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Neighborhood Poverty and Household Financial Security

The Pew Charitable Trusts

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Overview

In a previous study, The Pew Charitable Trusts examined the effects of neighborhood context on American families' economic mobility. That analysis found that neighborhood poverty is associated with downward mobility, reinforcing other research that has shown a link between high-poverty neighborhoods and unemployment, poorer-performing schools, and increased violence, all of which pose risks to residents' economic security.[1] This chartbook draws on data from the Survey of American Family Finances, commissioned by Pew in November 2014, to illustrate the health of family balance sheets in high- and low-poverty communities across the United States and to examine how neighborhood context influences people's attitudes toward the economy. The data reveal the real and perceived financial stability of families at the neighborhood level. Neighborhood poverty was measured using 2009–13 five-year estimates from the American Community Survey. Low-poverty neighborhoods comprise 32 percent of all communities in this study and are defined here as having 5 percent or less of residents in poverty. Medium-poverty neighborhoods make up 56 percent of neighborhoods in this study and are those where 5.01 to 24.99 percent of residents live in poverty. High-poverty neighborhoods are those where 25 percent or more of residents are in poverty, and they account for 12 percent of communities in this study.

This analysis found that:

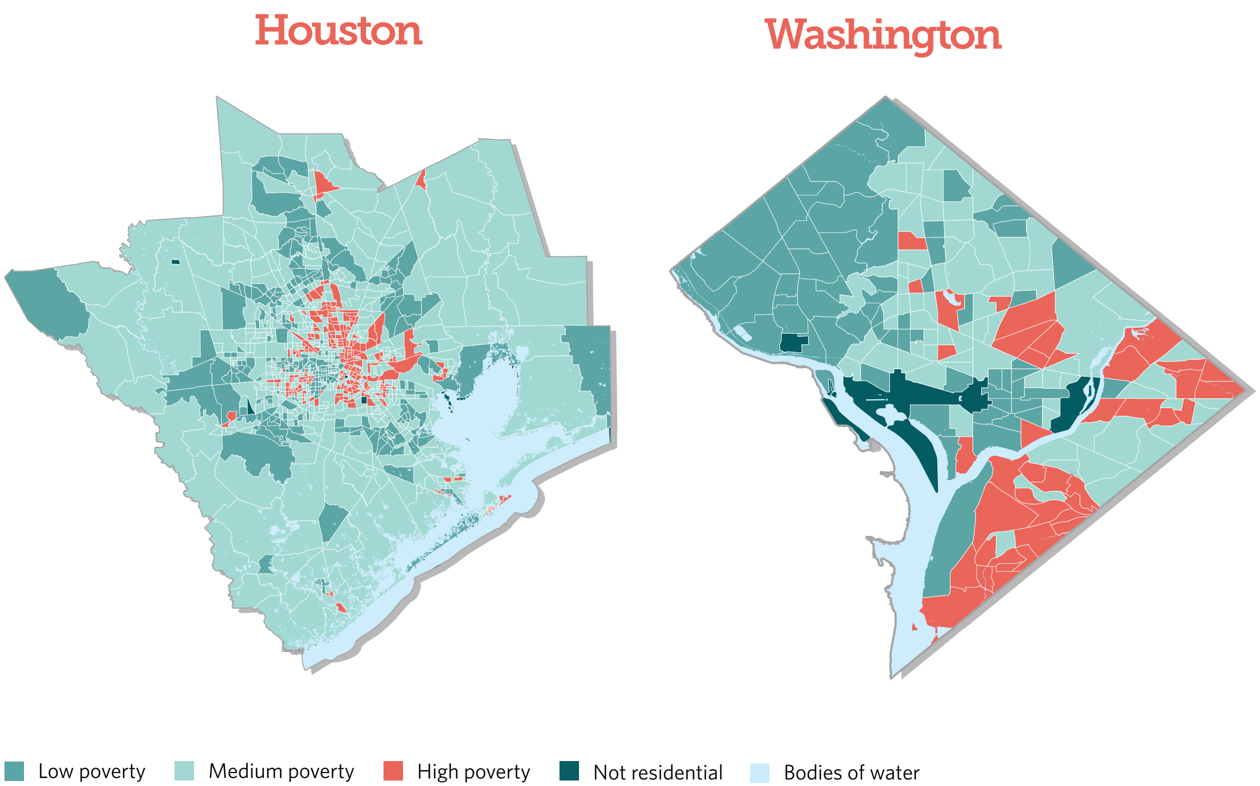
- **Not all residents of high-poverty neighborhoods are low-income.** One-third of those living in high-poverty neighborhoods are middle- or upper-income.
- **Not surprisingly, those living in low-poverty neighborhoods are more financially stable.** Families in these communities are more likely to own their homes and to have checking and education savings accounts than those in high-poverty neighborhoods.
- **Low-income residents in low-poverty neighborhoods tend to have more financial security than similar households in higher-poverty communities.** For example, low-income households in high-poverty neighborhoods have almost no wealth, while comparable families in low-poverty communities have some accumulated wealth. Similarly, respondents from low-income families in high-poverty areas are less likely than their peers in low-poverty neighborhoods to say they have savings.
- **Regardless of income, neighborhood poverty matters for financial security.** Even when holding constant household income, net worth, homeownership, and demographic characteristics, families in high-poverty neighborhoods rate their financial situations lower than those in low- and medium-poverty communities.

High-poverty neighborhoods, while not exclusively composed of low-income households, are characterized by greater financial instability than more prosperous areas. This is true even when controlling for other economic factors, indicating that American families' local surroundings are critical to their financial security.

Figure 1

In Cities, Neighborhood Poverty Tends to Cluster

Neighborhood poverty by census tract, Washington, D.C., and Houston metropolitan area, 2013



Note: The maps were generated using census tract-level data on percentage of households below the federal poverty level.

