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Family Wealth Distribution in California

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Introduction

This paper examines the economic status of families with children in California by analyzing wealth distribution using 2001 Survey of Income and Program Participation (SIPP) data. We define families with children as a group of two or more people who reside together and who are related by birth, marriage or adoption and who have their own children under 18 years of age residing with them. According to the 2000 Census, there were approximately 4,536,000 families with children in California. Families with children make up 39% of total households in California and 61% of the total state population.

Income categories are determined by multiples of the Federal Poverty Line (FPL). We determine a family's relative poverty status by taking a family's income and dividing it by the poverty threshold, or FPL. As described below, we use family poverty status to assign families to income categories. The FPL provides a standard national measure tracking poverty over time, but may underestimate poverty, especially in urban areas with a high cost of living. The FPL was developed in the 1960's and is set at three times the "breadbasket," a term referring to a minimum acceptable level of food for a particular family size and composition, and is adjusted annually based on inflation. For example, the 1999 FPL for a family of four was an annual income of $17,029. Table 1 provides the poverty threshold based on the number of persons in a family unit for 1999. Note that the census provides additional FPL amounts based on the number of related children under 18, but we use the weighted average poverty thresholds for each family size.

Table 1. Poverty Threshold, 1999

Family Persons	Poverty Threshold
1	$8,501
2	$10,869
3	$13,290
4	$17,029
5	$20,127
6	$22,727
7	$25,912
8	$28,967
9 or more	$34,417

Source: U.S. Census (http://www.census.gov/hhes/poverty/threshld.html)

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The small sample size limits the number of FPL-based income categories to two. Families with a family income that is 50-249% of the FPL are classified as "Poor & Working Poor." Families with a family income that is 250-549% of the FPL are classified as "Middle Class."

The Income and Program Participation (SIPP) is a "longitudinal survey designed to provide detailed information on the economic situation of households and persons in the United States. These data examine the distribution of income, wealth, and poverty in American society and gauge the effects of federal and state programs on the well-being of families and individuals" (ICPSR 2005).

This paper has three sections. Section 1 provides information from previous studies on wealth distribution. Section 2 reports the result from our analysis, which are based on comparing family wealth distribution in California to family wealth distribution in the rest of the United States including Washington, DC. Appendix A describes the data and methodology.

Section 1. Wealth Distribution in California and the Rest of the United States

Previous studies suggest that wealth represents an important measure of economic status and provides an important indicator of family access to opportunity. Whereas income generally refers to the flow of money over time, "wealth is a stock of assets owned over a particular time" (Oliver and Shapiro 1995:2). As Oliver and Shapiro (1995) describe:

> "Wealth is a special form of money not used to purchase milk or shoes and other life necessities. More often it is used to create opportunities, secure a desired stature and standard of living, or pass class status along to one's children. In this sense the command over resources that wealth entails is more encompassing than is income or education, and closer in meaning and theoretical significance to our traditional notions of economic well-being and access to life chances" (2).

Wolff (2002) found that wealth inequality rose in the United States from 1983 to 1998. They also suggest that:

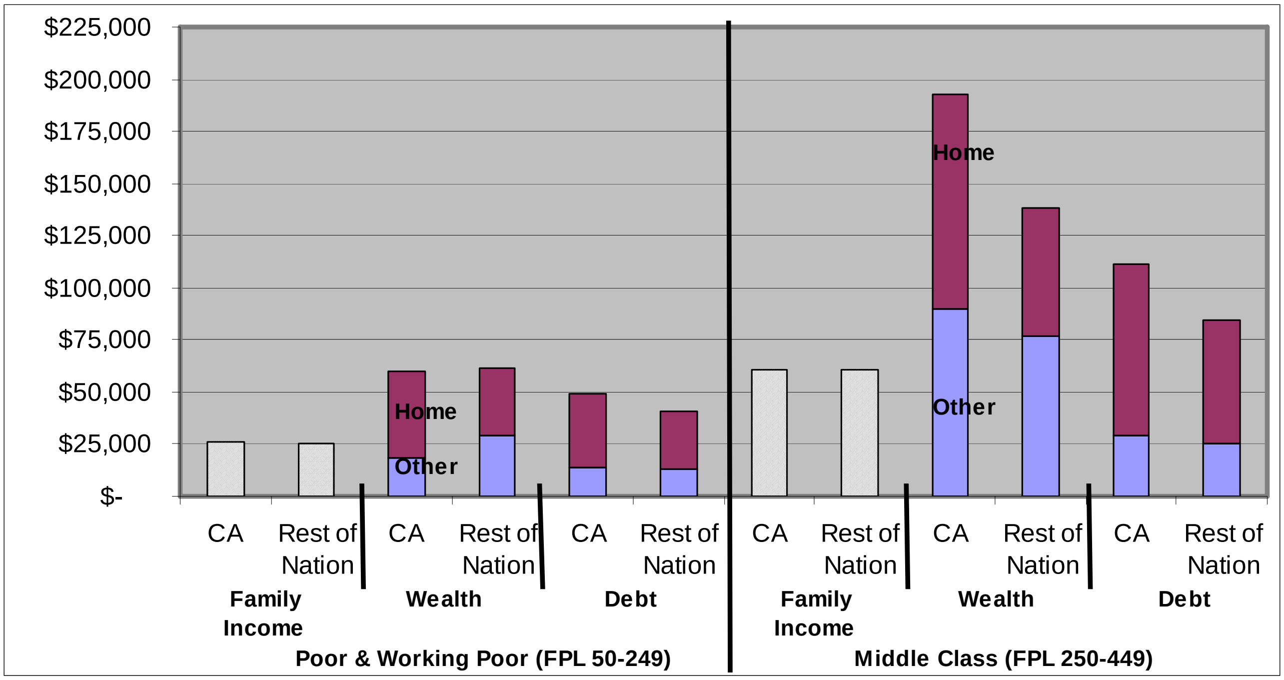
> "Richer households do receive greater inheritances and other wealth transfers than poorer households. However, *as a proportion of their current wealth holdings*, wealth transfers are actually greater for poorer households. That is to say, a small gift to the poor means more than a large gift to the rich. However, the results do not imply from a behavioral point of view that inheritances lead to less wealth inequality, since the poor are liable to spend their (meager) inheritances, while the rich are likely to save them" (263).

