US families saddled with debt, have few savings

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Many American families are weighed down by debt and have little or no savings. In the two years since financial experts declared the official end of the recession in mid-2009, substantial numbers of people are struggling and have been unable to improve their economic situation. At the same time, a large proportion of Americans are pessimistic that the economy will improve over the next three years.

The newly released study by the University of Michigan Institute for Social Research analyzes the finances of more than 8,000 US families in both 2009 and 2011. The report is based on data from the Panel Study of Income Dynamics (PSID), the longest-running US household survey, which interviews a group of families every other year.

The changes over this two-year period provide insight into the impact of the recession on home ownership, mortgage and other debt, savings and other financial resources. In one of the most telling statistics, the study found that one in five families owe more on credit cards, medical bills, student loans and other unsecured debt than they have in savings. At the end of 2011, 23.4 percent of families had no savings whatsoever, up from 18.5 percent in 2009. More than 40 percent had less than $1,500 in liquid assets; 67 percent had less than $10,000.

Frank Stafford, professor of economics at the Institute for Social Research and co-author of the study, commented, “The people who were down and out, without much money, in the recession have ended up staying there or even worse.” Stafford added that despite a marginal increase in overall average savings levels, “our data show that there has been no improvement in financial liquidity between 2009 and 2011, except among families with more than $50,000 in savings and other liquid assets.”

The study analyzed changes in levels of mortgage distress and non-collateralized debt, including credit card debt, student loans, medical or legal bills or loans from relatives. Liquid assets were also tracked, including checking and savings account balances. Ten percent of those surveyed had more than $30,000 in unsecured debt, compared to 8.5 percent in 2009. Researchers attributed this rise to a modest inflation rate as well as a rise in student loans, a portion of non-collateralized debt that exploded since 2008.

The report also predicts continued trouble ahead for the home mortgage market, with 1.7 percent of families surveyed in 2011 saying it was “very or somewhat likely” that they would fall behind on their mortgage payments in the near future. About 3.5 percent of families owned a home and were behind on their mortgage payments in either 2009, 2011 or both years. While a seemingly small percentage, this translates on a national basis to over 4 million households.

Not surprisingly, difficulty keeping up with mortgage payments is directly tied to job losses and stagnating or declining wages. Families are stressed by concern over whether they can maintain the cash flow to cover mortgage and housing expenses after a parent loses his or her job. Others struggle to keep up after taking a pay cut or being confronted with a forced early retirement.

At the same time, families continue to be hit by higher payments on adjustable-rate mortgages and declining home values. According to researcher Stafford, those who had made an “excessive commitment to housing”—dedicating 25 percent or more toward these costs in 2007—faced greater difficulty once the recession hit and home values began to fall.

Home ownership has always been considered one of the most important barometers of attaining the

"American dream." The research showed that among those who were behind on their mortgages in 2009, 19.3 percent had become renters by 2011. By contrast, of those homeowners who were not behind in their mortgages in 2009, only 6.5 percent had become renters in 2011.

Another study, released Monday, showed that the distressed financial conditions confronting many Americans and Europeans are matched by consumer outlook on the economy. The Boston Consulting Group's (BCG) 11th annual Consumer Sentiment Survey conducted in April polled more than 15,000 people in 16 countries.

The BCG survey shows that more than four in ten consumers in the US and Europe do not believe the economy will improve over the next few years and the vast majority plans to rein in spending over the next 12 months. They also blame governments for the economic crisis and their financial distress.

About half of survey respondents said they are not financially secure, while almost a third said they have no savings. "The consumer does not believe the recession is over," commented Michael Silverstein, senior partner at Boston Consulting. People are worried about wages not keeping pace with inflation and lack of adequate retirement funds, he added.

Nearly a quarter of all workers worry about keeping their jobs, the survey found. In one particularly revealing finding, only 20 percent of parents believe their children will have a better life than theirs. Only the Chinese felt relatively optimistic about their future.

As the WSWS has previously noted, while working families continue to suffer under the weight of the recession, the super-rich are increasing their wealth. A March report by the Center on Budget and Policy Priorities showed that income for the top 1 percent of the US households rose to 19.8 percent of all income in 2010. Average income for the bottom 90 percent of households, meanwhile, stood at its lowest level since 1983.