



FEBRUARY 2007

Developing a *Standard Savings Product for IDA Growth*



NATIONAL ECONOMIC DEVELOPMENT AND LAW CENTER

BACKGROUND

NATIONAL ECONOMIC DEVELOPMENT & LAW CENTER

The National Economic Development and Law Center (NEDLC), established in 1969, is a national research, consulting and legal organization dedicated to building economic health in vulnerable communities. It develops and promotes innovative solutions that help people and communities become, and remain, economically secure. It works in collaboration with community organization, private foundations, corporations and government agencies to (1) Support programs that lead to good jobs (2) Strengthen early care and education systems and (3) Develop programs that enable people and communities to build financial and educational assets.

NEDLC contributors to this paper include: Betsy Baum, Brad Castel, Roger Clay, LaVerne Gardner, Hui Chang Li, Anouk Shambrook, Susan Smith, Esther Polk, Lori Warren.

ACKNOWLEDGEMENTS

This publication would not have been possible without the time, energy, and thoughtfulness of the members of the Learning Cluster including:

- Steven Dow; Community Action Project of Tulsa County
- Ben Mangan and Stephanie Upp; EARN
- Kristine Williams, Edmund Khashadourian, Alison Towle and Victor Ramirez; United Way of Greater Los Angeles' Saving for the American Dream
- Eric Muschler, Earl James and Toby Budd; The Michigan IDA Partnership
- Angela Duran, Necole Irvin and Denise Barrett; The Mid South IDA Initiative
- Carolyn Hayden; The Hayden Group
- James Head; The San Francisco Foundation
- Benita Melton; The Charles Stewart Mott Foundation

This publication was made possible through the generous financial support of the Charles Stewart Mott Foundation.

This publication is available on-line at the NEDLC website: www.nedlc.org.

DEVELOPING A STANDARD SAVINGS PRODUCT FOR IDA GROWTH

February 2007

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
SECTION I	
WHAT DOES IT MEAN TO STANDARDIZE THE IDA PRODUCT?	8
IDA Program vs. IDA Product.....	8
Market Segmentation vs. Product Standardization.....	9
SECTION II	
WHY STANDARDIZE?	11
Current Model is Resource Intensive	11
Uncertain Profitability of the Current Model.....	12
Current Policy Environment Limits IDA Growth.....	13
SECTION III	
INGREDIENTS FOR STANDARDIZATION.....	16
Money.....	16
Policies.....	18
Time.....	20
Committed and Flexible Champions	21
Information Sharing and Exchange.....	22
Connections.....	23
SECTION IV	
ISSUES AND CONCERNS	25
IDA Product and “High-Touch” Program: Not an Either-Or Choice.....	25
How to Ensure a Continued Role for CBOs	26
Creaming.....	27
Efficiency Requires Upfront Investments	27
SECTION V	
FURTHER RESEARCH AND CONCLUSION.....	28
How to Standardize Other IDA Program Elements.....	28
How to Leverage Existing Account Systems	29
Other Research Questions	29
Conclusion.....	29
BIBLIOGRAPHY	30

EXECUTIVE SUMMARY

PROJECT BACKGROUND

From the Homestead Act and the G.I. bill to tax deductions for home owners, asset building has long been a part of U.S. economic policy to help middle class families. Using asset development as a strategy for alleviating poverty, however, is a relatively new concept. Widely recognized as the person responsible for this paradigm shift, Michael Sherraden wrote a groundbreaking 1991 book entitled *Assets and the Poor* in which he proposed Individual Development Accounts (IDAs) as a tool to alleviate income- and asset-poverty¹ in the US.

Individual Development Accounts are matched savings accounts designed to help low-income and low-wealth people save regularly and acquire assets. IDA participants' savings and match funds are restricted to investments in financial and productive assets, such as a first-time home, a small business, post-secondary education, or an automobile. Administered by non-profit organizations or public entities, the IDA is accompanied by financial education, asset-specific education, case management, and financial counseling.

To date, roughly 500 IDA programs throughout the nation have offered over 30,000 accounts, funded both by private and public demonstration projects. While IDAs have economically strengthened thousands of families and individuals, the hope is that the number of accountholders will someday grow to millions, so that *all* Americans will have the opportunity to accumulate assets and benefit from U.S. tax and asset-development policy.

In 2004, the Mott Foundation embarked on a field learning process to uncover promising practices among cost-efficient, “large-site” IDA programs—or those, for the purposes of this paper, with over 500 accounts. Supported by the Mott Foundation, the National Economic Development and Law Center (NEDLC) convened five large-site IDA providers from across the country for a series of semiannual meetings between 2004 and 2006.² The purpose of these IDA Learning Cluster convenings was to share and document the strategies, innovations, promising practices and challenges of operating larger IDA programs, so that new and smaller programs could learn from these pioneers.

The catalyst for creating an IDA Learning Cluster in 2004 was the anticipation of federal or state asset policy which would enable exponential expansion of the number of IDA accounts. One possibility at the time was the proposed federal Savings for Working Families Act (SWFA). SWFA would provide funding through the tax code to support the development of nearly one million Individual Development Accounts nationally, or potentially 20,000 accounts per state. However,

¹ Asset-poverty describes a person who can not rely on net worth—savings, home equity and other assets—to sustain expenses as defined by the federal poverty level for three months.

² It is important to note that these sites are among roughly a dozen IDA programs around the country which have grown to 500 plus active accounts. Other sites could have contributed to this Learning Cluster but it was decided to keep the cohort small to foster trust, build relationships, and facilitate open dialogue.



many leaders in philanthropy, policy development and practice believed that the IDA service delivery structure was too costly to support this rapid level of growth. Most IDA programs had less than 100 accounts per program. Individual providers needed to increase their capacity to serve more people; the field as a whole needed to lower programmatic costs and gain economies of scale.

The Mott IDA Learning Cluster was comprised of:

1. **Community Action Project of Tulsa County** (CAPTC); Tulsa, Oklahoma
2. **EARN**; San Francisco Bay Area, California
3. **Saving for the American Dream**, United Way of Greater Los Angeles; Los Angeles, California
4. **Michigan IDA Partnership** (MIDAP); Michigan
5. **The Mid South IDA Initiative**; Mississippi, Louisiana, Arkansas and Southeast Texas

In addition to their size and innovative practices, these program models were selected because they had the following instructive characteristics:

- Each was exploring cost-efficient technologies, policies, partnerships, and practices to move the field toward the next level of expansion
- Each had a distinct and demonstrative program design and collaborative structure
- Each site was in a different stage of development
- Taken together, the sites represented different-sized geographic service areas (two cities, a multi-county region, a state, and the only multi-state collaborative)
- The sites provided a mix of rural and urban models
- They were all funded by the Charles Stewart Mott Foundation, fostering the formation of a natural peer learning group

The specific purposes of the Learning Cluster were three-fold:

1. To share and document the strategies, innovations, promising practices and challenges of operating large-site IDA programs, so that new and smaller programs can learn from these pioneers
2. To provide the impetus and a forum for leaders of large-site IDA programs to debate and discuss how to expand access to assets for millions of low-income and low-wealth Americans
3. To strengthen and inform the field of practitioners and other stakeholders working diligently to grow asset building strategies

This paper is one of four born out of in-depth conversations among members of the IDA Learning Cluster. *Moving to Scale: Offering IDAs through Large-Site Models* is a case study that describes and analyzes lessons learned and promising practices of the Learning Cluster initiatives. *Market Segmentation in IDA Programs: Practice and Research* explores market segmentation as an

innovative technique to help bring IDAs to more people, more effectively; it addresses how to segment the IDA market and applies research lessons on institutional and individual factors that influence savings. Lastly, written for a broader audience, *Large-Scale IDA Programs: Pioneering the Next Level of Expansion* is a shorter, stand-alone document that summarizes all three papers.³

The purpose of this paper is to develop a deeper understanding of how standardizing components of the IDA bundle, especially the matched savings account, could expand the reach of the IDA field. Some IDA supporters propose developing a standardized account system or financial product for IDA delivery as one strategy for expanding IDAs from the thousands to the millions. The intended target audiences for this paper are policy makers, practitioners, and advocates of the IDA field interested in using product standardization to help grow asset building opportunities in the U.S.

WHY STANDARDIZE?

The hope is that, over the long run, developing a standardized financial product, or standardizing selected program components, will help reduce per unit costs, increase efficiency, improve and streamline service delivery, and hence allow more low-income people to benefit from IDAs.

Proponents argue that standardization is important to future growth of the IDA field because:

1. Standardization can help reduce programmatic costs and thereby enable IDA operators to offer IDAs to many more people
2. Standardization can help make IDAs more profitable for financial institutions, and financial institutions are critical for developing a standardized financial product

IDA PROGRAM VS. IDA PRODUCT

The IDA *program* is made up of a bundle of products and services, including: case management, credit counseling, financial education, asset-specific education, asset-acquisition assistance and the matched savings.⁴ The IDA *product* is the matched savings account itself and includes management of that account (e.g. setting up the account structure, opening/closing the accounts, data management, etc.).

