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WHY ASSETS MATTER: An overview of research on assets and their effect on financial stability and economic opportunity

Assets are tangible and intangible economic resources – a home, savings in a bank account, a college education – that can produce value for their owner. “Asset building” as a strategy to help families escape poverty emerged in the early 1990s, inspired by researcher Michael Sherraden’s assets-based approach to poverty alleviation articulated in *Assets and the Poor*.¹ The essential insight from his work was that assets can matter economically, socially and psychologically in ways that income alone does not. More recent research has reinforced this insight: that income – by itself – is necessary, but not sufficient, to allow families to escape poverty, achieve financial stability and move up the economic ladder.

FACT: Assets are essential to achieving long-term stability and mobility

Assets create a financial buffer to weather emergencies

- Savings and assets correlate with low-income families’ ability to weather unexpected employment gaps² and hardships related to health care and housing payments, food security, utility and phone bills, and basic consumption.³
- Having enough assets to live at the poverty line for three months is equivalent to being in the next highest third of the income distribution.⁴
- Households with at least \$2,000 in liquid assets are less likely to forgo doctor visits or miss utility payments, compared to those with fewer or no assets.⁵
- Low-income homebuyers who purchased a home with the help of an Individual Development Account are two to three times less likely to lose their homes to foreclosure, according to one recent study.⁶

Assets can promote success in the labor market

- Literature suggests that financial assets and car ownership are correlated with positive income and employment outcomes.⁷
- Savings at age 23 results in lower unemployment between ages 23 and 33.⁸
- A 1% increase in wealth has been found to provide a 5% increase in the likelihood that young men will avoid low-wage jobs.⁹

Assets can promote long-term thinking, planning and psychological well-being

- Assets are associated with expectations and confidence about the future.¹⁰
- They can encourage people to make specific plans with regard to work and family.¹¹
- Assets may decrease risky behaviors, such as cigarette smoking, failure to fasten seatbelts, having inadequate insurance or operating uninsured vehicles.¹²
- They are correlated with greater social connectedness with relatives, neighbors and organizations.¹³

Assets can promote economic mobility for single mothers

- Single mothers with savings or who own a home were found to be more likely to be above the federal poverty level compared to their counterparts with no assets.¹⁴
- Financial assets are positively associated with the economic well-being of women one year after marital disruption.¹⁵

Assets can enhance the well-being and life chances of children

- Household wealth has been found to be positively associated with children's cognitive and behavioral development.¹⁶
- Homeownership is positively associated with children's improved emotional and cognitive development,¹⁷ educational attainment,¹⁸ increased participation in extracurricular activities,¹⁹ decreased teenage pregnancy²⁰ and decreased behavioral problems.²¹
- People who own assets are more likely to have higher expectations for their futures and the futures of their children.²²

Assets can increase the likelihood of going to and succeeding in college

- Children in families with as little as \$3,000 in savings have been found to have greater odds of graduating from high school than children in families without savings.²³
- Children with savings dedicated for college education are four times more likely to attend college. Among youth who expect to attend college, those with a savings account in their names are about seven times more likely to actually attend.²⁴
- Savings and other financial assets are a consistent predictor of college graduation, even after controlling for variables such as income.²⁵

FACT: The distribution of assets is unequal with poor families starting out behind

- Whereas 14% of American households (an estimated 16 million households) have incomes that fall below the federal poverty level,²⁶ 27% of American households (an estimated 31 million households) are asset poor – meaning they do not have enough resources (i.e., net worth) to subsist at the federal poverty level for three months if their income were interrupted, for example, due to a job loss or medical emergency.²⁷
- A more realistic measure of the resources available to families is “liquid asset poverty,” which excludes assets such as a home or car that are not easily converted to cash. Excluding these assets, the liquid asset poverty rate increases to 43% of households (an estimated 49 million households).²⁸
- The annual income for a family of three at the federal poverty level is \$18,530.²⁹ The median net worth for a family approximately at or below this level (\$18,001) is \$3,898.³⁰
- Asset poverty is also more pronounced for households with children and people of color:
 - 35% of households with children (an estimated 12 million households) are asset poor. Fifty percent of households with children (an estimated 17 million households) are liquid asset poor.³¹
 - 44% of households of color (an estimated 17 million households) are asset poor compared to 20% of white households.³²
 - 65% of households of color are liquid asset poor (an estimated 25 million households), compared to 34% of white households.³³
- The median wealth of white households (\$113,149) is 20 times that of black households (\$5,677) and 18 times that of Hispanic households (\$6,325).³⁴ Minorities are also much less likely to own a home or have a college degree³⁵ and are more likely to face predatory lending.³⁶
- The wealth gap between White and African-American families has more than quadrupled over the course of a generation, from a gap of \$20,000 in 1984 to a gap of \$95,000 in 2007.³⁷

