



Testing Long-Term Impacts of Individual Development Accounts and Asset Building on Net Worth

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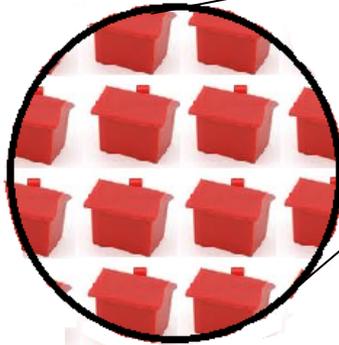
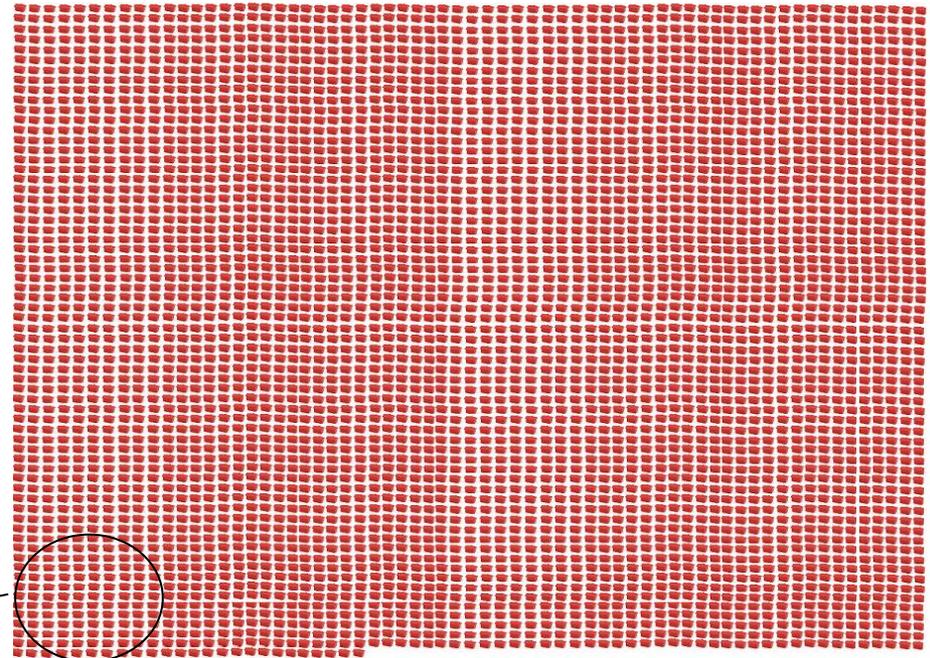
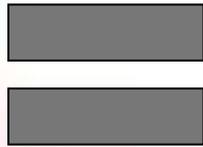
Clinton Key

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Wealth is Hard to Build





Wealth is Hard to Hold On To

- Between 2007 and 2009, median net worth declined 24%, or about \$30,000 (Kinnickell, 2009)
- An estimated 20% of American households experienced financial insecurity in 2009 (Rockefeller Foundation, 2010)
- This is the highest level of financial insecurity in 25 years.





IDA Programs as a Potential Solution

One program designed to help low-income people build wealth is the Individual Development Account
(Sherraden, 1991)





What are IDAs?

- IDAs are matched savings accounts
- Main uses of IDAs:
 - Home purchase
 - Post-secondary education
 - Micro-enterprise
- Program bundle:
 - Financial education
 - Case management
 - Peer relationships





Savings with IDAs

- Provides matched funds as incentive for saving
- Requires participation in general and asset-specific financial education
- Includes working one-on-one with a case manager





Context of IDAs in the U.S.

