Self-Sufficiency, Assets, and Poverty

J. Michael Collins
UW–Madison

2015

Financial Capability and Asset Building as Part of Poverty 101

Self-Sufficiency, Assets, and Poverty

<u>Broad But Interrelated Topics</u>:

1. ***Self-Sufficiency***

2. ***Financial Capability***

3. ***Asset Building & Savings***

Self-Sufficiency

- **Accessing benefits**
  - Eligibility and take up
- **Stable housing**
  - And related services
- **Movement into work**
  - Child care
  - Relax work ‘penalty’
  - Also movement <u>off</u> of public assistance
- **Managing resources more efficiently**
  - Budgeting, Spending
- **Dealing with legal issues**
  - Judgments
  - Garnishment
  - Child Support

Financial Capability

- **Financial Knowledge**
  - Literacy
  - Numeracy
- **Financial Access**
  - Financial Inclusion
  - Underbanked
  - Products: transactions & savings
- **Financial Skills**
  - Planning
  - Goals & Intentions
- **Dealing with negative triggers**
  - Emergency expenses
  - Borrowing
- **Attitudes**
  - Stress
  - Confidence
  - Trust

Asset Building

- **Savings**
  - Restricted purpose
    - Small business
    - Homeownership
    - Education
- **Risk-taking**
  - Leverage assets with debt
- **Political / Social Stake**
  - Ownership in community
- **Future Orientation**
  - Aspirations for children

Asset Poverty

- Wealth holdings are not sufficient to secure the socially determined minimum standard of living for a given period of time (Brandolini, Magri, & Smeeding, 2010, p. 271).

- Common threshold is whether a household has sufficient assets to sustain at the national poverty level for three months without any income (Haveman & Wolff, 2005).
  - Assets = household net worth, or total ‘marketable assets’ - total debt

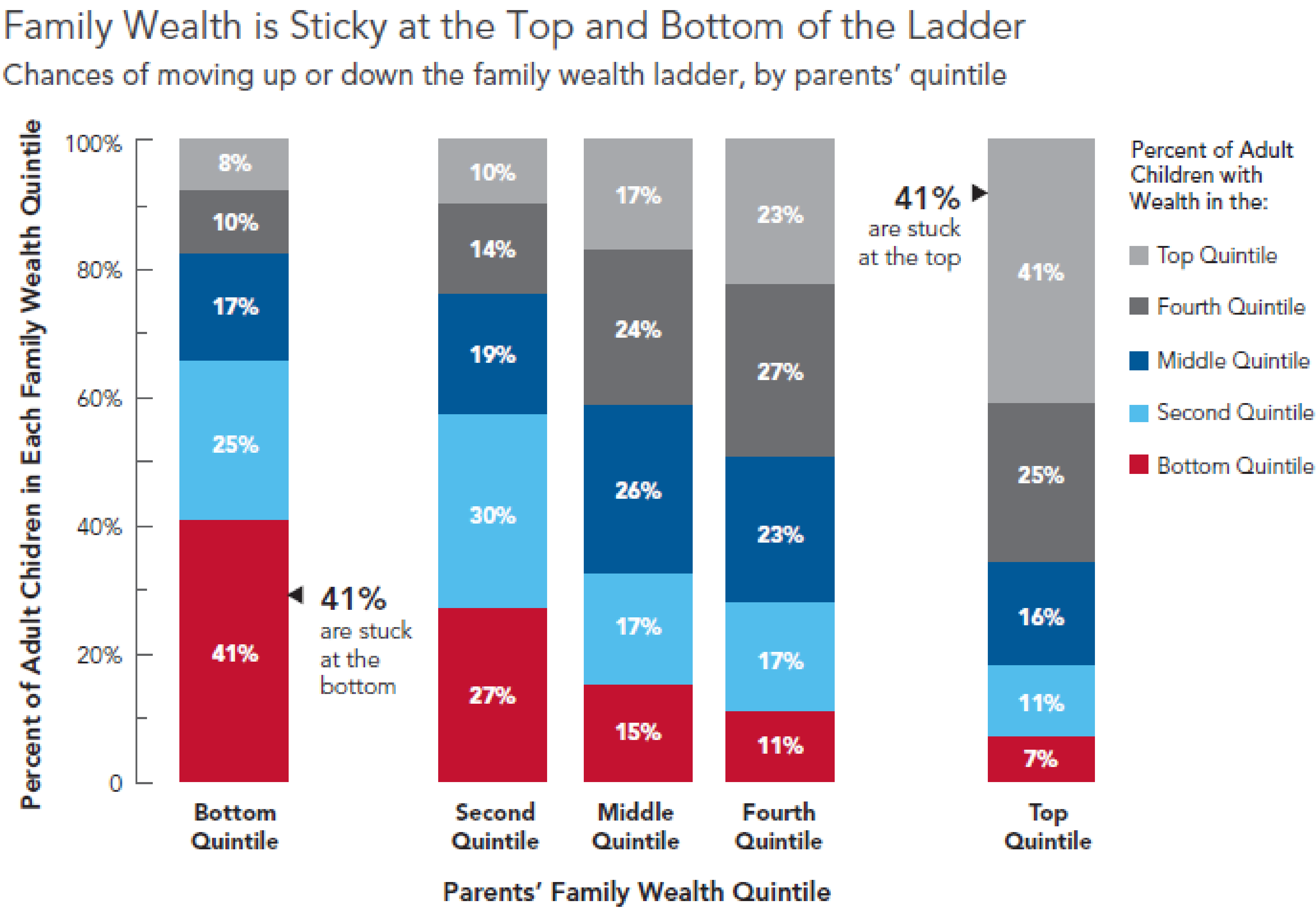
- 19.6% of households “Asset Poor” in 2010 (Ratcliffe & Zhang, 2012).
  - Liquid asset poverty = lack of cash or other sources that can be monetized quickly (bank accounts, bonds or CDs, stocks, mutual funds, retirement accounts)
  - $5,763 liquid asset poverty threshold (family of four)
  - Survey of Income and Program Participation (SIPP) data indicate that in the US liquid asset poverty increased from 41.4% in 2006 to 43.9% in 2010.
  - Liquid asset poverty is highest for female headed and minority households; 80% for households below 200% of the federal poverty level (Aratani & Chau, 2010).

