Opportunity and Ownership Facts

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Can the Poor Accumulate Assets?

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Conventional wisdom says the poor do not earn enough money to save, but research proves that assumption wrong. Poor households can and do accrue assets and save over time. Asset-building subsidies for low-income families—as our tax system offers to wealthier households—may go a long way toward helping poor households become more financially secure.

Savings and assets can help families weather emergencies, such as a job loss or health crisis, and realize long-term goals, such as financing retirement. Owning such assets as a house or car can improve families' lives by providing a stable place to live and reliable transportation to get to work. In some ways, assets are especially critical for poor families because they are more likely to face economic hardships—low-wage jobs, for example, tend to be more unstable. Policymakers and researchers tend to overlook asset building among low-income families, but the ability to borrow even $500 in an emergency does as much to reduce hardship as tripling family income (Mayer and Jencks 1989).

Asset-building incentives, however, mainly benefit higher-income families. These incentives often come in the form of tax deductions, such as those for homeownership and retirement savings, but low-income families generally have low or zero tax liability. In 2009, over half of the $400 billion the federal government spent on asset-building subsidies went to the top 5 percent of taxpayers (Woo, Rademacher, and Meier 2010).

Even with limited incentives to save, poor families do hold some wealth. In 2007, before the Great Recession, the median net worth of working-age poor families was $2,700[1]—enough to sustain a family of four at the federal poverty level for about a month and a half. While not inconsequential, these savings are not enough to carry a family through the average unemployment spell, which was two to four months even before the Great Recession.

Many income-poor families hold assets. In 2007, 60 percent of working-age poor families had a checking or savings account, although the median value was only $310. Roughly the same share (61 percent) owned a car, with a median value of $4,800. More than a quarter (28 percent) owned a home and the median home equity was $37,000, though home values and homeownership rates fell after the housing crisis in 2007. Few poor families (9 percent) had a retirement account in 2007; those that did held a median value of $5,000.

This snapshot shows us that poor families have assets, but are they able to save money and accumulate wealth *over time,* even while earning very little? We used longitudinal data from the Panel Study of Income Dynamics to track some 3,000 families from 1994 to 2007. The families were divided into a younger group (headed by an adult age 25 to 39 in 1994) and an older group (headed by an adult age 40 to 50 in 1994), and then divided again by how often their annual income fell below the poverty level during the 13-year study period. Overall, the majority of families did accumulate assets, showing growth in net worth from 1994 to 2007.

Even some families (40 percent) who were poor for more than half this period saw their net worth grow. Granted, the overall median change was only $20 for the younger group of families, but the gains were much higher at the 60th ($1,620) and 80th ($29,034) percentiles (table 1). For the older group, the gains at the 60th and 80th percentiles were $1,119 and $11,300, respectively.

The less often families fell below the poverty level, the more likely they were to accrue larger amounts. For example, in the younger group, families who were never poor during the study period had a median change in net worth of roughly $80,000. Families who were poor 25 percent of the time saw a median change of $16,000 in their net worth.

TABLE 1. *Change in Net Worth between 1994 and 2007 by Poverty Duration*

			Holdings by Percentile			
Years poor	**Mean**	**Median**	**20th**	**40th**	**60th**	**80th**
Families with Heads Ages 25–39 in 1994						
Percent of years poor						
None	$260,574	$80,046	–$1,079	$46,395	$126,105	$341,581
1–25 percent	$298,232	$15,821	–$18,029	$3,049	$37,532	$134,893
26–50 percent	$26,399	$2,609	–$7,027	$0	$15,260	$62,460
51 percent or more	$9,180	$20	–$2,000	$0	$1,620	$29,034
All households	$225,266	$43,784	–$3,694	$16,238	$77,580	$249,268
Families with Heads Ages 40–50 in 1994						
Percent of years poor						
None	$376,190	$101,906	–$10,290	$48,499	$169,860	$456,357
1–25 percent	$156,459	$23,019	–$41,419	$320	$40,206	$201,188
26–50 percent	$223,497	$3,607	–$11,827	–$404	$13,185	$46,313
51 percent or more	$7,012	$0	–$6,856	$0	$1,119	$11,300
All households	$319,348	$60,647	–$13,816	$24,128	$12,723	$364,711

Source: Authors' tablulations using the 1994 and 2007 PSID.
Notes: All dollars in 2007 dollars. The sample includes 1,876 families whose head was 25 to 39 years old in 1994. Among these families, 1,244 were poor for 0 years, 313 were poor for 1–25 percent of the years, 126 were poor for 26–50 percent of the years, and 193 were poor for more than 50 percent of the years. The sample also includes 1,168 families whose head was 40 to 50 years old in 1994. Among these families, 896 were poor for 0 years, 148 were poor for 1–25 percent of the years, 55 were poor for 26–50 percent of the years, and 69 were poor for more than 50 percent of the years.

