

December 5, 2007

PA 715

Politics of Policy Making and Implementation
Professor Sheldon Gen

Alma Elizondo- Ozge Ileri

POLICY BRIEFING PAPER

Individual Development Accounts

I. Executive Summary

Although the United States is one of the richest countries in the world, poverty and economic disparities still remains an issue of great concern. Recent statistics show that 12.1% of all Americans fall below the poverty line, and if there were no government transfers, 20% of all Americans would be considered poor (Lombe, Nebbitt, Buerlein, 2007). Furthermore, the top 20% of U.S. households own 83% of the nation's wealth, whereas the bottom 40% of households own just 1% of the wealth (Boshara, 2003). Statistical data also show that one in five of all Americans (and 33% of minorities) have zero or negative net financial assets and an estimated 30% of Americans are unbanked (CFED, 2007).

Asset-building policies can help low income families achieve self-sufficiency. The asset-building approach to poverty alleviation rests on the assumption that a key component of economic well-being lies in the ability of individuals to acquire an asset such as a home, a business, or an education that leads to better job opportunities (Rohe, Gorham, Quercia, 2005).

The United States has a long history of supporting asset development through public policies. The Homestead Act of 1862 provided land for families, and the GI Bill in 1944 supported educational attainment, both important assets that often lead to increased financial security (Finzel, 2005). However, during the post-industrial era, federal asset-building policies shifted in favor of the wealthy who own significant assets (Edwards & Mason, 2003). Individual Development Accounts (IDAs) were one of many policy innovations to emerge during the late 1980s in response to the dissatisfaction with existing income support policy in the United States.

The purpose of this paper is to (i) provide background information on IDA policy (ii) explore IDA policy stages (iii) identify stakeholders of the policy (iv) describe policy process models related to IDA concept and, (v) provide prognosis on IDA policy.

II. IDAs Concept

The concept of IDAs offers policymakers an opportunity to include low-income individuals in asset-building policies on a large scale (Edwards and Mason, 2003). IDAs were designed to provide matched saving opportunities for low-income people to accumulate assets; account holders received

matching funds from both public and private sources as they save for assets that promote long-term well-being and financial self-sufficiency such as home, post-secondary education, or micro-enterprise (Sherraden, 1991).

PROBLEM	INTERVENTION	OUTCOMES	LONG-TERM IMPACTS
<ul style="list-style-type: none"> Asset poverty among low-income households. 	<ul style="list-style-type: none"> IDA programs that offer financial education and saving incentives. 	<ul style="list-style-type: none"> Savings accumulation leading to asset acquisition. Improved financial management 	<ul style="list-style-type: none"> Economic benefits such as increased income and wealth. Social benefits such as greater personal efficacy and community involvement.

Source: (Rohe, Gorham, Quercia, 2005).

Federal and state governments and/or community, nonprofit and private sector organizations can match deposits for low-income families. There is potential for creative program design and partnerships among the public, private, and nonprofit sectors, in cooperation with account holders themselves (CSD). Over the last ten years, with help from federal and state policies, private funding has led to the creation of more than 50,000 IDAs in programs run by more than 500 community-based organizations. Public funding for IDAs as of March 2005 totals about \$225 million, with roughly \$185 million provided by the federal government and the remainder by the states (CFED, 2007).

IDA programs usually have three main pillars. First, a local community organization takes the lead in establishing the program and securing the necessary funds both for program administration and for matching the savings of participants (Rohe, Gorham, Quercia, 2005). IDAs programs are funded by both private and public funds; the five most common sources are Temporary Assistance for Needy Families (TANF) funds, Assets for Independence Program (AFIA) grant funds, state general revenue funds, state tax credits, and private funds (Edwards and Mason, 2003). The community organization also recruits participants and provides them counseling and support to complete the program. Second, participants receive financial education. The lead community organization recruits one or several local financial institutions to manage the savings accounts of IDA participants. Third, a financial literacy course is taught by the lead community organization, an outside provider, or a combination of the two (Rohe, Gorham, Quercia, 2005). Typically, IDA program participants sign a contract that commits them

to save a minimum amount each month toward their total savings goal. Once the savings goal is reached, the IDA program matches the family's savings at a ratio that varies from 1:1 to 8:1 depending on the resources available to individual IDA programs (Sherraden, 2001).

According to the Center for Enterprise Development (CFED), every public dollar invested in IDAs generates \$5 for the community. This is measured in new businesses and jobs, increased earning and educational achievements, new homes, higher tax receipts and reduced welfare expenditures (Lohmer, 2006). Research studies suggest that IDAs have various positive effects such as a reduction in the transfer of poverty from one generation to the next, an increase in educational attainment, enhanced household stability, and a longer term planning horizon (Rohe, Gorham, Quercia, 2005).

III. History & Policy Cycles

IDA's characterize a significant shift in policy from an income-based approach to an asset-based approach. Over the past ten years, many state governments have introduced IDAs as a feasible tool for helping low-income people escape poverty and build wealth. At least 35 states and the District of Columbia have now passed legislation to support the creation of IDAs and programs currently exist in all 50 states (Finzel, 2005).

Problem identification stage for IDAs policy emerged as dissatisfaction with existing income support policy in the U.S. in the late 1980s. Long before the design of IDAs policy, poverty and economic disparities were well-known problems in the country; and government responded to these problems by designing and implementing welfare and income support policies. In the late 1980s, Economist Michael Sherraden highlighted that the existing welfare system disqualified recipients whose assets increased (Karch, 2006).

Agenda setting stage for IDAs policy began with Sherraden's body of work proposing that United States welfare policy re-focus on building assets for all people, rather than focus on income maintenance for the poor in early 1990s. His theory was: "While income maintenance is a crucial part of the social safety net, only asset ownership can increase economic stability and provide hope for the future". In his book, *Assets and the Poor: A New American Welfare Policy*, he devised and proposed the

IDA as a policy instrument that would test the efficacy and benefits of building assets for low-income people, and facilitate more universal asset-building policies (Edwards and Mason, 2003). At the time, the level of poverty in the country was rising; and policymakers were searching for new solutions and strategies to resolve the problem. Therefore, both federal and state governments became more open to considering new policy concepts for fighting poverty, including asset building for the working poor (Grinstein, Wagner & Edwards, 2005).

