Leveraging Mobility Series

Leveraging Mobility: Building Wealth, Security and Opportunity for Family Well-Being

Hannah Thomas, Janet Boguslaw, Alexis Mann, and Thomas Shapiro

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The Real Challenges in Leveraging Mobility

In 1998 Michelle and Bob Johnson were part of a new African American middle class. They had high hopes of buying a house and Bob had a good job in television. But in 2004 Bob got laid off and it took two years to find a new job. In the meantime the family built up debt for health costs, which they were just digging out from in 2010. Michelle was living in her family's house with the two girls, and Bob was an eight-hour drive away at his job. He'd spent a couple of years living out of hotel rooms and a car trying to stay on top of the medical debt, cover his family's living costs and help out his aging parents.

> *"I work on the evening news here in this town. What's really bizarre is people think you make all this money. When you have aging parents who you're helping and you've got a daughter who's going through what she's going through (medical disability) and another daughter in college, it just gets spread out so thin. You don't want anybody to know that you're taking a hit so you do everything you can do to keep the image alive."* Bob Johnson

In 1998 Simon Ward was a self-employed carpenter and his wife Felicia received disability due to chronic poor health. By 2010 Simon had thrown in the towel on his business and just recently found a job as a construction manager. In many ways they had made gains in mobility. They'd bought a house with the help of a local homeownership program, and their household income and net worth had both increased. But they were unable to access the equity in their house because of credit card debt built up through Simon's business. He would have liked to refinance the debt into the house to make it less expensive, but…

> *"You have equity in your home. You can't get the equity to get you out of the problem you're in because they won't give it to you unless you correct what you [can't] correct. And you can't correct it, because you ain't got the money. So it's like a Catch-22."*

OVERVIEW

In the last few decades economic mobility has stagnated; income and wealth inequality has reached the highest levels since the Depression of the 1930's, and the racial wealth gap has grown. The Great Recession exacerbated trends already underway, shaking the potential for family economic security, upward mobility, and general well-being.

In good and hard times, parents aspire to see their children fare better than they have. Yet parents' own ability to build and protect financial wealth, to sustain quality employment, and to access good care as they age, shapes their capacity to meet aspirations for their children. How are these tough economic times affecting the hopes and dreams expressed so inspirationally at the end of the 1990s? In the wake of these changing economic tides how do families keep on building wealth? Or are they finding other ways to leverage security, opportunity and well-being for themselves and their children? What is the role of family, community, public and private institutions and policies in the process? And what do families need to build wealth and security and get their aspirations for present and future generations back on track?

Drawing on a unique dataset of longitudinal interviews conducted twelve years apart, families with children in three major cities across the nation were asked about their assets, wealth, income, economic security and life aspirations. This *Leveraging Mobility* series examines how working and middle class families use assets to advance security and mobility or, like the Johnsons and Wards, struggle to gain ground in the absence of assets. How families are faring within this changed national landscape while raising children provides some surprising insights:

- **Wealth-depleting economic events (illness, divorce, job loss, natural disasters) across the life course are actually quite common.** A majority of families had multiple wealth-depleting events. We see a clear difference in their capacity to stay on course, depending upon past and present access to institutional mechanisms that build and protect their resources. ***Interviews indicate that those who have access to institutional wealth protecting and building opportunities before these events are more economically secure even when they don't have such access when these events hit.*** This reveals the importance of access to public and private opportunity structures to smooth the bumpy road of life.

- **Extended family wealth has a greater role than previously thought.** While the primary focus of family intergenerational wealth mobility studies has examined wealth at the household level, the data suggest that wealth flows around extended family networks in fluid and ongoing ways. As a result, the role of extended family assistance goes further than researchers have realized, with short and long-term wealth effects for both those receiving and giving, across all socio-economic levels of income and assets. These flows are structured and operate differently for working class African American and white families. This has significant impacts for how individuals and families build security and wealth and plan for the future. ***Interviews suggest that the opportunities for leveraging family wealth for present and future well-being are eroding across racial and class lines, but still play a primary role in how families build wealth and manage opportunity.*** These data inform our understanding of how challenging wealth building is for those without extended family assets and what kinds of opportunity structures they need to build security and well-being.

