Economic security requires new measures of well-being

August 21 2015, by Bert Gambini

Economic well-being for low-income families in the U.S. is often determined by federal measures that establish basic requirements for essentials such as food, shelter and clothing, but a new study by a University at Buffalo research team suggests that such a definition is unrealistically narrow.

To help families move out of poverty, the existing perspective of economic well-being and its short-term focus on basic needs should reflect possibilities for long-term stability, including a savings plan, rather than day-to-day survival, says Yunju Nam, an associate professor in the UB School of Social Work.

"My co-authors and I developed new measures for savings and asset accumulation that consider lasting economic security," says Nam, lead author of the study, published online in the Journal of Consumer Affairs.

"These measures promote economic development that can help families improve their economic situation, something that current policy inhibits," she says.

Nam says the lack of a savings plan for low-income families is not merely a matter of scare resources. In fact, previous research indicates that it's a lack of information regarding how much to put away that's responsible for most families failing to save.

Furthermore, current social welfare policies often discourage savings, since public benefits can be cut when a savings account reaches a certain level.

The study specifies precautionary, retirement, homeownership and education savings goals. Using data from various sources, the study estimates the monthly savings amount required to meet each goal while considering time (e.g., different saving periods, interest rates and inflation).

Those measures are all forward-thinking variables, rooted in present realities but looking toward conceivable futures, Nam says, which respect material living conditions, but also prepare for potentialities, like job loss, and inevitabilities, like retirement.

"Depending on the circumstances, we calculated savings between $155 and $572 each month to address all four goals."

No previous asset-based economic measure or set of measures includes all four types of savings, the authors write in their paper.

Though these new measures serve as pathways to economic stability, Nam says their practicality can only be realized through related policy development.

"That's the piece the wider public needs to recognize," she says.

Nam hopes the study creates a new awareness for what she says are "much needed changes."

For instance, many states with 529 college savings plans encourage participation through tax-deductions, but the amount of the deduction was arbitrarily set, and fails to encourage participation by low-income families.

The current study, however, provides the framework for a more appropriate figure.

Many social welfare programs, such as the Supplemental Nutrition Assistance Program, impose asset-eligibility tests under which benefits can also be cut if previously eligible families start building a savings account.

"Without these changes, families, especially low-income families, cannot adequately save," says Nam.

"Most of our social welfare policies are based on short-term consumption needs," she says. "New policies are needed that encourage savings and the estimates provided in our study can be useful to help develop those policies.

"If we can recognize that families need to save, and then raise the asset ceiling for benefits, then we can stop trading long-term goals for short-term needs."

Provided by University at Buffalo

Citation: Economic security requires new measures of well-being (2015, August 21) retrieved 27 April 2024 from https://phys.org/news/2015-08-economic-requires-well-being.html