As for the **policy formulation**, Sherraden introduced the IDAs in the late 1980's proposing that U.S. social welfare policy should take a more progressive direction and include asset building opportunities for all people in the country. He was able to get the attention of decision makers and encouraged them to initiate proper policy responses. Sherraden's (1991) original IDA proposal called for universal, permanent accounts, opened at birth, with greater subsidies for the poor. However, federal government and state governments modified Sherraden's proposal and reformulated the policy. This demonstrates the political power that federal and state governments have over the policy process.

IDA **policy formulation, adoption and implementation stages** are complex in the U.S. political arena, because it occurs at multiple points in the government system. All these stages are intertwined as federal and state governments adopted a variety of IDA legislations since 1991. Basically, there are two reasons why the policy cycle for IDAs was not linear. First, IDAs policy is formulated at both federal and state government level and it is subject to modifications since its introduction. Federal government plays an active role in policy formulation and state IDA policy has strongly influenced federal IDA policy and the growth of the IDA field (Edward and Mason, 2003). Second, IDA policy is implemented at state level. Thus, every state has its own IDA legislation and IDA policy structure. In this context, the following part continues to explain the history of IDA and describe policy responses taken by federal and state governments.

In 1991, the Select Committee on Hunger held the first IDA hearings and introduced IDA legislation in the U.S. House of Representatives. The Iowa legislature was the first to pass legislation

creating an IDA program in 1993. Thus, ***policy adoption stage at state level*** started in 1993. In the same year, ***policy implementation stage*** started as many community-based organizations initiated IDA programs.

In 1996, IDAs were included as a state option in the federal welfare reform law. The Personal Responsibility and Work Opportunity Act of 1996 (PRWORA) authorizes states to create community-based IDA programs with TANF block grant funds and to disregard all money saved in IDAs in determining eligibility for all means-tested government assistance. This can be considered as a beginning of ***policy adoption stage at federal level***, although the first federal IDA legislation was adopted in 1998. Because, before the adoption of PRWORA , only 3 states had passed IDA legislation. After the PRWORA , the number of states legislating IDAs increased dramatically (Edwards and Mason, 2003). The passage of PRWORA was an important step in the diffusion of IDAs. This legislative language indicated the first time that national legislation recognized IDAs as a legitimate policy option for state welfare policy. More importantly, PRWORA provided resources that facilitate innovation by explicitly listing IDAs as an appropriate use of state welfare funds (Karch, 2006).

In 1997, the American Dream Demonstration Project (ADD) became the first large-scale test of IDAs in the United States. ADD was designed and initiated by Corporation for Enterprise Development (CFED) and evaluated by the Center for Social Development (CSD) at Washington University. It is a five-year project supported by public and private funds. Thirteen community-based organizations from around the country operated IDA programs as part of the ADD. By the Demonstration's completion in 2003, 2,364 participants enrolled in the IDAs programs, only 56% saved more than \$100 and were eligible for matching funds by the end of the program. ADD was the first comprehensive effort which initiated the ***policy evaluation stage*** for IDAs policy. ADD can be regarded as both process and impact evaluation since ADD aimed to develop recommendations to improve implementation procedures and to measure the impact of the IDAs policy on the target population (Theodoulou and Kofinis, 2004). Policy evaluation of IDAs is not limited to ADD. Both CFED and CSD initiated comprehensive research efforts

on IDA policy. For instance, as part of its IDA research, CFED started to conduct annual surveys in 2003 in order to provide information regarding existing IDA programs and effectiveness of IDAs policy. CFED is still collecting data for its 2007 IDAs policy survey.

In 1998, the first federal IDA legislation, Assets for Independence Act (AFIA) was signed into law. Assets for Independence (AFI) is a federal grant program that enables community-based nonprofits and state and local government agencies to implement and demonstrate an asset-based approach for offering low-income families help out of poverty. AFIA authorized Office of Community Services (OCS), within the Department of Health and Human Services (DHHS)– the same department that administers TANF – to create a 5-year \$25 million per year federal IDA demonstration project which greatly increased the number of IDAs in existence (Hawe, 2004). OCS offers AFI project grants on a competitive basis to nonprofit organizations to start IDA programs. According to AFI Report to Congress 2006, OCS has awarded \$94.7 million in AFI grant funds between FY 1999 and FY 2005. As of end FY 2005, 28,570 IDA account were opened under the AFI program.

Program evaluation stage at the federal level started after the adoption of AFIA. The OCS provides reports to Congress on the status of AFI Program implementation on a yearly basis starting from 1999. Furthermore, to better evaluate effective projects, the OCS initiated a study on impact evaluation of the AFI program with the collaboration of Abt Associates, Inc., a social science research firm. Each AFI Project provides annual information for the study, and the program evaluation team conducts intensive data collection and interviews to evaluate the impact of the AFI program.

In 1999, the Internal Revenue Service (IRS) ruled that matching IDA funds under AFIA are not taxable to account holders, and that contributions to IDA initiatives funded under AFIA are tax deductible (CFED, 2007). In addition, the U.S. DHHS issued a ruling that matching IDA deposits made with TANF funds were not to count as cash assistance, if made under the 404(h) provisions¹. Also, amendments to

¹Section 404(h) of the Social Security Act authorizes the use of Federal TANF funds for IDAs. Under this provision, postsecondary educational expenses, a first home purchase, and business capitalization are the only "qualified purposes" for account funds (source: <http://www.acf.hhs.gov/programs/ofa/polquest/idas.htm>)

the TANF rules clarified that an individual's two-year time limit for receipt of TANF benefits would not be affected by saving in an IDA program. The clarification of TANF rules dramatically increased state commitments of TANF funds for IDAs. A consequence of using TANF funds for IDAs has been the perception, by lawmakers, that IDAs are part of the state welfare program, and not part of a state's broader scope of asset-building policies. IDA programs are often delivered by the same non-profit organizations that deliver state welfare programs, which may inadvertently perpetuate this perception (Edwards and Mason, 2003).

