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The Distribution of Household Wealth in the United States

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Summary

The distribution of household wealth has a number of economic and social ramifications. Obviously, the wealthier a household is the higher a standard of living it can maintain. This is of particular importance with respect to the elderly population whose income typically falls in retirement. Also, the argument has been made that the distribution of wealth is a gauge of the distribution of political influence.

Data regarding the distribution of wealth are limited. There are some data available from estate tax returns although they only reflect the small proportion of the population which is subject to the tax. The Census Bureau also conducts occasional surveys of household wealth. Finally, the Federal Reserve Board conducts regular surveys of household wealth known as the Survey of Consumer Finances. This report examines data from this survey on the distribution of household wealth.

Perhaps the two most general measures of household wealth available are mean and median household net worth. In 2001, the mean household net worth was $395,800 and the median household net worth was $86,100. The large difference between the mean and median suggests a significant inequality in the distribution of household net worth.

Although any characterization of the degree of inequality is necessarily subjective, the distribution is nonetheless far from equal. In 2001, the top one percent of the distribution accounted for just under one third of total household net worth. This wealth class includes all households with a net worth of about $5.9 million and over. The top ten percent held over two thirds of all household wealth. This wealth class begins with those households with a net worth of at least $745,000.

There are a number of variables which may influence the distribution of household wealth, among them the age distribution of the population, differences in income, differences in education, bequests, not to mention the apparently uneven distribution of luck. While all of these variables are likely to play important roles in determining the shape of the overall wealth distribution, thus far there is no completely satisfactory theory which combines them in such a way as to explain the existing inequality or variations in it. This report will be updated as economic events warrant.

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Saving, investment, and the accumulation of wealth are important determinants of long-run economic prosperity. The larger the share of current income that is set aside the more the stock of domestic capital grows, tending to raise productivity and leading to improved standards of living down the road. For that reason, bolstering the national saving rate either by encouraging individuals to be more thrifty or by increasing public sector saving (by eliminating the federal budget deficit) has been a major focus of congressional economic policy in recent years.

The low household saving rate is also a continuing policy concern because if households are not setting enough aside during their working years to provide for retirement, they may be increasingly dependent on future Social Security benefits.

In the aggregate, the personal saving rate seems to be influenced by the ups and downs of the stock market. But because equity wealth is not very equally distributed, wealth gains due to rising stock prices benefit the upper end of the wealth distribution more than those at the bottom.

The distribution of household wealth has a number of economic and social ramifications. Obviously, the wealthier a household is the higher a standard of living it can maintain. This is of particular importance with respect to the elderly population whose income typically falls in retirement. Also, the argument has been made that the distribution of wealth is a gauge of the distribution of political and economic influence.

Data regarding the distribution of wealth are limited. There are some data available from estate tax returns, although they only reflect the small proportion of the population which is subject to the tax. The Census Bureau also conducts occasional surveys of household wealth. Finally, the Federal Reserve Board conducts regular surveys of household wealth known as the Survey of Consumer Finances. This report examines data from this survey on the distribution of household wealth.

Recent Trends in Household Wealth

Every three years, the Board of Governors of the Federal Reserve conducts the *Survey of Consumer Finances*.[1] This survey is designed to gather detailed information on the level and composition of household assets, liabilities and income.

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[1] Data from the Survey of Consumer Finances are available on the internet at the Board of Governors web site: [http://www.federalreserve.gov/pubs/oss/oss2/scfindex.html].

High income households are sampled separately, since they account for such a large share of total household wealth. The current series of surveys began in 1983.

The survey counts both financial and real assets. Financial assets include bank accounts, stock and bond holdings, individual retirement accounts, and Keogh accounts. Real assets include home equity, and other real property. Liabilities include home mortgages and consumer credit. Excluded from these figures are the value of household furnishings and other durable goods, as well as the present value of future benefits from social security or defined benefit pension plans.

Mean and median household net worth. Perhaps the two most general measures of household wealth available are mean and median household net worth.1orth for a given population is the total net worth divided by the number of households. The mean is a useful measure because it reflects the total wealth of households. The median represents the mid-point in the overall distribution of household wealth. In other words, if all the households are ranked from poorest to richest the median wealth would be that of the household in the exact middle of the distribution. Half of households are poorer than the median and half are wealthier. The median is probably a better indication of the wealth of the 'typical' household than is the mean. Mean wealth can be significantly affected by changes at the very upper end of the distribution.

