

Research Report

Individual Development Accounts: Summary of Research

Michael Sherraden

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Center for Social Development



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IDAs are matched savings for low-income individuals, to be used for home ownership, education, or small business capitalization. IDA programs also include financial education and staff support to encourage saving.¹ A large study of IDAs known as the “American Dream Demonstration” has been in progress at 13 sites in the United States since 1997.² A large, multi-method research agenda accompanies this demonstration.³ Below is a summary of research results to date from this demonstration.

Design and implementation of IDA programs⁴

- Recruitment of participants is slow in the beginning, but increases rapidly as word spreads among friends and neighbors.
- Though matching saving is a simple idea, many IDA programs are complex. Successful programs keep IDA program designs simple.
- Dedicated and stable staffing appears to be critical for program performance.

¹ IDAs were proposed in Sherraden (1988) in *Rethinking Social Welfare: Toward Assets*, *Social Policy* 18(3), 37-43. Since that time IDAs have been introduced and spread in the United States so that over 40 states now have some type of IDA program. The federal government included IDAs as a state option in a 1996 "welfare reform" law, and a federal IDA demonstration was enacted in 1998. Despite considerable policy activity, current IDA programs are small; the total number of IDA participants in the United States probably does not exceed 50,000.

² This demonstration has been conceived, organized, and implemented by the Corporation for Enterprise Development in Washington, DC, and funded by 12 private foundations. Funders are the Ford Foundation, Charles Stewart Mott Foundation, Joyce Foundation, Citigroup Foundation, Fannie Mae Foundation, Ewing Marion Kauffman Foundation, John D. and Catherine T. MacArthur Foundation, Levi Strauss Foundation, Rockefeller Foundation, Moriah Fund, and Metropolitan Life Foundation.

³ The research is designed and directed by the Center for Social Development at Washington University, St. Louis, Missouri.

⁴ Page-Adams, Deborah (2002). *Design, Implementation, and Administration of Individual Development Account Programs*, research report. St. Louis: Center for Social Development, Washington University. This is a "process" evaluation of program implementation over the first two years of the demonstration, involving two sets of interviews with all program sites.

Saving performance of 2,364 IDA participants at December 31, 2001⁵

- IDA participants, on average, make deposits in 6 of every 12 months.
- Monthly IDA net deposits average \$19.07, or about \$228 per year.
- The average IDA match rate is \$1.92 to \$1.
- Total net deposits plus match for IDA participants average \$1,543.
- Compare this IDA accumulation to the average non-IDA savings balance of \$269 (median \$2), and checking balance of \$281 (median \$50) among the participants.

Saving amount compared to potential

- IDA participants save 51 cents for every dollar they could save and be matched.⁶ We cannot say if this is high or low.
- Compare to performance of participants in Individual Retirement Account (IRAs): one-third reach their contribution limits in each of three straight years.⁷

⁵ In order to assess saving performance in IDAs, it has been necessary to design and create a research tool that can track every deposit and withdrawal transaction and report data electronically from many sites across the country. CSD designed and created the Management Information System for Individual Development Accounts (MIS IDA) for this purpose; see Johnson, Elizabeth; Hinterlong, James; and Sherraden, Michael (2001). Strategies for Creating MIS Technology to Improve Social Work Practice and Research, *Journal of Technology for the Human Services* 18(3/4). MIS IDA has been essential for research, and important for managing IDA programs. Most existing IDA program use MIS IDA as their management information system. These data on saving performance are from the latest report using MIS IDA data as of December 31, 2001, which is the end of the saving period in the demonstration. The report is: Schreiner, Mark; Clancy, Margaret; and Sherraden, Michael (forthcoming). *Savings Performance in the American Dream Demonstration*, research report. St. Louis: Center for Social Development, Washington University.

⁶ Schreiner et al. (forthcoming).

⁷ Bernheim, B.D. (1997). Rethinking Savings Incentives. In A.J. Auerbach, ed., *Fiscal Policy: Lessons from Economic Research*, 259-311. Cambridge, MA: MIT Press.

Saving pattern during the year⁸

- IDA deposits increase sharply in March, probably reflecting income tax returns and the impact of the Earned Income Tax Credit (EITC).

Savers and low savers⁹

- About 56 percent of IDA participants have net deposits of \$100 or more. We call these “savers.”
- The other 44 percent saved and maintained assets for a time, but also dissaved and have net deposits of less than \$100 (most often zero). We call these “low savers.”

