COST OF LIVING

THE STATE OF

YOUNG AMERICA

COST OF LIVING

It is expensive to be young. Given the low earnings of most young adults, the high cost of basic expenses like groceries and transportation account for a greater share of their income than for older adults. Meanwhile, rent is increasing, homeownership is difficult, and credit card payments loom.

FINDINGS AT A GLANCE

HOUSING ARRANGEMENTS AND DECISIONS
- RISING RENT
- COHABITATION AND MOVING BACK HOME
- DECREASE IN HOMEOWNERSHIP RATES

TRANSPORTATION COSTS AND CHOICES
- COST OF TRANSPORTATION
- PAYING FOR GAS

CREDIT CARD DEBT
- HIGH DEBT LEVELS
- TRENDS IN CREDIT CARDS
- DEBT DISTRESS

Rising unemployment, climbing rental prices, and mounting debt have helped increase the percentage of young people who are living with their parents. While 18 to 24 year-olds commonly migrate back to the nest, a growing share of 25 to 34 year-olds are joining the movement. The "boomerang" trend rose steadily since 1980 and spiked during the Great Recession, particularly among young men.

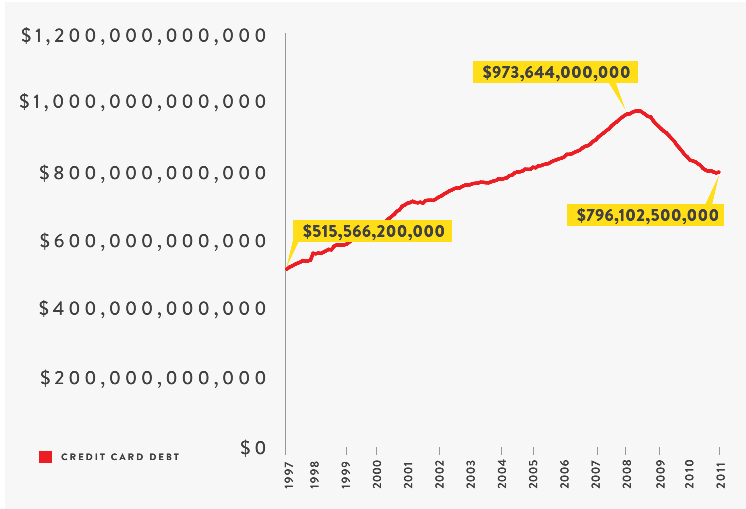
The challenges go beyond young renters. Aspiring homeowners, too, find it harder to break into the market. Although home prices and interest rates are currently favorable to first-time buyers, banks have dramatically reduced their mortgage lending since the housing bubble burst. With limited credit histories and often little capital for a down payment, young people find themselves shut out of the market.

Young people lucky enough to rent their own place pay a larger portion of their income on shelter than their parents did. Among those under 25, housing's share of the monthly budget swelled by over 35 percent from 1980 to 2009, with this group paying nearly one-third of their monthly income to rent and utilities in 2009. For 25 to 34 year-olds rent bills grew to over 26 percent of income, up from 21 percent in 1980.

As incomes fail to keep up with rising costs, young people and Americans of all ages increasingly rely on credit cards to help make ends meet.[1] Though, in the aggregate, credit card debt has declined slightly from its peak at $973.6 billion in August 2008 (Figure 4.1), most of the decline is due to charge-offs[2]—debt that a bank has determined it won't be able to recover in its entirety, and has taken off its balance sheet and sent to collections. Consumers, however, will end up paying close to 70 percent of the charged-off debt,[3] meaning that the real credit card debt load has changed little despite the change in banks' balance sheets. And with the recession likely to leave incomes stagnant for years to come, young people will have a difficult time shedding the credit card debt burden any time soon.