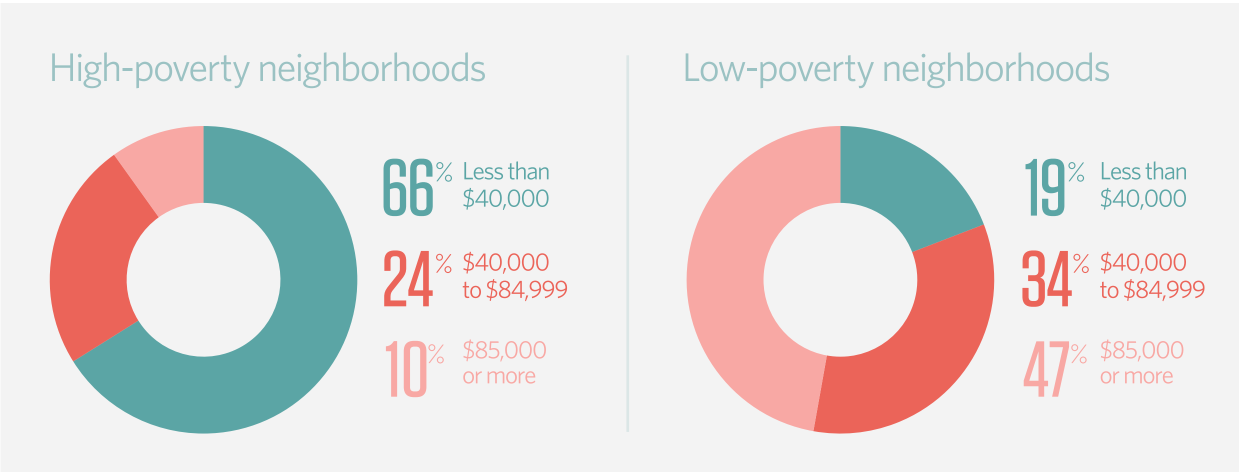
Source: American Community Survey, 2013, five-year estimates

Neighborhood poverty is characterized by the percentage of households that live in poverty within a census tract. These maps illustrate the distribution of low-, medium-, and high-poverty neighborhoods in Washington, D.C., and the Houston metropolitan area and show that high-poverty neighborhoods tend to cluster geographically, as do low-poverty areas.[2]

Figure 2

Not All Residents of High-Poverty Communities Are Low-Income

Income distribution of high- and low-poverty neighborhoods, 2014



Notes: Neighborhood poverty is determined by the percentage of families in poverty for the residential census tract as shown in the American Community Survey, 2013, five-year estimates. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. Medium-poverty neighborhoods have poverty concentrations between 5.01 and 24.99 percent. High-poverty neighborhoods have poverty concentrations of 25 percent or more.

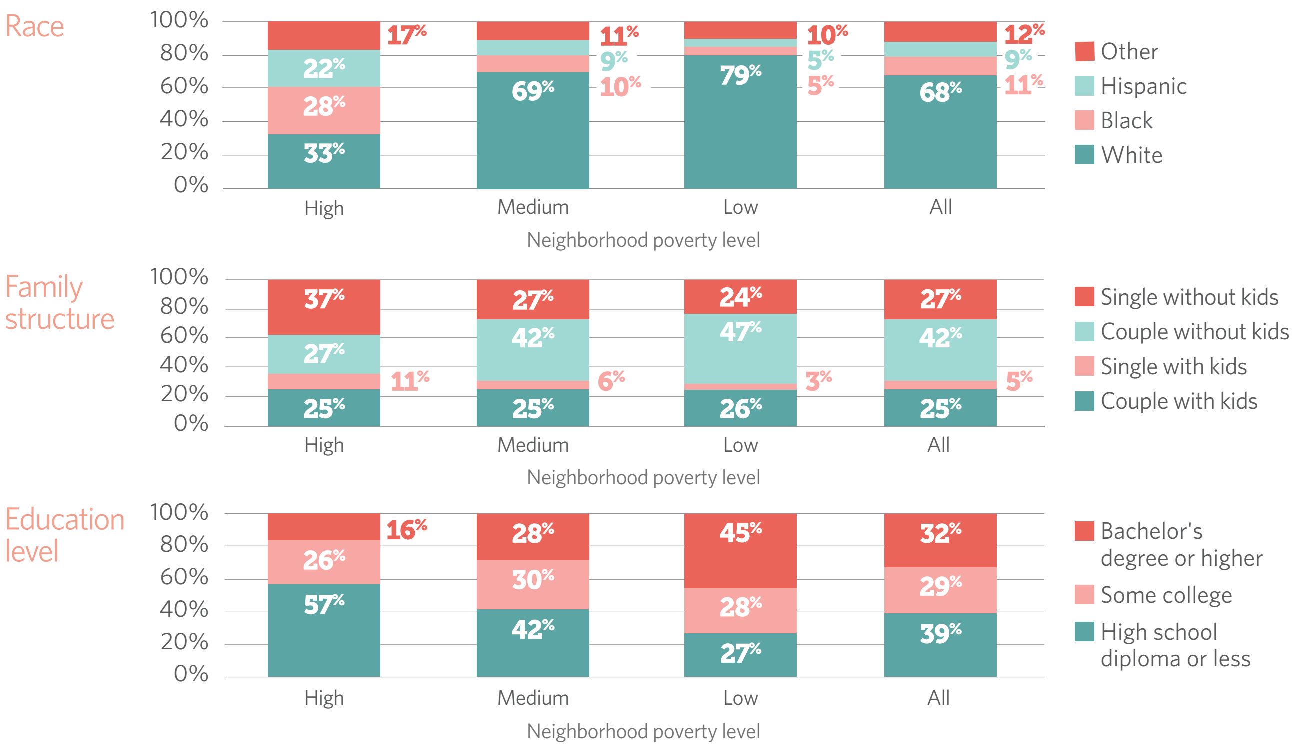
Source: Survey of American Family Finances

The designations of high and low poverty characterize neighborhoods generally, but the residents of these communities are not homogenous in terms of income. Sizable numbers of high- and middle-income families live in high-poverty neighborhoods, and even more income variation is evident in low-poverty neighborhoods. Although most residents of high-poverty neighborhoods are in the bottom tier of the income distribution, almost a quarter are in the middle, and 1 in 10 is in the top of the income distribution. Similarly, fewer than half of residents of low-poverty neighborhoods are top earners, but more than a third are in the middle, and about a fifth are in the bottom income tier.

