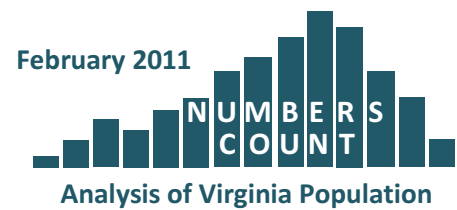


Building Economic Security for Virginia Families

Income and Asset Adequacy

By Rebecca M. Tippett



Virginia performs well when compared to the rest of the United States on many important measures of household economic security. The poverty rate in Virginia is the 39th lowest in the country. The unemployment rate is the 42nd lowest. Additionally, Virginia is:

- 6th highest in median net worth for households, and
- 4th in household food security.

On these dimensions alone, Virginia families seem to be secure economically. In contrast, several indicators suggest signs of economic trouble. Virginia is:

- 6th highest among the states in median credit card debt,
- 19th among the states in the rate of bankruptcies, and,
- 33rd among the states in home affordability.¹

These rankings tell two stories about economic well-being in Virginia and make it clear that a single number, such as the statewide percentage below the federal poverty line, fails to present a full picture of households facing economic risks. The statewide federal poverty rate does not reflect variation across the state and within communities. More importantly, even when calculated for individual communities, the federal poverty rate reports only one element of household economic security.

Household economic security is the capacity of households to afford day-to-day expenditures, save for the future, and survive financial emergencies, such as illness, job loss, or divorce. While important to individuals and families, the benefits of economic security extend beyond household walls. Economically secure households are less likely to rely on local and state social services. Additionally, children and parents in economically secure families have better physical and mental health², which leads to stronger families, improved school performance, and higher workplace productivity.³ Building economic security for all households will improve economic outcomes for both Virginia's families and the Commonwealth.

This paper introduces **household economic security** as a broader perspective on individual and community well-being and examines two fundamental dimensions of household economic health: adequate income and adequate savings (assets). By examining data on income and assets, the following questions can be addressed:

How do we accurately measure the economic security of Virginians?

How much money does it take to "get by" in Virginia?

Are Virginia's families prepared for financial emergencies?

What can we do to improve the economic security of Virginia's families?

How do we measure economic security?

A comprehensive analysis of household economic security includes two fundamental elements: *income adequacy* and *asset adequacy*. These two measures provide a picture of economic health in the present and the likelihood of economic well-being in the future.

Income adequacy means that households earn enough money to meet their regular monthly expenses, such as rent or mortgage payments, food, and utility bills.

Asset adequacy means that households have sufficient cash assets to meet unplanned short-term financial demands from events such as job loss or pay cuts, health emergencies, and car repairs.

Income and assets capture two important dimensions of a family's economic situation. Income is a flow of money into a household that is used to purchase goods and services. Due to volatility in household income streams, however, measures of income taken at one point in time can be a misleading indicator of a household's overall financial security. This is why assets are important. Financial assets, such as cash savings, stocks and bonds, and retirement accounts, are a reserve from which a household can draw in times of decreased income or increased costs. Measures of household assets give an indication of future economic well-being.

While distinct, income and assets are related. Excess income is converted into assets through savings, while higher asset holdings can generate income (e.g., through interest and dividends). Conversely, insufficient income reduces a household's ability to save, which may lead to financial shortfalls, contributing to a vicious cycle that reinforces entrenched poverty and disadvantage.

Income adequacy and the federal poverty line

The most common and rudimentary measure of income adequacy is the federal poverty line (FPL). Established in 1969, the federal poverty thresholds estimate a family's minimum income needs at three times the cost of eating on the U.S. Department of Agriculture's economy food plan. In 2009, the federal poverty threshold⁴ for a 4-person family (composed of 2 adults and 2 related children below 18 years of age) was \$21,756.

In recent decades, this standard has drawn increasing criticism for three main reasons:

1. Food costs have decreased since 1969 while the costs of other household necessities have risen. Since the poverty thresholds are based on food costs, they do not accurately reflect changes in costs experienced by households.
2. Since the federal poverty thresholds are a national standard, they do not account for regional variation in costs of living. The Census Bureau's recent introduction of a Supplemental Poverty Measure that accounts for location reflects the need to move away from a one-size-fits-all measure of income adequacy and address local variation in costs.

