Program Costs for Individual Development Accounts: Final Figures from CAPTC in Tulsa

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Abstract

What does it cost a non-profit community organization to run a "high-touch" program for Individual Development Accounts (IDAs)? This paper presents final unit-cost estimates (updating Schreiner 2002a and 2000a) for the Community Action Project of Tulsa County. A participant-month of IDA services had program costs of about $61 (excluding matches). With net monthly IDA savings of about $20 per participant, $1 saved in an IDA cost about $3. Benefits were not measured, so it is not known whether they exceed costs. In any case, knowledge of costs helps inform IDA policy. While not precluding complementary "high-touch", targeted, time-limited, community-based IDA programs with state, local, or private funding to provide financial education and other supports, it seems likely that an inclusive, permanent IDA program would require a high-tech, "low-touch" basic design run by low-cost asset managers with federal funding.

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1. Introduction

Policymakers and analysts are coming to realize that saving and asset accumulation drive development and long-term improvement in well-being (Schreiner and Sherraden, forthcoming; Sherraden, forthcoming; Schreiner *et al.*, 2001; Shapiro and Wolff, 2001; Ackerman and Alstott, 1999; Conley, 1999; Oliver and Shapiro, 1995; Friedman, 1988; Haveman, 1988). For the middle and upper classes, a variety of public policies already subsidize saving and asset accumulation through education, home ownership, and retirement savings (Howard, 1997; Sherraden, 1991).

The poor, of course, could use similar help. While saving is not easy for anyone, it is even more difficult for the poor because they start with fewer resources and because the policy mechanisms that subsidize saving tend to work through tax breaks or to require existing wealth.

Individual Development Accounts (IDAs) are a new policy proposal designed to address these constraints and to include the poor in institutions that promote saving and asset accumulation. IDAs provide matches for savings used for home purchase, post-secondary education, or microenterprise. (Some programs also match retirement savings, job training, home repair, or the purchase of cars or computers.) IDA participants also receive financial education and counseling from program staff.

IDAs have attracted broad political support. Bill Clinton supported IDAs in his 1992 campaign and later proposed a large matched-savings program (Wayne, 1999). In 2000, both George W. Bush and Al Gore had IDA proposals in their platforms (Bush, 2000; Kessler, 2000). About 34 states have IDA legislation (Edwards and Mason, 2003), and the Assets for Independence Act authorized $250 million for IDAs in 1999–2009. Furthermore, the Savings for Working Families Act—if passed—would provide $450 million for 300,000 IDAs over 10 years. Outside the United States, Taiwan has an IDA-like demonstration, and Canada has sponsored a randomized IDA experiment. In the United Kingdom, the Savings Gateway resembles IDAs (Kempson, McKay, and Collard, 2003), and the new Child Trust Fund will give each newborn an account and a deposit, with larger deposits for children in poor families (H.M. Treasury, 2003).

IDAs provide benefits to participants. But what do IDAs cost society? This paper looks at program costs in a "high-touch" IDA program run out of a non-profit community organization, the Community Action Project of Tulsa County (CAPTC).

Social cost is the value of resources used up in the production of IDAs. Schreiner (2002a and 2000a) describes the concepts of cost measurement and documents "start-up" and "on-going" costs at CAPTC from October 1998 through June 2001. (Sherraden, 2000, comments on this exercise.) The present paper summarizes costs through the end of the program in December 2003.

From start to end, CAPTC's IDA program produced the following accumulated outputs (Figure 1, lines d–f):

- 471 participants
- 15,213 participant-months
- $301,645 of net IDA savings

Excluding matches of $377,947 (line j), accumulated program costs were estimated at $922,473 (line i). Thus, costs per unit of output were (lines n–p):

- $1,959 per participant
- $61 per participant-month
- $3.06 per $1 of net IDA savings

Annual costs per participant-month were highest at "start-up" in 1998–9 ($86, line l). As the up-front costs of recruitment and financial education were diluted over a growing participant base, unit costs decreased in 2000–1 to $56 and $41. In 2002–3, however, unit costs increased to $55 and then $94, as participants left the program, either after having made a matched withdrawal (a little less than half of participants) or without having made a matched withdrawal.

After the first two years, accumulated costs per participant-month were constant at about $60 (line o). For comparison, very rough self-reported cost estimates for 14 IDA programs in the American Dream Demonstration were about $70 per participant-month (Schreiner *et al.*, 2001).

Annual net IDA savings decreased at a greater rate than annual costs (net additions to IDA savings were barely positive in 2002–3, due to unmatched withdrawals), so the costs per dollar of net IDA savings increased over 2001–3. For this IDA design at CAPTC, once start-up costs were diluted, time did not reduce unit costs.

The average match rate at CAPTC was about 1.5:1. Thus, matched withdrawals turned each $1 of net savings into $2.50 of asset accumulation ($1 of savings plus $1.50 in matches). Social cost per $1 of asset accumulation was about $1.82, found as [$922,473 + ($301,645 x 1.5)] / [$301,645 x (1+1.5)].

