


PERSPECTIVES ON LOW-INCOME WORKING FAMILIES

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Do Assets Help Families Cope with Adverse Events?

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Family events, such as a job loss, the onset of health limitations, and a change in family structure, can adversely affect economic well-being. The impact of these events may be mitigated if the family holds assets that it can draw on to maintain consumption and material well-being.

This study examines the extent to which families that hold assets are better able to maintain their level of material well-being in the face of adverse events, compared with families that do not hold assets. In essence, this work looks at the role of assets in families' economic and material stability, a potential benefit of asset-building programs for low-income families. We use the 1996 and 2001 panels of the Survey of Income and Program Participation (SIPP) to address two key research questions: (1) What is the relationship between events and material hardship? and (2) Given that an event occurs, do families with assets have lower levels of material hardship?

We answer the questions by examining the relationship between events and material hardship and by looking at the relationship between asset holdings and material hardship, given that an event occurs. We also assess the relationships between adverse events, material hardship, and asset holdings for families in different parts of the income distribution.

This study builds on the substantial literature that examines income volatility (e.g., Burkhauser and Duncan 1989; Congressional Budget Office 2007; Gottschalk and Moffitt 1994; Haider 2001; and Nichols and Zimmerman 2008) and another literature that examines how life events contribute to income losses, recoveries, or poverty status (e.g., Acs, Loprest, and Nichols 2009; Bane and Ellwood 1986; Gosselin and Zimmerman 2008; and McKernan and Ratcliffe 2005).[1] This study builds on these literatures by examining how asset holdings cushion the blow of negative life events, a key hypothesis in the asset-building literature.

Our results suggest that assets do help families cope with adverse events.

- Families that experience a negative event—such as an involuntary job loss, onset of a health-related work limitation, or a parent leaving the family—are significantly more likely to experience material hardship.
- Families in all parts of the income distribution experience material hardship after a negative event occurs, but more low-income families face hardship.
- In the aftermath of a negative event, asset-poor families experience more hardship than non-asset-poor families. Assets help both in the bottom and middle thirds of the income distribution and help less in the top third of the income distribution.

Data and Definitions

To examine the role of assets in families' economic and material stability, we use data from the 1996 and 2001 SIPP panels. Each panel includes roughly 35,000 households and is representative of the U.S. noninstitutionalized civilian population when weighted. SIPP respondents are interviewed every four months about the previous four months, a period referred to as a wave. The 1996 panel follows families for 48 months (12 waves) and the 2001 panel for 36 months (9 waves). For comparability, all dollar values are presented in January 2000 dollars.[2]

SIPP data are collected through a core questionnaire, which is administered in each wave,

and through topical modules, which collect additional information on specific topics. The core questionnaire collects monthly information on family structure, income, labor force status, and work limitations, among others. The number of topical modules and the topics they cover vary by wave. This study uses the asset and liability topical module administered in waves 3 and 6 and the adult well-being topical module administered in wave 8.[3] The asset and liability topical module asks respondents about asset holdings and liabilities at the time of the interview. The adult well-being topical module asks respondents about their well-being and material hardship (e.g., if they have trouble paying bills) over different periods of time depending on the question, such as over the prior year or over the prior four months.

The primary unit of analysis for this study is the social family, which is defined as the SIPP family reference person (or household head) and all people in the household related to the reference person, as well as the reference person's unmarried partner (if present) and all people in the household related to that partner. The social family also includes foster children. Our sample is limited to social families with at least one working-age adult (age 25 to 58) and with a child under age 18 at the start of the SIPP panel. In total, our analysis sample includes 17,057 families.

Timing. The timing of the analysis is structured in part around the availability of information on families' asset holdings and material hardship during the panels. We start by looking at a family over a one-year period, which we capture with waves 3, 4, and 5 of the SIPP.[4] We measure the family's income and assets at the beginning of this year (wave 3). For a family to be measured as experiencing an event, a family member must have reported the event at some point over the one-year period (waves 3, 4, or 5). We then measure the family's material hardship during the following year, where the exact timing of our measures depends on how the questions were asked. We measure whether the family had trouble paying bills at any time during the following year (during waves 6, 7, or 8), whether the family was food insecure in the last third of the following year (during wave 8), and whether the family was generally deprived after the event (defined in detail below).

Events. We consider three events that may adversely affect a family's income and require them to rely on savings: involuntary job loss, onset of a health-related work limitation, and a parent leaving the family (through death or divorce).[5] These events represent both family- and work-related experiences that may negatively affect a family's ability to meet basic needs. These variables are generated from the monthly core data.

