



# **Building Wealth for Family Economic Success**

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**Workshop on Community Foundations Advancing  
Community Economic Success  
Baltimore, Annie E. Casey Foundation  
October 24-25, 2003**

***Margins to Mainstream: A Peer Exchange Workshop*** —October 24-25, 2003—Baltimore, MD

Sponsored by the Annie E. Casey Foundation, and co-organized by Coalition of Community Foundations for Youth (CCFY)  
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**Focus:**

## ***Inclusion in Building Wealth***

**Bring everyone into asset-based policy**

**Make asset-based policy life-long and flexible**

**Make the policy progressive (greater subsidies for the poor)**

**Achieve adequate levels of asset accumulation, given the purposes of the policy**

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# I. Background and Context

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# Definitions

**Income is what people take in (mostly used for short-term consumption).**

**Assets are what people accumulate and hold over the long term (for security and investments to improve their long-term condition).**

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# Reasoning

**Income (for consumption) has been the standard measure of poverty.**

**Income and consumption are essential, but they do not improve long-term conditions.**

**Development occurs through asset accumulation and investment.**

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# **Increasing Questioning of Income as Sole Definition of Poverty and Well-Being**

**Amartya Sen (1985, 1993, 1999) and others  
looking toward capabilities.**

**Assets can be seen as part of this discussion.  
One measure of long-term capabilities.**

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# **Different Inequalities:**

## **US Income and Net Worth Inequality by Race**

**(Oliver and Shapiro, 1995; Wolff, 2001)**

**Ratio of white to non-white income: 1.5 to 1**

**Ratio of white to non-white net worth: 10 to 1**

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# **Comparing Household Income Poverty and Asset Poverty, 1998**

**Haveman and Wolff (2000)**

**Income poverty** **10.0%**

**Net worth < 3 mo. at poverty line** **25.5%**

**Liquid assets < 3 mo. at poverty line** **39.7%**

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# **Can Policy Aim for Asset Accumulation?**

**Already have large asset-based policies**

**Operate mostly through the tax system**

**The poor are left behind**

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# **Examples of US Asset-Based Policy**

**Home ownership tax benefits**

**Investment tax benefits**

**Retirement accounts with tax benefits:**

**401(k)s, 403(b)s**

**IRAs, Roth IRAs**

**Other asset accounts with tax benefits:**

**Individual Training Accounts**

**Educational Savings Accounts**

**State College Savings (529) Plans**

**Medical Savings Accounts**

**Others...**

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# **Asset-Based Policies in the US: Growing Rapidly**

**Individual account policies all since 1970; more  
of these all the time**

**Tax expenditures for asset building in homes  
and investments also growing rapidly**

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# **Asset-Based Policies in the US: Large and Regressive**

**Over \$300 billion annually in tax expenditures  
for assets (homes, investments, accounts)**

**Over 90 percent of this goes to households  
with incomes over \$50,000 per year**

**(Sherraden, 1991; Howard, 1997; Seidman, 2001)**

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# **The Poor Do Not Have the Same Opportunities and Subsidies for Asset Accumulation**

**The poor are less likely to own homes, have investments, or have retirement accounts, where most asset-based policies are targeted.**

**The poor have little or no tax incentives, or other incentives, for asset accumulation.**

**Asset limits in means-tested transfer policies discourage saving by the “welfare poor,” and probably also the “working poor.”**

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# A Dual Policy

**Asset building subsidies for the nonpoor**

**Asset building disincentives for the poor**

**A dual policy that is both unfair and counterproductive**

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# Motivating Question

## Why not asset accumulation by the poor?

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## II. Policy Innovation and Development

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# Insight

**Discussions with “welfare” mothers during 1980s:**

**Part of the problem is that recipients cannot accumulate resources for long-term goals such as better housing, education, or starting a small business.**

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# **One Policy Strategy for Asset Building: Individual Development Accounts (IDAs)**

**(Sherraden, 1988, 1991)**

- **Special savings accounts**
- **Started as early as birth**
- **Savings are matched for the poor, up to a cap**
- **Multiple sources of matching deposits**
- **With financial education**
- **For homes, education, business capitalization**



# Emergence

**Work with policy institutes in Washington  
(Progressive Policy Institute, others)**

**Work with White House and executive branch  
(HUD Secretary Jack Kemp)**

**Draft federal legislation (first introduced in 1991,  
Rep. Tony Hall, Senator Bill Bradley)**

**Work with other federal legislation (welfare reform)**

**Initiate state policy (State Human Investment Project)**

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# Policy

**Increases in welfare asset limits in nearly all states during the 1990s**

**IDAs included as a state option in 1996 “welfare reform” Act**

**Federal Assets for Independence Act in 1998, first public IDA demonstration**

**During 1990s, most states adopted some type of IDA policy**

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# Growth of IDAs in US: Estimated Number of Programs

1996	5
1998	20
2000	100
2002	400
2004	600?