Are costs "high" or "low"? The answer ultimately depends on the benefits produced by IDAs. Unfortunately, these are still unmeasured. Furthermore, IDAs are still young, and the possible efficiency of service provision is still unknown.

How do IDAs stack up against other financial- and human-capital programs? Ng (2001) finds that IDAs cost more per participant than 401(k) plans, perhaps because current IDA programs have fewer participants to dilute fixed costs. Costs for IDAs are in the same range as some human-capital programs (such as Women, Infants, and Children) but are much lower than for other programs (such as Head Start).

Of course, the costs of IDAs depend on program design and in particular on the extent of program services. Furthermore, although the cost estimates here were made with great care, some values cannot be known with certainty and so, like all such exercises, the estimates rest on a host of imprecise measurements, heroic assumptions, and back-of-the-envelope guesses. The margin of error is unknown, and the summary

measures of output ignore many aspects of the bundle of services that is an IDA. Finally, these financial-cost estimates do not consider benefits.

Even without knowledge of benefits, rough measures of costs can still be useful. First, they provide a benchmark for improving future estimates. Second, once benefits are estimated, unit costs are key inputs for financial benefit-cost analysis. Third, rigorous measurement of costs provides a healthy balance to anecdotes about the benefits of IDAs. Wise policy choices must consider not only benefits but also costs (Schreiner and Yaron, 2001; Devarajan, Squire, and Suthiwart-Narueput, 1997). Fourth, cost estimates set a performance benchmark; all else constant, the same output for less cost is better. Fifth, the very existence of measures of cost tends to produce healthy pressures for efficiency (Schreiner, 2003).

The cost estimates in the two predecessors of this paper sparked lively debate in the IDA field and contributed to a growing desire to develop and test IDA designs whose cost structures would allow making IDAs available to all people at all times. Such a permanent and universal IDA policy would—of necessity—be federally funded and be run by a center asset manager rather than from "high-touch" non-profits. Of course, states, localities, and private donors could still fund the targeted, time-limited, community-based "high-touch" programs that have been the norm so far, perhaps to complement the basic policy structure with financial education and other supports.

It is tempting to cut costs by hacking off services from the IDA bundle. The real challenge, however, is to determine which IDA services matter the most and then to

find efficient ways to provide them. Improvement requires innovation, and innovation requires incentives. Knowledge of costs tends to create incentives to innovate by frustrating contentment with the status quo.

The rest of this paper proceeds as follows. The next section describes IDAs, CAPTC, and outputs for IDAs at CAPTC. The section after that presents estimates of costs. The final section discusses unit costs along with caveats and implications.

2. IDAs, CAPTC, and outputs

This section describes IDAs, the design of CAPTC's IDA program, the characteristics of participants, and some basic measures of output.

2.1 Individual Development Accounts

IDAs are subsidized savings accounts. Unlike other subsidized savings accounts such as Individual Retirement Accounts or 401(k) plans, IDAs are targeted to the poor, provide subsidies through matches rather than through tax breaks, and require participants to attend financial education. IDA savings are matched if used to buy assets that improve long-term well-being, usually home purchase, post-secondary education, and microenterprise. In principle, accounts can be opened at birth and can remain open for a lifetime. Match funds may come from public or private sources, and there are no restrictions on unmatched withdrawals (except the loss of the match). Thus, IDAs are a flexible policy tool that almost anyone—the government, employers, or development organizations—can plug into. Sherraden (1991 and 1988) proposed IDAs as an example of asset-based development.

To date, most IDA programs have been run out of community non-profits with a mix of public and private funds. Because of funding constraints, the time frame for making deposits and matched withdrawals has usually been limited to 2–5 years. Accounts are kept with regulated, insured banks and credit unions. Most programs require financial-education classes and provide social support and financial counseling.

2.2 IDAs at CAPTC

The Community Action Project of Tulsa County is a comprehensive, non-profit community anti-poverty agency whose mission is to help people in economic need to achieve self-sufficiency. As part of the American Dream Demonstration, CAPTC ran one of the first and largest IDA programs. This program featured a social experiment in which qualified applicants were randomly assigned to either a "treatment" group with access to IDAs or a "control" group without access to IDAs. Data was collected from both groups for 4 years, and future work will estimate the benefits of IDAs by comparing outcomes between the two groups. The program started in October 1998, enrolled its first participant in January 1999, and ended in December 2003.

On the whole, IDA participants at CAPTC were poor. To qualify, they had to show past-month pay stubs and past-year tax returns to prove that they were working and that their income was less than 150 percent of poverty. (Applicants also had to agree to participate in the experiment, even if assigned to the control group.) At enrollment, income for the 471 participants averaged 115 percent of poverty. About 45 percent had received income-tested public assistance (Figure 2), and 43 percent had received non-IDA social services from CAPTC or from a partner organization.