Material hardship. Our measures of material hardship, generated from the adult well-being topical module, are food insecurity, trouble paying basic bills, and general deprivation. These nonmonetary measures identify those families in our sample that did not consume basic levels of essential goods and services. A family is considered food insecure if anyone in the family reports low or very low food security, meaning reduced quality or variety of food or disrupted eating patterns and reduced food intake. Families "have trouble paying basic bills" if anyone in the family reports that the full amount of the rent, mortgage, or utility bills (gas, oil, or electric) were not paid. Finally, a family is considered "generally deprived" if anyone in the family reports two or more of a list of 10 indicators of material hardship.[6]

Income. To help disentangle the role of assets from income, we examine families overall and families in the bottom, middle, and top thirds of the income distribution. This distribution is based on social family income in wave 3 of our sample. Families in the bottom third of the income distribution have less than $31,770 annually (in 2000 dollars), which roughly equals 185 percent of the federal poverty threshold for a family of four in 2000. Families in the middle third of the distribution have incomes between $31,770 and $61,044 (between 185 percent and 360 percent of the poverty threshold), and families in the top third have more than $61,044 annually. In analyses that examine whether assets help alleviate material hardship, we further disentangle the role of assets from income by estimating regression models that control for income using a continuous income measure (described below).

Assets. We focus on a family's liquid assets. Liquid assets include transaction accounts, interest-earning accounts such as certificates of deposit and money market accounts, mutual funds, savings bonds, U.S. securities, retirement accounts, stocks, and other financial assets. Our analysis considers whether a family has enough liquid assets to finance consumption for three months at the federal income poverty level—families that do not are considered "liquid-asset poor." Over half (51.9 percent) of the families in our sample are liquid-asset poor (table 1). The median asset holdings for our sample is $3,292 (in 2000 dollars), less than the asset-poverty threshold for a family of four in 2000 ($4,263). Liquid-asset-poverty rates decrease as income increases. Nearly 85 percent of those in the bottom third of the income distribution experience asset poverty, compared with just over half of the families in the middle

TABLE 1. Asset-Poverty Rates and Liquid-Asset Holdings, by Third of the Income Distribution

		Liquid-Asset Holdings by Percentile			
	% Liquid-Asset Poor	25th	50th	75th	90th
All	51.9	$107	$3,292	$26,971	$94,215
By thirds of the income distribution					
Bottom[a]	84.5	$0	$31	$987	$8,458
Middle[b]	52.2	$426	$3,351	$17,543	$50,151
Top[c]	21.0	$5,958	$29,712	$87,433	$200,593

Source: Authors' tabulations of the 1996 and 2001 SIPP panels; data are weighted using SIPP weights.
Notes: Asset holdings are reported in 2000 dollars. Liquid assets include transaction accounts, interest-earning accounts such as certificates of deposit and money market accounts, mutual funds, savings bonds, U.S. securities, retirement accounts, stocks, and other financial assets.
The total unweighted sample size is 17,057 families.
a. Income < $31,770 (2000 dollars).
b. Income $31,770–$61,044 (2000 dollars).
c. Income > $61,044 (2000 dollars).

third of the income distribution and 21 percent of families in the top third. Median asset holdings are trivial—only $31—for families in the bottom third of the income distribution, and even the 75th percentile of asset holdings among these families is only $987, well below the asset-poverty threshold for a family of four. Families in the middle third of the income distribution also have relatively low asset holdings. The median for these families is $3,351, less than the liquid-asset-poverty threshold for a family of four, although the 75th percentile of asset holdings for this group is well over the asset-poverty threshold, at over $17,000. Families in the top third of the income distribution, on the other hand, have access to high levels of liquid assets. These families have median holdings of nearly $30,000, which is nearly nine times the median asset holdings for families in the middle third of the income distribution. Still, 21 percent of these higher-income families are liquid-asset poor.

Are Higher Levels of Material Hardship Associated with Negative Events?

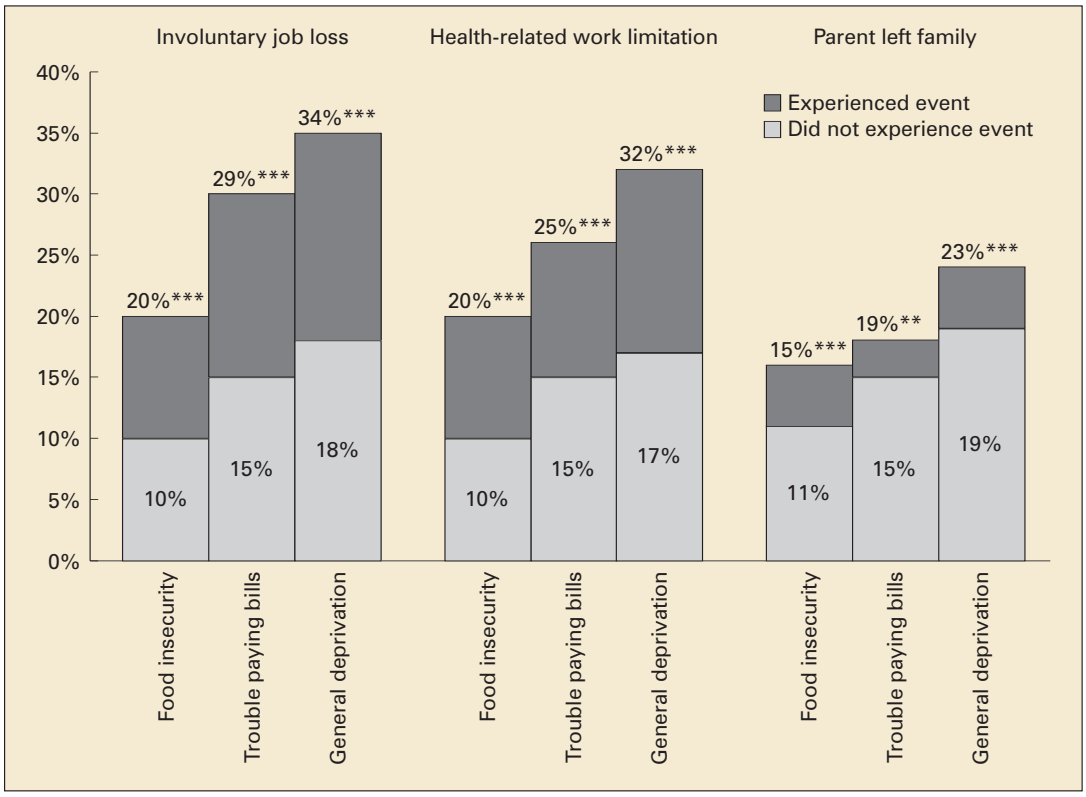
This section examines the relationship between negative family events and a family's material well-being. To do this, we compare levels of material hardship for families that do and do not experience each of the three negative events—involuntary job loss, health-related work limitation, and a parent leaving the family. We first do this for the entire sample, and then by thirds of the income distribution because income can be an important component of family well-being. As noted above, we examine three measures of material hardship—food insecurity, trouble paying basic bills, and general deprivation.

