Tip Sheet

NATIONAL RESOURCE CENTER *for* HEALTHY MARRIAGE *and* FAMILIES

Strategies for Helping Couples Build and Manage Assets

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The Great Recession has resulted in record high unemployment from lay-offs, cut-backs, and downsizing. These trends are creating new faces in unemployment lines. For many individuals and families, employment is becoming their most pressing 'basic' need right along with food, clothing, health care and shelter.[1] There is no doubt that the current economic climate has impacted all. However, behind all the statistics is the 'big story'– the number of children living in poverty is growing, through no fault of their own.[2] The unfortunate news is that they are the least empowered to change their condition. Douglas Nelson, President of the Annie E. Casey Foundation, best summed up a solution to this situation by saying, "…the best way to reduce negative child outcomes is to strengthen our nation's most vulnerable families and in particular to increase their ability to provide some real economic security for their kids."[3] This tip sheet is designed to provide information that will be useful to clients who wish to improve their economic position and begin the journey to wealth creation.

Building Assets and Reducing Liabilities

In order to convince the couple of the importance of asset development, it is imperative to convey to them what an asset is– namely, useful resources such as cash, gold (including jewelry), stocks, bonds, automobiles, real estate, etc. When held and maintained, these resources can grow and increase in value: the key here is growth. For many low-income couples, their only asset is an automobile which depreciates over time as opposed to increasing in value.[4] For couples who fall into this category, it will be essential to stress the importance of keeping the automobile when it is paid off and using the surplus money to reduce other debts or add to savings.

In contrast, liabilities consist of debt and/or financial obligations with the expectation of a payment to end the obligation. An essential step in asset development is to understand the need to find ways to limit consumption; to save a set amount of money, which over time can and will accumulate; and then to safely invest the savings. In fact, the attainment of most major familial economic goals and objectives begins when the couple takes the time to plan to save and accumulate resources (i.e., assets). No one would deny that savings and asset accumulation will be a hard task in the face of expanding unemployment and poverty. Nonetheless, the first step is key to a more secure economic future for the couple and for their offspring.

Getting Started: Tips for the Professional

Because poor and overwhelmed couples live largely on the fringe of the mainstream economy, they have limited if any connections to traditional, established economic institutions including banks and credit unions.[5] These individuals rely overwhelmingly on the mega-billion dollar fringe economy, which exists parallel to the main economy and provides a full menu of services. Pay day lenders; pawn shops; and full service, mainstream banks that offer high interest credit cards and costly overdraft check protection make the fringe economy operative and very profitable.[6]

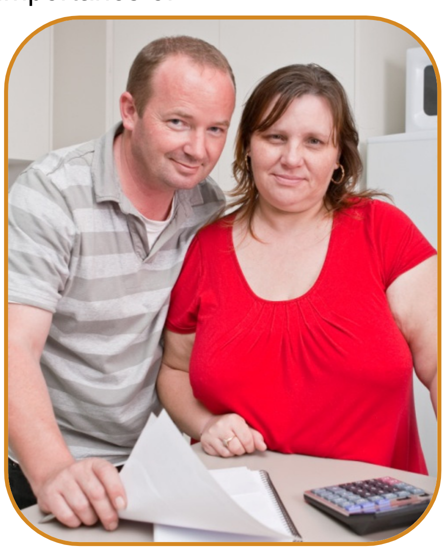
Those who are unbanked and unaffiliated with mainstream banks and credit unions often are so because of the following reasons:

- they do not feel that they write enough checks to offset costs, nor do they have funds to deposit on a regular basis;
- many are uncomfortable and ill at ease using banks; or
- there is an expressed desire to keep their financial information private.[7]

To break this vicious cycle, you must expose this population to existing programs and services designed to assist them. Two programs that encourage asset development are Individual Development Accounts (IDAs) and Earned Income Tax Credit (EITC).

