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Authors(s)	Searle, Beverley A.; Köppe, Stephan
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Assets, savings and wealth, and poverty: A review of evidence

Final report to the Joseph Rowntree Foundation

Beverley A Searle and Stephan Köppe

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Contents

1 Introduction

Research shows people who experience poverty often lack financial resources such as assets, savings and wealth. Classic economic theory – the 'life-cycle model' – suggests that savings help smooth consumption and provide a buffer against economic shocks over the life course. More recently the theory of asset-based welfare has been developed as a pathway to poverty alleviation. This theory also suggests that owning assets changes the way people think. They become more responsible and forward looking. This is called an 'asset effect': it is the extent to which owning an asset provides additional benefits or opportunities over and above their pure financial value. In this evidence review savings, assets and wealth are defined, international asset-based policy initiatives are reviewed and the contributions of these policies in alleviating poverty are evaluated.

2 Methods

An expert-led review of the literature was conducted. First, identifying key publications and following up key studies and authors cited within. This report is indebted to the work of Rowlingson and McKay (2012) and Hills *et al. (*2013) from which many of the references followed up are drawn. This is supplemented by rigorous searches of national and international repositories (Web of Knowledge, World Cat), including literature published in German and Swedish (GBV/GVK-plus, LIBRIS). A combination of the terms (poverty, savings, wealth, assets, asset-based welfare, asset effect) were used and key UK initiatives reviewed (e.g. Right to Buy, Child Trust Funds, Savings Gateway, stakeholder pensions). A systematic literature review was not conducted, nevertheless a considerable range of academic journals, government documents, reports and grey literature were read.

3 What do we mean by savings, assets, wealth, and poverty?

The most widely used definition of poverty in the UK and Europe is households whose income is below 60 per cent of the national median, taking into account the number of adults and children in the household (Tunstall *et al.,* 2013). The Joseph Rowntree Foundation (JRF) definition includes a person's minimum needs and the material resources they have available. In this review we include a broad understanding of poverty as 'low income'. This is because international poverty thresholds vary and few studies distinguish between poor and non-poor people.

Research on wealth and assets tends to focus on inequalities rather than on measures of poverty. Conceptions of asset poverty are limited. The first measure of 'asset poverty' was developed in America, based on family members having 'insufficient wealth-type resources to enable them to meet their basic needs for 3 months at the threshold of the official poverty line' (Sherraden, 2005, pp. 64-5). Sierminska (2012) has defined 'asset poverty' in Europe where financial assets are not sufficient to cover 6 months at 60 percent of median income. Rowlingson and McKay (2012) suggest a measure of asset poverty as having no or negative wealth. Using this definition they show half of the UK population fall in this category. They further show that combined with income poverty around a fifth of the UK population experience both income and asset poverty. [1]

Savings, wealth and assets are used interchangeably and with considerable overlap. Sherradon's (1991) original theory of asset-based welfare referred to savings accounts including pensions. More recently studies include housing assets (Doling and Ronald, 2010; Lowe *et al.,* 2011).

In this review we use these definitions:

- **Saving:** Saving is something that people can do. People can save formally (e.g. into a bank or building society account) or informally (e.g. saving lose change into a jar).
- **Savings:** Savings refer to the actual savings account or money that has been saved. Savings are a stock of liquid financial assets. Savings may be short-term and used across the life cycle, or may be long-term, such as a pension.
- **Assets** (also known as capital) can be physical (e.g. a car, house) financial (stocks and shares or other investments), social (the network of people we know) or human (level of education). This review focuses on two types of financial assets (savings and pensions) and one type of physical asset (housing). These assets provide a stock of wealth which can provide a return or income flow, for example interest earned on savings, or services provided from housing.
- **Wealth** refers to the total value of someone's assets. The total value is called gross wealth and net wealth refers to the gross value minus any debt or loans such as mortgages or credit card debt. This review considers gross wealth and net wealth.

4 The assumed importance of assets

There is a lot of theory about how access to and accumulation of financial resources can help lift people out of poverty. First, assets provide income, which may be financial (e.g. income from pensions), in-kind (e.g. the services received from housing), or accrue as capital gains (e.g. increase in house prices, or interest earned on savings). A comprehensive measure of wealth should include all these. Second, assets provide protection similar to insurance and can smooth income across a person’s life time. This is referred to as the life-cycle hypothesis which suggests people accumulate wealth during the years of maximum earnings, and spend down savings in later life (Spilerman, 2000). There is little empirical evidence to support strict adherence to the life-cycle hypothesis (Wilke, 2010). Sherraden and colleagues (2005, p. 363) argue that it ‘fails to explain patterns of asset accumulation in low-income households, which are typically low or negative’. However, there is an ‘appeal to common knowledge’ (Spilerman, 2000, p. 509) that for people on low incomes even modest amounts of financial assets will provide a cushion from economic shocks, or anticipated declines in income in later life. The precautionary motive – having a reserve to cover unforeseen expenses – is consistently the most frequently reported saving motive in international surveys (Kennickell and Lusardi, 2005).

Third is the theory of ‘asset-based welfare’, where the ownership of assets is deemed to provide additional benefits, including an impact on individual behaviour (Sherraden, 1991). Sherraden (2002, p. 29) argues whilst income is important because it enables a certain level of consumption, it is not enough to provide the ‘pathway out of poverty’. He claims what is needed are additional resources achieved through savings and investing in education, enterprise and property. Kober and Paxton (2002) further argue assets can help prevent poverty before it happens. Access to assets can give people greater control and provide the ‘infrastructure’ from which other financial resources will flow. They can build a stock of wealth which provides support at times of change across the life course and prevent people falling into debt and poverty (Paxton, 2002). Paxton (2002) further argues whilst traditional welfare has been good at helping people by transferring resources at specific phases of their lives (childhood and retirement) it has been less effective at helping people through transitional stages.

Asset-based welfare introduces people into mainstream financial systems such as mortgages, savings accounts and investments (see Finlayson, 2009; Gamble and Prabhakar, 2006). Financial exclusion is a key barrier to wealth accumulation for the poorest in society (Kempson and Collard, 2012). People who are financially excluded cannot take advantage of different forms of saving or wealth accumulation, such as earning interest, making savings through paying bills via direct debit, or gaining more favourable forms of credit (Kempson and Collard, 2012; Hartfree and Collard, 2014).

It is suggested ownership of assets changes people’s aspirations. Holding assets, and a stake in society, is speculated to lead to greater confidence, stronger families, more positive social relations and a move towards longer-term planning (Sherraden, 1991, 2005). Assets provide the mental cushion that allows people to plan ahead (Rowlingson and McKay, 2012), making them more willing to forego consumption now and save towards the consumption of welfare-enhancing services in the future (Watson, 2009). Sherraden (2002) reports evidence that relatively small holdings of assets improve a range of social outcomes (e.g. health, labour market performance). These behavioural effects are important for household wellbeing, because they are likely to include better care of property, increased learning about financial affairs, and increased social and political participation. Increasing political participation enhances citizenship and benefits democratic society more broadly (Paxton, 2002; Prabhakar, 2009; Ackerman and Alstott, 1999). Equal access to initial resources is seen as a right that gives each citizen equal opportunities and enables full participation in society. Asset-based welfare may be seen as 'part of social democratic efforts to eradicate poverty' (Gamble and Prabhakar, 2005, p.3).

4.1 Limitations of asset accumulation theories for poverty alleviation

Access to personal savings, assets and wealth have increasingly become part of national and international government policy. However, the extent to which they can alleviate poverty is less well recorded. The growth in wealth inequalities in the UK (Hills *et al.,* 2013) would suggest that the shift towards personal assets and individual responsibility for welfare 'has failed to achieve its aim of greater individual financial security and wellbeing' (Rowlingson and McKay, 2012, p. xii). Even Sherraden (2002) who is credited as a leading scholar in this field raises concerns that a shift to asset-based policy presents a major challenge for inclusion. Many will remain excluded from asset accumulation and social protections, particularly people experiencing poverty. For any policy shift towards asset accumulation to be successful over the long term 'extraordinary efforts must be made to bring everyone into the primary asset-based policy system' (Sherraden, 2002, p.37).

The point at which assets should be accumulated or acquired is also difficult to pin down. Life transitions are less fixed now than when the welfare state was set up (Paxton, 2002). Initiatives need to be flexible in their purpose and across the life-course. They also need to be moveable to accommodate changes in family circumstances, employment and location (Paxton, 2002), As savings and wealth by their very nature accumulate over time, it may also be more acceptable for younger people to be asset and wealth poor, than perhaps for older people.

5 Savings, assets and wealth: A review of national and international evidence

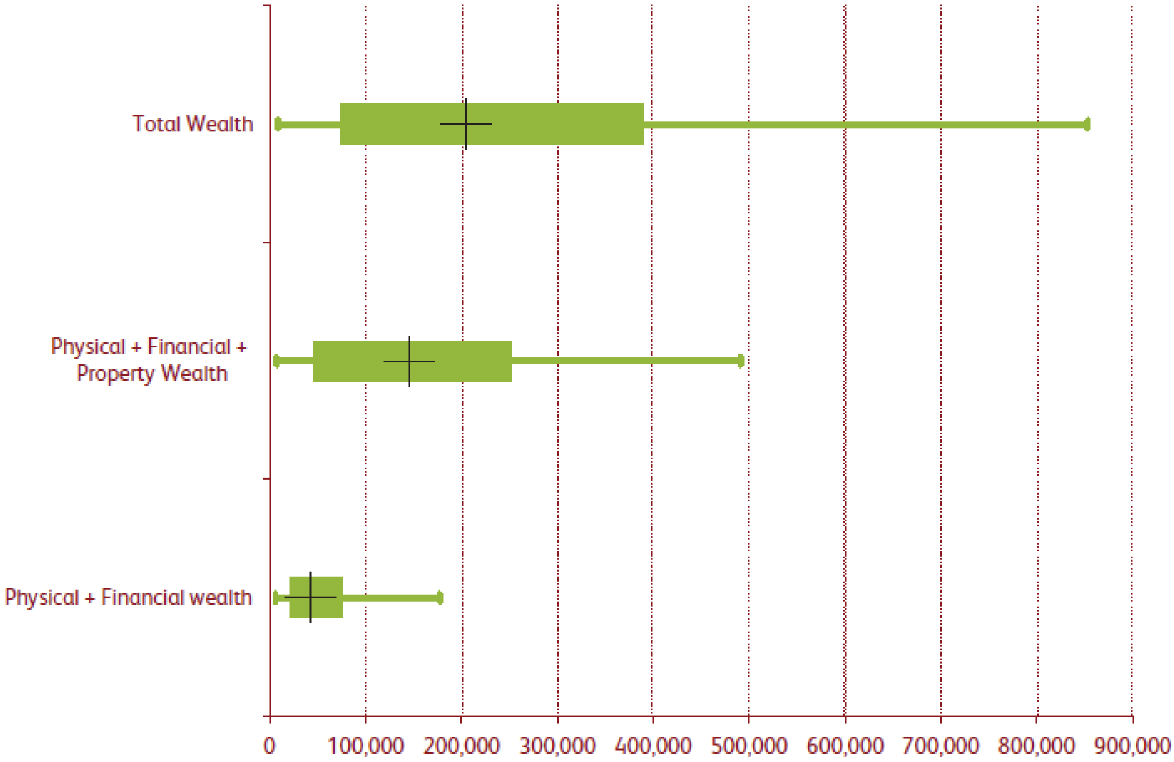
In the review we will highlight that there is little evidence of an asset effect and most studies cannot prove a causal relationship. First we show the wealth distribution in the UK, before looking in detail at savings, pension and housing schemes. Most of the evidence on asset-based welfare comes from the US or the UK, however initiatives have been developed in other countries. Schemes take on different names and can fall within or across definitions of savings, assets and wealth. For ease we present findings under standard headings addressing savings, pensions and housing. The fourth section looks at intergenerational transfers of wealth and poverty. The fifth section considers some of the risks of basing poverty alleviation strategies on asset accumulation.