Credit card debt can be particularly damaging to young Americans. They tend to carry revolving balances more frequently than the population as a whole[4]—often from needing to pay with plastic for part of their college educations—and the interest rates on those balances are typically higher than average due to their short or non-existent credit histories. Recent legislation attempts to curtail access and marketing to young people; whether those changes will alter the continued personal debt trends remains to be seen.

figure 4.1 | AGGREGATE CREDIT CARD DEBT, 1997-2011



SOURCE: *Mark Kantrowitz, FastWeb.com, "Total Colege Debt Now Exceeds Total Credit Card Debt"*

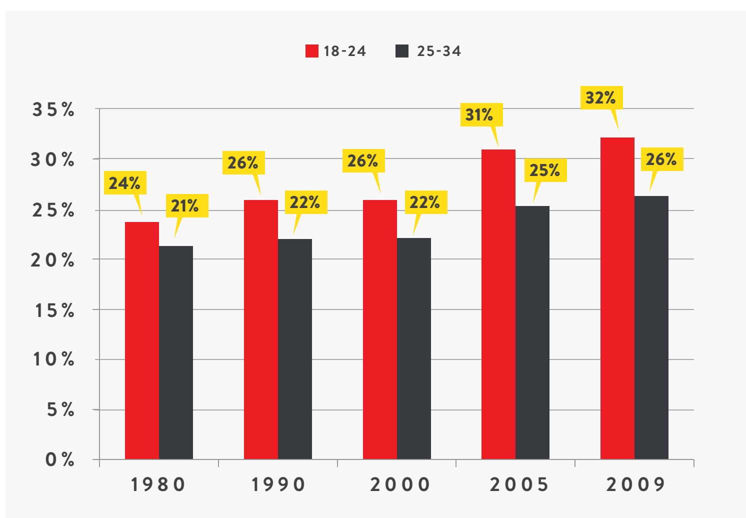
HOUSING ARRANGEMENTS AND DECISIONS

RISING RENT

Americans under 30 account for almost one-third of all renters,[6] and significant increases in rental prices are taking a bigger bite out of their monthly budget.

- Of the young adults under 25 who are not living with their parents, 86 percent are renters.[7]
- Between 1980 and 2009, the median share of 18 to 24 year-old households' income consumed by rent rose by more than 8 percentage points, from 23.7 percent to 32.1 percent. The share of 25 to 34 year-old households' income taken by rent rose sharply as well, by 5 percentage points over the same period (Figure 4.2).

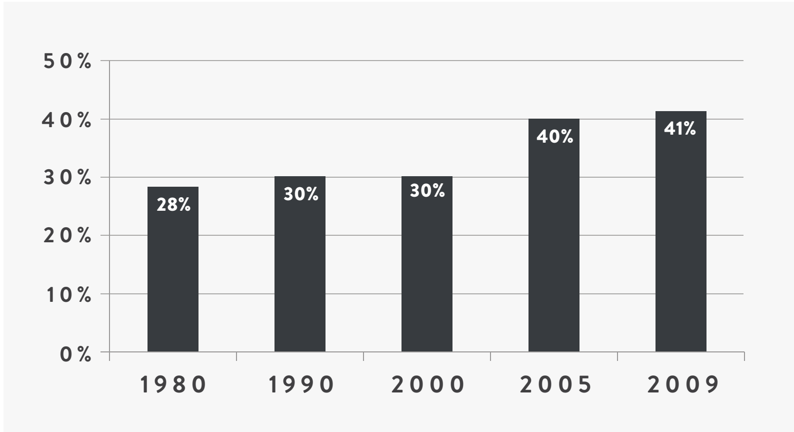
figure 4.2 | MEDIAN GROSS RENT* AS A SHARE OF PRE-TAX HOUSEHOLD INCOME, YOUNG ADULTS, 1980-2009



*"Gross Rent" includes utilities costs, since many rentals include utilities in their contract rent
SOURCE: *Dēmos analysis of American Community Survey.*

- The share of 25 to 34 year-old households spending more than 30 percent of their income on rent increased from 28 percent in 1980 to 41.3 percent in 2009 (Figure 4.3).
- Most of the increase in both of the above measures occurred between 2000 and 2005, the same period during which the housing bubble was rapidly inflating (Figures 4.2 and 4.3).