- **Families make hard choices about how to use their wealth to secure their future for retirement while leveraging opportunities for their children and insuring present financial stability.** ***Interviews provide insights into the many trade-offs families make in the short-term that erode their future security.*** For example, decisions to use retirement savings to send a child to college, or to manage a period of unemployment end up compromising future financial security in old-age. The choices help inform discussion and development of emergency savings vehicles and broad institutional structures to improve economic security navigation for short and long-term benefit.

- **Good jobs provide far more than income in helping families build wealth, take risks, save for the future, and advance their upward mobility.** ***Interviews demonstrate that the carry-over effects of good jobs extend well beyond any particular position or wage.*** This is occurring precisely at a time when access to such structured benefits are dwindling on the employer side. The way in which non-wage job benefits provide present and future security and a pathway to wealth provides insight into the types of institutionalized resources that need to be accessible to families within or outside the context of a particular job.

There are many such insights in the data about how families build wealth and its role in leveraging well-being and mobility over the life course, answering questions such as: Are families managing to build security and wealth for their families? How do they advance when their job and income evaporates? Are they able to secure opportunities for their children? Will they have sufficient wealth to avoid poverty as they age? What are the real-life trade-offs they are making for the short and long-term and are these trade-offs different from our common assumptions? What role do assets play in the story of leveraging mobility? This introduction brief is the first of the series responding to these questions and sets the context for subsequent briefs.

Terms Used In This Series

Assets/Wealth: Assets are the tangible resources available to households–financial, personal, institutional, and social (networks of family and friends) that can be drawn upon in times of need, or can be invested for the future. Examining the change in a family's wealth over time helps reveal changes in economic security and opportunity for the family as a whole.

Head Start Assets: Head start assets are those assets a parent provides to a child to help them access opportunities. These assets might be a loan or gift to buy a house, or a savings account to help pay for college.

Transformative Assets: Transformative assets are inherited wealth lifting a family beyond their own achievements.

Net Financial Assets/Liquid Wealth: Financial assets are those liquid financial resources such as savings accounts, retirement accounts, children's college funds, and stocks and bonds available to a family to draw on. Net financial assets is the sum of all assets minus the sum of all debts, excluding home equity.

Net Worth (Total Wealth): Net worth is a wealth measure that looks at the sum of a family's assets minus all its debts, including home equity.

Asset Security: A family is asset secure if together with three months of unemployment insurance and their own assets, they have sufficient liquid assets to cover 75% of average household consumption for three months.

A UNIQUE LONGITUDINAL DATA-SET

To answer such fundamental questions critical to family well-being, we need to know how *real* families in *real* life situations behave. We have the great fortune to draw upon a set of in-depth family interviews conducted at two points in time, offering a rare look at family financial lives and the decisions and trade-offs families made between financial security and opportunities during a decade of particular economic volatility. In 1998 the original sample of 180 was selected to ensure that half the sample was African American families and half was white families and included an equal split of working class and middle class families.[1] At baseline, families had children aged between 3 and 10 years old. More than 12 years later when the second wave of 137 interviews was conducted these children were at the end of their high school career or beyond and their parents were in the latter half of their working lives, between 40 and 60 years old. The families were located in three urban cities in 1998: one on the East Coast, one on the West Coast, and one in the Mid-West. The baseline and follow-up interviews covered information about the children's education histories and aspirations for their future, the community or communities where they had resided previously and currently, their household income and expenditures, household wealth and debt, their work history, family financial and non-financial assistance, and reflections about their economic security and decisions they had made related to using their assets.[2]

WEALTH OVER THE LIFE-COURSE

Wealth typically grows over the life-course. Theories suggest that families borrow when they are young and then increase their savings during their working years to build wealth over the course of their lives until they hit retirement when they start spending down their wealth towards the end of their lives.