3. Many families near the poverty line (household incomes 100-150% of FPL) rely on public assistance programs, indicating that we might better view the current poverty line as a measure of deprivation, not of the income necessary to be truly self-sufficient.⁵ The Census Bureau emphasizes this, noting that the poverty line should not be seen as “a complete description of what people and families need to live.”⁶

Asset adequacy

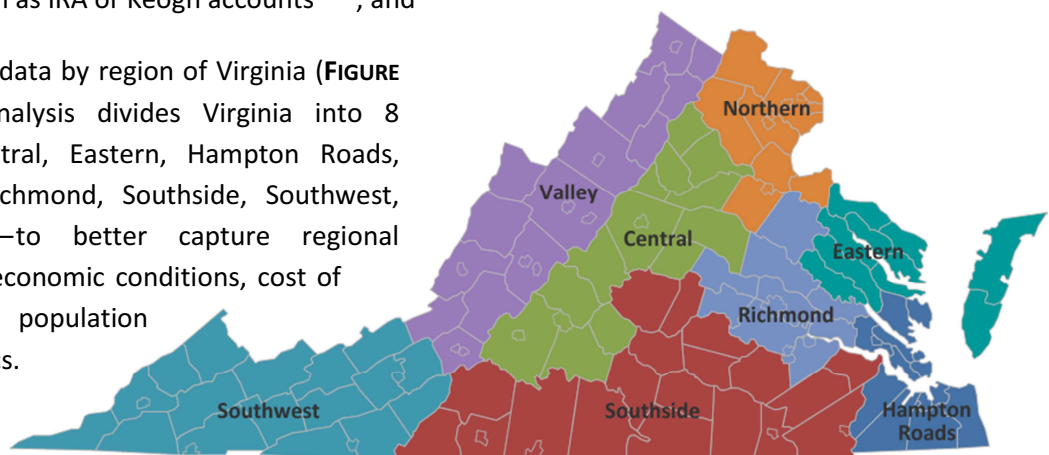
Asset adequacy is the minimum savings recommended to survive a short-term financial emergency.⁷ Household assets take multiple forms: homes, cars, durable goods, and retirement accounts, among others. The most generous estimates of household asset adequacy include all forms of assets, whether or not they can be converted easily into cash without financial penalty or tax consequences. More conservative models include only checking and savings accounts and stocks and bonds.

Examining economic security in Virginia

This analysis incorporates three novel approaches to understand household economic security in Virginia:

- by defining income adequacy in terms of a self-sufficiency standard rather than the poverty line.⁸ This standard provides market-based estimates for the minimum costs of purchasing a wider array of household necessities, including food as well as decent but not luxurious housing, quality child care, transportation, and health care. Reported here for a 4-person family (2 adults, one preschool-age child, and one school-age child)⁹, these budgets assume that families never eat out or celebrate special events such as birthdays, and that they face no medical emergencies, car troubles, or difficulty finding continuous employment. Because these budgets have no room for savings, households would remain asset inadequate even at self-sufficiency incomes;
- by including asset adequacy along with income adequacy as a critical measure of household economic security. Households are classified as asset adequate if they have financial assets equal to or greater than the equivalent of three months of income at the federal poverty line.¹⁰ Financial assets include cash accounts, stocks and bonds, and quasi-liquid retirement accounts such as IRA or Keogh accounts^{11,12}; and
- by reporting data by region of Virginia (**FIGURE 1**).¹³ This analysis divides Virginia into 8 regions—Central, Eastern, Hampton Roads, Northern, Richmond, Southside, Southwest, and Valley—to better capture regional variation in economic conditions, cost of living, and population characteristics.

FIGURE 1. REGIONAL MAP OF VIRGINIA



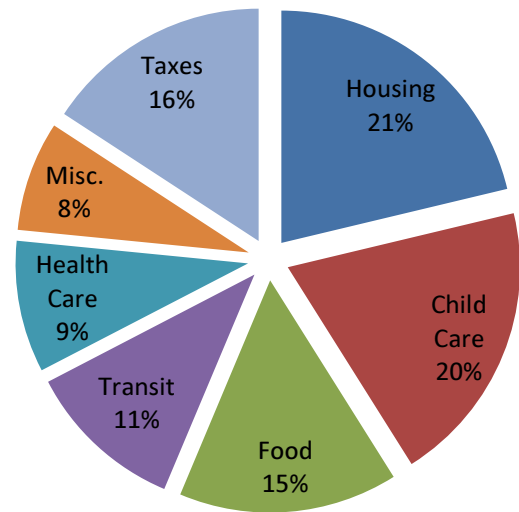
Income Adequacy: How Much Does it Take to “Get By” In Virginia?