- IDAs are both popular and have bipartisan support
- Funded by federal, state, and local governments, foundations, financial institutions and private donors
- There are currently about 1,100 IDA projects and more than 85,000 people have participated in IDAs





ADD Experiment – Waves 1-3

- The only randomized longitudinal experiment of IDAs in the U.S. comes from American Dream Demonstration (ADD), conducted in Tulsa, OK from 1998–2003
- Eligibility: Individuals had to be employed, but earning less than 150% of federal poverty level at entry
- Random assignment of 1,103 participants
- Interviews at baseline (Wave 1), 18-month follow-up (Wave 2), and 4-year follow-up (Wave 3)





The ADD Experiment

- *Treatment group* – invited to participate in the IDA program and receive access to matched saving accounts, financial education, and case management
- *Control group* – abstained from participating in any CAPTC matched savings during the experiment





The ADD Experiment

- Asset goals – home purchase, home improvement or repair, business start-up or expansion, postsecondary education or training, retirement accounts
- For education and business, match rate of 1:1; for homeownership, match rate of 2:1
- Maximum matched deposit: \$750 per year for 3 years





ADD Experiment Wave 4

- Assessment of the long-term (10 year) impact of IDA programs
- Follow-up with both treatment and control group participants 10 years after random assignment (6 years post-graduation for treatment group)
- Collaboration between UNC, Center for Social Development, and Brookings Institution





Data Collection for ADD Wave 4

- Conducted by RTI International August 08 – April 09
- Primarily face-to-face interviews, about 60 minutes
- Revised the Wave 1-3 survey instrument to include additional measures
- Intensive tracking efforts – no differential efforts were used to track down treatment or control groups
- Interviews in the field were conducted at the same pace for treatment and control groups





Sample Size & Response Rate by Wave

Interview	Months	Treatment Group	Control Group	Total	Response Rate
Baseline (Wave 1)	Oct. 1998 – Dec. 1999	N=537	N=566	N=1,103	N/A
18-month follow-up (Wave 2)	May 2000- Aug. 2001	N=462	N=471	N=933	84.6%
4 year follow-up (Wave 3)	Jan. 2003- Sept. 2003	N=412	N=428	N=840	76.2%
10 year follow-up (Wave 4)	Aug. 2008 – Apr. 2009	N=407	N=448	N=855	80.1%



Methods: Outcomes

- Total assets
- Total debts
- Net worth = total assets – total debts
- Liquid assets
- Short-term debt





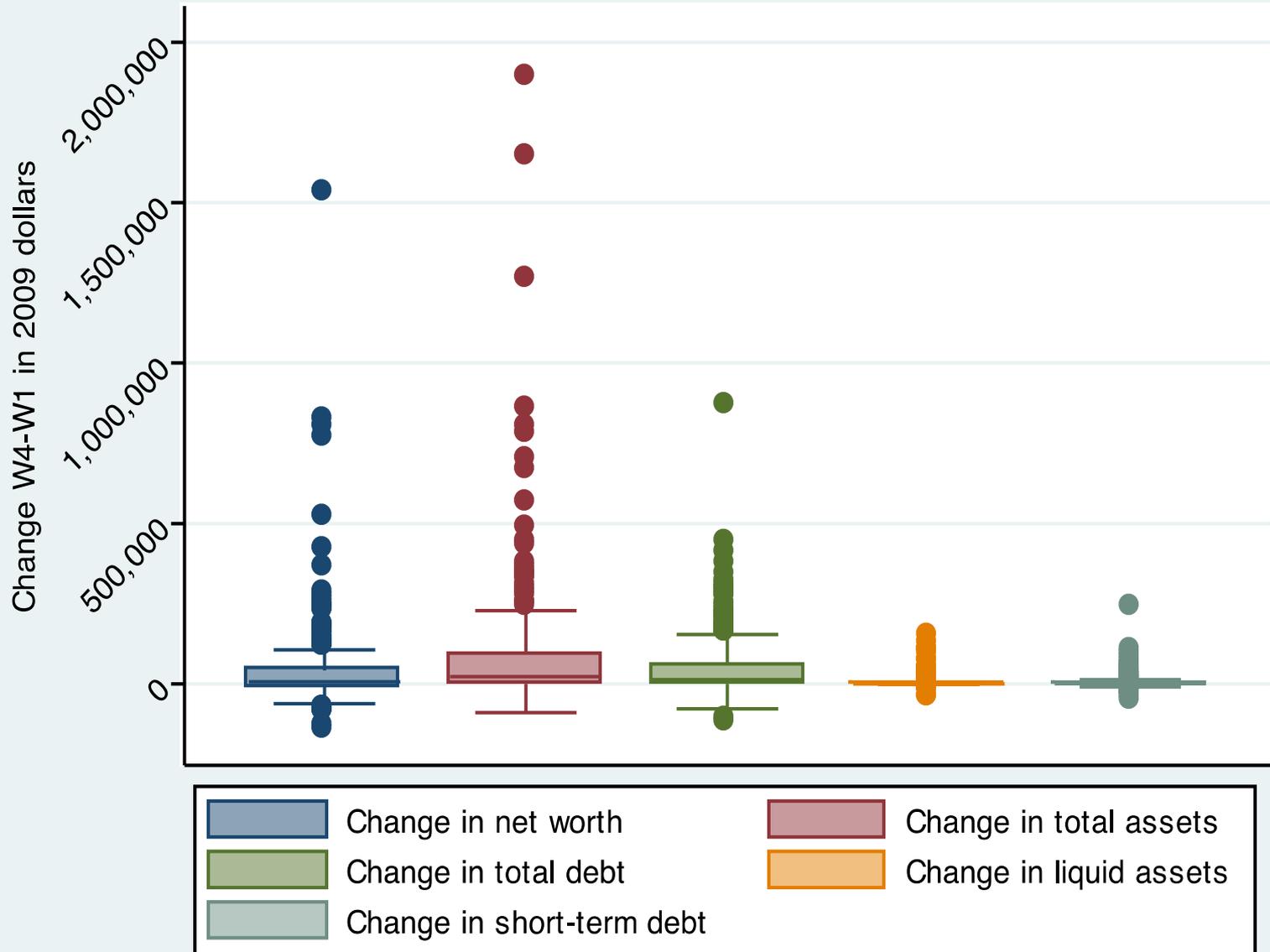
Methods: Dealing with Missing Information

