

Local Asset Poverty Index: METHODOLOGY

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1. An Introduction to Asset Poverty

The Role of Assets in Family Financial Wellbeing

An asset is something of value. It can be physical, such as a house. It can be less concrete but fully quantifiable, such as stocks or investment in a retirement account. Or it can be intangible, such as the knowledge and the credibility associated with a college degree. No matter what form it comes in, an asset is likely to provide substantial long-term benefits to its owner.

Assets, along with income, are the critical components of family financial wellbeing. Income provides the cash flow to meet basic needs and to improve a family's quality of life. However, income can be fleeting. Conversely, assets are durable. Thus, more so than income, they provide the foundation of a family's "financial house". Assets are also stable, thereby enabling families to invest in their own future with confidence. Assets are also flexible. As such, they help families to overcome difficult times and to leverage opportunities as they arise.

As assets are a critical part of family financial wellbeing, they are also an integral part of a family's success. Recent evidence suggests that assets decrease marital dissolution, are associated with higher educational achievement, and enable families to pass along economic advantages to their children.¹ Because assets promote family wellbeing, they also support healthy communities. For example, assets are associated with increased property values, decreased family mobility, and increased local civic involvement.²

What is Asset Poverty?

Poverty is generally defined as the economic inability to meet basic needs, i.e., the minimum caloric intake for sustenance, acceptable housing, clothing, the ability to get to work, etc. When an individual or a family is in poverty, it is unable to survive without support from the community (be it the government, philanthropic organizations, or other sources). Because these people are not self-sufficient, the percentage of the population in poverty is an important and informative indicator of societal wellbeing.³

¹ D. Page-Adams and E. Scanlon, E., .Assets, Health, and Well-Being: Neighborhoods, Families, Children, and Youth (St. Louis: Center for Social Development at Washington University, 2001), as cited at

<http://www.assetbuilding.org/AssetBuilding/index.cfm?ph=overview&SecID=51>.

² Ibid

³ As with most complicated concepts, there is no consensus on the definition of poverty or what makes a person "self-sufficient". Certainly, it is unlikely that this can be captured perfectly in a simple numeric measure considering the variance between people and the

Traditionally, poverty has been measured in terms of income. Every year the US Census Bureau estimates the amount of income needed over the course of a year for households to meet their basic needs. The percentage of people living below this poverty line is widely cited as a measure of societal wellbeing, whether for a single neighborhood or the nation as a whole.⁴

However, reliance on the income poverty measure to gauge our communities ignores the critical role that assets play in ensuring family economic security. This is particularly relevant in today's economy, which is characterized by job instability in all professions and the retrenchment of entitlements such as welfare and company-provided health care. As such, an increasing number of American families must rely on their existing assets as their economic safety net.

To measure the ability of families to overcome periods of financial uncertainty, academics and researchers have developed indicators of "asset poverty". In their works, asset poverty has generally been defined as *the inability of a household to meet its basic needs for a period of three months during which there is no outside source of money*. This definition isolates the critical role assets play in overcoming difficult financial predicaments; when there is no outside source of money, a household must rely on its ability to translate its assets into cash. In particular, this definition focuses on tangible assets, including money in bank accounts, stocks and bonds, the equity in retirement accounts, and home equity.

Indicators of asset poverty based on the definition above have become increasingly prevalent over the last decade. This coincides with the ascent of the asset-building movement itself. However, these indicators are still rarely cited compared with the mainstream income poverty measure. There are two major and interrelated reasons for this. First, unlike with income poverty, there is no official government approach to measuring asset poverty. Thus, methodologies and results differ from analysis to analysis. Second, unlike with income, there is a dearth of reliable and comprehensive data on assets. Previous analyses concluded that the available asset data was only sufficient to produce statistics at the national and statewide levels. As such, there has been no measure produced to gauge asset poverty at the local level.

This breach in our knowledge has substantial implications for both the asset building movement in particular and for policymaking in general, as they have been unable to fully gauge the economic wellbeing of local communities. Localized knowledge is critical because of the tremendous differences in living conditions that exist from city to city and

circumstances in which they live. However, without the use of a simple metric, analyses of economic wellbeing (such as this one) would be exceptionally difficult.

