Asset Building Policy and Programs for the Poor

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In this chapter I summarize the emergence of asset building for the poor as a community development and policy innovation. The paper begins with a short statement on policy context, followed by an applied section that looks at policy and programs. Last is a research section, focusing on savings theory and asset building in applied research and what we are learning in early stages of investigation. This is a lot to cover in one chapter, but it would be misleading to present the policies and programs as if they stood apart from theory and inquiry.

Policy Context

To provide perspective, I begin with a short statement on policy context. There is reason to believe that a shift to asset-based policy is underway in many countries. Around the world, it is uncommon to encounter a new or expanding system of social insurance, but common to find a new or expanding policy based on asset accounts. In the United States, this can been seen in the introduction and growth of 401(k)s, 403(b)s, IRAs, Roth IRAs, the Federal Thrift Savings Plan, Educational Savings Accounts, Medical Savings Accounts, Individual Training Accounts, College Savings Plans in the states, and proposed individual accounts in Social Security. Some of these are public and some are “private,” but it is important to bear in mind that the private sector plans are typically defined by public policies and receive substantial subsidies through the tax system. All of these asset-based policies have been introduced in the United States since 1970. Overall, asset accounts, for various purposes, are the most rapidly growing form of domestic policy, and it seems quite possible that the shift to asset-based policy will continue.

Unfortunately, the shift to asset accounts has the potential to be considerably more regressive than social insurance and means-tested income transfer policies. The reasons are twofold: first, the poor often do not participate in the asset-based policies that currently exist, and second, asset-based policies operate primarily through tax benefits (tax expenditures) that are highly regressive and benefit the poor little or not at all. In other words, asset-based policies have the potential to exacerbate inequality, and indeed are doing so, because the poor are being left behind.

For people with progressive values, the trend toward greater inequality in asset-based policy, and its repercussions in diminished living conditions and opportunities for a large part of the population, are unacceptable. If asset-based policy is being created, a major challenge will be to aim for inclusiveness in the policy as it is emerging. The goal should be to bring everyone into the system, with adequate resources in their accounts for social protections and household development. Recent innovations in matched savings for low-income and low-wealth households, such as Individual Development Accounts (IDAs), proposed Universal Savings Accounts (USAs) and Retirement Savings Accounts (RSAs) are designed with this larger policy context in mind (Sherraden, 1991; Corporation for Enterprise Development, 1996; Clinton, 2000).
Asset Building for the Non-Poor

Domestic policy is delivered via two major pathways, direct expenditures and tax expenditures. Tax expenditure is the term used by the Congress and policy analysts to refer to a tax deduction or exemption. The logic is that the government has two ways of providing benefits: it can collect taxes and then distribute the money (direct expenditure), or it can for a particular reason decide not to collect taxes in the first place (tax expenditure). From the standpoint of government accounts, both are expenditures; and from the standpoint of households, both are benefits received. Howard (1997) has referred to tax expenditures as “hidden” social policy in that these expenditures are often not tabulated as part of social policy, and the vast majority of recipients do not view them as such.

Taking direct expenditures and tax expenditures together, well over half of all federal spending is in categories that we typically think of as social policy. Previously, I have tabulated direct and tax expenditures for 1990 in seven major social policy categories: education, employment, social services, health care, income security, housing, and nutrition (Sherraden, 1991). For the purposes of this discussion, one overall point is most important: direct expenditures made up 75.0 percent of the total, and tax expenditures made up 25.0 percent of the total. When this tabulation is repeated with estimated year 2000 figures the pattern is much the same at 76.3 percent for direct expenditures and 23.7 percent for tax expenditures. Other estimates of direct and tax expenditures are similar (see Seidman, this volume); the point is simply that tax expenditures are a substantial part of social policy.

A second point about tax expenditures is that they are predominantly oriented toward asset building. Table 1 summarizes asset building tax expenditures to individuals in three asset-building categories: homeownership, retirement accounts, and investments. Estimated year 2000 tax expenditures to individuals in these three asset-building categories are large at $288.5 billion. Thus the major portion of all year 2000 tax expenditures to individuals (56.8 percent) were directed to these three categories of asset building. While direct expenditures in welfare states of the twentieth century have been devoted primarily to income transfers designed to maintain consumption levels, tax expenditures, a more recent form of social policy, are oriented primarily toward asset accumulation (Sherraden, 1991; Sherraden, Page-Adams, and Yadama, 1995).

[Table 1 about here]

Not coincidentally, asset building tax expenditures are related to the pattern of asset accumulation in U.S. households. According to figures presented by Wolff (this volume), 75.8 percent of wealth in U.S. households is held in principal residences (30.4 percent), pension accounts (9.0 percent), and business capital (36.4 percent), and these three categories correspond to the asset building tax expenditure categories presented in Table 1.
Most of the tax expenditures enumerated in Table 1 go to the non-poor. In the case of tax expenditures for business assets, this is not surprising. However, this pattern also occurs with the more “social” tax expenditures for homes and retirement security. For example, of $47 billion in federal mortgage interest deductions in 1998, homeowners with incomes over $100,000 received 54 percent of the total tax expenditures; and homeowners with incomes over $50,000 received 91 percent of the total tax expenditures (calculated from U.S. Congress, Joint Committee on Taxation, 1998)\(^3\). Tax expenditures for retirement also are highly regressive. Of all retirement tax benefits, 67 percent go to households earning more than $100,000 per year, and 93 percent go to households earning more than $50,000 per year (U.S. Executive Office of the President, 1999)\(^4\).

In other words, public policy is an integral part of the structure of wealth inequality. I emphasize this point because the common perception of social policy in the United States is that resources are redistributed downwards in the class structure by the federal government. This is to some extent true for direct expenditures, but it is decidedly not true for tax expenditures. Thus there is a large and somewhat “hidden” asset-based policy in the United States. Many people accumulate assets, and do so in a manner that cannot accurately be described as “saving.” Rather, for most Americans, most assets accumulate in structured systems, defined and heavily subsidized by public policy, in which participants do not make periodic decisions to “save.” Indeed, most Americans with retirement accounts and home equity seem to be little aware that the subsidies they receive are part of social policy expenditures. They tend to think instead that they have been prudent and made wise investments.

