



WEALTH FLOWS TO THE WEALTHIEST AS THE PERCENTAGE OF AMERICANS WHO OWN STOCK FALLS

Growing share of households face inadequate retirement income; Personal debt reaches new high

For a family, wealth is synonymous with security. The ability to accumulate assets – whether to pay for education, buy a home, finance retirement, or to provide a shock absorber for life’s inevitable bumpy roads – is fundamental to safeguarding and improving living standards over the years. But in America today, wealth and its benefits are becoming increasingly concentrated among the wealthiest few and further out of reach for everyone else. The bright spot is the historic rise in home ownership rates since the mid-1990s.

The Economic Policy Institute’s forthcoming book *The State of Working America 2006/2007* (SWA) examines in detail the data and trends in net worth, asset ownership, and household debt in a chapter on wealth and its distribution, which is being released today in advance of the Labor Day weekend release of the rest of the book. EPI economist Sylvia Allegretto is the principal author of this chapter, which is based on new analysis of the latest (2004) data from the Survey of Consumer Finances by one of the nation’s foremost experts on household income and wealth, Edward N. Wolff, who is an economics professor at New York University.

More Wealth Flowed to the Top

While the distribution of income and wages has become increasingly unequal, the distribution of wealth has become even more so. The authors point out that in 2004, about 17% of all income nationwide went to the top-earning 1%, while the bottom 90% received just under 58% of all income. That same year, however, the top 1% held over 34% of all net worth, while the bottom 90% held a little under 29% of net worth.

The wealth disparity has grown over time. In the early 1960s, the wealthiest (top 1%) Americans held 125 times the wealth of the typical (median) household; in 2004 the wealthiest held 190 times more. In dollar terms, the disparities are clear. Between 2001 and 2004, average wealth grew by \$1.2 million (about 3% per year) for the wealthiest 1%, raising their average wealth holdings to about \$15 million. Wealth for an average household (the middle fifth) grew only about 0.8% per year to reach an average of about \$82,000 in 2004. Meanwhile those at the bottom of the wealth distribution (the bottom fifth) fell farther behind, as their average wealth fell from -\$8,700 in 2001 to -\$11,400 in 2004 – as they owe more than they own.

Many households have little or negative wealth. About 30% of households had wealth holdings valued at less than \$10,000 and for 17% wealth holdings were zero or negative.

Home Ownership: a Bright Spot

The one area of most consistent good news is home ownership. In 2005, nearly 69% of households owned their own homes, a significant increase over the 64% ownership rates of a decade ago. Since 1999, the most dramatic increases came for Hispanics, whose home ownership grew to 49.5% or by 4 percentage points in 2005. White home ownership rates increased 2.2 percentage points since 1999 and were 72.7% in 2005. Over the same time period, rates increased by 1.9 percentage points to 48.2% for blacks. Hispanic home ownership surpassed that of blacks for the first time.

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Taking Stock of Stock Ownership

It probably would surprise a lot of people to know that less than half of American households are invested in the stock market in any form--either directly or indirectly through mutual funds or 401(k)s. The percentage of households that own stock declined from 51.9% in 2001 to 48.6% in 2004 – the first decline recorded. Furthermore, the percentage of households with more than \$5,000 in stock fell from 40.1% to 34.9%--the first decline in this share.

Stock ownership remains concentrated among the wealthiest households. The wealthiest 20% of households own over 90% of all stock value. For the top 1%, the average value of stock holdings was \$3.3 million in 2004, down from \$3.8 million in 2001. The average value of stock holdings for the middle 20% was \$7,500 in 2004, down from \$12,000 in 2001.

“The typical American family relies on home ownership and home equity for their financial security, not the stock market,” said EPI economist Sylvia Allegretto, the principal author of this chapter.

Red Ink Rises

A key finding regarding the other side of the wealth ledger – liabilities – is that household debt has continued its upward trend. Since the early 1980s debt has grown significantly as a percentage of disposable personal income, and steep increases have occurred since 2000. In 1982 debt was 67% of disposable personal income; by 2000 it was 102% and in 2005 it reached an all time high of 132%.

Debt consumes a growing share of household income – up from 12.9% in 2001 to 14.4% in 2004. Middle income households spent close to a fifth (19.4%) of their income paying down debt in 2005, an increase of 2.3 percentage point since 2001.

Black-white Differences

The racial divide of wealth by race is stark. In 2004, the median wealth of black households was just one-tenth that of white households, \$11,800, compared to \$118,300. While 13% of white households had zero or negative net worth, over 29% of black households were in that category.

Although home ownership rates have increased for blacks, they still lag considerably behind whites: 72.7% for whites in 2005 compared to just 48.2% for blacks.

Retirement-ready?

Among retirement experts, it is widely accepted that to live adequately in retirement requires income from all sources – including Social Security, pensions, 401(k)s and other investments, and savings – that adds up to about half as much income as during the working years. Wolff’s analysis, which includes Social Security benefits, shows that more than one-quarter (27.2%) of all households nearing retirement (ages 47-64) are expected to fall short of that minimum. Just over 24% of white households fall short, compared to 39% of black and Hispanic households.

Wolff notes that the picture has improved over time – in 1989 the percentage falling below the minimum for adequate retirement income was 30.5%, compared to 27.2% in 2004. Yet the prospect that more than one out of every four baby boom households faces considerably reduced living standards in retirement presents a major policy challenge.

The Economic Policy Institute is an independent, nonprofit, nonpartisan research institute – or “think tank” – that researches the impact of economic trends and policies on working people in the United States and around the world.