Is Our Wealth Data Right About Young Adults?

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In this issue brief, I present evidence that widely used wealth data for young adults (and other age groups) may be upwardly biased. These results suggest that researchers (and consumers of wealth research) should be more intentional/critical when analyzing wealth statistics disaggregated by age.

Introduction

Significant effort in the social sciences is spent on properly measuring economic well-being. Statistics covering income receive much of this attention, partly because the data underlying these statistics are easily accessible. However, income is an incomplete measure: it typically measures the flow of resources for an individual or family over a month or a year but not the stock of resources. Statistics based on this stock of resources, more commonly known as wealth, offer an arguably better view of inequality in the U.S.

One of the primary sources of data covering the wealth of U.S. families comes from the Survey of Consumer Finances (SCF) – a triennial survey conducted by the Federal Reserve. SCF-based wealth, or net worth, includes all of the components of family resources, including but not limited to the total value of cash savings, stocks, bonds, vehicles, and real estate. The SCF is also a critical source for measuring wealth at different ages – many analyses of wealth in the SCF focus exclusively on measuring how wealth is increasing (or declining) among various age groups or generations over time. These SCF-based statistics of young adults receive significant attention from the popular press, think tanks, scholars, and the Federal Reserve itself, which regularly updates a measure of wealth across generations and age using data based in part on the SCF. All of this attention is understandable since these statistics help address a fundamental economic question: are younger generations of Americans financially better/worse off than previous generations?

Despite the focus on estimates of wealth across age groups, this issue brief presents evidence showing that too little attention is paid to whether these wealth statistics are representative of young adults (and other age groups). Specifically, I show that homeownership measured in the SCF at the household level has increasingly diverged over time from homeownership measured at the individual level in the Current Population Survey (CPS), a widely used Census survey of population and economic trends in the U.S. household population. Diverging homeownership estimates are an especially important phenomenon for young adults, who have experienced substantial declines in individual homeownership rates relative to household rates. With net housing wealth representing a critical share

of the total net worth of U.S. families, these trends suggest that the SCF could be overreporting the change in total net worth over time for young adults.

Previous research has examined this question of SCF representativeness. Brown et al. (2013); Bricker et al. (2015); and the People's Policy Project (2019) have documented that the SCF underreports aggregate student loan amounts, with the latter publication showing that student debt in the SCF is biased toward older respondents. As a part of their research into trends in net worth, assets, and debt of young adults across time, Dettling and Hsu (2014) tested whether the decline in headship rates (young adults forming their own household) could be leading to bias in the measurement of young adult wealth in the SCF. Specifically, they developed benchmarks of homeownership and income for household heads in the SCF compared with measures of the same outcomes for individual persons in the CPS. They found that young adult homeownership rates and incomes were higher in their SCF measure than in their CPS person measure and, importantly, that the biases in homeownership and income have increased over time, with the greatest observed biases in homeownership rates.

In the remainder of this brief, I update and build on findings from Dettling and Hsu (2014) by testing the representativeness of homeownership as measured in the SCF. Specifically, I update estimates comparing the SCF with the CPS for the three latest triennial editions of the SCF, use alternative age groupings for young adults, and expand SCF/CPS comparisons to other age groups beyond young adults.

A Note on Methodology

For all of my SCF-based estimates, I use each triennial edition of the SCF summary public files available from the Federal Reserve. For all of my CPS-based estimates, I use data available from IPUMS-CPS through the IPUMS API. I exclude group quarter respondents from the CPS estimates. I weight all estimates using the respective person and household weights in each survey. Code, publicly-available data, and figures for this brief are available on this Github repository.

