

## INDIVIDUAL DEVELOPMENT ACCOUNTS: PROVIDING OPPORTUNITIES TO BUILD ASSETS

Individual Development Accounts – or IDAs – are matched savings accounts specially designed to enable those of modest means to save, build assets, and enter the financial mainstream. IDAs reward the monthly savings of low-income families who are building toward purchasing a lifelong asset—most commonly buying their first home, paying for post-secondary education, or starting a small business. IDAs make it possible to build the financial assets they need to achieve the American Dream.

IDAs were first proposed by Michael Sherraden, a professor of social work at Washington University in St. Louis, in his 1991 book, *Assets and the Poor: A New American Welfare Policy*. Sherraden argued that current welfare policy failed to recognize the importance of owning assets. His theory: While income maintenance is a crucial part of the social safety net, only asset ownership can increase economic stability and provide hope for the future.

Building on Sherraden's work, CFED launched in 1997 the American Dream Demonstration (ADD): the first large-scale, comprehensively evaluated test of the efficacy IDAs as a tool for saving and asset-building for low-income working families. ADD jump-started a field that is now responsible for more than 83,000 IDAs in nearly every state and the District of Columbia, advancing the life-changing potential of assets.

Assets provide benefits that income alone cannot offer. People with assets have more options in life and can pass on status and opportunities to future generations. Consider the current asset picture in the United States:

- One in five Americans are asset poor;<sup>1</sup> if they had to live only on their net worth – savings, home equity and other assets – they could not survive at the poverty level for three months.
- 15.5% of all Americans (and 26% of minorities) have zero or negative net financial assets.<sup>2</sup>
- Nearly 30% of Americans are unbanked (not maintaining deposit accounts with mainstream financial service providers).<sup>3</sup>

Broadening the ownership of assets through IDAs is one way to help the nation's low-income working families move out of poverty, giving them a "leg up" to enter the financial mainstream.

### How Do IDAs Work?

IDAs are usually offered through programs that involve partnerships between local IDA program sponsors, typically non-profit organizations such as social service agencies or faith-based providers, and financial institutions, like credit unions or community banks. The IDA program sponsor recruits participants for the IDA program, provides financial education classes, and may also provide one-on-one counseling and training to participants.

#### IDAs WORK: AMERICAN DREAM DEMONSTRATION

- The first systematic study of IDAs was the American Dream Demonstration (ADD), a foundation-funded national demonstration of IDAs organized by CFED conducted from 1997 to 2003.
- ADD, a 14-site IDA program, proved that low-income families, with proper incentives and support, can and do save for longer-term goals. Importantly, deposits increased as the monthly target increased, indicating that low-income families' saving behavior, like that of wealthier individuals, is influenced by the incentives they receive.
- The average monthly net deposit per participant was \$19 during ADD, and, with an average match rate of 2:1, participants accumulated about \$700 per year.
- Matched withdrawals were used for home purchase (28%), microenterprise (23%), higher education (21%) and home repair (18%).

Source: *Saving Performance in the American Dream Demonstration*, 2002

After signing up for an IDA program, each participant opens an account with the partnering bank or credit union. The bank or credit union handles all transactions to and from the IDA, just as they do with other types of savings accounts. Each month, IDA participants receive a report telling them how much money (individual savings + match + interest) is accumulating in their IDA.

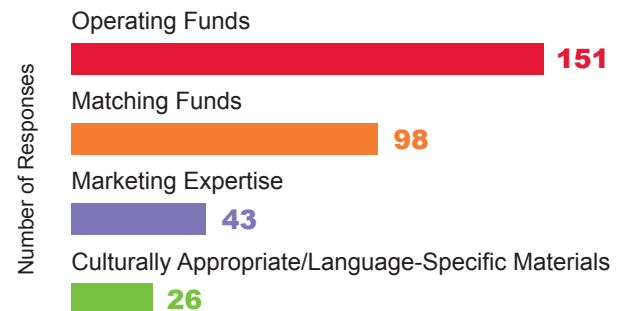
An IDA program can be as short as one year or as long as five years from beginning to end. IDA participants are allowed to withdraw money as soon as they have reached their savings goal, but they must first complete financial education courses and get approval from their IDA program sponsor. Some IDA participants choose one big savings goal, such as a home, but others save for a number of related goals, such as text books and college tuition.

## IDA Matching and the American Dream Match Fund

The IDA match incentive – similar to an employer match for 401(k) contributions – is provided through matching funds from private and public sources. Over the last nine years, with help from federal and state policies, private funding has led to the creation of more than 83,000 IDAs in programs administered by more than 1,100 sites across the country.<sup>4</sup> The impact of this initiative has resulted in more than 9,400 new homeowners, 7,200 educational purchases and 6,400 small business start-ups and expansion purchases. Public funding for IDAs as of September 2006 totals about \$380 million, with roughly \$190 million provided by the federal government and the remainder by the states.<sup>5</sup> Nearly 30 states have statewide IDA coalitions.<sup>6</sup>

Despite this growth and support, asset-building organizations face ongoing challenges raising the money that matches participants' own savings. Moreover, the largest provider of matching funds, the Federal government's Assets for Independence (AFI) program, requires IDA program sponsors to raise funds that match the Federal money. Many program sponsors report waiting lists for matched savings accounts, a situation that arises when the sponsor's fundraising and/or operating capacity is constrained. CFED solicited feedback from IDA practitioners and we are working with Members of Congress to reauthorize the AFI program. These changes include: lowering the local match rate from \$1:\$1 to \$.50:\$1, raising the income qualifications and fully funding financial education.

