Wealth and Health: Exploring Asset Poverty as a Key Measure of Financial Security

Carl Rist

A number of social and economic factors, such as the poverty rate, now guide North Carolina's efforts to improve health and well-being. Poverty is often measured using income. This is a useful measure of the ability to meet current expenses. However, new measures of poverty that use wealth as the variable provide a broader picture of financial well-being.

Introduction

A growing body of research points to the fact that the health of individuals and communities is largely a function of social and economic factors [1]. In their "Healthy North Carolina 2030" report, the North Carolina Institute of Medicine and North Carolina Department of Health and Human Services identify a number of specific social and economic factors to help guide state efforts to improve health and well-being, including the poverty rate. According to the latest data from the US Census Bureau, North Carolina's poverty rate is 13.6%, ranking 36th among all states [2]. Living in poverty in North Carolina places households at greater risk of experiencing a range of negative outcomes, including financial insecurity, food insecurity, housing instability, and poor health.

Yet, measuring poverty in terms of income is only one way of measuring financial well-being. What if we were to explore household financial well-being in North Carolina by looking at what households own, as opposed to what they earn? In fact, economic theory suggests that wealth operates somewhat differently than income at the household level.

What is Wealth and How Does it Impact Households?

Economists make an important distinction between income as a *flow* of money over a specified period of time (i.e., a monthly paycheck) and wealth as a *stock* of value at a point in time. By this definition, wealth includes a wide range of tangible financial assets, such as savings accounts, certificates of deposit, stocks, bonds, 401k retirement accounts, the cash value of life insurance policies, home equity, and the equity in small businesses. As a form of money that is distinct from income, wealth provides unique benefits at the household level. As Professor Michael Sherraden theorized in *Assets and the Poor*, assets: improve household stability, create an orientation toward the future, stimulate the development of other assets, enable focus and specialization, provide a foundation for risk-taking, increase personal efficacy, increase social influence, increase political participation, and enhance the welfare of offspring [3].

How is Wealth Distributed?

While the distribution of income in the United States is highly unequal, the distribution of wealth is even more unequal. For example, according to the Census Bureau, the richest 20% of households earned almost 52% of total household income in 2019, while the poorest 20% of households earned just 3.1% [2]. In comparison, the wealthiest 20% own 79% of total aggregate wealth in the United States [4]. The wealth distribution is also highly unequal across race. According to the Urban Institute, the household wealth of the median White household ($117,000 in 2016) was eight times the wealth of the median Hispanic household ($20,920) and 10 times that of the median Black household ($17,409) (Figure 1).

This stark wealth inequality lies at the root of a recent Federal Reserve report that found that almost 40% of US households would have difficulty meeting a $400 emergency expense [5].

Asset Poverty—A New Measure of Inequality in North Carolina

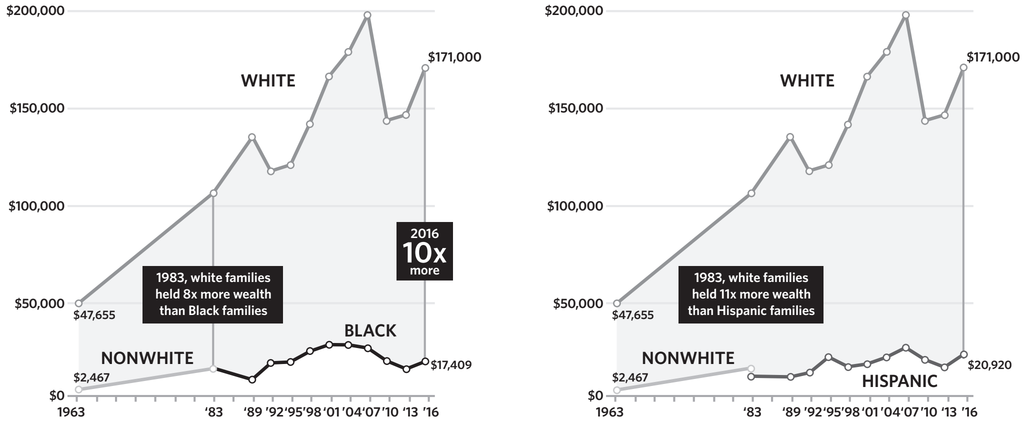
Given the extreme inequality in the distribution of wealth in the United States, one would assume that a large share of households are unable to take advantage of the important benefits of asset holding. In order to measure this dynamic more precisely, researchers have developed a new measure called "asset poverty," which refers to the percentage of households that lack sufficient net worth to subsist at the poverty level for three months in the absence of income [6]. Asset poverty can be thought of as a minimum threshold of wealth needed for both financial security and economic mobility. Since households vary in size, the threshold used

Electronically published January 3, 2022.

