Self-Sufficiency, Assets, and Poverty

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UW–Madison

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A Workshop in Teaching Poverty and Inequality Courses at the College Level
Self-Sufficiency, Assets, and Poverty

Broad But Interrelated Topics:

1. Self-Sufficiency

2. Financial Capability

3. Asset Building & Savings
Goals

• Introduce topic and connect to poverty in US
  – Overview of some key issues (among many)
• Suggested poverty course topics
  – Outline of content for course sessions
• 5-6 fundamental pieces for a reading list

• Start a discussion
Self-Sufficiency

• Accessing benefits
  – Eligibility and take up

• Stable housing
  – And related services

• Movement into work
  – Child care
  – Relax work ‘penalty’
  – Also movement off 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).
<table>
<thead>
<tr>
<th>Composition of Asset Poverty Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Total Net Worth</strong></td>
</tr>
<tr>
<td>+ Home equity</td>
</tr>
<tr>
<td>+ Value of owned business</td>
</tr>
<tr>
<td>+ Value of checking/saving</td>
</tr>
<tr>
<td>+ Value of other real estate</td>
</tr>
<tr>
<td>+ Value of stocks</td>
</tr>
<tr>
<td>+ Value of bonds, cash value in</td>
</tr>
<tr>
<td>a life-insurance, a valuable collection of investment purposes, etc.</td>
</tr>
<tr>
<td>- Net of debt value</td>
</tr>
<tr>
<td>- Value of vehicle</td>
</tr>
<tr>
<td><strong>2. Financial Net Worth</strong></td>
</tr>
<tr>
<td>(Net Worth Minus Home Equity)</td>
</tr>
<tr>
<td>+ Value of owned business</td>
</tr>
<tr>
<td>+ Value of checking/saving</td>
</tr>
<tr>
<td>+ Value of other real estate</td>
</tr>
<tr>
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<tr>
<td>- Net of debt value</td>
</tr>
<tr>
<td>- Home equity</td>
</tr>
<tr>
<td>- Value of vehicle</td>
</tr>
<tr>
<td><strong>3. Liquid Assets</strong></td>
</tr>
<tr>
<td>+ Value of checking/saving</td>
</tr>
<tr>
<td>+ Value of stocks</td>
</tr>
<tr>
<td>+ Value of bonds, cash value in</td>
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<tr>
<td>a life-insurance, a valuable collection of investment purposes, etc.</td>
</tr>
</tbody>
</table>

http://academiccommons.columbia.edu/catalog/ac:126218
<table>
<thead>
<tr>
<th>Income Level</th>
<th>All</th>
<th>Female-headed families</th>
<th>African-American families</th>
<th>White families</th>
<th>Families with young children under age 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Income Levels</td>
<td>$4,000</td>
<td>$300</td>
<td>$173</td>
<td>$5,500</td>
<td>$3,000</td>
</tr>
<tr>
<td>Below 50% FPL</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>50–99% FPL</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$100</td>
<td>$0</td>
</tr>
<tr>
<td>100–199% FPL</td>
<td>$300</td>
<td>$200</td>
<td>$10</td>
<td>$600</td>
<td>$300</td>
</tr>
<tr>
<td>200% FPL and above</td>
<td>$8,000</td>
<td>$1,700</td>
<td>$2,000</td>
<td>$10,000</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

Figure 2. Percentage of Asset Poor Among Families with Children, Birth to 18, by Income Level, 2007

Family Wealth is Sticky at the Top and Bottom of the Ladder
Chances of moving up or down the family wealth ladder, by parents’ quintile

Percent of Adult Children with Wealth in the:
- Top Quintile
- Fourth Quintile
- Middle Quintile
- Second Quintile
- Bottom Quintile

41% are stuck at the top

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

<table>
<thead>
<tr>
<th></th>
<th>Lowest quintile</th>
<th>Second quintile</th>
<th>Middle quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>69.8</td>
<td>47.6</td>
<td>33.6</td>
</tr>
<tr>
<td>$1–$1,999</td>
<td>19.7</td>
<td>30.0</td>
<td>29.4</td>
</tr>
<tr>
<td>$2,000–$9,999</td>
<td>6.5</td>
<td>13.7</td>
<td>21.7</td>
</tr>
<tr>
<td>$10,000 or more</td>
<td>4.0</td>
<td>8.7</td>
<td>15.3</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data from the 2001 Survey of Income and Program Participation.
Coping with an Emergency

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

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

2. Financial Capability

- What a person knows about positive money management
- What a person does with their financial knowledge
- Factors that contribute to beliefs, attitudes, and behaviors
- Availability and use of appropriate financial products and services
State by State Data

http://www.usfinancialcapability.org/
Financial Capability Model

Program

Knowledge

Experience

Skills

Behavior

Attitude

Personality
Figure 1.1 2011 Banking Status of US Households (Percent)

- Fully Banked, 68.8%
- Underbanked, 20.1%
- Unbanked, 8.2%
- Banked, but Underbanked Status Unknown*, 2.9%

Notes: Percentages are based on 120.4 million US households. Percentages may not sum to 100 because of rounding. * These households are banked, but there is not enough information to determine if they are underbanked.