Material hardship by event. Families that experience a negative event have significantly higher levels of material hardship than families that do not experience the event. This holds for each of the three events and across all three material-hardship measures (figure 1). The degree of material hardship experienced by families varies by event.

Families that experience an involuntary job loss are about two times as likely to experience material hardship across all three hardship measures as families that do not experience the event. For example, 20 percent of families that have an involuntary job loss are food insecure, compared with only 10 percent of families that do not have an involuntary job loss. The pattern holds when material hardship is measured as trouble paying basic bills, though the overall level of hardship is higher. Twenty-nine percent of families that have an involuntary job loss report trouble paying basic bills, while only 15 percent of families without an involuntary job loss have the same problem. The corresponding percentages for general deprivation are 34 percent and 18 percent, respectively.

Similarly large differences in material hardship are associated with a health-related work limitation, although the differences in material hardship associated with a parent leaving the family are substantially smaller. These smaller differences in deprivation may result from these families' ability to better prepare for the event, as well as the possibility that the departing parent continues to contribute to the family. Families that lose a parent are about 1.4 times more likely

FIGURE 1. Percentage of Families That Experience Material Hardship, by Event



Source: Authors' tabulations of the 1996 and 2001 SIPP panels; data are weighted using SIPP weights.
Notes: Statistical significance is calculated on the difference between families that experience each event and families that do not. The total unweighted sample size is 17,057 families; 1,194 experienced an involuntary job loss, 1,565 experienced a health-related work limitation, and 1,392 experienced the loss of a parent.
* = $p < 0.1$, ** = $p < 0.05$, *** = $p < 0.01$.

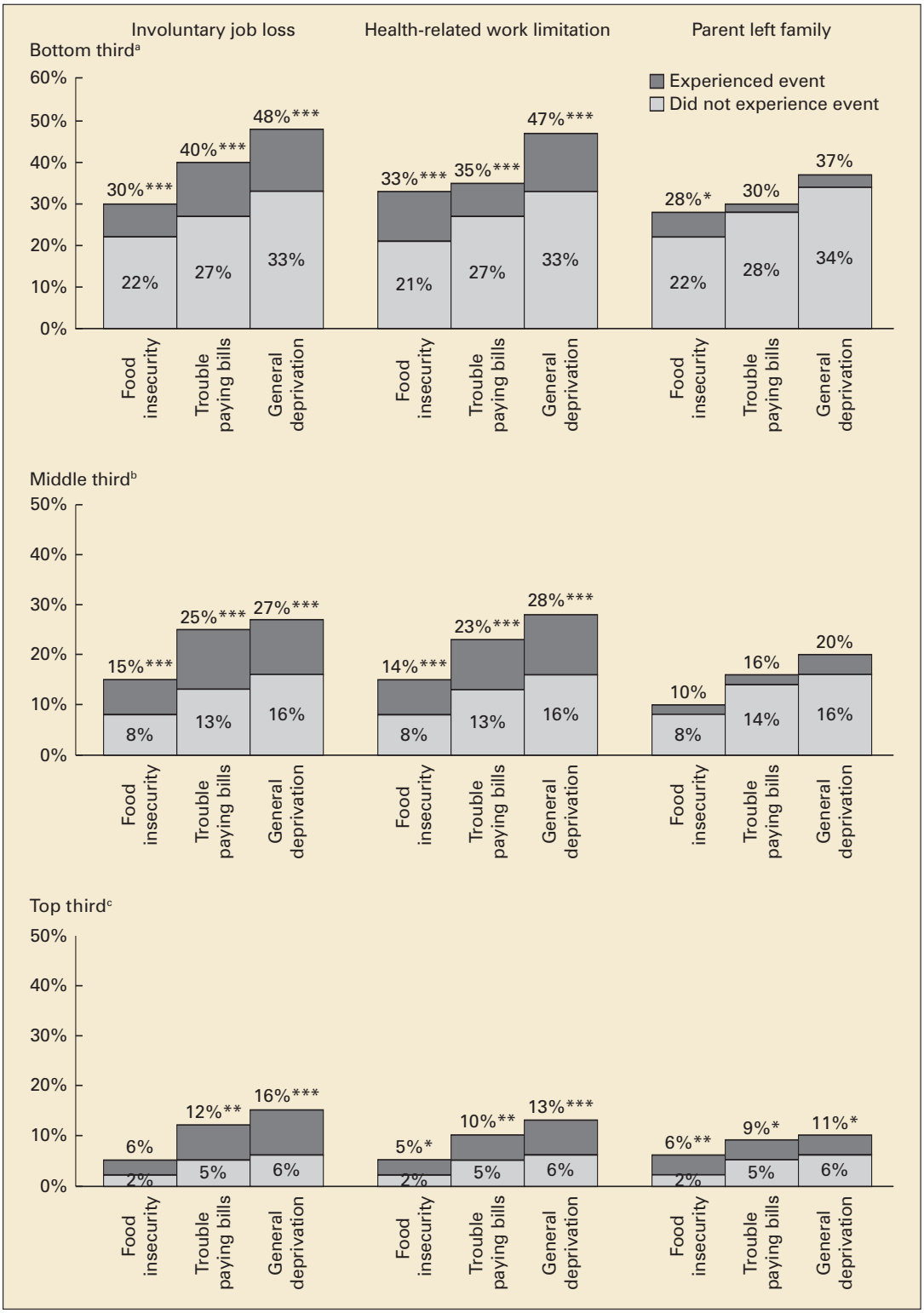
to be food insecure (15 percent versus 11 percent), 1.3 times more likely to have trouble paying basic bills (19 percent versus 15 percent), and 1.2 times more likely to be generally deprived (23 percent versus 19 percent) than families that do not experience the departure of a parent.

