

The logo for Commonwealth, with the word in lowercase and 'wealth' in orange and 'common' in white.

commonwealth

A Wealth Building Blueprint

The Promise of
Traditional and New
Pathways for Closing
the Wealth Gap

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Commonwealth strengthens the financial opportunity and security of financially vulnerable people by discovering ideas, piloting solutions, and driving innovations to scale. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling 750,000 people to accumulate more than \$3 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org



MetLife Foundation is committed to expanding opportunities for low- and moderate-income people around the world. They partner with nonprofit organizations and social enterprises to create financial health solutions and build stronger communities, while also engaging MetLife employee volunteers to help drive impact. MetLife Foundation was established in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. From its founding through the end of 2020, MetLife Foundation provided more than \$900 million in grants and \$87 million in program-related investments to make a positive impact in the communities where MetLife operates. Their financial health work has reached more than 13.4 million low- and moderate-income individuals in 42 countries. To learn more about MetLife Foundation, visit metlife.org.

Executive Summary

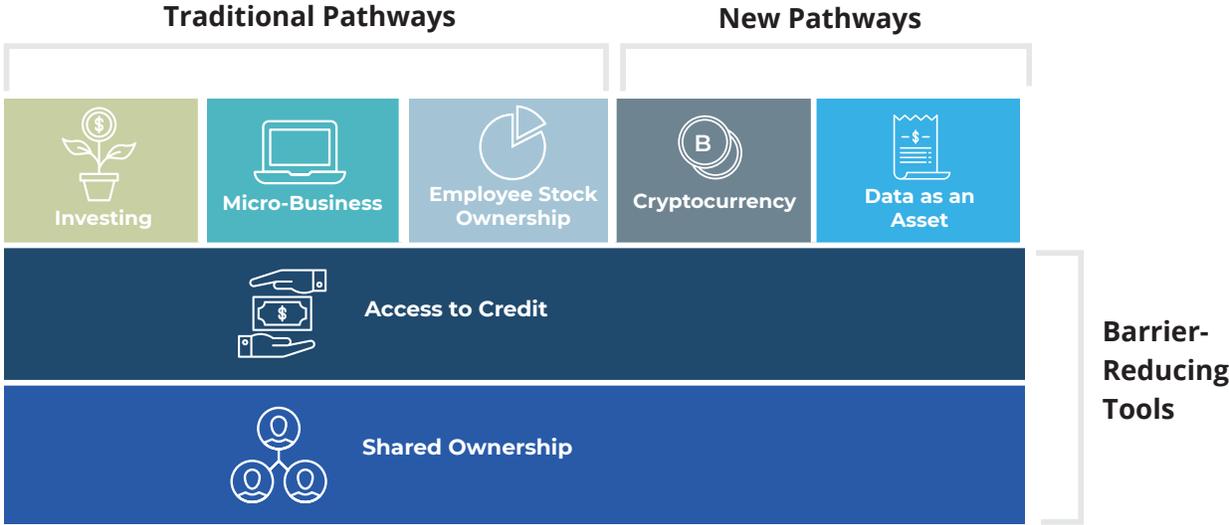
Decades of research and simple common sense point to a basic intuition. Wealth matters. Wealth delivers material, psychological, and social benefits—for individuals, families, communities, and the nation. Wealth in the form of assets—and opportunities—is an engine of economic growth and mobility, and central to a just and prosperous society.

Yet, disparities in wealth in the United States are persistent and growing, compounding the challenge of living on a low income, and disproportionately impacting Black, Latinx, and female-led households. The staggering size of the wealth gap reveals the effects of stagnant wage growth, as well as accumulated systemic racism and gender discrimination. Indeed, the [median net worth for white men is 100 times that of Black women](#).

Traditional pathways to wealth—home ownership, higher education, entrepreneurship, investing in stocks—have been inaccessible to many, often because of systemic discrimination. The tools that exist today to support people on these well-established pathways are often designed with more privileged customers in mind, distributed in ways that don't reach financially vulnerable people, and built on assumptions about trust and credibility that do not hold for large segments of the population.

Commonwealth's vision is to make wealth possible for everyone by cultivating a new generation of innovative wealth building tools and pathways suitable for the 21st century. We know that no one tool or path is right for all people or for every stage in one's financial journey. We need a blueprint that will work for a range of people and circumstances. To help realize this next generation of wealth building tools, we have identified seven areas of focus for our own work: Credit building, shared ownership, stock market investing, employee stock ownership, microbusiness, data, and cryptocurrency. Across these seven areas, our work aims to: 1) reduce barriers to entry for all pathways to wealth; 2) improve traditional pathways to wealth; and 3) develop new 21st century pathways to wealth.