Address correspondence to Carl Rist, 809 Watts St, Durham, NC 27701 (carlrist62@gmail.com).

N C Med J. 2022;83(1):11-16.
0029-2559/2022/83106

FIGURE 1.
Median Family Wealth by Race/Ethnicity, 1963–2016



Source. Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31). Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.
Note. 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.

to determine the asset poverty rate typically varies by family size. So, for example, any family of four with net worth at or below $6,550 would be deemed asset poor in 2020.

According to the Prosperity Now Scorecard, which provides estimates for a number of wealth measures at the state level, North Carolina's asset poverty rate was 26% in 2016 (the most recently available year) [7]. This figure is roughly double the state's official poverty rate of 13.6%. Asset poverty in North Carolina is also higher than the US average (24.1%) [7].

The level of asset poverty also varies dramatically among key demographic groups in North Carolina. For example, the Prosperity Now Scorecard reports that almost one in five White households (19.5%) are asset poor [7]. In comparison, twice as many Black households (two in five, or 40.3%) are asset poor [7] (Figure 2).

Though asset poverty dwarfs income poverty across every state, experts on wealth agree that the asset poverty measure, which is based on household net worth, creates a rather conservative estimate of household financial insecurity. The reason for this is that household net worth includes assets that are less liquid, such as a home or business, which would need to be liquidated in order to meet day-to-day expenses were a household to face a crisis. In response, researchers have developed a closely related measure, liquid asset poverty, which may provide a more accurate measure of the lack of financial security at the household level. Liquid asset poverty is a measure of the percentage of households that lack sufficient *liquid* assets to subsist at the poverty level for three months in the absence of income.

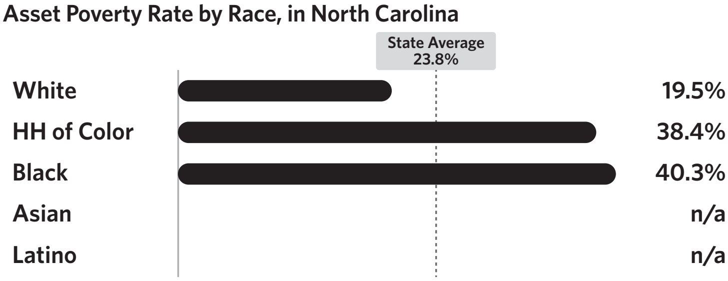
In North Carolina, more than two in five households are liquid asset poor (42.1%). This compares to a national average of 36.9% (Figure 3). When viewed among key demographic groups, the results are alarming. In North Carolina, more than two-thirds of Latinx households (68.1%) and almost two-thirds of Black households (63.1%) are liquid asset poor [8].

Whether viewed as a potential driver of poor health outcomes or as a measure of a lack of economic opportunity, this shocking level of financial insecurity should be of concern to North Carolina's citizens and leaders alike.

What Should North Carolina Do About Asset Poverty?

In a capitalist economy, the ability to possess, invest,

FIGURE 2.
Asset Poverty Rate by Race, in North Carolina



Source. Prosperity Now Scorecard. Survey of Income and Program Participation, 2016.
Note. Data shows "n/a" in instances where the are too few observations to produce a reliable estimate.

Cené SIDEBAR

leverage, or fall back on wealth is a key foundation of economic success. In turn, economic success is a key factor in healthy outcomes for individuals and households. North Carolina's high rates of asset poverty, especially among people of color, represent a call to action for the state's leaders. Fortunately, over the past two decades, innovative states and state policymakers have enacted public policies specifically designed to help households with limited incomes to build wealth and protect the wealth that they own. North Carolina's leaders should consider these four proven broad-based asset-building strategies:

Children's Savings Accounts (CSAs)

CSAs are restricted, incentivized savings or investment accounts for children and youth. CSAs usually offer a range of incentives, such as initial deposits, matches, and "benchmark" or milestone deposits to help the account grow. Most CSA programs are also focused primarily on saving for college or post-secondary expenses.

