

**Individual Development Accounts**  
**How to move from a program for thousands to a product for millions**



**Economic Opportunities Program**

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# Individual Development Accounts

## How to move from a program for thousands to a product for millions

### Executive Summary

The Charles Stewart Mott Foundation and the Annie E. Casey Foundation funded the Economic Opportunities Program of the Aspen Institute to conduct an independent exploration of the current state of Individual Development Accounts (IDAs)<sup>1</sup> and to inform nascent strategies for moving IDAs to the next level in terms of infrastructure, sustainability and integration into broader asset-building initiatives.

During the first eight months of 2003, EOP held meetings and conducted interviews with more than 25 IDA practitioners, academics, funders, financial institution partners, and intermediary representatives and conducted a literature review. In December 2003, a convening of the field's leading thinkers is scheduled to review the initial findings and discuss areas of future research.

This preliminary review explored several major research questions:

- How do IDAs fit within broader asset-building strategies?
- How can the structure and functioning of IDAs be improved?
- How can IDAs reach scale?
- How can IDAs become sustainable?

This document summarizes the initial findings from this process and poses a series of questions with options on how to proceed with the research. The paper is intended to provoke discussion and generate concrete ideas on how to move from the current IDA system, which reaches thousands of individuals, to an asset-building system for the tens of millions of Americans who lack ways to build and maintain assets.

Several key observations and findings have emerged from EOPs research thus far:

- 1) Asset poverty and inequality must be overcome through comprehensive strategies that help low-income Americans link to the financial system, build savings and accumulate assets.
- 2) Individual Development Accounts are one of many asset-building mechanisms designed to help narrow the wealth gap. IDAs must be structured to complement and leverage other asset development strategies and subsidies.
- 3) Today's IDAs – provided by community-based organizations, accompanied by money management education and case management, and funded by charitable dollars – differs from the 401k-like asset accounts originally conceived.
- 4) IDAs – as they are currently designed and delivered by nonprofit organizations – are too resource-intensive to be scaled to reach millions of Americans.

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<sup>1</sup> Individual Development Accounts (IDAs) are matched savings accounts that assist low-income individuals and families to accumulate assets such as a home, higher education or a small business.

- 5) While most agree the IDA must become cost-effective to reach scale, there are significant differences in opinion on how to get there and who may be left behind.
- 6) The path toward a mixed or hybrid system – where financial institutions and nonprofits play complementary roles – may offer the most promising prospects for transitioning IDAs to the next level. Moving forward, this is a place where further research could be very beneficial.
- 7) Financial institutions (and potentially employers and unions) should play a greater role in design and delivery of IDAs.
- 8) IDAs are still in early or “fledgling” stages of development and may benefit from greater investment in research and product development.
- 9) Reducing the cost of program delivery is critical to program sustainability on both a policy and programmatic level.
- 10) The sustainability of IDAs relies upon a policy environment that will deliver incentives (or matching funds) for IDA savers. Existing policy and proposed policy, such as Savings for Working Families (SWFA), are still not enough to help IDAs attain sustainability.
- 11) New players are emerging to pursue promising ideas and innovations in the asset-building arena. These ideas and innovations may have important implications for future directions of IDA development and will require a closer analysis in the next phase of the research.
- 12) The infrastructure that supports the IDA field is changing. New players have emerged in support roles and existing players, including funders, are reconsidering their roles. Whatever path the IDA takes in its development and roll-out, significant investments in infrastructure will be needed. Coordination at the programmatic, policy and investor/funder level are critical and steady communication of advancements, evolutions and setbacks will be needed if the field is to move to greater scale.

## **Recommendations for Further Research**

The preliminary scan has identified certain areas that merit further in-depth research including:

- The mechanisms that would enable a transition from current practice to a more mixed or hybrid system of IDA service delivery, need to be analyzed more thoroughly.
- An analysis of comparable investment vehicles, studying particularly their potential for adaptation to achieve the asset building goals and target market that IDAs currently seek to serve, should be conducted.



## Summary of Initial Findings

The findings are grouped according to the four research questions:

1. How do IDAs fit within broader asset-building strategies?
2. How can the structure and functioning of the IDA be improved?
3. How can IDAs reach scale?
4. How can IDAs become sustainable?

### **1. How do IDAs fit within Other Asset Building Strategies?**

***Finding: Asset poverty and inequality must be overcome through comprehensive strategies that help low-income Americans link to the financial system, build savings and accumulate assets.***

During the booming 1990s, as more low-income Americans were entering the workforce and making gains in income levels, wealth accumulation among the lower-income populations remained alarmingly low:

- More than 1/3 of all American households (and 60 percent of African American households) have zero or negative net financial assets.<sup>2</sup>
- “In 1998, 25.5 percent of all American households had insufficient net worth to sustain living at the federal poverty level for three months if their income were to be disrupted. That means that nearly one quarter of American households—even those with current income streams—could plummet into economic disaster in times of job loss, divorce, long-term illness, economic downturns, and other factors that commonly disrupt income.”<sup>3</sup>
- “The bottom 40 percent of Americans earned just 10 percent of the nation’s income and owned less than one percent of the nation’s wealth. The bottom 60 percent did only marginally better, accounting for about 23 percent of income and less than five percent of wealth. The typical African American household had fifty-four cents of income and twelve cents of wealth for every corresponding dollar in the typical white American household. Hispanics had sixty-two cents of income and four cents of wealth.”<sup>4</sup>
- An estimated 40 – 70 million Americans are low income and not currently saving toward asset accumulation

With limited assets, families have less of a safety net to withstand emergencies and job loss.<sup>5</sup> With the economic downturn reversing some recent gains in employment and income, many families have already hit financial and social crisis. Record numbers of families have been reported at shelters and food pantries across the nation.<sup>6</sup>

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<sup>2</sup> John P. Caskey, *Lower Income Americans, Higher Cost Financial Services* (Wisconsin: Center for Credit Union Research and the Filene Research Institute, 1997), 8.

