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SPECIAL POINTS OF INTEREST:

- Assets are the resources and capacities that enable individuals and families to achieve economic security, mobility, and prosperity. They provide the basic foundations for financial security and the pathway to the American Dream.
- A large segment of the population possesses few, if any, financial assets.
- Current government policies that support the accumulation of assets tend primarily to assist the wealthy, while most low– and moderate-income families receive minimal benefits.
- A policy agenda focused on building and protecting assets can provide crucial support to expand opportunity and strengthen our middle class.

MORE THAN JUST GETTING BY:

THE IMPORTANCE OF ASSETS FOR PROMOTING OPPORTUNITY FOR OKLAHOMANS

By David Blatt, Director of Policy

INTRODUCTION

For all of us, making enough to get by is the first priority of our family's economic well-being. We all strive to earn enough to pay our rent or mortgage, buy groceries, fill up our car with gas, and pay our monthly bills. While *getting by* may require only a paycheck, *getting ahead* requires more. For individuals and families aiming to achieve stable economic success, the key to prosperity is the development and accumulation of assets. Assets are the basic foundations for financial security and the pathway to the American Dream.

Unfortunately, financial security is under threat or out of reach for a growing number of households. We contend that a purposeful and targeted effort at *building and protecting assets*, involving individuals, communities, and government, offers a promising approach to strengthening financial security. In recent years, asset-building has emerged as an important and fruitful concept for practitioners, researchers, and policymakers. These efforts seek to encourage and support savings, investment, and ownership as a way to expand and preserve economic opportunity for low- and middle-

income Americans. By uniting the traditionally liberal concern of reducing poverty and increasing social mobility with the traditionally conservative emphasis on building individual wealth and ownership, asset-building has created a powerful bipartisan partnership. However, asset development remains little understood and often overlooked by many who are engaged in developing and implementing public policies.

This brief provides an overview of asset-building. We begin by reviewing what assets are and why they matter. Next, we look at the extent of the disparities in the distribution of assets between different segments of the population. We then consider the ways in which public policies encourage or inhibit asset accumulation. Finally, we conclude with five recommendations for Oklahoma policymakers to consider in the areas of college savings, consumer lending , public benefits, and taxes that would support and expand assets.

I. Assets: What They Are and Why They Matter

Assets are the resources and capacities that enable individuals and families to achieve economic security, mobility, and prosperity. Assets can be defined narrowly as *financial* (or *tangible*) assets, or more broadly to include *intangible* assets. *Financial assets* include a home, business, stocks and bonds, retirement accounts, college savings accounts, life insurance policies and annuities, bank accounts, and health insurance. *Intangible assets* can include education, training, skills, and good health, along with the experiences and knowledge that equip one to prosper in life.

Michael Sherraden, a pioneer in the asset-development field, has noted, "Few people have ever spent their way out of poverty. Those who escape do so through saving and investing for long-term goals." [1] Assets help reduce poverty and strengthen the middle-class both by providing stable financial footing upon which to move ahead and by altering habits and expectations about the future. CFED (Corporation for Enterprise Development), a major national organization engaged in expanding economic opportunity, suggests, "A growing bank account provides families with a reason to believe in themselves and their potential, the opportunity to imagine a better future than the present, an ability to plan and prepare for that future, and a chance to invest in their future."[2] As an example of the power of assets, a family that has invested in a college savings plan will be far more likely to assume that their child will attend college than one that hasn't. The actual savings is of tangible benefit in making college more affordable. Equally or more powerful is the impact the experience of saving has in shaping the expectations of the child and parents, as well as developing savings habits and promoting financial literacy that help make college more attainable.

