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FOUNDATIONS OF A NEW WEALTH AGENDA

A RESEARCH PRIMER ON WEALTH BUILDING FOR ALL

FINANCIAL SECURITY PROGRAM
aspen institute

CONSUMER INSIGHTS COLLABORATIVE

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ABOUT THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

To learn more, visit AspenFSP.org, follow @AspenFSP on Twitter, or sign up for our newsletter at http://bit.ly/fspnewsletter.

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CONSUMER INSIGHTS COLLABORATIVE

WHO IS THE CONSUMER INSIGHTS COLLABORATIVE?

The Aspen Institute Financial Security Program convenes the Consumer Insights Collaborative, an effort across nine leading nonprofits to collectively understand and amplify data for the public good, specifically about the financial lives of low- and moderate-income households. The Collaborative's vision is that data-driven insights will prompt a wide variety of actors to develop programs, products, and policies that help more people achieve financial security—and that the insights inspire more organizations to put their data to use for good.

commonwealth

Strengthens the financial security and opportunity of financially vulnerable people by discovering ideas, piloting solutions, and scaling innovations.
www.buildcommonwealth.org
Boston, MA

SaverLife (Formerly EARN)

Leverages financial technology and economic inclusion to empower low-income Americans to save and take charge of their financial lives.
https://about.saverlife.org
San Francisco, CA

UpTogether

UpTogether highlights, accelerates, and invests in the initiative people in financially under-resourced communities are taking to improve their lives. Formerly: Family Independence Initiative.
www.uptogether.org
Oakland, CA

Change Machine

Builds financial security for low-income communities through people-powered technology. Championing the aspirations of Black and Brown women who navigate financial insecurity. Their success means success for all.
www.change-machine.org
Brooklyn, NY

inclusiv

Promotes financial inclusion by providing capital, building capacity, and developing innovative products and services for community development credit unions (CDCUs).
www.inclusiv.org
New York, NY

LIFT

Builds relationships with parents to set and accomplish family career and financial goals, connecting them to the resources and networks that make those dreams a reality.
www.whywelift.org
Washington, DC

MAF

Creates a fair financial marketplace for hardworking people by building on what they have through financial products, coaching, and technology.
www.missionassetfund.org
San Francisco, CA

mypath

Equips young people of color growing up in financial deserts with the knowledge and financial tools they need to build wealth and get on the path to economic mobility.
www.mypathus.org
San Francisco, CA

NEIGHBORHOOD TRUST FINANCIAL PARTNERS

Helps workers take control of their finances with human-touch financial coaching linked to safe and goal-oriented products and delivered via the workplace, fintechs, and nonprofit partners.
www.neighborhoodtrust.org
New York, NY

Executive Summary

In *The State of Financial Security 2020*, the Aspen Financial Security Program identified the urgent need for a new wealth agenda in the United States, grounded in the perspective that "**the ultimate goal of the financial security field is not to help families merely better manage scarcity, but to truly create conditions of security and well-being that will enable full participation, agency, and dignity—not just in our economy, but in our democracy**."[1]

Personal wealth—the savings and assets a family owns, minus their debts—is a central component of household financial security.[2] It is a requirement for the well-being of families with lower incomes just as it is for those with higher incomes. One's own financial resources protect against short-term financial shocks and afford an individual the freedom to not simply dream about the future, but also to take the necessary steps to seize it.

In pursuit of an inclusive and prosperous nation, we cannot dismiss individuals and families with lower incomes as being somehow not ready or suited for building personal and intergenerational wealth. Families with little to no wealth and those with low or moderate income aspire to build wealth just as those with higher wealth and higher earnings do, in part because having wealth both represents and materially provides financial security and freedom.[3] Dismissing these goals for families because of their lower earnings or lower wealth holdings limits economic growth, productivity, social cohesion, and the health of our democracy. Challenging long-held assumptions about who can and should build wealth and how households can build wealth is the first step to expanding opportunities for families to share in prosperity.

In this foundational publication, designed to be a first step toward a new wealth agenda, we examine the state of household wealth building in the US today through the lived experience of families with low or moderate incomes. This report synthesizes and builds on insights surfaced by the members of Aspen FSP's Consumer Insights Collaborative (CIC) to articulate why personal wealth matters so much to all people and families in America; what it takes to be able to build sustainable wealth; the barriers facing wealth building for low- and moderate-income (LMI) households;[i] and the kinds of policies, products, tools, and institutions that have helped. Based on the current systems of wealth building in the US, we conclude with high-level observations that identify where structural solutions are urgently needed. In forthcoming papers, we will more explicitly explore specific solutions, including new wealth pathways and vehicles.

i Throughout this report we use the phrases "low- and moderate-income families/households" and "LMI families/households" solely as shorthand to refer to families and households with low or moderate incomes.

WHAT'S IN THIS PAPER

Key Findings

Wealth provides people with five key functions:

1. **Resilience.** Wealth provides a financial cushion and a level of stability which protects a person's ability to continue to move forward despite financial shocks, and this resilience can be extended to others within a person's social networks and community;
2. **Investment in mobility.** Wealth allows people to make investments that can boost income, stabilize or reduce cost of living, and generate more wealth;
3. **Intergenerational support.** Wealth allows people to endow the next generation with resilience, mobility, and opportunity;
4. **Mental and physical well-being and quality of life.** Wealth can reduce financial stress and give people more agency to make choices about how they live their lives; and
5. **Ownership, voice, and control over assets and institutions.** Partial or full ownership of an asset gives people a decision-maker role in its use or operation and boosts social and civic engagement.

Despite its importance, household wealth holdings are extremely uneven in the United States. A large share of households holds little to no wealth and some households have negative net worth, while the vast majority of wealth is concentrated at the very top of the wealth distribution. This wealth gap has grown wider over time, disproportionately excluding women, Black, Indigenous, and people of color (BIPOC), people with disabilities, and low- and moderate-income households, who are least likely to have a meaningful amount of wealth.

The types of assets owned by households are different across the wealth distribution and demonstrate how families begin to build and accumulate wealth. The typical household in the bottom 30 percent of households by wealth holds assets only in a vehicle (automobile) and a bank account. Homeownership and retirement accounts are the key assets for most households in the middle and upper middle of the distribution (40th-90th percentile)**,** while business equity and financial assets held outright (e.g., stocks, mutual funds) become important additional assets for households in the top 10 percent of wealth.

Five enabling conditions–and one precondition–must be in place for any household to be able to build sustainable wealth.

- First, **financial stability is a precondition**. Financial stability is characterized by having routinely positive cash flow (where income regularly exceeds core expenses), low or no harmful debt, an ability to build financial cushions such as liquid savings, and access to quality public and workplace benefits that provide protection against extraordinary shocks.[4] Without this foundation of stability, households will struggle to build and maintain wealth.
- Then, households need (1) **investable sums of money** that can be put toward purchasing an asset.
- To actually purchase an asset, households also need access to (2) **affordable assets to buy**, (3) **consumer-friendly financing** (for assets too expensive to purchase outright), and the (4) **information and confidence** to navigate the purchase or investment.
- Finally, households must be able to (5) **protect and maintain wealth**.

Families with low or moderate incomes largely lack secure access to these enabling conditions. Many families lack the precondition of financial stability to even get started on their wealth-building journey,[5] and the first rungs of the wealth-building ladder–investable sums and affordable assets to invest in, such as post-secondary education, homes, and retirement accounts–are also often out of reach for workers and families with low or moderate incomes. In addition, even when families are able to become financially stable and accrue wealth, systemic protections to safeguard that wealth are underdeveloped.

Five Conditions - and One Precondition - Support Wealth-Building

People need each of the conditions below to be available to them – and at the right time – to build wealth.

PRECONDITION:
FINANCIAL STABILITY

Short-term financial stability is typically characterized by having routinely positive cash flow; and low or no harmful debt, an ability to build financial cushions; and access to quality public and workplace benefits that provide protection against extraordinary shocks.

FIRST: AMASS INVESTABLE SUMS

1
INVESTABLE MONEY

Money, beyond what is needed to meet short-term needs, that can be used for investments and asset purchases.

NEXT: PURCHASE ASSET OR MAKE INVESTMENT

2
AFFORDABLE ASSETS TO PURCHASE

Access to investment options, such as real estate, post-secondary education, and financial assets, that are affordable, high-quality, and that meet people's needs.

3
CONSUMER-FRIENDLY FINANCING OPTIONS

For larger investments, many families need access to safe and affordable financing to supplement their investable money and this often requires a good credit score.

4
INFORMATION AND CONFIDENCE TO NAVIGATE WEALTH-BUILDING DECISIONS

Access to the knowledge and skills needed to confidently navigate the asset purchasing process. People must be able to see themselves as investors to engage in these processes.

FINALLY: MAINTAIN WEALTH

5
WEALTH PROTECTION

After purchasing and building up wealth-creating assets, people must have the ability to maintain and protect their wealth from loss.

Recommendations

Based on our analysis of what it takes to build wealth, how families who have it have done so, and the specific barriers facing the large share of households who have not had the opportunity to do so, we see six priority areas for high-impact investment and action, organized by the conditions they will advance. These are not specific solutions recommendations, but rather objectives that both tried-and-true and innovative structural solutions must be brought to bear to solve for.

Condition: Empower people to amass investable sums.

1. **Boost household cash flows.** Lack of routinely positive cash flow is a foundational barrier to the ability of low-wage workers and families with low or moderate incomes to amass investable money. Households are much more likely to build investable sums when they have a combination of stable, sufficient income and public and private benefits.[6] The expanded Child Tax Credit is one example of a public benefit that can help boost household cash flow.[7]

2. **Reduce harmful debt for those who have it.** Debt payments are a drag on household cash flow. Student loan debt, state, local government, and court fines and fees, and out-of-pocket healthcare expenses and medical debt are particularly burdensome and make it difficult for households to set aside investable money. Opportunities exist for leaders in all sectors to reduce the burden of consumer debt on households.[8]

Conditions: Expand access to affordable assets to buy, and where needed, to safe and affordable financing for asset purchase.

3. **Massively scale investment in affordable homeownership units and related mortgage financing.** Less affluent families, including BIPOC and LMI families, struggle to become homeowners due to factors such as rising home prices, declining production of "starter homes," and difficulty accessing needed financing and down payment support—even in localities where homes are plentiful and affordable. Expanding access to affordable homeownership is a critical way to help families build wealth beyond vehicles and bank accounts.

4. **Pair widespread access to retirement accounts with automatic enrollment and increased account funding mechanisms.** Lower-wage and part-time workers are less likely to have access to—or have the ability to participate in—workplace-based retirement plans than higher-income workers, and have less saved when they do participate. Decreasing the barriers to access and enrollment in retirement plans—as well as seeding accounts and providing matches or other incentives—helps people accumulate savings faster and for those savings to compound over time.

5. **Make post-secondary education free or low cost.** Post-secondary education historically has been the key on-ramp to wealth building for many families who were able to access it without significant debt. But the cost of college today poses a significant barrier to access for potential students or a debt drag that saddles students—especially BIPOC and LMI students, whether they complete the degree or not—with unmanageable debt payments that detract from savings and wealth-building efforts. Decreasing the cost of college would address a barrier for potential students considering enrollment and lessen the debt drag that student loans can pose to household balance sheets.

Condition: Protect hard-won wealth.

6. **Further explore wealth protection needs, as well as opportunities—such as legal protections and insurance—to protect wealth.** Building wealth can be fraught with risk, especially for households that have low or moderate income or minimal wealth, as they have less to fall back on if they lose that wealth. Today, there are some wealth protections such as consumer financial protections and various forms of insurance. Yet more must be done to expand these protections and coverage, especially for the assets that are the typical first wealth holdings for families. Additionally, more research and creative solutions into asset protection options are needed as we simultaneously work to build people's wealth.

In addition to the six priority areas that we identify above, in the next stages of Aspen FPS's work to advance an inclusive wealth agenda we will also look beyond the ways that most households access and amass wealth in the US today and consider new pathways and potential solutions based on the enabling conditions required to build it identified in this report.

We are excited to continue collaborating with leaders who champion inclusive wealth building and begin to work with new partners to expand these efforts. Federal and state governments, employers, financial services providers, nonprofit and philanthropic leaders, and technology and financial innovators are all key stakeholders in a national effort to refresh and revitalize the set of strategies that can help low-income households and households of color access wealth and ownership opportunities.

Why Wealth Building, Why Now?

In the United States, personal wealth—the savings and assets a family owns, minus their debts—is a central component of financial security. It represents a foundation from which people can draw on in times of need, use to build more wealth and invest in economic mobility, retire comfortably, and pass from generation to generation. Having wealth is a critical indicator of financial well-being, and without it, families can experience downward mobility, meaning that they may lose their economic footing, and children may end up in a worse financial position than their parents—going against the supposed "American promise." Having wealth is also correlated with better physical and mental health outcomes, reduced money-related stress, and higher life expectancy.[9]

For households with low or moderate income and those with little wealth, having wealth represents financial security and freedom.[10] These families aspire to accumulate wealth in the same ways as families with higher wealth and higher earnings—through home equity, long-term savings held in stocks, bonds and mutual funds, retirement and education accounts, and for some households, business equity—and hope to pass their wealth to the next generations. However, the typical wealth holdings for households with low wealth demonstrate that building wealth beyond money held in bank accounts and automobiles is out of reach for most of these households.