STANDARDIZING THE IDA PROGRAM

To save costs and increase efficiencies, some large-site IDA program providers and intermediaries have used technology and other resources to standardize certain *programmatic* components and procedures, including:

- Curricula for financial education and asset-specific education

³ These other papers can be downloaded from the NEDLC website at www.nedlc.org.

⁴ Specifically, key IDA program features are (1) matched savings (2) target savings amount (3) savings held through time (4) restricted uses of the savings (5) financial education (6) staff-participant relationships, especially prodding to do the saving (7) participant group activity and peer support (Sherraden, 2000a, p. 5).

- On-line applications, participant data management and asset acquisition processes
- Data collection and management
- Training tools for partner agencies
- Case management procedures
- Staffing
- Public awareness campaigns about IDAs and asset-building

As a *field*, some leaders suggest that greater standardization *across* programs would lead to greater efficiencies, reduced costs, and a more unified framework for advocacy and evaluation of IDA programs. CFED, for example, has engaged diverse stakeholders throughout the field to help develop a certification standards process across programs.⁵ Some elements in need of greater standardization across programs grew out of that effort, including:

- Data collection and management
- Eligibility requirements
- Definitions (e.g. of a household, assets, etc.)
- Public awareness campaigns about IDAs and asset-building
- Evaluation metrics
- Allowable asset purchases and draw-down procedures for match funding
- Training tools
- Exemptions of savings from public benefits

STANDARDIZING THE IDA PRODUCT

Standardizing the IDA product may involve financial institutions engaging in these types of activities:

- Developing a segregated product code for IDAs
- Developing an institution-wide delivery system
- Creating awareness about IDAs among front-line staff of financial institutions
- Collecting more data about the customer
- Standardizing customer intake and screening
- Marketing IDAs as a retail product

⁵ In anticipation of SFWA passing in 2001, CFED engaged the IDA field to create a voluntary certification standards process; draft standards were created for funding, staffing, organizational stability, asset training, management information systems. For more information, see: <http://gwbweb.wustl.edu/csd/Policy/conf2002/presentations.htm> Huneke and Hall, "Performance and Certification Standards: Statewide Policy Implications"

A future standardized savings product could take several different forms: a tax sheltered savings account without a match; a tax sheltered savings account with a match; a single account or a dual account structure. It may be developed by a single financial institution or across a group of institutions. The purpose of this paper is to contribute to the discussions and lay-out some strategies for next steps in product development but not to endorse one particular product design.

MARKET SEGMENTATION VS. PRODUCT STANDARDIZATION

Market segmentation, involves product identification and product development but may not involve the development of a *standardized* product. In other words, customizing products for given market segments runs counter to developing a uniform or standard product. For example, a standardized web-based financial education curriculum may meet the need of the “average” IDA user but not the specific needs of youth, limited English speakers, or IDA participants with higher levels of financial literacy. In order to best provide the service of financial education, a new model could include a minimum level of standardization that allows for customization, as needed, beyond that level. Determining that minimum level for programmatic services and tools is challenging. Standardizing the financial account product for IDAs, however, may not need a minimum standard and later customization; a uniform financial product would likely require relatively little customization to meet the needs of all market segments.

Another distinction between market segmentation and product standardization is that while market segmentation is a strategy for streamlining program delivery that can be applied either at the current scale or at a larger scale, product standardization is primarily a strategy for moving toward large scale IDA activity by reducing per unit costs that allows for increased volume.

INGREDIENTS FOR STANDARDIZATION

The following factors are important elements to catalyze standardization: money, new policies, time, champions, information-sharing, and stronger connections in the field.

- **Money** may come from either financial institutions who may be the primary actor in the development of a standardized account product or from the government to spur the philanthropic community, individual donors and employers. Unfortunately, financial institutions may not likely take the lead to invest in product development unless they can expect a profitable return from their investment. To influence that expectation, non-profit research organizations interested in IDA growth could intervene by performing market studies that test the profitability and cross-selling possibilities for financial

SOME KEY INGREDIENTS FOR STANDARDIZATION

- Money
- New Policies
- Time
- Champions
- Sharing/centralizing information
- Connections



institutions to invest in developing a standardized account product. Government subsidies could also be designed to spur private investment into the IDA (e.g. a tax credit for employers who offer IDAs as a benefit)

- New **policies** and an improvement on existing asset policies could help further a standard account product for IDAs. Specifically, *optimizing existing policies* that tend to attract financial institutional involvement (e.g. 529 Savings Accounts, 401(k) or IRA accounts); *supporting new policies* (e.g. SWFA, ASPIRE)⁶ that may provide a foundation for an inclusive broad account-based, asset-building system; and *removing policy barriers* on existing asset-restricted savings account systems. These policy changes would contribute to the goals of product standardization: scale and inclusiveness
- The factor of **time** or **timing** refers to the idea that product development and “going to scale” is not necessarily a linear but an iterative process which will likely happen in stages and will likely take longer than anticipated. It also refers to the idea that behavioral change and asset accumulation among IDA participants takes time, over the course of a lifetime
- Strategic, flexible, and committed **champions** would help further product development—including legislators, policy advocates, and the accountholders themselves. It is important that these champions commit to the IDA *idea*, rather than one particular manifestation of *the* IDA as currently construed. It is also important that champions commit to systemic change in U.S. asset-building policies over the long-haul, while also being willing to accept short-term policy advances toward the long-term goal
- More consistent and centralized sharing of **information** among practitioners, funders, policymakers, and researchers could help further standardization. Fragmentation and decentralization in the field can hamper developing a standardized account product, specifically, and standardized IDA practices, in general
- There is a need to not only develop stronger and deeper **connections** *within* existing members of the IDA field – both horizontally and vertically – but also to *broaden* the partnership base by incorporating new businesses and industries into the IDA field (e.g., employers, the business side of financial institutions, other investors); and by incorporating IDAs into the broader asset-building field. Linking to a common infrastructure and developing stronger networks, collaboratives, and multi-sectoral partnerships can help facilitate new and deeper connections

ISSUES AND CONCERNS

Many field leaders support a product standardization strategy to help bring IDAs to scale. However, other practitioners have raised concerns with elements of this approach, including the following:

⁶ The proposed ASPIRE Act would create a Kids Investment and Development Account (“KIDS” Account) for every child born after 2006. Each child would receive an initial deposit of \$500 from the government and children from households below the national median income would be eligible for an additional prorated supplemental contribution of up to \$500. Further contributions from any source could be deposited into the account and grow tax-free until the money is withdrawn.

- How to develop a standardized account product that would take IDAs to scale without *sacrificing* more intensive programmatic supports, so valuable to at least some segments of the low-income population?
- How can programs with wrap-around supports *take advantage* of not only a standard account product but also of well-developed programmatic standards?
- How can incentive-galvanized philanthropy and government funding target not only matching funds for IDAs and financial institutions but community-based operations as well?
- How can expanded, but still limited, IDA opportunities be inclusive?
- How do we deal with the paradox that high expenditures may already be a barrier to IDA growth, and yet even higher expenditures are likely needed to evolve the IDA field toward effectiveness, efficiency, and scale?

FOR FURTHER RESEARCH

There is much potential for research geared toward field-level infrastructure activities and program enhancement, such as improving existing data management efforts, online financial education pilots, and market segmentation strategies. This research may help further the connection between IDA *policy* and IDA *practice*. Research needs related to standardization includes the following four areas:

1. Building off of CFED's work in this area, what other program management elements of the IDA should be standardized?
2. How might existing account systems such as 401(K)s and 529 College Savings Accounts be leveraged and/or adapted to extend asset-building opportunities to the poor?
3. What information do financial institutions need and what can researchers supply to further document the profitability of IDAs?
4. What research is needed to advance the argument that investments in human capital through asset-building policies are positively correlated with economic development?

With the summary points of this paper depicted, the remainder is divided into four sections, designed to answer the following questions:

1. Section One: What does it mean to standardize the IDA product?
2. Section Two: Why standardize?
3. Section Three: What are some ingredients needed to make standardization happen?
4. Section Four: What are some concerns with developing a standardized financial product?
5. Section Five: What further research is needed to create a standardized savings product

SECTION I

WHAT DOES IT MEAN TO STANDARDIZE THE IDA PRODUCT?

Standardizing the IDA could include financial institutions undertaking the following activities: developing a segregated product code for IDAs and an institution-wide delivery system; creating awareness by all customer service representatives at financial institution about the IDA product; collecting more data about the customer; standardizing customer intake and screening; and promoting IDAs as a retail product.⁷

IDA Program vs. IDA Product

The IDA *program* is made up of a bundle of products and services, including: case management, credit counseling, financial education, asset-specific education, asset-acquisition assistance and the matched savings.⁸ The IDA *product* is the matched savings account itself and management of that account (e.g. setting up the account structure, opening/closing the accounts, data management, etc.).

