USDA United States Department of Agriculture
Food and Nutrition Service

Evaluation of Asset Accumulation Initiatives: Final Report

Office of Research and Analysis **February 2000**

Background

This study examines the experience of states in developing and operating special-purpose savings account programs for low-income households. The Food and Nutrition Service (FNS) is interested in the use of special-purpose accounts for the low-income population--especially for households receiving food stamps--as a means of promoting self-sufficiency. These accounts enable low-income persons to accumulate savings for specified purposes such as education, home purchase, home improvement, and business start-up. In many program initiatives, the account holder qualifies for matching funds to enable a more rapid accumulation of savings, as long as the account balances are used for the specified purposes. Such matched accounts are typically called a individual development accounts or IDAs.

During the 1990s, special-purpose accounts became an element of welfare reform in many states, first under federal welfare reform waivers and then under the block grant flexibility provided to states through the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. PRWORA gave impetus to the establishment of IDAs by allowing states to use their Transitional Assistance to Needy Families (TANF) block grants to fund IDAs and by excluding from consideration any account balances held in TANF-funded IDA programs in eligibility determination for all means-tested federal benefits.

Other national legislation has been introduced to support asset accumulation among low-income families. The Assets for Independence Act (Public Law 105-285, enacted in October 1998) provides federal funds for the operation of IDA programs at the state and local levels, subject to requirements regarding who can participate and how the accounts will be financed and structured.

This evaluation has the following goals:

- To describe the rationale and theoretical context for asset accumulation initiatives for low-income households. Factors to be examined include the determinants of savings among low-income households, the extent of low-income savings, and the effects of asset accumulation within this population.
- To identify and systematically compare special-purpose account policy, operations, and experience across a sample of programs. Factors to be examined include the programs purpose, current status, participating organizations, eligibility requirements, authorized uses and terms of the savings account, penalties for improper use of funds, and operational details.
- To document what is known about the response of the target population, especially food stamp recipients, to the availability of special-purpose savings accounts. Factors to be examined include program size, characteristics of participants versus non-participants, amounts saved, amounts withdrawn by participants, types of investments made by participants, and penalties imposed.
- To describe the lessons learned from these initiatives. Factors to be examined include policy questions and how these were addressed, most effective methods of outreach, operational issues and how they were resolved, major strengths and weaknesses of the program, and unexpected consequences.

Although special-purpose accounts are generally thought to have potential for promoting self-sufficiency among low-income populations, the evidence to date is limited. This study provides a foundation for FNS to assess policy options as to how the Food Stamp Program might better encourage low-income savings and asset accumulation, and thus promote self-sufficiency.

The evaluation has included a literature review and a descriptive analysis of selected asset accumulation initiatives. The analysis is based on information collected through telephone interviews. In selecting programs for study, we first identified the states that have provided funds to support special-purpose accounts. There are 32 such states, 7 of whom have established programs that can be considered operational. From these 7 states-- Illinois, Indiana, Iowa, North Carolina, Ohio, Pennsylvania, and Vermont-- we selected a total of 16 local programs for this study. These initiatives are all IDA programs (i.e., matched savings account programs) that were operational for at least six months, with at least 15 account holders as participants.

Findings

Literature Review

Special-purpose savings accounts have emerged only in the past decade as a possible instrument of public policy. For this reason, the corresponding literature is limited. A number of studies suggest that poor households will respond to savings incentives. Other literature examines the effects of asset holding (e.g., homeownership) on various forms of economic and social behavior. Some studies claim strong positive asset effects, but the evidence is generally inconclusive, as the underlying behaviors are complex and the directions of causality are unclear.

Also missing from the literature is evidence that low-income households will choose to commit their savings to a restricted (less liquid) form, such as a special-purpose account. Admittedly, the data needed to test the behavioral propositions about low-income savings and asset accumulation are largely unavailable.

Comparative Program Descriptions

The sixteen programs under study have differing origins and widely varying characteristics. These initiatives are all IDA programs (i.e., with matched savings), and they all receive some amount of state funding. Beyond this, however, they exhibit variation on virtually all significant aspects regarding policy provisions, administrative practices, and funding arrangements. For example:

- The program start dates range from December 1995 to March 1999.
- The current number of active accounts range from 17 to 440.
- Match rates range from 0.3:1 to 4:1.
- Income eligibility requirements are expressed in terms of a specified percentage of either the federal poverty level for some programs (e.g., 150 or 200 percent) or the area median income for others (e.g., 80 percent).
- Authorized account uses typically include home purchase, business startup, and education for all but one program, where only home purchase is an allowable use. Some programs also enable participants to use accounts for retirement, child care, credit repair, or emergency withdrawals.
- Programs vary as to the required minimum size and frequency of deposits, minimum participation periods (before qualifying to receive matching funds), and required attendance at financial education classes, counseling, or peer support meetings.
- The number of partnering financial institutions for each program ranged from 1 to 14.

The differences among these programs reflect the wide variation that is generally known to exist among IDA programs nationwide.

Patterns of Participation

At the time of data collection, the sixteen programs under study were fully operational and serving active account holders. All except for one were still accepting new applicants and creating more accounts. They had all been operating for at least eight months, with twelve programs operating for eighteen months or more. A total of 1,624 accounts had ever been established across all programs. Nine of the programs have had participants successfully attain their savings goals; a total of 89 savers had met all requirements and had applied their savings and the accrued match to approved asset purchases.