On average, participants were disadvantaged in terms of race/ethnicity, gender, and marital status. About 46 percent were Caucasian, and 43 percent were African American (Figure 2). In terms of gender, 77 percent were female. About 76 percent of participants were not married, and 51 percent were single mothers.

In terms of education, employment, and bank-account ownership, participants were relatively advantaged (Figure 3). Ninety-two percent were working or in school, and 72 percent had attended some college (29 percent had a degree). Before opening the IDA, 87 percent owned a passbook savings account and/or a checking account.

Matchable uses of IDAs at CAPTC included home purchase, post-secondary education, microenterprise, home repair, and retirement savings. The match rate was 2:1 for home purchase and 1:1 for other uses. At enrollment, 65 percent of participants planned to buy a house (Figure 4). The second-most common plan (13 percent) was "rolling over" the IDA plus match into a Roth IRA for retirement savings.

After opening an IDA, participants could deposit up to $750 per year for 3 years. Thus, maximum matchable savings was $2,250, and maximum asset accumulation (savings plus match) was $4,500 ($6,750 for home buyers). About 13 percent of participants saved the maximum amount, while 52 percent had net IDA savings of less than $100. Matched withdrawals were possible from 6–42 months after enrollment. Among participants with a matched withdrawal as of October 31, 2003, 42 percent did home repair, 21 percent retirement savings, 19 percent home purchase, 12 percent post-secondary education, and 6 percent microenterprise (Figure 4).

The average participant had net (matchable) IDA savings of $640, corresponding to asset accumulation (if matched at the average rate of 1.5:1) of $1,600. Participants made deposits in 7 of 12 months and saved 1.9 percent of their income in IDAs.

CAPTC required 12 hours of general financial education, 4 of them prior to opening an IDA. Asset-specific education was also required before matched withdrawals: 5 hours for home purchase, 2 hours of post-secondary education, 16 hours for microenterprise start-up, and 2 hours for retirement savings.

The IDAs themselves were passbook accounts in the participant's name in the Bank of Oklahoma. Participants could make unmatched withdrawals at any time. (CAPTC kept match funds apart, disbursing matches directly to vendors.) The bank paid interest on IDA balances and waived minimum-balance requirements as well as its standard fees for low-balance passbook accounts. The bank mailed quarterly statements to participants, and CAPTC mailed monthly statements that showed not only the IDA balance but also the corresponding match. If a participant went a month without making a deposit, CAPTC staff made "prodding" phone calls.

For this IDA design and these participants at CAPTC, Figure 1 (lines a–c) shows three measures of output: enrollments, participant-months, and net IDA savings.

An *enrollment* is when an applicant completes the requirements to participate and opens an IDA. There were 471 enrollments: 261 in 1999, 208 in 2000, and 2 in 2001.

A *participant-month* is a calendar month in which an IDA is open. For example, enrolling in January 1999 and closing the IDA in June 2000 implies 18 participant-months. The number of participant-months at CAPTC was 1,583 in 1999, peaked at 5,091 in 2000, and then decreased over 2001–3 from 4,435 to 3,020 to 1,084.

Net IDA savings are matchable dollars in an IDA or already-matched dollars from an IDA. That is, net IDA savings have been matched or could be matched. Net additions to net IDA savings were $52,061 in 1999, peaked at $145,910 in 2000, and decreased to $97,443 in 2001. In 2002–3, additions to net IDA savings were barely positive ($28,934 in 2002 and –$22,704 in 2003), due both to unmatched withdrawals as the program wound down and to the fall-off in the number of participants eligible to make matchable deposits in this period. All told, the average participant had net IDA savings of $640, or about $20 per participant-month. The next section presents estimates of the cost of producing these outputs.

3. Cost estimates

This section discusses some the challenges of the cost-measurement exercise and then presents the cost estimates.

3.1 Cost measurement at CAPTC

In broad terms, the cost exercise identified resources that were used up and then valued those resources. CAPTC accountants and IDA staff identified and valued cash expenses. Staff also identified in-kind and in-time donations, and the donors valued their contributions in financial terms. This is all straightforward (albeit subject to some judgment in valuation). The main challenges were to look at costs from an appropriate point of view and to make the cost estimates representative of a typical "high-touch" IDA program run by a community-based non-profit.

3.1.1 Social costs

The overall evaluation of the American Dream Demonstration—of which this financial-cost analysis is but one part—considers the points of view of seven groups of stakeholders: IDA participants, non-participants, the federal government, state and local government, the employees of IDA programs, private donors, and society as a whole (Schreiner, 2000b). For an evaluation, the most important point of view is that of society as a whole. The narrower points of view matter only inasmuch as all stakeholders—if they are to do their part—must receive benefits that exceed their costs.

Some stakeholders may not care about social costs (Sherraden, 2000). For example, if IDA participants' benefits exceed their costs, then they may not mind if

IDAs are a net drag on overall social development. Likewise, if IDAs have no fiscal cost, then the government may not mind if IDA programs divert private donations away from, say, food pantries or homeless shelters.