In 1999, the Savings for Working Families Act (SWFA) was introduced in the U.S. Senate. While SWFA has come close to passing, it has not been successful. However, SWFA remains a priority of Congress. The SWFA was expanded and reintroduced in both houses of the Congress in 2000, 2006 and 2007. SWFA creates tax credit mechanism to increase the number of IDAs from 50,000 to up to 900,000. The bill provides a tax credit to financial institutions that match the savings of working families and individuals who participate in financial education classes and save for homeownership, business start-ups, education, or retirement (CFED). Financial institutions would provide up to \$2,000 match per saver (\$500 per year for up to four years) and receive a tax credit for the match they provide, plus an annual \$50 per account credit (<http://www.results.org/website/article.asp?id=736>).

In 2002, Charity Aid, Recovery, and Empowerment (CARE) Act, which includes the IDA Tax Credit was introduced in the Senate. In 2005, a revised CARE Act including the SWFA was proposed in the Senate and but, it has not been signed into law, yet.

The Federal government's AFI program, requires IDA program sponsors to raise funds that match the Federal money. Many sponsors declare waiting lists for IDA accounts, a situation that arises when the sponsor's fundraising and/or operating capacity is constrained. In 2006, CFED created the *American Dream Match Fund* to provide a reliable and sustainable solution to these challenges. The Fund will raise funds to match the savings of low-income families and provide operating support to high-performing asset-building programs through individual and corporate donors (CFED, 2007).

Basically, IDA policy is at the implementation stage of policy cycle. More than 500 programs in all 50 states (including programs specifically targeting populations such as American Indians, refugees, and people with disabilities) and more than 520,000 accounts exist nationwide and the field continues to grow. Also, policy adoption and evaluation stages still continue as IDA legislations such as SWFA and CARE Act are expected to be adopted and IDAs policy is subject to changes at both federal and state levels in accordance with regular policy evaluations. Consequently, IDA policy does not operate in step-by-step manner as described in the policy cycle approach (Theodoulou and Kofinis, 2004).

IV. Identification of the stakeholders

Micheal Sherradan is a policy entrepreneur who introduced the concept of the IDA policy based on his research that demonstrates that accumulation of assets, rather than just income, plays a major role in allowing people to escape poverty and achieve wealth. Sherradan is considered an agent of change and an entrepreneur in American public policy because he was able to make shift the paradigm of poverty alleviation changing the focus from an income-based strategy to an asset-building strategy. IDA policy is an example of how individuals can play significant role in the policy process.

Federal Government: Federal government is very active in formulation of IDA policy. Seeing the important link between assets and financial well-being, the federal government in 1996 started to encourage IDAs (Lohmer, 2006). Basically, federal policies aim to encourage state and local government agencies and community organizations to implement IDA policy. In this regard, federal government's effort focuses on funding arrangements to support states for delivering of IDA programs. Furthermore, federal government's initiatives are of utmost importance since they indicate government's determination to eradicate poverty in United States by means of IDAs policy.

State Governments: IDA programs are implemented at the state level and state governments enjoy the flexibility to run these programs. Most state governments have adopted legislations to implement IDA policy in consistent with their individual objectives and needs; as a result, IDA policies present differences state-by-state. For instance, while some states continue to pursue restriction-heavy

legislation, the more prominent trend is toward flexible IDA policy (Edwards and Mason, 2003). Furthermore, policies of individual states also present differences in terms of policy stages as they have been formulated, adopted and implemented at different time frames.

The President: President George W. Bush showed his support to IDAs policy during the 2000 presidential campaign. In 2003, President Bush included the CARE Act as a top priority during the State of the Union Address and he has actively promoted the CARE Act. In 2005, President Bush also supports the 900,000 accounts (SWFA); he has requested the IDA Tax Credit in each of his budgets, including his 2007 budget. The President continues to support IDAs policy.

Nonprofits and Community based organizations. They are the primary IDA service providers across the country. IDA policy advocacy and program development emerged at the grassroots level (Edward & Mason, 2003). These organizations led in the development of IDA delivery systems. Non-profit partners of state IDA initiatives also accomplish the majority of the research, design and delivery of the IDA policy and program models. In addition, foundations, corporations, individuals, and religious institutions contribute to IDAs funding. The Charles Stewart Mott Foundation and Joyce Foundation have played a lead role in several pioneering IDA demonstrations.

Financial Institutions: Nearly all IDA programs rely on a financial partner, whose role can include holding accounts, offering training to participants, and/or providing match dollars or funding for operations. Although a number of IDA programs partner with national banks such as Bank of America, Wells Fargo, Citigroup, and Fifth Third Bankcorp, the majority of IDA programs work with local banks in setting up their IDAs (Buchholz, 2005). Furthermore, credit unions are another type of financial partner for IDA programs. For financial institutions, IDA experience provides some encouraging evidence that low-income savers can become a viable and growing market for the institution's products and services.

Corporation for Enterprise Development (CFED) is a nonprofit organization dedicated to promoting innovative programs and policies to help poor and low-income people build assets to create and establish IDA policy at all government levels. In the late 1980's Robert Friedman, founder of the CFED,

worked closely to Sherraden to initiate the first federal IDA legislation in 1991. The bill initially failed but evolved into the Assets for Independence Act (AFIA) which passed in 1998.

Center for Social Development (CSD) is a research and policy institute created by Sherradan that focuses on social development research that informs how individuals, families, and communities increase capacity, formulate and reach life goals, and contribute to the economy and society. Major areas of work are asset building and civic engagement & service. Both CSD and CFED played significant roles in moving grassroots IDA policy dialogue to the national level, by presenting and disseminating their research results on IDA (Grinstein, Wagner & Edwards, 2005). These institutions also propose new IDA initiatives or corrections to the existing policy in order to advance IDA policy.

Low-income population. Populations that have benefited from participation in IDA programs include former welfare recipients, youth in disadvantaged urban and rural schools, recent refugees, and the working poor (CSD). Currently, the recipients of the IDA program are low income population with less than \$10,000 in assets (excluding one automobile). In the city of San Francisco applicants must meet the following requirements: 1) have a social security number or an Individual Taxpayer Identification Number, 2) Earned income through employment or self employment 3) Meet with the income-limit guidelines set up by the federal government.

Table 1. Income eligibility requirements for IDA participants

No. in Household	Income Maximum
1	\$20,420
2	27,380
3	34,340
4	41,300
5	48,260
6	55,220

Source: Women’s Initiative website.