- Asset poverty is distinct: Rates of asset poverty remained steady even as income poverty declined (Caner & Wolff, 2004).

Composition of Asset Poverty Measurements

1. Total Net Worth	2. Financial Net Worth (Net Worth Minus Home Equity)	3. Liquid Assets
+ Home equity + Value of owned business + Value of checking/saving + Value of other real estate + Value of stocks + Value of bonds, cash value in a life-insurance, a valuable collection of investment purposes, etc. – Net of debt value – Value of vehicle	+ Value of owned business + Value of checking/saving + Value of other real estate + Value of stocks + Value of bonds, cash value in a life-insurance, a valuable collection of investment purposes, etc. – Net of debt value – Home equity – Value of vehicle	+ Value of checking/saving + Value of stocks + Value of bonds, cash value in a life-insurance, a valuable collection of investment purposes, etc.

Aratani, Yumiko, and Michelle M. Chau. "Asset poverty and debt among families with children." (2010).
http://academiccommons.columbia.edu/catalog/ac:126218



Pew Charitable Trusts. "Pursuing the American dream: Economic mobility across generations." Pew Charitable Trusts, Economic Mobility Project. (July 2010). http://www.pewstates.org/research/reports/pursuing-the-american-dream-85899403228

Emergency Savings

TABLE 4. Amount of Liquid Assets Held by Households with Nonelderly Heads, Percentage Distribution by Income Quintile

	Lowest quintile	Second quintile	Middle quintile
$0	69.8	47.6	33.6
$1–$1,999	19.7	30.0	29.4
$2,000–$9,999	6.5	13.7	21.7
$10,000 or more	4.0	8.7	15.3
Sample size	3,435	3,436	3,435

Source: Authors' calculations based on data from the 2001 Survey of Income and Program Participation.

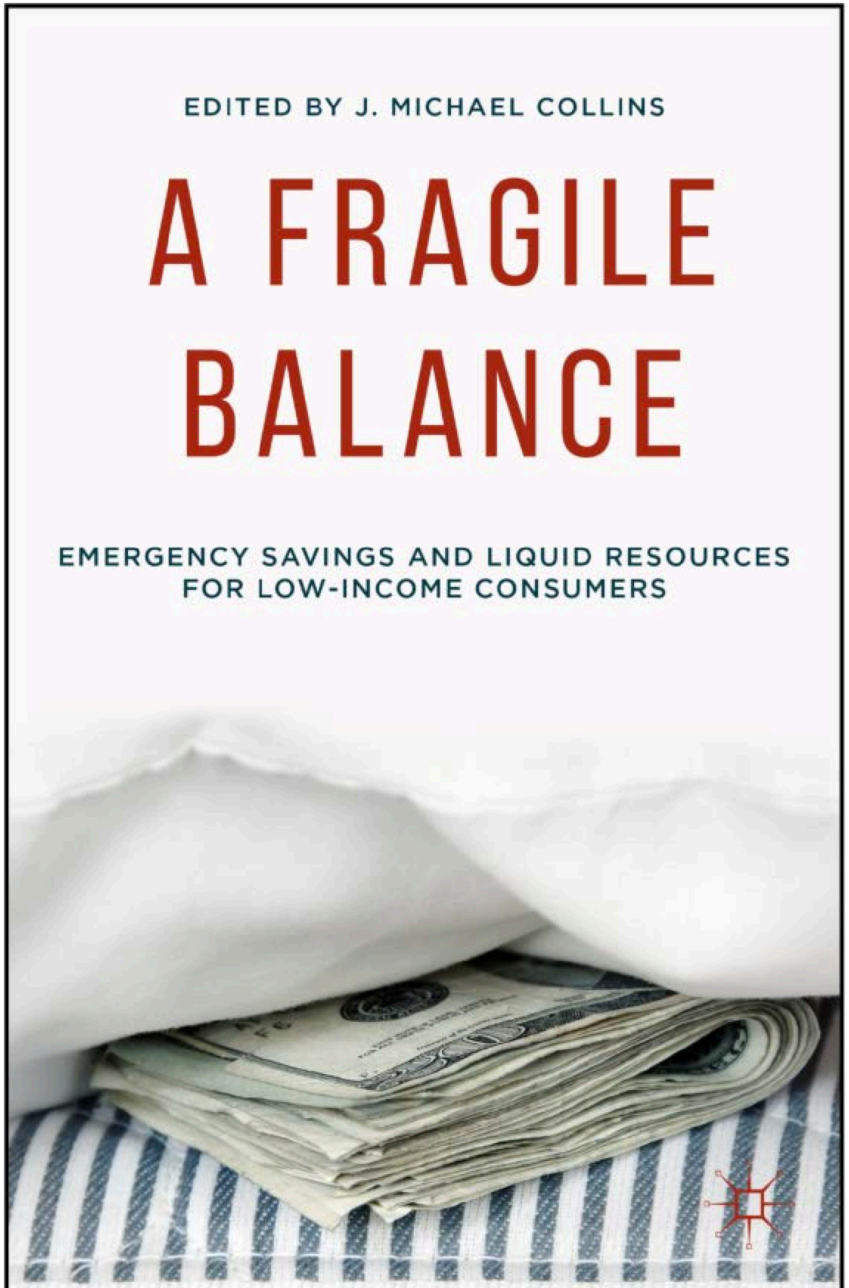
Mills, Gregory, and Joe Amick. "Can Savings Help Overcome Income Instability?." *Washington, DC: The Urban Institute* (2010). http://www.urban.org/publications/412290.html