The role of the evaluator, however, is to take the point of view of society, because no one else will (Schreiner, 2003). IDA participants can be trusted to do their own benefit-cost analysis and to participate only as long as their expected benefits exceed their expected costs. Likewise, the government can look out for itself. But for a social decision such as IDA policy, an evaluator must check whether net benefits for some groups are enough to compensate for net costs for other groups.

While this cost exercise focuses on costs to society, specific groups can derive narrower measures from Figures 5–7. The focus on social costs has several implications. For example, matches are a wash for society, as costs to donors are exactly offset by benefits to participants. Also, contributions from private donors are counted as part of social cost, although what share is counted as diverted from other "good causes" is still a judgment call.

3.1.2 Representativeness

Estimates derived from cash and non-cash costs identified and valued by CAPTC and donors are good approximations of the true costs of IDAs at CAPTC; they have high "internal validity" (Orr, 1999). CAPTC's IDA program, however, was not a typical "high-touch" program run by a community-based non-profit. Thus, its low "external validity" could limit the relevance of the cost estimates for other programs.

For example, CAPTC was atypical in that it provided matches for retirement savings. Also, because CAPTC ran an earlier IDA program, the "younger sister" examined here did not have to start from scratch (decreasing costs) but faced a diluted pool of applicants (increasing costs). Furthermore, the program had many more participants (471) than most current IDA programs. Because CAPTC was one of the first and largest IDA programs, its staff were often called on to present at conferences, provide informal technical assistance to newer programs, and to support state and federal policy work. As pioneers, they could learn only from their own mistakes.

Most importantly, the program's experimental design—an atypical feature existing solely for purposes of evaluation—increased costs. Recruitment costs were at least twice as high, as only half of qualified applicants were assigned to the treatment group. The prospect of being assigned to the control group deterred some unknown number of potential applicants, further increasing recruitment costs. Explaining the experiment one-on-one to potential applicants also required a lot of staff time. Staff also had to collaborate with researchers during the design phase, and later they had to respond to requests for evaluation data. Finally, CAPTC knew the importance of the experiment for future IDA policy, and it responded by providing a very "high-touch" design. For example, staff called treatment-group members who had not opened an IDA to press them to do so. Staff also mailed monthly deposit-reminder cards to all participants, and they made phone calls to check up on participants who went a month without making a deposit. Because staff wanted the experiment to show that IDAs

work, they went the extra mile to help participants save successfully. Of course, this led to atypically high costs as well as atypically high outputs.

These factors have an ambiguous effect on unit costs relative to a "typical" program. To improve "external validity" and relevance, this exercise has attempted to measure costs as they would have been, had the CAPTC IDA program been typical. In particular, extraordinary recruitment costs were removed, along with most other costs obviously due to the experimental evaluation. Costs due to pioneering policy work and associated with the extraordinarily "high-touch" service, however, could not be removed. Further details are available on request and in Schreiner (2002a and 2000a).

No cost estimate is exact. The estimates here—while admittedly coarse—are accurate to an order of magnitude and are, in any case, far better than the (often implicit) assumption that costs are zero. In the end, what matters is not that estimates are perfect and incontrovertible—they never can be—but rather that the measurements, assumptions, and judgments that support them are explicit and therefore subject to critique and improvement (Schreiner, Ng, and Sherraden, 2003; Schreiner, 2002b).

3.2 Assumptions

The cost estimates below use several simplifying assumptions. First, the time value of money was ignored. This is mostly harmless, as the time frame was short, inflation was low, and most costs and outputs took place in the first few years. Second, unused funds were assumed to be returned to their donors. Third, donor's transaction costs in providing funds (and CAPTC's costs in securing funds) were assumed nil.

Fourth, the opportunity cost of participants' time in financial-education classes and in other IDA-related activities was ignored. Fifth, the opportunity cost to participants of saving—tying up resources in passbook accounts, rather than consuming them or investing them elsewhere—was ignored. Sixth, all donations—whether from public or private sources and whether in-cash, in-kind, or in-time—were assumed to be shifted from some other socially valuable use and thus to carry opportunity costs.

3.3 Cost estimates

This section presents estimates of cash and non-cash costs by source.

Private entities that bore costs for CAPTC's IDA program (Figure 5) included the Corporation for Enterprise Development (CFED, which handled funds from the private foundations who funded the American Dream Demonstration); the Bank of Oklahoma (BOk) and its philanthropic arm, the Kaiser Foundation; the Zarrow Foundation; CAPTC itself; individual VISTA volunteers; the IDA program's volunteer advisory board; and other private individuals and businesses. Overall, these private sources bore costs of almost exactly $300,000, 57 percent of it in cash. Most non-cash costs were for recruitment advertising and for waived account fees.