There is some consensus in the IDA field that service delivery could be improved, and thus more people could benefit, if certain components of the IDA program were standardized. In fact CFED, in anticipation of SFWA passing, engaged representations throughout the field to develop a voluntary IDA program certification process. Draft field-wide standards were created for funding, staffing, organizational stability, asset training, management information systems, and reporting, among other areas.⁹

Some large-site IDA program providers and intermediaries have also used technology and other resources to standardize certain *programmatic* components and procedures, including:

- Curricula for financial education and asset-specific education
- On-line applications, participant data management and asset acquisition processes
- Data collection and management
- Training tools for partner agencies
- Case management procedures
- Outreach practices
- Public awareness campaigns about IDAs and asset-building

⁷ Mahon, Moy and Koide, 2005, p.23

⁸ Specifically, key IDA program features are (1) matched savings (2) target savings amount (3) savings held through time (4) restricted uses of the savings (5) financial education (6) staff-participant relationships, especially prodding to do the saving (7) participant group activity and peer support (Sherraden, 2000a, p. 5).

⁹ For more information on CFED's efforts, see: <http://gwbweb.wustl.edu/csd/Policy/conf2002/presentations.htm> Huneke and Hall, "Performance and Certification Standards: Statewide Policy Implications"

While there is some debate over *which* program elements should be standardized, *how* to standardize and *who* will do the standardizing, there seems to be more agreement over the need to standardize the IDA *product*, e.g., the matched savings account itself. Financial institutions, many suggest, could help to develop and deliver a simple, low-fee, universal IDA product capable of reaching more low-income Americans.

As a *field*, greater standardization may also be needed *across* programs. CFED, for example, has engaged diverse stakeholders throughout the field to help develop a certification standards process across programs.¹⁰ Some elements in need of greater standardization across programs grew out of that effort, including:

- Data collection and management
- Eligibility requirements
- Definitions (e.g. of a household, assets, etc.)
- Public awareness campaigns about IDAs and asset-building
- Evaluation metrics
- Allowable asset purchases and draw-down procedures for match funding
- Training tools
- Exemptions of savings from public benefits

Market Segmentation vs. Product Standardization

IDA programs tend to offer the same bundle of services to all of their clients, but a market segmentation approach promotes a “configurable” IDA program: a set of mix-and-match modules/products to build the appropriate program at the provider or client level.¹¹

Market segmentation involves product identification and product development but may not involve the development of a *standardized* product. In other words, customizing products for given market segments may run counter to developing a uniform or standard product. For example, a standardized web-based financial education curriculum may meet the need of the “average” IDA user but not necessarily the specific needs of youth, limited English speakers, or IDA participants with higher levels of financial literacy. In order to best provide the service of financial education, a more developed model may include a minimum level of standardization that allows for customization, as needed, beyond that level. Determining that minimum level can, of course, be challenging. However, unlike programmatic services, standardizing the actual financial account product for IDAs may require relatively little customization to meet the needs of all market segments.

¹⁰ In anticipation of SFWA passing in 2001, CFED engaged the IDA field to create a voluntary certification standards process; draft standards were created for funding, staffing, organizational stability, asset training, management information systems. For more information, see: <http://gwbweb.wustl.edu/csd/Policy/conf2002/presentations.htm>

¹¹ A separate paper by NEDLC addresses Market Segmentation in more depth: *Market Segmentation in Individual Development Account Programs: Practice and Research*

Another distinction between market segmentation and product standardization is that while market segmentation is a strategy for streamlining program delivery that can be applied either at the current scale or at a larger scale, product standardization is primarily a strategy for moving toward large scale IDA activity by reducing per unit costs that allows for increased volume.

SECTION TWO

WHY STANDARDIZE?

An assumption behind developing a standardized financial product, or standardizing selected programmatic components, is that these efforts could help reduce per unit costs over the long-run, increase efficiency, improve and streamline service delivery, and hence allow more low-income people to benefit from IDAs. It is also thought that such improvements are necessary for IDAs (or its evolved form – e.g. some other restricted, subsidized savings product accessible by the poor) to become sustainable and permanent. In short, “standardizing the IDA” is sometimes used interchangeably with “serving more people.”

The limits of the current IDA bundle to reach more people more may point to *product standardization* as one possible solution. Presented below are three challenges to the current model which standardization, if implemented, could help address: 1) high costs; 2) lack of profitability for financial institutions; and 3) overly restrictive policies.

Current Model Is Resource Intensive

To date, most IDA programs are delivered by community-based nonprofits (CBOs), who form partnerships with financial institutions. Substantial staff time and resources are invested in activities required to run the IDA program and deliver the product: CBOs fundraise for match funds; establish (and maintain) multiple partner relationships; manage match funds and participant accounts; outreach and enroll eligible participants; provide financial education, asset-specific training, and on-going case management; facilitate asset acquisition; approve withdrawals; and report program activities and status of match funds to funders. In addition to partnering with financial institutions, CBOs collaborate with other nonprofits or government agencies to offer the IDA program. Each organization may specialize in one or more of the above-specified roles best suited to the organization’s mission or core competency.¹² In any case, this resource-intensive model (though in some instances critical to reach participants with greater needs) is a barrier to reaching millions of eligible Americans in the low-income market.

A longitudinal study tracking the unit-cost estimates of a large-scale IDA program¹³, found program costs, excluding match, to be \$61 per participant, per month.¹⁴ While IDAs cost more per participant than 401(k) plans – in part because current IDA programs have fewer participants to dilute fixed costs – costs are in the same range as some human-capital programs – such as the Women, Infants, and Children Program – but are much *lower* than for other programs, such as Head Start.^{15, 16} Nonetheless, some field representatives point out that IDA programs could reduce per

¹² Another report by NEDLC, *Moving to Scale: Offering Individual Development Accounts through Large-Site Models*, provides a case study analysis of the different structures of five large-site models.

¹³ This was the Community Action Project of Tulsa County which was one of the 13 American Dream Demonstration sites evaluated from 1998 to 2003.

¹⁴ Schreiner, 2004, p.19

¹⁵ Ng, 2001

unit costs by separating the “program” costs from the “product” costs and by taking even more advantage of technology to deliver services and improve data management and marketing.¹⁷

Uncertain Profitability of the Current Model

Currently, most financial institutions do not consider the provision of IDA accounts to be profitable, and without profit-making capacities financial institutions are reluctant to invest in helping to expand IDAs. Financial institutions which offer IDAs generally do so because it allows them to fulfill Community Reinvestment Act (CRA) credit requirements.¹⁸

In part, IDAs have not been particularly profitable because there is a lack of uniformity in both their structure and administration. For example, match rates, match caps, withdrawal restrictions and allowable uses of IDA funds can all vary, depending on the IDA program funding source and on the specific policies of the non-profit IDA provider. Among other consequences, lack of standardization has resulted in financial institutions creating different memoranda of understanding with different specifications for each non-profit provider. The same financial institution may have several non-profit partners, each with their own programmatic stipulations. This lack of uniformity can drive costs up, decrease profitability, and ultimately constrain IDA growth.

In addition, IDAs have not been profitable because they usually require additional manual labor and oversight by financial institutions. For example, to indicate that a given savings account is an IDA, banks must flag the account with special codes to limit withdrawals and avoid normal fees. Further, account statements of these specially flagged savings accounts must be sent to participants, as well as to nonprofit partners in the form of electronic statements. Depending on the bank, even creating the electronic statement itself may not be an automated process, but require dedicated staff time to produce each month. This account management process can require a significant amount of manual oversight and cost for financial institutions.

Lastly, relative to other financial products, the small number of IDA accounts makes IDAs less profitable and attractive to financial institutions. Nearly 80 percent of IDA programs have 50 or fewer active accounts¹⁹ and the total number of accounts nationwide is under 50,000. This relatively low level of IDA activity presents a catch 22: on the one hand, there are not enough IDAs nationwide to yield profits for financial institutions. On the other hand, IDAs may not become profitable unless financial institutions and/or the public sector invest in the IDA infrastructure to reduce costs and foster field growth.

However, Ray Boshara and Bob Friedman optimistically point out that because IDAs are so similar

¹⁶ However, to determine whether costs are high or low depends on the benefits produced by IDAs; unfortunately, studies have not been conducted to delineate all the benefits. This is in part because the benefits beyond the savings deposits and the financial value of acquired assets are accrued over time and difficult to monetize. In any case, cost study analysis was done as part of the evaluation of ADD because the assumption was that knowledge of costs will create incentives to innovate by frustrating contentment with the status quo (Schreiner, 2004). IDAs have not been found to be cost ineffective. And large-site IDA models tend to gain economies of scale and reduce per account costs.

¹⁷ Moy, 2003, p. 10

¹⁸ Howard and Frumarkin, 2005

¹⁹ Stegman and Kim, 2004

to other account systems – IRAs, 401(k)s, etc., – only incremental changes of existing financial systems models may be needed to standardize IDAs and move them to the business-side of financial institutions.²⁰ Research which demonstrates the profit potential of IDAs on a larger scale can help motivate financial institutions to make those incremental changes. Once deemed profitable and supported through the business-side, banks would likely invest in marketing and further developing IDA products. Investment in standardization and improving the infrastructure for IDAs would, in turn, lead to significant growth of the field.

