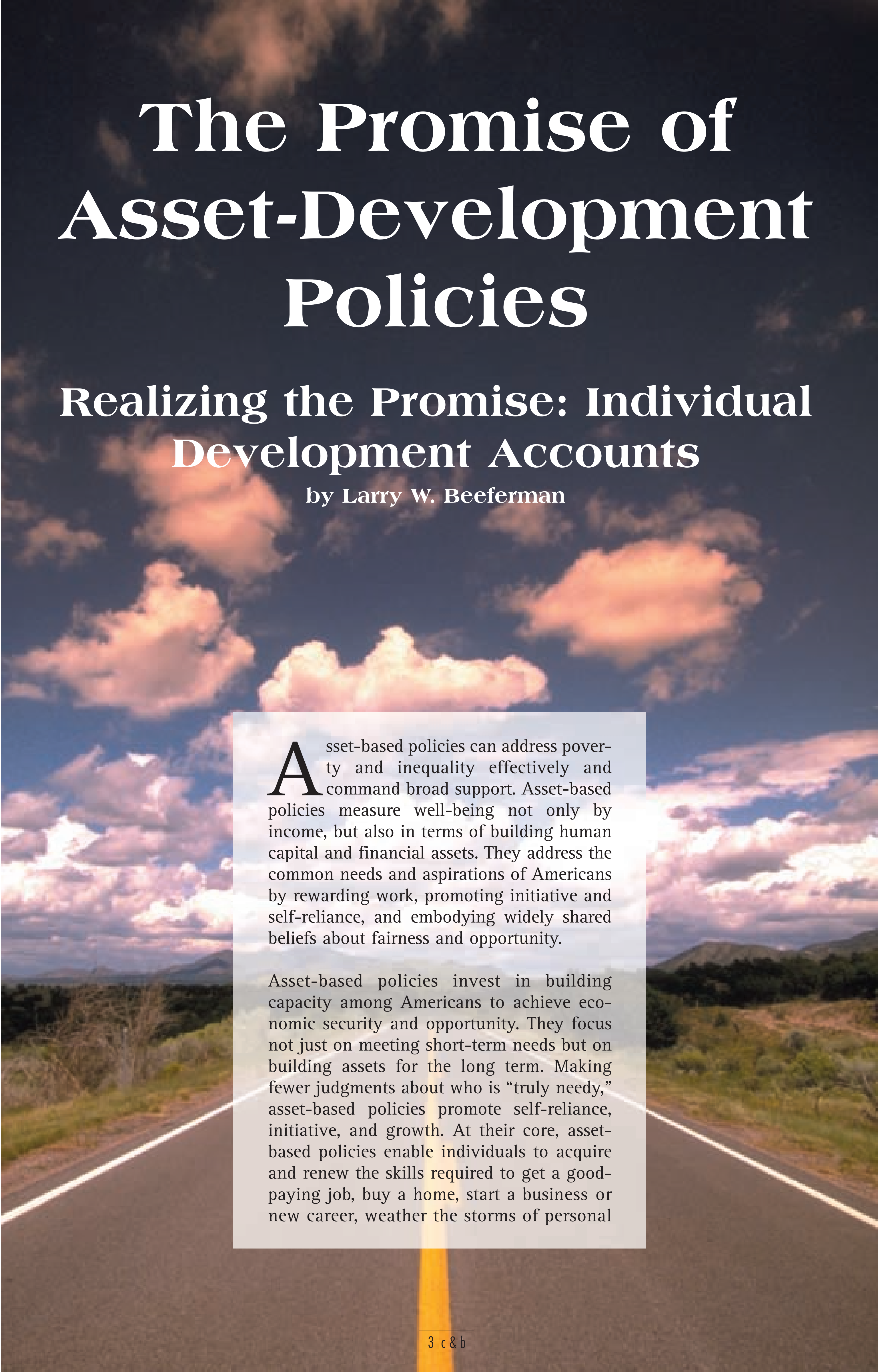

The Promise of Asset-Development Policies

Realizing the Promise: Individual Development Accounts

by Larry W. Beeferman

Asset-based policies can address poverty and inequality effectively and command broad support. Asset-based policies measure well-being not only by income, but also in terms of building human capital and financial assets. They address the common needs and aspirations of Americans by rewarding work, promoting initiative and self-reliance, and embodying widely shared beliefs about fairness and opportunity.

