

Chapter 7.

Asset-based Social Programmes: A Critical Analysis of Current Initiatives

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This chapter reviews the current status of asset-based programmes, defined as programmes intended to assist low income households to increase their financial assets. Among OECD countries, only Canada, the United Kingdom and the United States are identified as having such programmes. Two programmes in Canada, one of which is a randomised control trial (RCT) with Individual Development Accounts (IDAs), and the other an education savings plan, are reviewed. The RCT is yet to report, but preliminary results are mixed. Canada's education saving plan is promising, but it is experiencing low take-up. In the United Kingdom, the Child Trust Fund and the Savings Gateway programmes are reviewed. While the Children's Trust Fund appears popular, there are some troubling potential counter-redistributive long-run implications. Savings Gateway 2 was set up as a study with control groups. Although there is a rush to judgement in the United Kingdom, the results have still not been adequately analysed. Finally, the chapter finds that there are only about 20 000 IDAs in the United States, a surprisingly low number given the attention to this type of programme in the United States. The results of the one IDA controlled experiment in the United States were mixed, with troubling high administrative costs amounting to about USD 3 for each USD 1 of recipient benefits. The chapter concludes that an asset-based perspective is an important way to view social programmes, but no panacea. Asset-based programmes need to be carefully designed and evaluated, as any other type of social programme.

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1. Introduction

Although several more or less expansive definitions may be possible, here we define the term “asset-based social initiatives” narrowly to refer to programmes intended to assist lower income households to increase their financial assets. For the most part, this chapter concentrates on programmes for households of pre-retirement age that do not involve preparation for retirement. However, some asset-based programmes do not create fully liquid financial assets, in that the programmes may impose conditions requiring funds to be spent on a dedicated purpose – usually education, housing or small business. Alternatively, the financial asset may be unconditional after some time or some savings goal has been achieved. Both conditional and unconditional asset-based programmes are discussed here.

Much of the current interest in asset-based social initiatives was inspired by Michael Sherraden’s groundbreaking 1991 study, *Assets and the Poor* (Sherraden, 1991). Since 1991 the potential for new asset-based approaches to social policies has been the subject of much policy discussion, with dozens of conferences around the world, and the creation of a substantial body of literature.

With all the talk (and paper) being generated it would be reasonable to assume that many billions of dollars are now being directed towards this new asset-based approach to social policy in OECD countries. But this assumption would be incorrect. A search for examples of asset-based social programme initiatives reveals only a scattering of programmes in a few countries. The United Kingdom seems to be alone in introducing a large new country wide asset-based programme. The United States has many relatively small, individually-oriented savings programme. Canada has introduced one new asset-based programme and is in the process of concluding a large, social experiment with a randomised control group. These are the main initiatives that an internet-based search has identified. Although there are undoubtedly other asset-based initiatives in OECD member countries which have escaped this search, sixteen years after Sherraden’s study the sum total of asset-based programmes remains modest indeed.

While the bulk of material about asset-based social policies has been produced by enthusiastic advocates, there have been fewer rigorous analytic evaluations. Here we are interested in as “neutral” an assessment as is possible of programmes that now exist – or, mainly, an evaluation of the evaluations since we are not undertaking any original review of data.

To this end, this chapter describes each of the existing asset-based initiatives already under way in Canada, the United Kingdom and the United States, and then reviews the extent to which we can discern their success or failure in achieving their objectives. But measuring success or failure against a programme’s objectives, requires first a description of those objectives. Often programmes do not have explicitly stated objectives, and sometimes even when the objectives are stated, they do not fully reflect implicit objectives that become evident upon further analysis. To provide a framework for analysing programmes in the context of broader possible objectives for income security programmes, we first outline a “typology” of the kinds of general objectives that asset-based social policies could be designed to achieve.

2. Possible objectives for asset-based social policies

2.1. *Efficiency*

Assuming for the moment that assets are better able to promote well-being than income, a “pure” asset-based welfare policy could, in theory, convert an expected future stream of income into a lump sum payment which is less than 100% of the net present value of the anticipated income stream, and achieve equal or better welfare outcomes by paying recipients the lump sum rather than the income stream, while spending less or at least no more.

For example, if a recipient of social allowance would have had a flow of benefits of, say, USD 10 000 for the next 30 years, then the net present value of the income stream at some appropriate discount (interest) rate would be some amount less than USD 300 000 (in constant dollars); say, USD 200 000 just to pick a number. If assets have a unique and superior capacity to improve lives of recipients, then it follows axiomatically that there is some lump sum payment *less* than USD 200 000 that the recipient could instead be given, say USD 175 000 just as an example, and eventually be at least as well off as otherwise. For example, the recipient might use the money to get an education and find a well-paying job, or start a small business. At the same time, in this example, government would save a net present value of USD 25 000.

The above theoretical conclusion follows automatically from the assumption that a lump sum benefit has characteristics which make it more capable than an equivalent income stream of producing “welfare”. Thus, in its purest and most extreme form, an asset-based social policy might make a claim of *efficiency*; that is, a claim that for an equivalent or lesser cost a lump sum (the asset) is more effective in improving the well being of recipients than continuing to pay a social allowance year after year.

Of course, this is a theoretical conclusion, in the worst sense of the word “theoretical”. Even if the theory had merit, it would be difficult and likely impossible to put into practice. First, any such programme of lump sum benefits confronts extraordinary risks of what is called “moral hazard” in that it would provide a mega-incentive to become an anticipated recipient of social allowances so as to avail oneself of a large lump sum payment. As well, there is no reasonable way to predict with any exactitude which potential recipients will be collecting social allowances for how long, leading to a programme paying everyone a maximum, and thereby losing any budgetary savings, or paying many people too little and thereby failing to meet welfare goals. In other words, there are big information costs inherent in any such programme, should it be attempted in reality – and it may be that some of the information is not knowable in advance, making the programme more like a lottery.

There are also political fault-lines in converting an income stream into a lump sum benefit. If a lump sum recipient failed to make good use of their money and did not go on to become gainfully employed, would the recipient be disentitled to any future assistance? In many OECD countries (though not all) this would be unacceptable. Moreover, while the public may with varying degrees of reluctance accept the need to pay relatively small amounts of regular income to ensure that everyone has some minimal living conditions in our wealthy countries, there is no way at all that the public would accept huge lump sum payments – no matter how tied to what conditions.

No advocate of asset-based programmes actually advances a programme based upon this theoretical argument. Quite the reverse: most advocates of asset-based programmes

are abundantly clear that they do not see an asset-based policy as a substitute for an income-based policy, but instead as an add-on. Nevertheless, despite the impracticality of a programme substituting a lump sum benefit for an income stream, and despite its not being actively pursued by advocates of asset-based programmes, it is in any case useful to make the theoretical argument explicit, for at least three reasons:

1. The theoretical argument may have enough merit that it could be applicable in some specialised instances: for example, in providing a lump sum grant to assist long term renters of publicly subsidised housing to become owners instead (and there is a programme in some US states which more or less does this by allowing residents of rent-geared-to-income social housing to save the additional rent they would have had to pay when their income increases and use the savings to purchase a home).
2. The literature on asset-based programmes sometimes reflects an implicit, if not explicit, expectation that the need for future social benefits might be reduced and thereby offset the cost of an asset-based programme. Furthermore, while it may not be possible to design a programme based solely on the singular objective of efficiency gains, it is reasonable to anticipate some gain in “efficiency” as one possible benefit from asset-based initiatives, and therefore should not be dismissed.
3. Notwithstanding the disavowal of any wish to replace income stream with assets, the question is begged: if assets are indeed a more effective tool for creating social welfare, given constraints on total government budgets, should not some of the money used to finance current income benefits instead be used to finance asset-based programmes? In short, if it does work, why not partly replace income? Perhaps more importantly, in assessing asset-based programmes it is necessary to look at the benefits of alternative use of funds. Alternative uses may include an income stream, but the salient alternative might instead be enhanced programmes such as educational bursaries and social housing. In other words, the question of what is the most efficient use of public funds cannot, or perhaps should not, be avoided.