Current Policy Environment Limits IDA Growth

To date, funding for the majority of IDAs in the nation has been available from Office of Community Services (OCS)²¹ through the Assets for Independence Act (AFIA).²² As of 2005, a conservative estimate of 30,000 IDAs have been offered through 500 programs and this number continues to grow. In seven years, between 1998 and 2005, Congress appropriated a total of \$145 million for IDAs under AFIA.²³ About half of that amount – more than \$75 million – has been awarded to 211 grantee organizations. Though the grant draw down rate has varied by grantee and continues to increase, by the end of 2002, less than half of the granted amount had been actually drawn down from the OCS by grantee organizations.²⁴ Less has been spent to match IDA participants' asset purchases: at the end of 2003, 5,237 savers had withdrawn approximately \$2.3 million to buy homes, start businesses, or pay for post-secondary education.²⁵

A larger fraction of AFIA funds appropriated by Congress has not actually been used by participants, at least in part, because some policy restrictions on AFIA funds can make it challenging to spend down all available funds. Below are three characteristics of AFIA (the primary policy governing IDA program development thus far) that help illustrate why new policies may be needed for the growth of IDAs in the future.

1. **AFIA fundraising requirements.** AFIA policy requires grantees to secure a one-to-one non-federal match in order to draw down on AFIA funds. Given the difficult and inconsistent fundraising environment over recent years, this requirement can present a real fundraising dilemma. Otherwise eligible grantees have difficulty raising the non-federal

²⁰ Boshara and Friedman, 2001

²¹ OCS manages the AFIA program and is part of the Administration for Children and Families Division of the Health and Human Services Department of the United States.

²² The second largest single source of federal funding for IDAs comes from the Office of Refugee Resettlement (ORR), which established an IDA program in 1999 for refugees. ORR has disbursed \$66 million in grants as of 2005 (Boshara, Cramer, & Sherraden, 2005, p.6).

²³ In 1998, Congress authorized \$125 million over five years to be administered by the Department of Health and Human Services (HHS) Office of Community Services (OCS) to support IDA match funding and program administration. Between 1998 and 2002, Congress appropriated \$95 million for IDAs (out of the \$125 million initially authorized). In 2003, AFIA was renewed with \$25 million allocated for fiscal year 2004, and amounts to be determined annually. Another \$25 million was subsequently allocated for fiscal year 2005. President Bush supports \$25 million for the fiscal year 2006 budget. CFED is working with the Administration and Congress to reauthorize and improve the program.

²⁴ By the end of the fourth year, the 171 reporting grantees indicated that they drew down \$16.7 million (43 percent) of their federal grant awarded.

²⁵ Visit CFED website for current information on AFIA grant spending:
<http://www.cfed.org/focus.m?parentid=2&siteid=374&id=549>

match dollars, thus reducing the number of grants actually awarded from the total Congressionally-appropriated amount. Even when grantees *are* able to obtain promises for match funding from non-federal sources, there is the risk that non-federal funding promises could be unfulfilled when the time comes in two to three years to actually match eligible participant purchases.

These fundraising requirements attached to AFIA money, however important the program is, can make it a challenging funding source for IDAs and contribute to the low draw down rate of AFIA grants by grantee organizations.

2. **AFIA limits use of grant funds for program operations to fifteen percent of the total grant.** The remaining 85% is reserved for matching funds. More funds for program operations would likely build program capacity which, in turn could result in improved program effectiveness and greater cost-efficiencies in the long-term. The small allowance for program operations is usually not enough to operate a high-quality IDA program, especially during the more labor-intensive start-up phase. Limited funds for program operations can create incentives for programs to cut costs which may limit the IDA program's potential and reach.

Consider, for example, how insufficient enrollment tools upfront may allow a participant with high debt to participate as a home saver. Compared to a participant with no or little debt, this participant is probably more resource-intensive to maintain throughout the program and there is a strong chance that he or she will need to end the program after the 2-3 year time limit without being ready to make a home purchase. This is not to say the time and resources invested in this participant are “wasted” simply because the final outcome is not asset acquisition; however, given the economy of resources and time, and the pressing evaluation demands to demonstrate quantifiable outcomes to Congress and other funders, limited resources invested in a more targeted way would probably generate greater returns, especially as they relate to the financial sustainability of IDAs (e.g., an IDA provider's ability to attract more funders). If more funds were available for program operations, the participant in this example would probably have either been screened out in the beginning or perhaps counseled to identify a shorter-term goal.

Some argue that limited program funds, especially during the startup phase, encourage a “low-touch” client model to compensate for not enough program operational support. More federal funding for operations could support high-quality programs capable of reaching more people, more effectively.

3. **Income-eligibility requirements at 200% of the federal poverty line.** It can be challenging for people at or below 200% of the federal poverty line to make use of the match funds in high-cost geographic areas. Though participants may benefit greatly from the financial education and counseling, the allowable uses of the match funds can be present challenges for some participants in high-cost areas. For example:

- Home: IDA participants in high-cost areas often need more than the 2 to 3 year time period of an IDA program to make a home purchase. Unless participants' household incomes significantly increase over the time they are in the IDA program, they may not be able to purchase a home, even with IDA program support. This is because incomes at the IDA program's eligibility level would not likely be adequate for a loan large enough to cover the cost of the median home price in the high-cost area.
- Education: Education expenses that qualify for IDA match are often already covered by other sources of financial aid, such as federal and state grants. Further, eligible education expenses are restricted to those fees paid directly to an accredited post-secondary institution. As a result, some legitimate education expenses, such as a computer or more affordable used-books bought on-line, would not qualify for AFIA match.

In sum, greater flexibility with how matching funds are spent or who qualifies for AFIA matching funds could help increase the reach of IDAs, especially in high-cost geographic areas.

SECTION III

INGREDIENTS FOR STANDARDIZATION

After 10 years, the IDA field has progressed from the early experimentation and pilot testing stage to beginning to build infrastructure and standardization at the practice level.²⁶ At this stage, six key ingredients could help develop a standard IDA product capable of rollout on a large, nationwide scale: **money, policies, time, committed and flexible champions, sharing and exchange of information, and connections.**

One challenge in getting these ingredients is that each is interdependent on all the others; it is difficult to say which ingredient comes first when getting that “first” ingredient almost always requires at least one other ingredient on the list. Perhaps it is more appropriate to think of the process of developing a standard prototype as iterative rather than linear, requiring all ingredients in different amounts at different times, continuously.

Money

Standardization likely requires an investment of at least some seed money. Exactly how much money is needed is not clear since studies have not tried to isolate the cost of the account product apart from the IDA program or project at what volume of accounts it would be worth it for a financial institution to invest further in developing a standardized product. The literature generally assumes based on anecdotal evidence that millions of accounts rather than thousands would be needed to mobilize investment by financial institutions.

Financial institutions, identified as an appropriate actor to develop a standardized account product (albeit with the input of other leaders in the field), are unlikely to invest the needed money and/or time to develop a standard product unless they can expect a profitable return on their investment. As discussed earlier, it is uncertain as whether IDAs can provide a net return on investments for financial institutions. Below are three considerations for motivating financial institutions to invest in developing a standardized account product. Each suggestion involves appealing to financial institutions’ self-interest and influencing their *expectation* of a profitable return.

How to Get Money?

A number of factors may influence a financial institution’s expectation of a profitable return, including: (1) practice and research that demonstrate the market potential of the target population of IDAs; (2) money through government that catalyzes the philanthropic community, individual donors, and employers; and (3) new approaches to draw in private investment capital.

1. The market potential of IDAs is likely dependent on perceived profitability and demand. One benefit used to attract financial institutional involvement thus far is the potential of cross-selling products (e.g., mortgage lending, small business lending, insurance, retirement,

²⁶ Mahon, Moy and Koide, 2005, p.33

other accounts, etc.) to an under-served and otherwise inaccessible segment of the population.²⁷ The extent that the cross-selling potential has actually been realized or what it would take to make it come true is still under investigation. While notable thinking and discussions with financial institutions have already begun, **non-profit research organizations could further contribute by performing studies that investigate the profitability for financial institutions to invest in developing a standardized account product for the IDA field.** Next, they could develop trainings for banks, based on best practices, to facilitate cross-selling of products.

2. **Government subsidies could provide incentives for private funders and investors to become more involved in developing a standardized account product.** The reauthorization of AFIA in 2004 and 2005 injected tens of millions more dollars into the IDA field and will create thousands of more accounts in the short run. It is still uncertain, however, whether this will be enough accounts for financial institutions to justify investment in product standardization.

Government subsidies may come in the form of tax credits to employers who provide match contributions to IDAs for employees. Employee and employer contributions and withdrawals could be tracked, reported, and administered in a way similar to 401(k)s. Just as there is a self-employment version of 401(k)s, there may a parallel self-employment version for IDAs. Similar to 401(k)s, companies may have the option to provide either a match in addition to the account set-up or to simply set-up the account structure without offering an employer match. To minimize tax expenditures by government, tax credits may be reserved for small companies only (those, for example, which have less than 500 employees) because their participation in such a program may be most in need of an initial economic stimulus. In addition, to make this a progressive benefit to lower-income employees, the government may provide a match for low-income employees through a refundable tax credit similar to the EITC. As an employer benefit, IDAs may be an attractive alternative to 401(k)s because the pay-off of investing in a home, education or business is more immediate than it is for retirement. Further, this benefit option could be attractive to employers, especially for large companies, as it may provide them a competitive edge, especially during tight labor markets.