Material hardship by event and income. The relationship between negative events and material hardship may differ by level of family income, as income can directly affect material well-being. To help separate out income from assets, we examine the relationship between events and material hardship for families in the bottom, middle, and top thirds of the income distribution. The patterns discussed above hold when we examine thirds of the income distribution, though differences in material-hardship levels differ in their statistical significance.

Among families in the bottom third of the income distribution, experiencing an involuntary job loss or health-related work limitation is associated with statistically significantly higher rates of material hardship. For example, 30 percent of lower-income families that experience an involuntary job loss are food insecure, compared with 22 percent of families that do not experience the event (figure 2, top panel). The difference in levels of material hardship is even larger when hardship is measured as trouble paying basic bills or being generally deprived. General deprivation, for example, is experienced by 48 percent of lower-income families with an involuntary job loss, compared with 33 percent for families that do not—a 15 percentage point difference. Results suggest similarly large differences—8 to 14 percentage points—in material-hardship levels between lower-income families with and without a health-related work limitation. The differences in material-hardship levels between lower-income families that experience the departure of a parent as compared with those that do not are statistically significant only for food insecurity, where families are 6 percentage points more likely to be food insecure if a parent has left the family.

Comparing thirds of the income distribution shows that the level of material hardship decreases as income increases, but families that experience events have consistently higher levels

FIGURE 2. Percentage of Families That Experience Material Hardship, by Event and Thirds of the Income Distribution



Source: Authors' tabulations of the 1996 and 2001 SIPP panels; data are weighted using SIPP weights.

Notes: Statistical significance is calculated on the difference between families that experience an event and families that do not. The total unweighted sample size is 17,057 families. In the bottom third of income, 546, 704, and 494 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. In the middle third of income, 368, 516, and 448 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. In the top third of income, 280, 345, and 450 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively.

a. Income < $31,770 (2000 dollars).

b. Income $31,770–$61,044 (2000 dollars).

c. Income > $61,044 (2000 dollars).

of material hardship than families that do not. This holds for every event and every measure of hardship, though statistical significance varies somewhat. For example, among families in the middle third of the income distribution, 15 percent that experience an involuntary job loss are food insecure, compared with 8 percent that do not lose their job (figure 2, middle panel). Similarly, 25 percent of those that experience an involuntary job loss report having trouble paying basic bills, compared with 13 percent that do not involuntarily lose a job. General deprivation levels for middle-income families that have an involuntary job loss are 11 percentage points higher than for those that do not (27 percent versus 16 percent). A similar pattern emerges when we examine differences in material hardship between families experiencing the onset of a health-related work limitation and those that do not. The departure of a parent, however, is not significantly associated with higher levels of material hardship among middle-income families.

Families in the top third of the income distribution have even lower levels of material hardship, but experiencing an event is still associated with increased material hardship. For example, 10 percent of those that experience the onset of a health-related work limitation have trouble paying bills, while 5 percent of those that do not experience the event have this problem (figure 2, bottom panel).

As mentioned above, overall levels of material hardship fall as income rises. This is true for families that experience each event and families that do not. For example, among families that have the onset of a health-related work limitation, general deprivation is experienced by 47 percent, 28 percent, and 13 percent of bottom-, middle-, and top-income families, respectively. The comparable numbers for those families that do not have the onset of a health-related work limitation are 33 percent, 16 percent, and 6 percent.

