TRIGGER EVENTS AND FINANCIAL OUTCOMES OVER THE LIFESPAN

By Maximilian D. Schmeiser

This research identifies demographic groups vulnerable to trigger events to inform efforts to improve financial education. Specifically, this study examines the effects of trigger events on net worth throughout the life course. In general, educational attainment is a better predictor of resilience to a negative shock than intelligence but effects vary across age groups and by type of shock. The findings provide an opportunity to target financial education where it is most needed.

The Impact of Trigger Events on Net Worth

This study examines financial vulnerability to common life events such as divorce and job loss to inform efforts to strengthen financial education. Specifically, it examines whether educational attainment and intelligence are associated with greater resilience to these trigger events’ impacts on net worth at different points in the life course.

Previous research has found that households experiencing the birth of a child, the onset of disability or other health shocks, divorce, widowhood, or job loss can experience significant negative changes in net worth. In contrast, while marriage may be associated with a small reduction in wealth at the time of the event, it has significant benefits in the long run. The literature on the effect of home purchase on financial assets is somewhat less clear, as no studies have addressed the immediate impact on financial assets. Similarly, quantitative data demonstrating how the death of a child affects net wealth is not available.

Researchers have identified several strategies individuals employ to cope with these events, including dissaving, relying on unsecured debt, adjusting labor force participation, and reducing consumption. The literature demonstrates that different coping mechanisms may be used for different types of events, suggesting that appropriate education may need to be event-specific.

Previous studies have used different models, controls, and definitions of wealth, and have often examined different points in the life course, making comparison across studies difficult. The current study offers an opportunity to directly compare the effects of a wide range of trigger events through a consistent methodology.

Data and Methods

The first set of analyses used Panel Study of Income Dynamics (PSID) data from 1984-2007 to compare the net worth of households that did and did not experience the following trigger events: marriage, divorce or widowhood, job loss, home purchase, and disability onset. The effects of age group (i.e., stage in the life course) and educational attainment (college degree/no college degree) were also considered.

The second set of analyses used the National Longitudinal Survey of Youth 1979 (NLSY79) to examine the relationship between change in net worth after a trigger event and both intelligence (measured using Armed Forces Qualifications Test [AFQT] scores) and educational attainment (college degree/no college degree). The trigger events considered were unemployment, birth of a child, death of a child, marriage, divorce, and the onset of a work-limiting health problem.
Key Findings

Job Loss and Divorce or Widowhood

The trigger events that have the greatest negative impact are job loss and divorce or widowhood. While divorce or widowhood do not occur at particularly high rates in any age group, they occur throughout the life course and have significant impacts at all ages for families with both college-educated and non-college-educated heads. Job loss, meanwhile, is associated with the largest difference in net worth between those who experience the event and those who do not. Family heads without college degrees are more likely to experience this event, and the difference in net worth is substantial for all age groups and both education levels. The NLSY79 analysis also demonstrates that this is an event with a particularly high incidence rate. These findings suggest that both divorce or widowhood and job loss are promising targets for educational intervention across the life course.

However, families with and without college-educated heads exhibit different effects associated with job loss as age increases, suggesting that these two groups may be affected differently by this event. These two groups may therefore require different information to cope effectively with the financial ramifications of job loss. Further research identifying possible causes for these patterns could inform educational-program design.

Disability Onset

Families with heads who experience disability onset have substantially less net worth across the life course than families whose heads do not experience the event, but the effects are smaller than those for job loss and divorce or widowhood. Because families whose heads do not have college degrees have less net worth overall, they appear to be more vulnerable, and may benefit more from financial education.

Marriage

Marriage is an event for which it would probably be beneficial to target a specific demographic group for financial education, specifically younger, non-college-educated families. These families are more vulnerable to having lower net worth than their unmarried peers, and a substantial number of individuals in the younger age segments are getting married.

Home Purchase

Overall, it is not clear whether the purchase of a home is associated with higher or lower net worth across the life course. The results regarding home purchase are difficult to interpret for a number of reasons; specifically, potential reporting discrepancies and the receipt of gifted money as a source of down payments may complicate assessments of net worth. Further studies that are better able to measure home equity and mortgage debt are needed.
Implications for Vulnerable Populations

This study highlights several events that make families particularly vulnerable to financial distress, as well as the specific subgroups most adversely affected by these events. For example, divorce and job loss have particularly negative effects on a family’s financial wellbeing, and, as they occur more frequently among minorities and those with lower levels of education, they are prime candidates for targeted intervention or education to improving financial outcomes for vulnerable populations.

Conclusions

This study demonstrates that the financial consequences of trigger events depend on the type of event, and as predicted by the life course perspective, the stage in life at which the event occurs. The analysis also reveals that educational attainment and intelligence are differentially associated with resilience across age groups and trigger events.

Generally, results indicate that households headed by a college degree holder are more resilient to financial shocks. The NLSY79 findings suggest that educational attainment may be more closely correlated with resilience to trigger events than the measure of intelligence used in this analysis. Within households with higher levels of education, however, higher intelligence also predicts greater resilience. This pattern is consistent with previous findings that educational attainment is a significant predictor of net worth, while intelligence may not be.

The NLSY79 findings suggest that beyond targeting specific groups for education, generally improving the financial literacy of individuals who do not go to college may be important. Because the results of the AFQT analysis suggest that learning ability is less important than other factors, simply improving access to financial education may be useful. Strengthening financial education in high school may be a particularly beneficial strategy.

Further research should examine the causal relationships behind the patterns identified in this study and evaluate the effectiveness of specific strategies that could be used to target financial education.
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