3. **New approaches to attract private *investment* capital in IDAs may be needed.** It is not necessarily enough to rely only on government and philanthropic funds to draw in private capital, especially if the long-term goal is to offer IDAs on a *universal* scale. Attracting new *investors* with significant amounts of capital, and not just philanthropic *funders* or socially responsible investors (both who usually have lower amounts of significant capital), would probably involve products and services that can generate market rate returns.²⁸ One

²⁷ Other than obtaining CRA credit, which is the primary driver of financial institution involvement, motivations appeal to “soft” gains such as developing trust in low-income communities and enhanced corporate image. The benefit of holding large sums of match and administrative funds may be considered a “soft” gain since this money cannot be invested in high-risk/high-profit investment accounts and usually sits instead in money market accounts with low interest rates.

²⁸ Moy and Ratliff, 2003

question to consider is how can the product in need of investment capital – IDAs or some evolved version of it – be *packaged with a mix of other products and services* as being capable of generating market rate returns, so as to draw the attention of private investment capital from both individual and institutional investors? This higher level of investment from the private sector could help scale-up and sustain IDAs, as an industry, beyond the initial steps of standardizing the product.²⁹

Policies

Government mandates, regulatory requirements, and incentives influence the behavior of financial institutions. Strengthening and improving existing policy that has thus far attracted financial institution involvement (e.g. CRA and AFIA) and supporting proposed policies that provide a foundation for an inclusive broad account-based asset building system (e.g. the Savings for Working Families Act (SWFA), and America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act) may provide the impetus for financial institutions to develop a standardized account product. In addition, removing policy barriers on existing restricted savings account systems – such as 529 College Savings Accounts and Retirement Savings Accounts – that make participation financially prohibitive for lower-income people may get at the same goals as product standardization: scale and more inclusive access to asset accumulation opportunities.

I. Optimize Existing IDA-Friendly Policies: CRA & AFIA

In a 2003 survey by the Center of Community Capitalism, 86% of financial institution participants reported CRA credit as their motivation for supporting IDA activity.³⁰ However, not all financial institutions fully understand that supporting IDA activity meets all three CRA tests: lending, investment, and service.³¹ If IDA advocates raise awareness about how supporting IDA programs allows financial institutions to meet all three CRA tests, then more financial institutions may be pulled in to sponsor IDAs. Fully utilizing the CRA credit to involve a greater number of financial institutions, at even a minimal level, could give them a stake in the IDA field, spur competition, and offer reasons³² for involvement by others.

Most IDA programs have been formed in response to AFIA funding for IDAs. As mentioned earlier, certain AFIA policy requirements have limited the full potential of IDAs. In order for AFIA to facilitate IDA growth and product standardization, these requirements should be removed and the policies improved.³³

²⁹ Moy and Ratliff, 2003

³⁰ From a 2003 survey by the Center for Community Capitalism, as reported in Mahon, Moy and Koide, 2005, p.18

³¹ Pate, 2005, p.18

³² Based on organizational theory, three types of motivations for financial institution involvement are: mimetic, normative and coercive. (1) Mimetic – copy cat syndrome, when highly regarded organizations are role models for others; (2) Normative – trade organizations show the way and model code of ethics; (3) Coercive – government mandates and regulatory requirements influence desired behaviors (Stegman and Kim, 2004).

³³ According to the CFED's Assets Newsletter (December 22, 2005, pg 3): "CFED is working with Congressional staff to reauthorize AFIA to include the following provisions: permitting 20% of matching funds to support program operations, removing financial education costs from the administrative expenses, raising the income limits for participants, extending the time frame to 12 months after the program terminates removing the requirements to calculate interest on the matching funds, and providing guidance on investing funds prior to withdrawal."

2. Support the Passage of Proposed IDA-Friendly Policies: SWFA & ASPIRE

By providing tax credits for financial institutions, the Savings for Working Families Act would fund 900,000 accounts with up to \$500 in match funding per IDA. Though low-income households are still targeted, higher income thresholds would be allowed, thus increasing the potential market. The proposed volume of accounts could provide the stimulus needed for financial institutions to develop a standardized account product.³⁴

Similarly, the proposed ASPIRE Act would create a Kids Investment and Development Account ("KIDS" Account) for every child to use toward post-secondary education, a home, or eventual retirement.³⁵ As a nationwide, broad-based, asset-based account system with universal access, passage of this bill could also catalyze more formal and standardized involvement by financial institutions in matched savings accounts.

3. Remove Policy Barriers on Existing Asset-Based Savings Account Systems: 529 College Savings Account & Retirement Savings Accounts

Working to increase access to 529 college accounts is another strategy for developing a standardized asset-based account product. Codified through the tax system, 529 accounts are restricted savings accounts for the purposes of post-secondary education. Unlike IDAs, matching incentives are not offered in most states. Instead, savings grow tax-free and withdrawals are not taxed when spent on post-secondary education. It important to note however that monetary incentives like reducing tax liability benefit only those households who have tax liabilities to reduce: middle- and high-income households. Lower-income people would not be able to take advantage of this benefit because their incomes are so low they do not have a tax liability to reduce. If the already established and standardized 529 college account system could be expanded to include matching funds for low-income people, then the IDA field may be able to leverage existing infrastructure and standardized procedures, rather than investing in its development from scratch.

529 college accounts already have some standardized features that could allow for scaling up: public control, a centralized accounting system, online access and capability to open and view accounts, a system for allowing employer contributions, capacity for match contributions for low-income participants, no eligibility limitations by income, and asset sheltering from financial aid eligibility. Some leaders in the field have already been exploring possibilities to expand 529 college account plans to include other savings goals, similar to IDAs.³⁶

³⁴ Visit the CFED website to get the latest information on SWFA:

<http://www.cfed.org/focus.m?parentid=31&siteid=374&id=527>

³⁵ Visit the New America website to get the latest information on the ASPIRE Act:

http://www.newamerica.net/index.cfm?pg=sec_home&secID=35&SubID=14

³⁶ See Lisa Mensah's work on the Initiative for Financial Security at [Hhttp://www.aspeninstitute.org](http://www.aspeninstitute.org) and Peter Tufano's publications at <http://www.d2dfund.org/news/research.php>

Retirement savings accounts, like the 529 college savings accounts, lack incentives for low-income people because they also only benefit those with tax liabilities. Further, retirement assets can disqualify low-income people from receiving support from means-tested benefits programs, creating a disincentive for low-income people to save in retirement accounts. To make retirement savings accounts more accessible to low-income people, some suggest either eliminating/raising asset tests in benefit programs or excluding retirement savings from being counted against federal means-tested benefits. In addition, offering a federal match on savings in low-income people's retirement accounts could provide an extra motivation for their participation.³⁷

More Research Needed

Originally, one of the main ideas behind the development of IDAs was to expand the incentives for asset building that have benefited middle- and upper-income households to include lower-income households.³⁸ Like other savings vehicles restricted for designated assets, IDAs provide a monetary incentive from the government for people to save. Again, the main difference is that in IDAs the incentive comes in the form of match money, rather than in a reduction in tax liabilities.

Developing a standardized account product is *one way* to take to scale the IDA idea of inclusion in America's asset-building opportunities. Other strategies and opportunities to scale up the IDA *idea* could benefit from more analysis and consideration, particularly the potential of building on existing restricted asset-based account systems or technologies.³⁹ Alternative strategies to accomplish expansion include looking at other subsidies for matched savings such as refundable tax credits to employers and private contributors. It is important to note that many policy proposals look at both creating new account structures *and* improving upon existing structures; policy development need not promote an "either/or" approach.

Time

Another important ingredient for the development of a standard account product is simply more time. Time is an especially valued resource if either the policy environment is not favorable (e.g., it will take "time" to change the policy environment to be more favorable) or if money is not available/lacking (e.g., it will take "time" to fundraise and generate support and overturn long held assumptions/ attitudes). Sherraden writes, "[i]t may not always be possible to reach everyone at the outset or fully fund a large-scale policy. In these circumstances, it may be necessary to start small but with a policy design that can be expanded over time."⁴⁰ Some suggest that it could take decades, rather than years, for a universal, progressive, standard product to come into fruition, but, according to Sherraden, "[t]he purpose of IDAs is to lay the groundwork for a large-scale, progressive, asset-

³⁷ Also, research suggests that default participation in 401(k) plans and the ability to split tax refunds into two accounts increase the participation of the low-income target population. Cramer, 2005, p. 9

³⁸ Sherraden, 1991

³⁹ Currently, two of the twelve nonprofits participating in the current SEED demonstration (Saving for Education, Entrepreneurship, and Downpayment) are using 529 College Savings Accounts rather than simply savings accounts to serve as the account product for their matched savings account program. SEED is analogous to ADD; SEED targets children and youth and is a demonstration project to promote children's accounts, as proposed by the ASPIRE act.