While some families do see their wealth growth follow this model, recent research has been suggestive of a pattern of wealth holding characterized by greater wealth volatility. Families experience increases and decreases in their wealth over the life-course as a result of a loss of income from unemployment, poor health, divorce and a spouse's death. Their inability to predict when such events will occur means that they cannot maximize their savings rate to smooth household consumption.

A DECADE OF CHANGE IN FAMILY WEALTH:
What's the Real Story Behind the Numbers?

For the majority of families in the study, the first decade of the twenty-first century was a story of building wealth and income despite two major recessions.

Table 1 reviews selected characteristics for the families interviewed in 1998 and 2010. Income and wealth increased at the median for the entire sample of families interviewed, as did education levels and the proportion of families that were homeowners. Following expected trends, over two thirds of the families interviewed saw some kind of absolute wealth growth (adjusted for the consumer price index) between the first interview in 1998/99 and the second interview in 2010/11. By 2010, liquid wealth increased dramatically for white families at the median. African American families did not share in that growing wealth pie. Total wealth, which includes home equity, increased nearly four times and Afrcan American families did share in this increase.

Liquid wealth is defined as financial resources that a family can access quickly in an emergency, even if intended as savings for another purpose. The liquid wealth of nearly two thirds of families interviewed increased over the sample period. For those families whose liquid wealth increased the median gain was $77,600.

Sharisse and Brenton Perkins are a white middle class couple that has benefited from parental wealth. An inheritance enabled them to buy a two-family house that gives them supplemental income, increasing in value over the 18 years they have owned it. Additionally, their parents have given them significant help in paying private school tuition.

> *"Both of our parents came out of poor backgrounds but…rode the '70s wave of financial growth and…they had jobs with retirement, with pension plans–stuff that barely exist now, but that's really taking care of them in their old age now. They invested in stocks and the stocks went crazy…A big part of our financial picture is that we are lucky enough to have parents that have big financial cushions."* Sharisse Perkins

The following table shows the distribution of each individual household's change in net financial assets between 1998 and 2010.

Table 1: Selected 1998 and 2010 characteristics of families interviewed in both 1998 and 2010

	All Families	AA Families	White Families
Number	137	67	65
Median Age 1998 (Years)	37	36	38
Median Children in Home in 1998	2	2	2
Median Children in Home in 2010	1	1	1
Median Income 1998 (2010 dollars)	$58,746	$48,106	$80,400
Median Income 2010	$69,000	$56,000	$84,000
Median Net Financial Assets 1998 (2010 dollars)	$2,010	$1.34	$16,214
Median Net Financial Assets 2010	$28,050	$167.50	$81,350
Median Net Worth 1998 (2010 dollars)	$20,100	$5,253	$113,900
Median Net Worth 2010	$79,500	$9,750	$289,000
College Education or Higher 1998	54%	36%	64%
College Education or Higher 2010	60%	50%	72%
Homeowners 1998	53%	34%	75%
Homeowners 2010	69%	51%	91%
Experienced Unemployment 1998-2010	38%	39%	37%

Wealth increased as a result of: families' incomes increasing; employment benefits; family assistance through financial gifts or inheritance; extended family financial independence; and rising home equity.

- **Almost two thirds of the families who saw their liquid wealth increase also increased their incomes.** Terrence and Laila Fisher saw their household income increase from $46,900 to $100,000 between 1998 and 2010. The same company has employed Laila for 14 years and with raises and promotions she has seen her individual income increase and her retirement savings grow to about $100,000. Along with Terrence's pension, they have considerable retirement security, enough that Terrence felt comfortable to take a risk and use their savings to start a new business.

- **Extended family assistance played an important role in helping families accumulate wealth.** While income may have played some role in increasing household wealth, many families like the Perkins family were ***"lucky enough to have parents that have big financial cushions."*** Sharisse and Brenton did not have to support their parents in old age and they had benefited from access to parental resources to help purchase a house earlier in their lives that then provided rental income when they faced work disruptions. Two fifths of families that saw an increase in their wealth had received some kind of financial assistance from their family members and nearly one fifth had received an inheritance.