2.2. Behavioural

If asset-based programmes are not meant to replace, at least in part, income-based programmes, what are they meant to do? Asset-based programmes may more modestly be seen as one more in a range of tools designed to enable low income households to enjoy better living conditions. In this respect, asset-based programmes may be seen in the same vein as “working income credits” or “child care subsidies”: one more type of programme among many programmes for low income households. Advocates might argue that asset-based programmes are all-too-often missing or insufficiently developed and improving these programmes will fill a missing niche in our social programmes.

This approach might be thought of as using an “asset-based lens” to review existing social policies and see what can be added or adjusted to reflect better the fact that assets as well as income play an important role in household well-being. An asset-based perspective might contribute to reforms such as permitting higher levels of allowable assets in social allowance programmes (as has occurred in the United Kingdom and in some provinces in Canada), an allowance for savings plans for children with disabilities (as in Canada) or similar adjustments to existing programmes. As well, programmes that seem to fit this category include assisted individual savings vehicles, such as Canada’s Learn\$ave and the US Individual Development Accounts, as is discussed further below.

While this describes a type of programme, it does not describe the programme's objectives. In his report of a previous OECD conference on asset-based policies, Cornell (2003) summarises Sherraden's list of possible objectives of asset-based programmes:

- Improve household stability;
- Create an orientation toward the future;
- Promote development of human capital and other assets;
- Enable focus and specialisation;
- Provide a foundation for risk-taking;
- Increase personal efficacy;
- Increase social influence;
- Increase political participation;
- Increase the welfare of offspring.

This list is mainly about subjective personal attitudes and behaviour changes expected as a consequence of obtaining some increase in financial assets. None of the list is about redistribution of wealth: all are instead about improving the well-being of low income households through the instrumentality of asset holding. In their review of studies of the effects of asset-holding, Page-Adams and Sherraden (1996) also describe mainly effects on personal well-being and behaviour. In general, we here call these sorts of objectives "behavioural" for lack of a better term.

2.3. Redistribution

An asset-based programme could be designed as a vehicle primarily to redistribute wealth (and behavioural effects may be unintended or, more likely, tolerated). For example, were the Child Trust Fund in the United Kingdom much larger (say GBP 25 000 to GBP 50 000 rather than GBP 250 to GBP 500) and financed by a swingeing inheritance tax, it would have significant redistributive effects. It is also possible to imagine an asset-based policy as an attempt to redistribute wealth from one type of household to another – for example, from families with no children to families with children (Emmerson and Wakefield, 2001).

Explicit attempts to redistribute income through tax-transfer policy are out of fashion in the Anglo-American countries where asset-based social programmes are found, so it is no surprise that redistribution is rarely explicitly mentioned as a goal of any of the existing programmes. Yet, the need for redistribution of wealth is often cited as a rationale for asset-based policies. As one good example among many, in their report on asset-building programme options, in the United States, the Finance Project appeals to the need for wealth redistribution in advocating asset-based programmes:

"The lack of assets among low-income families is especially pronounced. Wealth inequality in the United States is greater now than it has been at any time during the past 75 years. The top 20% of households command 83% of the nation's wealth, while the bottom 40% possesses less than percent of the nation's wealth. In recent years, the wealth gap between rich and poor has widened, as the top earners have vastly increased their assets and lower-income Americans have seen only modest changes" (Lind, 2006).

2.4. *Fairness*

A final type of objective for asset-based programmes is fairness. Asset-based programmes are sometimes advocated for low income households because these households do not have access to the tax assisted savings vehicles used by other households. For example, most countries have some form of tax-assisted retirement savings plan (such as a 401K in the United States), but because these are structured as non-refundable tax credits and their value is usually dependent on having taxable income in the first place, these savings vehicles are of little or no value to those with low incomes.

The fairness rationale is often cited in asset-based advocacy and reports. In its summary of a conference on asset-based social policies, the Canadian Policy Research Initiative exemplifies this perspective: “A large and growing number of government policies in OECD countries actively support and promote asset accumulation. These include home ownership tax benefits, investment tax benefits, retirement accounts with tax benefits (RRSPs), and other savings accounts with tax benefits...However, these policies are usually not easily accessible for low-income individuals who are less likely to own homes, or have investments or retirement accounts” (Policy Research Initiative, 2004).

An assisted savings programme which offers matching grants for savings by low income families may be advocated on the grounds that it merely provides similar benefits to those who cannot take advantage of other programmes.

3. Canada

Canada has several asset-based initiatives, at least three of which fit the definition of asset-based policies used here. Two of these – the Canada Learning Bond and the Canada Education Saving Grant – are of general application to the whole population and are discussed further below. However, the Canadian initiative which is likely of most interest in respect of evaluation of the effectiveness of asset-based programmes is a social experiment designed to provide quantitative and reliable data respecting the consequences of an individualised savings account type of asset-based programme. This experiment is known as Learn\$ave.

3.1. *Learn\$ave*

The Canadian Learn\$ave project is modelled after US Individual Development Accounts (IDA) in providing matched savings for persons meeting specific criteria. The experiment is designed to answer critical policy questions. Will the financial incentives be attractive to low-income Canadians? Will the Learn\$ave programme result in a statistically significant increase in savings? Will the provision of financial management training and case management prove important? Will those participating in Learn\$ave actually open businesses and up-grade their education? Over the longer term, will participants have higher earnings and better jobs? Will the benefits of the programme justify its expense?

The Canadian project consists of ten sites across Canada, three of which are “primary” sites and seven of which are “secondary” sites. The primary sites are part of a rigorous experimental design, while the secondary sites do not have control groups and for the most part were already delivering some IDA type of services. The evaluation of

the secondary sites will consist of the same kind of retrospective survey and qualitative analysis undertaken for most similar projects in the United States. Here we focus on the primary sites. There was also one randomised control trial of IDAs in the United States (which is discussed extensively below) and the Canadian experiment has had the benefit of learning from that experiment to ensure it can answer relevant policy questions. The following descriptive material is derived from Kingwell *et al.* (2005).

About 3 600 participants were recruited for the primary sites. The recruits were randomly assigned to one of three groups:

- *Learn\$ave-plus*: treatment group receiving savings credits plus financial management training and case management.
- *Learn\$ave-only*: treatment group receiving only matching savings credits; and
- *Control group*: comparison group receiving no savings credits, training, or case management.

The recruits had to meet various eligibility requirements. Participants income had to be less than 120% of Statistics Canada Low-Income Cut-Offs (a measure of low income widely used in Canada as a poverty measure), they had to have a low level of liquid assets, be between 21 and 65 years of age, and they had to be neither a full time student nor on social assistance. Participants in the treatment group were offered a CAD 3 matching grant for every dollar saved over a three-year period, up to a maximum of CAD 250 in any one month and CAD 1 500 over the whole three years (*i.e.* maximum matching grants of CAD 4 500).

Participants could withdraw money from their Learn\$ave accounts at any time, but were not allowed to withdraw matched credits until they made net deposits of not less than CAD 10 in at least 12 different but not necessarily consecutive months, and then could only access the matched grants if they used the withdrawn money for the approved purposes: an education programme or other skills up-grading or a small business start-up. The matched grants savings had to be cashed-out no more than one year after the end of the three year period. Participants had to choose between the education and the business streams at the start of the project, but those selecting the business stream were also allowed to use their savings for education. There was a limit of 20% of participants in the business stream.

Participants in the Learn\$ave-plus group were required to attend five three-hour financial management training sessions. These participants were also “case managed”, with active monitoring of their savings and intervention when the case manager thought that savings goals were not being met.