**Why Not Asset Building for the Poor?**

In the mid 1980s when I began this work there was very little applied or academic discussion about asset building by the poor in policy and community development. At the time, and still largely today, the policy emphasis was on income support. To be sure, some social science researchers had been focusing on asset distributions (Wolff, 1987; Oliver and Shapiro, 1990). There had been creative proposals for capital accounts in lump sum payments, usually for youth, (Tobin, 1968; Haveman, 1988; Sawhill, 1989)\(^5\). Community organizations emphasized home ownership for the poor, but this was not common\(^6\). Some community innovators had been promoting microenterprise and its investment qualities (Friedman, 1988), but there were no proposals for asset building as an overall direction in anti-poverty policy and community development. At the time, income-for-consumption was largely taken for granted as the main theme of anti-poverty policy. Today, in addition to assets, there is a much richer discussion of alternatives to income-based policy. These include incentives for behavioral change, enterprise development, social capital strategies, and human capital strategies. Asset building as a policy strategy for the poor can be viewed in the context of a growing questioning of income maintenance as a singular strategy.
There is a good reason for this questioning. It has been known for some time that income transfers to the poor do not reduce pre-transfer poverty (e.g., Danziger and Plotnick, 1986). In other words, while income transfers have helped to ease hardship, they have not enabled families to develop. Such policy might be considered sufficient in the case of the elderly or severely disabled, for whom care and maintenance is the primary concern. But it is insufficient in the case of most households, particularly those with children. Federal income transfers to the poor were a positive step forward when they were introduced in 1935, but they are well short of a sufficient response to poverty at the beginning of the twenty-first century. The best policy alternatives move beyond the idea of consumption-as-well-being, toward what Sen (1985, 1993) identifies as functionings or capabilities. Asset building is one policy pathway to increase capabilities. Because asset building can be accomplished with relatively simple policy instruments, and because public policy already does it for the non-poor, it should be possible, and would be more just, to do so for the poor as well.

**Policy Innovation**

To greatly oversimplify, we can think of two levels from which to understand policy innovation, and each carries a portion of the truth. The first level is the very broad context, which might be called *social forces*. From this perspective, a policy arises because the time is right, i.e., social, economic, and political conditions are such that policy change is more or less a historical inevitability. This is the perspective in the “policy context” section near the beginning of this paper, and a great deal of academic policy analysis and social and political history employs a broad perspective of this nature. The second level is *institutional*, focusing on the organizations, offices, interest groups, and so on that organize and act to bring the policy into being. From this perspective, policy innovation occurs because institutions cause it to occur. And particular people in institutions -- reformers, office holders, academics, opinion leaders -- make things happen. Both levels are useful in understanding asset-based policy innovation.

From the social forces viewpoint, the standard interpretation is that income-based policy was created during the industrial era to fit with and support systems of industrial production. As we move into the information era, it seems likely that income-based policy is changing because it is no longer as good a fit for the economy or for households. Asset-based policy is beginning to play a larger role because asset accounts allow greater individual control and investment throughout the life course. Control, flexibility, portability, and life-long investment are likely to be more important in information era labor markets (Sherraden, 1997).

Despite the overall trend toward asset building policy, the poor are for the most part not included. The most vocal advocates of asset accounts, e.g., the Cato Institute, propose highly regressive policies. And many traditional liberals have opposed asset accounts, even progressively funded asset accounts, because they are in a defensive posture trying to protect income-based policies. This defense is well intentioned, but if the overall
policy direction is toward assets, a more constructive position would be to include the poor in the new policies.

From the perspective of the organizations involved, there is nothing that is automatic or inevitable about asset building policy and programs for the poor. These policies and programs are being purposefully created, and purposeful policy innovation is the province of institutional explanations. Following discussions with mothers who were receiving Aid to Families with Dependent Children (AFDC or “welfare”) in the mid 1980s, I developed the idea of matched savings accounts for the poor, called individual development accounts (IDAs). In 1989-90, with draft chapters Assets and the Poor (1991), I initiated discussions with Bob Friedman at the Corporation for Enterprise Development (CFED) and Will Marshall at the Progressive Policy Institute, and both organizations published policy reports on asset-building and IDAs. The CFED report was the subject of several columns by William Raspberry in the Washington Post, and following this we had inquiries from a number of congressional offices and committees. One of these was the House Select Committee on Hunger, chaired by Tony Hall (D-OH). Ray Boshara, now the Capitol Hill strategist for CFED, was a staffer on the committee and he brought IDAs to Hall’s attention. Friedman worked with Boshara to draft the first legislation. A companion bill was later introduced in the Senate by Bill Bradley (D-NJ). A later version of these first IDA bills became the Assets for Independence Act of 1998, described below.

Jack Kemp, Secretary of Housing and Urban Development (HUD), became very interested in asset building. In 1991-92 he initiated several meetings with high-level administration officials, including President Bush. Asset-building discussions with domestic policy advisors in the White House continued, leading to a provision by President Bush in his 1992 budget proposal to raise welfare asset limits from $1,000 to $10,000. This was a bold proposal at the time; no liberal Democrat had made such a proposal. This proposal by a leading Republican substantially influenced the discussion on changing welfare asset limits. Today, almost every state has increased asset limits in means-tested programs. This in itself has been an important policy shift.

Secretary Kemp initiated a program called Family Self-Sufficiency (FSS), administered by HUD. FSS permits residents of subsidized federal housing to save and accumulate assets in the following manner: Rent is normally calculated as a portion of income, but under the FSS program, if a resident’s income rises, the increased portion that would go to rent goes into an escrow account. When the individual is no longer a recipient of federal means-tested programs, he or she can use the escrowed savings. There has never been an evaluation of FSS (no money for evaluation was allocated), but anecdotal reports from many parts of the country are positive. We have heard numerous reports of residents having several thousand dollars in their FSS accounts; many have become homeowners; others have used the money for education. Quite likely the impact of the FSS program is substantial, but research is needed. A simple descriptive study on the
scope of FSS, numbers of participants, and amounts of savings would be a good place to begin.