There is a lot of literature on theories of how asset-based welfare may work, but it is acknowledged that the evidence base is 'small' and 'rare' (Gamble and Prabhakar, 2005, p.6; Adams *et al.,* 2010). There is also considerable evidence of trends in asset holdings and inequality, but few studies have formally assessed the impact of household wealth on their living standards (Spilerman, 2000). This section reviews in more detail some of the limited literature on schemes that have been implemented or tested. The assumed positive effects of assets on improved living standards are mainly based on observed correlations between wealth and the outcome variable of interest (Spilerman, 2000).

5.1 Wealth distribution in Great Britain[2]

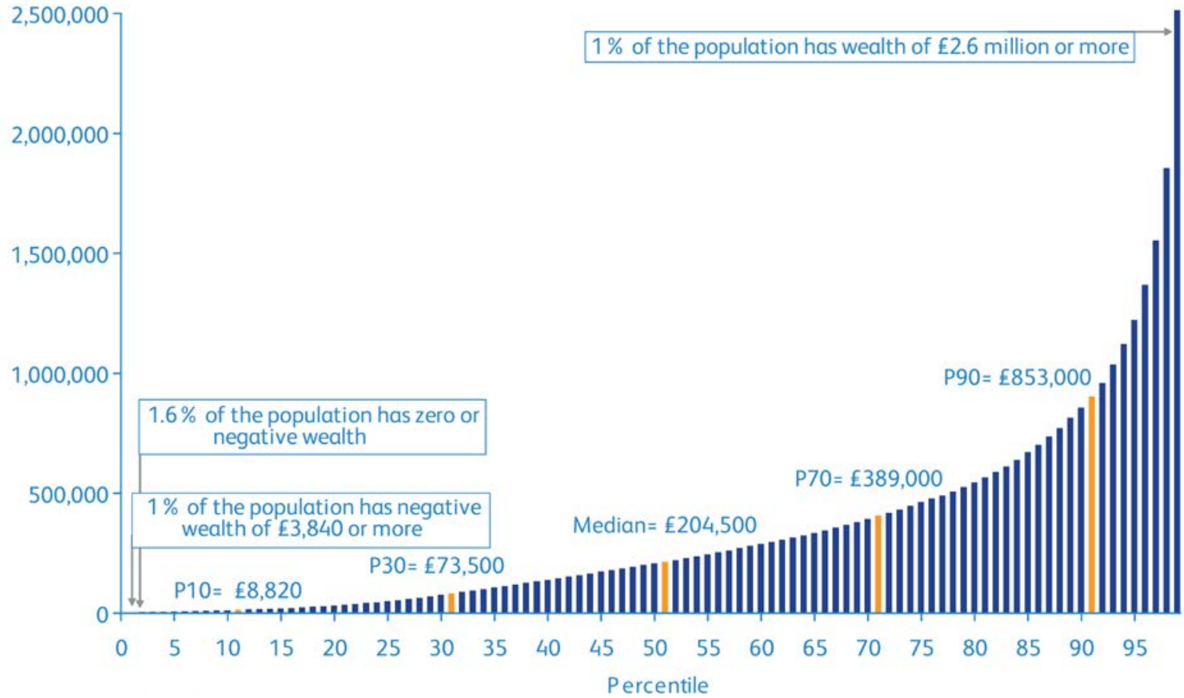
The two most comprehensive studies of wealth distribution in Great Britain (GB) are the analysis of the Wealth and Assets Survey (2006-8) conducted by Hills *et al.* (2013) and Rowlingson and McKay (2012). Wealth is more unevenly spread in GB than income (Hills *et al.*, 2010, 2013). Figure 1 shows the variation in asset distribution across savings and goods (physical and financial wealth), plus housing wealth and total wealth including pension entitlements.[3] It shows that pension and property wealth are the biggest asset holdings, while savings account for only a small share of total wealth. About one per cent of households have total net wealth of £2.6 million or more. At the bottom of the wealth distribution 1.6 per cent of households have zero or negative wealth; one percent have negative wealth of £3,840 or more (Hills *et al.*, 2010, p. 59) (Figure 2). In their analysis Rowlingson and McKay (2012, p. 82) separate income and wealth. They show that households in Great Britain in the bottom two income deciles hold less than one per cent of the total wealth, compared to 44 per cent of wealth owned by the top income decile.

Figure 1: Distribution of different types of household wealth, GB, 2006-08 (£)



Source: Figure 8.1 in Hills *et al.*, 2010, p.206, based on Wealth and Assets Survey

Figure 2: Distribution of total net wealth across households, GB, 2006-08 (£)



Source: Figure 2.19(b) in Hills *et al.*, 2010, p. 59, based on Wealth and Assets Survey.

Generally speaking higher income households are also richer across all types of assets (Rowlingson and McKay, 2012). Table 1 shows the distribution of average housing wealth among home owners (house value minus outstanding mortgage debt) and renters by age and income deciles. Richer households have more housing wealth than poorer households in England. Older owners generally have more housing wealth than younger owners, because they have had time to pay off most if not all of their mortgage debt. On the one hand young professionals may earn relatively high incomes, but have not acquired substantial (housing) wealth yet. On the other older pensioners have accumulated wealth during their working life, while earning relatively little in retirement. Although on average some owners experiencing poverty do have housing wealth, research on income poor and housing rich households has revealed that only a fraction of the population fall in this category (0.7 per cent (Orton, 2006) or 4.2 per cent (Sodha, 2005) depending on the measurement of housing wealth). However, as discussed in 5.4.4 below, home owners do account for around half of households who experience income poverty.

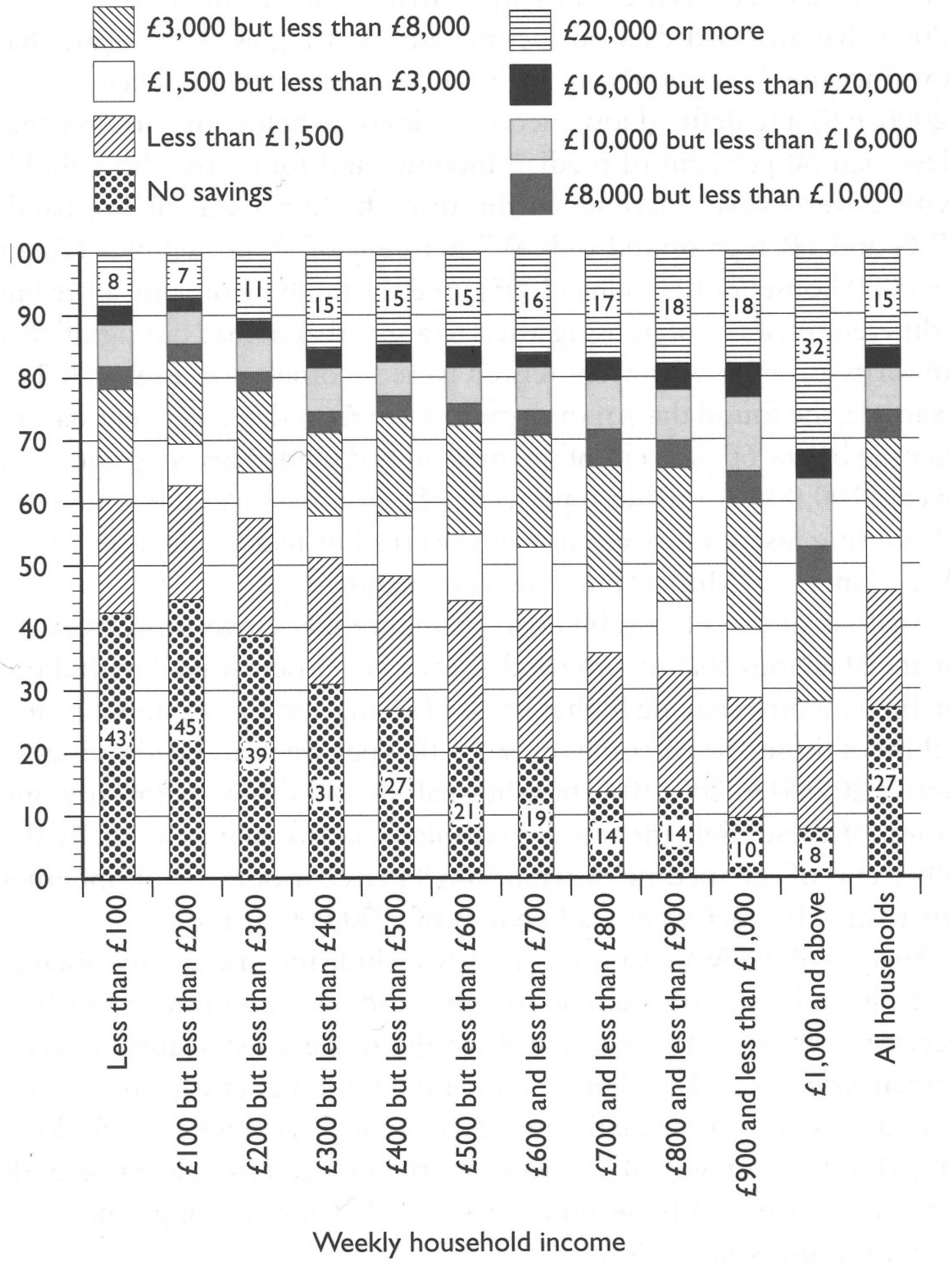
Table 1: Distribution of housing wealth by age and income, UK nations

Age Group	Income deciles									
	Bottom Decile	2	3	4	5	6	7	8	9	Top decile
	Median housing wealth (£)									
England 2010/11										
16-34	0	0	0	0	0	0	0	0	9,000	20,000
35-49	0	0	0	0	0	46,000	67,000	82,000	107,000	180,000
50-64	0	43,000	93,950	95,000	140,000	135,000	158,000	175,000	200,000	293,000
65-79	0	120,000	150,000	170,000	180,000	230,000	240,000	275,000	300,000	450,000
80+	110,000	145,000	165,000	180,000	210,000	270,000	350,000	350,000	230,000	385,000
Wales 2008*										
16-34	0	0	0	0	0	35,000	27,532	40,000	47,996	71,533
35-49	0	0	4,243	56,024	43,514	75,000	98,839	92,000	74,576	119,632
50-64	95,663	110,290	94,777	134,691	91,349	105,745	95,872	150,000	175,000	154,941
65-79	140,000	130,000	119,585	130,000	143,013	140,000	166,000	180,458	200,000	245,972
80+	100,000	130,847	71,922	87,413	0	95,391	121,490	130,000	280,147	219,534
Scotland 2008*										
16-34	0	0	27,000	0	0	10,711	36,064	26,000	43,835	50,591
35-49	0	0	0	30,887	38,955	34,831	60,000	70,782	57,143	110,410
50-64	0	65,540	0	96,646	75,000	110,000	105,011	114,870	186,475	140,573
65-79	0	100,000	94,278	75,961	75,380	80,346	157,311	161,028	194,387	489,531
80+	122,124	94,537	86,109	100,000	0	150,000	65,010	81,546	19,0935	68,962
Northern Ireland 2008*										
16-34	0	0	0	3,516	0	0	0	83,000	45,000	84,495
35-49	0	0	47,228	77,000	81,767	102,188	109,654	134,132	145,599	180,000
50-64	101,431	59,126	90,000	97,836	83,996	113,635	140,000	178,372	200,000	170,000
65-79	105,868	119,397	100,000	80,000	145,494	151,859	120,034	199,000	200,000	350,000
80+	145,035	88,552	0	91,419	105,353	0	76,293	150,386	170,000	160,000

Source: England – English House Survey; Wales, Scotland and Northern Ireland – BHPS; author's analysis.
*NB: Cell counts are low

Figure 3 shows that the proportion of households with little or no savings is highest among low income households and decreases as you move up the income scale. For example, 45 per cent of households with income between £100-£199 have no savings compared to eight per cent of the highest income households.[4]

Figure 3: Distribution of savings by total household income 2003/04



Source: Figure 4.8 in Rowlingson and McKay (2012, p. 94), based on Family Resources Survey

An international study by Lusardi *et al.* (2011) found the UK population is more vulnerable to financial emergencies than other countries. About half of the UK population would struggle to come up with £1,500 in 30 days. People would first draw on savings before turning to family and friends, mainstream credit (e.g. credit cards), work more, sell possessions and as a last resort alternative credit (e.g. pay day loan). Evidence from the US shows overall, the ability to cope with emergencies increases both with higher income and assets, although only higher income households (above $60,000) show a significant effect.