With increasing support from states and city governments, CSAs have grown rapidly since first being introduced in the early 2000s. According to the most recent survey by Prosperity Now, more than 900,000 CSA savers are actively

***Cené* SIDEBAR continued**

participating in more than 100 CSAs programs in 36 states [9]. Leading states, such as Maine, Nevada, and Pennsylvania, open accounts automatically for all children at birth. Most recently, California approved spending nearly $1.8 billion to provide CSAs seeded with up to $1,000 to approximately 3.7 million low-income public-school students in 1st through 12th grades [10]. Additionally, California approved $107 million for at-birth CSAs for all newborns. Funding for this effort in California includes $1.8 billion from the federal American Rescue Plan [10]. While 529 education savings accounts are commonly implemented as part of CSA programs, because North Carolina does not provide incentives for its 529 accounts, they do not fall into the CSA category.

Individual Development Accounts (IDAs)

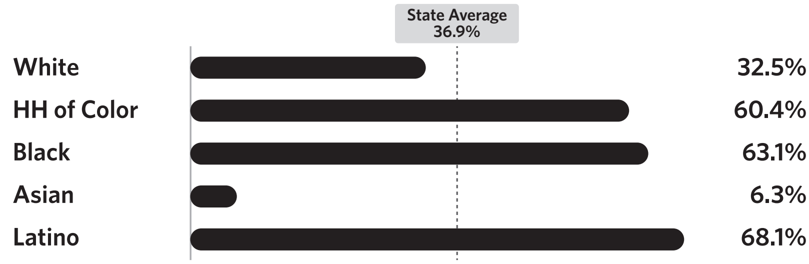
Similar to CSAs, IDAs are matched savings accounts for low-income adults that are typically restricted to three main uses—home purchase, business start-up, or going to college. IDA programs are usually managed by public or nonprofit service providers, in partnership with a financial institution, and the accounts typically offer a 2:1 match, up to a predetermined match cap. There are hundreds of IDA programs across the United States, though the field has shrunk since the federal government stopped funding IDAs in 2016.

Cené SIDEBAR continued

Auto-IRAs

Retirement savings is another important source of wealth for many households, but according to the AARP Public Policy Institute, less than half of private sector workers in North Carolina (47%) have access to a workplace retirement plan [11]. That means that 1.7 million private-sector wage and salary workers in North Carolina (full- and part-time) do not have a retirement plan at work. In recent years, states like Maryland, Illinois, and Oregon have created automatic-enrollment Individual Retirement Accounts (auto-IRAs) as a state-administered alternative for workers who have no access to an employer-based retirement plan. Employees in businesses that are above a certain size and don't offer a retirement plan are "auto-enrolled" in a basic retirement account, such as an IRA or Roth-IRA. Contributions are set at a predetermined level (often 5% of pay) that may also include an automatic escalator. Employees can opt out or change their contribution levels at any time; employers are not required to match contributions or provide any financial support—all they must do is use their payroll systems to automatically fund the auto-IRA accounts. State government has no financial liability for the program and has no financial commitment beyond launching the program.

FIGURE 3.
Liquid Asset Poverty Rate by Race, in North Carolina



Source. Prosperity Now Scorecard. Survey of Income and Program Participation, 2016.

Removing or Reforming Asset Limits

A final strategy for building assets is to remove built-in rules that create a disincentive for low-income households to save. Most public benefit programs, such as cash welfare, food assistance, and heating assistance, limit eligibility based on wealth. These so-called “asset limits” can either restrict which households qualify for aid or disqualify households currently receiving aid. As a result, these asset limits effectively discourage low-income households from either holding wealth or seeking to grow wealth. State policymakers have discretion in setting asset limits for a number of public assistance programs, including Temporary Assistance for Needy Families (TANF), the Low-Income Home Energy Assistance Program (LIHEAP), and the Supplemental Nutrition Assistance Program (SNAP). In recent years, seven states (including Alabama, Louisiana, Maryland, and Ohio) have eliminated asset tests for TANF, LIHEAP, and SNAP. Other states have either raised their asset limits or exempted certain classes of assets—such as vehicles, retirement savings in 401(k) accounts, or college savings in 529 accounts—to minize savings disincentives [12].

