

# Net Worth Poverty and Child Development

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## Net Worth Poverty Affects 40% of US Children

When people think of children who are poor in the US, they rightfully think of children whose parents do not have enough money. To most people, not having enough money means that a family's income is insufficient to meet their basic needs. But many children live in households where their family's wealth (that is, their assets minus their debts) is also insufficient. Net worth poverty means that a families' level of wealth is less than one fourth of the federal poverty line; in 2021, that means that a family has wealth levels of less than \$7,000. Two in five children in the U.S. experience wealth deprivation, or net worth poverty, relative to one in seven who experience income poverty (See Figure 1). Most children who are net worth poor are not income poor, meaning that these economically vulnerable children have been overlooked in conversations about poverty.

Net worth poverty, unlike income poverty, has been increasing over time for families with children. Between 1989 and 2019, child households in the bottom half of the income distribution accounted for a roughly constant share of all income, at about 14 percent. In contrast, the share of wealth owned by child households in the bottom half of the wealth distribution fell from 0.64 percent in 1989 to -0.36 percent in 2019. Thus, although lower income households maintained their relative position in the income distribution from 1989 to 2019, lower wealth households experienced a decline in net worth, having greater debts than assets by 2019. These disparate trends in income and wealth indicate that markers of income-based poverty underestimate the difficulties faced by economically vulnerable households.

This brief summarizes the findings from "Net Worth Poverty and Child Development" in *Socius*<sup>i</sup>. The authors investigate whether net worth poverty reduces children's well-being.

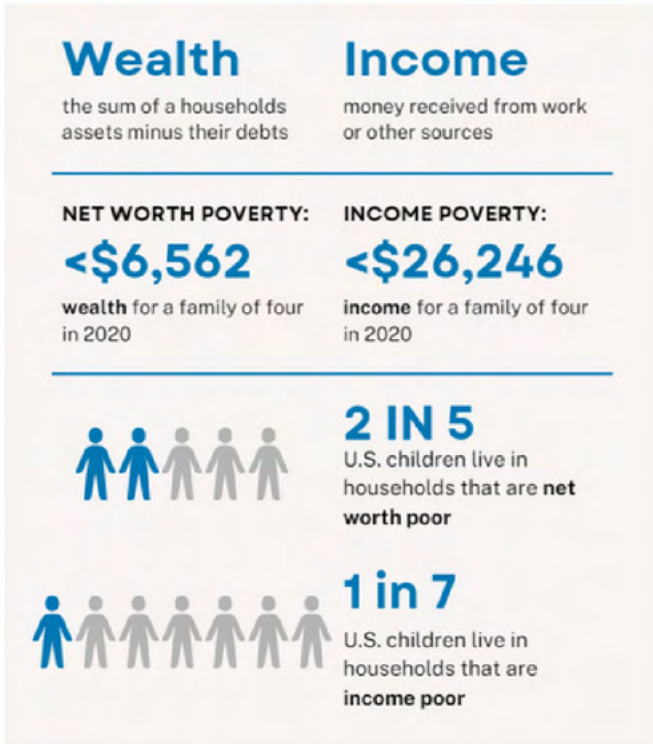
Data from 2002 to 2019 from the Panel Study of Income Dynamics and its Child Development Supplement on children ages 3 to 17 years were used to construct measures of net worth poverty and income poverty and link them to validated measures of children's developmental outcomes.

The study provides evidence that net worth poverty reduces children's development, lowering their reading and applied problem scores and increasing behavioral problems.

<sup>i</sup> Gibson-Davis, C., Keister, L.A., Gennetian, L.S., Lowell, W. (2022) "Net Worth Poverty and Child Development. *Socius*, 8, 1-18. <https://doi.org/10.1177/23780231221111672>.



Figure 1. Net Worth Poverty vs Income Poverty Among Households with Children



### Net Worth Poverty Negatively Impacts Child Development

Just as income poverty has negative consequences for the well-being of children, it seems likely that net worth poverty would also impair their development. Parents who have low levels of wealth may not be able to support and invest in their children adequately and may face increased levels of stress and anxiety. In the event of an economic crisis—such as lost income or medical emergency—parents may not have enough savings to meet the basic needs of their children.