WEALTH BUILDING BLUEPRINT



For wealth to be possible for everyone, relying on wages from earned income alone isn't enough—it's vital to enable low- and moderate-income (LMI) people to reap returns from capital and other sources. These seven areas of focus are in different stages of development, and require different techniques from across our innovation pipeline. From consumer research and expert interviews, to designing prototypes and partnering to pilot test approaches in the field, we will build the evidence that increasing access to and use of traditional pathways to wealth, and innovating new paths, will have a material impact on people's lives, the wealth gap, and society.

This is the time for innovation. Through these pathways, we have pinpointed opportunities for innovators to have a sustainable impact on the income, race and gender wealth gaps—so that wealth can truly be possible for all. We will only succeed if stakeholders across all sectors take part at every step—from ideation, design, testing, through to scale implementation. Over the coming months, we will engage more deeply with innovators, fintechs, financial services firms, industry experts, employers, and policymakers.

[Join us](#) in the audacious goal to make wealth possible for all.

Introduction: A Wealth Building Blueprint

Building wealth is a persistent challenge for low- and moderate-income (LMI) Americans who continue to become less wealthy, not more.

An analysis by the [Federal Reserve](#) found that during the recession of 2007-2010, wealth fell by almost 30% for all families. The disparities began to appear after the recession—Black and Latinx families' wealth continued to fall an additional 20% from 2010 to 2013, while white families' wealth was essentially unchanged. Given the well-documented disparate impact of the current economic crisis, action must be taken now to ensure an equitable recovery this time.

Commonwealth has the audacious goal of reversing these wealth disparities by creating a new generation of wealth building tools and pathways. We are working to uncover and highlight new consumer insights, pilot innovative solutions based on these insights, and influence scale actors to adopt them to enable wealth creation for millions more low-income people over time. We will only be successful in this endeavor if stakeholders from across all sectors collaborate with us at every step: from ideation, design, and testing, through to scale implementation. This brief introduces this work to inspire others to join our focus on wealth creation.

The potential for accessing a wealth of opportunities and assets should be part of every person's financial journey. *Having* financial wealth is the outcome of the journey. Wealth allows for economic mobility and a more just and prosperous society. *Building* wealth is the experience of the journey. It can be designed to give financially vulnerable people the freedom to make choices about their lives and a new sense of financial capability and opportunity. Wealth building tools and new pathways that can provide both freedom and opportunity, at scale, is our goal with this work.

Growing assets over time is neither simple nor easy, especially for those who start with low wealth and have limited income. The 20th century pathways to wealth—home ownership, higher education, entrepreneurship, investing in stocks—have been inaccessible to too many, often because of systemic discrimination. And the tools that exist today to support people on these pathways are often designed with different customers in mind, distributed in ways that don't reach financially vulnerable people, and built on assumptions about trust and credibility that do not hold for large segments of Americans.

Making tools and pathways work for the financially vulnerable—especially women, Black, and Latinx people requires:

- Reducing barriers to entry for traditional pathways to wealth. These barriers include the cost of entry, historic systemic exclusion based on race or gender, communities feeling excluded, and regulation intended to protect that often excludes.
- Redesigning tools for traditional pathways so they reach and meet the needs of the complex financial lives of the financially vulnerable.
- Developing and embedding mechanisms to keep people on these paths when challenges arise.
- Innovating new 21st century pathways to wealth.

The goal of enabling broad wealth creation is not new, and many individuals and organizations have helped advance toward it over many decades. Commonwealth is focusing this work on building a portfolio of wealth creation tools and pathways where we see new opportunities for innovation and where this innovation could have a sustainable impact on the income, race, or gender wealth gaps. We also know that no one tool or path is right for all people, or for every moment on a person's financial journey. We are, therefore, pursuing a diversified group of tools—some that are already in-market and some that are just sketches on paper—that will work for many different groups of people. (See table below highlighting market readiness, innovation stage and target audience segment.)

The seven areas of work we are pursuing are solutions that reduce barriers to entry for all pathways (credit building, shared ownership); traditional pathways that hold promise for innovation (stock market investing, employee stock ownership, microbusiness); and new 21st century pathways (data ownership, cryptocurrency).