The answer is: it depends on where you live. Income adequacy provides an indicator of the *current* economic well-being of households. The minimum monthly income is calculated based on costs of essentials. **TABLE 1** (p.5) reflects substantial regional variation in Virginia in the costs of these essentials.

Regional variation in costs translates into minimum necessary wages ranging from a low of \$8.25 per hour for each worker in Southside to a high of \$15.20 per hour in Northern Virginia. These variations are predominantly driven by differences in housing and child care costs, as these are very expensive in the urban crescent (Hampton Roads, Northern Virginia, and Richmond). Absolute costs for food and health care show fewer regional differences.

FIGURE 2 shows that, on average, Virginia’s families spend the largest proportion of their household budgets on housing and child care, followed closely by expenses for food and taxes. Due to the differences in absolute costs, these proportions also vary substantially by region, underscoring the importance of using a standard that varies across localities.

FIGURE 2. PROPORTION OF MONTHLY EXPENSES, STATEWIDE WEIGHTED AVERAGE



The income a family needs to be self-sufficient is much higher than the federally defined poverty threshold.¹⁴ **Statewide, the average household needs approximately two times the federal poverty line to approach self-sufficiency income.** Based on this, we can classify Virginia households earning less than 200 percent of the poverty line as income inadequate. Raising poverty thresholds to better reflect income

adequacy needs more than doubles the proportion of Virginians identified as being in economic distress: 9.9% of Virginians are below the poverty line, while 24.2% are under 200 percent of the poverty line.

FIGURE 3. REGIONAL VARIATION IN POVERTY AND INCOME INADEQUACY, 2006-2008 ACS

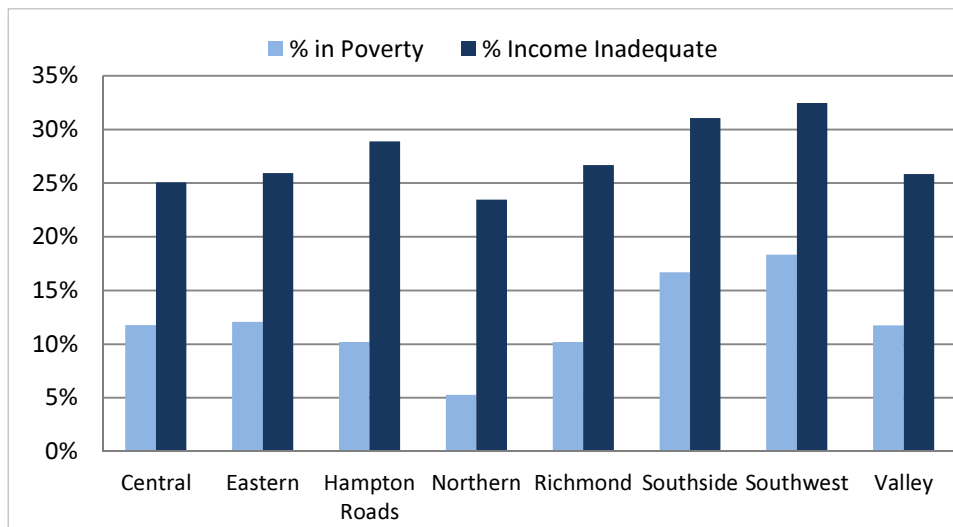


TABLE 1. REGIONAL SELF-SUFFICIENCY STANDARDS FOR 2 ADULT, 2 CHILD¹ FAMILY, 2009

	Central	Eastern	Hampton Roads	Northern	Richmond	Southside	Southwest	Valley
Monthly Expenditures (\$)								
Housing	669	613	920	1,450	839	539	541	632
Child Care	656	611	816	1,214	863	555	583	717
Food	639	640	624	673	696	634	629	620
Transportation	514	518	515	366	451	518	513	511
Health Care	356	354	388	453	384	354	357	358
Miscellaneous	283	273	326	416	323	260	262	284
Taxes	491	446	670	1,064	660	394	403	486
Earned Income Tax Credit	-41	-42	0	0	-9	-85	-79	-14
Child Care Tax Credit	-102	-107	-109	-106	-108	-88	-90	-118
Child Tax Credit	-177	-177	-177	-177	-177	-177	-177	-177
Wage Minimums								
Hourly (2 full-time workers)	\$ 9.34	\$ 8.88	\$ 11.29	\$ 15.20	\$ 11.14	\$ 8.25	\$ 8.36	\$ 9.37
Monthly Wage	3,288	3,127	3,973	5,352	3,920	2,903	2,942	3,298
Yearly Wage	39,459	37,529	47,682	64,222	47,039	34,833	35,305	39,581
Self-Sufficiency to Poverty Line Ratio	1.81	1.73	2.19	2.95	2.16	1.60	1.62	1.82

