Testimony

Saving in IDA Programs

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Implications for Individual Accounts and Social Security

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Responding to Commissioners' questions about saving and effects of asset accumulation among households with low incomes, permit me offer the following information based on our research on Individual Development Accounts (IDAs). IDAs are matched saving restricted for certain uses, typically home ownership, education, and small business capitalization.

IDA Demonstration and Research

A large demonstration and research project on IDAs, known as the "American Dream Demonstration" (ADD) began in 1997. ADD is funded by 11 foundations: Ford Foundation, Charles Stewart Mott Foundation, Joyce Foundation, Citigroup Foundation, John D. and Catherine T. MacArthur Foundation, Ewing Marion Kauffman Foundation, F.B. Heron Foundation, Fannie Mae Foundation, Levi Strauss Foundation, Rockefeller Foundation, and the Moriah Fund. ADD runs through 2002, with research extending to 2005 (and we hope to follow participants and controls beyond this date). ADD may be the largest applied social research project in the nation at the present time. As of June 2000, there were 2,378 ADD participants at 14 IDA program sites around the country. IDA programs are located in a variety of community organizations, including social service agencies, housing organizations, and credit unions.

The Corporation for Enterprise Development (CFED) in Washington developed and implemented ADD. The Center for Social Development (CSD) at Washington University designed an extensive research agenda for ADD, including monitoring of all saving and withdrawal transactions, interviews with participants, and an experiment with randomly assigned controls (Sherraden et al., 2000).

Findings on Savings

As of June 30, 2000, IDA participants in ADD had net savings of an average of $25 per month (this figure includes dropouts). IDAs are matched an average of 2:1 in ADD, so that participants had accumulated an average of $75 per month or $900 per year.

The average use of match eligibility was 67 cents of every dollar. In other words, ADD participants were saving two-thirds of the amount they could save and be matched.

The average participant had made a deposit in 7 of every 12 months.

Deposits increased sharply in March, possibly reflecting income tax returns and the impact of the Earned Income Tax Credit.

There was no statistical difference in saving amount by income. The savings rate (savings/monthly income) for the lowest income decile (approximately half the poverty line and below) was 5.6%, and the savings rate for the highest income decile (approximately twice the poverty line) was 1.2%. Our interpretation is that IDA participants, regardless of income level, are responding to program characteristics, including the matching incentive and expectations of a monthly savings amount (data on IDA savings patterns are in Schreiner et al., 2001).

Sources of Savings

In a survey of 298 ADD participants, we asked where they got the money for their saving. The primary source was changes in consumption behavior. For example, 70% said they shopped more carefully for food; 68% said they ate out less often; and 64% said they spent less on leisure. Some respondents (29%) said that they worked more hours in order to generate the money for saving in IDAs. Few (7%) said they borrowed from family or friends, and few (3%) said they borrowed on credit cards in order to save in IDAs (Moore et al., 2001).

Although we will know for sure until experimental data are reported, we see little evidence of asset shifting into IDA accounts (participants do not have many assets to shift).

Uses of Saving in IDAs

As of June 30, 2000, 318 (13%) of ADD participants had taken a matched withdrawal. The average total was $603 ($1,698 with the match). Looking at uses, 24% were for home purchase, 24% were for microenterprise (small business), 21% were for post-secondary education, and 20% were for home repair. Among ADD participants who had not yet taken a matched withdrawal, 57% indicated that the intended use was home purchase (Schreiner et al., 2001).

Effects of Saving in IDAs

Reported economic effects are as follows: 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. Reported psychological effects are as follows: 93% of respondents strongly agree or agree that participation in the IDA program makes them more confident about the future; 84% more economically secure; and 85% more in control of their lives. Turning to human capital development, 60% strongly agree or agree that participation in the IDA program makes it more likely that they will make educational plans for their children; and 59% educational plans for themselves (Moore et al., 2001).

Conclusions

Based on these results, it would be incorrect to assume that low-income people, even those far below the poverty line, cannot save and accumulate assets.

Savings policies for the poor should aim to capture lump sum distributions, such as the Earned Income Tax Credit.

There appears to be a large demand for home ownership among the poor. Given that monthly mortgage payments are no higher than rental payments in many parts of the country, saving for home ownership among the poor should be a priority.

More generally, 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.

IDA participants are willing to make consumption sacrifices in order to save. We see little evidence that these consumption sacrifices are harmful to well being.

Effects of saving and asset accumulation appear to be multiple and positive in areas such as work behavior, home ownership, confidence and control, and plans for education.

Looking at the data overall, poor people, like everyone else, 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.

References

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