figure 4.3 | SHARE OF HOUSEHOLDS, AGES 25-34, SPENDING MORE THAN 30% OF INCOME ON RENT, 1980-2009



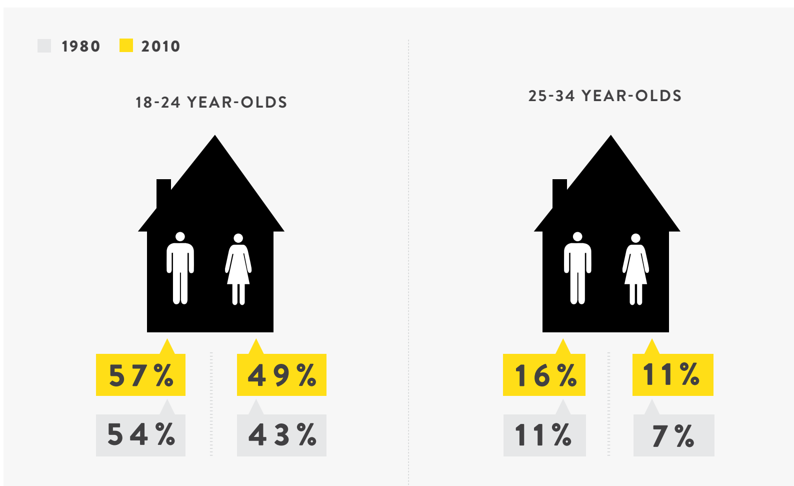
SOURCE: *Dēmos analysis of American Community Survey*

COHABITATION AND MOVING BACK HOME

Long-term economic trends, the Great Recession, and rising rental prices are all factors in the decision to cohabitate or move home with parents.

- The number of young adults living alone has dropped.[8]
- Over half of 18 to 24 year-olds continue to live with their parents (Figure 4.4).
- In 1980, the percent of 25 to 34 year-old men living at home was just over 10 percent; in 2010, it was over 16 percent (Figure 4.4).

figure 4.4 | SHARE OF YOUNG ADULTS LIVING AT THEIR PARENTAL HOME, 1980 AND 2010



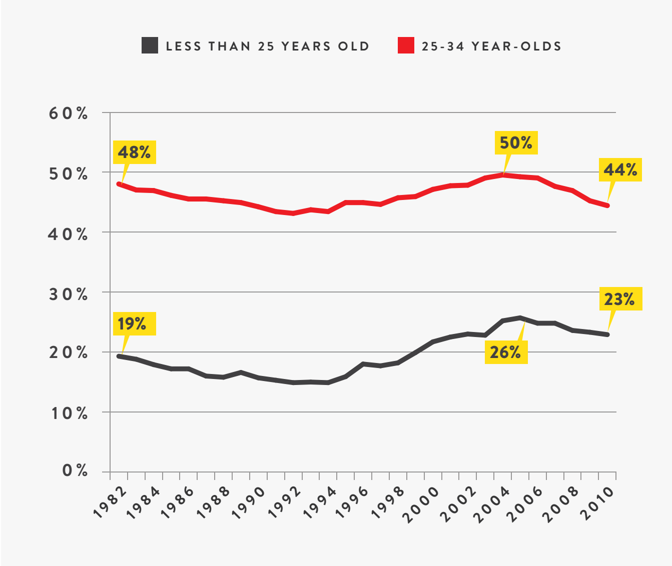
SOURCE: *US Census Bureau: Families and Living Arrangements 2010 Table AD-1*

DECREASE IN HOMEOWNERSHIP RATES

Unsurprisingly, homeownership rates have dropped as a result of sharply constrained credit and falling home values.