IDA program features that appear to affect saving performance¹⁰

- Higher match rates are positively associated with being a “saver.”
- Direct deposit is positively associated with being a “saver.”
- Up to a point, the number of hours of financial education is positively associated with greater monthly net deposits.
- Overall, a structured program with incentives, information, and facilitation may increase savings of the poor.¹¹

⁸ Schreiner, Mark; Sherraden, Michael; Clancy, Margaret; Johnson, Elizabeth; Curley, Jami; Grinstein-Weiss, Michal; Zhan, Min; and Beverly, Sondra (2001). *Saving and Asset Accumulation in Individual Development Accounts*, research report. St. Louis: Center for Social Development, Washington University.

⁹ Schreiner et al. (forthcoming).

¹⁰ Ibid. Reported results on program characteristics are controlled for many other factors in regression analysis.

¹¹ Sherraden, Michael; Schreiner, Mark; and Beverly, Sondra (2002). *Income, Institutions, and Saving Performance in Individual Development Accounts*, working paper 02-03. St. Louis: Center for Social Development, Washington University (revised version forthcoming in *Economic Development Quarterly*).

Income, welfare, and saving performance in IDAs¹²

- Controlling for other factors, income is not associated with being a “saver” or with net deposits in IDAs. Those with very low incomes save as successfully as others.
- Very-low-income IDA participants save at a higher *rate* relative to their income. Those at 50 percent of poverty and below save more than 3 percent of income, while those at 200 percent of poverty save about 1 percent of income.
- Controlling for other factors, past and current welfare reciprocity is not associated with being a “saver” or net deposits in IDAs. Welfare recipients save as successfully as others.

Assets, liabilities, and saving performance in IDAs¹³

- Homeowners and car owners are more likely to be “savers,” and they have higher net IDA deposits.
- Participants with debt are less likely to be “savers,” and they have lower net IDA deposits.
- These findings could signal that participants are shifting other assets into IDAs, or could signal that participants who are already successful savers are also better at IDA saving. Only experimental data (not yet available) can distinguish between the two possibilities.

Race/ethnicity and saving performance¹⁴

- Asian-Americans and Hispanics are more likely than other racial/ethnic groups to be “savers.”
- Native-Americans and African-Americans have lower average monthly net deposits than other racial/ethnic groups.
- Most importantly, all racial and ethnic groups save successfully in IDAs. Because they begin with far lower net worth, IDAs would reduce asset inequality (measured as a proportion against other groups) for Native-Americans and African-Americans.

¹² Schreiner et al. (forthcoming). Reported results on individual characteristics are controlled for many factors in regression analysis.

¹³ Schreiner et al. (forthcoming).

¹⁴ Ibid.

When asked *how* they were able to save in IDAs, 298 respondents in a survey report the following¹⁵

- Reduced consumption: 70% say they shopped more carefully for food; 68% say they eat out less often; and 64% say they spent less on leisure.
- Increased earnings: 29% say they worked more hours in order to generate the money for saving in IDAs.
- Increased debt: only 7% say they borrow from family or friends, and only 3% say they borrow on credit cards in order to save in IDAs. (These results could be biased due to respondents trying to give the “right” answer.)
- The main story appears to be that IDA participants are willing to make consumption sacrifices in order to save.
- Consumption sacrifices could lead to hardship, e.g., 15% say they postponed a doctor or dentist visit in order to save in IDAs.
- Overall, we find little evidence of hardship due to IDA saving in either quantitative or qualitative research. It is important to note that IDA participation is voluntary.

Uses of savings in IDAs as of December 31, 2001 (end of the savings period)¹⁶

- 754 (32%) of participants had taken a matched withdrawal.
- Looking at uses, 28% were for home purchase, 23% were for microenterprise (small business), 21% were for post-secondary education, and 18% were for home repair.
- Among “savers” who have not yet taken a matched withdrawal, 55% indicate that the intended use is home purchase.

¹⁵ Moore, Amanda; Beverly, Sondra; Schreiner, Mark; Sherraden, Michael; Lombe, Margaret; Cho, Esther Y.N.; Johnson, Elizabeth; and Vonderlack, Rebecca (2001). *Saving, IDA Programs, and Effects of IDAs: A Survey of Participants*, research report. St. Louis: Center for Social Development, Washington University (revised version of a portion of this study forthcoming in *Social Development Issues*). This is a cross-sectional survey at six of the IDA program sites.

¹⁶ Schreiner et al. (forthcoming).