V. Policy models:

Although IDA policy contradicts with policy cycle approach as it does not follow policy stages in step-by-step manner as described in the policy cycle model, it reflects the several policy process models which can be described as follows:

(i). Policy Innovation: IDA policy demonstrates the features of policy innovation theory. Although social welfare policy exists for all wealth levels in the United States, it has a history of favoring individuals in higher income brackets (Grinstein, Wagner & Edwards, 2005). During the past two decades the American government has provided assistance to the poor; however, it has not been able to implement systems that would allow low-income people to build assets. Welfare policy did little to provide low-income people with long-term social and economic development opportunities and, in fact, impeded their ability to save and improve their financial situation (Grinstein, Wagner & Edwards, 2005).

Therefore, in the late 1980's policy entrepreneur Michael Sherraden introduced the concept of the IDAs. He proposed that U.S. social welfare policy should include asset building opportunities for all people in the country, not just a wealthy few. Thanks to his innovation, IDAs are currently included in policies as saving programs targeted to low-income people. According to Sherraden, in U.S. history, policies to fighting poverty focused only on meeting the immediate needs for low-income populations, like food, shelter, clothing, etc. Sherraden realize that while these approaches provide vital services for people in crisis, however, they do not offer a way to lead people out of poverty. That's when he came with the innovative strategy of helping people build assets through matched saving accounts.

Proponents of internal determinants models of policy innovation theory suggest that adoption of policy innovation and the speed with which a policy diffuses depends on the internal characteristics (political, social or economic issues and willingness of a state to innovate) of a state (Grinstein, Wagner & Edwards, 2005). State governments should examine their internal characteristics to evaluate if they have the capability to take the risk of being the first implementing a new policy. In this case, Iowa was the first state adopting IDA policy due the imminent need for new welfare systems.

Lastly, policy innovation recognizes four sequential and interrelated activities; success in one activity affects success in others. The activities are: (1) identifying problems, (2) networking in the policy arena, (3) shaping the terms of policy debates, and (4) building coalitions to support policy innovations; i.e. policy innovators must present problems, capture the attention of the policy makers and establish

the necessity of action (Sherraden, 2000). Sherraden successfully followed this sequence; he identified the problem, built networks and coalitions with policy makers to introduce innovation.

(ii). Policy Diffusion: Diffusion theory suggests that policy-making activity at the state level may occur either through internal processes or by building on what has occurred in other states (Berry & Berry, 1999). There are several types of policy diffusion model and IDA policy covers regional diffusion model, vertical influence model and national interaction model.

The *regional diffusion model* came into play in most of the 36 states that passed IDA laws from 1993 to 2004, which were largely based on the first few pieces of successfully-passed IDA legislation (Grinstein, Wagner & Edwards, 2005). The successful passage of IDA legislation by even a few early adopters encouraged nearby states to adopt similar legislation. After Iowa, other states adopted IDA policy including Arizona, Texas, Tennessee, Indiana, and Ohio. However, as more states began instituting IDA legislation, hybrid models of Iowa's law were created (Edwards & Mason 2003). The *vertical influence model* sees states as emulating the policies of the national government (Berry & Berry, 1999). Key step to the rapid diffusion of IDA policy in the mid-1990s was adoption of PRWORA which allowed states to use TANF funds to create community-based IDA programs. Significant number of states have invested several millions of TANF dollars into state-supported IDA programs, since 1996 (Grinstein, Wagner and Edwards, 2005). Also, IDA legislations of some states mirror the IDA language in AFIA which is another federal IDA policy ((Edwards & Mason, 2003). The *national interaction model* assumes that policy diffusion stems from continuous interactions among state officials (Berry & Berry, 1999). In the late 1990s, state government officials' participation in conferences and workshops sponsored by organizations such as CSD, CFED, National Council of State Legislatures and the National Governor's Association created an environment that allowed state officials to discuss IDA policy development and funding possibilities with each other and encouraged some states to adopt IDA legislation.

(iii). Bottom-Up Approach: This approach emphasizes the importance of the network of actors directly responsible for policy executions, the explicit bargaining and accommodation that determines the path by which policies are implemented, and the important role played by the front-line or “street level” agents directly responsible for implementation (Theodoulou and Kofinis, 2004). State governments, financial institutions and community organizations have important roles in the execution of IDA policy and all of these stakeholders have face-to-face interaction with IDA recipients at the certain point of the implementation process. Furthermore, all these stakeholders maintain continuous interaction with each other in order to determine the direction of IDA policy implementation. These features of IDA policy demonstrate the bottom-up approach theory.

(iv). Incrementalism: Incrementalism focuses on making necessary changes and adaptations in existing practices and can be viewed as a fine-tuning of existing policy (Theodoulou and Kofinis, 2004). IDA policy has been subject to modifications both at federal and state level. From its inclusion as a state option in the federal welfare reform law in 1996, federal IDA policy has represented important changes especially in terms of federal funding opportunities of IDA and eligibility of IDA accounts. Moreover, since states have opportunity to run their IDA programs, they tend to revise their IDA policy according to the changing needs, changing funding opportunities and changing IDA regulations at the federal level. Furthermore, results of demonstration projects such as ADD and intensive research efforts on IDA conducted by organizations such as CFED and CSD paved the way for state level IDA policy amendments. Currently, the more prominent trend among states is toward flexible IDA policy (Grinstein, Wagner & Edwards, 2005). All these aspects represent the features of incrementalism theory.

VI. Prognosis:

Although federal government has been very active in IDA policy making, states have led the way for IDA policy development over the past years. In this regard, federal policy-makers should take a look to state IDA policies for creative and innovative ideas for designing more inclusive asset-building policies since by taking a more inclusive approach, policymakers and advocates have an opportunity to

move away from some of the limitations of existing state IDA policy, towards a more comprehensive and universal asset-building policy, that well-serves people at all income levels (Edwards and Mason, 2003). For instance, some of the most significant state innovations include: exempting the earnings on IDA savings from taxation, exempting IDA deposits as assets, when determining qualifications in state-administered means-tested programs, allowing IDA uses beyond home ownership, small business capitalization, or college education; such as home repair, car purchase, retirement savings, health care, job training, and job-related expenses, establishing IDAs for children, typically for educational expenses and identifying and establishing a wide variety of funding streams at the federal, state, and local levels.