- Assets, debts, and net worth are based on a large number of items: 33 items in total
- People with missing information may be different
- Leaving them out could bias our results
- Used multiple imputation to estimate what their values would have been and keep them in the sample





Methods: Data Characteristics





Methods: Dealing with Extreme Values

- 75% of respondents have net worth between $-\$7,400$ and $\$42,500$
- But there are a few people with net worth as low as $-\$305,052$ and as high as $\$1,534,700$
- Deleting them means we miss out on their information
- We use robust regression to adjust for outliers





Methods: Analysis

- Intent-to-treat (ITT) analysis compares all treatment and control members regardless of program use
- Appropriate for use with randomized controlled trials
- Provides a conservative estimate of effect size because it includes treatment members who did not use the account
- Control for a wide variety of financial and demographic characteristics at baseline





Limitations of Data

- Self-selected
- Program selected





Treatment Effect on Assets

	Liquid Assets		Total Assets	
	b	p	b	p
Treatment effect	\$79.32	.048	\$2,362.02	.302
N	855		855	

p-values from one-tailed tests.





Treatment Effect on Debts

	Short-term Debt		Total Debt	
	b	p	b	p
Treatment effect	- \$6.73	.458	\$1,557.22	.678
N	855		855	

p-values from one-tailed tests.





Treatment Effect on Net Worth

	Net Worth	
	b	p
Treatment effect	\$2,888.78	.148
N	855	

p-values from one-tailed tests.





Conclusions

- ITT analysis
- Missing information and outliers
- Very long-term outcomes
- Small positive effect on liquid assets
- Although non-significant, effects on other outcomes are in expected directions



Implications

- These findings may imply that longer savings periods may be needed
- Difficulty of finding 10-year impact; long-term efficacy of impacts of a three-year program may be a lot to expect
- Importance of experimental design





Future Research

- New experiments on more current IDA programs
- Effects on nonqualified uses and general economic welfare
 - Net worth
 - Income, employment, poverty
 - Financial literacy, attitudes





Future Research

- Understand the channels through which IDAs can influence behavior
 - Budget constraint
 - Financial education
 - “Soft encouragement”





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