

Individual Development Accounts

Description

An IDA program is very simple: It encourages the habit of saving (especially for asset development) by lower-income people by matching their savings with additional dollars, while at the same time helping them understand the problems and practices of saving. This strategy is based on the fact that governments have had policies (such as the RRSP in Canada or the IRA in the U.S.) that encourage the accumulation of assets by the middle and upper classes, but there are no policies to similarly encourage the lower-income strata. (Indeed, quite the contrary, if on welfare, they are penalized for saving.)

Yet with increased assets, lower income families would have a better chance of permanently moving to an improved economic situation. So this strategy is specifically an anti-poverty effort, focussed on particular individuals participating in the IDA program. The ultimate pay-off in IDA programs is that it helps people establish a capacity to save over the long term. To do this an IDA program has to assure a good grasp on what may be called financial literacy, for families who have never had a good chance to develop such skills.

The IDA approach has attracted much support and activity in the U.S. In Canada, a pilot project is about to begin to test whether an IDA program can be successful and thus lead to legislative proposals for federal support and related policy changes. But government support is not a requirement for using this strategy today. As a matter of fact, one of the demonstration sites for the planned research is Calgary, where the Mennonite Central Committee has already established an IDA program, with matching funds obtained from an anonymous donor through the United Way.

Thus the essential element, matching funds, can depend on private sources just as aptly as government funds. In fact, banks could well participate simply out of self-interest, with contributions for matching funds that encourage the low income family to open a savings account that builds to a potential down payment on a home for which the bank will offer the mortgage. Thus any community, if it can mobilize bank (or other private) support for the matching funds, can begin an IDA program.

The asset goal of the family need not, however, be materially embodied in a home or business equipment. The goal may be to finance a sustained educational program, which of course can be the door to better income prospects over the long term. Indeed the savings can be directed at any goal that could substantively improve the family's economic situation.

That may even include (depending upon the program design) diversion to handling a family emergency instead of, say, the saver's initial goal of a business investment.

Benefits

In addition to the economic changes for the individual, there are the linked positive changes in self-perception and hopes and plans for the future. Successful well-publicized programs can also stimulate a more optimistic general community feeling for the future. More generally still, the changed economic circumstances of low-income people who find new opportunities to work, to earn, and to contribute positively in their communities mean a significant benefit overall to the economy - e.g., avoiding a call upon social assistance, unemployment, or other government programs. In short, the cost/benefit ratio for society is likely to be very favourable. A study in the US in fact estimated that for every dollar that the federal government (hypothetically) invested in IDAs it would earn \$2.71; and the state or local governments where the individual accounts were located would earn \$4.79.

Major challenges

Saving is not possible for everyone; some families simply will not be able to participate effectively in this sort of program. Moreover, the prospect of saving is a difficult thing for low-income people in any case, so that marketing the IDA is not a foregone conclusion. It may take many months or longer to generate enough clients for a program. In fact, interest in it may, paradoxically, be easier to spark in those who are willing to put up the matching funds.

Of course, finding matching funds can be an exceptionally large task when there is no successful local program underway to illustrate the positive use of contributions. Start-up in any case will be hard. Since the Canadian experience is thin and only few people have worked on the problems, the technical tasks of start-up can be formidable. Presumably that will change over the years.

The experience of Lutherwood CODA in two ultimately concurrent programs offers an illustration of the complexities of initiating and designing a program. The first program was begun in April 1999 and the second in that August. The April program serves 14 single mothers who aim to save \$21 a month, with 3-1 matching funds from The Cooperators (insurance company). The majority of the participants have some sort of (in some instances not very precise) educational goal, including self-employment skills.

The second program of 19 families who aim to save \$30-\$40 a month explicitly to buy computers (\$1700 fully equipped) was adjusted on the basis of the beginnings of the April group. The first group was initially not particularly effective (poor savings performance,

spotty attendance at the meetings, inadequate financial skills development). CODA had then restructured the group meetings in accordance with suggestions from the participants (meal meetings, child care, transportation support, slower-paced weekly meetings instead of bi-weekly). Things then began to change for them. So the August group was begun with those new features.

Another lesson CODA learned was in the matter of recruitment. CODA had tried to recruit enough participants through the organization's social services, and failing in that, sought out others not using the services. Anyway few, if any, knew each other. But in the August group, CODA recruited through a community organization which had a computer centre. In short, the group was community-based as well as family-based, and the (more precise) goal is shared by all participants, most of whom had known each other at the centre. Moreover, child care arrangements were set up from the beginning.

As this episode demonstrates, the success of IDAs is not divorced from a complex context of pressures and relationships. A further complexity that CODA addressed was to get a waiver on social assistance regulations that would have penalized participants for having savings, by reducing their welfare allowance. Despite the success of that waiver and the improved status of the participants, the Ontario restrictions have yet to be permanently changed. Presumably a success in the demonstration project getting underway nationally will have some effect in other provinces if not Ontario.

Some practical steps

1. Naturally, the first step is to discover a probable source of the matching funds. While that may not be finally pinned down before going on to other steps, clearly the matching contributions will be key.
2. Because the tasks of design are challenging (as the CODA experience demonstrates), it will be most appropriate to line up technical advice, presumably from one or the other of the existing IDA programs.
3. Even so a considerable amount of energy will need to be spent on designing the program. This will include a marketing plan and a curriculum, so to speak, for financial literacy.

Resource organizations & contacts

- Peter Nares at Self-Employment Development Initiatives (416-665-2828, ext. 29) has been most active in introducing the IDA idea in Canada; he runs the national demonstration project.
- The director of the Calgary project is Rod Myers (403-272-9323).
- The director of the Lutherwood CODA project is Donna Buchan (519-749-0977, ext. 239).

Publications

- Best reading materials will be found at the internet sites for the groups mentioned: (www.sedi.org and www.mcca-ed.org and for the U.S. experience, www.cfed.org).
- Michael Sherraden, *Assets and the Poor* (Armonk, NY: M.E. Sharpe, 1991). This book was the first to explore the underlying issue of poverty and the accumulation of assets.
- *Case Study: “Assets and Savings of Poor, Working Poor, and Unemployed Canadians.” An introduction to the principles and practice of individual development accounts, with special reference to the Opportunities Development Account created by Opportunities 2000 in southwest Ontario.