Although the Learn\$ave project did eventually reach its recruitment targets, recruitment proved challenging. In the pre-implementation stage officials had the opposite expectation; namely that the limited numbers allowed in the project would prove problematic as too many people would clamour to be included in the experiment (to obtain generous matching grants). In the event, active recruiting, including media campaigns, became necessary to achieve the numbers required for the experimental design and the recruitment phase had to be extended in a number of sites. The final enrolments took place in February 2004, so the final withdrawals will not occur until February 2008.

An analysis of the recruits has shown that participants do not represent a random cross-section of Canada’s low income population; instead they are younger, more likely

to be living alone and renting, more likely to be formally educated at a higher level, more likely to be working and, especially important in Canada, more likely to be recent immigrants. However, the control group shares the characteristics of the treatment groups so the non-representative nature of the sample does not threaten the validity of the results: just their applicability to all of the low-income population.

Learn\$ave has undertaken an evaluation of its implementation process and has drawn a number of lessons from this first stage of the project. This report on implementation has been peer reviewed and published (Kingwell *et al.*, 2005).

One of the main “lessons learned” was that there is no massive over-whelming demand among low-income groups for a matched savings project. Participants tend to be non-typical among the eligible population. Recruitment requires active measures varied for target groups. Consequently, the analysts have concluded that a maximum take up rate of about 5% could be expected for a generally available programme among the eligible low income population under “ideal conditions” (Kingwell *et al.*, 2005). As well, the applicability of the financial management training curriculum, especially the prior learning assessment element as it was applied to recent immigrants who were often highly educated, was seen as being questionable.

The full evaluation of the outcomes based on the randomised control group versus the treatment groups has, of course, not yet been completed and is still several years away. A preliminary report with some comparative information (*e.g.* do the treatment groups actually save incremental amounts compared to the control groups?) based on the first 18 months of data is being prepared now and will be completed soon, but is not yet available. Early indications are that the treatment group has saved significant incremental amounts and is also using their matched credits in the prescribed manner. The treatment group is also significantly more likely than the control group to maintain a household budget and to have a positive attitude towards education. Surprisingly, it appears that the financial management training and case management may not be having much of an impact on savings, although this might be as much related to the particular curriculum as financial management training *per se*. However, these preliminary indications are based only on oral comments from researchers and so should be treated with caution: a peer-reviewed written analysis is still some months away.

So we are still awaiting results from the Canadian experiment, but it does promise to provide some good quantitative data about the possible effects of a matched grant savings type of programme. However, if we take a step back from the specific questions being asked in the experiment, how would this project fit within the four broad types of objectives outlined in the first section of this chapter?

Learn\$ave is clearly not designed as a redistributive vehicle given its small size and its appeal only to a narrow range of those with low incomes. Individualised matching grant programmes are by their very nature relatively modest programmes in size and therefore cannot be seen as having substantial wealth redistribution as their goal. What about the other three objectives?

The Learn\$ave programme is not designed to achieve better results by diverting spending to asset acquisition from income programmes, but it could in any case offer some longer-term insight in respect of efficiency objectives. If the treatment and control groups are tracked long enough it should be possible to show whether there is a reduced reliance on government transfers among the treatment groups and an increase in government tax revenue which could offset the costs of the project (in net present value).

To this extent an efficiency case, strictly in respect of government expenditures, could be made for a Learn\$ave type of programme. A more general assessment of efficiency would also include both private benefits, such as increased employment income, and public benefits. If total private plus public returns in combination outweigh government costs, even if the benefits are concentrated in the private hands of the beneficiaries, there should in principle be some way to capture some of these benefits for the public sector such that everyone is better off and there are still budgetary savings in the long run.

One of the issues in making any case based on efficiency is the cost of administration, which has turned out to be very high in similar programmes in the United States, as is discussed further below. If this turns out also to be the case in Canada, it will be difficult to sustain an efficiency argument for IDA types of programmes.

The Learn\$ave type of programme, however, even if its benefits outweigh its costs, will never amount to more than a minor contributor to improvements in income security programmes because of its small potential target audience and its relatively modest size. It is at best a good programme initiative that is justified on a cost-benefit basis, but does not amount to a fundamental change in income security policy. In other words, this type of asset-based programme cannot deliver the kind of revolutionary reform in our approach to income security that has sometimes been implied by the rhetoric of advocates.

The Learn\$ave matching grant programme may therefore be seen as best fitting into the “behavioural” category of objectives, since it is designed to induce behavioural change – initially in respect of savings and in the longer term acquiring better education or self-employment, and potentially improved money management skills. As such, the Canadian experimental project is well-designed to provide an evidence base for these types of matching grant programmes.

Finally, the Learn\$ave programme may also be advocated on the grounds of fairness, providing those with low-incomes government assisted savings similar to those enjoyed by middle and upper income Canadians. But if “fairness” is the objective of the Learn\$ave model, it is designed too restrictively with more covenants on use and lower ceilings on savings than would be anticipated if its goal was to provide an equivalent assisted saving mechanism for those with low incomes as for those with higher incomes. Furthermore, there is no attempt to replicate the incentives inherent in existing tax-assisted programmes for those with higher incomes. In fact the incentives in the Learn\$ave programme are much higher than the value of tax exemptions to those with higher incomes. In other words, Learn\$ave does not appear to be set up to achieve “fairness” of this kind.

In sum, Learn\$ave (and similar IDA programmes) is most appropriately seen as a potentially valuable “niche-product” to add to the array of programmes meant to assist low-income individuals to improve their incomes and, possibly, acquire more adaptive modes of behaviour. We do know about some of the limitations of the programme – principally its limited appeal and audience – but we have still to obtain reliable data on its costs or its benefits. The good news is that we will within the next few years get some answers: the bad news is that we do not yet have those answers.

3.2. *Canada Education Savings Grant (CESG) and Canada Learning Bonds (CLB)*

Canada offers a tax-assisted education savings plan called a Registered Education Savings Plan (RESP). Anyone can open a RESP and contribute up to CAD 42 000 in total. Contributions are made with “after-tax” income, but the income earned within the

plan is not taxed. RESPs are administered by financial institutions, but the investments may be self-directed by RESP holders. A RESP can be invested in equities, bonds, savings certificates or almost any other investment vehicle at the direction of the RESP holder. If the RESP is used for education the interest that was earned (but not the original contributions) will be taxed upon withdrawal as income of the beneficiary. Since the beneficiary is usually a student, in practice there is often little or no tax paid upon withdrawal. Many OECD countries have similar registered education savings plans.

The RESP cannot be described as an “asset-based social policy initiative” according to the definition being used in this chapter since it is not designed for low income households; indeed it is an example of the type of tax-assisted programme which benefits those with significant taxable income and largely excludes those with low incomes. However, Canada does have two programmes that build on the RESP which can be viewed as asset-based social policy initiatives: the Canada Education Savings Grant (CESG) and Canada Learning Bonds (CLB).

The CESG pays a credit (matching grant) of up to 40% of the value of RESP contributions for low-income households, which is added to the RESP. The credit is 30% for middle income households and 20% for higher income households. The maximum CESG is CAD 500 a year and CAD 7 200 in a lifetime. The credit is not taxed if it is used for an approved educational programme.

The 40% credit was a relatively recent addition to the CESG in an effort to achieve more take-up and attractiveness for low income families. The CLB is a further effort to attract low income families to set up a RESP by paying a government grant of CAD 500 into the RESP of any child in a low-income family (below about CAD 37 000 household income in 2006 – median income for couples is about CAD 65 000) born after 2003, upon application. Further as long as the household’s income remains low, the government will add an additional CAD 100 a year to the CLB, until the child reaches the age of 15. This is not a matching grant. No contributions are required from the household to get the full CLB, but once they have set up a RESP in order to become eligible for a CLB, households may add on to their RESP just as they would for any RESP/CESG.