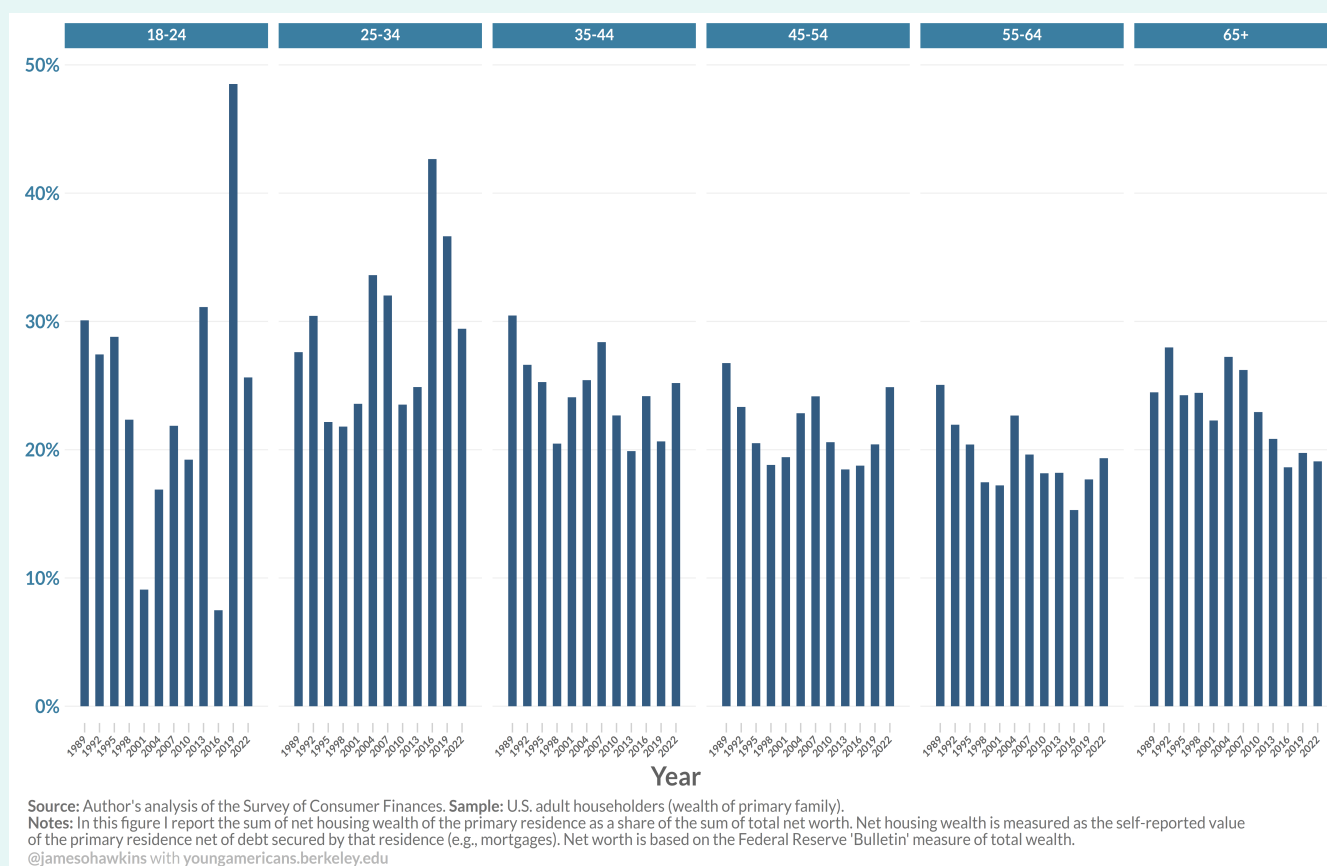## How does homeownership compare in the CPS and SCF?

For any household survey, young adults are a challenging population to measure, primarily because they are highly mobile, moving between residences at a higher rate than older age groups. There are also structural aspects of the SCF that may make it more prone to inaccurate estimates of wealth among all young adults. The SCF is designed to build a representative measure of the wealth for what is called the "Primary Economic Unit" (PEU), which the Federal Reserve defines as 1) the economically dominant individual or couple in a household and 2) any individuals who are economically dependent on that individual/couple. Therefore, by definition, the PEU excludes individuals in the household who are financially independent from the primary family. For example, the increasing number of young adults living at home would be excluded from the SCF measure of wealth to the extent that these young adults are financially independent from their parents. The overarching question of this issue brief is whether young adult wealth measured in the SCF is representative of true young adult wealth. Or, more specifically, is SCF wealth measured within the PEU representative of wealth for all young adults?