The federal government bore costs (Figure 6) through Community Service Block Grants (CSBG), Community Development Block Grants (CDBG), the Affordable Housing Program (AHP) of the Federal Home Loan Bank of Topeka, the Fannie Mae Foundation, the VISTA program, and public-service advertisements. The federal

government covered costs of about $612,000 (94 percent of it in cash), mostly for operating expenses through CSBG and CDBG.

State and local governments contributed $11,000 toward non-cash costs (Figure 7) through a few classes taught by the Oklahoma State Extension Service, some help with applicant in-take by the Tulsa Department of Urban Development, and some grant reporting by the Tulsa Housing Authority.

Overall, costs were about $922,000 (excluding the $387,000 in matches). The federal government covered about two-thirds of these costs, private entities covered one-third, and state and local governments covered 1 percent. About 81 percent were cash costs, and 19 percent were non-cash costs.

About three-fourths of cash costs were for staff salaries, rent, and overhead at CAPTC. This reflects not only CAPTC's "high-touch" approach but also that IDA programs produce social services and so most costs are for labor. The largest class of non-cash costs was waived bank-account fees ($5 per participant-month).

4. Unit costs and discussion

This section uses the outputs and costs just presented to estimate costs per unit of output. It concludes with a discussion of caveats and of implications for IDA policy.

4.1 Unit costs

From 1998 to 2003, output produced by CAPTC's IDA program could be seen as 471 participants, 15,213 participant-months, and/or $301,645 of net IDA savings (Figure 1, lines d–f). Excluding $377,947 in matches (line j), cumulative operating costs (line i) were $922,473. The estimates of unit costs are then (lines n–p):

- $1,959 per participant
- $61 per participant-month
- $3.06 per $1 of net IDA savings

Costs per participant rose through time, but this is natural because costs continued to accumulate even after all participants had enrolled. Costs per participant-month fell in the first three years of the program but then rose in the last three years, and costs per dollar of net IDA savings followed the same pattern. This may suggest that there are economies of size in IDA programs, as costs were lowest in the years with the most participant-months. Or it may suggest that costs were concentrated at the start in recruitment and then at the end of the program as staff managed matched withdrawals.

The average match rate at CAPTC was 1.5:1. Each $1.00 of net IDA savings produced $2.50 of asset accumulation. For each $2.50 of asset accumulation, there were $3.06 of operational costs and $1.50 of matches. Thus, when counting matches, each dollar of asset accumulation had a cost of about $1.80.

4.2 Discussion

What do these estimates of unit costs mean for IDA policy? While it is easier to measure costs than to make policy choices, policy choices are easier with cost measures in hand. The discussion below considers caveats to the exercise, possible political risks of cost measurement, how IDAs differ from traditional cash assistance, and some final speculations on the future of IDA policy.

4.2.1 Caveats to cost estimates

The cost exercise took care to count all costs (and only those costs) typical in the current incarnation of IDA programs. Like any such exercise, it mistakenly includes some costs and omits others. The direction of bias, however, is unclear, so the estimates could be too high or too low. While the exact margin of error is unknown, eliminating all bias probably would not change the orders of magnitude. It appears that in their current form as "high-touch", targeted, time-limited programs run from community-based non-profits, IDAs are costly.

Some specific caveats are noted here. First, this exercise looks at only a single IDA program, so the results may be purely idiosyncratic and thus void of general lessons. Second, costs are likely to fall with time, both for a given IDA program and for

the IDA field as a whole, as programs learn what works, as programs grow and reap economies of size, and as IDA infrastructure develops. In general, IDAs aim for development of the highest sort—to improve people's ability to do and to be what they have reason to want—and such development takes time and is often indirect and diffuse. In this sense, many costs have already been incurred, and most of the benefits are yet to come. Third, it was not possible to completely remove the costs incurred due to CAPTC's pioneering policy work and its extraordinary level of "high-touch" service. Likewise, some one-time "start-up" costs that would not have been incurred by a "typical" IDA program may not have been excluded. Fourth, it is unusual to count the opportunity cost of the time of volunteers. Many cost studies do not count non-cash costs at all. Fifth, the transaction costs for funders and CAPTC in providing and securing funds were ignored, as were all transaction costs for participants. Sixth, the costs of IDAs should be compared with the costs of alternatives. But cost estimates for alternatives usually do not exist, and even when they do, comparisons still hinge on subjective judgments, as few other things are held constant (Ng, 2001).

Perhaps the key caveat is that costs are best considered in the context of benefits. Unfortunately, estimates of benefits are not yet available. Even when they are, the value of many benefits—such as increased home ownership or greater involvement in children's education—will be difficult to monetize. In the end, policy makers must compare apples with oranges, but knowing their costs improves the chances of making wise choices.

4.2.2 Risks of cost measurement

In political terms, cost estimates may handicap IDAs vis-à-vis alternatives for whom costs have not been measured. Pritchett (2002) argues that, for policy purposes, "it pays to be ignorant"; when costs are left unmeasured, advocates (or opponents) can safely make whatever claims they find convenient. The same principle holds for measuring benefits. For example, Orr (1999, p. 257) quotes Rossi (1987) as saying that "when evaluated, the expected value of the effect of a social program is zero".