Coping with an Emergency

Table 1. Relationship between Economic and Demographic Characteristics and Confidence in Ability to Cope with Unexpected Expense

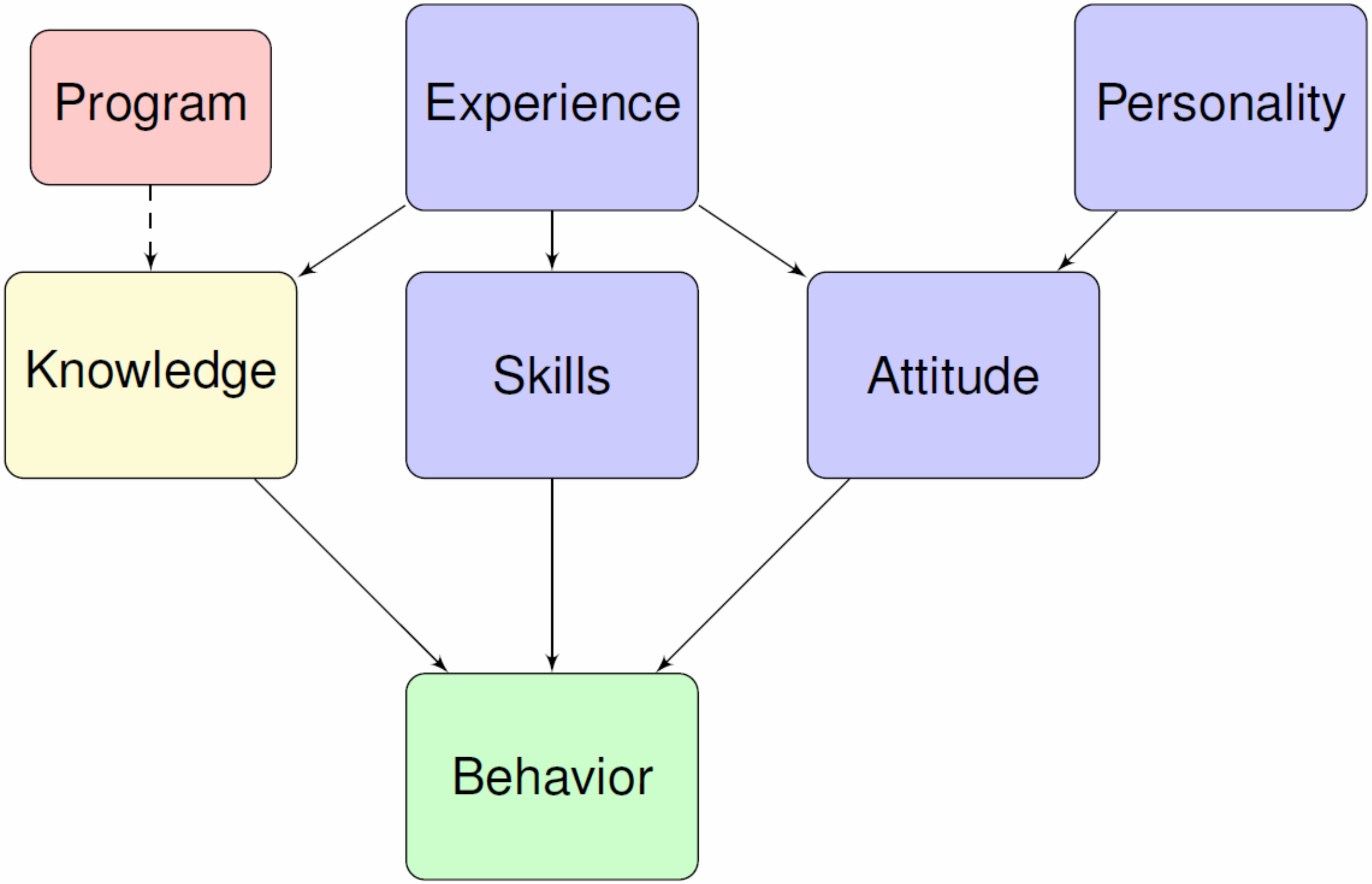
	Certainly Able to Cope	Probably Able to Cope	Probably Not Able to Cope	Certainly Not Able to Cope
All Respondents	24.9	25.1	22.1	27.9
Income				
Less than $20,000	9.3	14.6	19.2	56.8
$20,000 - $29,999	11.4	21.2	27.7	39.7
$30,000 - $39,999	17.5	27.5	23.6	31.4
$40,000 - $49,999	17.0	26.1	29.9	27.0
$50,000 - $59,999	21.9	24.7	26.1	27.3
$60,000 - $74,999	33.1	27.9	21.8	17.3
$75,000 - $99,999	40.7	33.7	15.4	10.2
$100,000 - $149,999	49.0	27.3	12.9	10.8
$150,000 or more	58.1	27.5	4.7	9.8

Lusardi, Annamaria, Daniel J. Schneider, and Peter Tufano. *Financially fragile households: Evidence and implications*. No. w17072. National Bureau of Economic Research, 2011.



- Why emergency savings?
- Federal policies to support emergency savings
- Innovations in savings policies, products, and services aimed at supporting emergency savings.
- Chapters by an practitioners
- Focuses on lower-income consumers, who often have the least options for finding cash in a pinch.