Conclusion

The health of individuals and communities is largely a function of social and economic factors. For many years, the poverty rate has been a critical metric for identifying households that are facing material hardship and thus are at risk of a number of negative outcomes, including food insecurity, housing instability, and poor health. Newer measures that expand the definition of poverty to include not only household income but also household wealth provide a more complete picture of household financial well-being and suggest deeper levels of material hardship than captured by income poverty measures alone. North Carolina’s asset poverty rate (26%) is almost double the state’s income poverty rate (13.6%) [8], suggesting the need for state action to help more households build wealth and create greater financial opportunity. Forward-thinking states have developed a number of successful models to help low-income households to acquire and build wealth, such as children’s savings accounts, individual development accounts, auto-IRAs, and policies to remove or reform public assistance asset limits. NCMJ

Carl Rist, MA independent consultant, Durham, North Carolina.

Acknowledgments
Disclosure of interests. No interests were disclosed.

References
1. Social Determinants of Health: Know What Affects Health. Centers for Disease Control and Prevention. Updated September 30, 2021. Accessed December 2, 2021. https://www.cdc.gov/socialdeterminants/index.htm?
2. United States Census Bureau. 2019 Poverty Rate in the United States. Updated October 8, 2021. Accessed December 2, 2021. https://www.census.gov/library/visualizations/interactive/2019-poverty-rate.html
3. Sherraden M, Gilbert N. Assets and the Poor: A New American Welfare Policy.Routledge; 1992.
4. Horowitz JM, Igielnik R, Kochhar R. Trends in income and wealth inequality. Pew Research Center. Published January 9, 2020. Accessed December 2, 2021. https://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality/
5. Report on the Economic Well-Being of U.S. Households in 2019 – May 2020. Board of Governors of the Federal Reserve System. Updated May 21, 2020. Accessed December 2, 2021. https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-dealing-with-unexpected-expenses.htm
6. Haveman R, Wolff EN. Who are the Asset Poor?: Levels, Trends, and Composition, 1983-1998. University of Wisconsin-Madison, Institute for Research on Poverty; 2001. Accessed December 2, 2021. https://www.irp.wisc.edu/publications/dps/pdfs/dp122701.pdf
7. Prosperity Now Scorecard. Data by Issue. Financial Assets & Income: Asset Poverty Rate. Accessed December 2, 2021. https://scorecard.prosperitynow.org/data-by-issue#finance/outcome/asset-poverty-rate
8. Prosperity Now Scorecard. Data by Issue. Financial Assets & Income: Liquid Asset Poverty Rate. Accessed December 2, 2021. https://scorecard.prosperitynow.org/data-by-issue#finance/outcome/liquid-asset-poverty-rate
9. Campaign for Every Kid’s Future and Prosperity Now. Sustaining the Movement: The State of the Children’s Savings Field 2020. Prosperity Now; 2021. Accessed December 2, 2021. https://prosperitynow.org/sites/default/files/resources/CSA-SOTF-2020-Sustaining-the-Movement_V3.pdf
10. Governor Gavin Newsom Signs Legislation to Make College More Affordable and Accessible in California. Sierra Sun Times. Published July 28, 2021. Accessed December 2, 2021. https://goldrushcam.com/sierrasuntimes/index.php/news/local-news/31535-governor-gavin-newsom-signs-legislation-to-make-college-more-affordable-and-accessible-in-california
11. John D, Koenig G. Fact Sheet: North Carolina – Workplace Retirement Plans Will Help Workers Build Economic Security. AARP Public Policy Institute; 2015.
12. Prosperity Now Scorecard. Data by Issue. Financial Assets & Income. Asset Limits in Public Benefit Programs. Accessed December 2, 2021. https://scorecard.prosperitynow.org/data-by-issue#finance/policy/savings-penalties-in-public-benefit-programs