Financial Capability across the life course: A focus on vulnerable populations

ASSET DEVELOPMENT FOR OLDER ADULTS: A CAPABILITY APPROACH

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Three Purposes

• Propose a conceptual framework of asset development for older adults

• Evaluate older adults’ access to asset-based programs

• Evaluate the opportunities to apply the asset-based approach in existing programs for older adults
The Capability Approach

Two key definitions of the capability approach (Nussbaum 1999; Sen, 1999):

- Functionings: “Beings and doings”. The states and activities that a person can undertake.
- Capabilities: A person’s real freedom to achieve functions.

Combined capability (Nussbaum, 1999):

- Internal ability: individual characteristics developed through environmental input across the life course;
- External conditions:
Asset Development in Later Life

Combined Financial Capability

- Financial Literacy
- Financial Inclusion

Individual Preference

Financial Functionings
- Asset Accumulation
- Asset Management
- Asset Decumulation
Asset Development over Life Course

Earlier Life

Combined Financial Capability
- Financial Literacy
- Financial Inclusion

Individual Preference

Financial Functionings
- Asset Accumulation
- Asset Management
- Asset Decumulation

Later Life

Combined Financial Capability
- Financial Literacy
- Financial Inclusion

Individual Preference

Financial Functionings
- Asset Accumulation
- Asset Management
- Asset Decumulation
Policy Implications of Capability-based Asset Development

- Promote financial capability among older adults
  - Improve financial literacy
  - Increase access to financial services and resources

- Address social inequality in asset development across the life span
  - Improve cumulative financial capability through the life course
  - Optimize financial capability in later life through compensatory support
Asset-based Programs and Older Adults I

• Categories of asset development:
  • Savings and investment
  • Homeownership
  • Entrepreneurship
  • Retirement

• Criteria
  • Age eligibility
  • Financial literacy
  • Financial inclusion
  • Asset development strategy
  • Institutional support for older adults
  • Institutional barriers for older adults
  • Program participation of older adults
## Asset-based Programs and Older Adults II

<table>
<thead>
<tr>
<th>Categories of Programs</th>
<th>Direct Spending</th>
<th>Tax Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings and Investment</td>
<td>• Assets for Independent Act</td>
<td>• Tax benefits on capital gains</td>
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</table>
| Homeownership          | • HOME Investment Partnerships  
                         • Housing counseling assistance  
                         • USDA direct housing loans  
                         • USDA very low-income repair loans and grants | • Housing tax incentives |
| Entrepreneurship       | • Microloan program  
                         • Small business lending program | • Amortization of startup costs |
| Retirement             |                 | • Net exclusion of pension contribution (employer’s plan, 401ks, IRAs, Saver’s credit, and Self-employed plans.) |
Asset-based Programs and Older Adults III

- **Age eligibility:** Most programs do not have age limits
- **Financial literacy:** Few programs provide financial education or training to improve participants’ financial knowledge and skills
- **Financial inclusion:** Financial incentives for asset development generally are realized through tax benefits
- **Asset development strategy:** Asset accumulation
- **Institutional support:** Several policies have specific features to support asset development of older adults
- **Institutional barriers:** Some programs have features that may retain asset development.
- **Program participation:** Overall the share of the older adults in these programs is smaller than that of working-age individuals
Summary of Asset-based Program Evaluation

• The foundation of these programs is the life-cycle hypothesis saving

• Older adults overall benefit less from existing asset-based programs than younger groups.

• Older adults’ opportunities for asset development could be expanded
Older Adult Policies and Asset Development I

- Categories of supportive programs for older adults
  - Retirement
  - Employment and education
  - Housing and energy assistance
  - Health and mental health services
  - Community support
  - Family caregiving

- Criteria
  - Whether the program applies an asset-based approach
  - Whether the program has asset limit rules
### Older Adult Policies and Asset Development II

<table>
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<tr>
<th>Categories of Programs</th>
<th>Programs</th>
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<tbody>
<tr>
<td>Retirement</td>
<td>Social Security; Private sector pension plans; SSI</td>
</tr>
<tr>
<td>Employment &amp; Education</td>
<td>Senior community service employment; Hope credit; Lifetime learning credit; 529 plan</td>
</tr>
<tr>
<td>Housing &amp; Energy Assistance</td>
<td>Section 202 supportive housing; Section 8 housing choice voucher; Weatherization assistance; Low-income home energy assistance</td>
</tr>
<tr>
<td>Physical and Mental Health</td>
<td>Medicare; Medicaid; Health Savings Accounts;</td>
</tr>
<tr>
<td>Community Support</td>
<td>Food and nutrition programs; Recreation and leisure; Transportation; Elder rights protection; Civic engagement</td>
</tr>
<tr>
<td>Family Caregiving</td>
<td>Dependent care tax credit; Dependent care assistance; Family medical leave</td>
</tr>
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**Older Adult Policies and Asset Development III**

- Most of the programs do not apply asset development strategies to support adults.
- Almost all categories have policy examples applying an asset-based approach.
- Two types of asset limit rules in existing programs and services for older adults:
  - Limit on annual maximum contribution.
  - Means-tested assistance programs for low-income elderly have asset limit requirements.
Conclusion

• The capability approach suggests that policy should focus on financial capability of older adults:
  • Financial literacy
    • Number of programs
    • Identify or design effective curricula
    • Add financial education components to existing asset-based programs
  • Financial inclusion
    • Specific program features to encourage program participation
    • Remove institutional barriers