

**Center for Social Development  
Washington University in St. Louis**

## **On Costs and the Future of Individual Development Accounts**

**Comment by Michael Sherraden<sup>1</sup>  
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Recently the Center for Social Development (CSD) published a cost analysis of an individual development account (IDA) program. This study, conducted by Mark Schreiner (2000a), documents the costs associated with the start-up period of an IDA program at the Community Action Program of Tulsa County (CAPTC) in Oklahoma. The CAPTC IDA program is also the site of a randomized experiment, in-depth interviews with participants, and other evaluation methods to assess many different aspects of IDAs.<sup>2</sup>

CSD is very pleased to publish this study. It is based on on-site data collection by Schreiner with CAPTC staff, IDA advisory board members, financial institutions, and other partner organizations. The study also explains why and how cost assessments were made. While there is always room for improvement, this is by current standards an exemplary cost study.

My comments below do not disagree with Schreiner's (2000a) approach or results. Many of these points are made by Schreiner, though I suggest some additional considerations. My motivation for writing this commentary is that some people may take preliminary cost information out of context and draw conclusions that may be unwarranted at this time. Hopefully these thoughts will be useful in placing this cost study, and perhaps other costs studies, in perspective.

The Corporation for Enterprise Development (CFED), the organizer of the "American Dream Demonstration" (ADD), of which the CAPTC IDA program is a part, has fully supported CSD's evaluation agenda, including cost analysis. The foundation funders of

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<sup>1</sup> I am grateful for the suggestions of Mark Schreiner, Bob Friedman, and Margaret Clancy. In particular, these comments have benefited from an extended dialogue with Mark Schreiner. The author remains responsible for all of the content.

<sup>2</sup> The research agenda at CAPTC is extensive. In addition to the rigors of the experimental design survey of both IDA participants and randomly-assigned controls conducted by Abt Associates, CAPTC facilitates in-depth interviews in Tulsa by CSD, and monitors and reports program characteristics, participant characteristics, and savings behavior (using the Management Information System for Individual Development Accounts or MIS IDA). The collective hours involved in this research agenda, for both CAPTC and IDA participants, are huge, and their commitment to quality research is high. As a result, we are learning a great deal and much of the credit goes to Steven Dow, Jennifer Robey, Rachel Trares, and other CAPTC staff and all of the IDA participants and controls in Tulsa.

ADD have also been fully supportive of this research agenda.<sup>3</sup> The cost analysis by Schreiner (2000a) was carried out to refine cost analysis procedures for the evaluation design of the *Assets for Independence Act*.<sup>4</sup>

### **Uses of Cost Analyses**

First, costs are fundamental. It is necessary to know costs in order to make informed decisions on resource allocation to policies and programs.

Also, knowledge of costs provides a benchmark against which future cost performance can be measured. A cost benchmark is often a strong incentive toward efficiency. In the short term cost data can be discomfiting, but ultimately knowledge of costs leads to better policies and programs.

Unfortunately, costs are not always well known. Most public policy and program decisions are made without good cost information. There are several reasons for this: (1) There is less incentive than in private enterprise to create and use efficiency measures (inputs compared to outputs) because (a) public policies typically do not operate on a profit or surplus motive, making it less likely that decision-makers will consider costs and benefits together, and (b) outputs of policies and programs are often difficult to measure; therefore, cost information is not always viewed as fundamental to decision-making, and even if viewed as fundamental, is often difficult to obtain. (2) Legislation does not usually require the collection of cost information beyond public expenditures. (3) And proponents of particular policies and programs may not find it advantageous to report costs fully and accurately. Indeed for proponents, there are incentives to over-report benefits and under-report costs.

The fact that CSD has gone to considerable effort to assess and fully report costs will to some extent make IDAs more vulnerable to critics. We nonetheless do this because, in our role as evaluators, CSD does not assume that IDAs are a good idea, or even if they are a good idea, we do not assume that IDAs are worth the costs involved compared to alternative uses for the resources. The cost analysis in Schreiner (2000a) will be the basis of a benefit-cost analysis (BCA) to be completed at the end of the demonstration (the BCA framework is detailed in Schreiner, 2000b).

