

# **Building Family Wealth Project: A Review of the Literature**

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## — SUMMARY REPORT —

### Building Family Wealth Project

The traditional view of poverty as an absence of sufficient resources to meet the current necessities of life is evolving. Increasingly, poverty is viewed as the absence of enough *accumulated* resources. Michael Sherraden, a professor at George Washington University, has been prominent in advancing the idea that poverty should be defined as a lack of accumulated financial assets, rather than a lack of current income. He was instrumental in designing the Assets for Independence Act, which stated: “Economic well-being does not come solely from income, spending, and consumption, but also requires savings, investment and accumulation of assets because assets can improve economic independence and stability, connect individuals with a viable and hopeful future, stimulate development of human and other capital, and enhance the welfare of offspring” (U.S. Congress, 1998).

#### Common Types of Asset-Oriented Programs for the Working Poor

There are now a large and growing number of programs with a stated goal of helping low-income or disadvantaged groups of people succeed financially. Within this category of programs is a smaller number of programs with the more specific goal of enabling the accumulation of assets. Asset-oriented programs are defined by their objective of building financial stability over time. As such, many asset-oriented programs include both a financial benefit or subsidy as well as an educational component. The curriculum of the education component can include basic banking and transactions, budgeting and saving, credit and debt, or other personal finance topics. Table 1 summarizes the components of the three most common asset-oriented programs.

*Table 1. Most Common Asset-Oriented Programs*

| Program Type                           | Education            | Financial Benefit                            | Participant Contribution                         |
|--|----------------------|--|--|
| Personal finance classes               | Classes (1–50 hours) | None   | None   |
| Saver’s Tax Credit                     | None                 | 10%–50% match, depending on income           | Contribution to retirement account (401k or IRA) |
| Individual Development Accounts (IDAs) | Classes (2–20 hours) | 100%–400% match, with \$1,000–\$2,000 limits | Contribution to the IDA                          |

Based on a review of the literature, we identified common findings and themes related to asset-based programs for the working poor. An annotated literature review is found in the appendix.

## **Why Asset-Oriented Programs May Fail**

An asset-oriented program seeks to change personal saving and spending behavior of participants over a span of many years. Programs focusing on long-term goals such as retirement savings or inter-generational savings require long-term, permanent changes in financial behavior despite the multiple economic challenges participants face. The barriers to the success for individual participants and to the program as a whole are formidable. The relatively recent history of most asset-oriented programs, along with the long-term nature of the goals, means there is little evidence that such programs will be successful (Stewart, 2005).

Participants in asset-oriented programs often failed to meet savings goals. The results of the first large-scale test of individual development accounts (IDAs) found that no more than half of participants reached their savings goals (Boshara, 2005). Although the studies do not include specific reasons for failure to meet savings goals, the generally unstable financial condition of poor families is believed to be the source of most failures (Sherraden, Schreiner, and Beverly, 2003). One common cause of financial instability is the lack of a checking, savings or other bank account (Friedman 2005; Burke, 2005).

## **Lessons for Designing a Successful Asset-Oriented Program**

What can some of the early studies of asset-oriented programs teach us about designing a more successful program? The research literature includes some general themes that could help in the design of more successful programs.

***Generous incentives such as the match rate influence savings behavior.*** Matches in asset-oriented programs for those with low incomes are typically more generous than in investment options available to the general public. The limited financial resources of low-income participants provide justification for generous match rates. The IDA plans in the national study offered a match rate of as much as 400%, with an average match rate of 200%. The study found that higher match rates were associated with greater participant savings contributions (Schreiner, Clancy, and Sherraden, 2002).

***Institutional factors are important for participants' success in reaching savings goals.*** The results of the first large-scale test of IDAs found that a number of "institutional" program characteristics were associated with significant increases in participant contributions. These institutional characteristics included the

availability of automated savings transactions such as direct deposit. The presence of strong expectations regarding a particular level of contribution through frequent mention by program staff and in published materials provided to participants was another significant institutional factor in increased participant savings contributions (Sherraden, Schreiner, and Beverly, 2003).

***Disincentives for early withdrawals are important if assets are accessible to the participant prior to reaching the savings goal.*** The need to withdraw liquid assets is likely to be common among low-income participants (Boshara, 2005). The high rate at which savings deposits were withdrawn prematurely in individual development accounts may have been the result of the relatively lenient criteria for early withdrawals allowed under the Assets for Independence Act. Early withdrawal rates are much lower in other tax-advantaged retirement accounts (IRAs and 401Ks), where penalties are enforced through the tax code.

***Financial education for more than a few hours may be helpful.*** There is little information supporting the success of the proliferating number of financial education classes for poor and minority groups. Most such classes total only a few hours. The first large-scale analysis of IDA programs finds that greater amounts of financial education significantly increased savings contributions up to a certain point. The results show increased savings contributions with up to ten hours of financial education. Beyond ten hours, however, more education did not produce more savings (Schreiner, Clancy, and Sherraden, 2002).

***Personalized financial education may be more effective.*** Although group financial education is by far the most common format, there is evidence that it is inferior to the personalized format. For example, the FDIC program to provide free education on basic banking to Hispanics failed in its goal of bringing most participants into the banking system. The reason for the failure, as acknowledged by officials, may be not offering enough personalized financial education (Burke, 2005). The largest Hispanic advocacy group now urges personal financial education as a key anti-poverty strategy (Burke, 2005). Personal financial advice has been rated the most useful source of retirement planning information by a large random survey of all working-age Americans (Helman, Copeland, and VanDerhei, 2006). The Department of Defense has recently reinvested in improving and publicizing its financial planning network serving military personnel (Global News Wire, 2006).

## **Applying the Lessons to Other Forms of Financial Investments**

There are many different investment choices for American families to accumulate assets, yet the large gap in ownership of assets between poor and wealthy families suggests that many major investment vehicles are unknown or unavailable to those with low incomes and limited assets. Among the one-third of all families with the lowest incomes, only about 8% participate in any form of retirement account such as an IRA or employer-sponsored 401K (Koenig and Harvey, 2005). Ownership of

## *Building Family Wealth Project*

life insurance appears even rarer, with households with incomes more than \$50,000 carrying five to ten times more coverage than those with incomes less than \$20,000 (U.S. Department of Census, 2003)

Evaluating the main forms of investment vehicles using the lessons above can help to suggest which would have potential for success in an asset-oriented program for those with low incomes. Many of these investment vehicles are otherwise unavailable to working poor families. Table 2 applies the lessons to the most common forms of financial accounts. Although programs and accounts may differ, we based this assessment on the standard form of these financial accounts.

**Table 2. Relevant Characteristics of Different Types of Financial Investments**

| <b>Investment</b>               | <b>Generous Incentives For Savings</b> | <b>Strong Disincentives For Early Withdrawal</b> | <b>Education or Advice</b> | <b>Education Format</b> | <b>Institutional Factors</b> |
|---------------------------------|--|--|----------------------------|-------------------------|------------------------------|
| IRA                             | Low                                    | High   | None                       | N/A                     | Low/Medium                   |
| 401K                            | Medium                                 | High   | Medium                     | Group                   | High                         |
| Savings or Money Market Account | Low                                    | Low  | None                       | N/A                     | Medium                       |
| Brokerage Account—Self Directed | Low                                    | Low  | Medium                     | Self                    | Low/Medium                   |
| Brokerage Account—Full Service  | Low                                    | Low  | Medium/High                | Personal                | High                         |
| Life Insurance                  | Low                                    | Very High  | Varies                     | Varies                  | High                         |

Note: “Low” indicates that this type of financial account rarely offers this feature. “High” indicates that this type of financial account typically offers this feature.

## **Innovation in Financial Asset-Oriented Programs**

A few noteworthy programs have attempted to incorporate types of assets usually unavailable to the poor into programs to build assets. The enactment of the Saver’s Credit was an attempt to provide a more generous subsidy for savings in an IRA or employer retirement plan (401K) targeted specifically to low-income taxpayers. One large experiment randomly offered 14,000 customers of H&R Block offices in low-income communities a 20% match or a 50% match on IRA contributions. Although still low, IRA participation rates more than doubled with the 20% match and more than tripled with the 50% match (Duflo, et al., 2005.)



The innovative use of life insurance policies to fund diverse corporate initiatives, including employee health benefits (U.S. General Accounting Office, 2003), suggests a promising option for a program to build assets among the poor. As with the IRA match provided in the H&R Block program, a percentage subsidy for the purchase of life insurance could be provided. A program subsidizing the purchase of term life insurance would seem to provide the highest possible disincentive to withdrawal of resources, because term life insurance carries no cash value. One example is an innovative program a large life insurance company is offering. The program provides low-income parents with a \$50,000 restricted term life insurance policy at no charge if the parent submits to a thorough medical examination (MassMutual Financial Group).

### **The Characteristics of Successful Participants in Asset-Oriented Programs**

Although the literature comparing the success of different programs is limited, evidence on the characteristics of successful participants within such programs is more available. Schreiner, Clancy, and Sherraden's (2002) research on savings outcomes suggests the following characteristics were associated with greater amounts saved in IDA accounts:

- ▶ Freedom from debt obligations
- ▶ Level of education achieved or sought
- ▶ Health insurance coverage
- ▶ Ownership of a home
- ▶ Race
- ▶ Native U.S. citizenship

The research on specific participant characteristics of success and failure in low-income asset-oriented programs is supported by broader economic studies of savings behavior. Economists have found that the marginal propensity to save is higher for households with larger beginning assets (Deaton 1991; Menchik and Martin, 1983). This result is in accord with the finding that ownership of other assets outside of the IDA account (homeownership in particular) was influential in savings outcomes in the IDA programs (Schreiner, Clancy, and Sherraden, 2002). The lower savings outcomes in IDAs for immigrants have also been seen in savings outcomes more generally. Immigrants may save less in IDAs and other domestic assets because of family financial obligations and other forms of maintained connection with the country of origin (Amuedo-Dorantes and Pozo, 2002).