Advances in state IDA policy created a network of policymakers, program providers, and program participants who witnessed the shift toward a large, inclusive, asset-building policy. This country has definitely seen a shift in welfare policy. This change highlighted the role of individual accounts and account systems. The creation of multiple accounts, including 401(k)s and Individual Retirement Accounts (IRAs) is indicative of the trend to deliver public benefits through an account structure.

Sherraden has observed that welfare policy goals are being achieved through individual asset accounts. He predicts that, someday, all the existing individual asset account structures—IRAs, Medical Savings Accounts, 401(k)s, Individual Training Accounts, and IDAs—are likely to merge into one system. It is very possible that at the center of such an inclusive asset building agenda is an account-based system that is simple, widely available, and portable, with incentives that are accessible to households with fewer resources. Research has demonstrated that low-income persons can successfully save in IDAs, and that IDAs are effective in building assets (Boshara, 2003).

Elvira Solanes, Financial Services Associate for Women's Initiative², says that California and in general the U.S., need a broader set of asset policies, to reach low-income people. According to her experience, successful policies that encourage general asset building have several things in common: they are targeted to the most disadvantaged; they emphasize the creation of mobility opportunities; and they are framed in language that focuses on playing by the rules and rewards effort and sacrifice.

² Women's Initiative is a non-profit organization that implements an IDA program for low-income women in the Bay Area.

She believes that IDAs should be more flexible and allow recipients to use the money for more than only education, a new home or a business. Also, she said that many times, low income people need to withdraw money prior to the end of the program; most IDAs penalize this, without considering the needs of the low-income families. Therefore, she thinks that IDA requirements should be more flexible and that policymakers should take into account that the reality of poor or low-income households is different and be more considerate of their needs. In addition, funding is another problem, nonprofit organizations not only need the funding to match the accounts but also to put together seminars and financial classes for the IDA account holders. Low-income people have little or zero financial education and need training on how to use their assets and plan for the future. Lastly, Elvira mentioned that often times clients drop the program because participating in IDAs can disqualify them from other public programs, such as medicare, calworks and scholarships for their children. This system is obviously discouraging people to save money and build assets. Partnerships need to be done among government institutions to make sure that IDAs and other public programs are not mutually exclusive.

Consequently, since the early 1990s, the development of state IDA policy has greatly contributed to interest in asset-building as an economic development strategy in the United States (Edward & Mason, 2003). As explained above, there are some challenges in implementation of the IDA policy such as funding and asset limit problems, however; IDAs seems to remain a viable policy since studies suggest that IDA policy can help low income population escape poverty and build assets. Moreover, IDAs have generated substantial attention and bi-partisan political support among the President, federal and state governments, financial institutions and nonprofit organizations. The findings presented in this paper indicate that IDA policy will continue to be at the center of asset building policies of United States in the future.

Appendix 1.

TIMELINE FOR IDA POLICY

1990

The first policy reports on IDAs were published by the Corporation for Enterprise Development (CFED) and the Progressive Policy Institute.

1991

Publication of *Assets and the Poor*, by Michael Sherraden, Director of the Center for Social Development (CSD) at Washington University in St. Louis.

First state IDA legislation was introduced in Iowa.

The Select Committee on Hunger held the first IDA hearings and introduced IDA legislation in the U.S. House of Representatives.

1993

First state IDA law was enacted in Iowa.

First IDA initiatives were implemented by community-based organizations.

1996

The Joyce Foundation funded three IDA pilot programs in Illinois, Indiana, and Wisconsin.

With the adoption of The Personal Responsibility and Work Opportunity Act of 1996 (PRWORA) IDAs were included as a state option in the federal welfare reform law.

1997

CFED and CSD launched the American Dream Demonstration (ADD) in September.

1998

First IDA National Learning Conference is held in Chicago, IL in March. (300 attendees)

Assets for Independence Act of 1998 (AFIA) was signed into law in October, establishing a 5-year, \$125 million federal demonstration for IDAs.

1999

U.S. Department of Health and Human Services (HHS) issued a ruling that IDA participation does not count as "assistance" under Temporary Assistance for Needy Families (TANF) and therefore does not count against the 5-year time limit.

Second IDA National Learning Conference is held in Oakland, CA in March. (450 attendees)

In April, the Savings for Working Families Act (S.2023) was introduced in the U.S. Senate.

In June, ORR announced the availability of funding to establish and manage IDAs for refugees.

In September, HHS announced its first 40 grant awards under AFIA.

In October, the Internal Revenue Service (IRS) ruled that matching IDA funds under AFIA are not taxable to account holders, and that contributions to IDA initiatives funded under AFIA are tax deductible.

In December, Congress approved \$10 million for the Assets for Independence Act (AFIA) in its FY2000 budget.

2000

In February, the Savings for Working Families Act (S.2023) was expanded and reintroduced in the U.S. Senate, and a companion bill (H.R.4106) was introduced in the U.S. House of Representatives.

Third IDA National Learning Conference is held in Austin, TX in March. (550 attendees)

In April, Presidential Candidate and Texas Governor George W. Bush proposed IDAs in his "New Prosperity Agenda."

In June, the Savings for Working Families Act was included in the Community Renewal and New Markets Act of 2000 (S.2779).

In October, IDA provisions were included in the Senate Finance Committee's version of the Community Renewal and New Markets Act (S. 3152), a bill proposing a range of tax breaks and regulatory relief to encourage economic development in low-income areas.

In December, Congress appropriated a full \$25 million for AFIA in fiscal year 2001. Also, Congress and President Clinton approved a set of amendments to AFIA that were introduced and advocated for on behalf of the IDA field.

2001

In February, President Bush includes IDAs for homeownership in his proposed initiatives for the Department of Housing and Urban Development.

Fourth IDA National Learning Conference is held in Washington, DC in March. (802 attendees)

CFED publishes the IDA State Policy Guide.

2002

Fifth IDA National Learning Conference is held in Windsor, Canada in March and draws an international audience for the first time (674 attendees).

Charity Aid, Recovery, and Empowerment (CARE) Act, which includes the IDA Tax Credit was introduced.

