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The Complex Story of American Debt

Liabilities in family balance sheets

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Families cannot be upwardly mobile if they aren't first financially secure. With that in mind, Pew has undertaken a multiyear effort to develop a comprehensive picture of the financial realities of diverse American families. This work will examine the individual components of balance sheets— income, expenditures, and wealth—and the ways in which they intersect, to build the holistic picture necessary to understand whether these families are, and feel, financially secure.



Income

Inflows of money to a household from all sources, such as wages, Social Security earnings, and rental income.



Expenditures

Outflows of money from a household, such as for food, transportation, and housing.



Wealth

Total assets a household owns, including the money in checking and savings accounts, retirement savings, and property, minus total debts, such as balances owed on a credit card, mortgage, or property loan.

This report explores a key element of wealth: household debt. Debt is sometimes acquired for mobility-enhancing purposes, such as to pay for college or purchase a home. But debt can also serve as a stopgap for families to cover regular expenses or deal with financial emergencies, especially if their savings are not sufficient. The type and amount of debt that households carry contribute to their wealth and their overall financial health.

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Overview

One of the biggest shifts in American families' balance sheets over the past 30 years has been the growing use of credit and households' subsequent indebtedness. In the years leading up to the Great Recession, the average household at the middle of the wealth ladder more than doubled its mortgage debt.¹ Although Americans' debt has decreased since then, housing—which still is the largest liability for most households—and other debt remain higher than they were in the 1990s, and student loan obligations have continued to grow.²

And this rise in debt has not corresponded to a similar increase in household income.³ Debt is particularly problematic for low-income households, whose liabilities grew far faster than their income in the aftermath of the recession: Their debt was equal to just one-fifth of their income in 2007, but that proportion had ballooned to half by 2013.⁴ Even middle-wealth households held over \$7,000 more debt, on average, in 2013 than in 2001 and previous years.⁵

Despite these trends, the typical American family still has more assets than debt.⁶ And though debt may compromise households' immediate financial security, prevent them from saving, or limit their ability to invest in their own or their children's economic mobility, sustainable debt—which allows them to avoid financial emergencies or invest in their futures without putting undue pressure on their present-day budgets—can also be a positive force.⁷ Without such debt, many families would not be able to achieve homeownership, obtain college degrees, or start businesses.

This report provides a comprehensive look at the complex story of American debt—how families hold it, their attitudes toward it, and how it relates to their overall financial health—and examines the life cycle dynamics of debt to better understand the distinct phases of debt acquisition and debt reduction in families' lives. This paper draws on data from The Pew Charitable Trusts' Survey of American Family Finances, collected in November and December 2014, for up-to-date debt estimates, as well as data from the Federal Reserve's 1989–2013 Survey of Consumer Finances for historical trends. The study also explores how four generations of Americans—the silent generation, baby boomers, Generation X, and millennials—have taken on debt in specific historical contexts and how the peaks and valleys in the economy have affected them differently. Key findings include:

- **8 in 10 Americans have debt, with mortgages the most common liability.** Although younger generations of Americans are the most likely to have debt (89 percent of Gen Xers and 86 percent of millennials do), older generations are increasingly carrying debt into retirement. Eighty percent of baby boomers and more than half (56 percent) of retired members of the silent generation hold some form of debt.
- **Gen Xers have higher mortgage debt than other generations at similar ages in part because of when they purchased their homes.** During the runup in housing prices before the Great Recession, Gen Xers were in their prime homebuying years. The typical Gen Xer in his or her mid-30s had more than twice the mortgage debt that boomers had at the same age.
- **Americans feel conflicted about debt: Nearly 7 in 10 (69 percent) said debt is a necessity in their lives, even though they prefer not to have it.** A similar percentage (68 percent) also believes that loans and credit cards have expanded their opportunities. However, a generational divide in attitudes toward debt is emerging, with younger Americans being more debt-averse.
- **Debt can be good and bad for Americans' financial health and sense of security, depending on age.** For older Americans, lower levels of debt indicate greater financial security, especially because they are most likely to be living on a fixed income. But among those of working age, the story is more complex: Compared with their peers with less income and wealth, Americans with higher incomes and net worth have more debt but also healthier balance sheets overall. This is probably because affluence facilitates greater access to sustainable forms of credit, such as “prime” home mortgage loans, that can help a household build wealth.

These data make clear that debt is a routine, but also a highly complicated, aspect of households' financial lives.⁸ At high levels, it can hinder family financial security, but sustainable debt can also help families invest in long-term opportunities.

Defining the Generations

Silent generation: born between 1928 and 1945.

Baby boomers: born between 1946 and 1964.

Generation X: born between 1965 and 1980.

Millennials: born between 1981 and 1997.*

* The Pew Survey of American Family Finances surveys only adults (18 and older), so the birth years for millennials are 1981 to 1997.

8 in 10 Americans have debt, with mortgages the most common liability

Overall, 80 percent of Americans hold some form of debt, whether mortgages, car loans, unpaid credit card balances, medical and legal bills, student loans, or a combination of those. The most frequently held form is mortgage debt (44 percent), followed by unpaid credit card balances (39 percent), car loans (37 percent), and student loans (21 percent).⁹ (See Figure 1 and Appendix Table A.1.)

The type and amount of debt, however, vary considerably, depending on the debtholder's stage of life. Gen Xers are in their prime debt-acquiring years: Nearly 9 in 10 (89 percent) hold debt, with more than half (56 percent) owing money on a mortgage. And among those with debt, the typical Gen Xer owes more than \$100,000, over \$30,000 more than the typical boomer and twice as much as the typical millennial. More than 4 in 10 millennials (41 percent) are beginning their working lives with student debt.