⁴ Despite being widely cited, the Census Bureau's income poverty statistics are generally considered to grossly underestimate the cost of living. A critique of this measure is developed in the Methodology section, below.

region to region. As such, local knowledge can help both local governments and non-governmental organizations tailor their economic development strategies appropriately.

Developing a Local Asset Poverty Index

To overcome this dearth of data, EARN has developed an innovative method to discern asset poverty rates at the local level. Developed with the help of a team of leading national data experts⁵, this Local Asset Poverty Index (LAPI) enables EARN to ascertain asset poverty rates for the communities in which we live, including cities, counties, and large neighborhoods. The LAPI also enables a closer examination of asset poverty by demographics, such as race, age, educational achievement, household composition, homeownership status, and income. With this knowledge, researchers, policymakers and advocates can better discern and the challenges facing the different communities that comprise our cities.

2. Methodology

Defining Asset Poverty

The concept of asset poverty has yet to become vernacular. However, where scholars have assessed asset poverty, there has been a general consensus in definition.⁶ As cited above, asset poverty is *the inability of a household to meet its basic needs for a period of three months during which there is no outside source of money*. In other words, does the household possess enough assets to see it through tough times, when there is no income due to job loss, health problems, etc?⁷ Because it is both reasonable and generally accepted, this is the definition utilized in this report.

Ascertaining the Asset Poverty Line

Upon defining asset poverty, it is necessary to affix a monetary threshold to separate the asset poor from the non-asset poor. This requires determining the precise amount of money necessary to make ends meet for three months. The obvious choice as a reference point is the federal income poverty line established by the US Census Bureau, which sets the amount of money necessary to make ends meet for 12 months. This line is adjusted based

⁵ Deborah Reed and Jon Haveman, Public Policy Institute of California; Karen Chapple and John Landis, UC Berkeley, Elias Lopez; and UC Davis, Diana Pearce, University of Washington.

⁶ The literature cited herein includes Melvin Oliver & Thomas Shapiro's *Black Wealth/White Wealth* (1995), Thomas Shapiro's *The Hidden Cost of Being African American* (2004), the Corporation for Enterprise Development's *State Asset Development Report Card* (2002) and Robert Haveman and Ed Wolff's paper *Who are the asset poor: Levels, trends, and composition, 1983-1998* (2000).

⁷ Although the three month time parameter is somewhat arbitrary, it is a useful estimate of the time required for a household to replace a lost income source (be it through a new job or enrollment in assistance programs).

on the size of the family, as well as the number of children living at home. To transform the income poverty line into an asset poverty line simply requires dividing by four; i.e., ascertaining a three-month requirement instead of a 12 month requirement. The asset poverty line for the various household sizes and compositions is shown in Table 1. These are based on the Census Bureau’s poverty estimates for 2003.⁸

Table 1 – Asset Poverty Rates

Household Size	Number of Dependent Children					
	0	1	2	3	4	5 or more
1 Person	\$2,181					
2 People	\$3,080	\$3,171				
3 People	\$3,598	\$3,703	\$3,706			
4 People	\$4,745	\$4,822	\$4,665	\$4,681		
5 People	\$5,722	\$5,805	\$5,627	\$5,490	\$5,406	
6 or More People	\$6,581	\$6,607	\$6,471	\$6,341	\$6,147	\$6,032

Basing the LAPI on the federal income poverty line has the distinct advantage of linking the LAPI with a widely cited measure. By using the same standard, income poverty and asset poverty measures can be directly compared to one another. Using a common reference thus heightens the usefulness of the LAPI as an indicator of economic wellbeing.

The disadvantage to linking the LAPI with the federal income poverty line is that the Census Bureau’s standard substantially underestimates the cost of living, particularly in expensive locations. As such, both the federal income poverty rate and the LAPI will produce conservative estimates of poverty.⁹

Determining Relevant Assets

Developing an assessment of asset poverty rates requires a different methodology than an assessment of wealth distribution. In assessments of wealth distribution, analysts make sure to include all assets and debts. An asset poverty assessment is different in that it is not necessarily about a societal comparison of wealth. Instead, it is more focused on an individual household’s ability to liquefy their assets in the short term, so as to fill the gap created by the loss of income. This angle provides a different perspective on which assets and debts are important.

⁸ 2003 was chosen to match the year for the available asset data, as described below.

