

BY A THREAD
REPORT #2

ECONOMIC (IN)SECURITY

**The Experience of the
African-American and
Latino Middle Classes**

**FUTURE
MIDDLE
CLASS
SERIES**

**Jennifer WHEARY
Thomas M. SHAPIRO
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Dēmos

A NETWORK FOR IDEAS & ACTION

IASP

INSTITUTE ON ASSETS
& SOCIAL POLICY

About Dēmos

Dēmos: A Network for Ideas & Action is a non-partisan public policy research and advocacy organization committed to building an America that achieves its highest democratic ideals. We believe

this requires a democracy that is robust and inclusive, with high levels of electoral participation and civic engagement; an economy where prosperity and opportunity are broadly shared and disparity is reduced; and a strong and effective public sector with the capacity to plan for the future and provide for the common good. Founded in 2000, Dēmos' work combines research with advocacy—melding the commitment to ideas of a think tank with the organizing strategies of an advocacy group.



The **Economic Opportunity Program** addresses the economic insecurity and inequality that characterize American society today. We offer fresh analysis and bold policy ideas to provide new opportunities for low-income individuals, young adults and financially-strapped families to achieve economic security.

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Tamara Draut, Director, Economic Opportunity Program

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The **Institute on Assets and Social Policy** is dedicated to the economic and social mobility of individuals and families, particularly those traditionally left out of the economic mainstream, and to the expansion of the middle class. The Institute is part of The Heller School for Social Policy and Management at Brandeis University. Working in close partnership with state and federal policymakers, constituency organizations, grassroots advocates, private philanthropies and the media, the Institute bridges the worlds of academic research, government policy-making, and the interests of organizations and constituencies. The Institute works to strengthen the leadership of policy makers, practitioners and others by linking the intellectual and program components of asset-building policies.



Thomas M. Shapiro, Director

Tatjana Meschede, Senior Research Associate, Project Manager

The Future Middle Class Series and the Middle Class Security Index

By a Thread: The Experience of the African-American and Latino Middle Classes is the second report from Dēmos measuring the economic stability, size and accessibility of the middle class in the United States. This report is based on the new **Middle Class Security Index** developed through collaborative research by Dēmos and The Institute on Assets and Social Policy at Brandeis University. The first report based on the Index was *By a Thread: The New Experience of America's Middle Class*, published at the end of 2007. *By a Thread: The Experience of the African-American and Latino Middle Classes* is the fifth report in Dēmos' **Future Middle Class Series**, which examines ways to strengthen and grow the middle class in the United States. Other titles in this series include *African Americans, Latinos and Economic Opportunity in the 21st Century*, *Millions to the Middle*, and *Measuring the Middle*.

Forthcoming reports in the series will examine America's opportunity infrastructure related to trends in demographics, access to higher education, healthcare, debt, assets and housing and economic inequality.

Upcoming *By a Thread* reports in this series will examine the security of the middle class by age and income.

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Executive Summary

The post-World War II emergence of the American middle class was the direct, deliberate result of broad public investments that created economic opportunity, promoted upward mobility, and expanded the middle class. Even after decades of progress, substantial economic disparities remain along racial and ethnic boundaries. These disparities are apparent when comparing white households with the two fastest growing racial and ethnic groups in America, African Americans and Latinos. As a result of these barriers, these groups continue to experience greater barriers to entering and staying in the middle class.

This report builds on our previous report, *By a Thread: The New Experience of America's Middle Class*, which used an innovative Middle Class Security Index to measure the financial security of the middle class. The Index measures five key factors to determine whether a household's overall profile supports middle-class economic security, puts them at high risk of falling out of the middle class, or leaves them somewhere in between. For each of the five areas measured by the Index—education, assets, housing, budget and healthcare—we have established thresholds that would support overall financial security or would threaten it.

The Middle Class Security Index is used to determine what percentage of families that are considered middle class by income meet each of these thresholds. Families are considered to be securely middle class if three or more of the factors in their family profile support financial health. Families are considered to be at high risk for slipping out of the middle class if three or more of the factors in a family's profile threaten their financial security.

As the next installment in the *By a Thread* series, this report uses the Middle Class Security Index to provide the first comprehensive portrait of the level of financial security enjoyed by African-American and Latino middle-class families. The findings show that, in the wake of fading economic opportunity, these two rapidly growing groups face mounting obstacles in becoming part of, and remaining securely in, America's middle class.

OVERALL ECONOMIC SECURITY

African-American and Latino families have more difficulty moving into the middle class, and families that do enter the middle class are less secure and at higher risk than the middle class as a whole. Overall, more African-American and Latino middle-class families are at risk of falling out of the middle class than they are secure. This is in sharp contrast to the middle class as a whole, where 31 percent are secure and 21 percent are at risk. Specifically,

- ▷ Only 26 percent of African-American middle-class families have the combination of assets, education, sufficient income, and health insurance to ensure middle-class financial security. One in three (33 percent) are at high risk of falling out of the middle class.
- ▷ Less than one in five Latino families (18 percent) are securely in the middle class. More than twice as many (41 percent) of Latino families are in danger of slipping out of the middle class.
- ▷ African-American middle-class families are less secure and at greater risk than the middle class as a whole on four of the five indicators of security and vulnerability. Latino middle-class families are less secure and at greater risk on all five indicators.

As is true for middle-income families as a whole, middle class African-American and Latino families are most vulnerable because they do not have the financial assets that provide a foundation of middle class economic security. And like all middle-class families, they are most secure in having health insurance coverage for all family members.

