

THE ASSET SECURITY AND OPPORTUNITY INDEX

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KEY FINDINGS

- **42 percent of all U.S. households of working age are not asset secure.** They don't have sufficient financial assets to pay for 75 percent of essential household expenses for three months in the absence of employment income, even if one household member collects unemployment benefits.
- **54 percent of U.S. households lack sufficient financial assets to invest in opportunities for mobility,** such as purchasing a home, starting a new business, or investing in their children's education.
- **66 percent of African American and Latino households are not asset secure,** and only one of five households of color have financial assets to invest in opportunities for mobility.

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This policy brief presents a critical reflection on the conceptualization and measurement of "asset poverty" and introduces a new approach. After briefly reviewing the role of assets in poverty reduction and past measures of asset poverty, we present our new expanded measure with findings and implications for racial/ethnic groups and different household types. The brief concludes by summarizing the implications of this new asset measure for policy, research and practice.

Assets are the foundation of resources that families and communities draw on to meet more than their basic needs. While income is what people use to meet their basic daily needs, assets are what people use to move ahead. Financial assets, in the form of savings for college and retirement or investments in financial products, real estate or business are an important indicator of family stability. These resources provide buffers against income loss, enable greater financial security and have transformative effects in helping people proactively take control of their futures. Thus, assets have two essential functions: they sustain economic security for families and they provide the foundation for upward mobility opportunities.

Asset Poverty was conceptualized by Oliver and Shapiro (1990) who described "wealth poverty" as the lack of economic resources to support one's household in the absence of income. This was an important addition to the standard notion of equating poverty solely with an absence of sufficient income. However, this concept of asset poverty is exclusively consumption and needs-based; it emphasizes a household's ability to survive on the private

safety net. This view of asset poverty does not address the opportunity for upward mobility afforded by assets when invested in education, home ownership, or business start-ups.

Asset Poverty Indices are defined by most prior research and practice as insufficient assets to cover three months of basic need expenses at the federal poverty line. Some approaches include home equity when estimating household assets while others exclude home equity (Haveman and Wolff, 2005; Shapiro, 2004). These traditional measures of asset poverty are defined solely in the context of the current federal income poverty line which contributes little to understanding households' true resource needs for well-being.

Asset poverty so conceptualized and defined is integral to the measurements and discussions of scholars, think tanks, and poverty and asset advocates. It is time to rethink and refine asset poverty assumptions in three areas by: 1) including unemployment benefits in the absence of labor income; 2) using an alternative poverty measure that reflects a more realistic coverage of essential needs; and 3) capturing asset opportunities, investments and resources that can be leveraged for mobility, security, and stability.

Addressing these shortcomings of previous asset poverty measures, we've expanded the conceptualization and definition of asset poverty by developing two new measures integral to comprehensively understanding asset poverty: **Asset Security and Asset Opportunity**.

Asset Security is operationalized as net financial assets (all liquid assets excluding home, business or vehicle equity)¹

plus three months of average unemployment benefits that together cover or go beyond 75 percent² of three months³ of real median essential expenses (costs for housing, food, transportation, health, education, apparel, personal insurance).⁴ We include unemployment benefits in this measure of asset poverty as a large portion of working adults have access to unemployment payments for a limited period of time to help ease the loss of employment income. We also use a poverty definition based on median essential expenses rather than relying on the standard official income poverty line. This is an important modification because virtually no one in the poverty or asset fields believes that the government income poverty standard is an adequate reflection of essential needs. Our alternative measure of median essential expenses, we believe, better captures what is needed to minimally sustain a family.

Asset Opportunity reflects evolving thinking in the field. A core notion in the asset field is the importance of wealth in family economic mobility and stability. It is about assets for enabling opportunities, yet the field keeps using a consumption and needs-based orientation in measuring asset sufficiency. It is important to understand how long families can survive when income streams are disrupted. However, that is not sufficient. We also need to transition to understanding the asset capacity required to build or take advantage of opportunities. The Asset Opportunity Measure includes an additional amount of resources beyond asset security that enables investment in opportunities for mobility. This additional amount is framed around the costs associated with three different types of mobility investments: average expenses for two years at a public university, average down payment for a median-priced home, or average start-up expenses for a busi-

ness. The cost of each of these potential mobility opportunities is about \$12,000.

