

Individual Development Accounts:

A Tool for Achieving Family Economic Success

Policy Brief No. 11

One of the most promising approaches for asset building, Individual Development Accounts (IDAs), operates from the premise that low-income families can save and accumulate financial assets if the proper supports are in place. This brief looks at the latest research on IDAs and how owning assets gives people a stake in society and a sense of connectedness to their communities.

Introduction

All families need adequate income with which to support themselves, but income alone is not enough to raise many families out of poverty. Most efforts to combat poverty have focused only on current income, yet experts recognize that financial assets are an equally important measure of a family's economic success. Asset-building strategies incorporate many different approaches and use a variety of tools to help achieve the goal of creating asset wealth for low-income people. Asset building as a poverty alleviation tool promotes economic independence through long-term savings and investment (RESULTS, 2005). Government, private philanthropy, and non-profit organizations are all involved in asset building. One of the most promising approaches for asset building, Individual Development Accounts, operates from the premise that low-income families can save and accumulate financial assets if the proper supports are in place (Beeferman, 2002). Individual Development Accounts (IDAs), the focus of this brief, are:

special savings accounts offering low-income individuals and families an opportunity to build assets and save for the future. In IDA programs, the savings deposited by low-income account holders are matched by public or private funds – often at a ratio of \$2 or more for every dollar saved by the account holder. These programs are implemented by community-based organizations in partnership with a financial institution that holds the deposits, and funded by public and private sources. IDA account balances can be used only for specified purposes, such as buying a home, starting a small business or paying for education (AECF, 2005).

Our nation's public policies provide numerous incentives to middle and upper-income Americans for accumulation of assets, primarily through tax breaks for retirement plans, homeownership, education, business development, and investment (New American Foundation, 2005). These policies enable many Americans to build assets that allow

them to establish a “cushion” against hard times, but also to live for and invest in their future rather than focusing only on day-to-day subsistence (RESULTS, 2005). In contrast, low-income Americans often have little discretionary income and lack the opportunities to save money that higher-income people enjoy.

Why are financial assets important?

Historically, most opportunities for asset building have benefited people who are non-poor. The G.I. Bill and the creation of the 30-year mortgage helped to facilitate homeownership and the creation of a suburban middle class (RESULTS, 2005). The federal government spends nearly \$300 billion per year to help Americans build assets through incentives like the home mortgage interest deduction, IRAs, and 401(k)s (RESULTS, 2005). However, approximately 90 percent of those benefits go to individuals earning more than \$50,000 per year (RESULTS, 2005).

Owning assets gives people a stake in society and a sense of connectedness to their communities. Assets can (RESULTS, 2005)...

- Promote family stability
- Encourage political participation
- Give people a stake in their communities
- Enable families to plan for retirement and pass resources for future generations
- Substitute for or supplement employment income — when people lose a job or suffer a reduction in pay
- Enhance welfare of offspring

However according to Boshara, Cramer and Parish (2005) the top 20% of households own 84.5% of the nation’s wealth, while the bottom 60% own less than 5% of the nation’s wealth. Lack of assets can make families vulnerable to high cost financial services and predatory practices (see Brief 8: *Helping Families Grow Economic Assets by Curtailing Predatory Lending*). The Corporation for Enterprise Development’s *Financial Security Index* measures asset accumulation among different populations (CFED, 2005). This Index illustrates not only net worth in the states, but also the wealth gap among racial groups on the U.S.

State	Net Worth of Households		Asset Poverty		Asset Poverty by Race			
	\$	Rank	%	Rank	White	Minority	Ratio	Rank
Alabama	38146	47	23.9	32	0.17	0.41	0.40	17
Alaska	102500	6	17.8	10	.	.	.	
Arizona	38900	46	26.4	42	0.23	0.36	0.64	3
Arkansas	43467	43	24.7	35	0.18	0.48	0.38	19
California	81046	14	24.1	33	0.15	0.35	0.44	12
Colorado	84032	13	26.4	41	0.23	0.43	0.52	8
Connecticut	121525	2	18.5	13	0.13	0.43	0.30	28
Delaware	84574	12	15.0	4	0.10	.	.	
District of Columbia	11000	51	39.0	51	.	.	.	
Florida	55700	29	23.1	28	0.19	0.33	0.57	5