Figure 3. Percentage of Families with Children Who Own a Savings/Checking Account by Income Level, 2007

http://academiccommons.columbia.edu/catalog/ac:126218
Un & Under-banked

Figure 4.12 2011 Underbanked Households by Income

Figure 5.9 2011 Reasons Never-Banked Households Do Not Have a Bank Account

- Do not have enough money: 32.8%
- Do not need or want an account: 26.0%
- Can't open an account due to ID, credit, or banking history problems: 7.6%
- Don't like dealing with and/or don't trust banks: 7.1%
- Bank account fees or minimum balance requirements are too high: 4.0%
- Previously had an account but the bank closed it: 4.0%
- Do not know how to open or manage an account: 1.5%
- Banks do not have convenient hours or locations: 1.5%
- Banks do not offer the needed products or services: 0.2%
- Other/ None of the Above: 11.9%
- Do Not Know/ Refused: 3.5%

Note: Percentages are based on 5.3 million never-banked households. Percentages may not sum to 100 because of rounding.
Compared to What?

What do you note about window signs?

Eliminate access to liquidity...what happens next?
- bounced checks
- missed payments

<table>
<thead>
<tr>
<th>14 - Day Term</th>
<th>FEE</th>
<th>APR(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdraft Protection &amp; Non Sufficient Funds (NSF) Fee</td>
<td>$28.95</td>
<td>621.57%</td>
</tr>
<tr>
<td>Overdraft Protection Fee</td>
<td>$27.00</td>
<td>579.71%</td>
</tr>
<tr>
<td>Credit Card Late Fee: 1st Time Late</td>
<td>$25.00</td>
<td>536.76%</td>
</tr>
<tr>
<td>Credit Card Late Fee: 2nd Time Late</td>
<td>$35.00</td>
<td>751.48%</td>
</tr>
<tr>
<td>Utility Late/Reconnect Fee</td>
<td>$46.00</td>
<td>987.65%</td>
</tr>
<tr>
<td>Payday Loan</td>
<td>$15.00</td>
<td>322.06%</td>
</tr>
</tbody>
</table>
How Households Handle Shortfall:

- Miss paying the rent or making a mortgage payment: 30%
- Scaling back on food, smaller meals, cheaper groceries: 20%
- Not paying electricity, gas, or other utility bill: 15%
- Member of my household missing or skipping a visit to the hospital: 10%
- Not filling a medical prescription: 5%
- Not buying necessary clothes for members of my household: 5%
- Not being able to pay for childcare or school fees for children in my household: 5%
- Having to quit a job I can’t commute to: 5%
- Something else: 5%

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

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

*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.

Debt

Figure 3. Percent of Families Holding Any Debt, by Percentile of Income

Source: Survey of Consumer Finances, 2009

## Debt Holding by Type

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Percent Holding Debt</th>
<th>Median Value of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Families</td>
<td>Families With Income Less Than $22,400</td>
</tr>
<tr>
<td>Any Debt</td>
<td>76%</td>
<td>56%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>47%</td>
<td>12%</td>
</tr>
<tr>
<td>Home equity line of credit</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Credit card balance</td>
<td>43%</td>
<td>29%</td>
</tr>
<tr>
<td>Education loan</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>Vehicle loan</td>
<td>14%</td>
<td>34%</td>
</tr>
<tr>
<td>Other loans</td>
<td>14%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Survey of Consumer Finances, 2009
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

## Debt: Alternative Financial Services

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

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

Source: Financial Capabilities Survey, FINRA 2009

Financial Literacy

• Jump$tart – High school tests – 31 multiple choice questions. Average score = 47% correct.

• Financial Literacy Measures - Lusardi and Mitchell
  1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, or less than $102?
  2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?
  3. Do you think that the following statement is true or false? “Buying a single company stock usually provides a safer return than a stock mutual fund.”

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

Education = More Debt?

Asset Building

- 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
INDIVIDUAL DEVELOPMENT ACCOUNTS

Match amount -- 2:1 is typical

SAVINGS MOBILIZATION
- Deliberate and consistent savings over time

FINANCIAL EDUCATION
- Boosting consumer knowledge
- Building personal financial management skills
- Application

INCENTIVES/ACCRUED MATCH
- Match support to close the income gap

ASSET PURCHASE
- A blend of savings and match are directed toward a high return asset

FACILITATION
The mechanism for continued savings

IDAs should be designed to improve access to savings institutions for the poor, address public policy mechanisms that subsidize savings, and grow wealth among the poor through asset accumulation

Center for Social Development
Washington University
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
Prisoner Re-entry

Former offenders have few financial resources but many needs/obligations

- Needs/Obligations:
  - Financial liquidity need at moment of re-entry
    - Civilian clothing, food, transportation, basic toiletries, housing
  - Court costs/restitution
  - Supervision fees
  - Child support arrears problems

- How to address these financial problems?
  - Education? Financial Access?

**Idaho:** $1,500 for lodging and living expenses for first 30 days post-release to offenders at risk of homelessness

**Oregon:** Oregon Trail Card allows offenders to access funds in their prison trust account, food stamps, and other public benefits immediately upon release
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


Accessible Readings


Books (* suggested chapters):

  - 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).
  - 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)


Briefs

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