A Wealth Building Blueprint

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

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Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and women-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth’s work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over 1.5 million people to accumulate more than $6 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.

At MetLife Foundation, we are committed to driving inclusive economic mobility for underserved and underrepresented communities around the world. We collaborate with nonprofit organizations and provide grants aligned to three strategic focus areas – economic inclusion, financial health and resilient communities – while 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. Since 1976, MetLife Foundation has contributed over $900 million to strengthen communities where MetLife has a presence. To learn more about MetLife Foundation, visit www.MetLife.org.

The opinions expressed in this report are those of Commonwealth and do not necessarily represent those of MetLife Foundation.
Executive Summary

This report updates our 2021 Wealth Building Blueprint with new information about the research and pilots we’ve completed so far, as well as work in progress and future plans, laying the groundwork for the next phase of Commonwealth’s innovative wealth-building work.

Wealth matters: it delivers material, psychological, and societal benefits, not just for individuals and families, but also for communities, the economy, and the nation. But wealth disparities in the United States are persistent and growing, compounding the challenge of living on a low income, and disproportionately impacting Black, Latinx, and women-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 wealth of white men is 13x that of Black women.

Traditional pathways to wealth—home ownership, higher education, entrepreneurship, and 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. Last year, Commonwealth published our Wealth Building Blueprint which identified seven areas of opportunity for wealth-building innovation: credit building, shared ownership, stock market investing, employee stock ownership, microbusiness, data, and blockchain technology.

Now, after an additional year of research, experimentation, and engagement with families living on low and moderate incomes (LMI) across the country, the blueprint has evolved into the present version, outlining the progress we’ve made in these focus areas, as well as the future paths for this work.

### Wealth Building Blueprint

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Over the last year, we have partnered with retail investing platform Public.com for a pilot that allowed hundreds of women of color to invest for the first time, allowing us to learn more about their experiences and the barriers they face. Thanks to the generous support of several major industry foundations, this innovative research has now developed into several projects that will continue investigating the investing experience of U.S. households living on LMI.

We also partnered with LOQBOX to learn more about how households living on LMI can utilize opportunities to improve their credit scores and wrote about wealth-building opportunities through shared ownership and blockchain technology.

Finally, we conducted initial research and interviewed experts to better understand innovation opportunities in the remaining wealth-building pathways, employee stock ownership and microbusiness opportunities. Although we are not actively pursuing these channels at present, this report provides an overview of what we know about these areas as a starting point for future work.

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 Americans living on low to moderate incomes (LMI) who continue to become less wealthy, not more. Persistent racial and gender wealth gaps remain a major obstacle to financial opportunity for households living on LMI in the United States. The median Black family in the U.S. has $24,100 in wealth, just one-eighth the wealth of the median white family ($188,200). Single Black women under the age of 35 have a median wealth of just $101, compared with $1,550 for single Black men and $22,640 for single white men in the same age bracket.

Commonwealth has the audacious goal of reducing 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. With continued collaboration across all sectors, we can be successful in this endeavor. This blueprint provides an update on our progress in this work that we hope will inspire others to join our focus on wealth creation.

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, and investing in stocks—have been inaccessible to too many, often because of systemic discrimination. 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.
## Focus Area & Overview

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Pilot Research: Investing & Credit Building

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. Enabling wage earners, who use money for consumption and daily living, to become investors, who use money as a tool for long-term financial growth, is a powerful and crucial component to making this pathway accessible to people living on LMI.

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.

Our Framework for Inclusive Investing report identifies four key barriers to investing for this population:

1. **Resources:** The most fundamental barrier to capital market participation is a lack of resources. Basic financial security that allows households to build savings is the essential first step to building wealth.

2. **Actionable Knowledge:** Even people with enough funds to invest may be unable to take advantage of opportunities without access to the kind of knowledge that allows them to feel comfortable making investing decisions.

3. **Market Access:** Individuals who want to invest need access to products that meet their needs and capabilities as new and low-capital investors.

4. **Investor Identity:** Those with resources, knowledge, and market access must also be able to see themselves—and be seen by others—as investors in order to reinforce the idea of investing as a long-term wealth-building opportunity.

Building on this work, Commonwealth launched our first inclusive investing pilot in 2021. For this pilot, we partnered with retail investing platform Public.com to study the behavior and attitudes of 241 women (84% Black or Latina) with little to no investing experience as they invested $250 in seed money through the platform from July 2021 to February 2022. Our report on this research provides three key insights into how to design more inclusive investing platforms for women of color.
1. **Seed funding can provide a win-win for both new investors and platforms:** Seed funding gave participants the opportunity to learn without taking significant monetary risk, and this opportunity to learn through experience increased their willingness to contribute their own funds to their investing portfolio. Platforms may find that even a small amount of seed funding can have a significant impact on broadening their customer base by providing people who would not normally consider investing the opportunity to develop actionable knowledge before risking their own money.

2. **Building opportunities for social engagement into platforms increases feelings of comfort and belonging:** By creating a social investing experience that allows them to see that others like them are both participating and making progress learning about investing, they are able to see investing as something that is for everyone, including beginners and people without large amounts of capital. In addition to these benefits, this research suggests that community engagement is a key learning channel for new investors and was rated by participants as more useful than any other source.

3. **Embedding learning opportunities directly into the investing experience makes actionable knowledge more accessible:** Giving users the opportunity to learn while doing makes investing more accessible to many who might not normally be willing or able to access separate investor education programs or initiatives. By building access to actionable knowledge directly into the platform through free content and community groups dedicated to learning and sharing, investing can be transformed from an intimidating undertaking to an educational and social opportunity to build wealth.