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<sup>3</sup> Bob Friedman at CFED conceived and organized ADD. Brian Grossman and Rene Bryce-Laport have led the demonstration. The eleven foundation funders of ADD are the Ford Foundation, Charles Stewart Mott Foundation, Joyce Foundation, F.B. Heron Foundation, Citigroup Foundation, John D. and Catherine T. MacArthur Foundation, Ewing Marion Kauffman Foundation, Fannie Mae Foundation, Levi Strauss Foundation, Rockefeller Foundation, and Moriah Fund. Regarding the cost study, I am especially grateful to Lisa Mensah of the Ford Foundation who recognized the importance of getting good cost data by going on-site.

<sup>4</sup> CSD worked on subcontract with Abt Associates to design the evaluation for the *Assets for Independence Act*, administered by the US Department of Health and Human Services.

To inform policy and program decisions, financial costs can be compared with (1) financial costs of other programs (cost comparisons across programs), (2) financial benefits of the target program (benefit-cost analysis), and (3) non-financial outcomes of the target program (cost-effectiveness analysis). Each of these types of analyses can provide useful information, and none by itself is definitive. Ultimately, as Schreiner (2000b) points out, IDA programs should be evaluated by both financial benefits and non-financial outcomes compared both financial and non-financial costs.

The overall question in Schreiner's (2000a) study of costs at CAPTC is "What is the total cost of the IDA program?" To state this question more completely, "What is the financial value of the total resources -- in money, in kind, and in time -- from all parties that are going into the IDA program?"<sup>5</sup> These are the costs to society, meaning the costs to everyone.

This is the most comprehensive cost question and is useful for overall policy assessments. It is the logical and most fundamental economic question. It must be asked and answered if well being (social welfare) is to be maximized.<sup>6</sup> This can be called the *overall policy efficiency perspective*, where the question is: What is the best use of resources in the total society and economy so that overall social welfare is maximized?

However, for particular policy and program decisions, this overall question is seldom asked. Cost analyses (and benefit-cost analyses) are conducted from particular viewpoints (Schreiner, 1997) to inform particular decisions (Sherraden, 1986), and it is these that usually determine which costs (and benefits) are measured in a particular circumstance. For example, from the standpoint of a public policy, the costs of volunteer time at the community level, or even voluntary financial commitments at the community level, might not be considered relevant to the policy decision.<sup>7</sup> The reasoning would be that, if others want to contribute to the policy, that is certainly desirable, but it is not a cost to the public treasury. This can be called the *policy or*

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<sup>5</sup> Schreiner (2000a) excludes the matches for IDAs as being transfers rather than program costs. This approach helps make program operating costs very clear. However, total IDA savings (including matches) and the assets purchased with those savings will later be included in the financial benefit-cost analysis (Schreiner, 2000b).

<sup>6</sup> No one would say that each and every cost can be fully counted, but Schreiner's study (2000a) is a conscientious effort to count the most important costs.

<sup>7</sup> In studies of voluntarism, including both time and financial giving, it is common for volunteers to report that they have benefited more from the experience than they have given. An economist will appropriately count the voluntarism (time, effort and resources consumed) as a cost, on the assumption that the time, effort and resources could have been used for something else. However, this is a narrow meaning for what is actually taking place in the transaction. It is not in fact clear that voluntarism in one place reduces voluntarism in another; some portion of voluntarism in IDAs would probably not have occurred in the absence of IDAs. Moreover, if the costs of voluntarism are counted, the research design should also include benefits to volunteers (currently it does not).

*program decision perspective*, where the question is: What are the costs (and benefits) of this program from the standpoint of particular viewpoint(s) or particular decision(s) that have to be made?<sup>8</sup>

### **Cost Analysis of the IDA Program at CAPTC**

Schreiner (2000a) finds that total costs of the IDA program at CAPTC during the first two years were \$196,166 (not including matching funds), with \$125,272 in cash expenses and \$70,894 in in-kind grants or the value of volunteer time. During the same period, there were 252 enrollments, 1,517 participant-months, and \$55,164 in net deposits by participants. Total costs were \$129 per participant-month, or seen another way, \$3.56 for each dollar of participant net deposits.