Reported effects of saving in IDAs by survey respondents¹⁷

- Economic effects: 59% of respondents strongly agree or agree that, because of their participation in the IDA program, they are more likely to work or stay employed; 41%, work more hours; and 73%, buy or renovate a home.
- Human capital development: 60% strongly agree or agree that, because of their participation in the IDA program, they are more likely to make educational plans for their children; and 59%, educational plans for themselves.
- Psychological effects are as follows: 93% of respondents strongly agree or agree that, because of their participation in the IDA program, they are more confident about the future; 84%, more economically secure; and 85%, more in control of their lives.
- Overall, in survey data, effects of IDA saving and asset accumulation appear to be multiple and positive in areas such as work behavior, home ownership, plans for education, and confidence and control. In qualitative interviews, IDA participants tend to be quite positive about effects of IDAs.¹⁸

Common themes in extended interviews with 60 IDA participants and 30 controls¹⁹

- The IDA program “creates goals and purpose.”
- Participants can “see more clearly” and “visualize a future.”
- The IDA program also provides a “road map” and a “way to reach goals.”
- Regarding saving, IDA participants are “more able to save,” “look forward to saving,” and “plan to save in the future.”
- In sum, respondents identify the IDA program structure as changing both outlook and behavior related to saving and reaching life goals.

¹⁷ Moore et al. (2001).

¹⁸ Sherraden, Margaret S.; Moore, Amanda; and colleagues (forthcoming). *Participants Views of Individual Development Accounts*, research report. St. Louis: Center for Social Development, Washington University. This report is based on in-depth interviewing of IDA participants and controls at one site in Tulsa, Oklahoma, because the experiment is taking place at this site and we wish to combine qualitative and quantitative data in the experiment. In-depth interviews occurred in person, in a place comfortable to the respondent, most often the respondent's home.

¹⁹ Ibid.

IDA program costs

- IDA programs as implemented in the American Dream Demonstration are costly to operate. The most recent assessment of program costs (not counting matching funds) is \$64 per participant per month.²⁰
- How does the cost of IDAs compare to other similar programs? The cost is high compared to 401(k)s and similar financial products, which are under \$10 per month. The cost is low compared to many intensive family service programs, which can reach \$400 or month.²¹

Impacts of research

- Research on IDAs has been important for policy development in IDAs and similar matched saving policy, contributing to state and federal policy in the United States.²²
- Over 40 US states now have some type of IDA program.²³ Policy meetings and testimony including IDA research results from CSD have contributed to most of these state policy developments.
- At the federal level, IDAs were included as a state option in the 1996 “welfare reform” law. A federal demonstration of IDAs known as the *Assets for Independence Act* was enacted in 1998. In 2002, the *Savings for Working Families Act* is before the Congress.²⁴ IDA research results from CSD have been influential in federal policy development.
- Turning to large, inclusive applications of asset-based policy, IDA research results from CSD contributed to President Clinton’s 1999 proposal for Universal Savings Accounts

²⁰ Schreiner (2002). *What Do IDA Programs Cost? The First Three Years at CAPTC*, research report. St. Louis: Center for Social Development, Washington University. CSD's cost studies in the IDA demonstration are among the most thorough cost studies of a social program; all identifiable costs, including volunteer time, are included.

²¹ Ng, Guat Tin (2001). *Costs of IDAs and Other Capital Development Programs*, working paper 01-08. St. Louis: Center for Social Development, Washington University.

²² Sherraden, Michael (2001). From Research to Policy: Lessons from Individual Development Accounts, Colston Warne Lecture, *Journal of Consumer Affairs* 34(2), 159-181.

²³ Karen Edwards, *State IDA Policy* page, on the website of the Center for Social Development, <http://gwbweb.wustl.edu/csd/>

²⁴ For developments in federal IDA policy, see the website of the Corporation for Enterprise Development, www.cfed.org

and 2000 proposal for Retirement Savings Accounts.²⁵ Testimony based on IDA research contributed to the final report of President George W. Bush's Commission to Strengthen Social Security.²⁶

- CSD's research on IDAs has informed and stimulated asset-based policy initiatives in other countries. For example, in the United Kingdom the Blair government has initiated a matched savings program known as Savings Gateway and has proposed a universal, progressive Children's Savings Account.²⁷

Conclusions (interpretation and opinion)

- Looking at the data overall, there is reason to believe that an inclusive asset-based policy can be successful. Poor people, like others, should have structured opportunities and incentives to save and accumulate assets. Any public policy that is based on individual asset accounts should include the poor and provide progressive matching deposits.
- Regarding the successful IDA saving performance of the very poor, our interpretation is that IDA participants, regardless of income level or welfare reciprocity, are responding to program characteristics, including the matching incentive and expectations of a monthly savings amount.²⁸

²⁵Clinton, William Jefferson (1999). *State of the Union Address*. Washington: U.S. Executive Office of the President; and Clinton, William Jefferson (2000). *State of the Union Address*. Washington: U.S. Executive Office of the President.