ALARMINGLY INSUFFICIENT ASSETS

- ▷ Only 2 percent of African-American and 8 percent of middle-class Latino families have enough net financial assets to meet three-quarters of their essential living expenses for nine months if their source of income disappeared. Both figures are substantially below the already alarmingly low national average of 13 percent.
- ▷ Even more alarming, 95 percent of African-American and 87 percent of Latino middle-class families do not have enough net assets to meet three-quarters of their essential living expenses for even three months if their source of income were to disappear. Both figures are well above the national average among all middle-class families of 78 percent.
- ▷ Sixty-eight percent of African-American and 56 percent of Latino middle-class households have no net financial assets whatsoever and live from paycheck to paycheck.

AT RISK EDUCATION

- ▷ Thirty-two percent of African-American and 25 percent of middle-class Latino households meet the education threshold for economic security that at least one member of the household has a bachelor's degree or higher. This falls well below the national middle-class average of 36 percent.
- ▷ Thirty-four percent of African-American and 39 percent of Latino middle-class households are at high risk because neither the primary earner nor the spouse has any education beyond high school—well above the national middle-class average of 27 percent.

INADEQUATE INCOMES TO MEET HOUSING EXPENSES

- ▷ Only 26 percent of African-American and 37 percent of Latino middle-class families spend less than 20 percent of their after-tax income on housing—both are below the national average of 40 percent.
- ▷ Thirty-one percent of African-American and 35 percent of Latino middle-class families match the Department of Housing and Urban Development's definition for housing burdened, spending 30 percent or more of their after-tax income on housing expenses. This falls well above the national average of 28 percent of all middle-class families.

INADEQUATE INCOMES TO MEET ESSENTIAL EXPENSES

- ▷ Thirty-six percent of African-American and 28 percent of Latino middle-class families are secure in being able to meet essential family needs because they have \$25,000 or more left over after paying income taxes and meeting essential family needs each year, compared to the national average 34 percent.
- ▷ Nineteen percent of African-American and 28 percent of Latino families are at risk of falling out of the middle class because they have less than \$5,000 per year left over after paying for taxes and essential expenses, compared to the national average of 21 percent.

LACK OF HEALTHCARE

- ▷ Only 70 percent of African-American and 63 percent of Latino middle-class families have every household member covered by private or government health insurance, well below the middle-class average of 77 percent.
- ▷ Thirty percent of African-American and 37 percent of Latino households are at high risk because at least one household member is not insured, both well above the national middle-class average of 23 percent.

WHAT MAKES A MIDDLE-CLASS HOUSEHOLD FINANCIALLY SECURE?

Our report *By a Thread: The New Experience of America's Middle Class* found that the type of security associated with the middle class does not occur spontaneously and does not rely on a single factor. Rather, it is supported by a range of factors, all of which contribute to economic security or risk. Middle-class families need to have:

- ▷ Financial assets sufficient to develop a safety net in case of job loss or serious illness, build a solid nest egg for a secure future and comfortable retirement, and help children get off to a good start toward economic security;
- ▷ The education necessary to find a good job in today's competitive global economy;
- ▷ Incomes that make it possible to afford quality housing and other essential living expenses; and
- ▷ Comprehensive, high quality, affordable healthcare for all family members to ensure that care is available when needed and that financial stability is not eroded in case of serious illness.

Our Middle Class Security Index focuses on five interrelated factors that in combination describe the security or vulnerability of middle-class families—assets, education, housing, budget, and healthcare. For each of these factors measured by the Index, we set an optimal threshold for overall financial security as well as a threshold to economic vulnerability.

Factors Influencing Middle Class Economic Security

	Optimal for Financial Security	Risk to Financial Security
Assets Number of months able to live at 75 percent of current living expenses using net financial assets	> 9 months	< 3 months
Education Academic degree	Bachelor's degree or higher	High school diploma or less
Housing Percent of after-tax income spent on housing	< 20% monthly income	> 30% monthly income
Budget Amount left at the end of the year after paying taxes and covering living expenses	> \$25,000 left at end of year (about \$480/week)	< \$5,000 left at end of year (< \$100/week)
Healthcare Number of family members covered by private or government health insurance	All family members covered	At least one family member not covered

We used these thresholds to determine what percentage of families that are considered middle-class by income are economically secure or at risk. They can also be used to identify the areas where middle-class families are most vulnerable. This provides insights into leverage points for policy changes that can increase the number of families that are securely in the middle class and reduce the number of families that are at risk of falling out of the middle class.

Families were considered to have middle-class incomes if their household earnings fell within 200-600 percent of the federal poverty level. Incomes were adjusted for household size.

Defined in this way, the middle class incorporates about the middle 50 percent of all households. We eliminated families with substantial personal wealth and restricted our sample to working-age adults between the ages of 25 and 64.

If three or more of the factors in a family's profile met the threshold for financial security, we considered that family securely middle class. If three or more of the factors in a family's profile met the standards for high insecurity, we considered the family at high risk of slipping out of the middle class. In-between these two groups there is a middle ground where families are not at immediate and high risk for falling out of the middle class but still lack the basic components for safeguarding their financial security.

Families were considered to have middle-class incomes if their household earnings fell within 200-600 percent of the federal poverty level. Incomes were adjusted for household size.

