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Portraits of the Assets and Liabilities of Low-Income Families

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Savings and assets can cushion families against sudden income loss, increase economic independence, and bolster long-term economic gains. Yet, most low-income families lack meaningful assets. In fact, 24 percent of low-income families lack a bank account and 35 percent lack even a vehicle, according to the 2004 Survey of Consumer Finances. Hurricanes Katrina and Rita revealed the vulnerability of families that do not have such assets as vehicles, savings, or housing insurance to fall back on in times of crises.

Assets alone may improve outcomes, but assets alone do not tell the whole financial story. That is why it is important to look at the entire balance sheet: comparing the different assets of families against their liabilities to arrive at net worth. This brief portrays the assets and liabilities of *low-income* families and provides suggestions for future research. The focus is on the bottom 20 percent of families ranked by income level (those who have annual incomes of less than $18,000) and how their net worth compares with middle–income quintile families. In addition, the brief presents the net worth of other categories of at-risk families, such as single-parent and minority families.

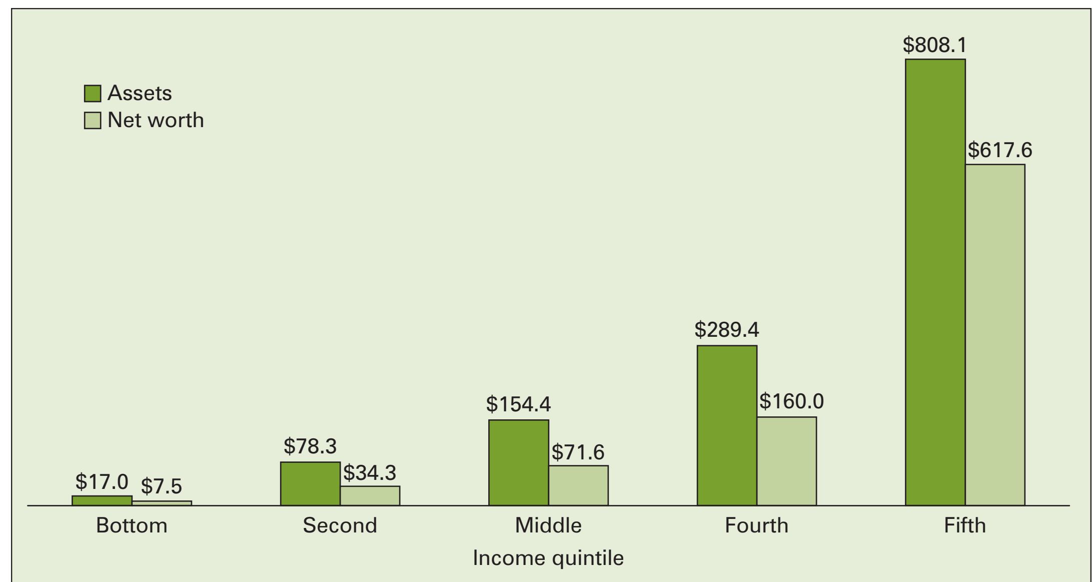
Data Sources

Wealth data for this brief come from Urban Institute tabulations and tables produced by Bucks, Kennickell, and Moore (2006) using the 2004 Survey of Consumer Finances (SCF) and by Lerman (2005) using the 2001 Survey of Income and Program Participation (SIPP). These are both high-quality surveys, but it is still important to recognize such data limitations as the use of imputations for missing asset and liability data, survey response rates of 68–87 percent, and the exclusion of some assets that are difficult to measure. For example, Social Security benefits and defined benefit pensions are particularly important assets for low-income families, yet national surveys generally do not capture them (Ratcliffe et al. 2007). Vehicles are often included, but surveys often miss other consumer durables such as appliances (the SIPP is an exception). As this brief depends on national household surveys for the portraits of assets and liabilities, little can be said about Social Security benefits, defined benefit pensions, and holdings of durable goods other than vehicles.