> ***"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***

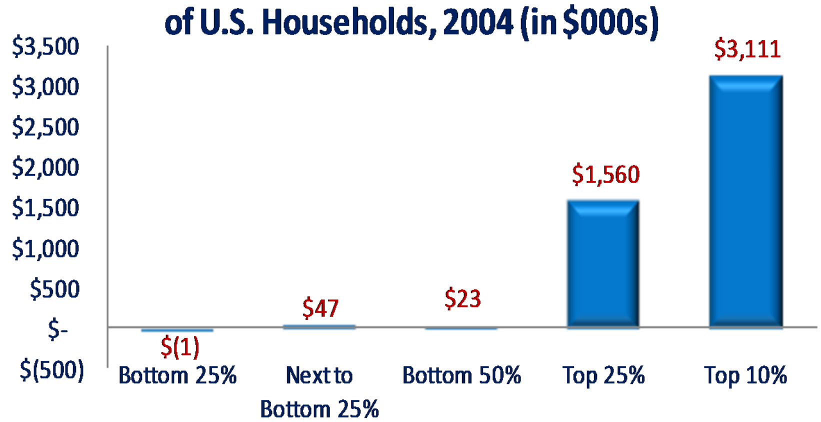
II. Asset Disparities

Assets are an essential part of economic security and mobility for American families. They create a cushion against temporary downturns in financial conditions and allow for investments in a more prosperous future. Yet, a large segment of the population possesses few, if any, financial assets.

The Survey of Consumer Finances found that American households had an average net worth of $448,000 in 2004. While the wealthiest tenth of households averaged more than $3 million in net worth, the bottom 50 percent of households enjoyed a net worth of just $23,000. The bottom 25 percent of households held *no net worth* and, in fact, were in debt, with total liabilities exceeding total assets. (see Fig. 1)[3]

One useful measure of financial security, presented by CFED in its *2009-10 Assets and Opportunity Scorecard*, is that of *asset poverty*. A house-

FIG. 1: Mean Net Worth by Net Worth Category of U.S. Households, 2004 (in $000s)



Source: Suzanne Nora Johson, Lisa Mensah and C. Eugene Steurle, "Savings in America: Building Opportunity for All," Global Markets Institute at Goldman Sachs, 2006 hold is defined as "asset poor" if it has insufficient net worth (the total value of all assets minus any liabilities) to subsist at the federal poverty level for three months if income were interrupted, such as due to a job loss. CFED found that nationally, more than one in five households (22.5 percent) was asset poor in 2006, including more than one in four households with children (27.2 percent). Oklahoma's asset poverty rate was slightly above the national average for all households (22.7 percent). Of the households in asset poverty, more than half, representing 12 percent of all households in the state, were found to be in *extreme asset poverty* in 2006, meaning their household debts equaled or exceeded their household financial assets.[4]

While all demographic groups are at risk for asset poverty, minority groups and women are especially vulnerable. CFED reported that 43.7 percent of minority households in Oklahoma experience asset poverty, compared to 15.9 percent of white households. Put another way, minorities are 2.7 times more likely to be asset poor than whites. The gender gap is narrower; still 28.2 percent of female-headed households in Oklahoma are asset poor, compared to 18.4 percent of male-headed households.[5]

Given the prevalence of households in asset poverty that are unable to tap into savings or investments to pull through a financial setback, it is not surprising that such events as a medical emergency, loss of a job, or family breakup often leave people on a direct path to bankruptcy. This situation also helps account for the pattern of repeat and chronic borrowing of payday loans and other high-cost financial products in Oklahoma and elsewhere.

Behind these *aggregate measures* of net wealth, we can also examine *specific categories* of assets and liabilities, including retirement savings, access to financial services, credit card debt, and college debt, to better grasp the extent to which large segments of the population lack financial security. For example:

- In the area of retirement savings, only two of every five private-sector workers participated in a pension plan nationally in 2004.[6]
- Only one in ten U.S. households in the bottom income quintile own private retirement accounts, with a median value of just $4,500.[7]
- For more than one in three senior citizens nationwide,

The Assets and Opportunity Scorecard

In September 2009, CFED released its 2009-10 Assets & Opportunity Scorecard, a comprehensive look at how states are faring on a wide range of measures of economic security. Here are a few of the most notable indicators. State rankings are 1st for best performance to 50th for worst For the full report and information on sources and methodology, go to: http://scorecard.cfed.org/

Outcome Measure	Oklahoma	OK Ranking	U.S.
Median Credit Card Debt (2008)	$ 2,499	10	$ 2,960
Extreme Asset Poverty Rate (2006)	12.0%	13	14.3%
Average College Graduation Debt (2007)	$ 18,597	19	$ 20,098
Retirement Plan Participation (2007)	50.2%	24	47.4%
Asset Poverty Rate (2006)	22.7%	30	22.5%
Bankruptcy Rate (per 1,000 people) (2007)	2.4%	30	2.7%
Employers Offering Health Insurance	51.3%	34	55.8%
Unbanked Households (2006)	29.4%	35	26.8%
Homeownership Rate (2007)	64.0%	37	64.2%
Low-Wage Jobs (2006)	32.2%	41	22.2%
Net Worth (2006)	$ 51,488	44	$ 88,803
Uninsured Rate (2006-07)	21.2%	45	17.2%
Uninsured Low-Income Parents (2006-07)	43.2%	45	37.2%