Asset Security and Opportunity Among Different Households

Figure 1 depicts the results of the Asset Security and Opportunity Measures for all U.S. households of working age. More than two in five U.S. households are asset insecure; they cannot meet 75 percent of essential expenses for three months, even with the inclusion of unemployment benefits in the absence of employment income.

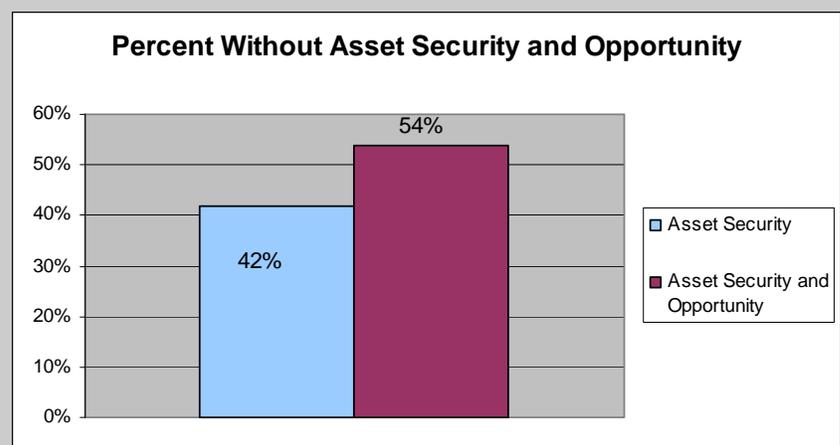
Compared to traditional measures of asset poverty that include home equity, this measure depicts higher levels of economic insecurity for working age U.S. households than the level of asset poverty reported in previous studies. This difference is primarily due to excluding home equity, the largest asset for most households. The use of net financial assets instead of net worth (which includes home equity) reflects an important conversation in the field that revolves around how one views homes and home equity. For the purpose at hand, we recognize that housing if sold must be replaced. Extracting home eq-

uity creates a debt, homes have use value, and thus including home equity gives a false sense of security.

Figure 1 also yields the first indication of asset opportunity. More than half of all U.S. families do not have adequate resources to sustain their essential expenses plus keep a nest egg to provide for either educating their child, making a down payment for a home, or starting-costs of a business. Thus more than half the U.S. working population lacks the means for investing in opportunities that would further their economic mobility.

Working-age African American and Latino households have the lowest levels of asset security and opportunity for mobility, as presented in **Figure 2** (above right). While 42 percent of all U.S. households are asset poor, 67 percent of both African American and Latino households lack financial assets to pay for three-quarters of essential expenses for three months, even if one household member collects unemployment benefits. The absence of asset mobility opportunities reaches 78 percent of African American households and 80 percent of Latino households, as

Figure 1: Asset Security and Opportunity of all U.S. Households of Working Age



¹We used data for the 2004 panel of the Survey of Income and Program Participation which provides detailed information on financial and other assets.

²We tested different thresholds and determined that 75 percent of essential expenses best reflect a family's adjustments in expenses due to a loss of income but still meets essential needs.

³We tested different time spans, such as 3, 6, and 9 months and decided to use the most conservative approach

⁴We used 2004 data from the Consumer Expenditure Survey which provides detailed data on household expenses to calculate median essential expenses for heads of households of working age (25-64 years). Seventy-five percent of median essential expenses for all working age households are estimated at \$1,944.36 per month, or \$5,833.08 for three months.

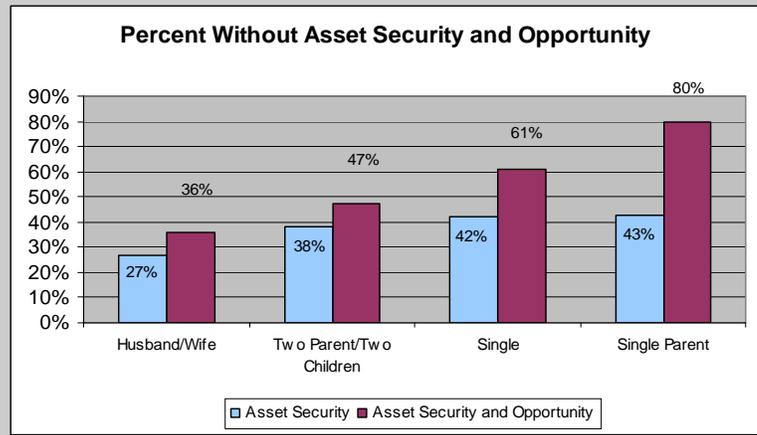
compared to a little more than 50 percent of all U.S. households. An absence of financial assets that provide mobility opportunities characterizes most American families, yet the dramatic distance that marks families of color is a reflection of the profound and systematic racial wealth gap.

