

Life Course Trajectories and Wealth Accumulation in the United States:

Comparing Baby Boomers and Millennials

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Abstract

There is a strong public perception that Millennials are economically worse off than their parents, not least because of an increase precarious employment and more volatile family patterns. Using detailed panel data from the 1979 and 1997 National Longitudinal Surveys of Youth, we analyze the work and family life courses of Millennials and Babyboomers from age 18 to 35 and relate them to wealth outcomes at the end of this period. We find that cohort differences in wealth change across the distribution: the poorest Millennials have less wealth than their Babyboomer counterparts at the same stage in their lives, but the wealthiest Millennials have more. Family and work trajectories are strongly associated with wealth accumulation, but the cohort differences we observed cannot be attributed to compositional shifts in life course trajectories.

Key words: Work-family life courses, Wealth accumulation, Cohort comparison, Sequence Analysis

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Introduction and theoretical background

There is a widely held perception of rising precarity and instability in work and family life courses, particularly among Millennials in the United States (Kalleberg, 2009; Standing, 2011). A major concern, among scholars and the general public alike, is that the combination of insecure employment and a prolonged transition to adulthood prevents young adults from obtaining economic security in the form of wealth and home ownership (Xu, Johnson, Bartholomae, O'Neill, & Gutter, 2015). As a result, it has been suggested that Millennials, individuals born in the early 1980s, are "the first generation that is worse off than their parents" (Leatherby, 2017).

Against this background, our study compares the early work and family life courses (age 18 to 35) of Millennials and late Baby Boomers and relates them to wealth accumulation at the end of this period. Specifically, we address three research questions:

- 1) How do early work and family trajectories differ between Millennials and Babyboomers?
- 2) How does wealth accumulation at age 35 differ between Millennials and Babyboomers?
- 3) To what extent can differences in wealth outcomes be attributed to changes in work and family trajectories?

We prescribe to a holistic life course perspective that sees work and family trajectories as well as wealth accumulation as longitudinal 'process outcomes' (Abbott 2005), rather than as point-in-time characteristics. We conceptualize the interplay between work and -family trajectories and wealth accumulation as a mutually reinforcing process, which is conditioned by prescribed characteristics such as race, gender and family background.

In addition to looking at changes in average wealth, we analyze cohort differences at various points in the wealth distribution. Public and academic interest in wealth inequality has surged since the publication of *Capital in the Twenty-First Century* (Piketty, 2014). Piketty and others have documented a sharp increase in wealth inequality in the US over the past few decades, with strong increases at the top and stagnation at the bottom. We complement the predominant macro-perspective in the literature with a micro-level analysis of individual life courses and wealth outcomes for each cohort, based on highly detailed life course data from the 1979 and 1997 National Longitudinal Surveys of Youth (NLSY79 and NLSY97).

Method

Data and sample

We rely on the NLSY79 and NLSY97 to address our research questions. The NLSY79 consists of 12,686 respondents born between 1957 and 1964, who were first interviewed in 1979. The NLSY97 sample consists of 8,948 respondents born between 1980 and 1984, who were first interviewed in 1997. Both NLSYs collect economic, sociological and demographic information on an annual basis, which allows us to construct detailed family and employment trajectories for each cohort. We limit our analysis to respondents who were fully observed from age 18 to 35. As a result, our sample from the NLSY79 (the Babyboomers) is limited to those between 1961 and 1964 (N=3,542), because older respondents were over age 18 at the time of the first survey. Our sample from the NLSY97 (the Millennials) was born in 1980 (N=1,013), because younger respondents had not yet reached age 35 by the time of the most recent survey. In further analyses we also look at wealth outcomes at age 30 to include younger Millennials.