MARKET AND INNOVATION STAGE

		Market Readiness	Innovation Stage	Segment of LMI
Barrier-Reducing Tools	Credit Building	In market	Test & learn	Low credit score or credit invisible persons
	Shared Ownership	Early market	Define	LMI communities & social networks
Traditional Pathways	Stock Market Investing	In market	Test & learn	Women of color, early adopters
	Employee Stock Ownership	Close to market	Define	W-2 employees of public companies
	Microbusiness	In market	Build	Entrepreneurs
New Pathways	Crypto Currencies	Early stage	Learn	Early adopters
	Data Ownership	Early stage	Learn	Early adopters

Taking the First Step: Reducing Barriers to Entry

Credit Building

SUPPORTING WEALTH BUILDING THROUGH GOOD CREDIT



Credit is foundational to every American’s financial journey and central to building wealth. Yet, millions of Americans struggle with credit. According to the [Consumer Financial Protection Bureau](#), both unscored and poor credit scores are disproportionately experienced among Black and Latinx populations.

Having good credit—in addition to making it easier to cover everyday expenses—can facilitate access to a plethora of financial options that enable wealth building. Conversely, poor credit can be a notable hurdle to accessing safe and effective financial resources, products, and services. Getting a car or home loan, or even a job, can be challenging for those with poor credit, and lower credit scores also mean higher interest rates when loans are approved. At its core, credit makes purchasing assets that can support wealth building possible.

Many new fintechs and nonprofits have recognized the outsized influence of credit in people’s financial lives and are doing important work in this area. To more directly link credit and wealth building, Commonwealth is examining the opportunity for tool innovation that would reduce barriers to entry and create access to multiple pathways to building wealth. For example, Commonwealth partnered with LOQBOX, a mission-driven fintech, to learn how financially vulnerable Americans view the role of credit in their financial lives. Our [findings](#) indicate both the need for, and appeal of, credit-building strategies among financially vulnerable people as a step to building wealth.

We see further opportunities for innovative approaches for fintechs and financial services firms to deliver products to this underserved market and become a trusted partner as they reduce the barriers to embarking on any path to building wealth. Our research also indicates that there are viable and sustainable business models for serving this market—demonstrating that meeting the needs of this market is both good for business and good for people.

Shared Ownership

LEVERAGING THE POWER OF COMMUNITY FOR ASSET BUILDING



The assets with the greatest wealth building potential through appreciation in value—traditional assets (such as housing, commercial real estate, and education), and unusual ones (such as collectible cars and art)—often require a high initial investment. This is a barrier to entry that excludes many people from unlocking the longer-term returns that build wealth.

Shared ownership is a tool to overcome the barrier of upfront costs. Models differ but have in common the premise that the ownership and return accrues to different people—to both the initial investor(s) and another person/group who were unable to make the initial investment. For instance, a person or group with resources can purchase an asset and share ownership of it with non-investors. Another approach is a group of people with more limited resources pooling their funds for asset acquisition.

An example of a shared ownership model is the concept of Community Investment Trusts. Community Investment Trusts (CITs) are a type of Real Estate Investment Trust (REIT). REITs are corporations that allow investors to profit from income-producing properties without owning them. Similar to other real estate investments, REITs have consistently produced returns of 10% or more.

CITs have been piloted and crafted specifically for LMI people with a low cost to entry—some as low as \$5—and with rules that limit ownership and assets to buildings in a specific geographic vicinity. CITs have garnered both positive reception among LMI individuals and healthy returns.

Commonwealth sees new opportunities for innovation and growth of shared ownership models. Despite the current climate of social and political division in the United States, there is evidence—such as the increase in mutual-aid groups—that understanding and interest in the interconnectedness of communities is growing. Our [Positive Financial Futures](#) research (on the nonfinancial factors that impact financial security) found evidence that community and social networks play a critical role in people's beliefs that financial security and opportunity are attainable for them.

Shared ownership also shows significant promise for having a multiplier impact on communities. When the initial investment is funded by the community, the return on the investment stays in that community, rather than accruing to lenders outside of the community.

Joint and/or temporary ownership of any asset faces a complex legal and administrative landscape given the traditional focus in the United States on individual ownership. Innovative approaches (such as blockchain) can overcome the many technical challenges to implementing these models. We are experimenting with how the tool of shared ownership can facilitate the promising financial pathways we have identified (such as microbusinesses and stock ownership).

