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ASSETS, INEQUALITY, AND THE TRANSITION TO ADULTHOOD

An Analysis of the Panel Study of Income Dynamics

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ABSTRACT

Measures of socioeconomic status, like total household income, are strong predictors of a host of economic, educational, and health outcomes for individuals. Another perspective, though, asserts that household wealth and net worth can be an even more important avenue than income in improving outcomes for families and children and reducing societal inequality. Savings accounts for children have been proposed by policy advocates as a means for helping families to accumulate savings to improve the lifetime chances for their children as they transition out of childhood and into their adult lives. In support of this hypothesis, a growing body of literature suggests a significant relationship between a household's level of wealth or assets and positive short-term developmental outcomes for children, such as better grades and classroom behaviors, regardless of their family's income level.

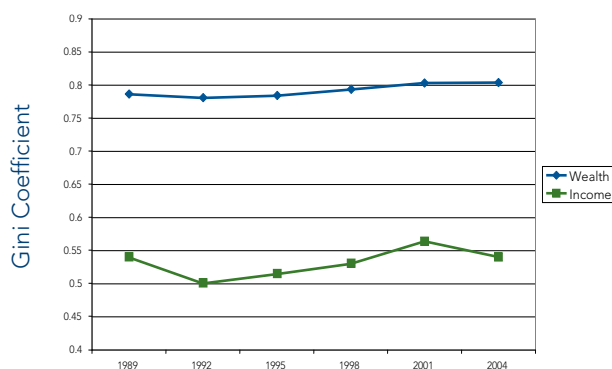
The current study uses the Panel Study of Income Dynamics to test the relationship between wealth in childhood and longer-term outcomes, indicating a positive transition into adulthood. It finds that young adults who were raised in homes with more wealth at a point in their early childhood are more likely to have positive outcomes, such as graduating from high school, enrolling in college, and establishing their own independent checking and savings accounts. Although most of the observed benefits of wealth occur across socioeconomic groups, young people from lower-income families show the most consistent effects, and early household wealth appears to act as a buffer against negative outcomes, such as dropping out of high school.

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BACKGROUND & CONTEXT OF INEQUALITY

During the last two to three decades, the United States has experienced extremely high levels of economic inequality. A measure known as the gini coefficient systematically quantifies how equally or unequally a given resource is distributed throughout a population. Theoretically, a country with a completely equal sharing of resources (such as wealth or income) earns a gini coefficient of 0, and a country with a completely unequal distribution (one person possesses everything) earns a gini coefficient of 1. Consistent with other, census-based findings on high levels of U.S. inequality (Danziger & Gottschalk, 2004), data from the 2004 Survey of Consumer Finances¹ reveal high and generally increasing gini coefficients (Kennickell, 2006). Although U.S. income inequality is among the highest in the world (G20 average = .395;² U.S. = .541), the wealth gini coefficient is particularly elevated at .805 in 2004 (Kennickell, 2006; see Figure 1).

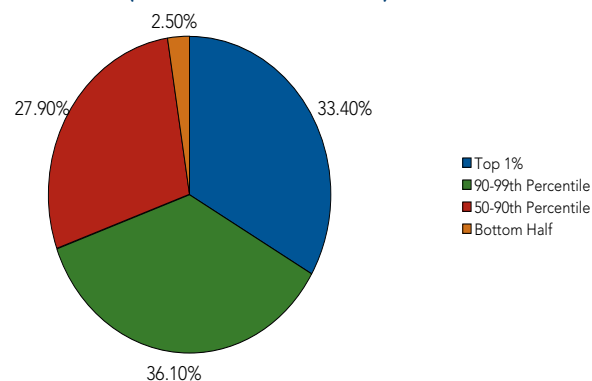
Figure 1. U.S. Wealth & Income Inequality Over Time



A look at figures from the 2004 Survey of Consumer Finances also shows that the distributions of economic resources in the United States are so strongly skewed that a minority of individuals situated at the very top earn and accumulate the lion's share of income and wealth, while those in the bottom half possess only

a fraction. In the extremely polarized pool of American net worth, or assets minus debts, the top 10 percent of wealth holders possess 69.5 percent of the nation's total amount of wealth, while the entire bottom half holds only 2.5 percent (Kennickell, 2006; see Figure 2).

