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Some Measures from ADD

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Abstract

What does it cost to run a "high-touch" IDA program? At CAPTC, a participant-month of IDA services cost about $61 (not counting matches). Given net monthly IDA savings of $20 per participant, $1 of net IDA savings cost $3. While this does not rule out "high-touch", targeted, time-limited, community-based programs with state, local, or private funding, it seems likely that a universal, permanent IDA policy would require a high-tech, "low-touch" design run by low-cost asset managers with federal funding.

Acknowledgments

What Does an IDA Cost? Some Measures from ADD

1.   Introduction

Because resources are limited, policymakers cannot fund all programs. In principle, they should choose what programs to fund by comparing benefits and costs. In practice, benefits and costs are rarely measured. Indeed, advocates of a particular policy may prefer *not* to measure. In the words of Pritchett (2002), "it pays to be ignorant" because "when evaluated, the expected value of the effect of a social program is zero" (Rossi, 1987, quoted by Orr, 1999, p. 257). Without measurements to the contrary, advocates are free to claim that benefits are high and costs are low.

The American Dream Demonstration (ADD) of Individual Development Accounts (IDAs) did measure costs. It did this not as advocacy but rather to find out what IDAs cost, thus improving implementation and informing policy choices.

The Community Action Project of Tulsa County (CAPTC) ran a "high-touch" IDA program in ADD. Its costs can be seen as:[1]

- $1,959 per participant

- $61 per participant-month

- $3.06 per $1 of net IDA savings

Are these costs high or low? It depends on the (unknown[2]) benefits of IDAs and on the (also unknown) benefits and costs of alternatives. Also, IDAs are still young, and programs may learn, grow, and become more efficient with time.

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[1] Schreiner (2004, 2002, and 2000) describes the concepts of cost measurement and documents "start-up," "on-going," and "wind-down" costs at CAPTC from October 1998 through December 2003. Sherraden (2000) comments on this exercise. Schreiner, Ng, and Sherraden (2004) also discuss costs at CAPTC.

How do IDAs stack up against other financial- and human-capital programs? Ng (2001) finds that IDAs cost more per participant than 401(k) plans, perhaps because IDA programs currently have fewer participants. IDA costs are in the same range as some human-capital programs (such as Women, Infants, and Children) but are lower than others (such as Head Start).[3]

Of course, costs depend on program design and services. Furthermore, some costs cannot be known with certainty. In the measurement exercise here, the margin of error is unknown, and the sample size is one. And again, benefits are not considered.

Still, it is useful to measure costs. For one thing, it balances anecdotes about benefits. Furthermore, it sets a benchmark which programs can aim to beat. Finally, the very act of measurement creates healthy incentives for efficiency and innovation.

Measuring costs at CAPTC has sparked a search for cost structures appropriate for universal, permanent IDAs. Such structures would—of necessity—be federally funded and run by a central asset manager rather than "high-touch", community-based non-profits. States, local governments, and private donors could still complement the universal structure by funding financial education and other supports via targeted, time-limited, "high-touch" programs run by community-based non-profits.

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[2] A random-assignment component of ADD may yield estimates of benefits.
[3] As usual in policy choices, these are necessarily apples-with-oranges comparisons.

2. IDAs at CAPTC

This section describes IDAs, account design at CAPTC, participant characteristics, and measures of program output.

2.1   Individual Development Accounts

IDAs are subsidized savings accounts.[4] Unlike IRAs or 401(k) plans, IDAs are targeted to the poor, provide matches rather than tax breaks, and require financial education. Matches are provided for IDA savings used for home purchase, post-secondary education, and microenterprise. In principle, accounts can be opened at birth and remain open for a lifetime. Match funds may come from public or private sources, and there are no restrictions on unmatched withdrawals. Overall, IDAs are a flexible tool that governments, employers, or development organizations can plug into.

To date, most IDA programs have been run by community-based non-profits. Because of funding constraints, the time frame for saving and making matched withdrawals has usually been limited to 2–5 years. Besides financial education, most IDA programs also have provided social support and financial counseling.

