USC CENTER FOR HIGHER EDUCATION POLICY ANALYSIS

Annotated Bibliography: Perspectives on Individual Development Accounts

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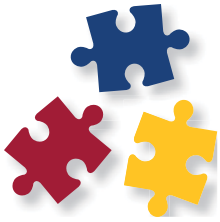
This report is based on a three-year Lumina Foundation for Education-funded project entitled IDA-PAYS that involved interviews, case studies, focus groups, and a survey. Lumina Foundation for Education is an Indianapolis-based private foundation dedicated to expanding access to and success in education beyond high school. The views expressed in this publication are those of the author(s) and do not necessarily represent those of Lumina Foundation for Education, its officers or employees.

Introduction



During our three-year research project we found that most practitioners, researchers, and policymakers in the education field were not familiar with Individual Development Accounts (IDAs) or the existing research on IDAs. Therefore, we compiled a list of some of the references that we found useful and that we believe will help you as you learn more about IDAs. To begin, an IDA is a matched savings account for low-income students to save toward postsecondary education. In addition to match savings the IDA includes financial literacy education, asset-specific education, and case management. For more information on IDAs or our research project please visit our website: www.usc.edu/dept/chepa/IDApays/.

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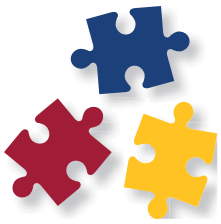

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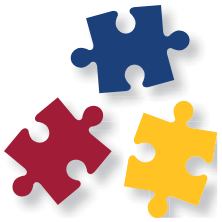
The American Dream Demonstration



The American Dream Demonstration (ADD) was the first large-scale study of Individual Development Accounts (IDAs). ADD ran for seven years (1997 to 2003) and involved a collection of 14 IDA programs in various states. ADD was run by the Corporation for Enterprise Development (CFED) in Washington, D.C. and funded by public and private foundations. A special software program, the Management Information System for Individual Development Accounts (MIS IDA) was designed specifically to track participant data by the Center for Social Development (CSD) at Washington University in St. Louis, which conducted and designed the research on the ADD. See ADD's website: http://add.cfed.org/.

Schreiner, M., Clancy, M., & Sherraden, M. (2002). *Saving performance in the American Dream Demonstration: A national Demonstration of Individual Development Accounts*. St. Louis: Washington University, Center for Social Development.

This report highlights the qualitative data on the American Dream Demonstration (ADD). Below we will give you a detailed summary of the findings from ADD and also highlight other articles to review.

The authors show that low-income individuals are capable of saving and accumulating assets:

Savers

Savers are defined as those who saved a net of $100 by the end of 2001; the savings period was from September 1997 to December 2001. 56% of the participants were classified as savers.

Savings outcomes

- Average monthly net deposits (AMND) were $19.07 ($33.81 for savers); gross deposits equaled $40 per month on average.
- About 64% of participants made unmatched with drawals ($451 total).
- Participants saved about $1 for every $2 that could be matched and made deposits about every other month, on average.
- Total accumulation (savings and match) over the length of the ADD was $1,543; among "savers" it was $2,755.
- By the end of 2001, 32% had made matched with-drawals. 28% of the matched withdrawals were used for home purchases, 23% for microenterprise, 21% for postsecondary education, and 18% for home repair.
- By December 2001, 43% had not taken out a matched withdrawal but most planned to do so (June 30, 2002 was the last day to make matched with-drawals).

Program characteristics

- Match rate: Higher match rates increased the likelihood of being a saver but had no significance in savings amount.
- Match cap (the top amount that can be matched by the IDA funders): The opportunity to save more increases the likelihood of being saver.
- Direct deposit: Participants using direct deposit were 22% more likely to be savers.

- Financial education: Financial education increased savings (but only up to 10 hours, after which there were diminishing returns).

Participants

- Gender: 80% of the participants were female (no significance in being a saver or saving amount).
- Age: The average age was 36, and the range was from 13 to 72 (no significance in saving amount).
- Race: 47% were African Americans, 37%Caucasians, 9% Latino or Hispanic, 3% Native Americans, 2% Asian-American or Pacific-Islander, 3% "Other." Asian-Americans, Hispanics, "Other", and Caucasians saved the largest amount, where as Native Americans and African Americans saved the least amount.
- Education: 61% attended some college while 5% had less than a high school diploma. Education was positively associated with saving but not associated with amount saved.
- Students: Students were the most likely to save.
- Welfare: Receiving public assistance was not strongly related with being a saver or with the amount saved.
- Income: Average monthly household income was $1,496; 116% of the poverty guideline.
- Assets: Home and car owners and those with checking accounts were more likely to be savers. Homeowners saved more than renters.
- Debt: Participants with debt were less likely to be savers.

- Insurance: Participants with health insurance were more likely to be savers.

