



## Financial Crisis Reduces Household Wealth by 22%, or \$8 Trillion

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### Households

1. There are 113 million U.S. households with an estimated combined net worth of \$35 trillion before the Crisis. Their largest single asset is the equity in their homes, which was previously valued at \$12.3 trillion. With the 15% drop in home prices, we estimate that households' equity in their homes has dropped \$3.5 trillion.
2. Retirement assets (excluding defined benefit plans) represent the second largest household asset and totaled an estimated \$10.2 trillion before the Crisis. We estimate those assets have dropped 20% in value to \$8.2 trillion, a \$2.0 trillion loss.
3. Non-retirement household investments in mutual funds totaled \$7.4 trillion and have dropped \$1.1 trillion in value due to the Crisis.
4. Assets in defined benefit corporate and public pension plans, though not directly a part of households' balance sheets, have fallen an estimated \$1.2 trillion.
5. Together, household losses total \$7.8 trillion, representing a 22% decline in net worth. This excludes household items such as appliances, cars, furniture, and jewelry.

*Several academic studies show a relationship between household wealth and consumer spending. The unprecedented \$8 trillion (22%) decline in household wealth will almost certainly affect consumer spending, particularly since much of the wealth decline comes from falling home values which has been shown to have a greater impact on spending levels than changing stock prices.*

### Defined Benefit Plans

1. Asset losses in defined benefit plans will dramatically increase unfunded pension liabilities, putting added fiscal burden on corporations and state and local governments.
2. State pension systems, with \$2.4 trillion in aggregate assets before the Crisis, will see assets drop \$0.5 trillion to \$1.9 trillion at today's pricing, and their combined funding ratios (assets divided by liabilities) will fall from over 90% when the Crisis began to 70%. Unfunded liabilities will grow from a modest \$160 billion before the Crisis to \$815 billion. This increase in unfunded liability is almost equal to the \$700 billion combined annual budget of all 50 states. Similar circumstances can be found in county and municipal pension plans not included in the numbers above. If not reversed by an improving stock market, this burden will be in addition to increased financing costs, which we estimate will grow to over \$100 billion, for the \$1 trillion municipal bond market.
3. The largest corporate pension plans, which at year end had assets of \$1.3 trillion and had no unfunded liabilities, have suffered estimated losses of \$250 million.

*Pension plans, unlike households, are better able to withstand short term asset losses because their net outflows are small in relation to total assets. However, if the financial markets stay weak, their burden can be very meaningful because unlike households, their spending is contractual, not discretionary.*

(Sources: Federal Reserve; Lehman Brothers; ICI; SPARK; Corporate 10-k's; Public Pension CAFR's)