- **Nearly three quarters of the families who saw an increase in their total wealth were homeowners in 2010.** Families able to purchase homes in this time period were likely to see an increase in their wealth. Nine of the fourteen families that bought a house between 1998 and 2010 received some kind of family help—head start assets. Soledad Givelber, an African American mother living on the West Coast, owned a duplex in 1998 that she had bought with help from her parents. By 2010 she had sold that property for $565,000 and took $225,000 in equity that she had from the sale to put down on a new house that she bought for $585,000. The house in 2010 was worth about $800,000 despite the loss in value from the Great Recession. Her net worth had grown from $164,000 to $604,000.

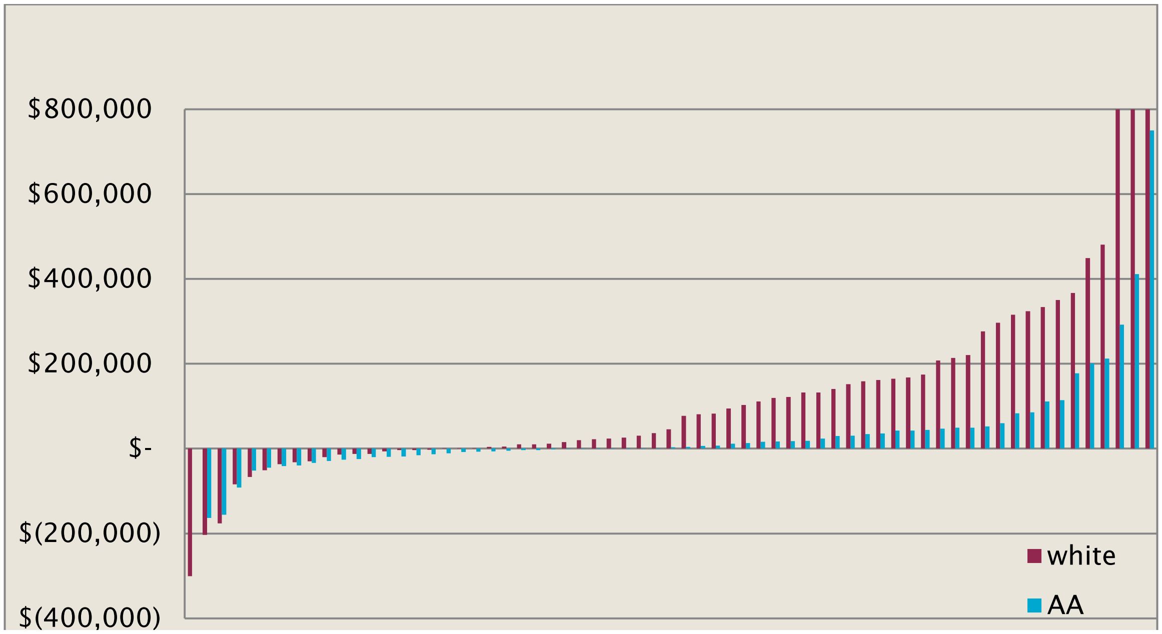
- **While the income and education gaps between African American and white families at the median in the study were reduced, the wealth gap (liquid wealth) increased to five times what it was in 1998.** When we include housing wealth, the wealth gap was smaller but it had still increased 2.5 times from what it was in 1998. African American families at the median started in 1998 with lower incomes, less wealth, lower rates of education and homeownership, and slightly higher rates of unemployment than did white families. By 2010, despite making gains in income and education, not only had their wealth not caught up with white families interviewed, it did not keep pace and actually fell further behind:

    - African American families more often had to help out family members.

    - African American heads of household were more often likely to be unemployed in 2010, and worked in occupations with fewer benefits.

    - Many African American families that owned a house saw their home's value stagnate while that of their white counterparts grew.

Graph 1: Distribution of Household's Change in Net Financial Assets Between 1998 and 2010 (2010 Dollars)



Source: Leveraging Mobility Data

For many other families, the story was one of wealth depletion.