Source: Wider Opportunities for Women Self-Sufficiency Standards (2006). Adjusted for inflation to 2009 values. Regional calculations represent weighted average of all localities within the region.

¹Analysis is based on one pre-school age child and one school age child.

FIGURE 3 shows that the proportional difference between poverty and income inadequacy is particularly wide in the major urban regions. For example, **a shift from using the federal poverty line to income adequacy as a measure of economic well-being more than quadruples the estimated population proportion in economic distress in Northern Virginia**, going from 5.3% in poverty to 23.5% income inadequate. This further highlights the importance of considering regional variation in cost of living expenses when trying to understand household economic security.

DO VIRGINIA'S JOBS PAY ENOUGH TO PROMOTE ECONOMIC SELF-SUFFICIENCY?

Due in part to the high presence of government and government-related industries, Virginia has an above average share of high-paying jobs compared to other states.¹⁵ On a 2009 Forbes list of the "Best Cities for High-Paying Jobs," Virginia held three of the top 5 spots: (#1) Northern Virginia, (#3) Washington, DC metro area, and (#5) Virginia Beach-Norfolk-Newport News.¹⁶ While many Virginians are employed in high-wage jobs, there are wide disparities between their pay and the pay for the jobs that employ the largest number of Virginians. On average, none of the top 6 jobs in Virginia pay enough to guarantee self-sufficiency. These low wage jobs are also significantly less likely to come with employee benefits such as health insurance, increasing demands on family budgets for those who can least afford it.¹⁷

TOP 10 JOBS BY STATE-WIDE EMPLOYMENT, 2008 (VIRGINIA WORKFORCE CONNECTION)

Occupation Title	Estimated Employment	Hourly Wage (\$)	
		Entry Level	Mean (May '08)
Retail Salespersons	127,463	7.32	11.51
Office Clerks, General	117,747	9.02	13.94
Cashiers	98,705	6.61	8.72
Combined Food Preparation and Serving Workers ¹	93,935	6.90	8.44
Janitors and Cleaners ²	62,419	7.48	10.41
Waiters and Waitresses	61,044	6.95	9.67
Registered Nurses	60,588	21.38	30.27
Management Analysts	57,936	26.42	43.97
Customer Service Representatives	55,720	10.11	15.21
Bookkeeping, Accounting, and Auditing Clerks	51,836	11.75	17.41

Asset Adequacy: Are Virginia's Families Prepared for Financial Emergencies?

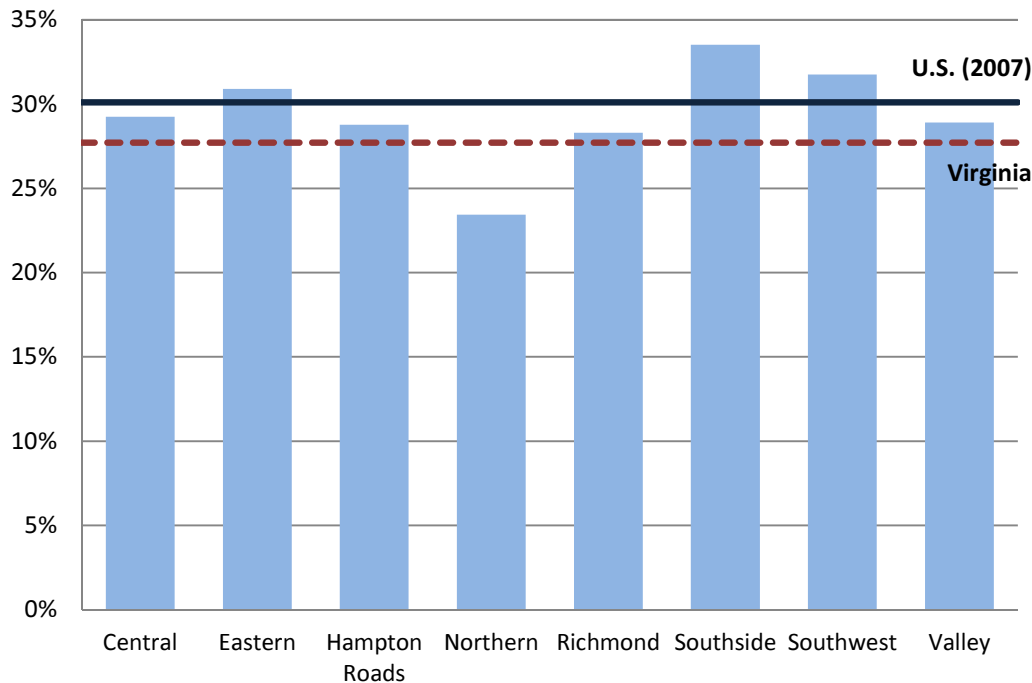
Asset adequacy is an important indicator of a household's ability to weather short-term financial crises, as well as their ability to build long-term savings for their children's education or their own retirement. To be classified as asset adequate in 2009, a 2-parent, 2-child family needed the equivalent of 3 months income at the federal poverty line—a minimum of \$5,439—in checking and savings accounts, stocks and bonds, retirement accounts, or other financial assets. Asset inadequacy is a particularly large problem facing low-income households, as these households often have no excess income to save.

