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Asset Poverty

What is Asset Poverty?

Most people are familiar with the Federal Poverty Guidelines (FPG), which are issued each year in the *Federal Register* by the Department of Health and Human Services (HHS).[1] These guidelines are a simplification of the poverty thresholds and are used for determining financial eligibility for certain federal programs. In 2011, the federal poverty guidelines for a family of three are $18,530 a year – this equates to 100 percent of poverty.[2]

However, this common way of measuring poverty by comparing a family's income to the FPG, only tells half the story. The other half involves savings and assets. Asset poverty measures a family's financial vulnerability to economic shocks—if one's income was suddenly cut off due to unemployment, a medical emergency, or even divorce. According to the Corporation for Enterprise Development (CFED), asset poverty is a measure of economic security and mobility based on household net worth. A household is asset poor if it has insufficient net worth to stay above the FPG for three months if its income were to cease. This means that they do not have enough resources to provide for basic needs during an economic crisis.[3]

In addition, there is also extreme asset poverty, which is the percentage of households that have zero or negative net worth, meaning the household owes more than it owns. This measure provides a way to describe the intensity of asset poverty and highlights the depth of the challenge of helping all families to build assets.

How Many Households are Asset Poor?

Asset poverty is particularly relevant in relation to the most recent recession where the impact of lack of savings and wealth has dramatically affected the middle class who have lost their jobs. According to the *2008-2009 Assets and Opportunity Scorecard* by CFED, 26.2 percent of households nationally were asset poor. In Indiana, approximately 25.2 percent of households were asset poor, nearly one-third of which were households with earnings above $44,801 annually.[4] Additionally, 13.4 percent of Indiana households are in extreme asset poverty or have a negative net worth compared to 14.3 percent nationally.[5]

What Factors are Associated with Asset Poverty?

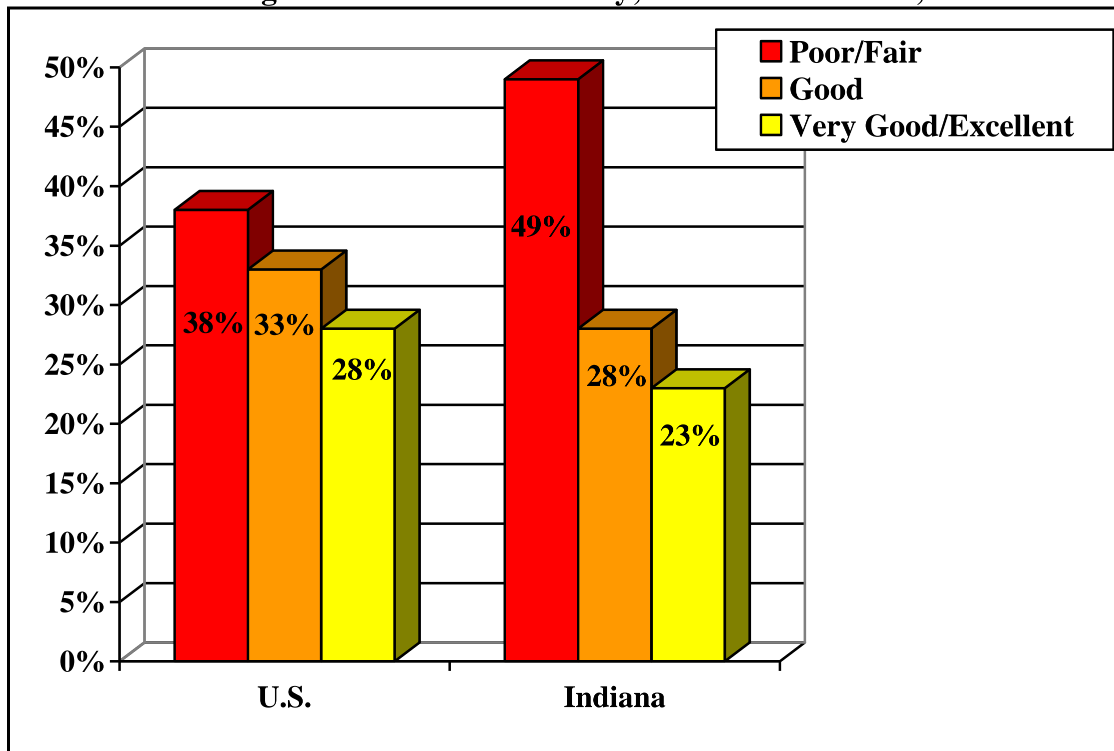
Minority and single-parent households are more likely to be asset poor, as are those with lower levels of education. Lack of education is strongly correlated with asset poverty. In Indiana, 25.6 percent of those with a high school diploma are asset poor as compared to 15.1 percent of those with a bachelor's degree.

Females are also more likely to be asset poor 32.4 percent compared to 20 percent of their male counterparts, as are those who are under the age of 35 (42.7 percent). Marriage is a strong buffer for being asset poor with just 12.8 percent of those who are married being asset poor, as opposed to 48 percent of single parent households.