Measures

Both the NLSY79 and the NLSY97 ask for respondents' main assets at regular intervals. The wealth variable provided by the NLSYs is the combined value of all assets, minus debts. For respondents who are married or living with a partner, the wealth variable also includes the partner's wealth. To ensure comparability across cohorts, we converted all wealth measures to 2016 USD and applied the same top-code (800k). Moreover, because we want to compare wealth outcomes for different family types, we adjust our wealth measure using the square root of the household size, as is commonly done in studies on income inequality (OECD, 2013). The resulting equivalized wealth measure assumes that larger households need more wealth to achieve the same standard of living, but also acknowledges that there are economies of scale in living together.

Our key explanatory variables are the respondents' employment and family trajectories between age 18 and 35. To this end, we prepare the NLSY's rich annual panel data as a monthly calendar and apply sequence and cluster analysis to empirically identify work and family life course trajectories. For the employment calendars, we distinguish between jobs based on a 5-category EGP class scheme, as well as non-work states such as college and unemployment. The family calendar distinguishes between living in the parental home, singles living independently,

cohabitation, marriage and separation, each with or without children (see the legends in Figures 1 and 2 for an overview).

Analytical Strategy

Our analytical strategy consists of three steps: First, construct a set a 'typical' work and family trajectories, using methods derived from sequence and cluster analysis (Abbott 1990; Studer 2013). This allows us to assess how the prevalence of specific trajectories (e.g. single parenthood or manual work) has shifted across cohorts. Specifically, we use optimal matching with indel costs of 1 and substitutions costs of 2 to compare all sequences in a pairwise comparison. This cost specification balances similarity in terms of the timing and order of life course states. The resulting distance matrix summarizes how similar or dissimilar each pair of sequences is and can be further analyzed in a cluster analysis to identify a typology of similar life course trajectories. The most appropriate number of clusters was determined based on established cluster cut-off criteria (Studer, 2013). In a second step, we compare levels of (equivalent) wealth and home ownership at age 35 for each cohort. Because the distribution of wealth is extremely skewed, we estimate cohort differences at across the distribution of wealth, and not just at the average. Finally, we employ quantile regression to model the association between work and family life courses and wealth accumulation. Quantile regression allow us to assess whether these associations vary across the distribution of wealth. They also have the advantage that wealth does not need to be transformed to reduce the skewness of the distribution, because these models are robust to the influence of outliers. We are especially interested in the extent to which the cohort wealth gaps are attenuated by the inclusion of work and family trajectories.

Preliminary results

We empirically identify five distinct employment trajectories and seven distinct family trajectories. The trajectories are graphically represented in Figures 1 and 2. Their distribution across cohorts is plotted in Figures 3 and 4.

The employment life courses cluster into 1) being “out of the labor force (OLF)” for extended periods of time and switching between being OLF and in medium prestige jobs, 2) “college and professionals” with extended periods of education followed by a seamless transition into high

prestige professional jobs, 3) stable "unskilled labor", 4) workers in the "service sector", which includes mainly lower-level administrative and sales jobs and 5) "skilled labor", of which a substantial proportion moves from unskilled to skilled labor around age 20. Figure 3 shows a decline in the 'college & professional' type among Millennials and a corresponding increase in the 'service' trajectory. We can also observe a slight decline in the 'out of the labour force' trajectory, which may correspond to increasing female labour force participation.

Family life courses cluster into 1) "single parenthood", 2) "early marriage and parenthood", 3) "delayed marriage and parenthood", 4) "childless marriage", 5) "early family formation and divorce", 6) "late home leavers" and 7) "childless single" (Figure 2). Compared to the employment trajectories, the family life courses show even more pronounced cohort change, with strong declines in the 'married' types (early marriage, delayed marriage, childless marriage) and increases in trajectories dominated by staying in the parental home, single parenthood and singlehood. Interestingly, while 'early marriage' is the modal category among Babyboomers, for Millennials 'childless single' is the most common trajectory up to age 35.