2.2   IDAs at CAPTC

CAPTC is a non-profit anti-poverty agency. As part of ADD, it ran one of the first and largest IDA programs. In this one program, qualified applicants were randomly assigned as "treatments" with access to IDAs or "controls" without access.[5] The program started in October 1998 and ended in December 2003.

To open an IDA, participants at CAPTC had to have a job, have income below 150

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[4] Sherraden (1991 and 1988) proposed IDAs as an example of asset-based development.
[5] This facilitates estimating the benefits of IDAs by comparing outcomes across groups.

percent of poverty, and complete 4 hours of financial education.[6] Participants were poor; their average income was 115 percent of poverty, 45 percent had received income-tested public assistance, and 43 percent had received non-IDA social services.

Compared with low-income people overall, participants were disadvantaged in race/ethnicity, gender, and marital status. About 43 percent were African American, 77 percent were female, and 76 percent were not married. About half were single mothers.

Participants were relatively advantaged in terms of education, employment, and bank-account ownership. About 92 percent were working or in school, and 72 percent had attended some college (29 percent had a degree). At enrollment, 87 percent owned a passbook and/or a checking account.

Matches were provided for home purchase, post-secondary education, microenterprise, home repair, and retirement savings. The match rate was 2:1 for home purchase and 1:1 for other uses. At enrollment, 65 percent planned to buy a house.

Participants could deposit up to $750 per year for 3 years. Thus, maximum IDA savings was $2,250, and maximum asset accumulation (savings plus match) was $4,500 ($6,750 for home buyers). About 13 percent of participants "maxed out" their IDA, and 48 percent had net IDA savings of more than $100.

The average participant had net IDA savings of $640, corresponding to asset accumulation (at the average match rate of 1.5:1) of $1,600. Participants saved 1.9 percent of their income in IDAs, making deposits about every other month.

CAPTC required 12 hours of "general" financial education, and "asset-specific" classes were also required before matched withdrawals.

The IDAs themselves were passbooks in the participant's name in the Bank of Oklahoma.

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[6] They also had to agree to participate in the experiment, even if assigned as a control.

Unmatched withdrawals were possible at any time.[7] The bank paid interest on balances and waived fees and minimum-balance requirements. In addition to quarterly paper statements, the bank sent monthly electronic feeds to CAPTC, who then mailed paper statements to participants, showing not only the IDA balance but also the corresponding match. If a participant went a month without a deposit, program staff made "prodding" phone calls.

2.3 IDA outputs at CAPTC

Figure 1 shows three measures of output with annual figures on lines a–c and cumulative totals on lines d–f.

An participant is someone who opens an IDA. There were 471 participants.

A participant-month is a calendar month in which a given participant has an IDA open. There were 15,213 participant-months.

Net IDA savings are matched dollars plus matchable dollars. Total net IDA savings was $301,645. The average participant had net IDA savings of $640, or about $20 per participant-month.

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[7] CAPTC kept match funds apart, disbursing them directly to vendors.

3. Cost estimates

3.1 Methods

Costs are resources used up.[8] This exercise identifies used-up resources and puts a value on them.

Accountants at CAPTC identified and valued cash expenses. Staff also identified in-kind and in-time donations, and donors reported dollar values. This is straightforward, although valuation of non-cash donations is somewhat imprecise.

The main challenge was to count all social costs except those atypical of a "high-touch" IDA program run by a community-based non-profit.

3.1.1 Social costs

Costs are measured from a particular point of view (Schreiner, 2003). For example, a private donation is a cost to the donor and to society as a whole (resources were used up), but it is not a cost to the government (no government resources were used up). As an evaluation of a development program, this paper takes the point of view of society (Gittinger, 1982).

This is not the only point of view. For example, some advocates may not care if IDAs divert resources away from, say, food pantries. What matters, however, are not food pantries nor IDAs *per se*; what matters is development. For society, all costs count, regardless of form or source.

The social focus means, for example, that matches are not costs, as resources paid out equal those received by participants. Also, private donations have a social cost, for resources are used up for IDAs that could have been used elsewhere.