Overall, families that experience negative events are significantly more likely to experience material hardship. Job loss and the onset of a work-limiting health condition are associated with higher levels of material hardship than shifts in family structure. Lower levels of income are also associated with higher rates of material hardship, although the increase in material hardship in the face of an event holds across the income distribution. Importantly, it is clear that higher levels of income do not make families impervious to decreased material well-being in the aftermath of a negative event.

Do Assets Help Alleviate Material Hardship?

This section examines whether and how much assets alleviate material hardship when a negative family event occurs. Consequently, these analyses focus on the subset of families with a member who experiences one of our key events—involuntary job loss, onset of a health-related work limitation, or a parent leaving the family. We begin with descriptive analyses that examine families' material hardship by asset-poverty status (liquid-asset poor vs. not liquid-asset poor), first for all income groups combined and then by thirds of the income distribution. Next, we examine the relationship between material hardship and asset-poverty status in regression models that more fully control for income, because family income is an important indicator of family well-being. We estimate ordinary least squares (OLS) models where the dependent variables are binary variables that indicate if the family is (1) generally deprived (yes/no); (2) food insecure (yes/no); and (3) having trouble paying bills (yes/no). The explanatory variables include an indicator variable for whether the family experiences one of the three events, family asset-poverty status, the event-indicator variable interacted with asset-poverty status, and family income.[7] Results from the regression analyses corroborate the descriptive findings. For simplicity, we focus on material hardship as measured by the general deprivation index but highlight findings for the other material hardship measures where they add to the story.

Material hardship by asset-poverty status. Asset-poor families are harder hit by negative events than non-asset-poor families. When a negative event occurs, asset-poor families are about two to three times more likely to experience general deprivation than non-asset-poor families (figure 3). Among those with an involuntary job loss, 44 percent of asset-poor families experience general deprivation as compared with only 16 percent of those not asset poor. This difference of 28 percentage points shows that asset-poor families are more than two and a half times more likely to experience general deprivation than non-asset-poor families. The difference is somewhat smaller, although still substantial, for families that experience a health-related work limitation. Among those with this type of work limitation, 40 percent of asset-poor families and 19 percent of non-asset-poor families experience general deprivation, a difference of 21 percentage points. Similarly, when a parent leaves the family, general deprivation is 20 percentage points higher among those that are asset poor versus not asset poor. The pattern shown in

figure 3 also holds when material hardship is characterized by food insecurity and trouble paying bills (not shown).

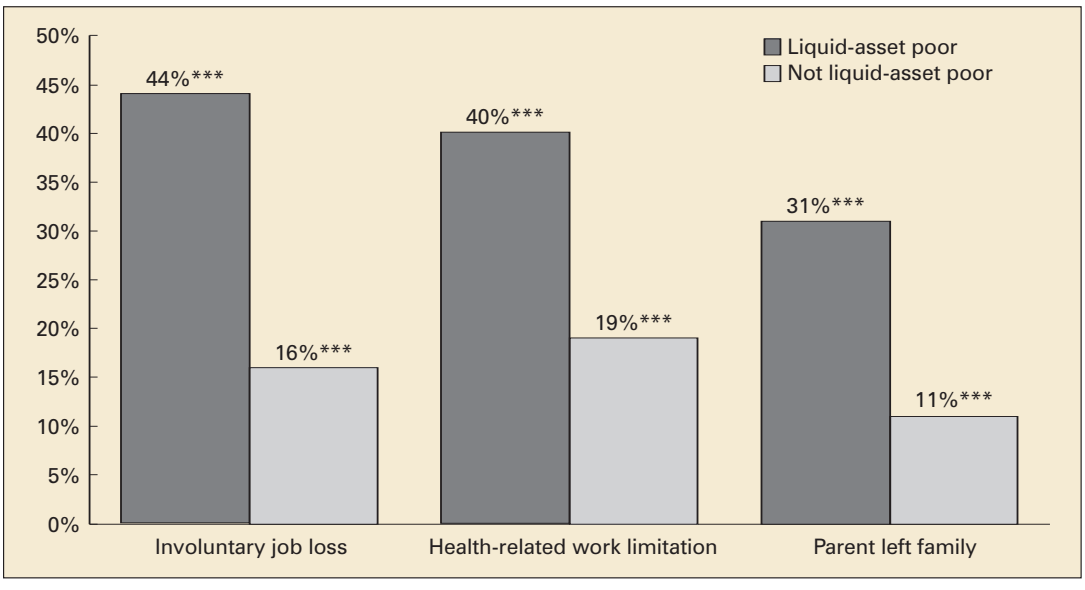
Looking across the three events, the levels of deprivation for asset-poor and non-asset-poor families are similar among those that experience an involuntary job loss or a health-related work limitation. Families where a parent left have comparatively lower levels of deprivation. This is consistent with the finding for all families (asset poor and not asset poor) discussed above.