5.2 Savings

Savings are valuable to lower income households as a buffer against unexpected changes in income or expenditure (Paxton, 2002). Individuals have to restrict their current consumption to accumulate savings. This saving effort and reduced current welfare is compensated with interest paid. However, the rewards from saving are received in the future, compared to current consumption where rewards are immediate. This is important in the context of the constraints of low income households. In the UK five per cent of households do not use financial products or services of any kind, a quarter of lower-income families do not engage in any form of savings, either formally into a savings account or informally, and a further 38 percent save only informally, such as saving loose change at home (Kempson and Collard, 2012). People tend to underestimate future real benefits and exponential nature of compound interest rates. People who underestimate annual percentage rates are more likely to borrow than to save (Lusardi and Mitchell, 2007).

Governments have introduced different initiatives to encourage certain types of savings. In some cases governments place restrictions or provide further incentives to encourage specific consumption (e.g. education, house deposit, health expenses). Savings can be taxed which reduces the rewards gained from the interest paid. To encourage saving governments offer tax breaks and other financial incentives such as match funding or saving bonuses. Some of these measures may be open to all citizens and/or employees, others are restricted to people on low incomes. Political motivations for savings schemes vary considerably. For instance, some schemes are included in a coherent asset policy to provide social security which is not otherwise provided by the state (i.e. Singapore). Others are intended to reduce the double taxation of contributions into saving accounts from income that has already been taxed.

5.2.1 International evidence

This review of the international evidence mainly draws from the most recent comprehensive study on government supported saving plans (OECD, 2007). The report analysed the design and effects of saving plans in 11 OECD countries.[5] Our analysis focusses on the effects on poverty and not on the political goals of the saving schemes.

In order to change saving behaviour permanently, withdrawals are blocked in some schemes; this can be for certain periods (3 months to 12 years); or until the beneficiary reaches a certain age, for example 18 years in the case of the UK's Child Trust Fund (CTFs). Most saving plans encourage savings without restrictions on how funds are spent. However, in the US and Canada some withdrawals can only be used to pay for educational expenses. The US is the only country to have saving accounts for health related expenses, this was the only OECD country that lacked a universal public healthcare system until recently.

Common features used to target households in poverty are saving bonuses or match funding and income limits. Bonuses and match funding are used rarely, but have the benefit of real term contributions into savings accounts.[6] Income limits aim to encourage savings among people on low or middle incomes, whilst placing restrictions on higher income earners who would benefit from further tax exemption (e.g. German Arbeitnehmersparzulage, US-American Coverdell Education Savings Accounts (ESA) and British Saving Gateway). Some saving bonuses are only granted to low income households (Canadian Registered Education Savings Plans (RESPs), Irish Special Savings Incentive Accounts (SSIAs), CTFs). Data on saving schemes is limited and often not very reliable. The following results should be treated with caution although the findings are supported by academic literature.

The international evidence shows tax incentives are ineffective in alleviating poverty (Dynarski, 2004; Howard, 1997). The introduction or reform of tax incentives encourages reshuffling of portfolios from taxed accounts towards tax exempt investments. These measures do not encourage people experiencing poverty to save (Attansio *et al.*, 2004). Their regressive nature means those who pay higher taxes benefit the most. People who experience poverty, and do not pay tax, are least likely to benefit (Altman, 2002). Even evidence from schemes that impose income ceilings or are targeted towards people experiencing poverty suggest higher income groups benefit proportionally more than lower income groups. People on low incomes benefit more from savings bonuses or matched savings (OECD, 2007).

Lower income groups are less inclined to invest in saving plans that have a specific purpose (e.g. higher education) because they fear forfeiting their limited assets from more flexible or various purposes (Dynarski, 2004). These are the most exclusive schemes, attracting investments from the top earners (OECD, 2007). Automatic transfer systems, such as the one operated in Singapore, may provide a solution. Here unused balances are automatically rolled over from education plans via housing to pension assets (Loke and Sherraden, 2009). Unfortunately, evidence of how such design features change saving behaviour and attitudes of people on low incomes is still lacking. Altman (2002) also suggests saving should be encouraged in a variety of coherent forms from short-term vehicles towards long-term investments such as pensions and education.

A limitation of the OECD evidence arises from the lack of longitudinal data. It is not possible to observe the dynamic saving patterns over the life-course. Individuals with low incomes and saving plans at one point in time may only temporarily be in poverty and can draw from these savings, while those permanently or repeatedly in poverty may not have subscribed to government saving plans and are therefore not included in the data.

5.2.2 Individual saving schemes

United Kingdom

In the late 1990s existing government saving schemes were discontinued (Tax Exempt Special Savings Accounts, Personal Equity Plans) and two new universal schemes were introduced; Individual Savings Accounts (ISAs, 1999) and Child Trust Funds (CTFs, 2005-2011). Administrative data supports the evidence in the OECD report that households on low incomes are less likely to hold an ISA, invest lower sums and opt for a savings account rather than stocks and shares (HMRC, 2013c).

Qualitative research on ISAs suggests that saving habits are developed during childhood and influenced by partners/spouses. For low income households affordability was the main barrier to saving into an ISA (Hall *et al.,* 2007).

The Savings Gateway, was piloted in the UK, but was not implemented. The Saving Gateway 1 (SG1) pilot took place in five English areas with a sample of about 1,500 individuals entitled to receive benefits (Collard and Mckay, 2006; Kempson *et al.,* 2005). Participants could save a maximum of £25 monthly up to £375 over a period of 18 months. Pound for pound match funding was provided at maturity for the highest balance attained during the saving period. No interest was paid. SG1 showed increased saving rates among the treatment group, but lacked methodological soundness to make any general inferences on saving behaviour (self-selection bias, no control group).

The Saving Gateway 2 (SG2) pilot was conducted with more methodological rigour (randomised trial with control group) in six English regions (Harvey *et al.,* 2007). The sample was recruited from individuals earning up to £25,000 or families earning less than £50,000. Based on SG1 different saving rules were implemented to test the effect of these design features. Saving incentives varied in match funding (20p/50p/£1), monthly contribution limit (£25/50/125) and maximum matching (£160/200/250/400). Match funding ended after 18 months and funds could be withdrawn anytime. Again, no interest was paid.

The opportunity to save into an SG2 account was taken up when it was offered, particularly among low income groups. SG2 increased savings in the treatment group and the majority of participants achieved the maximum rate. Qualitative analysis shows the initiative encouraged some new savings and provided access to formal saving for the first time for some individuals. The analysis also showed that higher income earners moved existing savings into the match funded accounts, and the lower income group cut expenditure on eating out and used this money to save instead. Match funding only increased savings of the treatment group at the 50p level or above. Overall, SG2 was successful in channelling existing income into savings accounts rather than being consumed, however, participation in the scheme did not increase low income household's overall wealth to a level that was statistically significant compared to the control group.

Child Development Accounts

Child Development Accounts (CDAs) are saving schemes for children. They aim to provide an endowment when a child reaches adolescence and also to encourage a saving habit from an early age. CDAs have been implemented in only a few countries, but have gained popularity among policy-makers worldwide. Loke and Sherraden (2009) compared CDA policies implemented in Singapore, Korea, Canada and the UK. All of the analysed schemes, with one exception, offer progressive elements for low income households. Some assets are restricted to education expenses, a housing deposit or start-up of a business. Generally, there is a huge lack of continuous, adequate and reliable data (Adams *et al.,* 2010); therefore most studies are based on one-time data collections. Most of the CDA schemes reviewed did not make a statistically significant contribution towards alleviating poverty or increase in the asset holdings of children living in low income households.[7]

Child Trust Funds (UK)

Child Trust Funds (CTF) were introduced in 2005 (for all children born in 2003 or later). Although CTFs still exist, the scheme was closed to new entrants in 2011. The government distributed vouchers of £250 to every new born and an additional £250 for low income households in receipt of Child Tax Credit. All children receive an additional £250 at the age of seven. Parents can contribute up to £1,200 annually and returns are tax free. If parents had not opened an account within 12 months of receiving the voucher, the government opened a default account for them (Revenue Allocated Account). Withdrawals are allowed when the child reaches 18 years of age and there are no restrictions on spending. The primary goal of CTFs was not – though often referred to – poverty alleviation. CTFs are mainly aimed at changing the saving culture of low income households and alter their attitudes towards the future (Finlayson, 2008).

All evaluations show despite having means-tested allowances targeted at families in poverty, low income households were less likely to open an account for their children, have contributed less towards a CTF and have lower overall deposits (HMRC, 2013a; HMRC, 2013b). The most comprehensive mixed-methods evaluation from 2005-10 confirms this trend (Kempson *et al.,* 2006; Kempson *et al.,* 2011). Families on low incomes, with only a single or no earner, living in social housing, without other savings and those who received the additional government bonus – in other words income and asset poor households – are less likely to open an account and contribute towards the initial endowment. Notwithstanding good intentions and a general acknowledgment that savings can help their children's development, affordability was the main reason for these families not to contribute (see also Prabhakar, 2007). Lack of appropriate information that is not overwhelming was another reason for not opening an account (Kempson *et al.,* 2011; Prabhakar, 2007). High income earners reshuffle assets for their children into CTFs without generating any new savings. Households at risk of poverty tend to invest in other savings accounts that can be accessed in times of emergency. Overall, very modest sums have been saved in CTFs with a median of £300 after 5 years (Kempson *et al.,* 2011). Further impact analysis cannot confirm any significant increase in saving levels following the introduction of the CTF scheme, and we will not know the impact of CTFs for children living in poor households for several years when their accounts mature.

Qualitative attitudinal evidence shows minor differences between poorer and wealthier young people and parents. Parents are generally concerned that their children would misuse the CTF savings (Prabhakar, 2007). This is not confirmed by studies with non-poor young adults who hypothetically prioritise education and housing. Young people from a disadvantaged background emphasise hedging against future needs or disasters (Gregory and Drakeford, 2006).