While many families saw their wealth increase, about one third of families saw their liquid wealth decrease between 1998 and 2010 by $20,099 at the median. If families are expected to be gaining wealth during this period of their lives when they are active and working, the loss of wealth suggests real economic hardship and family financial fragility for later years, and short-circuited opportunities for social and economic mobility. Families that experienced a reduction in their liquid wealth were more likely to be African American: almost two thirds of families with decreasing net worth were African American while only one third of those families were white. Nearly three quarters of this group saw an income decrease. These families were disproportionately renters.

- **A complex set of variables contributed to a family's downward mobility, including health problems, change in marital status, unemployment or a decrease in income and supporting kin networks.** A negative change in wealth is often a signal that a family has fallen on hard times and is spending down their assets to preserve well-being. Families interviewed spent down their wealth for a variety of reasons. Some families used their assets as a rainy-day fund during a period of slow employment, while others facing unemployment had no rainy day fund to access and found themselves sinking in debt to meet their day to day expenses and long-term financial commitments.

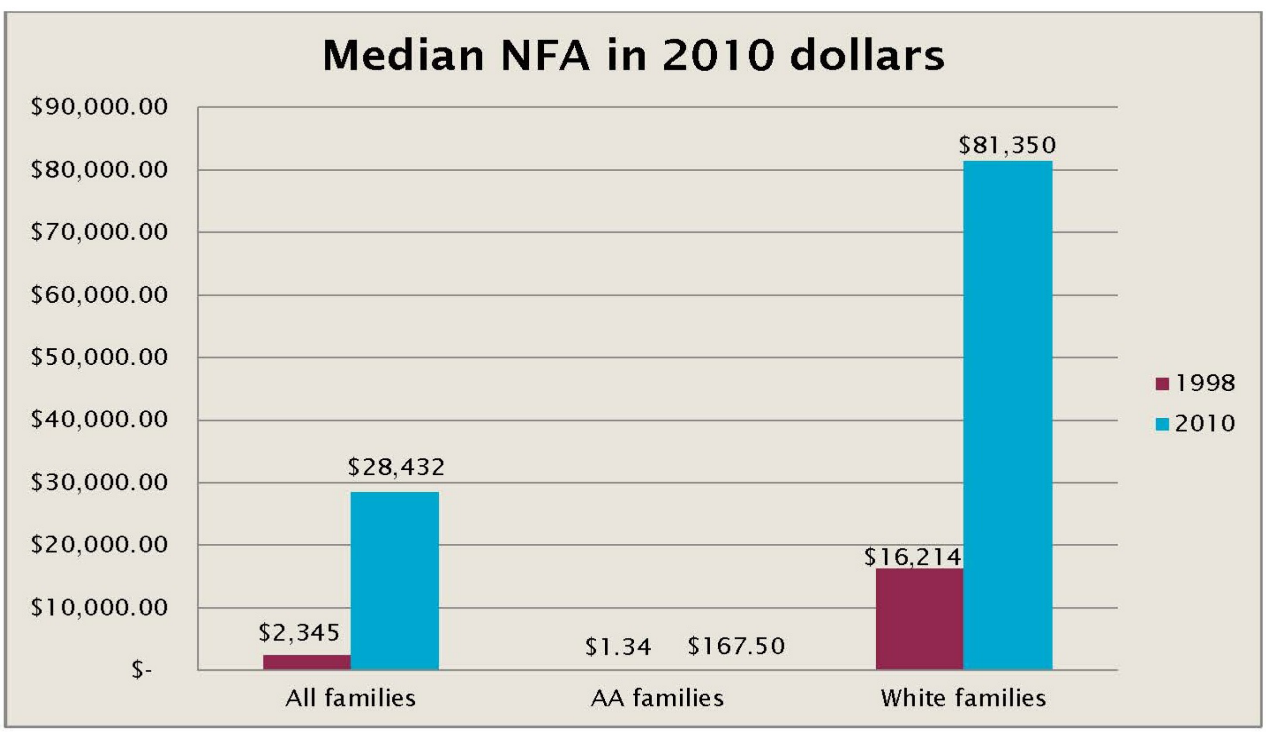
- **Nearly half of the families interviewed that saw their wealth decrease between 1998 and 2012 were supporting a family member in some way.** Family members included grown children who had left the household, adult siblings, nieces and nephews, and elderly parents. Contrary to the experience of Sharisse Perkins, whose parents did not need her help, Lindsay Bonde found herself caring for her mother for a period of five years. This included covering her healthcare costs from her own emergency savings fund. ***"I took out of my savings when she needed. So that was considered part of my emergency fund…So, we weren't well off you know...So my mother and father was very poor."*** Bob Johnson also had to help out his aging parent at a time when he was already having to take on expensive debt to cover his daughter's health costs and was stretched thin recovering from a period of unemployment. Working class families and African American families we talked to were more often asked to help out a family member financially.

