

IDAs and Saving

Evidence from ADD Research

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Measuring Saving

- Saving = increase in assets less liabilities (increase in net worth)
- Deposits and accumulation of balances aren't new saving to extent they result from asset shifting or added debt
- Evidence mixed re 401(k)s, etc. but suggests incentives for lower-income generate less shifting, more saving (Engen & Gale)

Measuring Saving

- Deposits/contributions raise household's net worth (hence saving) when financed by cutting expenses or increasing income (e.g., working harder).
- On national level, net saving is private saving +/- public saving (dissaving), including program costs.

Measuring Saving

- A second standard by which to measure IDA outcomes:
 - Even if net worth not increased, do IDAs promote strategic redeployment of household assets to facilitate transformational investments with higher potential long-term return than current household assets?
 - Home purchase; post-secondary education; microenterprise.

Financial IDA Incentives

- Financial incentives, e.g., matching contributions or tax preferences, increase rate of return on household's contributions.
- Accordingly, price of deferred consumption drops relative to price of current consumption, encouraging contributions to the “incentivized” vehicle (substitution effect).

Financial Incentives (cont'd)

- But higher rate of return on investment in deferred consumption (lower price) also enables household to obtain desired amount with less outlay (income effect/target saver effect).
- Matched savings (IDAs or USAs) and tax credits (Saver's Credit) suit the poor better than tax deductions (Cf. Joulfaian and Richardson

2001).

Nonfinancial Design Features

- Institutional arrangements – incl. IDA design features – affecting saving behavior: (Sherraden, Schreiner, Beverly, 2003)
 - More access, information, incentives (match, tax preference), facilitation & expectations tend to increase saving, limits tend to constrain it.
 - Recent empirical evidence of power of automatic (default-based) facilitation
 - AE increased lowest-income 13% to 80%.

Evidence re IDAs

- American Dream Demonstration: first systematic attempt to measure IDA impacts on saving and asset building.
- Experimental IDA Matched Savings Program: CAPTC & Bank of Oklahoma
 - 4-year experiment (2000-2003 and earlier)
- Participants make voluntary deposits to bank accounts, may withdraw any time

How IDAs Work

- IDA aims: encourage saving and use of savings for specified investments
 - 2:1 match for IDA withdrawals for home purchase
 - 1:1 match for IDA withdrawals for home repair/improvement; post-secondary education; microenterprise startup or expansion; or retirement (IRA)
 - No match for other (“unauthorized”) withdrawals (limited to 3 per year)
 - When participant withdraws her own balance, match paid by check to vendor

Matched Savings

- Matched withdrawal only between 6 and 42 months after open IDA.
- After 42 months, participant may elect to roll balance to Roth IRA with 1:1 match.
- Matched deposits limited to \$750 per year for 3 years (if withdrawn for allowable use)
 - so annual match limited to \$750 (\$1,500 for home purchase)

How IDAs Work (cont'd)

- Participants expected to deposit at least \$10/month at least 9 months per year.
 - Deposits earn passbook savings interest.
- In addition to match, participants get monthly statements, financial education, asset specific training, case management (including reminders to make monthly deposits).

Eligibility to Participate

- Eligible individuals separated randomly into treatment group (N=537) (offered participation) and nonparticipating control group (N=566).
- People recruited to apply for program
 - but selection bias and self-selection didn't differ between treatment and control groups
- Employed & income below 150% poverty.

Eligibility to Participate (cont'd)

- Precondition: 4 hours of money management classes.
- Before matched withdrawal can be made, 12 hours of money mgmt classes + additional training re specific type of asset purchase (e.g., home purchase or new business).

Measured Outcomes

- 15% of the 537 who applied to participate and were randomly assigned to treatment group failed to open IDAs
- By end of 4-year experiment –
 - 39% of participants made matched withdrawals,
 - 53% closed account without ever making a matched withdrawal, and
 - the remainder had accounts still open without having made a matched withdrawal.

Measured Outcomes: Persistence

- By end of 4-year experiment, 51% of participants had made positive net deposits (matched & matchable deposits less unmatched withdrawals)
 - But 15% of original offerees declined to open an IDA, so 51% of Ps is less than half of offerees
 - By end of 4-year experiment, 16% of accounts were still open
 - After 1, 2 & 3 years: 97%, 87%, 66% of accounts open
 - Not very meaningful: some closed upon successful investment, others upon unauthorized withdrawals; some might have felt pressure to make authorized investments by end of 4 year period.

No Impact on Net Worth; How IDAs Were Used

- IDAs had no (statistically significant) impact on participants' net worth or on its major components
 - purchase of home or other major investment might appropriately have been financed by drawing on liquid assets or taking out mortgage or other new liabilities
 - IDAs reduced financial assets such as stocks and bonds (and might have slightly reduced liquid assets)

Most Significant Impact: Home Purchases

- Home ownership most popular planned use (followed by home repair/improvement).
- Home ownership in treatment group outpaced control group 49% to 43%.
- Among subset who were not homeowners at outset, home ownership in treatment group outpaced control group 39% to 30%.
 - Consistent with this, real assets increased.
 - Positive impact on home ownership more pronounced for African Americans.