Figure 2. Distribution of Net Worth (Total \$50.3 trillion)



ASSET BUILDING

High levels of inequality are generally viewed as undesirable for individuals and society as a whole. Comparative analyses reveal that negative consequences of inequality range from increases in violent crime rates to decreases in overall national health and productivity (Wilkinson, 2006). Several government initiatives have attempted to reduce inequality, primarily through the tax code, but these policies are often limited in their effect because they only reach targeted populations or fail to address disparities in wealth and assets, focusing instead on income opportunities. Although increased income can lead to clear immediate benefits for well-being, increased wealth and assets are more likely to help families improve their long-term capabilities for stability, by building financial investments and enhancing potential levels of education for parents and children (Sherraden, 2008). Dramatic figures of wealth and asset inequality have led academics, policymakers, and legislators to pay increased attention to wealth and asset-building initiatives as a practical route toward the improvement of social and economic oppor-

tunity for all Americans.

One result of the growing emphasis on asset-building has been the spread of Individual Development Account (IDA) programs, which essentially provide savings accounts, usually for low-income individuals, that offer some level of matching funds for money deposited by participants. IDAs aim to combat increasing inequality and decreasing financial security by helping people to accumulate wealth and assets, regardless of their income level. Perhaps the most valid investigations of IDA effectiveness come from field experiments conducted under the American Dream Demonstration (ADD)³. Although some analyses of a large-scale demonstration in Tulsa, Oklahoma indicate that overall effects of IDA participation on total net worth were minimal or even negative (Apostolov et al., 2007; Mills et al., 2006), other evaluations of the same program showed that IDA participants increased their rates of homeownership and total net worth (for participants 36 or older) after 48 months of IDA participation, compared to control groups (Mills, 2005).

It remains difficult to draw conclusions regarding the effectiveness of IDAs in general because of the limited number of large-scale, controlled demonstrations. Nonetheless, in a review of over 50 research and policy reports on IDA programs, the Center for Social Development found largely encouraging outcomes of matched savings account initiatives.

Overall, the research finds generally positive results from IDA programs and provides concrete evidence of effectiveness of IDAs and asset-building programs for individuals and families with low incomes. Almost all of the reports convey confidence in IDAs and asset-building initiatives as part of an overall wealth-building strategy (Carpenter, 2008).

ASSETS & YOUTH DEVELOPMENT

Another approach to asset policy, which is related to IDAs and has gained notable momentum, is child sav-

ings accounts. This proposal goes beyond the immediate benefits of asset building for household financial security, highlighting the unique role that wealth and assets can play in child development and outcomes, encouraging intergenerational mobility, and breaking cycles of poverty (Lindsey, 2009). For example, the child accounts proposal of the Initiative on Financial Security at the Aspen Institute would provide federal funding to open a \$500 private savings account for every newborn child in the United States, and family contributions to the account would be matched up to 100 percent, depending upon income level, helping low- and moderate-income families accumulate assets. At adulthood, the amount could be rolled into a retirement account, used to help fund a college education, or put toward any other purpose relevant to an individual's life circumstances and aspirations (Aspen Institute, 2007). Several similar federal proposals exist with variations on amounts and requirements, including the ASPIRE Act, PLUS Accounts, 401Kids, and Young Saver's Accounts⁴. The United Kingdom launched its own child savings accounts program in 2005, known as the Child Trust Fund. By April 2008, 3.4 million accounts had been opened, with total assets of £1.8 billion or about \$2.6 billion (HM Revenue & Customs, 2008).

Academic research from nationally-representative, longitudinal datasets provides some support for the inclusion of child accounts as a component of wealth and asset policies. The Panel Study of Income Dynamics (PSID) contains the strongest source of comprehensive, nationally-representative data on social and economic aspects of individuals' lives through a longitudinal study of about 8,000 families in the United States since 1968, with an over sampling of low-income and black American populations. Analysis of the PSID data by Williams Shanks (2007) shows that wealth and assets are important contributors to child development at younger ages. Specifically, she found that levels of a family's wealth, assets, and net worth significantly predict a child's cognitive and behavioral performance, even after controlling

for income. For youth aged 3-12 in 1997, at all income levels, more family assets are associated with significantly better math performance and fewer behavioral problems in school.