3.1.2 Atypical costs

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[8] In contrast, *assets* are resources moved through time.

The method above provides a good estimate of social costs of IDAs at CAPTC; it has high "internal validity" (Orr, 1999). This IDA program, however, was atypical, so its cost estimates have low "external validity" for other programs.

For example, CAPTC was atypical in that it matched retirement savings. Also, because CAPTC had run an earlier IDA program, the ADD program here did not start from scratch (decreasing costs) and faced a diluted pool of applicants (increasing costs). Furthermore, as one of the first and largest IDA programs, CAPTC often had to present at conferences, give technical assistance, and to support policy work. All these factors affected costs at CAPTC but would not be relevant in a "typical" IDA program.

Most importantly, random assignment of applicants—a decidedly atypical feature existing solely for evaluation—increased costs. Recruitment costs were doubled, as only half of applicants were assigned to IDAs. Random assignment deterred some people from even applying, further increasing recruitment costs. Explaining the arrangement one-on-one to potential applicants also required a lot of staff time. Staff had to work with researchers during design, and later on they had to provide data.

Finally, CAPTC knew the experiment was important for policy, and it responded with a very "high-touch" implementation. For example, staff pressed members of the treatment group to open an IDA. They also mailed monthly reminders to participants, telephoning those with no deposits in the previous month. To show that IDAs work, staff went the extra mile, leading to atypically high costs and atypically high outputs.

Here, only "typical" costs were counted. In particular, extraordinary recruitment costs were excluded, as were evaluation costs. Costs due to pioneering policy work and the extraordinarily "high-touch" service, however, could not be removed. Schreiner (2004, 2002, and

2000) gives more details.

3.1.3 Other assumptions

The cost estimates rest on several simplifying assumptions. First, the time frame was short and inflation was low, so there was no time discounting. Second, unused funds were not counted as costs. Third, the transaction costs of giving and receiving funds were assumed nil. Fourth, the opportunity cost of participants' time in classes and other IDA activities was taken as zero. Fifth, the opportunity cost of saving—rather than consuming or investing outside IDAs— was ignored. Sixth, all donations—be they public, private, in-cash, in-kind, or in-time—were assumed to have other socially valuable uses and thus to have opportunity costs.

No estimate is exact, but these here are accurate to an order of magnitude. In any case, they are better than no estimate (which usually is taken as an estimate of zero). What matters is not that estimates are perfect and incontrovertible—they never can be—but rather that measurements and assumptions are explicit and therefore subject to critique and improvement (Schreiner, Ng, and Sherraden, 2003).

1.1   Estimates

Total program costs from October 1998 to December 2003 were $922,000 (Figure 1, line i).[9] The federal government bore two-thirds of these costs, private entities one-third, and state and local governments 1 percent. About 81 percent were cash costs.

About three-fourths of cash costs were salaries, rent, and overhead. This reflects not only CAPTC's "high-touch" approach but also that the production of any social service is labor-intensive. The largest class of non-cash costs was waived bank fees.

Output at CAPTC can be measured as 471 participants, 15,213 participant-months, and/or

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[9] This excludes the $387,000 disbursed in matches.

$301,645 of net IDA savings (Figure 1, lines d–f). Total operating costs (line i) were $922,473. Costs per unit of output were thus (lines n–p):

- $1,959 per participant

- $61 per participant-month

- $3.06 per $1 of net IDA savings

For comparison, rough self-reported costs for all 14 programs in ADD were $70 per participant-month (Schreiner et al., 2001), not far from the $61 figure here.

Figure 1 shows that annual net IDA savings fell faster than annual costs, so the unit cost of net IDA savings rose in 2001–3. Once start-up costs were diluted, time did not reduce unit costs.

Costs per participant-month fell in the first three years but then rose in the final three years, and costs per dollar of net IDA savings followed the same pattern. Perhaps there are economies of size, as costs were lowest in the years with the most participant-months. Or perhaps costs were concentrated at the start in recruitment and then at the end in the administration of matched withdrawals.