Prize-linked savings
Prize-linked or lottery-linked savings (PLSs) are popular in numerous countries (Guillén and Tschoegl, 2002, Kearney *et al.*, 2011) (e.g. UK Premium Bonds, USA Save to Win / Super Savings, South Africa Million-a-Month Account (MaMA)). PLSs randomly distribute larger prizes among account holders. Some PLSs offer no interest rates and provide only cash prizes, while others offer a smaller interest rate than normal savings account and use the interest rate cut for cash prices. Account holders have to invest a certain amount (e.g. £1 UK Premium Bonds). Though PLSs have been around for centuries little research has studied savings behaviour. Evidence suggests people on lower incomes and with (almost) no savings are inclined to make deposits into a PLS instead of a normal savings account and keep the deposit in the long-term. Accounts are mostly used as flexible savings for emergencies with the chance to win large amounts (Tufano, 2008; Tufano *et al.*, 2011). Financial inclusion through PLS has been particularly successful in countries with extremely low formal banking among low income and black households (MaMA). Analysis of the UK Premium Bonds suggests Premium Bonds are relatively popular among low income households given their generally lower savings rates (Kearney *et al.,* 2011). Evaluation of this analysis, however, suggest it is those on or above average incomes who are attracted by PLSs. PLSs provide a route to financial inclusion and holding modest assets for people experiencing poverty and with little or no experience of banking and saving. However, the real savings effect on households on low incomes requires further scrutiny. PLSs also raise ethical concerns around encouraging gambling. Similar moral questions have been raised when life insurances (Zelizer, 1979) and derivatives (MacKenzie and Millo, 2003) were introduced in the late 19th century and 1970s, respectively. These studies draw attention to the subjective nature of ethical considerations of market systems over time.

SEED/ADD (US, pilots)

Several Individual Development Account (IDA) and CDA pilot programmes have been launched in the US under the Saving for Education, Entrepreneurship, and Downpayment (SEED) initiative (often as randomised-controlled trials) and the American Dream Policy Demonstration (ADD). All schemes had means-tested elements such as higher match funding or initial endowment for households on low incomes. Deposits in IDA accounts are matched to encourage saving, but also matched on withdrawals to 'help people acquire capital for socially approved purposes', i.e. home purchase, post-secondary education, starting a small business (Sherraden, 2005, p43). Most of the trials involved heavy social, educational and administrative support from community-based organisations which proved to have a stronger positive effect than the saving incentive itself (Rist and Humphrey, 2010). However, providing this service made the IDA schemes costly (Sherraden, 2005, p. 162); Shreiner's (2004) cost benefit analysis of one scheme shows that each dollar of asset accumulation had a cost of around $1.80, on top of the matched funding. This research suggested financial counselling would be a good role for not-for-profit community based schemes, although, as found in the UK (Hartree and Collard, 2014) this is costly and may be difficult to sustain financially.

Evaluation of the SEED initiative shows that access to the schemes significantly increased account holding, savings and assets. However, compared to the control groups there was little evidence that parents on low incomes were reached, in spite of heavy targeting. Parents on higher incomes were more likely to open an account and deposit additional contributions (Nam *et al.,* 2013; Okech, 2011; Okech *et al.,* 2011). Moreover, people on low incomes did not refuse an initial deposit, but the scheme did not change their saving behaviour compared to a similar control group. In summary, this suggests that wealthier individuals save more and that means-tested matching has no effect on saving behaviour.

The ADD schemes are targeted at the 'working poor' (on average at 116 per cent of the US poverty line; 88 per cent were below 200 per cent of the poverty line) offering match funding and financial education. Half of participants received some form of public assistance. The evaluations focussed only on participants in the schemes, there were no control groups and participants were self-recruited. The evaluation reported in Sherraden (2005) concluded that people experiencing poverty did save and build assets, but it was not possible to determine whether they saved more than they would have without an IDA. Using direct deposits was associated with increased likelihood of saving, although not an increase in the amount of savings. Participants with debt were less likely to save reinforcing 'the common-sense idea that debt inhibits saving' (p. 205). Despite the availability of matched withdrawals, 67 per cent of participants made unmatched withdrawals. This outcome was 'unexpected and highlights the difficulty of asset accumulation among poor people even in supportive institutional contexts such as IDAs, and the importance of allowing poor savers to withdraw from their IDAs as they see fit' (p. 192). Setting deadlines for matched withdrawals or withdrawing schemes from low savers were deemed counterproductive to improving the long-term wellbeing of poor people.

5.2.3 Credit Unions: Linking savings accounts to loan repayments

Kempson and Paxton (2002) show a key barrier to regular saving among low income households is borrowing. Hartfree and Collard's (2014) review of evidence shows that active borrowing commitments of poor households are less than those of non-poor households. Borrowing is also more common in households with moderate savings (£500-£3,000) compared to those with higher savings or no savings at all (who are also likely to have lower incomes). However, based on a non-secured debt repayment-to-income ratio among those who do borrow, lower income households have higher levels of borrowing. This is important from a poverty alleviation perspective where it is not necessarily borrowing that is the problem, but the source of the credit. Two and a half percent of all households – most likely to be those in low income households - use high-cost credit (e.g. home credit, payday loans) (BIS, 2013; see also Lusardi *et al.*, 2011). People on low-incomes may use credit cards or overdraft facilities in order to protect their savings. Regular credit payments, often attracting higher charges or levels of interest among low-income borrowers, reduces people's ability to save and they remain in a vicious cycle of debt (Kempson and Paxton, 2002).

Credit Unions (CUs) aim to address this through linking credit and loans with savings (Hartfree and Collard, 2014). Moving the emphasis from borrowing to saving was seen as a significant shift to move people out of poverty in the long term (Jones, 2008). Linking loan repayment to savings has been most successful where CUs use ‘soft compulsion’, whereby people are encouraged to include an additional amount for saving when they repay a loan. Another successful technique is where savings are linked to specific goals or events such as Christmas (Jones, 2008; Kempson and Paxton, 2002). Bank of England data (Muqtadir, 2013) shows considerable regional variation of CU membership. In England 1.5 per cent of the adult population are members compared to 2.1 per cent in Wales, 6.8 per cent in Scotland and 36.9 per cent in Northern Ireland. The success of CUs in Northern Ireland is in part associated with them being perceived as being by ‘the community for the community’ in contrast to the rest of the UK where they are perceived as ‘the poor man’s bank’ (Goth *et al.*, 2006). Overall, CUs have a strong positive effect on financial inclusion: by 2012 membership of CUs had risen to 1.04m, with 340,000 loans outstanding at the value of £606m. Seventeen per cent of CU members do not have a bank account and this rises to 29 per cent among low income households (Collard and Smith, 2006).

Despite their long history in the UK, there is no longitudinal analysis of the people who use CUs. In particular, we do not know whether the same low-income people continue to engage in a cycle of borrowing and paying back, albeit at lower rates and preceding some borrowing with saving, or whether people’s behaviour does actually change and they save rather than borrow. There has been no analysis of how participation in a CU helps people out of poverty. Moreover, randomised trials have not tested design effects or compared asset accumulation and debt reduction of CU members with other financial service users.

5.2.4 Conclusion

The evidence shows holding savings is associated with lower poverty rates, and provides a nest egg in cases of emergency. Building an asset base through savings are encouraged via tax exemptions, saving bonuses or other administrative support. Despite intensive financial and administrative public support there is little evidence to support the effectiveness of these saving schemes in encouraging people experiencing poverty to start or build-up savings.

All evidence suggests that universal tax-preferred saving schemes tend to have strong regressive redistributive effects without increasing overall saving or changing saving behaviour and attitudes of people on low incomes. Targeted schemes point in the same direction. Beyond the means-tested initial endowments or saving bonuses households in poverty struggle to contribute into the saving schemes designed for them.

For savings schemes (and pensions schemes discussed below) generally, soft compulsion, matched savings (from government or employers), government backing and benefit guarantees are key policies to increase coverage and reduce inequalities. Tax incentives are of little benefit to people experiencing poverty. Indeed, there may be a paradox between policies where lifting people out of paying income tax, which targets income maintenance for low income groups, moves them further away from tax based asset incentives.

One of the main reasons for lacking contributions is affordability, despite a high acknowledgment and willingness to pay more into saving accounts. This reoccurring theme suggests that adequate and sustainable income streams are key to increase savings. The focus of poverty alleviation should be on securing employment and increasing the disposable income of households at risk of poverty in order for them to be able to save.

Many experimental studies are accompanied by intensive support such as providing information, counselling and training. This suggests investing in public services, intensive social work and community support alongside asset-building programmes could be a more effective way of helping households in poverty. Linking debt reduction to a savings habit, can be an effective approach to breaking the cycle of debt among low income households and increase their financial inclusion. However, evidence in this area is still weak and requires further investigation to assess the real savings effect of CUs for low income households.

5.3 Pensions

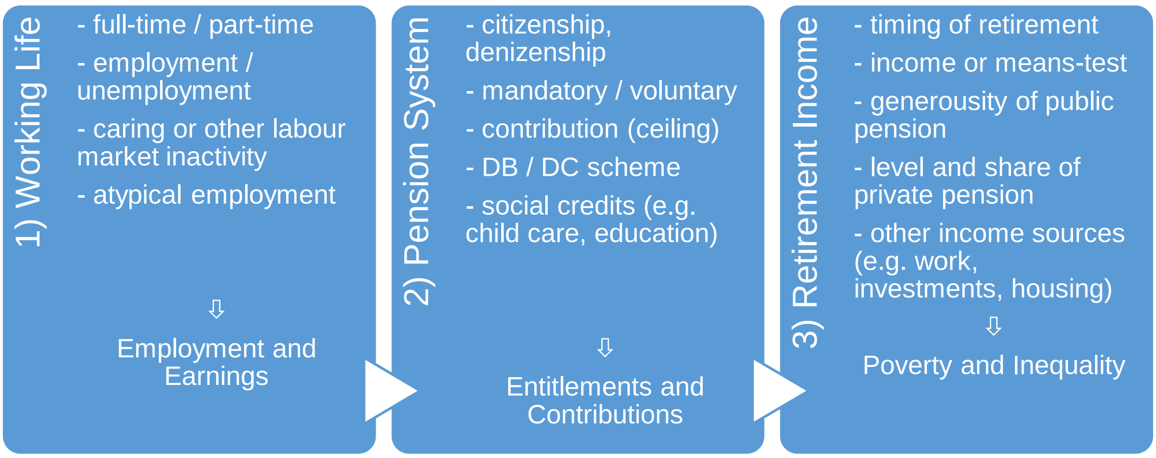
Over the last two decades several pension reforms across the OECD indicate a shift from public schemes towards private pensions and market mechanisms (Béland and Gran, 2008; Ebbinghaus, 2011; Seeleib-Kaiser, 2008). Private pensions mostly include an increase of funded pension savings, but not each privatisation implies an increased asset accumulation (Köppe, 2014). Evidence is mostly drawn from comparative studies to assess alternative pension design effects and how they may relate to the UK context.

5.3.1 Pension schemes and aims

There are three main pension pillars (Ebbinghaus and Neugschwender, 2011): Public mandatory pension schemes which are mostly financed through payroll tax on a pay-as-you-go (PAYG) basis. Occupational pensions that are run by employers or jointly with social partners. Private pensions which are funded by individual contributions and provided by financial companies such as insurances and banks. Most occupational and private pensions are not explicitly aimed at poverty alleviation but at income maintenance in old age.