Improving Traditional Pathways to Wealth

Microbusiness

CENTERING MICROBUSINESSES AS A SOURCE FOR BOTH WEALTH AND INCOME



Microbusinesses—[those with fewer than five employees](#)—comprise 92% of businesses in the United States. Compared to all small business owners, microbusiness owners are more likely to be young, women, and people of color. These entrepreneurs face a myriad of financial challenges, including insufficient short- and long-term savings and lack of access to capital. Moreover, for these owners, there is little separation between personal and business financial well-being. The [2019 Federal Reserve small business credit survey](#) found that 47% of businesses would use the owner’s personal savings if faced with a two-month revenue loss, and 88% of small businesses rely on the owner’s personal credit score for business funding.

Holistically addressing both the financial health of the micro-business and the owner’s individual financial security is an innovation opportunity for a wealth building pathway. Commonwealth has identified an opportunity to redesign our successful innovations that support household financial security (such as building emergency savings and building credit) to meet the specific needs of lower-income entrepreneurs and quickly improve the financial health of both households and the businesses.

With the renewed focus of public and private initiatives to support small businesses due to the economic impact of COVID—especially those led by women and Black business owners—the time is ripe to more broadly help LMI entrepreneurs emulate the mindset and have access to the tools that others (such as innovators in the tech sector) have used to move beyond income-generating mechanisms to building wealth with their businesses.

92%

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Stock Market Investing

TRANSFORMING TOOLS TO MAKE INVESTING ACCESSIBLE TO ALL



In a society built on financial markets and capital, dismantling barriers that prevent broader participation has transformative potential. The growth of the stock market even during the COVID-19 crisis highlights that it is driven by factors beyond the labor markets. Transforming wage-earners, who use money for consumption and daily living, to investors, who use money as a tool for long-term benefit, is a powerful and crucial component to making this pathway accessible to LMI people.

In 2019, Commonwealth began researching the barriers to investing for those least served by the investing ecosystem: women, people of color, and lower-income households, with a particular emphasis on women and single mothers of color with household incomes under \$80,000 per year. These groups represent a significant untapped market; a market that investment companies are not set up to serve well. This target market presents an opportunity in terms of size and reachability; our research suggests that there is a clear interest in investing once specific barriers are removed. For example, we found that once research participants believed that investing could be possible for someone like them, they were excited to take action to begin investing and to share their excitement with others in their families and social networks.

Current conditions are ideal for innovation to make the investment ecosystem more accessible to new investors, especially LMI women, Black, and Latinx people. As traditional investing platforms and newer fintechs fight for market share, designing consumer-centered experiences that specifically address the barriers for new investors to start and to continue to invest will be key to their success. This means delivering investing tools intentionally built for these [new investors](#) that: 1) reflect their financial lives, needs, wants and aspirations, and 2) support agency, decision-making power, and long-term wealth building.

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Employee Stock Ownership

DEMOCRATIZING EMPLOYEE STOCK OWNERSHIP



Employees owning stock in the company they work for leads to [more job satisfaction, less absenteeism, and more productivity](#). It also can lead to employee wealth. Publicly traded companies recognize this reality, with 75% offering an Employee Stock Purchase Plan (ESPP) to at least some employees and 50% of Fortune “100 Best Places to Work” offering some type of stock ownership plan.

The mechanisms for employees to acquire stock in their company through their employer include: buying the stock as part of a 401k retirement plan, stock option bonus plans, profit sharing plans, Employee Stock Purchase Plans (ESPP), and Employee Stock Ownership Plans (ESOP). Companies use stock ownership as a corporate-finance strategy to align the interests of their employees with those of their shareholders and they are often structured to provide tax benefits to all parties. This makes them subject to complex regulations that may become a barrier to participation for both companies and their employees. [A survey by Deloitte](#) found that 69% of companies with ESPPs reported under 50% participation rates by eligible employees. 40% identified regulatory compliance as a significant challenge and 52% identified communicating with staff about the value of this benefit.

Commonwealth identified two fresh approaches to increasing the use of employee stock ownership as a pathway to build wealth. One builds off the increasing understanding among employers of the link between employee financial health, productivity, engagement, and business performance. Although many companies include stock ownership in their employee benefit packages, this is mostly offered to highly compensated employees. Employers could offer stock ownership to more employees, through an ESPP or other mechanism, to build the wealth of all employees and support business performance. Promising [evidence](#) shows that broadening access to this pathway positively impacts financial health.