The CESG and the CLB are budgeted to spend CAD 575 million and CAD 45 million respectively in the 2007-08 fiscal year (Human Resources and Social Development, 2007). This is a non-trivial amount in the context of post-secondary education in Canada; one researcher calculated that the CESG could have paid tuition fees for 21% of full time university students in Canada (Milligan, 2002). The CESG and the CLB are both built on the RESP. Not surprisingly, the take-up rates for the RESP are very much skewed towards those with higher incomes, as can be seen on Table 7.1. It seems that the CESG may not be all that much better. A rough estimate of CESG expenditures by income group suggests that about a third of expenditures are going to low income households (below CAD 40 000) and only about 10% to those with very low incomes (under CAD 20 000).

The CLB began in 2004 so it is too early to make more than a preliminary assessment of its effectiveness. The CLB will be effective in accomplishing its goals if many more low income families open up a RESP, but indications to-date are that it has had extremely low take-up. In the 2005-06 fiscal year budgeted spending for the CLB was CAD 85 million, while actual spending turned out to be CAD 2.2 million. However, the government also reports that CLB demand is increasing and that “there were more CLB payments in August 2006 than in all 2005” (Human Resources and Social Development Canada, 2006-2007 Reports on Plans and Priorities). A recent report

(University of Alberta, 2006) claimed that out of an estimated 422 048 eligible children only 19 259 were reported to have a CLB. This represents a take-up rate of about 5%, coincidentally the same estimated “ideal” take-up rate for a matching grant type of programme. If take-up remains at 5% it will not be successful in correcting the distributional imbalance in the RESP/CESG programme.

In Canada’s complex federal system, it is likely that provincial governments will eventually become proactive in signing up social assistance recipient families, since the CLB is fully paid by the federal government. Indeed, provinces could make signing up for a CLB a requirement for social assistance for families with new born children. If so, the take-up rate is likely to increase, although perhaps not in quite the way initially anticipated.

The problem of low take-up is encountered everywhere in the world in every programme meant for low income working people that requires the target population to self-identify as “poor” and apply for a separate programme for “poor” people. The CLBs encountering this problem should have been anticipated. However, the problem with take-up is easily avoidable in Canada, since almost all families who are eligible (*i.e.* over 99%) do now collect the relevant Child Tax Credits. If, as in the United Kingdom, the CLB was automatic upon receipt of the applicable level of Child Tax Credits, which would be easily feasible administratively, the take-up problem could be solved.

Looking at the programmes from the perspective of our four over-arching possible objectives, the CESG/CLB is not an attempt to improve the efficiency of government programmes, nor is it an attempt to redistribute wealth. It seems reasonable to assume that the CESG/CLB was probably designed with a “fairness” objective in mind: to make the seemingly unfair RESP fairer by getting more of the total funds into the hands of low income households. The jury is still out on whether it shall be successful in doing so, but it will obviously not succeed in this respect unless the take-up problem is solved. The fact that the take-up issue has not been solved may imply that the government views the programme more as a symbolic gesture than a real attempt to provide an asset to low income Canadians.

However, the stated aim of the CESG programme is to encourage Canadians to save for the post-secondary education of children; the stated aim of the CLB is to help low-income Canadian families to acquire education savings for their children. Presumably the goal of encouraging this saving is to get more children into post-secondary education. In other words, the stated aim of the CESG/CLB programmes fit into the behavioural category among the four goals, while the implicit aim fits into the fairness category. In respect of behaviour, the relevant question to assess the programmes is: how many incremental young adults attend post secondary education as a consequence of the savings that were accumulated in the CESG/CLB (and how much is the cost per post-secondary student)?

The data to answer this question does not exist but, as in any attempt to induce behavioural change through an incentive for a behaviour that many people already undertake anyway without the incentive, there is undoubtedly an extremely large “deadweight”; meaning that most of the children of CESG/CLB savers who end up going to post-secondary education would have gone anyway. Evaluation must look at the incremental and not the total number of “results”. This is one of the reasons that control groups are used in randomised trials. The cost per unit of output is not the total cost divided by the number of beneficiaries, but the total cost divided by the *incremental* number of beneficiaries induced to this behaviour just as a consequence of the programme. As such, loosely targeted programmes of general application, such as,

especially, the CESG, can turn out to be surprisingly expensive, remembering that 30 and 20% credits also go to those with middle and higher incomes. This is particularly important in respect of assessing an asset-based policy, because the cost per unit of incremental outcome can then be assessed against a direct service investment model. For example, given the very large cost of the CESG would a much more generous bursary programme instead be more effective in inducing post-secondary attendance among those who would not otherwise attend, for the same expenditure?

A bursary programme too has deadweight, but it could be more carefully targeted and not so dependent upon what parents decide to do. After all, one of the odd aspects of asset-based programmes meant to increase enrolment in post-secondary institutions is the fact that the variable which best predicts whether a child will go to university or college is the education of the parent. If the objective is to get children to attend post-secondary education who would not otherwise do so, it does not seem entirely logical to design programmes that depend upon the child's parents making an informed decision about their children's future education.

4. United Kingdom

4.1. *The Child Trust Fund (CTF)*

The CTF is the only universal and by far the largest asset-based initiative in the three countries in which we have identified asset-based policies. The United Kingdom introduced the CTF in 2003. It provides every child born after August 2002 with an initial endowment at birth of GBP 250 and an additional GBP 250 for children in families with household income less than less than GBP 14 495 (income level for the 2007-08 fiscal year). The 2006 budget announced that all children eligible for the CTF will receive a further payment at age seven of GBP 250 with children from lower-income families again receiving an extra GBP 250.

The government endowment must be used to set up a locked-in fund that can be withdrawn only by the child at age 18, except for a very few emergency situations such as a child's imminent death. In addition to the government endowments, contributions can be made by parents, other family members, or anyone else, up to an annual limit of GBP 1 200. There is no restriction on the young adult's use of his or her CTF at age 18 (including rolling it all over into another savings product as one potential use).

CTF accounts are provided by approved financial service providers on a competitive basis. Parents are sent a CTF voucher which can then be used to open an account with an approved provider. Parents can open one of three types of CTF accounts for each eligible child: a savings account, a "stakeholder" account or an equity account. The stakeholder account is an account that invests in a range of equities and other instruments, following government imposed risk minimisation rules and timed according to the age of the child (*e.g.* shifts towards capital preservation as the child gets closer to 18). If parents do not take steps to set up their own fund, a stakeholder account is opened and maintained for them. All income and capital gains in the CTF are exempt from tax.

The CTF is, according to media reports (*e.g.* "Child Trust Funds Hit Not So Terrible Twos" *BBC News* 4 April 2007), proving popular in the United Kingdom, although that should not come as much of a surprise given that it is handing out money to all families with young children. The most significant complaint appears to be that children born before September 2002 are left out, resulting in potentially unequal treatment of siblings.

As of May 2007, 2 486 000 CTF vouchers had been issued, and 1 654 000 CTF accounts had been opened, for a rate of about 66%. Total cost to-date is more than GBP 800 million. Among children born before 6 April 2005 (all of whose parents would have gotten their certificate more than a year ago) the rate of accounts being opened appears to be about 75%. (*CTF Monthly Statistical Report: www.hmrc.gov.uk/stats/child_trust_funds*). Since those who do not open an account on their own have a stakeholder account opened for them, these families are not especially disadvantaged (except for up to one year of income or capital gain – or capital loss), but the failure to open an account could mean that some families do not understand the CTF and may therefore be less likely to make their own contributions.