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# Growth of IDAs in US: Estimated Number of State Policies

1996	3
1998	10
2000	20
2002	40
2004	45?

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# **Growth of IDAs in US: Estimated Annual Expenditures (\$ millions)**

	<b>Non-Profit</b>	<b>State</b>	<b>Federal</b>
<b>1996</b>	<b>2</b>	<b>1</b>	<b>0</b>
<b>1998</b>	<b>20</b>	<b>10</b>	<b>0</b>
<b>2000</b>	<b>30</b>	<b>20</b>	<b>10</b>
<b>2002</b>	<b>40</b>	<b>50</b>	<b>20</b>
<b>2004</b>	<b>60?</b>	<b>50?</b>	<b>300?</b>

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# **Only a Beginning**

**Today \$100-\$200 million annually for IDAs**

**But over \$100 billion for retirement account tax benefits**

**Goal is large, inclusive policies for asset building**

**Such as President's Clinton's proposal for Universal Savings Accounts (USAs) at about \$50 billion annually**

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# III. Theory and Research

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# Two General Theoretical Perspectives

1. **Saving and asset accumulation are shaped by institutions, not merely individual preferences.**
2. **Assets have multiple positive effects, not merely deferred consumption.**

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# **1. Institutional Factors That May Affect Saving and Asset Accumulation**

- **Expectations**
- **Incentives**
- **Information**
- **Access**
- **Facilitation**

**(Beverly and Sherraden, 1997; Sherraden, Schreiner, and Beverly, 2003)**

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## 2. Possible Effects of Asset Holding

- **Improve household stability**
- **Create orientation toward the future**
- **Stimulate enhancement of assets**
- **Enable focus and specialization**
- **Provide a foundation for risk taking**
- **Increase personal efficacy**
- **Increase social connectedness and influence**
- **Increase political participation**
- **Enhance the well-being of offspring**

**(Sherraden, 1991; Page-Adams and Sherraden, 1997; Scanlon and Page-Adams, 2001)**

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# Two-Pronged Research Strategy

Applied research (policy demonstrations)

Basic research (with existing data sets)

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# **Applied Research on IDAs: American Dream Demonstration (ADD)**

- **First major demonstration of IDAs**
- **Fourteen IDA programs around the country**
- **ADD from 1997 through 2001, research through 2004**
- **Organized by Corporation for Enterprise Development**
- **Research designed by Center for Social Development**

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# Participants in ADD

- **Total of 2,364 participants**
- **Median income is at the poverty line**
- **Both program-selected and self-selected**
- **Greater proportion are employed and higher levels of education than the overall poverty population (mostly the “working poor”)**

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## Participants in ADD

- **80% female**
- **Average age at enrollment is 36**
- **47% African American, 37% Caucasian, 9% Hispanic**
- **49% never married, 26% divorced or separated**
- **44% one adult with children**

**. . . large proportion of single mothers of color**

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# **IDA Savings in ADD**

## **at December 31, 2001**

- **Average monthly net deposits: \$19.07**
  - **Typical match rate: 2:1**
  - **Average accumulation: \$57 per month (\$684 per year)**
  - **Average use of match: 51 cents of every dollar available**
  - **Average participant made a deposit in 6 of 12 months**
- ... Far greater amounts than in non-IDA saving and checking accounts**

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# **Saving Pattern During the Year**

**IDA deposits increased sharply in March and April**

**Very likely this is related to the EITC and income tax refunds**

**. . . IDAs might be successfully combined with the EITC or other lump sum distributions**

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# **Income and Saving Performance in ADD**

- **Income is not associated with being a “saver” in ADD**
- **Small differences in net savings amount by income:  
For some types of income, each \$100 in income is  
associated with about \$0.50 in average monthly net  
deposit. Not large effects.**
- **The poor save a higher proportion of their income.**
- **... Cannot assume that the very poor cannot save  
successfully in asset-building programs**

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# **Welfare Reciprocity and Saving Performance in ADD**

**Controlling for many other factors, neither past nor current welfare reciprocity is associated with being a “saver” in ADD, or with average monthly net deposits.**

**... Cannot assume that welfare recipients cannot save successfully in asset-building programs**

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# **Institutional Characteristics and Saving Performance**