### Needs Reported by IDA Programs



In 2006, CFED created the **American Dream Match Fund** to provide a reliable and sustainable solution to these challenges. A new social venture that will stimulate the growth of matched savings accounts, like IDAs, throughout the United States, The Fund will raise funds to match the savings of low-income families and provide operating support to high-performing asset-building programs through individual and corporate donors. The Fund's other goals include raising awareness of matched savings as an asset-building strategy and developing software technology to facilitate the flow of information among donors, program providers and accountholders.

1 CFED's 2007-2008 Assets & Opportunity Scorecard.

2 *ibid.*

3 *ibid.*

4 Assets for Independence Program: Report to Congress at the Conclusion of the Eighth Year and the Office of Refugee Resettlement.

5 Based on the Assets for Independence Report to Congress: Status at the Conclusion of the Seventh Year and the Institute for Social and Economic Development's Refugee IDA Programs: Insights from the Field, Else, John F. and Shir, Amy.

6 Center for Social Development (CSD).

## WHAT DOES THE IDA FIELD LOOK LIKE?

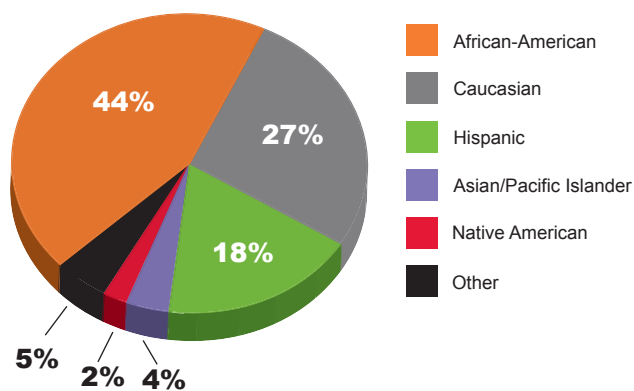
In 2005, CFED conducted a survey of the field to which nearly 400 IDA programs responded. Survey results indicate a 30% growth in the field since the previous year.

According to the 2005 survey, IDA programs are serving an average of 56 accountholders currently, and have an average of 64 graduated accountholders who have made their asset purchase.<sup>7</sup> More than 35,000 accountholders have made asset purchases.

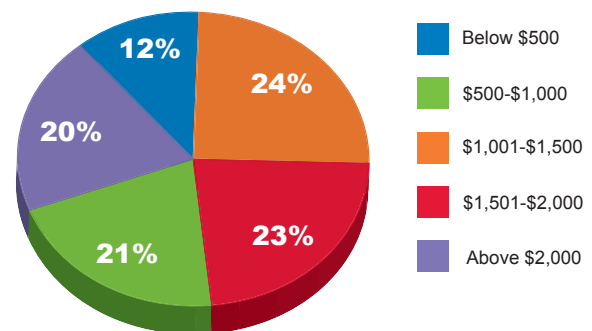
### Demographics of Accountholders in IDA Programs

IDA programs serve a cross section of American society. In the 2005 survey, programs reported that 53% of their accountholders are female. IDA participation is spread evenly across adult age groups, with 9% of accountholders being under age 12 and 12% being between ages 13-19.

**Enrollment by Race/Ethnicity**



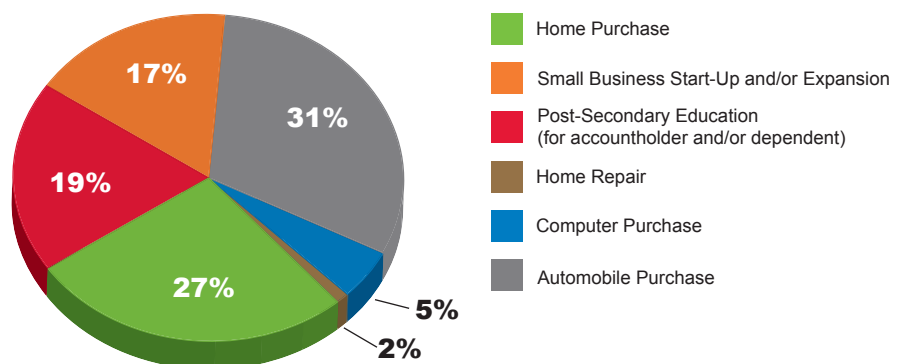
**Enrollment by Monthly Income Bracket**



### Asset Purchases

Accountholders in Assets for Independence (AFI)-funded IDA programs have saved on average \$867 towards their asset purchase, according to data collected by the Department of Health and Human Services (HHS), which through AFI provides funding to three fifths of programs in the field.<sup>8</sup> More specifically, 30% of AFI projects reported average balances of less than \$400, while 49% reported average balances of over \$600. The total saved by over 60,000 AFI participants is \$45.3 million. The match rates in these programs ranged from \$1:\$1 to \$8:\$1. According to our survey data, IDA accountholders use the money most often for home purchase, post-secondary education, and small business start-up or expansion, but other asset goals as well.