State	Net Worth of Households		Asset Poverty		Asset Poverty by Race			
	\$	Rank	%	Rank	White	Minority	Ratio	Rank
Georgia	43492	42	25.6	39	0.17	0.39	0.44	11
Hawaii	86825	9	25.1	36	.	.	.	
Idaho	60184	26	24.3	34	0.23	.	.	
Illinois	74222	18	20.7	21	0.14	0.38	0.37	20
Indiana	64935	22	21.4	22	0.19	0.44	0.43	14
Iowa	91546	7	14.4	2	0.13	.	.	
Kansas	53500	30	18.2	11	0.15	.	.	
Kentucky	52000	31	22.9	27	0.20	0.48	0.42	15
Louisiana	45958	36	22.4	25	0.11	0.42	0.26	30
Maine	66837	19	16.8	6	.	.	.	
Maryland	86443	10	22.4	24	0.13	0.38	0.35	24
Massachusetts	140575	1	18.2	12	0.13	0.45	0.29	29
Michigan	86150	11	18.7	14	0.14	0.40	0.34	25
Minnesota	105100	5	14.8	3	0.12	.	.	
Mississippi	26500	49	25.7	40	0.17	0.40	0.43	13
Missouri	48687	35	20.0	17	0.18	0.31	0.57	4
Montana	43108	44	29.2	48	0.29	.	.	
Nebraska	61841	24	20.6	20	0.18	.	.	
Nevada	45551	40	32.1	49	0.31	0.35	0.88	1
New Hampshire	110491	4	14.3	1	0.12	.	.	
New Jersey	110846	3	20.0	17	0.12	0.38	0.31	26
New Mexico	24832	50	27.6	44	0.19	.	.	
New York	50892	32	32.7	50	0.20	0.58	0.35	23
North Carolina	61196	25	18.8	15	0.11	0.36	0.31	27
North Dakota	45725	37	27.7	45	.	.	.	
Ohio	77350	16	20.6	19	0.17	0.43	0.39	18
Oklahoma	39400	45	25.2	38	0.23	0.34	0.68	2
Oregon	59992	27	23.5	31	0.22	.	.	
Pennsylvania	78328	15	17.0	8	0.14	0.35	0.42	16
Rhode Island	59550	28	15.4	5	0.15	.	.	
South Carolina	49876	33	21.5	23	0.17	0.31	0.57	6
South Dakota	45725	37	27.7	45	.	.	.	
Tennessee	49190	34	23.4	29	0.19	0.42	0.47	10
Texas	34500	48	26.8	43	0.20	0.36	0.54	7
Utah	62820	23	23.5	30	0.21	.	.	
Vermont	66837	19	16.8	6	.	.	.	
Virginia	65150	21	22.5	26	0.15	0.42	0.35	22
Washington	88650	8	19.5	16	0.17	0.35	0.49	9
West Virginia	45000	41	25.1	37	0.25	.	.	
Wisconsin	76900	17	17.4	9	0.15	0.41	0.36	21
Wyoming	45725	37	27.7	45	.	.	.	

Source: The Corporation for Enterprise Development, 2005

Research on IDAs

The American Dream Demonstration (ADD), a 14-site IDA program, has proven that low-income families, with proper incentives and support, can and do save for longer-term goals. As of 2003 there were over 500 IDA initiatives in communities across the country (Center for Social Development, 2005). Overall, at least 10,000 people are currently saving in IDAs. Thirty states include IDAs in their state Temporary Assistance for Needy Families (TANF) plans, which excludes counting IDAs as assets for the purpose of qualifying for benefits (Center for Social

Development, 2005). Thirty-four states, Washington, D.C., and Puerto Rico have passed some form of IDA legislation (Center for Social Development, 2005).

The evaluation of the ADD analyzed results from one experimental ADD site over a 48 month follow-up period; and compared 412 families that were offered participation in the Tulsa, OK IDA program with 428 randomly assigned control cases that were not offered participation (Boshara, 2005). Table 1 presents the highlights of the evaluation which concludes that access to the IDA program had a significant influence on the accumulation of assets.

Table 1: Effects of IDAs on savings and assets accumulation - Experimental findings from the Tulsa, Oklahoma IDA Program

Asset	Finding
Home ownership	Significant positive effect on rate of home ownership, especially for African Americans
Real assets (businesses, vehicles, and homes) and total assets	Positive impact on real assets and total assets for subgroups that experienced increases in home ownership
Retirement savings	Positive impact on retirement savings for African Americans
Liquid assets	Negative effect (effect appears due to process of acquiring other assets, such as obtaining a mortgage to buy a home)
Liabilities	Negative effect (effect appears due to process of acquiring other assets, such as obtaining a mortgage to buy a home)
Net worth	No measured effect, positive or negative
Educational attainment	Significant positive effect on educational outcome (whether one had taken a non-degree educational course)

Source: Boshara, 2005

Employer-Based Delivery Model

Employers can serve as a primary access point for IDAs, just as they do for 401(k) plans. Employers provide match funding and make financial education and training available to employees. The following are three employer-based IDA initiatives:

Worker Income Security Program (WISP)