Other Outcomes

- 4 of 5 ADD participants were women
- Women in ADD more likely than men to accumulate net IDA savings
 - Like women's higher 401(k) participation, but explanatory theories may differ
 - 401(k) saving by women more often involves two-spouse/two-earner issues, whereas 85% of women in ADD were single

Easy vs. Hard Planned Uses

- Sherraden's regression analysis suggests –
- Participants who had “easiest” planned use (home repair) more likely to save than those who had “hardest” (home purchase)
 - Home ownership goal: high risk, high reward
 - Where required lump sum payment larger and purchase process harder, risk of discouragement greater
- Limited time horizon can truncate saving – accumulating large down payment takes time

IDA Benefits

- Evidence suggests IDAs facilitate accumulation of assets for transformational investments (home purchase, education).
- Qualitative evidence (e.g., interviews) suggests less tangible but meaningful benefits: participants cite “soft benefits” of IDAs -- promote greater sense of control, feeling of progress, hope, future orientation.

(M. Sherraden et al., “Saving in Low-Income Households: Evidence from Interviews with Participants in the American Dream Demonstration,” Center for Social Development, Washington University in St. Louis (January 2005))

IDA Benefits (cont'd)

- Despite inherent difficulties such as
 - Interviewers' knowledge of which interviewees are participants vs. control group members,
 - Interviewees' desire to please and to tell benefactors what they think they want to hear, especially participants who benefited from match dollars and attentive case management,
- Results for treatment group vs. control group are impressive, as are specific participant comments (e.g., Sherraden 2005, Tables 7.1, 7.2)

Benefits Versus Costs

- When the increase of 43% to 49% (or 30% to 39%) (adjusted for optouts?) is weighed against program costs, is it cost-effective?
- No attempt here to quantify costs (being done by Mark Schreiner) or, therefore, to compare costs and benefits. Once cost study is completed, benefit-cost analysis should be performed.

“High Touch” Issue

- But query to what extent case management/hand holding, approval seeking, high maintenance touch is major driver of IDA benefits.
- If unavoidably so, cost concern about taking IDAs to scale.

Benefits - Costs

- Benefits presumably would have to be defined not as additional or net IDA deposits nor as additional saving (there may be some, but not statistically significant based on Abt data) but as incremental contribution to (facilitation of) transformational asset accumulation (e.g. home purchase).
 - Benefits would include additional home purchases and acceleration of home purchases (and other asset accumulations) with the associated social benefits detailed in the interview summaries.
 - These “soft” benefits are hard to quantify but valuable.

Benefits - Costs

For household within striking distance of a major asset accumulation goal, prospect of being held to a regimen of regular deposits plus prospect of match may make the difference. IDA program “bundle” may energize household to marshal their resources purposefully to reach a specific asset accumulation goal.

Presumably, selection and self-selection of individuals for Tulsa experiment who are on threshold of meaningful asset accumulation affects control and treatment groups equally. Expect high levels of success for both, but difference should reflect impact of program.

Benefits - Costs

- Presumably, control group experienced thin bundle of potentially facilitating programmatic interventions, incl. motivation and education associated with recruitment, application, peer group reinforcement, awareness of IDA program and others' participation in it, and subsequent interviews.
- Impact of IDA program presumably is increment of full complement of interventions over thin bundle experienced²⁶

Observations on Design Features

- IDAs high maintenance/high touch compared to Saver's Credit, which uses existing vehicles, no case management
- Should IDAs use IRA vehicle earlier?
 - IRAs offer well established, broader platform
 - Ubiquitous, somewhat less program infrastructure
 - Politics of outlay (refundable piece of Saver's Credit) vs. tax cut (IDA)

Observations on Design Features

- Match:
 - IDA match saved vs. Saver's Credit spendable
 - though could go either way if redesigned each vehicle
 - Would need IDA structure outside IRA to retain control of match, prevent churning
- Investment choice more complex in IRA or k, but program could help P choose.
- Withdrawal rules: some parallels. IRA withdrawal any time -- penalty exceptions for first home, higher education, etc.

Other Possible Experimental Variations in IDA Design

I. Relax Experimental Time Constraint

II. Reframe match: deposit vs. withdrawal?

- Any variations in presentation of matching subaccount?
- Forfeit match upon unauthorized withdrawal

Possible Experimental Variations in IDA Design (cont'd)

- III. Bifurcate match into saved portion and spendable portion?
- Borrows from saver's credit (all spendable) and refund splitting models
 - Portion of match automatically paid out to participant every 6 or 12 months?
 - Participant has option to save payout
 - Perhaps only first year or 2
 - Combine with restrictions on withdrawal of participant deposits – to encourage retention?

Possible Experimental Variations in IDA Design (cont'd)

- IV. Expand use of automatic/default arrangements in IDAs -- after initial decision to participate?
- If cheerleading/handholding/coaching are high maintenance – expensive – may make IDAs hard to take to scale?
 - Test hypothesis that autodeposit would dramatically improve outcomes and is cheap

Possible Experimental Variations in IDA Design (cont'd)

Mechanisms:

- Automatic payroll deduction direct deposit if employed; or
 - Automatic debit from bank account
 - Automatic arrangement refreshes automatically if opt out of a deposit
- Analyze disappointing past experience

Possible Experimental Variations in IDA Design (cont'd)

- Consider whether modest amounts of seed money – nonmatching deposits – would be effective to “prime the pump” – to help induce participation by those who otherwise would opt out at the outset

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