<sup>3</sup> Corporation for Enterprise Development, *State Asset Development Report Card: Benchmarking Asset Development in Fighting Poverty* (CFED, 2002), 9; available from <http://www.cfed.org>; Internet.

<sup>4</sup> Ray Boshara, “The \$6,000 Solution,” *The Atlantic Monthly* (February 1, 2003); available from <http://www.newamericafoundation.org/index.cfm?pg=article&pubID=1146>; Internet.

<sup>5</sup> CFED, *State Asset Development Report Card*, 5.

<sup>6</sup> Laura Tiehan, “Use of Food Pantries by Households with Children Rose During the Late 1990s,” *Food Review* Vol. 25 Issue 3, 47.

A family's ability to accumulate assets and build wealth is influenced by a range of factors:

- **Adequate access to (and use of) financial tools and mechanisms.** “An estimated 13 percent of U.S. families, including 10 million people who receive federal benefits, do not have bank accounts. One-third of all minority households are “unbanked” as are one out of four renters, one out of six people under the age of 35, and 15 percent of families earning between \$10,000 and \$25,000 annually.”<sup>7</sup>

Financial institution consolidation and retraction from lower-income and rural markets have left gaps in basic financial service delivery.<sup>8</sup> Many low-income families express distrust of banks and increasing retail financial service fees as an obstacle.<sup>9</sup>

- **Knowledge/Skills.** Many Americans at all income levels lack a pattern of regular savings. For lower-income Americans, the limited access to savings institutions further discourages the development of savings behavior. Financial literacy has been found to provide the grounding for improved saving habits that can start as a youth and carry into adulthood.<sup>10</sup>
- **Motivation or Readiness.** An individual readiness to begin the process of saving for the future is a substantial factor. Insufficient surplus income is commonly cited as an obstacle to a person's readiness to begin saving, particularly among low and very low-income households. This limited surplus income may result in a postponement of savings for a future time when income levels have increased. Preliminary data shows, however, that, with incentives and support, savings may replace some forms of consumption and savings rates are not necessarily correlated to income levels.<sup>11</sup>

The IDA is a tool that attempts to promote each of these factors by providing the access, education and support to build savings and accumulate assets.

***Finding: Individual Development Accounts are one of many asset-building mechanisms designed to help narrow the wealth gap. They must be structured to complement and leverage other asset development strategies and subsidies.***

Asset development strategies provide incentives and supports for individuals and families to grow and accumulate wealth. While particular asset-development strategies are not new, the concept of developing a framework that helps and supports low-income people to accumulate assets has gained great currency in recent years as a means to assist greater self-sufficiency and require less reliance upon income maintenance as the sole means for addressing poverty.

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<sup>7</sup> Michael A. Stegman, *Savings for the Poor: The Hidden Benefits of Electronic Banking* (Washington, DC: Brookings Institution Press, 1999), ix.

<sup>8</sup> John P. Caskey, *Fringe Banking: Check Cashing Outlets, Pawn Shops and the Poor* (New York: Russell Sage Foundation, 1994).

<sup>9</sup> Caskey, *Lower Income Americans, Higher Cost Financial Services*, 21.

<sup>10</sup> Consumer Federation of America and others, “New Report Finds One-Quarter of U.S. Households are Wealth Poor” (CFA Press Release 2002).

<sup>11</sup> Mark Schreiner and others, *Final Report: Savings and Asset Accumulation in Individual Development Accounts* (St. Louis: Center for Social Development, Washington University, 2002).

Individual Development Accounts, first articulated in Michael Sherraden’s 1991 book “Assets and the Poor” and vigorously promoted by the Corporation for Enterprise Development, have become a nationally-recognized tool for asset development for low-income Americans. IDAs are structured long-term accounts providing incentives and support for low-income people to save toward asset accumulation. Research and experience on IDAs has shown that low-income people can save, that they can accumulate assets and maintain them, and that public policies and resources can effectively promote this. IDAs have also become financial tools that help to connect poor and unbanked Americans to the financial mainstream, providing exposure to a broader range of tools, products and information for building wealth.

As IDAs are only one of many potential wealth-building tools it is important to evaluate how IDAs fit within these broader strategies or frameworks and to assess the synergies with other tools and the comparative advantages to other tools. Perhaps the best comprehensive framework articulated for moving people along a continuum of financial services engagement and asset development is the Alternatives FCU **Credit Path Model**.<sup>12</sup> The credit path delineates how different tools and interventions can be employed to help people move from:

Transactor ⇒ Saver ⇒ Borrower ⇒ Owner / Stakeholder

These tools include linking people to basic savings and checking accounts by employing direct deposit options that facilitate savings; offering increasing return on savings and investment products (including IDAs); engaging individuals in understanding their financial status and credit histories; offering a range of affordable loan products and encouraging the leveraging of these products and services beyond consumer needs to higher-return, development-oriented purposes such as homeownership, education, and business development. The IDA works particularly well within the credit path model because it provides substantial incentive and support for individuals to move along the path.

SF-EARN has developed an **asset-building framework**<sup>13</sup> that groups policy and program strategy into three main areas:

Asset accumulation ⇒ Asset leveraging ⇒ Asset preservation

Asset accumulation strategies (access to financial services, financial education, savings programs and subsidized retirement) assist households to save; asset leveraging (access to homeownership, business development, access to capital) support households to use and invest knowledge and savings to build equity; asset preservation (health insurance, anti-predatory lending and anti-redlining policies) enable households to preserve the value of the assets accrued through savings and investment.

Fundamental to both frameworks is that the IDA is one of many tools that can help families build assets, and not an end in and of itself.

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<sup>12</sup> Bill Myers, *Credit Path* (Alternatives Federal Credit Union) available from <http://www.alternatives.org/creditpath.html>; Internet.

<sup>13</sup> SF-EARN, *Asset-Building Framework* (SF-EARN) available from <http://www.sfearn.org/index.htm>; Internet.