A more inclusive economy with widespread personal wealth promotes economic growth, productivity, and financial security for people, their communities, and the nation as a whole.[11] Ensuring that wealth and its related benefits are shared would decrease gender and racial economic disparities and help rebuild the size and prosperity of the shrinking US middle class. In turn, families with access to wealth are more likely to have trust in the system of governance and feel as though they have a stake in the economy, enabling their full participation and dignity.[12] Yet wealth in the United States is currently concentrated at the top along with stark gender and racial economic disparities.[13] This wealth inequality is costly: New research from McKinsey & Company finds that racial wealth inequality costs the US economy between $2 and $3 trillion of investment and consumption.[14] This degree of exclusion has sidelined talent and undermined social inclusion.[15] Wealth holdings need not be exactly equal among people in order to achieve a more inclusive economy, however, wealth-building opportunities must be widely and equally available to people regardless of their race, ethnicity, gender identity, sexual orientation, geographic location, immigration status, disability, or income. Now is the time to take a reparative lens to address these disparities and help families become financially stable—as we simultaneously work to expand access to wealth and ownership opportunities.

About This Report

For several years, Aspen FSP's Consumer Insights Collaborative (CIC) has jointly developed publications shedding light on the financial lives of low- and moderate-income (LMI)[ii] people in the US, starting with "Short-Term Financial Stability: A Foundation for Security and Well-Being."[16] That first publication provided a conceptual model showing how households could move from financial instability to short-term stability, and eventually to long-term financial security. To date, the CIC's publications have largely investigated the path from financial instability to short-term stability, covering topics from the importance of routinely positive cash flow via guaranteed income and cash infusions, to the way people build, use, and replenish liquid savings, and whether people have access to financial stability and security through their work and through public and workplace benefits.[17] To read more about financial stability, who has it, strategies to achieve it, and the systemic barriers to stability, please refer to our previous CIC publications.[18]

ii Throughout this report we use the phrases "low- and moderate-income families/households" and "LMI families/households" solely as shorthand to refer to families and households with low or moderate incomes.

Prior CIC Publications Have Explored Many Aspects of Financial Stability

- "Short-Term Financial Stability: A Foundation for Security and Well-Being." April 2019. This report identifies the barriers to financial stability that families with low or moderate incomes face and describes approaches that individuals and supporting organizations employ to combat these obstacles to short-term stability, and ultimately, financial security.
- "Guaranteed Income and Cash Infusions: A Three-Part Series." April 2020. These briefs pull together what is known about the need for, the innovations in, and the effects of cash infusion and transfer programs on the financial security of recipients, their families, and their communities.
- "The Cycle of Savings: What We Gain when We Understand Savings as a Dynamic Process." September 2020. This brief illustrates the importance of the ongoing act of building, using, and replenishing savings–or "the cycle of savings"–and highlights opportunities for key actors to design policies and build products that enable people to make saving a habit.
- "The Complete Financial Lives of Workers: A Holistic Exploration of Work and Public and Workplace Benefit Arrangements." March 2021. This report identifies the key structural enablers and barriers to worker financial security in the US, with a focus on the role of work arrangements and public and workplace benefits.

In this report, we focus on the next stage of the path to financial security: from short-term financial stability to long-term security and upward economic mobility via wealth building. Although short-term financial stability provides the foundation for wealth and security, this report also recognizes that not all families have this necessary precondition to build and maintain sustainable wealth, and this is especially true for families with low or moderate incomes—who are disproportionately people of color and women.

This report examines the role of wealth in people's lives, the assets that make up their net worth, how people try to build and maintain wealth, and how wealth can be lost or protected. We then explore in more detail the specific barriers to wealth building for individuals with low or moderate incomes, and the kinds of policies, products, tools, and institutions that have helped. We end with a set of priority focus areas that can help federal and state governments, employers, financial services providers, technology and financial innovators, and other leaders create more inclusive pathways to wealth for all.

The CIC Comprises

1 Million LMI Consumers

9 Nonprofits

Over-representation of People of Color

Read more on the Consumer Insights Collaborative's members on page 1.

Defining Household Wealth and its Role in the United States

The Pew Research Center defines household wealth, also known as "net worth," as the "value of assets owned by a family, such as a home or a savings account, minus outstanding debt, such as a mortgage or student loan."[19] Wealth is thus made up of financial assets, like stocks, bonds, and mutual funds, and non-financial assets such as a home or a car, as well as debt that detracts from—and for many people undermines their ability to build—wealth. In addition to this traditional conception of wealth, CIC members find that social and community capital, including the family, friends, and others that can be relied upon for informal support and advice, often provide some of the key functions of wealth for LMI families. We also recognize that wealth is defined more broadly across cultures and nations; for example, the Native asset-building framework used by the Oklahoma Native Assets Coalition Inc. (ONAC) includes tribal sovereignty, natural resources, kinship, and family.[20]

What Are the Functions of Wealth?

Wealth provides both financial and non-financial benefits to those who have it, and those benefits extend from individuals to the families and communities in which individuals reside. Specifically, we have identified five key functions of household wealth and detail these and the applications of each function of wealth below.

1. Wealth provides **resilience**. It protects people's ability to meet their needs and keep working toward their goals in the face of higher-than-usual expenses or lower-than-usual income. It also allows individuals to provide support and resilience to those in their social networks and communities.

> **Wealth is often what is needed to build more wealth, creating a virtuous or vicious cycle that benefits those with it, and leaves out those without it.**

> **A third function of wealth is its intergenerational support—having wealth allows people to endow resilience, mobility, and opportunity.**

2. Having wealth allows people to make **investments in mobility** that can boost income, stabilize or reduce cost of living, and generate more wealth. Wealth is often what is needed to build more wealth, creating a virtuous or vicious cycle that benefits those with it, and leaves out those without it. Wealthy individuals can utilize their wealth to build more wealth over time by investing in items that can appreciate in value (e.g., real estate, securities, art and other collectibles). Wealth is also a source of non-labor (capital) income. The wealthy can boost their household's regular cash flow through assets like real estate that can generate rental income, or stocks that generate dividend payments—which create more resources to invest and benefit from compound interest. As people accumulate wealth, they can invest in themselves and their families via higher education, entrepreneurship, and homeownership.

3. A third function of wealth is its **intergenerational support**—having wealth allows people to endow the next generation with resilience, mobility, and opportunity. Wealthy individuals can share wealth with their families—perhaps children or grandchildren—or others by leaving them with inheritances, properties, or passing along large pools of funds earlier in life that can be spent or invested in a down payment, college tuition, or to start a business.[21] Wealth can be transferred directly to a recipient upon a person's death, but also during one's lifetime, such as by transferring ownership of a business from one person to another. These transfers provide recipients with a built-in safety net that they can draw on in times of need or build upon for themselves and future generations.

> **I want to send my daughter into the world with some kind of financial backing.**
>
> *– Ausundra, A Neighborhood Trust Financial Partners client*

Wealth as a Legacy for the Next Generation

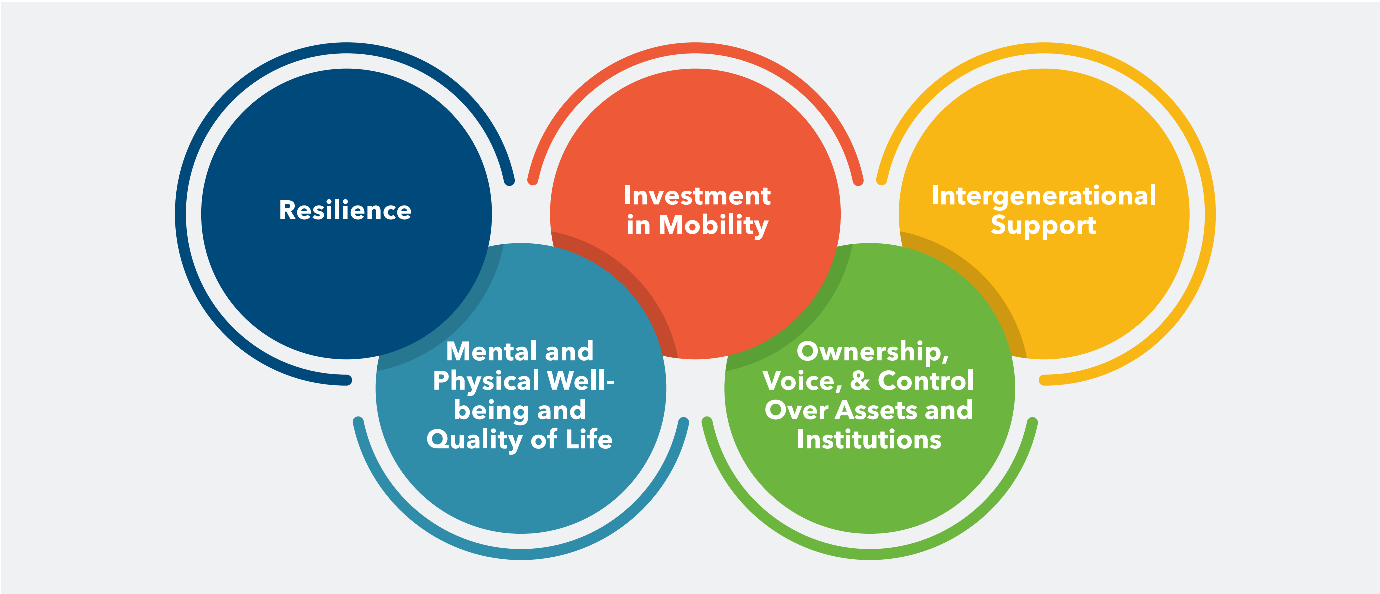
Power, an UpTogether member, is a divorced mother of three sons ranging from ages 17 to 21. When she shared her story, she expressed wanting to leave a legacy to her sons and how she is working toward building generation[al] wealth. She plans on obtaining a portfolio of assets such as property that can be passed down to her sons.[22]

4. Having wealth can also boost **mental and physical well-being and quality of life**, by giving people "breathing room" and freedom from the worries that often accompany financial insecurity, as well as extra time and agency to make choices about how they live their lives. Having wealth can bolster the health and well-being of people living with health conditions or disabilities that require regular, costly treatment. In addition to elevated stress, anxiety, and depression, financial concerns are also associated with adverse physical health outcomes including weight gain and higher blood pressure, which increases the risk for stroke and hypertension.[23] Wealth protects against these maladies. Having wealth also boosts well-being by giving people the related benefits of time and choice. For example, owning a vehicle can save commuting time versus using public transportation (sometimes multiple forms and transfers), and the income generated by assets such as real estate or financial investments can allow people to work fewer jobs or hours to make ends meet. Wealth helps people retire comfortably and provides people with choice, agency, and dignity at a moment in time, including the ability to choose a better job, rather than take whatever option is available.

5. Lastly, some forms of wealth give people a sense of **ownership, voice, and control over assets and institutions**. Partial or full ownership of an asset gives people a decision-maker role in its use or operation, such as via a mutually owned asset or as an owner outright. Examples of this kind of ownership include cooperative ownership of housing or shareholder rights in business decision making.[24] Having wealth can also affect people's social and civic engagement. For instance, financial insecurity depresses political participation whereas homeownership boosts political and civic engagement.[25] Moreover, on-ramps to wealth building provided by the federal government create a mutually beneficial relationship between the everyday taxpayer and our system of governance that fosters engagement and trust.[26]

Figure 1. Wealth's Import Goes Beyond the Financial to Boost Mental and Physical Well-Being.

It provides dignity, choice, and freedom.



Wealth Building for LMI Families Benefits Communities, the Economy, and Society as a Whole

A family's ability to thrive and invest in their well-being is tied to their ability to fully participate in society and in the economy. Creating greater economic resilience and opportunity through wealth and ownership opportunities is thus critical for households across the income spectrum, and not just those with the highest incomes. Moreover, families with low or moderate incomes share the goals of financial security and long-term financial health with their higher-income counterparts.[27] But LMI families often do not benefit from the same wealth-building opportunities that higher-income households have and own assets at a lower rate and at lower levels as a result.[28] Challenging long-held assumptions about who can and should build wealth and how households can build wealth is the first step to expanding opportunities for families to share in prosperity.

Moreover, communities, the economy, and society benefit when residents are more financially healthy. Research at the Urban Institute finds that even a small savings cushion protects people from eviction and missing housing and utility payments, and it decreases reliance on public benefits in the face of income disruptions such as involuntary job loss or an injury or illness that limits work.[29] Widespread ownership of more significant wealth would contribute to even greater community stability and economic prosperity nationwide.

Wealth building for low- and moderate-income households is also critical to rebuilding a shrinking middle class. Recent trends show that higher-income households have seen the most growth in income while middle-income households have seen a slow decline. Once making up 62 percent of the share of aggregate income in the United States in 1970, the middle class now only holds 43 percent of that share.[30] When viewed through the lens of wealth rather than income, even fewer households qualify as being middle class. By this measurement, 70 percent of Black and Latinx[iii] households are no longer considered middle class.[31]

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iii Throughout this report we use multiple terms to refer to Latinx people and households. When citing statistics and official government data, we conform to the source data terminology (often "Hispanic" or "Latino.") When discussing this demographic more generally, we use the gender neutral "Latinx."

Relative to their population in the US, white families are underrepresented in households in poverty and in economically insecure households, yet by sheer numbers make up the largest group.[32] In 2019, white families accounted for 41.6 percent of people in poverty, or more than 14.1 million people living in poverty.[33] Nearly 50 million of the 106 million economically insecure households in the US were white.[34] Investing in wealth building can boost the size and prosperity of the middle class.