Asset-based policies invest in building capacity among Americans to achieve economic security and opportunity. They focus not just on meeting short-term needs but on building assets for the long term. Making fewer judgments about who is "truly needy," asset-based policies promote self-reliance, initiative, and growth. At their core, asset-based policies enable individuals to acquire and renew the skills required to get a good-paying job, buy a home, start a business or new career, weather the storms of personal or family crises, and live comfortably in retirement.

The Elements of an Asset-Based Policy Framework

A framework for asset building has many elements typically thought of as individual assets, although other assets, such as community resources, may come into play. Individual assets, however, are important because they directly affect the economic well-being of households.

Income assets are rooted in jobs that are the source of cash income and benefits. For most households, employment-based income enables them to attain economic well-being. Government policies, such as unemployment insurance and minimum wage laws, protect and enhance employment income. Other policies, including Temporary Assistance to Needy Families (TANF) and Food Stamps, provide income in cash or kind to bolster or replace employment income. Another asset is human capital, which includes the knowledge and skills that enable individuals to obtain good jobs and move up the economic ladder.

In this article, we focus primarily on financial assets, such as savings and checking accounts, stocks and bonds, and equity in property. Clearly, financial assets afford people opportunities and empower them. Financial assets can yield a substantial amount of income to sustain everyday life. But even for the vast majority of people who must support themselves from employment, building financial assets is important and sometimes even critical. Financial assets substitute for or supplement employment income — when people lose a job, can only work part-time, or suffer a reduction in pay — or augment Social Security income during retirement. Financial assets enable individuals to make a down payment on a home, pay for education or training, or start a new business. They make possible a significant purchase such as a car (or a major car repair) or a computer. When a disaster, emergency, or tragedy threatens to disrupt people's lives, financial assets enable them to better survive the crisis.

Financial asset-building policies have been directed primarily to the more affluent. For example, pre-tax retirement accounts help families build for the future, and home mortgage tax deductions are a direct governmental subsidy to homeowners. Tax-favored, private employer-based subsidies of medical and other benefits are not immediately directed at wealth accumulation, but they enhance the income flow available for saving.

Many low-income Americans, meanwhile, either are unable to take advantage of such policies or benefit far less from them than the affluent do. Low-income Americans are often discouraged from accumulating financial assets because they are disqualified from participation in income benefit programs such as Supplemental Security Income and Food Stamps if their assets exceed a very low level. Government policies, such as those reflected in the Community Reinvestment Act, have not been sufficient to assure that low-income households have access to mainstream financial institutions that provide services that may be crucial to saving and accumulating financial assets, purchasing a home, or starting a business. Moreover, many of these households lack the financial knowledge and skills to navigate issues of credit, debt, and asset building.

> Low-income families can save and accumulate financial assets if the proper supports are in place.

IDA Background

Individual Development Accounts (IDAs), are one prototype for policies that enable low-income families to build financial assets. A concept pioneered by Michael Sherraden in his seminal book, *Assets and the Poor*, IDAs operate from the premise that low-income families can save and accumulate financial assets if the proper supports are in place. IDAs are dedicated savings accounts containing deposits by low-income account holders matched by private and/or public sources.

Sherraden's book sparked interest and inquiries among public officials that led, in 1996, to bipartisan support for the Clinton Administration proposal to include IDAs in its welfare reform legislation. The law included an option to allow states to use federal funds for cash assistance to match savings in IDAs. Two years later, and again with bipartisan support, Congress passed the Assets for Independence Act. The Act authorized $125 million over five years to be awarded through competitive grants to nonprofits for IDA demonstration projects. During the past three years, $45 million has been appropriated for that purpose. In 1999 and 2000, the Office of Refugee Resettlement within the Department of Health and Human Services provided a total of $8 million to permit states and nonprofits to offer IDAs for low-income refugees.