⁹ If there is a time when the Self-Sufficiency Standard (a more robust measure of poverty developed by Dr. Diana Pearce at the University of Washington) becomes more widely accepted, the LAPI will also be linked to this measure.

The assets included in this analysis were those that can easily yield money in the short term without significantly affecting the day-to-day wellbeing of the household. This includes highly liquid assets (e.g., money in the bank and stocks, bonds, and mutual funds) as well as less liquid assets that certainly could be relied on in an effort to meet basic needs (equity in retirement accounts such as 401K, IRA, and Keogh, as well as equity in businesses or other investments). This also includes equity in real estate, including ones own home. The inclusion of real estate differs from other asset poverty analyses, which have eschewed housing equity by attesting to its lack of liquidity (in particular, see Wolff's chapter in 2001's *Assets for the Poor*, Shapiro and Wolff eds.) However, there are now a wide range of loan programs that enable rapid transfer of home equity into the relatively small amounts of cash necessary to meet basic needs for three months.¹⁰

Generally, the only household assets that were not determined to be readily liquefiable were those where the value to the household (i.e., the “use value”) is much higher than the market value. Such items include vehicles, furniture and appliances, jewelry, clothing, etc. Although it is possible to transform these valuables into cash, this could not occur without seriously undermining a family's quality of life, and the re-acquisition of these items would cost far more than the amount that their sale yielded.

Debts were not factored into the analysis of asset poverty. Typically, the schedule for servicing debts is the same whether or not a household is in economic duress. As such, debts can be considered as another expense necessary to “meet basic needs”. These expenses are accounted for in the process of ascertaining the asset poverty line.

Identifying Wealth Data

Determining the percentage of households that fall beneath the asset poverty line requires an understanding of the wealth status of all households. This data needs to be reliable. There needs to be a substantial sample size at the smallest geographical scale of interest. It also must be comprehensive, in that it accounts for family size and composition, as well as demographics of interest; e.g., race, age, etc. Simply knowing pieces of a household's wealth (e.g., their home equity or their savings) is insufficient for this purpose. Unfortunately, no such comprehensive source of wealth data exists.

Even at the national scale, there is a stark shortage of data on household wealth and assets. An extensive assessment of available sources has revealed only two data sets containing the necessary information: the Survey of Consumer Finance (SCF) and the Survey of Income and Program Participation (SIPP). Both are national and publicly available data sets with relatively small sample sizes (2,500 and 35,000 households, respectively). The

¹⁰ This fact was confirmed in conversations with mortgage lenders and housing experts.

small sample size means that, even in larger cities, there is not enough data to support direct analysis of asset poverty.¹¹

Extrapolating the Data

Faced with the absence of sufficient data on the asset holdings of San Francisco's households, constructing the LAPI requires extrapolation of the existing data. In other words, constructing the LAPI requires determining what can be learned about San Francisco based on the nationwide patterns that can be ascertained from the existing data. For purposes of such an analysis, the SIPP data set was clearly preferable to the SCF. This is because the SIPP is significantly larger than the SCF, and because SIPP contains relatively recent (2003) data.¹²

The ability to extrapolate national data is grounded in a basic premise: household wealth is closely correlated with demographic characteristics. Thus, it is not necessary to have information on assets specific to a specific locality. Instead, it is only necessary to have data on the demographic characteristics of that locality's households. Fortunately, there is a wealth of data on localized demographic characteristics – as collected every decade by the US Census Bureau. For this analysis, we must have demographic information on an individual level. To protect the privacy of citizens, the Census Bureau does not provide this data for very small geographical areas. Instead, they group individuals into Public Use Microdata Areas (PUMA) data, which generally do not include less than 100,000 persons.¹³ Thus, it is impossible to run the LAPI for geographic areas of less than 100,000 people.