A related issue is that it is easier to quantify costs—at least the costs of service provision—than to quantify benefits. Thus, costs may seem more "real" and thus carry disproportionate weight in debates. Thus, while not measuring costs can be a stratagem to perpetuate inefficient services that benefit favored groups, measuring costs can also be misused to replace high-cost (but high-benefit) services with low-cost (but low-benefit) services (Tolley and Rowland, 1995).

If the emperor's clothes look expensive, the proper response is not to avert the eyes but rather to describe costs and benefits as well as possible, to explain how to use the information, and to hope that explicitness, measurement, and the society-wide point of view wins out over implicitness, anecdotes, and special-interest groups. The on-going evaluation of IDAs has tried to take the high ground. If, in the policy arena, bad arguments drive out good arguments, then evaluation serves only to add a pseudo-scientific veneer to points that advocates (or opponents) already think they know.

4.2.3 IDAs and traditional cash assistance

To accumulate $50 in assets in a month through IDAs at CAPTC, participants saved $20, funders provided $30 in matches, and CAPTC incurred $60 of operating costs. Would it be better just to send people who would have participated a monthly check for $90 or so? For several reasons, asset accumulation through IDAs is not directly comparable with traditional cash assistance for immediate consumption.

Most fundamentally, IDAs were never meant to substitute for traditional cash assistance (Sherraden, 1991). Hungry people cannot and should not save. Instead, IDAs were meant to provide access to a positive development policy in the gap between very poor people who need relief and middle- and upper-class people who benefit from existing asset-development policies. In this sense, IDAs differ from traditional cash assistance in several ways.

First, IDAs require participants to save. Thus, IDAs are self-targeted to those people who are willing and able to sacrifice today for a better tomorrow. Cash transfers do not have this same type of targeting.

Second, IDAs put time between making deposits and receiving matches, and this time may prompt participants to "savor their savings" and to think about how best to use their expected asset accumulation. IDA participants may think about their resources in ways that the recipients of cash transfers do not, and this may lead to non-economic changes in patterns of thought and behavior (Schreiner *et al.*, 2001).

Third, IDAs attempt to restrict matches to the purchase of assets that generally improve long-term individual and social well-being. In fact, it might be said that IDAs attempt to transfer not cash but rather homes, human capital, and microenterprises.

Fourth, IDAs are coupled with financial education that attempts to transfer knowledge and world views conducive to long-term wealth and well-being.

Fifth and finally, counseling and encouragement from IDA staff may boost saving (Moore *et al.*, 2001).

In short, IDAs are more than just matched savings accounts; they are a bundle of services and institutional structures designed to make it easier for the poor to save and build assets. In a way, they seek not only to create savings but also savers (Sherraden, 2000). Thus, IDAs are not directly comparable with cash transfers.

4.2.4 Costs and the future of IDA policy

Over 4 years, this cost exercise has encouraged the IDA field to step back and take stock: If these unit-cost estimates are in the ballpark, what should be done? In broad terms, the responses have involved:

- Identifying benefits beyond saving and asset accumulation:
    - Benefits from financial education and counseling
    - Benefits through time
    - Benefits to household members and even to local communities
- Improving the quality of IDA services (*e.g.*, financial education) to increase benefits
- Finding innovative ways to reduce costs

The experiment at CAPTC intends to improve knowledge of benefits, but its results are not yet in. In the meantime, the focus is on improving service quality and/or reducing costs. This has two parts, promoting innovation and getting staff to work longer and/or harder. Assuming that staff members already do their best, the only option left is to innovate, doing more with less by doing things differently.

Unfortunately, innovation does not happen by decree. IDA programs must have a reason to invest effort and to take risks to try something new. For businesses, the reason is competition. Often for non-profits, the reason is crisis. In this sense, cost estimates help create healthy pressure for innovation.

Qualitative research at CAPTC suggests that participants place a high value on the "high-touch" approach (Sherraden *et al.*, 2003). At the same time, such labor-intensive services are costly. Thus, a key challenge is to identify which services matter most and then to find ways to provide them efficiently.

Unlike traditional cash assistance (a check in the mail to enable greater consumption), IDAs are a bundle of services, constraints, and opportunities meant to help poor people to save and build assets. The bundle includes access not only to matches and a structured institutional saving environment but also to financial education, staff support, and financial counseling. For some participants, access to a fee-free passbook account may draw them into the formal financial system, and having a bank account—even with just a $500 balance—can have large financial and psychological effects (Caskey, 2002). For others, classes on budgeting, investment, and

debt can expose them to new ways to come up with resources to save. For still others, the match makes it worthwhile to expend the extreme effort required to save from their meager resources. Because IDAs are bundles, it is difficult to know which—if any—elements could be trimmed. Thus, there is room for innovation to discover how each part of the bundle works and how they all work together.