Figure 3

High-Poverty Communities Are the Most Racially Diverse, Have the Fewest Households Headed by Couples, and Experience the Lowest Rates of College Graduation

Select demographics by neighborhood poverty level, 2014



Notes: Neighborhood poverty is determined by the percentage of families in poverty for the residential census tract from the American Community Survey, 2013, five-year estimates. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. Medium-poverty neighborhoods have poverty concentrations between 5.01 and 24.99 percent. High-poverty neighborhoods have poverty concentrations of 25 percent or more.

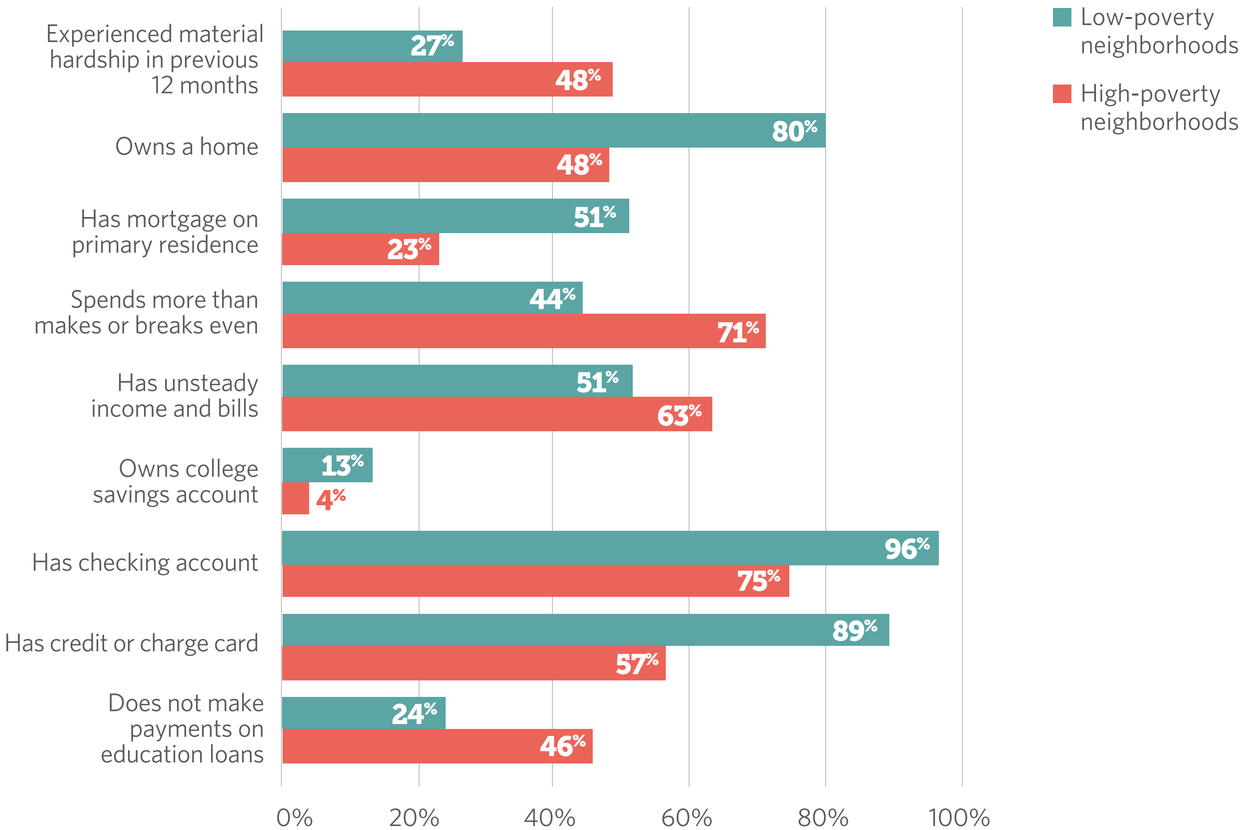
Source: Survey of American Family Finances

As the concentration of poverty decreases across neighborhoods, so does racial diversity: Three-quarters of the residents of low-poverty neighborhoods are white, compared with just one-third in high-poverty communities. High-poverty neighborhoods also have the highest share of households headed by single people, both with and without children, while low-poverty neighborhoods have the highest share of households headed by a couple. The percentage of residents with some college is similar across the neighborhoods, but the share of residents with college degrees is significantly higher in areas that are low-poverty than in those that are high-poverty.

Figure 4

Households in High-Poverty Communities Tend to Be Less Financially Stable

Select financial characteristics by neighborhood poverty level, 2014



The financial stability of residents of low-poverty neighborhoods tends to be greater than that of those living in high-poverty neighborhoods. Residents of high-poverty areas are more likely to have unstable economic situations, earnings that are equal to or lower than expenses, and difficulty meeting basic financial obligations, such as mortgage, rent, or bills. Those living in low-poverty neighborhoods are more likely to be homeowners—and to have a mortgage on their primary residence—and they tend to be more equipped with practical financial products such as checking accounts, credit cards, or college savings accounts.

