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Evaluation of the American Dream Demonstration

Final Evaluation Report

Executive Summary

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Executive Summary

This report presents findings on the effects of individual development accounts (IDAs) on the savings and asset accumulation of low-income individuals. IDAs are subsidized savings accounts that are targeted for special purposes – typically for homeownership, business capitalization, and postsecondary education, but also (under some programs) for home repair or improvement, vehicle purchase, and retirement. The subsidy is provided in the form of funds that match the account holder’s withdrawals for allowable asset purchases, at match rates that can exceed 1:1.

This research is based on an evaluation conducted at the Tulsa, Oklahoma IDA program operated by the Community Action Project of Tulsa County (CAPTC). CAPTC is a multi-service community action agency whose clients are low-income residents of the Tulsa metropolitan area. The Tulsa program was one of a series of local IDA projects initiated under the American Dream Demonstration (ADD). The Corporation for Enterprise Development (CFED) organized the demonstration and orchestrated its funding and implementation. The evaluation proceeded under the direction and oversight of the Center for Social Development of Washington University in St. Louis. Funding for the evaluation was provided by the Ford Foundation and the Charles Stewart Mott Foundation.

To allow unbiased estimation of program effects, program applicants in the Tulsa site were randomly assigned to a treatment group, which was allowed to enter the program, or to a control group, which was not. By randomizing the assignment of program-eligible individuals to the treatment and control groups, one can then attribute to the IDA treatment any systematic differences between the two groups in their subsequently measured outcomes.

The findings presented here are derived from data collected on a total sample of 1,103 program-eligible applicants. Of this total research sample, 537 applicants were randomly assigned to the treatment group; the other 566 applicants were assigned to the control group. Controls were not allowed to participate in either the IDA program or CAPTC’s other homeownership assistance programs during the four-year demonstration period.

Context of This Study

Initiatives to encourage savings are becoming an increasingly prominent area of domestic policy in the U.S. Recent research suggests that Americans, particularly those at lower incomes, appear to be under-saving and under-investing in their economic futures.¹ Any programs that might effectively promote saving are generally viewed as offering favorable long-term economic effects, allocating greater resources to investment and thus boosting future incomes and living standards.

An emerging view is that carefully designed incentives for asset accumulation can also serve important social goals. In particular, efforts to encourage saving among low-income households may potentially be a more effective way to combat the cycle of poverty than more conventional income support policies. Prominent among the proposed strategies to encourage asset accumulation are

¹ See, for instance, Wolff (2001).

individual development accounts.² As a means of encouraging asset ownership and human capital development, it is also hypothesized that IDAs promote favorable changes in individual attitudes, family-related behavior, and community-oriented involvement.

During the 1990s a number of policy developments and private initiatives focused increasing attention and resources on IDAs as an instrument of economic and social policy. These include state and federal efforts linked to the 1996 federal welfare reform—the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). More recently, IDA programs can now receive federal support through the Assets for Independence Act of 1998 and other federal grant programs, including Community Services Block Grants and funding from the Office of Refugee Resettlement and the Federal Home Loan Bank. A number of local community-based IDA initiatives have been launched around the country, with support from foundations, financial institutions, other corporate sponsors, and individual private donors. The number of IDA programs operating nationwide was estimated in 2001-2002 to exceed 500, with more than 20,000 IDA account holders.³

Only a small portion of IDA programs has included any evaluation effort. The American Dream Demonstration has represented the first systematic attempt to measure the impacts of individual development accounts on patterns of savings and asset ownership.

Features of the Experimental IDA Program

In the Tulsa experimental IDA program, the allowable account uses were home purchase or repair/improvement, post-secondary education, microenterprise startup/expansion, or retirement. Authorized withdrawals were matched at 2:1 for home purchase and at 1:1 for all other allowable uses. To be eligible for the program, participants had to be employed, with family income below 150 percent of the federal poverty guideline.

Prior to a matched withdrawal, participants were required to take 12 hours of general financial education and (in most instances) additional training specific to the type of intended asset purchase. Participants were expected to make a minimum monthly deposit of \$10 in at least nine months of each year. Under the program design, matching funds accrued to the accountholder for all IDA deposits made within 36 months after the account opening. The accountholder then typically had up to six additional months within which to make final matched withdrawals. Any remaining account balance could then be rolled over (with 1:1 match) into a Roth individual retirement account (IRA).

For each account year (measured from the month of account opening), up to \$750 in deposits was subject to match, when withdrawn for an allowable use. Over the three-year savings period, the maximum matchable savings amount was thus \$2,250. Participants making full use of their accounts over three years could accumulate \$6,750 for home purchase (\$2,250 in savings plus \$4,500 in match) or \$4,500 for other allowed uses (\$2,250 in savings plus \$2,250 in match). At the time of a matched withdrawal, the match was provided in the form of a check made out to the vendor (e.g., a home mortgage lender).