AFIA is fully funded at \$25 million.

2003

President Bush included the CARE Act as a top priority during the State of the Union Address.

American Dream Demonstration ends.

CARE Act of 2003 was introduced.

CFED begins to develop a new IDA Field Infrastructure (later called IDA Field Strategy) with the help of an advisory committee of IDA stakeholders.

First annual IDA Program Survey is conducted.

State Asset Development Report Card is released.

2004

Sixth IDA National Learning Conference is held in New Orleans in September (738 attendees).

In July, members of the House and Senate introduce the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act to create IDA-like accounts for children, or "KIDS Accounts."

IDA Field Strategy work continues, with an Options Paper released at the 2004 Conference, and feedback obtained through roundtable sessions at the conference and online.

The Employer IDA Project with United Way of America starts.

2005

CFED collaborates with the Federal Reserve System to develop and implement a regional forum series on asset building.

ASPIRE, SWFA, and CARE are reintroduced.

Planning for the 2006 Asset Building Learning Conference starts.

Native IDA Training Institute begins.

The Assets and Opportunity Scorecard is released.

Senate Appropriators create a \$1.5 million earmark for Marriage Development Accounts - matched savings accounts for married couples and youth in the District of Columbia.

IDA Program Survey reports 526 active IDA programs in the US.

2006

In February, the Savings for Working Families of 2006 (H.R. 4751) was introduced.

CFED and the community affairs offices of the Federal Reserve System convene two forums on asset building in Kansas City and Atlanta.

Eighth Assets Learning Conference was held in Phoenix September 19 - 21, 2006.

2007

In March, the Savings for Working Families Act of 2007 (H.R. 1514 & S. 871) was introduced. The bill currently has 76 cosponsors in the House and 20 in the Senate.

In May, The Beginning Farmer and Rancher Opportunity Act of 2007 (S. 1460) was introduced. The legislation would match the savings of beginning farmers towards the purchase of farming or ranching equipment, supplies, training, livestock, land, building or other necessary items. Business assistance is also provided to savers.

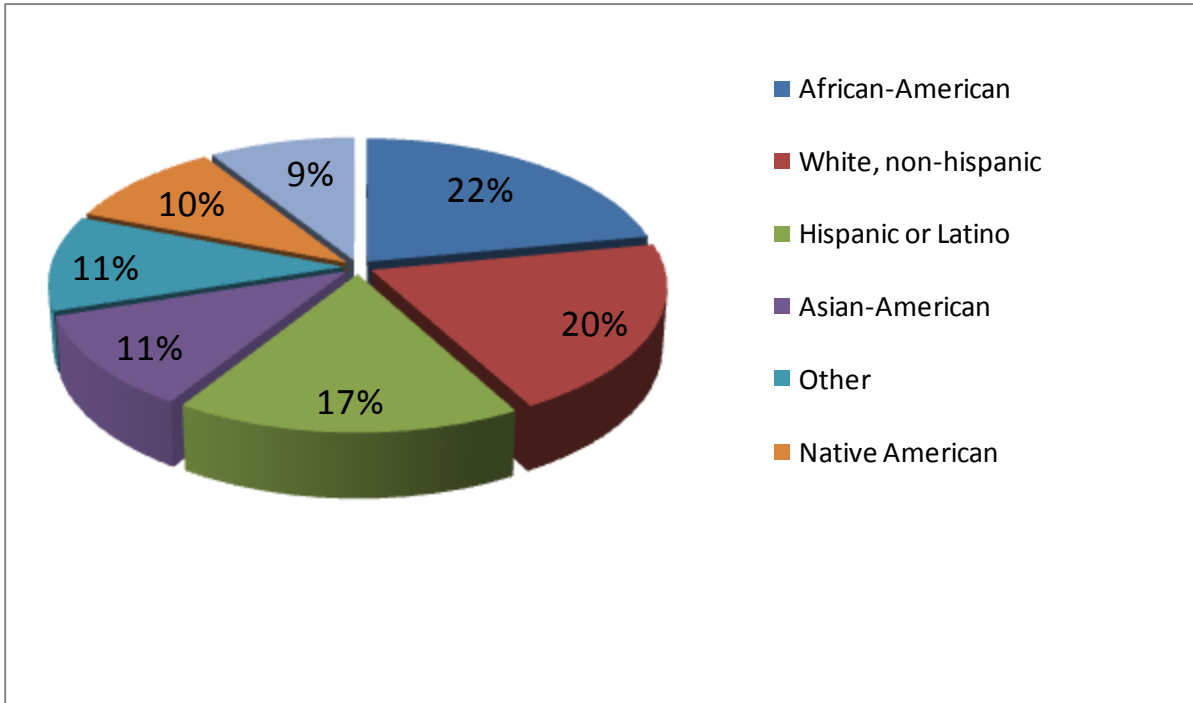
Sources: Corporation for Enterprise Development. Federal Individual Development Account Policy. Retrieved from November 15:

http://www.cfed.org/imageManager/documents/SWFA/Timeline%20on%20Asset-building%20Policy_2007.pdf

<http://www.cfed.org/focus.m?parentid=2&siteid=374&id=692>

Appendix 2.