On the face of it, it is not obvious that the SCF's methodology would cause any bias in SCF-measured wealth, particularly if people inside and outside the PEU have similar levels and composition of wealth. Furthermore, while individual levels of wealth may differ inside and outside the PEU, the trends in wealth over time between these

two groups may be similar. Short of constructing an individual measure of wealth, which is outside the scope of this analysis, it is difficult to fully account for this question with the available SCF data.[1] However, one specific component of wealth offers a useful benchmark for this question: housing. As I show in Figure 1, the value of the primary residence is one of the largest components of wealth in the SCF, with total housing wealth in the primary residence accounting for nearly 30% of total net worth among 25-34-year-olds as of 2022. This component of wealth is also important for other age groups in the population: approximately 25% of the total share of wealth among 18-24-year-olds and 35-54-year-olds is accounted for by wealth in a primary residence.

Figure 1: How important is housing wealth?
Total net worth in primary residence (net of debt secured by primary residence) as a share of total net woth, by age group

Source: Author's analysis of the Survey of Consumer Finances. **Sample:** U.S. adult householders (wealth of primary family).
Notes: In this figure I report the sum of net housing wealth of the primary residence as a share of the sum of total net worth. Net housing wealth is measured as the self-reported value of the primary residence net of debt secured by that residence (e.g., mortgages). Net worth is based on the Federal Reserve 'Bulletin' measure of total wealth.
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Intuitively, the value of wealth stored in one's primary residence is typically not owned equally or proportionally among all members of a household outside of the household head(s). Therefore, the SCF – intended to measure wealth among the household's primary family and its financial dependents – will miss the lack of housing wealth among financially independent members of a household. Furthermore, and importantly, it will likely also miss the absence of housing wealth for the dependent members of the PEU, given that these financially dependent members likely do not share in the ownership of the residence.[2] In other words, the housing wealth owned by
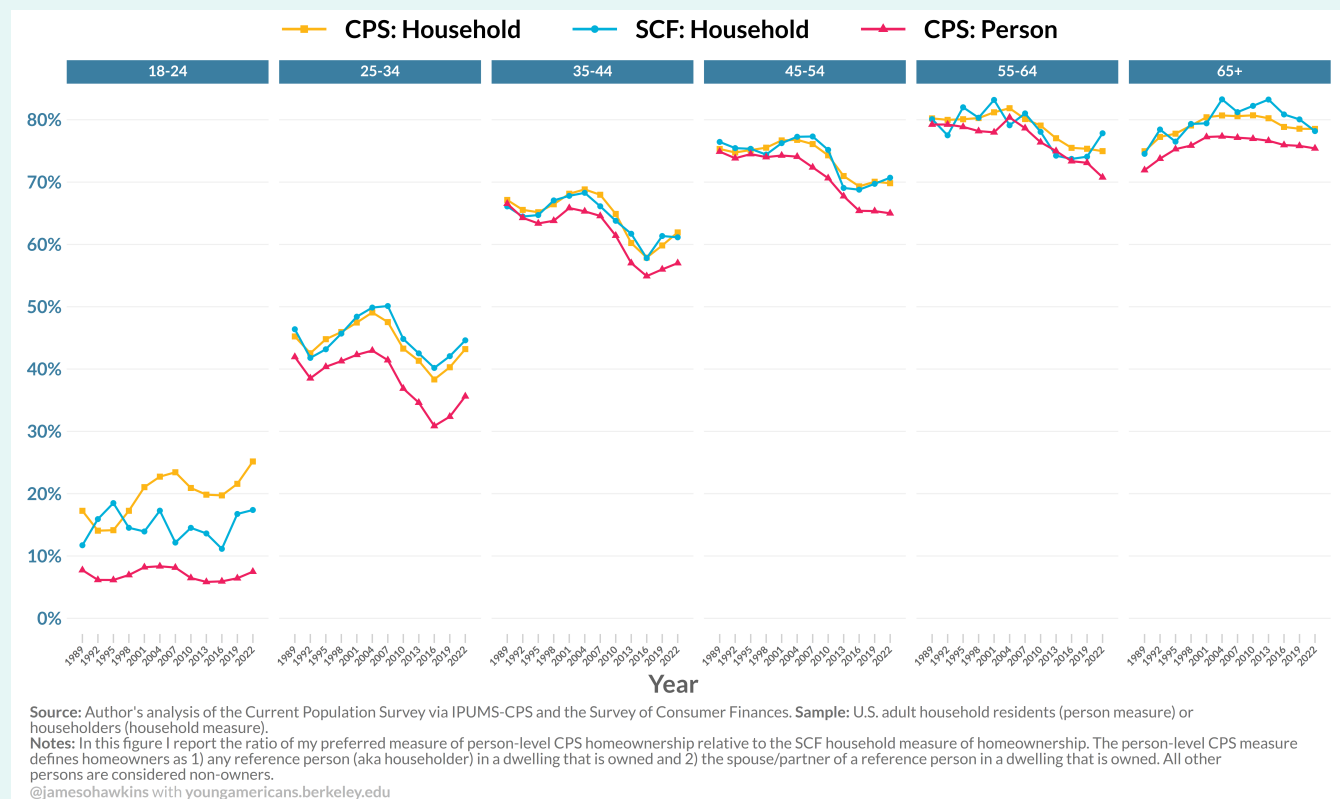
1   For recent studies that have constructed individual-based statistics from the SCF, see Gale et al. (2022) and Bricker et al. (2021).
2   As an example, in almost all cases, one would not attribute a household's housing wealth to a young adult member of the PEU living with and financially dependent on their parents. While questions of inheritance may ultimately be relevant in this case they do not address the ownership of that wealth at the time of the survey and are outside the scope of this analysis.

