Asset Building[1]

Session Overview

An understanding of Individual Development Accounts (IDAs) starts with a grounding in asset-building theory. One can learn this theory by exploring such questions as: What are assets? Why are they important? How do they help people with low incomes? This session will cover the importance of economic assets and the disparity between American families that hold assets and those that do not. This disparity led to the creation of IDAs. This overview will put IDAs in context and help participants more fully understand the case for IDAs as tools of economic development for families and communities that are both income and asset poor.

Purpose

To provide you with knowledge about assets, asset distribution, the effects of holding assets and some historical precedents for government-supported asset building, as well as the ways in which these concepts led to the creation of IDAs. This information will provide you with the context for IDAs and other asset-building strategies, as well as information for making the case for IDAs with various funders, partners, and stakeholders.

Objectives

By the end of the session, you will be able to:

1. Define “asset” and differentiate among different types of assets.

2. Explain the relationships between income and assets and among assets, liabilities, and equity.

3. Describe the distribution of income, assets, and wealth in the U.S.

4. List and explain the psychological, economic, and social benefits that individuals, families, and ultimately communities experience as a result of acquiring and holding assets.

5. Explain some historical precedents for supporting asset building for individuals and families in the U.S.

6. Describe the “problems” that IDAs address directly and those IDAs do not address.

7. Use this information to make the case for IDAs or other asset-building strategies.

Introduction

[1] Some of the material used in this training module is adapted from training materials conceptualized and developed by Inger Giuffrida for: Credit Union League of New Mexico (2005), the Ohio CDC Association (2002), and CFED’s IDA Training Institute (2001). This version was developed for the Office of Community Services, Assets for Independence Program.

There are four key concepts that provide the context for IDAs.

1. **Assets lead to wealth and economic security. Income alone does not.**
   "People cannot spend their way out of poverty."

2. **The disparity in the distribution of assets is even greater than the disparity of income. The poverty statistics alone, therefore, under-represent the number of individuals and households that lack economic security.**

3. **There are tremendous economic, social, and psychological benefits to asset ownership. These benefits accrue not only to the individual asset owner, but also to the household, neighborhood, and community in which the asset owner resides.**

4. **There is historical precedent for government-supported asset ownership; these incentives, however, often do not reach people with low income (40% of the population).**

Income, Assets, and Wealth

What is an asset?

___

___

___

What are examples of assets?

How are assets related to income?

What is the relationship among assets, liabilities, and equity?

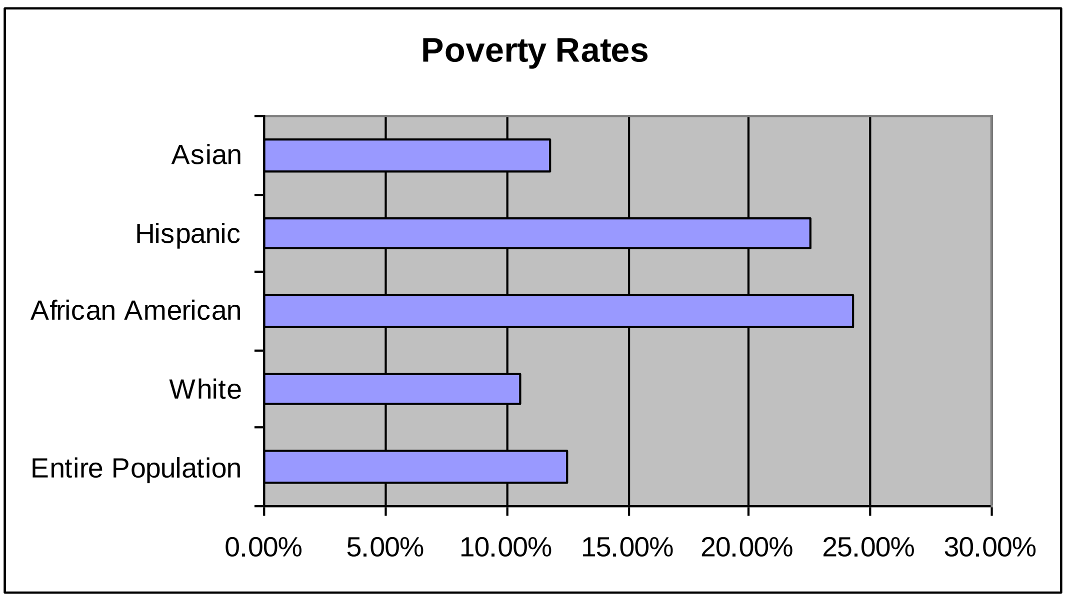
What You Own	Value of the Asset	What You Owe on the Asset (Liability)	What You Own Outright (Equity)
Savings Account			
Automobile			
Education			
Business			
Home			

