THE DOWNSLIDE BEFORE THE DOWNTURN

Declining Economic Security Among Middle Class African Americans and Latinos, 2000-2006

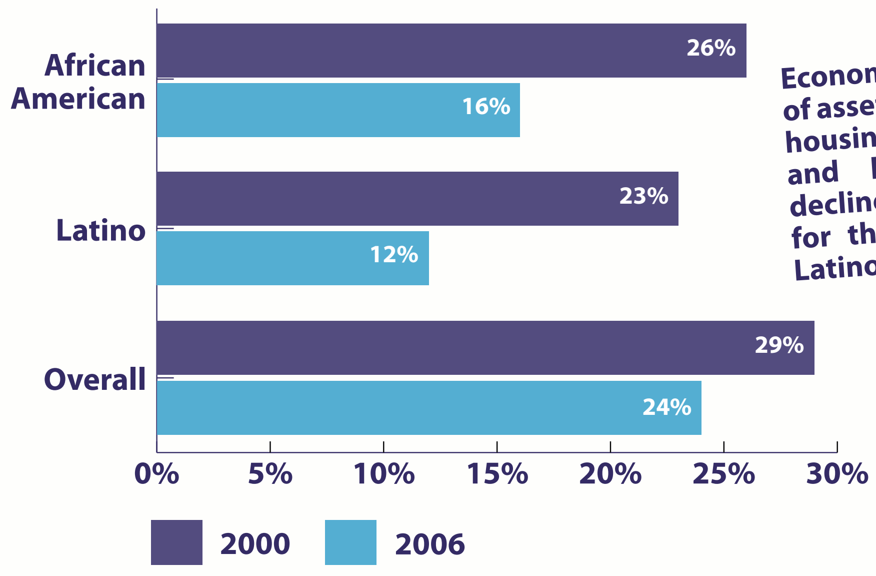
Even before the current recession, African-American and Latino middle-class families were less likely to be economically secure than other members of the middle class. In the years leading up to the recession, the economic security of these families declined even further, leaving them poorly positioned to recover from the current downturn.

In the pre-recession period of 2000 to 2006, the percentage of African-American middle-class families who were economically secure fell from 26 percent to 16 percent (a loss of 10 percentage points). Economic security among Latino middle-class families fell from 23 percent to 12 percent (an 11 percentage point loss).

In comparison, economic security among the middle class as a whole declined from 29 to 24 percent, a decline of only five percentage points.

Many of the factors that are tied to the current recession, including the meltdown of subprime mortgages, rising costs, the decline in home values, and rising unemployment, will no doubt further weaken the African-American and Latino middle classes, leaving them less able than the rest of the middle class to regain economic security in the near- to long-term.

Graphic 1. Percent of Middle Class Families that Were Economically Secure, 2000-2006



Economic security in the areas of assets, education, affordable housing, essential expenses, and healthcare access has declined much more rapidly for the African-American and Latino middle classes.

These results are from the latest Middle Class Security Index, created by Dēmos and the Institute on Assets and Social Policy at Brandeis University. (See inset.)

BY A THREAD
REPORT #5

IASP
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Dēmos

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The Pre-Recession Position of the African-American and Latino Middle Classes

Today headlines are filled with stories of middle-class families struggling to survive the current downturn. But the problems of middle-class families did not start with the recession.

Between 2000 and 2006, the number of middle-class families that lacked economic security grew from 19 to 23 million. Decline in assets, the rising cost of housing, and more families lacking health insurance depleted middle-class economic resources, leaving millions of families poorly positioned to weather the current recession.[1]

For African-American and Latino families that make up a disproportionate number of the declining middle class the situation is even worse.

Historically, African Americans and Latinos have had more difficulty moving into the middle class than white families. When compared across the factors of assets, education, affordable housing, ability to meet essential expenses and access to healthcare, even those African-American and Latino families that do enter the middle class do not experience the same financially stable standard of living as others. (See Graphic 1.)

In 2006, well ahead of the current recession, the majority of the middle class was not economically secure. In 2006, only 24 percent of middle-class families were economically secure. For African-American middle-class families, the rate was just 16 percent. For Latino middle-class families, it was an even lower 12 percent.

More worrisome still is that the gaps between the economic security of African-American and Latino middle-class families and the rest of the middle class grew dramatically. In fact, the gap between African Americans and Latinos and the middle class as a whole more than doubled between 2000 and 2006 (Graphic 2).