the PEU, specifically the household head(s), will be unrepresentative of the housing wealth of the rest of the population. Given the decline in headship rates (household formation) in the U.S. in recent decades, this may be increasingly affecting the representativeness of SCF wealth.[3]

To further evaluate this question of the representativeness of SCF housing wealth, I follow Dettling & Hsu (2014) by using a proxy measure of housing wealth: homeownership rates, as measured in both the SCF and CPS. Specifically, in Figure 2, I compare the more conventional household-level measure of homeownership rates in each survey with an imputed person-level measure of homeownership rates in the CPS. The household homeownership measure in either the SCF or CPS shows the ownership status of the household reference person, indicating whether the home is owned or rented. The person-level homeownership measure in the CPS incorporates the likely homeownership status of all members of a household (e.g., a young adult living at home with their parents).[4]

Figure 2: Comparing survey measures of homeownership
Homeownership rate (household or person measure), by age group

Source: Author's analysis of the Current Population Survey via IPUMS-CPS and the Survey of Consumer Finances. Sample: U.S. adult household residents (person measure) or householders (household measure).
Notes: In this figure I report the ratio of my preferred measure of person-level CPS homeownership relative to the SCF measure of homeownership. The person-level CPS measure defines homeowners as 1) any reference person (aka householder) in a dwelling that is owned and 2) the spouse/partner of a reference person in a dwelling that is owned. All other persons are considered non-owners.
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3   One can imagine a scenario where the percentage of the population who were 1) heads of households who owned, 2) heads of households who rented, and 3) any other member of a household, stayed relatively constant over time. However, declining headship rates show that the third category of individuals is growing, and these changes are occurring differentially across age groups.