The Distribution of Assets

In trying to understand the economic or financial well-being of households in the U.S., we usually examine the income of households. Historically, most of the information used to make the case for programs supporting households and individuals with low income has been based on these income statistics. These statistics, however, provide only a partial understanding of the financial security of families in the U.S. Missing from the discussion has been an examination of wealth or net worth—marketable assets within a household less the household's debt. Following are some recent statistics on income, net worth, and asset holdings.

2003 Income Information[2]

Segment of the Population	Median Income	Median Income as a Percentage of White Median Income	Mean Income	Percentage in Poverty
Entire Population	$43,318		$59,067	12.5%
White	$48,000			10.6%
African American	$30,000	62%		24.3%
Hispanic	$33,000	69%		22.5%
Asian	$55,000	117%		11.8%



The poverty rate, which has been reported as declining in recent years, actually rose between 2002 and 2003 from 12.1% of the population to 12.5% of the population respectively. While the percentage increase may seem small, in real terms this means that 1.3 million more people were living in poverty in 2003 (35.9 million people in total) than in 2002.

[2] Income, Poverty and Health Insurance Coverage in the United States: 2003, by Carmen DeNavas-Walt, Bernadette D. Proctor and Robert J. Mills. U.S. Census Bureau, Current Population Reports, P60-226. U.S. Government Printing Office, Washington, DC, 2004.

OMB Weighted Average Poverty Thresholds for 2003[3]

Household Size	Poverty Threshold	Household Size	Poverty Threshold
1	$9,393	6	$25,122
2	$12,015	7	$28,544
3	$14,680	8	$31,589
4	$18,810	9	$37,656
5	$22,245		

The OMB Poverty Statistics in no way capture the number of families economically struggling to make ends meet. However, many benefits-transfer programs are based on these thresholds, leaving millions of American families earning just above these thresholds with very little economic assistance.

To further place these poverty thresholds in context, a person working full time at minimum wage ($5.15 per hour) would gross $10,506. Hourly earnings at the poverty threshold, assuming one worker working full-time at minimum wage, are as follows:

Household Size	Hourly Earnings at Poverty Threshold (assuming full-time work)
1	$4.60
2	$5.89
3	$7.20
4	$9.22

2001 Wealth Information for the United States[4]

Median Net Worth	Percentage Change from 1983	Mean Net Worth	Percentage Change from 1983
$73,500	23.9%	$380,100	64.6%

Percentage of the Population with 0 or Negative Net Worth	Percentage of the Population with Net Worth of Less Than $5,000	Percentage of the Population with Net Worth of Less Than $10,000
17.6	26.6%	25.5%

---

[3] OMB Statistical Policy Directive 14 as cited in Income, Poverty and Health Insurance Coverage in the United States: 2003.
[4] Working Paper No. 407, Changes in Household Wealth in the 1980s and 1990s in the U.S., by Edward N. Wolff. Published by The Levy Economics Institute of Bard College and New York University, May 2004.