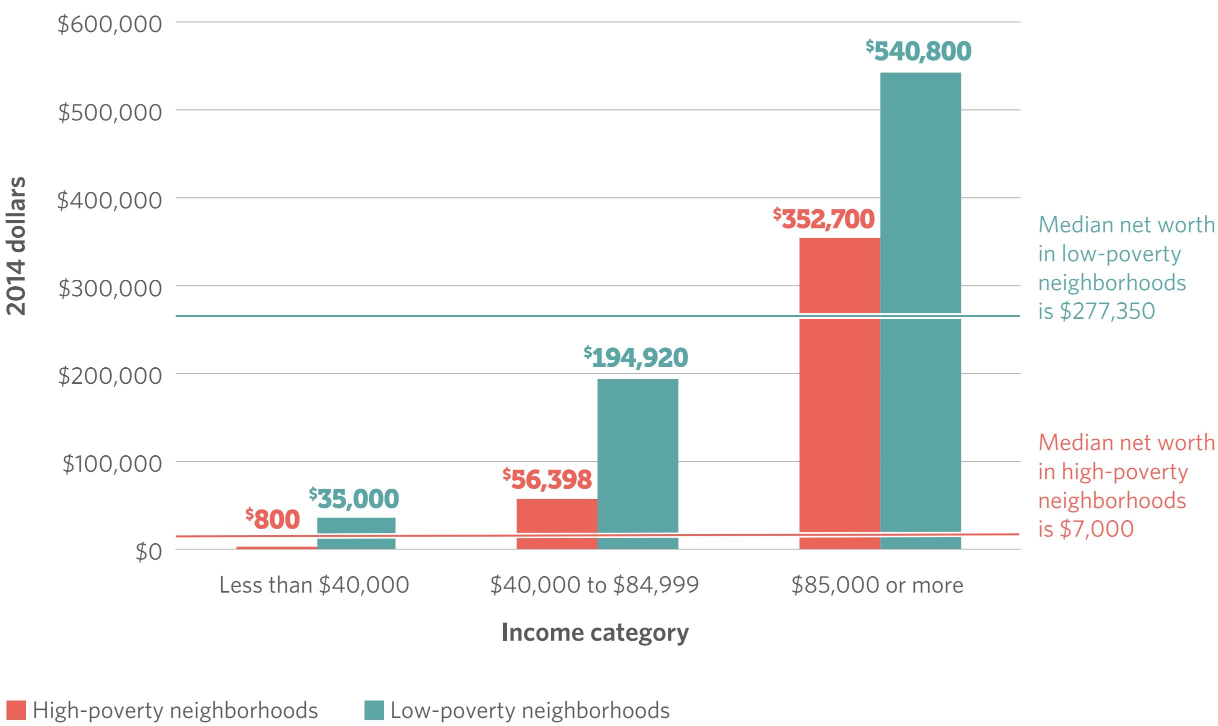
Notes: Neighborhood poverty is determined by the percentage of families in poverty for the residential census tract from the American Community Survey, 2013, five-year estimates. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more. See the appendix for more details about the survey questions.

Source: Survey of American Family Finances

Figure 5

Low-Income Households in High-Poverty Neighborhoods Have Almost No Wealth, While Those in Low-Poverty Communities Have Some

Median net worth by neighborhood poverty level, 2014



Notes: Neighborhood poverty is determined by the percentage of families in poverty for the residential census tract from the American Community Survey, 2013, five-year estimates. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more. Net worth is total assets minus total liabilities, and nonhousing net worth is total nonhouse assets minus total nonhouse liabilities; both are as reported by survey respondents.

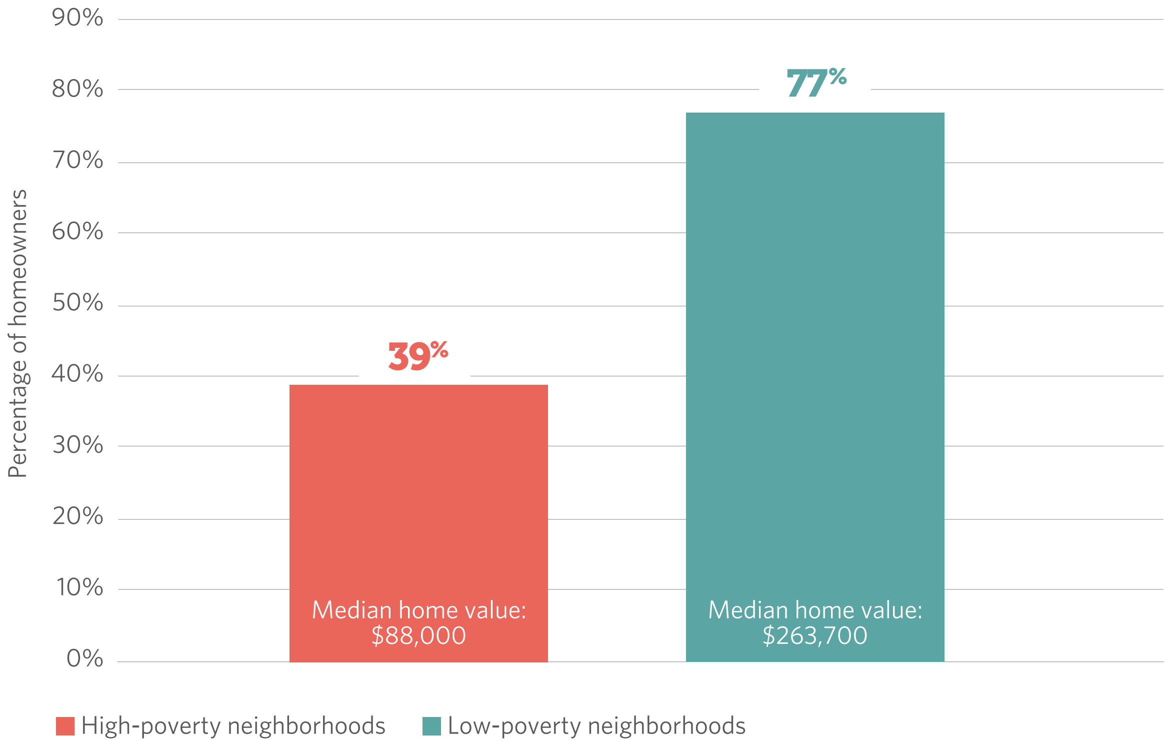
Source: Survey of American Family Finances

The typical household in a low-poverty neighborhood has 40 times higher net worth than the typical household in a high-poverty neighborhood. But families in the same income categories tend to have very different net worth levels depending on the neighborhood in which they live, with the most dramatic differences occurring among low-income households: Those in high-poverty neighborhoods have only $800 in accumulated wealth, compared with $35,000 for those in low-poverty communities. Figure 4 showed that residents of low-poverty areas are more likely to own homes, but homeownership does not explain this pronounced difference in net worth, which holds true regardless of home equity.

Figure 6

Low-Poverty Neighborhoods Have Higher Homeownership Rates and Homes of Greater Value Than High-Poverty Communities

Homeownership and median home equity by neighborhood poverty level, 2013



Notes: Neighborhood poverty is determined by the percentage of families in poverty for each residential census tract. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more. This chart includes all census tracts reflected in the source data.