The table below identifies some tools used to promote asset accumulation and the synergies and advantages to these tools vis-à-vis the IDA. This table is just a partial listing of tools or strategies. Some areas listed represent broad categories (such as savings and investment vehicles), requiring much greater analysis of how each product would interact or compare with the IDA.

<b>Asset Building Strategies and Tools</b>	<b>Synergies with IDA</b>	<b>Comparative Advantages / Disadvantages</b>
Earned Income Tax Credit (EITC)	<i>A refundable tax credit available to low-income working families; ideally suited to work alongside an IDA. EITC offers opportunities for savings in IDAs for those with limited surplus income.</i>	<i>Outreach campaigns are bringing increasing awareness and opportunities for families to link to financial mainstream.</i>
Savings and Investment Vehicles	<i>Linking IDAs to basic savings and checking accounts is critical to success. IDA is an investment-like vehicle, building savings in liquid accounts allows for a cushion against emergencies.</i>	<i>More flexibility than the IDA; offers continuum from liquid, low-yield accounts to less liquid, higher yield investments.</i>
<i>Homeownership</i>		
Construction/Rehab of housing units (subsidized purchase)	<i>For locations with high housing costs, enables IDA participant to find affordable homeownership opportunity. Nonprofit developers or city programs can use the IDA to promote purchase of homes.</i>	<i>Existing industry; considerable political support and subsidy; more directly addresses housing cost limitations.</i>
Employer-assisted housing initiatives	<i>Employer-assisted housing initiatives include: affordable housing development and homeownership assistance.</i>	<i>Employers have multiple options for housing initiatives that include less involvement and lower cost.</i>
Homeowner education	<i>IDAs offer greater incentive to receive training, and can reach deeper into market. Better performance as a homeowner is expected (not tested).</i>	<i>Reaches larger market than IDA participants; less intensive engagement with borrower; strong bank involvement.</i>
FHLB Homeowner Accounts (various)	<i>They work alongside the IDA, often within the same overall program. Excellent source of funds for homeownership.</i>	<i>Utilized by many financial institutions; some tighter restrictions; may be more appropriate for a “ready saver.”</i>
Expanded mortgage product offerings	<i>Increased offerings for lower-income, credit problems and very low down-payment; IDA makes products even more accessible, expanding target population.</i>	<i>Far more widespread, often either subsidy from state or local government. (increasingly Fannie Mae products) more flexible to reach same target market.</i>
Downpayment Programs or FSS Escrow Accounts	<i>May provide synergies in high-cost areas where traditional downpayment programs are insufficient to get low-income people into the home; IDA match can leverage limited local funds.</i>	<i>Easier and cheaper to administer; shorter-term interaction with homeowner; doesn't penetrate as deep into low-income, target population.</i>
Soft Seconds	<i>UWLA matches up the IDA to the silent second (up to \$30,000) to help defray high cost of homeownership in Los Angeles. IDA helps this program reach deeper into the market (200% of poverty compared to 80% AMI).</i>	<i>Easier to administer; unclear as to whether it reaches as deep into target market; much higher subsidy than the IDA; more directly addresses housing costs; More costly to subsidize.</i>

<i>Microenterprise</i>		
Training and Credit	<i>Entrepreneurs can access much-needed equity for businesses (often obstacle to credit). Good structure for start-ups that may not be good credit-risk; Training can be linked to IDA asset-specific education.</i>	<i>Microloans can provide capital more quickly, in that the approval time for microloans is shorter than the time required to build savings in the IDA.</i>
Grants (Trickle-Up)	<i>IDAs can increase the level of equity investment above the relatively small amount of the TU grant.</i>	<i>Easier and cheaper to administer; TU grants have two advantages for existing businesses: they can be accessed more quickly, and the savings requirement for IDAs may incent business owners to draw money out of the business (into the IDA account), rather than reinvest it.</i>
<i>Education</i>		
529 College Savings Accounts/ Pell Grants/ Financial Assistance		<i>Unintended consequence of using an IDA to pay for secondary education: some anecdotal evidence that financial aid has been reduced by amount of savings in IDA.</i>

Further research may include developing a census of all existing tools and strategies that link to IDAs or a more in-depth analysis of those most comparable and with the greatest potential synergy (i.e., an expanded-purpose 401k or IRA.)

## **2. How can the structure and functioning of the IDA be improved?**

***Finding: Today’s IDA – provided by community-based organizations, accompanied by money management education and case management, and funded by charitable dollars – differs from the universal 401k-like account originally conceived.***

Originally outlined in 1991 by Michael Sherraden in a groundbreaking book “*Assets and the Poor: A New American Welfare Policy*”, IDAs were proposed as “...optional, earnings-bearing, tax benefited accounts in the name of each individual, initiated as early as birth, and restricted to designated purposes.”<sup>14</sup> He laid out a vision of universal asset accounts functioning similarly to IRAs or 401k plans in which the federal government matches or otherwise subsidizes deposits with private sector involvement.

After about 10 years of IDA practice there are an estimated 20,000 IDA account holders in 49 states offered by up to 500 nonprofit community-based organizations. IDAs have become mostly small, fairly intensive “programs” with between 10 - 50 accounts, and offer intensive case management functions associated with assisting account holders to meet their monthly savings goals, and to prepare for asset purchase and ownership. Current practice is driven by nonprofit organizations (primarily community development and human service agencies) that form partnerships with financial institutions to hold the accounts.<sup>15</sup>

<sup>14</sup> Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (M.E. Sharpe, Inc., 1991), 220.

<sup>15</sup> Community development financial institutions operate full IDAs including the management of accounts but due to their mission, they more closely reflect the nonprofit model.