Material hardship by asset-poverty status and income. Families with more assets may experience less material hardship because they also have higher incomes. To help disentangle income from assets, we separately examine the relationship between material hardship and asset holdings for families in the bottom, middle, and top thirds of the income distribution. Overall, the pattern between general deprivation and asset-poverty status shown above for all income levels combined holds for each third of the income distribution, although the levels of statistical significance vary somewhat (figure 4).[8] We obtain similar findings when material hardship is characterized by food insecurity and trouble paying bills.

We begin by focusing on families in the bottom third of the income distribution (figure 4, top panel). For families that experience each of the negative events, general deprivation is greater among asset-poor families as compared with non-asset-poor families. Among those with an involuntary job loss, general deprivation is experienced by 51 percent of asset-poor families and 28 percent of non-asset-poor families, a 23 percentage point difference.[9] Turning to families that experience a health-related work limitation, general deprivation is experienced by 48 percent of asset-poor families and 31 percent of non-asset-poor families, a 17 percentage point difference. The difference for families that experience a parent leaving is even more substantial—26 percentage points. The lower rates of general deprivation among non-asset-poor families suggest that asset holdings cushion the consequences of negative family events. However, this analysis also shows that the rates of general deprivation are quite high even for low-income families with assets, suggesting that having liquid assets to cover three months of expenses at the federal poverty threshold is not enough for many families to avoid hardship.

Having adequate asset holdings is also important for the well-being of families in the middle third of the income distribution. For middle-income families that experience each of the negative events, general deprivation is significantly higher among asset-poor families as compared with non-asset-poor families (figure 4, middle panel). The difference between asset-poor and non-asset-poor middle-income families ranges from 11 to 18 percentage points. For example, among those with a health-related work limitation,

FIGURE 3. Percentage of Families That Are Generally Deprived Given Event, by Asset-Poverty Status