4   For the person measure, I assume that the reference person takes on the same ownership status as with the household measure (i.e., they claim ownership if the home is owned), the spouse/partner takes on the same ownership status as reference person, and anyone outside either the reference person or any spouse/partner do not own. The person measure will underreport homeownership to the extent that individuals outside the household head(s) own some fraction of the home they reside in at the time of the survey or own a home somewhere else. Alternatively, it will overreport homeownership to the extent that spouses/partners do not share in ownership of the home.
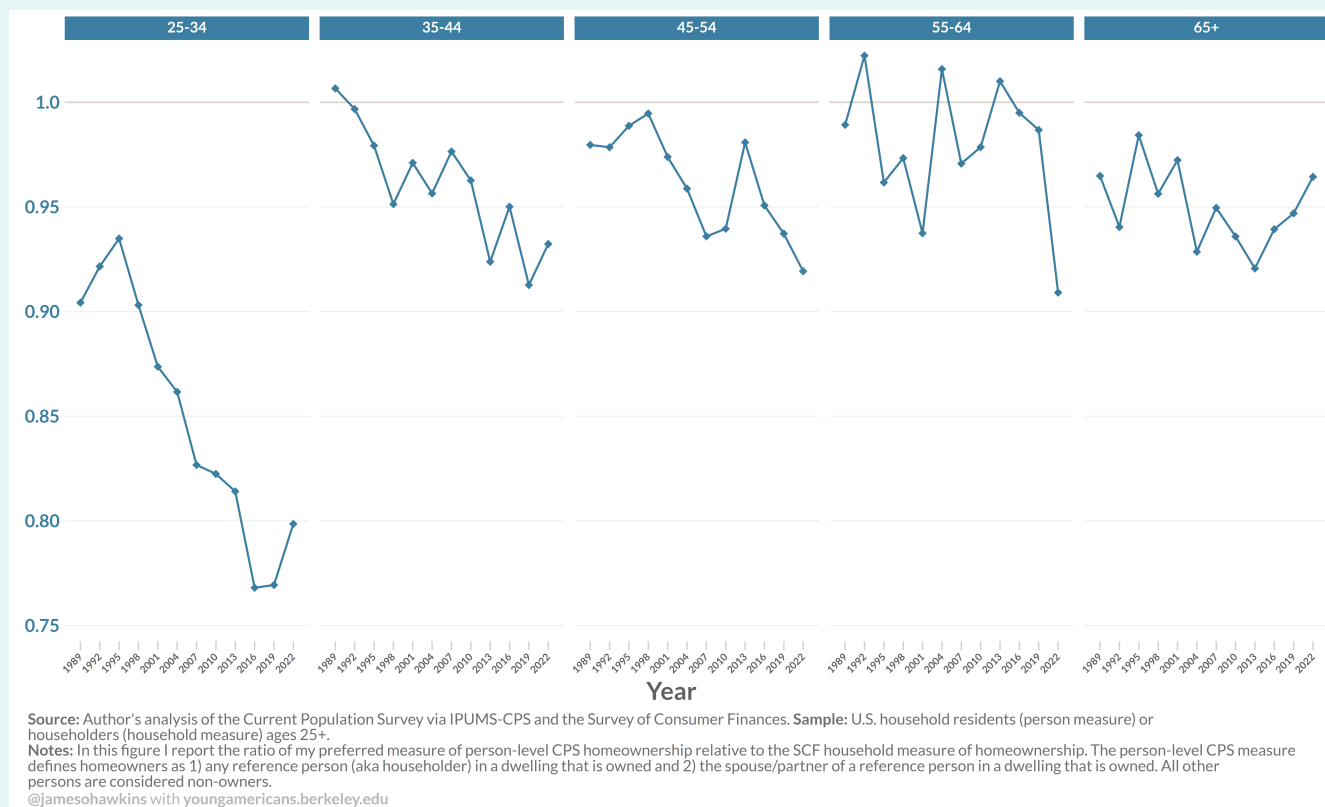
Figure 2 shows a growing divergence between CPS person-level homeownership and the household-level estimates of homeownership for various age groups, including 25-34-year-olds. Interestingly, while the household measures for each survey are largely in alignment across time, the gap between the CPS person measure and the household measures is increasing over time, especially for ages 25-54 years old. This growing gap over time is significant – it confirms an increasing incidence of non-owners across time at the individual level in the CPS that are not captured in the household homeownership rate in the SCF. It is also of note that 18-24-year-old household homeownership shows discrepancies between the two surveys not found for other age groups. It is not immediately clear what accounts for these differences. The results may be noisy due to limits in the total size of the respective samples for this age group and the relatively small number of homeowners at this age. There may also be measurement issues with homeownership among this sub-population that are not immediately apparent.

Next, in Figure 3, I directly estimate and plot the ratio of CPS person-level homeownership rates relative to SCF household-level homeownership rates over time (this is the equivalent of the series denoted with triangles in Figure 2 divided by the series denoted with circles in the same figure) to better visualize the relative differences between the measures. I omit 18-24-year-olds from these estimates because, as noted above, results for this age group are noisy over the history of the SCF. The 18-24-year-old age range also includes prime college-going years, which may be an important factor in changes to 18-24-year-old homeownership rates over time as college attendance has increased over the period analyzed.[5]

Figure 3: Comparing survey measures of homeownership

Ratio of CPS person to SCF household measures of homeownership rates, by age group

Source: Author's analysis of the Current Population Survey via IPUMS-CPS and the Survey of Consumer Finances. Sample: U.S. household residents (person measure) or householders (household measure) ages 25+.
Notes: In this figure I report the ratio of my preferred measure of person-level CPS homeownership relative to the SCF household measure of homeownership. The person-level CPS measure defines homeowners as 1) any reference person (aka householder) in a dwelling that is owned and 2) the spouse/partner of a reference person in a dwelling that is owned. All other persons are considered non-owners.
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5   Extended results with 18-24-year-olds included are available in the associated Github repository.