Social Security accounted for more than 90 percent of their income in 2001. Medicare data show that two in five Medicare beneficiaries (seniors and persons with disabilities) have less than $12,000 in countable assets – including the value of pensions and IRAs, cash savings, securities, and cash surrender value of life insurance plans.[8]

- More than one in four households nationally was "unbanked," meaning that they were without a checking, savings, or money market account in 2006. Oklahomans were likelier to be unbanked than the national average – 29.4 percent of Oklahoma households, compared to 26.8 percent nationally.[9] Being unbanked hinders the development of savings and subjects customers to high interest rates and fees from check cashers and other segments of the fringe financial sector.
- Median revolving credit card debt was $2,960 per borrower in 2008 for the nation as a whole, but slightly lower in Oklahoma, at $2,499 per borrower.[10] The percentage of American families that pay more than 10 percent of their income on credit-card payments rose to 23 percent in 2004 from 13.5 percent in 1989.[11]
- More than half of all college graduates – 59.0 percent nationally and 51.7 percent in Oklahoma – graduated with student loan debt in 2007. The average student debt of a graduate of a four-year post-secondary institution was $20,098 nationally and $18,597 in Oklahoma.[12] Rising debt loads make college completion more difficult and forces many graduates to start their professional careers and family lives behind the financial eight ball.

> **"Today, a wide array of government policies support households that own a home, save for retirement, start a business, and pursue certain kinds of savings and investments.... However, benefits accrue disproportionately to the wealthy, while the great majority receive minimal benefits.**

III. The Role of Public Policy

Throughout American history, government policies have helped families accumulate assets by providing the incentives and support that most of us need to take responsibility for our financial well-being. Such landmark initiatives as the Homestead Act and creation of land grant universities in the 19th Century, the Federal Housing Administration and Social Security created in the 1930's, and the GI Bill following World War II, provided pathways to the American dream and a secure place in the middle-class for generations of Americans.

Today, a wide range of government policies support households that own a home, save for retirement, start a business, and pursue certain kinds of savings and investments. The shortcoming of this approach to asset development, however, is that benefits accrue disproportionately to the wealthy, while the great majority receive minimal benefits.

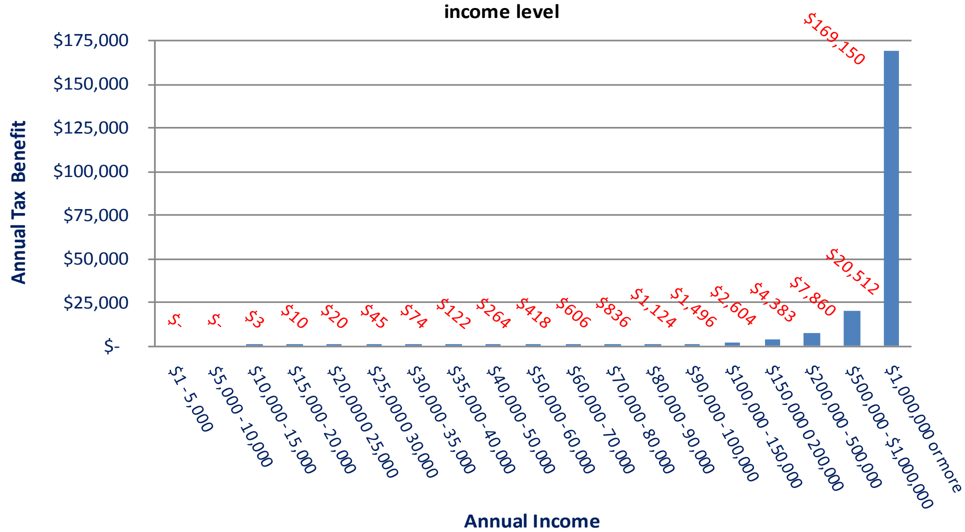
A CFED report calculated the total federal government investment in asset accumulation at $362 billion for 2005. More than 99 percent of this amount took the form of "tax expenditures," or preferential tax treatment of income and spending, such as the home mortgage deduction and reduced rates on capital gains income. Only a tiny fraction of tax expenditures took the form of direct outlays, such as down payment assistance or microbusiness loans. [13] CFED calculated that:

- Close to one-half (45 percent) of the benefits from federal asset development policies went to the wealthiest 1 percent of Americans, while less than 3 percent of the benefits went to the bottom 60 percent of households, those earning under $48,000;

- Households with incomes below $80,000, which represent 80 percent of all households, received an average annual subsidy of under $1,000. For those earning less than $50,000, which represents a majority of all U.S. households (69 percent), the tax subsidy averaged a mere $68. By contrast, households with income exceeding $1 million – the wealthiest 0.2 percent of taxpayers - received average annual tax benefits of $169,000 (see Chart #2);
- The largest subsidies involve preferential treatment of savings and investment income, totaling $125 billion in 2005. Of the preferential treatment of capital gains and dividends, 95 percent goes to the top 10 percent of earners, compared to just 0.2 percent of the benefits that goes to the 50 percent of households with the lowest income;
- Deductions claimed by homeowners for mortgage interest and property taxes were worth $93 billion in 2005. The wealthiest 10 percent of households received 59.4 percent of the benefits from these deductions, while the 50 percent of earners with the least income claimed just 2.9 percent of the tax benefits.

Fig. 2: Distribution of Federal Asset-Building Tax Benefits (2005)

Tax benefit, in dollars, from the mortgage interest deduction, property tax deduction, and preferential rates on capital gains and dividens to households by income level



Source: Lillian Woo and David Buchholz, "Subsidies for Assets: A New Look at the Federal Budget," CFED, Sept. 2006

If the benefits of building assets are going to be available across the entire population, then new approaches are needed. The incentives and opportunities to save, invest, and own should be designed to allow the majority of Americans to get ahead. Policies should expand and strengthen the middle class, not perpetuate the gap between those at the very top and the rest of American households.

IV. Asset Building Policy Opportunities in Oklahoma

The story of Oklahoma is a story of opportunity. Oklahoma has always been a place that has made it possible to build a family's future through hard work, wise choices, and family support. Throughout our history, public policies have offered pathways to financial success and security, whether through creation of strong public common education and higher education systems, economic development programs that support investment in high-quality jobs, or tax policies that encourage home ownership and savings, among others.

Still, many Oklahoma families are failing to get ahead while others are struggling not to fall behind. An agenda focused on building assets can provide crucial support that will expand opportunity and strengthen our middle-class. Some of the policy options worth considering include the following:

> **"Many Oklahoma families are failing to get ahead, while others are struggling not to fall behind. An agenda focused on building assets can provide crucial support that will expand opportunity and strengthen our middle-class.**

- *Saving for college*. Saving through a 529 College Savings plan helps families manage the rising cost of higher education without relying exclusively on scholarships, grants, and loans (see Policy Box #1). Oklahoma currently provides up to a $20,000 annual income tax deduction for contributions to the state's 529 Plan. However, fewer than one in four Oklahomans claiming a deduction for 529 contributions in 2005 earned less than $80,000. Public policies should encourage greater inclusiveness in the 529 Program by waiving or lowering the initial deposit needed to open an account and by offering a public match or tax credit for low- and moderate-income families.

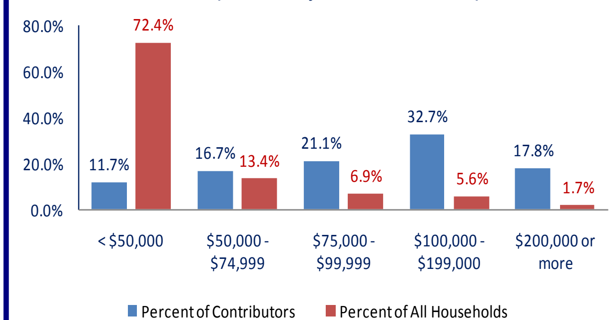
Policy Box #1: Saving for College

With the cost of higher education constantly on the rise, access to personal or family savings is a major component of college affordability. Even for low- and moderate-income students who may be eligible for some combination of scholarships, grants, and loans, additional income is usually needed to cover the full range of college expenses, including tuition, fees, room and board, textbooks, and equipment

Oklahoma, like all states, promotes college savings through the state's 529 College Savings Plan. Under a 529 Plan, the investment earnings from contributions to 529 accounts are tax-exempt when used for qualified expenses at a post-secondary institution. In addition, Oklahoma allows for a tax deduction of up to $20,000 per year for contributions to Oklahoma's 529 Plan.