The government (HM Treasury and Inland Revenue, 2003) has stated that the CTF has three objectives:

- *Security*: in future all children will have the backing of a stock of financial assets at the start of their adult lives, helping to cushion the impact of unforeseen circumstances;
- *Opportunity*: funds can be used to take advantage of opportunities throughout adult life, enabling individuals to play a more confident and continuous role in their communities;
- *Responsibility*: development of the saving habit will promote independence and financial education will help individuals to make better financial choices throughout life.

It is difficult to see the relation between the CTF programme that actually exists today and these stated objectives.

As was argued by Emmerson and Wakefield (2001), if “security” provided by financial assets at the start of adult lives is the goal, then it would be more logical to provide an equivalent payment at age 18 rather than a locked-in endowment at birth. The actual discount rate for government is the prevailing interest rate on marginal public debt, which is likely higher than that paid in savings account although likely less than the effective interest rate earned (on average over time) through investments in equity. The cost to government of providing an equivalent payment at age 18 (equivalent to the average amount that would be available through government contributions alone at birth and age seven plus any investment or interest gains) should therefore be more or less equal to the cost of the current plan. Unlike the CTF there would be no risk of loss of capital due to poor investment – and no chance of extra gains due to well-performing investments.

There will, with certainty, be a distribution of investment winners and losers through the current 18 year investment model of the CTF. Quite aside from their parents’ on-going contributions, some children will get little or nothing at age 18 because their investments have gone sour, while others will have large windfalls. The extent of the distribution in 18 years time is unknown, as is the on-going distribution in future years. There may also be large losses through inadequate protection from inflation, especially for funds that remain in savings accounts. Preliminary surveys indicate that about half of accounts will be savings accounts (Kempson *et al.*, 2006). The CTF could then end up as a transfer of funds to financial institutions as the real value of savings accounts is nibbled away due to the gap between inflation and the interest rate paid on savings, net of management fees.

A time-adjusted equivalent payment at age 18 would therefore much better meet the stated “security” objective at the same cost to government. Furthermore, the goal of “opportunity” as stated is not distinguishable from that of security. It seems to be saying much the same thing with different words. Overall, there is no obvious relation between the security and the opportunity goal and the CTF programme as it is designed.

This leaves the stated goal of “responsibility”; defined as development of the saving habit and financial management capability. It will be many years before there is good evidence that the CTF has either succeeded or failed to increase savings and financial capability. The measure of success with respect to this objective would, presumably, be the incremental increase in savings through personal contributions to CTF accounts (not government endowments) beyond what would have been saved in any case. Increased financial capability might be measured by the number of incremental bank accounts, or the incremental number of households with budgets or long term financial plans.

If the number of default stakeholder accounts remains at 25% and if, upon analysis, it turns out that these are predominantly among those with lower incomes, this would indicate that the CTF is not meeting the “responsibility” goal very well. Similarly, CTF accounts that remain as savings accounts may also demonstrate a lack of improved financial management capability. Indeed, if a sizable portion of CTF holders find their investments wiped out by inflation or poor investment, the whole exercise might teach exactly the opposite lesson – namely, spend your money while you can rather than lose it trying to save. This is a lesson that has been thoroughly taught many times before in many nations.

These are mere speculations. It is too early to tell what will be the effects of the CTF, but even if the CTF is fully successful in inspiring a good deal of additional saving and improved financial capability, could this goal alone possibly be worth the cost of the programme, which has already been considerable and will continue to increase over time? There will necessarily be huge deadweight costs in the CTF programme, as most of the households setting up CTF accounts will already have had ISAs or other savings accounts, and will already be capable financial managers. For these households the programme is not much more than a windfall with no stated public purpose.

If the goal is “responsibility” surely a much different more targeted programme would have made more sense? For no additional government cost, it would have been possible to pay about double the amount (*i.e.* two instalments of GBP 1 000) for each child in the poorest third of households, had the programme simply offered the considerable benefit of a tax exempted registered child savings account and no government endowments for those with higher incomes. Such a programme would have had a much better chance of efficiently meeting stated government objectives.

How does the CTF look in relation to the four larger possible goals set out in the beginning of this chapter? The CTF is not meant to improve the efficiency of government programmes, nor is it designed to redress an imbalance in savings opportunities for those with the lowest incomes, since it is not targeted and those with upper incomes have the same tax-assisted savings opportunities as those with lower incomes, except for GBP 500 of initial endowment. If it is meant to affect behaviour – namely inducing additional saving for children – the discussion above regarding the “responsibility” objective applies. We shall need to wait and see what the incremental savings are and at what cost. This leaves the redistribution objective. Could the CTF be seen as an effort to redistribute wealth?

While the CTF is universal, it does give an additional two endowments of GBP 250 each to households with low income. Table 7.2 below shows the value of funds at maturity under different assumptions. Table 7.2 is a simplistic calculation, in that it projects in a straight line with no variation in each year. With so many possible variables and so much unknown it is not possible to know what the value of CTF accounts will be 18 years from now. Nevertheless Table 7.2 likely presents a reasonable ballpark comparative estimate of the average differences in the minima and maxima of mature CTF accounts, and the gaps between them.

On Table 7.2, all households contributing GBP 400 or less are assumed to get the additional low income GBP 250 contributions, and all those at or above GBP 600 annual household contributions are assumed not to get the added endowments, but only the two GBP 250 endowments. As can be seen, the added government contribution does little to outweigh the effects of added household contributions, with a significant gap evident even between the GBP 400 and the GBP 600 households. The overall result is likely to mean that children from wealthy households will have impressively large funds awaiting them at age 18. Their mature CTF account could be enough to pay for a full undergraduate education including tuition and all living expenses for three or four years. This outcome is especially realistic to anticipate in those households in which savings are already substantial so that the CTF becomes merely another way to shelter an existing savings stream from taxes.

On the other hand, the mature accounts of households who cannot or do not make a contribution will likely be only a tiny fraction – 4 to 5% – of the mature value for households that can make the full contribution every year. For these unlucky young adults, their CTF might be large enough to pay one year's tuition fee and perhaps buy a few books. The CTF will doubtless provide many young adults with some savings who might otherwise have had none, but at the same time it will provide many young adults who would otherwise had plenty with plenty more. When CTF accounts start to mature about a decade and a half from now there may be some significant perceived inequalities between the “stock of financial assets at the start of their adult lives” available to some compared to that available to others.

Table 7.3 takes the results in Table 7.2 one step further and attempts to provide some rough and ready estimate of the comparative value of the tax shelter – or to put the same thing in another way, the cost to government of foregoing the tax on the earnings in the CTF accounts. This is based on a simple progressive tax as set out in the table, and is not an attempt to model the UK personal tax system in any way. These tax rates are therefore only illustrative, as are the results, but with a progressive tax system it is unavoidable that the largest costs will be incurred for those who have the highest incomes and can shelter the most income; *i.e.* build the biggest CTF accounts. In these examples, even if we add on the extra GBP 500 going to low income households, the highest costs to government are for the highest income families.

Given these results it is difficult to see the CTF as redistribution from higher to lower income households: instead it seems to be the reverse. If the tax system is less steeply progressive this effect is ameliorated, but it still remains a counter-redistributive programme if there are larger CTF accounts in higher income brackets.

Where the CTF *is* redistributive is to households with children born after the start of the CTF programme from those households without children or with children born earlier. If the CTF programme were to exist for many decades (so as to outgrow the start-up effects of excluding older children) it could be said to be a classic horizontally

redistributive programme, from those without children to those with children. If so, it is a modest horizontal equity programme. Assuming a total government cost on average of GBP 2 000 per CTF account, the equivalent annual benefit payment for every child would be in the order of GBP 120 to GBP 180 or so depending upon discount rates.