Edward N. Wolff, a pioneer in quantifying wealth for the population, defines net worth as follows:

Assets	Less	Liabilities	Equals	Net Worth
1. Gross value of owner-occupied housing 2. Other real estate 3. Cash and demand deposits 4. Time and savings deposits, CDs, and money market accounts 5. Government, corporate and foreign bonds and other financial securities 6. Cash surrender value of life insurance plans 7. Cash surrender value of pension plans including IRAs, Keogh and 401K plans 8. Corporate stock and mutual funds 9. Net equity in unincorporated business 10. Equity in trust funds	(-)	1. Mortgage debt 2. Consumer debt including auto loans 3. Other debt	=	

Mr. Wolff uses another measure to determine wealth holding and distribution in the U.S.–financial wealth. This is the net worth as defined above less the net equity in owner-occupied housing because it is difficult to convert to cash.[5]

Median Financial Wealth (Financial Net Worth)	Mean Financial Wealth (Financial Net Worth)	Percentage of the Population with 0 or Negative Financial Wealth
$23,200	$298,500	25.5%

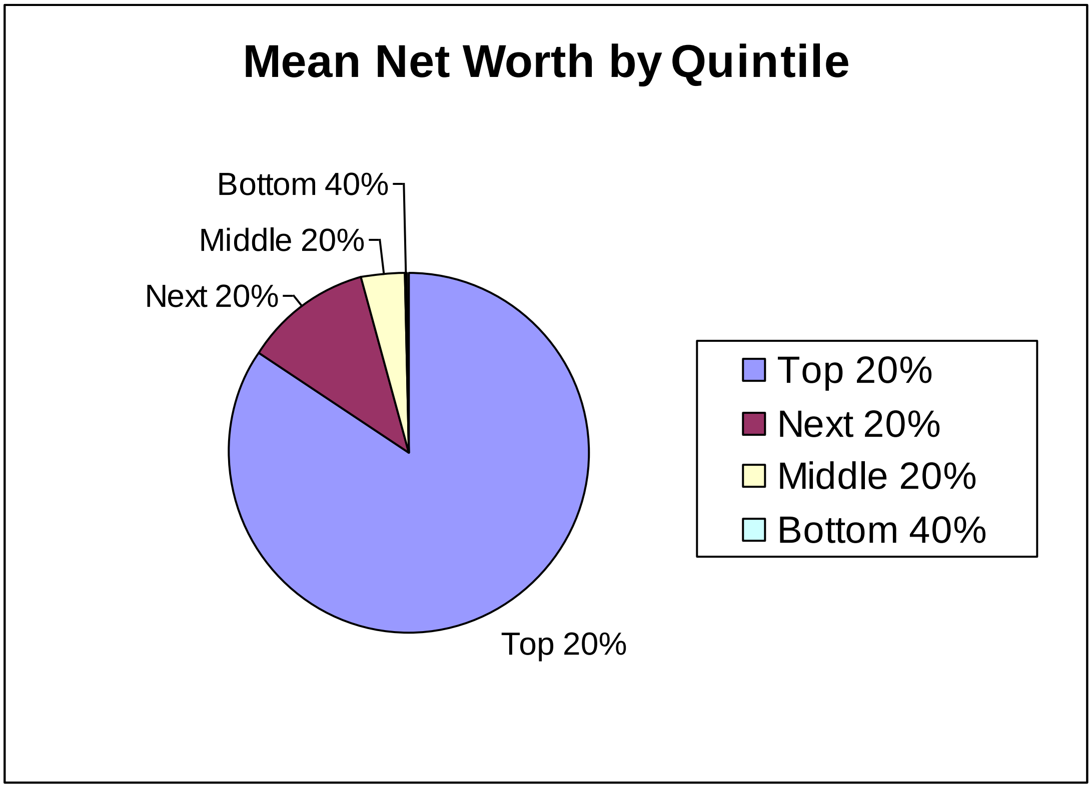
2001 Distribution of Wealth and Income by Quintile[6]