The second approach builds off the advent of new technologies to streamline the technical, education, and communication challenges of establishing one of the legal structures that can facilitate employee stock ownership. In recent years, several companies have democratized access to retirement plans, and this same model could be applied to employee stock ownership. Finally, [findings from a 2020 study](#) by Fidelity points to the potential for participation in an ESPP to have broader impacts on wealth. The study found that employees with annual salaries between \$25,000 and \$50,000 who participate in both ESPP and 401(k) contribute an average of 8.3% and 4.7% to their 401(k) and ESPP, respectively, compared with a 7.4% contribution rate for employees who only participate in their 401(k).

New 21st Century Pathways to Wealth

Crypto currencies

CRYPTO CURRENCIES ACCESSIBLE EQUALLY TO ALL



Crypto currencies are not physical assets, but rather are digital stores of value enabled by block-chain technology. Although first viewed primarily as a highly speculative mechanism to generate quick returns, they are increasingly entering the financial mainstream. Large private companies such as PayPal and Square now accept crypto currency as payment for transactions, and governments are attempting to regulate them.

The use of crypto currencies will continue to grow over the long-term, even with regulatory uncertainty. We see many new use cases emerging with the potential to benefit LMI households, allowing individuals to transact quickly at lower costs, build digital records of their financial histories, and securely store, transfer and invest money. We can act now to ensure that use cases, distribution channels, and regulations are designed to enable participation by LMI people.

Commonwealth’s original research in 2019 found that 79% of LMI respondents in a national survey had heard of digital currencies like Bitcoin and Ethereum, which is similar to the general U.S. population (74%). However, of the LMI respondents who had heard of digital currencies, only 13% have used them, compared with 30% in studies of the general U.S. population. Further, the COVID-19 crisis has accelerated the move away from cash to digital financial transactions, dramatically changing the financial behaviors of many households. Now is the time to build off of these new financial behaviors to address this gap between familiarity and use.

From legacy banks creating digital coin payments to crypto leader Gemini adding saving products to its portfolio, interest in digital currencies continues to rise. More work is needed to influence the burgeoning field to ensure that the systemic income, race, and gender exclusions seen in traditional pathways to wealth are not replicated in cryptocurrency design, distribution, and regulation.

Data as an Asset

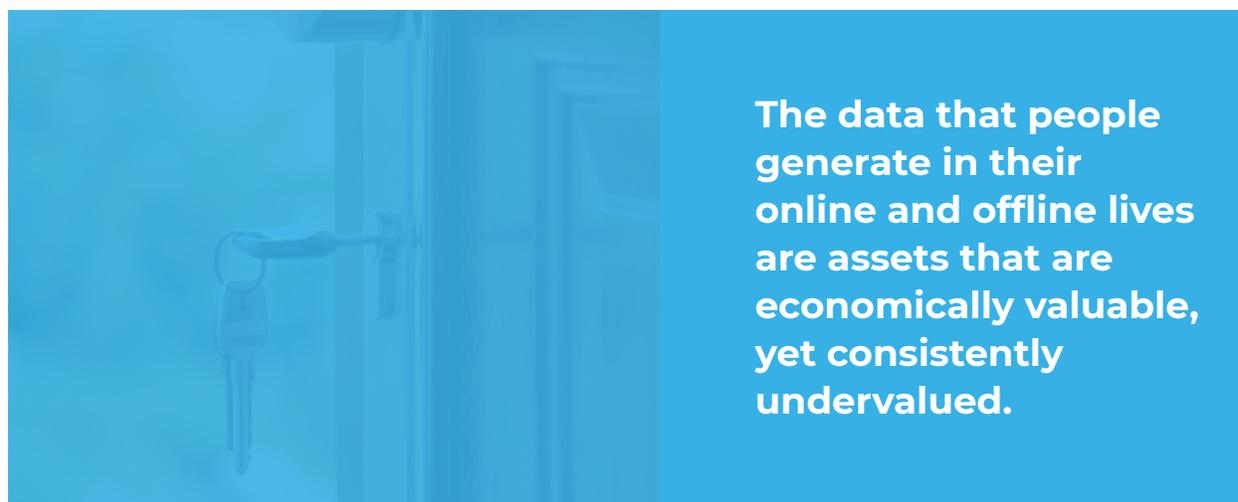
PEOPLE REALIZING THE ECONOMIC VALUE OF THEIR DATA



The data that people generate in their online and offline lives are assets that are economically valuable yet consistently undervalued. The business models of entire industries are built on extracting value from consumer data acquired at low or no cost, or as a byproduct of other activities. In effect, increasingly, data is a powerful fuel growing corporate valuations, profits and market-share, and creating wealth for shareholders. The growth of open banking—the use of programming interfaces to share financial data—is another example of increased recognition of data’s value. However, many people are unaware of the value of their personal data, or feel they have little choice but to give it away in exchange for services that increasingly feel essential for modern life.