These findings imply that helping people to build savings, assets, and wealth will positively affect child development. The next important step in research is to follow youth as they move from childhood into adulthood. The positive influence of wealth and assets on youth development becomes even more significant if these benefits carry over into tangible educational and financial outcomes in early adulthood. Conley (1999) was one of the first to address this issue by looking at educational outcomes of 18-30 year olds from PSID families. Although some measures were retrospective, he found that disparities in levels of household wealth and assets can explain commonly observed racial differences in high school and college completion.

EMERGING QUESTIONS ON EARLY ASSETS & YOUNG ADULTHOOD

The latest waves of the PSID contain particularly useful information on children who grew up in PSID households and have recently transitioned into adulthood. The “Transition to Adulthood” survey contains a wide range of items regarding the health, activities, relationships, employment, education, goals, expectations, and other outcomes of over 700 young adults, aged 17-21 in 2005. Thus, we have the capability to investigate relationships between characteristics of young adults’ families or households when they are young children, such as the level and types of wealth, to their outcomes in early adulthood. While Williams Shanks (2007) provides evidence that wealth and assets – and potentially child savings accounts – can be beneficial for a child’s development and his or her early progress in school, this paper explores whether these benefits are evident as youth move into adulthood. Of the many measures available in this survey, we focus on three basic, objective outcomes:

(a) graduation from high school; (b) enrollment in college; and (c) ownership of a checking or savings account. We chose these measures because they are indicators of a positive transition to adulthood, but they are not universally achieved.

Because the PSID also contains longitudinal data on the families of the young adults, our analyses will show if the amount of wealth or assets in the young adults’ early childhood home affects the chances of having a better transition into adulthood years later. We focus on a measure of total wealth or net worth to investigate the potential, long-term benefits of some form of wealth or assets in the household, regardless of income level. We use a measure of total household wealth in 1989, when the young adults were two to five years old. The total wealth variable encompasses all forms of assets and debts, including the sum of home value, net value of other real estate, net value of vehicles, net value of farms and businesses, net value of stocks, net value of all accounts, and net value of all other assets minus remaining mortgage principal and all other debts.

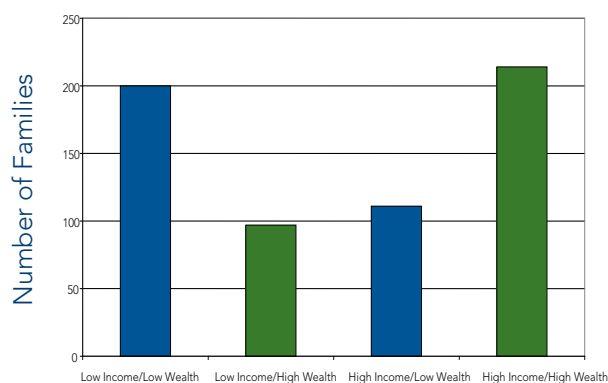
DESCRIPTIVE ANALYSIS PLAN

First, a set of descriptive statistics will illustrate the relationship between levels of household wealth at one point in time in early childhood and the likelihood of graduating high school, attending college, and opening a bank account by early adulthood. We expect that young adults who lived in homes that held more total net worth in early childhood will be more likely to achieve the positive outcomes of interest. Importantly, we expect to find that the benefits of higher total net worth will be found for young adults from both lower- and higher-income families⁵. The family backgrounds of the nationally-representative sample of 745 young adults can be categorized into four groups based on whether they are above or below the medians of income and wealth. These low- and high-income and low- and high-wealth groups were created by dividing the sample at the medians of income

(Median = \$56,000, Range = \$0 – \$1,247,797) and wealth (Median = \$13,821.50, Range = -\$70,685 – \$3,120,000), as measured in 1989.

Because of the correlation between income and wealth, ‘low/low’ (families below the income median AND below the wealth median) and ‘high/high’ (families above the income median AND above the wealth median) groups are about twice as large as the others (see Figure 3), but the low income/high wealth group, in particular, will present an illustration of the long-term effects that may follow when lower-income families own assets.

