Study shows Great Recession hit young people especially hard, limiting ability to save for future

November 8 2013

Many households lost money, savings and net wealth during the Great Recession, but the effects didn't stop with households' balance sheets. The final effects of the recession are lingering for many young people as well. A professor at the University of Kansas has authored a study showing that young people who grew up in households that lost wealth during the economic downturn suffered ripple effects that prevented them from accumulating their own savings during young adulthood— a time of life characterized by transitioning to independence.

Terri Friedline, assistant professor of social welfare and associate director of the Assets and Education Initiative in the School of Social Welfare, co-authored the study along with Ilsung Nam, a postdoctoral fellow at the institute and Vernon Loke, assistant professor at the Eastern Washington University School of Social Work. The researchers analyzed data from the Panel Study of Income Dynamics, a large, nationally representative survey that allowed researchers to track economic information on American households from 1999 to 2009. The 10 year frame allowed them to view patterns of net worth accumulation and dispersion during the economic prosperity of the late '90s, during the recession of the early '00s and immediately during the Great Recession through 2009. The researchers were interested in mapping households' net worth patterns and exploring whether those patterns had effects on the young people who grew up in those households.

The article is forthcoming in the *Journal of Family and Economic Issues*.

The researchers found two distinct patterns of net worth among the households they studied. The patterns emerged after controlling for important factors like household income and head of households' race, gender, education level and marital status. The first group, 69 percent of households, retained high and stable net worth. The second group, 31 percent, suffered a stark decline in net worth, especially between 2007 and 2009.

The households that lost net worth between 1999 and 2009 were often vulnerable to begin with, Friedline said. Households headed by African-Americans had a median of about $16,000 in net worth at the beginning of the time frame and only $1,500 at the end. Those headed by women faired just as bad if not worse, averaging $11,000 to begin with and zero at the end. Education also played a role, as households headed by someone with a high school diploma or lower level of education averaged $43,000 in net worth at the beginning and $10,000 at the end of the 10-year frame.

The data showed that young people growing up in households that suffered financially also experienced financial difficulty of their own in young adulthood. Not surprisingly, young people who grew up in households that retained their net worth experienced the greatest financial benefit.

Young people felt the pinch of their households' losses as evidenced in their average amounts of personal savings. Those who grew up in households that lost the most net worth averaged about $300 in savings in 2009, while their counterparts in households that lost the least averaged about $3,000.

"In the grand scheme of finances, these are both relatively small

amounts. But young adults with the higher savings are coming from households that may be able to help support them financially if they have a two-week gap in employment," Friedline said. "You can't live very long on $300. We have to remember that young adults had some of the worst unemployment statistics during the recession compared to older age groups. Young adulthood is viewed as this time of transition. At this age, young adults are making some of their first entries into the labor market or changing jobs. They are enrolling in or graduating from college and making decisions about careers. They are seeking their own apartments or homes, applying for health insurance and maybe thinking about retirement investments. It's such an important time in life. But if they are struggling financially, it is unlikely that their $300 in savings can be stretched very far. And if their households are also struggling financially having lost significant amounts of wealth during the Great Recession, young adults may not have a very strong safety net to fall back on."

The findings illustrate the importance in helping young people save from an early age, especially those growing up in lower-income households or from otherwise disadvantaged backgrounds. During financial crises, households hit the hardest rely largely on public assistance programs such as welfare or the Supplemental Nutrition Assistance Program for support. Funds for such programs are limited, Friedline said, sometimes discouraging people from accumulating savings and wealth. Reports written by the New America Foundation, a think tank based in Washington, D.C., indicate that millions of households have benefited from SNAP in recent years. However, limits on the amounts of wealth SNAP-eligible households can hold, and a trend among some states to make the limits more restrictive undermine the utility of the important safety net for households that suffered the most during the recession. If policies like these were adapted or new policies developed to make saving easier, lower-income households and their young people may be more likely to have savings to rely on in times of financial duress.

Other research by Friedline and her colleagues at the Assets and Education Initiative has shown that when presented with savings accounts early in life, even at modest amounts, young people not only can and do save in the future, but are more likely to make other investments and have healthier financial portfolios than their peers without savings accounts. They have also published research showing that people who save from a young age are better-informed financial consumers and maintain healthy relationships with financial institutions as they grow older, providing evidence that it can be in banks' best interests to facilitate savings for young people even though their accounts might not be immediately profitable.

"The effects from the recession have trickled over to young people," Friedline said. "It's easy to look at the recession as being restricted to specific years, but for many households and the young people who grew up in them, the effects of the recession will last for many years. We should adopt policies that support young people financially and encourage them to save so they can weather financial crises."

Provided by University of Kansas

Citation: Study shows Great Recession hit young people especially hard, limiting ability to save for future (2013, November 8) retrieved 6 May 2024 from https://phys.org/news/2013-11-great-recession-young-people-hard.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.