Federal Reserve Bank of Boston
Community Development Issue Brief No. 2017-5

September 2017

Improving Individual Development Accounts after the Loss of Federal Matching Funds: Lessons on Scalability from a Community College Pilot

Sarah Savage

Abstract

In 1998, Congress passed the Assets for Independence Act, which made federal dollars available for matched savings programs, called Individual Development Accounts (IDAs). The program was zeroed out in May 2017. The accounts were for eligible low-income households and intended to enable saving and investing, most often toward home ownership, small business, or postsecondary education. In practice, due to cumbersome eligibility and operational requirements and participants' need for intensive support, IDAs never achieved scale. This is despite concerted efforts by dedicated asset builders committed to improving lives in transformative ways. Mostly delivered through nonprofit community-based organizations, IDAs seemed to have potential for achieving scale in community college settings, given the access to a population of potentially eligible participants already investing in an allowable asset—postsecondary education. This brief describes the rationale for offering federally funded IDAs in community college settings and the persistent barriers to scale, drawing on observations of a pilot at three Massachusetts community colleges.

Key Findings

- Since 1999, the recently defunded Assets for Independence (AFI) program helped fund tens of thousands of matched savings accounts or "Individual Development Accounts" to help low-income households build assets
- Rules and regulations attached to AFI dollars may have put constraints on IDA programs, inadvertently limiting the potential for scale
- Community colleges, which serve large portions of low-income students, seem like ideal settings for scaling IDAs
- The challenges to scaling federally funded IDAs in community colleges may be just as persistent as the barriers to scaling IDAs in community-based nonprofits, the more traditional approach to IDA delivery
- The defunding of AFI is a tremendous blow to the asset-building field, but signals an opportunity to revisit the design and delivery of IDAs

Sarah Savage is a Senior Policy Analyst at the Federal Reserve Bank of Boston. She can be reached at sarah.savage@bos.frb.org.

Acknowledgements: Many thanks to Ray Boshara, Gosia Tomaszewska, and Margaret Miley for sharing their expertise, insights, and feedback for this brief. Thanks to the following for helpful input and feedback: Erin Graves, Anna Steiger, and Gabriella Chiarenza.

Introduction

In May 2017, Congress zeroed out funding for the Assets for Independence Program, which had appropriated $241.7 million in matching funds for more than 98,000 individual development accounts (IDAs) from 1999 to 2016.[1] IDAs offer matching dollars on the personal savings of lower-income individuals.[2] The program, known as AFI and run by the Department of Health and Human Services Administration for Children & Families, was largely based on the vision of Dr. Michael Sherraden, who sought to lift low-income people out of poverty through the power of assets.[3] Traditional forms of asset building such as 401(k) and IRA accounts had largely excluded lower-income families, so Sherraden's idea for connecting these households to a mechanism for growing assets was considered highly innovative. This practice soon became a popular alternative to income redistribution approaches.[4] Eligible individuals entered a contract agreeing to save a certain dollar figure within a set timeframe, which qualified them to earn matching dollars at a rate ranging from dollar for dollar to $8.00 for every $1.00 saved.[5] The combined savings could be withdrawn and used for approved expenses, such as a down payment for a home, seed funding for a small business, or tuition costs for postsecondary education, as long as savers complied with program requirements (such as making consecutive savings deposits and participating in financial education).

Sherraden's initial vision was to create a product that would have the potential to be cost effective and universal, but what took shape was not a lean product, but rather a very intensive program requiring considerable time on the part of community-based nonprofits as well as grant and financial institution administrators implementing the program. Nonetheless, many nonprofit providers argued in support of this kind of high-touch program model, consisting of deep relationships with participants to promote pathways out of poverty, as a lean product runs

[1] U.S. Department of Health and Human Services Office of Community Services, an office of the Administration for Children & Families: https://www.acf.hhs.gov/ocs/programs/afi; AFI 15th Report to Congress: https://www.acf.hhs.gov/sites/default/files/ocs/fy2014_15th_afi_report_to_congress_final_8_5_16b.pdf.

[2] To be eligible, individuals must have a household income below 200% of the federal poverty level and no more than $10K in net worth excluding a first vehicle or home.

[3] *Sherraden, Michael. (1991). Assets and the poor: A new American welfare policy. Armonk, NY: M.E. Sharpe Inc.*

[4] Boshara, R. (2012). *From asset building to balance sheets: A reflection on the first and next 20 years of federal assets policy* (CSD Perspective No. 12-24). Retrieved from Washington University, Center for Social Development website: https://csd.wustl.edu/Publications/Documents/P12-24.pdf.