⁴⁰ Sherraden, 2003, p. 5

based policy.”⁴¹ This emphasis on IDAs as “groundwork” is a reminder that the current physical manifestation of the IDA idea represents the *beginning* of the larger vision.

Finally, time also refers to the idea that behavioral change and asset accumulation among IDA participants takes time, over the course of a lifetime.

Committed and Flexible Champions

Among all the challenges in building a standardized account product for the IDA idea, one of the greatest may be gaining political support for the proposal. Gaining political support for new ideas usually requires champions, such as a legislator willing to shepherd the proposal through the legislative process. Additional policy champions committed to the IDA idea will likely be needed to win and sustain the support of key legislative champions. And last, but not least, accountholders, themselves, represent a critical constituent for championing the IDA idea. Michael Mintrom refers to this activity – building coalitions to support policy innovations – as one of four factors fundamental to policy innovation.⁴² Sherraden believes that garnering this political will may ultimately depend on legislators accepting the premise that inclusive asset building policies are a means to promote social and economic development and not simply about redistribution of wealth. Researchers and academics can also contribute by empirically testing whether investments in human capital through asset-building policies are positively correlated with economic development.

Commitment

Since bringing the IDA idea to scale will likely take years to unfold, long-term commitment among champions will be important. Long-term commitment to an idea can, in turn, buy an idea time, as ideas often undergo many trials and errors in the short term before becoming ripe. Winning incremental policy reforms over time can contribute to change in a larger system. As has been often stated, the purpose of IDAs is not to be the silver bullet, but rather a downpayment on a larger system.

Succession strategy for changing champions half way through can also foster new ideas and energy in reform efforts. From the beginning, CFED and CSD have played the role of leading champions for IDA development nationally. Many new support organizations have since emerged in the field. The New America Foundation, for example, has taken a lead in proposing new asset building legislation and educating the public about asset building strategies. Doorways To Dreams and the Aspen Institute’s Initiative for Financial Security Innovations in Financial Services have taken the lead in researching and testing new financial products and services for low-income markets and creating on-line account capacities. Different strategies and different points of view each contribute to a growing discussion of standardized account products and scaling asset building opportunities. Moving forward, clear roles and division of labor among new leading champions can help coordinate future policy and product role-out efforts.

⁴¹ Sherraden, 2000a, p. 13

⁴² Sherraden citing Mintrom (Sherraden, 2000a, p.19)

Flexibility

At the same time commitment to an idea can help grow IDAs, it is also important to be adaptable and flexible. To keep legislation alive, it may sometimes be necessary to start by asking for everything and then pulling back as necessary. Beverly Stein offers the following policy advice regarding the importance of being flexible in efforts to bring ideas, like IDAs, to fruition. (Specifically, Stein's advice is regarding Children's Development Accounts, similar to the proposed KIDS Accounts of the ASPIRE Act and the SEED accounts.)

“Don't assume that legislation will pass the first time it is proposed (although it might) and be willing to compromise, and change the legislation in subsequent sessions. Many important initiatives have originated in legislatively established task forces. It is important to get some version of the bill through the process so that supporters have something to build on and success to inspire them. If this is a multi-session process, be willing to adjust your policy strategy to meet external changes such as political control by different parties, budget changes and realities, etc. Be aware that it is likely to be difficult to advance long-term strategies in times of upheaval and instability, and adjust your plans accordingly.”⁴³

IDAs as they currently exist and function is one “version” of the original idea – the version or compromise that was able to get through Congress, “so that supporters have something to build on and success to inspire them.” According to this view, flexibility is about being committed to the idea but also being ready and willing to re-position oneself to help evolve the IDAs idea to reflect its original, universal intentions.

As mentioned earlier, more research is needed on comparable savings vehicles (and perhaps investment vehicles), other than IDAs that would achieve the asset-building goals and target the same market that IDAs currently serve. Also, Sherraden noted that *if* financial costs of IDAs are shown to exceed financial benefits, it will be incumbent on IDA advocates to demonstrate through sound research that non-financial benefits are likely to make up for the cost-benefit difference. Many observers have noted the possibility that the IDA of today may be very different from the evolved product of the future.⁴⁴

Information Sharing and Exchange

Boshara and Friedman identify information sharing and exchange as one of the key factors needed to move IDAs to scale. This will come, they write, through training, online learning systems, management information systems, certifications, intermediaries, and conferences.⁴⁵

Indeed, these factors have helped to jumpstart the IDA field over the past ten years. Originally, CFED (with the help of CSD) has fulfilled the role of information sharing and exchange by developing resources in the form of handbooks, diskettes, guides, implementation materials, training programs, national learning conferences, an Americorps*VISTAs program, a program evaluation

⁴³ Stein and Freedman, 2003, p.7

⁴⁴ Moy, 2003, p.14

⁴⁵ Boshara and Friedman, 2001, p.105

plan, and a data management tool (MIS IDA). CFED continues to play this role today by publishing bi-annual newsletter updates for the field (*Assets*), running a listserv, and convening learning conferences. However, since the completion of the American Dream Demonstration (ADD) that launched the IDA field, CFED's role in this regard has diminished somewhat and become less certain; seed funds for building capacity and infrastructure ended and, some argue, AFIA-funded IDAs under the auspices of the Office of Community Services (OCS) took a somewhat different direction, initially not coordinating with other field-developed infrastructure.⁴⁶ This uncertainty in the field may have been evident in the delay of the Sixth IDA National Learning Conference that happened two and a half years (in September 2004) after the fifth learning conference. (The first five learning conferences hosted by CFED occurred annually in March).⁴⁷

As new players have entered to fill perceived information gaps, a more comprehensive, (but also slightly more fragmented,) model has evolved in the IDA field. In 2004, the Assets Alliance, a spin-off of CFED's IDA Training Institute, and the AFI Resource Center managed by OCS were formed to offer trainings, technical assistance and materials to practitioners. While these developments have provided needed resources to help improve practice, the lack of a central repository of information can result in duplication of efforts while other areas in need of support may be neglected. For example, while D2D Fund is piloting an "Online IDA", an improved account management system that will allow online access to account information by participants and managers, OCS has launched "AFI", a web-based program management tool for grantee organizations with similar account management capabilities. Both are intended to replace and expand on the limits of MIS IDA but it is not entirely clear how they will complement each other. As new leaders, products, trainings, and materials emerge, the need for centralization of these learnings grows.

Connections

Very closely related to, and facilitated by, information sharing and exchange is a need for even more connections in the form of networks, collaboratives, and multi-sectoral partnerships. Broad cooperation across many types of organizations has helped grow the field thus far and will continue to be important for future sustainability and expansion. Moving forward, some argue that there is a need not only to develop stronger and deeper connections *within* existing members of the IDA field – both horizontally and vertically – but also to *broaden* the partnership base by incorporating new businesses and industries into the IDA field (e.g., employers, the business side of financial institutions, other investors); and by incorporating IDAs into the broader asset-building field.

Expand Connections

Greater stakeholders in an emerging system can help the system evolve more quickly. (At the same time, there needs to be a systematized way to incorporate new stakeholders so that added efforts are not duplicative.) In regards to building networks as a pathway toward scale on an industry-level, the Aspen Institute points out that,

⁴⁶ Mahon, Moy and Koide, 2005, p. 30

⁴⁷ See CFED's website for timeline on IDA activity: <http://cfed.org/focus.m?parentid=31&siteid=374&id=692>

“In industries dominated by smaller players, industry networks and other forms of affiliation become more important as agents for successful scale and growth. Access to common infrastructure can enable networks of organizations to work cooperatively to deliver greater volumes of product with increased efficiency. Sufficient industry clout can create a more supportive legal, regulatory, and policy environment.”⁴⁸

The renaming of the 2006 National IDA Learning Conference to *Assets* Learning Conference is an important recognition of the expansion of the field to include organizations who utilize other asset-building activity beyond IDAs, such as financial education, Earned Income Tax Credit campaigns, and homeownership.

Deepen Connections

In addition, a survey of practitioners in the field identified the need for a formal trade association (or association, coalition, alliance, etc.) accountable to practitioners.⁴⁹ CFED has considered the possibility of creating an IDA intermediary that would provide services for the program delivery system: fundraising, technical assistance, certification, and financial education curricula.