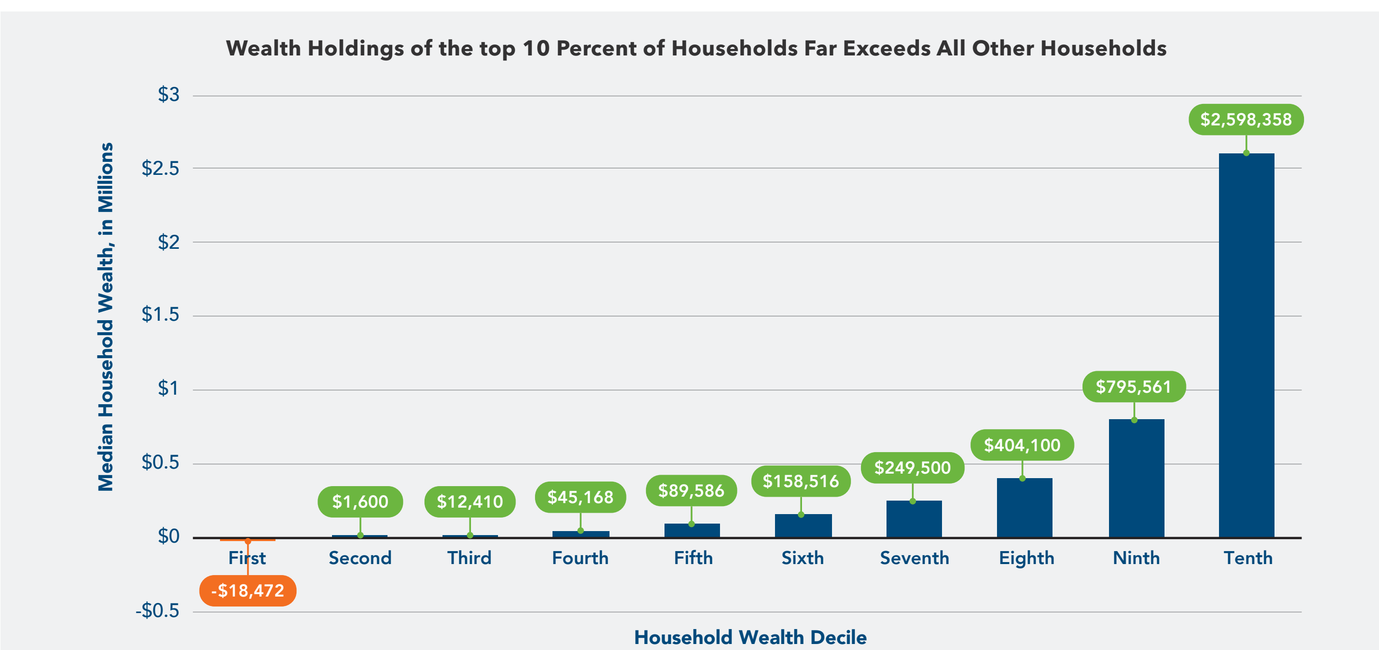
As we see the share of income and wealth shrink for low- and moderate-income households and Black, Indigenous, and people of color (BIPOC) households, we are also witnessing a shift in demographics in the United States. The 2020 Census data show that the US population continues to diversify.[35] By 2043, it is projected that people of color will become the majority. If nothing changes, this means that most Americans may have little to no wealth in the next 20 years and will be unable to access the functions of wealth listed above.[36]

The Drivers and Dimensions of Wealth Gaps

Wealth in the United States is extremely unevenly held; in 2019, the typical household in the bottom 10 percent of the wealth distribution had negative $18,470, while the typical wealth holding for households in the top 10 percent of the wealth distribution was $2.5 million.[37] Given the importance of personal wealth to the well-being of all people and families in the US, it is striking to note that the bottom 50 percent of all households by wealth—approximately 64 million families—own only 1 percent of total US household wealth.[38] While we would expect households at the upper end to hold the most wealth, the drop observed below the 90th percentile is stark—the top 10 percent of households owned over three quarters of all US wealth in 2019.[39]

Demographic data on wealth holding reveal that there are multiple wealth gaps that people face across income, gender, race and ethnicity, and generation, among other dimensions. Individuals have multiple identities and often fit into more than one of the characteristics impacted by wealth gaps, and these intersections make it even more difficult to build wealth. Addressing these disparities will require a reparative approach that utilizes different solutions based on the nature of specific problems in access to building sustainable wealth.

Figure 2. The Wealth Gap measured by Deciles



Source: *Based on Aspen FSP analysis of Federal Reserve Board, 2019 Survey of Consumer Finances.*

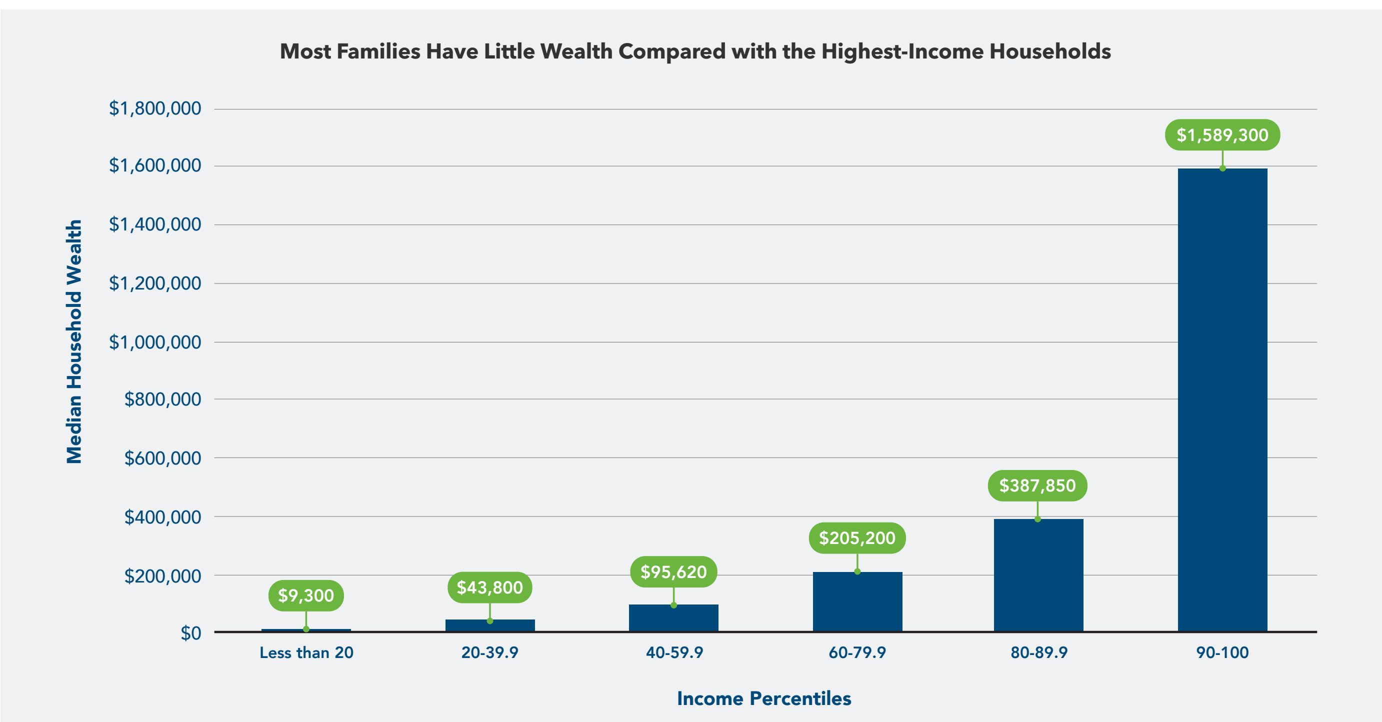
Black, Hispanic, and Low- and Moderate-Income Households Have the Lowest Wealth Holdings in the United States

When this distribution is observed through household income, low- and moderate-income households possess wealth less frequently and in much smaller amounts than their higher-income counterparts. There is a steep, downward trend from the highest-income households to the lowest-income with respect to wealth. The median wealth for households in the bottom 20 percent of the income distribution is $9,300, compared with about $1.6 million in the top 10 percent.[40] From 1970 to 2018, the rate of growth in wealth among higher-income households outpaced that of low- and moderate-income households—widening the differences in wealth holdings between these households over time.[41]

Growing wealth inequality can be understood in part as a natural outgrowth of growing income inequality, as income from labor and capital are the primary ways households are able to set aside money to save and build wealth via investments, educational attainment, and asset purchases. This is why wealth tends to grow with income, as higher-income families have more money to save and invest, and in turn, benefit from the additional income that comes from asset accumulation.[42]

Disparities in wealth also exist by race and ethnicity: the median wealth of white, non-Hispanic households is $189,100, while Black and Hispanic households have median wealth of $24,100 and $36,050, respectively.[43] One way that the wealth gap between white and non-white households is exacerbated is through the incidence and size of inheritances, as Black and Hispanic (both immigrant and non-immigrant) families are less likely to receive these private transfers or receive less when they do.[44] For instance, while nearly half (46 percent) of white families receive a gift or inheritance, only one-tenth of Black families do.[45] The median transfer received by white families is also larger than that of Black families.[46] This is also an example of how the wealth gap can self perpetuate.

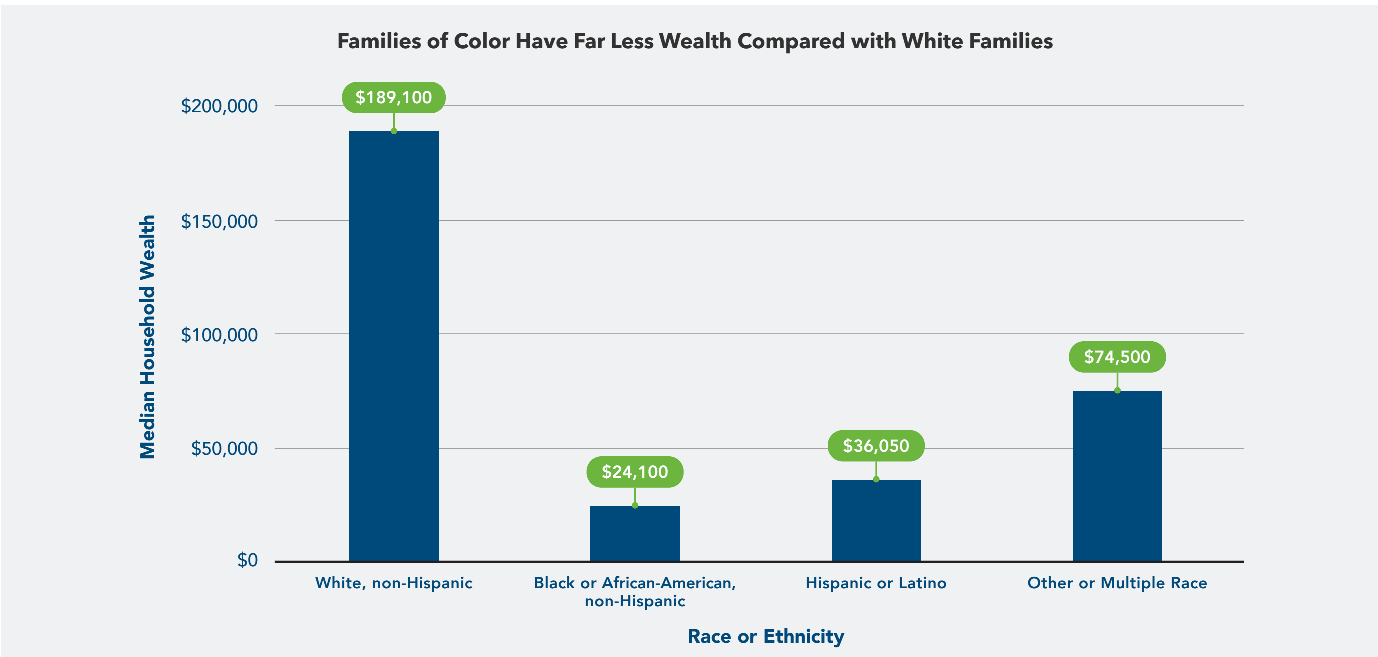
Figure 3. The Income Wealth Gap



Source: *Federal Reserve Board, 2019 Survey of Consumer Finances.*

The **Survey of Consumer Finances (SCF)** provides the most complete picture of wealth inequality of any long-running public survey; however, it is not able to disaggregate this data beyond the four racial and ethnic categories above due to small sample size. The "other or multiple race" category merges data from households that are Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, and other races. However, these households also experience disparities in wealth that need to be addressed. The average Native household only owns 8 cents of wealth for every dollar of wealth owned by a white household. Furthermore, Native homeowners have homes that are valued 40 percent lower than homes that are owned by a white household.[47] While the available data on Asian household wealth indicates that these households hold wealth that is comparable to white households in value, wealth disparities within Asian households are often overlooked. For example, Asian households at the median of the wealth distribution hold three times more wealth than households in the bottom 20 percent.[48]