Even if the unit-cost estimates in this paper have marked upward biases, and even if unprecedented cost-saving innovations are developed, the "high-touch" IDA design will remain costly. Sherraden (2000, p. 7) writes, "With experience and efficiencies, this figure ($3 per $1 of net IDA savings) might eventually be reduced to $2 or even $1 for each dollar of savings. However, it is most unlikely that costs for intensive, community-based IDA programs can be reduced to, say, 10 cents for each dollar of net savings." Even if benefits do turn out to exceed these costs, funders—and in particular, the federal government, the only entity with deep enough pockets to support a permanent, universal IDA policy—might have difficulty supporting IDAs with the current bundle of services and decentralized structure. Sherraden (2000, p. 8) writes that "it seems likely that if IDAs . . . are someday to reach millions or tens of millions of people, (they) will operate as a large, simple, minimum-cost system. This system of progressive savings accounts would likely be defined in federal law with public financing, and operated from mutual-fund or other financial-service companies."

The tension between intensive services and the types of cost structures that can reach millions of people may lead to two tiers of IDA designs (Sherraden, 2000). The first tier would be run by centralized asset managers and would feature broad, permanent access, simple services, sustainable federal funding, and lower costs. This "bare-bones" design would reach more participants with lower costs per participant, but it would also have lower benefits per participant per year. It might plug into existing 529 College Savings Accounts (Clancy, Orszag, and Sherraden, 2004). If low costs make the "bare-bones" design more sustainable through time than the "high-touch" design, then it may increase long-term benefits per participant (Schreiner, 2002c).

The second tier would be run from community-based non-profits and would resemble the current "high-touch" design at CAPTC. It would feature targeted, time-limited, intensive services, and it would be supported by short-term funding from state, local, or private sources. This "high-touch" design would reach fewer participants and have higher costs per participant. It would also have higher benefits per participant per year, and it would reach poorer people. The "high-touch" design could complement the "bare-bones" design by providing financial education and other supports. As Sherraden (2000) points out, such a two-tier asset-building policy has a precedent in the promotion of low-income home ownership.

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Figure 1: Outputs, costs, and costs per unit of output

Line	Quantity	Formula	1998	1999	2000	2001	2002	2003
	Annual output							
a	Enrollments	Data	0	261	208	2	0	0
b	Participant-months	Data	0	1,583	5,091	4,435	3,020	1,084
c	Net IDA savings	Data	0	52,061	145,910	97,443	28,934	(22,704)
	Cumulative outputs							
d	Enrollments	d(t-1)+a	0	261	469	471	471	471
e	Participant-months	e(t-1)+b	0	1,583	6,674	11,109	14,129	15,213
f	Net IDA savings	f(t-1)+c	0	52,061	197,971	295,414	324,348	301,645
	Annual costs							
g	Operations	Bau	53,104	135,420	283,666	180,562	167,603	102,117
h	Matches	Data	0	7,642	65,757	110,052	94,550	99,946
	Cumulative costs							
i	Operations	i(t-1)+g	53,104	188,524	472,191	652,752	820,356	922,473
j	Matches	j(t-1)+h	0	7,642	73,399	183,451	278,001	377,947
	Annual unit costs							
k	Enrollments	g/a	NA	519	1,364	90,281	NA	NA
l	Participant-months	g/b	NA	86	56	41	55	94
m	Net IDA savings	g/c	NA	2.60	1.94	1.85	6	(4)
	Cumulative unit costs							
n	Enrollments	i/d	NA	722	1,007	1,386	1,742	1,959
o	Participant-months	i/e	NA	119	71	59	58	61
p	Net IDA savings	i/f	NA	3.62	2.39	2.21	2.53	3.06

Source: Data from CAPTC and calculations of the author.

Figure 2: Demographic characteristics of IDA participants at CAPTC

Characteristic	Percentage
Receipt of income-test public assistance	
No	55
Yes	45
Receipt of non-IDA social services from CAPTC or partner	
No	57
Yes	43
Race/ethnicity	
Caucasian	46
African American	43
Native American	6
Hispanic	2
Other	2
Asian American	1
Gender	
Male	23
Female	77
Marital status	
Married	24
Never-married	42
Divorced or separated	31
Widowed	3
Single motherhood	
No	49
Yes	51

Source: Data from CAPTC and calculations of the author.

Figure 3: Employment status, education status, and bank-account ownership for IDA participants at CAPTC

Characteristic	Percentage
Employment status	
Full-time	65
Part-time	18
Student	9
Unemployed	7
Not working	1
Education status	
Did not complete high school	9
Completed high school or GED	19
Attended college	43
2-year college degree	15
4-year college degree or more	14
Bank-account ownership	
Passbook only	13
Checkbook only	29
Both passbook and checkbook	46
Neither passbook nor checkbook	13

Source: Data from CAPTC and calculations of the author.