Looking at wealth outcomes, we found that Millennials had slightly higher levels of average wealth at age 35. These averages hide substantial differences across the distribution of wealth, however. This becomes clear when looking at wealth decile. Figure 5 shows that the higher wealth of Millennials is exclusively concentrated at the upper end of the wealth distribution. Millennials at the 90th percentile of the wealth distribution owned about 100k more in real terms than their Babyboomer counterparts. The median Millennial, however, was slightly worse off than the median Babyboomer, and the bottom end of the wealth distribution Millennials are significantly worse off than the previous generation. In other words, the gap between rich and poor is much larger among Millennials than it was for Babyboomers at age 35, corresponding with findings on the aggregate concentration of wealth over the past decades (Piketty, 2014).

Wealth outcomes are strongly related to employment and family trajectories, even when adjusting for race, gender and parental background. Table 1 shows that Professionals had accumulated far more wealth by age 35 than all other employment trajectories. Moreover, respondent with who had children at a comparatively later generally accumulated more wealth than those with early marriage and childbearing, while trajectories characterized by single parenthood or divorce had the lowest

wealth outcomes. The advantage of singlehood and childless marriage was concentrated at the upper end of the wealth distribution.

Finally, we assess to what extent cohort differences in wealth might be attributable to differences in life courses. Figure 5 shows that adding family and employment trajectories to the quantile regression models has little effect on cohort differences in wealth. This means that cohort differences in wealth are not due to Millennials entering in more or less advantageous trajectories than their predecessors.

