EBRI Fast Facts
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Differences in Ownership of Asset Types by Rural vs. Urban Individuals Point to Possible Disparities in Retirement Security

A recent study by the Employee Benefit Research Institute (EBRI), "Understanding the Finances of Rural vs. Urban Americans," found that, overall, rural individuals appear to have had less wealth than their urban counterparts. Further, they were missing out on some key assets in their portfolios that may help them build more wealth and provide a better diversification of assets, which could lead to a more secure retirement.

Specifically, urban individuals had a median total asset value that was roughly 50 percent higher than that of rural individuals.[1] While this contrast could be due to differences in the cost of living, a further disparity exists in the distribution of assets among rural vs. urban individuals.

Geographic Areas

The Survey of Income and Program Participation (SIPP) asks if the individuals live in a metropolitan (urban) area or nonmetropolitan (rural) area. However, due to privacy concerns, certain individuals' geographic area is reported as unidentified. A metropolitan area, as defined by the U.S. Census Bureau, is a county- or equivalent-based area that has at least one urbanized area with a population of 50,000 or more, plus adjacent territory that has a high degree of social and economic integration, as measured by commuting ties. In SIPP, metropolitan status is only determined for individuals who live in states where (1) both the metropolitan and non-metropolitan populations are 250,000 or more or (2) the state's population is entirely metropolitan. Individuals in states not fitting into either of these categories are classified as unidentified. Otherwise, the individuals are classified as living in a metropolitan (urban) area or a nonmetropolitan (rural) area.

While the share of total assets[2] attributed to homeownership was higher among urban individuals, those living in rural areas were more likely to own their home than those living in urban areas (59.5 percent vs. 51.4 percent) (Figure 1). This is likely due to the much higher values of homes in urban areas. Conversely, the share of assets represented by businesses was much larger for rural individuals, even though the percentage of rural individuals owning a business was nearly identical to that of those living in urban areas (9.0 percent compared with 9.1 percent).

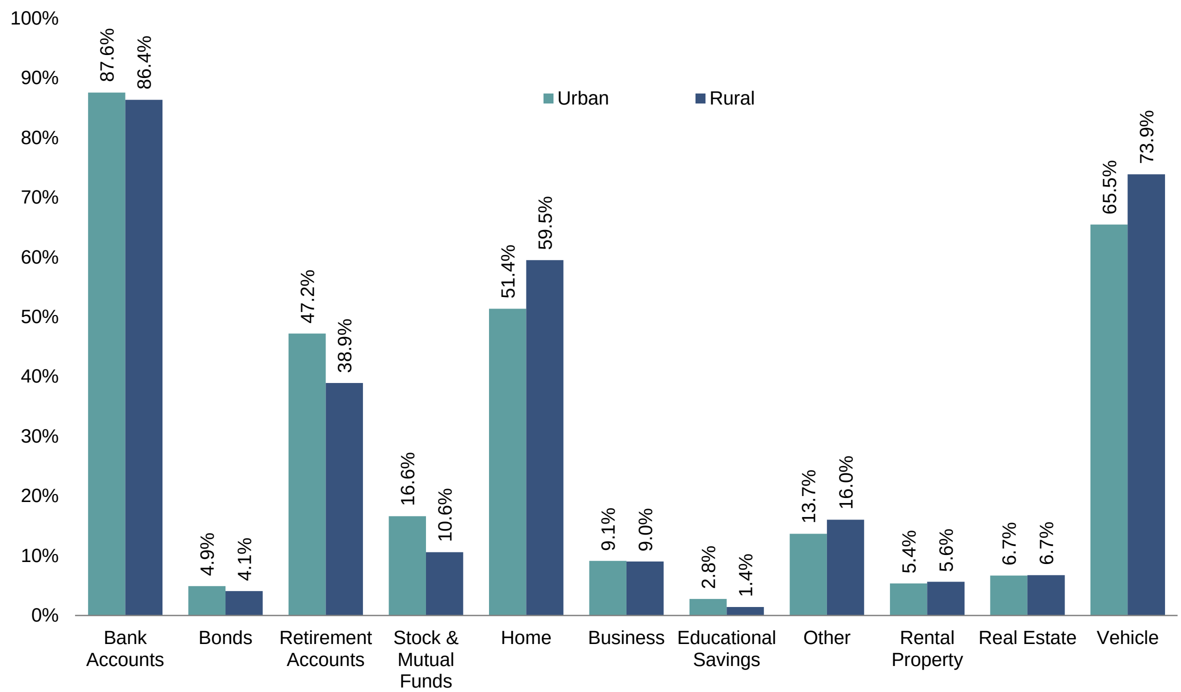
Rural individuals were less likely to own retirement accounts and stocks and mutual funds, and they had smaller shares of their total assets coming from these sources. But rural individuals were more likely to own a vehicle than were urban individuals, and the share of total assets from vehicles among rural individuals was larger than