Middle Class Sample, Defined

Income Range	Household income at least 2X but not greater than 6X Federal Poverty Guideline for family size. (Under 2006 Guidelines, \$40,000–\$120,000 for a family of 4.)
Age Range	Head of household age 25–64
Assets Cut Off	Families whose net financial assets placed them in top 1% of holders were eliminated. (Greater than \$500,000 in net financial assets.)

Index Categories

Securely in Middle Class	Optimal in 3 or more factors that support financial security
High Risk for Slipping Out of Middle Class	Threatened/At Risk in 3 or more factors that support financial security
In between these two groups is a middle ground where families are not at immediate and high risk for falling out of the middle class yet still lack the basic components for safeguarding their financial security.	

Introduction

The combination of an eroding opportunity infrastructure and a legacy of persistent inequalities makes it difficult for the fastest growing groups of Americans—Latinos and African Americans—to move into and securely remain in the middle class. Post-World War II policy efforts that developed an infrastructure of opportunity, such as the GI Bill and the Federal Housing Administration, expanded college education and home ownership and helped create a larger and stronger middle class. However, the benefits of these policies often did not extend to African Americans and Latinos. Anti-discrimination efforts came late to the process of middle class construction and have been incomplete in their achievement. As a result, African Americans and Latinos have had great difficulty entering and remaining in the middle class.

Over the next five decades, the white population will grow 7 percent while the African-American and Latino population will increase 129 percent. By 2050, African Americans and Latinos will make up about 40 percent of the United States population.

African Americans and Latinos have made strong economic progress since the late 1960s and early 1970s, and now have a greater presence in the middle class than ever before. However, the incorporation of these two groups into the American Dream is far from complete and far from secure.

Financial assets, educational attainment, homeownership, income, and access to healthcare are still significantly lower among African Americans and Latinos than among whites. This is true for African-American and Latino families that have worked their way into the middle class as well as the many families of color for whom the middle class remains a dream.

For millions of households of color who have entered the middle class, these gaps mean that future generations remain at risk. Recent research comparing the intergenerational mobility of African-American and white families shows that children from African-American middle-class families not only experience less upward mobility than their white counterparts, they are also more likely to move down the mobility ladder.

Meanwhile, America's infrastructure of opportunity has begun to erode. The post-war emphasis on increasing educational attainment, homeownership and wages has given way to dramatic gaps between rich and poor—and stagnant, even declining, mobility. In this period of extreme inequality, it has become difficult for all families to become part of the middle class, and to be secure in staying part of the middle class. But it is hardest on African-American and Latino families, which have had the least access to middle-class opportunities in the past as well as the present.

FINANCIAL ASSETS, EDUCATIONAL ATTAINMENT, HOMEOWNERSHIP, INCOME, AND ACCESS TO HEALTH CARE ARE STILL SIGNIFICANTLY LOWER AMONG AFRICAN AMERICANS AND LATINOS THAN AMONG WHITES

We have created a Middle Class Security Index that provides a comprehensive portrait of how well middle-class families are faring in the areas that most impact financial security. This Index was introduced in our recent report *By a Thread: The New Experience of America's Middle Class*. In this next installment of the *By a Thread* series, we look specifically at the level of financial security among African-American and Latino middle-class households. Our results offer the first detailed look at middle-class households of color. They show that even with past gains that

helped open access to the middle class, the economic security of Latino and African-American middle-class households lags significantly behind the national average.

We refer readers to *By a Thread: The New Experience of America's Middle Class* for more detail on the Index, including our initial findings.

Financial Security Among the African-American and Latino Middle Classes

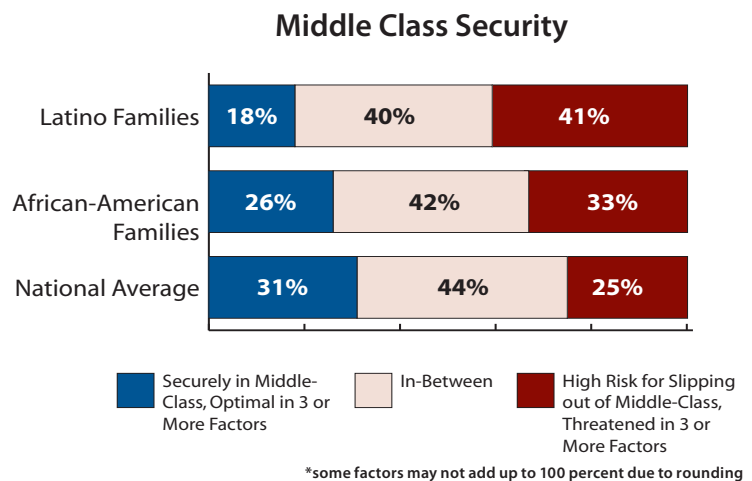
Results from the Middle Class Security Index show that three out of four (75 percent) African-American middle-income families and more than nine out of 10 (92 percent) Latino middle-income families do not experience middle-class financial security. Only 26 percent of African-American middle-income families and 18 percent of Latino middle-income families are securely in the middle class, figures far below the national average of 31 percent.

75 PERCENT OF AFRICAN-AMERICAN MIDDLE-INCOME FAMILIES AND 92 PERCENT OF LATINO MIDDLE-INCOME FAMILIES DO NOT EXPERIENCE MIDDLE-CLASS FINANCIAL SECURITY

The results also show that a significant percentage of middle-income African-American and Latino families are having serious difficulty staying in the middle class or face a serious risk of falling out of it altogether. One in three (33 percent) African-American middle-income families and an alarming 41 percent of Latino middle-income families are at high risk of slipping out of the middle class. These figures are substantially higher than the national figure of one in four (25 percent).