The rate at which a consumer discounts future consumption (savings) versus present consumption (spending), often called the "patience parameter," has a substantial role in economic models of intertemporal household economic behavior. Extensive economic literature has explored the relationship among

income, savings and consumption patterns by impatient consumers (Samuelson 1937, Uzawa, 1968). Thus, another important factor in the success of an asset-oriented program for the working poor may be participant selection in terms of “asset-readiness.” The evaluation of an IDA pilot project in Minnesota (Family Assets for Independence in Minnesota, FAIM) noted that participants who continued to meet savings goals despite unexpected events had personal attributes, support systems and budget-management strategies that contributed to their success (Hogan et al., 2004). In particular the researchers noted the importance of an optimistic, forward-looking, “can do attitude.”

The selection of participants with the characteristics of success can be critical to the success of the overall project. Programs with access to populations with these characteristics and those with greater latitude in participant selection (those not subject to anti-discrimination legislation or regulated as a condition of public funding as most IDA programs are), appear to have greater prospects for success. Actual implementation of an effective process of participant selection, however, remains a challenge.

## **Defining Success in Asset-Oriented Programs**

In most IDA program evaluations, failure is measured by the number of individual participants who do not reach a specified savings goal within the program timeframe, typically two or three years. However, a broader definition of success could view the same participant outcome differently. If success is defined as any positive effect on a participant’s financial situation, then even a “failure” such as an early withdrawal from an IDA could become a “success.” The withdrawal would constitute a short-term financial resource that the participant may not otherwise have had available but for the IDA. If success is more rigorously defined as a long-term permanent increase in the participant’s net worth, then even many “successes” may ultimately be counted as “failures.” Asset-oriented programs remain too new for information on outcomes over the long-term. Early studies of the effects of successful IDA completion have yet to show any significant increase in the net worth of participants (Boshara, 2005). Yet even without any long-term effect on families’ net worth, the family with more assets may have a greater ability to weather short-term economic hardship.

## **How Do the Working Poor Save? Evidence from IDAs and the EITC**

Recent research on savings behavior and matched savings programs such as IDAs conclude that institutions and incentives play a key role in the savings behavior of Americans regardless of income level (Boshara et al., 2006). The lessons of the IDA demonstration projects show that institutional and program characteristics impact savings outcomes; savings is not only a function of income or preferences. A

program focused on long-term asset accumulation must recognize that most working poor families save for reasons other than long-term wealth enhancement, including emergency needs and short-term savings goals for large purchases such as appliances or home or car repair.

The federal Earned Income Tax Credit (EITC) is a refundable tax credit for low- and moderate-income workers. For families with children, the EITC benefit can be substantial: in 2006, the maximum EITC benefit was \$2,737 for a family with one child and \$4,520 for families with two or more children. Most families receive the EITC when they file a tax return in the year following the receipt of the earnings. Although some workers can receive partial EITC payments during the year, most do not. Given the size of the EITC benefit received by families as a lump sum, there is growing interest in linking the EITC with efforts to increase savings for low-income workers. Some advocates have suggested an EITC bonus in the form of a government-funded match for any worker who saves some or all of the EITC refund in an existing “savings product” such as an IRA, 529 college savings plan, 401(k) etc. (Boshara et al., 2006).

Although most research on the EITC has focused on its effect on labor force participation and work hours, recent studies have examined how workers spend their EITC refund. One study found that most of this low-income tax refund was being spent, not saved, though sometimes for larger items such as car repairs or durable goods (Edwards, 2004). Yet half of families with children receiving an EITC refund in another study said that savings was a priority use for the refund (Smeeding, Phillips, and O’Connor, 2000). Increasing the ease with which one can save part of the EITC refund and offering a match would likely increase the amount saved by families receiving EITC refunds.

## **Beyond IDAs: Investment Clubs and the Potential for Building Long-Term Wealth for Working Poor Families**

One of the goals of this project for NET and the research team was to assess the potential for new and innovative approaches to asset building for working poor families. Individual development accounts, financial education, and access to banking services will continue to be key components of the community’s efforts to help working poor families build and maintain financial assets. These approaches focus on asset building, but rarely offer the opportunity for longer term investments or intergenerational savings. For example, many IDA programs are limited to two years. In addition, these savings accounts offer relatively low rates of return (excluding the match). For middle- and upper-income Americans, there are many different investment choices to accumulate assets and opportunities for higher rates of return. Working poor families are much less likely to benefit from these other investment opportunities because of insufficient resources available for investment, risk of losses, and lack of information. One idea to explore is the potential for an investment club for a selected group of working poor families to

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address barriers to participation in a wider set of financial investments and to move beyond short-term savings needs to enhance family assets in the long term.

An investment club is a group of people who pool their money to make investments. Clubs typically require small monthly contributions and the members often decide jointly on investments. Interest and membership in investment clubs has grown enormously, but haven't, to our knowledge, been considered as an asset accumulation strategy for the working poor. An investment club for a targeted group of workers with low incomes could provide them an opportunity for higher returns and utilize group dynamics to encourage long-term savings and investment. In one possible scenario for such an investment club, a professional investment advisor would manage the accounts pro bono and keep them as separate accounts. To encourage investment, each participant's contributions would be matched by a grant. For example, participants who invest all or part of their EITC refund could receive a matching grant. Issues such as the ability to make withdrawals, contribution requirements, treatment of losses, and level of risk would need to be determined. The potential for tapping into EITC refunds as a base for building assets and achieving high rates of return is worth further exploration.

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## — APPENDIX —

### **Building Family Wealth Project: An Annotated Review of Literature**

by Eric Hofer

This document contains the full review of literature conducted on the topic of asset-oriented programs for poor and minority families. It contains a total of more than four dozen articles from academic journals, newspapers and magazines, industry journals, government publications, policy analyses and other sources. The list of sources contained herein is necessarily diverse as the mandate of this project was to consider any literature relevant to asset-oriented programs. The “field” of asset-oriented programs is new, and the few such programs that have been implemented thus far include many small local programs as well as the Individual Development Account, a partially federally funded program that is administered by a diverse list of charity and nonprofit organizations. As a result of the piecemeal nature of the growth of such programs, a centralized body of literature does not exist.

Each of the articles in this review is summarized by the author of this literature review, a graduate research assistant on the project. Please note that in writing these summaries, we have focused on those aspects of the articles that relate to the topic of asset-building programs. Many of these articles were not on the specific topic of asset-building programs and this summary includes only those aspects of the articles that inform the topic. They should not be considered a complete representation of the original articles.

The literature review has been organized into categories, with articles within each category ordered by relevance. Where published articles exist on asset-oriented policies, both public and private, these articles were included in the literature review, with a separate category for Individual Development Accounts. Group financial education classes appear to be the most common form of program, and these classes have their own category in this literature review. Several of the categories relate to specific types of assets, including housing, small businesses, life insurance, and retirement accounts. There are also articles covering savings and consumption behavior, both from a theoretical perspective and using empirical measurements of actual savings behavior of various groups. The review also includes several articles on investment clubs, as per a suggestion from the funding organization (Minneapolis Employment Network). Finally, the largest source of income support for low-income households through the federal tax system, the Earned Income Tax Credit, is included as a category in the literature review.

The categories of literature reviewed here include the following:

- ▶ Asset-Oriented Policies and Poverty
- ▶ Individual Development Accounts
- ▶ Financial Education
- ▶ EITC and Saver's Tax Credit
- ▶ Retirement Assets
- ▶ Life Insurance Assets
- ▶ Housing Assets
- ▶ Small Business Assets
- ▶ Investment Club Assets
- ▶ Savings Behavior—Theory
- ▶ Savings Behavior—Empirical

## **Asset-Oriented Policies and Poverty**

**Haskins, Ron, and Isabel Sawhill. "Work and Marriage: The Way to End Poverty and Welfare." *Welfare Reform and Beyond #28*. Washington, D.C.: The Brookings Institution, September 2005.**

This study applies a series of idealized assumptions of changes in the aggregate behavior of the entire population of poverty families in an attempt to determine how each would affect the overall national poverty rate of 13%. It then compares the magnitude of these effects to those produced by changes in income assistance programs. The first behavioral change evaluated was to assume that poverty householders worked an average number of hours comparable to full-time employment, still receiving their current wage rates. The second behavioral change was to assume that the same proportion of families were headed by married parents as 30 years ago, before single-parent families began to increase substantially. The marriage assumption attempted to add the income of (usually) male workers with comparable racial and educational profiles to those of the single parent mothers. The third behavior change involved an assumption that all family heads had a high school education. The fourth behavioral change was to assume that none of the poverty families had more than two children. The effects on the rates were then compared to the effect on the poverty rate of doubling the amounts of cash assistance to welfare recipients.

Assuming that all heads of poverty-level families worked full time produced the largest reduction in poverty. Under this assumption, the overall poverty rate fell from 13% to 7.5%. The second most effective change was in assuming high rates of marriage among present poverty-level family heads, which reduced the poverty rate to 9.5%. The other two behavioral assumptions, about a high school education for all poverty family heads and all poverty families limited to two children size, produced more modest reductions in the overall poverty rate to 11.1% and 11.3%, respectively. The authors compare these impacts on the



poverty rate with the effect of assuming a doubling of cash welfare benefits, which reduces the overall poverty rate only to 11.9%

The authors conclude that the most important anti-poverty policies will reflect the reality that poverty households, on average, are headed by parents working far fewer hours than other families. The average poverty family works only 1,017 hours in the year, about half of a full-time annual number. The other important policy consideration follows from the reality that poverty families are also only half as likely (40% for poverty families versus 81% of non-poverty families) to be headed by married couples. Thus, policies to increase the number of hours worked and to encourage marriage will be most likely to successfully reduce poverty.

**Millet, Ricardo A. "Statewide Initiative in Illinois to Build the Assets of Low-Income Families." Waltham, Mass.: The Institute on Assets and Social Policy, Heller School for Social Policy and Management, Brandeis University, December 2005.**

This article highlights a collaborative organization toward advancement of a shared policy agenda on asset framework. The collaboration is called the Illinois Asset Building Group (IABG) and is advised by members of more than 20 different organizations. Its primary purpose is to suggest policy changes to benefit the ability of low-income working families to build assets. The organization will concentrate on policy in the following areas: Lifelong education, healthcare, financial security/investment, housing and utilities, small businesses, transportation, and income tax policy. The IABG claims to be a model for future such alliances in other states.