The Worker Income Security Program (WISP) is an employer-based IDA program in Los Angeles that helps manufacturing workers save for a home, technical and higher education, or a small business. The program is administered by the Community Development Technologies Center (www.cdtech.org). WISP targets 100 low wage food and apparel manufacturing workers in Los Angeles County and small and medium-sized companies in the Los Angeles Empowerment Zone. Account holders are required to save at least \$20/month and are eligible to receive a 2:1 match for up to \$40/month or \$2,000 in savings over a two-year period. (IDAnetwork, 2005)

Childspace Cooperative Development

Childspace, a worker-owned childcare business, has an employer-based IDA initiative for childcare workers and home-based child care providers in the Philadelphia area. The IDA initiative targets workers at or below 200% of the federal poverty level. Childspace matches participants' savings at .50:1. Match rates are set at a level that allows employees to reach their savings goal within 2-3 years. Match rates vary depending upon income, but are qualified by the account holder maintaining a monthly deposit of \$40 or more if they are making over 100% of the federal poverty level. The financial education training

is a key component of this program; participants attend one class per month during their first year of the program, administered by Childspace. (IDAnetwork, 2005).

Assets for Family Success

Launched by United Way of America (UWA), the mission of Assets for Family Success is to increase the economic success of low-income families through utilization of asset building tools and strategies such as IDAs (United Way of America, 2005). Sixteen local United Ways coordinate the demonstration project. Their role is to recruit and engage employers in their communities and assist UWA in constructing possible models for workplace implementation.

Emerging State Initiatives

Well below one percent of the eligible population in the U.S. are saving in an IDA (Boshara, Cramer and Parish, 2005). Therefore as these examples demonstrate States can play a vital role in increasing the scope of IDA programs and shaping asset policy in the future here are a few examples:

Pennsylvania

Governor's Task Force for Working Families (Pennsylvania Department of Banking, 2005).

The purposes and goals of the Task Force are to:

1. Identify and explore current and proposed strategies for building incomes and assets for working families; promoting financial education and literacy; and protecting working families from predatory and abusive financial services

2. Maximize the coordination of programs that affect working families and create an environment in which they can work together with greater effectiveness and impact

Work with charitable foundations, local government agencies, advocacy groups, community and religious leaders, academia, policy and research organizations, and other entities as may be appropriate to carry out the purpose of the Task Force.

The Task Force concluded its work in March of 2005. In its report it identified existing policies, practices and procedures that undermine the success of working families; compiled an inventory of promising practices, policies and procedures that promote the success of working families; and developed a set of immediate and long-term recommendations for action by the Governor, state legislature, state departments and agencies (Pennsylvania Department of Banking, 2005).

Michigan

The Michigan IDA Partnership (MIDAP)

A collaboration among foundations and a state agency, MIDAP began with the goal of creating a statewide IDA program (Council of Michigan Foundations, 2005). After successfully establishing 50

programs and 1500 accounts across the state, they decided to support the creation of a statewide asset policy initiative that includes government, business, and community leaders. Still under development, the likely areas of focus include expanding state support for IDAs, linking EITC refunds to matched savings accounts, removing barriers to asset accumulation in public benefit programs, supporting children's savings accounts, and combating predatory lending and insurance redlining.

Delaware

In 2001, the Governor of Delaware created a statewide Task Force on Financial Independence. Policy priorities included asset facilitation, incentives, protection, removal of barriers to asset accumulation, and supporting policies that help consumers maintain assets. The task force has accomplished the following: Financial education now counts as a work activity for TANF recipients. The number of families claiming the EITC has increased through public education campaigns and the state has also adopted an economic self-sufficiency standard to calculate what it takes to raise a family without any public support. (State of Delaware, 2002).

Table 2: Public Funding Sources in State IDA Programs

State General Funds – Match	State General Funds – Administration	State Tax Credits for IDA Program Contributors	TANF Funds for Match or Administration (a) = administration	CDBG Funds for Match or Administration (a) = administration
Connecticut	Connecticut	Arkansas	Arkansas	North Carolina (a)
Dist. of Columbia	Dist. of Columbia	Colorado	Florida	Ohio
Indiana	Indiana	Connecticut	Illinois (a)	Oklahoma
Iowa	Iowa	Hawaii	Indiana	Oregon
Maryland	Maryland	Indiana	Iowa	Tennessee
Minnesota	Minnesota	Kansas	Louisiana	Virginia
Missouri	Missouri	Maine	Michigan (a)	
North Carolina	Ohio	Missouri	Montana (a)	
Pennsylvania	Pennsylvania	Oregon	Nevada	
Puerto Rico	South Carolina	Pennsylvania	New Jersey	
South Carolina	Tennessee		Ohio	
Vermont	Vermont		Oklahoma	
			South Carolina (a)	
			Tennessee	
			Texas	
			Vermont (a)	
			Virginia	
			Washington (a)	

Source: Center for Social Development, Washington University, 2004

Federal Initiatives & Proposals

Asset policies are built on the shared vision of broadening wealth and reducing inequalities among those traditionally left out of the economic mainstream. The following policy strategies reflect federal investment to enable people to become economically self-sufficient:

Assets for Independence Act

The Assets for Independence Act is a federal grant program that enables community-based nonprofits to implement IDA project demonstrations. It authorized

\$125 million over 5 years (U.S. Department of health and Human Services, 2005). Every dollar in savings deposited into an IDA by a participant is matched from \$1 to \$8 by the AFI Project.