To extrapolate the data from the national SIPP data to the local Census data thus requires two major steps: determining the precise relationship between family asset holdings and family demographic characteristics, and the utilizing our knowledge of a locality's demographic characteristics to estimate household asset holdings. The resulting estimate for each household can then be compared to the asset poverty line established above. In this fashion, the asset poverty status for each household can be determined. Aggregating this data over the entire population yields the overall asset poverty rate for that locality. Aggregating this data over certain subsets of the population (e.g., by homeowners or tenants) will yield asset poverty rates for the sub-populations. In this manner, the LAPI can offer a wealth of knowledge about asset poverty in the locality of interest. The processes for determining the correlation between assets and demographics and for applying this

¹¹ It would be necessary to have at least 100-120 households represented to produce a “statistically significant” estimate of asset poverty; i.e., one which is considered legitimate and not just based on luck. This figure would need to be much higher if we were also interested in subsets of the population – such as different racial groups (e.g., if Latinos represent 20% of a city's population, then it would be necessary to have a sample of 500-600 households overall to ensure a legitimate analysis).

¹² The 2003 data is available in Wave 6 of the 2001 data.

¹³ By comparison, the Census data presents sums and averages for areas as small as a city block.

information to a locality are described below. However, first it is necessary to clarify the techniques used to prepare the data for analysis.

Data Preparation

Data preparation is a necessary part of any statistical analysis. Data sets are typically large and unwieldy, and decisions need to be made on how to best utilize the available information to tackle the question at hand. These decisions typically (and appropriately) sacrifice the explanatory power of a model to maintain its integrity. Data sets are also often fraught with poorly coded or improper information (e.g., claiming an adult is 520 years old or their sex is “4”). Fortunately, the SIPP data set is in excellent condition.

To prepare the data for analysis, the following decisions were made:

- The LAPI focuses on asset poverty for families, and not individuals (although an individual may be considered a family if he or she is a single adult without dependent children). The rationale is simple: economic wellbeing is fundamentally a family concern, not an individual one.¹⁴
- The LAPI only includes single-family households. This is because the SIPP contains asset data only at the household level, and not the family level. There is therefore no mechanism to isolate assets at the family level without eliminating multiple-family households from the analysis (these represent 11.3% of the SIPP sample). This may skew the data; e.g., if multi-family households often consist of multiple unmarried individuals who, because of their age and status as renters, may often be in asset poverty. However, this skew is less important than that which would be caused by multiple families in the same household, because their cumulative wealth would obfuscate asset poverty at the family level.
- The LAPI is based around the characteristics of the household head. This is because the SIPP data set it is very hard to link characteristics of family members. As such, the characteristics of the household head need to stand in as a proxy. Although this is not a problem from a wealth analysis perspective (as SIPP assigns each member of the family the same asset data), it does ignore any differences in race, age, or education that may occur between household members (particularly spouses).
- The LAPI is also limited to families with household heads beneath the age of 65. This is because most individuals are eligible for government benefits at 65, decreasing the role that assets play in avoiding asset poverty. Although certainly in localities throughout the United States there are a reasonable number of non-citizens (both legal and illegal) who may not be eligible for the programs. However, SIPP does not contain demographic data on citizenship status, making it impossible to incorporate this factor.

After these decisions were made, the remaining families were assigned an asset poverty status, based on their position relative to the asset poverty line described above. For example, if a single woman with no children had \$2,000 worth of assets, she would be

¹⁴ If desired, it is possible to produce an LAPI for individuals, by weighting asset poverty rates by family size.

assigned a “1” as asset poor. If she had \$2,500 worth of assets, she would be assigned a “0” as non-asset poor.

Correlating Assets and Demographics

The relationship between asset poverty and demographic characteristics can be ascertained by using regression analysis. Regression analysis is a complicated statistical technique with which readers may not be familiar. However, it is beyond the scope of this report to explain how the technique works. As such, the logic behind this analysis may be difficult to follow. It is sufficient to say that regression analysis is widely accepted and utilized by statisticians to explain many phenomena.

Utilizing regression analysis entails developing the best equation for explaining different asset poverty outcomes for different families. In the process, data is generated that reflects how each demographic characteristic is correlated with asset poverty. To determine which characteristics are important enough to include in the final model, it is possible to test all characteristics for which SIPP contains data. However, rather than undertake such a “fishing expedition” (i.e., cast your nets, see what you catch), it is always preferable to have a rationale or theory behind the choices made.

