THE IMPORTANCE OF ASSET DEVELOPMENT TO LONG-TERM SELF-SUFFICIENCY

Background for Remarks by Larry W. Beeferman, Director, Asset Development Institute, at the National Governors Association Center for Best Practices Center Webcast, July 9, 2003

PART I

WHAT ARE ASSETS AND WHY ARE ASSETS AND ASSET-BASED POLICIES IMPORTANT?

Asset development is about the needs that the vast majority of us have in common; needs, which if met, fuel shared aspirations for economic well-being.

Assets: Capacities and resources that enable people to have choices about what the good life means to them, to make those choices, and have a reasonable chance to realize them.

Development: Realizing the potential for change and growth over a lifetime

Asset development policies are about opportunity, fairness, responsibility and reward.

Opportunity: success requires a series of opportunities that build on one another and accumulate over the course of a lifetime of effort; if we miss one or even a few steps, things are more difficult, but achieving success is still possible; but if we miss too many steps, success may be out of reach.[1]

Fairness: There should be no unfair advantage in the pursuit of opportunity.

Responsibility and Reward:

- Personal Responsibility: An individual should display initiative and contribute not only to his or her own well being but also that of his or her family and the larger community. Initiative is inspired when meaningful individual action seems possible; when the means to carry it out are within reach; and when there is a real prospect of a more rewarding future that sustains hope.
- Social responsibility: There should be sufficient reward for those whose lives embody personal responsibility. There should be sufficient support to those not capable of seizing opportunity and those who have failed in the attempt, but who can begin again.

In the short-term, asset-based policies help people gain the essentials, such as money for food, rent, and utilities. But they also focus on the keys to personal growth and success over the long term. Among the assets critical to economic well-being are:

- Earnings to sustain growth during a working lifetime;

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- Knowledge and skills to enhance those earnings;
- The physical and mental health to fully use knowledge, skills, and other capacities;
- Pensions for support in retirement;
- Insurance or other protection against risks – labor market risk, such as unemployment and personal risk, such as illness and disability;
- Savings and equity in a home or business and other financial resources to complement and enhance all of the former;
- Networks of personal, community, and professional connections that support and empower; and
- A geographic community-based infrastructure of resources and services

PART II

FINANCIAL ASSETS ARE ONE KEY TO ECONOMIC SECURITY AND OPPORTUNITY

FINANCIAL RESOURCES ARE AN ESSENTIAL FACTOR IN GAINING ECONOMIC SECURITY AND HAVING ECONOMIC OPPORTUNITY. They include cash in savings and checking accounts, stocks and bonds, and equity in property.

- They bolster income to meet current needs during a working lifetime and help ensure a comfortable retirement.
- They enable individuals to make a down payment on a home, pay for education and training, start a business, or make a significant purchase, such as a car or a computer.
- When a crisis or emergency threatens to disrupt people's lives, financial resources enable them to better get through it.

BUT MANY HOUSEHOLDS HAVE FEW, IF ANY, FINANCIAL ASSETS:

- In 2001, an estimated 6.9% of families had less than zero net worth. An additional 11.3% had between \$0 and \$4,999 net worth. The lowest fifth of families by income had a median net worth of \$7,600; the highest and second highest tenth had \$833,600 and \$263,100, respectively.[2]
- Significant numbers of households are "asset poor," that is, they have few financial resources to cushion the loss income. In 1999, about one in four households (25.9%) were "asset poor" on the most generous measure.[3] On a more stringent measure, nearly half (46.4%) did not have enough wealth-type resources, such as cash, stocks and bonds, and equity in a home, to meet their basic needs for a period of three months.[4]
- A substantial number of households do not own key financial assets.
    - <u>Homes</u>. In 2001, 32.2% of households were not homeowners.[5]