Taking Schreiner's data, one can also find the following: If only cash outlays are counted, costs were \$83 per participant-month, or \$2.27 for each dollar of participant net deposits. If only federal, state, and local government cash outlays are counted (as a sum of public expenditures), costs were \$71 per participant-month, or \$1.94 for each dollar of net deposits. If only CFED cash outlays are counted (as the organizer of the demonstration, leveraging all other contributions), costs were \$11 per participant-month, or \$0.31 for each dollar of net deposits.

A variety of factors should be taken into account in understanding these cost figures. First, this is only one IDA program site; perhaps it has higher than average costs, perhaps lower than average costs; we do not yet know.

In this regard, the CAPTC costs figures are in the ballpark of crudely-measured cost figures reported for all 14 ADD program sites, where the mean is \$137 per participant-month (Sherraden et al., 2000). However, in this study, costs per participant-month varied across programs by a factor of 10 (ranging from a low of \$27 to a high of \$296). These extreme differences are probably the result of measurement error, but it is possible, indeed likely, that some IDA programs are operating on much different cost structures than others.

Also, distribution of costs within IDA program sites may vary. For example, one IDA program may spend one-third of its resources on economic education, while another spends almost nothing. On the revenue side there is also variation. For example, in other IDA programs, private cash contributions may be a larger or smaller proportion of total revenues than at CAPTC.

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<sup>8</sup> In most decision-making contexts for policies and programs, the goal is not to arrive at an "actual" or "true" cost (or benefit). Rather, the goal is to decide whether to continue to allocate resources to a policy or program. In this endeavor, choices are made regarding which costs (and benefits) to include and which not to include, and these choices make sense only in the context of the particular decision that must be made. The challenges are (1) to make choices regarding which "parties" are relevant to the decision, (2) for each party, to decide which costs and benefits to measure, and (3) to provide sound reasons for the choices that are made (Sherraden, 1986).

The first two years can be considered a “start-up” period, not likely to represent the costs of operations following start-up. There are several reasons for this: (1) New IDA programs must recruit and during the recruitment period may have full staffing but not a full level of participants. (2) Staff of new programs must learn their jobs and are likely to become more efficient over time. (3) New programs must learn what works well and what does not, and gradually programs will allocate program resources more efficiently. And (4) pioneering IDA programs carry a burden of helping to develop operating procedures and infrastructure for the whole field, including every aspect of programming, supports, and public awareness.

In the case of CAPTC and IDAs, additional beyond-program costs may be included in the overall cost figures. These may include: (1) costs of research; (2) costs for technical assistance to other IDA programs (as a pioneer IDA program, CAPTC is called upon and responds to many inquiries); and (3) costs of staff time in policy development in Oklahoma and in Washington.<sup>9</sup>

On the other hand, other costs of IDAs at CAPTC have surely been omitted, including the costs of the initial fund raising, planning, and proposal development; staff time at the Corporation for Enterprise Development (CFED) which is overseeing ADD; and staff time at CSD which provides support for MIS IDA and in the process assists with program operations. Very likely other costs are omitted as well.

I make these points to emphasize that costs can be both over-counted and under-counted. Cost analysis does not yield an exact result, but if the study is conscientious it is likely valid within an order of magnitude and far better than no cost information at all.

### **Are Costs High or Low?**

If IDAs were only a savings program, these numbers are unquestionably high. Most observers will appropriately ask: why not deposit the \$129 or \$83 or \$71 or \$11 per month into a savings account for each participant instead of spending it on program costs? Indeed, this is the cost question that proponents of IDA programs and policies must address.

Ultimately, whether the costs for the IDA program at CAPTC are considered high or low depends on what the IDA program is delivering and what the benefits are.

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<sup>9</sup> Schreiner has made efforts to subtract research, technical assistance, and policy development costs from the cost analysis and believes any remaining costs are likely to be small. However, it is difficult if not impossible to identify and measure these costs. Research, technical assistance, and policy work are intertwined in running the IDA program. For example, the extensive data requirements of MIS IDA are necessary for research purposes but would not be necessary to manage an IDA program without a research agenda.