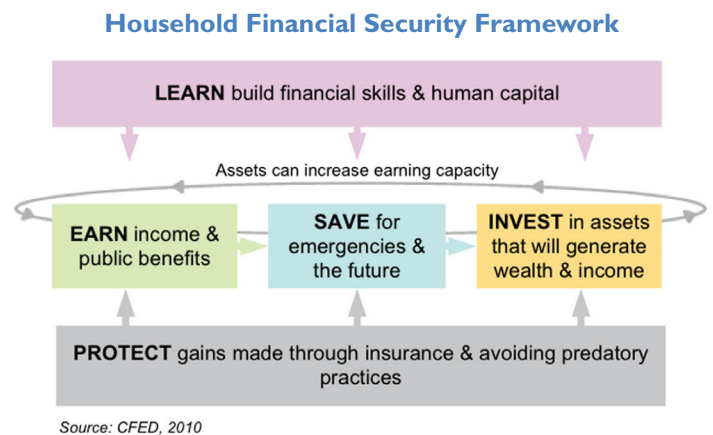
- For every dollar of wealth owned by single men, single women have only 36 cents; the median net worth for single men is \$28,610, compared to \$10,400 for single women.³⁸
- Single mothers have only 8% of the wealth of single fathers; the median net worth of single mothers is \$1,650 compared to \$21,920 for single fathers.³⁹

FACT: Incentives, structures and supports can encourage poor people to save

- Participants in the American Dream Demonstration – the first large-scale test of Individual Development Accounts – saved an average of \$19 per month. Every dollar participants saved was matched, resulting in an average annual accumulation of approximately \$700. The median annual household income of these participants was \$16,296.⁴⁰
- Participants in the Savings for Education, Entrepreneurship and Downpayment (SEED) Initiative – the first large-scale test of matched Children’s Savings Accounts – saved an average of \$30 per quarter, resulting in an average accumulation of \$1,500 over the course of three years, including incentives. About half of SEED participants were from families with incomes below the federal poverty line.⁴¹
- New York City’s SaveNYC program offers lower-income individuals a 50% match if they direct-deposit at least \$100 of their tax refund and save it for one year. To date, approximately 2,200 low-income participants have saved a total of \$1.4 million, with an average savings of \$561. The average income of participants is approximately \$17,000.⁴²

Household Security Framework

For families to move up the economic ladder, they need both income and assets. With appropriate incentives, financial products and knowledge, families can move toward that goal. The iterative path toward financial security begins by maximizing income – increasing earnings, utilizing tax credits and stabilizing housing, transportation and other essential goods and services. It moves from there to connecting people to the financial mainstream and opportunities to save by providing access to basic bank accounts and savings incentives, such as individual development accounts. With saving for emergencies and future needs, families can then begin investing in long-term assets – such as education, a home or business. At each stage, increasing knowledge and skills enable success in and navigation of the labor and financial markets. Protecting income, savings and assets through insurance and consumer protections is equally essential.



About CFED

CFED (Corporation for Enterprise Development) expands economic opportunity by helping Americans start and grow businesses, go to college, own a home and save for their children’s and own economic futures. We identify promising ideas, test and refine them in communities to find out what works, craft policies and products to help good ideas reach scale, and develop partnerships to promote lasting change. We bring together community practice, public policy and private markets in new and effective ways to achieve greater economic impact.

Established in 1979 as the Corporation for Enterprise Development, CFED works nationally and internationally through its offices in Washington, DC; Durham, North Carolina; and San Francisco, California.

For more information, visit www.cfed.org

ENDNOTES

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