In other words, the CTF cost to government all translated into net present value and discounted at appropriate rates would be more or less equivalent to an increase in the universal Child Benefit of about GBP 10 to GBP 15 a month. This would have the same horizontal redistributive effect, but a more progressive vertical redistribution. Of course, an increase in Child Benefit would not create a financial asset, but, as noted in the introductory section, a comparison to the effects of an equal cost income-based programme needs to be undertaken to evaluate adequately asset-based policies – whether or not they are “meant” to be replacing an income stream.

4.2. *The Savings Gateway*

The Savings Gateway is a pilot project in the United Kingdom. The first Savings Gateway pilots matched savings pound for pound up to a limit of GBP 375. Accounts were open for a maximum of 18 months, during which time the account holder could withdraw any funds, so long as at least GBP 1 remained in the account. However the maximum deposit in any month was GBP 25 so if funds were withdrawn there was no way to replace the amount by making deposits above and beyond regular monthly savings. The matching grant was added at the end of the 18 months, equal to the maximum balance in the account at any time during the 18 months in which the account was open. Participants have no restrictions on how they can spend the money from their accounts.

Eligibility for the Saving Gateway pilots was limited to applicants meeting the following criteria:

- Of working age (between 16 and 65, or 60 for women);
- Have children and household earnings of less than GBP 15 000 a year; or
- Have a disability and household earnings of less than GBP 15 000 a year; or
- Do not have children or a disability, but have individual earnings less than GBP 11 000 a year; or
- Are out of work and receiving benefits.

The first Savings Gateway pilots took place in East London, Cambridge, Cumbria, Manchester and Hull. The first of these five pilots began operation in 2002 and the last ended operations in late 2004. In four of the sites, the financial incentives were combined with active recruitment and “high-touch” assistance in opening accounts, as well as some financial management education. In one of the sites, the recruitment was more passive, just through letters to eligible participants identified through social benefits programmes. In total, there were a little less than 1 500 accounts in the five sites. Although there was no formal randomised control group, a “reference group” was recruited that had similar characteristics as the Savings Gateway participants, and the reference group was used as a comparator.

Evaluation has now been completed of these first five pilot projects (Kempson *et al.*, 2005). This evaluation was based on questionnaires and analysis of the actions and attitudes of participants, mainly pre and post programme, as well as the reference group.

It showed that participants had managed to save and that most of the savings were “new” and not a diversion from other savings. Very little was borrowed money. Early indications are that participants in Savings Gateway had a much higher continuing propensity to save and were better able to manage their financial affairs than the reference group. Most of the participants were positive about the experience and reported that it had a beneficial effect on them. However, this follow up was less than a year after the conclusion of the programme so it is not known whether these effects are retained over the longer term.

A second set of six pilot projects was initiated in 2005 in Cambridgeshire, Cumbria and North Lancashire, East London, East Yorkshire, Manchester and South Yorkshire. Unlike the first five pilots, these had differing matching rates and contribution rules among the pilots, to test the effects of these variables on savings. These pilots are much larger in scale than the first five, with about 21 500 accounts as of July 2006 (Institute for Fiscal Studies and Ipsos MORI Social Research Institute, 2006). The main elements of the second round of Savings Gateway pilots are:

- Participants must be between 16 and 65 either working with individual earnings of less than GBP 25 000 and household earnings of less than GBP 50 000, or out of work receiving one of the major social benefits for the unemployed.
- Like the first pilot projects, each account is open for 18 months.
- The matching rate varies from 20p for every GBP 1 saved to GBP 1 for every GBP 1 saved, with one pilot having a GBP 50 bonus once the first GBP 50 is saved.
- The maximum limit on savings varies from GBP 25 to GBP 125 per month, and from GBP 375 to GBP 2000 over 18 months. Note that the limit on savings per month means that funds withdrawn cannot easily be replaced. This is meant to encourage savings to be retained.
- The rules for what is matched are more complex than in the first pilots. The government does not just match the highest balance: rather the government matches the maximum savings in each month with up two months unmatched. Withdrawals are allowed but will automatically reduce maximum matching funds unless they fall within the “two month” limit.
- As in the first pilots, participants have no restrictions on how they can spend the money from their accounts.
- Financial education was made available to all participants.

In the six second round pilots there were several different methods of recruitment: random telephone calling, random letters, and letters to benefit claimants on Department of Works and Pensions (DWP) records as well as smaller numbers through continuation from the first pilots and participants in an adult learning programme. The telephone group has a randomised matching control group which met the criteria for the programme but was not offered participation. A quasi-control group for the DWP enrollees was constructed using administrative data. Like the Canadian Learn\$ave experiment, the second round of Savings gateway pilots should provide some reliable data upon which to base future programme design, at least based on the randomised telephone portion.

Unfortunately – again like the Canadian projects – the six pilots have not yet concluded and been evaluated so we cannot here report on the results. An interim report has been

completed from the first few months of the second round of Savings Gateway (Institute for Fiscal Studies and Ipsos MORI Social Research Institute, 2006). It so far appears that participants are saving more as a consequence of the programme, and are for the most part managing to maximise their contributions into their accounts. However, it is not yet clear whether net assets are increasing, indicating that at least a portion of the contributions may be diverted from other savings, although when the accounts were opened only about one tenth said they would derive their contributions only from existing savings.

It will be interesting and potentially quite instructive to compare the findings from the Savings Gateway second round, especially the telephone sample, with the Canadian experiment. The sample sizes are coincidentally similar. One difference is that the United Kingdom apparently experienced much less difficulty recruiting participants. This may be due to more aggressive mass recruiting techniques, while the Canadians were initially constrained by fear that they would have too many applicants. It might also be due to much higher limits on incomes and, in general, less targeting of the UK pilots to those with lowest incomes. On the other hand, the Canadian project had substantially more generous matching at 3:1 compared to a UK maximum of 2:1. Presumably more generous matching should make recruitment easier.

It will also be useful to compare administrative costs between the experiences in the IDA-type programmes in the United States, Canada and the United Kingdom. In the United States, administrative costs were very large compared to funds paid out to participants. Although administrative costs are a mundane topic, they can pose a real barrier to the implementation of a programme. In the United Kingdom, administrative costs are being absorbed by HBoS Bank, which is administering the accounts. If the administrative costs per case are anything like those in the United States, HBoS will be encountering high costs, and these may be difficult to contain within acceptable fee levels. If indeed administrative costs are high the private sector might not be so able to administer accounts in a national scheme in which management expense ratios are kept to a minimum. Comparing these three countries' experience will shed needed light on the issue, if Canada and the United Kingdom are both careful to collect good data on this topic.

Like Learn\$ave and other Individual Development Account (IDA) types of programmes, the Savings Gateway appears to be a potentially useful addition to the range of programmes available to assist households in reducing economic hardship. But, as in Canada, it would be good to have some evidence-based results upon which to design a national programme *before* a big new programme is actually put in to operation, as novel as this concept might be. While all indications are that matched savings programmes result in increased savings, so does an increase in interest rates. Does Savings Gateway create any longer term effects? How are the benefits of the Savings Gateway programme distributed by household type and income, and will benefits actually get to households with lower incomes? What are the effects of the various matching and other rates?

These are the sorts of questions that the Savings Gateway experiment may answer, or at least provide some good indications of the range of plausible answers. This information will be invaluable in deciding whether to go ahead with a national programme and, if so, deciding upon how it should be designed.

In respect of the broader objectives of Savings Gateway, unlike both the United States and the Canadian IDA types of experiments and programmes, there is no restriction on the use of the funds by recipients. In this regard, the Savings Gateway looks more like a "mainstream" registered savings account, and less like a modified social benefit. In the United Kingdom, the matching rates are also more in line with those found in other

registered savings plans. Indeed, the lowest experimental matching level (20 pence to the pound) seems to be less than the net benefit of a tax exempt plan for those with higher incomes, ignoring matching on the first GBP 50. In this respect, the UK Savings Gateway appears designed primarily to meet the fairness objective outlined in the introductory section of this chapter.