The Basic IDA Model

Many IDAs — both publicly and privately supported — share common features, such as similar enrollment criteria. Typically, individuals may participate if they meet certain income requirements.[1] Once enrolled, participants generally remain eligible for matches only if they make deposits into their savings accounts in specified minimum amounts and at a specified frequency. By design, all IDAs involve matched savings. To date, match rates for IDA programs have generally ranged from one to one, to three to one, although in some cases additional matches from other sources are permissible.[2] Match money is generally kept in a separate, parallel account. It is disbursed for allowed purposes only when the participant successfully completes program requirements, including those relating to saving.

IDA programs vary in the uses permitted for matched savings. The primary uses allowed are homeownership, small business development, and post-secondary education or job training. However, some states permit use for car purchase or repair, home repairs or improvements, one-time family medical emergencies and (limited) health care costs not covered by insurance, emergency expenses, retirement, work-related activity (such as child care), and supportive counseling. Some IDA programs also provide or require participation in financial counseling, economic literacy or education classes, and peer support groups. They may also be linked to tax preparation services, for example, those that enable participants to receive Earned Income Tax Credit funds.

IDAs and Other Asset-Building Models

Even at this early stage, a wide range of IDA models can be crafted. IDAs can be targeted to serve a particular segment of the low-income population or work within a particular institutional framework. For example, an IDA program in California is geared to current or recent TANF recipients who want to build their education and skills. By contrast, another, also in California, is directed to low-wage manufacturing employees and is workplace-based rather than community-based, as are many IDAs currently. A privately supported IDA program planned for Minnesota is also employment-based, but would target low-income workers more broadly and entails much greater employer support than the California one. Finally, a different program in Pennsylvania, although not workplace-based, is focused on a particular economic sector; it serves childcare workers with the larger mission of supporting a childcare workers' cooperative. Clearly, the IDA model is adaptable to a variety of settings and goals, requiring different combinations of organizational competencies and resources.

Other policies have similar goals. For example, an Individual Learning Account (ILA) effort in Pennsylvania involved an IDA-like program. It was focused specifically on using savings for increasing participants' human capital through gaining education and training that had the potential for upward job mobility, particularly at the place of employment. Both participating employers and the state provided matching funds.

These efforts may yield useful ideas for funding and operating Individual Training Accounts (ITAs) or vouchers under the federal Workforce Investment Act. States have latitude in how they design their training account/voucher systems. At least one pilot project, funded by the U.S. Department of Labor, is being carried out to link to the learning account concept. In turn, such endeavors may provide grounding for Lifelong Learning Accounts (LiLAs) funded by employees, employers, and government, for which a foundation-funded pilot project is in the works. The project would include universal eligibility for accounts that are portable from one employer to another and would be funded through voluntary, tax-favored contributions by employees.

Other programs in Massachusetts and Oregon link gaining a financial stake to obtaining and maintaining employment for a specific period of time, rather than saving. The amount of the stake is tied to the length of the period during which participants work. The ability of the participants to secure and maintain their jobs is enhanced by a public subsidy of their wages, paid by the government to their employers.

Still other programs are based on housing. These are available to residents of public housing and recipients of cash assistance (Section 8 vouchers) for private-sector housing. Housing-based programs involve the creation of accounts in which residents accumulate financial assets. But unlike IDAs, the sums in these accounts accrue not by virtue of saving, as such, but from diversion of some rent money participants might otherwise pay to the public housing agency. The incentive in this policy is that the amount of money being deposited increases as an individual's income rises. A Massachusetts program, for example, is available only to residents whose housing is solely state-subsidized. The amount of rent diverted is linked to increased earned income and is matched by the state, one to two. Account monies pay for transition to private housing.

The U.S. Department of Housing and Urban Development's (HUD) mandated Family Self-Sufficiency Program has similar accounts but it is geared to reducing recipients' reliance on "welfare assistance," with the possible corollary of no longer requiring housing assistance. The sums deposited in the accounts are linked to increased earnings. A number of personal and work-related supports are also aimed at spurring "self-sufficiency." There are no limits on the use of the escrow monies, although participants may use them for homeownership or other housing-related purposes.

A Seattle Housing Authority program is more complex and ambitious. The amounts deposited into participants' accounts are linked to their rent levels rather than earnings or savings. Rents are frozen for two-year intervals (and hence, not linked to resident earnings), but ultimately they are stepped up to market rate. While the Massachusetts and the HUD programs are individually oriented, the Seattle program is, in part, community oriented. The idea is that if large numbers of residents within a single public housing community can be engaged in the program, the individual impacts will be mutually reinforcing in ways that lead to an upward, community-wide spiral of well-being.