[5] Assets for Independence Project funds may be used in combination with local matching dollars for matching rates ranging from 1:1 to 8:1: https://www.acf.hhs.gov/sites/default/files/ocs/afi_fact_sheet_march_2017.pdf.

contrary to their experiences on the ground.[6] The most consistent conclusion one could draw from the hundreds of AFI grantees that offered IDAs was that policymakers did not design IDAs to be scalable. This design flaw was due in part to uncertainty around precisely how to modify the AFI-funded IDA model from a program for thousands to a product for millions.[7]

This brief describes challenges to scale both in AFI-IDA programs in general and in the specific case of an effort to implement AFI-funded IDAs within community college settings. We draw on the results of a pilot of an educational IDA offered to a small number of enrolled students at Bunker Hill Community College, Northern Essex Community College, and Springfield Technical Community College between January 2015 and August 2016. The Federal Reserve Bank of Boston evaluated this two-year multi-campus pilot, which offered students an opportunity to earn $1,500 in matching funds for saving $750 over a 12-month period. We discuss the underlying logic behind why community colleges would seem a good platform for overcoming barriers to scale, as well as the flaws inherent in this thinking that were discovered mid-pilot. The hope is that this brief will inform future asset-building efforts, since assets can in fact help households to advance, even if IDAs (as originally designed) may not have been scalable. Multiple studies have provided promising and in some cases rigorous evidence about the deep impacts of IDAs, underscoring the potential effectiveness of this mechanism.[8] In part because AFI has been defunded, and because asset builders will need to rely more on private philanthropy, this is an opportunity to uncover the endemic challenges of achieving scale under the AFI legislation, the tight restrictions of which may have inadvertently limited the usage of this mechanism in significant ways. Note that IDAs funded through alternative sources, such as private funders or statewide programs, exist alongside AFI-IDAs and may be subject to funder requirements as well, but this brief is specific to AFI-IDAs. In the absence of restrictions, how

[6] Comments shared by former Midas Collaborative Executive Director, Margaret Miley, on 7/13/17.

[7] November 2003. *Individual Development Accounts: How to move from a program for thousands to a product for millions.* The Aspen Institute. Retrieved from: November 2003. https://assets.aspeninstitute.org/content/uploads/files/content/docs/eop/EOPIDASCANNOV03-FINAL.PDF.

[8] Mills, Gregory, McKernan, Signe-Mary, Ratcliffe, Caroline, Edelstein, Sara, Pergamit, Michael, Braga, Breno, Hahn, Heather, and Elkin, Sam. (2016). *Building Savings for Success: Early Impacts from the Assets for Independence Program Randomized Evaluation.* OPRE Report #2016-59 for the U.S. Department of Health and Human Services. Washington, DC: The Urban Institute.
Mills, Gregory, Lam, Ken, DeMarco, Donna, Rodger, Christopher, and Kaul, Bulbul. (2008). *Assets for Independence Act Evaluation, Impact Study: Final Report*. Cambridge, MA: Abt Associates.
Stegman, Michael A., and Faris. Robert. (2005). The Impact of IDA Programs on Family Savings and Asset Holdings. In Inclusion in the American Dream: Assets, Poverty, and Public Policy, edited by Michael Sherraden, 216–37. New York: Oxford University Press.

might our own learning and lessons from the field be applied? To answer this question, we first review barriers to scale, offer logic for favoring community college settings as platforms for scale, and share what we have learned from that experience.

Barriers to scaling AFI-IDAs

Since the inception of IDAs in 1999, the delivery of this product has been fragmented through mostly community-based nonprofits, which may or may not have been a part of a larger collaborative network. A total of 454 organizations were awarded AFI grants between 1999 and 2014.[9] However, there have been no examples of AFI-IDAs achieving real economies of scale. Although Sherraden conceived of IDAs as a financial product (and they are often presented as such), in practice the AFI rules and requirements made them more programmatic than product-like in form. AFI-IDAs consisted of savings accounts as well as supportive case management and financial education, so they required additional staff as programs grew in size. To even access a matched savings account, applicants needed to meet tight eligibility criteria that apply to themselves as well as members of their household, including requirements that income must not exceed 200% of the federal poverty level and net worth must be less than $10,000.[10] The application and verification process could be burdensome for savers and case managers who provided assistance with the enrollment process. Furthermore, since it was potentially challenging for members of low-income households to stay on track with monthly savings goals, the case management needed to support savers could be intense at times. The federal matching dollars that came with requirements and operational procedures needed to be matched dollar for dollar by a local source and include the willing partnership of a financial institution, all of which required partnership building and management.[11] Considerable effort on the part of nonprofit staff, IDA administrators, technical assistance providers, funders, financial institutions and individual savers went into making each IDA possible and, in many cases, successful. Suffice it