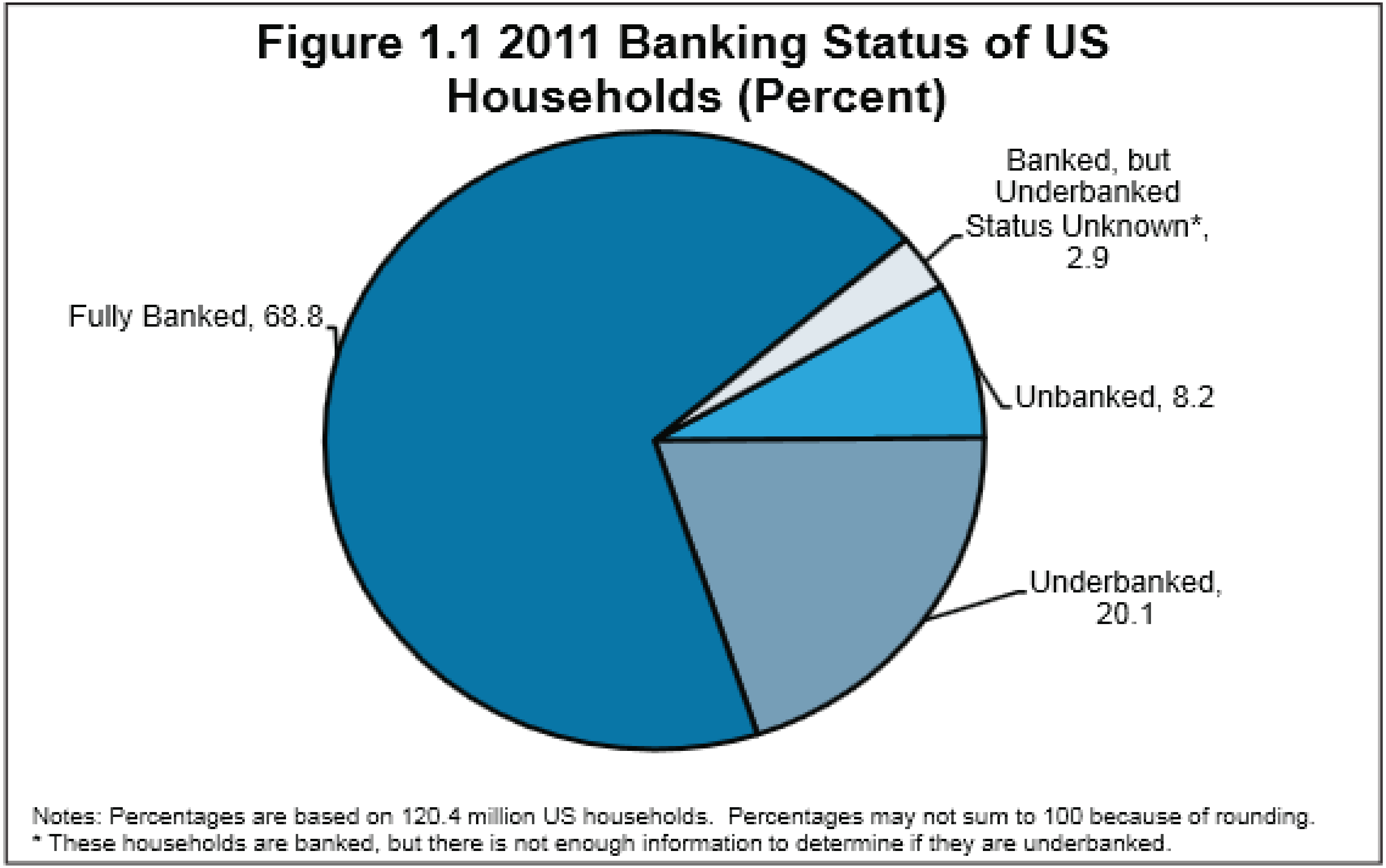
Financial Capability Model



State by State Data

- http://www.usfinancialcapability.org/

Unbanked



FDIC (2012). http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf

Compared to What?

Eliminate access to liquidity…what happens next?

- bounced checks
- missed payments

What do you note about window signs?

14 - Day Term	FEE	APR[1]
Overdraft Protection & Non Sufficient Funds (NSF) Fee	$28.95	621.57%
Overdraft Protection Fee	$27.00	579.71%
Credit Card Late Fee: 1st Time Late	$25.00	536.76%
Credit Card Late Fee: 2nd Time Late	$35.00	751.48%
Utility Late/Reconnect Fee	$46.00	987.65%
Payday Loan	$15.00	322.06%

TABLE 1. Percentage of Households with Nonelderly Heads Experiencing Material Hardship, by Income Quintile

Hardship measure	Lowest quintile	Second quintile	Middle quintile
General			
Unmet essential expenses	28.6	19.8	12.9
Specific			
Missed utility payment	20.4	14.1	8.7
Missed housing payment	12.8	9.1	5.7
Utility shutoff	3.9	2.3	1.5
Phone shutoff	10.4	6.4	4.4
Forgone doctor visit	14.6	9.6	6.1
Forgone dentist visit	16.2	12.3	7.5
Food insecurity	6.7	2.9	1.2
Two or more of the above	23.9	16.2	9.5
Sample size	3,435	3,436	3,435

Source: Authors' calculations based on data from the 2001 Survey of Income and Program Participation.
Note: Food insecurity is measured over a four-month reference period. All other hardships are measured over a 12-month period.