A host of data shows that this greater vulnerability is likely tied to the lower income levels of African-American and Latino middle-class families. While African-American and Latino families have made extraordinary strides in entering the middle class, the process of extending equal economic opportunity to these groups is relatively recent and far from complete. Close to twice as many African-American and Latino households have family-adjusted incomes below the middle-class threshold of 200 percent of the Federal Poverty Line. Forty-four percent of African-American households and 48 percent of Latino households have incomes below the middle-class threshold, as compared to 26 percent of all U.S. households of working age.

Regardless of race and ethnic background, the economic security of middle-class families increases dramatically as income goes up, reminding us of the pivotal importance of good jobs



and education. Yet middle-class families of color are far more concentrated in the lower income levels within the middle class. Only a very few African-American and Latino families experience the kind of economic success that catapults long-distance mobility above middle-class status. Largely, African-American and Latino middle-class families are less secure because their incomes place them on the lower rungs of the middle class. In addition, there are also notable economic security differences at equal income levels. For example, families of color with incomes above \$60,000 are more likely to be financially at risk than middle-class families overall. Income clearly is a large part of the economic security story; race and ethnicity, too, clearly interact with income and are large components in understanding middle-class security and vulnerability.

95 PERCENT OF AFRICAN-AMERICAN AND 87 PERCENT OF LATINO MIDDLE-CLASS FAMILIES DO NOT HAVE ENOUGH NET ASSETS TO MEET THREE-QUARTERS OF THEIR ESSENTIAL LIVING EXPENSES FOR AS LITTLE AS THREE MONTHS IF THEIR SOURCE OF INCOME WERE TO DISAPPEAR

ASSETS

Even more than other middle-class families, African-American and Latino families are at great risk because they have few or no assets to fall back on in case of emergency, to build a better future for themselves, or to build a strong foundation for their children. While they may be secure in meeting essential family needs when everything goes right, families with little or no net

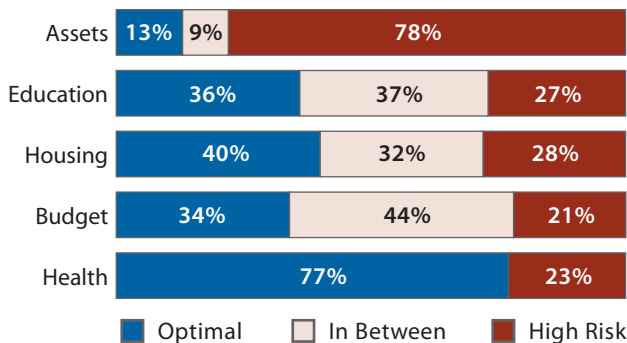
financial assets are not protected against risks like job loss, serious illness, or major unexpected costs. In this sense, all of the families that are at high risk on the financial assets measure are at risk of falling out of the middle class if anything goes wrong.

Only 2 percent of African-American middle-class families have enough net financial assets to meet three-quarters of their essential living expenses for nine months if their source of income were to disappear. For Latino middle-class families this figure grows to 8 percent. Both figures are still substantially below the already low national average of 13 percent. This conservative threshold for middle-class security assumes families will have to make tough choices and juggle essential expenses.

Ninety-five percent of African-American and 87 percent of Latino middle-class families do not have enough net assets to meet three-quarters of their essential living expenses for

as little as three months if their source of income were to disappear. In comparison, the national average among middle-class families is an already alarming 78 percent.

Financial Health Profile of the Middle-Class, by Factor



Financial Characteristics of the Middle Class

	National Average	African-American Families	Latino Families
Average Household Debt	\$8,328	\$2,027	\$7,026
Median Household Debt	\$3,500	\$2,200	\$3,000
Average Net Assets	\$9,918	\$1,064	\$2,792
Median Net Assets	\$0	\$0	\$0

All but a very few African-American and Latino middle-income families have sufficient assets to make it through a job loss or bear the costs of a serious illness, let alone build a strong foundation for their children and put away money for comfortable retirement.

Worse still, 68 percent of African-American and 56 percent of Latino middle-class households have no net financial assets whatsoever: meaning they either have no financial assets or their debts are greater than their assets. Nationally, 52 percent of middle-class families have zero financial assets.

These results are especially alarming because much research now shows that financial assets are a linchpin of long-term middle-class financial security. A lack of assets not only makes it harder for many families to secure their position in the middle class, it also affects the ability of their children, and their children's children, to secure such a position in the coming decades. This is because assets have what has been called a "transformative power" in transmitting financial stability and security across generations. This transformative power gives current generations an important safety net and future generations a head start.