Current conditions are ideal for innovation to make the investment ecosystem more accessible to new investors, especially women, Black, and Latinx people living on LMI. 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 reflect their financial lives, needs, wants, and aspirations; and support agency, decision-making power, and long-term wealth building.

**NEXT STEPS**

Commonwealth is continuing to build on this important research with several new projects beginning in Fall 2022. We are launching a significantly larger investing pilot designed to build on findings from our Public.com pilot around barriers to investing, with a particular emphasis on understanding the role of investor identity in investing attitudes and behavior. We are also launching a pilot with a large financial institution to test the impact of different levels of seed funding on the behavior of new investors. These two pilots will be complemented by a comprehensive landscape analysis of investing opportunities from the perspective of people living on LMI to better understand new opportunities for innovation and inclusion.

**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 by 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.
PARTNERING WITH LOQBOX TO RESEARCH CREDIT BUILDING FOR PEOPLE LIVING ON LMI

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 indicated both the need for, and appeal of, credit-building strategies among financially vulnerable people as a step to building wealth.

Commonwealth built on this initial research by working with LOQBOX to study the impact of designing credit building tools to be transparent, inexpensive, and provide supplemental support. The resulting report provides insights based on our observations of LOQBOX users over the course of a year. We found that implementing design features that addressed the needs of people living on LMI:

1. Increased participants’ confidence in their ability to build wealth;
2. Improved credit scores with an average increase of 52 points; and
3. Increased positive feelings about participants’ overall financial situations.

This research provides a valuable guide for designers seeking to build inclusive credit-building products that incorporate the needs and perspectives of people living on LMI.
Building wealth through shared ownership of real estate

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 (CITs), which are a type of Real Estate Investment Trust (REIT). REITs are incorporated entities 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 people living on LMI 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 individuals living on LMI and healthy returns. In recent years there has been an increase in available options for building real estate equity through shared ownership. Moving beyond traditional real estate investment trusts (REITs), new community-oriented shared ownership programs focus on empowering community members to build wealth and exercise governance through partial stakes in local residential and commercial real estate. Portland’s Community Investment Trust and Nico in Los Angeles provide examples of these programs in practice for commercial and residential real estate, respectively.

Using blockchain tokenization to facilitate shared ownership programs

Commonwealth has conducted initial research into shared ownership programs like these and have identified them as a potentially fruitful application of blockchain technology in the form of asset tokenization. Real estate tokenization as a blockchain-based method of facilitating partial ownership of assets may present an opportunity for local shared ownership programs to get started and scale more easily.

Tokenization is the process through which exchangeable tokens on a blockchain are created which represent ownership shares of an underlying asset. Platforms for tokenizing real estate and other assets such as DigiShares are already established and may be able to work with local programs to create more streamlined digital mechanisms for buying, selling, and exchanging partial stakes in local real estate. Unlike more speculative applications of blockchain in the form of cryptocurrencies, real estate tokenization provides digital representations of tangible assets with consistently appreciating real-world value to make them easier to divide and trade.
Next steps

Community ownership of real estate provides a mechanism for all community members, including both owners and renters, to build equity by owning a piece of their community and to contribute to community growth through investment dollars. These programs are generally designed to be accessible to those who are only able or willing to invest small amounts over time, in some cases under $100.

Commonwealth is exploring opportunities to partner with local organizations creating opportunities for shared ownership of real estate as a wealth-building opportunity for households living on LMI. If you are an organization of this type interested in partnering with Commonwealth, reach out to Charles de la Cruz at info@buildcommonwealth.org.
Define Opportunities:
Employee Stock Ownership & Microbusiness

In addition to the areas of active wealth-building research described above, Commonwealth has conducted initial research to define opportunities within two additional wealth-building pathways that we are not currently focusing on but hope to develop further in the future: employee stock ownership and microbusiness.

**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 401(k) 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. In addition, 40% identified regulatory compliance as a significant challenge and 52% identified communicating with staff about the value of this benefit.

**FRESH APPROACHES TO INCREASING EMPLOYEE USE OF STOCK OWNERSHIP OPPORTUNITIES**

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.

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).
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 microbusiness 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 entrepreneurs living on LMI 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.
Next Steps

This brief lays out our agenda for wealth building and the progress we've made so far. As we forge ahead, we will continue building 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 people living on LMI 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 perspective.

- **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 households living on LMI, their communities, and the economy.

In the coming months, our most active area of wealth-building work will be research into how more inclusive investing opportunities can be created for people living on LMI.

- This work includes our investor identity pilot launching in Fall 2022. In this pilot, 800 new investors will have the opportunity to begin their investing journey using seed funding provided by Commonwealth. By learning about their investing behavior through observation, surveys, and one-on-one interviews, we hope to deepen our understanding of the barriers to investing that exist for people of color as well as the process through which an investor identity develops over time.

- In a parallel project, 1,000-2,000 new investors will have the opportunity to begin investing with varying amounts of seed funding. Through this work, we hope to build on earlier insights about the value of seed funding and identify how different levels of seed funding affect investing behavior and learning.

- In a third project, we will survey the landscape of investing options to map out barriers and opportunities to investing from the perspective of households living on LMI.
Conclusion

Commonwealth’s goal has always been to benefit those with low incomes and few assets. Absent deliberate effort, economic growth will primarily benefit those who already hold wealth. We must work to lay the necessary foundation now to be ready to seize opportunities for innovation in the financial sector. This means developing concrete ideas for the private and public sectors, backed by data and on-the-ground experience of people who are financially vulnerable. 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.