The IABG has reported some noteworthy policy victories in the state of Illinois. These include the passage of Payday Loan Reform legislation, expansion of the FamilyCare program, and creation of a Rental Housing Support program. The article also claims that the IABG was instrumental in changing public assistance rules to remove savings accounts and vehicles from assets limit tests for eligibility for public assistance.

**"Scheme To Be Rolled Out for Young Debtors," *Manchester Evening News* (October 17, 2005).**

This article from the business section of the *Manchester Evening News* reports that a successful pilot program to provide financial advice to vulnerable 16- to 25-year-olds will be expanded nationwide (United Kingdom). The program is a collaboration between Citizens Advice Bureaux and the Financial Services Authority. Citizens Advice provides training to front-line staff (such as social workers) in agencies that then provide financial training to young adults. The most common training topic was budgeting and debt, whereas others included basic banking, credit options, bailiffs and seeking advice. The evaluation of the program showed that it had increased young people's understanding and confidence in managing and budgeting money.

**Stewart, Kirsten. "Strategy Shifts in Battle on Poverty; 'Asset Building': Utah Is Praised for its Efforts to Promote Financial Literacy Among High School Students; Assets Key Tool in Poverty Fight," *The Salt Lake Tribune* (December 7, 2005).**

A report by J. Larry Brown, director of Brandeis University's Institute on Assets and Social Policy, spotlights asset-building initiatives in 11 different states. The study cites recently enacted Utah legislation to add financial education to high school graduation requirements. Other Utah programs cited included university- and charity-provided adult financial education programs. The list of contributions from other states includes mandated minimum wage increases, income tax caps for working poor, creative financing for child care, and free income tax preparation for EITC recipients. Brown links the ability to avoid poverty in the face of unemployment, illness or natural disaster with a family's ownership of assets. Brown and colleagues admit that because these policies are in their infancy, there is no proof of their effectiveness.

## **Individual Development Accounts**

**Boshara, Ray. "Individual Development Accounts: Policies to Build Savings and Assets for the Poor." Policy Brief: Welfare Reform & Beyond #32. Washington, D.C.: The Brookings Institution, March 2005.**

Individual Development Accounts are described and research on outcomes in these accounts is presented in this brief. The results of the two published analyses of IDA outcomes are summarized, policy implications are considered and recommendations are offered. Some key outcomes are that although a minority of IDA participants do successfully save for the stated savings purposes, many do not. The proportion completing their savings goal appears to be roughly half. Even among those completing their savings goal(s), there appears to be no effect on the long-term net worth of the participants. The research seems to indicate that many of the participants withdraw money from the accounts for shorter-term financial purposes, resulting in a high level of unmatched withdrawals. The effects of IDAs on savings and asset accumulation seem consistent with "asset reshuffling." Having an IDA account results in an increase in home ownership assets, for example, but is offset by increases in liabilities such as mortgage debt.

## **FAIM I Pilot Program Results: January 2000–June 2004.**

The Family Assets for Independence in Minnesota (FAIM) Act is the IDA-creating legislation in the state of Minnesota. The legislation was advanced by a broad coalition of community and service organizations in all regions of the

state of Minnesota. Once passed, the organizations acted together to form a coalition to administer Minnesota IDAs using a more standardized approach. The approach included a concerted effort at implementing IDA “best practices” across all participating agencies.

The results of the FAIM project are of great potential value in determining certain “best practices” in the administration of IDA programs and asset-building programs generally. The agencies administering IDAs under FAIM all utilized the same administrative practices. These practices included a standardized required 18-hour financial literacy curriculum, allowing participants their choice of local financial institutions, and a unique monthly account statement format (called a “statement of hope”) that showed the asset goal, savings and match accrued to date and length of time required to purchase the asset. The FAIM programs employed a rigorous screening method, which included obtaining a credit report, an evaluation of the debt-to-income ratio of prospective participants, and disqualification of participants with specific types of past defaults or debts. The plan also assigned a personal financial coach for each participant. When a savings goal had been completed, funds were disbursed directly to the selling vendor or institution. Finally, the FAIM programs maintained a policy that limited the ability of participants to withdraw funds.

Research from other IDA programs include a variety of different practices in individual programs. Sherraden et al. demonstrate which of these are significant factors in IDA savings outcomes. Due to the consistent better practices applied in FAIM, the savings outcomes should be consistently above the averages in the Sherraden study. The results included in this FAIM report do appear superior to those in the Sherraden study. However, this report does not include the quantitative analysis required to establish sufficient confidence in the results, nor does it distinguish between the separate effects of each of the administrative practices.

Finally, this report also includes qualitative results from a group of 25 randomly selected FAIM participants. It also provides a narrative explanation of the personal experiences of a few of these participants.

**Hogan, Janice, Catherine Solheim, Susan Wolfgram, Busisiwe Nkosi, and Nicola Rodrigues. “The Working Poor: From the Economic Margins to Asset Building,” *Family Relations* 53, no. 2 (March 2004): 229–236.**

This article shows the results of interviews with 25 randomly chosen participants in a large Minnesota IDA pilot program. Each participant was interviewed three times over the course of their participation in the IDA program to determine which sorts of factors may influence successful savings outcomes. The study identified four categories of factors mentioned by participants: Financial vulnerability, personal attributes, social support, and resource management strategies. Financial vulnerability was defined as susceptibility to unpredictable forces. Personal attributes included individual qualities of participants. Social support was various forms of emotional, physical

and informational assistance among individuals. Family resource management included decision-making, goal setting, resource-allocation, planning, organizing, coordinating and adjustment strategies.

This work offers potentially useful information regarding each of the four categories of factors likely to lead to success in an IDA program. Greater social support and use of resource management strategies were each affiliated with successful savings outcomes. Unfortunately, it appears that the sample size or survey methods may not have been sufficient to determine if the participant characteristics identified (optimism, persistence, self-reliability, and risk-taking) were statistically significant potential causal factors.

**Sherraden, Michael, Mark Schreiner, and Sondra Beverly. "Income, Institutions, and Savings Performance in Individual Development Accounts," *Economic Development Quarterly* 17, no. 1 (February 2003): 95–112.**

Individual Development Accounts (IDAs) are in the early stage of development and their effectiveness in assisting the poor in saving remains unproven. This article examines the relationship between income variables and savings outcomes in the American Dream Demonstration (ADD), the first large-scale test of IDAs. The ADD data indicate that the amount saved in an IDA does not increase with the income of the account holder and thus the IDA savings *rate* declines with income. The authors discuss several possible downward biases in reported income that may explain the unusual decline in the savings rate. Much of the explanation, however, focuses on the role of "institutional factors."

The institutional factors mentioned include five different categories, the last of which, limits, may have had a significant role in reducing IDA contributions among higher-income participants. The categories of factors listed that tended to increase savings include access, information, incentives, facilitation and expectations. Information (financial education here) is provided by the IDAs as a condition of participation. Incentives refer to the match rate as well as the rate of return on invested savings. *Facilitation* refers to the existence of (or lack of) automated savings transaction processes, such as recurring direct deposit from a paycheck. *Expectations* refers to information from program staff, peers or elsewhere that carries an expected contribution level. There was one institutional factor that tended to decrease savings. This factor was the limit on the actual match cap, the total or annual matched contribution to the IDA. The data in the ADD were generally unable to quantify the contribution of each of these institutional factors, so the analysis here is of limited practical use.

**U.S. Congress. *Community Opportunities, Accountability, and Training and Educational Services Act of 1998. Title IV—Assets for Independence Act. Public Law 105-285. Washington, D.C., 1998.***

The Assets for Independence Act is the law that authorized federal funding for Individual Development Account programs. Congress has found that traditional public assistance programs concentrating on income have rarely been successful

in promoting economic self-sufficiency. Asset-based policies provide the means to achieve greater independence and economic well-being.

Only nonprofit, state, local, or tribal government or financial institutions serving low-income customers may apply for federal funding of an IDA program. IDA plans receiving federal funding are limited to the following three savings goals: postsecondary education expenses, purchase of a first home, or capitalization of a small business. Qualified applications for federal funding will be evaluated based on the following criteria: sufficiency, administrative ability, ability to assist participants, commitment of nonfederal funding, adequacy of plan to provide evaluation information, and other factors. Preference will be given to programs that serve households with children, to programs with higher proportion of nonfederal funding, and to programs serving areas with high concentrations of poverty or unemployment.

The amount granted to an organization will be no more than the total amount of nonfederal funds committed and will not be more than \$1,000,000. Funding provided to a program will be used for the following four purposes: participant financial and economic education, matching deposits, plan administration, and reporting information. No more than a combined 15% of total funding for a program can be spent on education, administration, and reporting; a minimum of 85% of total funding must be spent for matching deposits.

Federally funded programs must limit participation per specified criteria: Participants must have household gross income equal to or below 200% of the federal poverty level and may not have more than \$10,000 in net assets (excluding home equity and one vehicle). Otherwise, the program may select from eligible participants according to whichever population it chooses to serve. The match ratio provided to participants may range from one-half:one to four:one. The maximum amount of match that can be provided to a participant is limited to \$2,000.00. The program administrator retains discretion over participant requests to withdraw funds prematurely. Each plan must submit annual reports containing deposit, withdrawal, and assets information as well as information useful in evaluating the success, failure, or effects of IDAs generally.

## **Financial Education**

**Burke, Garance. "Report Touts Hispanic Financial Counseling." Kansas City, Mo.: Associated Press Financial Wire, December 15, 2005.**

This article covers a report published by the National Council of La Raza urging increased federal funding for financial education for Hispanics. The report argues that the central strategy for bringing Hispanics into the middle class should be personal financial education programs. Hispanics are the largest minority in America, but half—nearly 20 million people—do not have access to any bank account. The FDIC currently operates a program to provide free financial education classes to Hispanics that has served half a million people.

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The results of these classes, however, have been only about 100,000 new bank accounts. An FDIC official and others are quoted suggesting that the banking fair format does not offer enough personalized education to participants. The report urges passage of several bills in congress that would authorize financing for financial education through a community-based network of providers. The article also mentions several barriers banks typically maintain that tend to reduce the number of Hispanic customers.