[1] Based on the 2020 Survey of Income and Program Participation (SIPP), reflecting 2019 data.

[2] SIPP categorizes assets into 11 groups. These groups are bank accounts (e.g., checking and savings), bonds, businesses, educational savings (e.g., 529 plans), home, rental properties, retirement accounts (employment-based defined contribution plans and individual retirement accounts), real estate (not primary residence), stocks and mutual funds, vehicles, and other (anything remaining, such as precious metals and collectibles).

that among the urban individuals as well (although the difference was not as substantial as the percentage difference in assets attributable to homeownership between the two cohorts).

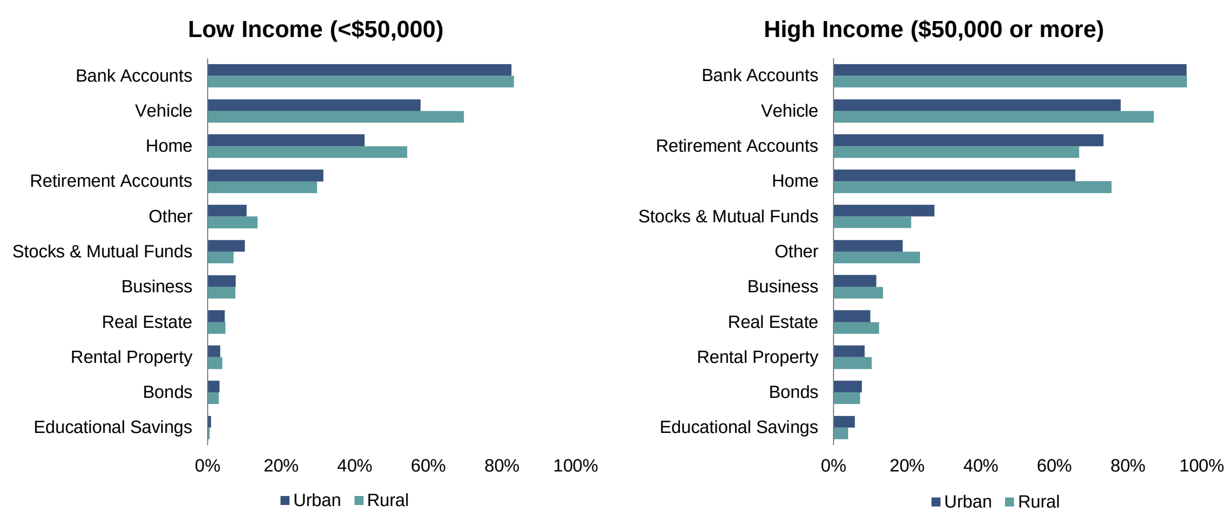
Figure 1
Ownership of Various Asset Types, by Geographic Area



Source: Employee Benefit Research Institute estimates of the 2020 Survey of Income and Program Participation.

When separating the individuals into the two income groups, the dissimilar ownership rates remained. One exception was retirement account ownership among the low-income individuals, which was nearly identical (Figure 2). The higher ownership rates of stocks and mutual funds for urban individuals persisted across each income group, and the higher ownership of retirement accounts for urban individuals was present for the those with higher incomes.