[9] AFI 15th Report to Congress: https://www.acf.hhs.gov/sites/default/files/ocs/fy2014_15th_afi_report_to_congress_final_8_5_16b.pdf.
[10] Excluding a first home and vehicle.
[11] Minimum eligibility criteria include household income below 200% of the federal poverty level and net worth not exceeding $10,000 (excluding a first home and vehicle).

to say, the pathway to scale has been elusive. While nearly 100,000 accounts have been opened from 1999 to 2014, this amounts to an average of fewer than 8,000 accounts per year.[12]

Logic behind community colleges as a way to scale IDAs

Community colleges seem like a promising platform for scaling IDAs: they serve a large body of potentially eligible students who are already investing in their education, and saving toward a postsecondary education is one of the three core savings goals of traditional IDAs. According to National Center for Education Statistics IPEDS data, more than half of full-time beginning community college students were consistently awarded Pell Grants – aid for low-income students that does not need to be repaid – from 2009/10 to 2014/15.[13] This is one indicator of the prevalence of need-based aid that IDAs can, in theory, help address. Furthermore, community colleges could provide the match money which, as noted above, is a challenge for the program. Additionally, any funds the colleges contributed could potentially be returned to the colleges when participants use the funds toward tuition, fees, or supplies. Finally, community college staff could target the savings program to students who might be eligible and benefit most.

For all of these reasons, three Massachusetts-based community colleges and an IDA administrator were willing and eager to offer to community college students an IDA that could be used for educational expenses starting in January 2015. Bunker Hill Community College, Northern Essex Community College, and Springfield Technical Community College worked closely with a seasoned IDA administrator, the Midas Collaborative, to pilot an educational matched savings program for students between January 2015 and August 2016. The Boston Fed evaluated the pilot.

IDA pilot at three community colleges

All three colleges agreed to enroll between 30 and 40 students per school. Students would need to agree to save $750 of their own money and participate in 12 hours of financial education

---

[12] AFI 15th Report to Congress: https://www.acf.hhs.gov/sites/default/files/ocs/fy2014_15th_afi_report_to_congress_final_8_5_16b.pdf.
[13] National Center for Education Statistics: https://nces.ed.gov/ipeds/Home/UseTheData.

within a year's time to earn $1,500 ($750 from the college and $750 from AFI). Staff at the community colleges took responsibility for marketing the IDA, recruiting students to apply and enroll, assisting with the application process as well as the income and net worth verification processes, ensuring that students have access to financial education and fulfill the 12-hour requirement, supporting students with case management throughout the program, and processing requests for withdrawing funds to use for educational expenses. The staff participated in multiple trainings in preparation for launching the IDA and had access to ongoing technical assistance from Midas. Even with support, the eligibility determination and verification processes were difficult to understand and labor intensive to perform. The processes required that staff help students understand what they needed to submit in order to show proof of eligibility and engage in considerable back-and-forth communication with the students until all of the required documentation was received. Once enrolled, students made their first savings deposit at the partnering financial institution that held their accounts.

The pilot IDA was intended to serve as a proof of concept to justify a scalability plan. The program designers believed scale could be achieved by committing institutional dollars and staff resources toward rooting it in the institution, or by capturing the attention of other community colleges and departments of education in search of innovative, scalable solutions. All of this happened against the backdrop of an assumption that enrollment into the program would be high. This assumption proved false, as there was an unexpected lack of uptake, which affected the daily operations of the program.

"Students will be banging down the door." "Should it be first come, first served to be fair to students?" These were sentiments shared by community college staff in the planning phase. In fact, students were nowhere near the door, as indicated by just eight enrolled participants across the three schools by the end of the spring 2015 semester. This was especially deflating, mostly because the staff knew students could genuinely benefit from the matching funds. The lack of uptake also brought with it a harsh reality: the staff, who already had full-time roles at the colleges, would need to chase down potentially eligible students to participate in a pilot program. Finding interested students was only half the battle, though, as those students would then need to complete a lengthy application to apply for the program, which was still never a guarantee that their household's income and net worth would qualify them to participate. Slowly but surely, each of the three community colleges filled slots in their respective educational IDA pilots; two filled nearly all of their year-one slots by the end of the first year and one was able to fill half of the slots by the end of the first year. A significant amount of effort went into filling these slots, and over time the colleges found strategies that were helpful in recruitment. The fact remains that the level of effort was unexpected and, likewise, the amount of troubleshooting that went into the application process and daily operations turned out to be too burdensome. Furthermore, while the colleges were well-positioned to deliver the required financial education piece, students' limited time availability and inconsistent schedules made fulfilling the requirement extremely challenging. This was another burden on community college staff. In addition to recruitment costs, the time investment needed to support daily operations still exceeded expectations, making it difficult to justify continuing—let alone expanding—the program.

