

Poor Finances: Assets and Low-Income Households

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Closing the Wealth Gap: Building Assets Among Low-Income Households
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2

Introduction

- Theory and evidence suggest that asset-based policies can promote development of individuals, families, and perhaps communities and society as a whole. But this area of thinking and research is in its infancy.
- *Poor Finances: Assets and Low-Income Households* is a project that provide an assessment of the nascent state of knowledge and policy development in these areas, with particular attention to the low-income.

3

Motivation: Why Assets are Important

- Assets provide for future consumption, are a source of security against contingencies, and help development.
- Traditional social policies that assist the poor have focused on income and consumption, not assets.
- Research shows that the poor are frequently not included in existing asset-based policies.

4

Project Objectives

- Evaluate what is known regarding the measures, distributions, determinants, and effects of asset holding,
- Develop a portrait of the assets of low-income households,
- Develop conceptual frameworks for viewing assets and liabilities,
- Assess asset and liability data sources,
- Identify possible directions for future research,
- Inform public policy at all levels, and
- Measure the effects of means-tested programs on asset building.

5

Topics Covered by the Project

1. The Balance Sheets of Low-Income Households: What We Know about their Assets and Liabilities
2. Effects of Asset Holding
3. Assessing Asset Data on Low-Income Households: Current Availability and Options for Improvement
4. Assets, Poverty, and Public Policy: Challenges in Definition and Measurement
5. Determinants of Asset Building
6. Asset Building over the Life Course
7. Poor Finances: An Overview of Assets and Low-Income Households
8. Effects of Welfare Policies on Asset Holding

6

The Balance Sheets of Low-Income Households: What We Know about Their Assets and Liabilities

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7

Research Questions

- What are the significant assets of low-income households?
- What are the significant liabilities of low-income households?
- A comprehensive portrait of the balance sheets of low-income households does not exist.

8

Data Sources

- Literature Synthesis
 - Reviewed 20 studies to synthesize available information on assets and liabilities of low-income households.
- Data
 - Survey of Consumer Finances (SCF) 1989-2004.
 - Survey of Income and Program Participation (SIPP) 2001.
 - Panel Study of Income Dynamics (PSID) 1984-99.
 - Health and Retirement Study (HRS) 1992.
- Data Limitations
 - Imputations for missing asset and liability data.
 - 50-98% survey response rates.
 - Some assets are difficult to measure (e.g., defined benefit pensions) and so are not included in many surveys.

9

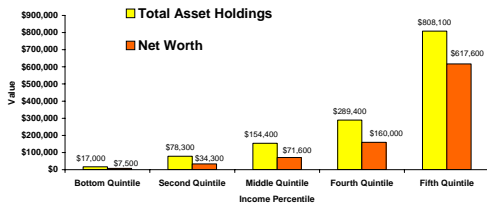
Portraits of a Low Net Worth Family

- In the bottom income quintile
Headed by someone
- Under age 35
- Lacking a high school diploma
- Non-white or Hispanic
- Single and not cohabiting
- A renter

10

Asset Holdings and Net Worth by Income Quintile, 2004

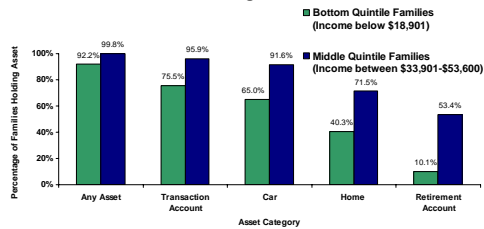
Median Values (for families holding)



11

Who Holds What Assets? Bottom vs. Middle Income Quintile, 2004

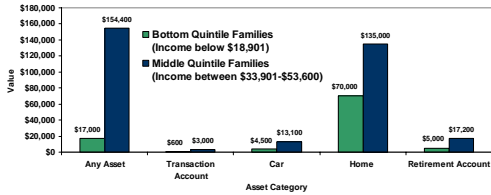
Holding Rates



12

How Much of Each Asset? Bottom vs. Middle Income Quintile, 2004

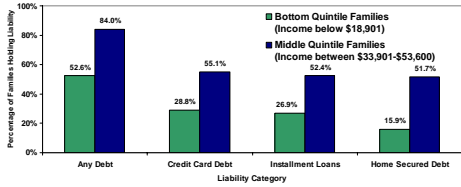
Median Values (for families holding)



13

Who Holds What Debts? Bottom vs. Middle Income Quintile, 2004

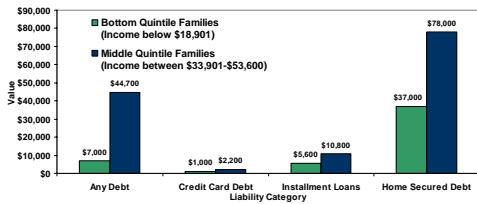
Holding Rates



14

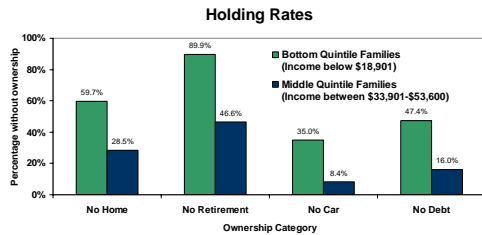
How Much of Each Debt? Bottom vs. Middle Income Quintile, 2004

Median Values (for families holding)



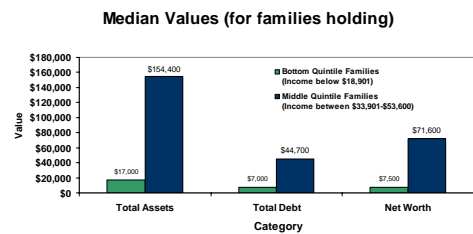
15

Key Differences Bottom vs. Middle Income Quintile, 2004



16

Balance Sheets Bottom vs. Middle Income Quintile, 2004



17

Suggestions for Future Research

- Paint portraits by age group to account for the role that age plays.
- Detail portraits of families of interest for policy purposes (e.g., welfare participants and non-participants).
- Assess the role that different types of assets and liabilities play in overall asset accumulation.
- Consider the Social Security, Medicare, and defined benefit plans play in asset accumulation.
 - Social Security and Medicare, if considered wealth, comprise roughly 90% of expected wealth for bottom quintile families (Steuerle and Carasso, 2004).

18

Informing Public Policy

- The *lack* of home, pension, and car ownership go a long way toward explaining the low asset holdings of low-income families.
- Future research could evaluate the benefits of holding these assets for low-income families.
- Public policy could examine incentives and barriers low-income families face in acquiring them.

19