Figure 3 provides a more precise view of the trends in Figure 2: the SCF household measure overreports homeownership relative to the CPS person measure, with a greater gap between the two measures, depending on the age group. For estimates among ages 25+, the gap is most acute among 25-34-year-olds, with the SCF overreporting homeownership rates by about 25% as of 2022. Importantly, Figure 3 provides a direct estimate of the increasing gap over time for 25-34-year-olds between the person-level and household-level measure that was apparent in Figure 2, with an initial value of .904 in 1989, a peak of .935 in 1995, a decline to .768 in 2016, and a slight recovery to .799 in 2022, with a total decrease on a percentage basis of 11.7% between 1989 and 2022.[6] I find a similar decline in this ratio measure when I change the age groupings of young adults from 25-34 to 25-39, which happens to largely overlap with the range of Millennial cohorts in 2022.[7]

Interestingly, Figure 3 makes it more clear that the decline in CPS person measure of homeownership rates relative to the SCF household measure is not isolated to 25-34-year-olds. With the exception of the 65+ age group, all other age groups have seen varying declines in this ratio measure since 1989. 35-44-year-olds saw a 7.4% decline, 45-54-year-olds a 6.2% decline, and 55-64-year-olds an 8.1% decline over the 1989 to 2022 period.[8] The ratio declined a total of 7.4% between 1989 and 2021 among 25-64-year-olds (prime-age working years). And it declined by 4.3% across the adult population over this period. A decline in the representativeness of SCF household homeownership for these age groups is in line with concomitant declines in headship rates for the same age groups.

Implications for measuring wealth

My findings indicate that the SCF measure of wealth for young adults and other working-age individuals may be biased by not accounting for the decline in homeownership measured at the person level in recent decades. Given that housing wealth is tied to homeownership status, and the importance of housing wealth to total net worth, this suggests that the SCF may be overreporting the relative changes in wealth for particular age groups over time. Of course, these results do not directly test how changing incidence of homeownership across age groups may affect wealth statistics. It is possible that other components of wealth have gone up faster for non-heads of households inside or outside the PEU to offset relative losses in housing wealth from declining homeownership. However, as of the 2013 SCF, Dettling and Hsu (2014) also found a growing divergence between income estimates in the SCF and CPS for young adults, suggesting that other components of net worth in the SCF may be unrepresentative to the extent that wealth and income are correlated for these age groups.

Wealth statistics disaggregated by age receive significant attention in the scholarly community and public press because these statistics offer a core benchmark for the vitality of our economy. They are performance measures that allow us to assess whether young and upcoming generations are better off than those that came before them (specifically, when judged at the same age). Unfortunately, as this brief and previous evidence indicates, changes in

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6   In my preferred estimates, I use a measure of person-level homeownership rates that assumes both spouses and partners are homeowners if the reference person of the household is a homeowner, with this measure exhibiting the most conservative decline in homeownership rates between 1989 and 2022. An alternative measure that incorporates reference persons and their spouses (not partners) as homeowners of owned homes shows an even greater decline in the representativeness of the SCF over time. Whereas my preferred measure shows a decrease on a percentage basis of 11.7% in the ratio of the CPS person homeownership and SCF household homeownership for 25-34-year-olds between 1989 and 2022, the measure excluding partners as homeowners shows a 19.3% decline over the same period. The accuracy of either measure depends on the extent to which spouses or partners share in ownership of a residence, which I cannot definitively conclude from the available data.

7   The Pew Research Center defines Millennials as cohorts born from 1981 to 1996.

8   Estimates for 65+ show the ratio was .965 in 1989 and .964 in 2022.

the structure of families and households may be degrading the ability of our core wealth statistics to capture this progress (or lack thereof) in wealth. As fewer individuals form their own households, the SCF may increasingly survey the wealth of an unrepresentative sample of wealthier adults. Based on these findings, many SCF users may be uncritically interpreting wealth estimates among young adults and other age groups. Relatedly, it is worthwhile to quote a key conclusion from Dettling and Hsu's (2014) paper: "...our comparisons with CPS data indicate that SCF users should exercise caution when drawing inferences regarding balance sheet items that are primarily held by young people."