Table 1 presents mean and median household net worth from the SCF in constant 2001 dollars.[2] The means are substantially higher than the medians, which is indicative of a considerable concentration of wealth in the upper end of the overall distribution.

Table 1. Mean and Median Household Net Worth

	constant 2001 dollars	
	Mean	Median
1989	$259,700	$64,700
1992	231,100	61,400
1995	246,000	66,600
1998	308,300	78,000
2001	395,800	86,100

Source: Board of Governors of the Federal Reserve System.

[2] All inflation adjustments in this report rely on the consumer price index for all urban consumers (CPI-U), published by the Department of Labor, Bureau of Labor Statistics.

The distribution of net worth. To get a better picture of the inequality hinted at by the difference between mean and median net worth, this section presents figures showing detailed estimates of the distribution of household net worth derived from SCF data. Table 2 shows the share of total net worth held by households within selected wealth classes of the distribution.

Table 2. Distribution of Household Net Worth, Selected Years

Percentile of the Net Worth Distribution	Share of Total Net Worth in:				
	1989	1992	1995	1998	2001
0% to 49.9%	2.7%	3.3%	3.6%	3.0%	2.8%
50% to 89.9%	29.9	29.7	28.6	28.4	27.4
90% to 94.9%	13.0	12.6	11.9	11.4	12.1
95% to 98.9%	24.1	24.4	21.3	23.3	25.0
99% to 100%	30.3	30.2	34.6	33.9	32.7
Total	100.0	100.0	100.0	100.0	100.0

Source: Arthur B. Kennickell, "A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989 – 2001" Mar. 2003.

Although any characterization of the degree of inequality is necessarily subjective, the distribution is nonetheless far from equal. In 2001, the top one percent of the distribution accounted for just under one third of total household net worth. This wealth class includes all households with a net worth of at least $5.9 million.[3] The top ten percent held over two thirds of all household wealth. This wealth class begins with those households with a net worth of at least $745,000.[4]

Table 3 presents data showing mean net worth for each of the wealth classes shown in Table 2. The figures indicate that the real wealth of those in the top one percent grew more rapidly, on average, between 1989 and 2001 than any of the other wealth classes. The bottom 50% in the distribution experienced the second most rapid growth in net worth.

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[3] See the bottom row in table 4 for the amounts that define each wealth class shown here.

[4] Wealth is much less equally distributed than income. In 2001, the bottom 80% of households accounted for 49.8% of all money income. See: U.S. Department of Commerce, Bureau of the Census. *Money Income in the United States: 2001*, Current Population Reports, Consumer Income, P60-218, issued September 2002.

Table 3. Mean Household Net Worth

Percentile of the Net Worth Distribution	Mean Household Net Worth in constant 2001 dollars				
	1989	1992	1995	1998	2001
0% to 49.9%	$13,796	$15,134	$17,549	$18,520	$22,100
50% to 89.9%	194,522	171,138	176,593	218,924	272,305
90% to 94.9%	673,915	579,583	575,540	706,647	969,792
95% to 98.9%	1,576,595	1,384,615	1,291,200	1,800,488	2,468,442
99% to 100%	7,307,700	6,685,800	8,387,300	10,717,800	12,590,182

Source: Kennickell.

Table 4 presents data showing the distribution of separate types of assets in 2001. The bottom row of the table indicates the level of wealth that defines each wealth class. The figures show clearly that some assets are much more equally distributed than others. If an asset were equally distributed the proportion of that asset owned by each wealth class would equal the size of that wealth class. If vehicles, for example, were equally distributed, the top one percent would own one percent of the net worth of vehicles, and the bottom 50% would own 50% of the total net worth of vehicles. As it is, vehicles are the most equally distributed asset. The most unequally distributed assets are bonds. business equity, and stocks.