The Strong Relationship between Asset Holdings, Net Worth, and Income

The relationship between asset holdings and income is very strong—in fact, it is exponential (figure 1, dark bars). The median level of assets of middle-income (third-quintile) families is nine times the comparable asset level of low-income (bottom-quintile) families. The gap is especially dramatic between low- and high-income families, with median asset

FIGURE 1. Median Assets and Net Worth by Income Quintile, 2004 (thousands of $2004)



Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

Note: Bottom quintile is < $18,000; second is $18,000–$31,999, middle is $32,000–$51,999, fourth is $52,000–$85,999, and fifth is > $85,999.

holdings in the top income quintile over 47 times the median assets of those in the bottom quintile.

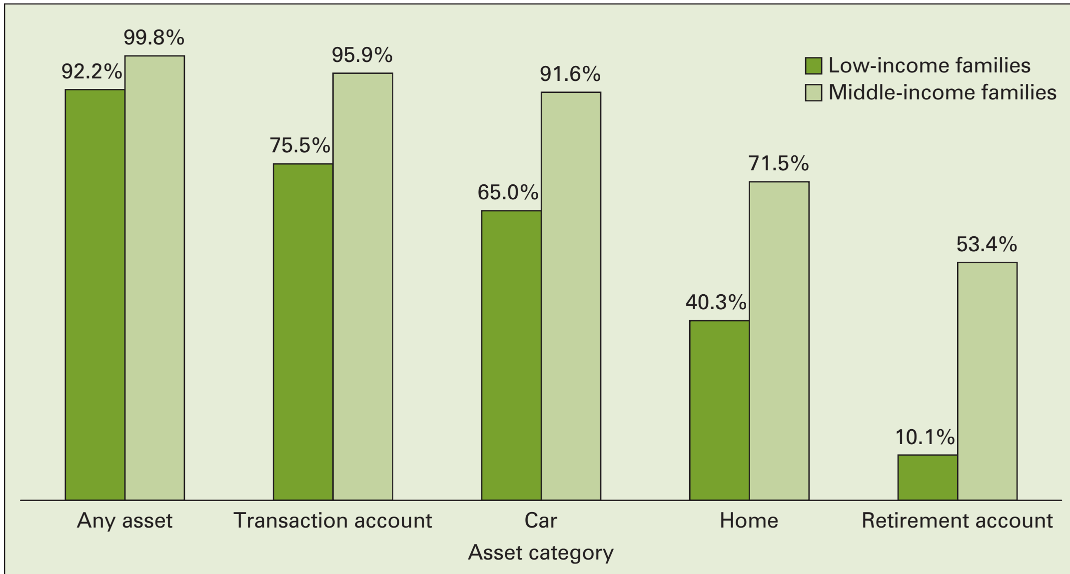
The relationship between net worth and income is even stronger than the relationship between asset holdings and income (figure 1, light bars).[1] This is because high-income families are more likely to hold financial assets like stocks that do not carry corresponding liabilities, thereby significantly bolstering their net worth. The effect of these holdings is substantial: the typical high-income family has 82 times as much net worth as the typical low-income family.

Who Holds What Assets? Low-Income versus Middle-Income Families

A look beneath total asset holdings reveals big differences in the composition of asset holdings of low-income versus middle-income families (figure 2).[2] Most families (92–100 percent) hold some form of assets. The typical low-income family holds a transaction account (checking or savings) and owns a car. In addition, 40 percent own their homes. However, 24 percent of low-income families do not hold transaction accounts, 35 percent do not own cars, 90 percent have no retirement account, and 60 percent do not own homes. In contrast, the typical middle-income family has transaction and retirement accounts and owns a car and a home.