### **Global News Wire. "DOD Helps to Launch Military Financial Education Program." Washington, D.C.: Voxant, Inc., February 16, 2006.**

The Department of Defense and the NASD Investor Education Foundation have partnered to launch the Military Financial Education Program. This program is designed to address a known lack of basic financial knowledge among servicemen and women. The education program will teach basic investment necessities such as how to buy a car, saving for retirement, and tradeoffs between risk and return on investments. The funding for the program will come entirely from a portion of a \$12 million judgment against First Command Financial Planning, which was fined for making misleading statements in selling investment plans to military families. Part of the funds will be used to improve and standardize the military's existing financial planning network. The program will also add a financial resources website and publicize the program via advertising and sponsored events on military bases.

### **Grisales, Claudia. "Fighting Scams that Take Aim at Hispanics: In Austin, 175 Officials from Mexico, U.S. Learn about Schemes, How to Stop Them," *The Austin American Statesman* (September 16, 2005).**

This news story reports on a meeting of 175 governmental representatives from U.S. and Mexican jurisdictions to learn about scams targeting Hispanics and how to stop them. Hispanics are twice as likely as non-Hispanic whites to be victims of illegal schemes. The two reasons cited were language barriers and lack of financial knowledge. Specific types of schemes mentioned included notaries offering phony legal advice, bogus medical products, phony driver's licenses, false credit/debit card offers, and predatory mortgage lending schemes. The conference concluded with a consensus that Spanish-language education was important to preventing Hispanics from falling victim to such schemes.

### **"Latino Restaurant Workers Offered Free Financial Management Classes," *Washington Post* (August 2, 2005).**

This article explains a pilot program to offer free financial education to employees of a popular Guatemalan chicken restaurant in northern Virginia. The courses will be taught in Spanish by a nonprofit organization called Casa de Maryland. The courses will cover how to establish a credit history, rent an

apartment, buy a home or car, and pay for college. Casa de Maryland instructors say that the biggest barrier for immigrants to establishing a credit history is a lack of knowledge about the banking system and U.S. laws. One specific misunderstanding is mentioned: The belief that a social security number or driver’s license are required to open a bank account. Another component of the classes will help employees to avoid common financial schemes targeted at Hispanics and immigrants.

**Markow, Dana, and Kelly Bagnaschi. “What American Teens and Adults Know About Economics,” The National Council on Economic Education, April 26, 2005.**

The results of the nation’s official survey of the economic knowledge of adults and high school students are presented in this report. This scientific poll included responses from more than 3,500 adults and 2,200 students in January and February 2005. The poll includes questions on several economic topics as well as personal finance. Among all adults, 34% earned a grade of A or B, with 42% earning a grade of D or F. The demographic breakdown of the adult scores shows large differences between males and females, with males scoring much higher than females. The breakdown of adult scores by race also shows large differences, with whites outscoring Hispanics, and blacks scoring far lowest of the racial groups. The fourth racial category was defined as all other races, but seems likely to be primarily Asian. The following table summarizes the percentage of scores each category of respondents earned. The percentage of the “other” racial category earning a grade of A or B was not provided in the report. I was able to estimate it from other percentage data in the report.

| <b>Group</b>  | <b>A or B Grade</b> | <b>D or F Grade</b> |
|---------------|---------------------|---------------------|
| Male          | 51%                 | 26%                 |
| Female        | 17%                 | 60%                 |
| White         | 37%                 | 38%                 |
| Black         | 12%                 | 66%                 |
| Hispanic      | 31%                 | 54%                 |
| Other (Asian) | 26%*                |                     |

Note that the scores are not adjusted for differences in levels of education between races. The distribution of grades among adults is strongly influenced by the level of education:

| <b>Education</b>    | <b>A or B Grade</b> | <b>D or F Grade</b> |
|---------------------|---------------------|---------------------|
| High School or less | 15%                 | 63%                 |
| Some College        | 48%                 | 39%                 |
| College Graduate    | 61%                 | 16%                 |

## **EITC and Saver's Tax Credit**

Center for Social Development, Washington University, St. Louis, MO.  
"Promoting Asset Building through the Earned Income Tax Credit." State IDA Policy Briefs, vol. 1, no. 1. Washington, D.C.: Corporation for Enterprise Development, June 2004.

This policy brief intends to provide an overview of the EITC, a rationale for using the EITC to promote asset-building, and recommendations for effectively linking tax refunds to asset-building. The overview includes an example of how a typical low-income taxpayer earning \$13,600 annually working full time at \$7.00 per hour would receive a federal EITC of \$4,200, and a state EITC of \$630. This combined EITC would provide nearly \$5,000 in income, or nearly 37% of annual earned income in a single annual lump sum.

The three primary factors that provide the rationale for the use of EITC for asset-building given in the article are: Low-income families often save in existing asset-building programs, families view refunds as assets, and the tax system is a major vehicle for income redistribution.

***Low-income families often save in existing asset-building programs.*** This claim is doubtful. See other research showing that many low-income families have no bank account, and only a small percentage have any form of retirement account. It is accurate to say, however, that of the small minority who are actively saving, many of these would be in an IDA, subsidized IRA, or other such program.

***Families view refunds as assets.*** The cited research in the article mentions that only 33% of families planned to save any part of their EITC refund. This is consistent with macroeconomic studies finding a consumption effect of about 0.7. This article identifies the behavioral life cycle hypothesis as explaining how the vast majority of EITC recipients' choice of the lump sum refund (over monthly payments) suggests a preference for the EITC as "irregular" income.

***Tax system as a major source of income redistribution.*** The article sites the growing popularity of tax credits as methods of income redistribution.

The article also includes a number of specific policy and program recommendations to facilitate the successful use of EITC tax refunds to fund asset-building programs. These suggestions include:

***Reduce the tax filing burden on low-income families.*** Fund free tax preparation services, support use of simple tax preparation software.

***Promote savings of tax refunds.*** Link to publicity campaigns designed to promote saving of EITC tax refunds, promote and provide free financial education programs at tax preparation clinics, encourage recipients to open savings accounts with tax refunds, and encourage contributions of tax refunds to restricted accounts such as IDAs, IRAs, and 529 plans. The article also



mentions the need to provide matching funds to supplement the tax refund contributions of participants.

**Encourage direct deposit of refunds.** Make electronic transfer accounts available to all low-income taxpayers, allow direct deposit of tax refunds into multiple accounts.

**Dickert-Conlin, Stacy, Katie Fitzpatrick, and Andrew Hanson. “Utilization of Income Tax Credits by Low-Income Individuals,” *National Tax Journal* 58, no. 4 (December 2005): 743–785.**

This journal article presents a review of published literature on the utilization of the main income tax credits targeted toward low-income taxpayers: The Earned Income Tax Credit (EITC), the Child Care Credit, the Education Credits, and Retirement Savings Contribution (Saver’s Credit). The distribution of these credits by the income of recipients (Adjusted Gross Income) is summarized in the following table. This summary of the distribution provides a relevant measure of how families at the various levels of income actually receive tax credit dollars. (Data summarizing the percentages eligible by the same income levels were also included in the article but are omitted here.)

| Tax Credit | Total Received (2004 Tax Year) | Received by Less Than \$10,000 | Received by \$10,000–\$25,000 | Received by \$25,000–\$40,000 | Received by More Than \$40,000 |
|------------|--------------------------------|--------------------------------|-------------------------------|-------------------------------|--------------------------------|
| EITC       | \$33 billion                   | 36.5%                          | 48.9%                         | 14.6%                         | 0.0%                           |
| Child Care | \$3 billion                    | 0.0%                           | 14.7%                         | 20.1%                         | 65.2%                          |
| Education  | \$5.5 billion                  | 2.0%                           | 25.4%                         | 24.5%                         | 48.2%                          |
| Saver’s    | \$970 million                  | 0.8%                           | 38.2%                         | 36.1%                         | 24.8%                          |

The other major review of literature included in this article summarized estimates of participation rates among eligible taxpayers. The published literature includes numerous estimates of the percentages of eligible taxpayers who file a tax return claiming these credits. The estimates of participation rates in these tax credit programs can be summarized as follows:

- ▶ **EITC:** Overall, GAO and IRS estimates that approximately 75% of eligible individuals or families participate. Families with larger potential EITC are more likely to participate, i.e., those with children. Families and individuals without children, those with less education, Hispanics, and single males are less likely to participate.
- ▶ **Education Credit:** Estimates of percentages of eligible individuals participating vary widely, with some as low as approximately 30%.

- ▶ **Child Care Tax Credit:** Estimates of percentage of eligible families claiming this credit vary from about 20% to 30%. However, some eligible families may have no eligible expenses.

**Edwards, Ryan D. "Macroeconomic Implications of the Earned Income Tax Credit," *National Tax Journal* 57, no. 1 (March 2004): 45–65.**

Changes in the monthly pattern of Earned Income Tax Credit disbursements over the last two decades identify a large macroeconomic consumption response from EITC checks. This paper recovers a large and significant MFC out of EITC disbursements based on an array of macroeconomic data and econometric specifications. The results indicate a contemporaneous consumption response average of 0.7. Results are consistent with other empirical findings that consumption is excessively sensitive to income. This suggests that the large majority of EITC credits are spent on goods and services, with only a small minority being saved or invested. The research also indicates that the resulting increase in consumption expenditures are no more likely to go toward durable goods than other expenditures. This suggests that most EITC payments are being spent on unnecessary short-term (nondurable) goods and services.

**Gale, William G. "Improving the Saver's Credit." Policy Brief #135. Washington, D.C.: The Brookings Institution, July 2004.**

This policy brief analyzes the Saver's Credit under the federal income tax system. The Saver's Credit provides the lowest-income families and individuals with a tax credit of up to 50% of the amount contributed to an Individual Retirement Account (IRA) or employer-sponsored 401(k) plan. In order to receive the most generous 50% tax credit, a single individual must have an income less than \$15,000, whereas a married couple filing a joint tax return may have income up to \$30,000. Unlike some other tax credits such as the Earned Income Tax Credit, the Saver's Tax Credit is a "non-refundable" tax credit. This means that tax filers may only use the credit to the extent that they have an income tax liability during the tax year.