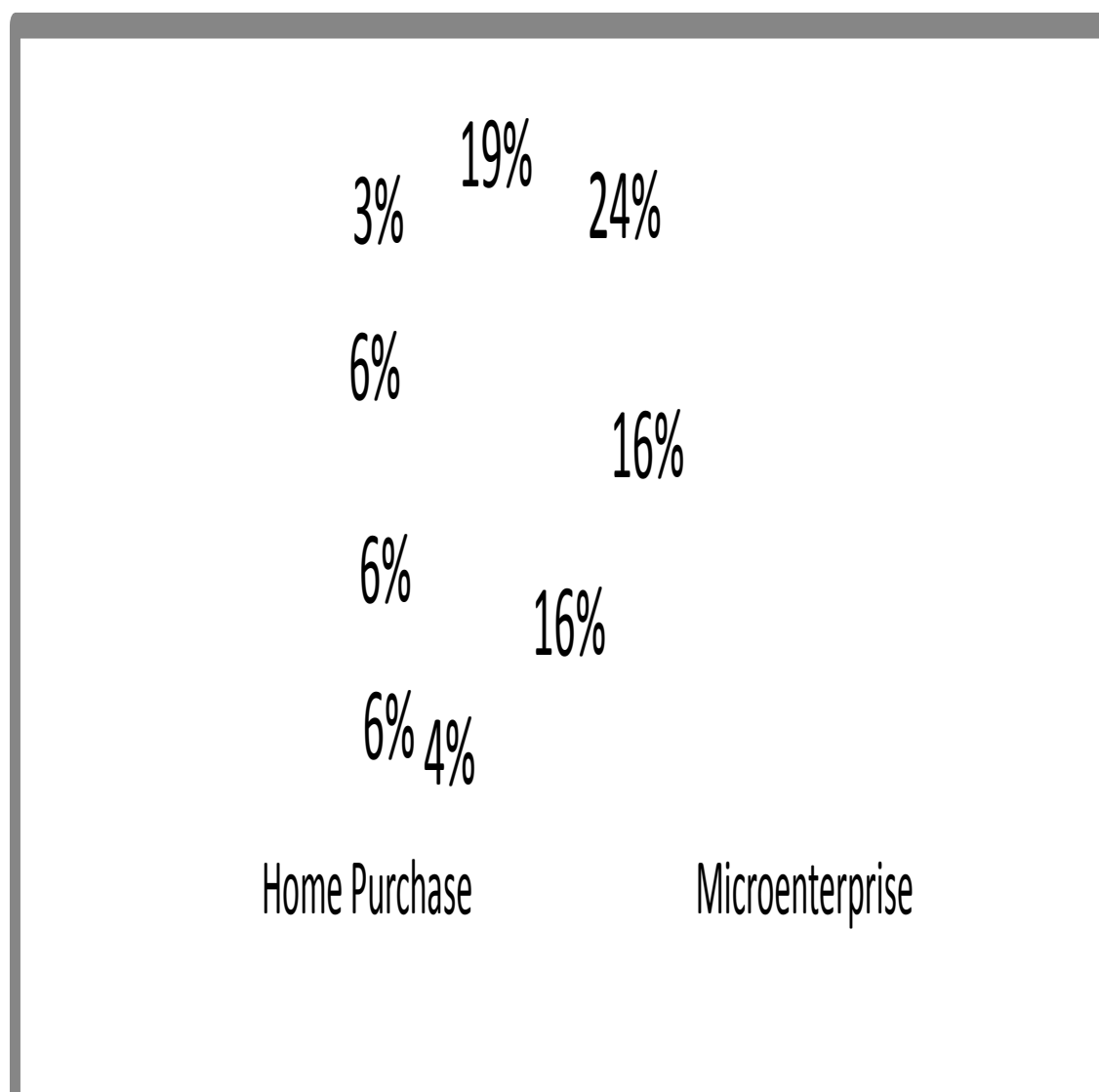
IDA enrollment by ethnicity



Source: *Individual Development Accounts: Providing Opportunities to Build Assets*, CFED, January 2007.

Appendix 3.

Asset Purchased by IDA Account Holders

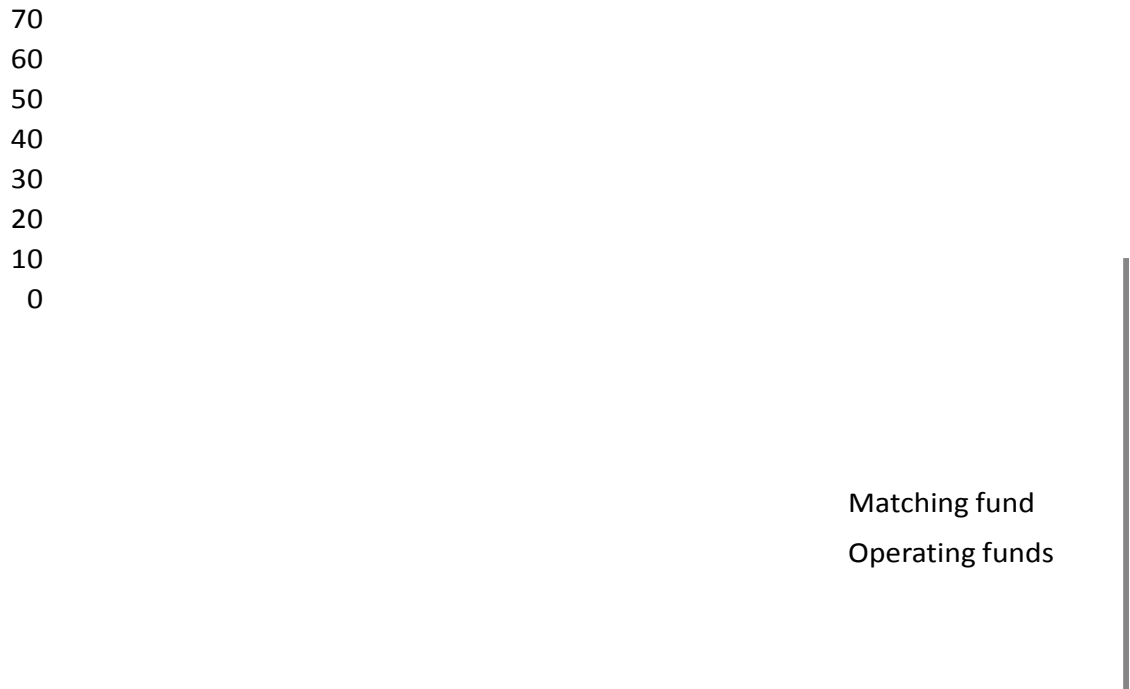


Source: *Individual Development Accounts: Providing Opportunities to Build Assets*, CFED, January 2007.

