Building Wealth for Family Economic Success

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Margins to Mainstream: A Peer Exchange Workshop — October 24-25, 2003 — Baltimore, MD
Sponsored by the Annie E. Casey Foundation, and co-organized by Coalition of Community Foundations for Youth (CCFY) and Rural Development Philanthropy Learning Network (RDPLN) — The Aspen Institute

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Focus: 

**Inclusion in Building Wealth**

*Bring everyone into asset-based policy*

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

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

*Achieve adequate levels of asset accumulation, given the purposes of the policy*
I. Background and Context
Definitions

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

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

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

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

Development occurs through asset accumulation and investment.
Increasing Questioning of Income as Sole Definition of Poverty and Well-Being


Assets can be seen as part of this discussion. One measure of long-term capabilities.
Different Inequalities: US Income and Net Worth Inequality by Race
(Oliver and Shapiro, 1995; Wolff, 2001)

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

Ratio of white to non-white net worth: 10 to 1
Comparing Household Income Poverty and Asset Poverty, 1998
Haveman and Wolff (2000)

Income poverty 10.0%
Net worth < 3 mo. at poverty line 25.5%
Liquid assets < 3 mo. at poverty line 39.7%
Can Policy Aim for Asset Accumulation?

Already have large asset-based policies

Operate mostly through the tax system

The poor are left behind
Examples of US Asset-Based Policy

Home ownership tax benefits
Investment tax benefits
Retirement accounts with tax benefits:
  401(k)s, 403(b)s
  IRAs, Roth IRAs
Other asset accounts with tax benefits:
  Individual Training Accounts
  Educational Savings Accounts
  State College Savings (529) Plans
  Medical Savings Accounts
  Others . . .
Asset-Based Policies in the US: Growing Rapidly

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

Tax expenditures for asset building in homes and investments also growing rapidly
Asset-Based Policies in the US: Large and Regressive

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

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

(Sherraden, 1991; Howard, 1997; Seidman, 2001)
The Poor Do Not Have the Same Opportunities and Subsidies for Asset Accumulation

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

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

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

Asset building subsidies for the nonpoor

Asset building disincentives for the poor

A dual policy that is both unfair and counterproductive
Motivating Question

Why not asset accumulation by the poor?
II. Policy Innovation and Development
Insight

Discussions with “welfare” mothers during 1980s:

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

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

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

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


Work with other federal legislation (welfare reform)

Initiate state policy (State Human Investment Project)
Policy

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

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

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

During 1990s, most states adopted some type of IDA policy
### Growth of IDAs in US: Estimated Number of Programs

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<td>2004</td>
<td>600?</td>
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Growth of IDAs in US:
Estimated Number of State Policies

1996  3
1998  10
2000  20
2002  40
2004  45?
## Growth of IDAs in US: Estimated Annual Expenditures ($ millions)

<table>
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<th>Year</th>
<th>Non-Profit</th>
<th>State</th>
<th>Federal</th>
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</tr>
<tr>
<td>2004</td>
<td>60?</td>
<td>50?</td>
<td>300?</td>
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</table>
Only a Beginning

Today $100-$200 million annually for IDAs

But over $100 billion for retirement account tax benefits

Goal is large, inclusive policies for asset building

Such as President’s Clinton’s proposal for Universal Savings Accounts (USAs) at about $50 billion annually
III. Theory and Research
Two General Theoretical Perspectives

1. Saving and asset accumulation are shaped by institutions, not merely individual preferences.

2. Assets have multiple positive effects, not merely deferred consumption.
1. Institutional Factors That May Affect Saving and Asset Accumulation

- Expectations
- Incentives
- Information
- Access
- Facilitation

(Beverly and Sherraden, 1997; Sherraden, Schreiner, and Beverly, 2003)
2. Possible Effects of Asset Holding

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

(Sherraden, 1991; Page-Adams and Sherraden, 1997; Scanlon and Page-Adams, 2001)
Two-Pronged Research Strategy

Applied research (policy demonstrations)

Basic research (with existing data sets)
Applied Research on IDAs: American Dream Demonstration (ADD)

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

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Participants in ADD

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

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

...large proportion of single mothers of color
IDA Savings in ADD
at December 31, 2001

• Average monthly net deposits: $19.07
• Typical match rate: 2:1
• Average accumulation: $57 per month ($684 per year)
• Average use of match: 51 cents of every dollar available
• Average participant made a deposit in 6 of 12 months

... Far greater amounts than in non-IDA saving and checking accounts
Saving Pattern During the Year

IDA deposits increased sharply in March and April

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

... IDAs might be successfully combined with the EITC or other lump sum distributions
Income and Saving Performance in ADD

• Income is not associated with being a “saver” in ADD

• Small differences in net savings amount by income:
  For some types of income, each $100 in income is associated with about $0.50 in average monthly net deposit. Not large effects.

• The poor save a higher proportion of their income.
  . . . Cannot assume that the very poor cannot save successfully in asset-building programs
Welfare Recipiency and Saving Performance in ADD

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

. . . Cannot assume that welfare recipients cannot save successfully in asset-building programs
Institutional Characteristics and Saving Performance

• Higher match rates are positively associated with being a “saver,” but not with average monthly net deposits. The latter finding is expected, consistent with 401(k) research.

• Direct deposit is positively associated with being a “saver.”

• Up to 8 hours, financial education is positively associated with average monthly net deposits. Above 8 hours, there is no clear relationship.
Uses of IDA Savings: Matched Withdrawals

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

- 28% for home purchase
- 23% for microenterprise
- 21% for post-secondary education
- 18% for home repair

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

... high demand for home ownership
IDAs: Perceptions of Economic Effects

Because of IDAs, more likely to:  Percent Agree

Work or stay employed  59
Work more hours  41

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IDAs: Perceptions of Human Capital Effects

Because of IDAs, more likely to:

Make educational plans for self 59
Make educational plans for children 60

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IDAs: Perceptions of Security and Control Effects

Because of IDAs, more likely to:                  Percent Agree

Feel more economically secure 84
Feel confident about the future 93
Feel in control of life 85
Effects of IDAs: A Main Theme is Future Orientation And Goal Attainment

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

The IDA program “creates goals and purpose.”

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

. . . Suggests that cognitive psychological theory may be useful.
Example of Basic Research

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

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

This relationship occurs in part through expectations of the mother: assets are associated with expectations, which are in turn associated with educational attainment.
IV. Directions for Asset Building Policy
Policy Goals

• Include everyone in asset building (universal)

• Build assets of the poor (progressive)

• Make policy open-ended, life-long (infrastructure)

• Make policy simple and flexible in meeting life goals

• Make policy fully portable
Reflections on Policy Progress

Contributing to a change in thinking about poverty and policy

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

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

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

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International Policy Development: Influenced by ADD Research

• “Saving Gateway” and “Child Trust Fund” in the United Kingdom

• Family Development Accounts in Taipei

• IDAs and “Learn$ave” demonstration in Canada

• IDAs and ADD research mentioned in National Party Congress in China (2002), conference planned (2004)

• Policy initiatives in Mexico, Australia, elsewhere
Possible Transnational Policies

IDA projects with remittances to Mexico under discussion

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

... Potential models for regional and global social policy
Promising Policy Strategy: Universal, Progressive Accounts for All Children at Birth

Sherraden (1991) and Lindsey (1994)

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

Most likely pathway to inclusive asset building in US

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

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

It is likely to continue to expand.

The challenge will be inclusion of the whole population.
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Other Resources on IDAs Asset Building

Corporation for Enterprise Development
www.cfed.org

New America Foundation
www.newamerica.net