It should be pointed out that IDA programs as administered in ADD are more than simply matched saving. They are intensive, community-based applications. The key program features are: (1) matched savings, (2) target savings amount, (3) savings held through time, (4) restricted uses of the savings, (5) economic education, (6) staff-participant relationships, especially prodding to do the saving, and (7) participant group activity and peer support. In other words, IDA programs as they are operating in ADD are multi-faceted (in research terms, they are a bundle of constructs). We do not know at this time which IDA program features, separately or in concert, help determine savings performance.<sup>10</sup> Which, if any, of these program features is a good investment remains to be seen. However, it is clear that IDA programs in ADD are aiming for more than savings balances. One way to think of this is that the IDA programs are aiming not merely to create savings but *savers*. In this light, a simple comparison of program costs to net deposits does not fully capture the intended effects of the program. It is possible that the greatest returns of IDA programs may not be strictly financial, but psychological, social, and more broadly economic, e.g., increases in human capital.<sup>11</sup> Indeed, benefits are likely to be multiple and long-term (Sherraden, 1991, 1999), and many will be difficult to measure.<sup>12</sup>

Comparisons with costs of other programs will be informative. For example, one study reported the cost of human resource activities in firms with fewer than 250 employees in 1998 at \$1,208 per year, or about \$100 per month (Society for Human Resource Management (2000), which is greater than the cash cost of the CAPTC IDA program. Similarly, what is the cost of family counseling? What is the cost of Temporary Assistance to Needy Families (TANF)? What is the cost of job training? A variety of cost comparisons will be useful.<sup>13</sup>

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<sup>10</sup> We will have data on various program features that we can analyze in regression analyses to give us some indication of which program features have greater impact. It could also be that some program features are related to getting people into IDA programs (the savings match appears to play this role), and other program features are related to savings performance once in the program (the target savings amount, restrictions on the savings, and staff-participant relationships may play this role). Unfortunately, the research program for ADD will not provide definitive answers regarding which IDA program features affect savings performance, because we do not have the extensive resources needed to conduct an experiment with many types of programs configurations compared to one another.

<sup>11</sup> For example, there is evidence that home ownership, which is the greatest intended use of IDA accounts in ADD (Sherraden et al., 2000), has positive outcomes on educational performance of children (Green and White, 1997).

<sup>12</sup> This is a common circumstance with many policies and programs, but as Bob Friedman has pointed out to me, the fact that it takes longer and is more difficult to measure benefits than costs does not constitute an adequate justification for asymmetrical measurement.

<sup>13</sup> CSD will later present a variety of cost comparisons so that IDA costs can be understood in relation to other types of program costs.

Even if costs of IDA programs are considered high, it is not known at this time whether these costs are a good or bad “investment.” This depends on the measured financial benefits and non-financial outcomes.

### **Costs and the Future of IDAs**

At this point, we do not have enough data to make good predictions on the future of IDAs. Cost measurement is an important step. Many more research steps, in ADD and elsewhere, will be taken before we have a better understanding of the potential of IDAs.

Very likely the measured costs of IDA programs will decline over time due to (1) being at full participant levels; (2) learning and efficiencies at the program level, e.g., increased staff competency and eliminating program features that do not add to performance; and (3) better infrastructure and support for the IDA field, e.g., readily available economic education packages, standardized IDA savings products from financial institutions, and greater public awareness of IDAs.

As indicated above, during the first two years the community-based IDA program at CAPTC has cost \$3.56 for each dollar of net deposits. If in-kind contributions and the value of volunteer time are excluded, the cost is \$2.27 per dollar of net deposits during the start-up period. With experience and efficiencies, this figure might eventually be reduced to \$2 or even \$1 for each dollar of deposits. 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 deposits.

An IDA program that operates at cash outlays of \$2 (or perhaps someday \$1) per dollar of net deposits may or may not prove to be a good use of resources. We will know more about this when we have results from the BCA and on-going experiment at CAPTC.<sup>14</sup> Both financial and non-financial outcomes must be considered.

In the best possible scenario, the costs of intensive, community-based IDA programs will be less than the financial benefits, yield other positive outcomes, and compare favorably with other programs and services. These results are by no means certain.