Also see the following references for more information about ADD:

Schreiner, M., Sherraden, M., Clancy, M., Johnson, L., Curley, J., Zhan, M., et al. (2005). Assets and the poor: Evidence from Individual Development Accounts. In M. Sherraden (Ed.), *Inclusion in the American dream: Assets, poverty, and public policy* (pp. 185-215). New York: Oxford University Press.

This chapter provides an overview of ADD findings, which shows that IDA policy works as an asset building strategy to break the cycle of poverty. The authors discuss how most asset subsidies benefit the non-poor because, to participate in them, one must have resources. Saving is, of course, more difficult for the poor because of the lack of surplus after paying for necessities. However, IDAs do not require start-up resources and low-income individuals' savings receive a match contribution.

Schreiner, M., & Sherraden, M. W. (2007). *Can the poor save? Saving & asset building in Individual Development Accounts*. New Brunswick, N.J.: Transaction.

This is a book-length treatment of how IDAs work and why the incentives and structures inherent in such programs are becoming increasingly attractive to policymakers. It is based on data collected from the American Dream Demonstration (ADD). Social policy for the poor that moves beyond a focus on consumption toward capacity building has stronger and longer-lasting policy effects. The goal of asset accumulation through IDAs is not to "amass money for its own sake but rather to facilitate human, social, and economic development" (p. 2).

The authors offer propositions toward a theory of saving and asset accumulation in IDAs (pp. 5-6):

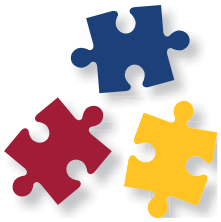
- The existence of IDAs creates a social pattern because it sends the message that the poor can save and that IDAs provide a means for the poor to save.
- Matches increase the return on savings, accelerating asset accumulation.
- IDA programs educate participants about finances, increasing the value of the program beyond financial accumulation, and provide other support aspects such as receiving financial statements and personal support from the staff, who give feedback and encouragement toward goals, orienting participants to the future. Such staff support also helps participants see future goals that they may not have recognized on their own as possibilities (e.g., higher education, homeownership).
- Participants often turn the match cap into a goal, creating an incentive to save more.
- IDAs require monthly deposits, helping form a habit of saving.

Sherraden, M. (2008). *IDAs and asset-building policy: Lessons and directions* (CSD Working Paper 08-12). St. Louis: Washington University, Center for Social Development.

This article discusses and summarizes key quantitative and qualitative findings from ADD. It highlights eight institutional conditions for asset saving, which have come out of IDA research on program characteristics: access, information (e.g., financial education), incentives (e.g., match), facilitation (e.g., automatic deposit), expectations (e.g.,

match caps), restrictions, security, and simplicity. These conditions can direct further policy design for asset building. The author stresses that low-income people can save with the right institutional conditions in place (similar to the findings in behavioral economics). The article also emphasizes the high administrative costs to run an IDA program and suggests ways to create lower-cost versions to reach more low-income individuals. For example, this might be accomplished by using a centralized administrator similar to the financial services of 401 (k) plans.

Reports using ADD's data



Many researchers have used ADD's data and focused in on specific topics in greater detail to supplement the growing body of research on ADD IDAs:

a. Savings
b. Education savers
c. Educational status
d. Rural communities
e. Match rates
f. Drop-out
g. Cost
h. Savings after an IDA

Savings

Stegman, M. A., & Faris, R. (2005). The impacts of IDA programs on family savings and asset holdings. In M. Sherraden (Ed.), *Inclusion in the American dream: Assets, poverty, and public policy* (pp. 216-237). New York: Oxford University Press.

This study asks what would families have saved had they not participated in an IDA program? The evidence is clear that IDAs have a significant impact on net savings, even when the amounts seem small. After two years saving in ADD, the median savings rate was $117 (mean rate = $285), or greater than twice the amount than would have been saved without the program. Of those who were active savers, the median was $236 and mean $368. To some, these amounts may seem negligible, but in relative terms they are significant since these amounts represent net savings increases of about one-third or more.

Education savers

Zhan, M., & Schreiner, M. (2004). *Saving for post-secondary education in Individual Development Accounts*. St. Louis: Washington University, Center for Social Development.

This report looked at the 377 participants in ADD that saved for postsecondary education. On the one hand, the relationship between some program characteristics and saving was bolstered when individuals saved for education. For example, education savers were helped more by the financial education while they had higher match rates and consequently saved less. On the other hand, the relationship between some program characteristics and the amount saved was weakened when individuals saved for education. For example, female education savers saved less. The authors presume these women saved less because they had children—"81% of the females in ADD had at least one child at home and 66% of these women were single." Married education savers also saved less. And lastly, the authors found that student education savers saved more, which the authors contribute to their more urgent need to pay for school.