Many low-income families and individuals have zero (or negative) tax liabilities because their low incomes minus deductions and exemptions result in little taxable income. They are already able to claim other tax credits that completely exhaust their small tax liabilities. Thus, the article indicates that only about one out of every six taxpayer with an income less than the above the levels (\$15,000 single, \$30,000 married) could actually benefit from the Saver's Credit. This article does not include any detailed tax scenarios or profiles that could help to explain which income, marriage, dependent, or deduction variables would comprise the minority one-sixth of low-income filers who *would* be able to benefit from the Saver's Credit.

## **Retirement Assets**

**Choi, James J., David Laibson, and Brigitte C. Madrain. "Plan Design and 401k Savings Outcomes." National Bureau of Economic Research (NBER) Working Paper No. 10486. Cambridge, Mass.: National Bureau of Economic Research, May 2004.**

This working paper examines the effects of 401(k) plan design characteristics on savings outcomes. There are four aspects of the plan design that are analyzed for their effects on each of four savings outcomes. The first of the savings outcomes is the participation rate. (The other three have been omitted from this abstract for inapplicability.) The research concludes that the design of the 401(k) plan can have significant and important effects on the level of employee participation. This means the choices that employers make in designing a 401(k) plan largely determine how successful the plan is in enrolling its employees.

The first aspect of plan design is the enrollment protocol. The two most common enrollment protocols are automatic enrollment (in which employees must complete and sign a request to "opt out" of participation) and standard enrollment (in which employees must complete a signed request in order to "opt in" and participate). Using data from three large employers that had switched from standard to automatic enrollment, the research found dramatically higher enrollment under the automatic enrollment option. A larger study of employers using data published by the Vanguard Group of mutual fund companies has confirmed much higher participation rates in plans using automatic enrollment. A third enrollment protocol option requires an employee to complete a signed request indicating either participation or opting out. The authors hypothesized that this enrollment protocol produces enrollment outcomes lower than automatic enrollment, but higher than standard enrollment. The sample size for this new protocol, however, was too small for valid inference.

The second aspect of the 401(k) plan design is the employer match. There have been several studies exploring this relationship, with somewhat different conclusions. The authors report that the availability of an employer match (of any size) does positively affect participation in a 401k plan, but that the magnitude of the increase is not known. The studies are inconclusive if a larger match leads to increased participation over smaller matches.

The third aspect of plan design is the variety of investment options offered in the plan. Here, the study documents a strong negative relationship between the number of investment options available and the participation rate. The authors hypothesize that the larger number of choices tends to overwhelm participants' ability to choose between the alternatives.

The final aspect of the plans analyzed is the availability of cash loans against the balance of an employee 401(k). Only one study has analyzed this aspect,

and it indicated that the availability of such loans did positively affect participation rates. The effect was relatively small.

**Duflo, Esther, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez. "Savings Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block." National Bureau of Economic Research (NBER) Working Paper No. 11680. Cambridge, Mass.: National Bureau of Economic Research, October 2005.**

This paper analyzes the effects of a large randomized field experiment carried out with H&R Block, offering matching incentives for IRA contributions at the time of tax preparation. About 14,000 H&R Block clients, across 60 offices in predominantly low- and middle-income neighborhoods in St. Louis, were randomly offered a 20 percent match on IRA contributions, a 50 percent match, or no match (the control group). The evaluation generates two main findings. First, higher match rates significantly raise IRA participation and contributions. Participation rates were 3% for the control group, 8% in the 20% match group, and 14% in the 50% match group. Average IRA contributions (including noncontributors, excluding the match) for the 20% and 50% match groups were 4 and 7 times higher than in the control group, respectively.

The results also show much more modest effects on take-up and amounts contributed from using the Saver's Credit. The authors suggest that the difference between the effect of the Saver's Credit and that of the H&R Block match may reflect the complexity of the Saver's Credit as enacted and the way in which it is presented. They suggest that these results show the combination of a clear and understandable match, easily accessible savings vehicles, the opportunity to use part of an income tax refund to save, and professional assistance could generate a significant increase in contributions to retirement accounts, including among middle- and low-income households.

Another less prominent finding was that the individual characteristics of the financial advisor presenting the match option significantly affected participation rates and average contributions. Advisors with a stronger record of success outside of the experiment were significantly more successful enrolling clients in the program with the experimental match.

**Helman, Ruth, Craig Copeland, and Jack VanDerhei. "Will More of Us Be Working Forever? The 2006 Retirement Confidence Survey." Washington, D.C.: Employee Benefit Research Institute, April 2006.**

The results of the largest comprehensive survey of American attitudes and behavior in the area of retirement savings and investments are presented in this paper. The Retirement Confidence Survey (RCS) is a random sample of working-age and retired Americans conducted annually for the past 16 years. A few of the findings the authors of the 2006 survey highlight were that many Americans were not adequately financially prepared for retirement, and that some have unrealistically confident views of their own prospects in retirement.

However, the report's most important indicators show that 70% of workers are currently saving for retirement, and 42% have attempted to estimate their required retirement resources. Each of these percentages is unchanged from the 2005 survey.

The RCS includes information about how respondents obtain financial and investment information. The amount of time spent reading about finance increases sharply with education and income, and men spend more time reading about the topic than women. The sources of financial information used include spouse's advice (8%), written material obtained from work (7%), newspapers or magazines (64%), professional financial advice (63%), and family or friends (63%). Internet, personal finance software, and seminars were used by fewer than half. The source reported to be most useful was professional advice, with a large margin over any other source. The report states that the margin by which professional advice was rated best was highest among higher income and more educated respondents. (However, it is not clear whether this finding adjusts for the likelihood that higher income and more educated are more likely to have access to professional financial advice.) Lower income and less educated respondents were more likely to rate family or friend's advice best. About half of respondents receiving professional advice located the advice on their own, whereas 28% had access through an employer, and 21% through other means. Workers with incomes above \$35,000 are more likely to have access to professional advice through their employer.

The majority of workers' retirement assets are in employer-sponsored retirement accounts. Participation rates are higher in plans offering a matching benefit, but even a substantial majority of employees participate when no match is offered. Sixty-nine percent of workers favor automatically enrolling employees in the retirement plan and 60% favor automatically selecting the investment choices for employees who have not indicated a choice. The results are similar between current participants and nonparticipants. Lower-income workers are somewhat less likely to support automatic enrollment, but the majority still do.

Most workers are unaware of the Saver's Tax Credit, with only 36% indicating an awareness. The credit provides an effective "match" through the federal individual income tax on a low-income savers' qualified investment contributions. Awareness of the credit is even less (25%) among the low-income respondents most likely to qualify for the benefit.

**The Henry J. Kaiser Family Foundation, "Washington Post/Kaiser Family Foundation/Harvard University Poll," *Washington Post* (July 11, 2001).**

The results of this version of the Washington Post poll were conducted to determine the financial characteristics of different racial groups. The survey thus included an oversample of African American, Hispanic, and Asian respondents in order to ensure statistical inference for each of the groups. The following question was included in the survey: "Do you own stocks, bonds, or mutual funds—either directly or through a 401K plan?" Results were as follows:

|     | White | African American | Hispanic | Asian |
|-----|-------|------------------|----------|-------|
| Yes | 61%   | 34%              | 31%      | 51%   |
| No  | 38%   | 66%              | 69%      | 48%   |

Koenig, Gary, and Robert Harvey. "Utilization of the Savers Credit: An Analysis of the First Year," *National Tax Journal* 58, no. 4 (December 2005): 787–806.

This article examines utilization of the saver's credit in the first year of availability, and includes the following table on household participation in retirement plans:

**TABLE 2**  
PERCENT OF WAGE EARNING HOUSEHOLDS PARTICIPATING IN A RETIREMENT PLAN BY TYPE OF CONTRIBUTION AND AGI DECILES, 2002

| AGI Deciles | Decile Break Points | Type of Participation |          |                 |           |              | Total |
|-------------|---------------------|-----------------------|----------|-----------------|-----------|--------------|-------|
|             |                     | Employer Plan         | Roth IRA | Traditional IRA | Total IRA | SEP & SIMPLE |       |
| 0–10        | <\$5,498            | 1.8%                  | 1.5%     | 0.6%            | 2.0%      | 0.2%         | 3.7%  |
| 10–20       | \$5,498–11,244      | 4.4%                  | 1.1%     | 0.5%            | 1.6%      | 0.4%         | 6.0%  |
| 20–30       | \$11,244–17,167     | 10.6%                 | 1.4%     | 1.3%            | 2.7%      | 0.8%         | 13.4% |
| 30–40       | \$17,167–23,319     | 19.1%                 | 1.9%     | 2.3%            | 4.1%      | 1.3%         | 22.7% |
| 40–50       | \$23,319–30,665     | 28.1%                 | 2.6%     | 2.9%            | 5.3%      | 2.5%         | 32.6% |
| 50–60       | \$30,665–39,592     | 36.6%                 | 3.8%     | 3.7%            | 7.1%      | 2.3%         | 41.5% |
| 60–70       | \$39,592–51,642     | 45.9%                 | 5.2%     | 4.4%            | 9.1%      | 3.3%         | 51.6% |
| 70–80       | \$51,642–67,996     | 54.3%                 | 6.6%     | 5.1%            | 11.4%     | 3.7%         | 60.0% |
| 80–90       | \$67,996–95,868     | 64.7%                 | 9.0%     | 5.8%            | 14.1%     | 5.0%         | 70.4% |
| 90–100      | \$95,868<           | 70.4%                 | 9.1%     | 10.8%           | 19.0%     | 7.9%         | 78.2% |
| Total       |                     | 33.7%                 | 4.2%     | 3.7%            | 7.7%      | 2.7%         | 38.1% |

Note: Employer plans include salary reduction SEPs and salary reduction amounts contributed to a SIMPLE provided through an employer.

"The 2003 Minority Retirement Confidence Survey Summary of Findings." Washington, D.C.: Employee Benefit Research Institute, 2003.

The 2003 Retirement Confidence Survey included an oversample of the two largest minority populations: African Americans and Hispanics. The results of the differences between the surveys for each of these groups and the overall population are summarized in this supplementary report. The report finds that 59% of African Americans and 50% of Hispanics have saved for retirement, versus approximately 70% overall. The attitudes and behavior of each minority population mirror the behavior and attitudes of segments with comparable incomes. For example, minority workers with annual incomes less than \$35,000 respond the same way on some retirement indicators as workers overall with

similar incomes. Thus, African Americans report consistently lower participation, savings, and access on the measures included in the report. Hispanic households (with incomes lower than African Americans) also report results consistently below those of African Americans.