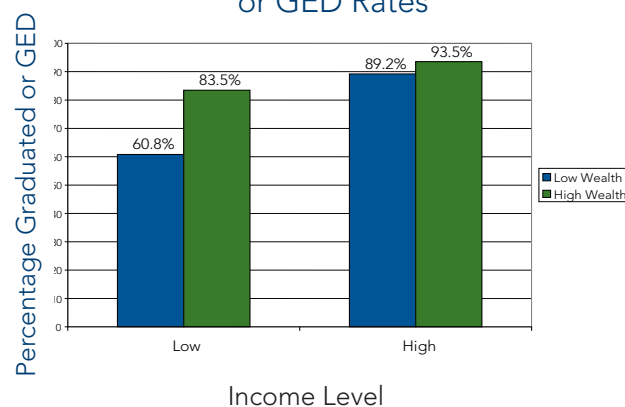
Figure 3. PSID Sample Income & Wealth



EDUCATIONAL & FINANCIAL OUTCOMES

The first educational outcome of interest was high school graduation. Participants were asked “Did you graduate from high school, get a GED, or neither?” Overall, a large proportion (81 percent) of the sample replied that they had, indeed, either completed high school or a GED. For young adults from higher-income families, their rates of high school completion hovered around 90 percent, regardless of the level of wealth in the family. For the lower-income portion of the sample, however, a different picture emerged. As shown in Figure 4, high early household wealth and assets appear to significantly increase the chance that lower-income students will graduate from high school or obtain a GED, by over 20

Figure 4. High School Graduation or GED Rates



percentage points. So, early savings, assets, and wealth increase chances of high school graduation or obtaining a GED for lower-income students and show only a 61-percent success rate if their early childhood environment is low in wealth. These data suggest that more wealth in an early childhood environment acts as a buffer against the increased likelihood of dropping out of high school found among lower-income youth.

Beyond graduating from high school, the next important educational landmark for our sample of young adults is college enrollment. Because all participants were within the traditional age range for college enrollment, they were simply asked “Are you currently attending college?” Here, the benefits of early wealth and assets are more universal. Although young adults from higher-income families are generally more likely to be enrolled in college, more wealth in the early childhood environment significantly increases the likelihood of college enrollment for young adults from both low- and high-income families. As shown in Figure 5, for young adults from lower-income families, high early household wealth boosts chances of college enrollment by over 15 percentage points; for their higher-income counterparts, it increases 25 percentage points.

As expected, wealth and assets in early childhood increase the likelihood of graduating high school (for lower-income students) and attending college, regardless

Figure 5. College Enrollment

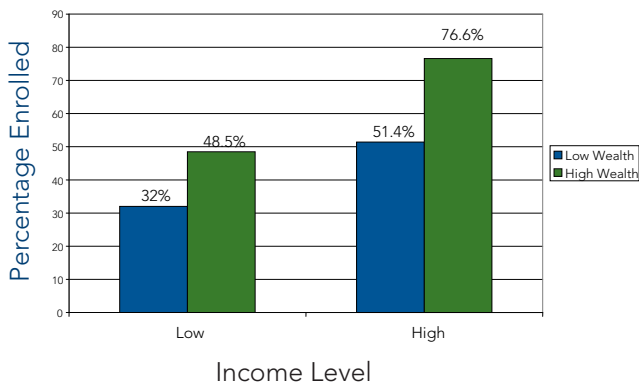
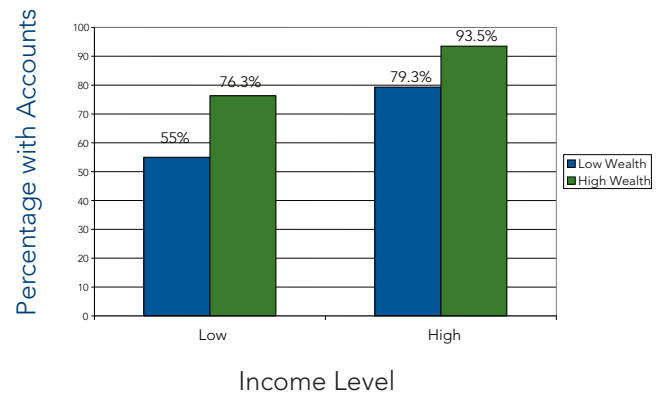