Mills, Gregory, and Joe Amick. "Can Savings Help Overcome Income Instability?." *Washington, DC: The Urban Institute* (2010). http://www.urban.org/publications/412290.html

Debt to Make Ends Meet

- Demand for alternative credit driven by:
  - Bills due before the next paycheck
  - Unexpected expenses
  - Expenses that exceeded income
  - Drop in income
- Most common uses of alternative credit:
  - Pay basic living expenses
  - Pay or utility/housing bills
  - Home or car-related repairs and purchases

FDIC. “2011 FDIC National Survey of Unbanked and Underbanked Households.”Federal Deposit Insurance Corporation. (2012); Levy, Robert, and Josh Sledge. “A complex portrait: An examination of small-dollar credit consumers.” Center for Financial Services Innovation, (2012).

Debt: Alternative Financial Services

Table 6. Debt through Alternative Financial Services (in the Past 5 Years)

Type of Alternative Financial Service	Less Than $25,000	$25,000–$75,000	More Than $75,000
Auto title loan	5%	7%	10%
Payday loan	6%	6%	2%
Tax refund anticipation loan	12%	7%	3%
Pawn shop	16%	7%	1%
Rent-to-own	8%	4%	1%

Source: Financial Capabilities Survey, FINRA 2009

Klawitter, M., & Collin Morgan-Cross . "Assets, credit use and debt among low-income households." (2012).
http://depts.washington.edu/wcpc/sites/default/files/papers/Credit%20andDebt%205_23_12.pdf

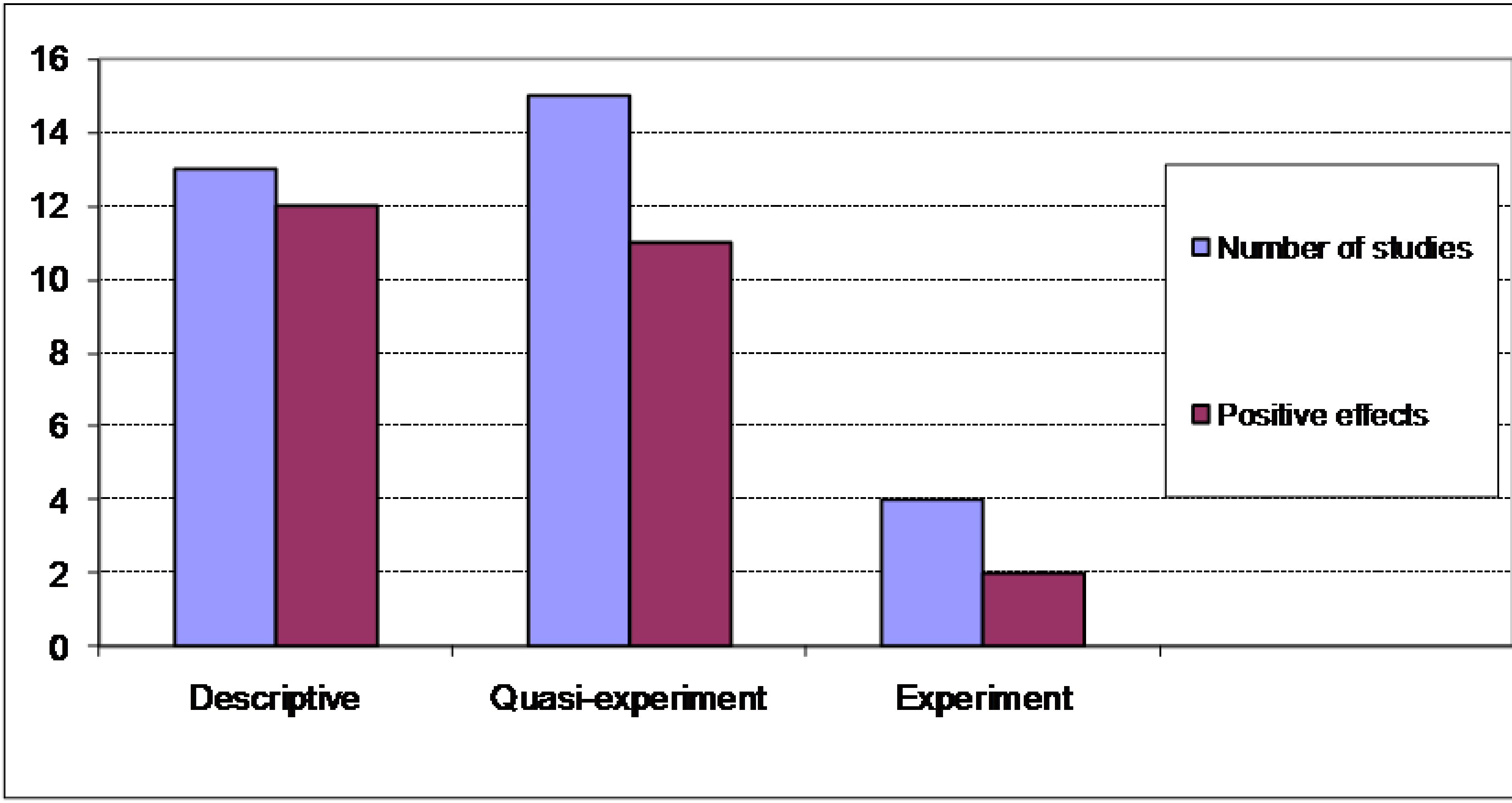
Financial Decisions that Matter for Low-Income Families

- Schooling: Human Capital Investments
- Debt Management: Default, Judgments, Bankruptcy, Tax delinquency
- Income Tax filing: EITC claiming and use of Refund
- Managing program rules; Enroll, qualify, retain
- Avoiding Scams
- Use of Social Security and Disability
  - Claiming too early
  - Using DI when no alternative jobs