The following are a few of the findings from the report that appear significant after adjustment for income differences: African Americans are significantly more likely to rely on social security income in retirement. They are more likely to have thought about specific retirement concerns such as medical expenses, health insurance, and long-term care. They are also significantly more likely to express a lack of confidence in their retirement prospects. Low-income Hispanics are significantly less likely to have access to employer-sponsored retirement plans. A large share of Hispanics also report having little or no knowledge of personal finance or investing.

## **Life Insurance Assets**

**Anderson, Dan R., and John R. Nevin. "Determinants of Young Marrieds' Life Insurance Purchasing Behavior: An Empirical Investigation,"** *The Journal of Risk and Insurance* 42, no. 3 (September 1975): 375–385.

This study examined the life insurance purchases of 230 couples married during the summer of 1968 in the Peoria, Illinois, region. The article provides no information on how the included couples were selected or other details important for randomized surveys. Twenty different characteristics of the couples were identified and regression analysis was used to determine which were statistically significant in predicting the amounts of life insurance purchased during the first year of marriage. The overall effectiveness of the model was limited and most of the characteristics (variables) were not statistically significant.

Six variables were found significant in predicting the level of insurance coverage. The single most significant variable was the expected household income (ten years from the survey), with higher expected future income associated with more insurance. The current net worth of the household was the second most significant variable, with high net worth households purchasing more insurance. Current household income was also a positive predictor of higher levels of insurance purchases. The final significant variable was the education level of the husband, where the college education of the husband is associated with less insurance. The remaining two variables were indicators of the husband's and the wife's insurance policies prior to marriage.

**Dorfman, Mark S., and Saul Adelman. *Life Insurance*, 2nd edition. Chicago: Kaplan Publishing, April 1992.**

The needs-based purchase of life insurance argues that needed amounts of life insurance is found by subtracting family assets from all financial needs upon

death. The text specifies two classes of such needs: permanent and temporary. Permanent needs include death costs such as funeral, burial, and remaining medical costs. Other permanent needs include survivor readjustment costs such as moving expenses or education. A final permanent cost would be support costs for permanent dependents. Temporary needs include mortgage repayment, support for dependent children, and most education expenses. Also discussed are the savings needs of families and the ways in which life insurance allows families to build wealth. Insurance benefits are not taxable under the federal income tax system and benefits are protected from creditors' claims in bankruptcy and under other laws.

The text explains that life insurance is often viewed as a form of savings and investment. The Life Cycle Hypothesis views premium payments as a form of savings and investment in future consumption. As life insurance benefits are paid only upon death, a key variable in motivating life insurance purchases is the existence and/or the nature of a bequest motive.

**“Hispanics Look to Bank, Church Groups for Life Insurance Needs.”  
Washington, D.C.: Bestwire, March 20, 2006.**

The article reports the results of research from Genworth Financial and Limra International. The research studied Hispanic middle-market households, defined as those with incomes between \$40,000 and \$100,000 annually. The research found a major bifurcation of the market into two different segments: Those in which Spanish is the primary home language and those in which English is the home language. Among such middle-income Spanish-speaking households, 25% owned life insurance, whereas the figure was 67% among the middle-income English speakers.

The article then explains some of the reasons for lower insurance ownership among Spanish speakers. Skepticism about the integrity of insurance companies tied to lax financial regulation of insurance industries in many Latin American countries was identified. Nearly one-fourth of Spanish speakers believed that the insurance would not pay upon death. Roughly half of Spanish speakers expected insurance to be too expensive. One-fourth of Spanish speakers indicated a fear that a life insurance policy would lead someone to try to kill them in order to collect the benefit.

**MassMutual Financial Group. “LifeBridge Free Insurance Program.”  
Springfield, Mass.: Massachusetts Mutual Life Insurance Company,  
[http://www.massmutual.com/mmfg/about/community\\_involvement/national/lifebridge.html](http://www.massmutual.com/mmfg/about/community_involvement/national/lifebridge.html).**

This document explains the LifeBridge free life insurance program of the MassMutual Financial Group. Under the program, MassMutual provides a \$50,000 term life insurance policy for ten years to low-income parents free of charge. The life insurance benefit is held in trust and restricted to use by surviving children for qualified education expenses. This program is open to all



parents or legal guardians between the ages of 19 and 42 in good health (without heart disease, cancer, HIV, or Type I diabetes and without drug or alcohol abuse) with total family incomes between \$10,000 and \$40,000. The application process requires a personal interview with a MassMutual representative, and the applicant must submit to a medical exam including a blood and urine test.

MassMutual cites the value in balancing business interests with corporate responsibility in answering the question “Why is MassMutual offering LifeBridge?” The importance of children to the future of our country is also mentioned. The program is offered primarily through the following nonprofit organizations: Big Brothers/Big Sisters, Urban League, Boys and Girls Club, YMCA, United Way, Habitat for Humanity, and YWCA. Qualified applicants can also apply directly through the MassMutual.com website.

**U.S. General Accounting Office. “Business-Owned Life Insurance: Preliminary Observations on Uses, Prevalence, and Regulatory Oversight.” Testimony Before the Committee on Finance, U.S. Senate. Washington, D.C., October 23, 2003.**

There are no comprehensive estimates of the quantity or growth in life insurance policies in which a business (rather than individual) is the owner and/or beneficiary. The use of business ownership of life insurance policies, however, is known to be substantial and growing. This review by the U.S. General Account Office (GAO) seeks to examine business ownership of life insurance policies. The focus is on the purposes and uses of employer-owned life insurance and on current or future regulatory oversight of this business practice.

Businesses with cash-value life insurance policies covering its employees is the large majority of business ownership of insurance policies. Employer-beneficiary arrangements are generally one of two types: A plan covering a large number of the businesses’ employees with a common level of insurance coverage; or a plan covering a small number of key employees (company executives and officers) with a high level of insurance coverage. Although the data on the uses of such company-owned life insurance policies is incomplete, it appears that the large-employee group plans are often used to finance employee benefit programs. The other type of plan, in which only a few key employees are insured at high levels, appears to be motivated largely by the desire to exploit the tax-advantaged treatment of life insurance benefits to compensate key employees.

The GAO survey had found no specific consumer complaints about this practice, and state insurance regulators have not identified any specific concerns. Only the Internal Revenue Service has expressed disapproval of the practice. The IRS has prevailed in a tax court case against a large employer with insurance policies in effect on more than 350,000 of its employees.

There is some disagreement between state laws regarding the definition of an employer’s “insurable interest” in its employees. Some states now require employers to obtain consent of an employee in order to purchase a

life insurance policy, whereas some still do not. However, several states have also moved to enact legislation to enable employers to finance employee health insurance benefits via life insurance, some by relaxing the consent requirement.

## **Housing Assets**

**Bajaj, Vikas, and Ron Nixon. "For Minorities, Signs of Trouble in Foreclosures,"** *New York Times* (February 22, 2006).

Statistics show a recent increase in housing foreclosures in minority neighborhoods in cities such as Cleveland, Chicago, Philadelphia, and Atlanta. The homeownership rate for black households declined slightly in 2005, possibly reversing a long-term trend that had helped to push minority home ownership to a record by 2004. The article notes that minority homeowners are twice as likely as whites to have more expensive subprime mortgages, most of which will jump to higher interest rates within the next two years. The article examines the possibility the housing markets in minority neighborhoods could be faced with a growing wave of foreclosures. The dramatic increase in foreclosures in minority parts of Cuyahoga County (Cleveland), Ohio, is used as illustration. The role of subprime loans in expanding minority home ownership and the rise in foreclosures is examined. It is noted that even when controlling for differences in income, minority borrowers are still twice as likely to use subprime loans. The chief economist of the Mortgage Bankers Association notes that minorities have traditionally had less wealth than whites, a factor that drives minorities to take out more subprime loans.

**Bostic, Raphael W., Paul S. Calem, and Susan M Wachter. "Hitting the Wall: Credit as an Impediment to Homeownership" in *Building Assets, Building Credit: Creating Wealth in Low Income Communities*. Washington, D.C.: The Brookings Institution Press, 2005.**

This work cites recent research showing the beneficial effects of homeownership for individual families and for communities as a whole. The literature thus cited shows the importance of homeownership and thereby the importance of understanding the barriers to homeownership. The authors cite recent research in which the barriers to obtaining mortgage financing are of two types. The better-understood type of barrier is related to wealth constraints, which include both insufficient income and insufficient wealth. However, the other type of barrier is poor credit history. Both academic and popular literature have documented the reduced importance of income and wealth constraints, whereas the increased importance of credit constraints is a relatively new topic in academic literature. This paper uses data from the Survey of Consumer Finances to compute median credit scores on the Fair Isaac scale for how credit problems are distributed across subgroups and how they have changed over time.

The analysis shows that the overall median credit score increased from 721 in 1989 to 730 in 2001. However, this overall figure masks other changes: The median credit scores of the bottom three income quintiles declined, whereas the median credit scores of the top two increased. The median credit score of whites increased from 727 to 738. The median credit score of blacks decreased from 693 to 676. The median credit score of Hispanics decreased from 695 to 670. The median credit score of “Other” races increased from 711 to 726. By location, the median credit score was highest in rural areas, whereas the median score was similar in central city and suburban areas. Renters of all races and locations had significantly lower scores than homeowners.

### **Small Business Assets**

**“Loan Program Established for Twin Cities Hmong.” St. Paul, Minn.: The Associated Press State and Local Wire, July 3, 2001.**

This news story reports on a partnership formed between a Hmong foundation and Wells Fargo to create a small-business loan program for the area’s Hmong community. The funding is being established to educate consumers about credit and to establish a high-risk business loan fund to secure loans that do not meet the banks standard loan criteria.