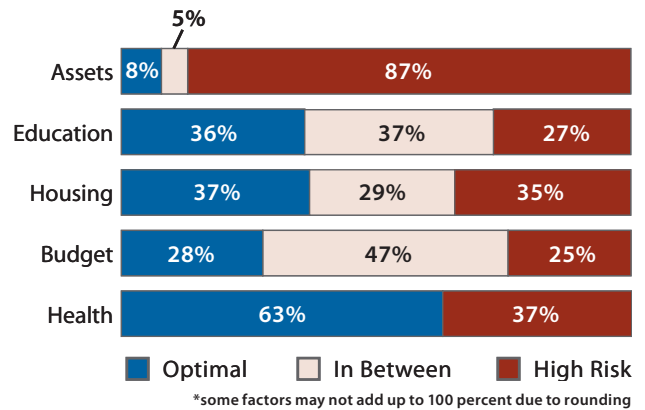
A family with assets is better able to support children through college, to make a down payment on a house, to invest and save, and to weather unpredictable economic circumstances, such as job loss or illness. In addition, some studies suggest that asset ownership leads people to develop attitudes that are commonly associated with being middle-class, such as participating more in civic life and expecting that one's children will go to college. Lacking the solid foundation provided by assets, any gains made by African-American and Latino families in entering the middle class will continue to be at risk.

Middle-class African-American families have median debt of \$2,200. Middle-class Latino families have median debt of \$3,000. Both groups have median net assets of \$0. The average African-American middle-class family holds net financial assets of \$1,064 and has debt of \$2,027. In other words, the average middle-class African-American family has debt that is more than double its assets. The average Latino middle-class family has no net assets because it has debt that exceeds financial assets.

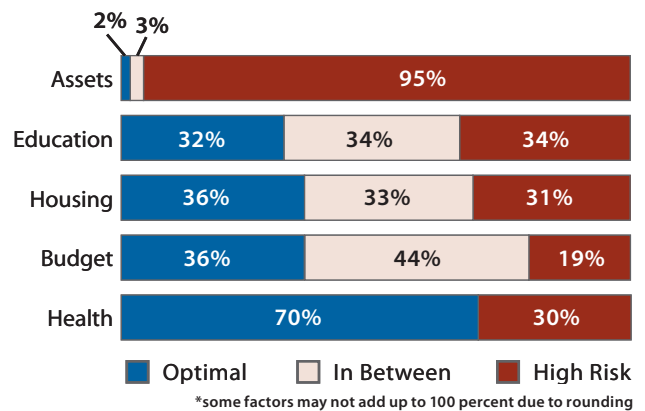
EDUCATION

Not that long ago, a worker with a high school diploma, solid work experience, and stable employment could support a family and attain middle-class security. Because of changes in the labor market, this is rarely the case today. The income gap between workers with a high school degree and those with a bachelor's degree or higher has increased dramatically since the 1970s.

Financial Health Profile of the Latino Middle-Class, by Factor



Financial Health Profile of the African-American Middle-Class, by Factor



This difference in earnings has hit record levels. As a result, a college degree is now all but an essential ingredient for moving into and being secure in the middle class.

Over the course of a lifetime, a graduate of a 2-year college earns about \$275,000 more than someone with only a high school diploma. Someone with a degree from a 4-year college earns nearly double. A 4-year degree translates to around \$1,000,000 more in lifetime earnings. Greater earning potential means greater likelihood one will be able to own, save and invest—in short, able to pursue and more likely to achieve middle-class security. The correlation between education level, income and ownership will undoubtedly continue in the future.

The educational level of a family also has an impact on the economic security of the next generation. Children in families in which at least one parent has a bachelor's degree or higher are more likely to go to college and to graduate. In contrast, children in families in which no parent has more than a high school diploma are much less likely to go to college and even less likely to get a degree.

The Index shows that African-American and Latino middle-class families are less secure and at greater risk in terms of their level of education. Thirty-two percent of African-American and 25 percent of Latino middle-class households have at least one individual with a bachelor's degree or higher, our optimal education criterion. Both are below the national average of 36 percent. Thirty-four percent of African-American and 39 percent of Latino middle-class households are at high risk because neither the primary earner nor the spouse has any education beyond high school. This is well above the national average of 27 percent of middle-class families.

HOUSING

The Department of Housing and Urban Development (HUD) has determined that families who pay more than 30 percent of their income for housing are spending too much and thus may be eligible for subsidized, affordable housing. As a result, they may have difficulty affording necessities such as food, clothing, transportation and medical care. Middle-class families that spend more than 30 percent of their income on housing are likely to encounter such difficulties and therefore to be at risk of dropping out of the middle class.

31 PERCENT OF AFRICAN-AMERICAN AND 35 PERCENT OF LATINO MIDDLE-CLASS FAMILIES ARE AT RISK BECAUSE THEY SPEND 30 PERCENT OR MORE OF THEIR AFTER-TAX INCOME ON HOUSING EXPENSES.

However, spending less than 30 percent of income on housing is not an accurate measure of being highly secure in the middle class. For that reason, we consider families that spend less than 20 percent of their income on housing highly secure on this measure and families that spend between 20 and 30 percent to be somewhat secure but vulnerable.

The Middle Class Security Index shows that 31 percent of African-American and 35 percent of Latino middle-class families are at risk because they spend 30 percent or more of their after-tax income on housing expenses. Thus, nearly one in three African-American and more than one in three Latino middle-class families are at risk on our housing criterion; both figures are above the national average of 28 percent of all middle-class families.

In contrast, only 26 percent of African-American and 37 percent of Latino middle-class families are fully secure in their middle-class status because they spend less than 20 percent of their after-tax income on housing. Both of these figures are below the national average of 40 percent of middle-class families who spend less than one-fifth of their income on housing.

These data understate middle-class security on housing and provide a conservative assessment of the level of risk because of the large number of homeowners with adjustable mortgages. Many families that spend less than 30 percent of their income on housing may potentially spend more than that threshold when their adjustable interest rates are increased. This is particularly true for families with recently-introduced adjustable, interest only, and subprime mortgages with deceptively low introductory interest rates; families' monthly payments can increase dramatically when their artificially low interest rates are raised.