Studies of Financial Education

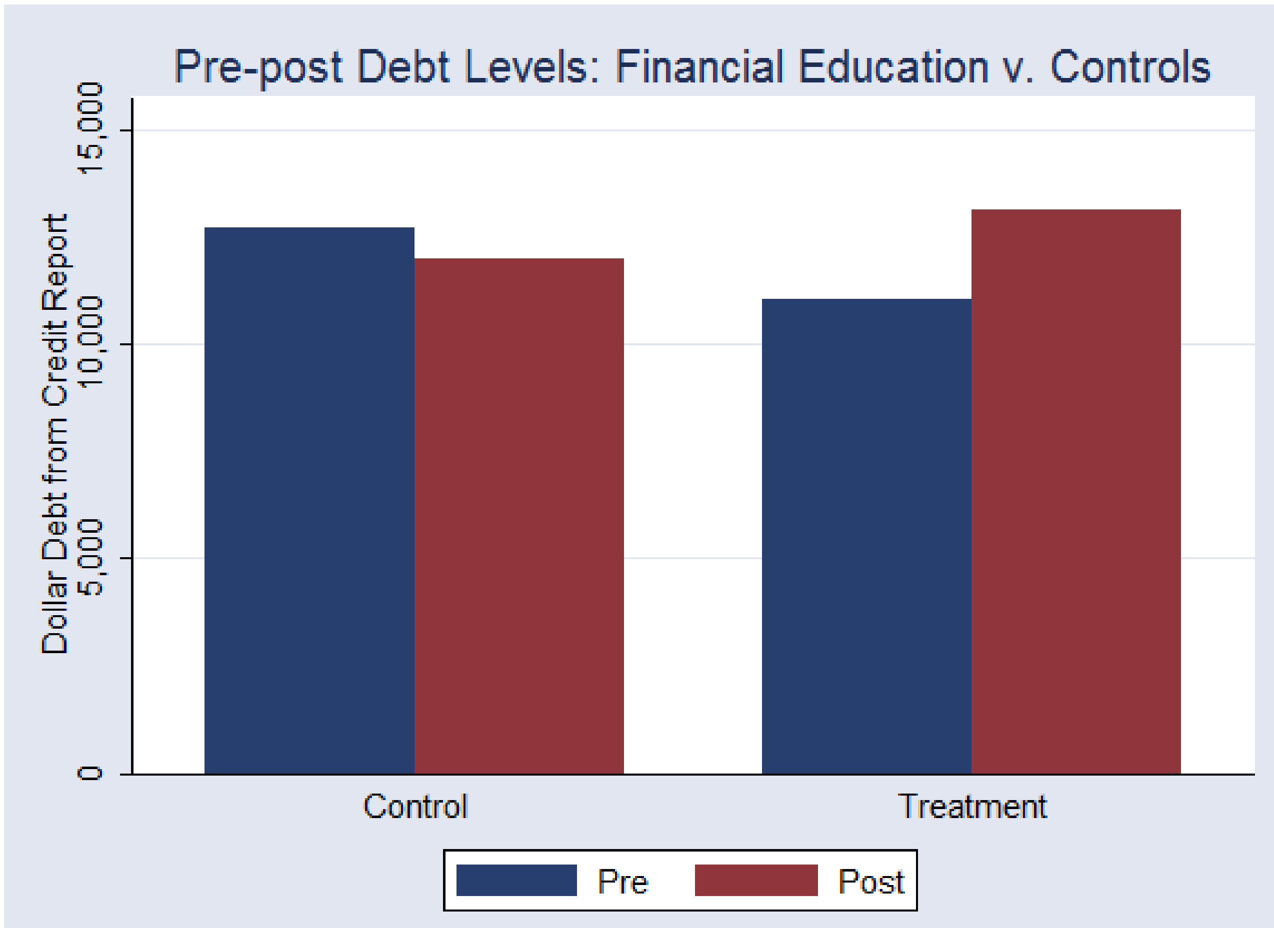
- Array of methodological weaknesses
  - Selection bias due to non-randomized designs
  - Self-reported measures
  - Behavior vs. knowledge
  - Heterogeneous ‘treatment’ (content and mode)

Weak Evidence for Financial Education



Collins, J. Michael, and C M. O'Rourke. "Financial education and counseling—Still holding promise." *Journal of Consumer Affairs* 44.3 (2010): 483-498.

Education = More Debt?



Collins, J. Michael. "The Impacts of Mandatory Financial Education: Evidence from a Randomized Field Study." *Journal of Economic Behavior & Organization,*(2012).

Asset Building

- Idea came from Michael Sherraden: Assets and the Poor: A New American Welfare Policy in 1991
- Private foundations provided funds to test idea
- Assets for Independent Act passed in 1998 with broad bipartisan support

- More than 57,000 IDA accounts today: most funded by U.S. Assets For Independence Program in HHS
- 540 IDA programs serve 73,000 savers
- 8,400 new homeowners, 6,000 higher education purchases & 5,200 small business startups
- 33 states provide some support for IDA programs