Minorities are also more likely to experience asset poverty with nearly 50 percent of black households being asset poor, followed by Native Americans (44.2), Latinos (40.7), Asians (23.8) and Whites (21.4).[6]

Also lack of financial literacy may also play a factor in asset poverty. According to a national survey conducted by the Networks for Financial Institute at Indiana University, approximately two thirds (61%) of adults in the United States understood financial literacy concepts including managing, spending, and saving money wisely.[7] In Indiana, only half of survey respondents felt they understood financial literacy concepts (See ***Chart 1.1***). Additionally, the survey found that the financial areas U.S. adults feel they need the most help in are investing, retirement planning, and taxes.

Knowledge of Financial Literacy, U.S. and Indiana, 2007



Source: Networks Financial Institute. (2007). *What is the Foreclosure Rate so High in Indiana?* Retrieved Networks Financial Institute at Indiana State University web site: www.networksfinancialinstitute.org.

Many adults both in the U.S. and Indiana felt it was important to increase their own personal financial education and knowledge in order to save and prepare for the future, feel more confident and informed, feel financially secure and independent, and make wiser choices. However, many felt there were several barriers to gaining such knowledge including: lack of

funds; lack of need; lack of time; anticipated cost; uncomfortable with financial literacy; lack of materials; other; or none of the above.[8]

Why is Reducing Asset Poverty Important?

Moving out of poverty, achieving economic self-sufficiency and the subsequent accumulation of assets can be considered three rungs of a family's financial stability. Owning assets and economic security go hand-in-hand. Asset accumulation sets the stage for families to be able to plan for their financial future and related investments such as buying a home, paying for their children's college education, preparing for retirement, and withstanding financial emergencies. Creating a financial environment that fosters the ability to earn, save, and invest—especially for low-income families—is imperative for reducing the numbers of households who are asset poor. Adequate tools, incentives and public policies can help foster, preserve and protect this environment for families.[9] In addition, when families can rely on their own wealth and savings to weather economic downturns, they are less likely to utilize public assistance, which can save taxpayer dollars.

How Can Indiana Improve the Environment for Building Household Assets?

There are several ways for Indiana to strengthen the environment for families to improve their asset accumulation.

1. **Increase Financial Literacy Level of Population**
   Research demonstrates that up to 21 percent of Americans lack the ability to make informed judgments and effective decisions regarding the use and management of money and wealth.[10] This number is even higher in lower income populations. Indiana should explore a financial literacy marketing campaign—similar to successful anti-smoking or seat belt safety initiatives—that educate and connect the public to existing work-place and non-profit organizations who conduct financial literacy education programs. In turn, these resources can provide further information and tools which increase the population's financial literacy.

2. **Increase Investments in the Indiana Individual Development Account (IDA) Program.**
   The Indiana Individual Development Account (IDA) Program is an asset development program for low-income individuals. IDAs are individual savings accounts, matched with public and sometimes private dollars that assist low- to moderate-income individuals in saving money and building financial assets for the specified purposes of higher education; Small business capitalization; Home purchase; and Asset preservation through rehabilitation, such as homeowner occupied rehabilitation. The match incentive is similar to that of an employer match for 401(k) contributions. Indiana's IDA program offers a minimum 3:1 match, which means, for every one dollar saved by an IDA participant, they will receive at least a three dollar match on their deposit up to $800 a year up to four years. Since the program's inception in 1997, over $2.7 million has been saved by Indiana residents and 4,181 accounts have been opened.

3. **Encourage employers to offer Lifelong Learning Accounts (LiLAs)**
   Educational attainment is key to reducing asset poverty. LiLAs are employer-matched, portable, employee-owned accounts used to finance education and training. LiLAs encourage the creation of a partnership between workers and employers to effectively leverage resources to increase productivity, improve recruitment and retention, and meet the changing needs of our economy. LiLAs are intended to supplement, not replace, existing employer-supported tuition assistance programs.

4. **Expand Indiana's Earned Income Tax Credit (EITC)**
   Indiana's state EITC is currently set at 9 percent of the federal EITC, however an increase to 15 percent would further reduce the tax burden of low-income working families. Of the twenty-four states that offer a state credit, fifteen have set the credit at ten percent or above. Indiana should join this group and expand the credit to fifteen percent. In addition, Indiana should ensure that all those who are eligible to receive the credit are accessing it. This can be done in a variety ways including outreach and education campaigns.[11]

5. **Increase Asset Limits for the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance to Needy Families (TANF) Program**
   Indiana has extremely low asset limits for both SNAP (formerly the Food Stamp Program) and TANF. For example, if the family has savings in excess of $1,000, they are ineligible for TANF cash assistance in Indiana. Once eligible, a family may accumulate up to $1,500 in assets. These asset limits or "resource standards" discourage families from establishing and accumulating sufficient assets which could not only be used to transition them off of public assistance but also lift the family out of asset poverty.[12] Indiana should eliminate or increase asset limits to where they would not affect most recipients.

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