Figure 1: Sequence Density Plots of Employment Life Course Patterns

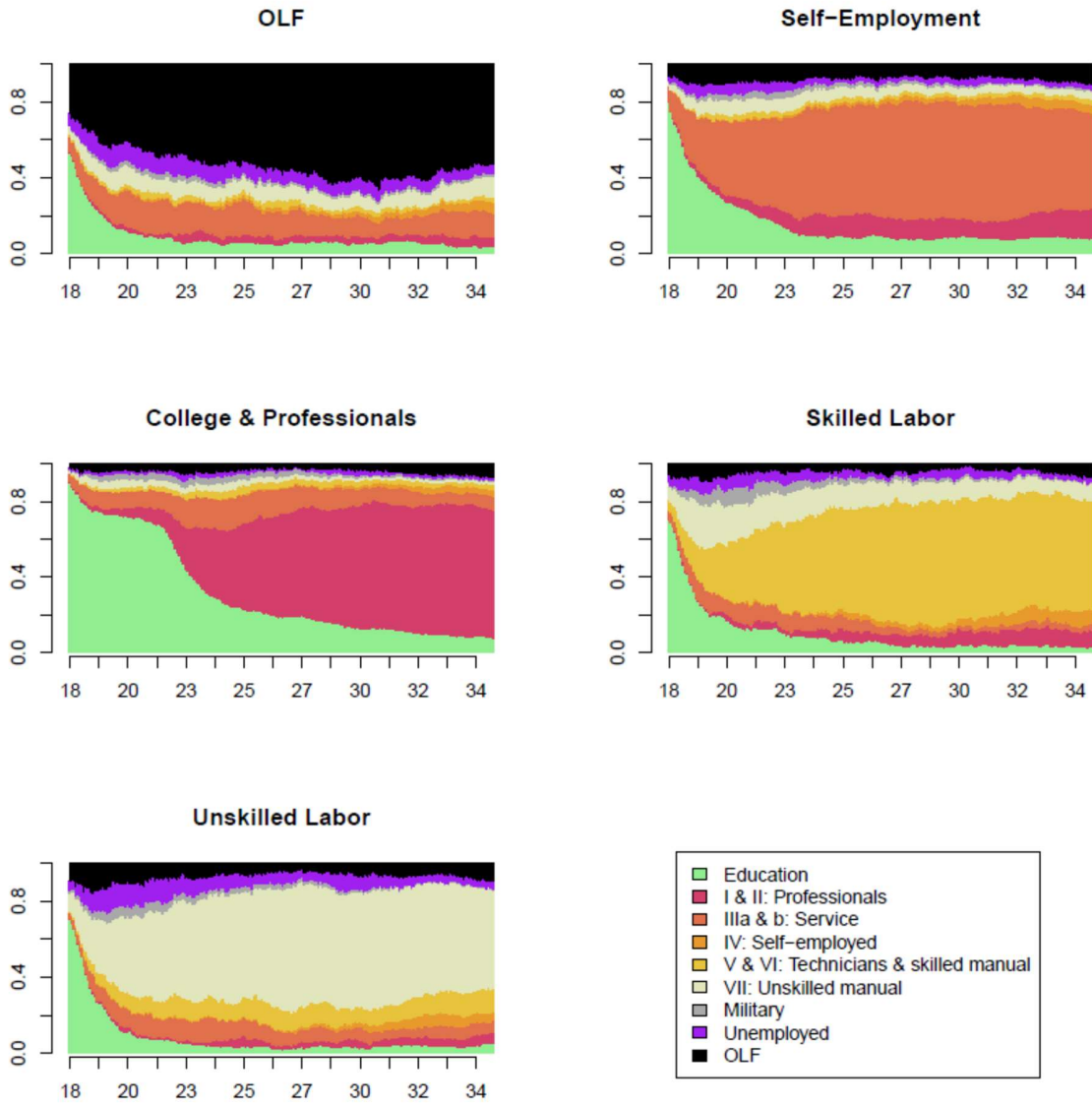


Figure 2: Sequence Density Plots of Family Life Course Patterns