Family composition is another dimension explaining differences in asset security and opportunity. We computed asset security and opportunity levels for four different family types: husband and wife households with no children, husband and wife households with two children under 18, single households with no children, and single parents with any number of children but with most having one or two (Figure 3, right).

Single households and single parents resemble the national average in terms of their asset security. Four in ten among them do not have resources sufficient to cover three-quarters of essential expenses for a three month period if faced with a loss of income even with unemployment insurance. However, six in ten single households without children do not have the additional means to pursue opportunity investments and just 20 percent of single parents have these resources for mobility.

In contrast, husband and wife households with no children fare the best among the four family types. With the possibility of income from two working adults and no need to cover expenses for children, these households have the

Figure 3: Asset Security and Opportunity for Different Family Compositions



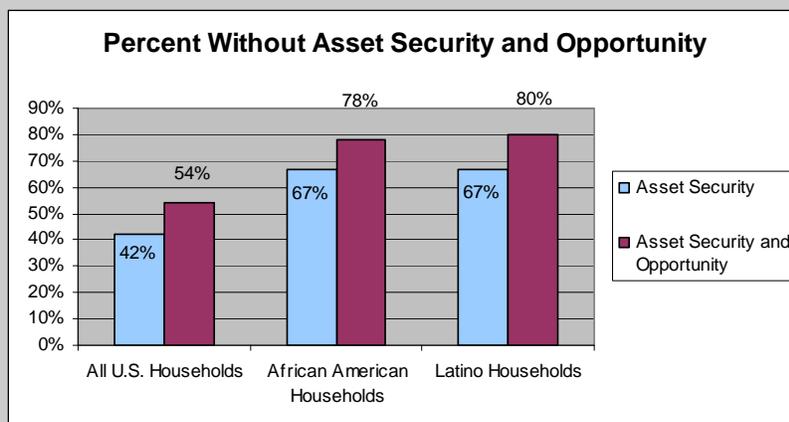
best means to accumulate assets for security and opportunity. Even so, 27 percent are asset insecure and more than one third among them have limited mobility opportunities and thus insufficient resources for investing in home purchase, education, or a business.

These statistics portray major challenges for U.S. households, especially for those of color or with children. Not only are many among them unable to adequately sustain themselves for three months with unemployment, the majority do not have the resources to invest in opportunities that would provide a foundation for economic security. As a society, we need to address these daunting challenges of so many U.S. households by providing opportunities for all households to build stronger nest eggs and to move toward economic security.

Implications for Research and Practice

The concept of asset poverty was coined close to two decades ago at a time when there was little research and practice in the field of asset development. Today, we have more information and a greater appreciation for the role of assets in family security and mobility. New insights inform this work to move beyond the traditional consumption and needs-based approach. We suggest a different approach of measuring asset poverty by developing two new dimensions of measuring assets, asset security and opportunity. These include more realistic assumptions, such as relating net financial assets to three-quarters of actual essential expenses and including the receipt of unemployment benefits in estimating financial resources that support households in the absence of income. In addition, we stress the important role of assets in providing opportunity for mobility – not just for survival – by extending our measure to assess households’ ability to pay for mobility in three different areas: education, home ownership, and business start-up. We have extended the line of asset inquiry and assessments to mirror real life conditions. This will improve our measure of assets for practice and research as we continue to build our understanding about the role of assets in family economic security and mobility.

Figure 2: Asset Security and Opportunity for Working Age Households of Color





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Informing policies and practices that broaden wealth, reduce inequality, and improve the social and economic well-being of American households.

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The Institute on Assets and Social Policy (**IASP**) is a research institute at the Heller School for Social Policy and Management at Brandeis University, dedicated to promoting a better understanding of how assets and asset-building opportunities improve the well-being and financial stability of individuals and families left out of the economic mainstream. IASP pursues its mission through original research, policy analysis, program evaluation, technical assistance, community engagement, organizational capacity building, and leadership development. IASP's work includes:

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