> Awareness of and support for asset-development policies are only now emerging.

Toward a National Policy

In light of the foregoing descriptions, what is the best way forward for asset-development policy? First, income, human capital, and financial asset strategies, along with other complementary asset strategies, are keys to economic well-being for all families. Second, awareness of and support for asset-development policies are only now emerging, so there is time to fashion them. This requires openness to a range of ideas and a willingness to experiment.

Our federal political structure affords opportunities for such experimentation at the state level. For that reason, state asset-building strategies should be vigorously pressed. Monetary support for IDA programs at the state level, however, has been modest. The same has been true at the federal level. But because experience with IDAs has been encouraging, it warrants additional federal support. Concerns about fairness, uniformity, efficiency, and funding necessarily point to federal legislation at some point.

Public and Private Methods to Finance IDAs

The Federal Financial Institutions Examination Council has ruled that banks' support of IDAs can receive Community Reinvestment Act credit. Financial institutions that receive a Bank Enterprise Award from the Community Development Financial Institutions Fund can be given up to $50 per IDA to offset administrative costs. The federal Housing and Urban Development Department recently confirmed that Community Development Block Grant (CDBG) monies can be used for IDAs. A legislative initiative currently under consideration by the Congress, the Savings for Working Families Act, would vastly expand federal support for IDAs through a tax credit rather than a grant mechanism.

Activity at the state level in support of IDAs has been considerable. As of September 2001, 23 states had passed IDA legislation and had a state-supported program in operation. Nine use state general funds, eight provide state tax credits for IDA program contributors, six employ CDBG funds, and twelve use TANF funds to match IDA savings. (Three state-administered programs do not allow for a match.)

In New England, four states have enacted legislation in support of IDAs. Connecticut appropriated $400,000 in state monies for match and administration of IDAs. Rhode Island authorized a pilot program for IDAs in connection with welfare reform, but TANF or other monies have not yet been allocated for the program. Maine approved a 50 percent tax credit, for a total of up to $200,000 per year, to donations to Family Development Accounts. Vermont appropriated $250,000 in state funds to be used for IDAs as part of its welfare reform program and an equal amount in the form of a challenge grant to be matched with private funds, to link IDA participants to the state's college savings plan. Vermont also has an IDA program funded by CDBG monies. Although no legislation for IDAs has been enacted in Massachusetts, the state has a growing network of privately supported IDAs.

Substantial private, nonprofit sector IDA initiatives have also been undertaken. To date, the largest IDA demonstration project has been the American Dream Demonstration (ADD). Supported by major private foundations, it started in June 1997, had 2,378 participants in thirteen locations around the country as of June 30, 2000, and was scheduled to end in December of 2001. ADD programs were run by private, nonprofit organizations, including six community development organizations and two each of social service agencies, bank or credit unions, housing development organizations, and collaboratives.

As of this writing, support for increasing federal monies for IDAs appears to be bipartisan. There is, however, resistance to a large-scale increase and to the potentially more open-ended tax credit funding mechanism proposed under the Savings for Working Families Act, as compared to one based on federal appropriations. Success at moving IDAs to a larger scale has its challenges and perhaps its limits. One challenge is assuring that enough organizations are available with the capacity and the access to resources to manage IDAs at an increased scale. Another challenge is designing and assuring support for multi-level and related, but possibly distinct, IDA programs. Use of tax credits targeted primarily at financial institutions may have scale limits and possible disadvantages in the way it might channel the IDA development. A refundable tax credit — along the lines of the Earned Income Tax Credit — would be better, but establishing it would be more difficult.

Of course, other initiatives offer promise — more likely at the federal, but possibly at the state level. For example, a number of Congressmen, scholars, and others have made proposals for universal children's opportunity or savings accounts. These accounts would be seeded by public money at birth and, perhaps, at significant times during youth, with opportunities for building assets through young account-holders' savings and contributions by family members and others. Such a scheme would create a financial asset-building infrastructure for all, one that could in the longer run afford real financial results to all.