- **Higher match rates are positively associated with being a “saver,” but not with average monthly net deposits. The latter finding is expected, consistent with 401(k) research.**
- **Direct deposit is positively associated with being a “saver.”**
- **Up to 8 hours, financial education is positively associated with average monthly net deposits. Above 8 hours, there is no clear relationship.**



## **Uses of IDA Savings: Matched Withdrawals**

**By December 2001, 754 (32%) had taken a matched withdrawal (“purchased an asset”):**

**28% for home purchase**

**23% for microenterprise**

**21% for post-secondary education**

**18% for home repair**

**Intended use among remaining “savers”: 55% for home purchase.**

**. . . high demand for home ownership**



# **IDAs: Perceptions of Economic Effects**

<b>Because of IDAs, more likely to:</b>	<b>Percent Agree</b>
<b>Work or stay employed</b>	<b>59</b>
<b>Work more hours</b>	<b>41</b>

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# **IDAs: Perceptions of Human Capital Effects**

**Because of IDAs, more likely to:** **Percent Agree**

**Make educational plans for self** **59**

**Make educational plans for children** **60**

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# **IDAs: Perceptions of Security and Control Effects**

**Because of IDAs, more likely to:**

**Percent Agree**

**Feel more economically secure**

**84**

**Feel confident about the future**

**93**

**Feel in control of life**

**85**

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# **Effects of IDAs: A Main Theme is Future Orientation And Goal Attainment**

**Participants say they can “see more clearly” and  
“visualize a future.”**

**The IDA program “creates goals and purpose.”**

**The IDA program provides a “road map” and a  
“way to reach goals.”**

**. . . Suggests that cognitive psychological theory  
may be useful.**



# **Example of Basic Research**

## **Assets, Expectations, and Educational Performance (NSFH) (Zhan and Sherraden, 2003)**

**Single mothers' assets are positively associated with children's educational attainment.**

**This relationship occurs in part through expectations of the mother: assets are associated with expectations, which are in turn associated with educational attainment.**



## IV. Directions for Asset Building Policy

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# Policy Goals

- **Include everyone in asset building (universal)**
- **Build assets of the poor (progressive)**
- **Make policy open-ended, life-long (infrastructure)**
- **Make policy simple and flexible in meeting life goals**
- **Make policy fully portable**

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# Reflections on Policy Progress

**Contributing to a change in thinking about poverty and policy**

**Idea of inclusive asset building is now much more common in US policy discussions:**

- **Expanded IDAs (Savings for Working Families Act)**
- **Universal Savings Accounts and similar proposals**
- **Proposals for Children's Savings Accounts**

**. . . . But today far short of a large, inclusive policy.**

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# **International Policy Development: Influenced by ADD Research**

- **“Saving Gateway” and “Child Trust Fund” in the United Kingdom**
- **Family Development Accounts in Taipei**
- **IDAs and “Learn\$ave” demonstration in Canada**
- **IDAs and ADD research mentioned in National Party Congress in China (2002), conference planned (2004)**
- **Policy initiatives in Mexico, Australia, elsewhere**



# **Possible Transnational Policies**

**IDA projects with remittances to Mexico  
under discussion**

**Eventually may have regional, portable accounts,  
e.g., North American Development Accounts  
(NADA?)**

**. . . Potential models for regional and global social  
policy**

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# **Promising Policy Strategy: Universal, Progressive Accounts for All Children at Birth**

**Sherraden (1991) and Lindsey (1994)**

**Child Trust Fund in United Kingdom  
(Nissan and Le Grand, 2001).**

**Most likely pathway to inclusive asset building in US**

**Average children's allowance in Western Europe is  
1.8% of GDP. Even 0.1% of US GDP would be  
enough for a \$2,000 start in life account for every  
newborn (Curley and Sherraden, 2000).**



## **Summary thoughts . . . .**

**Building wealth is a major new policy direction  
in the United States and other countries.**

**It is likely to continue to expand.**

**The challenge will be inclusion of the whole  
population.**

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Washington University in St. Louis**



# Other Resources on IDAs Asset Building

**Corporation for Enterprise Development**

[www.cfed.org](http://www.cfed.org)

**New America Foundation**

[www.newamerica.net](http://www.newamerica.net)

**Margins to Mainstream: A Peer Exchange Workshop** —October 24-25, 2003—Baltimore, MD

Sponsored by the Annie E. Casey Foundation, and co-organized by Coalition of Community Foundations for Youth (CCFY)  
and Rural Development Philanthropy Learning Network (RDPLN) —The Aspen Institute

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