Individual Development Accounts

Individual Development Accounts are special saving accounts designed to help low and moderate income people save and develop assets. The special feature of IDAs is the matching component; for every dollar saved in an IDA, depositors receive an additional dollar, or more, depending on the program guidelines. Individual development account programs are most often geared toward assisting the participant to save for buying a home, starting a business, or furthering his or her education. Most IDA programs require participants to attend classes on budgeting, the importance of saving, and how to make major purchases including a home. When addressing clients on the IDA program, it is of utmost importance to stress that the savings can only be used for the purposes mentioned above. Often, clients will argue that they earn so little that it is impossible to save. Reiterate to them that this is a myth; evidence clearly indicates that low-income people can save. As the Corporation for Enterprise Development states:



For example, 2,128 low income families participating in the American Dream Demonstration, the first large-scale test of IDAs, saved $602,181 as of June 2000, and these savings leveraged another $1,146,919 in matching funds. The average monthly net deposit was $19.00, with an average match rate of 2:1, participants accumulated about $700 per year.[8]

As people get started with saving in an IDA, they may need extra assistance. You might need to walk the couple through the process or even accompany them to establish the account at a local bank or credit union (all institutions should be government insured so funds will be protected). Initially, routine reminders about making regular deposits will be important. Encouraging IDAs when the living standard among couples is often very low and life is highly strained and often overwhelming will not be easy for the professional. However, the promise of a brighter future makes it worth the effort.

Earned Income Tax Credit (EITC)

Another incentive that is available to workers earning $48,362 or less per year is the Earned Income Tax Credit. Many low-income individuals are not aware of this popular tax credit; the Internal Revenue Service (IRS) states that only 80% of those who are eligible for this credit, apply for it.[9] While on this subject, advise clients not to pay companies to do their tax returns; this is a costly and unnecessary expense. Free help for tax returns, including seeing if clients qualify for the EITC, is available at Volunteer Income Tax Assistance sites and IRS Taxpayer Assistance Centers. Additionally, some colleges and universities provide tax assistance.

Spending Wisely

Transportation

When considering the purchase of a vehicle, ask couples to think about the benefits of either a car or a truck. In some instances, a truck might provide an opportunity to perform small but important jobs in both rural and urban communities. Residents who move often might need someone to haul items; others may need assistance picking up large items from discount suppliers or picking up groceries from big box discount stores. Fees can add up! Initially, a truck might cost more than a car but it can help pay for itself. Operating costs should be factored in whether purchasing a car or truck.

Date nights at home

Private time is extremely important in keeping a relationship healthy. Help couples understand the importance of having regular dates, but remind them that they don't necessarily have to eat up the family budget. Have couples consider a lovely time together at home. They can save the cost of a baby sitter, transportation, movie, and/or restaurant by exchanging babysitting duties with a friend or relative, renting a movie or two, and picking up interesting or different food from the grocery store– maybe even in the prepared section where items go on sale in early evening. Not only can they make it special, but also appreciate the savings. Encourage them to do this often and watch the savings add up. Suggest that they mention the idea to friends and neighbors so others can improve savings and relationships.

Shop for bargains

Food and clothing take up a major portion of a family budget but there are savings to be found - always think about good deals. With regard to clothing, stress to the couple that family members do not need to have brand new clothes. Gently worn items from consignment stores, thrift shops, or church sales can suit up a family for even a fraction of the cost at cheaper, discount stores and the clothing is likely to be a better grade. Children outgrow clothing and shoes at a great pace. They will not notice if items are new or not if they look fresh, neat, and pressed when placed in a drawer or closet. The same is true for designer sneakers that can cost a little fortune. Mom and Dad can also get nice outfits at the same outlets. Many items are also new and they can save the dollars for investment in bigger dreams. When buying food, couples should be urged to avoid convenience stores at all costs because typically prices can be twice as much as those found in a larger grocery store.[10] Have the couple devise a monthly meal menu, this helps greatly when shopping. Encourage them to shop at large chains, look for specials, and also buy in bulk. Most grocery stores have weekly specials and offer great savings. Also, buying store brands will result in savings of 30% to 50%. Finally, couples should use coupons when possible and take advantage of all rebates.