Figure 4. The Racial and Ethnic Wealth Gap



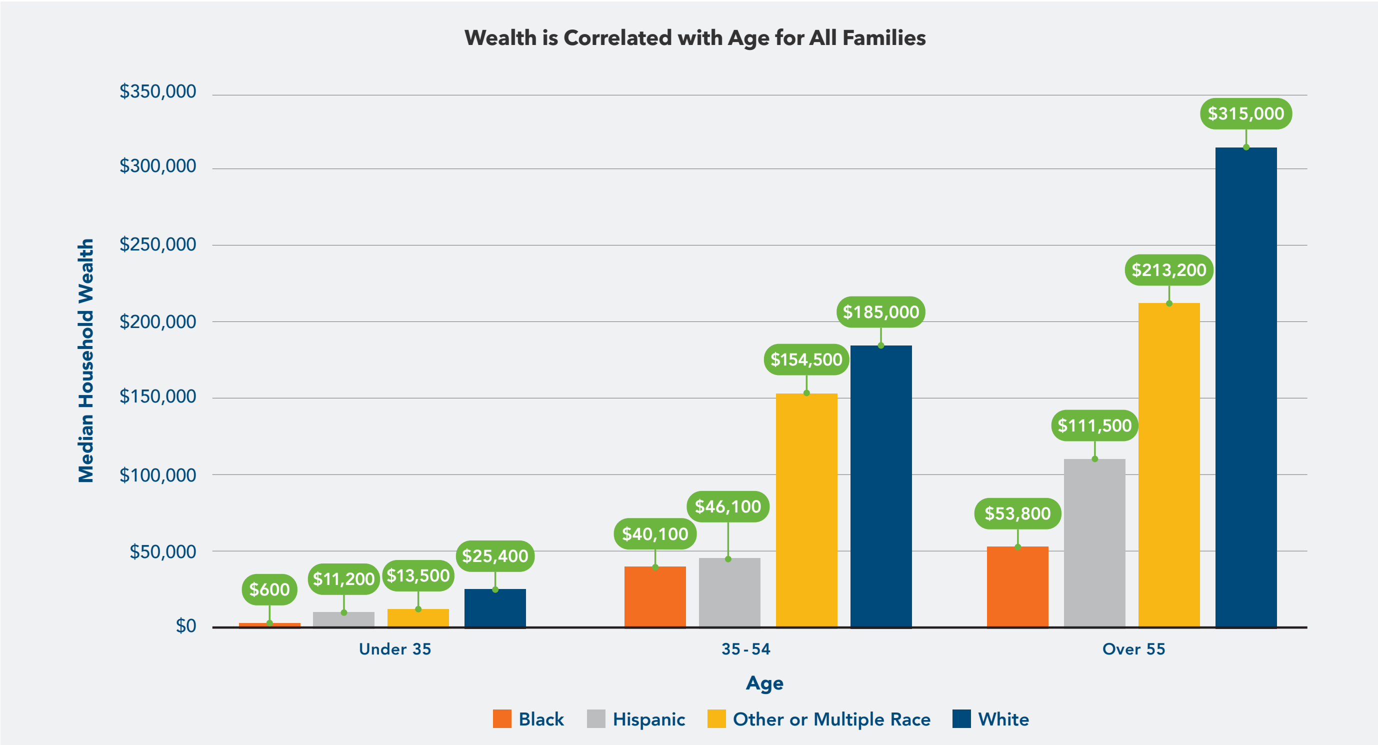
Source: *Federal Reserve Board, 2019 Survey of Consumer Finances.*

> **One way that the wealth gap between white and non-white households is exacerbated is through the incidence and size of inheritances, as Black and Hispanic (both immigrant and non-immigrant) families are less likely to receive these private transfers or receive less when they do.**

Reinforcing the cumulative connection between income and wealth over time, new Morningstar research exploring three decades of data tracking the same families finds that differences in income appear to drive savings disparities across race and ethnicity, and these differences in savings rates then drive the racial wealth gap.[49]

Furthermore, we know that wealth begets wealth, which raises the importance of building wealth early in one's lifetime. Advantages from family wealth passed in early life and early adulthood, especially for educational attainment and homeownership, impact a recipient's wealth-building trajectory by helping build upon their wealth sooner.[50] In the

Figure 5. The Generational Wealth Gap



Source: *Federal Reserve Board, 2019 Survey of Consumer Finances..*[51]

context of the racial wealth gap, we observe that white households are able to make significant gains in wealth by the age of 35, as shown in Figure 5. On the other hand, Black and Hispanic households are not able to make gains in wealth until after the age of 35. As a result, the assets owned by Black and Hispanic households have a shorter period of time to appreciate in value. Data from the 2019 Survey of Consumer Finances show that households with significant wealth holdings are typically white, non-Hispanic and have higher incomes.

Black and Hispanic households also face greater difficulty in retaining wealth, especially in the face of economic shocks and downturns, and have not yet fully recovered from wealth losses during the Great Recession. The average wealth of Black and Hispanic households in 2019 remained below pre-recession levels. Between 2007 and 2019, Black and Hispanic households had 14 percent and 28 percent less wealth, respectively. White households had 15 percent more wealth.[52] The 2008 recession disproportionately impacted the wealth of Black and Latinx households in the long term.[53] The structural differences we observe today between BIPOC Americans and their white counterparts—both in wealth-building opportunity and in susceptibility to wealth loss—is the result of explicit policy choices, as described in the text box below. A different set of policy choices could likewise allow households of color to begin climbing the ladder of asset ownership and sustainable wealth building.

The US Government has created on-ramps to wealth for some people...

Historically, federal policy has been enormously effective at building household wealth for those that were eligible. On paper, some of this legislation did not explicitly write out individuals based on race or other parts of their identity, however, in practice they have left marginalized groups and households at a tremendous disadvantage when it comes to building personal wealth.

People of color, especially Black and Indigenous populations, were intentionally left out of the main pathways to wealth and had to contend with racism and marginalization that undermined efforts to counter the deep roots of discrimination in the United States. A legacy of genocide and stolen land and resources at the hands of white settlers continues to impact Indigenous populations' ability to own and create wealth. Black Americans have also had to contend with a history of enslavement, dehumanization, and Jim Crow laws in the southern United States to build the wealth of some white households.[54] Accessibility of asset ownership and policies put in place to retain wealth have all helped to establish the mechanisms for many white households to protect and further grow their existing wealth. Ultimately, the wealth gaps we see today were not an accident, but intentional policy choices.

And excluded many others based on race and class.

Racist policies and practices were and continue to be prevalent in housing policies in particular. They include redlining, loan steering, racial covenants, appraisal practices, and the use of subprime lending targeted at communities of color and lower-income communities. Today, white and wealthy households continue to benefit the most from wealth-building and wealth-protection policy such as those baked into the US tax code.

An overview of these wealth-building policies tells a story of systemic racism and classism that persists today and is evident in the discrepancies in outcomes we see in wealth holdings across race and levels of income. This overview is meant to demonstrate the role that federal policy has played in creating the wealth gap observed today; however, we recognize that this does not completely capture the level of exclusion that BIPOC and other marginalized groups have faced at the hands of US policy.

The Indian Appropriation Act of 1851 created the US reservation system, forcing Native peoples onto reservations that gave the government the ability to further manage and control the Native population.[55] Today, most Native lands are trust land, meaning that the US federal government holds the legal title to the land, as opposed to granting Native peoples complete ownership over the land that could serve as a significant wealth-building asset.[56] Moreover, homeowners in reservations pay a land rent that can rise over time.[57]

The Homestead Act of 1862 granted 1.5 million white families with land—a physical asset that provided a foundation to build wealth that would appreciate in value and be passed down through generations—while only 4,000 to 5,000 Black families received that exclusive right to the land.[58]

The National Housing Act of 1934 marked the beginning of redlining, a practice that eased wealth building through homeownership for white families and set a higher value on homes in white neighborhoods while disincentivizing investment in Black neighborhoods and creating barriers to entry into the housing market for Black families.[59] [60]

The Social Security Act of 1935 was first established for workers in commerce and industry, the majority of whom were white males at the time. The exclusion of agricultural workers and domestic workers from receiving these benefits disproportionately impacted Black workers and women. Only 27 percent of the white workforce was excluded from receiving Social Security benefits versus 65 percent of the Black workforce.[61]

The G.I Bill, formally the Servicemen's Readjustment Act of 1944, created access to wealth-building opportunities such as post-secondary education and homeownership for all veterans; but in practice, white veterans accessed these benefits with the most ease compared with Black veterans, some of whom were never able to access such benefits.[62] For example, a 1947 study conducted in 13 cities throughout Mississippi revealed that only two of the 3,229 VA home loans given to veterans went to Black veterans.[63]

Current US tax codes have largely worked to help white and wealthy households further build and protect their wealth. White families in the top three income quintiles claimed the most tax breaks and studies show that in 2015 families earning over $100,000 took more than 90 percent of tax-related housing assistance.[64]

Government, if it chooses to, can create inclusive pathways to wealth and asset ownership for everyone. As the US population becomes more racially diverse, the racial wealth gap will only continue to grow if an active focus isn't placed upon shrinking and eliminating this gap.

Demographic and Geographic Factors Influence Wealth-building Opportunities

Income and race are two major determinants of the value of a household's wealth holdings; however, other facets of a household's composition, identity, and location can also positively and negatively impact their levels of wealth.

- **Geographic Location:** Access to affordable assets to purchase can be largely dependent on where one lives because of state and local policy. For example, the affordability of homeownership can be dependent on factors such as zoning codes, population density, and demographic characteristics.[65] Where one lives can also determine ease of access to a workplace retirement savings plan.[66] Moreover, all kinds of debt, from student loan debt to debt in collections, are most concentrated in the Southern and Western regions of the country—the average amount of debt in collections is also highest in these regions.[67]
- **Age:** Young adults tend to be less financially secure than their older counterparts.[68] This is partially due to lifecycle factors such as people earning lower incomes and having had fewer years to amass wealth, but is also due to US economic trends and policy choices (such as reduced public investment in post-secondary education and homeownership opportunities, and declining real value of wages and workplace benefits) that provide less wealth-building opportunity for each successive generation.[69] Young adults today are facing unique challenges in building and maintaining wealth. Adults from the Baby Boomer generation held 21 percent of all US wealth when they were the age that millennials are today. Millennials currently own just 3 percent of all wealth.[70] Furthermore, young parents, foster youth, and transitional-aged youth are often credit invisible—a major barrier to wealth building—and were largely excluded from recent COVID-19 relief.[71]

- **Citizenship Status:** Undocumented immigrants have little to no access to wealth-building opportunities and were also excluded from COVID-19 relief. Some of these households decided to not apply for the assistance they were eligible for out of fear of being deemed a "public charge," which would have implications for their aspirations of eventually securing citizenship status in the US.[72] Despite not being eligible for Social Security benefits, in 2016 alone, undocumented workers contributed $13 million to Social Security.[73]
- **Disability Status:** People with disabilities are twice as likely to live in poverty than people without disabilities, leaving them with little opportunity to pursue wealth-building activities.[74] Most people living in households with a member receiving Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) benefits have income below the federal poverty line due to the programs' limits on earned income;[75] benefits recipients are prohibited from holding more than $1,500 in assets[76] (with a few exceptions, such as modest retirement savings and tax-free savings accounts for purchasing certain mobility and accessibility devices). Many people with disabilities work but their ability to save is undermined by high healthcare expenses. Households that include at least one person with regularly poor or fair health spend 30 percent to 60 percent more of their income on healthcare than households whose members are all in good health.[77]
- **Education Level:** The level of educational attainment can also impact one's wealth holdings. Among all households, those with a college degree own 72 percent of all wealth compared to households with a high school degree that own only a quarter of all wealth.[78] On average, families with a four-year degree earn an income that is nearly 70 percent higher than families without a degree. These higher incomes often correspond to higher levels of wealth.[79] In fact, families with college degrees saw a growth in their wealth holdings between 1989 and 2016 while those without saw their wealth holdings decrease.[80] However, returns on education vary depending on factors such as race; Black and Hispanic households who earn a post-secondary degree see smaller increases in wealth compared with white, non-Hispanic households.[81]
- **Gender:** On average, the impact of marital status and household structure on wealth holdings is greater for women compared with men. In 2019, the median wealth among households led by women was about half the median wealth of households led by men.[82] When this data is disaggregated by race, we see that households led by Black and Hispanic women only own 5 and 10 cents, respectively, for each dollar owned by a household led by white, non-Hispanic men.[83] Current and historical barriers to property ownership and other wealth-building pathways, including exclusionary policies and employer practices, have contributed to the gender wealth gap we see today.[84]

Rich Households Hold More Wealth-generating Assets

The ownership of financial and non-financial assets varies across household wealth deciles. Household asset holdings allow us to identify the kinds of assets owned across levels of wealth and which assets may allow households to build wealth through asset appreciation or by directly contributing to household cash flow.

Asset Holdings

A look at the different types of assets that households own at different levels of wealth paints a more complete picture of wealth disparities. Households in the first three deciles of the wealth distribution typically do not own assets that appreciate in value. Assets held by these households are largely made up of transaction accounts (like checking and savings accounts at a bank or credit union) and vehicles (automobiles). This changes for households above the 30th percentile, whose asset holdings include home equity. Retirement accounts then begin to make up a portion of the asset holdings for households above the 50th percentile. Ultimately, as wealth increases, household asset holdings diversify. The wealthiest households additionally own securities, non-primary residences, and other financial assets.

Glossary

- **Household wealth,** also known as "net worth," is the value of assets owned by a family minus outstanding debt.[85] In this report, the terms "personal wealth," "family wealth," and "household wealth" are used interchangeably to distinguish from US national wealth holdings.

  The following section includes examples of the types of assets that are included in the various categories seen in Figures 6 and 7.[iv]

- **Financial assets**
  - **Transaction accounts** include checking, savings, and money market accounts, as well as prepaid debit cards.
  - **Retirement accounts** include individual retirement accounts and certain employer-sponsored accounts—such as 401(k), 403(b), and thrift savings accounts.
  - **Other financial assets**[v] include certificates of deposit (CDs), the cash value of life insurance, personal annuities, and trusts.
  - **Securities** include directly held pooled investment funds, savings bonds, and directly held stocks and bonds.
  - **Business equity** includes net worth in sole proprietorships, limited partnerships, limited liability companies, and other types of partnerships and private businesses.

- **Non-financial assets**
  - **Vehicles** include cars, trucks, vans, motorcycles, motor homes, and boats.
  - **Primary residences** include condominiums, cooperatives, townhouses, other single-family homes, and mobile homes and their sites. It also includes the portions of ranches and farms not used for ranching or farming.
  - **Other property** includes second homes, timeshares, and other types of residential and non-residential properties.