The rationale for inclusion in this model is largely based on the results of previous analyses of national asset poverty and wealth distribution that utilized the SIPP and SCF data, although other theories were incorporated as well.¹⁵ Based on this background knowledge, the following demographic characteristics were tested for inclusion in the model:

- **Income:** Income can be used to purchase assets. As such, it is expected that income and asset poverty would be inversely correlated.
- **Homeownership status:** It is generally understood that home ownership is the most important source of wealth in America. Thus, it is expected that homeownership and asset poverty would be inversely correlated.
- **Race:** Analyses have shown that, even more than income, assets are distributed highly unequally among races. Generally, Whites and Asians have similar levels of assets, and Blacks, Latinos, and Native Americans have significantly lower levels of assets. Thus, it is expected that there would be a direct correlation between asset poverty and being Black, Latino, or Native American.
- **Sex:** Men have been shown to receive higher pay for the same work, and also to work in fields that pay higher. Also, based on accounting norms, married households are typically listed as being male. Females typically head single-parent households. Based

¹⁵ The previous analyses cited include those listed in Footnote 1 above, as well as the Corporation for Enterprise Development’s *Building Assets – A Report on the Asset-Development and IDA Fields* (2001), the California Research Bureau’s *The Distribution of Wealth in California* (2000), Lisa Keister’s *Wealth in America* (2000), and Ed Wolff’s *Top Heavy: The Increasing Inequality of Wealth in American and What Can be Done About It* (2002).

on all these factors, it is expected that male-headed households would be inversely correlated with asset poverty.

- **Education:** It is well documented that educational achievement is correlated with increased income. It is also expected that increased education would be correlated with increased assets.
- **Age:** The durable nature of assets reflects the notion that they can be accumulated over time. Thus, age and assets are expected to be directly correlated.
- **Family Status:** Married couples and single adults have more income with which to accumulate assets, compared to single parents who need to concentrate on supporting their family in the short term. Along similar reasoning, there is also an expected correlation between the number of children in a family and asset poverty.
- **Region:** Home values vary considerably over space. So do homeownership rates. It is expected that there would be lower asset poverty rates, on average, in areas with higher home values and/or ownership rates.
- **The interaction between age and education:** Over time, the benefits of education are expected to compound, in terms of income. Thus, it is expected that higher educated individuals would be able to accumulate more assets as they grew older.
- **The interaction between homeownership and age:** Over time, homeowners are able to pay down their mortgage. Additionally, home values have historically risen faster than inflation. As such, it is expected that homeowners would be able to accumulate more assets as they grew older.

Testing these characteristics in the regression analysis, they all proved to be significant with over 99% probability.¹⁶ Therefore, all the tested characteristics were maintained in the final model. Table 2, below, contains the Unstandardized and Standardized Beta weights for all non-dummy variables.¹⁷ The Unstandardized Beta weight represents the figure that will appear in the final regression equation. The Standardized Beta weight reflects the importance of each characteristic relative to all the others in the equation. Table 2 also contains a brief interpretation of the results of the analysis.

¹⁶ Additionally, the variables were tested for multicollinearity (i.e., two or more variables capturing the same phenomenon). Unsurprisingly, some multicollinearity was identified between the age/education interactive and the education variables, and the age/homeownership variable and the homeownership variable. However, the effect of this multicollinearity on the model was insubstantial and do not affect the results.

¹⁷ Dummies were chosen based on their representing the largest percentage of the population.

Table 2 – The Characteristics in the Model

Characteristic	Unstandard-ized Beta	Standard-ized Beta (with rank)	Interpretation
Monthly income	-5.28923E-06	-0.0590 (8)	As expected, income is inversely correlated with asset poverty. It is the 8 th most important factor.
Homeownership Status			
<i>Homeowner</i>	Dummy	Dummy	
<i>Renter</i>	0.560885	0.6009 (1)	Homeownership status is by far the most important factor, nearly twice as important as the next highest. As expected, being a renter is directly correlated with asset poverty.
Race			
<i>White</i>	Dummy	Dummy	
<i>Black</i>	0.085916	0.0645 (7)	As expected, being Black is directly and strongly correlated with asset poverty.
<i>Latino</i>	0.075870	0.0525 (10)	As expected, being Latino is directly and strongly correlated with asset poverty.
<i>Asian</i>	0.008669	0.0036 (21)	As expected, being Asian is very weakly correlated with asset poverty, and is relatively akin to being White
<i>Native American</i>	0.041106	0.0087 (17)	As expected, being Native American is directly correlated with asset poverty. However, this correlation is surprisingly weak, meaning that this group has more access to assets than anticipated.
Sex			
<i>Male</i>	Dummy	Dummy	
<i>Female</i>	0.023335	0.0264 (12)	As expected, female-headed households are more likely to be in asset poverty.
Education			
<i>High School diploma or less</i>	Dummy	Dummy	
<i>Some College</i>	-0.190490	-0.2015 (5)	As expected, more education is strongly and inversely correlated with asset poverty.
<i>Bachelor's Degree</i>	-0.351000	-0.3128 (3)	As expected, more education is