Poverty and inequality in retirement income are shaped by labour market inequalities and the means to acquire pension entitlements (Figure 4). Mandatory schemes mean people who are working-poor save for retirement. Voluntary schemes leave some individuals, irrespective of income levels, with no pension rights in old age.

Figure 4: Inequalities working life, pensions systems, and retirement income.



Source: based on Ebbinghaus and Neugschwender (2011)

The poverty paradox shows that targeted welfare programmes (means-testing, needs-testing, obligations and restrictions) are associated with higher poverty rates and more stigmatisation compared to universal and basic protection welfare programmes (Korpi and Palme, 1998; Rothstein, 1998). Both private and public pensions can, depending on the design, increase or lower pension poverty and inequality (Ståhlberg, 1990).

The review will first evaluate simulation studies to assess the impact of the most recent pension reforms on future old age poverty. Second, private pension coverage and contributions among current low income earners are analysed. Finally, contemporary old age poverty is considered through analyses of cohorts who have benefited from generous public and occupational pension schemes.

5.3.2 Simulating future pension income from private sources

Most pension poverty simulations focus on public schemes, rather than complex private schemes (Palme, 1990). To our knowledge only two simulation studies take into account private pension assets. First, analysis by the OECD (2013) estimates public and private replacement rates in the future based on the rules of 2012. The analysis shows that private pensions can make a substantial contribution to the gross replacement rate but this would not be sufficient to pull people out of poverty in retirement. The simulation predicts that low income earners (50 per cent mean income) remain below the poverty line in retirement (also 50 per cent mean income). Only in Denmark and Israel with strong basic pensions and mandatory private pensions are low income earners lifted above the poverty line. In the UK the state pension of 2012 replaces 55 per cent of the income of future low income earners. Voluntary private pension potentially increases the replacement rate of low income earners to 90 per cent, leaving a gap of 10 per cent to lift them out of poverty, i.e. receiving a pension worth 50 per cent of average income. These aggregate projections, suggest private pensions are not a viable option for reducing poverty among low income earners, but they can be a solution for average workers on top of public basic protection.

The most reliable and comprehensive simulations on the effects of private pension schemes on poverty rates were estimated by Meyer *et al. (*2007). They simulated public and private replacement rates for six European countries (UK, Switzerland, Netherlands, Germany, Italy, Poland) based on the legislation of 2003 with a focus on poverty (40 per cent of mean earnings). There are four key findings:

- Although mandatory private pension schemes lift some individuals out of poverty, overall pension systems (private and public) do not perform well in lifting low income individuals out of poverty (Bridgen and Meyer, 2009). Only pension schemes that combine redistributive public pensions with mandatory private occupational schemes like the Dutch and Swiss pension systems come relatively close to alleviating poverty among low income earners in retirement (Meyer and Bridgen, 2008; Meyer *et al.,* 2007).
- Earnings-related public schemes and voluntary private schemes increase inequality among pensioners. Women, self-employed and employees in small companies remain below the poverty line (Bridgen and Meyer, 2008).
- Sufficient income in old age is often a result of luck than of rational decisions, especially in the UK where access to a generous occupational scheme lifts people out of poverty but the lack thereof leaves most people only with the state pension (Meyer and Bridgen, 2008). Differences evolve through chances

in the labour market and arbitrary employment decisions not related directly to pensions. Some employers also discriminate between status groups (e.g. most UK universities).

- The new UK wide National Employment Savings Trust (NEST) will increase the retirement incomes of uninsured employees in small companies (DWP, 2006a,b), but estimations suggest that inequalities between companies remain substantial (Meyer and Bridgen, 2008). Employees on low incomes are especially at risk of receiving a total pension below the poverty line, despite additional savings and sacrifices for retirement.

5.3.3 Coverage and contribution rates

Analysis of private pension coverage and savings rates are less prone to be biased by the kinds of assumptions used in simulation methods. Evaluation focuses on unequal access and enrolment to voluntary schemes and how enrolment rates can be increased by defaults, incentives and financial literacy. When used in conjunction with savings rates, coverage data does allow assessment of future poverty risks. Behavioural economics has also been highly influential in this area and has shaped recent pension reforms in Britain (e.g. NEST).

The UK private pension system has been characterised by unequal coverage, where higher income earners tend to benefit more from tax breaks, higher contributions and generous occupational pension schemes (Forth and Stokes, 2008; Hughes and Sinfield, 2004; Oesch, 2008). People who are relying entirely on the low public provision face a high risk of poverty in old age (Seeleib-Kaiser *et al.,* 2012).

Low income earners are worried about affordability of occupational pensions and would opt out if they are perceived as unaffordable, especially those with large debts and in receipt of working credits and/or benefits (Gray *et al.,* 2008). Lack of information and trust deter low income households from enrolling in occupational pensions (Antolin and Whitehouse, 2009; Webb *et al.,* 2008). Non-participation among low income earners could be deemed rational. Most pension contributions are tax-exempt and high income earners benefit more from these tax incentives due to their higher tax rate (Howard, 1997; Hughes and Sinfield, 2004). In countries with public basic pensions the replacement rates are much higher for low income earners. In addition, where pension income is included in means-tested public pensions this provides a disincentive to having an additional private pension.

Auto-enrolment schemes, where employees become members by default but have the option to leave the scheme, have significantly increased private pension coverage, in particular among low income employees (Webb *et al.,* 2008). Without automatic enrolment low income employees are significantly less likely to participate in pension plans (Antolin and Whitehouse, 2009; Ebbinghaus and Neugschwender, 2011; Munnell *et al.,* 2001). The staged introduction of auto-enrolment in the UK (NEST) began in 2012 with the largest employers and has increased coverage by about 1.9 million. Participation rates among low income households remains low, but might change when NEST matures and smaller companies are included (DWP, 2013a).[8] The German *Reister* pension combines tax incentives with basic allowances to encourage take-up of pensions among low income households.

Evaluation of the scheme shows that these targeted allowances only have a limited effect. On the one hand administrative data show proportionally, and contrary to US or UK voluntary schemes, more low income workers sign up for a *Riester* pension (Stolz and Rieckhoff, 2006). On the other survey data show relatively more middle income households hold a *Riester* pension than low income earners (Rieckhoff, 2011; Wilke, 2012).

Private pension coverage alone is not sufficient to protect individuals from falling into poverty. Voluntary contribution rates vary considerably by socio-demographic characteristics, employer and country (Antolin and Whitehouse, 2009; Munnell *et al.,* 2001). Lower income earners tend to invest lower rates or only minimum rates which might be insufficient to pull their retirement income above the poverty line. In the UK there is also a considerable gender gap in private pension entitlements (Warren *et al.,* 2001). Other factors that positively increase saving rates are older age, presence of employer matching, previous savings and a long-term individual investment horizon. Thaler and Benartzi (2004) devised a Save More Tomorrow (SMarT) savings plan, in the US, to increase contribution rate in voluntary pension schemes. In various experimental settings, employees were recruited for a pension plan where their contribution rate was increased with every pay rise up to the maximum (16 per cent of gross earnings). Participants could reverse the increase at any time. This scheme increased contribution rates at the bottom of the income scale, resulting in higher projected income replacement rates, especially for younger employees. On average the contribution rate of plan participants was between 1 and 6 per cent higher than for non-participants depending on the experimental setting, especially among those who had not previously saved into a pension. In the UK many occupational pension schemes offer Additional Voluntary Contributions (AVCs). AVCs are geared towards top earners to maintain their living standards, instead of encouraging low income earners to save more.

Antolin and Whitehouse (2009) identify five policy options to increase pension coverage: mandatory schemes, soft compulsion (e.g. auto-enrolment), widening access, tax incentives and financial education. Not all of these recommendations have an effect on poverty, as some are aimed at income maintenance. Mandatory schemes may decrease living standards and welfare of low income households during working life and higher contributions may reduce work incentives and make households in poverty worse off both during working life and in retirement. Tax incentives have some effect in increasing coverage but can have the adverse effect of shifting investments into subsidised schemes without increasing the savings rate, especially among those who would need it (Corneo *et al.,* 2009). Financial education has only marginal effects on increasing coverage. Being able to deal independently with savings, assets and debt has positive cross cutting effects beyond pension savings, but it will not solve the problem of low incomes and low contributions into public and private pension schemes. The evidence shows soft compulsion and employer contributions are more effective measures.

5.3.4 Retirement Income

Ebbinghaus and Neugschwender's (2011) descriptive comparative analysis looked at severe poverty (40 per cent of median income), poverty (50 per cent) and at risk of poverty (60 per cent) rates over time (1988-92, 1998-2002). They show that in comparison to nine other European countries studied, British pensioners have by far the highest poverty rate. Severe income poverty in old age is highly related to poverty during working life. In all countries, except the UK, old age poverty is lower than for the working population which suggest that most pension systems reduce poverty (EU-SILC 2007). More recent EU-SILC and national analysis suggests that pensioner poverty rates dropped below the working age poverty in Britain (EU-SILC in 2012, FRS in mid 2000s at http://data.jrf.org.uk/data/long-term-view-poverty; see also endnote 9 for limitations of EU-SILC). Britain's basic state pension however is too low to lift people out of poverty, Severe poverty is reduced by public pensions, in particular sufficient basic or minimum income pensions. Low poverty rates are related to pension systems with a strong earnings-related element. Overall, the Dutch pension system has the lowest poverty rate; the public basic pension is relatively generous and is topped-up by mandatory occupational benefits.

Korpi and Palme (1998) also show that encompassing pension systems with robust public basic pensions in conjunction with generous public earnings-related pensions have the lowest poverty rates. Public pension systems targeted at people in poverty, i.e. low basic pensions (e.g. UK, USA) and means-tested benefits (e.g. UK, Australia), have the highest poverty rates. Marier and Skinner (2008) argue that the relative low poverty rates in Canada, the Netherlands and Switzerland are a result of public basic pension in combination with mandatory private pensions. Although they conclude that a gender gap in retirement is evident in both public and private pensions systems.

Recent reforms to a more generous new state pension and ceasing of means-tested pension benefits might decrease poverty rates among pensioners in the UK. Those relying entirely on the state pension are still likely to remain in poverty as the suggested £148.40 per week for a single pensioner in 2016 is still below the 60 per cent median poverty line of £172 per week for a single person in 2011/2012 (DWP, 2013b, p. 46). It also does not have an effective income maintenance system either through public or private pensions. Occupational coverage is too low and dispersed to provide an income for the majority of the population.

Ebbinghaus and Neugschwender (2011) show the poverty risk in the UK declined from 44 per cent at the beginning of the 1990s to 34 per cent in 2000. Although over time they find no clear poverty trends; in half of the countries studied poverty rates declined, whilst in the other half they increased. Despite a decline in old age poverty, British pensioners still have one of the highest poverty rates in Europe (17.3 % in 2012, 9th highest out of 31 countries, EU-SILC).[9] Recent national data supports the trend of declining poverty rates found in the UK (MacInnes *et al.,* 2013), although the reason for this is not clear. While increased inequality seems to be related to increased reliance on private pensions, the mixed results with regard to poverty could not be linked to privatisation and shift towards asset-based welfare.

Van Vliet *et al.*'s *(*2012) multivariate analysis found none of the recent reforms in private pensions had an effect on poverty over time. This is perhaps to be expected given the analysis was over a very short time frame (1995-2007). Protection of previous entitlements and asset accumulation might not have an effect on old age poverty until 2037, when most of the new private schemes have matured. The authors also stress they could not control for all institutional variations (PAYG/funded pensions, DC/DB) and differences in tax treatment of public and private pension income. Köppe (2014) warns about inconsistencies in public and private pension data for cross country comparisons. Public pension data record received pensions, while private pension data record contributions. It is highly problematic to argue that these conceptually different social expenditure types have the same effect on poverty over time.