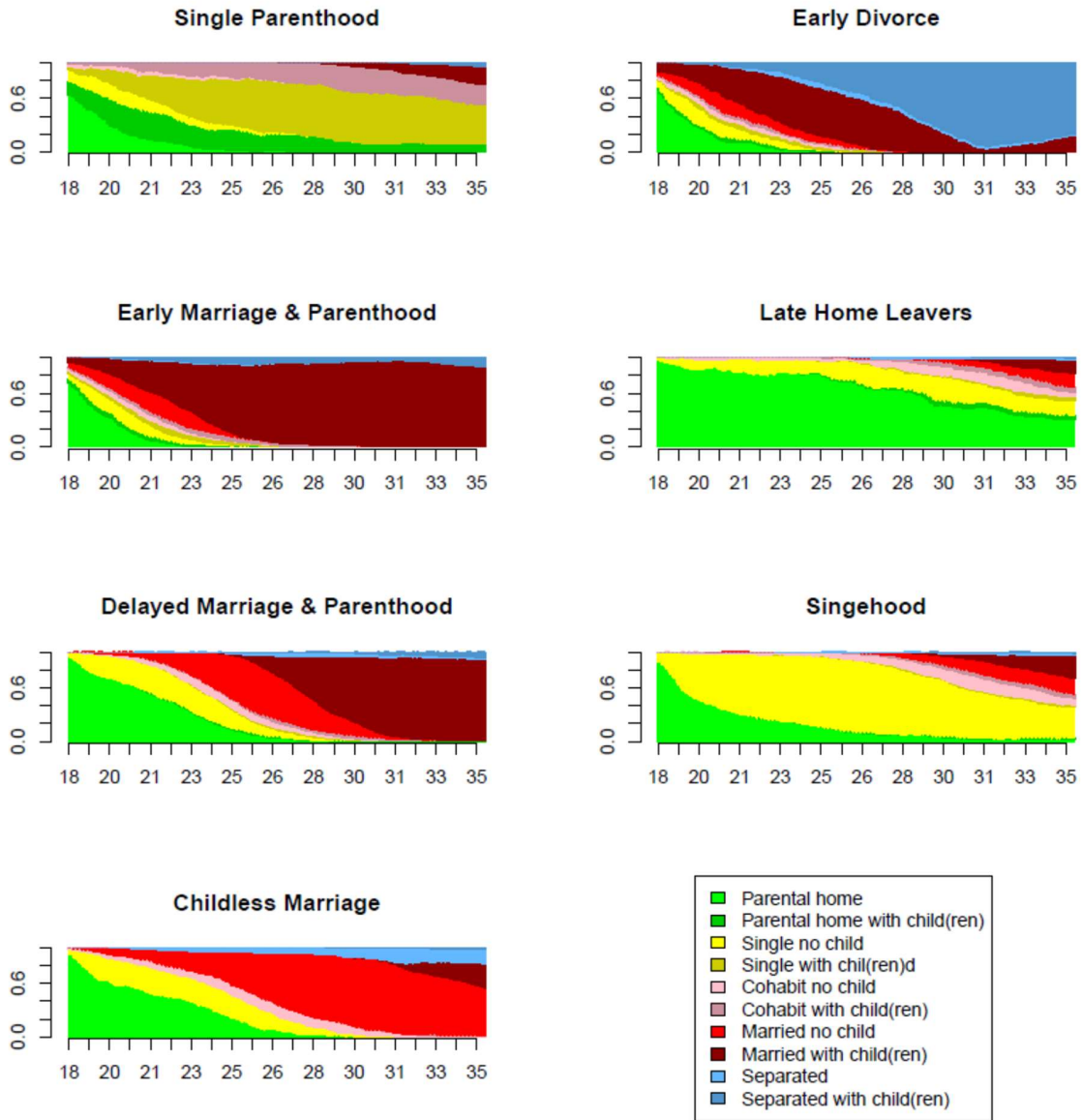


Figure 3: Compositional Change in Employment Life Course Patterns Across Cohorts

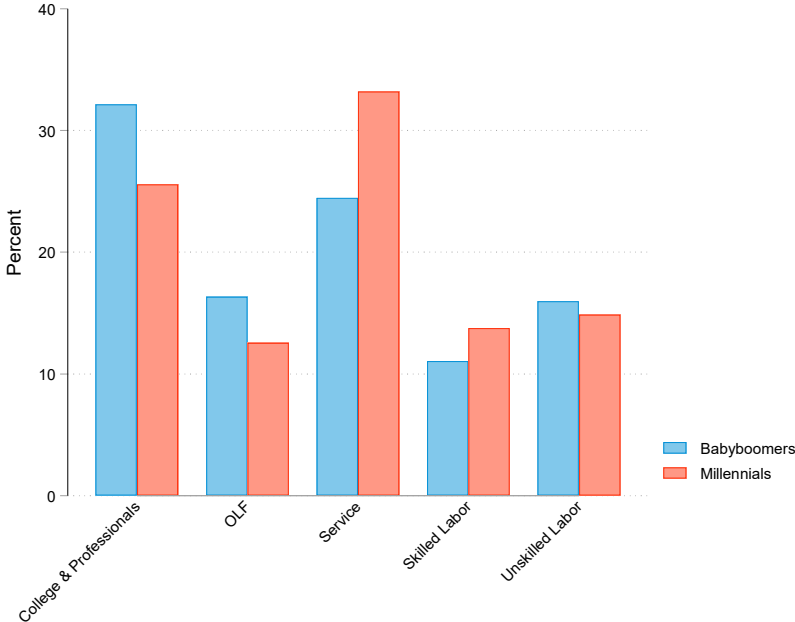