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- o Interest-bearing assets. In 2001, only 3.0% of all families owned bonds, 15.7% certificates of deposit, and 16.7% savings bonds.[6]
- o Dividend-paying assets: In 2001, only 21.3% of families directly owned individual stocks, and 17.7% mutual funds.[7]
- o Assets targeted to retirement.
    - ➢ Assets held during retirement. In 2000, 59% of units (married couples or unmarried persons) aged 65 or older had no source of retirement benefit income other than from Social Security[8]; 40% had, in addition to Social Security, no income from stocks, bonds, or other income-producing assets.[9]
    - ➢ Assets held in anticipation of retirement. In 1998, 27.8% of all households whose head was between ages 50 and 52 had no pension accounts or pension wealth.[10]

- Numerous families have no direct connection with mainstream banking and other financial institutions. In 2001, about 9.9% of families – nearly a third (29.9%) in the lowest quintile by income – had no transaction account[11] and 12.7% had no checking account.[12]

WHY MANY HOUSEHOLDS HAVE FEW FINANCIAL ASSETS

The fact that some households have few financial assets and there are great disparities in ownership of financial asset may be attributed to a two-tier system of opportunity. Many individuals have the gateways to building (and preserving) financial assets; but for many others, gateways have yet to be opened and barriers yet to be swept away to enable them to be part of the opportunity structure. Six key gateways are:

- Sufficient and stable enough flow of cash income

A sufficient and stable enough flow of cash income makes sustained saving possible or realistic. For the vast majority, that means earnings from employment. When the flow is insufficient, the focus has to be on surviving for the present, not thinking about the future. When the flow is not stable, it is difficult, if not possible to either meet current needs or plan for the future.

Currently, many individuals hold jobs that pay less than a poverty wage (in 1999, 26.8% of jobs); many working families live below a more realistic standard of income necessary to meet basic needs such as the Self-Sufficiency Standard[13] or the Family Budget (for the period 1997-1999, 27.6%).[14]

- Sufficient protection against risk, such as labor market risk (the loss of a jobs) and personal risk (ill health or disability)

Starting and succeeding at financial asset building depends upon not only the cash income earned from jobs, but also the benefits – including health insurance and disability insurance – that often come with them. The ability to insure against the risk of ill health has a tremendous impact on the ability of households to build and preserve financial assets. The first depends upon the extent to which the households receive a subsidy to

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better cover the cost of health care insurance. The second relates to the potentially devastating financial (and other) costs borne by those unable to gain such insurance.

Many working households gain health insurance primarily through employment, in part because of significant federal and state tax subsidies to both workers and employers. Insured workers are protected from the physical and financial adverse consequences of ill health and enjoy an increased flow of cash income available for saving. However, generally speaking, lower wage and salary, less educated, female, and minority workers and those employed by smaller businesses are less likely to have health insurance through employment and enjoy such benefits.

- Structured means by which to save and incentives and supports for saving

The vast majority in America who accumulate financial assets – and many do not – build them as home equity and pensions for retirement.

They succeed at that by the dint of their own efforts combined with two other key elements. One is a structured means by which to save. Home ownership is financed by regular payments on mortgages supplied by a mortgage market in part created, regulated, and subsidized by government. Pension assets are accumulated through regular payroll deduction and contributions as part of a system structured and regulated by the government. The other is support for saving. Home ownership is spurred by tax incentives, i.e., through the mortgage interest and real estate tax deductions and favorable treatment for capital gains on the sale of homes. Tax-preferences for contributions by employers and employees to pension plans sustain saving for retirement.

For all practical purposes, these means and supports are not available to lower income individuals – who are more likely to be women, people of color, the young, and the less educated. Their low income means they enjoy no significant benefit, if any from, from tax deductions and (non-refundable) tax credits. Their employers are less likely to offer them pension plans as a part of their employment package. Moreover, financial asset tests under means-tested programs place otherwise qualified individuals at risk of either losing critical benefits or dissipating their savings, which incentives not to save.

- Access to means to manage financial assets

To build and preserve financial assets people must be able to receive and hold secure financial resources, to access cash, make cash transfers, and pay bills, and have an easy and simple means by which to save.