- Homeownership rates for young adults increased steadily from the 1990s until the early 2000s, but have predictably decreased in recent years after the housing bubble burst (Figure 4.5).
- Homeownership rates for young adults in their late 20s increased at a faster rate than any other age group in the lead-up to the housing bubble burst; the percent of 25 to 29 year-olds that owned housing increased by 72 percent between 1994 and 2006.[9]

figure 4.5 | HOMEOWNERSHIP RATE OF YOUNG ADULTS, 1982-2010



SOURCE: *US Census Bureau, Housing Vacancies and Homeownership Table 15, Household Estimates for the US by Age of Householder*

ALANA'S STORY

AGE **26** | RENO, NV

Alana is a part-time college student in Reno, Nevada. She works as a bar manager four nights a week to make ends meet. Even with her degree only one year away, Alana describes her economic situation as bleak. With a weak labor market lingering from the recession and a local economy supported primarily by the tourism industry, post-graduation employment prospects are dim. Right now, her life consists solely of working at nights and attending classes or studying during the day: for Alana sleep is an elusive luxury. Yet despite all her efforts, Alana cannot get out of debt. She lives in a house with two other roommates, and though the cost of living in Reno is relatively low, she still pays $470 a month for rent, plus utilities. In addition, she must pay insurance premiums and put gas in her car, adding another $75 per month to Alana's basic bills.

Alana worked throughout school, spending nights and weekends earning money to cover her basic living expenses. But even so, she still has $3,000 in credit card debt. School fees account for some of that debt, but so do everyday living expenses. Between the price of attaining a good education and the cost of basic necessities, she can barely make ends meet. Alana wants to invest in her future. But when weekly wages are just enough to get by, that investment means the bills pile up and credit is the only way to manage the expense.