The average match rate at CAPTC was about 1.5:1. Thus, matched withdrawals turned each $1 of net savings into $2.50 of asset accumulation ($1 of savings plus $1.50 in matches). Social cost per $1 of asset accumulation was therefore about $1.82.[10]

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[10] [$922,473 + ($301,645 x 1.5)] / [$301,645 x (1+1.5)]

4.   Implications

What do these estimates mean for IDA policy? The discussion here considers caveats, possible political risks, and some final speculations on policy implications.

1.2   Caveats

This exercise tried to count all costs (and only those costs) typical in the current incarnation of IDA programs. Still, it probably omits some costs that it should include, and vice versa. There is some bias in an unknown direction, but it does not affect the order of magnitude. In their current form as "high-touch", targeted, time-limited programs run from community-based non-profits, IDAs are costly.

Some specific caveats are noted here. First, the results may be idiosyncratic to CAPTC and devoid of general lessons. Second, costs may fall with time, both for a given IDA program and for the IDA field as a whole, as programs learn what works, as programs grow, and as IDA infrastructure develops. In general, IDAs aim for development—to improve people's ability to do and to be what they have reason to want—and this takes time. While many costs have been incurred, most of the benefits are yet to come. Third, it is unusual (but correct) to count the cost of in-time or in-kind donations. Fourth, the costs of IDAs should be compared with the costs of alternatives. But even in the rare cases when such cost estimates exist, comparisons still hinge on subjective judgments (Ng, 2001).

The final caveat is that costs should be considered relative to benefits, but there not yet any data-based estimates of IDA benefits. In any case, the value of benefits (such as increased home ownership or greater involvement in children's education) are difficult to monetize. While policy makers will always be forced to compare apples with oranges, knowing costs improves the quality of the process.

1.3 Political risks of cost measurement

The existence of cost estimates may handicap IDAs vis-à-vis alternatives for whom costs are unknown; advocates cannot claim that IDAs in their current form are inexpensive. A related issue is that it is easier to quantify costs than benefits. If costs are measured, they may seem more "real" and thus carry too much rhetorical weight.

If the emperor's clothes look expensive, however, the proper response is not to blindly praise their exquisiteness but rather to describe both costs and benefits as well as possible, explain how to interpret the description, and hope that explicitness, measurement, and the point of view of society prevails over implicitness, anecdotes, and the point of view of special-interest groups. ADD has tried to take the high ground. If, in the policy arena, the sweet-but-shallow prevails over the inconvenient-but-sound, then evaluation is but a pseudo-scientific veneer making points dictated by advocates (or opponents). If the only policies that can be adopted are those that hide costs and so cannot easily be compared to alternatives, then policy will be sub-optimal.

1.4 The future of IDA policy

Knowledge of costs at CAPTC has encouraged the IDA field to step back and take stock. In broad terms, the responses have involved:

- Identifying benefits beyond saving and asset accumulation that could compensate for costs, including benefits:
  - From financial education and counseling
  - Through time
  - To household members and even to local communities
- Improving the quality of IDA services (e.g., financial education) to increase benefits

- Finding innovative ways to reduce costs

Without estimates of benefits, the focus is on improving service quality and/or reducing costs. Assuming that staff members already are motivated to do their best, this means promoting innovation, that is, doing more with less by doing differently.

Unfortunately, innovation does not happen by decree. IDA programs must have an incentive to come up with new ideas and then try them out. In the for-profit world, competition is the incentive. For non-profits, the incentive is often crisis. In this sense, cost estimates can help create healthy pressure for innovation.

Qualitative research finds that CAPTC participants place a high value on the "high-touch" approach (Sherraden et al., 2005). Labor is costly, so a key task is to identify the most-valued services and then find ways to provide them more efficiently.

