Table A.1). A less pronounced downward trend characterizes 10<sup>th</sup>, 20<sup>th</sup> and 25<sup>th</sup> percentiles of the net worth distribution. Prior to 2005, the value of net worth at the 40<sup>th</sup> percentile grew at a modest rate, but between 2005 and 2007, the trend appears to have changed, with the 40<sup>th</sup> percentile value of the percentile declining from \$42,500 to \$41,000. (Table A.1). At the median, net worth rose from \$62,600 to \$88,000. Net worth growth has been stronger in the upper percentiles of the distribution. During the period between 1984 and 2007, at the 75<sup>th</sup> percentile, total wealth grew from \$180,200 to \$327,500, about 82% rate above overall inflation. At the 98<sup>th</sup> percentile wealth more than doubled, rising by 117% from \$1,137,300 in 1984 to \$2,468,000 in 2007. By 2007 more than 5% of the families held net worth of over \$1,000,000.

## **2.3 Home equity**

As shown in Table 1, the home ownership rate declined slightly - by 1 percent from 68.6% in 2005 to 67.6% in 2007. The downward trend in home ownership is characteristic of both white and black families. The black families home ownership rate declined slightly, from 42.4% in 2005 to 42.0% in 2007. Among the white families, 72.4% report owning a home in 2007, which is 1.3% lower than in 2005.

Among homeowners, average home equity increased from \$163,600 in 2005 to \$176,700 in 2007, while the median value grew from \$95,500 to \$101,000 (see Table 1). Tables 2-3 show that between 2005 and 2007 the increase in the average value of home equity was 7% for whites (from \$169,600 to \$181,800), and 13% for blacks (from

\$73,500 to \$83,200). During the same period, the median home equity value grew 3.6% for whites (from \$106,200 to \$110,000) and 9.9% for blacks (from \$51,000 to \$56,000).<sup>4</sup>

## **2.4 Business Equity**

Continuing the 2003-2005 trend, the business ownership rate declined while the net business value moved up between 2005 and 2007. The business ownership rate declined, from 11.4% to 11.2%. Conditional on owning, the median business value has grown by 57 % from \$63,700 in 2005 to \$100,000 in 2007 (see Table1).<sup>5</sup>

## **2.5 Stocks and IRA holdings**

The 2007 stock ownership rate, 24.1%, has remained close to its 2005 level, 24.4%, overall and contingent on householder's race—for blacks 5.3% in 2005 and 5.6% in 2007 and for whites 28% in 2005 and 27.7% in 2007. While the stock ownership rates remained stable during the period, the equity value conditional on owning has shown some increase. Among stockowners the average value of stock holdings increased from \$197,500 to \$225,150, and the median value of stock holdings increased 10% from \$47,800 to \$50,000. The rise in the median value of equity holdings is reported by both black and white families. However, similar to the gap in stock ownership rates, a large difference in equity value persisted between the two groups. White families' equity holdings are about five times larger than that of black families. In particular, in 2007, the average value of stocks is \$226, 300 for whites versus \$54,400 for blacks. The corresponding median values are \$50,000 for whites and \$10,000 for blacks.

Between 2005 and 2007, the IRA's ownership rate has decreased from 33.2% to 32.3%. In contrast the average IRA value, conditional on holding has shown a substantial growth. Among IRA holders, the mean value increased by 19 percent from \$116,600 to \$138,600 and the median value has increased by 6 percent from \$42,500 to \$45,000.

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<sup>4</sup> Home prices were rising rapidly between 2005 and early 2006 and did not experience a downward adjustment until 2007 and later.

<sup>5</sup> Because of the small number of business owners in the PSID sample, business value estimates should be treated with caution.

## **2.6 Non-collateralized debt**

Between 2005 and 2007, the rate of holding debt, i.e. non-collateralized debt such as unpaid balances on credit cards, student loans, medical or legal bills, has remained essentially unchanged, 50.8% in 2007 vs. 50.9% in 2005. Black families experienced a small increase in likelihood of having debt from 49.1% to 49.3% (Table 2). At the same time the rate of having debt among white families has declined from 51.8% to 51.2% (Table3).

In contrast to the essentially unchanged debt ownership rates, the average level of household debt has increased substantially by 30%. Contingent on having debt, the average value of short-term debt was \$17,000 in 2005 and rose to \$21,500 in 2007. Similarly, the median debt value has risen from \$6,400 to \$8,000. Among white households who report carrying non-collateralized debt, the average value of the debt increased by 28% to \$22,700 in 2007. The corresponding increase among black families was 9.2% from \$13,700 to \$15,000.