Figure 6. Checking or Savings Account



of class background. In addition to educational advantages, early wealth and assets should increase the likelihood that young adults will be able to take the first steps toward financial security and involvement with the private financial services industry. Participants were asked “Do you have a checking or savings account?” We analyzed these responses because opening a basic checking or savings account is a relatively simple process that is possible for young people across income groups and is an indication of early financial responsibility.

Results reveal that early household wealth increases the chances that a young adult has his or her own checking or savings account, regardless of the family’s income background. High early household wealth and assets increase the likelihood of having a checking or savings account from about 50 percent to over 75 percent for young adults from lower-income families, and from about 80 percent to over 90 percent for young adults from high-income families (see Figure 6).

REGRESSION ANALYSES

Basic comparisons of young adult outcomes between the different wealth and income groups provided consistent, yet superficial, support for the assertion that in our measures, more wealth in an early childhood environment leads to better outcomes in young adulthood,

usually regardless of income level. Regression analyses remain necessary, though, to affirm that early wealth exerts a statistically significant influence upon these outcomes, controlling for other variables. Multiple logistic regression allows us to show that the effects remain significant, even when controlling for family income, in addition to other variables that may influence outcomes, such as age of the young adult (Median = 19, Range = 17-21), gender (46.6 percent Male, 53.4 percent Female), number of children in the childhood home (Median = 1, Range = 1-4), and race (50.7 percent White, 43.6 percent Black, 0.8 percent American Indian, 1.1 percent Asian, 0.5 percent Pacific Islander, 1.1 percent Other). Unfortunately, the subsample of Hispanics was not large enough to conduct analyses specific to this growing population. By including these controls in our regression models, though, we can more clearly show the independent effects of household wealth in the pre-school years on our three outcome measures.

As expected, regression analyses confirm observations from the descriptive analyses. Increases in household wealth during early childhood correspond with a significant increase in the likelihood that low-income youth will graduate from high school or obtain a GED. More household income and fewer children in the household are also significantly related to a better high school

outcome, but the wealth effect persists in spite of these control variables, suggesting that wealth and assets matter for all low-income families. Early household wealth also leads to a significantly greater chance of college enrollment among young adults. This effect applies to individuals across the entire income distribution and remains significant even when taking into account the positive effect of income and negative effect of more children in the household on college enrollment.

Finally, young adults from families that possessed more wealth during their early childhood are more likely to have their own checking or savings accounts. Even

though having more income, being White, and coming from a family with fewer children also increase the likelihood of opening a personal bank account, early wealth shows independent effects beyond the influence of the significant control variables. Overall, our results indicate that greater household wealth in early childhood increases chances of high school/GED completion (for those from lower-income backgrounds), college enrollment, and participation in basic financial management activities, even when controlling for a number of influential variables (see Table 1).

Table 1. Logistic Regression Effects of Total Early Household Wealth on Outcomes for Young Adults

	High School/GED (Low-income Only)	College	Accounts
CONTROLS			
Income	.297 (.097)**	0.78 (.018)***	.147 (.032)***
Age	-.061 (.128)	-.084 (.084)	.012 (.102)
Gender	-.231 (.279)	-.310 (.176)	-.167 (.220)
Race	-20.337 (40192.706)	.315 (1.430)	-18.678 (28349.069)
Number of Children	-.495 (.125)***	-.270(.093)**	-.322(.103)**
WEALTH	.114 (.049)*	.039 (.013)**	.047 (.025)~

CONCLUSIONS & IMPLICATIONS

As expected, these results suggest that the promotion of wealth and asset-building could bring about long-term benefits for children growing up in all sorts of households, regardless of income, race, number of children, or social class. The Panel Study of Income Dynamics is arguably the most reliable resource of its kind, containing an abundance of information relevant to public policy initiatives designed to reduce economic inequality. Nevertheless, it is important to acknowledge that income and number of children exhibit consistent and robust effects on our outcomes of interest, suggesting that they may be more influential than wealth or assets. Family income and size, though, are variables that represent much more than merely their literal content. They are strongly correlated with other broader measures of social class, like occupation and neighborhood characteristics, so it is difficult to assert that an effect of income is purely representative of the effects of economic resources. Instead, observing any statistically significant effect of wealth after controlling for the strong omnibus effects of social class indicators, such as family

income and size, means that interventions focused on asset-building may be particularly effective and circumvent the negative influence of other social and structural factors related to low social class.

