



## Fact Sheet: Asset Building

California Working Families Policy Summit  
January 12, 2011

### **CALIFORNIA ASSET BUILDING: THE NEED IS CLEAR**

The need to spur widespread asset ownership in California is immense. When working families don't have enough assets, they may be one medical emergency or layoff away from government dependence. Nor can they send their kids to college, start a business, reduce or manage their debt, build up savings, or secure a nest-egg for retirement.

- Over 30 percent of California households are asset poor, meaning they would only last three months above the poverty line if they lost their income unexpectedly.<sup>1</sup> That's the fourth worst asset poverty rate in the nation, more than twice California's "official" poverty rate of 12 percent — and more consequential.<sup>2</sup> Living in asset poverty means living on the brink of disaster.
- Currently, one in five households in California have zero or negative wealth levels, and close to one in three have a net worth of less than \$10,000.<sup>3</sup> On the other end of the spectrum, the top five percent of households in terms of income distribution held 59 percent of all net worth and 68 percent of all common stock (excluding pensions).
- The wealth holdings of California households are dismal. Sixteen percent of all households in California have zero or negative net worth, the eighth worst rate among the 50 states. One in four households has insufficient net worth to subsist at the federal poverty level for three months if their income were disrupted.
- The lack of accessible savings and assets can undermine household stability and make long-term planning difficult. It contributes to asset poverty, consumer debt, and higher bankruptcy rates.<sup>4</sup>

### **UNDERSTANDING THE DIFFERENCE BETWEEN INCOME AND ASSETS**

Income is the amount of money a family brings into the household, typically through work. It includes wages, salaries, and any profits realized on business ownership, savings, and investments. Assets are skills acquired and items of value owned by families. Assets include cash savings, real property, business ownership, pensions, investments, and postsecondary education, which complement household income. Without income, a family cannot get by, and without assets its members cannot get ahead.<sup>5</sup>

### **WORKING FAMILIES CAN SAVE**

While millions of Americans at all income levels do not save enough, the degree to which people save is influenced by factors beyond income.<sup>6</sup> For a number of reasons, low-income families are more likely than wealthier families to use "fringe financial institutions," such as payday lenders and check-cashing businesses that charge substantial fees for routine transactions. The high surcharges these families pay to cash checks or pay bills is money that could otherwise be set aside and used to pay for necessities or to take a step toward achieving broader lifetime goals

Research shows that poor families can save and accumulate assets—if given access to the appropriate tools, incentives, and financial products. Demonstration projects have shown that even very low-income individuals can and will save. To do so working families need access to mainstream financial products and services —often the first step in building assets. However, too many Californians are disconnected from the financial mainstream.

## Fact Sheet: Asset Building New America Foundation

- Currently, 1.5 million Californians are unbanked, meaning they lack a basic checking or savings account.
- Approximately 6 million California workers, roughly 43 percent of the state's workforce, go to work at a job that does not offer them a pension or a retirement savings plan to supplement Social Security.<sup>7</sup>
- It is estimated that in 2006, over 1 million Californians took out payday loans with annual interest rates of up to 459% at an average of 10 per borrower.<sup>8</sup> Payday lenders are disproportionately located in communities of color, with more than \$247 million stripped from these communities every year.<sup>9</sup>
- Working families are eligible for an array of tax credits, including the maximum Federal Earned Income Tax Credit totaling \$5,657. It is estimated that in 2008 over two million California working families claimed \$5.2 billion in EITCs with an average credit of \$2,039. With approximately 800,000 working families leaving \$1.2 billion EITC dollars unclaimed, tax time is an ideal time to help families claim their credit and save it.<sup>10</sup>

### ASSET BUILDING POLICIES ARE TRANSFORMATIVE

Broad asset ownership has the potential to connect financial opportunity with economic security. While the need to broaden asset ownership is great, the promise is even greater. Those with assets not only have brighter economic prospects, they are more productive citizens. Asset ownership has been correlated with decreased violence, increased civic engagement and personal responsibility, and improved mental health.<sup>11</sup> When families—including very poor families—own assets (as distinct from income), they are more likely to:

- Work harder
- Enjoy better physical and mental health
- Make educational plans for their children
- Feel more confident about and in control of their future
- Engage in their community and in political affairs.

### END NOTES

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<sup>1</sup> Asset Policy Initiative of California, 2009.

<sup>2</sup> *2009-2010 Assets & Opportunity Scorecard*, CFED, 2009.

<sup>3</sup> Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working Americans 2006/2007* (Washington, DC: The Economic Policy Institute and Cornell University Press, 2007), 255.

<sup>4</sup> A common measure of asset poverty considers whether a family owns equivalent resources to live at the poverty level for three months' time.

<sup>5</sup> Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (Armonk, NY: M. E. Sharpe, Inc. 1991).

<sup>6</sup> Ibid.

<sup>7</sup> <http://www.bls.gov/>

<sup>8</sup> *Payday Loans: Taking the Pay out of Payday*, California Budget Project, 2008.

<sup>9</sup> *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California*, Center for Responsible Lending, March 2009.

<sup>10</sup> Antonio Avalos and Sean Alley, *Left on the table*, New America Foundation, 2010.

<sup>11</sup> Robert Lerman and Signe-Mary McKernan, "Benefits and Consequences of Holding Assets," in *Asset Building and Low-Income Families*, ed. Signe-Mary McKernan and Michael Sherraden (Washington, DC: Urban Institute Press, 2008).