Where are the asset poor?

Patterns of asset adequacy across regions generally follow the patterns of income inadequacy shown in **FIGURE 3**, reflecting the interrelationship of income and assets. Northern Virginia has the lowest rate of both income inadequacy and asset inadequacy, while Southside and Southwest have the two highest rates of each.

Estimates of the number of households with inadequate assets (the asset poor), shown in **FIGURE 4**, reveal that Virginia, as a state, performs better than the United States as a whole, with 28% of Virginians classified as asset poor compared to 30% of all Americans. This is predominantly driven by the high educational attainment and high incomes of the large population in Northern Virginia. Virginia's seven other regions have a higher proportion of asset inadequacy than the state as a whole. The Eastern, Southwest, and Southside regions have higher asset inadequacy rates than the national average, reflecting the higher income poverty rates within those regions.

FIGURE 4. ESTIMATED ASSET POVERTY RATE BY REGION, 2006-2008 ACS & 2007 SCF



Who are the asset poor?

Analysis of the 2007 Survey of Consumer Finances, shown in **TABLE 3** (p. 8), reveals detailed characteristics of the asset poor at the national level. While there is diversity within each group, the asset poor and the asset adequate are demographically and economically distinct groups. For example, black and Hispanic households are asset poor at over twice the rate of white households.

TABLE 3. ASSET ADEQUACY BY DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS, U.S. (2007)

	Asset Poor	Asset Adequate
Age (Median)	42	51
Race/Ethnicity		
White, Non-Hispanic	24%	76%
Black, Non-Hispanic	50%	50%
Hispanic	57%	43%
Education		
Less than High School	63%	37%
High School	36%	64%
Some College	29%	71%
Bachelors or More	12%	88%
Household Composition		
Proportion Married	47%	64%
Work Characteristics		
Median Income	\$23,400	\$67,000
Employment Status		
Employed	29%	71%
Self-Employed	18%	82%
Unemployed	58%	42%
Occupation		
Professional	14%	86%
Technical	33%	67%
Other	38%	62%
Median Net Worth	\$5,900	\$240,600
Source: 2007 Survey of Consumer Finances analysis of household head. Dollars represent 2007 dollars adjusted for inflation to 2009 values (rounded to nearest \$100).		

Compared to the asset poor, asset adequate households:

- are older, reflecting life cycle patterns of wealth accumulation;
- are more likely to be married;
- have higher educational attainment;
- earn more income in professional occupations.

Median wealth holdings highlight the economic fragility of asset poor households. Net worth is a household's total assets—including non-financial assets such as housing—minus total debts. The median net worth of asset poor households is \$5,900, meaning that 50% of asset poor households have a net worth *less than* this value. Asset adequate households have a median net worth of \$240,600, more than 40 times the median net worth of the asset poor.

Why does asset adequacy matter?

Assets facilitate upward mobility by helping individuals and their families buy homes, start businesses, and pay for college. When times are bad, assets can buffer households from sliding down the socioeconomic ladder, or make the slide less dramatic than it would be. Inadequate assets, like inadequate income, can exacerbate the circumstances of already disadvantaged families. Asset poor households are significantly more likely to be in economic distress than asset adequate households. They are more likely to fall below the poverty line and report missing bill payments.