Finally, as suggested in the introductory comments, a variety of assets — most often, individual ones, but frequently collective ones as well — enable individuals to enjoy economic security and opportunity. As IDAs and other strategies seem to suggest, these different kinds of asset building are intertwined and may often be interdependent. The key point is that asset development can provide an essential framework for thinking about the kinds of policies that will enable low-income families and individuals to attain economic well-being.

Endnotes

1. Individuals may participate if they (a) are eligible for Transitional Assistance to Needy Families, (b) have annual incomes at or below a specified percentage of the federal poverty level or at or below a specified fraction of area household median income, or (c) are eligible for the federal Earned Income Tax Credit.

2. Matches may be limited in amount on a monthly, annual, or multi-year basis and may be as high as $2,000 per year and up to $10,000 over a period of years. Programs appear to universally exempt the matching monies from state taxation.

About the Author
Larry W. Beeferman is Director of the Asset Development Institute (ADI), part of the Center on Hunger and Poverty at the Heller School of Social Policy and Management at Brandeis University. Established in 1999 with major funding from the Ford Foundation, ADI promotes and advances an asset-based policy framework through its own research and work with national and state public officials, policy analysts, and advocates. For further information, see www.centeronhunger.org.

IDA Program Outcomes

The American Dream Demonstration

by Larry W. Beeferman

The American Dream Demonstration offers the most comprehensive evaluation of IDA programs to date. The outcomes, including monthly net deposits, savings rates, and levels of continued participation, are encouraging. It should

be noted that American Dream Demonstration (ADD) participants have been described as being "more disadvantaged" than the overall U.S. population who are at or below 200 percent of the federal poverty guidelines. They are more likely to be female, African-American, and never married. They are also "more advantaged" in that they are more educated, more likely to be employed, and more likely to have a bank account.

The data tend to refute the idea that certain groups are simply "too poor" to save.

Because of the similarity of the ADD program to other IDA programs, these results may have broad application. Indeed, a recent evaluation of a state-supported program, Family Assets for Independence in Minnesota, yielded similar outcomes for a participant population similar in many respects to the one in the ADD demonstration.

Participants: Most of the participants in the American Dream Demonstration were female; a substantial majority were in their 30s or younger; nearly half were African-American; nearly half were never-married; and overall, more than three-quarters were single by reason of divorce, separation, or widowhood. Most were in households with children, mostly one or two children; nearly four out of 10 had a high school diploma or less; and almost the same fraction had attended college but had received no degree. Nearly one-half had incomes below the poverty level and more than one-fifth had incomes below 50 percent of the poverty level; one-tenth were current welfare recipients and nearly four out of 10 were former recipients; modest numbers received additional assistance.

Savings outcomes: The data tend to refute the idea that certain groups are simply "too poor" to save and participate in an IDA program. It appears that individuals of low income, even those who receive public assistance, adhere to "middle-class" values about sacrificing and saving now for future benefits. From the program's inception in June 1997 through the period ending June 30, 2000, over 82 percent of the participants had positive net deposits; 99 percent had made at least one deposit. About 16 percent of enrollees left the program. The average and median net deposits per month were $25.42 and $17.96, respectively. For all participants, the average and median savings rates (defined as the ratio of the average monthly net deposit to gross monthly household income) were 2.2 percent and 1.3 percent, respectively. Perhaps surprisingly, the mean savings rate and, for the most part, the median savings rate appear to *rise* with *lower* income levels.

Savings uses, intended and actual: More than half of the participants who remained in the program but had not yet made matched withdrawals intended to use their savings for a home, with lesser numbers aiming for post-secondary education and microenterprise. By contrast, as of June 30, 2000, of the participants who made matched withdrawals, substantial and roughly equal numbers used the monies for home purchase, post-secondary education, microenterprise, and home repair, while a lesser number directed them to retirement and job training. Fewer participants than intended actually used their savings to buy a home; this may have been because the purchase of a home requires a relatively large lump-sum deposit.

Perhaps surprisingly, the mean savings rate and, for the most part, the median savings rate appear to *rise* with *lower* income levels.