## **2.7 Effect of age, education and race on net and financial household wealth**

Tables 4 and 5 report statistics for net and financial wealth holdings conditional on age, education and race.

Between 2005 and 2007, the average household net worth increased from \$328,800 to \$377,000, and the corresponding median value rose from \$84,900 to \$88,000 (Table 4). While the median value of net worth increased only for white households, the mean value has grown for both white and black households. The trend in per family net worth varies across age groups. Thus, households 40 and older appear to be better off in 2007 than in 2005, and households 39 or younger experienced only minor changes in median or mean net worth. Households with heads older than 65 have seen a strong 14% appreciation of their median net worth.

Examination of net worth changes across different educational levels reveals that the strongest growth has occurred among the group with some college education, with the mean value increasing 22% from \$597,700 to \$731,800 and the median value increasing

3% from \$235,700 to \$243,000. Another educational group to show strong net worth growth is high school graduates: the mean net worth value grew 17% from \$214,500 to \$252,000 and the median net worth value increased 7% from \$63,700 to \$68,000.

Similarly to the 2003- 2005 period, between 2005 and 2007, the average and median financial wealth have moved in opposite directions. While the average financial wealth has risen 6.5% from \$128,600 to \$121,200, the median financial wealth has dropped 5.8% from \$10,600 to \$10,000 (Table 5). From a low base, the strongest percentage gain in average and median values of financial wealth is observed for the youngest group of 20 to 29 year olds. For this group the mean financial wealth has increased from \$11,000 to \$18,900 and the median has grown from \$1,100 to \$1,500. The households ages 60 to 64 have enjoyed the largest absolute gain as well as the second largest percentage gain in these values—from \$162,700 to \$257,700 for the mean and \$44,000 to \$42,000 for the median. Between 2005 and 2007, married and single households have experienced different dynamics in their financial wealth. For married couples the average financial wealth appreciated strongly by 18% and from \$169,100 to \$199,800. The corresponding median value grew at an even stronger rate - 22% from \$21,200 to \$26,000. In contrast the average and median values of single households' financial wealth have dropped by 8% and 5.6% respectively, with the average value decreasing from \$84,100 to \$77,400 and the median value decreasing from \$3,200 to \$3,000.

### **3. Summary**

Tables 1-5 point to a number of facts about household wealth changes between 2001 and 2003.

- Average and median levels of family net worth increased between 2005 and 2007. The wealth growth was unequal among different age groups, with the average and median values of wealth holdings of older households showing appreciation and wealth holdings of younger families moving in the opposite direction.

- Average financial wealth increased but the median value has declined. Financial wealth gains are concentrated among married households, while single households report less financial wealth in 2007 than in 2005.
- Stocks and IRA's holdings increased between 2005 and 2007. White families are about five times more likely to hold stocks than black families, and conditional on ownership the stock holdings of white families are about five times larger than those of black families.
- The homeownership rate declined slightly, but with rising home prices, the value of home equity has increased strongly between 2005 and 2007. Similarly, the value of real estate in household portfolios grew during the period.
- While the rate of ownership of short-term debt remained unchanged, the conditional value of the debt is larger in 2007 than in 2005.

**Table 1. Household Wealth: Panel Study of Income Dynamics (Thousands of 2007 dollars)**

	2005					2007				
	Mean	Median	Percent Own	Conditional on Own Mean    Median		Mean	Median	Percent Own	Conditional on Own Mean    Median	
Business	43.7	0.0	11.4%	383.1	63.7	67.8	0.0	11.2%	605.2	100.0
Checking/Savings	26.5	3.2	80.7%	32.8	5.3	28.2	3.0	82.3%	34.3	5.4
Other Debt	8.7	0.2	50.9%	17.0	6.4	10.9	0.2	50.8%	21.5	8.0
Real Estate	44.5	0.0	15.9%	280.6	84.9	55.5	0.0	15.9%	349.8	100.0
Stocks	48.3	0.0	24.4%	197.5	47.8	54.2	0.0	24.1%	225.1	50.0
IRA	38.7	0.0	33.2%	116.6	42.5	44.8	0.0	32.3%	138.6	45.0
Vehicle	14.2	8.5				14.2	8.0			
Other	15.1	0.0	18.9%	80.1	15.9	9.9	0.0	17.2%	57.4	15.0
Home Equity	106.4	38.0	68.6%	163.6	95.5	113.3	40.0	67.6%	176.7	101.0
Total	328.8	84.9				377.0	88.0			

Notes:

1. Ownership status for vehicles was not asked. Only the value was asked.
2. All calculations are done using PSID weights.
3. The full sample includes all households in a given year. The race distinction in these tables do not 'aggregate' to these full sample values since they do not include non-black, non-white Hispanics which are included in the full sample.
4. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

Source: Elena Goukova & Frank Stafford, Institute for Social Research, Copyright University of Michigan (September, 2009)

**Table 2. African -American Household Wealth: Panel Study of Income Dynamics (Thousands of 2007 dollars)**

	2005					2007				
	Mean	Median	Percent Own	Conditional on Own		Mean	Median	Percent Own	Conditional on Own	
				Mean	Median				Mean	Median
Business	1.8	0.0	2.8%	63.6	3.2	11.6	0.0	3.9%	300.2	20.0
Checking/Savings	4.6	0.0	52.4%	8.8	2.1	7.0	0.2	58.3%	12.1	2.0
Other Debt	6.7	0.0	49.1%	13.7	5.3	7.4	0.0	49.3%	15.0	7.0
Real Estate	7.6	0.0	7.0%	108.6	42.5	9.7	0.0	6.8%	143.7	60.0
Stocks	4.7	0.0	5.3%	88.4	8.5	3.1	0.0	5.6%	54.4	10.0
IRA	3.6	0.0	8.5%	42.6	15.9	8.4	0.0	8.7%	95.8	30.0
Vehicle	8.3	2.1				8.3	3.0			
Other	8.7	0.0	9.9%	88.1	14.9	5.5	0.0	9.8%	55.7	12.0
Home Equity	29.3	0.0	42.4%	73.5	51.0	32.9	0.0	42.0%	83.2	56.0
Total	61.9	10.6				79.0	9.5			

Notes:

1. In 2005 a few observations with business values greater than \$1,000,000 were excluded from calculations.
2. Due to the low percent of business ownership and the dispersion in values the median rather than mean gives more reliable estimate of the underlying population values.
3. All calculations are done using PSID weights.
4. The full sample includes all households in a given year. The race distinction in these tables do not 'aggregate' to these full sample values since they do not include non-black, non-white Hispanics which are included in the full sample.
5. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

Source: Elena Guskova & Frank Stafford, Institute for Social Research, Copyright University of Michigan (September, 2009)

**Table 3. White Household Wealth: Panel Study of Income Dynamics (Thousands of 2007 dollars)**

	2005					2007				
	Mean	Median	Percent Own	Conditional on Own		Mean	Median	Percent Own	Conditional on Own	
				Mean	Median				Mean	Median
Business	53.2	0.0	13.1%	405.0	77.5	79.6	0.0	12.7%	628.6	100.0
Checking/Savings	29.1	4.2	85.9%	33.9	6.4	31.1	5.0	86.9%	35.8	6.0
Other Debt	9.2	0.3	51.8%	17.8	7.4	11.6	0.2	51.2%	22.7	8.0
Real Estate	49.6	0.0	17.2%	288.1	84.9	61.5	0.0	17.4%	354.0	100.0
Stocks	55.6	0.0	28.0%	198.4	47.8	62.8	0.0	27.7%	226.3	50.0
IRA	45.2	0.0	38.0%	119.1	42.5	50.9	0.0	36.9%	138.0	45.0
Vehicle	15.5	9.6				15.2	9.0			
Other	16.9	0.0	20.7%	81.5	15.9	11.0	0.0	18.9%	58.3	15.0
Home Equity	118.8	53.1	73.7%	169.6	106.2	125.0	52.0	72.4%	181.8	110.0
Total	374.6	115.8				425.4	116.5			

**Notes:**

1. All calculations are done using PSID weights.
2. The full sample includes all households in a given year. The race distinction in these tables do not 'aggregate' to these full sample values since they do not include non-black, non-white Hispanics which are included in the full sample.
3. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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**Table 4. Household Net Worth (Thousands of 2007)**

	2005		2007	
	Mean	Median	Mean	Median
<b>Full sample</b>	328.8	84.9	377.0	88.0
<b>Age of Head</b>				
20 to 29	34.9	4.6	36.9	4.0
30 to 39	153.5	35.0	148.3	35.0
40 to 49	306.5	81.7	367.2	90.0
50 to 59	449.3	148.5	472.0	160.3
60 to 64	587.0	246.3	766.1	271.5
65 or more	488.5	208.1	575.5	237.0
<b>Education of Head</b>				
No High School Degree	106.1	21.2	115.1	17.0
High School Degree	214.5	63.7	252.0	68.0
Some College	362.7	90.5	307.5	83.7
College Degree or more	597.7	235.7	731.8	243.0
<b>Race of Head</b>				
White	374.6	115.8	425.4	116.5
Black	61.9	10.6	79.0	9.5
<b>Marital status</b>				
Married	463.8	164.6	544.2	198.0
Unmarried	180.4	25.5	218.0	22.3