5.3.5 Conclusion

The evidence on private pensions suggests they can supplement basic pensions and achieve income maintenance, but not poverty reduction. Sufficient public basic pensions above the poverty line without means-testing reduces pensioner poverty most effectively. Low income groups are disproportionally deprived in private pension systems and voluntary and occupational schemes increase these inequalities. The design and regulation of private pensions are key to avoid amplifying earlier inequalities in the labour market. Universal mandatory private schemes reduce inequalities significantly, but may be difficult to implement. Unequal access to occupational pension schemes is an area that affects low income earners with interrupted career paths. Also reducing discrimination between employees based at the same place of employment would be a way to achieve higher pension benefits for low income earners.

The limitations of multivariate analysis suggest that descriptive analyses seem more robust and these have shown that private pensions increase inequality and poverty among the elderly unless they are mandatory and backed by generous public basic pensions.

5.4 Housing wealth

Housing wealth operates as a different form of asset. As housing provides shelter whether owned or rented, the asset accumulation linked to home ownership could be perceived as secondary. Moreover, housing assets are relatively difficult to change into money and are constrained by geographic availability. Home owning, through paying off a mortgage, is a form of enforced saving (Pintcoff, 2003) which matures as a capital asset once the home is owned-outright. Research from Europe suggests that if the imputed rent costs of home owners were taken into consideration in household income, income inequality would be reduced, and it is likely that poverty rates would fall (Mullan *et al.,* 2009; Figari *et al.,* 2012). In the UK if incomes were measured including an imputed rental income for home owners, then this would dramatically change our impression of pensioner poverty with one such estimation reducing pensioner poverty by three-quarters (see Tunstall *et al.,* 2013, p. 19).[10] Sierminska's (2012) analysis of international data also show that those who are asset poor (financial assets are insufficient to cover 6 months at 60 percent of median income) in the bottom income quartile range between 59 per cent in Germany, 68 per cent in the US and 75 per cent in Italy. Including home equity (at a rate of 3 per cent of potential available equity) would reduce asset poverty levels down to 17 per cent, 13 per cent and 36 per cent respectively. Analysis of 11 European nations found that home owners were less likely to perceive themselves as being poor even when their incomes meant they were living in poverty (Watson and Webb, 2009).[11]

As everyone needs somewhere to live, owning a house may therefore present itself as one of the most obvious assets in asset-based welfare. To this end government schemes offering discounted home purchase include selling to sitting tenants of social housing, mortgage tax relief or deposit saving schemes have been implemented in many countries. Evaluation of international evidence however provides conflicting evidence of an asset effect and little evidence demonstrates the benefits for households in poverty.

5.4.1 Housing and social capital

It has been suggested homeownership gives people control over their lives and can help alleviate poverty. Homeownership has for some time been associated with a range of positive outcomes including wealth, health, self-esteem and improved neighbourhoods (see Kleinhans and Elsinga, 2010). Home owners are deemed to be better citizens; being more engaged in society (Dipasqual and Glaeser, 1999) or more likely to enhance opportunities through private education or investing in stocks and shares (Forrest and Murie, 1991). There is little evidence to support these theories.

Regression analysis of US and German surveys of low income households (DiPasquale and Glaeser, 1999) and households below 150 per cent of the federal poverty level who had used IDA matched funds to subsidise house purchase (Englehart *et al.*, 2010), shows home owners were more likely to invest in social capital (such as political or neighbourhood involvement) than renters. However, the difference between owners and renters decreased substantially the longer people lived in a community. Over a period of 1-4 years, new home owners displayed no greater level of social capital than renters. DiPasquale and Glaeser (1999) highlight that a large proportion of the effect of homeownership occurs because homeowners are different in many ways from renters.

Research from the Netherlands on tenants who bought their social rented home, found they had no greater sense of empowerment (perceived control and self-esteem) than renters (Kleinhans and Elsinga, 2010). Perceived sense of control preceded buying a home rather than arising from it, and owners had lower levels of self-esteem than tenants. Their analysis shows that empowerment rises with income levels.

It is acknowledged that empowerment, self-esteem and social capital are acquired and increased over long periods of time and all studies have followed individuals for a limited period (max 4 years). More longitudinal observations are required to falsify the hypothesis that homeownership increases social capital completely, though the present studies have already challenged this hypothesis substantially.

5.4.2 The sale of social housing

One of the biggest drives towards asset-based welfare in the UK was the right given to council (and later housing association) tenants to buy their home in the early 1980s. Around 30 per cent of tenants have exercised their right to buy (RTB) resulting in 2.8 million homes across the UK being sold (Jones and Murie, 2006). Analysis of this initiative has tended to focus on the implications for the (social) housing stock and changes to the British housing market, rather than what happened to tenants who bought and the impact this has had on their finances or attitude towards financial management.

Evaluation of surveys of tenants who bought their homes under the RTB schemes, as well as those who bought a house before RTB was introduced,[12] shows that initially purchasers were generally older owners who had lived in their home for several years, were not poor at the point of purchase, or had at least one person in employment (Forrest and Murie, 1991; Hamnett *et al.,* 1991; MacNee, 1993; McGreal et al, 2004). Those who did not buy were youngest and oldest households, unemployed, lone-parents and those in the lowest paid and unskilled jobs (MacNee, 1993). Over time the characteristics of RTB purchasers shifted slightly towards younger households, people on low incomes and benefit claimants, including pensioners (Jones and Murrie, 2006). Jones (2003) analysis shows that 38 per cent of purchasers had incomes below the national average and 7 per cent were on income support or in receipt of housing benefit.

International evidence also suggests that it is those who are better off who generally benefit from purchasing state housing. Rohe and Stegman's (1992) analysis of the American Public Housing Home Ownership demonstration concluded that only higher income residents participated. In Hungary 40 per cent of the investment value of state housing sales went to households in the top income quartile, and 17 per cent to the bottom. In Slovenia tenants in the highest market value properties benefitted from state house sales, whilst residents in the poorest quality properties missed out. In central and eastern Europe much public sector housing is occupied by higher and middle income groups, with the more affluent tenants taking up opportunities for private ownership. In China senior employees in the state sector benefitted most from state housing sell off (Jones and Murie, 2006).

The majority of purchasers in England and Scotland already had formal savings, and older buyers (65 or older) mainly used savings – rather than borrowing – to purchase their home (Forrest and Murie, 1991; MacNee, 1993). This supports other evidence that it is those who already have assets who benefit from asset-based welfare schemes. MacNee (1993) reports that 16 per cent had previously been owners before becoming tenants and around one-quarter had expected to become owners irrespective of RTB.

RTB could provide the gateway for a deposit and a move ‘up-market’ through re-sale, but most had not purchased their home as a stepping stone to further advance their wealth (McGreal *et al*, 2004). In one survey half of respondents had not moved since they purchased 15-20 years earlier (Forrest and Murie, 1991), in another 80 per cent bought because they expected to remain in the same home (MacNee, 1993). In MacNee’s (1993) survey 19 per cent initially saw RTB as an opportunity for social mobility, although following purchase 30 per cent said they would like to move, mostly among younger households.

Given that most owners, including those who bought under RTB do not move very often, this would question the effectiveness of increasing home ownership as a means of continued social mobility. Analysis of those who did sell their homes shows this was more likely to be among younger people, non-poor households and those in professional or managerial occupations (Hamnett *et al.,* 1991; Jones and Murie, 2006). The ‘upwardly mobile right to buy purchaser has not become able to trade-up simply because of the right to buy but also because of occupational and income circumstances’ (Jones and Murie, 2006, p.183). Although information is limited ‘all studies report strong capital gains on resale’; quarter of a million pounds or more in inner London, 275 per cent of purchase price in Glasgow (Jones and Murie, 2006, p.182).

An important factor in the uneven rewards following home ownership, is due to the broader housing market (rather than individual behaviour) and the growing regional differences in property values (Forrest and Murie, 1991). Rising house prices also acted as a deterrent from buying rather than incentivising people to purchase an appreciating asset. MacNee’s (1993) evaluation of tenants who had applied, but later withdrawn, found a key reason was where a tenant’s home had been valued at a higher price than neighbours who had already bought, particularly as the market was deemed to be stagnant.

Another means of benefitting from RTB purchase is through rental income where owners have let their property. Jones (2003) analysis of former RTB properties now let by individuals in the private rental sector shows this ranges from 23 per cent in Inner London to 3 per cent in Leeds. However, social characteristics of landlords are not given and it is not possible to state whether landlords were previously poor or their attitudes towards financial management have changed as a result of purchasing their former council home.

Evidence from NI shows that the main advantage of RTB purchase was owning a valuable investment (42 per cent) and the main disadvantage was the increased responsibility (e.g. repairs, 44 per cent). Overall, the majority of respondents said the advantages of owning outweigh the disadvantages (94 per cent, McGreal *et al.*, 2004)

Most of the evaluation of the sale of social housing has focussed on the impact this has had on the housing stock rather than on the people. None of the analysis considers the role of low cost house purchase as a poverty alleviation strategy. The evaluations do not follow those who bought and later sold their council house, but tend to focus on the houses and the role the sale of social housing plays in alleviating or exacerbating local housing needs, and the wider impact on the tenure mix.

5.4.3 Using housing wealth

The asset value of housing has been seen as a long-term savings option or net pension in national and international context for some time (Doling and Ronald, 2010; Kemeny, 1981). For people who are income poor but asset rich, equity release has been discussed as an option for poverty alleviation, especially in old age. It is estimated that over one million pensioners could be lifted out of income poverty each year 2012 to 2014 through housing equity release (Oxford Economics, 2012). Currently very few pensioner households release equity, and only one per cent of total net housing wealth of UK pensioners is released (PPI, 2009). Tunstall and colleague's *(*2013) evaluation of evidence found housing equity tends to be associated with higher incomes, and there are significant regional variations based on the performance of local housing markets. In the UK there is some evidence to show that equity release can be used to supplement incomes, nevertheless, this is more likely by those on middle incomes to enhance consumption, and 'does not play much of a role in lifting pensioners out of poverty' (Overton, 2010, p. 38; for the US see Banks *et al.,* 2010). Holmans (2008) concludes that equity release could form a type of asset-based welfare, however, this is only possible where it is feasible and affordable, and would not make a substantial long-term contribution to income.

More recently research shows that housing wealth can be and is used as a financial resource across the life-course providing finances for meeting a range of welfare needs (Lowe *et al.,* 2011). The idealised life-cycle model of accumulating wealth during working life and using these assets in old age (discussed earlier) holds less well when people face spells of unemployment, care or sabbaticals when funds are already withdrawn. These non-linear wealth accumulation patterns are observed in particular around housing wealth, where equity is withdrawn earlier in life, for instance, during family formation or other economic shocks (Parkinson *et al,* 2009).

Although not focussed on poverty alleviation per se, longitudinal analysis has drawn attention to the fact that it is people who struggle to get by or who have made cut backs in other expenditure to meet housing payments, who are up to 1.8 times more likely to tap into their housing wealth (Searle, 2011). However, people who withdraw equity are 1.4 times more likely to experience mortgage arrears or repossession

(Searle, 2012). Wilcox *et al.* (2010) also found half of mortgage rescue applicants in 2009/10 had charges other than their first mortgage, secured against their home.