² See Sherraden (1991).

³ This estimate, cited by the New America Foundation on its website (www.AssetBuilding.org), is derived from a survey conducted by the Corporation for Enterprise Development.

Evaluation Design

For the purpose of collecting baseline and follow-up data, the sample members were interviewed at three intervals: first at application (“baseline”) and then at approximately 18 and 48 months after entry into the demonstration. An additional data source was the Management Information System for Individual Development Accounts (MIS IDA), which provided information on IDA transactions for treatment group account holders. The analysis sample—those for whom baseline and month 48 survey data were available—included 840 individuals: 428 in the control group and 412 in the treatment group.

The analysis of treatment effects examined a series of outcome measures relating to asset ownership and asset-building activities, net worth and its components, and other aspects of economic well-being. The first set of outcomes, relating to the major forms of asset-building specifically promoted by the IDA program, includes home ownership, home search activities, home improvement or repair, business ownership, and educational attainment.

A second set of outcomes measured total net worth and the components of net worth. Each of these outcomes was measured both at month 18 and at month 48. They include liquid assets, retirement savings, other financial assets, total financial assets (sum of liquid assets, retirement savings, and other financial assets), real assets, total assets (sum of total financial assets and real assets), total liabilities, and net worth (total assets minus total liabilities).

A third set of outcomes included additional measures of material well-being that were not explicitly captured elsewhere: vehicle ownership, ownership of property other than primary residence, employment, monthly earnings, monthly household income, household income-to-poverty ratio, and household receipt of public assistance.

Characteristics of the Analysis Sample at Baseline

More than three-fourths of the members of the analysis sample (80 percent) were female. At baseline (i.e., at the time of random assignment), nearly half (48 percent) of sample members were single parents with children; 30 percent were two-adult households with children; and the remaining 23 percent lived in households without children. Just over one-quarter of sample members (26 percent) were married, and 40 percent had never been married.

The average sample member was 36 years old at the start of the demonstration. About half of the sample members (47 percent) were Caucasian, and 41 percent were African-American. More than two-thirds (69 percent) of sample members had some post-secondary education, including 4 percent who were college graduates. Another quarter (26 percent) of the sample had a high school diploma or GED. Consistent with the requirements of program participation, nearly all sample members (99 percent) were employed at the time of the baseline survey.

Regarding the baseline financial circumstances of sample members, 23 percent owned a home, 7 percent owned a business, and 3 percent owned other property (real estate other than a primary residence). Over 80 percent owned a vehicle. Also at baseline, 58 percent already had a savings account, and 71 percent had a checking account. The sample averages for the major financial

measures were \$909 for liquid assets, \$751 for retirement savings, \$456 for other financial assets, and \$2,735 for net worth. Average monthly household income was \$1,463.

For the analysis sample, statistical tests showed that the control group was well matched to the treatment group, with some exceptions. The number of baseline characteristics with a significant treatment-control difference was within the range expected by statistical fluctuation. (In the analysis, we controlled statistically for all observed treatment-control differences.)

Use of IDAs by the Treatment Cases

Among the 537 sample members assigned to the treatment group, 85 percent opened an IDA. Nearly one-quarter (24 percent) of treatment cases opened their accounts in the first month after random assignment; almost one-half (48 percent) opened accounts in the first three months. The average period over which participants kept their accounts open was 38 months. An account was considered closed when the balance was reduced to zero and there were no subsequent transactions. (Some account closures represent dropouts; others represent successful program completion.)

Based on MIS IDA data through the reporting period ending in October 2003, 34 percent of participants had made at least one matched withdrawal before closing their account. Fifty-three percent of participants had closed their account without ever making a matched withdrawal. The remaining 14 percent were still ongoing in the program, with positive balances remaining in their accounts.

Thirty-nine percent of participants had made at least one matched withdrawal by the end of October 2003. (This includes the 34 percent who had closed their accounts after one or more matched withdrawals and another 5 percent who remained ongoing.) Among those with at least one matched withdrawal, the amount of matched withdrawals averaged \$1,480 per participant; matched withdrawals plus matches averaged \$3,431 per participant. The largest share of matched withdrawals—35 percent—was for home repair or improvement. The next most common use of withdrawals was for home purchase, at 26 percent. Education/training and retirement savings were tied for the third most common use, at 17 percent each. The remaining 5 percent of matched withdrawals were for small business.

Estimated Effects of IDAs on Savings and Asset Accumulation

The findings from this evaluation provide important new evidence that an IDA program can have significant favorable impacts on asset-building among low-income persons. Most notably, as described below, the Tulsa IDA program resulted in a significantly higher rate of homeownership among treatment group members. The results show not only that participants were capable of understanding and responding to the incentives provided by IDAs, but also that – given incentives – they were capable of planning and implementing their financial goals over a multi-year time horizon, and of navigating the complexities associated with home purchase.