The values of key assets are significantly lower among low-income families than among middle-income families (figure 3). The 76 percent of low-income families with transaction accounts hold a median value of $600 in their accounts, whereas the 96 percent of middle-income families with transaction accounts hold a median value of $3,000 in theirs. Among the 65 percent of low-income families who own cars, the median value is $4,500, or about a third of the $13,000 median value of cars owned by middle-income families (92 percent of middle-income families own one or more cars). The median value of homes for the 40 percent of low-income families who own is $70,000, compared with $135,000 for the 72 percent of middle-income families who own. Similarly, the few low-income families with defined contribution retirement accounts have only $5,000 in them, a figure less than a third of the $17,000 or so held by the 53 percent of middle-income families with defined contribution retirement accounts.

FIGURE 2. Who Holds What Assets? Low-Income versus Middle-Income Families, 2004 (percent of families holding asset)



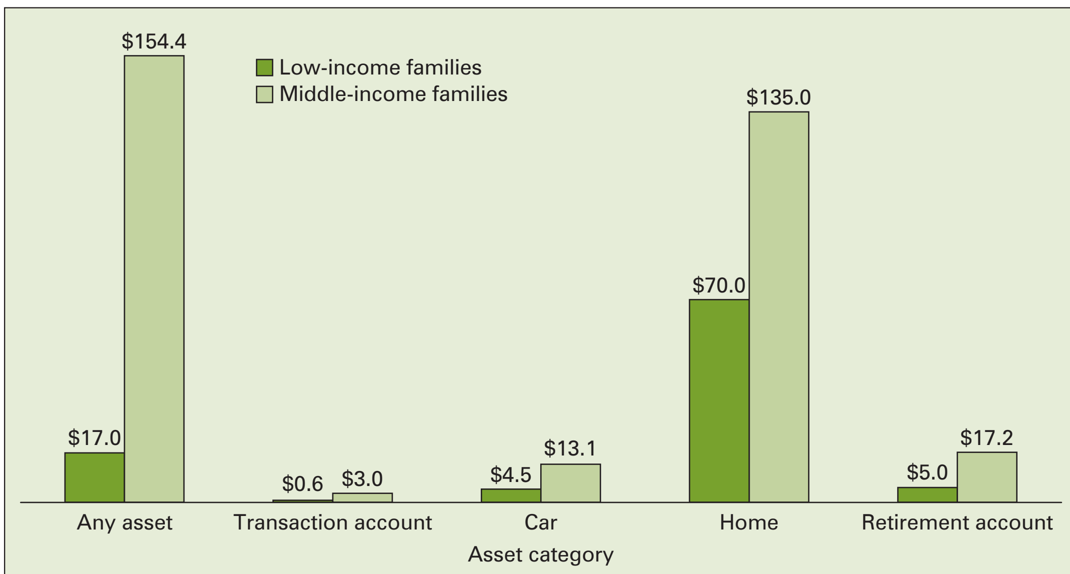
Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

Notes: Low-income families have incomes below $18,000. Middle-income families have incomes between $32,000 and $51,999.

Who Holds What Debts? Low-Income versus Middle-Income Families

Understanding the patterns of asset holdings among low-income families and relating them to their patterns of debt holding is key to developing sound asset policies. It is important to differentiate between families' holdings of *secured* debt, which is debt linked to an asset such as a home, and *unsecured* debt, such as credit card balances. If a family buys a house, the house is an asset but the mortgage the family

FIGURE 3. How Much of Each Asset? Low-Income versus Middle-Income Families with Assets, 2004 (median values in thousands of $2004)



Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

Notes: Low-income families have incomes below $18,000. Middle-income families have incomes between $32,000 and $51,999.

must pay is a debt. However, the debt is secure if the house has a value equal to or greater than the debt. By contrast, families usually incur unsecured debts when their current consumption exceeds their current available income.

A small majority (53 percent) of low-income families hold some form of debt (figure 4). Among those low-income families holding debt, the debt is most likely unsecured, with 29 percent holding credit card debt, 27 percent holding installment loans, and only 16 percent holding home secured debt. Nearly all (84 percent) middle-income families hold debt. But unlike the typical low-income family, the debt of middle-income families is no more likely to involve credit card debt or installment loans than home-secured debt. In fact, 52 percent of middle-quintile families hold home-secured debt.