Many individuals have reasonably-priced access to checking accounts, savings accounts, and related services. But many others – the “unbanked” – do not. Because they have no checking accounts, they may have to pay exorbitant fees to check cashers to cash employment or other checks. Because they have no checking and savings accounts, they pay additional fees to draw cash or buy money orders to pay their bills. Because they have no savings accounts, they lack the means by which to easily and

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regularly build small amounts of savings. Immigrants save to provide support to dependent families abroad, but they may pay significant fees to remit monies to those who rely upon them.

- Access to sufficient and reasonably-priced credit to cushion against risks and open up opportunities

People require short-term credit, for (often essential) consumer purchases or to meet immediate financial emergencies; longer-term credit, for (often essential) durables, such as cars, or education; and very long-term credit for major purchases, such as a home or home improvement or repair, or to finance higher education.

Many individuals have access to sufficient and reasonably priced credit of this kind from mainstream lenders. Others – among them both the banked and unbanked – do not. Their primary source of small size, short-term credit for emergencies, such as having cash to pay current expenses payments for a small car repair or medical expense, etc. – may be pawnbrokers or payday lender who may charge them exorbitant fees. Their primary source of modest size, longer-term credit for important household purchases may also be expensive. For example, for a refrigerator or washing machine, they may use rent-to-own rather than less expensive revolving credit arrangements to make purchases. For the purchase of a used car – often critical to holding a job and managing family life – they may depend upon costly car title loans, loans from sub-prime auto finance companies instead of mainstream finance companies affiliated with franchised dealers, or if they are "lucky," credit cards with high interest rates and fee. Their primary source for larger, very long-term credit for a home purchase or a major repair of a home, if they own one, may be from an expensive sub-prime, and perhaps predatory lender.

- Confidence, capacity, and skills to manage financial assets accumulated.

Financial literacy is essential to making knowledgeable choices about how to build, manage, and protect financial assets. Financial literacy is a challenge for individuals at many income levels, but those with higher incomes are far more likely to have access to informal and formal financial advice. Because low-income individuals live closer to the economic margin, they are likely to be less educated, and may be more likely preyed open, the consequences of lack of financial literacy may be devastating. Individuals who are unable to access mainstream financial institutions may have a sense of exclusion and lack the confidence to engage such institutions even if access might be available.

PART III

STATE OPTIONS TO ENABLE LOW-INCOME WORKERS TO BUILD FINANCIAL ASSETS

• Increase knowledge and public awareness, to lay the foundation for large scale policies in better fiscal times

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- Broadly identify and explore current and proposed strategies that enable people to save and build assets
  - Governor's Task Force for Financial Independence (Delaware)
  - Massachusetts Asset Development (bill pending)
- Promote and advance financial education: Governor's Taskforce on Financial Education (Wisconsin)
- Gather state-level data to determine saving and asset-building outcomes and identify factors that produce those outcomes ("Welfare, Work, and Banking: the North Carolina Financial Services Survey")
- Encourage federal government, more particularly, the Federal Reserve Board and U.S. Census Bureau to collect information at the state level.
- Establish an Office of Asset Opportunity, initially to gather and be a source of information relevant to financial asset building, and perhaps later support financial building polices, programs, and private security efforts through education and support for capacity building.

• Leverage federal resources
- Asset-building
  - Individual Development Accounts: develop the capacity to gain and seek from federal government or quasi-government agencies
    - ✓ Assets for Independence Act (up for reauthorization)
    - ✓ Savings for Working Families Act (legislation pending)
    - ✓ Office of Refugee Resettlement
    - ✓ Temporary Assistance for Needy Families
    - ✓ Community Development Block Grant
    - ✓ Community Reinvestment Act[15]
    - ✓ Federal Home Loan Bank
  - Encourage expansion or improvement of state operation of the federally supported Family Self-Sufficiency program
  - Encourage participation in state operation of the federally supported Section 8 Home ownership program
- Seek federal support for staffing of individual and community-based organization capacity building efforts: AmeriCorps*VISTA, particularly the Entrepreneur Corps
- Draw upon federal resources that sustain programs for financial literacy, e.g.,
  - Consumer and Family Economics, USDA Cooperative State Research, Education, and Extension Service
  - Money Smart Initiative, Employment and Training Administration, U.S. Department of Labor)
- Leverage and seek resources from current federal efforts to promote access to financial services:
  - Encourage establishment of Electronic Transfer Accounts (ETAs) in conjunction with participation in federal Electronic Funds Transfer Programs
  - Spur efforts to secure grants from the First Accounts (U.S. Treasury) program