Data supplied by the Oklahoma Tax Commission suggests that few low- and moderate-income Oklahomans are contributing to 529 college savings accounts. In 2005, a total of 8,909 Oklahoma taxpayers claimed deductions for 529 Plan contributions. As seen in Figure 3, only 28.4 percent of contributors had household income under $75,000, even while 86 percent of all taxpayers had income below this level.

Fig. 3: Taxpayers Claiming Oklahoma 529 Tax Deduction by Income Level (Federal Adjusted Gross Income), 2005



In its 2009 Assets & Opportunity Scorecard, CFED suggests that an effective policy for making 529s widely available and meaningful across the income scale would include the following:

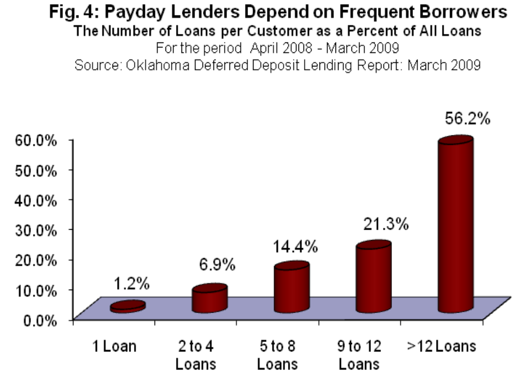
1. Open accounts for all children at birth.
2. Provide incentives for some or all residents to contribute to accounts by matching contributions with cash or with tax credits.
3. Create the potential for a meaningful account balance–at least enough to pay one year's net costs of college–by the age of 18.
4. Minimize barriers to saving by allowing small deposits and by minimizing account costs.

Oklahoma does not yet meet any of these benchmarks. Policymakers and advocates concerned with expanding access to higher education would do well to explore these and similar approaches for encouraging college savings.

Policy Box #2: Protecting Vulnerable Consumers from Abusive Lending

Payday loans are very short-term loans that are secured against borrowers' signed personal check or electronic debit access to their bank account. Until passage of the Oklahoma Deferred Deposit Lending Act in 2003, payday loans were prohibited in Oklahoma. Today, there are about 400 payday lending stores in the state, more than the total number of McDonalds, 7-Elevens and QuickTrips combined. By law, payday loans can be issued for up to $500 for a period as short as 12 days with fees as high as $65 per loan. A 12-day, $300 payday loan carries a 456 percent APR (Annual Percentage Rate). During the most recent 12-month period for which we have data, Oklahomans took out just over 1 million payday loans and paid over $54 million in fees (Oklahoma Trends in Deferred Deposit Lending, March 2009).

Fig. 4: Payday Lenders Depend on Frequent Borrowers



Despite industry claims that payday loans are intended to be used for unanticipated emergencies, the reality is that the industry's business model is based on repeat and chronic borrowing. In Oklahoma, data reveal that the average payday loan borrower took out 9.3 loans in a 12-month period, or one loan every 39 days, and paid $475 in fees. As can be seen in Figure 4, a majority of all payday loans go to heavy borrowers (more than one loan each month), compared to less than 10 percent of loans that go to infrequent borrowers (four loans or less over 12 months).

Dependence on payday loans leaves borrowers stuck on a debt treadmill that undermines family economic security. CFED and other consumer advocacy organizations, such as the Center for Responsible Lending and Consumer Federation of America, have made regulating payday lending a key policy priority for building assets and expanding opportunity. CFED recommends that a strong policy for protecting consumers would involve:

- Enacting an outright ban on payday loans or enacting an interest rate cap of 36 percent APR or less. Bans or rate caps are in effect in 16 states.
- Alternately, to get borrowers off the debt treadmill, states can limit the number of payday loans that borrowers can take out in a month or 12-month period. Oklahoma currently only requires a mandatory waiting period following a fifth consecutive transaction before borrowers can resume borrowing.