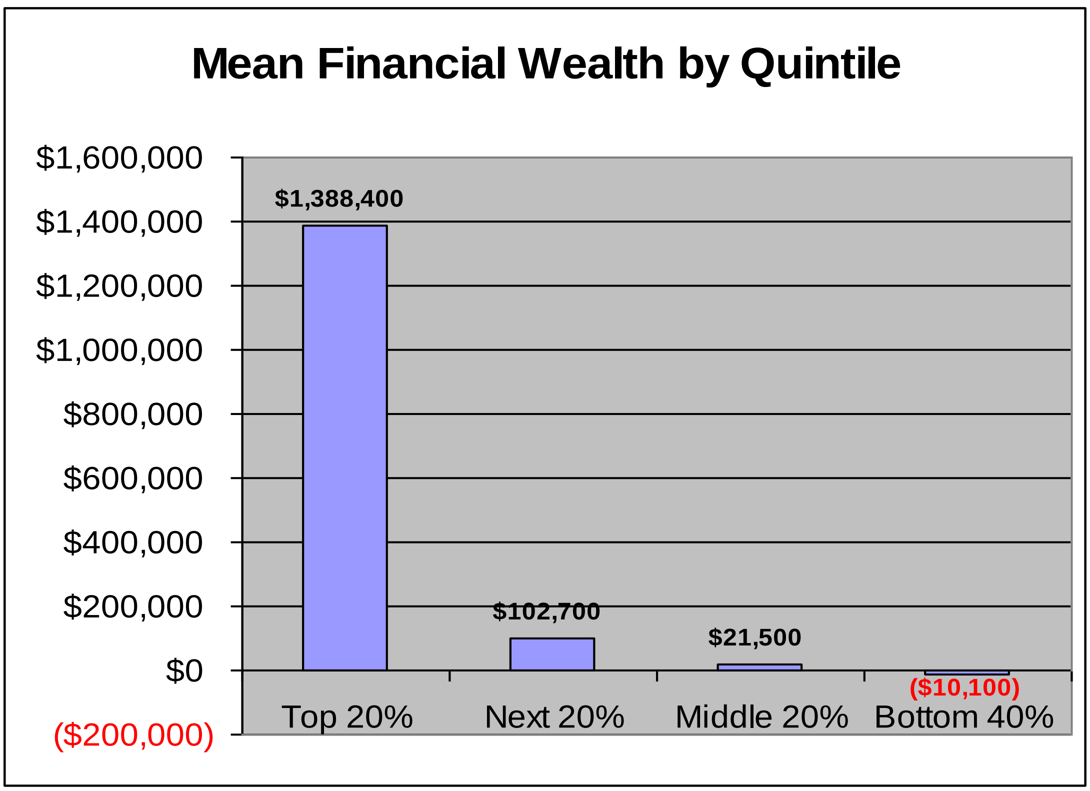
Quintile	Mean Net Worth	% Change from 1983	Mean Financial Wealth	% Change from 1983	Mean Income (2000)	% Change from 1983
Top 20%	$1,604,700	70.8%	$1,388,400	94.1%	$186,800	41.3%
Next 20%	$215,300	48.3%	$102,700	65.8%	$69,300	25.6%
Middle 20%	$75,000	24.4%	$21,500	61.4%	$44,300	22.7%
Bottom 40%	$2,900	-43.6%	$-10,100	46.1%	$17,900	22.0%

Each quintile represents 20% of the population. While mean income is reported for the quintiles, a better understanding of the distribution of wealth comes from an understanding of the income ranges or boundaries of the quintiles.[7]

Quintile	Per Annum Income Ranges	Quintile	Per Annum Income Ranges
Top 20%	$83,500 and up	**Next 20%**	$17,970 - $33,314
Next 20%	$53,000 - $83,500	**Bottom 20%**	$0 - $17,970
Middle 20%	$33,314 - $53,000		

