Assets for Independence Act Evaluation

Impact Study:
Final Report

Contract # 233-02-0088

February 22, 2008

Prepared for
Administration for Children and Families
U.S. Department of Health and Human Services
370 L'Enfant Promenade SW
Washington, D.C. 20447

Prepared by
Gregory Mills
Ken Lam
Donna DeMarco
Christopher Rodger
Bulbul Kaul

Abt Associates Inc.
55 Wheeler Street
Cambridge, MA 02138

Acknowledgements

Abt Associates Inc. would like to Larry Wolfe, Joseph Grubbs, and John Tambornino at the Office of Planning, Research and Evaluation within the Administration for Children and Families of the U.S. Department of Health and Human Services for their guidance and technical support.

We would also like to offer a special thanks to James Gatz, Sheldon Shalit, and Richard Saul at the Office of Community Services within the Administration for Children and Families for their leadership, direction, and support throughout this evaluation.

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Executive Summary

This report provides the first national estimates of the effects of individual development accounts (IDAs) on participants in the largest federally funded IDA program: the Assets for Independence (AFI) Program. IDAs are personal savings accounts targeted to low-income persons that encourage participants to save for specific types of assets by providing matching funds when the accountholder makes withdrawals for an allowable asset purchase.

The rationale for IDAs lies in the proposition that income transfers have eased the hardship of the poor but have been less effective in enabling low-income families to become economically self-sufficient. An alternative view that emerged in the early 1990s was that to promote economic advancement and self-sufficiency—as well as to encourage socially positive behaviors—policies should focus on asset accumulation, in combination with income support.

The AFI Act calls for an evaluation of AFI projects to be carried out by an independent research organization under contract to HHS. The evaluation is to analyze the effects of incentives and services on participant savings; the extent to which participant savings vary by demographic characteristics; the economic, civic, psychological and social effects of savings; the effects of project participation on savings rates, homeownership, postsecondary educational attainment, and self-employment; the potential financial returns from IDAs to the Federal government and other public and private sector investors over a 5-year and 10-year period of time; and the lessons learned from the demonstration project and whether an IDA program should become permanent. The Act specifies further that the evaluation is to utilize a control group to compare AFI project participants with nonparticipants, and to utilize both quantitative and qualitative data. A final evaluation is to be completed within one year following the conclusion of all AFI projects funded under the Act.

HHS selected Abt Associates Inc. to begin the evaluation. Given the resources available to support the evaluation, HHS decided upon a process study and an impact study using a national comparison group as the first priorities in meeting the legislative requirements. Funding constraints did not permit the study of civic, psychological, and social effects of savings, or financial returns from IDAs to the government and other investors, to be included in this phase of the evaluation. Other research in the IDA field is currently addressing these topics. HHS is considering possibilities for including these topics in the next phase of the evaluation.

This study represents the impact study component of the AFI evaluation. It examines the effects of AFI participation on the three forms of asset building targeted by the AFI Program: homeownership, business ownership, and postsecondary education. The analysis also assesses the program's impact on key components of net worth (financial assets, home equity, and consumer debt) and on employment status and income (whether employed, amount of monthly earnings, and receipt of means-tested benefits from cash assistance, food stamps, or Medicaid). The process study component of the evaluation explores how various AFI projects are planned, implemented, and operated.[1]

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[1] See Donna DeMarco, Gregory Mills, and Michelle Ciurea, ***Assets for Independence Evaluation: Process Study Final Report***, Abt Associates Inc., Cambridge, Mass., February 2008.

Design of the Evaluation

This study examined the effects of IDAs on AFI participants based on a three-year longitudinal survey of 600 participants nationwide. The sample for the AFI Participant Survey consisted of a randomly selected national sample of 600 AFI accountholders who opened their IDAs during calendar year 2001. The survey, conducted by Abt Associates, involved three annual waves of telephone interviews, at approximately the 12th, 24th, and 36th months after account opening, including individuals who were no longer AFI participants at that time. The 485 cases for which interviews were completed at the third wave—81 percent of the survey sample—represented the analysis sample of AFI participants.

