May 2017

By the Numbers: Inheritances

Ever since the sudden death of music icon Prince last year, estate planning seems to be getting more coverage by the media than ever before. With this, there seems to have been renewed emphasis on the importance of having a will and dictating how your estate will be distributed. Consider the following statistics regarding inheritance in the United States.

$69,000

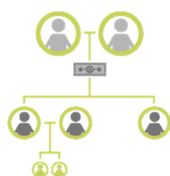
The median inheritance for Americans in 2010.

70 percent

The approximate percentage of families who lose their wealth by the end of the second generation; about 90 percent lose their wealth by the end of the third generation.

33 percent

The approximate percentage of Americans who receive an inheritance that had negative savings within two years.



75 percent

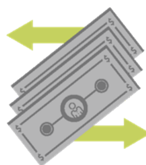
Share of inheritances that come from parents. Only about 15 percent comes from grandparents.

20 - 50 percent

the amount of total household wealth accumulation in the U.S. that can be attributed to inheritances.

80 percent

the relative amount of parents who do not share information regarding their inheritance plans with their children.



$30 trillion

the expected transfer of wealth from baby boomers to Gen X and Millennials over the next 30 years.

Over 50 percent

Amount of 16,000 global respondents said that they expect an inheritance of some sort, according to a 2015 survey from HSBC. Of those who expected a windfall, nearly two-thirds planned on using it to fund their retirement.

the market at a glance

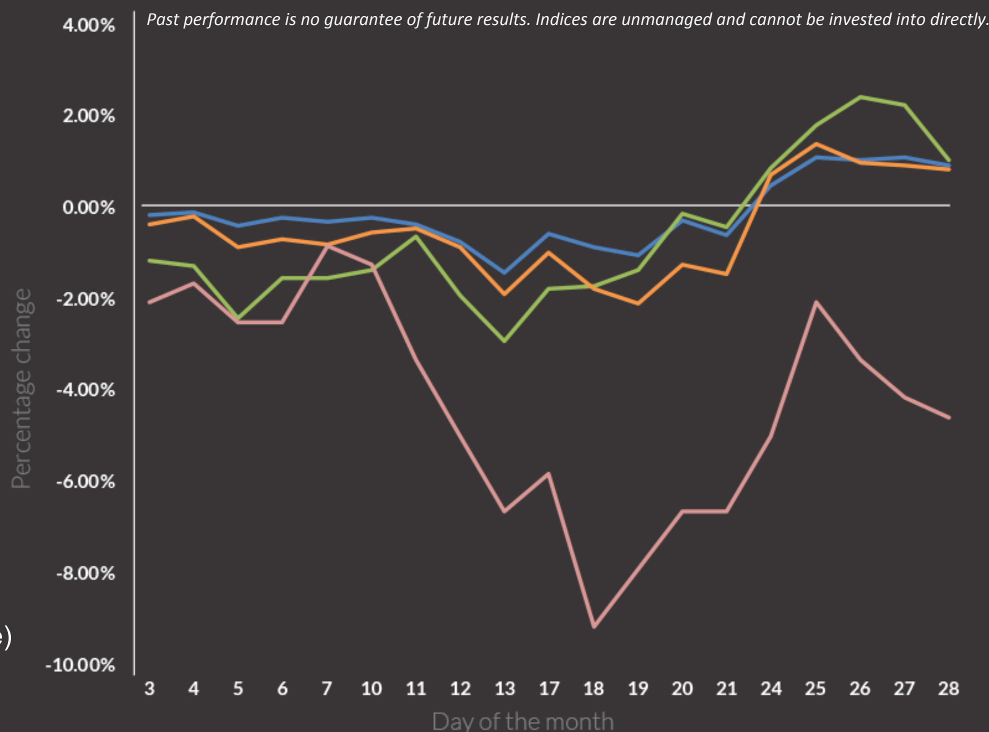
April

U.S. Large Cap
(S&P 500)
2,384.20 (0.91%) ▲

U.S. Mid/Small
(Russell 2000)
1,400.43 (1.05%) ▲

International Large
(NYSE International 100)
5,197.20 (0.84%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
2.29 (-4.58%) ▼