Kids Accounts

KIDS accounts are small savings accounts that were proposed as part of the Americans Savings for Personal Investment, Retirement, and Education Act (the ASPIRE Act), in July 2004. The legislation would provide every child, at birth, a small savings account that can be used to build assets. Accounts are redeemable beginning at age 18 and are restricted to

use for education, home ownership or retirement. The 2005 bill allows for automatic rollover of unused funds into a Roth Individual Retirement Account at age 18. For more information see www.assetbuilding.org.

The Savings for Working Families Act

Introduced in 2005 the Savings for Working Families Act would authorize the creation of 900,000 IDAs for low-income people saving for a first home purchase, business capitalization or expansion, or post-secondary education or training. Under this program, financial institutions would offer IDA accounts in which participants could deposit up to \$1,500 a year. For each dollar the financial institution matches, they would receive a tax credit, up to \$500 per IDA account per year. For more information see www.assetbuilding.org

Policy Recommendations

The following policy recommendations and challenges embody investments in people to strengthen their personal and financial assets:

- Support tax credits to financial institutions that provide IDAs and financial education to working families.
- Position community based organizations as supportive partners in the delivery of asset-building products and services.
- Link IDAs to a broader array of anti-poverty and human service resources (i.e. TANF, EITC). Such linkages will expand the number of participants accessing IDAs.
- Construct a national media and awareness campaign about an asset-building approach to reducing poverty.

In order to broaden the ownership of assets, the following **public policy challenges** must be considered for successful IDA implementation

- Low-income families are often discouraged from accumulating financial assets because they are disqualified from participation in public benefit programs (Beeferman, 2002).
- *Finding and retaining match sources.* The match rate is what allows a low-income family to turn a small bit of savings into a substantial asset. Securing and maintaining public and private funding sources is critical to the success of IDA programs.
- *Reaching more individuals.* When one in four families in America is considered poor, 20,000 accounts is a small number. Bringing these programs to scale and reaching more families is a challenge that must be taken into account before moving too far forward.
- *Laws to protect assets.* The development of proposals to strengthen asset protection laws and curb predatory lending through tighter regulations on financial products. (Boshara, Cramer and Parish, 2005).
- *Return on Investment.* A key policy issue is the return in financial terms on the resources invested in the IDA program. If IDAs do not yield a positive return, there would be little reason to make the investment.

RESOURCES

The Center for Social Development

<http://gwbweb.wustl.edu/csd/>

CSD focuses on asset building for families and individuals. It pioneered much of the work on IDAs.

IDAnetwork

www.idanetwork.org

The IDAnetwork serves as a gateway to the individuals, organizations, and ideas that are collectively shaping the Individual Development Account (IDA) field.

Institute on Assets and Social Policy

www.assetinstitute.org

The Institute works to strengthen the leadership of policy makers, practitioners and others by linking the intellectual and program components of asset-building policies.

RESULTS

www.results.org

A nonprofit grassroots advocacy organization, committed to creating the political will to end hunger and the worst aspects of poverty. RESULTS is committed to individuals exercising their personal and political power by lobbying elected officials for effective solutions and key policies that affect hunger and poverty.

The New America Foundation

www.newamerica.net

The Asset Building program at the New America Foundation aims to develop, publicize, and advance new policies to achieve widespread ownership of assets in the U.S. and abroad. The program highlights the importance of asset building through innovative policy proposals, the AssetBuilding.org website, public events, publications, and other activities.

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This series of policy briefs produced by the Family Strengthening Policy Center (FSPC) seeks to describe a new way of thinking about how to strengthen families raising children in low-income communities and how this approach can and should influence policy. The premise of “family strengthening” in this context, and as championed by the Annie E. Casey Foundation, is that children do well when cared for by supportive families, which, in turn, do better when they live in vital and supportive communities. The series describes ways in which enhancing connections within families and between families and the institutions that affect them result in better outcomes for children and their families.

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This brief reflects the findings and views of the Family Strengthening Policy Center, which is solely responsible for its content. Additional policy briefs are available at www.nassembly.org/fspc.