IDA policy innovations have been led by CFED in Washington and the Center for Social Development (CSD) at Washington University since the early 1990s. In 1991-92, CFED undertook an initiative called the State Human Investment Policy (SHIP) to work on IDAs in Iowa and Oregon. The Joyce Foundation in Chicago funded the first three major IDA projects in 1994. CSD created an IDA Evaluation Handbook (Sherraden et al., 1995) to facilitate research on early IDA programs. CFED initiated an IDA listserv on the internet, and organized national conferences on IDAs in 1995, 1998, 1999, and 2000. The 1999 and 2000 conferences drew more than 500 people from community groups, foundations, financial institutions, and government agencies around the country. CFED and CSD have worked in virtually all of the states that have an IDA policy, and provided technical assistance of some type to most of the community IDA programs. CFED has assumed responsibility for spearheading federal policy changes, with noteworthy successes. CSD has created a management information system for individual development accounts, known as MIS IDA, to facilitate program design and management, and also to serve as a monitoring instrument to collect timely and comparable data from multiple IDA sites (Johnson and Hinterlong, 1998).7

Bill Clinton supported IDAs in his 1992 campaign, and IDAs were included in the President’s 1994 “welfare reform” proposal. CFED and CSD worked with Bruce Reed, Co-Chair of the White House welfare reform task force. Prior to becoming a domestic policy advisor to the President, Reed had written a very positive 1990 article on IDAs for The Mainstream Democrat, a publication of the Democratic Leadership Council. With continuing efforts by CFED, IDAs were included as a state option in the 1996 federal welfare reform act, which replaced AFDC with Temporary Assistance to Needy Families (TANF). This act has two important provisions: First, if TANF participants accumulate assets in an IDA, these funds are exempt from asset limits for all federal means-tested programs (in other words, the welfare poor can save without penalty in IDAs). Second, states are permitted to use TANF funds to match savings in IDAs. Although not widely-recognized at the time, these asset-building provisions in TANF marked the first time in a federal anti-poverty policy that asset-building was no longer discouraged, and in fact could be subsidized with federal funds. Allowing IDAs as a state option in TANF was an important step toward establishing asset building as a policy option on equal footing with income support for welfare households. In 1999, another federal ruling specified that IDA participation, including matching funds, would not be defined as “assistance” under TANF and thus would not run a participant’s “clock” of eligibility for TANF support. This ruling removed a major concern and impediment to inclusion of IDAs in welfare reform in the states.

Another federal IDA initiative, the Assets for Independence Act (a legislative descendent of the first IDA bill in 1991), was passed by Congress in 1998 with bipartisan support, and signed by the President.8 The bill was sponsored in the House by Hall and John
Kasich (R-OH), and in the Senate by Dan Coats (R-IN) and Tom Harkin (D-IA). The *Assets for Independence Act* provides $125 million in federal funding for IDA demonstrations over five years. At this writing, Abt Associates and CSD are working with the Department of Health and Human Services to design the evaluation for this demonstration.

**Current Policy and Community Initiatives**

At this writing, almost all states have raised asset limits in welfare, and at least 25 states have included IDAs in their welfare reform plans. Twenty-seven states have passed IDA legislation for TANF and/or other low-income residents. Five other states have passed legislation for other asset-building initiatives for education or job training. Altogether, 44 states have some type of IDA policy or initiative at this writing. None of the state-funded IDA programs is limited to TANF participants, which is what CFED and CSD have recommended. We do not see IDAs as a welfare reform program, but as a family and community development program that might be utilized by any low-wealth household. IDA legislation in the states typically has broad bipartisan support, and a key reason for this support is inclusion of the working poor.

Several prominent networks of IDA programs have or are being established. A national program of IDAs was initiated by AmeriCorps VISTA, with volunteers working at community development credit unions and other community organizations. The Eagle Staff Fund of the First Nations Development Institute has initiated IDAs on several Indian Reservations. The Neighborhood Reinvestment Coalition has started an IDA program. United Ways in Atlanta and St. Louis have funded multi-site IDA programs. Some states have organized IDA networks (e.g., North Carolina, Tennessee, Michigan).

IDA's first began in community organizations in the early 1990s, including housing organizations, community action agencies, microenterprise programs, social service agencies, and community development financial institutions. Today there are at least 200 operating IDA programs and many more in the planning stages. Some locations are at the point of “second generation” IDA programs, where pioneers are providing a model and technical assistance to newly emerging programs. Altogether, the partnership of CFED, a Washington-based policy innovation organization, and CSD, a university-based applied research organization, has proven to be successful in introducing asset-based policies for the poor and establishing an applied research agenda.

**Directions**

This mixture of IDA policy and community development activity, with interest and funding from many sources, indicates lively policy and program innovation. Asset-based policy proposals are emerging from many quarters. For example, three promising policy directions that are on the horizon.
Children’s Savings Accounts (CSAs), have been proposed by Senator Bob Kerrey (D-NE), with federal deposits for all children beginning at birth and extending through age 18, to be used for education and later retirement security.\textsuperscript{11} To put this proposal in perspective, it is useful to bear in mind that every economically advanced nation except the United States has some form of child allowance (monthly payment to families with children), designed for consumption support. The nations of Western Europe spend an average of 1.8 percent of GDP on child allowances (European Commission, 1995; see Curley and Sherraden, forthcoming, for a detailed description of these policies and discussion of lessons for CSAs in the United States). By this standard, the United States underinvests in children. Based on our history, the United States is unlikely to enact a children’s allowance, but CSAs may be more consistent with U.S. values. If the United States invested only 1.0 percent of GDP in CSAs, it would be more than enough to deposit $1,000 per year into the accounts of every young person, from birth through the age of 18.