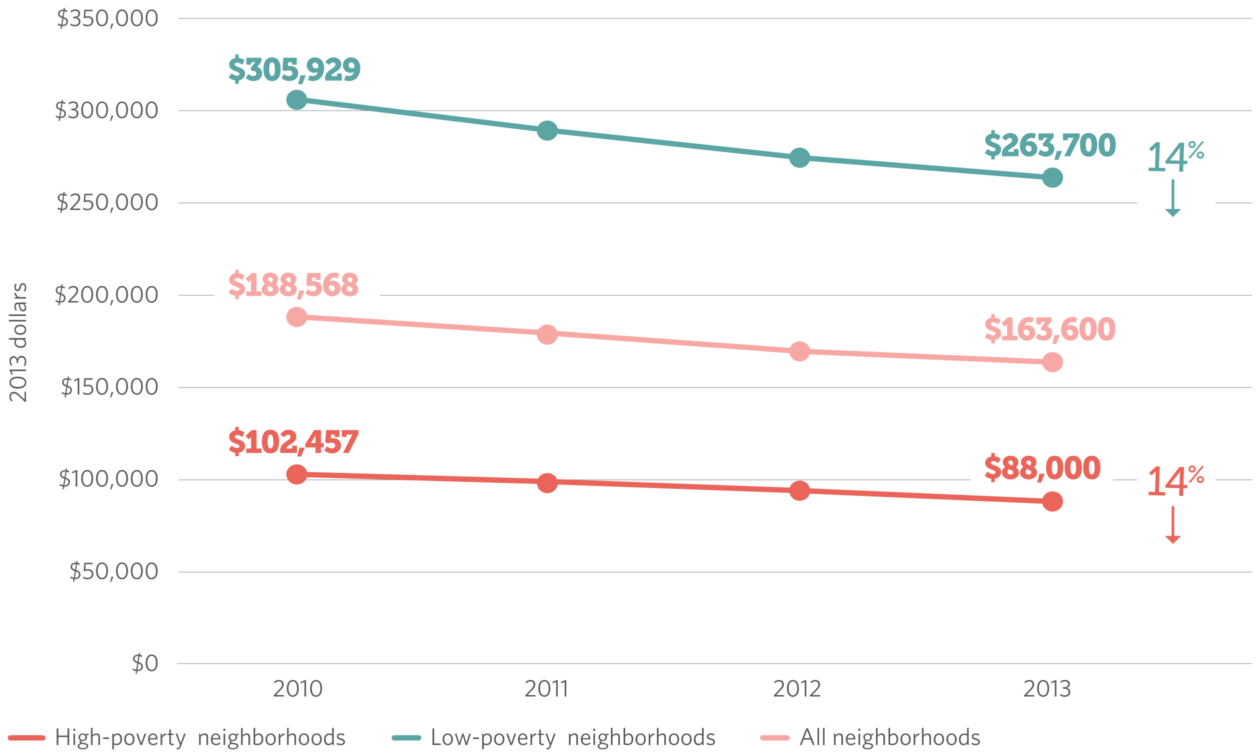
Source: American Community Survey, 2013, five-year estimates

Residents of low-poverty neighborhoods are almost twice as likely to own a home as those in communities with high poverty.[3] Median home values are also greater in low-poverty neighborhoods.

Figure 7

Home Prices Declined Nationally in Recent Years, but Persistently Lower Values Characterize High-Poverty Communities

Median housing values since the Great Recession by neighborhood poverty level, 2010-13



Notes: Neighborhood poverty is determined by the percentage of families in poverty for each residential census tract. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more. This chart includes all census tracts reflected in the source data.

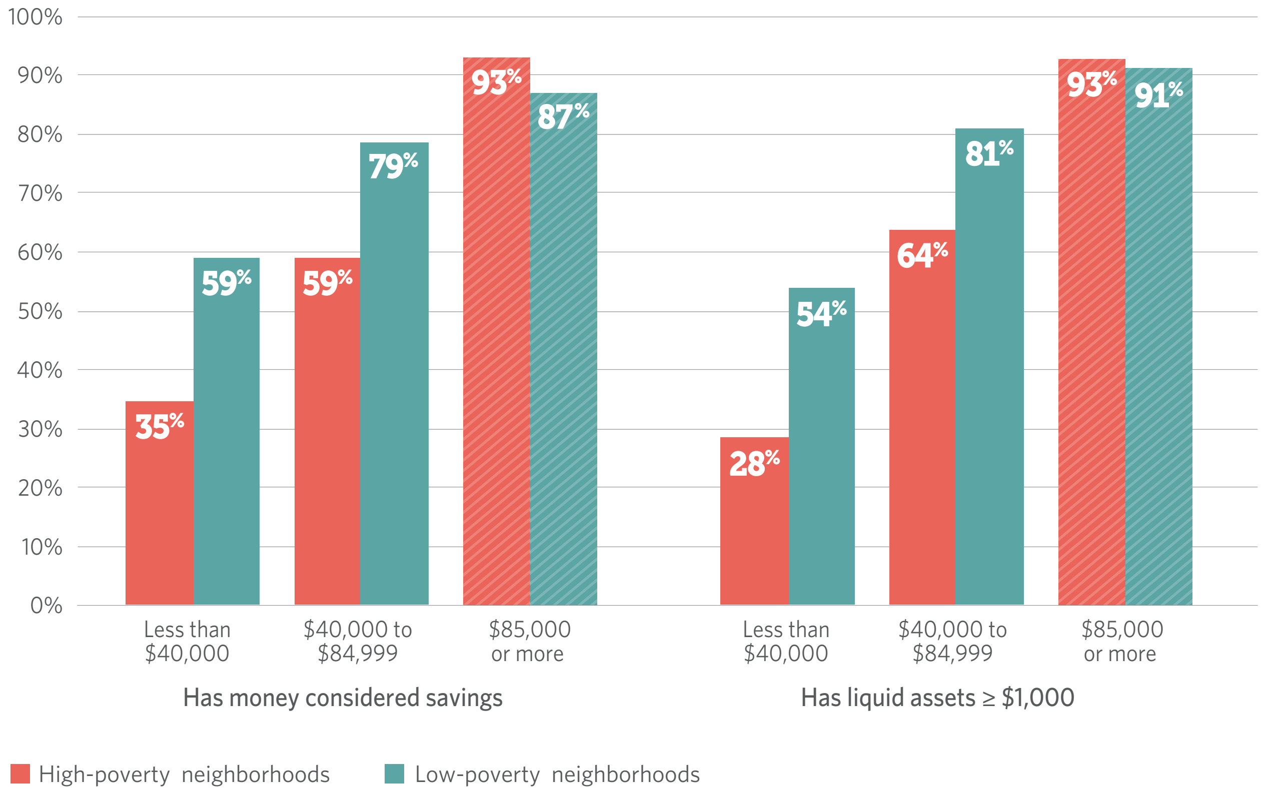
Source: American Community Survey, 2010-13, five-year estimates

