Think assets, and the working poor don’t immediately come to mind. A home, an education fund, retirement savings, a stock portfolio—these are the hallmarks of middle and upper class America.

Lower-income families, on the other hand, have relied on social policies crafted in the 1930s that may keep them afloat but don’t do much to get them ahead. Designed to alleviate the ills of poverty, these programs always may be necessary. But beyond such safety nets, new ideas to help people climb into the middle class are taking root in legislatures, academic institutions and the business community. The approach is called asset building, and more than easing poverty, it’s about making it possible for working-class Americans to construct secure, even hopeful financial futures—a goal that often seems out of reach.

In Hawaii, legislators are considering what sponsors call an Asset Policy Package, a group of five bills they say will reward work and make it a little easier for low-income families to save money and acquire assets.

The legislation would create a state earned income tax credit, fund matched savings accounts (commonly referred to as Individual Development Accounts), and allow taxpayers to split their refunds so that a portion could go directly to savings.

The remaining bills in the package direct the state to establish a self-sufficiency standard—a measurement of the true cost of living in Hawaii—and, finally, call for the creation of a task force on financial education and asset building.

“Asset building efforts are essential for low-income working families and for all families,” says Senator Suzanne Chun Oak-
land, a sponsor. “Assets lead to a more stable and secure future, and they allow families to plan ahead and realize their dreams and aspirations.”

The idea behind many asset building tactics is to make saving more worthwhile. For instance, Individual Development Accounts, like the ones Hawaii legislators are proposing, work by matching the account holder’s deposits, sometimes by as much as four to one. This way, setting aside a little every month—a big challenge for many families—can lead to an impressive payoff.

For example, putting away $42 a month for three years nets a little over $1,500, not enough for a down payment on a home or four years of tuition. But with a 3-1 match, the same small but disciplined savings turns into more than $6,000.

To receive the match-money, savers must use their money for an approved investment, such as paying for school, buying a home or starting a business. In many cases, participants are also required to attend personal finance classes.

**MAKING WHICH ENDS MEET?**

There’s been a sea change in thinking over the last two decades. Researchers and policymakers who traditionally thought of poverty in terms of income have begun to view assets as part of the bigger picture. They now realize that for anyone looking to make a better life or deal with an unexpected burden, income alone is inadequate. Assets, the accumulation and investment of savings, are key.

“The goal is not to amass money for its own sake but rather to facilitate human, social and economic development,” says Professor Michael Sherraden of Washington University in St. Louis and a pioneer in asset policy development. In his newest book, *Can the Poor Save?*, Sherraden says there is a major difference between subsidizing consumption and subsidizing asset accumulation. Traditional programs like food stamps help the poor pay for necessities. These programs are hand-to-mouth; they help people subsist. By contrast, financial subsidies for such things as retirement, home ownership and student debt stimulate growth. They give people a push up the ladder by helping them create capital and improve their capabilities—assets that pay compounding dividends over time.

The problem for low-income workers is that while they are eligible for income subsidies, they often don’t make enough money to take advantage of asset-building incentives, which go mostly to wealthier families and individuals.

“Most of the policy work that addresses asset building has been focused largely on generating incentives for the wealthiest 20 percent of Americans to invest more,” says Peter Tufano, a dean at the Harvard Business School and the founder of the Doorways to Dreams fund, a nonprofit organization that studies financial innovation related to asset development. “We need asset building policies for a broader set of Americans. Our target at the Doorways to Dreams Fund is that broad swath of people who are often called the working poor and are in the low- to moderate-income bracket.”

While the asset building movement began in the early 1990s in response to the relative success of Individual Development Accounts, the effort now encompasses an array of savings tools and other initiatives, such as financial education and banking for people who typically lack access to such services, micro-enterprise support, anti-predatory lending policies and a host of community development efforts.

**HANGING BY A THREAD**

Proponents of asset-building argue that families without assets are just one crisis away from financial disaster. They point out that assets are a cushion during hard times and a stepping stone toward financial independence and future prosperity. As such, they say that assets tend to draw the line between families who are economically secure and those who are not.

These days, an unsettling number of the nation’s families fall on the wrong side of that line. About 10 percent (7.7 million) are in poverty, but approximately one-third of all families are asset poor, meaning they couldn’t survive at the federal poverty level for three months after losing their income.

Worse, says Tufano, “If you look at the
Individual Development Accounts and other strategies like microenterprise development are often paid for with a patchwork of public and private funding and managed by a hodgepodge of community nonprofits, government agencies, banks and credit unions.