BUDGET

The ability to meet essential family needs and have enough income left over for discretionary spending and savings is an important measure of middle-class security. Even though we know that the vast majority of middle-class families have little or no savings, income that is left over after essential expenses can be thought of as money that can potentially be used for savings. In addition, discretionary income makes it possible to reduce nonessential expenditures during difficult times such as job loss, serious illness, or unanticipated expenses.

In setting thresholds, we considered families that have less than \$5,000 left over each year after meeting essential expenses to be at high risk of falling out of the middle class. This is because these families are living from paycheck to paycheck after spending for essential needs and very minimal other spending. Families that have \$25,000 or more left over after essential spending are considered highly secure because they have enough income to put aside money for savings in case of difficult times, to build a strong foundation for their children, and/or prepare for comfortable retirement. For example, they would be able to pay the full cost of health insurance if they were to lose their employer-supported health insurance while out of work.

Thirty-six percent of African-American and 28 percent of Latino middle-class families match the criterion for optimal budget security because they have \$25,000 or more left over each year (about \$480 per week) after paying income tax and meeting their essential living expenses. In comparison, 34 percent of all middle-class families are secure on the budget measure.

Nearly one in five (19 percent) African-American middle-class families and one in four (25 percent) Latino middle-class families are at risk in terms of their budgets because they have less than \$100 per week (\$5,000 per year) left over after spending for taxes and essential family needs. In comparison, 21 percent of all middle-class families have less than \$100 left over.

HEALTHCARE

There is mounting evidence that unexpected illness can drive families with even one uninsured member into serious debt and financial ruin. Only 70 percent of African-American and 73 percent of Latino middle-class families are fortunate enough to have every member covered by either private or government health insurance, well below the national average of 77 percent for all middle-class families.

Thirty percent of African-American and 37 percent of Latino middle-class households are at risk in terms of healthcare because they have at least one family member who is not insured. This situation leaves such families vulnerable to not receiving needed healthcare and being unprotected against costs they cannot afford in case of illness. This is well above the national average of 23 percent.

These data overstate the level of security and understate risk because they provide information on only one dimension of the healthcare crisis. The cost of health insurance has been going up

much faster than inflation and the average family's income. Many employers are cutting health-care benefits or making employees pay a higher share of the cost. At the same time, many health insurance policies are providing less coverage and increasing out-of-pocket costs. To better understand health insecurity and risk among the middle class, it is necessary to move beyond measuring only whether all family members have or do not have health insurance coverage. Future work must assess the impact of the rising problem of underinsurance and increased costs for insurance and out-of-pocket expenses.

Policy Recommendations

Public policy played a key role in the rise of America's middle class during the post-World War II years. There can be little doubt as we look back at the last century that America's strength in every respect—from its economy to its national security—depended on the development of a strong middle class. The broad middle class was built on a foundation of public decisions and political support for specific, intentional investments in the mid-20th century.

These public investments included the GI Bill, housing programs for returning war veterans, federal home loan guarantees, the FHA, better funding for public elementary and secondary education, Pell grants and other programs to increase higher education access.

AFRICAN-AMERICAN AND LATINO MIDDLE-CLASS FAMILIES LACK THE ASSET PILLAR ESSENTIAL TO ECONOMIC SECURITY AND THE CAPACITY TO CONTINUE MOVING UP THE ECONOMIC SECURITY SCALE

The policy platform that anchored America's middle class revolved around two themes. First was the development of security and economic strength for families through assets. Second was increased access to education—education that in turn provided the skills needed to achieve and sustain middle-class jobs.

Many of the policies conceived in theory to support all Americans were limited in practice. By and large,

they excluded minorities from opportunities for homeownership, wealth accumulation and educational achievement until well into the 1960s. In renewing the middle class in a global economy, the United States must contend with a legacy of past discrimination.

As our findings show, the effects of this legacy—in the form of disparate economic security, wealth and opportunity—can still be found even among households of color who have succeeded in entering into the middle class. Three out of four African-American middle-income families and more than eight out of 10 Latino middle-income families do not experience middle-class financial security.

The key findings demonstrate the frustrating dilemma of families that work hard to achieve homeownership, higher education, and good jobs yet still remain precipitously close to falling out of the middle class. The African-American and Latino middle classes both reflect a disturbing story of families more likely to fall out of the middle class than to enjoy economic security.

African-American and Latino middle-class families lack the asset pillar essential to economic security and the capacity to continue moving up the economic security scale. An alarming 95 percent of African-American and 87 percent of Latino middle-class families do not have enough net assets to meet three-quarters of their essential living expenses for even 3 months. The missing asset pillar also characterizes broader middle-class vulnerability. Opportunities for secure homeownership on reasonable terms with the prospect of building home equity, along

OPPORTUNITIES FOR SECURE HOMEOWNERSHIP ON REASONABLE TERMS, WITH THE PROSPECT OF BUILDING HOME EQUITY, ALONG WITH PROTECTING WEALTH BUILT UP AMONG CURRENT HOMEOWNERS, MUST ANCHOR POLICY CONSIDERATIONS

with protecting wealth built up among current homeowners, must anchor policy considerations.