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iv For more details in the categories and asset types included in these figures, see Board of Governors of the Federal Reserve System. "Changes in US Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances;" and the "Net Worth Flowchart (PDF)" linked on this page: Board of Governors of the Federal Reserve System. "Survey of Consumer Finances (SCF)." Updated May 20, 2021. https://www.federalreserve.gov/econres/scfindex.htm.

v This category combines what the Survey of Consumer Finances considers (1) other managed assets and (2) other financial assets.

What Kind of Assets Do Households Hold at Different Levels of Wealth?

Figure 6. The Variety of Assets Held Increases with Wealth

LEGEND Vehicles | Transaction Accounts | Primary Residence | Retirement Accounts | Other Financial Assets | Other Property | Securities

The only assets held by the typical household in the bottom thirty percent of the wealth distribution are cash held in a bank account and an automobile. The asset values held by the typical household in the second decile are lower than the asset values held by the first decile. However, the second decile also holds less debt, which is why these households have higher overall net worth than the first decile, despite their lower asset holdings.

Wealth Decile	Assets Held and Median Asset Value	
First	$7,700	$1,250
Second	$1,972	$500
Third	$8,700	$1,500

Home equity becomes a prime asset for the typical household starting at the 30th wealth percentile.

Wealth Decile	Assets Held and Median Asset Value		
Fourth	$12,865	$3,000	$35,000
Fifth	$13,000	$3,695	$95,000

Note on Methodology: *This figure displays the types of assets owned by the median, or typical, household within each decile. We then found the median value for each asset category held by that decile. These asset values do not reflect the holdings by the same household and do not sum to the median asset holdings for the particular decile.*

Source: *Based on Aspen FSP analysis of Federal Reserve Board, 2019 Survey of Consumer Finances.*

What Kind of Assets Do Households Hold at Different Levels of Wealth?

Figure 6. The Variety of Assets Held Increases with Wealth

LEGEND Vehicles | Transaction Accounts | Primary Residence | Retirement Accounts | Other Financial Assets | Other Property | Securities

Above the 50th percentile, the typical household starts to hold retirement accounts, and the value of these assets become increasingly significant at higher wealth deciles.

Wealth Decile	Assets Held and Median Asset Value			
Sixth	$17,000	$7,109	$164,017	$4,086
Seventh	$18,874	$12,000	$200,000	$14,000
Eighth	$21,000	$14,400	$250,000	$50,402

Not until the top two deciles does the typical household hold other financial assets such as certificates of deposit, personal annuities, and trusts. The typical household in the top ten percent of wealth has a diverse portfolio of assets that includes securities outside of a retirement account and real estate beyond their primary residence.

Wealth Decile	Assets Held and Median Asset Value						
Ninth	$25,600	$32,000	$325,000	$162,248	$2,500		
Tenth	$34,296	$80,000	$600,000	$600,000	$25,000	$30,000	$120,000

Note on Methodology: *This figure displays the types of assets owned by the median, or typical, household within each decile. We then found the median value for each asset category held by that decile. These asset values do not reflect the holdings by the same household and do not sum to the median asset holdings for the particular decile.*

Source: *Based on Aspen FSP analysis of Federal Reserve Board, 2019 Survey of Consumer Finances.*

Homeownership and Retirement Accounts are Key Assets for Household Wealth Building

Based on the data from the 2019 Survey of Consumer Finances, homes and retirement accounts are the assets that appear to be most meaningful for households that are able to build wealth today. These are the first types of assets that the typical household begins to build beyond transaction accounts and vehicles, making them the entry point to wealth for many households with low or moderate incomes. SCF data also indicate that the lowest-income homeowners have higher wealth than that of 80 percent of renters, which stresses the importance of this type of asset ownership for wealth holdings.[86]

Business Equity is a Significant Asset for the Wealthiest Households

In 2019, about 13 percent of US families—representing approximately 17.4 million households—owned a privately held business.[87] Though most households in the US do not have business equity, the incidence of these holdings goes up by wealth decile. By the 80th wealth percentile more than 1 in 5 households hold business equity, while fewer than 7 percent hold business equity for the bottom half of the wealth distribution. Business equity becomes an especially significant asset for households above the 90th percentile where 4 in 10 households own a business with a median value of nearly $1 million among those with any business equity. The majority of businesses that families own employ four or fewer people.[88]

Figure 7. While Business Equity May Be a Significant Source of Wealth for Those Who Hold It, Few Households Hold Business Equity Overall

Percentage of Households Holding Any Business Equity and the Median Value of That Equity among Holders, by Wealth Decile

Wealth Decile	Percentage Holding Any Business Equity	Median Value Held in Business Equity, Among Those with Any
First	2.5%	$5,254
Second	0.4%	$6,387
Third	1.5%	$10,000
Fourth	4.6%	$15,000
Fifth	6.5%	$25,000
Sixth	10.1%	$31,000
Seventh	13.8%	$56,665
Eighth	17.3%	$80,000
Ninth	21.4%	$200,000
Tenth	41.3%	$994,947

Source: Based on Aspen FSP analysis of Federal Reserve Board, 2019 Survey of Consumer Finances.

While the financial value of business equity for households at the bottom half of the wealth distribution is overshadowed by that of higher-wealth households, the psychological importance of that business can still be extremely significant, as can a small business's contribution to household income.[89] LIFT client, Natalya, states:

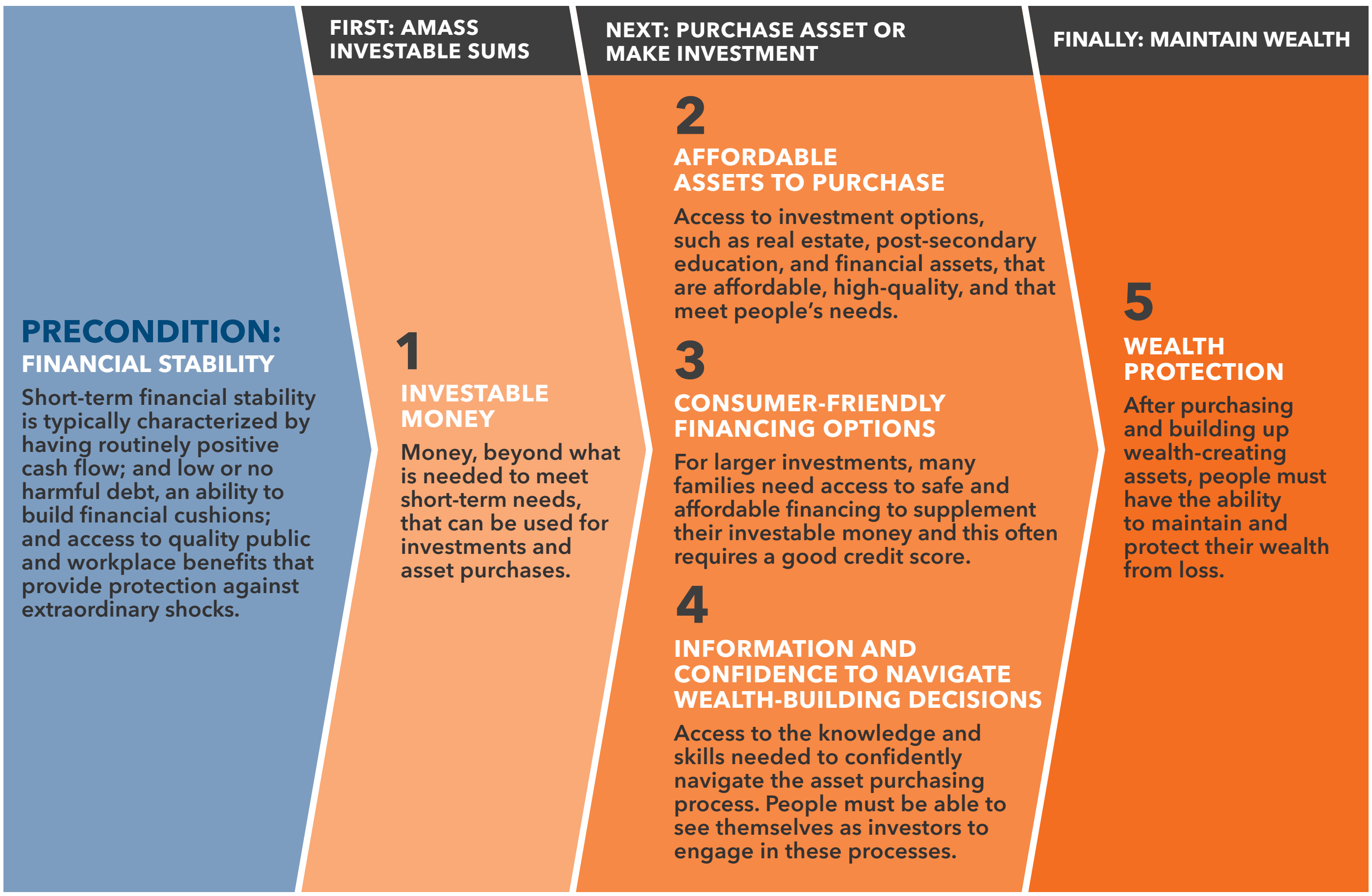
"…I tell my oldest, these businesses are for, just not me, this is for us. I'm trying to show what generational wealth can look like, starting from the beginning. I said we're starting now, of course we're extremely small, but eventually one day, when I'm not here, you and your brother will know how to run these businesses."

A Framework to Help People Build Wealth: Five Enabling Conditions

Here we outline a framework to describe the enabling conditions that help people in the United States build wealth. Though each individual's situation is unique, there are certain preconditions and underlying circumstances that make it easier to engage in wealth building and allow people to maintain and protect that accumulated wealth.

Figure 8. Five Conditions - and One Precondition - Support Wealth-Building

People need each of the conditions below to be available to them – and at the right time – to build wealth.



Households must first be **financially stable** in order to successfully engage in building sustainable wealth. That stability is typically characterized by having (1) **routinely positive cash flow** (where income regularly exceeds core expenses) and **low or no harmful debt**, (2) an ability to build **financial cushions** such as liquid savings, and (3) access to quality **public and workplace benefits** that provide protection against extraordinary shocks.[90]

On top of this foundation of financial stability, five enabling conditions can support people's efforts to build and maintain wealth: (1) having investable money, (2) access to affordable assets to purchase, (3) safe and affordable asset purchase financing, (4) information and confidence to make these choices and navigate the investing process, and (5) wealth protection to maintain the wealth one accumulates.

1. **Investable money**. To make wealth-building investments, households must first have investable sums set aside that they can use toward wealth building and asset purchases. This is different from the short-term cash flow and liquid savings that households need for basic necessities and routine money

management. Instead, these are supplemental funds that could be invested for wealth-building purposes without putting those routine expenses and immediate needs on hold.

People then need three conditions simultaneously to make an asset purchase:

2. **Access to affordable assets to purchase.** People must have wealth-building options available—such as access to financial investments, real estate, or business assets for purchase—that are affordable, high-quality, and that meet their needs.
3. **For assets that require financing, access to consumer-friendly financing options.** Not all assets can be purchased outright. For larger purchases like a vehicle or a property or investments in education, many families need access to safe and affordable financing to supplement their investable money and make that purchase or investment. Part of having access to this high-quality financing requires having a good credit score.
4. **Information and confidence about one's ability to navigate investment and wealth-building decisions.** People must have access to the knowledge and skills needed to confidently navigate the asset purchasing process, which can be complex and feel overwhelming.[91] Moreover, people must be able to see themselves as investors to engage in these processes.[92] This information on its own is inadequate to build wealth, but it is important for people to have that information available and to identify themselves as someone who can engage in these processes; the lack of these two aspects is disempowering, and may stymie or stop people from engaging in certain wealth-building efforts.

Lastly, after investing in or purchasing assets, households must have:

5. **Wealth protection.** After purchasing and building up wealth-creating assets, people must also have the ability to maintain and protect their wealth from loss. Decades of wealth-stripping policies have hurt families and chipped away at their wealth, especially Black and Brown families, demonstrating how essential these protections are. Wealth protection is also about managing risk—longevity risk, health risk, market risk, interest rate risk, real estate market risk, and increasingly, climate risk. Examples of wealth protection include different forms of insurance and laws that protect consumers against predatory practices and regulate financial services.

LMI Households Face Barriers to Accumulating and Maintaining Wealth

The framework above speaks to the enabling conditions for wealth building across the income spectrum. In this section, we focus on the wealth-building experiences of families with low or moderate incomes, particularly those based on insights from the Consumer Insights Collaborative and other organizations and data sources. We begin by exploring the specific barriers facing these households in trying to build and maintain wealth, and then examine the types of policies, products, institutions, and tools that have supported their efforts.

Lower-income and asset-poor families aspire to grow savings and wealth like their higher-income and higher-wealth counterparts but face more obstacles to gain and hold onto this wealth. As we've identified, financial stability is a precondition, and the lack of it presents a foundational challenge for LMI households trying to build wealth. For example, less than half of households with incomes under $30,000 have routinely positive cash flow or are able to pay their bills on time.[93] By definition, these households have lower incomes to start, leaving them more vulnerable and with less to fall back on when taking on investments—which inherently involves some risk. Understanding the additional barriers people with low or moderate income face in building wealth is the first step to helping more families access wealth and ownership opportunities in the future.

Systemic Barriers to Building Investable Money Undermine Wealth-building Efforts for LMI Families

There are two main ways that the current system of wealth-supporting policies and structures limit low- and moderate-income families' ability to accumulate investable money: (1) situations that undermine cash flow and financial stability, and (2) Policy and product design features that limit or discourage the accumulation of investable funds.

Situations that undermine cash flow and financial stability make it difficult for LMI families to build up a stock of investable funds.

