Post-Recession Financial Strategies for Families

Vicki L. Bogan, Ph.D.
Associate Professor, Charles H. Dyson School of Applied Economics and Management
Director, The Institute for Behavioral and Household Finance

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Institute for Behavioral and Household Finance

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  http://bogan.dyson.cornell.edu/ibhf
Post-Recession
Financial Strategies for Families
The Great Recession had an enormous impact on U.S. household finances.

Percentage Changes in Median Household Income Due to Recessions and in the First Two Years of Recoveries, 1973-2009


Source: U.S. Census Bureau
PEW RESEARCH CENTER

Source: Pew Research Center
What Happened with Households?

• Around 1986, households started accumulating debt and eroding their liquid asset holdings

• By 2007, households were increasing debt at a rate equivalent to 6% of aggregate consumption every year

Source: Federal Reserve Bank of St. Louis – Economic Synopses
What Happened with Households?

- Financial crisis caused substantial erosion of household wealth
  - Largest simultaneous declines in the value of housing and equities

- Financial crisis of 2008 resulted one of the largest deleveraging periods in recent history
  - Debt accumulation dropped from 6% to -4% of aggregate consumption
  - Liquid asset holdings declined by almost a factor of 2

Source: Federal Reserve Bank of St. Louis – Economic Synopses
Post-Recession Household Finances

- Key aspects on which to focus
U.S. Household Median Net Worth

- According to U.S. Census Bureau data, median household net worth in the United States in 2011 was $68,282
U.S. Median Net Worth – by Racial Group

Median Net Worth (2011)

<table>
<thead>
<tr>
<th>Racial Group</th>
<th>Median Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>$110,500</td>
</tr>
<tr>
<td>Black</td>
<td>$6,314</td>
</tr>
<tr>
<td>Asian</td>
<td>$89,339</td>
</tr>
<tr>
<td>Hispanic Origin</td>
<td>$7,683</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau – http://www.census.gov/people/wealth/
Essential Elements of Wealth Accumulation

• Bequests
  – Over the lifetime about 30% of American households receive a wealth transfer and these transfers account for close to 40% of their net worth

Essential Elements of Wealth Accumulation

• Number of years an individual/household has been consistently investing

• Proportion of funds (on average) allocated to higher return investments such as stocks

Sources: www.hussmanfunds.com
Major Wealth Components of Typical U.S. Household

1. Home equity
2. 401K plans (retirement plans)
3. Equity holdings
Home Ownership / Home Equity

• Should you buy or rent?
  – In most cases, you should consider buying a home only when you plan to stay in it for several years
  – The cost of your home (including taxes, maintenance and other costs) should not exceed 28% of your monthly income

Source: Wall Street Journal

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Home Ownership / Home Equity

• What type of mortgage is best?
  – Do not take a mortgage in which you cannot afford the monthly payment
  – No interest only mortgages
  – Understand risks associated with ARMs
Retirement Savings

• Primary Retirement Savings Options
  – Defined Benefit Plans
  – Voluntary Contribution Plans (401Ks)
  – Individual Retirement Accounts (IRAs)
Retirement Savings – Start Early

• Begin saving at 25, putting in $2,000 a year for 40 years, assuming earnings growth at 8%
  $560,000

• Begin saving at 35, putting in $2,000 a year for 30 years, assuming earnings growth at 8%
  $245,000
Investments

• Primary Investment Options
  – Equities (stocks)
  – Fixed Income (bonds)
  – Certificates of Deposit
  – Mutual Funds
  – Real Estate
Investments

• Any money that you have invested in the stock market should not be money that you will need to access in the next couple of years
  – This should include the money that you may have in a 401K or IRA that is invested in equities
Investments

Stock Purchases

• When the market goes down people want to cash out of the stock market and not buy anything new
  – That is not the time to cash out of the stock market (during low points)
  – *Watch out for investment biases (e.g., forecasting errors, overconfidence, and affect)*
Debt Reduction

Do you have debt? (Student loans? Credit cards? equity loans?)

Need a debt reduction plan
Debt Reduction Plan

• What type of debt do you have?
  – Not all debt is created equally

• What are the terms of each loan?

• Plan for paying off each obligation