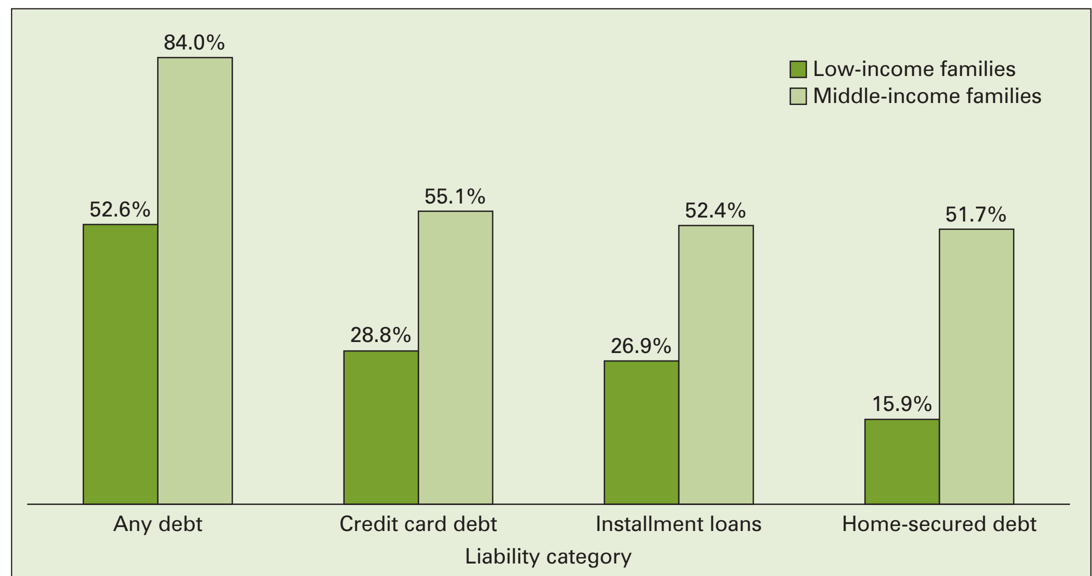
Examining the median values of these debts, low-income families hold less debt than middle-income families (figure 5). For example, the 29 percent of low-income families that hold credit card debt hold a median value of $1,000 in debt. On the other hand, the 55 percent of middle-income families that hold credit card debt hold a median value of $2,200 in debt. This disparity in values extends to all key forms of debt.

Balance Sheets: Low-Income versus Middle-Income Families

Putting together assets and debts into balance sheets sharpens the picture of the financial standing of low- and middle-income families. As figure 6 illustrates, the median value of assets of low-income families is only one-ninth the median value of assets of middle-income families—$17,000 compared with $154,000. While low-income families have much less debt than middle-income families, median net worth of middle-income families is still 9.5 times the median net worth of low-income families ($71,600 to $7,500).[3]

Another important measure of financial standing is debt burden. Defining the debt burden as the annual ratio of estimated debt service payments to total family income, we see that debt-to-income ratios are nearly identical for low- and middle-income families at the median—about 20 percent. However, more low-income families appear to be in financial distress than middle-income families. Of all low-income families, 27 percent have debt-to-income ratios greater than 40 percent, while only 14 percent of middle-income families are in this situation.