Figure 4: Distribution of planned and actual uses of matched withdrawals among IDA participants at CAPTC

Use of matched withdrawal	Planned (%)	Actual (%)
Home purchase	65	19
Retirement savings	13	21
Home repair	11	42
Post-secondary education	7	12
Microenterprise	5	6

Source: Data from CAPTC and calculations of the author.

Figure 5: Cash and non-cash costs funded by private sources

Line	Donor	Form	Formula	1998	1999	2000	2001	2002	2003
Ba	CFED	Cash	Data	0	14,156	57,706	37,652	21,383	41,381
Bb		Non-cash	Data	0	0	0	0	0	0
Bc		**Total**	Ba+Bb	0	14,156	57,706	37,652	21,383	41,381
Bd	BOk/Kaiser	Cash	Data	0	0	(416)	0	0	0
Be		Non-cash	Data	8,766	10,683	27,185	24,100	17,025	7,345
Bf		**Total**	Bd+Be	8,766	10,683	26,769	24,100	17,025	7,345
Bg	Zarrow	Cash	Data	0	0	(797)	0	0	0
Bh		Non-cash	Data	0	0	0	0	0	0
Bi		**Total**	Bg+Bh	0	0	(797)	0	0	0
Bj	CAPTC	Cash	Data	0	0	0	0	0	0
Bk		Non-cash	Data	1,280	2,945	3,758	465	0	0
Bl		**Total**	Bj+Bk	1,280	2,945	3,758	465	0	0
Bm	VISTAs	Non-cash	Data	224	617	3,285	0	0	0
Bn	Advisory board	Non-cash	Data	735	1,475	400	0	0	0
Bo	Other private	Non-cash	Data	7,794	8,525	1,654	393	265	0
Bp	**Total private**	Cash	Ba+Bd+Bg+Bj	0	14,156	56,493	37,652	21,383	41,381
Bq		Non-cash	Bb+Be+Bh+Bk+Bm+Bn+Bo	18,798	24,246	36,282	24,958	17,290	7,345
Br		**Total**	Bp+Bq	18,798	38,401	92,775	62,610	38,673	48,726

Source: Data from CAPTC and calculations of the author.

Figure 6: Cash and non-cash costs funded by the federal government

Line	Donor	Form	Formula	1998	1999	2000	2001	2002	2003
Bs	CSBG	Cash	Data	12,309	31,769	73,618	97,372	50,891	7,165
Bt		Non-cash	Data	0	0	0	0	0	0
Bu		**Total**	Bs+Bt	12,309	31,769	73,618	97,372	50,891	7,165
Bv	CDBG	Cash	Data	10,235	44,585	54,890	19,753	77,683	46,066
Bw		Non-cash	Data	0	0	0	0	0	0
Bx		**Total**	Bv+Bw	10,235	44,585	54,890	19,753	77,683	46,066
By	AHP	Cash	Data	0	0	3,463	0	0	0
Bz		Non-cash	Data	0	0	0	0	0	0
Baa		**Total**	By+Bz	0	0	3,463	0	0	0
Bab	Fannie Mae	Cash	Data	0	0	22,265	0	0	0
Bac		Non-cash	Data	0	0	0	0	0	0
Bad		**Total**	Bab+Bac	0	0	22,265	0	0	0
Bae	VISTA	Cash	Data	1,217	3,360	17,882	0	0	0
Baf	Public-service ads	Non-cash	Data	8,942	10,410	17,882	0	0	0
	Total federal government								
Bag		Cash	Bs+Bv+By+Bab+Bae	23,760	79,714	172,117	117,126	128,574	53,232
Bah		Non-cash	Bt+Bw+Bz+Bac+Baf	8,942	10,410	17,882	0	0	0
Bai		**Total**	Bag+Bah	32,703	90,123	189,998	117,126	128,574	53,232

Source: Data from CAPTC and calculations of the author.

Figure 6: Cash and non-cash costs funded by state and local governments, and total cash and non-cash costs funded by all sources

Bam	OSU Extension	Non-cash	Data	1,510	6,040	733	667	196	0
Ban	Urban. Dev.	Non-cash	Data	94	375	0	0	0	0
Bao	Tulsa Housing Auth.	Non-cash	Data	0	480	160	160	160	160
	Total state and local government								
Bap		Cash	Baj	0	0	0	0	0	0
Baq		Non-cash	Bak+Bam+Ban+Bao	1,604	6,895	893	827	356	160
Bar		**Total**	Bap+Baq	1,604	6,895	893	827	356	160
	Total cost (private, federal, state, local)								
Bas		Cash	Bp+Bag+Bap	23,760	93,870	228,610	154,778	149,957	94,612
Bat		Non-cash	Bq+Bah+Baq	29,344	41,550	55,056	25,784	17,646	7,505
Bau		**Total**	Bas+Bat	53,104	135,420	283,666	180,562	167,603	102,117

Source: Data from CAPTC and calculations of the author.