Following the Great Recession, housing prices declined in all neighborhood types while homeownership rates remained relatively stable. (Between 2010 and 2013, homeownership rates declined by 1.5 percentage points in low-poverty neighborhoods and by 2.3 percentage points in high-poverty communities.) Although home values fell 14 percent in both neighborhood types, low-poverty neighborhoods experienced a greater decline—$42,229 compared with $14,457 in high-poverty neighborhoods—in real dollar terms. Nevertheless, home prices remained much higher in low-poverty neighborhoods, suggesting that homeowners in these areas have maintained more equity in their homes.

Figure 8

Low-Income Families in Low-Poverty Neighborhoods Have More Savings Than Those in High-Poverty Communities

Savings by household income and neighborhood poverty level, 2014



Notes: Neighborhood poverty is determined by the percentage of families in poverty for each residential census tract. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more. Shaded bars indicate statistically insignificant differences. See the appendix for more details about the survey questions.

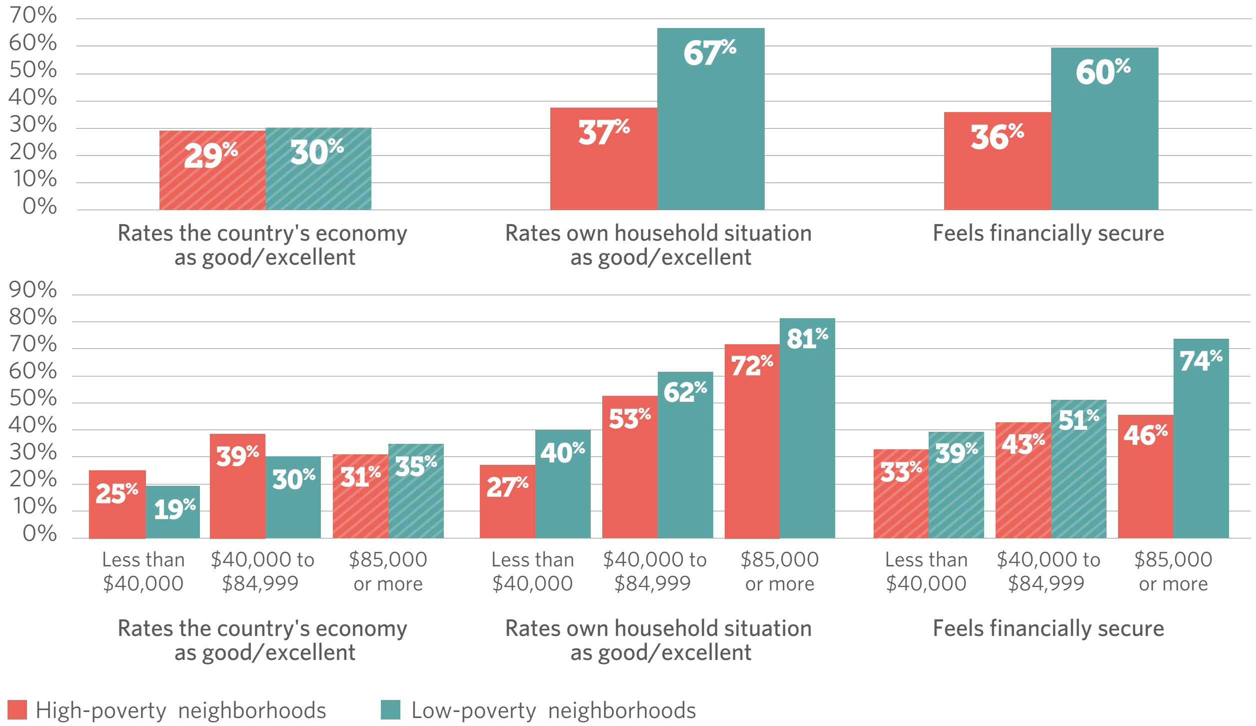
Source: Survey of American Family Finances

Residents of low-poverty neighborhoods are more likely to have savings and to have higher total savings than those in high-poverty neighborhoods. The savings discrepancy is especially notable among low-income households: Fifty-nine percent of low-income families living in low-poverty neighborhoods have money they consider to be savings, and 54 percent have at least $1,000 in liquid assets, compared with just 35 percent and 28 percent, respectively, among residents with the same income who reside in high-poverty areas. Even when controlling for household income, net worth, homeownership, race, age cohort, household composition, and presence of children, families living in high-poverty communities have lower savings than those living in low-poverty neighborhoods.[4]

Figure 9

Low- and Middle-Income Families in High-Poverty Areas Are Less Optimistic About Their Financial Security

Attitudes about the economy and family finances, by neighborhood poverty level, 2014



Notes: Neighborhood poverty is determined by the percentage of families in poverty for the residential census tract from the American Community Survey, 2013, five-year estimates. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more. Shaded bars indicate statistically insignificant differences. See the appendix for more details about the survey questions.