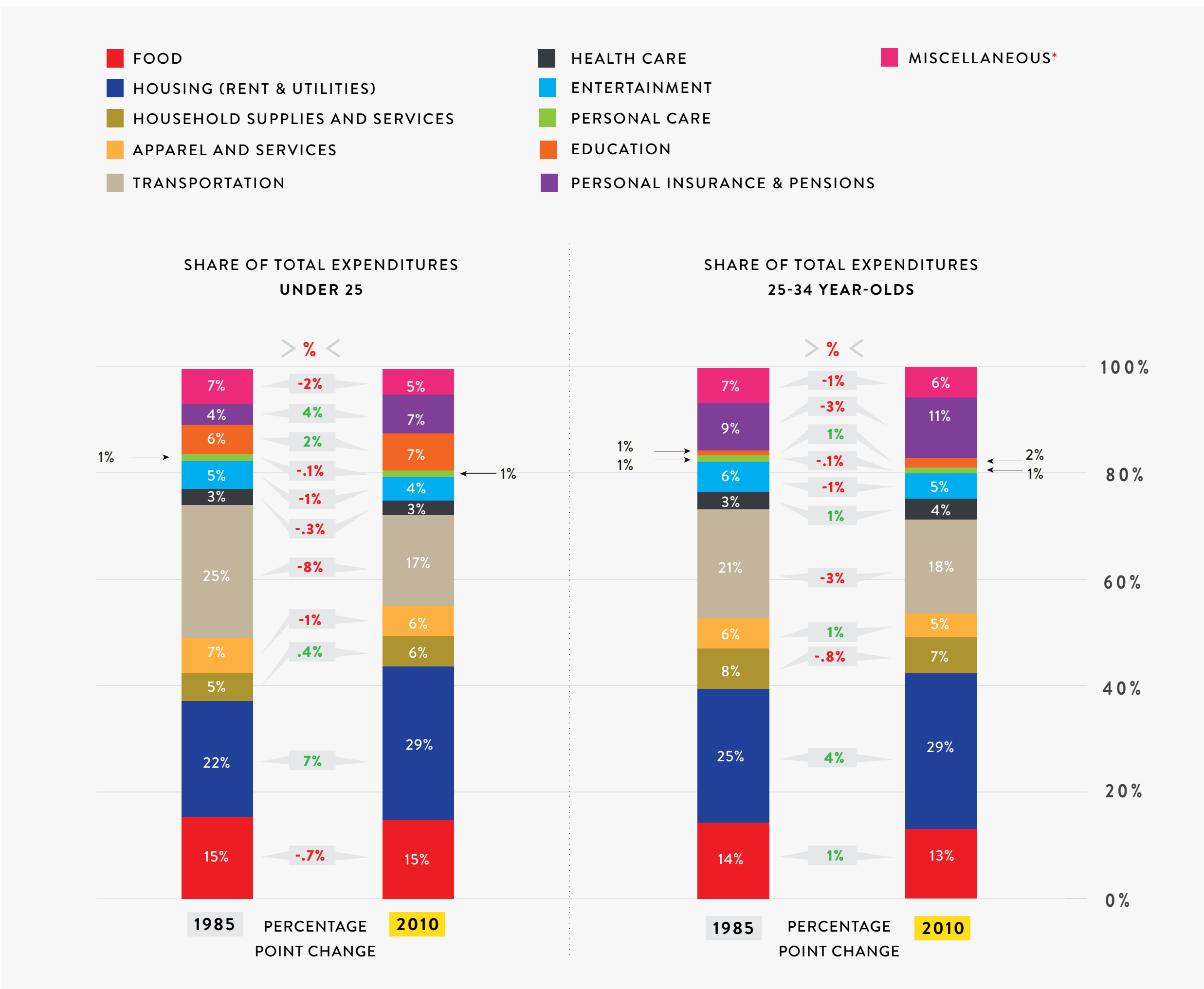
TRANSPORTATION COSTS AND CHOICES

COST OF TRANSPORTATION

Whether it's car payments or a subway card, transportation consumes a greater percentage of young people's income than for any other age group.[10]

- More than 8 out of 10 (85 percent) of 25 to 34 year-olds own a vehicle,[11] requiring car payments, insurance premiums, gas, city parking fees, and maintenance.
- Transportation costs as a share of overall expenses have actually slightly decreased in the past decades, going from 20.5 percent to 17.7 percent for 25 to 34 year-olds (Figure 4.6).

figure 4.6 | **TOTAL EXPENDITURES, YOUNG ADULT HOUSEHOLDS, 1985 AND 2010**



* Miscellaneous includes: cash contributions, reading, alcohol and tobacco products, and other miscellaneous expenditures. The CES calculates expenditures by "consumer units," which are basically households but can be differentiated if members of one dwelling make independent spending decisions

SOURCE: Consumer Expenditure Survey Table 3, U.S. Bureau of Labor Statistics, September 2011

PAYING FOR GAS

Because young adults tend to have lower incomes, the rising price of gas takes a bigger bite out of their income than it does for older adults.

- 5.4 percent of all expenditures for young households under 25 were for gas in 2010,[12] more than they spent on either entertainment or health care (Figure 4.6).
- Gas costs represented a greater share of all expenses among 25 to 34 year-old households (4.7 percent) than either apparel, education, or health care (Figure 4.6).

> "I JUST GOT A JOB IN DEERFIELD. AND WE'RE GOING TO MOVE SOUTH, BECAUSE THAT'S WHERE THE MONEY IS. NOW HE HAS TO COMMUTE AN HOUR. MORE GAS MONEY."
>
> - WEST PALM BEACH, FLORIDA