In this study, the authors look at how net worth poverty is associated with children's well-being. They use data from the Panel Study of Income Dynamics and its Child Development Supplement on children ages 3 to 17 years observed between 2002 and 2019. They find that nearly 30 percent of

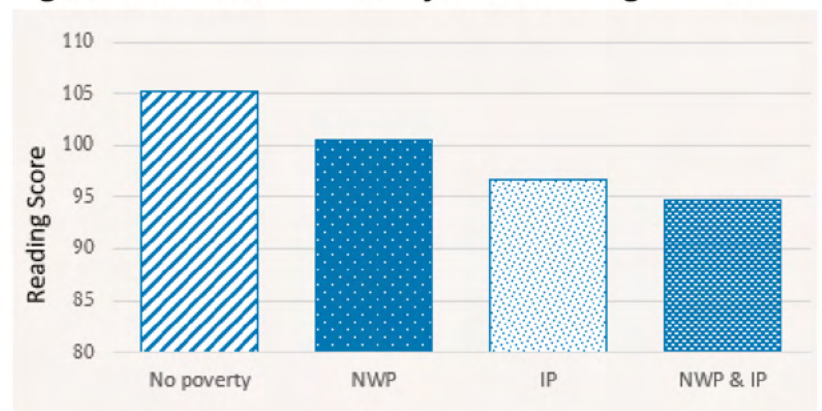
children are net worth but not income poor and an additional 11 percent of children are both net worth and income poor. Only 1.7 percent experience income poverty alone (without being net worth poor). Thus, conditional on being poor, net worth poverty is far more common than income poverty and is the modal form of poverty for children in the US.

### Net Worth Poverty: Assets vs. Debts

Net worth poverty could reflect two different financial situations: households whose assets fall below the poverty line or households whose assets exceed the poverty line but whose debts push their net worth below the poverty line. To illustrate the difference, consider two families of four, each with wealth levels of \$6,000. Both families are net worth poor. Family A has total assets of \$6,000, meaning that regardless of their level of debt, their assets are insufficient to bring them above the net worth poverty (NWP) line (they are "asset poor"). Family B has total assets of \$16,000 and total debts of \$10,000. Family B's assets place them above the poverty line, but their debts bring them below the poverty line (they are "debt poor").

Patterns of asset and debt ownership suggest that asset poor versus debt-poor NWP households represent qualitatively different economic experiences. Asset-poor NWP households own very few assets (only 50 percent report owning any assets), and the median conditional value of assets is very low (\$1,000). In contrast, 100 percent of debt-poor NWP households report owning at least one asset, with median values of assets being 20 times higher than those of the asset-poor group. Debt-poor households, relative to asset-poor households, are more likely to own homes and checking, savings, and retirement accounts and, conditional on owning assets, had more money in the assets.

Figure 2. Net Worth Poverty and Reading Scores





*This study provides evidence that net worth poverty has negative associations with children's development. Net worth poverty predicts lower reading and applied problem scores and increased behavioral problems.*

## CORE FINDINGS:

1. Net worth poverty reduces cognitive and behavioral outcomes for children and youth ages 3 to 17 years. Compared with children who are not poor (that is, neither net worth or income poor), children who experience net worth poverty have consistently worse outcomes. Effect sizes are larger for cognitive outcomes than for behavioral measures.
2. The adverse associations between net worth poverty and children's cognitive and socioemotional outcomes are statistically comparable with the adverse associations between income poverty and children's cognitive and socioemotional outcomes.
3. Children who are most at risk are those who experience both net worth and income poverty. Relative to those who are not poor, children who experience both net worth and income poverty have lower cognitive scores and increased problem behavior outcomes.
4. Children who experience net worth poverty because their families have insufficient levels of assets, versus children who experience net worth poverty because their families have high levels of debts, may be particularly vulnerable (see sidebar p.2). So-called asset poverty is negatively associated with both cognitive and behavioral outcomes, whereas debt poverty does not appear to put children at risk for lower cognitive performance.

## Policy Implications

These findings have clear implications for public policy. They highlight the unique adverse effects of wealth deprivation on children's development and suggest that net worth poverty poses risks for children beyond that of income poverty. Additionally, the long-term implications of resource deprivation in childhood may be more pervasive than previous research has shown.

Policies that focus on income or cash flow may overlook a large fraction of economically vulnerable children. Indeed, asset tests that limit eligibility for programs such as the Supplemental Nutrition Assistance Program may exacerbate net worth poverty. Insofar as net worth poverty is strongly associated with unfavorable outcomes for children, and these associations are independent of those between income poverty and children's outcomes, a more comprehensive approach to alleviating economic resource deprivation may be warranted.