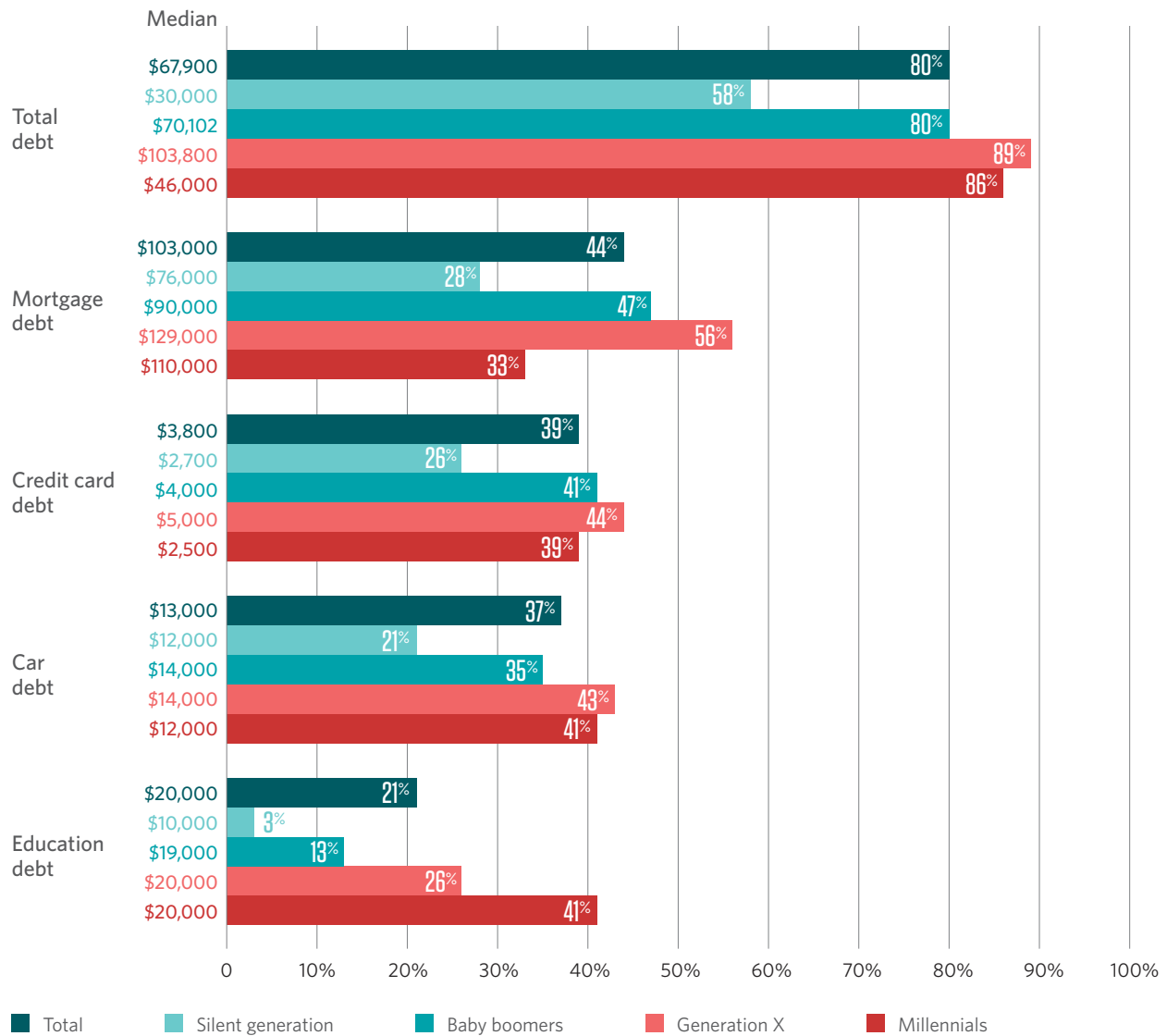
Gen Xers are in their prime debt-acquiring years: Nearly 9 in 10 (89 percent) hold debt, with more than half (56 percent) owing money on a mortgage.

Perhaps more surprising, however, is how many older households are carrying debt later in life and into retirement. Eight in 10 baby boomers hold some form of debt, and nearly half (47 percent) are still paying on their homes. Boomers who are still paying mortgages typically owe \$90,000 on their homes. Among the oldest Americans, those in the silent generation, 90 percent report being retired and, presumably, on fixed incomes. But more than half (56 percent) of these retirees have debt.¹⁰ Because most older Americans are not eliminating debt before retirement, they may be at greater risk of financial insecurity in their golden years. (See Figure 1 and Appendix Table A.1.)

Figure 1

Most Americans Had Debt in 2014

Percentage of households with liabilities and median amount owed, by debt type and generation



Note: Respondents to the Survey of American Family Finances were asked multiple questions about debt, including, “Does your household currently owe money on one or more mortgage loans for your primary residence (yes/no)?” “How much does your household owe in total on mortgage loans for your primary residence?” “Right now, does your household have a balance on any of those [credit or charge] cards that carries over from one month to the next (yes/no)?” “Thinking about all of your household’s credit cards, about how much do you owe in total on the balances that carry over from one month to the next?” “Does your household currently owe money on one or more loans for your cars, trucks, and SUVs (yes/no)?” “In total, about how much does your household currently owe on loans for cars, trucks, and SUVs?” “Does your household owe money on education or school loans (yes/no)?” “Thinking of all of your household’s student loans, about how much do you owe in total on these loans?”

Source: Pew Survey of American Family Finances

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Uneven Debt Holdings Contribute to the Racial Wealth Gap

The substantial wealth gap between white families and families of color has been well-documented by researchers. According to the Pew Research Center, white families had a net worth in 2013 that was 13 times more than that of black families and 10 times higher than that of Hispanic families.^{*} Net worth comprises assets and debt, so the racial wealth gap can be understood by examining each component individually.

Among respondents to Pew's Survey of American Family Finances, black and Hispanic households are as likely to have debt as white households. However, white households' median debt is more than twice as big (Table 1) and differs in important ways from that of families of color—for example, including more mortgage debt—which often helps white households build even greater net worth.

White households also typically hold more assets than black and Hispanic households. The typical white household has nearly seven times more assets than black households and over three times more than Hispanic households. These differences are magnified among low-income households: The typical white household making less than \$40,000 a year has nearly 18 times more assets than black households at the same income bracket and seven times more than Hispanic households. Because of its low asset holdings, the typical lower-income black household has no net worth. At a fundamental level, the racial wealth gap is about a lack of assets in black and Hispanic households, rather than an abundance of debt.

Wealth and debt acquisition are strongly influenced by life cycle. Investigating Gen Xers and millennials reveals that racial differences in debt and asset accumulation begin early. Young white, black, and Hispanic households differ somewhat in their credit card, car, or other consumer debt and notably diverge with respect to debt that could be considered mobility enhancing, such as mortgages and student loans. Fifty-three percent of white Gen X and millennial households reported housing debt, compared with just 24 percent of black and 35 percent of Hispanic households. Among those with mortgages, white households typically had \$15,000 more than blacks and \$2,000 more than Hispanics in home equity. Conversely, 44 percent of black Gen Xers and millennials owed money toward student loans, compared with just 35 percent of similar white households; in both racial groups, those holding such debt typically owed \$20,000. One-quarter of young Hispanic households had student loan debt, typically \$15,000.

Despite the higher-than-average rate of student loan debt among young black Americans, it is not clear that this debt is fully building their human capital. Black Gen Xers and millennials who owe student debt in their own names are more likely than their white peers to be paying for a degree they did not complete (38 percent versus 26 percent).[†] Furthermore, they are less likely to be paying for lucrative income-generating graduate degrees: More black and Hispanic Gen X

Continued on the next page

and millennial student loan borrowers do not yet have a bachelor's degree compared with their white peers (53 percent and 56 percent versus 41 percent, respectively.)[‡]

Table 1

White Households Have More Assets and Debt Than Black and Hispanic Households

Components of wealth, by race and income

	White		Black		Hispanic	
	All	Income less than \$40,000	All	Income less than \$40,000	All	Income less than \$40,000
Percent with any debt	80%	76%	82%	78%	83%	74%
Median total debt	\$41,500	\$8,660	\$18,950	\$7,120	\$19,875	\$3,332
Median total assets	\$275,000	\$54,250	\$40,000	\$3,025	\$80,875	\$7,800
Median total net worth	\$159,400	\$22,200	\$6,000	\$0	\$16,300	\$2,110

Note: Subtracting median debt from median assets does not equal median total net worth because medians are calculated separately and are not additive.