The results also provide compelling evidence that the medium-term effects of IDAs can be quite different than the short-term effects. After 18 months of follow-up, there was only one significant

effect, on debt repair among the baseline non-homeowners. There were no significant impacts on home purchases, on other activities preparatory to home purchase, or on any of the other program-targeted forms of asset purchase. After 48 months of follow-up, however, significant impacts were found among those who did not own homes at baseline, on their rate of home purchase and on the intensity of home search activities. There was also a significant effect on the rate at which sample members took non-degree educational courses during months 19 to 48. For the types of asset accumulation that are supported by IDA programs – including long-term, major investments such as homeownership – a multi-year time horizon appears to be necessary for program results to emerge.

The findings also indicate, as described below, that the positive effects on homeownership were concentrated among particular subgroups. Although no sample-wide effects were found on major categories of assets or on total assets, total liabilities, or net worth at month 18 or month 48, some subgroups did show significant treatment effects on these financial outcomes at month 48. No significant effects were found on business ownership.

Increase in Homeownership

The treatment had a significant positive effect on the rate of homeownership. After 48 months, the homeownership rate was 6.2 percentage points higher in the treatment group than in the control group. Proportionally, this was a 14 percent increase, relative to the homeownership rate for the control group (42.9 percent at month 48).

The favorable effect on homeownership was pronounced among the following subgroups (as defined at baseline): those who did not own a home, African-Americans, families comprised of two or more adults with children, those with more than \$1,100 in total financial assets, those not on public assistance, and those with a checking or savings account. Additionally, the extent to which baseline non-homeowners subsequently engaged in activities preparatory to home purchase (such as attending an open house or repairing credit to apply for a mortgage) was significantly higher among those in the treatment group.

Increase in Real Assets and Total Assets

Because home value typically comprises a large share of the real assets owned by low-income households, it is not surprising that a positive impact on real assets was found for several of the subgroups that experienced an increase in homeownership – African-Americans, those not on public assistance, and those with a checking or savings account – and also for those 36 years or older at baseline. (“Real assets” includes the market value of the primary residence, any other properties, vehicles, and business assets.) The treatment had a positive impact on total assets at month 48 for those 36 years or older at baseline, consistent with the increase in their real assets. (“Total assets” include liquid assets, retirement savings, other financial assets, and real assets.)

Increase in Retirement Savings

The treatment had a positive impact on retirement savings at month 48 for African-Americans. The treatment effect for these participants amounted to \$1,081 more in retirement savings than the \$1,267 accumulated by their control group counterparts, an 85 percent increase. (“Retirement savings” includes amounts held in personal retirement plans such as IRAs, and retirement plans through work such as 401(k) plans, 403(b) plans, or other pension accounts.)

Decrease in Liquid Assets and Other Financial Assets, Increase in Liabilities

Some subgroups, in making deposits to their IDAs and then making asset purchases, appear to have tapped other forms of assets or to have increased their liabilities in the process.

The treatment effect was negative on liquid assets for those with a four-year college degree or more. It was also negative on other financial assets for two subgroups: males and families comprised of two or more adults with children. For this last subgroup, where the treatment had a positive impact on homeownership, the decline in financial assets may reflect the family's need to draw down such assets in order to purchase a home. ("Liquid assets" includes the IDA balance and amounts held in checking and savings accounts, money-market accounts, and certificates of deposit. "Other financial assets" includes stocks, bonds, mutual funds, educational accounts, savings held with family or friends or at home, savings in Christmas or vacation clubs, or any other kinds of savings.)

The treatment was found to increase total liabilities at month 48 for those who were not homeowners at baseline, presumably a result of the higher mortgage debt associated with their higher rate of homeownership. ("Total liabilities" includes all indebtedness, such as mortgages, vehicle loans, credit card debt, personal loans, business loans, student loans, installment loans, consolidation loans, and overdue bills.)

Increase in Educational Attainment

There was a significant positive treatment effect on one educational outcome—whether one had taken a non-degree educational course during the latter part of the demonstration, during months 19 to 48. The percentage who took such a course during this time interval was 6.6 percentage points higher for treatment group members than the 19.1 percent for the control group, a proportionate increase of 35 percent. There were no statistically significant effects on other measures of educational attainment.

Multiple Impacts among African-Americans

It is noteworthy that African-Americans showed positive treatment effects on two targeted investments, homeownership and retirement savings, and on the value of their real assets. These effects were sizable in proportion to the respective control group means, more than 40 percent for both homeownership and real assets and more than 85 percent for retirement savings. African-Americans, who comprised more than 40 percent of the analysis sample, thus appear to have benefited from IDAs to an extent well beyond other major subgroups. The pronounced impact on homeownership for the African-American subgroup may reflect the fact that these sample members were disproportionately non-homeowners at baseline.