An Urban Institute Project Exploring Upward Mobility

Opportunity and Ownership Facts

THE URBAN INSTITUTE
2100 M Street, NW • Washington, DC 20037
(202) 833-7200 • http://www.urban.org
No. 16, September 2009

Are Families Prepared for Financial Emergencies?

Caroline Ratcliffe and Katie Vinopal

The current economic downturn, characterized by high unemployment and limited access to credit, highlights the need for families to have enough assets to weather financial emergencies. But data from the 2007 Survey of Consumer Finances show a disturbing reality. Even prior to the current recession, many families did not have enough assets to see them through a modest spell of unemployment or another financial emergency, such as unexpected medical expenses.

Traditional financial advice has been that families should have enough savings to cover at least three months of expenses. We examine a less-stringent measure of financial security—asset poverty. A family is categorized as asset poor if it does not have enough resources, measured separately as liquid assets and net worth, to live at the federal poverty level for three months. This translates into about $5,300 for a family of four in 2007.

In 2007, nearly one in three U.S. families (31 percent) were liquid asset poor (table 1). When net worth is considered, asset-poverty rates fall by half (to 16 percent). Thus, many families hold their wealth in the form of nonfinancial assets, such as a home or a business. Not surprisingly, rates of asset poverty vary substantially across the income distribution. While 68 percent of bottom income quintile families and 47 percent of second income quintile families are liquid-asset poor, such shortfalls affect only 1 percent of top income quintile families.[1] A similar pattern holds for net worth asset poverty.

Asset-poverty rates are lower for employed families. While 27 percent of employed families are liquid asset poor, the rate reaches 40 percent among nonemployed families. The comparable net worth asset-poverty rates are 14 percent and 21 percent, respectively. Among families in the two lowest income quintiles, however, asset-poverty rates are higher among employed than among nonemployed families. Many nonemployed retirees, who have little income but high wealth levels, are in these lower income quintiles.[2]

Younger families are more vulnerable to economic emergencies. In 2007, 54 percent of families whose head was under age 30 were liquid asset poor, compared with 30 percent whose head was between 40 and 49, and 21 percent whose head was between 50 and 61.

TABLE 1. Asset-Poverty Rates by Selected Family Characteristics (%)

	Liquid asset poor	Net worth asset poor
Total	30.6	16.1
Income quintile		
Bottom	67.9	38.9
Second	46.6	22.4
Middle	28.3	12.1
Fourth	9.3	5.6
Top	1.1	1.3
Family employment[a]		
Employed	27.4	14.4
Not employed	40.2	20.8
Age of family head		
Under 30	53.5	41.1
30 to 39	37.6	20.8
40 to 49	29.8	14.6
50 to 61	20.9	8.6
62 to 69	21.8	6.8
70 and older	24.8	8.8

Source: Authors' tabulations of the 2007 Survey of Consumer Finances.

Notes: Liquid assets captures financial assets such as transaction accounts, certificates of deposit, mutual funds, savings bonds, stocks, retirement accounts, the cash value of life insurance, annuities and trusts, and other financial assets; net worth includes net financial assets and net nonfinancial assets (e.g., equity in vehicles, businesses, and homes).

a. Either the family head or spouse is employed.

The pattern of asset poverty by age follows a life-cycle pattern where assets start low, increase during one's working life, and decline with retirement.

Notes

1. Bottom income quintile families make less than $20,568 annually, which is roughly equal to the federal poverty threshold for a family of four in 2007. Second income quintile families make between $20,568 and $37,021, or between 100 percent and 180 percent of the poverty threshold.
2. When the sample is limited to working-age families (head under 60), asset-poverty rates are lower among employed versus nonemployed families.

We thank the Annie E. Casey Foundation and the Ford Foundation for supporting the Opportunity and Ownership Project.