Source: Pew Survey of American Family Finances

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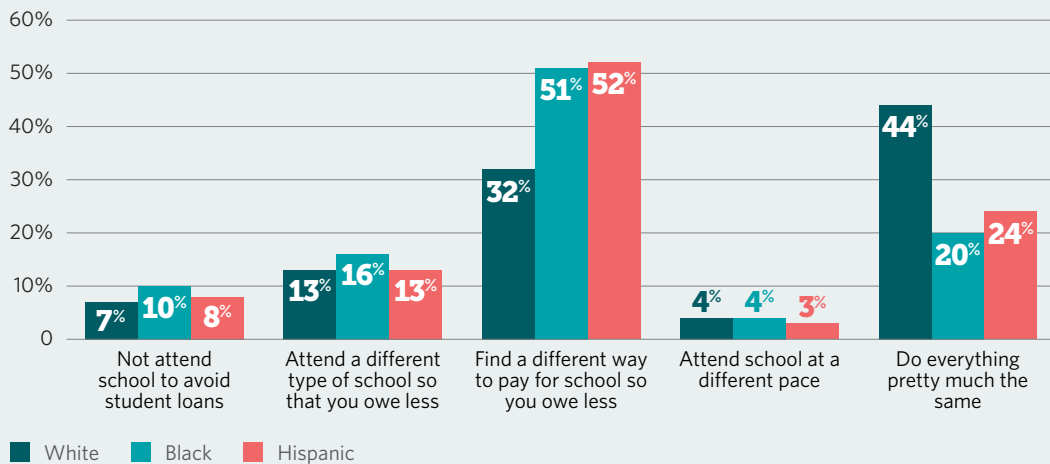
Perhaps most revealing, though, are racial and ethnic differences surrounding regret for their student loans. When Gen X and millennial student loan borrowers were asked if they had it to do over, would they have done things differently, half of blacks and Hispanics (51 and 52 percent, respectively) said they would find a different way to pay for school in order to owe less money, compared with just one-third of white respondents (32 percent). (See Figure 2.) What's more, only a quarter (24 percent) of Hispanic and a fifth of black borrowers (20 percent) said they would do everything pretty much the same with regard to their student loans, compared with 44 percent of white borrowers.

Continued on the next page

Figure 2

Half of Black and Hispanic Gen Xers and Millennials Regret Owing So Much for Student Loans

Reconsidered education funding choices, by race and ethnicity



Note: People were asked: "Imagine you could make your student loan borrowing decision again. Which of the following comes closest to what you would do: Not attend school to avoid taking student loans / Attend a different type of school so that you owe less in loans / Find a different way to pay for school so that you owe less in loans / Attend school at a different pace / Do everything pretty much the same?"

Source: Pew Survey of American Family Finances

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The racial and ethnic differences cited in this report are not comprehensive and suggest considerable complexity surrounding debt and assets. For example, research suggests that white families have better access to mortgages, and credit generally, than black and Hispanic families.⁵ Even if mortgages are secured, black and Hispanic homeowners experience higher rates of foreclosure and housing distress than white families, in part because they receive riskier loans.¹¹ Further, home equity for black homeowners has not increased at the same rate as it has for white homeowners largely because home values in minority neighborhoods have been slow to recover since the housing crisis, and so have generated lower returns on mortgage debt.[#] Other research suggests that inheritance and other intergenerational wealth transfers often benefit white families more than black families.¹² This could lead to differences in whether and how money is borrowed among white and black families, perpetuating inequities across generations.

A future Pew report will explore the multifaceted racial and ethnic differences in family balance sheets in more depth.

Continued on the next page

- * Rakesh Kochhar and Richard Fry. "Wealth Inequality Has Widened Along Racial, Ethnic Lines Since End of Great Recession," Pew Research Center (Dec. 12, 2014), <http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession>.
- † The difference between black and white respondents is significant. Thirty-four percent of Hispanics have such debt and have not completed their degrees; this percentage is not statistically different from blacks or whites.
- ‡ The differences between black and white, and Hispanic and white, respondents are significant; the difference between black and Hispanic respondents is not.
- § See *The State of the Nation's Housing*, Joint Center for Housing Studies of Harvard University (2014), <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-full.pdf>; and Laurie Goodman, Jun Zhu, and Taz George, "The Impact of Tight Credit Standards on 2009-13 Lending," Urban Institute (April 2015), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000165-The-Impact-of-Tight-Credit-Standards-on-2009-13-Lending.pdf>.
- || Debbie Gruenstein Bocian, Wei Li, and Carolina Reid, "Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures," Center for Responsible Lending (November 2011), <http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf>.
- # Michael A. Fletcher, "A Shattered Foundation: African Americans Who Bought Homes in Prince George's Have Watched Their Wealth Vanish," *The Washington Post*, Jan. 24, 2015, <http://www.washingtonpost.com/sf/investigative/2015/01/24/the-american-dream-shatters-in-prince-georges-county>.
- ** Thomas Shapiro, Tatjana Meschede, and Sam Osoro, "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide," Institute on Assets and Social Policy, Brandeis University (February 2013), <http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf>.

Gen Xers' mortgage debt tops other generations' at similar ages

Housing is the primary source of debt on family balance sheets, but the accelerated appreciation in the housing market before the Great Recession affected each generation's debt differently. For Gen Xers, who were more likely to have bought homes at the peak of the bubble, housing is a significant share of their overall debt.¹¹ In 2007, Gen Xers in their mid-30s who were at the middle of the wealth distribution had in excess of \$92,000 in housing debt, more than double what boomers held at the same age.¹² By 2013, however, Gen Xers had shed over \$30,000 in total debt but still owed \$8,000 more on mortgages than boomers at the same age.¹³ (See Figure 3 and Appendix Table A.2.)

Likewise, boomers hold more housing debt than the silent generation. In fact, boomers had more mortgage debt in 2013 than they did in 1995, and as they approached retirement in 2013, they carried nearly double the housing debt that the silent generation held at the same age.