If it turns out that financial costs exceed financial benefits, then it will be incumbent on IDA advocates to demonstrate through sound research that non-financial benefits are likely to make up for the cost-benefit difference. If this cannot be shown convincingly, IDA programs should be revamped to become more efficient, or they should be scrapped.

Even if costs are found to be less than benefits, the cost data on intensive, community-based IDA programs still raise important questions about (1) how to control costs, and (2) what it will take for IDAs to go to scale.

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<sup>14</sup> We will have experimental and benefit-cost data at the end of the ADD evaluation in 2003 or 2004.

Regarding cost control, research will help us understand what program features affect savings performance, what staffing levels are optimal, and so on. In the search for efficiencies, perhaps an IDA intermediary will emerge that can provide services such as fund raising, technical assistance, certification, and financial education curricula to help control costs.<sup>15</sup>

Regarding scale, it seems likely that IDAs or USAs or whatever they might be called, if they are someday to reach millions or tens of millions of people, will operate as a large, simple, minimum-service, 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 services companies.<sup>16</sup> If implemented as a voluntary system, it would reach only a portion of the low-income population, and very likely not the poorest. If mandatory, it would reach many more.<sup>17</sup>

As a complement to this large and simple IDA system, states, local governments, foundations, community organizations, corporations, and private citizens may provide additional IDA-related services and funding through many different strategies, sometimes operating very intensively. These complementary IDA programs would be integrated into the larger IDA system, i.e., they would work with the same set of financial institutions and IDA instruments, but provide additional economic education, encouragement of participants to save, financial planning, and/or other services. The “social market” at the local level would determine whether and how much to invest in more intensive IDA programs in particular communities and with particular populations. Despite higher costs, if intensive IDA programs prove to be worthwhile, they could become widespread.

Thus, the costs of community-based IDA programs are not entirely public policy decisions. Government can define and fund a somewhat bare-bones IDA policy, and other funders can decide how much to invest in IDAs locally. A “mixed system” of

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<sup>15</sup> CFED is exploring the possibility of creating an IDA intermediary. In terms of cost, the major issue is whether the cost of creating and running an IDA intermediary is less than the IDA program efficiencies that the intermediary can create.

<sup>16</sup> This vision of a progressive asset-based policy has much in common with President Clinton’s proposal for Universal Savings Accounts (USAs) and Vice President Gore’s proposal for Retirement Savings Plus (RSP), which would operate primarily out of employment settings. A wide range of policy design initiatives are underway. The Growing Wealth Working Group, convened by CFED and CSD, has outlined principles and explored options for a large-scale progressive savings policy. Peter Tufano at the Harvard Business School is studying cost-control and design for a low-cost system of matched saving. Lessons from the federal Thrift Savings Plan by Elaine Rideout Fisher and several other papers on large-scale policy will be presented at a CSD symposium on “Inclusion in Asset Building,” September 21-23, 2000. All of this policy design work is funded in whole or in part by grants from the Ford Foundation.

<sup>17</sup> Americans are leery of mandatory policies, though they take some large mandatory policies almost for granted, e.g., education of children and the Social Security retirement program.



relatively simple federal IDA policy and more intensive, community-based IDA programs, funded from multiple sources with many partnerships, seems a likely policy outcome.<sup>18</sup>

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<sup>18</sup> In envisioning a “mixed system” current policies to promote low-income home ownership may be a useful model. A number of federal policies have been implemented to assist low-income home buyers. Most low-income people who purchase homes do so with the benefit of these policies but no special assistance from community organizations. However, in addition, there are many community-based housing organizations that work intensively with potential home buyers, providing services such as credit review and repair, home ownership counseling, assistance with market search and decisions, assistance with mortgage loan applications, additional subsidies for down-payment and closing costs, establishing back-up savings accounts, and post-closing services to protect against default and loss of the home. If one were to undertake a cost analysis of these intensive services, the figures would be high, but the result is that many more low-income people become homeowners. Local organizations decide how much to invest in these more intensive home ownership services, and they raise the public and private resources to do so. The social market determines the level of investment in community-based homeownership services. For example, local banks sometimes assist, in part because they are developing future customers.

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