Our findings also identify educational opportunity as an area for public policy intervention. One in three African-American and one in four Latino middle-class households meet the education threshold for economic security, which stipulates that at least one member of the household has a bachelor's degree or higher. Thirty-four percent of African-American and 39 percent of Latino middle-class households are at high risk because neither the primary earner nor the spouse has any education beyond high school.

These disparities must be addressed by public policy if America hopes to retain its strength as a middle-class nation and prevent expansion of an already epidemical race-based inequality. We cannot afford to be shortsighted and exclusive when extending opportunity to future generations of Americans. Providing accessible routes to educational and economic opportunity for all is essential to ensuring a middle class that is fully representative of the rapidly changing U.S. population.

The following sections outline a set of policy recommendations from the publishers of this report. These recommendations aim to widen access to economic opportunity by helping African-American and Latino families build assets through homeownership and savings, reduce personal debt, combat discriminatory lending practices, and improve access to higher education. These recommendations do not represent an exhaustive list.

BOOSTING HOMEOWNERSHIP AND SAVINGS

The importance of wealth in ensuring economic security, a stable place in the middle class, and the educational and economic opportunity of future generations cannot be overstated. While homeownership rates and home equity among African Americans and Latinos (61 and 62 percent respectively) are still significantly lower than among whites (79 percent), home equity is still the largest part of African-American and Latino wealth.

Increasing homeownership among African Americans and Latinos remains essential to building wealth for future generations. Policies must also focus on developing additional means of wealth to diversify assets for these groups. Latinos and African Americans are a disproportionately large portion of the number of low-income working families trying to gain entry to the middle class. Expanding homeownership opportunities while developing the means to grow and protect additional, diversified assets will greatly assist these two groups in moving into and staying in the middle class.

To achieve this, we propose the following:

- ▷ Create new incentives to increase the rate of homeownership for low-income working families within the next five years. These include matched savings accounts to help low-income families save for a down payment for a first home as well as tax incentives for low-income home buyers. While mortgage interest is currently tax-deductible, nearly 90 percent of the mortgage interest deduction benefit accrues to tax filers with adjusted gross incomes over \$50,000. Wealthy homeowners are even able to deduct mortgage interest on a second residence. We propose making mortgage interest refundable, rather than just deductible, for families making under \$50,000 a year.

- ▷ Within 10 years, provide each newborn child with an asset account endowed with \$6,000 at birth—money that will ensure that everyone has a better chance of becoming a middle-class asset-holder earlier in life.
- ▷ Expand matched savings accounts, such as Individual Development Accounts, to help working families weather a reduction of income and plan for the future.

REDUCING DEBT AND STOPPING DISCRIMINATORY LENDING PRACTICES

In addition to a lack of homeownership, high-interest loans and credit card debt greatly obstruct the ability of African Americans and Latinos to build the necessary assets needed to support middle-class financial security. While both African Americans and Latinos have debt that is below the national average, both groups are also more likely to have credit that is of a higher cost than that of whites, even when things like credit scores and household income are held constant.

AFRICAN AMERICANS AND LATINOS ARE MORE LIKELY TO PAY HIGHER INTEREST RATES AND HAVE LESS FAVORABLE LOAN TERMS THAN WHITES EVEN WHEN CREDIT SCORES AMONG THE GROUPS ARE HELD CONSTANT

We propose several remedies to help reduce debt burdens in general:

- ▷ Require card companies to provide a reasonable late-payment grace period in order to protect responsible debtors from being unduly penalized by a run-of-the-mill tardy payment. Limit rate increases to 10 percent above the card member's original rate.
- ▷ Ensure that card companies are accountable to the original contract with the card member for all purchases up to any initiated change in terms. Any change to the annual percentage rate should be limited to future activity on the card.
- ▷ Require disclosure of the full costs of only paying the minimum payment, including the number of years and total dollars it will take to pay off the debt. Raise the minimum payment requirement to 5 percent of the total balance for new cardholders in order to curtail excessive debt loads and interest payments.

Nonwhite applicants are more likely to be turned down for loans than white applicants. When nonwhite applicants do receive loans, they frequently are subject to inflated interest rates and abusive terms and conditions. Such practices mean credit is less available to or costs more for African Americans and Latinos than for whites. This has a significant impact on the ability of these groups to build wealth and develop assets through ventures such as launching small businesses and investing in real estate. The high cost of credit also increases the debt burden of African Americans and Latinos, turning even essential expenses such as purchasing a car to get to work into hardships.

African Americans and Latinos have become special targets for brokers and lenders selling costly sub-prime home financing products. The Department of Housing and Urban Development has found that subprime loans are three times more likely in low-income neighborhoods than in high-income neighborhoods and five times more likely in African-American neighborhoods than in white neighborhoods. African Americans and Latinos are more likely to pay higher interest rates and have less favorable loan terms than whites even when credit scores among the groups are held constant.

We propose several remedies to address unfair lending practices:

- ▷ Develop clear guidelines about what constitutes a predatory loan and regularly audit the loan portfolios of financial firms against these criteria.
- ▷ Enhance the quality of Home Mortgage Disclosure Act data to enable more regular and comprehensive scrutiny of fairness in lending.
- ▷ Require mortgage lenders to be fully transparent and disclose to applicants the range of products for which they are eligible based on credit score qualification.
- ▷ Require automotive lenders to disclose finance markup charges and dollar costs.
- ▷ Expand Community Reinvestment Act mandates to cover a broader range of institutions engaged in lending practices, especially those—such as pawnshops and retailers—not traditionally considered financial institutions.