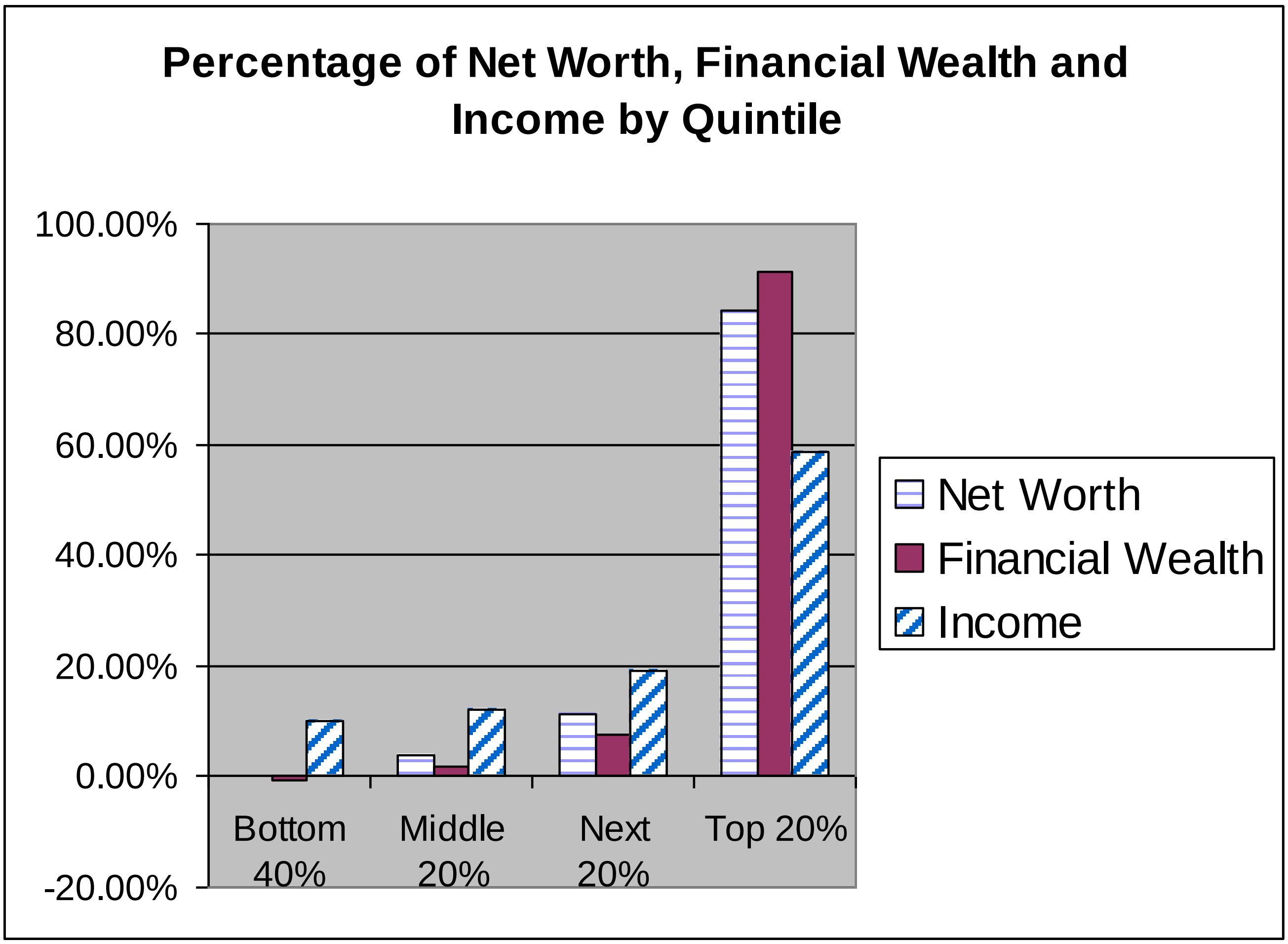
[5] Working Paper No. 407, Changes in Household Wealth in the 1980s and 1990s in the U.S., by Edward N. Wolff. Published by The Levy Economics Institute of Bard College and New York University, May 2004.
[6] Ibid.
[7] Income Watch: "The Rich are Getting Richer and Getting Bigger Tax Breaks," OMB Watch, June 30, 2003, Vol. 4 No. 13.