- **There is a macroeconomic mismatch between wages and cost of living.**[94] Wages have not kept up with the cost of basic needs of low- and middle-wage workers.[95] One result of insufficient wages or negative cash flow is households turning to credit cards to supplement income; however, this is an expensive coping strategy that further erodes cash flow.[96] As a result, a household's immediate concerns are typically in creating short-term savings and paying off debt. Families then face challenges in gaining the financial freedom, resources, or confidence in their ability to invest or accrue assets.[97]

  Moreover, research demonstrates that it is particularly expensive to be poor.[98] For instance, people living on low incomes often have to pay a premium on groceries because they cannot afford to buy in bulk.[99] The burden of everyday expenses and the lack of a financial cushion were things that over half of SaverLife members agreed were blocking their ability to reach financial independence.[100]

- **The racial and gender wage gaps are barriers for BIPOC and women's wealth building.** Given that income provides the raw material for wealth accumulation, the significant racial and gender wage gaps that exist are a major barrier to wealth building for women and people of color—even for those who have earned a college degree. The income returns on higher education are far greater for white households than they are for Black and Latinx households, and this is then reflected in the racial wealth gap among college graduates.[101] The median wealth for white households with a bachelor's degree is equivalent to $298,000, while Black and Hispanic households with the same level of education have a median wealth of $51,000 and $77,000, respectively.[102]

  A look at the wage gap through the intersection of race and gender shows that Black and Hispanic women earn 61 percent and 53 percent of what their male counterparts earn. This wage gap affects the amount of money that is left over for people to save and invest and is a major contributor to the fact that women own just 55 cents of every dollar of wealth owned by men.[103]

- **Debt payments put a drag on cash flows, undermining people's ability to amass investable sums of money.** Though households with lower incomes carry lower amounts of debt, the debt they do hold represents a greater portion of their income than for households with higher incomes.[104] There are three kinds of debt, in particular, that are uniquely burdensome on household cash flows: (1) student loan debt; (2) fines and fees from courts, and state and local government; and (3) out-of-pocket healthcare expenses and medical debt.

  - **Total student loan debt in the US has nearly doubled over the last decade, saddling many people with high debt loads and monthly payments.[105]** The average holder of such debt owes $37,000 with a monthly payment of nearly $400, and an expected repayment window of more than 18 years.[106] Student loan debt is particularly burdensome for women and people of color, especially Black borrowers, who struggle with repayment.[107]

  - **State, local government, and court fines and fees disproportionately deplete potential investable funds from Black and LMI families.** States and localities are increasingly dependent on fines and fees to raise revenue.[108] For instance, courts can impose fines and fees for low-level offenses such as traffic tickets or through jury or probation fees for criminal convictions.[109] These fines and fees create a cycle of indebtedness that impacts lower-income communities and communities of color, especially those with a higher proportion of Black residents.[110] This system criminalizes poverty: In 2015, the Brennan Center estimated that approximately 10 million people owed more than $50 billion in debt related to fines and fees because of their involvement in the criminal justice system, and this debt is deeply linked to an inability to pay that compounds into further debts.[111]

- **Out-of-pocket healthcare expenses and medical debt can devastate a family's cash flow and balance sheet.** Not having adequate healthcare—either due to a lack of insurance or suboptimal coverage of needed services—can result in out-of-pocket costs and medical debt. The Consumer Financial Protection Bureau (CFPB) finds that over half of the debt in collections is from medical bills.[112] Medical debt is unique because it typically results not from an active decision to borrow money but from unexpected injuries or illnesses.[113] As a result, people may be unaware of this debt until it appears on a credit report or when a collection agency calls.[114] Moreover, this debt can be subject to wage garnishment or bank account seizures, which allow creditors to deduct funds from the individual's paycheck or through their bank account.[115] Medical debt is a problem unique to the US, and it affects communities of color and people living in the South disproportionately, as a result of policy choices by Southern state governments that have chosen not to expand Medicaid.[116]

People with Disabilities Face Unique Risks Regarding Postponed Medical Care and Out-of-Pocket Expenses

Despite being equally likely to have health insurance, people with disabilities are more likely to forgo medical care because of costs (46 percent) and more than twice as likely to have past due medical bills (38 percent) compared to working-age adults without disabilities (25 percent and 18 percent, respectively).[117] Even with private health insurance through the workplace, many people with disabilities may have trouble covering the costs of the supports they need to live independently—such as adaptive equipment and accessible transportation—because healthcare may not cover these supports.[118]

- **LMI workers are less likely to have access to workplace benefits that stabilize cash flows.** LMI workers are less likely to have access to, and be able to participate in, workplace benefits such as paid family and medical leave, paid sick leave, and health insurance.[119] Differences in benefits access are pronounced along racial, gender, and other demographic lines, with immigrants, people of color, women, and disabled people overrepresented in lower-wage work arrangements.[120] Not having these critical protections in place or choosing to forego them leaves families vulnerable to financial shocks that they must cover on their own, forgoing the ability to build investable funds and engage in wealth building.

Policy and product design features that limit or discourage the accumulation of investable funds are at odds with wealth-building efforts.

- **The wealth-building potential of public benefits is limited by eligibility rules that determine how much people can save or what they can earn annually.** For instance, asset limits[vi] discourage families from accruing even a modest financial cushion such as short-term savings, and benefits cliffs[vii] can prompt workers to pass up a promotion when their new wages would be overshadowed by a larger—or complete—loss in public benefits.[121] Asset limits may also encourage people to save needed financial cushions in cash or other ways outside of the formal banking system to maintain benefits, which undermines wealth building because families cannot take advantage of compound interest or have protections for those buffers (via FDIC deposit insurance for instance). These disincentives can leave LMI families vulnerable to financial shocks, rapidly depleting any savings if there are unexpected changes in employment, health, housing, or other expenses.[122]

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vi Asset limits are the caps on the amount of cash, savings, or other assets one can have and still quality for public benefits.

vii Benefits cliffs exist when benefits decrease, sometimes precipitously or completely, in response to an increase in income earned. Income earned can go up through various ways, such as a promotion or raise or as the result of additional hours worked.

- **Savings products that include banking fees and minimum account balances are barriers for LMI households trying to build investable funds.** For customers to avoid fees and keep accounts active, some banks require minimum account balances or automatic or minimum monthly contributions. These account features may bar individuals from opening accounts or from being banked at all, depriving LMI consumers of a safe and affordable place to amass investable sums.[123] Among these households, overdraft fees sap a combined total of $7.3 billion out of their accounts each year.[124] LMI households are nearly twice as likely to overdraft their bank accounts while Black and Hispanic households are around three times as likely.[125]

Millions of People in the US Are Unbanked, Limiting Their Options to Amass Funds

In 2019, approximately 7.1 million US households were unbanked. Black, Hispanic, American Indian or Alaska Native households, as well as households that are lower-income, less-educated, working-age disabled, and those with volatile income were more likely to be unbanked.[126]

A Lack of Affordable Assets to Purchase Leaves LMI Families with Few Vehicles for Wealth Accumulation

When low- and moderate-income consumers do have investable funds set aside, they then need affordable asset options. Based on our analysis in section three, home equity and retirement savings accounts are the first appreciating assets that households with low wealth acquire, but lower-income households face unnecessary barriers to buying homes and beginning to save for retirement.

- **Housing policy has acted as a barrier to affordable homeownership for LMI households.** As the price of homeownership continues to rise, less affluent families continue to struggle to purchase homes and are often locked out of this important asset.[127] A number of policies contribute to driving up the cost of homeownership, such as zoning laws that control multi-family construction and density laws.[128] The shortage of housing units can be partially attributed to the insufficient and declining production of entry-level, single-family homes, or "starter homes." In 2020, only an estimated 65,000 starter homes were constructed, just one fifth of the average starter homes built per year in the 1970s and 1980s.[129]
- **Without workplace-based access to retirement benefits—and automatic enrollment into plans with "best in class" features"—workers are limited in their ability to invest in their retirement.** The Center for Retirement Research has found that very few workers without access to a workplace retirement plan save on their own.[130] Unfortunately, lower-wage and part-time workers are less likely to have access to or have the ability to participate in workplace-based retirement plans than higher-income workers, and have less saved when they do participate.[131] When lower-income workers do have access to a workplace retirement plan, it is less likely to include "best in class" features shown to boost participation and account balances—such as automatic enrollment, default selection of a high quality, low-cost, diversified investment fund, and automatic escalation of contributions.[132] In addition, early participation is essential to build the savings needed in retirement, as these savings are done through one's working years and compound over time.

Without Access to Consumer-friendly Financing, LMI Families Struggle to Purchase Larger Assets That Require Financing

Many LMI households may need financing to build the non-liquid components of wealth on their balance sheets, such as a vehicle or a home. This section highlights the barriers that CIC members and others identified related to accessing consumer-friendly financing.

- **Being credit invisible or having poor credit scores is a significant barrier to accessing safe and affordable financial services and products.** Good credit opens doors to wealth-building opportunities, while poor or no credit scores limit consumers' ability to borrow and build wealth and get favorable loan terms. Consumers with poor credit are more likely to rely on subpar financing options with unfavorable credit terms— because these are the only options available to them—or to be burdened with non-loan debt.[133]

> ***"Credit is an invisible wall that kind of boxes people out of and keeps them from reaching certain opportunities."***
>
> *—Tanya, a Boston resident*[134]

While credit can support wealth building for some, it can also function as a barrier for others, including low- and moderate-income households. Becoming credit visible and establishing good credit poses a challenge for LMI households. Around 50 million adults in the US do not have a sufficient credit history to be given a credit score by one of national consumer reporting agencies—making them credit invisible. Most of these individuals come from LMI households, are people of color, young, and/or recent immigrants.[135] A lack of credit visibility contributes to the wealth gap generally, because it disproportionately impacts low-income, Black and, Hispanic or Latinx households (nearly 30 percent of which cannot be scored using the most common credit scoring models).[136]

- **The lack of affordable small dollar mortgage loans is a barrier to homeownership for LMI families who would otherwise be able to afford to purchase a home.** There are many places across the US where homes are more affordable and plentiful than in the most competitive markets. These homes' lower value allows for lower down payments that can be within reach for renters with low wealth. Unfortunately, most mortgage lenders will not make small-balance loans of less than $100,000.[137] Prospective homebuyers sometimes turn to other financing options, such as contract-for-deed or other seller-financing arrangements which often provide few, if any, consumer protections.[138] These loans are most prevalent among low-income, Black, Hispanic, and American Indian or Alaska Native borrowers.[139]

  LMI households—as well as Black, Indigenous, and Latinx households and immigrant households—also face barriers to accessing the least expensive, highest-quality home loans.[140] It can be difficult to qualify for a traditional home loan for cooperative housing, another relatively affordable opportunity available to LMI households, particularly in urban areas.[141] Similarly, it is difficult to secure financing for any type of housing located on tribal lands.[142] One reason is that very few state- or nationally-chartered banks have branches on tribal lands and many lenders (with the exception of manufactured home lenders) do not finance properties located in these places. Mortgage loans made to Native Americans have an average interest rate that is nearly 2 percent higher than the average loan made to non-Native Americans. These higher-priced loans are largely found on tribal lands.[143] Another reason is that tribal lands are frequently held in trust; homeowners own only their home, not the land beneath. Land trusts of different forms are commonly used to ensure permanently affordable housing, but borrowers often struggle to obtain traditional mortgage financing.[144]

  In addition, loan terms vary significantly based not only on borrowers' income and down payment funds, but also by race and gender. Systemic barriers that affect these households in every dimension of their lives add up to significant challenges in accessing traditional, prime mortgage credit when they pursue homeownership. Racial disparities in access to credit are so severe that, in the lead up to the Great Recession, white families with annual incomes of less than $30,000 were less likely, on average, to get subprime mortgages compared with Black families with incomes of more than $200,000.[145]

> **"... in the lead up to the Great Recession, white families with annual incomes of less than $30,000 were less likely, on average, to get subprime mortgages compared with Black families with incomes of more than $200,000."**

- **A lack of access to small business credit for LMI business owners and credit discrimination and disinvestment in Black and Latinx-owned small businesses prevents their owners from making significant gains in business equity.** Small business owners that have low and moderate income find it difficult to access small business credit. In fact, the largest share of loans tend to go to small businesses in wealthier localities.[146] Many small business owners report that they do not attempt to apply for financing because they believe they would be turned down.[147] Additionally, a report by the Federal Reserve Bank found that Black business owners are 23 percent less likely to acquire funds from a bank compared to white, non-Hispanic business owners.[148]

It is common for small business owners to mix personal and business finances; a 2017 survey by small business lender Fundera found that 59 percent of small business owners used personal credit cards for business expenses.[149] This may be even more common among LMI business owners: Among SaverLife survey respondents, 68 percent of small business owners consider their business finances and personal finances to be intertwined.[150] For LMI business owners, this dynamic can undermine both the health of their business and their household's well-being, reducing the potential for their business ownership to grow sustainable wealth for the family.

A Lack of Information and Confidence about One's Ability to Navigate Investment and Wealth-building Decisions Means Fewer People Will Engage with These Wealth-building Options

LMI individuals may have fewer people in their personal networks to turn to for investment and wealth-building advice, and fewer resources to devote to acquiring needed guidance—such as through a personal financial adviser—to invest in wealth.

