Factors Related to Meeting the Capital Accumulation Ratio Guideline: Evidence from the 1992 to 2007 Survey of Consumer Finances

Jodi Letkiewicz[1] The Ohio State University

Abstract

This paper explores the time trends of the capital accumulation ratio and considers whether changes in stock indexes relative to housing indexes have an impact on the percentage of households that meet the 25% capital accumulation ratio threshold. The capital accumulation ratio is an indicator of how well an individual or household is advancing toward financial goals for capital accumulation. The capital accumulation ratio is defined as investment assets-to-net worth and is calculated from information on investment assets and net worth. Lifecycle cohorts were created for various stages in the lifecycle and were based on various factors such as age, marriage status, dependents and retirement status. Households are analyzed based on life cycle stage cohort and each cohort's propensity to meet the threshold.

The data analyzed in this study are from six datasets (1992, 1995, 1998, 2001, 2004 and 2007) of the Survey of Consumer Finances (SCF). To determine whether the percentage of households meeting the 25% threshold changes significantly across survey years and if the difference between cohorts is significant, a repeated-imputation inference (RII) means test is performed. A multivariate model is used to control for the effects of household characteristics on whether the household meets the 25% capital accumulation ratio guideline over time.

The percentage of households meeting the 25% capital accumulation ratio threshold varies significantly between most of the survey years. In periods when the stock market increased more than housing prices (19921995, 1995-1998 and 2004-2007), the percentage of households meeting the 25% capital accumulation ratio threshold increases from the previous year. In periods when housing prices increased more than the stock market (1998-2001 and 2001-2004), the percentage of households meeting the threshold decreases from previous periods. Single households with dependents met the threshold at a much lower rate than other cohorts. Married households, irrespective of dependents, met the threshold at the highest rate. The percentage of households meeting the threshold was lower for retired households.

References

Aizcorbe, A., Kennickell, A. & Moore, K. (2003) Recent changes in US family finances: Evidence from the 1998 and 2001 Survey of Consumer Finances. *Federal Reserve Bulletin***,** 1-32. Ando, A. & Modigliani, F. (1963) The life cycle hypothesis of saving. *American Economic Review,* **53,** 55-74. Bucks, B., Kennickell, A., Mach, T. & Moore, K. (2009) Changes in US family finances from 2004 to 2007: Evidence from the Survey of Consumer Finances. *Federal Reserve Bulletin,* **95**.

DeVaney, S. (1993) Change in household financial ratios between 1983 and 1986: Were American households improving their financial status. *Financial Counseling and Planning,* **4,** 31-46.

DeVaney, S. (1995) Retirement preparation of older and younger baby boomers. *Financial Counseling and Planning,* **6,** 25-33.

DeVaney, S. (1997) Using Financial Ratios (ed. by Garman, E. T., Xiao, J. J. & Brunson, B. G.), pp. 141-153. Dame Publications, Houston, TX. Garman, E. & Forgue, R. (2007) *Personal finance*. South-Western Pub. Greninger, S., Hampton, V., Kitt, K. & Achacoso, J. (1996) Ratios and benchmarks for measuring the financial well being of families and individuals. *Financial Services Review,* **5,** 57-70.

Harness, N., Finke, M. & Chatterjee, S. (2009) The Effects of the Capital Accumulation Ratio on Wealth. *Journal of Financial Counseling and Planning Volume,* **20,** 45.

Ibbotson Associates (2009) *Ibbotson SBBI 2009 Classic Yearbook: Market results for stocks, bonds, bills, and inflation 1926-2008.* Morningstar, Inc., Chicago, IL.
Kennickell, A. (1998) Multiple imputation in the Survey of Consumer Finances. Citeseer.
Kennickell, A., Starr-McCluer, M. & Surette, B. (2000) Recent changes in US family finances: Results from the 1998 Survey of Consumer Finances. *Federal Reserve Bulletin*, 1-29.
Lytton, R., Garman, E. & Porter, N. (1991) How to use financial ratios when advising clients. *Financial Counseling and Planning,* **2,** 3-23.
Montalto, C. P. & Sung, J. (1996) Multiple imputation in the 1992 Survey of Consumer Finances. *Financial Counseling and Planning,* **7,** 133-146.
Moore, J. & Mitchell, O. (1997) Projected retirement wealth and savings adequacy in the Health and Retirement Study. *NBER Working Paper*.
Standard and Poor's (2010) S&P/Case-Shiller Home Price Indices. Standard & Poor's Financial Services LLC.
Weston, L. P. (2009) 16 Favorite Money Rules of Thumb
Yao, R., Hanna, S. & Montalto, C. (2002) Factors related to meeting the capital accumulation ratio guideline. *Financial Services Review,* **11,** 153-171.
Yao, R., Hanna, S. & Montalto, C. (2003) The capital accumulation ratio as an indicator of retirement adequacy. *Financial Counseling and Planning,* **14,** 1-12.
Yuh, Y., Hanna, S. & Montalto, C. (1998a) Mean and pessimistic projections of retirement adequacy. *Financial Services Review,* **7,** 175-193.
Yuh, Y., Montalto, C. & Hanna, S. (1998b) Are Americans prepared for retirement. *Financial Counseling and Planning,* **9,** 1-12.

Endnotes

[1] PhD Student at The Ohio State University, Consumer Sciences Department, 1787 Neil Avenue, 206 Campbell Hall, letkiewicz.2@osu.edu