5. United States

The promotion of asset-based social initiatives began in the United States in the early 1990s and remains the subject of intense policy discussion. Among institutes active in promoting or analysing asset-based policies are: the Center for Social Development, Washington University (where Michael Sherraden is located); the New America Foundation which sponsors a web site called assetbuilding.org; the Institute on Assets and Policy at Brandeis University; and others as well. In respect of actual programmes – as opposed to discussions or proposals – there is a multiplicity of mainly local or state initiatives throughout the United States. However, despite the policy fervour and the number of agencies delivering some form of asset-based programme, it seems that the actual extent of programming is modest, especially compared to the United Kingdom.

At the federal (*i.e.* national government) level, the New America Foundation's Asset Building Programme provides an annual consolidated up-date of federal activities. According to their February 2007 up-date (Cramer *et al.*, 2007) the only concrete federal asset-based initiative taken in the last year was to maintain federal funding of USD 24 million for the Assets for Independence Program, which supports community level matching grant IDAs. In addition, federal financial support for state asset-based programmes has also been available since 1996 through using part of state TANF (Temporary Assistance for Needy Families) funding to pay for IDAs (Edwards, 2005). Since 1998 states have also been able to obtain funding for asset-based programmes through the Assets for Independence Act and other federal grant programmes, including Community Services Block Grants (Mills *et al.*, 2004).

There was a step away from asset-based federal programming in 2006-07: the President eliminated a proposed IDA tax credit from his budget. Previous budgets had included a USD 1.7 billion proposal for a matching tax credit IDA savings programme, which would have matched savings up to USD 500 for eligible participants. Nevertheless, this proposal is included in a bill currently before the Congress, so it is perhaps not entirely impossible to see some movement towards such a nation-wide programme this year (although it is not likely).

There is also a national initiative now underway called "Saving for Education, Entrepreneurship and Downpayment" (SEED). SEED is designed to "develop, test and promote matched savings accounts and financial education for low-income children and youth. A total of 1 325 accounts will be established with children of differing age and with varying savings incentives" (Venner, 2006). SEED began operation in 2004 and is planned to end its evaluations in 2012. As of June 2006 there were 1 171 participants in SEED. To-date the average deposits from participants is only about USD 183 so SEED remains in its early stages and as of yet is quite small.

SEED also includes an experimental project (SEED for Oklahoma Kids), with a randomised control group, paying a universal child grant at birth similar to the CTF in the United Kingdom or the CLB in Canada (except that the CLB is not universal). This experimental project will eventually provide valuable insight into the costs and benefits

of a universal assets-based programme. SEED for Oklahoma Kids is still in the start-up stage and has not yet begun to enrol participants (Reyes Mason *et al.*, 2006).

In addition to national initiatives, there are many developments at the state level, some supported by federal financing and some supported by the state government without federal assistance, sometimes combined with charitable support. According to Stevens (2006) the following states have some form of state-wide planning or policy review process to consider asset-based approaches to social policy: the Ho'owaiwai Asset Policy Initiative of Hawaii; the Asset Policy Initiative of California; the Illinois Asset Building Group; the Arkansas Assets Coalition; the Asset Building Coalition for Michigan; the Asset Building Coalition for Michigan; Alaska's Asset Building Coalition; and the Washington State Asset Building Coalition.

Aside from planning and processes there are also many actual programmes operational in the various states. The most common asset-based programme among the states is an IDA type of programme.

Perhaps the most well known of the IDA projects in the United States is the now completed American Dream Demonstration (ADD). The ADD selected thirteen agencies in a competitive process which designed and delivered local IDA initiatives. The ADD operations ran from 1997 through 2001 and the final evaluations were completed in 2005. Approximately 2 000 IDA accounts were set up under the ADD. One of the sites, Tulsa, included an experimental design with a control group (Adams, 2005).

In respect of the current status of IDA programmes in the United States, Warren and Edwards (2005) surveyed all states and found that “22 state-supported IDA programmes, plus the District of Columbia and Puerto Rico, are either currently being implemented or currently winding down from the implementation phase”. Parrish *et al.* surveyed existing IDA programmes in the United States in 2006 and found that “more than 20 000 people have opened IDAs to save for a home, education, small business, or other assets” (Parrish *et al.*, 2006). However, the estimate of 20 000+ refers to the numbers who have taken part in an IDA at some point in time and not the number of active accounts today, which presumably would be fewer. In sum, there are lots of programmes in the United States but relatively few participants.

In addition to IDA programmes there is a scattering of other asset-based programmes in various states. For example, eight states have some form of matching grant contributions to a 529 education savings plan made on behalf of a beneficiary in a low income household. These grants range from USD 200 to USD 500 for each beneficiary (Venner, 2006). However, until such time as results start becoming available from SEED, the main programmes of interest in the United States are the IDAs, and especially the Tulsa IDA as it had a rigorous experimental design. In the following assessment we therefore look more closely at the Tulsa IDA, as an example of the main findings from the United States in respect of the experience in that country with asset-based programmes.

5.1. The Tulsa Experimental IDA

The final evaluation report (Mills *et al.*, 2004) of the Tulsa experimental IDA provides a summary of the design characteristics of the programme:

In the Tulsa experimental IDA programme, the allowable account uses were home purchase or repair/improvement, post-secondary education, microenterprise startup/expansion, or retirement. Authorised withdrawals were matched at 2:1 for home purchase and at 1:1 for all other allowable uses. To be

eligible for the programme, participants had to be employed, with family income below 150% of the federal poverty guideline.

Prior to a matched withdrawal, participants were required to take 12 hours of general financial education and (in most instances) additional training specific to the type of intended asset purchase. Participants were expected to make a minimum monthly deposit of USD 10 in at least nine months of each year. Under the programme design, matching funds accrued to the accountholder for all IDA deposits made within 36 months after the account opening. The accountholder then typically had up to six additional months within which to make final matched withdrawals. Any remaining account balance could then be rolled over (with 1:1 match) into a Roth individual retirement account (IRA).

For each account year (measured from the month of account opening), up to USD 750 in deposits was subject to match, when withdrawn for an allowable use. Over the three-year savings period, the maximum matchable savings amount was thus USD 2 250. Participants making full use of their accounts over three years could accumulate USD 6 750 for home purchase (USD 2 250 in savings plus USD 4 500 in match) or USD 4 500 for other allowed uses (USD 2 250 in savings plus USD 2 250 in match). At the time of a matched withdrawal, the match was provided in the form of a check made out to the vendor (e.g. a home mortgage lender).

The Tulsa experiment assessed three types of results: those related to the specific savings objectives of the programme design (e.g. home ownership, education, business start-up or retirement saving); secondary outcomes related to overall net worth (assets less liabilities); and tertiary economic outcomes related to overall financial well-being including items such as employment earnings. These may be considered to be the stated objectives of the Tulsa IDA.

Like all IDA-type programmes, the Tulsa IDA demonstrated that low income households can indeed save money in their IDA accounts when provided with substantial incentives. The final evaluation was based on the fourth year follow-up, which included 840 participants that completed the survey (412 in the treatment group and 428 in the control group). In respect of the primary objectives of the programme, the main outcome was a statistically significant 6.2% increase in home ownership over and above the rate of the control group (49.1% versus 42.9%) after four years. The only effect of education was an increase in short non-degree courses. There were no significant effects on business start-up or retirement savings. With respect to the secondary and tertiary objectives there were also very little or no effects. There were some important differences within some sub-groups within the sample. Notably, African-Americans were much more likely to invest in a home (Mills *et al.*, 2004; Mills, 2005).