In short, adequate assets may break an economic fall into poverty and dependency. Virginia families not in poverty, but on the edge of inadequate income, face greater risks to long-term well-being when they lack the necessary savings to cushion their families through hard times.

What can we do to improve the economic security of Virginia's families?

Real economic security is comprised of both income and asset adequacy. A single focus on alleviating temporary or income-related hardship that does not address household assets overlooks longer-term solutions with the potential to increase security and reduce future need for public interventions such as Medicaid, Temporary Assistance to Needy Families (TANF), unemployment insurance, or food stamps. Many approaches to promote income and asset adequacy and build economic security exist, with a wide range of potential policies. These include:

1. Accounting for regional needs and differences when developing strategies and services aimed at economic well-being; and,
2. Supporting financial education for individuals, families, and those providing services to them.

The average Virginia household needs to earn more than two times the federal poverty line to be economically self-sufficient. Below 200 percent of the poverty line, households may struggle to meet their minimum monthly expenditures without support from family and friends, community and charity organizations, or government programs. The disparity between the federal poverty line and self-sufficiency wages is particularly large in the urban crescent—Hampton Roads, Richmond, and Northern Virginia, especially—due to the high costs of living that are not accounted for by the current federal poverty measures.

Building assets, even at relatively low levels, increases economic well-being for individuals, their households, and the communities in which they live. Assets allow families to meet needs such as paying for car or home repairs that cannot be filled by existing social welfare programs.¹⁸ More than a quarter of Virginia's households currently lack sufficient assets to cope with a short-term financial emergency. The rate of asset inadequacy is significantly higher among low-income and minority households. Of growing concern to researchers and policy makers interested in building wealth in low-income and minority communities is how asset inadequacy may drive the use of higher-cost financial services such as payday lending or car title loans. The landscape of financial services in Virginia and its implications for asset adequacy and impact on minority communities are explored in detail in a forthcoming companion piece.

For more information, please contact Rebecca Tippett, Demographics & Workforce Group, Weldon Cooper Center for Public Service, University of Virginia, at (434) 982-5861 or by e-mail at rtippett@virginia.edu.

References and Notes

¹ Rankings data drawn from multiple sources: Nord, Mark, Margaret Andrews, and Steven Carlson. 2009. "Household Food Security in the United States, 2008." U.S. Department of Agriculture Economic Research Service: Economic Research Report No. 83; U.S. Census Bureau, Small Area Income and Poverty Estimates (SAIPE), 2008; Center for Economic Development (CFED) 2009-2010 Assets & Opportunity Scorecard; U.S. Bureau of Labor Statistics. September 2010. Local Area Unemployment Statistics: Unemployment Rates for States. Washington, DC: U.S. Bureau of Labor Statistics.

² Mistry, Rashmita S., Elizabeth A. Vandewater, Aletha C. Huston, and Vonnie C. McLoyd. 2002. "Economic Well-Being and Children's Social Adjustment: The Role of Family Process in an Ethnically Diverse Low-Income Sample." *Child Development*, 73(3): 935-51.

³ Boles, Myde, Barbara Pelletier, and Wendy Lynch. 2004. "The relationship between health risks and work productivity." *Journal of Occupational & Environmental Medicine*, 46(7): 737-45.

⁴ U.S. Census Bureau. September 2010. "Poverty Thresholds for 2009 by Size of Family and Number of Related Children Under 18 Years." Washington, DC: U.S. Census Bureau.

⁵ Kuriansky, Joan A. May 17, 2010. "A Better Poverty Measure is a Step Forward, But Economic Security is the True Goal." *Spotlight on Poverty and Opportunity*.

⁶ U.S. Census Bureau. 2010. "How the Census Bureau Measures Poverty." Washington, DC: U.S. Census Bureau.

⁷ The guideline of 3 months stems from the average unemployment spell lasting 2 to 4 months, although the current economic recession has shown protracted unemployment for a substantial segment of the population. The poverty threshold was applied to Survey of Consumer Finance households based on their composition (1 or 2 adults), size (number of dependent children), and age (head over/under 65).