*The IDA as it is currently structured is **more program than product**, and is designed to reach tens and hundreds of individuals, not the thousands and millions envisioned by a universal account system. The “program” has four main distinct components: the IDA product (i.e., matched savings account), financial education, asset training and asset acquisition. Throughout these components, programs also invest substantial staff and resources in activities such as: recruitment, intensive support or case management, fundraising and database management functions.*

***Finding: IDAs – as they are currently designed and delivered by nonprofit organizations—are too resource-intensive to be scaled to reach millions of Americans.***

The IDA, as a program, has enabled groups to reach people who may not have otherwise been “ready” to acquire assets through other asset development programs. But it has done so at a high cost for maintaining and expanding the reach of the IDA product more broadly.

For many practitioners, the financial education is the most important component of their IDA programs. While the matching funds provide the carrot to bring people in, the classes create the most epiphanies for account holders, according to Angela Duran of the Good Faith Fund. Margot Rawlins of the Center for Venture Philanthropy agrees that the financial education is the real “guts” of the program.

However, practitioners interviewed also express that it is harder than originally anticipated to develop, implement and sustain an IDA program. Current IDA practice uses intensive support services or case management functions designed to help people meet their goals. This case management or support is time-intensive for staff and ultimately costly to provide. Many practitioners acknowledge the operational challenges posed by intensive support services, yet “high-touch” service to participants is common in IDA programs that have a particular focus on service to very low-income communities.

The key challenges to current models include:

- One size fits all program models are too prevalent. New programs often adopt as given all components of the IDA program regardless of their target population needs. This poses a problem for both program administrators (in terms of costs) and for participants. The ADD sites had an average attrition rate of 20 percent and transaction costs for IDA participants is cited as one of three main reasons for people dropping out.<sup>16</sup>
- High program costs hamper growth of the program. Cost estimates vary, with an average annual cost per active participant ranging from a low estimate of \$1,317 to \$1,667.<sup>17</sup> Practitioners interviewed for this scan cited costs of \$500 - \$800 per participant annually in operating costs alone. There is some evidence that costs vary by organizational stage and size, but research on this issue is limited.<sup>18</sup> Lower recruitment and education cost models are being explored by practitioners and support organizations.

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<sup>16</sup> Mark Schreiner and Michael Sherraden, *Drop-out From Individual Development Accounts: Prediction and Prevention* (St. Louis: Center for Social Development, Washington University, 2002).

<sup>17</sup> Mark Schreiner and others, *Final Report: Savings and Asset Accumulation in IDAs*.

<sup>18</sup> Schreiner and Sherraden, *Drop-out From IDAs*.

- Fundraising is a constant activity. Private funding is increasingly inconsistent and the challenge of raising both matching and administrative funds doubles the fundraising efforts.
- Relations between community organizations and financial institutions have been identified as a challenge by both with lack of trust, knowledge and adequate understanding of the roles cited as key reasons.
- More involvement of traditional organizations familiar to the working poor, i.e., churches and schools is needed. Many working families are not linked to the community-based organizations operating IDAs.
- IDA programs could be relying far more on technology to deliver service, information and education, improve data management, and improve marketing.

**Collaborative IDA programs** offer certain comparative advantages for many of the challenges cited above. In the collaborative model, a lead agency will design an IDA program for implementation in collaboration with local nonprofit partner agencies with connections to different communities. The collaborative creates a uniform or standard IDA product offered through multiple outreach venues by establishing standard policies and procedures and centralizing many back-office functions in one agency. This model has been particularly effective in:

- Reducing duplication of effort by centralizing data management, fundraising and reporting
- Developing quality control and standards of performance for participating agencies
- Providing technical support, training, networking and sharing of information; allowing for centralized learning can improve IDA practice
- Reducing program costs: A Bain & Company report on costs and benefits found that the costs of the decentralized, individual agency models far exceeded collaborative models. Of the nine programs studied, the decentralized programs had average annual cost per active participant of \$1,964 compared to \$1,225 and \$1,059 of the more centralized collaborative models.<sup>19</sup>
- Establishing standardized agreements with financial institutions (for participating agencies) that enable greater coordinated adjustments to program to suit both partners.

It is not clear whether collaboratives will be more or less inclined to experiment with the IDA program to make it more flexible and suitable for different target markets. Both Assets for All Alliance and the SF-EARN collaborative, for example, offer tailored IDAs with different levels of support and education based on market segmentation. Assets for All Alliance has a fast-track program for people at higher levels of financial literacy. More research is needed to assess the level of flexibility and innovation that could lead to greater scale at reduced costs in different organizational models.

### **3. How can IDAs reach scale?**

***Finding: While most agree the IDA must become more cost-effective to reach scale, there are significant differences in opinion on how to get there and who may be left behind.***

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<sup>19</sup> Bain & Company and the United Way of Greater Los Angeles, “Bridging the Gap: IDA Strategy for Los Angeles,” (Power Point, 2002).

To get to a more universal, progressively funded asset development account, public policy has to support, and private financial institutions have to develop, market and roll-out, a simple (and profitable) product. Yet in this vision, there is no clear role for programs based in nonprofit organizations nor a plan for reaching people with higher needs.

There are contrasting views about how Individual Development Accounts should develop in the future. While several of the leading thinkers in the field see existing IDA “programs” as offering tremendous opportunity to learn from, they do not necessarily think that the current IDA will transform into the kind of scale that is needed to reach the broader market of low-income people. In this view, the IDA rather must evolve to a private sector account product similar to an expanded IRA or 401k, managed and offered through the financial services industry. To these thinkers, there is potentially, though not necessarily, a role for nonprofit involvement in promotion; education and support for participants as a means to increase penetration to the broader low-income market.