5.4.4 Home ownership and poverty

Overall, gaining an asset through home ownership is no guarantee of being lifted out of poverty. In the UK home owners have accounted for 51-53 per cent of those in poverty for the last 20 years. Even after taking housing costs into consideration owners still account for 37 per cent of those in poverty and 58 per cent of those in persistent poverty (Tunstall *et al.,* 2013). The majority of home owners who have experienced poverty at some time have done so after buying their home (Burrows, 2003; Meadows and Rogger, 2005). Analysis across 11 European nations shows that whilst there is a negative relationship between home ownership and subjective poverty (home owners are less likely to *feel* in poverty), there is a positive relationship between a poverty rate (66.7 per cent of median equivalised household income) and the home ownership rate (Watson and Webb, 2009). Lacking housing assets, i.e. renting, does not necessarily mean people experience poverty. Although more evidence is needed, support via the housing system in the UK may be seen as a means of 'preventing poverty and material deprivation that would otherwise occur because of inequalities in the labour market and a relatively ungenerous social security system' (Bradshaw *et al.,* 2008; Tunstall *et al.,* 2013, p. 30). Tunstall *et al*, (2013) also suggest the cost of housing relative to income may also be relevant for poverty alleviation, rather than tenure per se. They conclude that state support for home-ownership is limited and is unlikely to have a substantial impact on poverty overall.

Other low-cost home ownership initiatives (e.g. shared ownership) have also been implemented in the UK and elsewhere. However, once people have part-bought a property this presents some challenges to further progress beyond this initial part-asset ownership. Barriers to onward mobility, include: not being able to afford to purchase a larger share of their home; being unable to increase mortgage borrowing to move to another property; and not having access to local low-cost housing markets (Wallace, 2008).

5.4.5 Conclusion

Home ownership is associated with lower material deprivation for those in poverty compared to other tenures, although it is not certain if this is due to the tenure itself or associated with long-term income. There is substantial evidence to support the idea that low-cost housing prevents poverty and material deprivation, in particular low costs experienced by older outright owners (i.e. have paid off their mortgage). Some low cost home ownership initiatives have provided a first step onto the property ladder, but the second hand market has not matured, and people can become trapped, unable to increase their asset ownership levels or sell and move on.

Several nations have implemented initiatives to encourage home ownership as a means of increasing asset accumulation. Purchasing public housing schemes for residents has helped both low and higher income tenants to gain access to the housing market, but overall social tenants in more favourable income and occupational positions benefited most from these schemes. They had the financial resources to purchase their rented home and also the means to leave the neighbourhood by selling on or renting out. Most evaluation of these schemes has concentrated on the impact on local housing markets rather than on the individuals. No evaluation has focussed on public housing purchase as a poverty alleviation mechanism.

There is no convincing evidence that homeownership changes people's attitudes or enhances the social capital of households in poverty. Although the evidence only covers a relatively short period, and attitudes may take longer to change. The evidence shows that attitudes change with increased income and more evidence is needed to separate out income and tenure effects.

Increases in housing asset wealth are mostly due to housing market performance than through changes in individual behaviour. Housing wealth provides a form of enforced saving, and can be withdrawn or released to meet spending needs. Equity release provides some support for incomes but appears to be of little help to people living in poverty, and can put lower income owners as greater risk of mortgage arrears and repossession.

5.5 Intergenerational transfers

A key element of asset wealth for poverty alleviation is that it can be transferred across generations. However, only those with asset wealth can pass it on, and only those in the richest sector of society will benefit from earlier transfers of wealth (Kohli, 1999). Karagiannaki's (2011a,b,c) analysis of financial transfers and inherited wealth in the UK shows that children with lower incomes are more likely to receive a gift or transfer of money whilst their parents are still alive, whilst parents with higher incomes are more likely to transfer their wealth or leave an inheritance. For every increase in a child's income of £10,000, the probability of receiving a transfer fell by about one per cent (from a mean sample probability of 4.1 per cent), and the amount received also fell by about £76 (relative to a sample mean of £110). For every £10,000 increase in parent's income, the probability of making a transfer increased by 3 per cent. Zissimopoulos and Smith (2010) report a similar trend in the US with children in financial need (low income, unemployed) receiving more than their wealthier siblings. The transferred sums are, however, modest. Children who are homeowners tend to receive less.

Shorthouse's (2013) analysis of UK survey data shows that households on low incomes (equivalised income of £10,000 or less) are three times more likely to receive regular financial support from parents, compared to better-off households (equivalised income of £30,000 or more), whilst parents in low income households are three times less likely to make regular financial contributions to children than parents in more affluent households. Shorthouse (2013) also conducted a survey of low income households (less than £20,000) which found similar proportions of low income families had given financial support to their adult children as for the population as a whole (42-43 per cent). Overall intergenerational transfers tend to help low income households in circumstantial (transitory) poverty (i.e. due to loss of income following unemployment or separation) rather than those in entrenched (persistent) poverty. Transfers predominantly help with day-to-day living, and whilst this aided the financial resilience of recipients, support which was sufficient to aid social mobility (e.g. training or asset investment) was much less common.

Karagiannaki's (2011b,c) analysis of inheritances shows the size of inheritances has increased overtime from £22bn in 1984 to £56bn in 2005 (in constant 2005 prices using the retail price index). House prices have played an increasingly important role in this rise, and to some extent the increase in the proportion of inheritances including housing assets, which rose from 58 per cent in 1984/5 to 65 per cent in 2005/6. Over this period there has been an increase in the number of people who receive an inheritance and this has had some impact in slightly reducing the degree of inequality. However, there are huge variations in the size of inheritance received. Analysis of the Attitudes to Inheritance Survey (AIS) showed 44 per cent of respondents had received an inheritance during their life time. In the British Household Panel Survey (BHPS) (1995-2005) around 20 per cent of respondents had received an inheritance; 40-45 per cent of which were less than £2,000 in constant 2005 prices. The probability of receiving an inheritance rises from 17 per cent in the bottom quintile (average £22,000) to 38 per cent in the top quintile (average £54,000). The top 10 per cent of the population received between 54-65 per cent of all inherited wealth (Karagiannaki, 2011b). Among households on low incomes (those in the bottom 20 per cent) inheritance made a considerable difference to average wealth compared to those who had not inherited. The difference in net wealth 1995-2005 was £34,500 for non-inheritors and £96,100 for inheritors (Karagiannaki, 2011c). Those who had inherited were considerably more likely to become home owners; inheriting households in the bottom two income quintiles are almost twice as likely to become home owners than non-inheriting households.

Unfortunately most of this analysis compares averages across the whole sample by income quintiles, rather than looking at changes in wealth holdings of the same households. The conclusions drawn from the reports are also inconclusive of the extent to which inheritance assists households on low incomes. In general these reports show that ‘the contribution of inheritance to wealth accumulation was particularly important for initially low wealth, credit-constrained, households’ (Karagiannaki, 2011c, p.15). However, inheritance does not have a great impact on existing wealth inequalities. Parents with the greatest resources are more likely to transfer money, and the few people who receive substantial sums are already wealthy, meaning intergenerational links are reinforced. Karagiannaki (2011b, p.18) concludes ‘although the magnitude of inheritance will increase, the process will be rather slow and it is unlikely that this would result in any substantial change in wealth accumulation for the majority of households’ and that policies which increase housing and financial asset accumulation are needed.

It has been suggested inheritance tax should be used to pay substantial endowments to each child reaching 18 years of age ($80,000) (Ackerman and Alstott, 1999). This idea has never been tested, but Bleakley and Ferrie (2013a, b) analyse census data of an almost universal land lottery in Georgia 1832 and follow families’ wealth over three generations. First, they find that men who won the lottery are on average richer, but the poorest winners did not benefit and remained poor. This suggests that there is a poverty trap and wealth alone cannot lift people out of poverty (Bleakley and Ferrie, 2013b). Second, their intergenerational comparison cannot find a wealth effect. Sons and grandsons of winners were not richer than the control group measured both as financial assets and human capital (Bleakley and Ferrie, 2013a). Hence, any substantial endowment in one’s lifetime has no significant effect on individuals in poverty and their offspring. Considering that almost two centuries lie between the land lottery and today, these results have to be tested against similar more recent natural experiments.

6 Risks of savings, assets and wealth as an anti-poverty strategy

Sherraden (2002) raises important considerations of the risks associated with asset-based welfare, in particular that funds individuals have saved and invested are protected. In most countries he suggests that this is best done by the use of financial markets. Although he cautions that care must be taken to protect funds in private security markets where these are not fully developed. Concluding ‘the odds against success are great’ (p. 38). This is a concern, given that Sherraden was writing before the financial crises of 2007/08. Enabling more people to engage in the financial markets opens them to the risk of economic cycles. Ward and Fondeville (2009) argue the recession of 2008 has increased the number of people at risk of poverty and exclusion. One of the biggest risks has been to meet housing costs and avoiding repossession. Intervention in the markets through low interest rates, and the provision of extended mortgage support after the financial crisis, prevented the figures for repossession from being as high as in previous recessions. Searle’s (2011, 2012) analysis shows that being in mortgage arrears or repossessed is 1.5 times more likely during periods of economic recession. Using an asset (i.e. housing wealth) may act to postpone financial problems for those who are finding it difficult to get by, however this also puts owners at greater risk of arrears or repossession. Nettleton (2001) found losing a home represents a major route to poverty.

People experiencing poverty are more likely to distrust banks and financial services presenting a barrier to financial inclusion (Kempson and Collard, 2012). The 2008 economic downturn affected confidence in the banking system not least by queues formed by people anxious to withdraw their savings (Watson, 2009). Mis-selling of products to protect assets, concerns about endowment mortgages, and problems with Personal Pensions have all come under the attention of the Financial Conduct Authority (formerly Financial Services Authority) in Britain. The concerns of poor (and non-poor) households may be well founded where ownership of assets has moved people from a position of security to one of risk, raising further questions about the protection that private markets can provide. As Rowlingson and McKay (2012) note much of the literature ignores the fact that assets can have negative effects on people in low incomes. Housing needing major repairs can become a burden, and concerns about stock market performance and private pensions can make people very anxious. One means of re-addressing this has been to increase the level of deposits protected in personal savings accounts by the Financial Services Compensation Scheme, to £85,000 in 2010. Other solutions could include implementing guaranteed returns (e.g. German *Riester* pension) or providing insurance against bankruptcy of occupational pension plans (e.g. US Pension Benefit Guaranty Corporation). All these guarantees come with a cost and reduce the advantage of capital markets compared to public income replacement schemes financed by payroll tax or on a PAYG basis.

Building savings and wealth relies on individuals choosing the right assets to provide the level of security needed based on known future income streams (Watson, 2009). Asset-based welfare does not take into account the uncertainty of income associated with insecure labour, uncertainties in housing and financial markets that are attached to global financial systems. It only works where people can afford to take the risk of losing the asset. That they have more than one asset to support and protect them in the face of uncertainty and risk of poverty. It seems unreasonable for individuals in poverty to take full responsibility for the value and performance of their assets given the wider policy and economic conditions that impact on this (Searle, 2012; Watson, 2009).

7 Conclusions

This evidence review has evaluated theories of asset accumulation and international schemes aimed at increasing savings, assets and wealth as a means of alleviating poverty. An important finding is the lack of evidence that assets, savings and wealth do more than encourage accumulation beyond that which may otherwise have occurred, and this is sustained at a level that actually helps lift people out of poverty. So, although in principle assets might possess some advantages over other instruments it should also be questioned whether assets are the best way of promoting preventive welfare (Gamble and Prabhakar, 2005).