In 2004, CFED identified the advantages and disadvantages of a more centralized IDA field strategy and compared it to those of the current, more organic model that exists by default.⁵⁰ In September and October of 2005, CFED followed up by hosting four online convenings (webcasts) of IDA practitioners to capture ideas on future infrastructure models for the field. Three models were offered for discussion: a national network, a trade association, and a national policy coalition. Participating practitioners expressed interest in all three models and CFED later incorporated feedback into a business plan that proposed a “network” for IDA and asset-building practitioners and their partners that would provide services in five identified areas of need: policy, research, practice, fundraising and public awareness. A follow-up survey of practitioners was conducted to determine the perceived needs of practitioners and how collective action could be utilized to best meet those needs. The study found that of the five key services identified, practitioners perceived their primary needs to be fundraising assistance (for both match and operations), public awareness and operations. The study suggested two proposals: the development of a national match fund and a phased implementation approach for building a collective action network.⁵¹

⁴⁸ Moy and Ratcliff, 2006

⁴⁹ Mahon, Moy and Koide, 2005

⁵⁰ Corporation for Enterprise Development, 2004

⁵¹ McKeag, 2006

SECTION IV

ISSUES AND CONCERNS

As discussed throughout this paper, many field leaders support product standardization as one ingredient to help bring IDAs to scale. Some practitioners, however, have raised concerns with elements of standardization and warn that expansion needs to be accompanied by caution. Examples of these concerns are reflected in the following kinds of questions:

- How to develop a standardized account product that would take IDAs to scale without sacrificing the programmatic supports that are valuable to at least some segments of the low-income population?
- How can programs with enhanced supports take advantage of not only a standard account product but also of well-developed programmatic standards?
- How can incentive-galvanized philanthropy and government funding target not only matching funds for IDAs and financial institutions but CBO operations as well?
- How can expanded, but still limited, IDA opportunities be inclusive?

The following section considers these concerns further.

IDA Product and “High-Touch” Program: Not an Either-Or Choice

Qualitative evaluation research at CAPTC’s IDA program (Community Action Project of Tulsa County) suggests that many participants place a high value on the comprehensive programmatic supports. In addition, practitioners have often cited financial education and counseling as being the “gut” of the program—believed to be as critical, if not more critical, than the matching funds. In fact, only a modest number of IDA participants to date have made asset purchases with IDA match funds, compared to the number of IDA participants who have benefited from participation in IDA programs through opening an account, saving, and obtaining financial and other asset-related education. For some participants, the matched savings account itself is enough to save and build assets. For others, access to not only the match and a structured institutional saving environment, but also to the financial education, staff support, peer learning opportunities, and counseling are essential to reaching their savings goals and keeping early withdrawals to a minimum. This bundle of opportunities and constraints separates IDAs (as the whole package) from traditional cash assistance.

At the same time, such labor-intensive services can be costly. Sherraden predicts that over time, with experience and efficiencies, costs will likely be reduced to \$2 or even \$1 for each dollar of savings. “However, it is most unlikely that costs for intensive, community-based IDA programs can be reduced to, say, 10 cents for each dollar of net savings.”⁵² Citing high costs for labor-intensive services has often been a rationale for advancing the agenda to separate the “program” cost from the “product” cost; develop a standardized financial account product; segment the market (e.g., to target

⁵² Sherraden, 2000b, p.6



limited resources to those segments most likely to benefit from the IDA); and cut services from the IDA bundle. However, high per participant costs for successful labor-intensive services can justify why *more* operations funding for this type of work may be needed.

Sherraden predicts that the tension between services and types of cost structures that can reach millions of people may lead to a two-tier IDA design reminiscent of federal housing policy: the first tier would be funded and governed by a simple, bare-bones federal public policy, offered through financial institutions, and capable of reaching more participants with lower costs per participant, but also lower benefits per participant, per year. The second tier would be run by CBOs which would supplement the first tier design with more targeted, customized, and intensive services, such as financial education and other supports.⁵³ This more supportive programmatic design would reach fewer participants and have higher costs per participant, but it would also have higher benefits per participant and reach poorer or more marginalized segments of the low-income population.⁵⁴ This second tier would require supplementary funding from state, local or private sources, what Sherraden refers to as the “social market.” Expected higher benefit may come from the fact that IDA programs aim to change behavior of the “harder-to serve” – make savers, not savings; IDAs delivered as an account-only product may not meet the full anti-poverty objective intended.

Given the benefits of both developing a standardized account product *and* the value of more intensive supports, **a key question is not simply how to develop a standardized account product that would take IDAs to scale; but how to do that without sacrificing the programmatic supports that are valuable to at least some segments of the low-income population?** Further, how can programs with enhances supports take advantage of not only a standard account product but also of well-developed programmatic standards?

Though often implicitly presented as such, developing a standardized account product and supporting a more supportive IDA program structure is not necessarily an either-or choice, as suggested by Sherraden’s two-tier model.

How to Ensure a Continued Role for CBOs

While there will probably remain a demand for a continued role by CBOs as asset building opportunities expand, the uncertainty in the field is whether public and private funders will fund the supply to serve this demand. Sherraden relies on the “social market” (e.g., local governments, foundations, community organizations, corporations, and private citizens) at the local level to determine whether and how much to invest in more intensive IDA programs in particular communities with particular populations. Nevertheless, there is uncertainty of adequate funding to support programmatic operations and the organizational capacity developed by IDA providers over the past decade.

Recent policy proposals have identified simple and permanent funding streams for match money and for the continued and expanded involvement by financial institutions. Less has been done about

⁵³ Sherraden, 2000b, p.8

⁵⁴ Schreiner, 2004, p.27

securing permanent funding streams for continued and expanded involvement by CBOs. Hence, how can incentive-galvanized philanthropy and government support target not only matching funds for IDAs and financial institutions but for CBO operations as well?

“Creaming”

A study by the Aspen Institute revealed that practitioners interviewed had mixed feelings about SWFA because although it would provide IDAs more cost-efficiently to more low-income people, it may result in screening out (or “creaming”) those families most ready to take advantage of the IDA product and it could exclude those segments of the low-income market IDA practitioners have come to reach through their resource-intensive program: e.g., the unbanked, limited English speakers, the immigrant and refugee population, rural citizens, Native Americans, and those in most need of training.

The concern is that a limited IDA product offered through financial institutions risks serving those low-cost clients not in need of “extra” program services provided through nonprofits. In a limited funding environment, the first programs to be cut could be the resource-intensive programs with more support. Currently, with 15% of AFIA funds allowed for operations, many practitioners already feel pressure to reduce programmatic services and have difficulty spending down their existing match funds. Unless a certain number of accounts are allocated for the segments in need of more supportive services and specific funding sources were earmarked for CBOs to do the program work, the fear among some is that, by default, IDAs will benefit participants on a “first come, first serve” basis (or those easily recruitable and retainable by CBOs). The concern is that this method of distribution may be the most efficient but not necessarily the most inclusive, since it could leave behind those segments of the population not able to arrive as fast or to remain in the program without supports. The question then is: how can expanded, but still limited, IDA opportunities be inclusive?

Efficiency Requires Upfront Investments

As discussed earlier, some leaders suggest that significant investments could be needed upfront to evolve the IDA field toward greater efficiency. Investments in infrastructure, for example, could increase integration of operations and facilitate product development. Technology investments could lead to increased efficiency and cost savings. As has already begun with large IDA programs, these investments could catapult the field toward a new level of activity and impact and reduce per unit costs.

The paradox is that high expenditures are a challenge to IDA growth, and yet even higher expenditures may be needed to ultimately gain even greater efficiencies. In their case study of organizations that took innovations to scale, the Aspen Institute found that organizations had to raise capital several times and that the volume of capital raised was tens of millions in every instance. If applied to IDAs as a field, the amount of capital needed would be substantially greater.

SECTION V

FURTHER RESEARCH AND CONCLUSION

How to Standardize Other IDA Program Elements

The discussion on standardization in this paper has focused on important elements for developing a standardized financial product for IDAs. Costs may be further reduced if other components of the IDA were standardized; for example, service delivery could be streamlined by creating uniformity using standard technology or resources to support data management, case management, training tools, financial education, and asset specific education; large public awareness campaigns could help with more effective outreach.

The lack of more highly developed programmatic standards and standardized/uniform procedures may be attributed to limited funding for capacity building and infrastructure building in the IDA field. As the field has evolved organically over the last ten years, program delivery has operated in a more decentralized manner, with much variation, by organization and by region, depending on resources available and needs of different groups of participants. A decentralized model has the potential benefit of customization and responsiveness to local needs, but a potential drawback is that minimum standards may not be met or established. In fact, leaders in the field have initiated efforts to develop industry-wide standards and certifications. For example, in anticipation of SFWA passing in 2001, CFED engaged the IDA field to create a voluntary certification standards process; draft standards were created for funding, staffing, organizational stability, asset training, and management information systems. Both the resulting recommended set of standards and the process by which the standards were crafted led to important innovations in the field.

Further research in this area could help identify relationships between different IDA program features and their impacts to determine: (1) which IDA services make the most difference; (2) which IDA program features can benefit from being standardized; and (3) which IDA program features should be left for customization and tailoring to meet different needs of various market segments. The last point is related to a market segmentation strategy and more research is needed on profiling who needs what levels and/or kinds of support.

To direct more attention and funding towards the capacity-building and infrastructure-building needs of the IDA field, more advocacy and empirical research could help make the case for the qualitative and quantitative benefits of a more intensive programmatic model. As Sherraden noted, though costs for high-touch programs will remain relatively high, they could and should be controlled; and, “[d]espite higher costs, if intensive IDA programs prove to be worthwhile, they could become widespread.”⁵⁵

⁵⁵ Sherraden, 2000b, p.8

How to Leverage Existing Account Systems

A market analysis of cross-selling potential of IDAs with other financial service products could help make a stronger business case for financial institutions to invest in developing a standard financial product. Next, best practices on how to facilitate cross selling could be showcased. Simultaneously, more analysis is needed on existing investment vehicles that can be adapted to meet the asset building goals and serve the target market of IDAs.