Graphic 2. Gap Between African-American and Latino Middle-Class Economic Security and National Average

	2000	2006
Difference between African-American Middle-Class Security & National Average	3 percentage points	8 percentage points
Difference between Latino Middle-Class Security & National Average	6 percentage points	12 percentage points

1 See *From Middle to Shaky Ground: The Economic Decline of America's Middle Class, 2000–2006.*

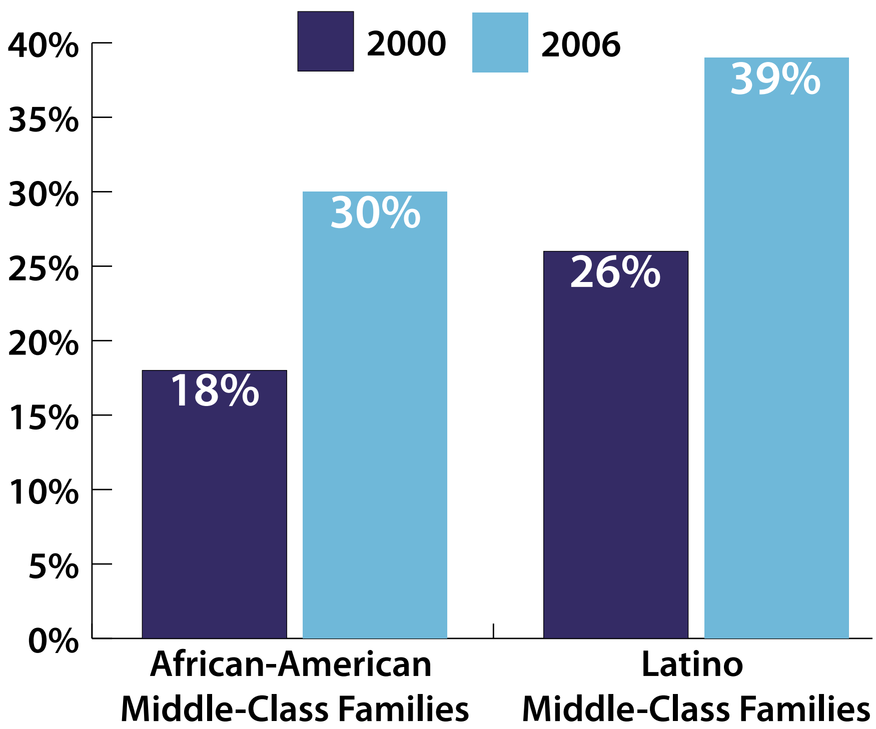
What's Behind Declining African-American and Latino Middle Class Economic Security?

Loss of health insurance, rising housing costs and a decline in assets played the greatest role in destabilizing the African-American and Latino middle classes between 2000 and 2006.

Healthcare

In 2000, 18 percent of African-American middle-class families had at least one family member who lacked health insurance. By 2006, that number had skyrocketed to 30 percent. Latinos saw an increase from 26 to 39 percent (Graphic 3).

Graphic 3: Percent of African-American and Latino Middle-Class Families in Which at Least one Member Lacks Health Insurance, 2000-2006



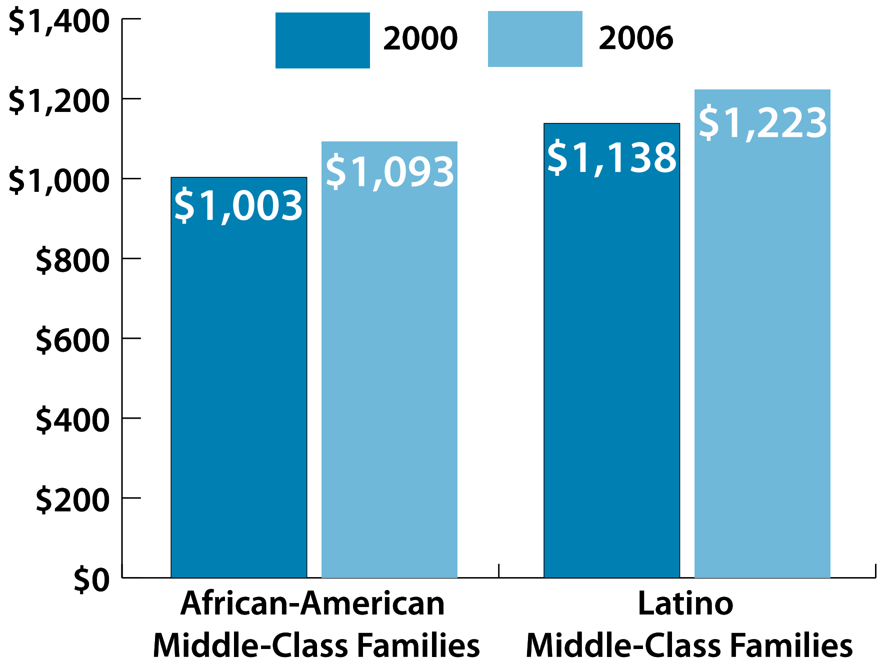
Between 2000 and 2006, the number of middle-class families in which at least one member lacks health insurance increased.