IDAs in Electronic Funds Transfer (EFT) have been thoughtfully proposed by Stegman (1999). At present, a large portion of the poverty population is “unbanked,” i.e., they have no mainstream financial services. Instead, they pay high prices for financial services in check cashing outlets, pawn shops, and the like (Caskey, 1994). The transition to EFT presents an unusual opportunity to provide a full range of financial services, not merely transaction accounts, for nearly all Americans. (Unfortunately, there is also great risk for the poor in being overcharged by unscrupulous financial institutions. Predatory practices will have to be identified and controlled.) At this writing, proposed guidelines on EFTs from the Treasury Department do not include the provision of savings accounts. Stegman is among the first to recognize the enormous potential in the federal initiative for EFTs to deliver a wide range of financial services to impoverished households and communities, including saving and matched saving in the form of IDAs. Stegman has proposed, and Senator Joseph Lieberman (D-CT) has introduced legislation, to use federal funds to support a progressive system of IDAs operated by banks and other financial institutions.

Universal Savings Accounts (USAs) were proposed by President Clinton in his 1999 State of the Union Address and spelled out in greater detail in a White House presentation.\textsuperscript{12} Clinton proposed using 11 or 12 percent of the budget surplus, an estimated $38 billion per year at the outset, rising with the rate of inflation, to create a progressive system of accounts for retirement. The federal government would make annual deposits plus matching deposits into accounts of low and middle-income workers, taking in most of the working population, on a progressive basis, i.e., the largest subsidies would be at the bottom. Some have described this as a 401(k) available to all workers. It would be the largest anti-poverty initiative since the Earned Income Tax Credit.

Republican response to the Clinton USA proposal has been unenthusiastic, largely for political reasons. In the past, leading Republicans, including Rep. John Kasich (R-OH), have proposed individual accounts created with surplus funds, with equal deposits into everyone’s account, regardless of income. Retirement Savings Accounts (RSAs), a scaled-down version of USAs estimated $5.4 billion per year, were proposed in the 2000
State of the Union Address (Clinton, 2000). Despite the name, RSAs could be used for home ownership, education, and other goals in addition to retirement security. In making these proposals, Clinton explicitly mentions the regressivity of current tax expenditures for retirement, and the early success of IDAs in showing that the poor can save when savings are matched.13

In sum, the primary purposes of IDAs and proposed USAs/RSAs are threefold: (1) to demonstrate that low-income and low-wealth households can save and accumulate assets if they have the same opportunities and incentives that are available to the non-poor; (2) to document that funders of asset building, public and private, are making a good investment; and (3) to model a progressive asset-based policy that can be taken to scale. Returning to the policy context mentioned at the beginning, IDAs and USAs/RSAs are efforts to include the poor in what is perhaps the most fundamental domestic policy transition of our time, the shift to asset accounts.

Research on Individual Development Accounts

Although the topic of matched saving is decidedly applied, it has academic roots. In the long term, academic foundations must be defined and empirically supported if the policy is to grow and be sustained.

How Do People Save?

There is a large but inconclusive body of work on saving theory and research (Beverly, 1997; Korczyk, 1998; Carney and Gale, this volume). Neoclassical theories represent the core of the discussion. The two most well known are the life cycle hypothesis or LCH (Modigliani and Brumberg, 1954) and the permanent income hypothesis or PIH (Friedman, 1957). These theories assume that individuals and households are focused on expected future income and long-term consumption patterns. Other schools of thought include a wide range of behavioral, psychological and sociological theories. Behavioral theory emphasizes financial management strategies, often self-imposed, and focuses on incentives and constraints (e.g., Thaler and Shefrin, 1981; Shefrin and Thaler, 1988). Psychological and sociological theories assume that consumer preferences are not fixed but rather change with economic and social stimuli (e.g., Duesenberry, 1949; Katona, 1975; Cohen, 1994). Turning to empirical evidence, LCH and PIH models have mixed support, but they especially fail to explain patterns of asset accumulation in low-income households, which are typically low or negative. Among the other theories, very few behavioral, psychological, or sociological propositions have been rigorously tested. A fair summation is that evidence is mixed and incomplete; no single perspective is at this time clearly supported.14

On this indefinite terrain we begin to specify and offer for test an institutional view of saving that is embodied in IDA proposals (Beverly and Sherraden, 1999). Institutional perspectives are not new (e.g., Gordon, 1980; Neal, 1987) and if we are making any
contribution it is only in specifying what this might mean in the applied case of asset-based policy. We have identified four major categories of institutional variables: (1) incentives, (2) information, (3) access, and (4) facilitation. The first three are commonly discussed, and I offer the fourth term “facilitation” to describe institutional arrangements where “saving” is actually done for the participant, as in automatic payroll deduction. Facilitation is a key feature of most contractual saving systems.

Turning to empirical evidence, there is the large and unavoidable fact – rather like an elephant sitting in the living room – that accumulation of assets in a typical U.S. household occurs largely through institutionalized mechanisms, primarily via home ownership and retirement pension accounts. If future social security benefits are counted as assets then this is even more true, and brings in poor households because the poor often hold a large share of their net worth in social security entitlements (Burkhauser and Weathers, this volume).

Turning to specific studies, there is some evidence that financial information and education programs increase savings rates (e.g., Bayer et al., 1996). There is little consensus on the effect of incentives, because substitution effects may outweigh income effects (e.g., Boskin, 1978; Summers, 1981). However, there is evidence that asset limits discourage savings among participants in means-tested programs (Hubbard et al., 1995). There is some evidence that access and facilitation may increase institutionalized saving (Katona, 1975; Maital and Maital, 1994). From anecdotal evidence – discussions with both IDA participants and 401(k) participants -- I suspect that facilitation may be the most important of the four institutional factors listed above. Other evidence on the importance of facilitation is the common practice of using the income tax withholding system as a kind of savings plan. Millions of households withhold more than the taxes they owe, planning for a lump sum refund, despite the strong economic disincentive (the cost of foregone earnings on the money) in saving through this mechanism.