Pack lunch

Lunch can be a very expensive deal if both husband and wife eat out every day or even several days a week. Cheap spots can run nearly ten dollars and, if multiplied by two, would be quite expensive. Suggest that couples pack their lunch. Making lunch will require a little more time but the food can be good, fresh, and very healthy by including fruits and veggies in season. With a little imagination the spread can be great and much cheaper than eating out. It can also be a fun chore if a record of the savings for investment is kept.

Grooming at home

Everyone wants to look good and this is reflected on the balance sheets of cosmetics companies.[11] Prices of these goods go up during periods of economic recession. Slashing costs on beauty and grooming is not as hard as one might imagine. Suggest that clients learn to do hair, nails, facials, and other beauty procedures at home. Encourage them to barter with friends who can do one skill better than others, cutting a boy's hair for example. Nails cost about twenty dollars per visit plus tip for the minimum service; more for a pedicure. A hairdo for a middle school girl can cost $35 to $50 dollars, but may look really good for only a few days. Therefore, clients would be better off if they learn to do these things for themselves or use the age-old barter system. When clients do have to buy cosmetics – male or female – they should be reminded that anything branded with a star's name, anything in a major department store, or anything advertised in major media will cost them more. Suggest that clients shop at the "dollar" stores or other similar outlets and online when possible – online shopping often results in not paying taxes! Clients should be frugal, shop wisely, and will watch their savings grow.

Conclusion

This tip sheet has highlighted some of the many mechanisms that low- and moderate-income couples can use to build assets and begin the journey to becoming debt free. Three points that you should attempt to drive home with your clients are:

1. It's important to save, regardless of how little or much.
2. Free tax preparation is available for low-income tax filers and they can get a valuable tax credit.
3. Learn to do things yourself and employ the barter system when possible. Cutting costs on the basics may be difficult at first but it is possible and the money will grow.

Notes

[1] Taylor, P., Morin, R., Kochhar, R., Parker, K., Cohn, D., Lopez, M. H., … Espinoza, S. (2010). *How the great recession has changed American life*. Retrieved from Pew Research Center, Pew Social and Demographic Trends website: www.pewsocialtrends.org/files/2010/11/759-recession.pdf

[2] University of New Hampshire (2011, September 23). One million more U.S. children living in poverty since 2009, new census data shows. *ScienceDaily*. Retrieved from http://www.sciencedaily.com/releases/2011/09/110922152631.htm

[3] Nelson, D. (2003, June 11). *The high cost of being poor*. Remarks given at the Kids Count Data Book policy briefing, p.3, Washington, DC. Retrieved from The Annie E. Casey Foundation website: www.aecf.org/upload/publicationfiles/kids%20count%20data%20book%20policy%20briefing.pdf

[4] Carasso, A., & McKernan, S-M. (May, 2008). *Portraits of the assets and liabilities of low income families* (Opportunity and Ownership Project Policy Brief No. 9). Washington, DC: Urban Institute.

[5] See note 3 above, 3-5.

[6] Karger, H., & Stoesz, D. (2010). *American social welfare policy: A pluralist approach* (6th ed.). Boston, MA: Pearson.

[7] Ibid.

[8] Corporation for Enterprise Development. (2012). *Frequently asked questions about individual development accounts (IDAs)*, (para. 2). Retrieved from http://cfed.org/programs/idas/ida_faq_article/

[9] McGrath, R. (2012, January 27). IRS encourgages people to apply for earned income tax credit. *Ventura County Star*, Retrieved from http://www.vcstar.com/news/2012/jan/27/irs-encourages-people-to-apply-for-earned-income/

[10] See note 3 above, 4.

[11] Lip reading. (2009, January 22).*The Economist*. Retrieved from http://www.economist.com/node/12

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