The study adopted a nonexperimental evaluation design. Estimating the effects of the program required data not only on a national sample of AFI participants but also on a corresponding national sample of AFI-eligible nonparticipants in the general U.S. population. The data source for the nonparticipant sample was the 2001 panel of the U.S. Census Bureau's Survey of Income and Program Participation (SIPP).

A statistical method called "propensity score matching" was used to identify a subsample of the 2001 SIPP panel that was well matched to the AFI participant sample. This comparison group sample was identified from among those in the 2001 SIPP panel whose annualized monthly household income at panel entry was below the AFI eligibility limit of 200 percent of the federal poverty level. The criteria on which AFI-eligible nonparticipants were matched with AFI participants were as follows: gender, race/ethnicity, age, marital status, education, ownership of a checking or savings account, homeownership, business ownership, employment status, monthly household earnings, receipt of means-tested benefits, and geographic location (by metropolitan/nonmetropolitan status and Census region/division).

For consistency, the AFI Participant Survey instrument was comprised of questions drawn primarily from the SIPP. Common survey questions produced the following types of data:

- *Outcome measures* with respect to employment status, earned income, savings, homeownership, business ownership, vehicle ownership, postsecondary educational attainment, consumer debt, and receipt of major means-tested benefits;
- *Explanatory variables* with respect to gender, age, education, race/ethnicity, marital status, household composition, presence of a checking or savings account, and baseline household earnings.

In addition to the AFI Participant Survey data and SIPP data, the analysis used data from the following sources:

- *Account-level data* on monthly IDA account histories for the AFI participants, including information on deposits, matched withdrawals, unmatched withdrawals, and account balances;

- *Project-level data* on features of the AFI project in which each participant opened their IDA, including agency type, maximum savings matched, match rate, maximum savings period for each qualified use, and minimum required hours of financial education;
- *Area-level data* from the 2000 Census describing the economic conditions in the area where each participant or nonparticipant sample member resided at the time of their sample entry, including median annual household income, household poverty rate, unemployment rate, and median value of owner-occupied housing units.

IDA Activity and Participant Outcomes

The initial data analysis focused entirely on the national sample of AFI participants opening accounts in 2001. The predominant characteristics of these individuals were as follows:

- 82 percent female;
- 46 percent non-Hispanic black, 31 percent non-Hispanic white, and 12 percent Hispanic;
- 43 percent of age 30 to 39;
- 39 percent never married;
- 55 percent with at least some postsecondary education;
- 53 percent with the accountholder as the only adult household member and 83 percent with at least one child in the household;
- 78 percent residing in a Metropolitan Statistical Area; and
- 42 percent with annualized household earnings below the poverty level.

The patterns of IDA account use of those opening accounts in 2001 were as follows:

- The average participant deposited $483 into their IDA by the end of the first year. By the end of the second year, cumulative deposits averaged $784, and by the end of the third year the average cumulative deposit was $935.
- Through the first two years, unmatched withdrawals per participant ($215) exceeded matched withdrawals per participant ($190). But by the end of the third year, the cumulative unmatched withdrawal average ($328) was less than the matched withdrawal average ($377).
- The average monthly net deposit was $19 (i.e., $935 in gross deposits less $328 in unmatched withdrawals, divided by 36 months). Dividing this by average monthly earnings of $1,598 (the three-year earnings average) yields a net savings rate of 1.2 percent. (The gross savings rate, which takes no account of unmatched withdrawals, was 1.6 percent.)
- Through the third year, approximately one-third (31 percent) of participants had made a matched withdrawal.

With regard to asset-related outcomes, the main findings from the descriptive analysis of those opening accounts in 2001 were as follows:

- 23.4 percent of AFI participants already owned their home (or were in the process of buying it) at the time of their account opening. By the end of third year after account opening, the homeownership rate had increased by 17.8 percentage points, to 41.2 percent.
- 15.8 percent of AFI participants were already business owners upon opening their IDA. By the end of the third year after account opening, this percentage had risen to 24.1 percent, a rise of 8.3 percentage points.
- Three years after account opening, 46.3 percent of participants had engaged in some postsecondary classes or coursework, including evening classes in vocational or technical schools.