Thinking in more detail about all four of the institutional constructs, specific hypotheses are formulated in reference to IDA programs (Table 2). Most of these hypotheses seem like common sense and it is probable that, with proper tests, most would be supported. More fundamental questions are the amount of variance explained and the extent to which these hypotheses are supported vs. other competing hypotheses, particularly those related to personal characteristics and preferences. The overall theoretical statement underlying IDAs would be that institutional constructs are as important as personal characteristics and preferences in determining savings behavior. If the four institutional constructs discussed above and perhaps others do in fact affect saving, then it is important to point out that low-income households typically have limited access to these institutionalized saving features (e.g., Caskey, 1994; Bernheim and Garret, 1996; Beverly and Sherraden, 1999).
Research on IDAs, Early Results

In this section, I discuss a research program focusing on IDAs, the “Down Payments on the American Dream Policy Demonstration,” known in short as the “American Dream Demonstration” (ADD). Eleven private foundations are funding this first large demonstration and evaluation of IDAs in 14 community programs around the country. CFED is undertaking the demonstration and CSD has designed and is overseeing the evaluation. The demonstration is scheduled to last four years (1997-2001). The research is multi-method and will extend two additional years (to 2003). Methods include implementation assessment, program and participant monitoring, experimental design survey, in-depth interviews to supplement the survey, community level evaluation, and a benefit-cost analysis. Abt Associates is collecting the experimental survey data and will report on policy impact. I report here on program and participant monitoring.

CSD initiated an IDA Monitoring Task Force during 1996 and, through this process, created and pre-tested a monitoring instrument. During 1997, the monitoring instrument was adapted to user-friendly software, and again pre-tested. Known as the management information system for individual development accounts (MIS IDA), the software is designed to record basic program information on design, match rates, and so on, and information on participant characteristics, patterns of savings, and uses of savings. These data are not the impact data that will come from the experimental design survey, but they shed light on how well IDAs are working and for whom. As far as we know, this is the first time that a policy demonstration at the outset has created unique software for an MIS. Version 2.0 of MIS IDA has collected data from all 14 ADD sites (Johnson and Hinterlong, 1998). Monitoring data are delivered electronically to CSD, where they are transferred to a statistical program for analysis. At this writing, we can report on the first two years of ADD, through June 30, 1999 (for a more thorough report, see Sherraden et al., 2000).

ADD Programs

At the program level, six ADD sites are in community development organizations, two in social service agencies, two in credit unions, two in housing organizations, and two are collaborations among multiple sites. Match rates for accounts vary from 1:1 to 6:1, and 2:1 is most common. Regarding funding partners, 14 have not-for-profit funders (foundations play the largest role); nine have corporate funders (most often the banks where IDAs are held); eight have public funding; and two have funding from individuals. Eight programs have annual deposit limits, ranging from $180 to $3,000; and six programs have lifetime deposit limits, ranging from $1,800 to $8,000. Regarding depository institutions, nine programs are using a bank or savings and loan, and five are using a credit union. Twelve programs provide monthly statements, and two provide quarterly reports. All programs offer interest-bearing accounts, and in three programs IDA deposits can be earned. All 14 program permit IDAs to be use for home purchase,
microenterprise, and post-secondary education; 11 allow job training or technical education; nine allow home repair or remodeling; and four allow retirement.

**ADD Population vs. General Low-Income Population**

For the most part, the participant population in ADD has been selected to be at 200% of the federal income-poverty guidelines or below (some exceptions have been made, particularly in high cost-of-living environments such as San Francisco). Within this guideline, participants are associated with or recruited by the various sponsoring organizations. As reported earlier, these organizations represent a wide range of community development, social service, financial service, housing, and other organizations, all of which have a community development or anti-poverty mission. Another key feature of ADD participants is that, in response to an IDA program announcement, they have come forward to participate. Because they come from particular programs and because ADD participants choose to participate, it is likely that the personal characteristics of ADD participants differ systematically from the personal characteristics of the general low-income population. Below is a summary of key differences between the ADD population and the overall U.S. population at or below 200% of the income-poverty line.18

The ADD population has a greater percentage of females than the general low-income population (78% vs. 59%). Compared to the general low-income population, the ADD population has fewer Caucasians (41% vs. 64%), more African Americans (40% vs. 16%), and fewer Latinos (12% vs. 16%). The ADD population differs from the general low-income population in having more people who are single and never married (46% vs. 28%), and fewer people who are married (24% vs. 42%). The higher proportion of women, the higher proportion of African Americans, and the higher proportion of people who are single and never married in ADD, compared to the general low-income population, probably reflects the populations served by the sponsoring organizations. These markers of disadvantage (female, black, and single) may suggest that, among the working poor population, somewhat more disadvantaged people are participating in ADD.

On the other hand, the ADD population is much more highly educated than the general low-income population. A higher percentage of ADD participants have completed high school (85% vs. 65%), and a high percentage have graduated from college (20% vs. 8%). The ADD population has a much higher proportion of people who are employed full-time or part-time (84% vs. 44%), and a lower proportion who are out of the labor market, i.e., neither employed nor looking for work (5% vs. 52%). These differences are explained in large part by the targeting of most ADD programs to the working poor. Given the targeting of the programs, ADD has little to say about whether IDAs can work for more disadvantaged populations in terms of education and employment. More generally, ADD will not be able to say anything about the question of overall demand for IDAs should they be offered on a large scale.
Enrollment began slowly in the start-up period and gradually increased. As of June 30, 2000, there were 1326 participants in ADD, including 107 (8%) who had dropped out. Moving and inability to save were the most common reasons for dropping out. The mean and median length of participation at that date was nine months. Altogether, $378,708 had been saved by participants, with $741,609 in matching funds, for a total of $1,120,317.