Housing

In 2000, 31 percent of African-American and Latino middle-class families matched the Department of Housing and Urban Development's definition of housing burdened (defined as spending more than 30 percent of income on housing). By 2006, 35 percent of both groups were housing-burdened.

Both groups also saw increases in the amount they spent each month on housing costs. Between 2000 and 2006, the median amount African-American middle-class families spent on housing increased by 27 percent. For Latino middle-class families, median housing costs increased by 26 percent (Graphic 4).

Graphic 4: Rising Median Housing Costs for African-American and Latino Middle-Class Families, 2000-2006



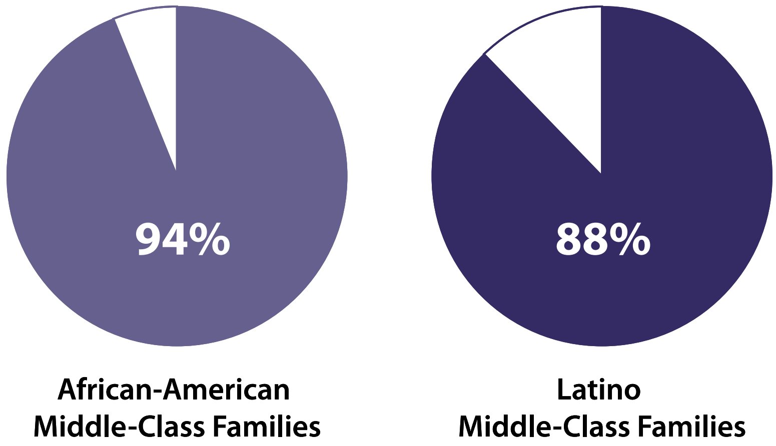
Between 2000 and 2006, median housing costs grew for both African-American and Latino middle-class families.

Financial Assets

African-American and Latino middle-class families also saw worrisome increases in their vulnerability regarding financial assets, the greatest buffer against economic instability.

In 2000, 89 percent of African-American middle-class families did not have enough net financial assets to be able to cover three-fourths of their essential expenses for three months in the event of job loss. By 2006, even before the rise in unemployment, that number had increased to 94 percent. For Latinos, these figures increased from 82 percent in 2000 to 88 percent in 2006 (Graphic 5).

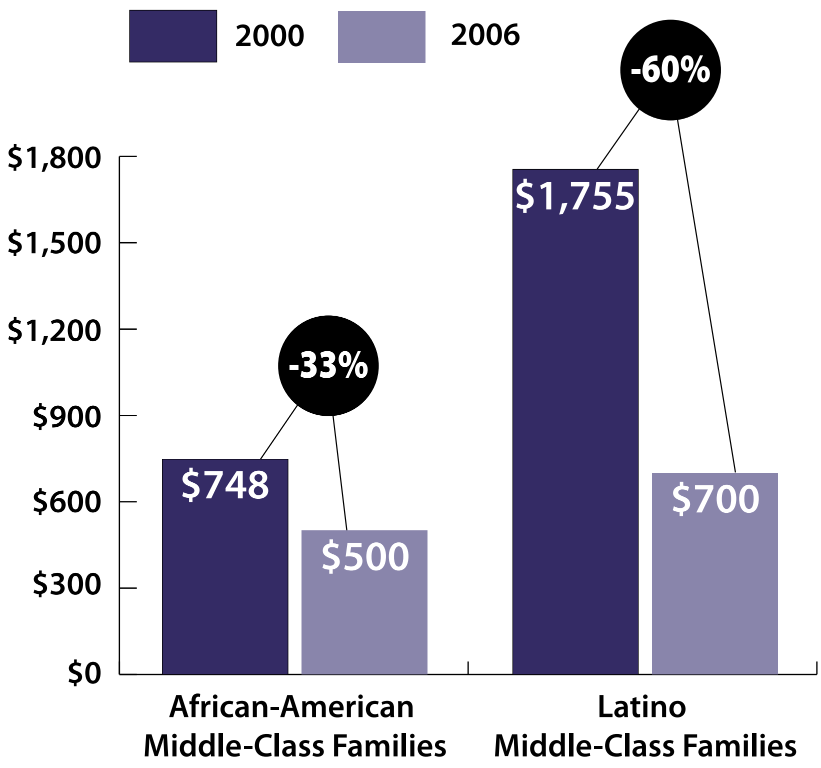
Graphic 5: Percent of African-American and Latino Middle-Class Families That Do Not Have Net Assets to Cover 3/4 of Essential Expenses for Even 3 Months, 2006