Educational status

Zhan, M., & Grinstein-Weiss, M. (2005). *Educational status and savings performance in Individual Development Accounts*. St. Louis: Washington University, Center for Social Development.

Of the participants in IDAs, those with some college education, especially a four-year degree, had higher savings (even after controlling for program and individual factors). Education is positively associated with savings outcomes of low-income IDA participants. Zhan and Grinstein-Weiss postulate that participants with higher educational levels were better at being students and could, thus, benefit more from financial education.

Rural communities

Grinstein-Weiss, M., Curley, J., & Charles, P. (2007). Asset building in rural communities: The experience of individual development accounts. *Rural Sociology, 72*(1), 25-46.

This study examines the experiences of low-income rural participants in ADD. They asked what individual and program characteristics were associated with savings outcomes, and what policy implications supported asset building in rural America. They found that low-income rural residents were both willing and able to save toward asset accumulation through IDAs. Homeownership and marital status were important personal characteristic affecting savings performance. Program characteristics—financial education, peer group meetings, match rates, direct deposit, and monthly savings targets—were key predictors of success. This study could have implications for higher education IDAs because of the interest among universities in reaching out to underrepresented students, which includes students in rural communities.

Match rates

Schreiner, M. (2005). Match rates, Individual Development Accounts, and saving by the Poor. *The Journal of Income Distribution, 13*(3-4), 112-129.

How does the match rate affect savings? In ADD, there was a greater probability that participants would save in IDAs if they had a higher match rate, but savers had a lower level of saving. The author questions whether increased participation or increased savings was more important to policy makers, noting a conflict between three goals—inclusion, savings, and asset-building. In consideration of these goals, he concludes that a 2:1 match rate is better than a 1:1 match rate.

Drop-out

Schreiner, M., & Sherraden, M. (2005). *Drop-out from Individual Development Accounts: Prediction and prevention.* St.

Louis: Washington University, Center for Social Development.

This paper asks, "What factors predict drop-out?" and "What can be done to prevent it?" Based on data from the ADD, participants are less likely to drop out if they have some assets: human capital (education, experience); financial (bank accounts); social (marriage), or other tangible assets (home, car). Income and welfare receipt are not linked with drop-out. The design of an IDA program can have a strong effect on drop-out. For example, match rates (higher match rates decreased drop out), time caps (allowing more time decreased drop out), and the use of automatic transfer (using automatic transfer increases retention) are all strong predictors of drop-out. The educational component of IDAs could incorporate information on how and why to use automatic transfer (especially for those who are "unbanked"). IDA saving could be facilitated by ensuring that participants have dual accounts, one for IDA savings and another for regular expenses (to minimize unmatched withdrawals).

Cost

Schreiner, M. (2002). *What do Individual Development Accounts cost? The first three years at CAPTC.* St. Louis: Washington University, Center for Social Development and Microfinance Risk Management.

How much do IDA programs cost to run? This paper estimates the cost of the Community Action Project of Tulsa County (CAPTC) IDA program, one of the organizations involved in ADD. The social cost (excluding matches) was about $64 per participant per month. Each dollar saved by a participant had a cost of about $2.20. IDAs produced a dollar of asset accumulation at a cost of about $1.50 (average match rate of 1.5:1). One might ask, why not just send a check of $64 instead of using the IDA system? IDAs have an educational component that provides incentives for other positive behaviors. IDAs are not about merely transferring cash but rather about

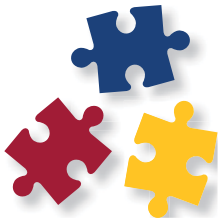
increasing capacity in the form of human capital and tangible assets such as homes. IDAs are not just savings accounts but "a bundle of services" designed to make asset accumulation easier for the poor. Participants value their interactions with IDA staff members and the educational aspect of the program. The author suggests implementing two "tiers" of IDAs: one with broad access and less services (and lower costs) and another with targeted access and more intensive services (and higher costs).

Saving after an IDA

Han, C-K., Grinstein-Weiss, M., & Sherraden, M. (2007). *Assets beyond saving in Individual Development Accounts.* St. Louis: Washington University, Center for Social Development.

This report discusses the findings from a follow-up survey 48 months after enrollment in the IDA program at Community Action Project of Tulsa County (CAPTC). At this point participants had finished the IDA program. This quantitative research study looks at five measures of assets: liquid assets (e.g., money in savings and checking), other financial assets (e.g., savings bonds, stocks, other kinds of saving), total financial assets (e.g., liquid and other financial assts plus 401(k)s), real assets (e.g., value of car, home, business), and total assets (e.g., total financial assets plus real assets). The IDA participants had more real and total assets than the control group. However, there was no difference in liquid and financial assets.

The last phase of ADD research is to conduct follow-up interviews with ADD IDA participants to better assess the long-term impact of participation in ADD 84 months after initial enrollment.