There are many different ways to think about savings outcomes. Table 3 presents some of the basic savings outcome measures used in ADD, with data as of June 30, 1999. At this date, the mean and median length of participation was nine months. All outcome measures are reported for 1326 participants.

[Table 3 about here]

Participant savings is total participant deposits, minus unapproved withdrawals, plus interest (matching funds are not included). Participant savings had a mean value of $285 and a median of $181. The largest savings amount was $2,253. The size of the standard deviation suggests that participant savings vary markedly across participants, but of course this measure does not control for length of participation. Across the 14 ADD programs, the program mean varied from a low of $104 to a high of $508; some of this difference is explained by different savings targets, some by length of time since start-up, and some by savings performance.

Average monthly deposit is participant savings divided by the number of months in the IDA program. Average monthly deposit had a mean value of $33 and a median value of $23. The highest average monthly deposit was $738. Again, the large standard deviation of $44 indicates considerable variation across participants. Across the 14 ADD programs, the program mean varied from a low of $13 to a high of $61; some of this difference is explained by different savings targets, and some by savings performance.

Deposit regularity is the number of months in which deposits were made divided by the number of months in the IDA program. Deposit regularity has a mean value of 0.66 and a median value of 0.70, indicating that the typical participant made deposits in seven out of ten months. The standard deviation was 0.29. Across the 14 ADD programs, the program mean varied from a low of 0.51 to a high of 0.84. It is interesting to note that, controlling for other variables, deposit regularity is not strongly related to average monthly deposit. Thus, different savings strategies can be successful. In particular, the lowest-income IDA participants are likely to be lumpier savers, but they save a higher proportion of their income.
Proportion of savings goal is participant saving compared to amount that could be saved and matched. Proportion of savings goal is perhaps the best measure of savings performance because it controls for both time and savings targets. Overall, the mean value is 0.71 and the median value is 0.59. In other words, ADD participants as a group were saving at a rate equivalent to 71 cents for every dollar they could save and be matched. The standard deviation of 0.84 suggests wide variation across participants. Across the 14 ADD programs, the program mean varied from a low of 0.40 to a high of 1.07. This program level variation suggests that some programs are better at enabling IDA participants to “keep up” with their savings targets, however we do not yet know if those who are “behind” will make large deposits before the IDA savings period ends; indeed we can anticipate this pattern based on experience in a previous study of IDAs (Lazear, 1999).

Will ADD participants use their IDAs to purchase the intended assets? Looking at intended uses of accounts, 55% of participants intended to purchase a home, 17% microenterprise, 17% post-secondary education, 6% home repair, 3% retirement, and 2% job training. The strong interest in home ownership may be noteworthy, given that only two of the 14 IDA programs in ADD is a housing organization. Turning to actual uses of IDAs, as of June 30, 1999, 92 participants had made an “approved” (matched) withdrawal. Of these, 33% were for microenterprise, 27% home purchase, 20% home repair, 13% post-secondary education, 4% retirement, and 3% job training. The larger percentage for microenterprise compared to home purchase may be due to smaller amounts of capital needed to business supplies or a piece of equipment, compared to the amount needed for down payment and closing on a home. It is too early to know how many ADD savers will purchase intended assets; we do know anecdotally that some are happy just to have the savings.

Income Poverty and Savings

There is not space in this chapter to discuss program and participant characteristics that are associated with savings performance in the early ADD research (see Sherraden et al., 2000). However, in this section one important relationship (or non-relationship) is highlighted: income poverty and savings. When we look at average monthly deposit some rather striking patterns emerge. In Table 4 below, the median monthly deposit of the group at 50% of the poverty line and below was $20.10, while the median for the group at 176% to 200% of the poverty line was $25.30. This is an income difference of over 300%, but a savings difference of only 26%. In bivariate analysis, income poverty level is somewhat associated with average monthly deposit and is statistically significant, but in regression analysis the relationship is small (equivalent to $1.40 in average monthly deposit when going from 100 percent to 200 percent of the poverty line) and not statistically significant (Sherraden, et al., 2000, chapter 12).

[Table 4 about here]
Further insight is gained by looking at the average monthly deposit divided by household monthly income (also shown in Table 4). Here we find that the group at 50% of the poverty line and below was saving a median of 4.0% of monthly income, while the group at 176 to 200% of the poverty line was saving 1.3% of monthly income. The mean values show even greater differences (8.3% compared to 2.0%). Thus, in the IDA programs of ADD, the very poorest participants are saving at a far higher rate than those who are relatively well off. (It should be noted that the very poor may appear to save at a higher rate because they have under-reported their incomes, but the level of under-reporting is likely to be small compared to the large size of the saving rate differences across income levels.)

These results are consistent with an institutional theory of saving, in which an institutional structure (in this case, the IDA program) is more explanatory than individual characteristics and constraints, even monthly income, in determining saving outcomes. The savings match and other IDA program features appear to have a strong effect on savings choices of very low income IDA participants. We know from qualitative research that very low income participants are trying to respond to program expectations for the target savings amount. At the same time, the maximum matchable amount appears to be an economic cap (no additional economic incentive) and psychological cap (reaching the target savings amount) on average monthly deposit for higher income participants. Additional data on institutional savings issues will come from other research methods in ADD.

At this point we are able to say only that some low-income working people respond well to a program of matched savings. We are not yet able to say if they have simply shifted assets or borrowed to make deposits. Cross-sectional survey data suggest a strong role for consumption efficiency, such as eating out less often (report forthcoming). A more definitive test will come with the experimental survey data. Academic work on asset building policy and programs for the poor has barely begun. Many questions remain unanswered and more research will be required to ascertain whether the above thinking about saving has merit, in what ways, and for whom.