Section 2. Analytical Results

Figure 1 profiles the family income, wealth and debt of families with children by income category. Results include:

- As expected, family income, wealth and debt were greater for middle class families when compared to poor and working poor families.

- Poor and working poor families in California had roughly the same amount of wealth as families in the rest of the nation, but home equity comprised a larger share of their wealth compared to the rest of the nation.
- Poor and working poor families in California carried more debt than families in the rest of the nation.
- Middle class families in California had on average more home equity and other wealth than the rest of the nation. They had on average over $50,000 more in wealth and carried an average over $25,000 more in debt than middle class families in the rest of the nation.

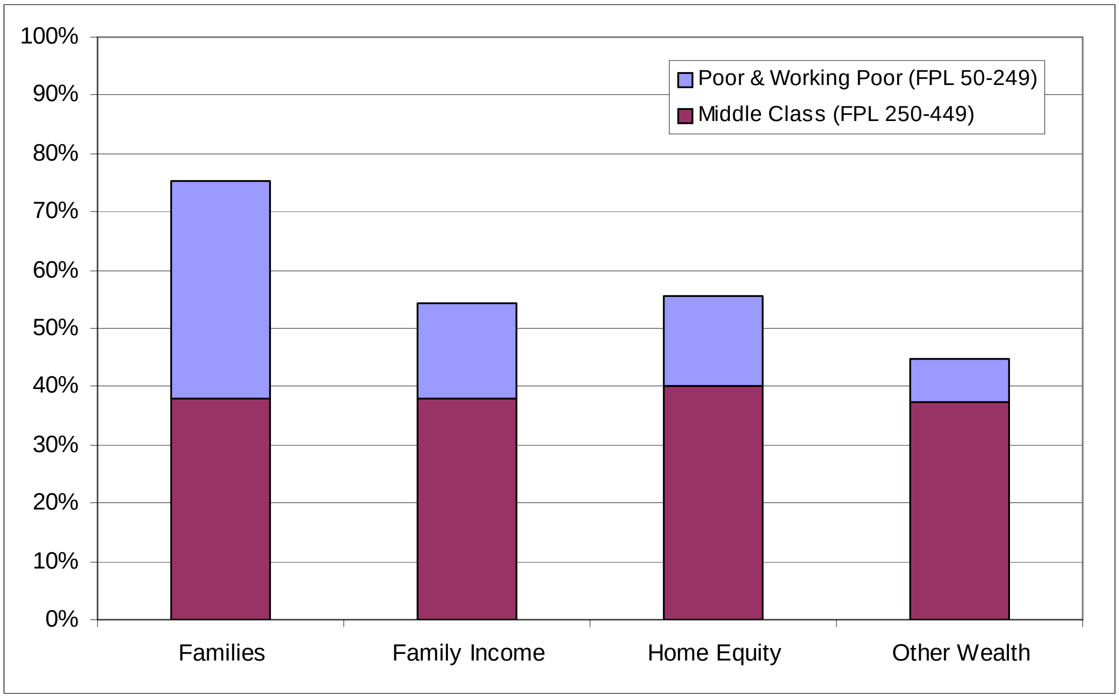


Source: Survey of Income and Program Participation (SIPP), 2001 Panel, Wave 3

Figure 1. 2000 Mean Family Income, Wealth, and Debt of Families with Children by FPL-Based Income Categories