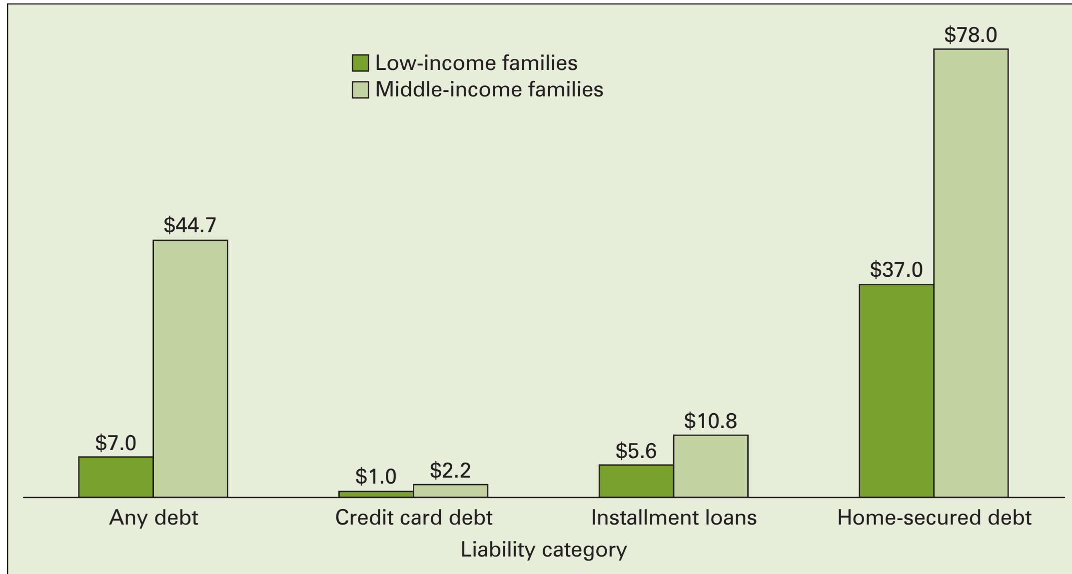
FIGURE 4. Who Holds What Debts? Low-Income versus Middle-Income Families, 2004 (percent of families holding liability)



Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

Notes: Low-income families have incomes below $18,000. Middle-income families have incomes between $32,000 and $51,999.

FIGURE 5. How Much of Each Debt? Low-Income versus Middle-Income Families with Debts, 2004 (median values in thousands of $2004)

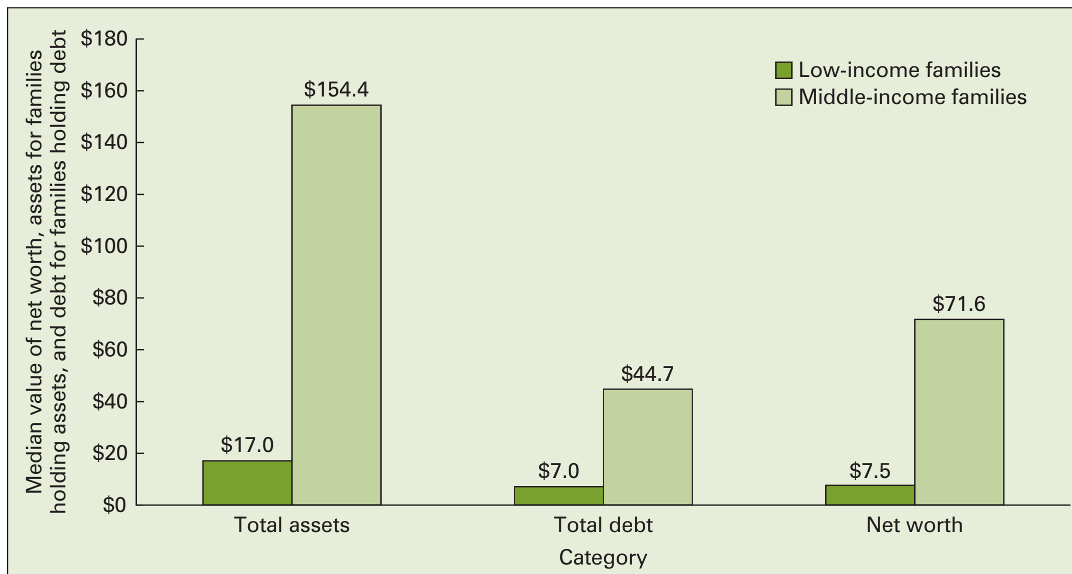


Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

Notes: Low-income families have incomes below $18,000. Middle-income families have incomes between $32,000 and $51,999.