IDA Impacts

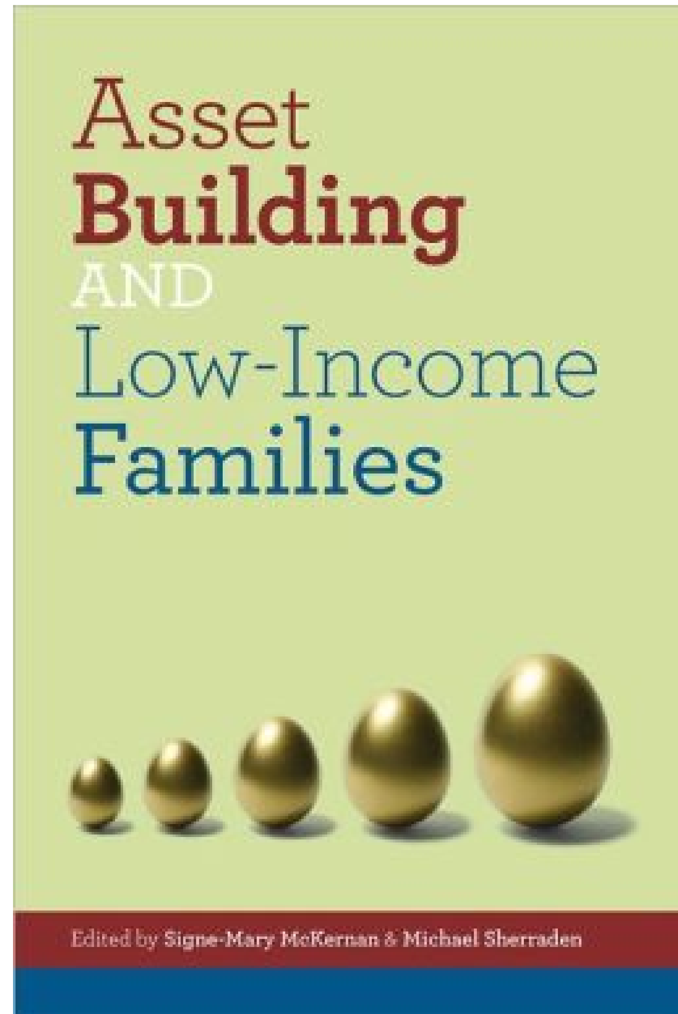
Social Experiment: 10 years of studies

- IDA participation is associated with:
  - Increased employment
  - Better budgeting and financial planning
  - Increased homeownership rates of renters
- But NOT:
  - Reduced receipt of public assistance benefits
  - No evidence that IDA participation increases net worth in the first 3 to 4 years.
    - 40% withdrew the entire balance for non-qualifying purposes
    - Willing to forfeit the match in order to access funds
- Program costs to dollars saved: $1 of net savings costs $3.

Child Development Accounts

- SEED Accounts
- Matched accounts for children – about half are 529 plans
- Withdrawals for postsecondary education, vehicles, computers, health
  - $1,518 saved after 5 years

- SEED for Oklahoma Kids experiment (RCT)
  - 2008: 1,360 kids given $1000 529 accounts at birth



Overall

- Seems Assets are an important consideration
  - Barriers to saving
  - Use for savings in emergency or for contingency
- Less clear how to promote savings
  - Education weak at best
  - Direct subsidy (pay to save) not cost effective so far

- Policy and practice implications…
  - Further experiments
  - Need for evidence
  - Caution about ‘right’ behavior or outcome

Course Topics

- Asset vs. Income Poverty
  - Distinctions and importance
- Financial services and unbanked
  - Alternative financial services
- Financial Literacy
  - Behavior & knowledge (behavioral economics)
- Financial Capability and Self Sufficiency
  - Cases from public programs

Potential Extensions

- Asset tests in public programs
- Predatory lending, auto title pawn and payday loan restrictions
- EITC refund and savings at tax time
- Retirement savings and employer options relative to Social Security annuity value
- Homeownership and mortgage access
- Medical debt and bankruptcy
- Financial security and domestic violence
- Behavioral economics and decision-making of people in poverty

Case Study: Prisoner Re-entry

Former offenders have few financial resources but many needs/obligations

- Resources:
  - ‘Gate money’ issued via check $54 mean amount (30% of states provide $0)
  - Access to any prison earned wages is often delayed by several weeks
  - 1 in 5 have employment arranged at time of release
  - Reliance on family/friends is common but relationships may be strained

Key Readings

1. Blank, R. M., & Barr, M. S. (2009). *Insufficient funds: Savings, assets, credit, and banking among low-income households*. New York: Russell Sage Foundation Publications. Chapter 1
2. Lusardi, A., Schneider, D. J., & Tufano, P. (2011). *Financially fragile households: Evidence and implications* (No. w17072). National Bureau of Economic Research.
3. Bertrand, M., Mullainathan, S., & Shafir, E. (2006). Behavioral economics and marketing in aid of decision making among the poor. *Journal of Public Policy and Marketing* 25(1), 8-23.
4. Aratani, Y., & Chau, M. (2010). *Asset Poverty and Debt Among Families with Children*. New York: National Center for Children in Poverty.

Accessible Readings

- Aratani, Y., & Chau, M. (2010). *Asset Poverty and Debt Among Families with Children.* New York: National Center for Children in Poverty.
- Bertrand, M., Mullainathan, S., & Shafir, E. (2006). Behavioral economics and marketing in aid of decision making among the poor. *Journal of Public Policy and Marketing* 25(1), 8-23.
- Klawitter, M., & Morgan-Cross, C. (2012). *Assets, Credit Use and Debt of Low-Income Households* (May 11, 2012). Evans School of Public Affairs, University of Washington. http://depts.washington.edu/wcpc/sites/default/files/papers/Credit%20andDebt%205_23_12.pdf
- Mills, G. B., & Amick, J. (2010). *Can Savings Help Overcome Income Instability?* Urban Institute, http://www.urban.org/publications/412290.html
- O'Brien, R. (2012). We don't do banks: Financial Lives of Families on Public Assistance. *Geo. J. Poverty Law & Policy* 19, 485-535.
- Shapiro, T. M., Meschede, T., & Sullivan, L. (2010). *Wealth Gap Increases Fourfold.* Research and Policy Brief, The Heller School for Social Policy and Management, Brandeis University.