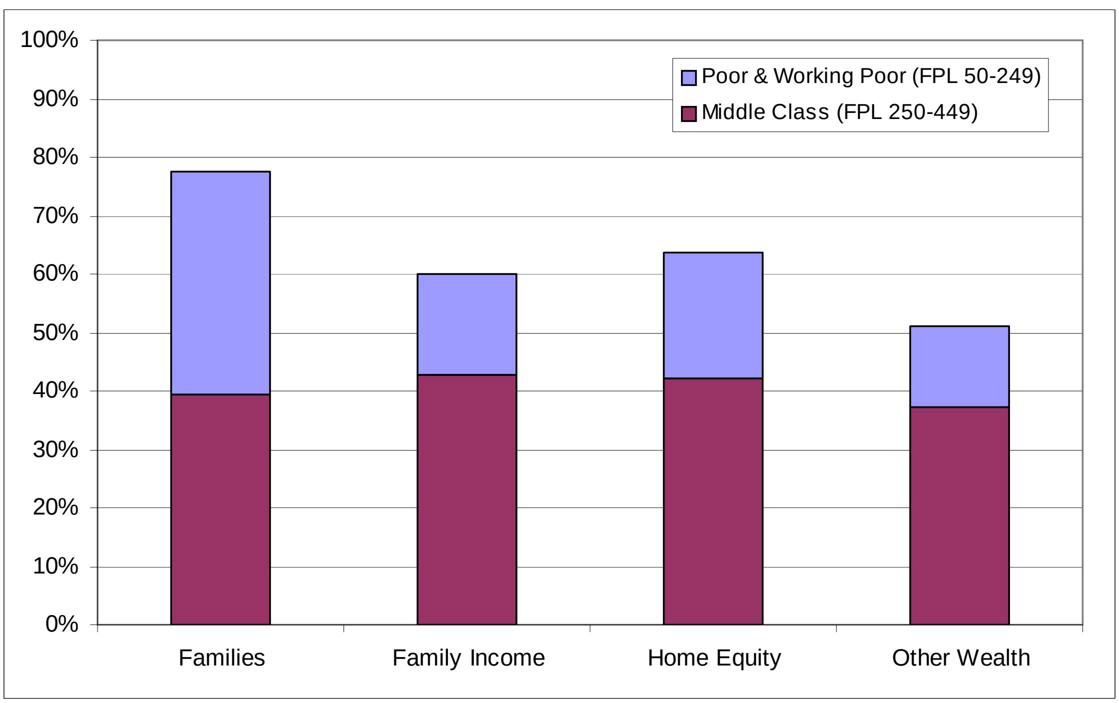
Figures 2 and 3 profile the share or percentage of overall income, home equity and other wealth that income categories have compared to other categories in order to indicate the extent of inequality between the two income categories. Results include:

- Poor and working poor families in California comprised approximately 37% of all families in California, but held only about 17% of family income in the state, about 16% of home equity and 8% of other wealth.
- This trend was similar for poor and working poor families in the rest of the nation. Poor and working poor families in the rest of the nation comprised approximately 38% of all families, but held only about 17% of family income, about 21% of home equity and 14% of other wealth.
- These patterns suggest that home equity wealth was not unequally distributed when compared with family income. However, other wealth of poor and working poor families was unequally distributed when compared to family income.
- Income and wealth was more equally distributed for middle class families. For instance, middle class families in California comprised approximately 38% of all families in California, held only about 38% of family income in the state, about 40% of home equity and 37% of other wealth.



Source: Survey of Income and Program Participation (SIPP), 2001 Panel, Wave 3

Figure 2. Distributional Shares by FPL-Based Income Category, 2000 – California



Source: Survey of Income and Program Participation (SIPP), 2001 Panel, Wave 3

Figure 3. Distributional Shares by FPL-Based Income Category, 2000 – Rest of Nation

Appendix A. Data and Methodology

The Survey of Income and Program Participation (SIPP) is a "longitudinal survey designed to provide detailed information on the economic situation of households and persons in the United States. These data examine the distribution of income, wealth, and poverty in American society and gauge the effects of federal and state programs on the well-being of families and individuals" (ICPSR 2005). We use data from Wave 3 of the 2001 SIPP Panel data that contains information on family assets, liabilities, and mortgages. Family characteristics and income information was derived from the Wave 3 core microdata file. Information on total and home-related wealth and debt were derived from the Wave 3 topical module microdata file.

Our analysis includes family households with at least one own or related child and is based on the response of the reference person for the household. Since each respondent had one response for each of 4 monthly surveys, we defined a reference person's income, wealth, and debt based on the maximum value for each amount from all surveys. We converted monthly income levels and poverty threshold levels reported in SIPP data to annual measures by multiplying by 12. The sample size of families with children for California was 1,447; the sample for the rest of the nation was 10,926. For the analysis in this report, the small sample size limits the number of FPL-based income categories to two. Families with a family income that is 50-249% of the FPL are classified as "Poor & Working Poor." Families with a family income that is 250-549% of the FPL are classified as "Middle Class."

References

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