“A universal IDA, if they are someday to reach millions or tens of millions of people, will operate as a large, simple, minimum-service, 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 services companies.”<sup>20</sup>

IDA practitioners interviewed for this study acknowledge that a large part of lower income population would benefit from a pared-down simple IDA “product” delivered by financial institutions that support scaling up. However, they caution that private sector models would “cream” only those families most ready to take advantage of IDAs. They all expressed concern that individuals who need an IDA “program” with ongoing case management and financial literacy education will be left out if IDAs become the sole province of banks and tax code, with no more funding for nonprofit role.<sup>21</sup>

***Finding: The path toward a hybrid system – where financial institutions and nonprofits play complementary roles – may offer the most promising prospects for transitioning IDAs to the next level. Further study is needed.***

The different visions for the future and the implications for each vision (in terms of needs, resources and supports) have raised concerns, fears and unanswered questions throughout this emerging field. Sherraden attempts to reconcile these streams through a “mixed system” of relatively simple federal IDA policy aimed at incentivizing greater participation by financial institutions, and more intensive, community-based IDA programs, funded from multiple sources.<sup>22</sup> Practitioners and thinkers alike expressed interest in a potential hybrid system in which financial institutions deliver the IDA account as a product and nonprofit organizations continue to promote access and provide support services.

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<sup>20</sup> Michael Sherraden, *On Cost and the Future of Individual Development Accounts*, (St. Louis: 2000), 7.

<sup>21</sup> Available from interviews conducted by Aspen Institute’s Economic Opportunities Program staff (2003).

<sup>22</sup> Sherraden, *On Cost and the Future of IDAs*, 7.

A quick assessment of different potential delivery systems is presented in the table below.

	<b>Universal IDAs</b>	<b>Programmatic IDAs</b>	<b>Hybrid IDAs</b>
Operational Structure	Private sector accounts held by financial institutions, mutual funds, etc.	Community-based nonprofit model; with financial institution partner	Combination of IDA products at financial institution with program support offered by CBOs for higher need population.
Status as of October 2003	Savings For Working Families Act is pending.	400+ programs; 20,000 accounts	Idea
Appropriate Target Market	Everyone can access an account.	200% of poverty; 80% AMI; recruit (often) from agency programs	Unclear, but everyone would have access to an account. Some would require assistance of nonprofit.
Financial Literacy	None as a matter of policy; Other sources of funding may make available to some	Yes, often a requirement of IDA program participation	Scaled-down with more hours available on demand or need.
Case Management	None	Yes	By nonprofit programs only
Operational Challenges	<ul style="list-style-type: none"> <li>- Managing or determining subsidy</li> <li>- Insufficient support mechanisms to assist participants</li> <li>- Large number of small \$ volume accounts with high transaction costs</li> </ul>	<ul style="list-style-type: none"> <li>- Small programs</li> <li>- High operational costs</li> <li>- One size fits all</li> <li>- Limited economies of scale for operations (in case management &amp; education)</li> </ul>	<ul style="list-style-type: none"> <li>- Fundraising for intensive programs</li> <li>- Coordination, etc.</li> </ul>
Potential for Reaching High Scale/Large Numbers	High	Low	Higher than current
Potential for impacting low-income family	Uncertain, but lower than other two models	High	Vary based on nonprofit involvement
Cost/IDA saver	Low	High	Lower with cost moved toward other programmatic areas
Potential for Sustainability	Assumed to be high	Low	High

Some areas for further study that could provide guidance for how to transition to a more hybrid system include:

1. Innovative nonprofit sites experimenting with streamlining program components, changing program features or otherwise tweaking IDA program design to scale-up service delivery. Several innovators are adjusting the IDA to better meet the needs of different target markets, play to the strengths of partner organizations and reach more people. These innovators may offer insights to how to move toward a hybrid system.
2. Private sector standardization of IDA products. There are several promising initiatives of financial institutions taking a larger role in IDA development. Fleet Bank is creating a standardized account in response to the multiple partnerships it is forging with nonprofits throughout their market area. The standard account product will continue to rely upon the nonprofit partners to provide support activities that the bank would be unable to offer. Other examples include a Citibank-led IDA product being developed along the US-Mexico border (where nonprofit organizations are scarce) and a standard account developed by Hibernia bank, which works both with nonprofit partners or solely as a bank product depending upon borrower needs.

***Finding: Financial institutions (and potentially employers and unions) must have a greater role in design and delivery of IDAs. This will require a more clear business case as well as greater flexibility on the part of nonprofit organizations.***

The potential to generate a shift in “ownership” of IDAs from exclusively nonprofit organizations to multiple players and actors must be determined. To date, nonprofits have been primary drivers of IDAs, influencing their design and delivery. Financial institution partners have largely been limited to serving as a source of funds and to holding accounts; their capacity and expertise have not been effectively leveraged.

Significantly, financial institutions interviewed for this scan have little sense of ownership of the IDA. Thus, the IDA partnership arrangements are often forged outside the financial institution’s typical product delivery channels, as an exception to bank practice rather than a standard product. Further research should seek to define the roles and assess the potential for greater IDA involvement by new players – not just financial institutions, but unions and employers as well.

#### **4. How can IDAs become sustainable?**

***Findings: IDAs are still in early or “fledgling” stages of development and may benefit from greater investment in research and product development.***

When mapping IDA program development against a model for product scale (see Attachment A), we find that IDAs are in an early stage of research and development. During new product development cycles, ideas are generated, deemed as acceptable for further development and “screened” or tested to determine appropriateness for further roll-out. This process may occur over decades and is often fraught with false-starts, discarded models and reinventions. Despite public and private sector pilots over the past several years, the IDA is still largely in the pilot-

testing mode. Many observers note the IDA of today may be very different from the evolved product of the future.

