

INDIVIDUAL DEVELOPMENT ACCOUNTS: PROVIDING OPPORTUNITIES TO BUILD ASSETS

Assets provide benefits that income alone cannot provide. Those with assets are more economically secure, have more options in life, and can pass on status and opportunities to future generations.

- 70 million Americans are asset poor;¹ if they had to live only on their net worth – savings, home equity and other assets – they could not survive at the poverty level for three months.
- One-third of all American households (and 60% of African-American households) have zero or negative net financial assets and one-half have less than \$1,000 in net financial assets.²
- An estimated 10 to 22.2 million households are unbanked (not maintaining deposit accounts with mainstream financial service providers), which comprises 25 to 56 million adults.³
- Assets are disproportionately distributed, with the bottom 60 percent of the nation collectively possessing less than 5 percent of the nation's wealth.⁴

Broadening the ownership of assets through Individual Development Accounts (IDAs) is one tool to help expand economic security and opportunity for the nation's poor by enabling low-income working families to save for an asset, build wealth and enter the financial mainstream.

- IDAs are matched savings accounts that reward the monthly savings of families who are saving toward a high-return asset such as a first home, post-secondary education or a small business.
- The savings incentive is provided through matching funds from private and public sources. Participants also learn about budgeting, saving and banking in required financial education classes.
- IDAs are offered in programs across the country through local non-profit organizations, which recruit participants and provide financial education classes and training to participants, and a partnering bank or credit union, which handles all transactions to and from the IDA.
- Over the last seven years, with help from federal and state policies, private funding has led to the creation of more than 50,000 IDAs in programs run by more than 450 community-based organizations.⁵ Public funding for IDAs as of March 2005 totals about \$225 million, with roughly \$185 million provided by the federal government and the remainder by the states.⁶ Almost 30 states have statewide IDA coalitions.⁷

IDAs Work: American Dream Demonstration

- The first systematic study of IDAs was the American Dream Demonstration (ADD), a foundation-funded national demonstration of IDAs organized by CFED that ran from 1997 to 2003.
- ADD, a 14-site IDA program, proved that low-income families, with proper incentives and support, can and do save for longer-term goals. Importantly, deposits increased as the monthly target increased, indicating that low-income families' saving behavior, like that of wealthier individuals, is influenced by the incentives they receive.
- The average monthly net deposits per participant were \$19 during ADD, and, with an average match rate of 2:1, participants accumulated about \$700 per year.
- Matched withdrawals were used for home purchase (28%), micro enterprise (23%), higher education (21%) and home repair (18%).

Source: Saving Performance in the American Dream Demonstration, 2002

IDAs should be federally funded and available to everyone. CFED estimates that each federal dollar invested in IDAs would yield a return of approximately five dollars to the national economy in the form of new businesses, additional earnings, new and rehabilitated homes, reduced welfare expenditures, and human capital development associated with greater educational attainment.

- IDAs debuted in federal law in the welfare overhaul of 1996, when states were given the option of including IDAs in their welfare reform plans and were encouraged to revise restrictive asset limits on eligibility for case welfare, which suppressed asset accumulation. Presently, 34 states include IDAs in their state cash welfare plans, although funding levels vary widely.
- CFED supports the following pieces of enacted or proposed federal legislation:
 - ☑ The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This law allows states to create IDAs as part of their Temporary Assistance for Needy Families (TANF) programs.
 - ☑ Assets for Independence Act. In 1998, the Assets for Independence Act (AFIA) authorized the U.S. Department of Health and Human Services (HHS) to establish and administer a five-year, \$125 million demonstration of IDAs. By the end of the fourth year, project participants had opened 12,242 accounts and deposited a total of \$7.23 million. The average balance was \$592 per account. AFIA has received total appropriations of \$120 million and supports more than 250 five-year AFIA projects nationwide. Congress plans to appropriate \$24.9 million for FY06.
 - ☑ Savings for Working Families Act of 2005. If enacted, the Savings for Working Families Act (SWFA) would offer a one-to-one tax credit for financial institutions that contribute match funding to IDAs. The IDA Tax Credit under SWFA would provide up to \$500 per IDA per year, in addition to a \$50 per account annual credit. The bill would support 900,000 accounts, moving IDAs to scale for the first time.

1 Haveman, R., & Wolff, E. N. (2000). Who are the asset poor: Levels, trends and composition, 1983–1998. Paper presented at the Inclusion in Asset Building: Research and Policy Symposium, Center for Social Development, Washington University in St. Louis, MO.

2 Oliver and Shapiro, T. (1995). Black Wealth/White Wealth, Chapter 4, page 87-89.

3 Federal Reserve Survey of Consumer Finances, 2001; and the General Accounting Office's "Electronic Transfers," Report to the Subcommittee on Oversight and Investigations, House of Representatives, September 2002.

4 Wolff, "Recent Trends in Wealth Ownership," Table 2, "The Size Distribution of Wealth and Income, 1983-1997."

5 Based on CFED's estimations.

6 Boshara, R. (2005). Individual Development Accounts: Policies to build savings and assets for the poor. Washington, D.C.: The Brookings Institution.

7 Center for Social Development (CSD).