



# The Iowa Policy Project

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## **EXECUTIVE SUMMARY**

# The Social Benefits of Individual Development Accounts

By Caroline Brigham and Peter S. Fisher

Individual Development Account programs provide a special savings account for low-income individuals in which participant savings are matched by federal and state government sources and by local organizations in order to allow the individual to attain greater financial security.<sup>a</sup> Typically, the matching rate (including both federal and non-federal) is one dollar of match per dollar of participant savings. However, the matching rate can be as great as 8 to 1.<sup>b</sup> The social benefits of Individual Development Account (IDA) programs have been documented in academic and political discourse since the early 1990s and over 30 programs exist in the United States. Benefits vary, but may include: acquiring personal financial management skills, enhancing homeownership, obtaining higher learning credentials, realizing self-employment and gaining mobility through vehicle ownership.

The Iowa Legislature enacted the first legislation supporting IDAs in 1993, adjusting the types of IDA purchases since then. IDA participants may now save for: higher education and certification, homeownership, entrepreneurship, home improvement, car purchase, and authorized computer or assistive home technology. Participants may also use funds for a one-time-only medical emergency, and other authorized purchases that enable a higher degree of self-sufficiency.<sup>c</sup> In 2007, the Iowa Credit Union Foundation began the Credit Union Family Partnership utilizing IDAs to “build long-term partnerships between Iowa credit unions and low-income individuals and families.”<sup>d</sup> Currently, 20 credit unions participate. The Foundation’s work is funded through agencies and organizations, at both the federal and local levels. A participant’s savings can be matched up to \$2,000 from Foundation funds and another \$2,000 by state funds. Whether matching funds from both sources are available depends on the time of enrollment. The Iowa Credit Union Foundation also works in partnership with the Rebuild Iowa Office to provide an IDA program for individuals affected by the 2008 Iowa floods.

### **Results of a Survey of Iowa Credit Union IDA Programs**

To evaluate IDA programs and member participation, the Iowa Policy Project surveyed 17 active Iowa credit unions that partner with the Iowa Credit Union Foundation. We found the majority of credit unions incur start-up costs and administrative duties when beginning the program. However, 14 of the credit unions, 82 percent, felt that the start-up and financial costs were trivial. Financial education is a requirement of the program and 15 credit unions, 88 percent, have offered one-on-one financial educational assistance. The same percentage provides homeownership education as well. All participating credit unions hold to traditional mortgage lending practices and several programs provide an initial deposit, \$5 or \$25 to start the program.

An IPP survey in November 2009 examined 154 IDA participants, most of whom enrolled in 2008 or 2009. Of the 154 participants, 87 — or 56 percent — are continuing to save for their financial asset. Thirty participants, 19 percent, completed an authorized purchase and of those, 12 participants used their savings and match to buy a home. Among the 30 participants making an asset purchases, the typical

amount saved was around \$2,000. However, about one-fourth of participants, or 37, did not complete the program. Our results show that 82 participants, 53 percent, also utilize another service of the credit union, such as a savings or checking account.

### **Research on the Social Benefits of IDAs**

Social benefits from national IDA programs have been well-documented in the United States and Canada. Studies affirm that IDA programs have positive and long-lasting impacts on account holders. IDA accounts help to maintain, and even increase, an interest-earning checking/savings account. A combination of matching credits, financial education and counseling services helps to establish and maintain a financial goal and a household budget. Although this effect diminished slightly over time, one study found evidence that financial education classes did help IDA account holders save for longer periods, and that the amount of money eligible for a matched withdrawal was greater due to educational support. IDA account holders who received financial education classes also had a reduced rate of risk-taking actions in starting micro-enterprises.

The effects of IDA on homeownership are strong. One study found IDA programs increased homeownership rates 6.3 percent, especially for black renters who often face barriers to entering the housing market. Research on the 2009 foreclosure crisis shows that former IDA account holders had one-half to one-third fewer home foreclosures than other low-income homebuyers in the same cities; this outcome was linked to the IDA program oversight and homeownership education.<sup>e</sup> Overall, IDA account holders saving for an education asset saved slightly more than those saving for a micro-enterprise asset. Further, education savers did so for slightly longer periods than those for a micro-enterprise asset. In the latter, IDA account holders increased their self-employment and the likelihood of incorporation of their personal business.

### **Conclusions**

IDA programs provide a supportive steppingstone for IDA participants in achieving self-sufficiency. IDA financial, educational and administrative oversight facilitates greater financial responsibility, knowledge and often independence and equity. These programs empower participants to reach their personal goals.

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**The Iowa Policy Project** is a nonpartisan, nonprofit policy research and analysis organization based in Iowa City. Find the full report on this issue and others at [www.IowaPolicyProject.org](http://www.IowaPolicyProject.org).

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<sup>a</sup> "Frequently Asked Questions about Individual Development Accounts (IDAs)." CFED. 2010. Accessed September 2010. [http://cfed.org/programs/idas/ida\\_faq\\_article/index.html#ques1](http://cfed.org/programs/idas/ida_faq_article/index.html#ques1)

<sup>b</sup> Mills, Gregory, et al. "Assets for Independence Act Evaluation: Impact Study Update." Abt. Associates Inc. September 2003. Available at: [http://www.abtassociates.com/reports/2003159999428\\_47206.pdf](http://www.abtassociates.com/reports/2003159999428_47206.pdf)

<sup>c</sup> Iowa Code § 541A.2 (2010). Available at: <http://tinyurl.com/479dyk2>

<sup>d</sup> "Individual Development Accounts." Iowa Credit Unions website. 2011. Available at: [http://www.iowacreditunions.com/asp/community\\_outreach/indiv\\_dev\\_accts.aspx](http://www.iowacreditunions.com/asp/community_outreach/indiv_dev_accts.aspx)

<sup>e</sup> Rademacher, Ida et al. "Weathering the Storm: Have IDAs Helped Low-Income Homebuyers Avoid Foreclosure?" CFED and The Urban Institute. April 2010.