Interestingly, debt burdens for renter families that carry debt are typically very low: 4 percent of renter families have debt ratios greater than 40 percent, compared with 15 percent of homeowners. Yet, a higher share of renters (19 percent) are delinquent on their debts than homeowners (6 percent).[4] Lerman (2005) finds that "renter households were twice as likely as homeowners to have more debt than assets." Simply put, while renter families have lower debt-to-income levels than low-income families, they also typically have *few or no* assets that they can liquidate to

FIGURE 6. Key Differences in Holdings: Low-Income versus Middle-Income Families, 2004 (thousands of $2004)



Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

Notes: Low-income families have incomes below $18,000. Middle-income families have incomes between $32,000 and $51,999.

Portrait of Single-Parent Families

Their assets. The median single-parent family may own a home (55 percent) worth $120,000 and a car (77 percent) valued at $7,600, and hold a checking or savings account (88 percent) valued at $2,000. Overall, a typical single-parent family may own assets worth $83,400, or less than one-third of the assets owned by the typical married or cohabiting family. Most single-parent families do not own any retirement accounts (65 percent), financial assets beyond their checking or savings account, or any business equity (94 percent).

Their liabilities. The median single-parent family may hold debt (67 percent) valued at $24,000, a little more than a quarter of the debt that most (82 percent) married or cohabiting families hold. The reason for the disparity is that only 32 percent of single-parent families owe mortgage debt (valued at $75,000) compared with 59 percent of married or cohabiting families (valued at $105,000). The typical debts owed by a single-parent family, therefore, are most likely to be credit card debt (41 percent) valued at $1,000 or installment loan debt (37 percent) valued at $8,600. The combination of assets and liabilities for single-parent families results in median net worth valued at $40,000, or about a quarter the net worth of married or cohabiting families. The net worth gap by marital status starts out small at younger ages and then widens sharply with age.

Source: Urban Institute tabulations using the 2004 Survey of Consumer Finances.

service the debts they have. This finding suggests that families lacking assets are hard pressed to pay down debts of *any amount*. Policies that allow these, typically renter, families to acquire even very small amounts of assets could markedly affect their ability to improve their balance sheets.

Conclusions and Suggestions for Future Research

These portraits of the assets and liabilities of low-income families provide some interesting conclusions and suggestions for future research. We highlight five in this brief.

First, the lack of home, pension, and car ownership goes a long way toward explaining the low asset holdings of low-income families. Future research could evaluate the benefits of holding any of or all these assets for low-income families. Public policy researchers could examine the incentives and barriers low-income families face in acquiring different assets.

Second, asset building through homeownership and other means is a potential path for some low-income families. While low-income families hold low amounts of assets absolutely and relative to middle-income families, 76 percent hold transaction accounts, 65 percent own cars, and 40 percent own homes. Policymakers and researchers might think that only income-support policies are relevant to low-income families and that asset-based policies are relevant only further up the income distribution. The finding that a substantial number of low-income families have accumulated assets suggests that asset-based policies should be targeted to low-income as well as moderate- and high-income families.

Third, the 40 percent homeownership rate among low-income families suggests that these families could benefit from the same types of homeownership incentives available to middle- and upper-income families. Under current policy, low-income housing subsidies provide a financial disincentive for many low-income families to own a home because moving from renting to homeownership might cause them to lose their rental housing subsidies. In addition, most subsidies for homeownership go to higher-income families in the form of tax savings; most low-income families cannot take advantage of these subsidies because they owe little or no income tax (Carasso et al. 2005). Homeownership may not be advantageous for many low-income families, as the subprime crisis has made clear. However, extending homeownership subsidies to low-income families and reducing their *disincentives* to own are likely to result in (1) more than 40 percent of low-income families owning their homes and (2) improving the balance sheets of current low-income homeowners.[5] Future research can help identify the numbers and types of additional low-income families that may be suited to owning a home. Findings from the current subprime mortgage fallout should inform this research.