Table 4. Share of Assets Accounted for by Selected Wealth Classes, 2001

	Percentile of the Net Worth Distribution				
	0 to 50%	**50 to 90%**	**90 to 95%**	**95 to 99%**	**99 to 100%**
Net Worth	2.8%	27.4%	12.1%	25.0%	32.7%
Assets	5.6	29.9	11.7	23.4	29.5
Financial Assets	2.5	25.4	14.1	26.6	31.5
Liquid Assets[1]	6.0	32.7	13.3	21.9	26.2
CDs	4.3	53.5	17.3	18.7	6.2
Savings Bonds	4.1	45.5	10.1	21.9	18.5
Other Bonds	0.3	4.0	8.8	22.7	64.3
Stocks	0.5	11.4	9.9	25.3	52.9
Mutual Funds	0.9	20.5	17.9	32.6	28.1
Retirement Accounts[2]	3.3	36.4	17.6	29.1	13.6
Life Insurance	7.2	46.5	15.6	17.9	12.7
Annuities and Trusts	0.3	13.0	12.1	28.3	46.2
Other Financial Assets	4.1	17.1	5.3	33.1	40.4
Nonfinancial Assets	7.8	33.1	10.0	21.1	28.0
Vehicles	27.9	48.3	9.5	9.3	5.1
Principal Residence	12.3	50.6	12.2	16.0	9.0
Other Residential Property	1.9	26.8	11.7	30.5	29.1
Nonresidential Real Estate	0.6	14.5	9.1	35.2	40.7
Net Business Equity	0.4	9.9	6.6	24.9	58.3
Other Nonfinancial Assets	4.6	17.7	6.7	25.7	45.2
Debt	25.9	47.9	8.6	11.6	5.9
Minimum Net Worth (in thousands of $)	*negative*	*$87.5*	*$745.5*	*$1,307.1*	*$5,865.0*

[1] Holdings of checking, savings, money market, and call accounts.
[2] IRAs, Keogh Acccounts, and other pensions accounts where withdrawals or loans may be taken (such as 401(k) accounts.

Source: Kennickell.

Net worth, income, and saving. Not surprisingly, wealth and income are closely correlated. Those at the upper end of the income distribution are able to set more aside and thus accumulate wealth at a faster rate than those at the bottom. At the same time, those at the high end of the wealth distribution are likely to have considerable additional income in the form of interest, dividends, and rents. Table 5 presents figures for 2001 that show mean and median net worth for families, by selected income classes. The last column in the table indicates the proportion of each income class that saved in 2001.

Table 5. Family Net Worth by Income Class, 2001

Percentile of Income	Net Worth in thousands of dollars		% of Families who saved
	Median	Mean	
less than 20%	$4.9	$40.7	32.1%
20% to 39.9%	34.4	79.4	45.5
40% to 59.9%	48.9	124.7	56.1
60% to 79.9%	93.2	174.0	67.9
80% to 89.9%	142.5	278.9	73.7
90% to 100%	450.0	1,188.0	82.0

Source: Board of Governors of the Federal Reserve System.

Changes in the Composition of Household Wealth

In the aggregate, there have been substantial changes in the composition of household net worth during the 1990s. In large part, this has been due to the large increase in equity prices. Table 7 shows how the composition of household assets changed between 1990 and 2002.

Table 7. Distribution of Household Assets by Asset Type, 1990 and 2002
(all dollar figures in billions)

	1990		2002	
	dollars	%	dollars	%
All Assets	$24,094.2	100.0	$48,100.5	100.0
Tangible assets	9,255.0	38.4	18,036.4	37.5
Real estate	7,382.5	30.6	14,916.6	31.0
Households	6,574.7	27.3	13,702.0	28.5
Nonprofit organizations	807.7	3.4	1,214.6	2.5
Equipment and software owned by nonprofit organizations	57.9	0.2	123.2	0.3
Consumer durable goods	1,814.6	7.5	2,996.6	6.2
Financial assets	14,839.2	61.6	30,064.1	62.5
Deposits	3,259.3	13.5	5,082.1	10.6
Credit market instruments	1,556.3	6.5	2,402.0	5.0
Equity shares at market value	3,135.6	13.0	9,948.2	20.7
Directly held	1,781.4	7.4	4,327.1	9.0
Indirectly held	1,354.2	5.6	5,621.1	11.7
Other financial assets	6,888.0	28.6	12,631.8	26.3

Source: Board of Governors of the Federal Reserve System.

In large part because of the substantial rise in equity prices during the 1990s, the composition of the wealth of the household sector has changed. Between 1990 and 2002, the share of total assets accounted for by equity rose from 13.0% to 20.7%.

