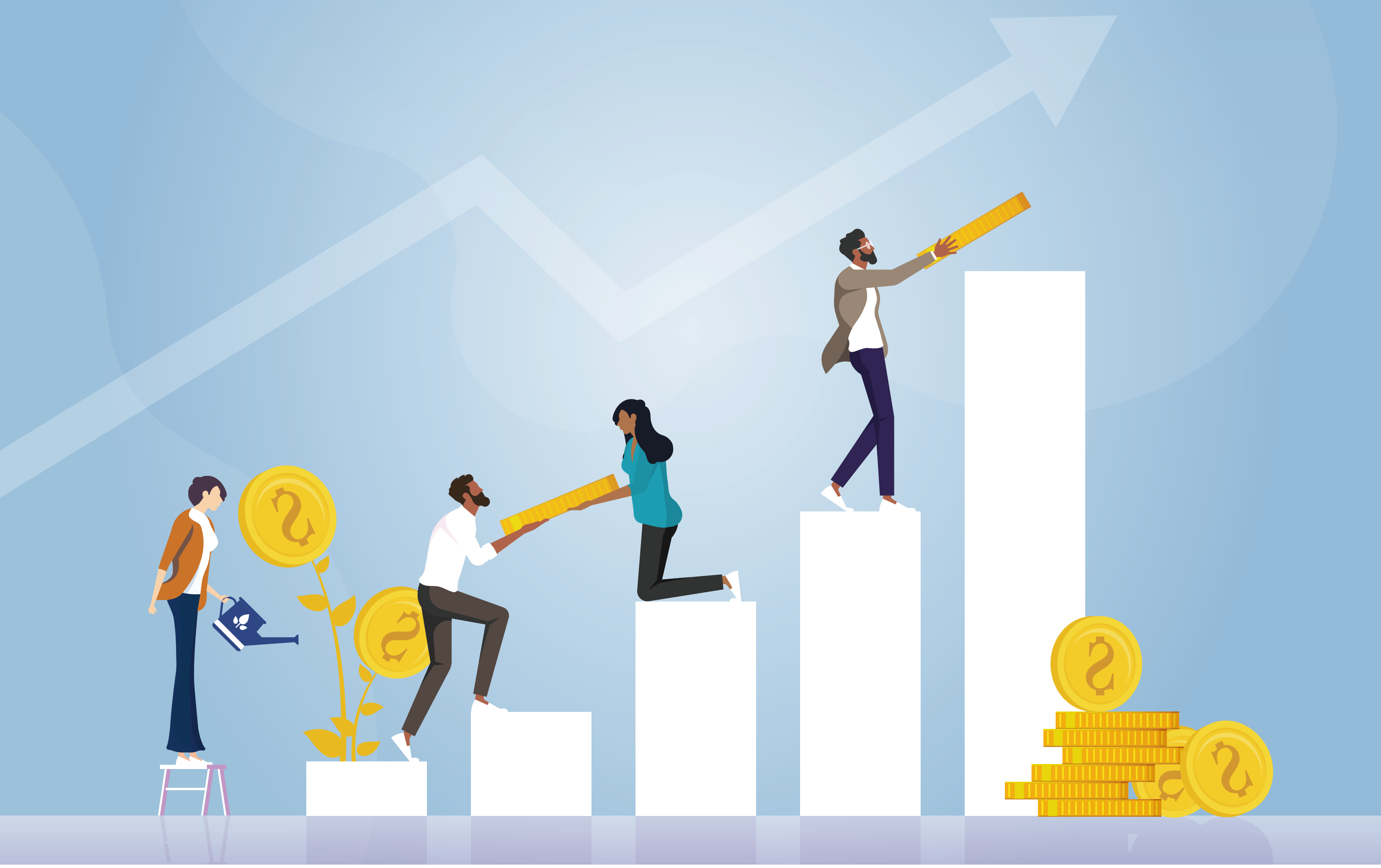
DECEMBER 2021

FOUNDATIONS OF A NEW WEALTH AGENDA

A RESEARCH PRIMER ON WEALTH BUILDING FOR ALL

EXECUTIVE SUMMARY



FINANCIAL SECURITY PROGRAM
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CONSUMER INSIGHTS COLLABORATIVE

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ACKNOWLEDGMENTS

The Aspen Institute Financial Security Program (Aspen FSP) would like to thank Sheida Elmi and Bianca Lopez for authoring this report as well as Karen Biddle Andres, Sohrab Kohli, Katherine Lucas McKay, Genevieve Melford, Shehryar Nabi, Joanna Smith-Ramani, and Elizabeth Vivirito for their assistance, comments, and insights. Aspen FSP also thanks members of the Consumer Insights Collaborative—and the people they serve—for their contributions of data and insights: Emma Cordova, Amina Kirk, and Ian Watson at Change Machine; Julianna Samper at Commonwealth; Monica Copeland and Ann Solomon at Inclusiv; Elena Pinzon O'Quinn, Lucy Smart, and Helah Robinson at LIFT; Fahad Qurashi at MyPath; Eric Espinoza, Leo Rayfiel, and Ashley Wessier at Neighborhood Trust Financial Partners; Xiao Bi, Tim Lucas, and Radha Seshagiri at SaverLife; and Deni Chen and Jakisha Blackwell at UpTogether. We are grateful to Caleb B. Quakenbush at the Urban Institute, Lowell R. Ricketts at the Federal Reserve Bank of St. Louis, and Trina R. Shanks at the University of Michigan, who shared their invaluable expertise with us in the development of this report.

This paper was developed as part of the Global Inclusive Growth Partnership, a collaboration between the Aspen Institute and the Mastercard Center for Inclusive Growth. It was also developed with generous support from the BlackRock Charitable Fund, JPMorgan Chase & Co., and Prudential Financial. The findings, interpretations, and conclusions expressed in this report—as well as any errors—are Aspen FSP's alone and do not necessarily represent the views of its funders, Collaborative members, or other participants in our research process.

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.

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.

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
Fifith	$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.*

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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.

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