

I N D I V I D U A L D E V E L O P M E N T
A C C O U N T S
A PATHWAY TOWARD SUCCESS

The Importance of Asset-Building

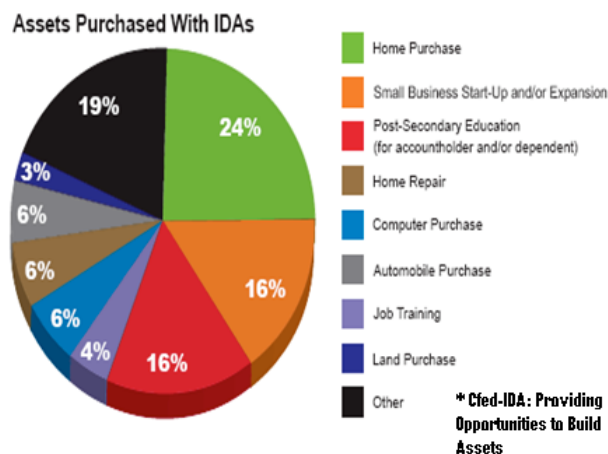
Asset purchasing and ownership are keys to building the American Dream. Having the access and the ability to improve one’s financial standing allows one to set and achieve financial goals, secure a financial future for one’s self and family, and build wealth that can be passed on to future generations. In the long-term, the acquisition of assets often leads to increased opportunities for investments and higher education, greater financial stability, and expanded capacity for civic and community engagement.

Opportunities for asset building exist readily in the United States, yet barriers do exist for some hard-working Americans. One in four families is asset-poor, meaning a lack the financial resources needed to support a family for a period of three months at the federal poverty level (\$20,650 for a family of four in 2008).¹ Asset development provides tools to enable persons with limited financial resources to make long-term investment decisions that will shape and sustain family life. The accumulation of assets provides security to families in the short and long term and can encourage success for generations to come.

Individual Development Accounts (IDAs) are matched savings accounts targeted to help low-income and low-wealth families save and build assets. Given the right savings incentives, lower-income families can and will save to accumulate assets for savings accounts, job training, small business start-up and/or expansion, post-secondary education, and purchase of a home. IDAs operate in a manner similar to how higher-income earners accumulate assets, such as utilizing incentives to build employer-matched retirement accounts and 401(k)s.²

History of Asset Development

Michael Sherraden, a social theorist, promoted the idea that assets help low-income families achieve economic success and stability.³ He is currently the founder and director of the Center for Social Development (CSD) at Washington University in St. Louis, MO and is a leader in social development research and policy. He argues that current welfare policy has failed to recognize the importance of owning assets.⁴ Since 1994, CSD has focused on social development research that informs how individuals, families, and communities can improve their society. IDAs are a result of



Sherraden's research and according to the Corporation for Enterprise Development (CFED), various forms of IDA legislation have passed in 35 states (excluding Nebraska), as well as in Washington, D.C. and Puerto Rico.⁵

IDA legislation was included in the 1996 welfare reform act titled, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which gave states the option of including IDAs in their state welfare reform plans. Initially, they were developed and implemented by foundation-funded community organizations with limited government contribution. However, once foundation-funded programs demonstrated progress and produced evidence that low-income persons could benefit from IDAs, federal policy makers expanded IDA programs in two ways. First, the Assets for Independence Act of 1998 established a five-year IDA demonstration program funded with \$125 million in federal money. Second, in 1999 the Federal Office of Refugee Resettlement established an IDA program for refugees that disbursed \$66 million in grants.⁶

The 2003 American Dream Demonstration (ADD) formatted the very first systematic study of IDAs. It proved that proper incentives and support will lead to significant saving among the poor.⁴ To date, there are upwards of 500 programs and more than 20,000 accounts that exist nationwide and they can be found in rural, urban and suburban areas.

Core Elements of IDAs

Eligibility- Programs are targeted to low-income families who meet annual income eligibility guidelines. IDA program eligibility is based on income, earnings, net worth, and credit history. Participants must have an annual income below 200 percent of the federal poverty level, and many IDA programs require that all or part of savings come from an earned income. IDA programs also look at families' household assets (such as a car, home, savings, etc.) when determining IDA eligibility. If a family owns assets valued at more than \$5,000, they may not qualify for an IDA. In addition, having significant amounts of debt or a bad credit history can prevent families from qualifying for an IDA. To date, two-thirds of IDA programs target those who are eligible for Temporary Assistance for Needy Families (TANF).⁷ An IDA program can be as short as one year or as long as five years. Generally, IDA participants choose one savings goal, such as a home, but they can save for any number of related goals.⁴

