INDIVIDUAL DEVELOPMENT ACCOUNTS: PROVIDING OPPORTUNITIES TO BUILD ASSETS

Individual Development Accounts—or IDAs—are matched savings accounts specially designed to enable those of modest means to save, build assets, and enter the financial mainstream. IDAs reward the monthly savings of low-income families who are building toward purchasing a lifelong asset—most commonly buying their first home, paying for post-secondary education, or starting a small business. IDAs make it possible to build the financial assets they need to achieve the American Dream.

IDAs were first proposed by Michael Sherraden, a professor of social work at Washington University in St. Louis, in his 1991 book, Assets and the Poor: A New American Welfare Policy. Sherraden argued that current welfare policy failed to recognize the importance of owning assets. His theory: While income maintenance is a crucial part of the social safety net, only asset ownership can increase economic stability and provide hope for the future.

Building on Sherraden’s work, CFED launched in 1997 the American Dream Demonstration (ADD): the first large-scale, comprehensively evaluated test of the efficacy IDAs as a tool for saving and asset-building for low-income working families. ADD jumped-started a field that is now responsible for thousands of IDAs in all 50 states and the District of Columbia, advancing the life-changing potential of assets.

Assets provide benefits that income alone cannot offer. People with assets have more options in life and can pass on status and opportunities to future generations. Consider the current asset picture in the United States:

- One in four Americans are asset poor; 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 in five of all Americans (33% of minorities) have zero or negative net financial assets.
- An estimated 30% of Americans are unbanked (not maintaining deposit accounts with mainstream financial service providers).

Broadening the ownership of assets through IDAs is one way to help the nation’s low-income working families move out of poverty, giving them a “leg up” to enter the financial mainstream.

How do IDAs work?

IDAs are usually offered through programs that involve partnerships between local IDA program sponsors, typically non-profit organizations such as social service agencies or faith-based providers, and financial institutions, like credit unions or community banks. The IDA program sponsor recruits participants for the IDA program, provides financial education classes, and may also provide one-on-one counseling and training to participants. After signing

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While new IDA programs are being created each year, the field shows tremendous staying power. Over 70% of programs responded that they have been in operation for 4 or more years, with another 20% being 2-3 years old and 8% having been established within the last year. 62% of IDA programs classify themselves as serving urban or suburban markets, with 38% serving rural or small town areas.

While the majority of IDA programs receive funding from the Assets for Independence (AFI) program, other important sources of funding include foundations, financial institutions, various programs within the Department of Housing and Urban Development, and Temporary Aid to Needy Families (TANF).

In addition to offering IDAs, 21% of programs reported offering services to help clients claim the EITC (Earned Income Tax Credit), a state and federal tax credit that reduces the tax burden for working families. IDAs and other asset-building tools like the EITC need champions at all levels of the government and in every sector. Join CFED’s advocacy center at www.cfed.org/go/advocacy to promote strong legislation that helps working Americans grow wealth.

### Public Sources of Operating and Matching Funds for IDA Programs

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<tr>
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<td>State Tax Credits</td>
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<td>Local Discretionary Spending</td>
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<td>Individuals</td>
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<td>HHS-Office of Refugee Resettlement</td>
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<td>HHS-Community Service Block Grants</td>
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### 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 conducted 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 deposit per participant was $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%), microenterprise (23%), higher education (21%) and home repair (18%).

Source: Saving Performance in the AmericanDream Demonstration, 2002

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[Image: www.Idanetwork.org]
up for an IDA program, each participant opens an account with the partnering bank or credit union. The bank or credit union handles all transactions to and from the IDA, just as they do with other types of savings accounts. Each month, IDA participants receive a report telling them how much money (individual savings + match + interest) is accumulating in their IDA.

An IDA program can be as short as one year or as long as five years from beginning to end. IDA participants are allowed to withdraw money as soon as they have reached their savings goal, but they must first get approval from their IDA program sponsor. Some IDA participants choose one big savings goal, such as a home, but others save for a number of related goals, such as text books and college tuition.

**IDA Matching and the American Dream Match Fund**

The IDA match incentive—similar to an employer match for 401(k) contributions—is provided through matching funds from private and public sources. Over the last ten 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 500 community-based organizations. Public funding for IDAs as of March 2005 totals about $223 million, with roughly $185 million provided by the federal government and the remainder by the states. Nearly 30 states have statewide IDA coalitions.

Despite this growth and support, asset-building organizations face ongoing challenges raising the money that matches participants’ own savings. Moreover, the largest provider of matching funds, the Federal government’s Assets for Independence program, requires IDA program sponsors to raise funds that match the Federal money.

In 2005, CFED created the American Dream Match Fund to provide a reliable and sustainable solution to these challenges. A new social venture that will stimulate the growth of matched savings accounts, like IDAs, throughout the United States, the Fund will raise funds to match the savings of low-income families and provide operating support to high-performing asset-building programs through individual and corporate donors. The Fund’s other goals include raising awareness of matched savings as an asset-building strategy and developing software technology to facilitate the flow of information among donors, program providers and account holders.

In 2005, CFED conducted a survey of the field to which nearly 400 IDA programs responded. Additional research discovered more programs, bringing the total of currently operating IDA programs in the United States to 540. Survey results indicate a 30% growth in the field since the previous year.

According to the 2005 survey, IDA programs are serving an average of 56 account holders currently, and have an average of 64 graduated account holders who have made their asset purchase. This indicates that there are over 30,000 account holders currently saving for an asset in IDAs, and even more who have made purchases.

**Demographics of Account Holders in IDA Programs**

IDA programs serve a cross section of American society. In the 2005 survey, programs reported that 53% of their account holders are female. IDA participation is spread evenly across adult age groups, with 9% of account holders being under age 12 and 12% being between ages 13-19.

**Assets Purchased With IDAs**

Account holders in Assets for Independence (AFI)-funded IDA programs have saved on average $533 towards their asset purchase, according to data collected by the Department of Health and Human Services, which through AFI provides funding to three fifths of programs in the field. More specifically, 54% of AFI projects reported average balances of less than $400, while 28% reported average balances of over $600. The total saved by over 30,000 AFI participants is $14.6 million. The match rates in these programs ranged from $1:1 to $8:1. According to our survey data, IDA account holders use the money most often for home purchase, small business start-up or expansion, and post-secondary education, but other asset goals as well.

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Despite this growth and support, asset-building organizations face ongoing challenges raising the money that matches participants’ own savings. Moreover, the largest provider of matching funds, the Federal government’s Assets for Independence program, requires IDA program sponsors to raise funds that match the Federal money. Many program sponsors report waiting lists for matched savings accounts, a situation that arises when the sponsor’s fundraising and/or operating capacity is constrained.

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