Conclusion

In closing, I return to the theme of inclusiveness. Taking the long view, I am reminded of Heclo’s (1995) observation of the welfare state of the twentieth century: “If there has been a direction to our century’s struggle, it seems to have been mainly a question of expanding presumptions of inclusiveness, of assuming that more people matter and that they matter as equals in aspirations for social welfare.” This observation is consistent with T.H. Marshall’s (1964) historical interpretation of an expansion of rights, first political and economic rights, and finally “social rights” as a natural progression of modern society. Unfortunately, the past does not always predict the future, and Marshall’s theory of a natural progression toward social rights may be overly optimistic. Trends in the late twentieth century raise serious questions about inclusiveness.
Inequality of both income and assets has been growing in the United States (Levy, 1999; Wolff, this volume). As pointed out at the beginning of this chapter, there is a pronounced shift toward asset-based domestic policy in the United States and it is far from inclusive.

Nonetheless, the shift to asset building continues, quite possibly because it is a better fit for the post-industrial economy. Thoughtful proposals for asset building policy and programs are becoming more common. For example, as one of eight strategies for policy action in the twenty-first century, Steuerle, Gramlich, Heclo, and Nightengale (1998) include a proposal to “increase everyone’s chances to build financial security” by

. . . creating opportunities to accumulate assets for financial security, especially among those facing the greatest disadvantages. In this way society can give everyone a greater stake in the future and the common good. Much of twentieth century social policy, ranging from welfare to social security, created a safety net by redistributing income. Without abandoning those redistributive aims, we must recognize the limits to this approach and how it can reduce incentives to create wealth. We should look to the twenty first century as a time to move beyond simple redistributive policy toward “cumulative” policy. The aim is to strike a new kind of balance between security and opportunity (pp. 7-8).

While I am pleased to see this call for “cumulative” policy as a complement to income maintenance, it is essential to bear in mind that at the present time cumulative public policy is part of the structure of asset inequality. The challenges will be to change the policy structure so that everyone is included, and to undertake the extensive research that will be required to determine which policy and program features are most successful.
References


gwbweb.wustl.edu/Users/csd/question/html

Sherraden, Michael; Johnson, Elizabeth; Clancy, Margaret; Beverly, Sondra; Schreiner, Mark; Zhan, Min; & Curly, Jami (2000). *Saving Patterns in IDA Programs*. St. Louis: Center for Social Development, Washington University.

Sherraden, Michael; Page-Adams, Deborah; Emerson, Shirley; Beverly, Sondra; Scanlon, Edward; Cheng, Li-Chen; Sherraden, Margaret S.; and Edwards, Karen (1995). *IDA Evaluation Handbook*. St. Louis: Center for Social Development, Washington University.


Table 1
Estimated Federal Tax Expenditures: Proportion in Asset Building Categories (Fiscal Year 2000, Billions of Dollars)

<table>
<thead>
<tr>
<th>Asset-Building Tax Expenditures to Individuals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Homeownership</strong></td>
<td>$75.2</td>
</tr>
<tr>
<td>mortgage interest deduction, exclusion of capital gains, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Retirement Accounts</strong></td>
<td>$123.6</td>
</tr>
<tr>
<td>exclusion of pension contributions, IRAs, Keoghs, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Investments and Business Property</strong></td>
<td>$89.7</td>
</tr>
<tr>
<td>capital gains rates and exclusions, exclusion of interest on government bonds, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Total of Three Asset Building Tax Expenditures</strong></td>
<td>$288.5</td>
</tr>
<tr>
<td><strong>All Other Tax Expenditures to Individuals</strong></td>
<td>$219.8</td>
</tr>
<tr>
<td><strong>Total Tax Expenditures to Individuals</strong></td>
<td>$508.3</td>
</tr>
</tbody>
</table>

Table 2
Hypotheses on Institutional Determinants of Savings

Incentives:
- The higher the matching deposits, the greater the participation and savings.
- The higher the earnings on savings, the greater the participation and savings.
- The more feasible the saving goal (home purchase, microenterprise, job training, etc.), the greater the participation and savings.

Information:
- The more the program outreach, the greater the participation and savings.
- The more educational programming and “economic literacy,” the greater the participation and savings.
- The more peer modeling and information sharing, the greater the participation and savings.

Access:
- The closer the proximity of the savings program, the greater the participation and savings.
- The more the use of electronic deposits, the greater the participation and savings.
- The fewer the organizational barriers, the greater the participation and savings.

Facilitation:
- The more involved the program and staff in assisting with savings, the greater the participation and savings.
- The more automatic the system (especially automatic deposits), the greater the participation and savings.

Table 3  
Savings Outcomes in a Demonstration of Individual Development Accounts (IDAs)  
N=1326

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant Savings</td>
<td>$286</td>
<td>$181</td>
<td>$309</td>
</tr>
<tr>
<td>Average Monthly Deposit</td>
<td>$33</td>
<td>$23</td>
<td>$44</td>
</tr>
<tr>
<td>Deposit Regularity</td>
<td>0.66</td>
<td>0.70</td>
<td>0.29</td>
</tr>
<tr>
<td>Proportion of Savings Goal</td>
<td>0.71</td>
<td>0.59</td>
<td>0.84</td>
</tr>
</tbody>
</table>

Notes: *Participant savings* is total participant deposits, minus unapproved withdrawals, plus interest. *Average monthly deposit* is participant savings divided by the number of months in the IDA program. *Deposit regularity* is number of months in which deposits were made divided by the number of months in the program. *Proportion of savings goal* is participant savings divided by the amount that could be saved and matched. At this data collection point, June 30, 1999, the mean and median length of participation was nine months.