- **Nearly two thirds of families whose assets had decreased between 1998 and 2010 used some of their assets to invest in a business, a new house, their own or a child's education, or to buy a car.** A negative change in wealth is not always a sign of hardship. Wealth can be used to invest in the future, for example, in a child or parent's education. These are investments that are critical for families to leverage security and opportunity but that may not show a return on the investment immediately.

Racial Disparities persist in income and wealth because the rules of wealth building play out differently for African American and white families.

National data confirm what the interviews tell us: family wealth and income has increased at the median, but there remains a substantial gap between African American and white families' income and wealth. Furthermore, the story of increasing wealth for white families is more often than not a fairytale for many African American families. African American families in the study see an increase in their income and a small increase in their liquid and total wealth at the median. White families start with more and end with significantly more wealth.

Graph 2: Median Net Financial Assets (NFA) of families interviewed in 1998 and 2010 (2010 Dollars)



While there are some similarities in the ways that families build wealth, the interview data point to a range of ways that the rules of building wealth differ for African American and white families. For example:

- **Homeownership, an institutional bastion of wealth-building for white families has mixed outcomes for African American families in our sample.** Patricia Arrora followed all the rules for building wealth. She leveraged state workforce programs to get educated and get a higher paying job. She used a federal housing program to save money and buy her first house. She was able to sell this house and buy a new house in a quieter suburb, out of "the ghetto" where she could raise her twin daughters. But the new house was part of a development that has seen ongoing foreclosures and the value of her house plummeted.

  > *"When I sold the house…I took the profit...I put $112,000 down on a new house, so it's like that money's gone. I wished I was able to just keep some of it more as a cushion."*

  Her house is now more of an anchor than an asset. She won't be leaving any time soon. Our research briefs will explore more of the ways that building wealth differs between white and African American families.

- **Living in a high-performing and safe school district means families do not have to pay for private school.** African American families that are unable to afford to buy a house in a high-performing school district often find themselves choosing to pay for private school to provide their children similar educational opportunities. Tuition is not the only expense those families have to face. Lorita Adams, a middle class African American mother of two, lived in a neighborhood that had a poorly performing school district.

  > *"…I had done some research and reading on educational systems and really felt strongly that for boys, African American boys, it just wasn't a good place and you had to work really hard to make it work…So I decided that I wanted to put him into private school."*

  The school they chose cost about $20,000 a year, although they had scholarships that reduced the cost to $2,000 a year for the first seven years, after which tuition increased. This has been a large expense for them since her husband was in and out of work. On top of tuition there were additional costs in attending private school:

  > *"it was difficult because even though you're not paying the full tuition, you're still doing all the other things that are expected of parents like, you know, fundraisers, they still want you to donate and I was part of the parent group and so like going to meetings, attending sports events, fundraisers, all the parties."*

White families may choose to send their children to private school, but they are more often able to buy a house in a higher performing public school district and not have to pay for private school.

THE LEVERAGING MOBILITY SERIES:

What has driven these wealth changes?

The trends in these interviews and national survey data raise the question: What has enabled some families to build wealth while others fall behind? The interviews point to some key variables that subsequent briefs and reports in this series will explore in greater depth. In untangling the web of choices families face in creating family financial security, it is clear that extended family wealth, policy and employment structures, and knowledge about and access to reliable information, all incentivize and drive the strategies, decisions, and trade-offs that families make. The data point to the intersection of the choices and prospects that families encounter, and the need to create opportunity structures that enable families to access and leverage opportunity to build wealth and family well-being over time.