- **Lack of information and the perceived lack of shared information regarding investing and other wealth-building mechanisms limits people's participation in these opportunities.** Commonwealth's research indicates that financial behaviors, such as those that are central to wealth building, are learned within one's community and networks.[151] Investing and similar financial activities are often met with hesitation and viewed as something that is for "other people."[152] There is also a general lack of trust, particularly for people of color who have been largely excluded from these tools and institutions. For example, Black households are more likely to invest in bonds or other assets that are considered "safer."[153] Moreover, there is an inherent risk that comes with investing, that deters financially vulnerable people and households from pursuing this wealth-building strategy. LMI households that do find themselves with investable sums of money and attempt to engage in investing activities through mobile apps—which are far more accessible than other investing platforms—find difficulties in using these apps because they are not user-friendly and use jargon that the everyday person may not be familiar with.[154]

> ***"In the beginning, it was so nerve-wracking and confusing. It's a very intimidating thing and not a typical thing in my community. You hear investing, you think rich people."***
>
> *—Adele, a new investor*[155]

Without Adequate Wealth Protection, LMI Households Struggle to Hold onto the Wealth They Amass

LMI families must have the ability to protect against asset loss to ensure that they can maintain the wealth they accumulate. In addition, wealth-stripping policies take away people's ability to engage in wealth-building activities. LMI families may lose wealth in a variety of ways, including through harmful lending practices, certain housing policies, and the upside-down tax code.

- **LMI households often have to resort to, or fall victim to, loans with harmful terms and features, increasing the burden and risks of debt and asset loss.** These loans can strip households of their wealth and assets through high interest rates, late fees, and balloon payments.[156] For instance, when a prospective home buyer enters into a contract-for-deed arrangement, they do not receive the deed or build equity until the final payment is made.[157] Interest rates on these arrangements vary greatly, often do not include eviction or foreclosure protections, and have inflated sales prices making it more likely that the buyer will default.[158] And, if the buyer misses a single payment, they could lose their home as well as all the work and money they had invested until that point.[159] Similarly, borrowers using auto-title loans pledge their car title as collateral, meaning that if the borrower does not make the full repayment on time, they can lose their vehicle.[160]

- **Housing policy has for centuries played a primary role in stripping people of color of their existing physical assets and in depreciating the value of those assets.** Officially sanctioned theft of Native peoples' lands began before the US won independence; the post-Civil War Reconstruction period ended with white southerners seizing Black people's land, farms, and homes. In the 20th century and echoing to the present, exclusionary zoning, redlining, detainment of Japanese Americans, urban renewal, and other policies have harmed people of color. According to the Brookings Institution, homes located in neighborhoods that are majority Black are valued significantly less than comparable homes in neighborhoods with a Black population of less than 1 percent. In metropolitan areas, homes in neighborhoods that have a population that is 50 percent Black are valued at about half the price of homes that are in neighborhoods without Black residents.[161] The foreclosure rates in Black neighborhoods and Latinx neighborhoods are also significantly higher than in white neighborhoods—3.5 and 2.7 times higher, respectively—disproportionately stripping the wealth of communities of color.[162]

- **LMI households often face a greater tax burden on assets they've purchased and receive far less in wealth-building subsidies in the tax code than higher income, higher wealth households do.** The highest-income households and white households receive the highest share of tax expenditure benefits.[163] The tax code treats income differently by source, and the type of assets lower-income families and people of color are more likely to amass are taxed at higher rates or receive fewer benefits than those likely to be held by higher-income families and white families. For example, among homes sold in Chicago between 2015 and 2017, property tax rates were highest among the least expensive homes—these households were taxed nearly 4 percent of the sale price compared with Chicago's most expensive homes that were only taxed at 1.5 percent of the sale price. This trend can be observed nationwide, with this tax burden typically being 50 percent higher in neighborhoods where the majority of residents are Black.[164]

  Federal tax policies around investments, asset sales, gifts, and inheritances are critical wealth-building vehicles over a lifetime and across generations. The capital gains tax rate that applies to these assets depends on the taxpayer's income and how long the assets have been held, but it is always less than the rate that applies to wage income.[165] In 2019, just 6.4 percent of tax filers in the bottom 80 percent of the income spectrum reported long-term capital gains, which receive preferential tax rates. The richest 5 percent of tax filers reported 85.1 percent.[166]

Wealth Typically Flows in Opposite Directions for White and Black Families

The direction that wealth flows has important implications for a family's financial security within a lifetime and across generations.[167] Whereas, in white families tax-free gifts are likely to move from grandparent or parents to younger generations, in Black families the funds flow from younger generations to older ones. Financial transfers from children to parents deplete household wealth by more than 25 percent, and this is a much more common occurrence in Black, college-educated households.[168]

- **Without asset insurance, families are left to bear the risk of losing their wealth themselves.** Though forms of insurance exist for some assets, many are unprotected. For instance, as traditional pension coverage—with its protected payments—shrinks, more retirees are expected to manage building savings over a longer expected lifetime.[169] To make matters worse, the now more-common defined contribution account, such as a 401(k), does not have the same protections in place, leaving this major form of household wealth vulnerable to significant loss in value. This reality leaves fewer people with adequate savings for retirement and the savings that they do have can be volatile since they are market driven.

What Has Helped LMI Families Build Wealth Today and in the Past?

CIC members and other organizations with data on the experiences of families with low or moderate incomes find that when LMI families have access to certain policies, products, and conditions, they are more likely to be able to build sustainable wealth. The following section surfaces what has helped or is helping LMI people build wealth, despite the structural barriers highlighted above. We offer these observations not as recommendations, per se, but rather to help surface and inform promising policies, products, institutions, and tools to expand wealth-building opportunities to more families in the US.

Historically, people with low or moderate income have most successfully built wealth at scale when the federal government created policies targeted at creating these pathways for LMI households such as via secure, low-cost financing and low-cost assets (subsidized college and home buying). These large-scale government interventions have helped households with low or moderate income build wealth and move into the middle class. (See the text box on page 14 for specific policy examples.) A range of other factors such as supportive employer practices, safe and affordable credit through community development financial institutions (CDFIs), and financial empowerment programs and tools support sustainable wealth-building pathways.

Investable Money

LMI households are more likely to build investable sums of money when one or both of the following situations and tools are present: (1) those that boost cash flow and enable the accumulation of investable funds over time, such as higher wages, benefits, and cash infusions; and (2) those that provide investable funds directly, like employer contributions to retirement accounts or down payment assistance grants.

Situations and tools that boost cash flow and enable the accumulation over time of investable funds. This includes anything that either boosts positive cash flow or helps people convert their cash flow into investable funds.

- **Livable, predictable, and fair wages improve people's ability to save and invest.**[170] In order for low- and moderate-income households to engage in investing activities, they first require wages that exceed the cost of their basic needs (cost of housing, transportation costs, food, etc.) and rise with the cost of living. When employers offer steady employment with livable wages and consistent hours, employees are more likely to have the financial security and freedom to pursue wealth-building endeavors.
- **Federal guaranteed income and other cash infusions can provide households with extra income to stabilize and boost cash flow on a one-time or regular cadence.**[171] The expanded Child Tax Credit is one recent example of a monthly cash infusion targeted to families with children that is intended to provide households with support for their regular cash flow needs. A client from Neighborhood Trust Financial Partners states:

> ***"...if these were made permanent then yeah, it would help me do the credit cards because there isn't much debt. I'd say it would take me 2-3 years to be rid of the credit card payments... Then next up would be the emergency fund.... it would probably take me another 2-3 years to build up 3-6 months of expenses. From there, sure it would go towards the savings for a home."***[172]

Achieving longer-term goals, such as homeownership, through the promise of consistent cash infusions from the expanded Child Tax Credit was a common theme among clients at Neighborhood Trust Financial Partners. Said one client:

> ***"I could make a down payment and purchase a home, but if I know I had this money and could stack up mortgage payments and stack my tax returns, then I can confidently close on my home and not have to worry about whether I am going to fall behind....I don't think there is a limit to how long I would want this program to last because I've got a mortgage payment in mind so those are more like 30 years. So, the longer that these payments last the more options that I know I have for my family."***[173]

The Economic Impact Payments and other cash infusions provided by the US federal government also helped families pay down debt and cover regular expenses in the wake of the COVID-19 pandemic.[174] Similarly, SaverLife found that since January 2020, members were able to make the most significant gains in savings, an increase of $100 or more, in the months when stimulus payments or tax credits were distributed.[175]

- **Workplace benefits that boost a household's earnings or decrease costs improve household cash flow.** Providing paid family and medical leave and paid sick leave are two ways that employers boost income for employees, in addition to raising wages generally. On the expense side of the balance sheet, some employers now offer student loan repayment benefits, creating space for other wealth-building opportunities by decreasing monthly debt payments or helping employees pay down their loans faster. Employer-provided health insurance is another example of how employers can decrease costs for employees.

- **Public benefits—with no, or very high asset limits and few benefits cliffs—free up funds for investments.** Allowing families to build financial buffers but remain on needed benefit programs helps create steady on-ramps to financial security, rather than forcing families to choose between needed, but often temporary, public benefits, and building short-term savings to buffer against potential financial shocks.[176] One example of a public benefit program designed in this way is the Family Self-Sufficiency (FSS) Program, which supports people living in federally-subsidized housing to build savings and investable money and move forward on their financial goals.[177] In addition, some states and localities have raised or eliminated asset limits and reduced benefits cliffs to bring more families into the formal financial system, promote self-sufficiency, and reduce the impact of these limits and cliffs.[178]

- **Financial products and mechanisms that help people turn their cash flow into investable funds are another way to support wealth building.** For instance, savings programs that capture a percentage of raises or tax refunds—or other ways to automate goal-oriented savings—help LMI households harness their cash flow into investable money.[179] CIC member MyPath supported a client's wealth-building efforts by helping automate her savings, build her credit, and eventually save for a down payment.

Automatic Savings, Credit Building, and a Down Payment

Jesenia, a client with MyPath, turned a new savings habit into a $35,000 down payment on a home. She took out a $500 loan to build her credit, repaying it using an auto-debit feature that drew $43 from her paycheck every month. In 12 months, she'd improved her credit score and unlocked access to the $500. **She added more and more to this account as she earned consecutive raises, transforming an emergency cushion into a substantial asset** that, along with her improved credit, will provide her with a home and the broader financial security that comes with it.[180]

Situations and tools that provide investable funds directly. These are avenues that provide on-ramps to wealth building through the direct investment of funds, often through larger amounts that go beyond what would be needed for regular cash flow needs.

- **Employers that pay better wages often also make contributions or matches to workers' retirement accounts and help drive up participation in retirement savings.** Employers that match retirement contributions, seed these accounts, or otherwise make contributions to retirement accounts, drive participation in retirement savings and help employees build their retirement savings and wealth generally.

- **Larger cash infusions via government (local, state, or federal) or other entities provide families with funds that can be used to invest in assets.** An existing example of this is down payment assistance grants that can provide households with low or moderate income with the upfront funds needed to purchase a residence. Moreover, Children's Savings Account (CSA) programs allow families to save money in a dedicated account, typically to promote college attendance and provide young people with economic mobility earlier in their lives. Families are automatically enrolled in some state-wide CSA programs and are offered additional boosts such as savings matches and deposit bonuses.[181]

Affordable Assets to Purchase

For LMI households, affordable assets are critical since these households are less likely to have the funds on their own, nor have family or friends that can provide the capital needed to make these purchases. Efforts to create new on-ramps to wealth via affordable assets are one way that wealth can be more widely shared and have historically proven to be successful models to build the middle class.

- **Affordable opportunities to purchase a variety of home types are an important way to help people build wealth and stabilize housing expenses.** Programs aimed at bringing the price of housing down for lower-wealth households—including first-time homebuyer tax credits, housing co-ops, or community land bank programs that help connect lower-income families to housing opportunities—can expand homeownership, especially in expensive mortgage markets. Additionally, local zoning policies can greatly impact the number of available affordable housing units in a given community.[182]
- **Workplace-based access to retirement savings vehicles expands workers' ability to invest in their retirement.** Employees with access to payroll-deduction workplace retirement accounts are more likely to save for retirement.[183] In addition, workplace retirement accounts are an easy way to connect workers to investment options, as the workplace is often a trusted entity.[184] Contributions are deducted directly from workers' paychecks, minimizing the obstacles to participation. These accounts also have higher annual contribution limits compared to Individual Retirement Accounts (IRAs), helping build critical savings for the future.[185] Employers can expand this access by offering retirement savings plans to their workers, regardless of employment classification, and can encourage more adoption and greater savings via automatic enrollment (with the option to opt-out) into plans.[186] Moreover, state-sponsored retirement savings programs—known as auto-IRAs—expand retirement account access by requiring employers to automatically enroll their workers into a workplace retirement plan.[187] For instance, California's CalSavers, Illinois' Secure Choice, and Oregon's OregonSaves have expanded access to 11 million workers.[188]
- **Investment products designed to be inclusive of the financial needs and capabilities of households with lower incomes provide LMI households with the ability to purchase financial assets.** According to research by Commonwealth, good investment products and services include the following features: the ability to contribute in small and varying amounts, the option to fund investment accounts through alternative sources (e.g., a prepaid card), shorter-term investment options, and assets that are more liquid and generally easier to access should people need it.[189]

  Fintech investment tools have made wealth building more accessible for LMI households by lowering the barriers to entry for new investors with no- or low-minimum investment accounts.[190] Moreover, fintech investment tools can further enable low- and moderate-income households to invest through a more user-friendly interface and design such as through mobile applications. Commonwealth reports that the features of a financial product or service influence how users interact with any given product and can even determine whether the user will decide to interact with the product at all.[191] However, interaction requires people to have both access to and knowledge of these forms of technology.[192]

New Investors Are Diverse, Young, and Have Lower Incomes; Black and Hispanic Investors Have the Smallest Holdings

In 2020, the FINRA Foundation found that new investors were more racially diverse, younger, and had lower incomes than their experienced investor counterparts.[193] For instance, 42 percent of new investors were Black, Hispanic or Latino, or Asian. New investors had the smallest account size compared with other investors. Account balances also differed significantly across race and ethnicity, with Black and Hispanic or Latino investors far more likely to report lower balances. Black investors reported balances under $500 twice as often as white or Asian investors, and Hispanic or Latino investors 70 percent as often as white or Asian investors.[194] On the higher end, 36 percent of white and Asian investors reported holdings above $25,000, while only 10 percent and 8 percent of Black and Hispanic or Latino investors, respectively, said the same.[195]

- **Access to low-cost or free post-secondary education improves the wealth-building potential of investing in higher education.** Addressing the cost of college on the front end can expand the potential student pool, decrease the disparities in student loan debt holdings, and improve wages for those students that graduate and cash flows for those that graduate without burdensome student loan debt. When the cost of post-secondary education is lowered, students of color, lower-income students, and those with little wealth are more likely to enroll and complete school—and become less dependent on student loan debt. Some states have taken the lead in increasing the affordability and accessibility of post-secondary education by offering free or reduced community college.[196] Pell Grants and other federally subsidized loans are examples of how the federal government already lowers the cost of college for some.