The reviewed studies have found inconclusive evidence of an asset-effect. People on low incomes do not always change their behaviour or attitudes towards financial planning, over the short term at least, calling into question its existence (Englehart *et al.,* 2010; McKay and Kempson, 2003; Prabhakar, 2009). Having given people assets, there is no guarantee they will use them to relieve poverty. There are conflicting views of whether people should have the freedom to use assets as they chose, or whether restrictions should be placed on using assets to achieve specific goals (Prabhakar, 2009). Cause and effect may also be in play. It may be that certain attitudes need to exist to create opportunities; rather than opportunities being needed to change attitudes. Rowlingson and McKay (2012, p. 9) raise the challenging issue that ‘perhaps it is a luxury to try to change people’s heads when their stomachs are empty.’

Evidence of asset based welfare and the asset-effect is not specifically based on research of people in poverty. Much of the evidence is based on the way that American, white, middle-class families use their assets to the educational benefit of their children (see Sherraden, 2005). This evidence is therefore based on how assets help already wealthy families, and does not specifically help us understand how or if assets help people experiencing poverty. The few rigorous studies that focussed on individuals in randomised trials found little evidence of an asset effect on people experiencing poverty.

Most of the evaluation is based on aggregate analysis that looks at distributions of inequality. This shows that inequality and poverty may persist, but does not tell us if it is the same people who remain in poverty or whether asset-based welfare has helped and it is different people who are in poverty at different times. Concentrating on the extent to which schemes and initiatives reduce overall inequality levels do not help to determine how effective any one scheme is in poverty alleviation, since there are many factors that can impact on inequality.

Asset-based welfare initiatives championed by Sherraden and colleagues are built on an Americanised ideal of success through individual asset accumulation. This stems from a ‘social philosophy of property ownership upon which the United States was founded’ (Sherraden, 2005, p. 1). The principle is supported by the fact that the flagship American product – IDAs – are matched funded on withdrawals for very specific forms of consumption such as housing, education, business start-ups or health care. These schemes are in the vein of individualised responsibility; if the state provides the means to save, it is the individual’s problem if they fail to do so.

Although IDAs address this through inclusion of financial education and support mechanisms, these are acknowledged as being expensive elements of the schemes.

Asset effects have been noted in the US, where wealth and assets are needed to purchase most of what could be considered welfare necessities – shelter, education and health care. If these were provided by the state, would the asset effect diminish? A more effective system would be one that gives people the basic support they need so that these do not become the goal of saving. The current American based system, if adapted fully in the UK, would simply shift the burden of welfare provision fully from the state to the individual. This 'asset-*based* welfare' maintains the status quo, it merely transfers the responsibility. A true poverty alleviation programme, and one that would fit Sherraden's goal (2005, p.126) that we should 'use assets in a transformative manner, not for life support' would only arise from an 'asset-*building* welfare' system. This is where the core components – housing, education, employment, health care and income in old age – are commonly provided to all, so that additional asset accumulation is truly *building* on top of this not simply providing the means to feed into it. Building assets can increase personal autonomy, maintain income or provide for well-being beyond basic needs, but it fails to deliver poverty alleviation or social risk protection. People experiencing poverty will only invest in asset-based schemes, when they know it will be protected to a certain extent in situations beyond their control (e.g. unemployment and investment in human capital, see Estévez-Abe *et al.*, 2001).

A key theoretical argument in favour of asset welfare is that it works to prevent *as well as* alleviate poverty. However, assets on their own are unlikely to be sufficient for relieving poverty: they need to be used as a complement to income-replacement strategies and welfare services (Gamble and Prabhakar, 2005). There is also a need to align public policy with a savings culture. Many means-tested benefits rely on spending down savings before assistance is received, creating a poverty trap. Setting realistic asset levels for eligibility criteria is one way forward. Asset-based schemes require a coherent policy framework of incentives. For instance, under means-tested student loan schemes in the UK, there is no incentive for parents on low incomes to save for higher education (see Kane (1998) for the US). It is also suggested that providing a savings account for every citizen as early as possible, and preferably at birth, is required as a first step towards poverty alleviation (Field, 2010; Sherraden, 2002). Alleviating poverty may also require more than physical assets but a combination including social and human capital. Field (2010) shows that parental attitudes and behaviour are as important for children's life chances and poverty alleviation, as financial resources.

Finding the right mix and levels of income and assets to achieve financial security and peace of mind is difficult to achieve. This is because much depends on the nature of the state, welfare and the market (Rowlingson and McKay, 2013). As Paxton (2002) states asset-based welfare is in its infancy and there is no clear account of the aims and implications across different policy areas. Reform has been piecemeal with little overall direction. A coherent policy needs to develop an idea of what the core objectives of asset-based welfare are.

There will always be inequalities simply as a function of the life cycle. Young people need time to save and build assets, whilst older people may be able to take advantage of a life-time's saving and wealth accumulation. Inequalities of this type are not necessarily a problem, nor indicative of poverty, merely that differences exist across the life course. Any measure of asset poverty would need to take account of life cycle, as well as household, differences which may require more than one 'asset poverty' level.

Contributions for an anti-poverty strategy:

- The evidence shows that higher earners tend to benefit most from saving and asset accumulation initiatives. An anti-poverty strategy should ensure schemes are inclusive and start preferably from birth to encourage a savings habit as early as possible.
- The evidence shows match funding for savings and auto-enrolment are more effective ways of getting low income households to open savings accounts or join pension schemes than tax incentives. An anti-poverty strategy should therefore include soft compulsion and match funding.
- The complexity of current systems act as a disincentive for enrolment for people on low incomes. The economic crisis also highlighted the risks of investing money in financial and physical assets. An anti-poverty strategy should simplify products, and provide insurance or a safety net against loss arising from negative market forces.
- Savings should be encouraged in a variety of coherent forms to gradually encourage longer-term saving behaviour. An anti-poverty strategy should include a coherent framework that would start with incentives to save into emergency funds and span from education to pension saving over the life course.
- Savings and wealth are accumulated over a person's life time. Initiatives therefore need to be flexible in their purpose and moveable across the life-course to accommodate changes in family circumstances, employment or location.
- The evidence shows that setting up payment transfers directly from earnings and increasing contributions with each pay rise increases private pension coverage. An anti-poverty strategy should include direct transfers and automatically link contributions to earnings.
- The evidence shows that schemes that provided additional support and financial advice had positive effects on savings behaviour and wealth accumulation among people on low incomes. An anti- poverty strategy should ensure that asset policies are linked to financial education and social services.
- A clear policy framework is needed on what access to assets aims to achieve. This needs to be informed by evidence of the best way to alleviate poverty. Is it about redistribution, financial inclusion, citizenship, attitudinal change or some combination of all four?
- The evidence shows that some asset policies (e.g. CDAs) may be competing against other social policy initiatives (e.g. student loans). An anti-poverty strategy should ensure asset and other social policies are integrated in a comprehensive framework of incentives.
- Assets can complement income support and welfare services to provide an additional layer of protection and individual autonomy, but cannot replace them. An anti-poverty strategy should ensure that basic minimum standards

for housing, education and income across the life course are met and that assets build on top of these, not provide a substitute for them.

More research at the individual level is needed including longitudinal, intergenerational and randomised trials:

- Current research is mainly limited either to aggregate data, cross-sectional analysis, or does not include the complexity or dynamics of behaviour because this does not show up in national statistics (Kempson and Paxton, 2002).
- A measure of asset poverty needs to take account of intergenerational transfers. Those who are on the same income for a poverty measure may receive very different intergenerational support (Shorthouse, 2013). Even where currently families in poverty are benefitting from asset-based welfare the benefits will not be realised until the next or subsequent generations.
- Pilot schemes have tested some of the assumed asset effects in the US and UK, but not all were randomised and included control groups. More long term trials should be launched to shed light on the behavioural, attitudinal and net wealth effects linked to asset-based welfare, especially intangible concepts such as trust or social capital.
- As argued with measures of subjective wellbeing – it should not be assumed that because lacking something leads to low wellbeing, that getting access to it will create high wellbeing (Searle, 2008). A similar argument could be made that because lacking savings, assets or wealth is associated with poverty, that access to these particular forms of financial resource will alleviate poverty. More evidence is needed on individual experiences over the long term. Do the same people remain poor in spite of having access to assets or do assets, as the theory would have us believe, actually lift people out of poverty, and keep people out of poverty?

In summary, to-date most of the research on asset-based welfare is described in theoretical terms – how asset-based welfare has the *potential*, how people's live *could* be improved, but without the evidence to back this up. The only way of knowing if asset-based, or asset-building welfare actually alleviates poverty is to introduce schemes within a coherent policy framework that has poverty alleviation – not wealth redistribution – as its core aim. This should include as a minimum a living wage, secure housing, education and health care underpinned by state support, on top of which a stake can be provided in, and voluntary private contributions added to, savings accounts, pension schemes, and other means of financial investment.

Endnotes

[1] Income is measured before housing costs, wealth is the sum of net property wealth, physical wealth, net financial wealth and private pension wealth. Using these measures they report 20% of people are in poverty (60% median income) and have no/negative net wealth; and a further 30% of people are below median income (but not poor) and have no/negative wealth (see Table 3.3, p75).

[2] Within these reports Great Britain and the UK are used interchangeable, however, the data mainly represent GB only.

[3] These survey figures underestimate the wealthiest households. Tax returns tend to provide a more accurate picture of the wealthiest top 1 % (Rowlingson and McKay, 2012, p76).

[4] There is a known issue with households that report a very low income (eg less than £50 per week), may appear to be rich in terms of their reported expenditure or cash outlays. It is not clear whether this is measurement error in income received (for example from benefits) or natural income volatility (eg see Brewer and O'dea, 2012)

[5] Only specific tax-preferred accounts are reported. General income tax breaks for savings are excluded. For instance, income tax payers can earn €801 annually (from 2009) in Germany, and £10,000 (from 2014) in the UK tax free, regardless of the savings account scheme.

[6] These are Canadian Registered Education Savings Plans (RESPs), German Employee Saving Bonus (Arbeitnehmersparzulage), Irish Special Savings Incentive Accounts (SSIA), British Saving Gateway and Child Trust Funds (CTFs).

[7] There are also proposals to introduce more generous youth endowments or start-up grants, financed by wealth or inheritance tax (Ackerman and Alstott, 1999; Le Grand and Nissan, 2000). However, none of these proposals has ever been tested or implemented. Effects on poverty reduction are only theoretical and not empirically verified.

[8] Very low income earners (below NI threshold) are not enrolled. These employees face a high risk of old age poverty due to exclusion from the state pension and NEST.

[9] In 2012 EU-SILC data reports a substantial reduction in pensioner poverty for the UK, which is a result of alterations in statistical reporting and not associated with policy reform or social change. Inferences stated in Ebbinghaus and Neugschwender (2011) would require a thourough re-analysis wether the decline in pension poverty is a statistical artefact or a real trend.

[10] Poverty rates reported in the pension section include housing costs.

[11] This may account for why owners in the UK have lower take-up of benefits. Home owners are less likely to claim Pensions Credit, and 90 per cent of all unclaimed Council Tax benefit is due to owners. If owners in poverty were to claim all the benefits owed to them it is likely they could be lifted above the poverty threshold (Tunstall *et al.,* 2013).

[12] Although legislation has existed since the 1920s for the disposal of public owned dwellings, the Housing Act 1980 introduced a statutory obligation on local authorities to administer the RTB to sitting tenants (Forrest and Murrie, 1991).

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