

Identifying and promoting strategies that prevent child poverty in the U.S.
and that improve the lives of low-income children and families.

Debt and Assets Among Low-Income Families

Robert Wagmiller

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INTRODUCTION

Low-income families today are burdened with rising levels of family debt but have few assets to leverage if they are confronted by a financial crisis, such as a job layoff or long illness. Our new report finds that among low-income families the average debt doubled between 1984 and 2001, while most have only a few hundred dollars in liquid assets.

THE AUTHOR

Robert Wagmiller is currently an Assistant Professor in the Sociology Department at the State University of New York at Buffalo. At the time this report was written, he was a Research Associate at NCCP where he focused on the economic security of children and families.

Low-income families¹ today are burdened with rising levels of family debt such as credit card bills, student loans, medical and legal bills, and personal loans. These families have few assets to leverage if they are confronted by a financial crisis, such as a job layoff or long illness. Most poor families have less than a few hundred dollars in cash, savings, and other assets that they could quickly access in a time of need. Consequently, most of these families are likely to have a very difficult time weathering even a short-term loss of income—a frightening reality in the “jobless recovery.”

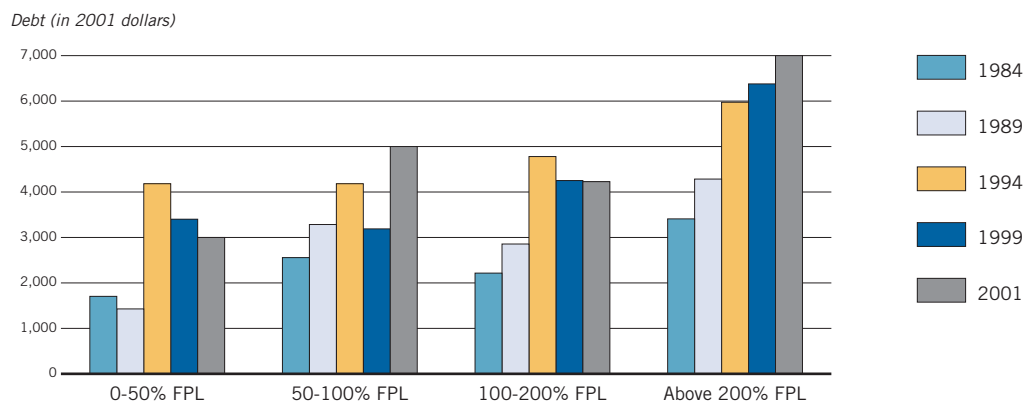
Not only do most low-income families lack liquid assets, few have the financial resources to invest in ways that would improve their financial situation in the long-term.² For a family to be economically secure, they need: (1) a steady and predictable income to pay for basic needs; (2) savings and assets such as a car—possible only when income allows a family to more than simply “get by;” and (3) human and social capital (including education, experience, skills and professional networks) to obtain a better-paying jobs.³

This research brief shows that few low-income families today have the economic resources available to weather even a short-term loss of income. Moreover, the level of debt that low- to moderate income families currently have is substantially larger than in the past, making their economic situation even more precarious. Data for these conclusions come from the Panel Study of Income Dynamics (PSID), which collected asset and debt information in the years 1984, 1989, 1994, 1999, and 2001. The sample included all families with children under the age of 18.

Amount of Debt Increasing

Family debt has become an increasingly large burden for many low-income families in recent years.⁴ Although the percentage of low-income families with debt has remained fairly stable from 1984 to 2001, the amount of debt has increased substantially (see Figure 1). Average debt in low-income families doubled between 1984 and 2001. The median debt in the poorest families rose from just over \$1,700 in 1984 to nearly \$4,200 in 1994, before falling back to \$3,000 in 2001.