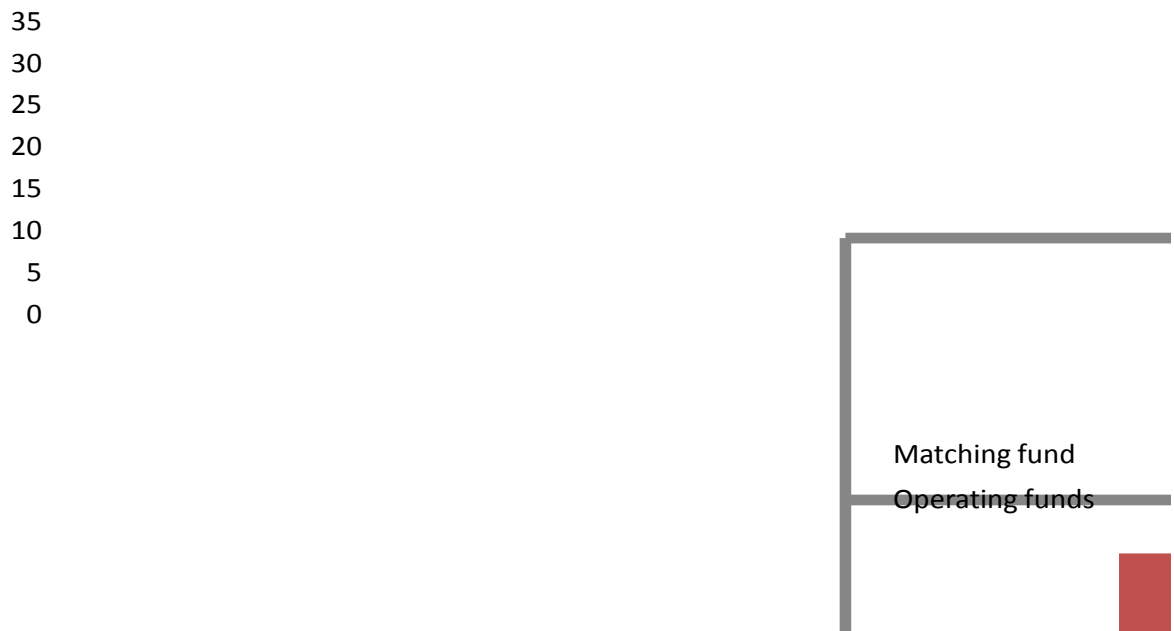
Accountholders in Assets for Independence (AFI)-funded IDA programs have saved on average \$533 towards their assets purchase. The total saved by over 30,000 AFI participants is \$14.6 million. The match rates in these programs ranged \$1:\$1 to \$8:\$1. IDA account holders use the money most often for home purchase, small businesses start-up or expansion and post-secondary education.

Appendix 4.

Public sources of Operating and matching funds for IDA Programs



Private sources of Operating and matching funds for IDA Programs



Source: *Individual Development Accounts: Providing Opportunities to Build Assets*, CFED, January 2007.

References:

- Berry, F. & Berry, W. 1999. "Innovation and diffusion models in policy research." In *Theories of the Policy Process*, edited by P. Sabatier. Westview Press. Pages 169-200.
- Boshara, R. (2003). The \$6,000 solution. *The Atlantic Monthly*, 291(1), 91-95.
- Buchholz D. 2005. *IDA Survey Provides a Glimpse into the Growing Field*. CFED. Retrieved November 5 from:
<http://www.cfed.org/publications/assets/Assets%202005%20Number%201.pdf>
- CFED ,2007. Individual Development Accounts: Providing Opportunities to Build Assets. Retrieved November 19 from: http://www.cfed.org/imageManager/IDAnetwork/ida_one_pager_022607.pdf
- Cramer, R. 2006. *Public Policy and Asset Building: Promising Account-Based Systems and the Rationale for Inclusion*. *Journal of Poverty Law and Policy*. Retrieved November 25 from:
<http://community-wealth.com/pdfs/articles-publications/individuals/article-cramer.pdf>
- Finzel R. (2005). *Individual Development Accounts: How Legislators Can Use IDAs as a Tool to Increase Homeownership and Promote Asset Development*. Retrieved November 10 from:
<http://www.ncsl.org/programs/econ/housing/IDAshousing05.htm>
- Grinstein-Weiss M., Wagner K, Edwards K. 2005. *Diffusion of Policy Innovation: The Case of Individual Development Accounts (IDAs) as an Asset-building Policy*. CSD Working Paper No. 05-08. Retrieved November 20 from:
<http://gwbweb.wustl.edu/csd/Publications/2005/WP05-08.pdf>
- Hawe, M, J. 2004. *Individual Development Accounts and Community Action Agencies A Natural Partnership* http://www.nascsp.org/documents/IDAs_and_CAAs.pdf
- Karch A. 2006. *National Intervention and the Diffusion of Policy Innovations*. *American Politics Research* 2006; 34; 403. Sage Publications.
- Lohmer J. 2006. *Growing a Middle Class State Legislatures*. Retrieved November 14 from:
http://www.ncsl.org/programs/pubs/slmag/2006/06SLOctNov06_MiddleClass.pdf
- Lombe M., Nebbitt V., Buerlein J. 2007. *Perceived Effects of Participation in an Asset-Building Program on Construction of Future Possibilities*. *Families in Society*, 2007, v. 88, no. 3, page(s) 463-471
- Report to Congress Assets for Independence Program Status at the Conclusion of the Sixth Year June 2006*. Retrieved November 20 from:
http://www.acf.hhs.gov/assetbuilding/congressionalreports/2006/AFI_2006_Report_to_Congress.pdf
- Rohe W. M., Gorham L. S., Quercia R. G., 2005. *Individual Development Accounts: Participants' Characteristics And Success*. *Journal Of Urban Affairs*, Volume 27, Number 5, pages 503–520.
- Sherraden, M. 1991. *Assets and the poor: A new American welfare policy*. New York: M. E. Sharpe Inc.
- Sherraden M. 2000. *From Research to Policy: Lessons from Individual Development Accounts*. *Journal of Consumer Affairs*, 34(2), 159-181. Retrieved November 5 from:

http://www.community-wealth.com/_pdfs/articles-publications/individuals/report-sherraden.pdf

Sherraden, M. 2001. *Asset-building policy and programs for the poor*. In T. Shapiro & E. Wolff (Eds.), *Assets for the poor: The benefits of spreading asset ownership* (pp. 302–323). New York: The Russell Sage Foundation.

Theodoulou, S. and Kofinis, C. 2004. *The Art of the Game*. Thomson Wadsworth.

<http://gwbweb.wustl.edu/csd/asset/idas.htm>

<http://www.cfed.org/>

<http://www.results.org/website/article.asp?id=736>