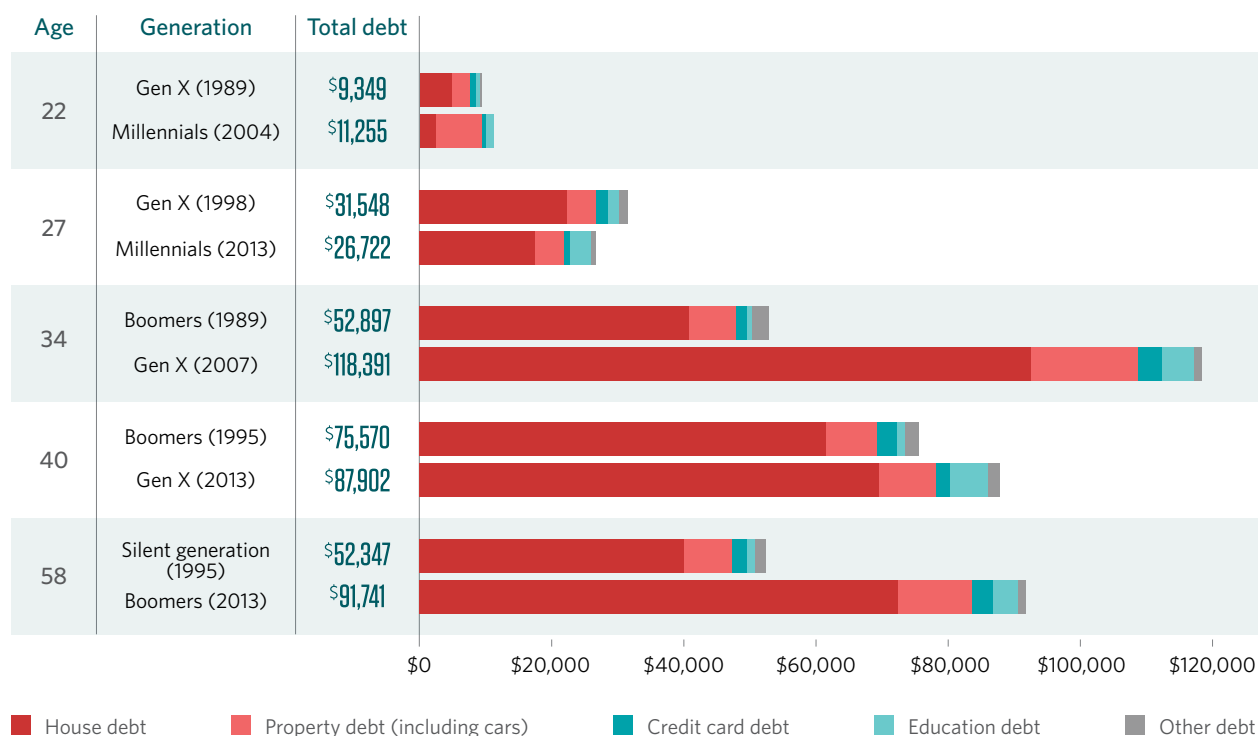
Millennials, however, had less housing debt at age 27 (in 2013) than Gen Xers did at the same age. This was probably due to two factors: fewer millennials held mortgages than Gen Xers at that age (23 percent versus 31 percent) and they may have benefitted from declines in home prices following the recession, resulting in smaller debt when they did borrow.¹⁴

These data show that the timing of home purchases for each of the generations has contributed to very different debt profiles.

Figure 3

Housing Debt Weighs on Gen Xers in Their Prime Working Years and Boomers Near Retirement

Average liabilities at the middle of the wealth ladder, by generation, debt type, and average age



Note: Middle wealth-holders are defined as those in the middle three quintiles of the wealth ladder, or 60 percent of wealth-holders. Ages chosen for generational comparison are based on life-cycle considerations, such as completing college, beginning work, being midcareer, and approaching retirement, as well as data availability, because the Survey of Consumer Finances is collected on a triennial basis.

Source: Pew analysis of the Survey of Consumer Finances: 1989 to 2013

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Americans feel conflicted about debt

When asked about their attitudes toward nonmortgage debt, nearly 7 in 10 Americans (69 percent) indicated that it was a necessity in their lives but that they preferred not to have it. A similar percentage (68 percent) said that loans and credit cards have expanded their opportunities by allowing them to make purchases or investments that their income and savings alone could not support. These findings suggest an uneasy comfort with debt—a sense that it is needed and possibly even advantageous—but is still not desired. Just 1 in 5 Americans (20 percent) said that no amount of debt is worth it, regardless of the opportunities it might offer.¹⁵

Furthermore, although most Americans consider debt a necessity in their own lives, they view it as a negative force in the lives of others. The vast majority indicated that other people use debt irresponsibly (79 percent) and mainly to live beyond their means (85 percent). (See Table 2.)

Table 2

Americans See Debt as Important in Their Own Lives, But Not in the Lives of Others

Attitude toward debt	
Debt is necessary, but I prefer not to have it.	69%
Loans and credit cards have expanded my opportunities.	68%
Americans use debt to live beyond their means.	85%
Americans do not usually use debt in a responsible way.	79%

Note: All respondents to the Survey of American Family Finances were asked, “What comes closest to your feelings about debt (No debt is worth it to me / Some debt is a necessity, but I would prefer not to have it / I am OK taking on the debt that I need)?” “And, in your own life, do you think that the ability to take out loans and have a credit card has (Expanded your opportunities by allowing you to make purchases you couldn’t afford from your income at the time / Reduced your opportunities by burdening you with bills that you couldn’t really afford to pay)?” Half of the respondents were asked, “What comes closest to your view about the debt that most Americans hold (Americans use debt to live beyond their means / Americans use debt but live within their means)?” The other half were asked, “What comes closest to your view about the debt that most Americans hold (They mostly use debt in a responsible way / They do not usually use debt in a responsible way)?”

Source: Pew Survey of American Family Finances

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Attitudes about debt are also influenced by people’s stages of life. Among members of the silent generation, most of whom are retired, one-quarter said that no amount of debt is worth the risk to them. The feeling was even stronger (44 percent) among those in the silent generation who were the least indebted.¹⁶ (See Appendix Table A.4.) These responses could indicate the belief that borrowing might be unwise at their age and place in life, but looking back, most acknowledged the valuable role debt played in their lives; 77 percent of the silent generation said that loans or credit cards expanded their opportunities.

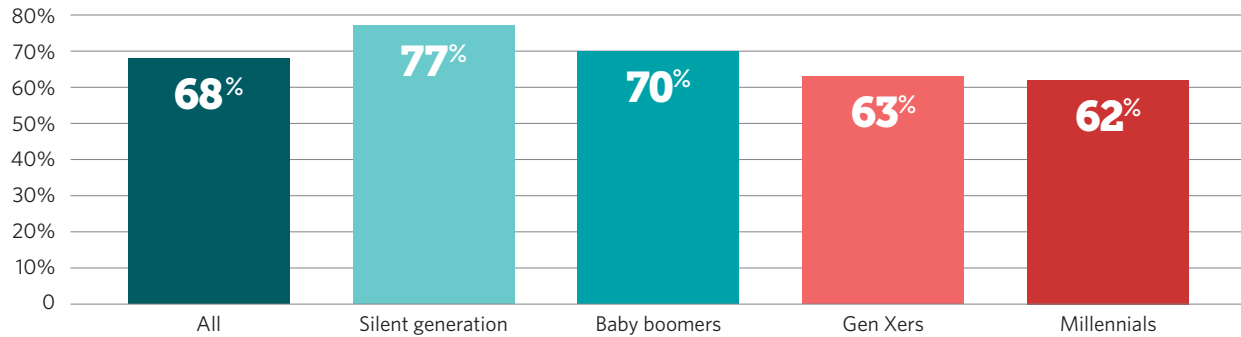
In contrast, younger Americans tend to perceive debt more negatively. Millennials and Gen Xers were less likely to say that loans or credit cards have expanded their opportunities (62 percent and 63 percent, respectively). (See Figure 4.) Low-debt millennials—those in the bottom third of debtors their age—were nearly as likely to say that debt expanded their opportunities (49 percent) as they were to say it reduced them (51 percent).¹⁷ Nearly 9 in 10 (88 percent) of these same low-debt millennials also consider Americans’ use of debt to be irresponsible. While it is unclear who specifically these millennials are judging, it is apparent that, as of this study, they do not want the same for themselves.