⁸ Households are classified as income inadequate if they fall below self-sufficiency income—the minimum income a family needs to meet their basic, day-to-day expenses without relying on public or private assistance. I use market-based estimates of the minimum cost of purchasing food, decent but not luxurious housing, quality child care, transportation, and health care from Wider Opportunities for Women's *Self-Sufficiency Standards*. These estimates combine information from multiple federal data sources, account for taxes and transfers, and are available for every city and county in Virginia across a variety of household compositions. WOW uses the 40th percentile of Fair Market Rent (FMR) data from the Department of Housing and Urban Development (HUD) for two-bedroom units (2 adults in one bedroom, 2 children in the other), to reflect the estimated cost of decent, non-luxurious housing. In lieu of higher housing costs in 3 metropolitan areas—Norfolk-Virginia Beach-Newport News MSA, Richmond-Petersburg MSA, and Washington, DC-MD-VA MSA—the standard uses the 50th percentile of FMR. WOW draws on federal data from the Virginia Department of Social Services from a market survey of child care providers to estimate the costs of child care. Detailed information on the construction of WOW Self-Sufficiency Standards is available from the Virginia Department of Social Services.

⁹ Regional self-sufficiency standards reflect the weighted average of city- and county-level self-sufficiency standards based on the 2009 population estimates from the Demographics & Workforce Group at the Weldon Cooper Center.

¹⁰ I calculate synthetic estimates for Virginia's regions by using the 3-year 2006-2008 American Community Survey (ACS) data and the 2007 Survey of Consumer Finances (SCF), a nationally representative survey that provides comprehensive data on household asset and liability holdings. This estimate takes into account national patterns of asset adequacy (from the SCF) and the specific socio-demographic composition of Virginia as measured by age, education, income, and race (ACS data). The estimation process was guided by Eleni Constantine and Mia Mabanta's "A Guide to Generating Unbanked Estimates" (2009). A detailed description of the methodology is available upon request.

¹¹ The specific accounts included in the financial assets measured in the Survey of Consumer Finances are liquid transaction accounts (money market accounts, checking accounts, savings accounts, and call accounts), certificates of deposit, mutual funds, savings bonds, stocks, bonds, annuities, trusts, the cash value of whole life insurance, quasi-liquid retirement accounts (IRAs, Keoghs, current and future account-type pensions), and miscellaneous financial assets not included here.

¹² Financial asset adequacy may overestimate the actual financial adequacy of households for multiple reasons. First, most households are above the poverty line, and their actual expenses may be greater than the federal poverty thresholds. Second, the financial assets measure is based on both readily accessible (liquid accounts) that are structured for short- to medium-term savings, as well as accounts that are instruments for long-term savings goals (IRAs, 401ks, etc). Many of the long-term savings instruments have penalties for accessing them, thus reducing their actual value. Moreover, depleting retirement savings may merely postpone the onset of financial crisis. Last, these estimates are derived from data collected in 2007 and reflect pre-recession values of asset holdings that may have declined substantially over the past few years.

¹³ All regional data are from the 3-year 2006-2008 American Community Survey (ACS), conducted by the U.S. Census Bureau, which provides specific detail on the economic and social characteristics of Virginia's regions.

¹⁴ Population proportion income inadequate was estimated using the self-sufficiency to poverty ratio for each region, the 2006-2008 3-year American Community Survey data on household income-to-poverty ratios, and linear interpolation. Details are available upon request.

¹⁵ Rex, Tom R. 2006. "High-Wage Jobs: A Report from the Productivity and Prosperity Project (P3)." Phoenix: Center for Competitiveness and Prosperity Research, W. P. Carey School of Business, Arizona State University.

¹⁶ Kotkin, Joel. July 14, 2009. "Best and Worst Cities for High-Paying Jobs." Retrieved November 1, 2010, from <http://www.forbes.com/2009/07/13/best-worst-cities-jobs-employment-opinions-columnists-high-paying.html>.

¹⁷ U.S. Bureau of Labor Statistics. July 27, 2010. "Employee Benefits in the United States—March 2010." Washington, DC: U.S. Bureau of Labor Statistics.

¹⁸ At present, there is a dearth of policies that promote and reward saving for short- or medium-term expenses; most savings programs are focused on promoting retirement savings or long-term investments, such as home ownership, business startup, or college, and are unable to address the types of economic shortfalls commonly faced by households. See also: Lopez-Fernandini, Alejandra. 2010. "Unrestricted Savings: Their Role in Household Economic Security and the case for Policy Action." Asset Building Program Working Paper. Washington, DC: New America Foundation.