Administration- Individual Development Accounts involve a partnership between state agencies, community nonprofit organizations and financial institutions.⁴ Once a state authorizes an IDA program, the legislative process designates a state agency or non-profit to serve as the program administrator. The program administrator sets up accounts with a financial institution partner and provides fiscal management, administration and marketing.⁴ Community development corporations and affordable housing agencies also offer Individual Development Accounts.⁷ Financial institutions maintain the accounts and often provide other services to the family, including budget counseling, homebuyer workshops and general financial education.⁷

Match rates- For every dollar participants save in an IDA, their money will grow with matched savings. Individual contributions to IDAs can receive matching dollars at a rate typically ranging from 1:1 to 3:1.⁷ Some programs have different match rates for different savings goals. Programs that have a shorter savings period will have higher match rates so that account holders will be able to save enough to purchase an asset. Match funds for IDAs come from a variety of sources.⁷ The largest source of matching dollars is federal grants, followed by state and local government, financial institutions and private foundations.⁷ States can provide match money with general fund appropriations, federal and state Temporary Assistance for Needy Families dollars, Community Development Block Grant (CDBG)

funds, and with tax credits. The match funds cannot be withdrawn without the approval of an IDA program sponsor, and will be reported on a monthly account statement that will enable a participant to monitor how much money is growing in their IDA.⁵

Public Funding Sources in States 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 District of Columbia Indiana Iowa Maryland Minnesota Missouri North Carolina Pennsylvania Puerto Rico South Carolina Vermont	Connecticut District of Columbia Indiana Iowa Maryland Minnesota Missouri Ohio Pennsylvania South Carolina Tennessee Vermont	Arkansas Colorado Connecticut Hawaii Indiana Kansas Maine Missouri Oregon Pennsylvania	Arkansas Florida Illinois (a) Indiana Louisiana Michigan (a) Montana (a) Nevada New Jersey Ohio Oklahoma South Carolina (a) Tennessee Texas Vermont (a) Virginia Washington (a)	North Carolina (a) Ohio Oklahoma Oregon Tennessee Virginia

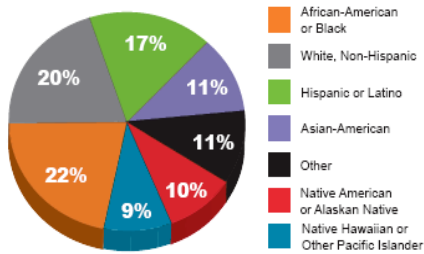
Research on the Use and Effectiveness of IDAs

There is often a preconceived notion that low-income families will not have extra money to put away into a savings account. Research shows, however, that persons of all income levels can and will save given the right opportunity and incentives. Saving is not dependent on income level but includes a combination of factors, including the structure of policies and institutions to encourage such saving. Individual Development Accounts have shown to be an effective way to increase the assets of low-income working families.

According to a CFED 2003 American Dream Demonstration survey, IDA account holders saved \$14.5 million, which was matched with an additional \$22.5 million. A grand total of \$168 million was invested in purchasing assets for low-income families through IDA programs. The majority of account holders were female (53%). In addition, one-third of participants were African American, one-fourth were white and one-fifth were Hispanic. Asian Americans are the fourth largest racial/ethnic group with a reported 11 percent of account holders. Ages ranged from 13 to 72 and the average age at enrollment was 36. Account holders lived in both urban and rural areas.

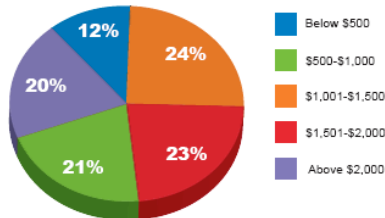
Eighty percent of account holders had a monthly income of less than \$2,000 and one-fourth of the participants earned \$1,000-\$1,500 a month.

Enrollment By Race/Ethnicity



Source: Cfed: IDA Providing Opportunities to Build Assets

Enrollment By Monthly Income Bracket



Source: Cfed: IDA Providing Opportunities to Build Assets

American Dream Demonstration

In 1997, the American Dream Demonstration (ADD) developed the first study of IDAs, which was conducted by the Corporation for Enterprise Development (CFED) and the Center for Social Development (CSD) at Washington University in St. Louis, MO. It was the first large-scale comprehensive test and consisted of 14 IDA programs across the United States, which included 2,364 participants over a 24-month period.³ Results of the study proved that low-income individuals do save and accumulate assets through participation in IDAs. The program included a 2:1 match for homeownership and a 1:1 match for other allowable uses.⁷ Participants in the programs deposited an average of \$19.07 per month, made a deposit in 6 of every 12 months, and accumulated approximately \$700 per year in their IDAs.⁸

In addition, 13 sites required approximately 13 hours of general financial literacy classes that offered help on specialized topics such as entrepreneurship or home buying. Each program covered the same general topics and instructors helped participants set goals, decide how to spend their IDA savings, track spending for a month, and look for ways to reduce expenses. Following the financial literacy classes, each participant then developed a monthly budget and set annual savings goals.