Each of the briefs will explore the policy implications of the findings in greater depth. We will complete the series with a synthesis report that pulls the series together and highlights the intertwining policy implications.

END NOTES

[1] Middle class and working class were defined using a combination of occupation and income.

[2] IASP secured Institutional Review Board (IRB) approval. The interviews lasted 1.5 to 2.0 hours in length, were taped and transcribed, and analyzed using qualitative data analysis software. Of the original 180 interviews conducted in 1998, 137 families participated in the follow-up interview (43 declined and/or deceased), achieving a 76.1% follow up rate. No contact was made with the original 180 families in the 12 years between the first interview and the second interview.

About IASP

The Institute on Assets and Social Policy (IASP) is dedicated to advancing economic opportunity, security and equity for individuals and families, particularly those left out of the economic mainstream. Our work is premised on the understanding that assets provide the tangible resources that help individuals move out of and stay out of poverty, as well as inspiring effective individual, community, state and national actions through the belief that security, stability, and upward mobility are indeed possible.

Additional reports and briefs that draw on these interviews can be found on our website: www.iasp.brandeis.edu.

For more information about this series, please contact Hannah Thomas at hthomas@brandeis.edu.

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Following are teasers of the first four briefs and reports to be released at the end of 2013 and beginning of 2014.

A Job is More Than Income

Interviewing a sample of young families at the beginning and end of a decade of economic turmoil and two recessions, we were surprised to find that over two thirds had seen their wealth increase. As we talked to them it became clear that many factors were at play. One important observation was that a family's access to wealth-building and protecting resources through employment, independent of income, played an important role in getting on the wealth escalator. We call these non-income employment-based resources, "employment capital." A puzzle remained however, workers in African American families in our interview sample saw their incomes and educations increase in relation to white families and yet their wealth was gaining at a slower rate than white families' wealth. Sorting through the data from our interviews and looking at national data as a comparison, it became clear that these wealth-building and protective employment structures are distributed unequally, a function of the intersection of race, class, and employment occupation. This brief details the ways that aspects of employment capital build and protect wealth and suggests policy solutions to increase our understanding of and access to employment capital.

Negotiating Mobility: How Families Make Trade-Offs and Decisions Between Security and Mobility

Each family faces hard decisions as it strives to build financial security in the face of a changing economic opportunity structure. As part of this series, we willl ook at the complex decisions and trade-offs that families face in negotiating their economic security, and how different forms of assets and access to assets shape family trajectories. This brief will examine the trade-offs that families make as they negotiate a period of unemployment.

The Private Social Safety Net: The Impact of Extended Family Wealth on Family Financial Security

The asset field challenges how economic security and well-being is measured and understood. A fuller picture emerges when we include household wealth. The interview data suggest fluid movement of wealth within kinship networks, implying we need a broader view of how surveys currently measure wealth flows. By understanding wealth flows around kinship networks in greater depth we get a more complete picture of how a family faces economic challenges and how they might be able to take advantage of opportunities for mobility. This brief will explore the myriad ways that extended family support–both direct and indirect financial support–help families maintain income, financial security, and build opportunities for the next generation.

Changing the Rules of the Game: Homeownership and Wealth

Homeownership has historically been the means to build wealth in the U.S. Our interviews confirm that the wealth built from homeownership has converted into other forms of security and well-being, allowing families to renovate their homes, send their children to college, start a business, and save for retirement. But volatile and uneven home prices and neighborhood decline has left some families with a liability rather than an asset. In the leveraging mobility data we see examples where homes continue to be a source of wealth, where homes are simply a place to live, and where homes are a liability. This brief will explore the new reality of owning a home for families in the twenty-first century and whether homeownership can still provide the same wealth benefits promised in the twentieth century.

IASP
Institute on Assets and Social Policy
The Heller School FOR SOCIAL POLICY AND MANAGEMENT • BRANDEIS UNIVERSITY
P.O. Box 549110 • MS035 • Waltham, MA 02454 • (781) 736-8685
www.IASP.Brandeis.edu IASP_Heller