**Servon, Lisa, and Timothy Bates. “Microenterprise as an Exit Route from Poverty: Recommendations for Programs and Policy Makers,” *Journal of Urban Affairs* 20, no. 4 (December 1998): 419–442.**

In this article, the authors seek to examine how microenterprise loans can be used as an economic development strategy to enable low-income people to become self-sufficient. The quantitative analysis uses data from the U.S. Census Bureau’s Census of Business Owners to determine the characteristics that influence small-business success. The authors attempt to use the CBO data to explain what generally makes small businesses owned by minority or disadvantaged people succeed or fail, but this part of the analysis does not use data from businesses that have received a targeted business development loan. The findings contradict the idea that hard work and a small loan are sufficient for success. The most successful small businesses are those with educated owners or those with specific skills. Potential entrepreneurs lacking assets, skills, and resource networks are unlikely to earn income as entrepreneurs sufficient to allow them to escape poverty.

Microenterprise loan programs vary in the eligible populations from general low-income, to female-specific, to ethnic-based recipient targets. Broadly speaking, these groups are less likely to have the ingredients that lead to success in entrepreneurship. In addition to lacking education or specific skills, the minority entrepreneurs are more likely to serve minority markets, a strategy negatively correlated with success. (Businesses serving a mainstream clientele

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are more likely to succeed.) They are also less able (and likely) to form businesses with larger capitalization requirements, which are found more likely to succeed. Finally, low-income and minorities tend to favor small retail and personal services businesses, which have significantly lower rates of success than other types.

**Thao, Bo. "Twin Cities Refugee Groups Tackle Community Development," *Community Dividend*, No. 3, Minneapolis: Federal Reserve Bank of Minneapolis, 2005.**

The growth of immigrant minority communities in the Twin Cities coincided with the establishment of ethnic-based nonprofit social service organizations known as mutual assistance organizations (MAAs). These MAAs initially provided basic services such as financial assistance, temporary housing, transportation, child care, and English language training. More recently, many MAAs are entering the field of community development, primarily through homeownership education programs, real estate development, and small-business funding and assistance. The article highlights two particular ethnic organizations that have recently entered the community development area. The Hmong American Partnership provides training to Hmong entrepreneurs and is constructing a facility for its own and other nonprofits' offices. The African Development Center was recently founded and offers business development, homeownership training, business financing, and financial literacy programs.

## **Investment Club Assets**

**"Investment Club," Wikipedia, [http://en.wikipedia.org/wiki/Investment\\_club](http://en.wikipedia.org/wiki/Investment_club).**

An investment club is a group of people who meet on a regular basis for the purpose of investing money. Investment clubs are usually organized with contributions from members being combined into a single club portfolio. The members of the club then vote (usually simple majority required) to choose the various investment(s) that will comprise the portfolio. The investment club is most commonly structured as a partnership, with each member being a partner. A minority of clubs are structured as limited liability corporations. A more recent variation of the investment club is the self-directed investment club. A self-directed club meets on a regular basis to discuss investment choices, but does not have a common investment portfolio. Thus, members of a self-directed club simply discuss and study investment options as a group, but each member has his or her own separate investment account.

Many investment clubs are formed to help members who are new to investing to learn about investments. Investment clubs offer the structure and support that many less-seasoned investors need to begin investing. They also allow members to pool relatively small individual sums into a larger club

portfolio. This pooling of assets can allow access to investments where each individual would otherwise lack sufficient capital.

**The Motley Fool. “Joining an Existing Club.”**

**<http://www.fool.com/InvestmentClub/JoiningAnExistingClub.htm>.**

This section of The Motley Fool Website addresses some considerations that an individual member would have in joining an investment club. These are included in the literature review as illustrative of how differences between members within a group can negatively impact the investment club’s success:

- ▶ Do members of group have compatible personalities?
- ▶ Do members have common levels of risk aversion and common investing goals?
- ▶ Is the monthly contribution affordable for all members?
- ▶ Do members have the same basic investing philosophy, i.e., technical analysis or expert opinion, value or growth, etc.?

**The Motley Fool. “Try a Money-Free Club.”**

**<http://www.fool.com/InvestmentClub/MoneyFreeClub.htm>.**

This section of The Motley Fool Website discusses investment clubs in which there are no common investment portfolios. These investment clubs are primarily educational groups where members educate one another on investment topics or present research on specific investments. Each member generally applies the education from the club meetings to his or her own investment decisions in various types of financial accounts such as IRAs, 401(k)s, or brokerage accounts. Although The Motley Fool generally favors real investment clubs, this article notes that some of the clubs without common assets have successfully operated for long periods of time.

The article lists the following advantages and disadvantages of such “money-free” investment clubs:

Advantages:

- ▶ Much lower administrative, legal, tax accounting workloads
- ▶ Freedom from monthly contributions
- ▶ Appealing to members unsure of commitment to club

Disadvantages:

- ▶ Lack of discipline imposed by a shared financial interest
- ▶ Members’ tendency to less consistent commitment, attendance

- ▶ Less appealing to members without real financial commitment to group decisions

**The Motley Fool. “What Is an Investment Club?”**

<http://www.fool.com/InvestmentClub/WhatIsAnInvestmentClub.htm>.

This article from one of the most prominent proponents of investment clubs claims that investment clubs in America hold a combined total of more than \$175 million in investments. The popularity of the investment clubs has been growing recently (although the date of this publication is unknown). Members of investment clubs are most often groups of friends or coworkers who meet once a month to discuss stocks and decide which to buy and sell. Each member contributes a small monthly sum of money to the club account. They take turns researching promising investments and presenting their research to the group.

The National Association of Investors Corp. provides the following guidelines for running successful investment clubs:

- ▶ Invest money regularly, without regard to current market conditions
- ▶ Reinvest all dividends and capital gains
- ▶ Buy stock in companies with growth rates above most others
- ▶ Diversify investment choices

**The Motley Fool. “Why an Investment Club?”**

<http://www.fool.com/InvestmentClub/WhyAnInvestmentClub.htm>.

This section of The Motley Fool Website lists the following reasons to start or join an investment club:

- ▶ You are new to investing and seek a way to get your feet wet.
- ▶ You are more comfortable learning about investing with others than on your own.
- ▶ You have \$20 to \$50 to invest each month.
- ▶ You have been putting off investing and would benefit from the discipline that being responsible to the group would provide.
- ▶ You think it would be fun to discuss investment topics and research with a group.
- ▶ You are an experienced investor, but do not have time to research as many companies as you would like to.
- ▶ You believe you would benefit from having others’ perspective on your investment ideas.
- ▶ You would like to learn from investors with areas of expertise outside your own.

Investment clubs can be a terrific way for people new to investing to learn more about it in a friendly group setting. The relatively small regular contributions and the regular meetings both reduce the intimidation members

experience. Also, the process of deliberation and democratic decision-making on investment decisions seems to provide reassurance for inexperienced investors.

**Saguaro Seminar. Roper Center for Public Opinion Research, August 4, 2000.**

This survey included the following question regarding participation in clubs with results provided by race of respondents: Just answer yes if you have been involved in the past 12 months with this kind of group. Hobby, investment, or garden clubs of societies.

|     | Total | White | Black | Hispanic |
|-----|-------|-------|-------|----------|
| Yes | 25%   | 25%   | 22%   | 14%      |
| No  | 75%   | 75%   | 78%   | 86%      |

**Savings Behavior—Theory**

**Beverly, Sondra G., Amanda Moore McBride, and Mark Schreiner. “A Framework of Asset-Accumulation Stages and Strategies,” *Journal of Family and Economic Issues* 24, no. 2 (June 2003): 143–156.**

The authors propose that asset accumulation occurs in three stages. The first stage is reallocation, where people reallocate resources from consumption to savings. The second stage is conversion, where people convert savings from liquid to illiquid forms. The third stage is maintenance, where people resist temptations to dissave. The authors further propose that specific strategies can be classified as either psychological or behavioral. Psychological strategies cited include techniques to view savings as obligatory, mentally focusing on savings goals, etc. Behavioral strategies cited include reducing consumption, increasing income, increasing debt, receiving income in lump-sum payment, using automatic deposit, storing money informally, and choosing financial accounts with penalties for withdrawals.

**Deaton, Angus. “Saving and Liquidity Constraints,” *Econometrica* 51, no. 5 (September 1991): 1221–1248.**

This theoretical econometric work models the savings and spending behavior over time by individuals with limited ability to borrow. Economic theory has suggested that the rational economic agent saves and invests when his income is higher and dissaves and spends during those times when his income is lower (the life cycle theory). The actual observation of individuals in the real world, however, suggests that the life cycle theory does not accurately describe people’s behavior. In the United States, many people save little money even when their incomes would allow. The econometric models here show how the theoretical

behavior changes when the model restricts the person's ability to borrow money. The author cites the fact that one-fifth of the consumption in the U.S. economy comes from households with neither a checking nor savings account as evidence that the borrowing constraint is relevant.

The assumptions embodied in the analysis include consumers who are impatient and thus prefer to spend rather than to save. Another assumption, however, is that the consumer still has an incentive to save in order to protect against reduced or lost income. One important result of the analysis is the following: The more uncertainty in the income of the consumer, the more assets he will save. Modest amounts of savings, however, will be effective in protecting against income declines. The more certain his income, the less he will save. Another part of the model suggests that savings is a function of the sum of income and assets. Thus, comparing two people with the same incomes, the one with fewer assets will save less than the one with substantial beginning assets. Finally, for a consumer with no ability to borrow, and with a completely uncertain income, the analysis predicts that the rational choice is no savings; he simply spends the full amount of his income in the period.

One important limitation is that the model in this work is meant to depict optional saving activity. The analysis does not seem to apply to "forced" savings, such as home mortgages, which plays an important role in asset accumulation in low-income communities. The first assumption mentioned above, regarding the impatient consumer, has also received some criticism. Deaton acknowledges that this model applies only to that part of the population that is impatient, whereas the savings behavior of a patient consumer is vastly different.

**Levy, Moshe. "Is risk-aversion hereditary?" *Journal of Mathematical Economics* 41, nos. 1, 2 (February 2005): 157–168.**

This theoretical article uses the empirical distribution of wealth common to nearly all developed economies to examine the question of whether the degree of risk aversion between generations of families is positively correlated. (The author also acknowledges that the correlation between intergenerational levels of risk aversion are influenced by factors other than heredity.) The model concludes that the empirically observed wealth distribution implies an upper limit on the degree of correlation between the parents' degree of risk aversion with that of their children. This upper bound is estimated to be quite low ( $<0.1$ ). The conclusion is that children are likely to have risk preferences that are much different from those of their parents.