In the end, we observed that an educational IDA in a community college setting is still a high-touch program that requires a significant investment of time per student saver, similar to community-based nonprofits serving a small number of vulnerable clients. Significant program growth would require increasing the staff and resources at a similar rate. Despite the logic behind the idea that community colleges may be a platform for scale, economies of scale do not appear to be any more achievable in a community college than in a community-based nonprofit setting.

Moving forward

Taking stock of IDA implementation challenges is important for two reasons: 1) future asset-building legislation that seeks to scale these programs up significantly can benefit from lessons learned through mistakes in the current AFI structure, and 2) for those in the asset-building field who continue to offer IDAs financed through private funding sources, the withdrawal of AFI regulations creates a real opportunity to be innovative with eligibility, verification, program design, and requirements.

Innovations Aligned with AFI

Even if all else remained the same with respect to AFI rules, there are some easy wins that would lessen the burden on IDA providers, administrators, and participants. One would be to move the entire process online. While not necessarily a pathway to scale, this change would certainly reduce the amount of resources required for daily operations, which could otherwise hamper even incremental growth and challenge the sustainability of the IDA program. Enabling a fully online screening and application process as well as online processes for troubleshooting, withdrawal requests, and other ad hoc requests may greatly streamline operations and steps required by participants.

Additionally, incentivizing a greater pool of financial institutions to hold IDAs might increase access to partners able to send bank statements electronically and offer online access to custodial accountholders.

Requiring savers to take fewer hours of financial education—as the amount is a program design decision rather than a figure established by AFI—could also lessen the burden on staff and participants. Although studies have demonstrated that each additional hour of financial education (up to 12 hours) correlates with higher savings (average monthly net deposits) among participants in matched savings programs, there may be opportunities to improve upon its integration and delivery.[14] For instance, focus groups of potential participants revealed challenges to attending financial education classes, which included childcare, transportation, and work schedules.[15] Addressing these issues would be a good place to start.

Innovations Outside of AFI

Ideally, the application and verification professes intended to ensure that funding goes to the neediest individuals would be eliminated, and instead potential savers would be found through their affiliations, such as community colleges.

Another improvement would be the introduction of an opt-out-model, which would automatically qualify and enroll participants based on their affiliations rather than making them sign up if they are interested. In this strategy, all first-year community college students, for instance, would be informed of the benefits of IDAs and how to access matching funds, which they would be under no obligation to do. This would eliminate a major barrier to uptake.

---

[14] Clancy, Margaret, Grinstein-Weiss, Michael, Schreiner, Mark. (June 2001). Financial Education and Savings Outcomes in Individual Development Accounts. *Washington University in St. Louis Center for Social Development.*

[15] William M. Mercer Incorporated. (2001). "FLLIP Financial Literacy Program: Key Stakeholder Focus Groups, Report of Key Findings." Chicago, IL.

Another idea would be to combine small-dollar savings goals—which more closely align with savings patterns of low-income households—with low matching rates that can be used for whatever asset goals savers choose, and allow these funds to be used during a time period that makes sense for savers rather than for grant timelines.[16]

Future IDA providers would also do well to consider more feasible and effective ways of delivering financial education and informational resources. There may be a big role for technology here, especially given innovations in the "fintech" space around prize-linked savings, which rewards savers with points for reaching certain saving and spending goals.[17] Fintech solutions that offer redeemable points for engaging with or viewing short bursts of financial education content could motivate savers, encouraging them to move through financial education content in ways that make them want to consume *more* content and on their own their schedules.

In the end, the defunding of AFI is disappointing and a serious blow to the asset-building field. Yet given the effort that has gone into supporting IDA programs and, more importantly, savers and their families, now is the time to think beyond the rules that have to some extent confined IDAs to date, and apply the rich lessons learned to the next generation of asset-building strategies.

[16] The Pew Charitable Trusts. (January 2016). The Role of Emergency Savings in Family Financial Security: Barriers to savings and Policy Opportunities.

[17] Tufano, Maynard, De Neve. (2008). http://www.hbs.edu/faculty/Publication%20Files/08-061_17c22e32-fe06-4b4a-8b5e-e09227fc8104.pdf.