Respondents’ attitudes toward the opportunity-enhancing potential of debt also reflect differing generational perspectives.¹⁸ After controlling for differences by education, race, income, and the perception that no amount of debt is worth it to them personally, both Gen Xers and millennials remain significantly more negative than older Americans about debt.¹⁹ In fact, the silent generation was twice as likely as Gen X to say that debt has expanded opportunities in their lives. (See Appendix Table A.3.)

Figure 4

The Silent Generation Views Debt More Positively Than Gen Xers or Millennials Do

Views on loans and credit cards as opportunity-enhancing, by generation



Note: Respondents to the Survey of American Family Finances were asked, “And, in your own life, do you think that the ability to take out loans and have a credit card has (Expanded your opportunities by allowing you to make purchases you couldn’t afford from your income at the time / Reduced your opportunities by burdening you with bills that you couldn’t really afford to pay)?”

Source: Pew Survey of American Family Finances

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Overall, Gen Xers’ and millennials’ aversion to debt may reflect their greater debt burdens at an earlier stage in life than previous generations, as well as having experienced the Great Recession when they were just beginning school, entering the workforce, and purchasing their first homes.²⁰ However, regardless of generation, those who have more student loan debt are significantly less likely to view debt as enhancing their opportunities—a surprising finding given what research shows about a college degree promoting upward mobility but one that may reflect the growing burden of education debt, particularly among those who do not complete a degree.²¹ (See sidebar on Page 4 and Appendix Table A.3.)

The Next Generation and a Legacy of Debt

One key question to ask when examining debt is: “Will high debt be transferred to the next generation?” Gen Xers’ relationship to education debt presents a unique opportunity for investigating these queries because some within that generation are simultaneously paying off their own student loans and thinking about paying for college for their children.*

Most Gen Xers (61 percent) have children and one-third (34 percent) have a teenager. Nearly all Gen X parents (93 percent) said that their oldest child will go to college, and most (83 percent) said that they will help pay for it. At the same time, one-quarter (26 percent) of Gen Xers have education debt; they typically owe \$20,000. More than half of these Gen Xers

Continued on the next page

also have children. Although this is a relatively small number, it highlights a larger issue: Debt places a limit on how much Gen Xers can save for their kids' future.

Among Gen Xers who have teenagers, those still paying off their own education debt have less saved for their kids than similar Gen Xers without student loans. Gen X parents with education debt have saved a median of \$4,000 in dedicated college savings accounts, known as 529s. Gen X parents with no education debt have typically saved \$20,000, five times more than their peers with student loans.[†]

But even these better-prepared Gen X parents may have insufficient funds to make a sizable dent in their children's college expenses. The average cost of in-state tuition, fees, room, and board at a public four-year institution for the 2014-15 academic year was \$18,943, so these parents could, at best, fully fund just one year of college for one child.[‡] Assuming a more realistic scenario, where students at public four-year schools pay, on average, about half of the published yearly costs out-of-pocket, these parents could fund just two years of attendance for one child.[§] Although relatively few parents have 529 accounts—others may be saving or paying for children's college expenses using other strategies—this evidence suggests a considerable shortage of funds, especially among parents still paying for their own education.

Furthermore, Gen X parents of teenagers may have unrealistic expectations of how their children will cover the costs of college should their personal savings fall short. Nine in 10 (93 percent) believe their child will receive a scholarship, grant, or both. Just 36 percent believe loans will be necessary. In reality, far fewer students receive grants or scholarships, and more depend on loans: In the 2011-12 academic year, 58 percent of undergraduates at four-year public institutions received grants or scholarships, and 50 percent used loans.^{||}

Without major changes to tuition rates or the funding for higher education in the near future, the college-bound teenagers of Gen Xers are poised to take on as much or more debt than their parents. Although education debt may propel some Gen X parents to healthier balance sheets overall, the degree to which it prevents accumulation of sufficient liquid savings in time to help their children pay for college could fuel an intergenerational legacy of debt.

* Data for this section were run separately and are not included in the report. See the accompanying topline document for these statistics.

† The difference in medians between 529 accounts held by Gen X parents with and without student loan debt is significant at the $p < 0.10$ level. This comparison should be used with caution because it is based on small sample sizes.

‡ See College Board data on average undergraduate costs for the 2014-15 school year: <http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2014-15>.

§ See estimates of average out-of-pocket net prices for undergraduate education: <https://nces.ed.gov/datalab/tableslibrary/viewtable.aspx?tableid=9911>.

|| See the National Center for Education Statistics table on the type of aid undergraduates received in the 2011-12 academic year: <https://nces.ed.gov/datalab/tableslibrary/viewtable.aspx?tableid=9695>.

Debt can be both good and bad for Americans' financial health and sense of security

Debt's relationship to the stability of American families' balance sheets is often unexpected. For the silent generation, those with the least debt are among the most financially secure; among Gen Xers and millennials, the most financially stable are also those with the most debt.

More than 4 in 10 (42 percent) members of the silent generation are debt-free with a median net worth of \$637,000, most of which (\$395,000) is nonhousing wealth. Not surprisingly, 8 in 10 report feeling financially secure and prepared for the unexpected (81 and 82 percent, respectively). (See Appendix Table A.4.) In contrast, the top third of debtors in the silent generation have acquired a sizeable net worth (median of \$370,000), but they have about half the nonhousing net worth of their debt-free peers (median of \$215,000) and many are paying mortgages (median of \$55,000).²² Comparing low- and high-debt retirees demonstrates the importance of paying off debt, especially mortgages, for healthy balance sheets and a sense of security in retirement.

The bottom third of baby boomer debtors have very little debt, but they may not be as financially secure as their peers in the silent generation. Not only is their median income lower (\$40,000 compared with \$52,000), but also their median net worth is just a third of that held by low-debt members of the silent generation. Seventy percent of these baby boomers are still employed, so they are likely to continue building assets until they retire, but at an average age of 59, some among this group may not enjoy the same financial success that the silent generation had.

Conversely, having debt is associated with higher income and net worth and healthier balance sheets overall for younger working-age Americans. The top third of Gen X and millennial debtors have a median income nearly three times higher and net worth over six and five times greater, respectively, than their low-debt peers. Some of this debt was incurred as an investment in the future—the typical high-debt millennial has \$15,500 in unsecured debt, some of which is student loans.²³

On the other hand, low-debt Gen Xers and millennials not only have lower income and net worth than others their age, but they are also less financially stable overall. Half of low-debt Gen Xers and millennials have less than \$1,000 in liquid assets (55 and 52 percent, respectively) and report that they have no savings (52 and 45 percent, respectively). More than half say they are financially insecure.