Characteristic	Unstandard-ized Beta	Standard-ized Beta (with rank)	Interpretation
			strongly and inversely correlated with asset poverty.
<i>Advanced Degree</i>	-0.480640	-0.3345 (2)	As expected, more education is strongly and inversely correlated with asset poverty.
Age	-0.00749	-0.1924 (6)	As expected, age is strongly and inversely correlated with asset poverty.
Family Status			
<i>Married</i>	Dummy	Dummy	
<i>Single parent</i>	0.076014	0.0542 (9)	As expected, being a single parent is inversely correlated with asset poverty.
Number of Dependent Children	0.004338	0.0111(16)	As expected, having more children is weakly and inversely correlated with asset poverty.
Region			
<i>Home Value – lowest quartile</i>	0.044045	0.0380 (11)	As expected, as regional home values increase asset poverty rates decrease slightly.
<i>Home Value – 2nd lowest quartile</i>	0.022069	0.0231 (13)	As expected, as regional home values increase asset poverty rates decrease slightly.
<i>Home Value – 2nd highest quartile</i>	0.019224	0.0184 (15)	As expected, as regional home values increase asset poverty rates decrease slightly.
<i>Home Value – highest quartile</i>	Dummy	Dummy	
<i>Homeownership Rate – lowest quartile</i>	0.003881	0.0038 (20)	As expected, as regional homeownership rates increase asset poverty rates decrease slightly.
<i>Homeownership Rate – 2nd lowest quartile</i>	0.007998	0.0074 (18)	As expected, as regional homeownership rates increase asset poverty rates decrease slightly.
<i>Homeownership Rate – 2nd highest quartile</i>	0.006790	0.0070 (19)	As expected, as regional homeownership rates increase asset poverty rates decrease slightly.
<i>Homeownership Rate – highest quartile</i>	Dummy	Dummy	
Age*Education	0.002505	0.2889 (4)	This result is surprising, as this

Characteristic	Unstandard-ized Beta	Standard-ized Beta (with rank)	Interpretation
Interaction			interaction was expected to decrease asset poverty.
Age*Homeownershi p Interaction	0.000392	0.0206 (14)	This result is surprising, as this interaction was expected to decrease asset poverty.

Note: The constant in this analysis is 0.843770.¹⁸

¹⁸ Based on the results presented in Table 2, it is now possible to present the complete model upon which the LAPI is based: A family's asset poverty status = 0.843770 + 0.56089*(dummy variable for whether a family rents their home, where yes=1) – 0.00000528923*(monthly income) + 0.085916*(dummy for Black) + 0.07587*(dummy for Latino) + 0.008669*(dummy for Asian) + 0.041106*(dummy for Native American) + 0.023335*(female) – 0.19049*(dummy for some college education) – 0.351*(dummy for Bachelor's Degree) – 0.48064*(dummy for Advanced Degree) – 0.00749*(age) + 0.076014*(dummy for single parent) + 0.004338*(number of dependent children) + 0.044045*(dummy for being in the region with the lowest home values) + 0.022069*(dummy for being in the region with the 2nd lowest home values) + 0.019224*(dummy for being in the region with the 2nd highest home values) + 0.003881*(dummy for being in the region with the lowest home ownership rates) + 0.007998*(dummy for being in the region with the 2nd lowest home ownership rates) + 0.006790*(dummy for being in the region with the 2nd highest home ownership rates) + 0.002505*(age*education level)+ 0.000392*(age*dummy for homeownership).

It can be argued that, for a model such as this one, it would be preferable to use a logit analysis rather than regression analysis. However, regression results are generally more intuitive. Additionally, as will be shown in the extrapolation discussion below, the asset poverty status of the individual family is not important, while the average of all the families is. As such, regression analysis is more than adequate for this study.