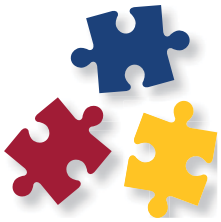
Assets for Independence

AFI grants are administered by the U.S. Department of Health and Human Services Administration of Children and Families in the Office of Community Services. They are the most widely used IDA grant applied for and used by IDA practitioners because they provide the most financial support in the IDA field. The AFI website includes recent research conducted for Congress on AFI IDA programs, which are based on data submitted their grantees (http://www.acf.hhs.gov/programs/ocs/afi/research.html#other). Below we highlight findings from the most recent report:

DeMarco, D., Mills, G., & Ciurea, M. (2008). *Assets for Independence Act evaluation process study: Final report.* Cambridge, MA: Abt Associates.

This document highlights areas that remain challenging for AFI grantees (since the last study) and the strategies they observed. The remaining challenges discussed were recruiting participants, counseling participants to choose realistic savings goals, dealing with the regulations of AFI IDA and non-AFI funding, raising non-federal funds, and the limited funds available for administrative costs. The authors give some detail to each challenge and then present strategies for approaching each challenge. For example, when raising additional match the authors remind grantees to contact state and local government agencies for funding. To assist with administrative costs the authors encourage outsourcing program components like financial education through partnerships and using volunteers or interns (such as graduate students), and dividing up the work within a network model.

Hot topics



Within the asset building field financial education, scaling up IDAs, and employer IDAs have been highlighted in research studies.

Financial literacy

Johnson, E., & Sherraden, M. (2006). *From financial literacy to financial capability among youth.* St. Louis: Washington University, Center for Social Development.

In this paper the authors discuss the need for low-income youth to have both financial literacy (knowledge and skills) and financial capability (access to financial institutions and instruments). The authors believe that the combination of both financial education and financial institution access will be most effective in savings programs.

Large-scale IDAs

Smith, S. (2007). *Large-site IDA programs: Pioneering the next level of expansion*. National Economic Development and Law Center.

This report examines five IDA initiatives that have achieved a larger scale (four of these sites were also included in our research). It is important to note that "large scale" is defined as 500 or more accounts. The report identified a set of critical components for large sites models: philanthropic champion, financial development and sustainability, strategic selection of community partner organizations, strategic selection of financial partners, use of market seg-

mentation (essentially focusing on a particular target market(s) and customize the program design for that market), infrastructure development, and investment in technology. They recommend that the two most important program design elements for achieving scale are that the IDA product be standardized and that IDA practitioners engage in market segmentation (focusing on specific savers, specific asset).

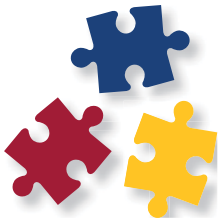
Employer IDAs

The Corporation for Enterprise Development (2003). *Employer IDA initiatives: The promise of delivering IDAs through employers.*

This report highlights the advantages to employers administrating IDA programs for their employees. Employers have noticed that productivity among workers has increased and they have been able to recruit more low-income employees. Employers are a good match to offer IDAs because they already have benefits system in place and some have the ability to match funds.

For an example of an employer IDA offering education IDAs see our website example:
http://www.usc.edu/dept/chepa/IDApays/examples.html.

Saving for Education, Entrepreneurship, and Downpayment (SEED)



Based on what they learned from ADD, the Center for Social Development started SEED, which is a research initiative studying long-term savings accounts for children. SEED accounts are opened at birth with an initial deposit of up to $1,000. The savings continues throughout the child's life through deposits by family, friends, and the participants themselves and matches can be made by any public or private source. SEED participants can use their savings for education or training, a home, a business, or retirement and the program also includes a financial education component that is age-appropriate. There are 12 SEED programs involved in the study. The following two studies are findings from SEED programs:

College expectations

Elliott III, W., Sherraden, M.S., Johnson, L., Johnson, S., & Peterson, S. (2007). *College expectations among young children: The potential role of savings*. St. Louis: Washington University, Center for Social Development.

This article presents data from interviews with second graders (7-9 years of age) in one of the SEED programs. The authors look at their perceptions and expectations of going to college. Barriers to reaching college mentioned by the second graders were academic ability, performance, and finance. However, having a savings account increased the children's perception that college was within reach.

Parent expectations

Elliott III, W., & Wagner, K. (2007). *Increasing parent expectations via college savings: Closing the achievement gap* (CSD

Working Paper 07-08). St. Louis: Washington University, Center for Social Development.

One factor in deciding if a child will attend college is their parents' expectation. Parents' expectations of their child attending college increased when they saved for their child's college education. The study also found that low-income families benefit more from receiving reward for the act of saving rather than the amount saved. The authors highlight IDAs programs as helping low-income families because the matched savings rewards low-income students for saving and can furthermore raise college expectations among parents.

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