Low-debt Gen Xers and millennials not only have lower incomes and net worth than others at their age, but are also less financially stable overall.

The greater income and wealth of high-debt younger Americans, compared with their lower-debt peers, probably increases their access to credit in all forms, which contributes to their debt in the present but may build long-term wealth by facilitating mobility- and asset-enhancing investments.²⁴ In contrast, their low-debt peers have lower incomes and net worth which, in turn, typically limit their access to sustainable credit and result in fewer opportunities to build assets.²⁵ Among young Americans then, debt is part of a more complicated story; the “virtuous cycle” of debt fueling asset accumulation may be indicative of healthier balance sheets among the more financially secure, while having less debt may indicate lower incomes, less financial security, and the prospect of shakier balance sheets in the future.

Figure 5

Typical High-Debt Gen Xers and Millennials Tend to Have Better Balance Sheets Than Their Low-Debt Peers

High debt, income, and net worth, by generation

High-debt Gen Xers	3 times higher income than low-debt peers	6.5 times higher net worth than low-debt peers
High-debt millennials	3 times higher income than low-debt peers	5.5 times higher net worth than low-debt peers

Source: Pew Survey of American Family Finances

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Conclusion

Over the past 30 years, American families have taken on increasing amounts of debt. Today, 80 percent of Americans hold some form of debt, most often mortgages. And these liabilities are not always bad: Many older Americans view debt as having enhanced their opportunities in life. Most in the silent generation, in particular, are retired, many have paid off their debt, have relatively healthy balance sheets, and report feeling financially secure.

However, Gen Xers and millennials are less likely to view debt as beneficial. More of them carry debt than older generations at the same age. And they experienced the Great Recession acutely: Millennials came of age during that period and saw how high levels of debt took a toll on households' immediate financial security and prevented them from saving enough for later, and Gen Xers endured loss of housing wealth and other consequences of the recession at higher rates than many other Americans.²⁶

The long-term effects of debt on today's young Americans are still to be determined. Their financial paths may be carved, to some degree, by their parents' finances, as their parents' were shaped by the generation that came before them, and by changes in the economy, including a volatile housing market and a complicated landscape for funding higher education.²⁷ But these findings suggest that accruing some debt at an early age can increase long-term savings and wealth-building by fueling investments in homes and education, which in turn stabilize and support families and communities.²⁸ Sustainable debt can be a positive force for the economic mobility and financial security of young Americans and their families.

Data and methods

The data analyzed in this report came from two sources: the Survey of American Family Finances (SAFF), commissioned by Pew; and the Survey of Consumer Finances (SCF), conducted by the Federal Reserve Board.

The SAFF was administered to a nationally representative panel between Nov. 6 and Dec. 3, 2014. Including oversamples of black and Hispanic respondents, the total sample size was 7,845. Survey firm GfK collected the data on behalf of Pew and administered the computer-based questionnaire in English and Spanish. All reported data were weighted. For clarity of analysis, respondents who chose not to answer a question were excluded from the statistics generated for that item. As is frequently the case for computer-based surveys, missing data were most common when respondents failed to answer something they felt did not apply to them, such as “other” in a list of questions. Overall, item nonresponse for the survey was 2.2 percent. Additional details about the survey and its methodology are available at http://www.pewtrusts.org/~media/Assets/2015/03/FSM-Poll-Results-Methodology_ARTFINAL_v2.pdf.

This analysis employed several analytic approaches to understanding debt. To determine incidence of debt in all forms, the survey asked whether or not every household owed money toward various loans and bills. Researchers then calculated medians for those who reported holding each form of debt. Demographic variables such as cohort and race were identified from self-reported age and race and ethnicity of the household respondent as provided to Pew by GfK. Researchers placed households in the bottom, middle, or top tier of debtors within their cohort by dividing each cohort into thirds based on total debt held.

Most of the statistics reported include frequencies, cross-tabulations, and medians. The researchers performed logistic analyses to better understand generational attitudes toward debt being opportunity-enhancing or not and controlled for income (logged), credit card debt (logged), education debt (logged), educational attainment, negative attitude toward debt generally, and race. The results from these regression analyses are in the appendix. The question wording, cross-tabulations, standard errors for all of the variables analyzed, and specific populations studied can be found in the accompanying survey top-lines document.

The Federal Reserve Board conducts the SCF on a triennial basis and is considered the best national source for household wealth data. The analyses in this report include data from 1989 through 2013 to capture changes in indebtedness trends. All SCF data used in this report were inflation-adjusted to 2013 dollars. Full SCF files were merged with abstract files to allow for analysis of estimates for specific generational groups. The asset, debt, and net worth variables used were taken directly from the SCF abstract files for all available years. All SCF estimates presented in this report were weighted using the five implicates provided with the data files.

Appendix: Data tables

Table A.1

Median Debt, by Type and Generation

	All households	Silent generation	Baby boomers	Generation X	Millennials
Total percentage with debt	80%	58%	80%	89%	86%
Median for total debtors	\$67,900	\$30,000	\$70,102	\$103,800	\$46,000
Total percentage with mortgage debt	44%	28%	47%	56%	33%
Median for mortgage debtors	\$103,000	\$76,000	\$90,000	\$129,000	\$110,000
Total percentage with credit card debt	39%	26%	41%	44%	39%
Median for credit card debtors	\$3,800	\$2,700	\$4,000	\$5,000	\$2,500
Total percentage with car loans	37%	21%	35%	43%	41%
Median for car loan debtors	\$13,000	\$12,000	\$14,000	\$14,000	\$12,000
Total percentage with education loans	21%	3%	13%	26%	41%
Median for education loan debtors	\$20,000	\$10,000	\$19,000	\$20,000	\$20,000
Total percentage with medical bills	21%	11%	21%	22%	24%
Median for medical bill debtors	\$1,200	\$500	\$1,200	\$1,500	\$1,250
Total percentage with bank loans	21%	15%	23%	24%	21%
Median for bank loan debtors	\$10,000	\$15,000	\$10,000	\$10,000	\$7,500
Total percentage with family loans	8%	2%	6%	12%	14%
Median for family loan debtors	\$2,000	\$4,500	\$1,500	\$2,000	\$1,750
Total percentage with other bills	10%	3%	9%	12%	15%
Median for other bill debtors	\$500	\$455	\$400	\$500	\$400

Source: Pew Survey of American Family Finances

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Table A.2

Median Debt in Dollars for Middle Wealth-Holders, by Type and Average Age

	Age 22		Age 27		Age 34		Age 40		Age 58	
	Gen X (1989)	Millennials (2004)	Gen X (1998)	Millennials (2013)	Baby boomers (1989)	Gen X (2007)	Baby boomers (1995)	Gen X (2013)	Silent generation (1995)	Baby boomers (2013)
Total	9,349	11,255	31,548	26,722	52,897	118,391	75,570	87,902	52,347	91,741
Other	264	103	1,390	840	2,612	1,240	2,109	1,814	1,630	1,270
Property	2,810	7,045	4,418	4,373	7,082	16,224	7,776	8,522	7,189	11,111
House	4,826	2,390	22,255	17,429	40,843	92,494	61,437	69,602	40,067	72,442
Education	565	1,252	1,707	3,186	840	4,871	1,163	5,728	1,139	3,691
Credit card	883	465	1,778	895	1,521	3,562	3,085	2,237	2,322	3,228

Note: Middle wealth-holders are defined as those in the middle three quintiles of the wealth ladder, or 60 percent of wealth-holders. Ages chosen for generational comparison are based on life-cycle considerations, such as completing college, beginning work, being midcareer, and approaching retirement, as well as data availability, because the Survey of Consumer Finances is collected on a triennial basis.