The market in action

- The number of Americans collecting unemployment hit its lowest point in 17 years, according to an April release from the Department of Labor.
- In a recent release from the Federal Reserve Bank of New York, 44 percent of recent college grads are "underemployed" when it comes to employment in their field. "Underemployment" is defined as jobs that do not typically require a college degree.
- Following months of rampant growth, fund managers are lowering their optimism on the markets. According to a study from Bank of America Merrill Lynch, roughly 83 percent of fund managers believe that U.S. stocks are overvalued.
- Panera Bread was sold to JAB, a holding company primarily based in Europe, for $7.5 billion. JAB also owns Krispy Kreme Doughnuts®, Einstein Bros® Bagels and Caribou Coffee®.
- Kitty Hawk, a company from Silicon Valley, intends to sell a "flying car" by the end of this year. The prototype of the vehicle was first revealed in April 2017.
- Unemployment in the United States dropped to 4.5 percent in March, the lowest since May 2007. Additionally, wages have grown by 2.7 percent since March 2016.
- JPMorgan reported $6.4 billion in net income in the first quarter of 2017, significantly exceeding expectations.
- For the first time since 2011, Morgan Stanley posted a higher total of trading bonds, currencies and commodities than Goldman Sachs.
- According to The Atlantic, there have been nine retail bankruptcies so far in 2017. Comparatively, there were nine in all of 2016.

Student loans: the new bubble?

Many Americans—specifically Millennials—are being crushed under the weight of student loans; currently, outstanding student loan debt in the United States totals more than $1.3 trillion. The average graduate from the Class of 2016 has over $37,000 in student loan debt. Stemming from this, there are concerns that student loan debt could represent the next "bubble" for the economy — even drawing comparisons to the housing market collapse that led to the Great Recession. Just how does the current state of student loan debt compare to the collapse of the housing market?

Understanding the student loans crisis

It is no secret that the cost of college is rising at a seemingly unsustainable rate. Since 1980, college-related costs have increased tenfold, while inflation itself has only tripled. Additionally, wage growth has only kept pace with inflation. Rapidly increasing tuition costs paired with low wage growth means that students must go further into debt while generally not benefiting from proportional salary growth.

Aside from the debt itself, the default rate on student loans is among the highest it has been in decades. In fact, the percentage of Americans who were in default on their student loans increased by more than 150 percent from 2003 to 2013. Given all of these factors, it is easy to understand the concern that some have regarding how the student loans crisis may affect the economy.

Comparing student loans to the housing market collapse

Of the many possible contributing factors to the housing market crisis, there is one that sticks out as being remarkably similar to the current economic conditions surrounding student loan debt: loan accessibility.

In the late 1990s and early 2000s, the American government enabled low- and middle-income families to access mortgages more easily than before. Between the American Dream Downpayment Assistance Act and HUD Secretary Andrew Cuomo announcing a 10-year plan to make $2.4 trillion available to low-and middle-income families, mortgages were made available to more people. According to US Census data, the median price of a home doubled between 1992 and 2006 from $121,500 to $246,500.

The accessibility of student loans through the Federal Direct Student Loan Program (FDSLP), passed in 2010, mirrors the proliferation of mortgages in the early 2000s. This program provided aid to many students who otherwise may not have had access to student loans.

According to the Government Accountability Office, state funding for public colleges decreased by 12 percent from 2003 to 2012. Over this same timeframe, tuition increased by about 55 percent across all public colleges. It is worth noting that a significant portion of these shifts took place from 2010 to 2012, which is the timeframe directly following the passing of the FDSLP.

States have largely decreased funding to public universities and the onus has been shifted to families — either pay for education out-of-pocket, with federal loans, or some combination of the two. Though the decline of state funding and the increase in federal funding may not have a direct causation link stemming from the FDSLP, there is an observable correlation on a similar timeline.

The differences between the two

Though both mortgages and student loans represent a huge portion of our national debt, the total amount of debt varies widely between the two. In the midst of the housing market collapse, mortgages comprised nearly 75 percent—or about $9.25 trillion—of all debt in the United States. Around that time, the delinquency rate on mortgages peaked at about 11.5 percent. Comparatively, student loans represented about 10 percent—or $1.3 trillion—of debt in the United States in 2016. Currently, the delinquency rate on student loans is about 11.4 percent. In terms of direct economic impact, student loans represent a far smaller portion of the total debt in America than mortgages did nearly a decade ago. Though the delinquency rates are similar, the total monetary value of debt for student loans is far lower than either mortgages today or at the height of the housing bubble.

The effect of high student loan defaulting could, however, create a ripple of economic and financial events. Much like how mortgage defaulting significantly affected many more aspects of the economy than just the housing market, student loan defaulting could create unforeseen issues in the economy.

Though the circumstances surrounding the housing market collapse and the student loan crisis may not be the exact same, there are definite similarities between the two. The ubiquity of individuals obtaining student loans, as well as the life-changing impact they have on the life of an average American, evokes flashbacks to what preceded the Great Recession. It seems unlikely, however, that a similar default rate on student loans would have a comparable impact on the economy. Only time will tell how the student loan crisis is handled. In the meantime, the rate at which Americans are going into debt with student loans appears to exhibit no signs of slowing.

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