²⁶ Sherraden, Michael (2001). *Assets and the Poor: Implications for Individual Accounts in Social Security*, testimony before the President's Commission to Strengthen Social Security, Washington, October 18; President's Commission to Strengthen Social Security (2001). *Report*, December. Washington: President's Commission to Strengthen Social Security.

²⁷ CSD's research on IDAs is cited in Kelly, G. and Lissauer, R (2000). *Ownership for All*. London: Institute for Public Policy Research; and H.M. Treasury (2001). *Delivering Saving and Assets: The Modernization of Britain's Tax and Benefit System*, number nine. London: H.M. Treasury. The Labour Party initiative for a Saving Gateway is based on Individual Development Accounts in the United States. In *Assets and the Poor* (1991, M.E. Sharpe), Sherraden proposes universal, progressive accounts beginning at birth. This idea is much improved upon in Nissan, D., and Le Grand, J. (2000). *A Capital Idea: Start-up Grants for Young People*, policy report 49. London: Fabian Society; and the Labour Party proposal for a Child Trust Fund. In September 2002, Sherraden presented IDA research results at a seminar on the Child Trust Fund organized by Prime Minister Tony Blair at 10 Downing, and in a dinner speech and discussion hosted by Chancellor of the Exchequer Gordon Brown.

²⁸ Regarding income and saving performance, see Sherraden et al. (2002). Regarding welfare reciprocity and saving performance, see Zhan, Min; Sherraden, Michael; and Schreiner, Mark

- The peak in IDA savings in March and April suggests that IDAs might be successfully combined with the EITC or other lump sum distributions in public policy. The poor, like everyone else, may find it easier to save from lump sums than from regular income.
- Policy should aim for successful saving performance for all racial/ethnic groups. Greater research attention should be given to factors that may depress the savings of Native-Americans and African-Americans (e.g., perhaps lack of information or lack of transportation are limiting factors), and asset-based policy and programs should be designed to overcome these factors.
- There appears to be great interest in home ownership among the IDA participants. Given that monthly mortgage payments are no higher than rental payments in many parts of the United States, saving for home ownership among the poor should be a priority.
- A progressive saving policy for the poor should be focused on more than retirement security. Access to home ownership, education, and business ownership are necessary for household development and, at the same time, contribute to retirement security. In the United States, there appears to be strong demand for home ownership in particular.
- The IDA cost assessment is for a pioneering IDA program that has added costs for figuring out how to implement the program, for research, and for policy development. This cost might eventually be reduced to \$30 to \$40 per month, but it is unlikely to be reduced to, say, \$10 per month.
- “High touch” (intensive services) IDA programming at the community level will very likely be too costly to go to large scale.²⁹ There is a clear trade-off between effective program features such as staff involvement and financial education, and program cost. A key challenge is to figure out what program features have the most pay-off, for whom, and in what circumstances.
- If IDA or other asset-based policy is to become truly inclusive and reach large scale, it will have to be based on a core that is very simple and efficient in design. One model could be State College Savings Plans (“529” plans) in the United States, because they are centrally administered and cost efficient.³⁰ However, this does not rule out intensive

(2002). *Welfare Reciprocity and Savings Outcomes in Individual Development Accounts*, working paper 02-08. St. Louis: Center for Social Development, Washington University.

²⁹ Sherraden, Michael (2001). *On Costs and the Future of IDAs*, perspective. St. Louis: Center for Social Development, Washington University.

³⁰ Clancy, Margaret (2001). *College Savings Plans: Implications for Policy and for a Children and Youth Savings Account Policy Demonstration*, research background paper 01-08. St. Louis: Center for Social Development, Washington University in St. Louis.

programming. A large, simple, core policy can be accompanied at the local level by financial education and other asset-building programs.

- The aim should be large-scale, inclusive asset-based policy. In the United States, as in the United Kingdom, one possible pathway would be to initiate a children's savings account for every child at birth. Over time, this could develop into an inclusive asset-based policy.³¹

³¹ Goldberg, Fred, and Cohen, Jodi (2000). *The Universal Piggy Bank: Designing and Implementing a System of Children's Savings Accounts*, policy report. St. Louis: Center for Social Development, Washington University.