Source: Pew Survey of American Family Finances

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Table A.3

Logistic Regression of Perception of Debt as Opportunity-Enhancing on Generation

	Generation X vs. other generations		Millennials vs. other generations	
	Odds ratio	Significance	Odds ratio	Significance
Generation				
Silent generation	2.07	***	1.65	*
Baby boomers	1.47	**	1.17	
Generation X	excluded		0.78	
Millennial	1.22		excluded	
Income (log 10)	1.9	***	1.91	***
Credit card debt (log 10)	1.03		1.03	
Education debt (log 10)	0.89	**	0.89	**
Education (less than high school degree is comparison group)				
High school graduate	1.03		1.03	
Some college	0.98		0.98	
College graduate	1.45		1.44	
Postgraduate degree	2.49	**	2.49	**
Believes "no debt is worth it"	0.5	***	0.5	***
Race and/or ethnicity (white is comparison group)				
Black	0.87		0.87	
Other race (non-Hispanic)	0.83		0.83	
Hispanic	1.05		1.05	
Constant	0.08	***	0.1	***

Note: Significance is represented as follows: p<.05; * p<.01; ** p<.001.***

Source: Pew Survey of American Family Finances

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Table A.4
Family Balance Sheet Indicators, by Debt Within Generation

	Silent generation			Baby boomers			Generation X			Millennials		
	Bottom third of debtors	Middle	Top third of debtors	Bottom third of debtors	Middle	Top third of debtors	Bottom third of debtors	Middle	Top third of debtors	Bottom third of debtors	Middle	Top third of debtors
Median debt owed (including mortgage)	--	\$3,540	\$93,000	--	\$37,500	\$200,000	\$2,000	\$80,000	\$251,100	\$500	\$30,300	\$171,500
Median income	\$52,000	\$32,500	\$67,500	\$40,000	\$55,000	\$92,500	\$37,500	\$67,500	\$112,500	\$27,500	\$45,000	\$80,000
Median net worth	\$637,000	\$122,000	\$370,000	\$199,850	\$142,600	\$298,500	\$21,790	\$77,075	\$141,000	\$9,000	\$3,900	\$49,950
Median nonhousing net worth	\$395,000	\$37,500	\$215,000	\$76,850	\$52,500	\$200,000	\$7,000	\$25,415	\$77,000	\$7,200	-\$5,000	\$20,000
Median liquid assets	\$25,000	\$4,000	\$9,000	\$5,750	\$3,030	\$7,200	\$550	\$2,500	\$6,000	\$800	\$1,050	\$5,200
Median mortgage debt	--	--	\$55,000	--	--	\$125,000	--	\$46,000	\$185,000	--	--	\$110,000
Median secured debt (home and car)	--	--	\$65,000	--	\$20,000	\$137,000	--	\$50,000	\$195,000	--	\$7,000	\$120,000
Median unsecured debt (credit card, education, medical, and other bills)	--	\$300	--	--	\$2,000	\$4,000	\$15	\$4,500	\$6,000	--	\$12,100	\$15,500
Feels financially secure	81%	64%	64%	55%	44%	52%	43%	40%	54%	47%	37%	55%
Feels financially prepared for unexpected	82%	45%	53%	55%	39%	41%	34%	43%	36%	28%	18%	49%
Household has money considered savings	92%	72%	77%	68%	66%	73%	48%	60%	73%	55%	55%	77%
Household has less than \$1,000 liquid assets	13%	30%	14%	35%	34%	19%	55%	36%	19%	52%	47%	18%

Continued on the next page

	Silent generation			Baby boomers			Generation X			Millennials		
	Bottom third of debtors	Middle	Top third of debtors	Bottom third of debtors	Middle	Top third of debtors	Bottom third of debtors	Middle	Top third of debtors	Bottom third of debtors	Middle	Top third of debtors
Feels no debt (loans, credit cards) is worth it	44%	15%	11%	32%	11%	7%	29%	18%	10%	34%	16%	18%
Race/ethnicity of household head												
Black	4%	10%	9%	10%	12%	8%	18%	9%	7%	17%	14%	6%
Hispanic	4%	6%	6%	10%	9%	9%	30%	14%	12%	20%	15%	14%
White	88%	80%	80%	75%	75%	74%	42%	76%	68%	50%	65%	69%
Other race/ethnicity	4%	4%	5%	5%	5%	9%	10%	2%	12%	13%	5%	12%
Has at least a bachelor's degree	28%	16%	33%	26%	23%	40%	22%	37%	58%	21%	31%	55%
Married or partnered	65%	49%	71%	58%	66%	82%	59%	76%	87%	47%	59%	71%
Average age	75	75	74	59	59	58	42	42	41	26	27	28
Household head(s) is(are) retired	93%	88%	87%	30%	25%	21%	2%	<1%	<1%	<1%	<1%	<1%

Notes: For all but the silent generation, creating three tiers of indebtedness divided the generations into approximate thirds based on debt levels. Because 42 percent of those in the silent generation are debt-free, the bottom group of that cohort is disproportionately larger than the other two.

'-' represents not applicable

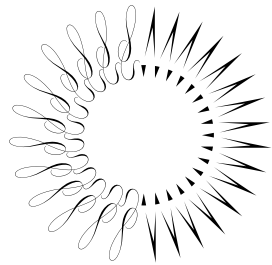
Source: Pew Survey of American Family Finances