Source: Survey of American Family Finances

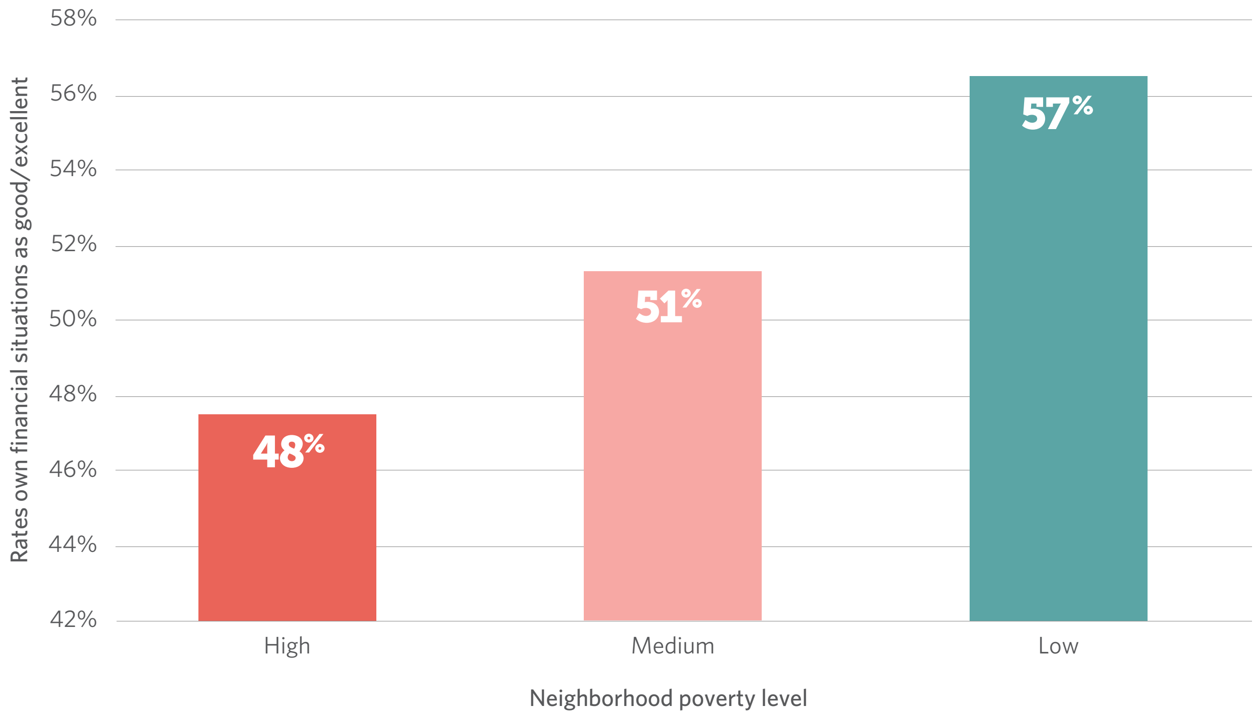
Overall, households in high- and low-poverty neighborhoods rate the country's economy similarly. However, dividing the residents by income category shows that those at the bottom and in the middle of the income distribution are more likely to perceive the country's economy as good or excellent if they live in a high-poverty rather than a low-poverty neighborhood.

Residents of low-poverty neighborhoods across income levels are much more optimistic about their own financial situations than those in high-poverty communities. Households in low-poverty areas not only rate their own financial situations as good or excellent more often than their counterparts in high-poverty neighborhoods, but they also feel more financially secure.

Figure 10

Neighborhood Poverty Affects Families' Sense of Financial Security, Regardless of Their Income

Rating own financial situation as good/excellent after adjusting for individual and household characteristics



Notes: Neighborhood poverty is determined by the percentage of families in poverty for the residential census tract from the American Community Survey, 2013, five-year estimates. Low-poverty neighborhoods have poverty concentrations of 5 percent or less. High-poverty neighborhoods have poverty concentrations of 25 percent or more.

Source: Survey of American Family Finances

Even when holding constant household income, net worth, homeownership, race, age cohort, household composition, and the presence of children, families in high-poverty neighborhoods rate their own financial situations lower than those in low- and medium-poverty communities. Nearly 6 in 10 households in low-poverty neighborhoods say their own financial situations are good or excellent, while only 48 percent of families in high-poverty areas give their economic situations the same rating.[5]

Methodology

This analysis draws from the Survey of American Family Finances (SAFF), commissioned by Pew, and from American Community Survey (ACS) 2009–13 five-year estimates, conducted by the U.S. Census Bureau. The SAFF was administered to a nationally representative panel between Nov. 6 and Dec. 3, 2014. Including oversamples of black and Hispanic respondents, the total sample size was 7,845. Survey firm GfK collected the data on behalf of Pew and administered the computer-based questionnaire in English and Spanish. All reported data were weighted. For clarity of analysis, respondents who chose not to answer a question were excluded from the statistics generated for that item. As is frequently the case for computer-based surveys, missing data were most common when respondents failed to answer something they felt did not apply to them, such as "other" in a list of questions. Overall, item nonresponse for the survey was 2.2 percent. Additional details about the survey and its methodology are available at http://www.pewtrusts.org/~/media/assets/2015/03/fsm-poll-results-methodology_artfinal_v2.pdf.

The census tract-level data retrieved from the ACS include the percentage of families living under the poverty level (HC02_EST_VC01 "All families – Percent below poverty level, Estimate, Families"), owner-occupied housing units (HD01_VD02 "Estimate; Total—Owner occupied"), median housing value (HD01_VD01 "Estimate; Median value (dollars)"), and household median income (HC02_EST_VC02 "Median income (dollars); Estimate; Households"). Of note, the ACS pools five years of data in order to have estimates with enough geographic variability to be comparable with the decennial census, and all estimates used in this analysis reflect the averages of the five-year period included. For certain census tracts, median household income was so low or so high that it was assigned a category in the American Community Survey. In this analysis, median income in the bottom category was reassigned to the midpoint of the lowest dollar range, and median income in the top category was reassigned to the highest value reported.

Low-poverty neighborhoods are those where 5 percent or less of residents are in poverty and comprise 32 percent of neighborhoods in this study. Medium-poverty neighborhoods are those where 5.01 to 24.99 percent of residents are in poverty and comprise 56 percent of neighborhoods in this study. High-poverty neighborhoods are those where 25 percent or more of residents are in poverty and comprise 12 percent of neighborhoods in this study.[7]

This chartbook divides family income distribution into three groups. Following income cuts that correspond closely with income terciles in the Current Population Survey administered by the U.S. Census Bureau, low-income families make less than $40,000 a year, middle-income families make between $40,000 and $84,999 a year, and high-income families make $85,000 or more a year.