Each hour of financial education, increased average monthly net savings by \$1.30.⁹

These demonstration projects have found that contributions by the poor are not related to income, welfare receipt, or most other individual characteristics.

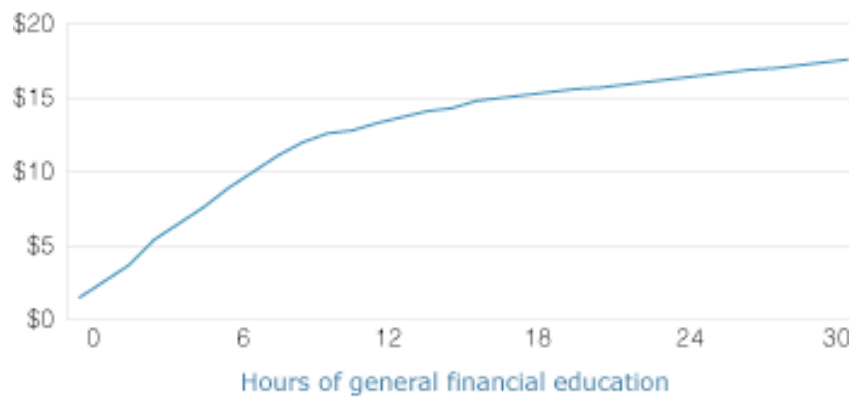
American Dream Demonstration researchers view these

findings as consistent with an institutional view of saving, which suggests that saving is not solely a function of income and preferences but depends on government policies that structure and encourage opportunities for saving.

The study indicated more than 60 percent of participants who withdrew money used matched withdrawals for housing purposes. The evaluation found that IDA programs resulted in a higher rate of homeownership. It increased families' real and total assets. There was an increase in educational attainment as more participants took a post-secondary education class than those who did not have an IDA. The positive effects were even greater for African Americans, especially in terms of homeownership and retirement savings.⁷

These accounts also result in positive psychological effects for participants. Based on interviews with account holders, many felt more confident and had a greater sense of responsibility. Having an account helped them think about long-term goals and future opportunities. Research also suggests positive effects on the children of participants, such as improved living conditions, educational opportunities, and positive modeling behavior.⁷

Effect of hours of financial education on savings rate as measured in change in average monthly net deposit



Asset Building in Communities

In 2006, the Nebraska poverty rate was 11.5% with over 82,000 families currently living in poverty.¹⁰ Urban counties experienced a poverty rate of 12.5 % and the 76 rural counties in the state of Nebraska experienced a poverty rate of 9.3 %.¹¹ These characteristics of rural and urban Nebraska suggest a compelling need for policies that help families build wealth and gain financial stability. IDAs can be useful in reducing poverty and improving welfare in both urban and rural areas. While the need for access and opportunities to built assets exists in all areas of the state, rural areas face greater barriers for several reasons.

First, low-income rural families are less likely to receive cash assistance and tend to rely more on earnings than other families. Second, the characteristic of rural areas makes competition for good jobs and investments difficult to attain, with lower earnings and a smaller number of educational and training opportunities.¹² Michael Grinstein-Weiss, of University of North Carolina at Chapel Hill, completed a study which determined that the use of IDAs for rural communities helped encourage participants to save and accumulate assets.¹² Many rural areas throughout Nebraska are facing economic hardships and are struggling to maintain financial security. In order to be successful, these communities need to create new resources and approaches that will encourage economic development. Today, for rural policy to be effective, it has to address the diverse needs of a rural community. One way future policy can help promote rural economic growth and expansion is through asset-based incentives.¹²

Challenges for the Future

Individual Development Accounts are a relatively new policy alternative. As a result, there do exist some challenges that face the IDA advocacy community as it moves forward:⁷

Reaching More Individuals - When one in four families in America is considered asset poor, 20,000 IDA 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 forward.

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 source is critical to the success of IDA programs.

Providing Follow-Up Services - Protecting assets that families worked hard to secure is essential to long-term financial security. Homeownership is a way to build financial security but it can also be a quick path to foreclosure and even further debt if families are not provided with the necessary tools to protect their assets.

IDAs and the Pathway to Success

At this time, there are a handful of IDA programs scattered throughout Nebraska. Due to the existence of these programs, the state of Nebraska has a great foundation on which it can build a sustainable, statewide program and an opportunity to propel forward the financial goals and security of hard-working Nebraskans.