- Leverage private profit sector resources
  - Regulate non-mainstream financial lenders to limit or make their loans more fair and reasonable: e.g., payday loans, rent-to-own credit, car-title loans; credit card use; pawnshop loans; credit insurance, and (EITC) refund-anticipation loans.

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        - By regulation of or incentives to mainstream financial institutions provide credit and services
            - Support efforts to implement, enforce, and strengthen the federal Community Reinvestment Act (CRA)
            - Establish a State CRA for financial institutions where not pre-empted by federal law (Massachusetts insurance industry reinvestment law)
            - Mandate or give tax incentives to "lifeline" or similar transaction accounts or related services
                - ✓ Mandate lifeline accounts
                - ✓ Tax incentives: to create "banking development districts" in low- and moderate-income neighborhoods
            - Leverage linked deposits of state monies
- Leverage private non-profit sector resources
    - See example above involving community-based organizations
    - Encourage saving through public campaigns, e.g., encourage participation in AmericaSaves, or similar private sector campaigns
- Make the most of currently limited state resources
    - Learn from experience of and where possible, support projects for asset-building sustained by the private sector
        - IDAs (community based)
        - IDAs (employment based)
            - ✓ Employer-based IDA demonstration projects
                - United Way
                - Council for Adult and Experiential Learning
            - ✓ Employment-related financial asset building:
                - Massachusetts Full Employment Program, Oregon JobsPlus (supplement to earnings diverted to escrow account)
        - Targeted asset building
            - ✓ Establish a refundable Interest Income Tax Credit (IITC)(proposed in Delaware)
        - Specialized asset-building: education and training
            - ✓ Adults: Individual Learning Accounts (Pennsylvania)(demonstration project with matched employer-employee-state contributions)
            - ✓ Youth: 529 Plans (state-based matched incentives for low-income families to participate in federally mandated, state-run, tax favored education savings plans)
        - Specialized asset-building: transition from public to private housing (rent revenue diverted to escrow accounts for transitions from public housing)(Massachusetts)
        - Generalized asset-building (Youth): Children's Development Accounts (Oregon)[16]
        - Pensions: Washington Voluntary Accounts (leveraging state retirement system structure to promote voluntary, portable pensions for all workers)

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        - Educate recipient to correct misperceptions about applicability of asset tests.
        - Reduce or remove asset-test barriers to receipt of public income benefits (e.g., Medicaid and Food Stamps)
    - Adopt or sustain community-based or alternative financial institution loan programs, for example, Ways to Work's Family Loan Program Revolving Loan Fund
    - Use electronic benefits transfer to better facilitate recipients becoming banked. For example,
        - "[S]hift existing EBT programs towards systems that are linked to individually owned accounts."[17]
        - "[P]ermit former welfare recipients to retain their [EBT] accounts after they move into the workforce."[18]
    - Adopt tax credits and offer encouragement and support for of alternative financial institutions to promote individual and community development, For example,
        - South Carolina (Thirty-three (33%) credit against state tax liabilities to S.C. businesses, corporations, insurance companies, and financial institutions for each dollar investment with certified CDCs or CDFIs)
        - Illinois (partnership between government and private sector financial institutions in support of CDFIs).
- Increase financial literacy
    - Approve financial literacy training as a work activity under TANF (Illinois)
    - Provide financial literacy training to
        - State case worker employees
        - State employees
    - Increase consumer education through Attorney General, Banking, or other relevant state agencies and commissions

For Website and other resources describing policy and program options, contact Larry W. Beeferman, Director, Asset Development Institute. (Telephone: 781-736-8682; E-mail: lwb@brandeis.edu)

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[1] Adapted from "Colorado: The State of Opportunity Report," Bell Policy Center, Denver, Colorado.