In multivariate analysis of asset-related participant outcomes, the significant findings with respect to project and area characteristics were as follows:

- Participants were more likely to become homeowners at year 3 in AFI projects with shorter maximum savings periods for homeownership and in projects operated by nongovernmental agencies;
- Participants were more likely to become business owners at year 3 in projects with higher match rates for business ownership and in areas with higher poverty rates;
- Participants were more likely to have engaged in postsecondary educational coursework within three years of their account opening in areas with lower unemployment rates.

In this analysis of participant outcomes, there were no significant associations found with respect to the AFI project's maximum amount of matchable savings or required hours of financial education, nor with respect to the local area's median household income or median housing price.

Estimated Program Effects on Participants

The above analysis was preliminary to addressing the more policy relevant question: *were the asset- and income-related outcomes observed among AFI participants better than they would have been without the program?* The answer is affirmative for most of the key outcomes, based on multivariate analysis of data from both the AFI participants and the comparison group nonparticipants from the SIPP panel.

The estimated third-year program effects were positive and statistically significant on all three forms of AFI-supported asset ownership. Specifically:

- The program is estimated to increase the rate of *homeownership* by the end of the third year by 10.9 percentage points above the level that would otherwise be expected based on the comparison group mean of 31.1 percent. The proportional effect (10.9 divided by 31.1) is thus 35 percent, meaning that participants were 35 percent more likely to be homeowners at the end of the third year compared to demographically matched nonparticipants.

- The estimated program effect on third-year *business ownership* is to increase the rate of business ownership by 10.0 percentage points above the comparison group mean of 11.9 percent, such that participants were 84 percent more likely to own businesses at the end of the third year than were nonparticipants.

- The estimated effect of the program is to increase by 21.2 percentage points the share of participants engaging in *postsecondary education* during the three years, from a comparison group mean of 22.3 percent. The proportional effect is thus 95 percent, implying that the program nearly doubled the likelihood that an individual pursued postsecondary education.

These program effects indicate that AFI participants derived very substantial benefits from the program in the targeted forms of asset building. The estimate for homeownership is several percentage points higher than the estimate obtained by Abt Associates in its experimental evaluation of the Tulsa IDA program implemented under the American Dream Demonstration.

The program was found to increase slightly the probability of employment for AFI participants, relative to nonparticipants. It is important to note, however, that the employment rate declined for both participants and nonparticipants over the three-year observation period. Because the drop was only half as large for participants, the estimated program effect was positive and favorable, although small in magnitude and only marginally significant.

None of the estimated program effects were statistically significant on components of net worth: financial assets (interest-earning assets held at financial institutions, including the IDA balance for AFI participants), home equity (estimated house value less outstanding mortgage debt), and consumer debt (principally, credit card debt and vehicle loans). This is not altogether surprising, given the short-term follow-up period and the inherent variability of these dollar-measured outcomes. Additionally, the study found no significant short-term program effects on the amount of monthly earnings or on the receipt of major means-tested benefits. Only further investigation will determine the longer-term effects of IDA participation on these outcomes.

For the major program goals—homeownership, business ownership, and postsecondary education—the study also examined whether the program effects varied among demographically defined subgroups. The findings were as follows:

- The effects on homeownership differed significantly by geographic location, as the favorable third-year effect of the program was more pronounced for metropolitan cases in the East North Central region and for nonmetropolitan cases in the Midwest region.

- The effects on business ownership differed significantly by baseline marital status and household income. The favorable third-year program effect was less pronounced for never-married persons and more pronounced for persons with higher household incomes.

- The effects on postsecondary educational advancement differed significantly by baseline educational level. The favorable third-year effect was more pronounced for those with no more than a high school education or GED.

There is some risk that the impact estimates are over-stated. This is inherently the case with a nonexperimental evaluation, where the program under study involves participants who enter voluntarily (subject to both self-selection and agency screening) and where the comparison group is identified by a process other than random assignment. In particular, the estimates may inadvertently capture, and attribute to the program, innate differences between AFI participants and the matched nonparticipants in underlying, unobservable personal characteristics such as motivation to improve one's economic situation. With this caveat, the study provides important empirical evidence suggesting that AFI programs have favorable effects on the targeted forms of asset accumulation.