Figure 1: Median Total Family Debt (without mortgage debt) by Family Income, 1984–2001



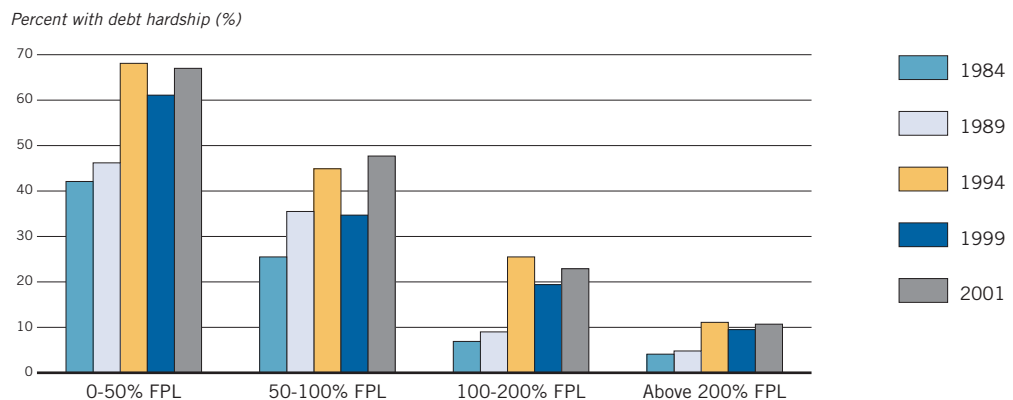
Source: National Center for Children in Poverty analysis of Panel Study of Income Dynamics, for families with children ages birth–18.

Few low-income families today have the economic resources available to weather even a short-term loss of income.

For most low-income families, debt has grown much faster than has family income. Consequently, debt is a much greater problem for low-income families today than it was two decades ago. In 1984, total family debt in the poorest families was equal to just over 30 percent of total family income. By 2001, total debt in these families was equal to nearly half of total annual family income. In low-income families, total debts grew from 18 percent of total family income for those below the federal poverty level (FPL) and 7.5 percent in families between 100 percent and 200 percent of FPL in 1984 to 28 percent and 15.5 percent respectively in 2001.

Today, low-income families confront an unprecedented level of family debt. Rising family debt levels mean that a much greater number of children are growing up in families that are experiencing significant debt hardship (see Figure 2). Debt hardship is defined as total family debt greater than or equal to 40 percent of total family income. Debt hardship in the poorest families has risen from 42 percent of families with debt in 1984 to over 67 percent in 2001.

Figure 2: Families with Children Experiencing Debt Hardship by Family Income, 1984–2001



Source: National Center for Children in Poverty analysis of Panel Study of Income Dynamics, for families with children ages birth–18.

In families whose incomes are between 50 and 100 percent of FPL, debt hardship has nearly doubled from just over 25 percent in 1984 to nearly 48 percent in 2001. In families whose income is between 100 and 200 percent of FPL, debt hardship has also doubled, growing from only 7.5 percent in 1984 to nearly 15 percent in 2001.

Assets Still Limited

Low-income families today have few resources available to them as they attempt to deal with rising levels of debt. Among families with debt, the median amount of liquid assets for families living below the poverty level is less than \$200, which is only a slight improvement from

1984 when these families reported no liquid assets.⁵ The median amount of liquid assets for a family with income between 100 and 200 percent of FPL is only \$600, down from \$1,000 in the late 1980s and early 1990s.

Low-income families with debt have few other assets that could be liquidated in a financial crisis, such as a job loss or layoff. Among these families, more than half of the poorest also lack nonliquid assets, such as real estate investments, cars, or major equipment,⁶ and they have no home equity that could be tapped in a time of great need. The median amount of nonliquid assets for a family whose income is 50 to 100 percent of FPL is slightly better; over \$2,000 in combined nonliquid assets and home equity, as is the median amount for a family between 100 and 200 percent of FPL, who have nearly \$5,000 in combined nonliquid assets and home equity.

Policies That Can Help

We face a potentially disastrous economic situation in which debt and lack of assets make low-income families much less equipped to deal with income loss at a time when unemployment remains high. This will further complicate the lives of the children in these families, who already tend to lack adequate food, medical and dental care, and stable housing.⁷ Existing policies do not provide an adequate safety net.