The Tulsa participants were actively recruited to the project (like the Canadian Learn\$ave project), not randomly chosen within the population. Therefore we can assume that there were a disproportionate number of participants who were interested in saving and especially interested in saving for home ownership – and that many in the control group were consequently disappointed not to have the opportunity. This does not diminish the validity of the comparison to the control group (which would have had the same predisposition), but it does mean that it is not possible to project these findings onto the low income population at large; *i.e.* a Tulsa like programme would not result in a 6.2% increase in home ownership among the low income population. (The SEED for

Oklahoma Kids is planning to sample randomly from the population at large, so it will give scalable results for the population as a whole.)

The overall summary of lessons from the Tulsa results with respect to programme design are that a programme providing a large incentive for saving towards low income home ownership will attract some low income households which take advantage of the programme and buy a home. This does not, of course, tell us about the costs and benefits of the programme, since there is no quantification of the public and private benefits versus the costs.

Canadian research (Mendelson, 2006) shows that the purchase of a home may be a dangerous investment for a low income household. Strictly from a financial perspective purchasing a house implies that a low income household has almost no diversification of its assets. Many housing markets are very volatile. A housing purchase is a single large lump-sum leveraged (because it is financed with a loan) investment made at one point in time, so it is unavoidably vulnerable to market timing. If a household is caught on the wrong side of a housing market turn, it can end up with extremely poor or even negative financial results. Unless there are intangible benefits from home ownership, for example in the form of family stability and up-keep of the home, home ownership may not be the best choice for a low income household. Research in the United States has also shown similar results, for example Belsky *et al.* (2005). The Tulsa home market appears to have remained buoyant, even in 2007, so that home owners from the Tulsa experiment have likely done well, but this does not apply to many other markets in the United States. In other words, there is no straight line from the primary to the secondary to the tertiary objectives of the Tulsa project.

Perhaps another follow-up four years hence could demonstrate that there are indeed intangible or financial benefits to the participants who were induced by the Tulsa experiment to purchase a home – or not. Unfortunately a longer term follow-up does not appear to be planned at this time.

What about the Tulsa experiment and, more broadly, the US IDA projects in respect of the three types of broader goals outlined in the beginning of this chapter?

As with Learn\$ave and Savings Gateway and other IDA types of programmes, none are purporting to substitute for income benefits. Nevertheless, if it could be shown that there were savings in benefits as a consequence of IDA types of programmes, and these were worth more than the costs, a strong efficiency case could be made for these sorts of programmes. In measuring benefits against cost, it would be necessary to take into account the cost of matching grants for people who would have saved in any case – plus administrative costs, which are another form of deadweight cost.

It appears that the form of IDA offered by many US programmes, at least as exemplified by the Tulsa project, once extra costs of the random assignment experimental model have been removed, requires high administrative costs relative to programme expenditures. In Tulsa administrative costs were estimated at USD 3.06 for USD 1.00 of participant savings, or about USD 1.50 of matching grants (Schreiner, 2004, 2005). This is not all “pure administration” in that some of the cost was in the required four hours of financial education provided to each recipient and to other services and assistances, but in any case it can be seen that the current IDA model entails high administrative costs. As discussed previously, the Learn\$ave experiment and Savings Gateway 2 may shed some additional light on the administrative costs of this sort of programme. If indeed the overhead is unavoidably as high as that experienced in Tulsa it is hard to see an efficiency argument for this kind of matching grant programme.

As discussed in the introductory section, wealth redistribution has sometimes been used as an argument for asset-based social policies – for another example see Lombe and Sherraden (2005). However, wealth redistribution would require much larger interventions than are imaginable or possible through matching grant programmes. IDAs as wealth redistribution are like throwing handfuls of pebbles into a river in an effort to create a dam. Wealth redistribution requires policies such as substantial progressive (and probably international) taxation on inheritance, greater equality of income, perhaps large endowment grants and, likely, more generous public provision of core services such as education and health care. IDAs are not a tool designed for this purpose.

IDAs have also sometimes been argued for as “only fair” given the tax breaks available to wealthier families. IDAs may partially address this concern, but it is difficult to see the relationship between this kind of goal and the actual design of the IDAs in the United States, unlike the Savings Gateway in the United Kingdom. For one thing, as mentioned previously, there are more constraints and less choice in US IDAs than there are on “equivalent” programmes that offer tax savings. For another, the tax savings for most registered types of accounts amount to say, 30 or 40% at most, depending upon tax progressivity. Yet the matching rates for low income households in a US style IDA are often 100% or 200%, and in the Canadian case are even higher. These high matching rates might be needed to stimulate savings for low income households, but they hardly seem to be designed to compensate for the tax savings experienced by higher income families in registered accounts. If this were the purpose, it would make more sense to design an IDA as a refundable tax credit, as is the design of the Canada Education Savings Grant and, doubtless, registered accounts in some other countries.

This leaves “behavioural” as the final possible objective for the US style IDAs, and this indeed seems to best accord with the stated goals and design of the IDAs. The IDAs are meant to develop the habit of savings, improve financial management and, perhaps, lead to the acquisition of some specific forms of asset – such as a house or a better education. We shall require more and better quality evidence before we can have reasonable certainty that IDAs are effective in achieving this goal at a reasonable cost.

6. Conclusions

We have here reviewed asset-based programmes in Canada, the United Kingdom and the United States. The evidence is consistent in each country: people with low incomes *will* save if they are offered incentives and if the institutional structures are available to encourage them to save. We also know that most people will feel empowered by saving and will see their experience as positive. Unfortunately we do not yet know much more beyond that. However there are projects underway today in all three countries that will add considerably to our knowledge of the effects of asset-based programmes and how they may be optimally designed.

In the meantime some of the rhetoric surrounding asset-based programme advocacy needs to be balanced with realistic expectations. Asset-based programmes are not the new great panacea for the poor. While there is without doubt much to be learned by employing an asset-based perspective to review our existing income security and tax programmes, this is not a technique which will radically alter our existing programmes; rather, it will add, adjust and modify.

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Table 7.1. Income distribution of Registered Education Savings Plans (RESP) in Canada, 2002

Approximate household income from all sources	RESP holders %	Non-RESP holders %	Take up rate %: proportion of contributors to a RESP between 1998-2001
< CAD 20 000	3	15	2.3
CAD 20 000-CAD 39 999	13	18	7.2
CAD 40 000-CAD 59 999	19	17	10.4
CAD 60 000-CAD 79 999	19	12	13.1
CAD 80 000-CAD 99 999	15	7	13.2
CAD 100 000+	23	11	22.2
N/A	9	20	-

Source: Human Resources Development Canada (2003, Table 5.3).

Table 7.2. Comparative values of CTF in constant dollars at end of maturity period*

Annual household contribution	Real rate of return (in GBP)		
	2%	3%	4%
GBP 0**	1 011	1 172	1 359
GBP 200**	5 093	5 655	6 288
GBP 400**	9 176	10 138	11 217
GBP 600	12 597	13 862	15 274
GBP 800	16 680	18 345	20 203
GBP 1 000	20 762	22 828	25 132
GBP 1 200	24 845	27 311	30 061

CTF: Child Trust Fund.

* Based on a straight line projection with a constant real rate of return and the same household contribution each year.

**Assumes additional endowments of GBP 250 at birth and at age seven.

Table 7.3. Illustrative comparative values of the tax shelter in the CTF in constant dollars

Annual household contribution	Assumed tax rate (%)	Value of tax shelter		
		Real rate of return (in GBP)		
		2%	3%	4%
GBP 0**	0	0	0	0
GBP 200**	10	49	106	169
GBP 400**	15	146	291	453
GBP 600	20	259	512	795
GBP 800	25	445	861	1 326
GBP 1 000	30	679	1 298	1 990
GBP 1 200	35	961	1 824	2 787

CTF: Child Trust Fund.

Same assumptions as Table 7.2. The value of the tax shelter is calculated as the tax rate times the total amount of investment income earned in the account (*i.e.* the total account less all government and household contributions).

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