2. WHY ASSET BUILDING?

Asset Poverty

The endemic problem of poverty in America is well known, especially among those engaged in providing services for low-income communities. Researchers, policy makers, and service providers have historically focused on income-based approaches to addressing poverty – helping people secure funds to address immediate needs. But does this go far enough? Doesn't an individual need longer-term financial stability that can only come from having economic assets? This means having the ability to save and invest in order to purchase such assets as a first home, a small business, or human skills for use in getting a job that brings in livable wages. This is where AFI comes in: to provide assistance to those who need help in becoming financially stable.

Recent studies of the problem of asset poverty in America have suggested that an asset-based approach is promising. A household that is asset poor usually has a low financial net worth (assets minus liabilities) or, even worse, negative net worth (debts). Typically, there is little other than earned income or public assistance to offset living expenses. They certainly have little financial cushion. A job loss or health emergency, for example, can cripple their ability to pay for even basic living costs such as food and housing.

Asset poverty and low net worth are major problems for Americans. The rates of asset poverty are much higher than the rates of poverty as measured by the Federal poverty level. One study looked at asset poverty between 1983 and 1998 and found that 25.5 percent of all U.S. households in 1998 were asset poor. That was nearly double the 12.7 percent rate of income poverty calculated for that same year.[*]

Asset poverty rates are even more severe for racial and ethnic minorities in the United States. In their 1995 book, *Black Wealth/White Wealth,* Melvin Oliver and Tom Shapiro document that the median net worth of African American households was $3,700, while white households' median net worth was nearly 12 times as great, at $43,800. Concentrating on Census Bureau data from 1987 for their research, the authors also found that 31 percent of all American households had a zero or negative net worth, but the rates for African-American households were 60 percent and those of Hispanic households totaled 54 percent.[†]

Asset poverty, unfortunately, affects children at a disproportionately greater rate than the rest of the population. Upwards of 47 percent of all American children live in households with no financial net worth. This disparity, too, is more pronounced among African-American households, where 73 percent of children grow up in homes with negative financial assets. Among white children, this rate is 40 percent.

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[*] Haveman R. and Wolff, E. *Who Are the Asset Poor?: Levels, Trends, and Composition, 1983–1998.* St. Louis: Washington University, 2000.

[†] Oliver, Melvin and Shapiro, Thomas. *Black Wealth, White Wealth: A New Perspective on Racial Inequality*. New York: Routledge Press, 1995.

How Does Asset Building Help?

The New America Foundation, a national nonprofit group that addresses public policy challenges, defines the term "asset building" as a "broad array of public policies, strategies, and programs that enable people with limited financial resources to accumulate long-term and productive assets, such as savings, investments, a home, postsecondary education and training, and a nest egg for retirement."

> **TIP:** To learn more about asset building, see the AFI Website at http:///www.acf.hhs.gov/assetbuilding

Asset-building efforts are important for addressing poverty in our communities because they provide expanded opportunities for economic stability. Research shows they also have wider positive impacts beyond the tangible assets accumulated. Families, for example, may experience the following benefits:

- A psychological orientation toward the future;
- Decreases in marriage dissolution;
- Increased residential stability;
- Improved health and well-being;
- Increases in civic and community involvement; and
- Decreases in the likelihood that future generations will be impoverished.

According to Larry Beeferman, author of *The Promise of Asset-Development Policies, Realizing the Promise—Individual Development Accounts,* "Asset-based policies measure well-being not only by income, but also in terms of building human capital and financial assets. They address the common needs and aspirations of Americans by rewarding work, promoting initiative and self-reliance, and embodying widely shared beliefs about fairness and opportunity…. They focus not just on meeting short-term needs but on building assets for the long-term."

"Clients [of our asset-building program] want immediate satisfaction, but we can explain how they can work toward something better," says an AFI grantee. "That's probably the biggest thing that makes an asset different from a washing machine…. Don't compare the money you spend on your mortgage to a car payment you take on, to drive the coolest set of new wheels. In five years, [the car is] worthless. But if you drive something more humble, in five years you have a house with equity with all sorts of benefits [as] part of it…. That might be the message to hammer away."

—An AFI Project

How Do IDAs Fit In?

Individual Development Accounts, or IDAs, were developed as a mode of promoting asset accumulation among the nation's poor by Michael Sherraden, Director of the Center for Social Development at Washington University in St. Louis. He explores asset building and IDAs as a method to spur asset building in his 1991 book, *Assets and the Poor*.

"Few people have ever spent their way out of poverty. Those who escape do so through saving and investing for long-term goals."

—Michael Sherraden, Director of the Center for Social Development

IDAs are quite powerful tools for promoting asset accumulation among families with low incomes. They are accounts held at financial institutions and are designed to promote savings. The savings accumulated in an IDA are matched with grant funds (rates of match generally range from $0.50 to $8.00 for every $1.00 a participant saves). When the accountholder is ready, both the savings and the match are used to leverage a larger asset investment with long-term return potential. Typical asset goals for the savings and match are homeownership, higher education, job training, and small-business capitalization.

In addition to helping participants save earned income and make regular deposits into their IDAs, asset-building programs offering IDAs, such as local projects that are funded by the Assets for Independence Program, often provide financial education and related services as well. These programs may provide individual counseling on matters such as credit repair and support for a successful asset purchase. Many programs further link the successes of IDAs to other asset-building initiatives, such as promoting access to the Federal and State Earned Income Tax Credit (EITC) or the Child Tax Credit, or by pairing participation in an IDA with successful completion of a job-training and placement program. All such activities help participants develop skills and improve their financial habits for the long-term. According to Robert E. Friedman, writing in *Assets Newsletter*, Fall 1997, "IDAs may not get us all the way to our goals, but they help restore to poor people and distressed communities a reasonable opportunity to realize the American Dream of good jobs, safe homes, and small businesses."

"Our clients have been through many programs in the past. [AFI] is a mentality shift to start thinking: why not stop dealing with the system and make money on your own."

—An official of an urban AFI Project