We also examined how often low-income, asset-poor families improved their financial situation over time. Using the same survey, we followed families headed by adults age 25 to 39 in 1989 that were low income and asset poor from 1989 to 1995.[2] We looked at the same families 12 years later from 2001 to 2007 and found that most had improved their status. About 20 percent were no longer low income or asset poor, 23 percent were still low income but no longer asset poor, and 13 percent were still asset poor but no longer low income (table 2). In total, 44 percent saved enough to escape asset poverty.

TABLE 2. *Change in Income and Asset Status from 1989–95 to 2001–07, Low-Income and Asset-Poor Families in 1989–95*

	Asset Status in 2001–07		
	Asset poor	**Not asset poor**	**Total**
Income status in 2001–07			
Low income	43.2%	23.3%	66.5%
Not low income	13.1%	20.4%	33.5%
Total	56.3%	43.7%	100.0%

Source: Authors' tablulations using the PSID (1989–95, 2001, 2003, 2005, and 2007).
Notes: Includes 233 families with heads ages 25 to 39 in 1989. A family is defined as low income if their average income is below 200 percent of the poverty threshold during the relevant time period (1989–95, 2001–07). A family is defined as asset poor if their average net worth is not enough for them to live at the poverty threshold for 3 months during the relevant time period (1989–95, 2001–07).

Overall, these results show that low-income families do manage to save over time, even though the chronically poor save only a little.

The United States has experimented with asset-building policies and programs for low-income families, mostly through matched savings accounts, such as individual development accounts for specific investments. Evaluations show that low-income families do save using these programs, but it's unclear whether the savings are new savings or shifted assets.

Savings programs that reach out to families at tax time have shown promising results by capitalizing on a moment when many low-income households receive a substantial tax refund. New York City's $aveNYC Account pilot project gave tax filers a 50 percent match on dollars saved, so long as the money stayed in a savings account for one year. Even very low-income people saved money through $aveNYC (New York City Department of Consumer Affairs 2009). Participants' average income was $15,530 and nearly a third did not have a bank account. On average, they saved $387 with $aveNYC, with 38 percent saving $500 or more. At the end of the year, 76 percent of the accounts were still open and eligible for the match. A similar pilot project in St. Louis, Missouri, found that low- and middle-income neighborhood residents were more likely to save in an IRA when offered a financial match at tax time.

Evidence shows that the poor can and do save. And pilot projects have shown promise in encouraging poor households to save by offering incentives and financial education and reaching out to people at tax time. The goal now should be to bring these asset-building demonstration programs to scale and make them available to the broader low-income population.

Notes

This factsheet draws from "Is Poverty Incompatible with Asset Accumulation?" a book chapter written by Signe-Mary McKernan, Caroline Ratcliffe, and Trina Williams Shanks in the forthcoming *Oxford Handbook of the Economics of Poverty*, edited by Philip N. Jefferson. Serena Lei contributed to this factsheet.

1. The 2007 statistics are based on the Survey of Consumer Finances. Net worth is defined as assets minus liabilities. Working-age families are headed by adults age 25 to 59.
2. A household is defined as low income if their average income is below 200 percent of the federal poverty level. Asset poor is defined as not having enough savings or assets to survive at the poverty level for three months.

References

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Given the chance, many low-income families can acquire assets and become more financially secure. Conservatives and liberals increasingly agree that government's role in this transition requires going beyond traditional antipoverty programs to encourage savings, homeownership, private pensions, and microenterprise. The Urban Institute's Opportunity and Ownership Project policy fact series presents some of our findings, analyses, and recommendations. The authors are grateful to the Eunice Kennedy Shriver National Institute of Child Health & Human Development (NICHD award R01HD057189) for funding the research and to the Annie E. Casey Foundation and the Ford Foundation for funding the Opportunity and Ownership Project.

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