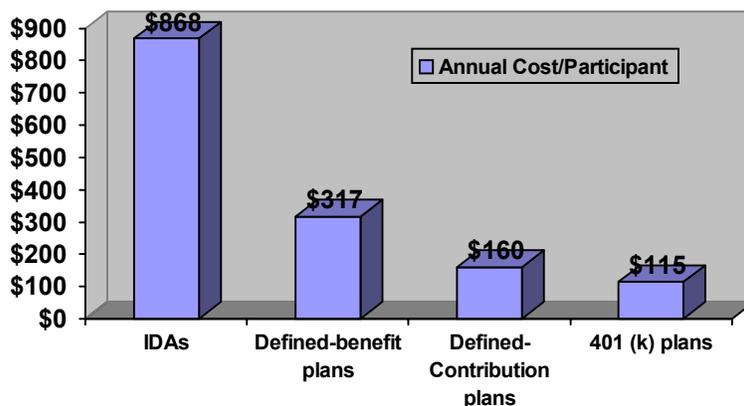
As we explore directions for IDAs to evolve, either to a universal account or a hybrid system blending private-sector product delivery with nonprofit support and education, we should seek to determine how to put IDAs on a path toward growth and long-term sustainability. This research should include identifying how to make the IDA more cost-effective, and how to invest in the infrastructure needed to move IDAs to the next stages.

Due to the wide variance in visions for the future, *this task becomes one of both experimentation AND consensus building, information sharing and intensive networking.*

***Finding: Reducing the cost of program delivery will be critical to sustainability on both a policy and programmatic level.***

As stated above, the current IDA program structure is costly and not sustainable. When comparing the IDA to financial capital programs the administrative costs are very high and prospects for sustainability appear low.

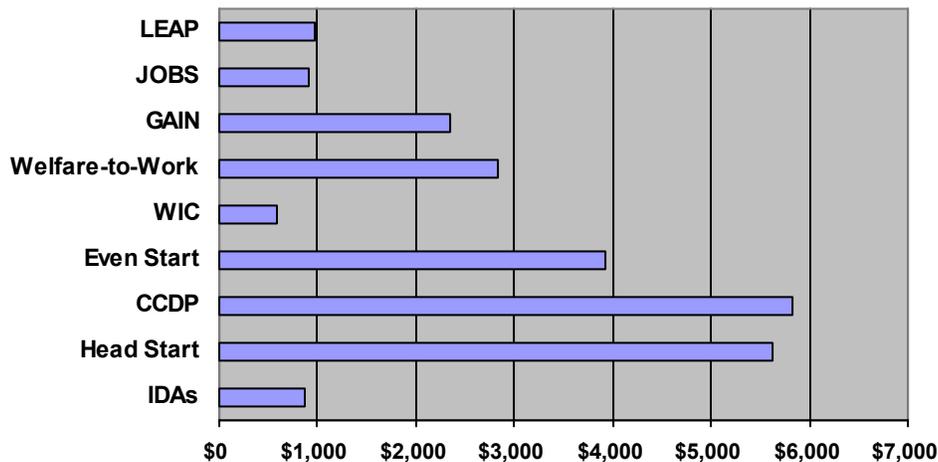
### Costs of IDAs vs. Financial Capital Programs<sup>23</sup>



However, these high costs are more in line when compared to comparable human service programs. Any attempts to gauge the sustainability of IDAs are frustrated by the layers of program that accompany the product. By beginning to disentangle the IDA product from the other program components, practitioners and policymakers will be able to better assess the true potential for a more mass-marketed product roll-out.

<sup>23</sup> Guat Tin Ng, “Costs of IDAs and Other Capital-Development Programs.” St. Louis: Washington University, 2001, 13.

**Costs of IDAs vs. “Human Capital Programs” (annual costs per family member or per participant shown)<sup>24</sup>**



The high “program” costs for IDAs have contributed to concerns and anxieties for private-sector entrants. The perception of high program costs may continue to discourage the development of financial institution and employer-driven programs unless future research and development can separate product expenditures from program expenditures.

The hybrid system could reduce the cost of delivery of the basic IDA account to be more in line with other comparable financial products. This accomplishment would greatly enhance the future sustainability of the IDA. The more intensive aspects of the program, such as the financial education and case management and support functions, could continue to be pursued as part of a broader social policy of financial planning and support for low-income Americans. (Moving more of this financial education into a public school setting would also reduce the long-term costs of providing adult education in basic money management skills—an important element of most IDA programs.)

***Finding: The sustainability of IDAs relies upon a policy environment that will deliver incentives (or matching funds) for IDA savers. Existing policy and proposed policy, such as Savings for Working Families (SWFA), are still not enough to reach sustainability.***

According to a state policy update in the Assets Quarterly, there is currently \$100 million in federal funding annually, more than \$84 million in state funding and an estimated \$50 million in additional private sector funds for IDA programs.<sup>25</sup>

But the funding amounts and program restrictions make this inadequate to support IDAs at their current levels and the future of this funding is uncertain. Linking to more permanent funding streams, particularly for the matching funds, is essential as is obtaining enthusiastic or committed support from the mainstream financial institutions.

<sup>24</sup> Ng, 14.

<sup>25</sup> Corporation for Enterprise Development, “State Policy Update,” *Assets: A Quarterly Update for Innovators* No. 1, (2003), 4.

Private funders and small demonstration programs will not be able to piece together a universal system of asset building accounts. For a national universal account system to be implemented, federal subsidies are critical. Subsidies at the federal level to date have been available through “pilot” programs such as the Assets for Independence Act or as targeted programs for a specific agency such as the Office for Refugee Resettlement.

The most significant push for a universal, national system has been carried out through the Savings For Working Families Act (SWFA). This would provide a tax credit to financial institutions offering IDAs. The credit would support primarily matching funds for savers with a small amount available for administrative costs. The operating assumption has been that SWFA would pave the way for IDAs to become universally accessible. As advocates continue to work for passage there are considerable questions to reflect on if it passes, including how the final legislation and the ultimate product that results would look, and the true prospects for financial institution involvement. One financial institution official expressed concern that banks may not come to the table with SWFA; another urged that the incentive for banks may not be sufficient and therefore should be expanded to employers. There are also questions regarding the avenues to pursue if SWFA is not passed, or is passed at a reduced level than anticipated. To date, most of the federal level policy focus has been on this as the route to greater scale and sustainability.