Mean Net Worth by Quintile
Bottom 40%
Middle 20%
Next 20%
Top 20%
Top 20%
Next 20%
Middle 20%
Bottom 40%


Mean Financial Wealth by Quintile
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
($200,000)
$1,388,400
$102,700
$21,500
($10,100)
Top 20%
Next 20%
Middle 20%
Bottom 40%

To further understand the inequity of wealth and income holdings in the U.S., it is helpful to look at the percentage of the total income and total wealth held by each quintile.[8]

Quintile	Net Worth	Financial Wealth	Income
Top 20%	84.4%	91.3%	58.6%
Next 20%	11.3%	7.8%	19.0%
Middle 20%	3.9%	1.7%	12.3%
Bottom 40%	0.3%	-0.7%	10.1%



[8] Working Paper No. 407, Changes in Household Wealth in the 1980s and 1990s in the U.S., by Edward N. Wolff. Published by The Levy Economics Institute of Bard College and New York University, May 2004.

The Benefits of Asset Ownership

What do assets do for an individual or family?

Economically (Financially)	Psychologically	Socially

Historical Precedents for Asset Building[9]

Most strategies to address poverty have focused on supplementing a family's income. Income maintenance strategies are important, as they have provided the cash, food, health care, and supportive services that have prevented the vast majority of poor Americans from experiencing severe deprivation, malnutrition, or in the worst cases, starvation. These programs, however, have generally forced people to deplete their assets before they could qualify for assistance and have denied individuals the ability to accumulate the very assets they may need to achieve economic independence. Without assets, poor families are likely to remain poor.[10]

While America has a long-standing tradition of supporting asset building for its citizenry—as exemplified by the Homestead Act of 1862 (not a good thing for all of its citizens) and the GI Bill of Rights—this asset-building tradition has not, in recent decades, extended to low-income individuals and families. This segment of the population has been unable to reap the benefits of current asset development policy because many benefits are delivered primarily through the tax code and are aimed at middle and upper income tax filers. Furthermore, given the asset limits some income maintenance policies set, it could be argued that there is a policy of asset denial as opposed to asset development for the poor in this country.[11]

Asset-building supports for middle and upper income Americans are substantial. In 2000, Michael Sherraden, a professor at Washington University St. Louis, estimated that $288.5 billion of the Federal budget was expended to help individuals with home mortgage interest deductions, tax breaks for retirement savings, preferential treatment of capital gains, and tax incentives for higher education. These expenditures by the Federal government are highly regressive. For example, 91% of homeownership tax expenditures and 93% of retirement tax expenditures went to households with incomes over $50,000 per year.[12] No equivalent benefits exist for the working poor, who have low rates of homeownership and less access to retirement plans.

The answer to this disparity is not redistribution of income and assets, but an extension of asset policy to low-income families. Economically, accumulation of wealth and assets is the key to the economic stability of any individual or household. For the vast majority of low-income and low-wealth individuals, the pathway out of poverty is not through consumption but through saving.

---

[9] Excerpted from *Youth IDAs: Lessons from an Emerging Field* by Inger Giuffrida ©CFED, 2002.
[10] Sherraden, Michael. *Assets and the Poor: A New American Welfare Policy.* M.E. Sharpe, Inc., Armonk, NY, 1991.
[11] Ibid.
[12] Schreiner, Mark, Sherraden, M., Clancy, M., Johnson, L., Curley, J., Grinstein-Weiss, M., Zhan, M., & Beverly, S., 2001. Savings and Asset Accumulation in IDAs: Downpayment on the American Dream Policy Demonstration, a National Demonstration of Individual Development Accounts. St. Louis, MO: Washington University in St. Louis, Center for Social Development.

The Evolution of IDAs and How They Attempt to Redress the Disparity in Asset Holdings

What is an IDA?

Who developed the concept of IDAs?

What problems were IDAs designed to address?

What problems were IDAs <u>not</u> designed to address?

Making the Case for IDAs

Use this sheet to make a case for IDAs to a funder unfamiliar with IDAs but interested in community and economic development. You are targeting this funder to raise the nonfederal cash contribution for your AFI Award.

What additional information would you need about the funder to make a compelling case?

What additional information would you need about your community to make a compelling case?

How else could you use the information provided in this session to build an awareness of asset building and IDAs among local, regional, and state-level policy makers, funders, business leaders, and media?