[2] Table 4: Percent distribution of families over wealth groups defined in terms of 2001 dollars: 1989, 1992, 1995, 1998, and 2001, "A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989-2001," by Arthur B. Kennickell, Federal Reserve Board, Washington D.C., p. 9. Available at http://www.federalreserve.gov/pubs/oss/oss2/papers/concentration.2001.pdf. "Net worth" is the difference between gross assets (such as value of cash, savings and checking accounts, stocks and bonds, cars, and houses and other real estate) and liabilities (such as credit card and installment loan debt and home mortgages.

[3] The figures presented are based on the notion that people are "`asset poor' if their access to *wealth-type resources* is insufficient to enable them to meet their *basic needs* for some limited *period of time*." "Who Are the Asset Poor? Levels, Trends, and Composition, 1983-1998," by Robert Haveman and Edward N. Wolff, Institute for Research on Poverty, Discussion Paper no. 1227-01, University of Wisconsin, Madison, p. 6, http://www.ssc.wisc.edu/irp/pubs/dp122701.pdf. One standard employed by the authors is "that families should have an asset cushion that allows them to meet basic needs – the threshold [official] poverty line – for 3 months, should all other sources of support fail." Another is an absolute one, "of $5,000, implying that a household is poor if it has wealth-type resources of less than that amount." The authors use three different measures of wealth: (1) "net worth," "the current value of all marketable or fungible assets, less the current value of debts"; (2) net worth less home equity; and (3) "liquid assets," "cash or easily monetizable financial assets, excluding IRAs and pension assets." Id. at 6-8. The net worth standard is the least stringent one, yielding the lowest rates of asset poverty; the liquid assets standard is the most stringent one, yielding the highest rates of asset poverty.

[4] Table 2A: Overall Asset Poverty Rates (Headcount Index), "Asset Poverty in the United States, 1984-1999: Evidence from the Panel Study of Income Dynamics," by Asena Caner and Edward N. Wolff, The Levy Economics Institute, Annendale-on-Hudson, New York, Working Paper No. 356, September 2002, p. 53. Available at http://www.levy.org. Note that these figures are based in date from the U.S. Census Bureau's Panel Survey in Income Dynamics (PSID). Analogous estimates of asset poverty were previously presented in "Who Are the Asset Poor? Levels, Trends, and Composition, 1983-1998," by Robert Haveman and Edward N. Wolff, Institute for Research on Poverty, Discussion Paper no. 1227-01, University of Wisconsin, Madison, p. 9, http://www.ssc.wisc.edu/irp/pubs/dp122701.pdf. There however, the authors relied on data the Federal Reserve Board's Survey of Consumer Finances (SCF). Caner and Wolff state: "Given that the SCF oversamples high income households and collects information on pension wealth, one would expect the SCF estimates of asset poverty rates to be lower than the PSID rates. This is in fact generally true…." Op. cit., p. 26. For example, for 1989 (for which calculations using both the PSID and SCF were made), for the three stringent asset poverty tests, the rates based on the SCF were 24.7%, 37.3%, and 36.4%, whereas the rates based on the PSID were 27.1%, 41.3%, and 38.9%, respectively. Asset Poverty Rates Estimated Using the Survey of consumer Finances (SCF), op. cit., p. 63 and Table 2A: Overall Asset Poverty Rates (Headcount Index), op. cit, p. 53. Figures for the most stringent measure are readily comparable because of the different methodologies used. See op. cit., p. 26 note 14.

[5] Housing Vacancies and Homeownership Annual Statistics: 2001, U.S. Census Bureau. Available at http://www.census.gov/hhes/www/housing/hvs/annual01/ann01t13.html.