Books (* suggested chapters):

- Barr, M. S. (2012). *No Slack: The Financial Lives of Low-income Americans*. Brookings Institution Press.
- Blank, R. M., & Barr, M. S. (2009). *Insufficient funds: Savings, assets, credit, and banking among low-income households*. New York: Russell Sage Foundation Publications.
  - Barr, M, & Blank, R. Savings, assets, credit, and banking among low-income households: Introduction and Overview. (pp. 1-23).
  - Mullainathan, S., & Shafir, E. Savings policy and decision-making in low-income households. (pp. 121-142).
  - Sherraden, M. Individual development accounts and asset-building policy: Lessons and directions. (pp. 191-217).
- Edin, K., & Lein, L. (1997). *Making ends meet: How single mothers survive welfare and low-wage work*. Russell Sage Foundation Publications.
- Schreiner, M., & Sherraden, M. (2007). *Can the Poor Save? Saving and Asset Building in Individual Development Accounts.* New Brunswick, NJ: Transaction Publishers.
- Shapiro, T. M., & Wolff, E. N. (2001). *Assets for the Poor: the benefits of spreading asset ownership*. New York Russell Sage Foundation Publications.
  - Carney, S. & Gale, W. G. Asset accumulation among low-income households. (pp. 165-205).
  - Edin, K. More than money: The role of assets in the survival strategies and material well-being of the poor. (pp. 206-231)

Journal Articles:

- Bertrand, Marianne, Sendhil Mullainathan, and Eldar Shafir. (2006). Behavioral economics and marketing in aid of decision making among the poor. *Journal of Public Policy and Marketing* 25(1): 8-23.
- Beverly, S. G., & Sherraden, M. (1999). Institutional determinants of saving: Implications for low-income households and public policy. *Journal of Socio-economics*, *28*(4), 457-473.
- Brandolini, A., Magri, S., & Smeeding, T. M. (2010). Asset-based measurement of poverty. *Journal of Policy Analysis and Management*, *29*(2), 267-284.
- Carter, M. R. & C. Barrett (2006). The economics of poverty traps and persistent poverty: An asset-based approach. *The Journal of Development Studies*, 42 (2), 178-199.
- Collins, J. Michael, and Collin M. O'Rourke. Financial education and counseling—Still holding promise. *Journal of Consumer Affairs* 44.3 (2010): 483-498.
- Haveman, R., & Wolff, E. N. (2005). The concept and measurement of asset poverty: Levels, trends and composition for the US, 1983–2001. *Journal of Economic Inequality*, *2*(2), 145-169.
- Hogarth, J. M., & Anguelov, C. E. (2003). Can the poor save? *Financial Counseling and Planning, 14*(1), 1-18.
- Hurst, E., & Ziliak, J. P. (2006). Do Welfare Asset Limits Affect Household Saving? Evidence from Welfare Reform. *Journal of Human Resources*, 41(1), 46–71.
- Lerman, Robert I. and Eugene Steuerle, Life-Cycle Investing: Financial Education and Consumer Protection (and response), Research Foundation Publications (November 2012): 85-96. http://www.cfapubs.org
- Lusardi, A., Schneider, D. J., & Tufano, P. (2011). *Financially fragile households: Evidence and implications* (No. w17072). National Bureau of Economic Research.
- Mills, G., Gale, W. G., Patterson, R., Engelhardt, G. V., Eriksen, M. D., & Apostolov, E. (2008). Effects of individual development accounts on asset purchases and saving behavior: Evidence from a controlled experiment. *Journal of Public Economics*, *92*(5), 1509-1530.
- O'Brien, R. (2009). Ineligible to Save? Asset Limits and the Saving Behavior of Welfare Recipients. *Journal of Community Practice*, *16*(2), 183-199.
- O'Brien, Rourke. "POLICY & PRACTICE:" We don't do banks": Financial Lives of Families on Public Assistance." *Geo. J. Poverty Law & Policy* 19 (2012): 485-535.
- Sullivan, J. X. (2006). Welfare Reform, Saving, and Vehicle Ownership Do Asset Limits and Vehicle Exemptions Matter?. *Journal of Human Resources*, *41*(1), 72-105.
- Zinman, J. (2010). Restricting consumer credit access: Household survey evidence on effects around the Oregon rate cap. *Journal of Banking & Finance*, *34*(3), 546-556.

Briefs

- Abbi, S. (2012). *A need for product innovation to help LMI consumers manage financial emergencies.* D2D Fund: Doorways to Dreams.
- Aratani, Y. &, Chau, M. (2010) Asset Poverty and Debt Among Families with Children, February. http://academiccommons.columbia.edu/catalog/ac:126218
- Beverly, S., Sherraden, M., Cramer, R., Shanks, T. R. W., Nam, Y., & Zhan, M. (2008). Determinants of asset building: A Report in the Series – Poor Finances: Assets and Low-Income Households. *The Urban Institute, Center for Social Development, and the New America Foundation.*
- McKernan, S. M., Ratcliffe, C., & Vinopal, K. (2009). Do Assets Help Families Cope with Adverse Events?. *Washington, DC: Urban Institute*.
- Mills, G. & Amick, J. (December 2010). Can savings help overcome income instability? The Urban Institute: Perspectives on Low-Income Working Families, Brief 18. http://www.urban.org/publications/412290.html
- Ratcliffe, C., & Zhang, S. (2012). *US Asset Poverty and the Great Recession*. Urban Institute.
- Shapiro, T. M., Meschede, T., & Sullivan, L. (2010). *Wealth Gap Increases Fourfold.* Research and Policy Brief, The Heller School for Social Policy and Management, Brandeis University.

Center for Financial Security

UNIVERSITY OF WISCONSIN-MADISON

J. Michael Collins
Faculty Director, Center for Financial Security
University of Wisconsin-Madison
Madison, WI 53706
(608) 616-0369
jmcollins@wisc.edu

For More Information: cfs.wisc.edu

For More Information: cfs@mailplus.wisc.edu

Follow us on and UWMadisonCFS