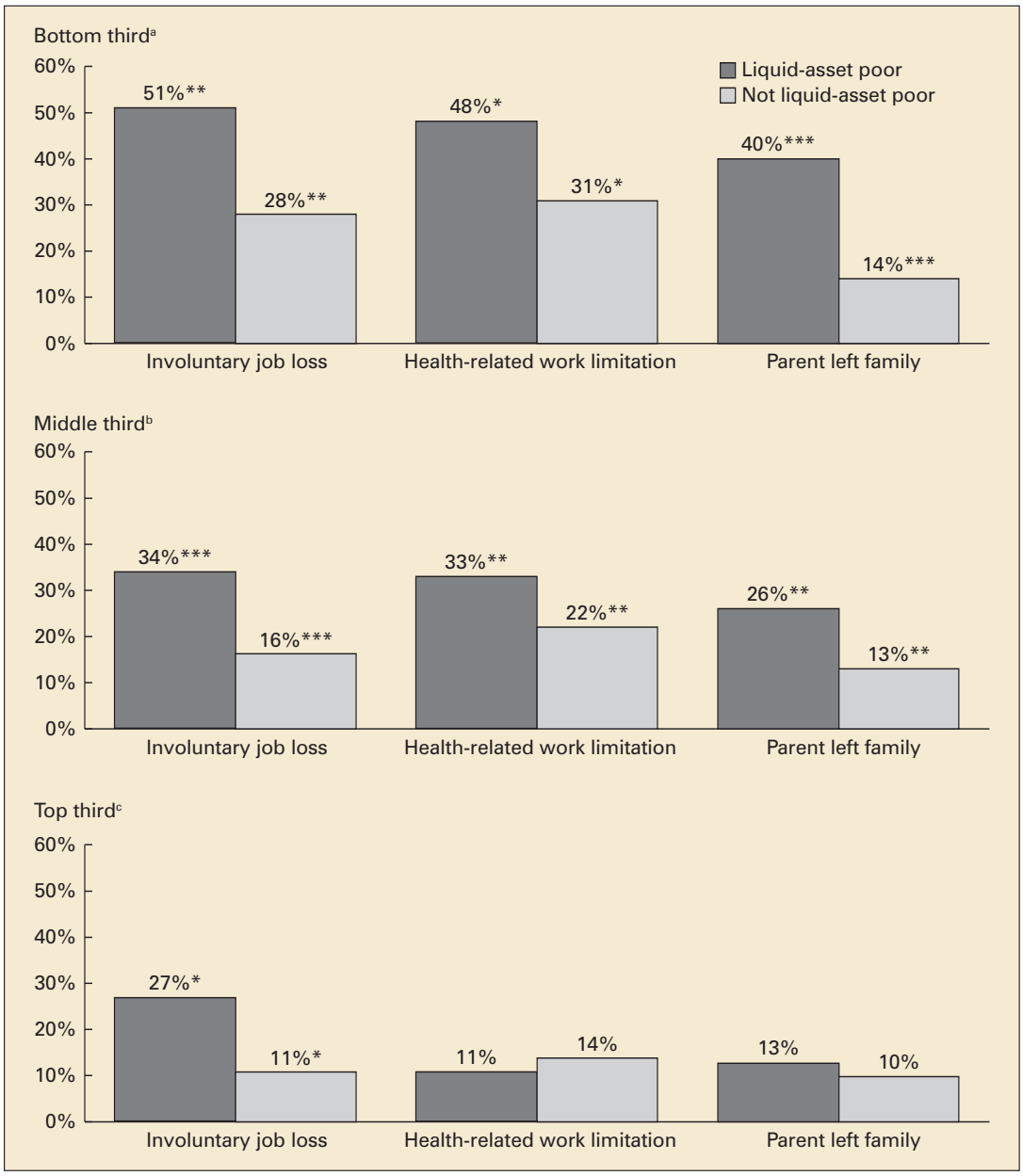


Source: Authors' tabulations of the 1996 and 2001 SIPP panels; data are weighted using SIPP weights.
Notes: Statistical significance is calculated on the difference between families that are liquid-asset poor and families that are not liquid-asset poor. The total unweighted sample size is 17,057 families; 1,194 experienced an involuntary job loss, 1,565 experienced a health-related work limitation, and 1,392 experienced the loss of a parent. A family is considered liquid-asset poor if they are without enough liquid assets to finance consumption for three months at the federal income poverty level.
* = $p < 0.1$, ** = $p < 0.05$, *** = $p < 0.01$.

33 percent of asset-poor families and 22 percent of non-asset-poor families experience general deprivation, an 11 percentage point difference.

For those in the top third of the income distribution that experience an involuntary job loss, a larger percentage of asset-poor families experience general deprivation as compared with the non-asset-poor families (27 percent versus 11 percent, respectively). The differences are not statistically significant for higher-income families that experience one of the other two events (figure 4, bottom panel).

FIGURE 4. Percentage of Families That Are Generally Deprived Given Event, by Asset-Poverty Status and Thirds of the Income Distribution



Source: Authors' tabulations of the 1996 and 2001 SIPP panels; data are weighted using SIPP weights.

Notes: Statistical significance is calculated on the difference between families that are liquid-asset poor and families that are not. The total unweighted sample size is 17,057 families. In the bottom third of income, 546, 704, and 494 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. In the middle third of income, 368, 516, and 448 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. In the top third of income, 280, 345, and 450 families experienced an involuntary job loss, health-related work limitation, and loss of parent, respectively. A family is considered liquid-asset poor if they are without enough liquid assets to finance consumption for three months at the federal income poverty level.

a. Income < $31,770 (2000 dollars).

b. Income $31,770–$61,044 (2000 dollars).

c. Income > $61,044 (2000 dollars).

Consistent with the findings presented above, the degree of general deprivation falls as income rises. This pattern holds for both asset-poor and non-asset-poor families. Among asset-poor families that experience an involuntary job loss, for example, general deprivation is experienced by 51 percent, 34 percent, and 27 percent of bottom-, middle-, and top-income families, respectively. The comparable numbers for non-asset-poor families are 28 percent, 16 percent, and 11 percent.

Comparing the degree of general deprivation by asset-poverty status across the income distribution shows that, in general, having enough assets to live at the federal poverty threshold for three months is at least equivalent to being in the next highest third of the income distribution. Take, for example, the subset of families that experience an involuntary job loss. The likelihood of general deprivation is smaller for non-asset-poor families in the bottom income third (28 percent) than for asset-poor families in the middle income third (34 percent). A comparison of the middle and top thirds of the income distribution shows a similar pattern. Specifically, the degree of general deprivation is smaller for non-asset-poor families in the middle income third (16 percent) than for asset-poor families in the top income third (27 percent). This finding shows the important contributions that both income and assets make to family well-being.

Regression analysis of material hardship. While the above descriptive analysis takes account of income by looking at thirds of the income distribution, each of these thirds has a wide income range and a significant degree of variation. To more finely control for income, we estimate multivariate regression models that include family income. These models estimate the difference in likelihood that an asset-poor family versus a non-asset-poor family experiences general deprivation if one of the three negative events occurs, holding family income level fixed.[10]

Results from the regression model that controls for family income suggest that, among families that experience a negative event, asset-poor families are 14 percentage points more likely to suffer from general deprivation than non-asset-poor families. This finding provides evidence that even after taking family income into account, family assets are an important factor in well-being. This 14 percentage point difference is consistent with the descriptive analysis; it falls within the range of differences between asset-poor and non-asset-poor families presented in figure 4.

To explore the role of income, we estimate the same regression model but exclude family income. When family income is excluded from the model, the difference between asset-poor families and non-asset-poor families is 23 percentage points. A comparison of the estimated magnitudes from models that include and exclude family income (14 and 23 percentage points), shows that 9 percentage points of the difference in material hardship between asset-poor and non-asset-poor families is related to income. In the descriptive analyses, we find that nearly the same amount of the variation between asset-poor and non-asset-poor families is related to income.

Do families spend down their assets? A premise of the above analysis is that families experiencing a negative event use their assets to cope with the adverse event. Here, we examine whether families that experience negative events do indeed spend down their assets. We further examine whether these families' asset holdings fall by more than the asset holdings of families that do not experience the negative event. The change in asset holdings is measured over a one-year period, capturing assets before or near the time the event occurred and up to one year after the event occurred.[11] One caveat is that changes in reported wealth over time are subject to measurement error, and so should be viewed with caution (Ratcliffe et al. 2008).