Rising unemployment in the current national economic recession has put many families at serious risk for financial ruin. According to the U.S. General Accounting Office, low-income workers are twice as likely to be out of work than higher-wage employees, but only half as likely to receive unemployment insurance (UI) benefits.⁸ Without unemployment benefits, low-income families are unlikely to meet their financial obligations, even during a very short layoff.

The current structure of unemployment insurance programs is inadequate for low-wage workers, especially those who are employed part time and those who are new to the labor force (recent wages are not counted in determining eligibility in the majority of states). Some states have started to expand access to unemployment insurance to make it easier for these groups to qualify, but many others have not.⁹ In order to prevent temporary job losses from driving low-income families into greater debt or hardship such as eviction, UI benefits ought to cover more workers and under broader circumstances.

In the long term, it is important that the federal government enact a set of asset development policies to enable poor families to accumulate a more adequate financial cushion. Individual Development Accounts¹⁰ and home ownership programs can encourage and help families to save money and acquire assets, while low-interest loan programs and assistance with financial management can help families to reduce debt.

Public policies sometimes penalize families who accumulate assets by disqualifying them from benefits that support work, such as health insurance and food stamps. For example, in many states, a family with an income below the federal poverty level may be ineligible for

benefits if they own a working vehicle. Policies should recognize the need for developing assets as part of the path to economic self-sufficiency and allow for a family to purchase vehicles and build savings.¹¹

There are other instances where government policies could better regulate industries that prey on low-wage workers, such as check-cashing outlets, payday lenders, and companies that charge for Earned Income Tax Credit preparation. Additionally, there are legal but unethical lenders who aggressively target low-income families for home loans.¹²

Endnotes

1. Low-income families have incomes below 200% of the federal poverty level. This number is from the federal poverty guidelines issued by the U.S. Department of Health and Human Services. For more information about federal poverty measures, see <aspe.hhs.gov/poverty/03poverty.htm>.
2. For research on the importance of asset development and debt relief among low-income Americans see Beeferman, L. W. & Venner, S. H. (2001). *Promising state asset development policies: Promoting economic well-being among low-income households, A resource guide for policymakers and the public*. Waltham, MA: Asset Development Institute, Center on Hunger and Poverty, Brandeis University.
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3. Cauthen, N. K. (2002). *Policies that improve family income matter for children*. New York, NY: National Center for Children In Poverty, Columbia University Mailman School of Public Health.
4. In families with total family income of less than 100% of the official poverty threshold, the percentage of families with debt has oscillated between 35% and 40% over the 1984 to 2001 period. In families with income between 100% and 200% of the official poverty threshold, the percentage with debts has fluctuated between 51% and 60%.
5. Liquid assets include the value of shares of stocks in publicly held corporations, mutual funds or investment trusts, including stock IRAs, the value of checking and savings accounts, money market funds, certificates of deposit, savings bonds, treasury bills, and other IRAs, and the value of any other investments in trusts or estates, bond funds, life insurance policies, and special collections.
6. Nonliquid (sometimes called illiquid) assets include the value of real estate other than the main home and the value of vehicles and other assets "on wheels."
7. Gershoff, E. (2003). *Low income and hardship among America's kindergartners* (Living at the Edge Research Brief 3). New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health.
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10. Schreiner, M.; Sherraden, M.; Clancy, M.; Johnson, L.; Curley, J.; Zhan, M.; Beverly, S.; & Grinstein-Weiss, M. (2000). *Assets and the poor: Evidence from individual development accounts* (Working Paper 00-16). St. Louis, MO: Center for Social Development, Washington University. Paper prepared for Asset Building: Research and Policy Symposium, September 21-23, 2000, sponsored by the Center for Social Development <gwbweb.wustl.edu/csd/Publications/2000/wp00-16.pdf>.
11. See: www.lift.nccp.org, a project of the National Center for Children in Poverty, for state-by-state policy comparisons.
12. Drait, T. & Silva, J. (2003). *Borrowing to make ends meet: The growth of credit card debt in the '90s*. New York, NY: Demos: A Network for Ideas and Action.
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