Figure 4: Compositional Change in Family Life Course Patterns Across Cohorts

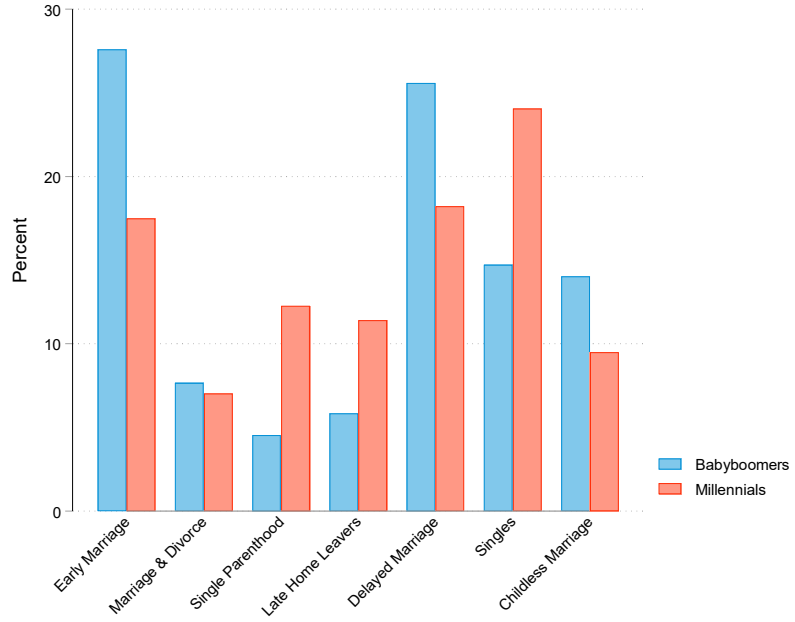
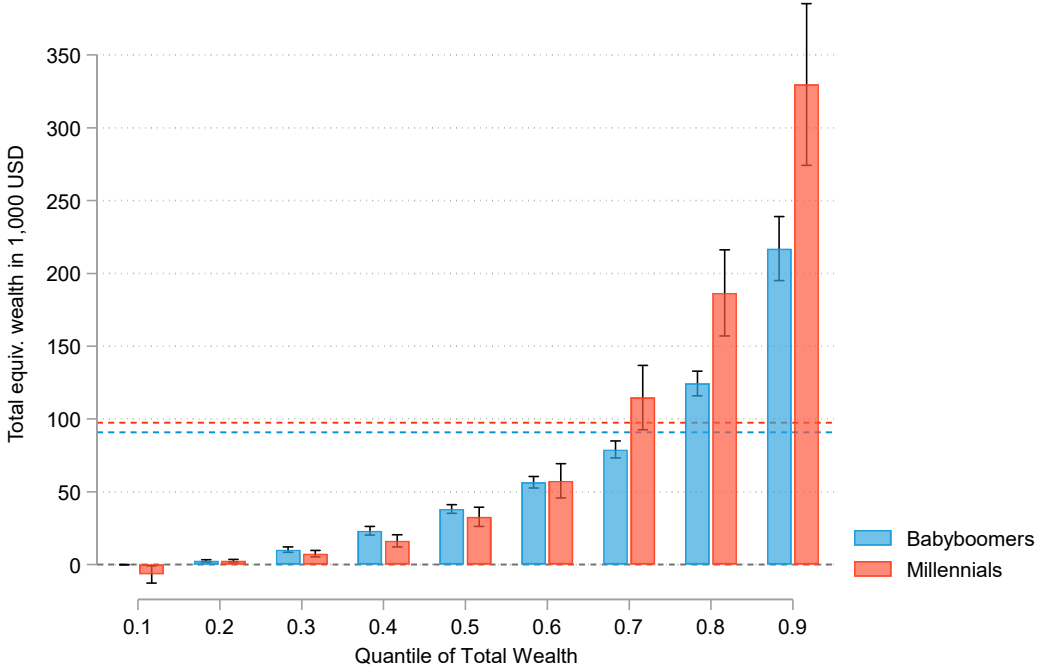
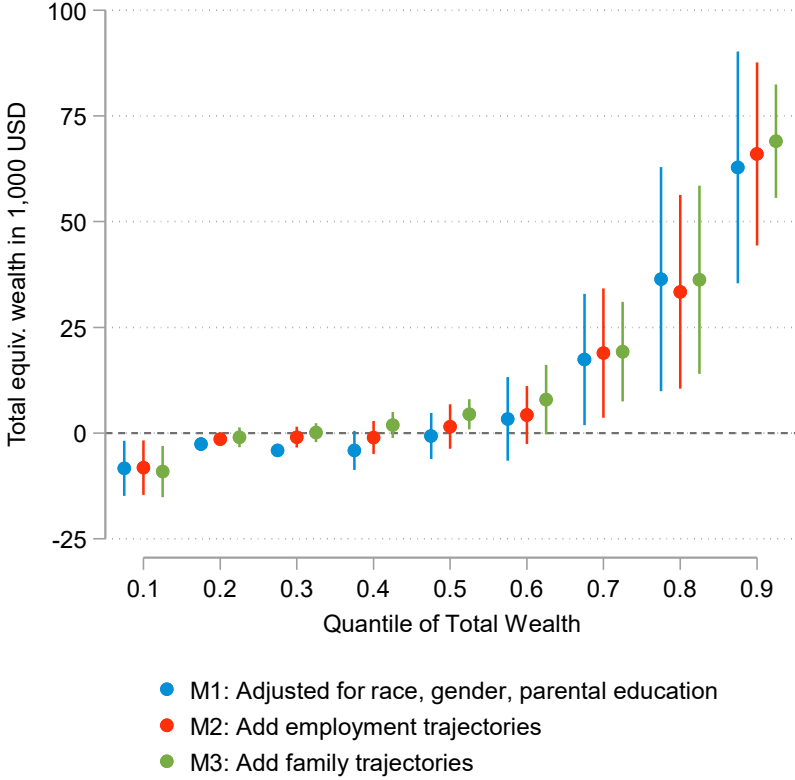