Other Research Questions

Below is a summary of other research topics raised throughout the paper which could help with the development of an IDA product:

1. In general, there is much potential for more research geared toward field-level infrastructure activities and program enhancement (such as improving existing data management efforts, online financial education pilots, market segmentation strategies); such research could help better connect the worlds of IDA *policy* and IDA *practice*.
2. Research has not yet been conducted either to isolate the cost of the account product apart from the IDA program. In addition, assuming that more investment is needed to develop a standardized product, is it not clear what the total investment costs would be.
3. Many believe that garnering the sustained political will to support IDAs will ultimately depend on legislators accepting the premise that inclusive asset-building policies are a means to promote social and economic development. Researchers and academics may be able to contribute to this discussion by empirically testing the argument that investments in human capital through asset-building policies are positively correlated with economic development.

Conclusion

The purpose of this paper is to demonstrate how developing a standard financial product for IDAs could allow IDAs to benefit more people, which would lead to growth for the field. This paper also discussed what factors would be important to develop a standard financial product for IDAs. It is important to remember, however, that developing a standard financial product is *one* pathway toward scale but that there are other ways, such as centralizing other program management features, which have not received as much attention. Finally, if we are ultimately concerned about increasing the impact – depth as well as reach – of the IDA *idea*, scale is one way to achieve impact but not necessarily the only way.

BIBLIOGRAPHY

- Bain and Company. (2001). *Bridging the gap: IDA strategy for Greater Los Angeles*. Power Point presentation prepared for United Way of Greater Los Angeles.
- Bernstein, J. (2003). "Savings incentives for the poor: Why the scale doesn't match the promise" *The American Prospect*, 14(5). <http://www.prospect.org/print/V14/5/bernstein-j.html>.
- Boshara, R. and Freidman, R. (2000). *Going to scale: Principles and policy options for an inclusive asset-building policy*. St. Louis: Center for Social Development, Washington University. <http://gwbweb.wustl.edu/csd/Publications/2000/PolicyReport-Boshara.pdf>.
- Boshara, R and Freidman, R. (2001). "Moving to scale, moving to markets" In *Building asset: A report on the asset-development and IDA field*. Edited by Ray Boshara. Washington, DC: CFED. <http://www.cfed.org/publications/Building%20Assets%20-%20second%20edition.pdf>.
- Boshara, R., Cramer, R., and Sherraden, M. (2005). "The politics of aspiration: creating inclusive asset building policies in the US" in *Assets and Social Policy*. Book is forthcoming.
- Chen, H., and Lerman, R. (2005). *Do asset limits in social programs affect the accumulation of wealth?* Washington, DC: The Urban Institute. http://www.urban.org/UploadedPDF/311223_asset_limits.pdf.
- Center for Financial Services Innovation. (2005). *Marrying financial transactions with asset-building opportunities*. Chicago, IL: The Center for Financial Services Innovation. www.cfsinnovation.com/managed_documents/marrying.pdf
- Corporation for Enterprise Development. (2004). *IDA field strategy options paper and feedback*. Washington, DC: CFED. <http://www.cfed.org/focus.m?parentid=241&siteid=241&id=244>
- Cramer, R., Parrish L., and Boshara R. (2005). *2005 Federal assets policy report and outlook*. Washington, DC: New America Foundation. http://www.assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_1211_1.pdf
- Cramer, R. (2005). *Policy options to promote inclusive asset building through account-based systems*. Paper presented at the Association for Public Policy Analysis and Management Conference as part of a panel entitled "Informing the Policy Design of Asset Building Proposals", Washington, DC, November 3-5. http://www.newamerica.net/Download_Docs/pdfs/Doc_File_2752_1.pdf.
- Duflo, E., Gale, W., Liebman J., Orszag P., and Saez, E. (2005). *Savings incentives for low- and middle-income families: Evidence from a field experiment with HEARTH Block*. Washington, DC: Retirement Security Project. <http://www.brookings.edu/dybdocroot/views/papers/20050509galeorszag.pdf>
- Fisher, E. (2002). *Building individual assets: The potential of IDAs in the Mid South*. Working paper prepared for Foundation for the Mid South.
- Howard, S. and Frumkin, S. (2005). *Individual Development Accounts: An asset-building product for lower income consumers*. Washington, DC: Community Developments Insights, Office of the Comptroller of the Currency. <http://www.occ.treas.gov/ftp/release/2005-25a.pdf>

- McKeag, M. (2006). *Expanding IDA participation through collective action*. Terry Sanford Institute of Public Policy, Duke University.
- Mensah, L. Tescher J., and Zinsmeyer, J. (2004). *Financial products of the future: The next generation of IDAs*. Power Point Presentation for the 2004 IDA Learning Conference, New Orleans, LA, September, 21. http://www.cfed.org/imageManager/_documents/I9%20Financial%20Products%20of%20the%20Future%20-%20The%20Next%20Generation%20of%20IDAs.pdf
- Mills, G., Patterson R., Orr, L., and Demarco, D. (2004). *Evaluation of the American Dream Demonstration: Final evaluation report*. Cambridge, MA: Abt Associates. https://www.abtassociates.com/reports/Final_Eval_Rpt_8-19-04.pdf
- Mills, G. (2005). *Abt Associates report links Individual Development Accounts to increased home ownership* (Press Release). Abt Associates. <https://www.abtassociates.com/Page.cfm?PageID=16265>
- Mahon, C., Moy, K., and Koide M. (2005). *Individual Development Account: A report to the field – Connecting policy to Practice*. Washington, DC: The Aspen Institute, Economic Opportunities Program. <https://www.aspeninstitute.org/Admin/Index.asp?downloadid=1792>
- Moy, K. (2003). *IDAs: How to move from a program for thousands to a product for millions*. Washington, DC: The Aspen Institute, Economic Opportunities Program. <https://www.aspeninstitute.org/AspenInstitute/files/ccLibraryFiles/FILENAME/000000001363/IDAExecSum.pdf>
- Moy, K., and Ratliff, G. (2003). *New pathways to scale for Community Development Finance*. Washington, DC: The Aspen Institute, Economic Opportunities Program. <http://content.knowledgeplex.org/kp2/cache/documents/105172.pdf>
- Moy, K., and Ratliff, G. (2006). *Achieving sustainability, scale, and impact in community development*. Power point presentation for Aspen Institute and Federal Reserve System Conference, San Francisco, CA, January 24-25. http://www.innovationlabs.com/aspen/san_francisco/.
- Ng, G.T. (2001). *Costs of IDAs and other capital-development programs*. St. Louis: Center for Social Development, Washington University.
- Pate, K. (2005). *Beyond IDAs: Next generation asset-building products and services*. Washington, DC: CFED
- Pate, K. (2006). *IDAs and assets network business plan*. Washington, DC: CFED
- Schneider, D. and Tufano, P. (2004). *News savings from old innovation: Asset building for the less affluent*. Draft working paper prepared for the Community Development Finance Research Conference hosted by the Federal Reserve Bank of New York, New York, NY, December 9-10. http://www.people.hbs.edu/ptufano/New_from_old.pdf
- Schreiner, M. (2004) *Program costs for Individual Development Accounts: Final figures from CAPTC in Tulsa*. St. Louis: Center for Social Development, Washington University. http://gwbweb.wustl.edu/csd/Publications/2004/Research_Report_IDA_Program_Costs.pdf
- Sherraden, M. (1991). *Assets and the poor. A new American welfare policy*. Armonk, NY: M.E. Sharpe.
- Sherraden, M. (2000a). *From research to policy: Lessons from Individual Development Accounts*. St. Louis: Center for Social Development, Washington University. <http://gwbweb.wustl.edu/csd/Publications/2000/ACCIperspective.pdf>

- Sherraden, M. (2000b). *On costs and the future of Individual Development Accounts*. St. Louis: Center for Social Development, Washington University.
<http://gwbweb.wustl.edu/csd/Publications/2000/perspectivesherradenoct2000.pdf>
- Sherraden, M. (2003). "From the social welfare state to the social investment state" *Shelterforce Online*, Issue 128. <http://www.nhi.org/online/issues/128/socialinvest.html>.
- Sherraden, M. (2005). *Inclusion in asset building. Testimony for hearing on "Building assets for low-income families."* St. Louis: Center for Social Development, Washington University.
- Stegman, M. and Kim, P. (2004). *What will it take to get more financial institutions to sponsor IDAs?* Power point presentation by The Center for Community Capitalism for the IDA Learning Conference, New Orleans, LA, September 22. www.kenan-flagler.unc.edu/assets/documents/cccsponsorIDAs.ppt
- Stein, B. and Freedman, R. (2003). *Children's Development Accounts: The Oregon story*. St. Louis: Center for Social Development, Washington University.
<http://gwbweb.wustl.edu/csd/Publications/2003/PolicyReport-Oregon.pdf>.