Fourth, surprisingly few low-income families hold debt—only a small majority (53 percent). It may be difficult for families to access much in the way of credit when they lack income and assets. Another reason may be that the SCF and other surveys do not completely capture sources and amounts of small debts.

Fifth, other research shows that Social Security, Medicare, and defined benefit plans, if considered wealth, compose roughly 90 percent of expected wealth for bottom-quintile families (Steuerle and Carasso 2004). Future research could consider the role that these sources play in asset accumulation. As mentioned, these programs are generally not captured in national surveys.

Finally, portraits of asset and debt holdings are far from complete. Further research is needed before we can fully understand the balance sheets of low-income families and how best to use them to improve well-being. Portraying the assets of low-income families by age group, as Lerman (2005) starts to do, would better account for the role that the life

Portrait of Nonwhite or Hispanic Families

Their assets. The typical family headed by someone who is nonwhite or Hispanic may own a vehicle (76 percent) worth $9,800 and hold a checking or savings account (81 percent) worth $1,500. This nonwhite- or Hispanic-headed family may own a home (51 percent) worth $130,000 or a retirement account (33 percent) worth $16,000. In total, a typical nonwhite- or Hispanic-headed family holds assets worth $60,000, or a little more than a quarter of the assets held by a white non-Hispanic–headed family ($224,500). While only 49 percent of nonwhite- or Hispanic-headed families do not own homes, 67 percent have no retirement account, and 94 percent have no business equity.

Their liabilities. The typical nonwhite- or Hispanic-headed family holds debt (73 percent) valued at $30,500, less than half the debt that most (78 percent) white non-Hispanic families hold. The reason the gap is not larger is because enough nonwhite- or Hispanic-headed families hold mortgages (37 percent) worth $83,000 compared with white non-Hispanic families (52 percent) with mortgages worth $98,000. Nonwhite- or Hispanic-headed family debt is somewhat more likely to be credit card debt (47 percent) valued at $1,600 or installment loan debt (43 percent) valued at $9,600, than mortgage debt. The combination of assets and liabilities for nonwhite- or Hispanic-headed families results in median net worth valued at $25,000, less than one-sixth the net worth of white non-Hispanic–headed families.

Source: The Urban Institute. Data from Bucks et al. (2006) using the 2004 Survey of Consumer Finances.

cycle plays in asset accumulation. Creating more detailed portraits of families of interest for policy purposes, such as welfare participants and nonparticipants, could reveal ways that welfare policies and programs affect asset building. Assessing the role that different assets and liabilities play in overall asset accumulation could help answer questions such as are families better off owning a home or a savings account, having secured versus unsecured debt, or holding consumption versus investment debt. Research on these subjects can inform and influence public policy.

Notes

1. Net worth is used to describe the relationship between asset and debt holdings and is simply assets minus debts.
2. Low-income families are defined as those with incomes of less than $18,000. Middle-income families are those who have incomes between $32,000 and $51,999.
3. We focus on medians rather than means because of the skewed distribution of wealth. However, median values are not additive: median assets minus median liabilities does not necessarily equal median net worth.
4. These data come from Bucks et al. (2006), table 14.
5. That is, a housing policy that doesn't subsidize higher-income households to own while subsidizing lower-income households to rent.

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Given the chance, many low-income families can acquire assets and become more financially secure. Conservatives and liberals increasingly agree that government's role in this transition requires going beyond traditional antipoverty programs to encourage savings, homeownership, private pensions, and microenterprise. The Urban Institute's *Opportunity and Ownership Project* policy brief series presents some of our findings, analyses, and recommendations. The authors are grateful to the Annie E. Casey Foundation and the Ford Foundation for funding the policy briefs.

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