CREDIT CARD DEBT

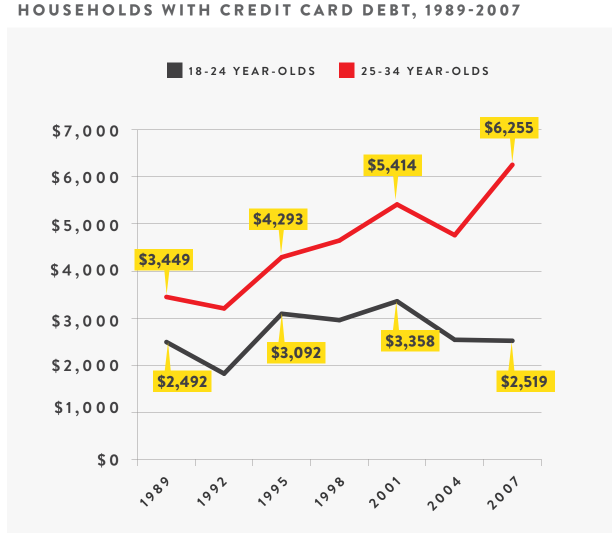
The most recent data on the credit card debt and debt burden of young households is from the 2007 Survey of Consumer Finances. More recent data will be available in 2012. Given the minimal decrease in the real credit card debt burden since 2007, and that we have no reason to believe that charge-offs, the primary reason for the decrease in aggregate debt levels, have disproportionately affected young people, this data still gives a reasonable approximation of the credit card debt carried by young households.

HIGH DEBT LEVELS

Average credit card debt levels for young adults, and the percentage of those adults with debt, remain high, particularly for 25 to 34 year-olds. Young adults with debt are also devoting a larger average share of their income to debt payments.

- In 2007 (the most recent year for which data is available), young adults with credit card debt aged 18 to 24 held on average roughly the same amount of debt, $2,519, as the same age group did nearly two decades earlier (Figure 4.7).
- Young adults aged 25 to 34, however, had much higher levels of credit card debt than did their counterparts nearly a generation ago. Their average credit card debt of $6,255 in 2007 was 81 percent higher than that of 25 to 34 year-olds in 1989 (Figure 4.7).

figure 4.7 | **AVERAGE CREDIT CARD DEBT, YOUNG HOUSEHOLDS WITH CREDIT CARD DEBT, 1989-2007**



* The data in this graph is matched to the SCF published numbers for 1989-2007
SOURCE: Dēmos Analysis of the Survey of Consumer Finances

TRENDS IN CREDIT CARDS

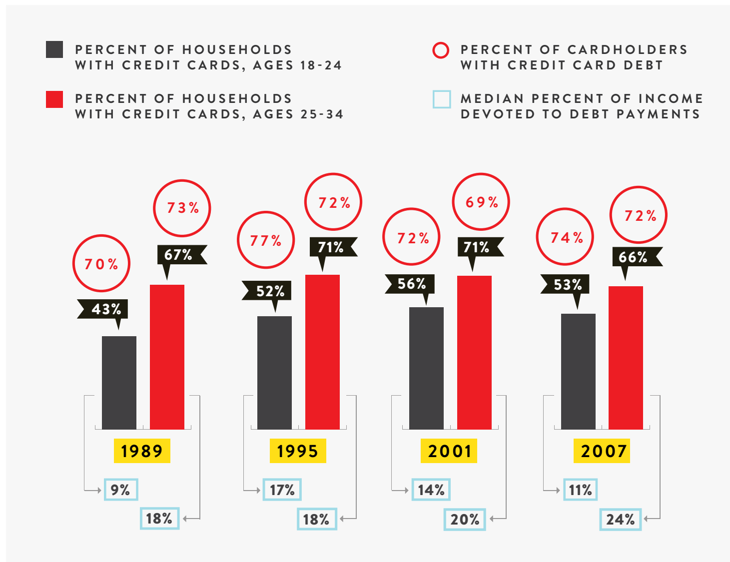
The number of younger adults with credit cards has increased over the past decades, while the percent of young households with credit card debt has changed little. This trend may change with new restrictions on cardholders under the age of 21.[13]

- Many more 18 to 24 year-old households had credit cards in 2007 than they did in 1989; 53.4 percent of all such households had credit cards in 2007, a 24.2 percent increase from the 43.0 percent who had them in 1989 (Figure 4.8).

- However, the percentage of 25 to 34 year-old households with credit cards, and the percentages of 18 to 24 and 25 to 34 year-old cardholders with credit card debt, have all remained nearly flat over the 18-year period (Figure 4.8).