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"Homeownership Rates. The proportion of households that are owners is termed the homeownership rate. It is computed by dividing the number of households that are owners by the total number of households (table 18). The formula is as follows:

$$\text{Homeownership rate} = \frac{\text{Owner households}}{\text{Total occupied households.''}}$$

APPENDIX A. DEFINITIONS AND EXPLANATIONS. Id. Available at http://www.census.gov/hhes/www/housing/hvs/annual01/ann01def.html.

[6] Table 5. Family holdings of financial assets, by selected characteristics of families and type of asset, 1998 and 2001 surveys, B. 2001 Survey of consumer Finances, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," by Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, Federal Reserve Bulletin, January 2003, p. 13. Available at http://www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf.

[7] Table 5. Family holdings of financial assets, by selected characteristics of families and type of asset, 1998 and 2001 surveys, B. 2001 Survey of consumer Finances, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," by Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, Federal Reserve Bulletin, January 2003, p. 13. http://www/federalreserve.gov/pubs/oss/oss2/981bull0100.pdf.

[8] Table 1.1. Percentage with Income from specified source, by age, marital status, and sex of unmarried persons, "Income of the Population 55 or Older, 2000," The Office of Social Policy, Social Security Administration, p 3. Available at http://www.ssa.gov/statistics/incpop55/2000/index.html.

[9] Table 1.1. Percentage with Income from specified source, by age, marital status, and sex of unmarried persons, "Income of the Population 55 or Older, 2000," The Office of Social Policy, Social Security Administration, p 3. Available at http://www.ssa.gov/statistics/incpop55/2000/index.html. "Other assets" refers to assets that pay interest or yield dividends, produce rents or royalties, and assets in estates and trust. Id.

[10] APPENDIX TABLE 11 (Part 2 of 4), Part F, Household pension and Social Security wealth by three-year age class, 1983-98 (in thousands, 1998 dollars, by Edward N. Wolff, Economic Policy Institute, Washington, D.C., p. 77. Available at http://www.epinet.org/books/retirement.pdf. The figure given refers to the percentage of households with (defined contribution) pension accounts or (defined benefit) pension wealth.

[11] "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," by Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, Federal Reserve Bulletin, January 2003, p. 9. Available at http://www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf. A transaction action "comprise[s] checking, savings, and money market deposit accounts, money market mutual funds, and call accounts at brokerages." "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," by Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, Federal Reserve Bulletin, January 2003, p. 19. Available at http://www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf.

[12] "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," by Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, Federal Reserve Bulletin, January 2003, p. 10. Available at http://www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf.

[13] For a description of the Self-Sufficiency Standard at its application to various states see "Self-Sufficiency Standard," Wider Opportunities for Women, Washington D.C. Available at http://www.sixstrategies.org/sixstrategies/sufficiencystandard.cfm.

[14] See "Hardships in America, The Real Story of Working Families," by Heather Boushey, et al, Economic Policy Institute, Washington D.C. 2001. Available at http://www.epinet.org.

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[15] "The U.S. Department of Treasury ruled that IDAs can be viewed as applying to a number of different Community Reinvestment Act (CRA) tests, depending on the actual services and products banks provide and the extent of those services and products. Therefore, bank involvement in IDAs is now CRA credit worthy."

[16] The Oregon Commission on Children & Families has a statutory mandate to implement "Children's Development Accounts." See the very end of ORS 417, at ORS 417.900: http://www.leg.state.or.us/ors/417.html This statute has been on the books for a decade, but the Legislature has yet to fund or staff the effort, so no progress has been made on it.

[17] "Banking the Poor," by Michael S. Barr, prepared for The Brookings Institution Center on Urban and Metropolitan Policy, Washington, D.C. July 2003, p. 81. Available at http://www.brookings.edu/es/urban/publications/20030715_Barr.pdf.

[18] "Banking the Poor," by Michael S. Barr, prepared for The Brookings Institution Center on Urban and Metropolitan Policy, Washington, D.C. July 2003, p. 81. Available at http://www.brookings.edu/es/urban/publications/20030715_Barr.pdf.

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