To accurately compare median housing prices over time (Figure 7), housing values were adjusted to 2013 dollars using the Consumer Price Index Research Series Using Current Methods (CPI-U-RS).

The statistics presented in this chartbook include frequencies, cross-tabulations, and medians. Hierarchical linear modeling (HLM) was performed to better illuminate the association between neighborhood poverty level and household savings level (see results in Figure 8) and between neighborhood poverty level and families' perception of their financial situations (see results in Figure 10). HLM enables analysis of relationships across multiple levels—in this case, family and neighborhood levels. The dependent variables used in the models were low liquid savings and families' ratings of their financial situations. The family-level control variables included race, age cohort, household composition, presence of children, income (logged), net worth (logged), negative net worth, and homeownership. The neighborhood-level control variable was neighborhood poverty level.

Appendix: Supplemental figure notes

Figure 4

Respondents to the Survey of American Family Finances were asked, "Please tell us whether or not each of the following has happened to you in the past 12 months because you did not have enough money: (You did not pay the full amount due on your mortgage on time / You did not pay the full amount due on your rent on time / You skipped paying a bill or paid a bill late / You needed to see a doctor or go to the hospital but did not go / You could not fill or postponed filling a prescription for drugs when they were needed / You overdrafted your checking account or wrote a check for more than was in your account (whether you had to pay your bank a penalty for the overdraft or not) / Your credit, debit, or prepaid card was declined because you were over the limit or did not have sufficient funds / A person in the household took a loan, a distribution, or cashed out a retirement account, not including things that were legally required)," "Which best describes your household's income each month: (Income is about the same each month / Income varies somewhat from month to month / Income varies a lot from month to month)?" "Which best describes the bills and expenses your household pays each month: (Expenses are about the same each month / Expenses vary somewhat from month to month / Expenses vary a lot from month to month)?" "Which of the following comes closest to your household's situation most months lately? Do you: (Spend a lot more than you make / Spend a little more than you make / Spend about as much as you make / Make a little more than you spend / Make a lot more than you spend)?" "Is your household currently making payments on these student loans (Yes / No)?" "Are your living quarters: (Owned or being bought by you or someone in your household / Rented for cash / Occupied without payment of cash rent)?" "Does your household currently owe money on one or more mortgage loans for your primary residence (Yes / No)?" "Please tell us whether your household currently has each of the following: (A checking account at a bank or credit union / A savings account at a bank or credit union / A prepaid debit card with an unused balance, not linked to a checking or savings account / Cash saved at home)," "Does your household have a credit or charge card (Yes / No)?" "Please tell us whether your household currently has each of the following. Please do not include any accounts you have already told us about: (A retirement account like a 401(k) or an IRA / A college savings account / United States Savings Bonds)."

Figure 8

Respondents to the Survey of American Family Finances were asked, "Does your household have any money set aside that you consider savings (Yes / No)?" Liquid assets include the amount of money in household checking and savings accounts, unused balances on prepaid debit cards, and cash saved at home.

Figure 9

Respondents to the Survey of American Family Finances were asked, "How would you rate economic conditions in the country today: (Excellent / Good / Only fair / Poor)?" "How would you rate your household's financial situation today: (Excellent / Good / Only fair / Poor)?" "Thinking about your household's finances today, do you feel your household is: (Financially secure / Not financially secure)?"

Endnotes

1 Regarding downward mobility, see The Pew Charitable Trusts, "Neighborhoods and the Black-White Mobility Gap" (July 2009), http://www.pewstates.org/research/reports/neighborhoods-and-the-black-white-mobility-gap-85899376433; and The Pew Charitable Trusts, "Mobility and the Metropolis: How Communities Factor Into Economic Mobility" (December 2013), http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/mobilityandthemetropolispdf.pdf. For information on unemployment in high-poverty neighborhoods, see Jennifer Comey, Xavier de Souza Briggs, and Gretchen Weismann, "Struggling to Stay Out of High-Poverty Neighborhoods: Lessons From the Moving to Opportunity Experiment," Urban Institute (2008), http://www.urban.org/sites/default/files/alfresco/publication-pdfs/411635-Struggling-to-Stay-Out-of-High-Poverty-Neighborhoods-Lessons-from-the-Moving-to-Opportunity-Experiment.PDF. For information on school performance and neighborhoods, see Paul A. Jargowsky and Mohamed El Komi, "Before or After the Bell? School Context and Neighborhood Effects on Student Achievement," in *Neighborhood and Life Chances: How Place Matters in Modern America*, eds. Harriet B. Newburger, Eugenie L. Birch, and Susan M. Wachter (Philadelphia: University of Pennsylvania Press, 2011), 50-72. For citations on violence, see Paul A. Jargowsky, "Architecture of Segregation: Civil Unrest, the Concentration of Poverty, and Public Policy," The Century Foundation (2015), http://apps.tcf.org/architecture-of-segregation. Ingrid Gould Ellen and Margery Austin Turner, "Do Neighborhoods Matter and Why?" in *Choosing a Better Life? Evaluating the Moving to Opportunity Social Experiment*, eds. John Goering and Judith D. Feins (Washington: Urban Institute Press, 2003), 313–38.

2 The map applies the Jenks natural breaks classification method, which categorizes data based on natural groups in data distribution. ESRI, "GIS Dictionary," http://support.esri.com/en/knowledgebase/GISDictionary/term/natural%20breaks%20classification.

3 U.S. Census Bureau, "Homeownership Rate," http://quickfacts.census.gov/qfd/meta/long_HSG445213.htm. Following the U.S. Census Bureau's methodology, "the homeownership rate is computed by dividing the number of owner-occupied housing units by the number of occupied housing units or households."

4 Sensitivity testing demonstrated that different forms of net worth, including inverse hyperbolic sine transformation, Kennickell-Woodburn transformation, logarithmic terms, and categorical form of net worth, do not change the results of the model. Findings are based on a hierarchical linear probability model.

5 Ibid.

6 The poverty thresholds applied in this study were defined by Patrick Sharkey in The Pew Charitable Trusts, "Neighborhoods and the Black-White Mobility Gap."

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