- Among young households with credit card debt, the average percentage of household income devoted to all debt payments—including mortgages, student loans, and credit cards—rose significantly between 1989 and 2007: from 18.3 to 24.3 percent for 25 to 34 year-olds (Figure 4.8).

figure 4.8 | YOUNG HOUSEHOLDS AND DEBT, 1989-2007



SOURCE: *Dēmos Analysis of the Survey of Consumer Finances*

DEBT DISTRESS

Spending more than 40 percent of income on debt payments is considered a sign of distress, or debt hardship. The number of young households in this category has grown.

- Young households did not have the highest share of debt-distressed households—that distinction belongs to 45 to 54 year-olds—but the share of debt-distressed households of all ages grew by over 45 percent between 1989 and 2007 as households primarily took on housing-backed debt during the real estate bubble of the 2000s (Figure 4.9).

- 15.7 percent of all indebted 25 to 34 year-old households and 12.2 percent of all indebted 18 to 24 year-old households were debt-distressed in 2007, compared to 12.9 percent and 9.1 percent, respectively, in 1989 (Figure 4.9).

figure 4.9 | PERCENTAGE OF INDEBTED HOUSEHOLDS IN DEBT HARDSHIP*, BY AGE, 1989-2007

	1989	1995	2001	2007
ALL HOUSEHOLDS	10.0%	11.7%	11.7%	14.6%
18-24	9.1%	17.4%	12.0%	12.2%
25-34	12.9%	10.8%	12.1%	15.7%
35-44	7.5%	9.9%	10.0%	12.6%
45-54	11.2%	12.3%	11.5%	16.0%
55-64	8.4%	15.1%	12.3%	14.8%
65+	9.9%	10.6%	14.7%	14.8%

**Debt hardship is defined as spending more than 40 percent of household income on debt payments*
SOURCE: *Dēmos Analysis of the Survey of Consumer Finances*

ENDNOTES

1. Tamara Draut and Jose Garcia. "The Plastic Safety Net: How Households are Coping in a Fragile Economy," Dēmos (2009). http://www.Dēmos.org/publication/plastic-safety-net-how-households-are-coping-fragile-economy.
2. Jennifer Waters, "What Credit-Card Payoffs? Consumers are Dumping Debt," Market Watch, March 9, 2010. http://www.marketwatch.com/story/write-offs-are-driving-decline-in-credit-card-debt-2010-03-09; and Card Hub, "Q2 2011 Credit Card Debt Study," http://education.cardhub.com/q2-2011-credit-card-debt-study/.
3. Michel Araten, Michael Jacobs Jr., and Peeyush Varshney, "Measuring LGD on Commercial Loans: An 18-Year Internal Study," The Risk Management Association Journal, (May 2004). http://michaeljacobsjr.com/JPMC_LGD_Publication_May2004.pdf.
4. The Federal Reserve Board, Survey of Consumer Finances 2007.
5. Credit Card Accountability, Responsibility, and Disclosure Act of 2009.
6. YI analysis of U.S. Census Bureau Current Population Survey, Annual Social and Economic Supplement (2010).
7. Bureau of Labor Statistics Consumer Expenditure Survey, Table 3 (2010).
8. Pew Social and Demographic Trends, "The Return of the Multi-Generational Family Household," Pew Research Center (March 18, 2010). http://www.pewsocialtrends.org/files/2010/10/752-multi-generational-families.pdf.
9. U.S. Census Housing Vacancies and Homeownership Table 17, Homeownership Rates by Age of Householder and Family Status (2010).
10. Bureau of Labor Statistics Consumer Expenditure Survey, Table 3 (2010).
11. Brian K. Bucks, Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore. "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, (February 12, 2009) p. A31. http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf.
12. Gas is included in the Transportation category in Figure 4.6. See Consumer Expenditure Survey Tables 3 and 47 for amounts and shares for all age groups.
13. Credit Card Accountability, Responsibility, and Disclosure Act of 2009.