Unlike traditional cash assistance (a check for consumption), IDAs are a bundle of services, constraints, and opportunities meant to help poor people save and build assets. The bundle includes not only to matches and a structured saving environment but also financial education, staff support, and financial counseling. For some participants, access to a fee-free passbook account may be enough to draw them into the formal financial system, and having a bank account—even with a $500 balance—can have large financial and psychological effects (Caskey, 2002). Others benefit from financial education. For still others, the match makes it worthwhile to expend the extreme effort required to save from meager resources. Because IDAs are bundles, it is difficult to know which elements matter most. Discovering how the bundle works requires innovation, and innovation requires incentives. Knowledge of costs creates incentives to innovate by frustrating contentment with the status quo.

1.5   A two-tiered IDA policy structure

Even if the cost estimates in this paper are too high, and even if unprecedented cost-saving innovations emerge, the "high-touch" IDA design will remain costly. Sherraden (2000, p. 7) writes, "With experience and efficiencies, this figure ($3 per $1 of net IDA savings) might eventually be reduced to $2 or even $1 for each dollar of savings. However, it is most unlikely that costs for intensive, community-based IDA programs can be reduced to, say, 10 cents for each dollar of net savings."

Even if benefits turn out to exceed costs, the federal government—the only entity that could support a permanent, universal IDA policy—might balk at the current bundle of services and decentralized structure. According to Sherraden (2000, p. 8), "it seems likely that if IDAs . . . are someday to reach millions or tens of millions of people, (they) will operate as a large, simple, minimum-cost system. This system of progressive savings accounts would likely be defined in federal law with public financing, and operated from mutual-fund or other financial-service companies."

The tension between intensive services and the types of cost structures that can reach massive numbers of people may lead to two tiers of IDA designs (Sherraden, 2000). The first tier would be universal and permanent. It would be run by centralized asset managers and would feature simple services, federal funding, and lower costs. This "bare-bones" design would reach more participants with lower costs per participant per year, but it would also have lower benefits per participant per year. It might plug into existing policies for Roth IRAs or 529 College Savings Accounts (Clancy, Orszag, and Sherraden, 2004). If low costs make the "bare-bones" design more sustainable than the "high-touch" design, then it may—over a participant's lifetime—increase benefits.

The second tier would be run from community-based non-profits and would resemble the "high-touch" design at CAPTC. It would feature targeted, time-limited, intensive services, and it would have short-term funding from state, local, or private sources. It would reach fewer participants and have higher costs per participant, but it would also reach poorer people and have higher benefits per participant per year (if not per lifetime). The "high-touch" design could complement the "bare-bones" design by providing financial education and other supports.

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Figure 1: Outputs, costs, and costs per unit of output

Line	Quantity	Formula	1998	1999	2000	2001	2002	2003
	Annual output							
a	Enrollments	Data	0	261	208	2	0	0
b	Participant-months	Data	0	1,583	5,091	4,435	3,020	1,084
c	Net IDA savings	Data	0	52,061	145,910	97,443	28,934	(22,704)
	Cumulative outputs							
d	Enrollments	d(t-1)+a	0	261	469	471	471	471
e	Participant-months	e(t-1)+b	0	1,583	6,674	11,109	14,129	15,213
f	Net IDA savings	f(t-1)+c	0	52,061	197,971	295,414	324,348	301,645
	Annual costs							
g	Operations	Bau	53,104	135,420	283,666	180,562	167,603	102,117
h	Matches	Data	0	7,642	65,757	110,052	94,550	99,946
	Cumulative costs							
i	Operations	i(t-1)+g	53,104	188,524	472,191	652,752	820,356	922,473
j	Matches	j(t-1)+h	0	7,642	73,399	183,451	278,001	377,947
	Annual unit costs							
k	Enrollments	g/a	NA	519	1,364	90,281	NA	NA
l	Participant-months	g/b	NA	86	56	41	55	94
m	Net IDA savings	g/c	NA	2.60	1.94	1.85	6	(4)
	Cumulative unit costs							
n	Enrollments	i/d	NA	722	1,007	1,386	1,742	1,959
o	Participant-months	i/e	NA	119	71	59	58	61
p	Net IDA savings	i/f	NA	3.62	2.39	2.21	2.53	3.06

Source: Data from CAPTC and calculations of the author.