**Assets Purchased with IDAs**



<sup>7</sup> The median number of clients being served is 24, and the median number of graduated clients is 19.

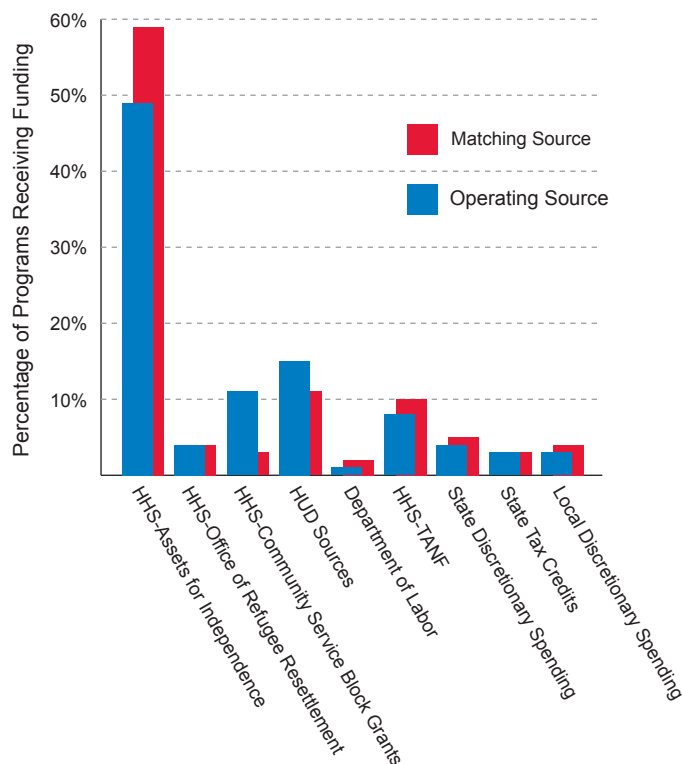
<sup>8</sup> "Assets for Independence Program: Status at the Conclusion of the Eighth Year." Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services. September 2008.

## IDA Program Characteristics

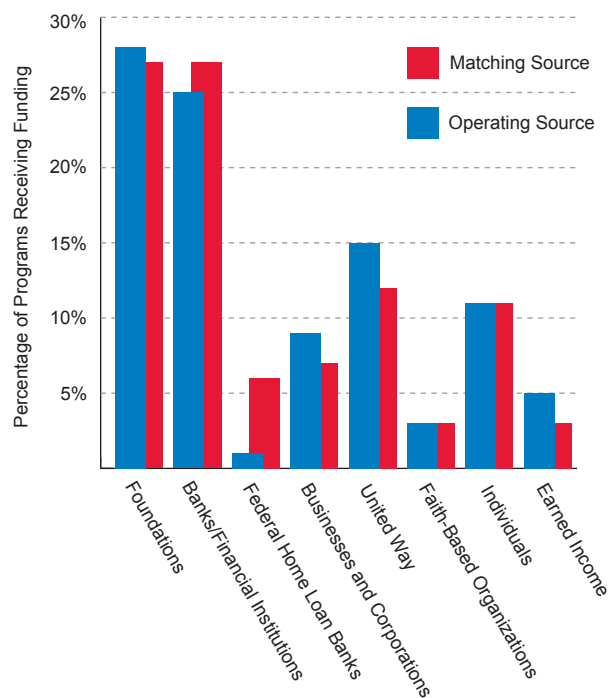
While new IDA programs are being created each year, the field shows tremendous staying power. Over 70% of programs responded that they have been in operation for 4 or more years, with another 20% being 2-3 years old and 8% having been established within the last year. 62% of IDA programs classify themselves as serving urban or suburban markets, with 38% serving rural or small town areas.

While the majority of IDA programs receive funding from the HHS' AFI program, other important sources of funding include foundations, financial institutions, various programs within the Department of Housing and Urban Development, and HHS' Office of Refugee Resettlement (ORR) and Temporary Assistance for Needy Families (TANF) programs.

**Public Sources of Operating and Matching Funds for IDA Programs**



**Private Sources of Operating and Matching Funds for IDA Programs**



In addition to offering IDAs, 21% of programs reported offering services to help clients claim the EITC (Earned Income Tax Credit), a state and federal tax credit that reduces the tax burden for working families. IDAs and other asset building tools like the EITC need champions at all levels of the government and in every sector. Join CFED's advocacy center at [www.cfed.org/go/advocacy](http://www.cfed.org/go/advocacy) to promote strong legislation that helps working Americans grow wealth. Matched savings presents an opportunity to promote asset-building as part of an expanded vision of anti-poverty policies, a vision that incorporates savings, investment, and asset accumulation in conjunction with, not instead of, income, spending, and consumption. Income helps families get by, assets helps families get ahead.