EXPANDING ACCESS TO HIGHER EDUCATION

Education is key to middle-class security in a 21st century economy in which most of the good, living-wage jobs require at least a college degree. Even as the importance of education increases, African-American and Latino households are less likely to have an adult who has a college education. This lack of education has a long-term impact on the income and future opportunities of these households.

Financial aid awareness has a large impact on whether African-American and Latino families, particularly those of lower incomes, consider college a viable option. For those African Americans and Latinos who are in school, financial pressures and fear of large student loan debt mean more part-time attendance, entry into the lowest cost schooling options—even if those options do not provide the best learning environment—and greater attrition when student loan indebtedness is too high.

- ▷ We propose the dramatic expansion of investments in order to give millions of young people a real chance at entering the middle class. These investments would focus on removing barriers that low- and moderate-income families face in paying for college. We also support legislation at the state and national level that guarantees in-state tuition to qualifying students, regardless of immigration status.
- ▷ We advocate providing each college-qualified student with a comprehensive and guaranteed federal student aid package that covers a percentage of the full cost of college attendance—including tuition, fees, books, and room and board—based on the student's family income. The aid package would be a mixture of grants, loans and work study, with grants providing the bulk of aid for students from low- and moderate-income families.
- ▷ Federal student loans should be implemented through the Direct Student Loan Program (DLP), phasing out the Federal Family Education Loan Program (FFELP) which relies on private lenders and requires federal subsidies to ensure the lenders' profitability. Switching to the Direct Loan Program would allow the loan system to offer income-contingent repayment options and eliminate the additional cost of providing subsidies to private lenders. Switching all federal loans to the Direct Loan Program would result in an estimated savings of over \$4.5 billion per year for the federal government.
- ▷ We must also ensure that families have early knowledge of the financial resources available to their children to attend college. Beginning in eighth grade, all students should receive an estimate of their potential college aid package using the average cost of at-

tendance at public 4-year institutions. Educating students and parents about the amount of student aid available will help increase the expectation of attending and completing college as a realistic goal.

- ▷ Lastly, in conjunction with supporting more effective financial aid options for eligible students, we also support legislation that allows public institutions to charge in-state tuition to all qualifying students, regardless of immigration status.

Conclusion

Results from the Middle Class Security Index show that past investments to build a middle class have not benefited African Americans and Latinos to the same extent that they have benefited whites. As a result, today's middle class is way out of balance with the current and projected demographics of the country. African-American and Latino families are less likely to be part of the middle class, and those who have entered the middle class experience significantly less economic security. This stark reality is dramatically out of sync with where we as a nation need to go in the future.

America has a history of investing in a thriving middle class through public policy that encourages economic opportunity and rewards hard work. There must be new public investments to build and improve upon that history. This can be done with a renewed national focus on supporting a strong middle class and ensuring that those efforts are extended equally to all Americans. It is only through such efforts that the American Dream can be fully inclusive and realized by the great majority. A larger number of Americans, including minorities and immigrants, can be brought into the middle class with the right public policy choices. These choices can help energize the country and stimulate the high productivity and economic competitiveness we need in order to meet our domestic and global demands in the 21st century.

Endnotes

1. We defined net financial assets as financial assets minus debt. Financial assets exclude home equity but includes savings accounts, checking accounts, brokerage accounts, US savings bonds, securities such as stocks, mutual funds and bonds, and money owed to a member of the household. Debt includes money owed on gas, store or major credit cards, to financial institutions, medical practitioners for expenses not covered by insurance, and other credit such as school and personal loans; it excludes housing, vehicle and business loans. We define essential living expenses as food, housing, clothing, transportation, health care, personal care, education, personal insurance and pensions.
2. Personal insurance and pensions are considered one variable in the dataset we used to create the Index.
3. Personal insurance and pensions are considered one variable in the dataset we used to create the Index.
4. Jennifer Cheeseman Day and Eric C. Newburger, *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings* (U.S. Census Bureau, July 2002), <http://www.census.gov/prod/2002pubs/p23-210.pdf>.
5. See <http://www.hud.gov/offices/cpd/affordablehousing/>.
6. Elizabeth Warren, "Medical Bankruptcy: Middle Class Families at Risk," Testimony before the House Judiciary Committee (July 17, 2007), <http://judiciary.house.gov/media/pdfs/Warren070717.pdf>.
7. Before-tax income: combined income earned by all consumer unit members 14 years old or over during the 12 months preceding the interview, including wage and salary income, business income, farm income, Social Security income and Supplemental Security income, unemployment compensation, workmen's compensation, public assistance, welfare, interest, dividends, pension income, income from roomers or boarders, other rental income, income from regular contributions, other income, and food stamps.
8. Housing expenses: mortgage principle and interest for owned home and/or vacation homes, rent, insurance, taxes, maintenance, utilities, fuels and public services.
9. We calculated this number by adding the population estimates for the number of working age households with incomes below 200% of poverty and the number of middle class households who do not meet our criteria for financial security.
10. Lillian Woo and David Buchholz, *Subsidies for Assets: A New Look at the Federal Budget* (Corporation for Enterprise Development, February 2007), <http://www.cfed.org/imageManager/assets/subsidiesforassets.pdf>.
11. Cindy Zeldin and Mark Rukavina, *Borrowing to Stay Healthy: How Credit Card Debt is Related to Medical Expenses*, (Demos and the Access Project, Winter 2007).

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