Many IDA advocates consider it crucial to expand the current policy platform and link with bigger constituency and policy organizations that have greater influence on public policy. This should involve looking beyond the current policy goals of the IDA field to explore a broader platform of potential policy action that could generate the subsidies needed for matched savings. Some ideas include:

- Expansion of other tax credits (EITC/child tax credits) to reward savers more directly.
- Linkages to other asset building policies particularly the 401k and IRAs to assess the potential for regulatory adjustments to existing matched savings products.
- Greater involvement with large-scale employers and unions to frame IDAs within a broader array of employee benefit options.

***Finding: New players are emerging to pursue promising ideas and innovations in the asset-building arena. These ideas and innovations may have important implications for future directions for IDA development and will require a closer analysis in the next phase of the research.***

As the IDA field seeks to define its future, promising initiatives are emerging and the next generation of IDAs and IDA-like products are being explored. For example, the D2D Fund has made tremendous strides in developing a next generation product by leveraging and adapting private sector capacity developed for 401k and other retirement plans for the IDA. CFED is commencing its SEED Initiative to develop and test children’s and youth accounts, and its Financial Institutions Roundtable has explored greater standardization in the IDA account structure and seeks opportunities to bring the private sector into the planning for IDAs. The Aspen Institute’s Initiative on Financial Security is modeling potential private sector products that could boost access to high-return asset account products for a broader cross-section of low- and moderate income Americans.



On the policy front, the ongoing work for passage of the Savings For Working Families Act (SWFA) by CFED is complemented by the work of organizations such as the New America Foundation, pressing for a broad-based asset development platform, The involvement of large constituency organizations such as National Council of La Raza and the Urban League in asset development work shows promise in building a stronger base of support for public subsidies.

These new ideas, particularly in product development, will have implications for the future evolution of IDAs and will be more closely studied in phase II of this research.

***Finding: The infrastructure that supports the IDA field is changing. New players have emerged in support roles and existing players, including funders, are reconsidering their roles. Whatever path the IDA takes in its development and roll-out, significant investments in infrastructure will be needed. Coordination at the programmatic, policy and investor/funder level are critical and steady communication of advancements, evolutions and setbacks will be needed if the field is to move to greater scale.***

CFED and CSD have been the leading support organizations for IDA development nationally. CFED has taken a leading role in developing pilots, training and technical assistance, establishing critical communication tools and policy creation while CSD became the leading research and evaluation mechanism. In addition, much of the field’s dynamism has derived from the fact that many national organizations and intermediaries (see the partial list below) see the value of asset building strategies for their constituencies.

National Support Organizations or Intermediaries:

- Corporation for Enterprise Development (CFED)
- National Association of CAP Agencies
- National Federation of CDCUs
- Credit Union National Association
- NCIF Financial Services Initiative for Depository CDFIs
- Association for Enterprise Opportunity
- Neighborhood Reinvestment Corporation
- First Nations Development Institute
- National Congress of Community Economic Development
- Local Initiatives Support Corporation
- Consumer Federation of America
- Nat’l Council of La Raza
- National Urban League

Regional Initiatives

- State networks
- Collaboratives
- State and local government

Research and Policy Infrastructure

- Center for Social Development
- New America Foundation
- Aspen Initiative on Financial Security
- D2D Fund Inc.
- Demos
- PolicyLink
- Center on Budget and Policy Priorities
- Center for Law and Social Policy
- NEDLC
- FLLIP Coalition in Chicago
- National Center of Policy and Law
- Urban Institute
- National Council on Economic Education
- National Endowment for Financial Education

Some of these organizations have played large roles in training and supporting IDAs among their constituents, and in vigorously promoting policy initiatives; others have played more an

informational role. But most do not have IDAs as their main organizational focus and many are struggling to define where IDAs fit within their organizational direction and priorities. Their future participation will be influenced by the direction IDAs take, the perceived gaps in the field and the connection to their own strategic visioning.

As new players emerge and others, including some donors, are reconsidering how and where IDAs fit within their broader asset strategies, some within the field have expressed uneasiness that the center of gravity is shifting, and that critical support functions may be neglected or remain unaddressed. The participation of intermediary and practitioner organizations has broadened. The American Dream Demonstration has ended. Some funders may be moving on; organizational directions are shifting. It is still not clear what landscape will emerge from these changes. In this context, there are questions about whether the organizations that have to date played key support roles and coordinated the dissemination of information and training will continue in these roles, and, if they do not, who may step in to fill them.

Recommendations for specific investments in infrastructure and support services will have to be based on how the IDA product or program evolves. As is noted above, there are important ongoing efforts to explore the next generation of IDAs. There are also other promising areas that remain to be explored, as we discuss at the end of this paper. However, as the field continues to evolve, a dialogue and process of engagement of practitioners and support organizations that may play a role in the future is essential. Consistent synthesis of new directions and steps on the program and policy level and an ongoing coordination of leading organizations with others in the field are vital to building the infrastructure of support and advancing the evolution of the IDA. Clear roles will need to be defined to ensure that gaps in learning can continue to be reduced and lessons can be disseminated rapidly.

## **Recommendations for further research**

The preliminary scan has identified certain areas that we believe merit further in-depth research including:

- Conducting additional research on how to make a transition from current practice to a more mixed or hybrid system of IDA service delivery
- Analysis of comparable investment vehicles for their potential for adaptation to achieve the asset building goals and target market that IDAs currently seek to serve.

To carry this research out, EOP plans to:

- Conduct operational assessment of select innovative sites with potential for reaching greater scale to identify lessons for future directions
- Analyze participant and potential participant feedback (user acceptance test) to assess essential components of a mixed or hybrid system
- Interview mutual funds, financial service providers and constituents about the potential evolution of existing investment vehicles. (e.g., 401k, Roth IRA, etc.)