We find evidence that roughly 40 percent of families that experience each of the negative events do in fact spend down their liquid assets. Our analysis takes place during a period when assets were generally increasing, so it is not surprising that we also find many families' assets rose over this period (about 40 percent).[12] In our analysis of the change in asset holdings by event status, we find that the average asset holdings of families that did and did not experience a negative family event diverged over this period. The change in assets over time is statistically significantly lower among families that experienced an involuntary job loss or had a parent leave the family versus families that did not experience these events. The difference is not statistically significant for those that experienced the onset of the health-related work limitation. Although our findings are somewhat mixed, the analysis provides some evidence that families experiencing adverse events tap into their assets to a greater extent than families not experiencing such events.

Summary and Conclusions

Overall, families that experience negative events are significantly more likely to experience material hardship. While lower levels of income are associated with higher rates of material hardship, material hardship is higher for those experiencing adverse events regardless of where a family lies in

the income distribution. The analysis of material hardship by asset-poverty status shows that asset holdings help families cope with negative family events. Having adequate assets is important for families at all income levels; higher-income families are not immune to material hardship. While income and assets can make different contributions to families, this analysis highlights that both play an important role in their well-being. Finally, we find some evidence that families experiencing a negative event use their assets to cushion the blow.

A key hypothesis in the asset-building literature is that asset holdings help families weather emergencies. This brief provides the first evidence (known to the authors) that assets do indeed play this important role. The results suggest that both assets and income are important in cushioning the blow of negative life events, such as an involuntary job loss, the onset of a health-related work limitation, and a parent leaving the family. Overall, families with assets are 23 percentage points less likely to suffer from general deprivation than asset-poor families after experiencing a negative event; 9 percentage points of this difference are related to income, leaving 14 percentage points related to asset holdings.

While social policy in the United States has traditionally focused on income and consumption supports to alleviate material hardship, our findings suggest that asset supports could be an important complement. Social policy could play a bigger role in encouraging asset building among lower-income families. Currently, some social policies (e.g., asset tests) do the opposite. Most means-tested programs restrict eligibility to families with assets that fall below a set threshold and these asset tests can have the unintended consequence of discouraging low-income families from saving. The 1996 federal welfare reform legislation and, more recently, the 2002 Farm Bill have both helped liberalize asset limits and are steps in the right direction.

Encouraging low-income families to build assets by providing them with incentives to save can help alleviate hardship. Currently, most of the $400 billion in subsidies to support asset building is administered through the tax code and primarily benefits high-income families.[13] Some low-income asset-building program demonstrations, however, are underway and have shown that low-income families can and do save when given incentives (Nam, Ratcliffe, and McKernan 2008). Most focus on longer-term saving, not saving for a rainy day. For example, federal and state governments have been supporting individual development account programs, which provide matching funds when participants save for long-term goals, such as higher education, homeownership, and business start-ups. Such matched savings may be an important way to redirect some of the substantial savings-promoting tax subsidies that currently go mostly to high-income families. While these accounts can be important to improve long-term economic well-being, the findings in this brief suggest that providing incentives for low-income families to save in less restricted accounts is also important. Assets do likely cushion negative events, especially for low-income families, suggesting that increased savings will improve the material well-being of these families.

Notes

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1. For a summary of the income volatility literature see Nichols and Zimmerman (2008) and for a summary article of the event and poverty literature see Cellini, McKernan, and Ratcliffe (2008).
2. All dollar values are adjusted to January 2000 dollars using the consumer price index for urban consumers, distributed by the Bureau of Labor Statistics.
3. The asset and liability topical module was also administered in waves 9 and 12 of the 1996 panel and in wave 9 of the 2001 panel.
4. Because each SIPP wave covers a four-month period, these three waves combined capture a one-year period.
5. We examined other events, including the addition of a child, ending a job for any reason, and ending a job for health-related reasons, with similar results to those reported here.
6. The 10 material hardship indicators for "generally deprived" are (1) food insecurity and (2) food insufficiency (which refer to wave 8 only); (3) trouble paying basic bills; (4) someone in the household reporting not seeing a doctor or (5) a dentist when in need of one; (6) inability to pay rent or mortgage; (7) inability to pay utility or medical bills; (8) having the phone line disconnected or (9) the gas or electric cut off because of an inability to pay; or (10) eviction from home or apartment because of inability to pay rent or mortgage (which refer to waves 6, 7, and 8).
7. The regression models group together families that experience any of the three events, because of the relatively small number of families that experience each event. All models are estimated using population weights.
8. The lower degree of statistical significance in the bottom and top thirds of the income distribution likely results

from the small numbers of families (as few as 61) that experience the events and are (1) in the bottom income third and are *not* asset poor and (2) in the top income third and *are* asset poor.

9. Among these families that experience an involuntary job loss, asset-poor families are not statistically significantly more likely to experience food insecurity than non-asset-poor families.
10. As mentioned above, the regression model groups together families that experience any of the three events, because of the relatively small number of families that experience each event.
11. Assets are compared in wave 3 and wave 6 of the SIPP.
12. Roughly 20 percent of families have no change in their level of assets.
13. In fiscal year 2005, for example, less than 3 percent of the benefits from federal asset-building programs went to households in the bottom 60 percent of income. The top 20 percent, in contrast, received nearly 90 percent of the benefits (Woo and Buchholz 2007).

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