Figure 5: Wealth distribution, by decile



Note: Dashed lines show mean wealth for each cohort, capped lines represent 95% confidence intervals

Figure 6: Results from quantile regression: cohort differences



Note: Plotted are the cohort differences in wealth at each decile under different model specifications (reference category: Babyboomers). Lines represent 95% confidence intervals

Table 1: Results from quantile and OLS regressions

	10%	30%	50%	70%	90%	OLS
Millennials	-9.10** (-2.93)	0.11 (0.10)	4.47* (2.47)	19.25** (3.20)	69.03*** (10.08)	16.23* (2.51)
College & Professionals	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>
OLF	-7.11*** (-4.11)	-26.23*** (-9.54)	-45.22*** (-12.18)	-74.63*** (-10.45)	-114.01*** (-7.11)	-72.26*** (-7.87)
Service	-5.87*** (-3.91)	-20.53*** (-7.27)	-35.18*** (-9.21)	-57.62*** (-7.78)	-101.59*** (-6.58)	-61.63*** (-7.51)
Skilled Labor	-0.52 (-0.33)	-10.29** (-2.66)	-24.06*** (-4.91)	-32.99** (-3.61)	-27.89 (-0.64)	-37.83** (-3.47)
Unskilled Labor	-5.77*** (-3.77)	-22.71*** (-8.12)	-38.68*** (-10.13)	-66.50*** (-9.32)	-113.79*** (-6.98)	-79.97*** (-9.83)
Early marriage	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>	<i>ref.</i>
Divorce	-2.10* (-2.21)	-6.78*** (-7.10)	-14.77*** (-8.50)	-22.48*** (-6.39)	-35.68*** (-4.38)	-28.40*** (-4.09)
Single Parenthood	-0.57 (-0.47)	-2.33* (-2.31)	-5.10** (-3.20)	-9.43** (-3.24)	-20.62* (-2.47)	-11.21 (-1.55)
Late Leavers	-5.11* (-2.46)	-5.18*** (-3.46)	-7.57** (-2.65)	-0.97 (-0.17)	-2.39 (-0.23)	-4.87 (-0.44)
Delayed Family	4.38*** (3.71)	13.85*** (5.33)	21.41*** (7.58)	31.45*** (6.77)	54.85*** (3.92)	29.09*** (3.97)
Singlehood	-0.78 (-0.49)	0.00 (0.00)	4.81 (0.93)	38.47** (3.07)	132.80*** (4.46)	44.48*** (4.58)
Childless Marriage	4.85*** (4.64)	16.73*** (4.27)	38.64*** (6.30)	57.32*** (6.22)	203.15*** (3.36)	64.02*** (5.62)
Constant	-5.66 (-0.52)	26.05*** (7.50)	57.45*** (12.01)	98.93*** (8.86)	202.44*** (7.99)	122.49*** (14.09)
<i>N</i>	4555	4555	4555	4555	4555	4555

Note: Coefficients for race, gender and parental education not shown
t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

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