Participant characteristics and program outcomes: A variety of demographic characteristics have been correlated with success in maintaining program participation. About 16 percent of the enrollees in ADD had left the program as of June 30, 2000. The exit rate was not linked to gender and was statistically the same by race; it had no statistically significant link with income and it was not strongly linked with education, employment, or receipt of public assistance. It had no association with home ownership, passbook-account ownership, or insurance coverage.

Savings strategies: Participants used a variety of strategies to save. Most significant was their more efficient use of resources — shopping more carefully and eating out less, followed by buying used as opposed to new clothing — and reducing consumption by spending less on leisure, followed by cigarettes and alcohol, and then, postponing visits to the doctor or dentist. More modest numbers worked more hours or sold household or personal items. To some degree they employed psychological strategies, such as direct deposit, goal-setting, mental accounting, earmarking of tax refunds, and treating the deposit as a monthly bill. Many acknowledged that as a result of participation, they had less money for leisure than they would like and were less likely to save in other ways, outside of their IDAs. Modest numbers had to give up food or other necessities or had more difficulty paying bills. These survey results are encouraging and are consonant with evaluations of ADD data suggesting that IDA deposits come from both new savings and shifted assets; as of yet, researchers do not know the importance of each in the mix.

Non-savings and long-term impacts: The overwhelming majority of current recipients surveyed expressed confidence about their futures because they had IDAs and said that they felt more economically secure and more in control of their lives as a result. Most were more likely to make plans to acquire additional assets because they had IDAs, to make educational plans for themselves and for their children, and to make plans for their retirement. They found the economic education and training helped them to save, and many found learning about budgeting and money management particularly helpful. A number of

IDA participants pointed to support from program staff helping them to save, as well as to peer support, either by virtue of camaraderie or by learning of strategies for saving and asset maintenance.

Optimism that such outcomes may emerge is tempered by recognition that a number of personal factors appear to have a bearing on success in IDA programs and, hence, limit its promise for some low-income individuals. For example, those who are seriously stressed, emotionally or financially, may not be able to sustain the required commitment to the program. If debt and credit problems are obstacles to acceptance, applicants may be rejected, but if they are given the opportunity to work those problems out and gain related budgeting and income management skills in the interim, they may qualify at a later time. Correspondingly, having a stable employment and work schedule and sufficient earned income to permit regular savings is generally important.

Success also depends upon motivation, the willingness to establish goals, and the commitment to achieve them. In this regard, client contact and individual attention appear to be important. For example, the making of savings deposits and maintenance of saving are spurred by the match incentives, exhortations, and mechanisms that make saving easy and that lock it in. In addition, support in the form of advice, counseling, and advocacy may be necessary in the event of a personal, job, or housing-related crisis. Non-crisis supports may also be important, as is group support. Further, IDA programs recognize that even if participants are successful at saving, they need support and resources that will enable them to use their newly acquired financial assets to achieve the goals they have chosen. Thus, for new IDAs, in addition to what appear to be substantial requirements for staff at start-up, there is continued need for staff to motivate and support participants, frequently on a one-to-one basis, and to monitor their programs.

> Participants used a variety of strategies to save. Most significant was their more efficient use of resources — shopping more carefully and eating out less.

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The Costs of Starting an IDA

Perhaps because they are start-ups, ADD programs have required substantial resources; the same appears to be true for other IDA programs, many of which are at a roughly comparable stage of development. A recent estimate of overall costs for the ADD program from its inception through June 2000 is $70.38 per participant-month or $2.77 per dollar of net deposit (and, if the match is included, a total outlay of roughly $6 per dollar of net deposit). These figures reflect start-up costs, so long-term costs are likely to be smaller. Indeed, program expenses dropped to $43.06 per participant month and to $2.02 per dollar of net deposit from June 1999 to June 2000.

Greater efficiencies may be achieved over time. Some elements of the program, such as the financial literacy component, could be standardized and made widely available to IDA programs. Training or other services could be contracted out to organizations that specialize in that component, and partnerships with those managing the program could be formed. Economies of scale might be achieved if IDA programs were to expand greatly. However, if IDAs are expanded to reach a broader low-income population, different needs for support and services would likely emerge. For that reason, as Michael Sherraden has noted, a two-tier IDA program might be appropriate: one with broad access, simple services, and lower costs; the other, with targeted access, intensive services, and higher costs.