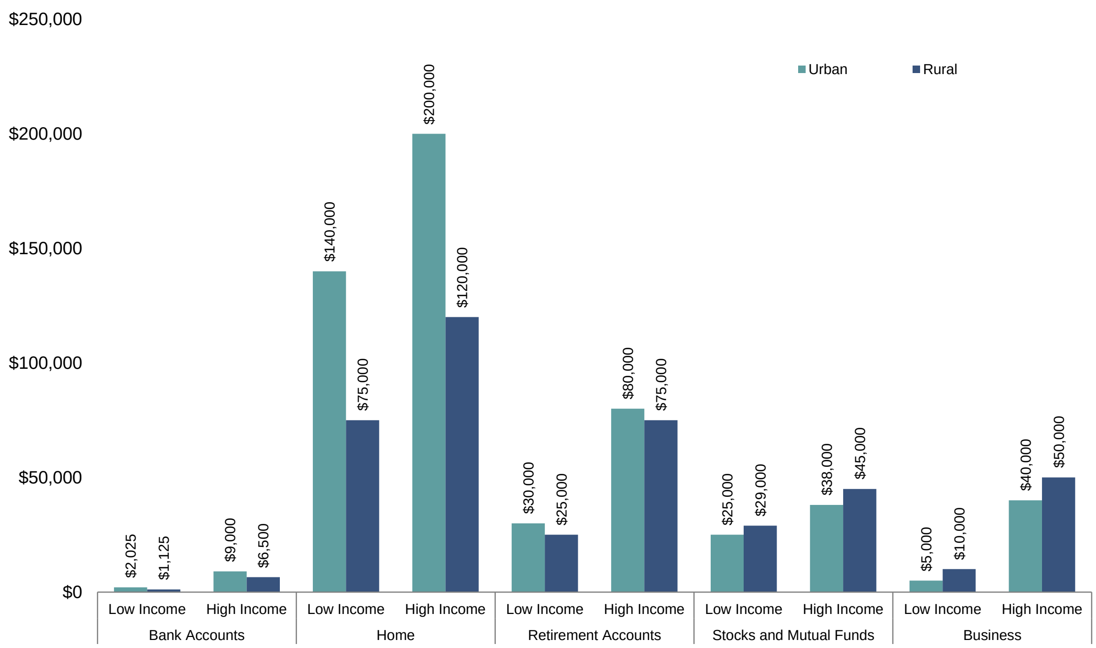
Figure 2
Percentage of Individuals Owning Each Asset Type, by Income and Geographic Area



Source: Employee Benefit Research Institute estimates of the 2020 Survey of Income and Program Participation.

As far as the median values of specific asset types, individuals living in urban areas had higher values for bank accounts, homes, and retirement accounts among those owning them (Figure 3). However, the median value of stocks and mutual funds among those owning them was higher for rural individuals, which is likely the result of a lower number of small investors in rural areas. Rural individuals having business assets had a higher median value of these assets relative to urban individuals having business assets. In other words, rural business owners appear to have a higher concentration of their assets in their businesses than urban individuals.

Figure 3
Median Values of Various Assets, by Income and Geographic Area



Source: Employee Benefit Research Institute estimates of the 2020 Survey of Income and Program Participation.

It is important to note that the ownership of bank accounts and shares of total assets were nearly equal across geographic areas and incomes. This asset was the single most likely to be owned, at around 90 percent, and appears to be the one asset type that individuals have as the base of their finances.

Conclusion

Rural individuals appear to be missing out on certain financial assets, which over the long term have provided much higher rates of return than many other investments. Other means to access the financial markets may be necessary. In addition, rural business owners appear to have their assets highly concentrated in their businesses, which could be out of necessity. However, better diversification of assets could help protect these individuals' retirement prospects if something caused the business to close. One clear commonality is that banks seem to be the economic base of most individuals, including those living in rural areas. Better understanding of how banks are being used by rural individuals may allow for an increase in the ownership of other assets for these individuals.

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