Notes:

1. All reported values are computed using the PSID weights.
2. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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**Table 5. Household Financial Wealth (Thousands of 2007)**

	2005		2007	
	Mean	Median	Mean	Median
<b>Full sample</b>	128.6	10.6	137.1	10.0
<b>Age of Head</b>				
20 to 29	11.5	1.1	18.9	1.5
30 to 39	56.2	4.6	40.2	4.4
40 to 49	121.7	8.2	100.1	8.0
50 to 59	166.7	24.1	189.3	20.0
60 to 64	162.7	44.0	257.7	50.0
65 or more	222.8	42.5	237.7	42.0
			0.0	0.0
<b>Education of Head</b>				
No High School Degree	25.9	0.4	29.9	0.4
High School Degree	76.4	4.2	76.8	5.0
Some College	115.5	12.7	98.0	11.0
College Degree or more	273.2	58.7	305.5	52.0
<b>Race of Head</b>				
White	146.8	15.9	155.7	15.0
Black	21.7	0.1	23.9	0.4
<b>Marital status</b>				
Married	169.1	21.2	199.8	26.0
Unmarried	84.1	3.2	77.4	3.0

Notes:

1. All reported values are computed using the PSID weights.
2. Financial wealth is defined as the sum of wealth in stocks, mutual funds, investment trusts, IRA's, checking accounts, savings accounts, money market funds, CD's, government saving bonds, Treasury bills, corporate and municipal bonds, and cash value of life insurance policies.
3. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

Source: Elena Goukova & Frank Stafford, Institute for Social Research, Copyright University of Michigan (September, 2009)

**Table A.1. Distribution of Net Worth with Home Equity included (Thousands of 2007)**

Net Worth /home equity included								
Percentile	1984	1989	1994	1999	2001	2003	2005	2007
5	-1.2	-3.3	-6.6	-8.2	-8.1	-9.6	-9.3	-12.0
10	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.2
20	4.0	3.8	3.5	3.7	3.5	3.5	3.0	2.1
25	8.8	8.4	8.4	8.0	8.1	8.9	8.0	6.2
40	33.5	33.8	36.4	36.0	39.8	40.6	42.5	41.0
50	62.6	63.5	68.6	64.7	75.9	76.2	84.9	88.0
60	97.8	100.7	111.9	111.4	134.6	130.7	147.6	159.0
75	180.2	209.0	214.5	230.9	266.1	268.2	310.1	327.5
80	222.5	264.2	275.8	292.5	344.2	343.7	408.7	448.2
90	400.3	475.7	496.7	560.0	638.1	645.7	769.7	831.5
95	646.6	760.8	825.5	954.6	1135.6	1061.5	1282.5	1450.0
98	1137.3	1369.5	1441.0	1723.7	1844.0	2049.1	2230.0	2468.0

Notes:

1. All reported values are computed using the PSID weights.
2. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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**Table B.1. Distribution of Net Worth with Home Equity excluded (Thousands of 2007)**

Net Worth /home equity excluded								
Percentile	1984	1989	1994	1999	2001	2003	2005	2007
5	-2.4	-5.5	-8.5	-10.7	-12.3	-15.9	-15.9	-18.0
10	0.0	-0.3	-0.8	-2.1	-3.3	-3.9	-4.6	-5.6
20	1.6	1.0	0.7	1.1	0.6	0.6	0.1	0.0
25	3.4	3.3	2.7	2.9	2.4	2.4	2.0	1.5
40	11.2	12.5	13.9	12.4	12.9	13.0	11.7	11.0
50	20.0	23.0	25.9	24.3	26.9	25.9	23.9	23.8
60	33.9	40.6	46.9	44.8	53.4	49.6	47.8	49.9
75	85.8	100.3	113.3	124.5	151.0	131.8	144.4	160.0
80	116.8	142.1	155.3	174.2	204.9	194.4	207.0	234.5
90	261.4	301.0	349.8	388.3	456.6	416.9	503.8	565.0
95	476.2	520.0	625.4	766.3	858.2	804.6	958.7	1080.0
98	908.0	1103.6	1189.2	1468.6	1666.6	1633.9	1781.5	1995.0

Notes:

1. All reported values are computed using the PSID weights.
2. PSID wealth does not include pension wealth. Therefore, this excludes the present value of private defined contribution and defined benefit plans. It also excludes rights to Social Security payments.

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