Commonwealth sees an innovation opportunity for individuals to realize the economic value of the personal data they generate. This is particularly salient now because of new regulatory developments, both in the United States and Europe, related to data privacy and technology monopolies. These new developments mean that the field is in flux, presenting an opportunity for the development of new tools for new markets. A common conception is that one’s data is a price we pay for services received, but an alternative emerging framework suggests data about oneself is an asset that can be deployed. For example, the United Kingdom’s open banking platform gives consumers control over their data: users are always provided the choice of giving an app access to their data, and this is protected by financial authorities. Allowing individuals to control their personal data is a first step to allow them to monetize it.

Another opportunity for innovation is the new technologies—including virtual assistants, virtual reality, DNA sequencing and femtech—that will generate new data in an environment where ownership, value, and business model have yet to be determined. This presents an opportunity to ensure that equity for all is built into the design of these technologies from the start.



Next Steps

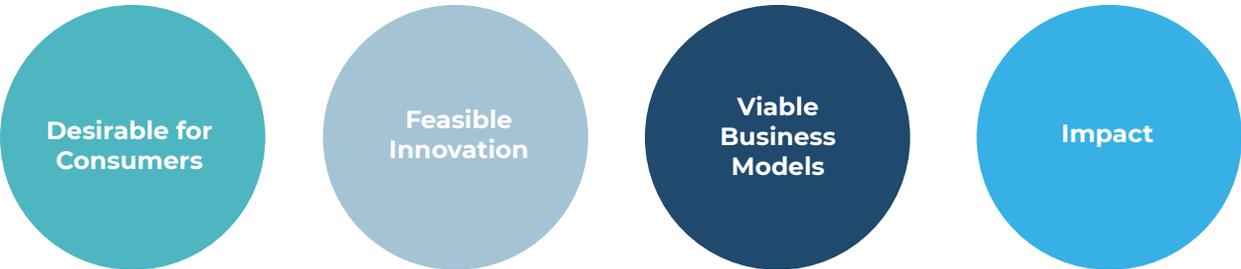
This brief lays out our agenda for wealth building. The work ahead is to continue building the evidence that increasing access and use of existing wealth pathways, and innovating new paths, will have a significant impact on people’s lives, the wealth gap, and society as a whole.

We will build four types of evidence:

- **Desirability.** Our work always starts with talking to LMI people to understand their wants, needs, and aspirations. We will build evidence of the desirability of wealth building (that is, people are interested in building wealth). Further, we will confirm that they are interested in these specific paths when they are designed to meet their financial needs.
- **Feasibility.** The innovations that meet the needs of people must also be feasible. We will build evidence that proposed innovations will be feasible, both from an operational and regulatory perspectives.
- **Viability.** Innovation is only sustainable over time when there is a business model to support it. We will build evidence for the business case for our innovations.
- **Impact.** For Commonwealth, this work is about social impact. We will build evidence that these innovations will provide measurable benefits for LMI households, their communities and the economy.

The seven areas of opportunity that we have identified in this brief are each in different stages of development. We will, therefore, use a variety of techniques across our innovation pipeline to build the evidence—from consumer research and expert interviews, to designing prototypes to partnering to pilot test in the field.

FOUR TYPES OF EVIDENCE



Conclusion

Commonwealth's goal has always been to benefit those with low incomes and few assets. The economic devastation of 2020 will eventually give rise to economic recovery and growth. Absent deliberate effort, recovery will only benefit those who already hold wealth. We must work to lay the necessary foundation now to be ready to seize the moment when the recovery arrives; this means developing tested and concrete asks of the private sector and government, all backed by data, and on-the-ground experience of financially vulnerable people themselves. And finally, this work will only be successful if it is done in collaboration with others: industry experts, innovators, fintechs, financial services firms, and employers. To follow this work and explore how you might work with us in making wealth possible for all, sign up [here](#).



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22 BATTERYMARCH ST., SUITE 501
BOSTON, MA 02109