Through this additional research, EOP hopes to gain insights into:

- The appropriate and essential roles of current and prospective players in establishing a broad-based asset account nationwide and the potential for a shift in “ownership” of IDAs. (This would assess the capacity, expertise and comparative strengths of different

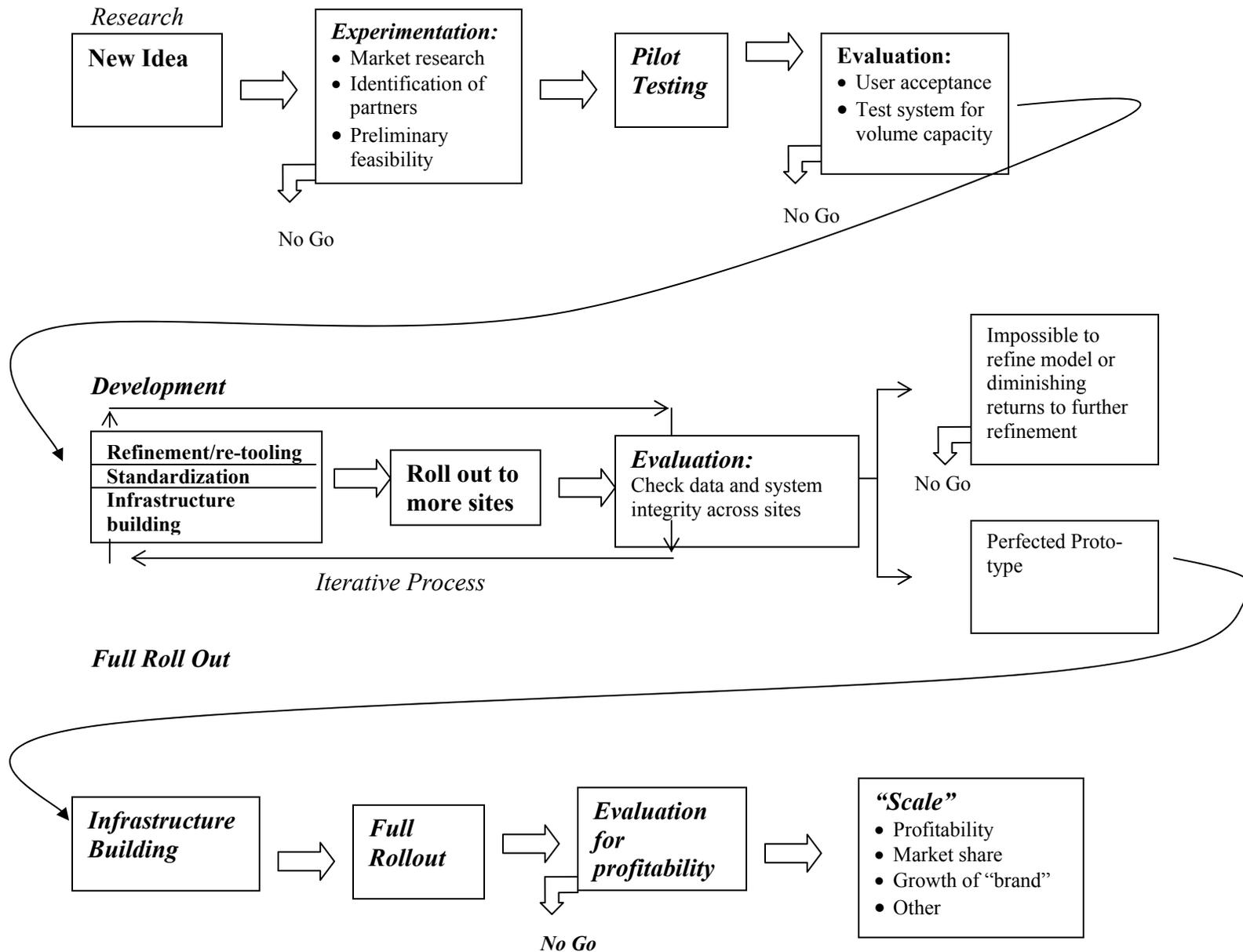


institutions. This research could offer greater definition of roles and assess the potential for greater involvement by new players including financial institutions, unions and employers.)

- The necessary infrastructure for moving the product forward including institutional capacity, likelihood and sources of funding and appropriate roles for intermediaries and support organizations.



# Attachment A: Product Level Scale Model



## **Attachment B: Participants in Phase I Research**

### **Aspen Research Team**

Jerry Black  
Patricia Brownell-Sterner  
Maureen Conway  
Joyce Klein  
Cathie Mahon  
Kirsten Moy  
Anne Stuhldreher  
Britton Walker

### **Interviews**

Barbara Black, Community Choice FCU  
Ray Boshara, New America Foundation  
Rita Bowen, Mt. Hope Housing Company  
Mary Cunningham, USC FCU  
Angela Duran, Good Faith Fund  
Inger Giuffrida, IDA Consultant and Trainer  
Michael Glavin, Fleet Bank  
Michael Hickey, Deutsche Bank  
Ben Mangan, SF-EARN  
Benita Melton, Charles Stewart Mott Foundation  
Lisa Mensah, Aspen Institute  
Maurice Lim Miller, Family Independence Initiative  
Nancy Montoya, Federal Reserve Bank of Atlanta  
Margot Rawlins, Center for Venture Philanthropy  
Victor Ramirez, United Way LA  
Sheldon Shalit, OCS  
Chuck Shannon, Mile High United Way  
Michael Sherraden, Center for Social Development  
Irene Skricki, Annie E. Casey Foundation  
Glenn Smith, Wells Fargo Bank  
Jennifer Tescher, Shorebank Advisory Services  
Ellen Tower, Citibank  
Peter Tufano, D2D Fund

### **CFED Meeting**

Rene Bryce LaPorte  
Bob Freidman  
Jan Hunecke  
Melissa Koide  
Sandi Smith

### **Workshop Participants**

Rene Bryce LaPorte, CFED  
Steven Dow, CAP-Tulsa County  
Alec Ross, One Economy  
Deirdre Silverman, Alternatives FCU



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