Participants are overwhelmingly female and a significant portion of them are African-American. The majority of female participants are heading households with children. Information on the extent to which participants were on cash assistance and/or food stamps was not available. The vast majority of participants are working at least part-time. The income restrictions in place in about half of these programs imply that almost all of those participants would be eligible for some public assistance. The overwhelming majority of deposits are from earned income, both in programs that explicitly require this and those that do not.

Fourteen of the sixteen programs were under-subscribed. That is, the number of open accounts in these programs is smaller than the number of accounts for which funding is available or smaller than the number of open accounts respondents expected. Nevertheless, all programs perceive a significant unmet need among their target populations for asset accumulation. Several of the programs are clearly positioned to continue their IDA programs beyond the initial round of funding and already have or are building their capacities to do so. Common difficulties in filling slots include limitations on income eligibility and the amount of effort involved in recruiting and processing applicants and in supporting them throughout the program. A number of programs are in the process of seeking additional funding to add more staff to bolster recruitment and support.

More than half of current program participants are saving for home ownership (or home repair, where also allowed). The programs vary significantly in scale. In the largest of the programs under study, savers had deposited a total of almost $146,000; in the smallest, $8,500. The average account balance per participant (including both deposits and accrued match) ranged from a high of $2,361 down to $362.

Lessons Learned

The early experiences of state agencies and local organizations in developing and operating IDA programs provide a number of lessons for policy makers and program practitioners. These lessons can be summarized as follows.

The organizations that operate IDA programs face considerable requirements for staffing and other resources, which these organizations are often strained to meet with their available funds.
IDA programs are labor intensive. These programs require considerable staff effort to implement initially and then to sustain effectively over the long-term periods needed for participants to succeed.

Participants need one-on-one attention. Staff need to devote personal attention to each participant, in explaining and clarifying rules and expectations, monitoring individual needs, and keeping participants focused on their savings requirements and objectives.

Financial education classes are a key program component. Although match money may provide the necessary incentive to attract participants to the program, the financial literacy and asset-specific training classes may have the greatest impact on participant decision-making.
Program effectiveness requires adequate administrative funds. Lack of adequate administrative funds is frequently cited by program staff as a significant barrier to effective program operations.

IDA programs may take longer to establish than expected. It is unexpectedly time-consuming to establish the necessary organizational arrangements (e.g., with financial institutions) and then to recruit and enroll program participants.
Pre-existing relationships with financial institutions prove valuable. It is highly advantageous to build upon established organizational partnerships, as with housing-oriented programs that already partner with financial institutions.

The participants in IDA programs must commit themselves to regular savings, which they often find difficult to achieve under their financial circumstances.

To succeed, participants must develop trust in the program and confidence in themselves. Program staff need to help participants overcome their wariness over the IDA concept and their doubts over their ability to save regularly.

Client motivation is essential to success. Participants need to establish a strong commitment to the program to fulfill the saving requirements over the long term.

IDAs may not be for people who are seriously distressed. Individuals under emotional or financial stress are less likely to sustain the required commitment to the program.

Account withdrawals for unspecified emergencies are an early-warning signal of participant difficulties. A participant's seeking to withdraw funds for unallowed uses, without specifying the need for funds, tends to signal trouble ahead.

Individual participant success is hard to predict. The factors, such as motivation, that enable a participant to succeed are often intangible and unobservable.

The task of recruiting and retaining participants, with the aim of making full use of program funding, is made especially difficult by the desire to serve those most in need.

Referral is probably the most effective outreach source. The most successful source of qualified applicants is referral from other programs, either from outside the organization or from other programs with the same organization.
Rules setting minimum periods of participation may be constraining. Such limitations sometimes prevent a participant from accessing their match funds when they are prepared to make an asset purchase.

Many programs are being under-utilized. Many programs have match funds available to them that they are unable to commit because they cannot fill their authorized number of program slots.

IDA staff feel that programs are achieving the desired participant outcomes. Program staff clearly feel that IDAs can and do bring about favorable changes in the attitudes and behavior of participants, in repairing credit, managing finances, and planning major purchases.

IDAs can support the larger mission of a sponsoring organization. Staff feel that IDA programs not only help the participants achieve personal goals but also help the sponsoring organizations pursue larger aims related to the vitality of neighborhoods and communities.

As noted above, IDA program staff are generally confident that their program participants are indeed using IDAs as a means to save and acquire assets, consistent with the objectives of these programs. For purposes of policy-making, an even more important question pertains to the impacts of these programs--i.e., do IDA participants engage in saving and asset accumulation beyond what would have occurred for these same individuals if they had not participated in an IDA program?

This descriptive study was not intended to answer the question of program impacts. Two ongoing research projects will address this question. The first is an experimental evaluation of the American Dream Demonstration (ADD) program in Tulsa, Oklahoma. Interim findings, with impacts estimated through an 18-month follow-up period, will become available in late 2001; estimated impacts based on 42 months of follow-up will then be reported in late 2003. The second is an experimental impact study soon to be conducted with respect to IDA programs funded under the federal Assets for Independence Act (AFIA). The findings from this congressionally mandated evaluation, to include at least one experimental research site, are expected in early 2003.