Since 1999, the federal government has funded Individual Development Accounts through the Assets for Independence Act, which to date has granted almost $150 million to local programs. State support is usually a mix of general funds, Temporary Assistance for Needy Families money, Community Development Block Grant funds and tax credits. No matter what the program, public money is usually supplemented by private donors.

demographic breakdowns, such as African Americans, single mothers or heads of households with only a high school education, asset poverty rises to well above 50 and goes as high as 70 percent.” Furthermore, the asset poor usually can’t afford to further their education or upgrade their job skills. Many do not have health insurance. And, Tufano says, while wealthier families prepare a secure future for themselves through strategic planning and investment, the asset-poor find it nearly impossible to save for retirement or pay for higher education for their children.

“I would love to see everybody do a whole lot better,” says Tufano. “But at a minimum, I would like to see significantly less asset poverty. We’re not talking millions of dollars here; we’re talking about a little bit of a cushion—enough to survive for a relatively short period of time. Depending on family size, the amount might be a few to five thousand dollars in savings—a base level for emergencies, which is probably an attainable goal for many families that aren’t there already.”

“Otherwise,” he says, “if people fall off that proverbial edge, then they fall into safety nets that have to be provided by governments. So it would seem to be in the interest of state and federal governments to make sure that families are financially stable.”

Iowa Representative Ro Foege agrees. He is one of the leaders of Iowa’s Successful Families Caucus—a bipartisan group of almost 60 members who support legislation that enhances Iowa families’ ability to be self-sufficient. “We want families to earn it, keep it and grow it. That makes for stronger families, and stronger families make for a better Iowa,” he says.

But as everyday expenses climb and wages fail to keep pace, finding extra cash to set aside can be difficult if not impossible.

According to the federal government, a family of three that earns less than $16,000 annually is poor. Yet depending on where you live, the true cost of no-frills living might be double or triple that amount. Studies estimate that a three-person household in a city like Chicago probably needs closer to $40,000 to finance a lean budget. Such demands have many American families, nearly a third of whom bring in $25,000 or less a year, scrambling to pay for necessities like food, clothing and health care—let alone save.

Amid such constraints, 20 percent of families today have no net-worth, or are in debt. And as balance sheets turn red, Americans are borrowing the easiest way they know how: average credit card debt jumped 40 percent among households earning less than $50,000 between 1989 and 2001.

WHEN ENOUGH IS NOT ENOUGH

One of the major challenges to the idea of asset building is whether people who earn so little can afford to save—no matter what the incentive.

“There is a limit to how much the lowest-income individuals are able to set aside,” says Michael D. Tanner of the Cato Institute. “Given the large proportion of fixed costs in the average household budget, low-income workers simply don’t have much discretionary income.”

Not only that, but asset building programs aren’t cheap; in addition to match money, administrative and other program costs can be substantial.

The future of asset building as a policy movement seems to hinge on these twin questions of effectiveness and affordability. When it comes to affordability, innovation will surely play a part. As for effectiveness, the evidence thus far is encouraging, although somewhat inconclusive.

In February, officials released the final report on the Assets for Independence Act—the federal government’s main IDA program. The study followed 600 IDA participants for three years, and its findings look promising.

Details vary, but overall the evaluation suggests that an Individual Development Account holder is more likely to purchase a home, start a business, or further their education than someone not in an IDA program. Although the study didn’t see a notable increase in participants’ overall net worth, this might be explained by the study’s three-year span, too brief to judge the longer-term benefits of any savings or investment.

The question of an IDA’s impact over time is important, and it gets to the fundamental idea behind asset building. IDA’s themselves are not designed to provide short-term relief in a crisis. Their aim is to help account holders build a stronger financial base, through home-equity or a better paying job with benefits, for example, so that in the future they can withstand sudden difficulties on their own.

AD SATIS

The term asset comes from the Latin word for enough, which is fitting in light of the asset building movement’s argument that families making just enough to get by are simply not making it. Paycheck-to-paycheck living leaves people vulnerable and blocks the pathways to financial security. Asset building strategies try to open these routes to stability by making upward mobility possible. At its heart, asset building is about creating opportunities for people to be self-reliant. The idea is to create a continuum—a ladder—leading to overall financial health. Everyone starts in a different place, but the goal is to put the next rung in reach and encourage people to keep climbing.