Source: Sherraden et al. (2000), *Savings Patterns in IDA Programs*.
Table 4
Savings by Poverty Level in a Demonstration of IDAs
N=1326

<table>
<thead>
<tr>
<th>Income Poverty Level</th>
<th>Average Monthly Deposit In Dollars</th>
<th>Average Monthly Deposit/ Household Monthly Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Median</td>
</tr>
<tr>
<td>.50 and Below</td>
<td>29.10</td>
<td>20.10</td>
</tr>
<tr>
<td>.51 to .75</td>
<td>31.00</td>
<td>19.50</td>
</tr>
<tr>
<td>.76 to 1.00</td>
<td>30.60</td>
<td>22.60</td>
</tr>
<tr>
<td>1.01 to 1.25</td>
<td>36.60</td>
<td>22.50</td>
</tr>
<tr>
<td>1.26 to 1.50</td>
<td>35.80</td>
<td>28.00</td>
</tr>
<tr>
<td>1.51 to 1.75</td>
<td>31.60</td>
<td>24.10</td>
</tr>
<tr>
<td>1.76 to 2.00</td>
<td>38.20</td>
<td>25.30</td>
</tr>
<tr>
<td>Over 2.00</td>
<td>36.30</td>
<td>34.40</td>
</tr>
<tr>
<td>Total</td>
<td>33.30</td>
<td>23.50</td>
</tr>
</tbody>
</table>

Source: Sherraden et al. (2000), *Savings Patterns in IDA Programs.*

25
It is a special pleasure to participate in this symposium on asset ownership, a topic that is drawing increasing attention in public policy and community development. The leadership of the Ford Foundation, especially Vice President Melvin Oliver, has been a major catalyst to asset building projects as well as research and academic debate. The symposium organizers, Tom Shapiro and Ed Wolff, have contributed to a body of academic work that has put this topic on the table for discussion. The title of the symposium, “Benefits and Mechanisms of Asset Ownership,” indicates a commitment to application, and the distinguished scholars in this forum reflect the highest standards of academic inquiry and debate. I am grateful to all of the conference participants for their papers and discussion. My thinking particularly benefited from the summative comments of Tim Smeeding and Bob Haveman.


Current U.S. homeownership policy is a misguided use of public funds. At the household level, there is not a good rationale for subsidizing luxury housing and this policy is unjust to the majority of U.S. households. At the macroeconomic level, large residential dwellings provide a low return on capital. A better policy would promote homeownership across a broader population. Benefits should be progressive, or at least equal, so that more low-income and low-wealth families could become homeowners.


The emphasis in proposals for capital accounts has been on providing lump sum resources for welfare and consumption choices at age 18 or 21. A more recent version has been offered in 1999 by two law professors (Ackerman and Allstot, 1999). However, the lump sum idea may not be good policy. A study of lottery winners finds that those who win about $15,000 per year considerably reduce the amount held in retirement accounts, in bonds and mutual funds, and in general savings (Imbens, Rubin, and Sacerdote, 1999). Instead of lump sum deposits, I have suggested long-term and systematic asset accumulation in Individual Development Accounts with deposits at birth and throughout the growing up years (Sherraden, 1991). In another version of this, Lindsey (1994) proposes a Child Social Security Account, wherein assets would build
over time by government and private contributions. Lindsey points to the likely positive changes that would result from the experience of saving and investing.

6 Despite a stronger federal policy emphasis on homeownership for the poor in recent years, most low-income housing programs still concentrate on rental housing. Homeownership for the poor has been a somewhat controversial strategy, but there is reason to believe that it can be effective (Johnson and Sherraden, 1992).

7 MIS IDA software is, to our knowledge, the first example of an information technology tool that collects real time data from multiple sites, created at the beginning of a policy innovation.

8 Ray Boshara’s policy work at CFED was highly instrumental in enactment of the Assets for Independence Act.

9 For summaries of state IDA policies, see CSD’s web site at gwbweb.wustl.edu/Users/csd/stateIDAprofiles/html

10 See CFED’s web page for information on operating IDA programs, at www.cfedonline.org


12 The concept and name USAs has been presented by CFED and CSD over the past several years. Early experience with IDAs was influential in the White House decision to propose USAs. In designing USAs, the Treasury Department asked CSD for early data from the “American Dream Demonstration” showing that, with matching funds, at least some of the poor will be able to save. At the time of the President’s State of the Union Address, CFED and CSD were meeting in Washington on “Universal Savings Accounts,” with experts who form a Growing Wealth Working Group, co-chaired by Friedman, Boshara, and Sherraden.

13 In his State of the Union Address on January 27, 2000, President Clinton said: Tens of millions of Americans live from paycheck to paycheck. As hard as they work, they still don’t have the opportunity to save. Too few can make use of IRAs and 401(k) plans. We should do more to help all working families save and accumulate wealth. That’s the idea behind the Individual Development Accounts, the IDAs. I ask you to take that idea to a new level, with new retirement savings accounts that enable every low-
and moderate-income family in America to save for retirement, a first home, a medical emergency, or a college education. I propose to match their contributions, however small, dollar for dollar, every year they save. In a separate publication, the White House (2000) also pointed to the influence of IDA research which is now published in the CSD report, *Saving Patterns in IDA Programs*.

14 I thank Sandy Beverly (1997) for her summation of saving theory and evidence.

15 To take one example of the importance of facilitation, an unsuccessful IDA participant on whom we are conducting a case study in ADD was able to save at only one period in her life, when she had a payroll deduction plan, even though there was no matches from the employer. In contrast, she is so far unable to save in the IDA program, even though her savings would be matched.


17 A more comprehensive and flexible Version 3.0 of MIS IDA is now available. MIS IDA was originally designed by CSD as a research instrument, but it has become the standard for IDA program operations, and is now in use by at least 150 IDA programs. MIS IDA tracks and provides reports on the sometimes complex financial arrangements among funders, programs, and participants.

18 Comparison statistics are from the U.S. Census Bureau’s Survey of Income and Program Participation (SIPP). These data (which come from the ninth wave of the 1993 SIPP panel) refer to September 1995. The sample includes individuals 18 years old and older who were living in households with income at or below 200% of the appropriate official poverty threshold. To obtain annual household income, we multiplied household income for the month of September by 12. Data on employment status refer to characteristics as of the first week of September 1995. The “bank use” variable identifies individuals living in households that had a checking or savings account in the first quarter of 1995. The data are weighted by person-level weights provided by the Census Bureau.