In drawing conclusions based on these PSID findings, we must also consider the cross-sectional nature of the first wave of the Transition to Adulthood survey. Despite controlling for a number of important extraneous variables, it may still be argued that the “high wealth” participants possess other qualities that drive the positive effects on outcomes for their children. Ultimately, future qualitative research may be necessary to investigate the experience of families that are low-income/high-wealth to determine the combination of personal and structural factors that may have facilitated their ability to accumulate assets.

For the time being, a growing body of theory, experiments, and large-scale policy demonstrations lend support to the notion that assistance in building wealth and assets can benefit children and families from diverse socioeconomic backgrounds. Ongoing work from the Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy and Practice Initiative⁶ aims to demonstrate the long-term benefits of matched children’s savings accounts for low-income children and families. Preliminary findings indicate positive savings outcomes, with an average of over \$1,000 in about two years, and in-depth interviews show benefits in behaviors, attitudes, and esteem among participating youth (Mason et al., 2007; Scanlon & Adams, 2005). As these types of large-scale demonstrations develop, more confident conclusions can be drawn concerning the unique influence of wealth on youth through childhood and into adulthood.

Finally, important questions emerge regarding the process that leads from wealth and assets to child outcomes. Social psychological theory suggests that youth see positive outcomes, such as college, as more of a concrete possibility if their families are able to take early steps in financial planning. Small-scale behavioral experiments have begun to outline the process from assets to outcomes. To date, evidence suggests that making longer-term goals such as a college education seem financially possible can improve short-term goals and behavioral plans for students at ages as young as middle school (Destin & Oyserman, 2009). Continued research in this area remains necessary to understand how youth perceive their families’ asset-building capabilities and how that influences their own behaviors and expectations for the future.

The significant correlation between income and wealth ($r = .359, p < .01$) implies that current political and economic structures facilitate wealth promotion among higher-income Americans but not among low-income individuals. In our PSID sample, there were more than twice as many low-income/low-wealth families as there were low-income/high-wealth families. This indicates that although asset building is possible for low-income families, facilitating it will require better public policy incentives and structures, as well as private financial services. In a society of increasing economic inequalities and diminishing intergenerational social mobility, wealth and asset promotion policies may help families raise children who will have a greater chance of graduating high school, attending college, and progressing toward a lifetime of financial security.

ENDNOTES

- 1 The Survey of Consumer Finances is a triennial study on the finances of about 4,500 U.S. families, sponsored by the Federal Reserve Board and the U.S. Department of the Treasury, facilitated mainly by the National Organization for Research at the University of Chicago. Measures of inequality based on SCF data generally provide underestimated figures because members of the Forbes 400 Richest Americans list are systematically excluded.
- 2 Author's calculations from World Bank Data, 2007 World Development Indicators Report, Table 2.7
- 3 The Corporation for Enterprise Development administered matched-fund Individual Development Accounts to over 2,000 poor and low-income individuals as part of the American Dream Demonstration from 1997-2002, which was evaluated primarily by the Center for Social Development of Washington University.
- 4 For a description of these proposals, see http://www.assetbuilding.org/resources/childrens_savings_accounts.
- 5 Household income in 2004 was used in these analyses because it was the most recent measure available and therefore the most predictive of outcomes for members of our sample. The primary aim of our analyses is to show the independent effects of wealth on outcomes, and therefore income is included as a control. As a result, this more recent and predictive measure of income leads to a more conservative test of wealth effects.
- 6 The SEED initiative is a multi-site, longitudinal program that develops and tests the effects of matched savings account programs children. For more information, see <http://www.cfed.org>.

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