

***Poor Finances:
Assets and Low-Income Households***

INTRODUCTION TO THE SERIES

Economic security throughout the life course is intrinsically linked to both income and asset ownership. The majority of current social policies focus primarily on income supports and social services. However, building assets can also help individuals, families, and communities expand their economic horizons.

America has a longstanding history of promoting ownership, as reflected in existing policies to promote home and business ownership, investment, and saving. New opportunities for people to save and become asset owners will likely increase the number of individuals and families able to build assets and improve the economic security of all Americans. Greater inclusivity and accessibility of traditional approaches to expanding ownership may make it easier for lower and middle income families to save. Still, while theory and evidence suggest that improved asset-based policies may promote development of low-income individuals and families, and perhaps communities and society as a whole, research in this area of asset development is in its infancy. There is still much to learn.

Poor Finances: Assets and Low-Income Households is a series of reports on poverty, asset building, and social policy. The purpose of the series is to assess the nascent state of knowledge and policy development and to synthesize recent progress in these areas. Specifically, the reports in the series will

- 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 the strengths and weaknesses of data sources on assets and liabilities;
- chart directions for future research;
- examine the effects of means-tested program policies on asset building; and
- inform subsequent discussions of public policy.

While this series of reports focuses on asset accumulation and asset-based policies for low-income individuals and families, the conceptual frameworks developed are not limited to low-income populations. This broad approach is an effective way to identify the overall critical issues that relate to asset holding for all populations. Where appropriate, however, various reports point out when the framework specifically applies to low-income, minority, and single-parent households. This distinction is important because these subgroups are particularly vulnerable to low asset accumulation. The definition of low-income used in the series of reports is necessarily imprecise. The reports reflect a broad literature synthesis, and definitions of low

income are not uniform across studies, surveys, or public programs. However, low incomes can be broadly thought of as affecting households in the bottom income quintiles.

Why Assets Are Important

In describing why assets are important, it is useful to begin by distinguishing income from assets. *Incomes* are flows of resources. They are what people receive as a return on their labor or use of their capital, or as a public program transfer. Most income is spent on current consumption. *Assets* are stocks of resources. They are what people accumulate and hold over time. Assets provide for future consumption and are a source of security against contingencies. As investments, they also generate returns that generally increase aggregate lifetime consumption and improve a household's well-being over an extended time horizon.

The dimensions of poverty, and its relative distribution among different social classes, are significantly different when approached from an assets perspective, as opposed to an income perspective. Those with a low stock of resources to draw on in times of need are asset poor. This *asset poverty* may leave them vulnerable to unexpected economic events and unable to take advantage of the broad opportunities a prosperous society offers. Many studies have found that the rate of asset poverty exceeds the poverty rate as calculated by the traditional measure, which is based on an income standard. Many U.S. households have little financial cushion to sustain them in the event of a job loss, illness, or other income shortfall. Also, social and economic development of these households may be limited by a lack of investment in education, homes, businesses, or other assets. To the extent that low resource holdings limit the potential for social and economic development, understanding how those with limited assets can build up their asset base is likely to be an important policy issue.

Income and Assets in Public Policy

Outside of education, traditional social programs that assist low-income populations have focused mainly on income and social services that fulfill basic consumption needs, which have been essential to the well-being of families and children. An asset-based approach could complement this traditional approach and could shift the focus to the long-term development of individuals, families, and communities. This focus provides a broader picture of the dynamics of poverty among the low-income population.

Asset-based policy has many potential meanings. These include policies to promote the accumulation and preservation of financial wealth, tangible property, human capital, social capital, political participation and influence, cultural capital, and natural resources. While all of these meanings have value, this series of reports focuses on building financial wealth and tangible nonfinancial assets for household social and economic development.

The United States and many other countries already have large asset-based policies. In many cases, these operate through the tax and employer-based systems, so that public transfers

occur via tax benefits (e.g., home mortgage interest deduction; tax breaks for contributions to a variety of retirement accounts; tax-preferred education accounts and College Savings Plans; and benefits for other emerging policies, such as Medical Savings Accounts). These asset-based policies have grown rapidly in recent years and today represent a significant proportion of overall federal expenditures and tax subsidies.

Asset Policy for Low-Income Households

Low-income individuals and families frequently do not participate in existing asset-based mechanisms. The reasons may be threefold. First, this population is less likely to own homes, investments, or retirement accounts, where most asset-based policies are targeted. Second, with little or no federal income tax liability, the low-income have little or no tax incentives, or other incentives, for asset accumulation. Third, asset limits in means-tested transfer policies have the potential to discourage saving by the low-income population. In many respects, this population does not have access to the same structures and incentives for asset accumulation. The potential of asset building to promote long-term development of low-income households motivates this series of reports. *Poor Finances: Assets and Low-Income Households* attempts to serve as a central resource that provides a comprehensive assessment and critique of the current and emerging knowledge base regarding asset building for low-income individuals and families.