**Menchik, Paul L., and David Martin. "Income Distribution, Lifetime Savings, and Bequests," *American Economic Review* 73, no. 4 (September 1983): 672–690**

This study analyzes the income tax returns and estate probate records of Wisconsin residents who died during the period from 1947 to 1978. The focus of the research was to model the relationship between bequests of financial



assets and income. The authors include reference to a number of prior studies which suggest that bequests of financial assets are a “luxury good.” This would mean that higher income families leave a higher percentage of their lifetime incomes as bequests.

The results of the analysis confirm that the bequesting of financial assets does increase more rapidly for families with higher incomes. The overall average (mean) bequest appears about 5% of total lifetime earnings. However, the bequest percentage is higher for those with lifetime incomes above the 80th percentile. For the remaining four-fifths of the sample, however, there was found to be a relatively consistent bequest percentage. (There was also found to be one generation of decedents, those born between 1880–1889, whose bequest function did not follow the same pattern the others.) The analysis also examined the effect of family size on the size of bequests and found a negative relationship. Thus, larger families received smaller bequests, whereas smaller families received larger bequests.

The article sites the dependent-utility model of Marshall as being the basis for the bequest motive. Under the Marshall model, the utility of parents is a function of their own consumption and the lifetime resources of the children. Another aspect of the model is that parents choose between two types of resources to provide to children: human and financial. Human resources include expenditures on basic needs such as food and clothing as well as optional purchases such as education and recreation. The theory suggests that these expenditures on human resources provide a decreasing utility to the parent, so that basic necessities are highly valued, whereas more expenditure on optional purchases provide smaller and smaller benefits. Financial resources, however, have a constant rate of return. This implies that as the parent’s income grows, it will exceed the point at which the parent will switch over and begin providing financial resources instead of more human resources. Since bequests are a measure of financial resources, the theory would explain why higher income parents give larger percentages of income as bequests.

## **Savings Behavior—Empirical**

**Allers, Kimberly L. “Get on the Road to Financial Freedom,” *Essence* (April 2006).**

This article, appearing in a leading magazine aimed at blacks, uses the situation of one professional black woman to illustrate how personality characteristics often hamper financial success. The article mentions that many black professionals did not have exposure to financial discussions early in life, and many continue to lack confidence with the money even as otherwise successful adults. This lack of confidence mentioned by the author can be manifest through indecision, avoidance, oversaving (unreasonably denying own needs), or overly risky investment choices. The article features a quotation from a Stanford researcher, Boyce D Watkins, saying that 80% of money management

success comes from personality characteristics, with only 20% from financial know-how.

**Amuedo-Dorantes, Catalina, and Susan Pozo. "Precautionary Savings by Young Immigrants and Young Natives," *Southern Economic Journal* 69, no. 1 (July 2002): 48–71.**

This article aims to compare the savings behavior of younger families and individuals born in America to those of immigrants to America. The survey used data from the 1979 Youth Cohort of the National Longitudinal Surveys (NLS) to examine savings behavior over time. The NLS contains information on demographic characteristics of each participant that can be used to control for other factors such as marriage, education, and income that directly influences savings. One potentially important limitation, however, is that the NLS data did not include the country of origin for the immigrants.

The overall conclusion was that native-born Americans accumulated more savings than immigrants. This finding was consistent with similar research on savings among Canadians. However, the authors note that the savings outcomes included in these statistics do not include remittances to countries of origin. They only count U.S. assets. The article briefly cites several other sources of information on the possible reasons immigrants remit money to home countries of origin. The reasons mentioned in the literature include not only altruistic and personal reasons, but also others in which non-U.S. assets can serve the goals of portfolio diversification or insurance. The article cites unpublished research showing that half of Nigerian immigrants in the Chicago area claim to own housing in that country. The authors suggest that future research on international remittances is key to understanding immigrant savings behavior in the United States.

**"The Language of Money." St. Paul: Minnesota Department of Employment and Economic Development, 2004.**

This report examines the cultural perspectives and experiences of three different racial ethnic minority groups as they relate to banking, saving, investment, and economic topics. One author of prominence and knowledge of each of the Somali, Hmong, and Latino populations was selected to write each of the three sections of the report. Each section was structured so as to address the same topics as faced by each of the three groups. These topics included an overview of each of the communities' histories as well as the perspectives and one example related to each of the following topics: banking, borrowing, budgeting (including "paying yourself first"), and protecting assets from theft/scams, home ownership, and loans.

Although the cultural context and examples provided for each section are too extensive to summarize here, one clear similarity is the strong emphasis on the personal and financial connections to the country of origin. This emphasis is mentioned several times in sections on banking, borrowing, even

homeownership. The nature of these connections includes the direct connection to the financial and banking systems in the home country. Many Americans of each ethnic background regularly use the financial system in the home country to send remittances to relatives in the home country. Many Hispanics intend to build or purchase a home in Mexico or elsewhere in Latin America using their earnings from employment here. The “indirect” effect on the finances of the immigrants could all result from different degrees of impermanence regarding duration of stay within the United States. Each of the three communities, particularly the Hispanic community, contains a number of people who intend to return to their country of origin at some future date. This would seem related to the reluctance to save, invest, or accumulate assets in the United States. (See the need for future research on international remittances as suggested by Catalina Amuedo-Dorantes and Susan Pozo above.)

**Loury, Glen C. “Why More Blacks Don’t Invest,” *New York Times* (June 7, 1998).**

This brief article mentions research from the Survey Research Center at the University of Michigan which shows that whites are much more likely to have investments in stock (41 percent) than blacks (14 percent). Other research indicated that whites considered stocks the best investment choice, whereas blacks favored real estate.

**Magee, Gary B., and Andrew S. Thompson. “The Global and Local: Explaining Migrant Remittance Flows in the English-Speaking World 1880–1914.” *Journal of Economic History* 66, no. 1 (March 2006):177–202.**

This article explains the five types of motivations for remittances from migrants back to relatives and acquaintances in their country of origin. It then uses data from postal money order flows among the United Kingdom, the United States, and Australia between 1881 and 1913 to perform an econometric test. In the test, the five motivations are operationalized by measurable variables from historical demographic and economic data.

The five categories of motives for remittances to relatives and acquaintances in the country of origin are summarized from the previous literature (primarily from the field of history).

*[Note: The following table was prepared for this literature review and did not appear in the article.]*

| Remittance Type      | Explanation of Motivation  |
|----------------------|--|
| Obligatory           | Pure altruism<br>Implicit contract to maximize family income<br>Repayment of travel costs, prior investments in human capital, and income security                   |
| Affordable           | Income exceeds a target level of personal living expenses allowing its remittance to country of origin   |
| Portfolio Management | Strictly rational shifting of assets to maintain or increase their value   |
| Unique Difficulties  | Emergency relief in disaster, economic distress, or illness  |
| Autonomous           | General background level of remittances irrespective of immediate circumstances<br>Random events<br>Spiritual, cultural, political connections to ancestral homeland |

The results of the model that were applied to these data were analyzed using the flows between each of the pairs of countries in each direction. This produced coefficient estimates that were generally in line with theoretical explanations. Thus, the variables measuring such things as the interest rates between the two countries generally carried the expected signs (indicating that higher interest rates in the United Kingdom compared to the United States were associated with increased flow of remittances from the United States to the United Kingdom). However, the significance of these coefficients was below the standard confidence levels (such as 95% or 90%). Thus, there may not have been proof of the hypotheses of portfolio management as a significant motivation in remittances. However, the variables measuring obligatory remittances were significant at the highest level of confidence (99%) across most of the regressions. The variable measuring the affordability motivation was also significant at the standard confidence levels across all of the regressions. One other variable that was found to be significant at a lower level of confidence (80% or 90%) was the differential unemployment rate between the two countries. This variable would be interpreted as supporting the unique difficulties mentioned above.

**Shapiro, Thomas, and Melvin Oliver. "Closing the Racial Wealth Gap." Waltham, Mass.: The Institute on Assets and Social Policy, Heller School for Social Policy and Management, Brandeis University, September 2005.**

This article, an epilogue to the upcoming edition of *Black Wealth/White Wealth*, summarizes some developments in the wealth divide between the races in the past ten years. The overall wealth gap continues at about 0.10, so that the mean net wealth of a black household is 10% that of a white household. This ratio has been stable for most of the past two decades. The article notes that most recently (apparently since the stock market fall of 2000–2001), black household wealth has declined whereas white household wealth is basically flat. The article

notes that the increased reliance on credit scores for hiring decisions may be extending the racial stratification from the ownership of assets into the employment arena.

**U.S. Department of Census, Bureau of Labor Statistics. *Consumer Expenditure Survey*. Washington, D.C., 2003.**

The Consumer Expenditure Survey (CES) is a detailed report of the spending behavior of American families (or other consumer units, CUs). The survey includes CU spending in each of hundreds of expenditure types. The list of expenditures in the financial category includes life insurance. Average annual family expenditures on life insurance by race are as follows: Asian \$403.37, White \$392.37, Black \$287.50, and Hispanic \$156.57. Dividing the expenditures by the overall average provides an approximation of the extent of life insurance maintained by each group. Thus, Black households' insurance coverage amounts to 76% of the overall average, whereas Hispanic households' insurance coverage amounts to only 41% of the overall average. Asian households' insurance coverage is slightly higher than the overall average. The CES shows even lower relative coverage based on private pension expenditures among Black (48%) and Hispanic (43%) households, with Asian households again exceeding the overall average.

Other noteworthy patterns from the financial expenditures section of the CES include the following noticeable expenditure patterns for the minority racial group. The following categories of spending are those for which the race's relative expenditures are highest:

- ▶ **Blacks:** Finance charges (except mortgage, vehicle); Bank service charges; Cash contributions to churches; Gambling losses
- ▶ **Hispanics:** Miscellaneous personal services; Finance charges (except mortgage, vehicle)
- ▶ **Asian:** Safe deposit box rental; Cash support to college students; Credit card memberships; Other cash gifts