The Corporation for Enterprise Development provides four key recommendations and explanations to ensure a successful, state-supported Individual Development Account program:¹³

Sufficient Funding: The state's annual commitment to IDAs should be no less than \$200 per low-income resident. This rate of funding covers the administrative and operating costs of the IDA program as well as the matching funds for savers.

State Agency Stewardship: It is important for the IDA program to have a steward within state government and for the stewarding agency to be committed to all uses for IDA savings.

State Funding for all Types of Program Costs: IDA providers currently cobble together federal, private, and - if available - state funding. Restrictions on the uses of these monies are numerous and often force IDA providers to subsidize the operating and administrative costs of the program.

Stable State Funding: While state budgets grow and shrink with fluctuations in the economy and annual appropriations negotiations can be protracted, it is important for state funding for IDAs to come from a stable and protected source.

In providing state policy and financial support, current barriers to asset building can be removed for hard-working Nebraskans. Financial assets are able to provide stability for families and help them plan for the future. Providing an incentive program will strengthen the economy and improve our society. Expanding opportunities in asset development for working families in Nebraska can transform the social and economic conditions of our state. Nebraska can play a vital role in increasing the scope of these programs and shaping the future of asset development. With rising costs in housing, energy, transportation, and health care, IDAs can be a tool to improve the financial security of all working Nebraskans.

Endnotes

1. Corporation for Enterprise Development, 2007-2008 Assets and Opportunity Scorecard. <<http://www.cfed.org/go/scorecard>>
2. DeGiovanni, F. F. Promising Practices in the Development and Distribution of Asset Building [Brochure]. December, 2005. Retrieved from Economic Development Ford Foundation. <http://www.cfed.org/imageManager/_documents/NY_FRB_Forum_-_DeGiovanni_Presentation.pdf>
3. McKenna, J., Owen, A., & Blansett, C. Individual Development Accounts: The Path to a Dream. Journal of Extension, 29(1), Increasing Economic Security of Low-Income Families. February, 2001.
4. Corporation for Enterprise Development. Individual Development Accounts: Providing Opportunities to Build Assets. January, 2007.
5. George Warren Brown School of Social Work. Asset Building. In Center for Social Development. 2005. Retrieved June 17, 2008, from Washington University in St. Louis: Web Site: <http://gwbweb.wustl.edu/csd/asset/ida_faq.htm>
6. Boshara, R. Welfare Reform and Beyond. The Brookings Institution, 32, Individual Development Accounts: Policies to Build Savings and Assets for the Poor. March, 2005.
7. Finzel, R. Individual Development Accounts: How Legislators Can Use IDAs as a Tool to Increase Homeownership and Promote Asset Development. In National Conference of State Legislators. August, 2005. Retrieved June 17, 2008, from Fannie Mae Foundation Web site: <<http://www.ncsl.org/programs/econ/housing/IDAshousing05.htm>>
8. McKeag, M. Expanding IDA Participation. March, 2006. Retrieved from Terry Sanford Institute of Public Policy, Duke University web site: <http://www.cfed.org/imageManager/_documents/MP_-_CFED_-_Mark_McKeag_-_2005-2006_-_Final.pdf>
9. Corporation for Enterprise Development. American Dream Demonstration (ADD): The First Large Scale Test of Individual Development Accounts. American Dream Demonstration [Fact Sheet]. Retrieved June 6, 2008, from Corporation for Enterprise Development web site: <<http://add.cfed.org/training.html>>
10. U.S. Census Bureau, 2006 American Community Survey. Table R1701. Retrieved June 18, 2008 from US Census detailed table web Site: <http://factfinder.census.gov/servlet/GRTTable?_bm=y&-_box_head_nbr=R1701&-ds_name=ACS_2006_EST_G00_&-_lang=en&-format=US-30&-CONTEXT=grt>
11. U.S. Census Bureau, 2006 American Community Survey. Table GCT1701. Retrieved June 18, 2008, from US Census Bureau Web Site: <http://factfinder.census.gov/servlet/GCTTable?_bm=y&-context=gct&-ds_name=ACS_2006_EST_G00_&-mt_name=ACS_2006_EST_G00_GCT1701_ST12&-tree_id=306&-redoLog=false&-caller=geoselect&-geo_id=04000US31&-format=ST-2&-lang=en>
12. Grinstein-Weiss, M., Curley, J., & Charles, P. (Eds.). Asset Building in Rural Communities: The Experience of Individual Development Accounts. Rural Sociology Society, 72(1). 2007.
13. Corporation for Enterprise Development, 2007 - 2008 Assets and Opportunities Scorecard: Support for IDA Programs. <<http://www.cfed.org/go/scorecard>>