- *Health insurance*. More than one out of every five non-elderly Oklahomans, including one in four working-age adults, was without health insurance in 2007-08. Those without health insurance can face financial ruin paying for the care they receive, as well as be at greater risk of triggering long-term health problems by failing to get timely medical care. The Insure Oklahoma program has begun to fill the gap for working adults who are not otherwise offered or able to afford employer insurance yet earn too much for traditional Medicaid. Preserving and expanding Insure Oklahoma, while stepping up outreach efforts to cover those uninsured who are already eligible for insurance, would greatly strengthen family economic security.
- *Financial services*. High-cost financial products, such as payday loans, can perpetuate financial insecurity by trapping borrowers in an endless cycle of debt (see Policy Box #2). Measures to lower the cost and frequency of these loans, and efforts to develop lower-cost alternative products, would provide relief to the most vulnerable consumers.
- *Asset tests*. Historically, many public benefit programs have limited eligibility to those with little or no assets, which serves to discourage families from saving. Oklahoma has done away with asset tests for Medicaid and the Supplemental Nutrition Assistance Program (Food Stamps) but still imposes an asset limit of $2,000 on applicants for temporary cash

assistance payments. Eliminating the asset test for the TANF (Temporary Assistance for Needy Families) program would prevent families from having to spend down longer-term savings to qualify for short-term support. It also would encourage the creation of financial resources that would allow them to move away from public assistance.

- *Taxes*. As a result of our heavy reliance on sales taxes, low- and moderate-income Oklahoma households pay a higher share of their income in state and local taxes than do wealthy Oklahomans, which hinders efforts to get by and get ahead. Tax reform could make the tax system less regressive by increasing the personal exemption on the state income tax, or expanding tax credits for which low-income households are eligible, such as the Earned Income Tax Credit or the Sales Tax Relief Credit.

CONCLUSION

The United States already invests heavily in asset development, but without a clear focus on reducing poverty and public assistance and helping families become self-sufficient. Our continued prosperity and economic security depend on us doing better.

ENDNOTES

[1] Cited at: http://www.acf.hhs.gov/programs/ocs/afi/projectbuilder/pb_chap2.htm

[2] Jennifer Brooks and Leigh Tivol, *The Role of Public Policy in reducing Poverty and Expanding Economic Opportunity: The Case for Building and Protecting Assets*, CFED, unpublished paper, May 2008.

[3] Reported in Suzanne Nora Johnson, Lisa Menash and C. Eugene Steurle, *Savings in America: Building Opportunities for All*. New York, NY: Global Markets Institute at Goldman Sachs, 2006, p. 7.

[4] CFED, *2009-10 Assets and Opportunity Scorecard. Oklahoma State Profile*, at: http://okpolicy.org/files/oklahomaprofile.pdf

[5] Ibid.

[6] Alicia H. Munnell and Pamela Perun, *An Update on Private Pensions, Initiative on Financial Security*, The Aspen Institute, Issue Brief, October 2007.

[7] Ibid.

[8] Tamara Draut and Heather G. McGhee, *Retiring in the Red: The Growth of Debt Among Older Americans, Demos: A Network for Action and Ideas*, Briefing Paper, February 2004

9 CFED, 2009-10 Assets and Opportunity Scorecard, at: http://scorecard.cfed.org/financial.php?page=unbanked_households

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[11] Dean Starkman, *Red Ink Rising*, Columbia Journalism Review, 2008; online at: http://216.39.100.211/tradejournals/article/177552230_1.html

[12] CFED, *2009-10 Assets and Opportunity Scorecard*, at: http://scorecard.cfed.org/education.php?page=average_college_graduate_debt

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OUR MISSION

Oklahoma Policy Institute (OK Policy) is committed to advancing policies aimed at alleviating poverty, expanding economic opportunity and promoting fiscal responsibility. To that end, OK Policy conducts objective analysis of state policy issues in order to better position Oklahoma to become a more prosperous, better educated, healthier and increasingly equitable state.

CONTACT US

OKLAHOMA POLICY INSTITUTE
228 ROBERT S. KERR, SUITE 750
OKLAHOMA CITY, OK 73102
405-601-7692
INFO@OKPOLICY.ORG