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Endnotes

- 1 The Pew Charitable Trusts, "The Precarious State of Family Balance Sheets" (2015), http://www.pewtrusts.org/-/media/Assets/2015/01/FSM_Balance_Sheet_Report.pdf.
- 2 Ibid.; and Meta Brown et al., *The Financial Crisis at the Kitchen Table: Trends in Household Debt and Credit*, Federal Reserve Bank of New York, Report no. 480 (2010), http://www.newyorkfed.org/research/staff_reports/sr480.html.
- 3 Pew analysis of the Survey of Consumer Finances: 1989 to 2013.
- 4 Pew researchers ran this statistic separately from the rest of the analysis using the Survey of Consumer Finances data and did not include it in a table or figure. Low-income is defined here as the bottom fifth of the income distribution.
- 5 The Pew Charitable Trusts, "The Precarious State." A growing body of literature links household debt to the Great Recession and its aftermath. Some researchers have argued that low- and middle-income households increased their debt in the years prior to the Great Recession due to the combination of slow income growth and unchanged consumption rates. See Barry Z. Cynamon and Steven M. Fazzari, "Inequality, the Great Recession and Slow Recovery," *Cambridge Journal of Economics* (March 2015): doi: 10.1093/cje/bev016. Others have argued that the Great Recession itself was caused by a financial system that encouraged too much household debt. See Atif Mian and Amir Sufi, *House of Debt* (Chicago: University of Chicago Press, 2014). Still others contend that since the Great Recession, consumers have been slow to borrow again, despite historically low interest rates. See Edward S. Knotek II and John Carter Braxton, "What Drives Consumer Debt Dynamics?" *Federal Reserve Bank of Kansas City Economic Review* (Fourth Quarter 2012): 31-54. These studies underscore how important it is to better understand debt's role in household balance sheets.
- 6 The Pew Charitable Trusts, "The Precarious State."
- 7 A debt-to-income ratio above 40 percent is widely accepted by experts as an indicator of unsustainable debt for a borrower. If the ratio is higher than that, borrowers may have difficulties repaying their loans. For example, the Consumer Financial Protection Bureau (CFPB) does not allow lenders to offer stable, more affordable "qualified mortgages" if a borrower's debt-to-income level is above 43 percent. See the CFPB's website for more information: <http://www.consumerfinance.gov/askcfpb/1791/what-debt-income-ratio-why-43-debt-income-ratio-important.html>.
- 8 For additional reading on the complexity of household debt, see Jonathan Zinman, "Household Debt: Facts, Puzzles, Theories, and Policies," *Annual Review of Economics* (April 2015), in which the author describes the many gaps in our current understanding of household debt, in terms of the inefficiencies in both consumer decision-making and the credit market.
- 9 Respondents were also asked whether they had medical loans (21 percent said yes), bank loans (21 percent), other unpaid bills (10 percent), or loans from family members (8 percent). These forms of debt are not shown on this figure because they have lower incidence and/or few generational differences of note.
- 10 This statistic was run separately and does not appear in a table or figure.
- 11 For a discussion of how housing affected the wealth of those ages 35-44 and Gen Xers generally during and after the recession, see Edward N. Wolff, "Household Wealth Trends in the United States, 1962-2013: What Happened Over the Great Recession?" National Bureau of Economic Research, Working Paper No. 20733, (2014); and Signe-Mary McKernan et al., "Impact of the Great Recession and Beyond: Disparities in Wealth Building by Generation and Race," Urban Institute (April 2014), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413102-Impact-of-the-Great-Recession-and-Beyond.PDF>.
- 12 This analysis was restricted to middle-wealth families to the use of averages without having outliers in the data. Middle wealth-holders are defined as those in the middle three quintiles of the wealth ladder, or 60 percent of wealth-holders.
- 13 For more on Gen X's higher debt compared with other generations, see William R. Emmons and Bryan J. Noeth, "Despite Aggressive Deleveraging, Generation X Remains 'Generation Debt,'" *In the Balance: Perspectives on Household Balance Sheets* 9 (August 2014), https://www.stlouisfed.org/-/media/Files/PDFs/publications/pub_assets/pdf/itb/2014/In_The_Balance_issue_9.pdf.
- 14 Pew ran this statistic separately using the Survey of Consumer Finances data and does not appear in a table or figure.
- 15 On attitudinal questions about debt, respondents were asked to think about nonmortgage debt only.
- 16 When analyses reference the "top," "middle," or "bottom" debtors, they reflect the categorization of respondents as being in approximately the bottom, middle, or top third of debtholders in their generational group.
- 17 See endnote 16. The exception here is members of the silent generation, of whom 42 percent are in the bottom tier because they are debt-free.
- 18 To further explore generational attitudes toward debt, an analysis took into account whether demographic characteristics were affecting these viewpoints.

- 19 To better understand generational attitudes on debt, a logistic regression was performed with either Gen X or millennials as the excluded group. The attitudinal variable asking whether debt had enhanced or reduced opportunities in respondents' own lives was regressed on cohort, income (log transformed), amount of credit card debt (log transformed), amount of education debt (log transformed), educational attainment, general feelings about debt, and race/ethnicity. Results from the regression analysis are presented in Table A.3.
- 20 For an overview of younger generations' diminished wealth and the macroeconomic changes, including greater indebtedness, behind these trends, see Phillip Longman, "Wealth and Generations," *Washington Monthly* (June/July/August 2015), http://www.washingtonmonthly.com/magazine/junejulyaugust_2015/features/wealth_and_generations055898.php.
- 21 The Pew Charitable Trusts, "Moving On Up: Why Do Some Americans Leave the Bottom of the Economic Ladder, but Not Others?" (2013), <http://www.pewtrusts.org/-/media/Assets/2013/11/01/MovingOnUppdf.pdf>. Of note, post-estimation tests revealed no collinearity between amount of education debt and level of educational attainment.
- 22 Because 42 percent of members of the silent generation are debt-free in this analysis, the middle and top tiers for this group do not break into even thirds. Consequently, the middle tier of silent generation debtors constitutes 27 percent of this group and the top tier constitutes 31 percent of this group overall.
- 23 Of note, this analysis does not separate out millennials and Gen-Xers who have high-debt and student loans from others in those generations. Evidence also suggests that those younger than 40 with student loan debt may not be accumulating as much wealth as their peers who have similar education, yet no student debt. See Richard Fry, *Young Adults, Student Debt and Economic Well-Being*, Pew Research Center (May 2014), <http://www.pewsocialtrends.org/2014/05/14/young-adults-student-debt-and-economic-well-being>.
- 24 For a discussion of how taking on more debt, particularly among wealthy Americans, may improve long-term balance sheets, see Jeff Sommer, "Debt's Two Sides: Riches and Misery," *The New York Times* (Feb. 21, 2015), <http://nyti.ms/1zVFyyB>.
- 25 Some research suggests that the key to healthy balance sheets for young families, especially those who are economically vulnerable, is to maintain low debt and diversify assets. See Ray Boshara and William Emmons, "Asset Diversification and Low Debt Are the Keys to Building and Maintaining Wealth," *Cascade*, no. 84 (Winter 2014), Federal Reserve Bank of Philadelphia, http://www.philadelphiafed.org/community-development/publications/cascade/84/01_asset-diversification-and-low-debt-are-keys-to-building-maintaining-wealth.cfm.
- 26 The Pew Charitable Trusts, *Retirement Security Across Generations: Are Americans Prepared for Their Golden Years?* (2013), http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pes_assets/2013/EMPRetirementv4051013finalFORWEBpdf.pdf.
- 27 For additional information about how the balance sheets of today's working-age Americans have been affected by the financial circumstances of their parents, see: The Pew Charitable Trusts, *Pursuing the American Dream: Economic Mobility Across Generations* (2012), http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pes_assets/2012/PursuingAmericanDreampdf.pdf. For additional information about the important implications debt has for both future consumption and economic growth, see Brown et al., *The Financial Crisis at the Kitchen Table*.
- 28 Caroline Ratcliffe et al., "Debt in America," Urban Institute (July 2014), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413190-Debt-in-America.PDF>.



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