Family Stock Holdings

The dramatic rise in the stock market in the 1990s has added substantially to the net worth of the household sector. However, given the inequity in the distribution of wealth, the lion's share of those gains went to those in the upper end of the distribution. Nonetheless, the number of families owning stock has been increasing.

Between 1992 and 2001, the share of families owning stock either directly or indirectly (through mutual funds, for example) increased from 36.7% to 51.9%. Although stock ownership is far more common in higher income classes, there was an increase in stock ownership all across the income distribution during the 1990s. Table 8 shows the share of families holding stock directly and indirectly by income class as well as the median value of those holdings.

Table 8. Family Holdings of Stock

Percentile of Income	Percentage of Families Holding Stock		Median Value of Stock Holdings (thousands of 2001$)	
	1992	2001	1992	2001
less than 20%	7.3%	12.4%	$9.9	$7.0
20% to 39.9%	20.2	33.5	4.9	7.5
40% to 59.9%	33.6	52.1	6.2	15.0
60% to 79.9%	51.1	75.7	10.1	28.5
80% to 89.9%	65.7	82.0	17.3	64.6
90% to 100%	77.0	89.6	58.8	247.7
All Families	36.7	51.9	13.0	34.3

Source: Board of Governors of the Federal Reserve System.

In addition to increases in the proportion of families owning stock, the value of stock holdings increased substantially as well, with one exception. For those families in the bottom 20% of the income distribution, the median value of stock holdings fell between 1992 and 2001.

Explaining the Distribution of Wealth

Economists have yet to develop a theory which completely accounts for all of the characteristics of the current distribution of household wealth.[5] At the core of most models of wealth accumulation is some notion about saving behavior. Individuals are assumed to save in order to smooth their consumption over the course of their lifetime. The main purpose of saving is to dampen the effects of variations in income over the course of a career and to provide for retirement. In some models, individuals are assumed to be concerned not only for their own welfare but also for successive generations. In others, it is assumed that individuals only provide for their own welfare and wealth is zero at death.

These models also attempt to take into account unpredictable and unequally distributed 'shocks' to income against which individuals are unable to insure themselves. In other words, the models attempt to incorporate the fact that some are lucky and some are not, in terms of the ups and downs in income that may occur over the course of one's career, and that 'luck' is not very evenly distributed.

While such models can account for the fact that the distribution of wealth is substantially greater than is the distribution of income, they fail to account for the observed characteristics of the wealth distribution. For the most part, they fall short of explaining the full extent of the inequality.

[5] Quadrini, Vincenzo and Ríos-Rull, José-Victor. Understanding the U.S. Distribution of Wealth. Federal Reserve Bank of Minneapolis *Quarterly Review*, Spring 1997. pp. 22-36.

That suggests that there may be other variables in addition to the income distribution that should be considered.[6] One factor that seems to contribute to the overall inequality in the wealth distribution is the number of self-employed relative to the rest of the population. In 1992, the average wealth of those who were self employed was almost 4 times that of other workers. The self-employed accounted for 10.9% of the total population while workers accounted for 54.9%.

The distribution of wealth is affected by the age distribution of the population. Households typically reach peak wealth as they approach retirement. Those aged 56 to 60 are the wealthiest, on average. In 1992, the average wealth of that age group was 3.5 times that of those between the ages of 36 and 40.

Differences in education may also account for some of the inequality in the distribution of wealth. In 1992, the average wealth of college graduates was more than 2.5 times the wealth of those with only a high school diploma.

Bequests may also have a significant effect on the wealth distribution. At a minimum they may tend to perpetuate existing wealth inequality. In addition, the desire to leave a bequest may be an important motive for saving.

Another factor which may complicate analysis of the distribution of wealth, but which may nonetheless be an important variable is luck. It may, however, be difficult to define or to measure it in a meaningful way. What some may attribute to luck others may attribute to natural ability.

While all of these variables are likely to play important roles in determining the shape of the overall wealth distribution, thus far there is no completely satisfactory theory which combines them in such a way as to explain the existing inequality or variations in it

[6] This section is based on Quadrini and Ríos-Rull. Also see: Díaz-Giménez, Javier, Vincenzo Quadrini, and José-Victor Ríos-Rull. Dimensions of Inequality: Facts on the U.S. Distributions of Earnings, Income, and Wealth. Federal Reserve Bank of Minneapolis *Quarterly Review*, Spring 1997. pp. 3-21.