Both groups saw the median value of their financial assets decline considerably. For African-American middle-class families, median assets declined from $748 in 2000 to $500 in 2006. For Latino middle-class families, median assets declined from $1,755 in 2000 to $700 in 2006 (Graphic 6).

These assets include money held in savings, checking and brokerage accounts, as well as any ownership of U.S. savings bonds stock, mutual funds or other bonds. This figure does not take into account home equity, which has likely also declined for most families.

Graphic 6: A Dramatic Decline in Median Value of Assets of African-American and Latino Middle-Class Families, 2000-2006



Between 2000 and 2006, the median value of non-home equity assets held by Latino middle-class families declined by 60 percent and that held by African-American middle-class families declined by 33 percent.

Where Do We Go From Here?

The combination of factors needed to sustain middle-class economic security is not a lofty list of non-essential items. Having moderate assets available to withstand crises and build a small nest egg, having the education to get a good job, being able to afford one's housing and other basic expenses, and having access to healthcare should not be unattainable.

Yet for many members of the middle class—regardless of race or ethnicity—these basics are hard to come by. Many African-American and Latino households have not had a long tenure in the middle class. Many are in fact the first generation of their family to move into the middle. For these groups, the basics of economic security are even more important.

A legacy of racially biased policies plays a role in influencing economic security. But the vulnerability of the African-American and Latino middle classes must also be addressed by policies supporting the basics that will strengthen the middle class as a whole. Based on the areas in which families have lost the most ground in recent years, the needed policy efforts include helping families to build assets and reduce debt, addressing the housing crisis, and addressing the healthcare crisis.

What Makes a Middle-Class Household Economically Secure?

The Middle Class Security Index, created by Dēmos and the Institute on Assets and Social Policy at Brandeis University, focuses on five interrelated factors that in combination describe the security or vulnerability of middle-class families—assets, education, housing, budget and healthcare. For each of these factors measured by the Index, researchers established an optimal threshold for overall financial security as well as one for economic vulnerability.

Factors Influencing Middle Class Economic Security

ASSETS Number of months able to live at 75 percent of current living expenses using net financial assets

< 3 months — > 9 months

EDUCATION Academic degree

High school diploma or less — Bachelor's degree or higher

HOUSING Percent of after-tax income spent on housing

> 30% monthly income — < 20% monthly income

BUDGET Amount left at end of the year after paying taxes and covering living expenses

< $5,000 left at end of year (<$100 week) — < $25,000 left at end of year (about $480/week)

HEALTHCARE Number of family members covered by private or government health insurance

At least one family member not covered — All family members covered

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

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

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

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

Middle Class Sample, Defined

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

About Dēmos

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

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

Dēmos was founded in 2000.

Miles S. Rapoport, President
Tamara Draut, Vice President of Policy and Programs
Nancy K. Cauthen, Director, Economic Opportunity Program

About the Institute on Assets and Social Policy at Brandeis University

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

Thomas M. Shapiro, Director
Tatjana Meschede, Research Director

The By a Thread Series and Middle Class Security Index

The Downslide Before the Downturn is the fifth report from Dēmos measuring the economic stability, size and accessibility of the middle class in the United States. This is the fifth report by Dēmos and The Institute on Assets and Social Policy based on the Middle Class Security Index developed through collaborative research by Dēmos and the Institute. The first report based on the Index was *By a Thread: The New Experience of America's Middle Class*, published at the end of 2007. Other reports in this series include *Economic (In)Security*, which examines the financial experience of the Latino and African-American middle class, *From Middle to Shaky Ground*, which looks at the experience of the middle class overall between 2000 and 2006, and *Living Longer on Less*, which explores the growing economic insecurity of seniors. Other Dēmos reports which examine the middle class include *African Americans, Latinos and Economic Opportunity in the 21st Century*, *Millions to the Middle*, and *Measuring the Middle*.

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

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