Consumer-friendly Financing For Assets That Require Financing

When consumers with low or moderate income have access to affordable, consumer-friendly financing, they are more likely to purchase assets and build wealth. Unfortunately, as discussed in the barriers section above, these consumers often do not have access to this type of financing.

- **Helping LMI consumers get higher credit scores increases avenues to affordable wealth building.** Many community development credit unions and nonprofit organizations, including some CIC members, work with clients to build their credit. A survey by Commonwealth and LOQBOX (a mission-driven, fintech company) of consumers making no more than $60,000 and between ages 20 and 40 found that consumers are looking for credit-building tools—such as secured cards—that are transparent, cost little to nothing, and provide supplemental support such as advice and techniques to learn more about credit and finances.[197]

When asked what it would mean to have a better credit score, Texas resident Adrienne said, ***"Freedom. Because if you have a high credit score you have more freedom to do what you want to do."***[198]

- **Access to affordable, safe mortgages, and small business credit expands opportunities for LMI homeownership and business ownership.** Often local community banks, CDFIs, and credit unions are the source of such financing for LMI families looking to make these purchases. For instance, in 2020, Community Development Credit Unions and credit unions designated as Minority Depository Institutions distributed more than $60 billion in loans to low-income consumers and other nontraditional groups.[199] The Community Advantage Program, established by the US Small Business Association, helped create an on-ramp to homeownership for nearly 50,000 LMI households by funding over $4 billion of home loans and providing low down payment, responsibly underwritten home loans.[200]

Credit Unions Can Fill in the Gap for Needed Financial Products

" One of the pitfalls I got involved in was payday loans—you really can't get ahead using those. When I first contacted the CU, they did tell me about their cash loans which you could get even if your credit was bad. I did two $1,000 cash loans, which had lower interest than the payday loans, and they allowed me to pay off the payday loans. They also reported them to the credit bureaus once I paid them off, so it was a win-win."[201]

— Paula, a Neighborhood Trust Financial Partners client

Information and Confidence about One's Ability to Navigate Investment and Wealth-building Decisions:

LMI individuals are more likely to make investments when they have access to the resources and pathways to build wealth. Moreover, having trusted resources within the community and mentors that reflect their own communities may improve a sense of belonging and build one's identity as an investor.

- **Having mentors within an individual's own social circles or community for financial and mentoring purposes helps people self-identify as investors and fosters trust.** In 2020, social connections such as friends and families drove many new investors, especially Black and younger investors, to open investment accounts.[202] This also coincides with unpublished findings from Aspen FSP that young people want timely, personally relevant financial and career guidance from mentors in their communities. For example, Change Machine tries to hire coaches and frontline staff that reflect the population they serve, especially with respect to race, ethnicity, language, and income level to build trust and help clients feel welcome.[203] Moreover, UpTogether has created an online platform, UpTogether Community, to empower its members to maneuver within unsupportive or hostile environments—those often not built to accommodate families with low or moderate incomes—by building and strengthening their social networks. Members create groups on the platform to share opportunities, ideas, connections, and solutions to help one another accomplish their financial and personal goals—and can receive cash to support their goals.[204]
- **To take action, people must be aware of and have access to the resources and pathways to wealth, as well as relevant and timely information.** Lower-income individuals may have to look outside of their immediate networks to gain awareness of relevant, timely information and investment vehicles. LMI families can receive mentorship, knowledge, and guidance in their path to wealth building through financial empowerment and wellness programs. Through Youth POWER (Policy Organizers for Wealth and Economic Rights) and CIC member MyPath, youth and young adults have identified financial coaching as a needed economic right to support youth working toward wealth building.[205]

CIC Members Work with Members to Meet Their Self-defined Goals

Some Consumer Insights Collaborative members work with their clients to provide one-on-one support toward their self-defined financial goals. These services can build financial knowledge, provide actionable steps, recommend community and national resources, and improve credit for clients.[206] For instance, LIFT works directly with clients to support their family's career, educational, and financial goals:

" I've improved my credit score by 20 points over the past two years since I joined LIFT. I opened my first CD account, and I haven't taken anything out from it—it's just going to keep on maturing. I've decided to pursue my education even further, earning an AA in accounting and an AA in business. I have multiple jobs lined up that I'm very enthusiastic about. And I'm hoping by this year, or possibly next year, to purchase my first home. Me and my wife are pretty excited, and I know the kids are going to love it."

— Jimmy from LIFT, Los Angeles

" ...my coach is connecting me with social media training to attract more clients to my business. I'm also learning how to register my business with the state. She is helping me become an entrepreneur."

— Reina from LIFT, New York

Wealth Protection

In addition to amassing wealth, LMI households must also be able to retain and protect their wealth holdings. Protections exist to help families maintain their wealth, and these are typically in the form of consumer financial protections, other safeguards that make it easier for households to hold onto their wealth, insurance, and liquid savings. One of the biggest predictors of whether a household will be able to hold onto their wealth is (perhaps unsurprisingly) already having wealth. The current systems and processes for building wealth were not built for LMI households, and often, these families are at a higher risk of losing their wealth.

- **Consumer financial protections, lender forbearance, and debt relief can protect against wealth loss and wealth stripping.** These include consumer protections for financial products, land contracts, or other lease-to-own options that are less safe.[207] Homeowners facing economic hardship, such as those caused by the COVID-19 pandemic, may be able to receive a mortgage forbearance. This would allow homeowners to pause or decrease their mortgage payments for a time, stalling the foreclosure of their home.[208] Access to debt relief or forgiveness programs and foreclosure protection can help families maintain their assets in the face of financial hardships.

- **Other protections can help consumers shelter their wealth in the face of neighborhood changes that can threaten their wealth holdings.** Low-income homeowners can be vulnerable to displacement when property values in their neighborhoods go up quickly. Though the improved neighborhood property values can increase the sale price of the home, the condition of the home is not impacted; unless there are protections in place, the resulting increase to property taxes can disparately harm low-income families, often long-time residents in a neighborhood. Without these protections, an important family asset can be lost, leading to physical and cultural displacement from communities.[209] Property tax circuit breakers help curb this effect by distributing refunds to households with property tax payments that deplete a large portion of their income.[210]

- **Various forms of insurance exist with the express purpose of protecting one's assets.** For instance, the Federal Deposit Insurance Corporation (FDIC) is an independent, federal agency of the United States that reimburses consumers (up to a limit) in the event of an FDIC-insured bank failure. FDIC deposit insurance protects funds held in deposit accounts, such as checking and savings accounts or CDs.[211] Other common forms of insurance include homeowners, renters, and auto insurance, which aim to protect people's assets.

- **Having a personal safety net of liquid savings creates a level of protection against financial hardship and asset loss.** In 2017, the CFPB found that the most important factor correlated with financial well-being was liquid savings.[212] Using these short-term savings—sometimes called emergency savings—to address a need is often the cheapest and safest option for families with low or moderate incomes. Moreover, having these liquid savings available can help families avoid tapping into longer-term savings and investments to address short-term needs.[213]

A New Wealth Agenda: Objectives for Developing Solutions

Our exploration of wealth in the US today sheds light on the myriad ways that the opportunity to build sustainable personal wealth does not meaningfully exist for a large and growing share of US households. This reality is reflected in the data: The bottom 50 percent of households only hold 1 percent of total US household wealth, and each successive generation is on track to own less wealth than the generation before.[214] The scale of the problem and the current macroeconomic environment—including trends in household income and in the costs of living, homeownership, and education—only exacerbate the problem, and mean that without intervention, the situation will only get worse. Large-scale, structural solutions are needed to create an environment where inclusive, safe, and affordable pathways to wealth building exist for all US households.

Based on our analysis of what it takes to build wealth, how families who have it have done so, and the barriers facing the large share of households who have not had the opportunity to do so, we see six priority areas for large-scale investment and action. These are not specific solutions recommendations, but rather objectives that both tried-and-true and innovative solutions must be brought to bear to solve for. In order to create the conditions where all US households have a meaningful opportunity to build and sustain personal wealth, we need structural solutions that achieve the following six objectives, organized by the conditions they will advance.

Condition: Empower People to Amass Investable Sums

1. **Boost household cash flows.** In 2020, 43 percent of all US households reported that their income did not exceed their spending over the course of a year.[215] Families need positive cash flow to meet their basic needs and build savings; only when they have money left over can they begin to safely invest and build wealth. There are several ways to make positive cash flow possible for all households, including through employer practices and public and private benefits.[216]

2. **Reduce harmful debt for those who have it.** Households with unmanageable or burdensome debt will struggle to be financially stable, let alone begin to engage in sustainable wealth building. Our prior research, consistent with this paper, finds that student loan debt, medical debt, and state, local government, and court fines and fees place significant burdens on household finances—and that many kinds of consumer debt result from not having positive cash flow in the first place. There are many ways to approach reducing the burden of consumer debt.[217]

Conditions: Expand Access to Affordable Assets to Buy, and Where Needed, Safe and Affordable Financing for Asset Purchase

3. **Massively scale investment in affordable homeownership units and related mortgage financing.** Less affluent consumers, including BIPOC and LMI families, struggle to become homeowners due to factors such as rising home prices, a dearth of "starter homes," and difficulty receiving needed financing and down payment support, even in localities where homes are plentiful and affordable.

4. **Pair widespread access to retirement accounts with automatic enrollment and increased account funding mechanisms.** Many people do not have access to easy on-boards to retirement savings such as through a workplace or state-sponsored retirement account. People are more likely to save for retirement when the barriers to access and participation are diminished and when incentives or matches are in place to help improve adoption and more quickly build up these savings.

5. **Make post-secondary education free or low cost.** The cost of college today poses a significant barrier to potential students or a debt drag that saddles students, especially BIPOC and LMI students—whether they complete the degree or not—with unmanageable debt payments that detract from savings and wealth-building efforts. Moreover, post-secondary education historically has been the key on-ramp to wealth building for many families who were able to access it without significant debt, as higher-degrees are often a first step to acquiring better jobs that come with higher incomes and the types of benefits that support wealth building.

Condition: Protect Hard-won Wealth

6. **Further explore wealth protection needs, as well as opportunities—such as legal protections and insurance—to protect wealth.** It is important that families know that protections against wealth stripping and loss are in place for them as they work to build wealth. For LMI and BIPOC households who are successfully able to build wealth, they do so against great odds. Current wealth protection must be expanded to cover more asset types, including those that are the typical first wealth holdings for households. Additionally, more research and creative solutions into asset protection options are needed as we simultaneously work to build people's wealth.

These six priority areas reflect our understanding of the *current* system of building and maintaining wealth and lay the groundwork for developing and assessing specific potential solutions. Efforts to increase the likelihood of positive cash flow and decrease harmful debt are foundational steps to promote financial stability and help people amass investable funds. Homeownership and retirement accounts are the primary avenues families utilize to begin to build wealth in the US today. Post-secondary education, when decoupled from the burdensome debt that so many of the current generation of students have, continues to be a stepping stone and predictor of future wealth. And while our research for this paper surfaced relatively little on specific future directions for wealth protection—partially because for so many families this is not yet viable, or they are in the very early stages of building wealth—if we are successful in building an inclusive environment for wealth building it will be critical to simultaneously find structural ways to preserve these incredibly hard-earned gains. The Great Recession and the associated wealth stripping and loss experienced by families across the US—and BIPOC and low- and moderate-income families in particular—is a reminder of why getting wealth protection right is so crucial.

In addition to the six priority areas that we identify above, in the next stages of Aspen FPS's work to advance an inclusive wealth agenda we will also look beyond the ways that most households access and amass wealth in the US today and consider new pathways and potential solutions based on the enabling conditions required to build it identified in this report.

> **There has been no shortage of policy and market innovation aiding wealthy people to grow and manage their assets. We need the same level of creativity, resources, and investment in solutions aimed at helping everyone else.**
>
> *The State of Financial Security 2020: A Framework for Recovery and Resilience*.

The key stakeholders in a position to develop and carry out structural solutions have helped families, largely white and higher income, amass wealth in the past. These include federal and state governments who have provided some of the most effective on-ramps to middle-class wealth in the United States, and employers who provide pay and benefits that are key to a household's ability to build up a stock of investable funds and access affordable assets in which to invest. These also include financial services providers who are critical for providing access to high-quality products and services that facilitate wealth building and protection,[218] and technology and financial innovators in a position to create new forms of wealth and ownership and reduce the barriers to entry for people who have been traditionally excluded from these opportunities.

We are excited to continue collaborating with leaders who champion this work and begin to work with new partners to expand these efforts. We must ensure that the doors to wealth-building opportunities are available to all families, including those with low or moderate incomes, and this will become even more critical in the years to come as the population becomes increasingly diverse. We call on readers and other stakeholders to consider the ways they too can get involved, and plan to provide them with the additional resources and frameworks to support and accelerate these endeavors to change the trajectory of wealth holdings in the US and advance a new—purposefully and structurally inclusive—wealth agenda.

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