



Family Savings Policy

Matched Savings Programs Show Promise for Financial Security and Upward Mobility

Signe-Mary McKernan, Caroline Ratcliffe, Gregory B. Mills, Michael Pergamit, and Breno Braga
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Policymakers looking to provide evidence-based opportunities for low-income Americans should look to matched savings programs such as individual development accounts (IDAs). By matching participants’ personal savings, IDAs improve financial capability while promoting long-term saving to invest in a first home, business start-up or expansion, or education or training. Our research shows that IDAs promote financial security and upward mobility among low-income families (Mills et al. 2016).

The Assets for Independence (AFI) program, a federally supported IDA grant program authorized in 1998 under the Assets for Independence Act, uses funds from federal and nonfederal sources to match participants’ personal savings for approved purposes. For example, a participant might receive \$4 for every \$1 saved up to \$1,000 of deposits. AFI programs also commonly offer financial education. Early results from the first year of a randomized controlled trial evaluation show that AFI IDAs help participants save for the future while still meeting their basic living needs without risk of hardship or undue financial strain (Mills et al. 2016).

FIGURE 1

AFI Individual Development Accounts Increase Savings



Notes: AFI = Assets for Independence. Applicants for the study were randomly assigned to participate in the AFI program (“participant”) or to not participate (“control”). *** = $p < 0.01$

AFI IDAs increased personal median savings by \$657 (or 293 percent)—not including the program match—over what the participant would have saved in the absence of the program (figure 1; Mills et al. 2016). This boost in savings can be critical for low-income families, as evidence suggests that as little as \$250 to \$750 in savings can reduce economic hardship when income shocks hit (McKernan et al. 2016).

AFI IDAs also led to a 34 percent reduction in hardships related to participants' inability to pay for utilities, housing, or health care and a 10 percent improvement in participants' confidence (rated on a scale from 1 to 10) in their ability to meet monthly living expenses (figure 2; Mills et al. 2016).

FIGURE 2

AFI Individual Development Accounts Reduce Economic Hardship and Improve Economic Security



Notes: AFI = Assets for Independence. Applicants for the study were randomly assigned to participate in the AFI program ("participant") or to not participate ("control"). ** = $p < 0.05$

AFI IDA participation led to a 39 percent decline in the use of alternative (i.e., nonbank) check-cashing services, suggesting that IDAs help people enter the financial mainstream (Mills et al. 2016).

Our evaluation and related research suggest two emerging policy implications:

- **Matched savings programs provide a vehicle for public policies to encourage low-income families to save for both short-term stability and as a foundation for long-term upward mobility.** AFI is one of the few federal efforts that encourage low-income people to save, as the vast majority of savings incentives (such as the mortgage interest deduction and the preferential treatment of retirement savings) benefit high-income people (Steuerle et al. 2014). With more than a quarter of American families having less than \$750 in emergency savings, programs that encourage both short- and long-term saving could benefit the overall economic stability of low-income families (McKernan et al. 2016).
- **One possible reason AFI IDAs are so successful is that new savings are not subject to asset limits in means-tested programs.**¹ Families will save more if they do not have to worry about losing their eligibility for public benefits. Other Urban Institute research finds that asset limits have unintended consequences: Supplemental Nutrition Assistance Program asset limits reduce the financial security and stability of low-income households by decreasing their savings and the likelihood that they have a bank account (Ratcliffe, McKernan, Wheaton et al. 2016).

How AFI IDAs Work

In this example, drawn from a recent AFI experience, a community college seeks to boost its student retention and graduation rates by offering an IDA program. As part of the program, students receive the following benefits:

- An IDA into which a participant makes deposits and later withdraws funds for authorized asset purchases or allowed emergency expenses. This account also helps connect participants to the financial mainstream.
- Potential matching funds of \$4 for every \$1 of earned income saved (up to \$1,000 in deposits over roughly two years). If the student saves \$1,000, the program will provide an additional \$4,000 to use when paying tuition, buying a first home, or capitalizing a small business.
- Help obtaining financial skills and information. Participants take a semester-long financial education course. The program reviews their credit reports and scores with them and provides coaching on financial aid, scholarships, and other benefits.
 - » The financial education course covers personal finance, education financing, and saving and borrowing. Students spend 7–10 hours each week in class or doing homework, and the IDA itself engages students in “learning by doing.”
 - » The program also offers students coaching on building credit and improving their credit reports. Urban Institute research shows that one in three Americans has debt in collections reflected on their credit report (Ratcliffe, McKernan, Theodos et al. 2014).

Note

1. See section 415 in the Assets for Independence Act, available at “AFI Legislation: Assets for Independence Act 42 USC 604,” US Department of Health and Human Services, Administration for Children and Families, Office of Community Services, May 30, 2012, <http://www.acf.hhs.gov/ocs/resource/afi-legislation-0>.

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About the Authors

Signe-Mary McKernan, a national expert on wealth building, codirects the Urban Institute's Opportunity and Ownership initiative. She published the book *Asset Building and Low-Income Families* with Michael Sherraden and has testified before Congress. She has a PhD in economics from Brown University.

Caroline Ratcliffe is a senior fellow and codirector of the Opportunity and Ownership initiative at the Urban Institute. An expert on asset building and poverty, she has published and spoken extensively about child poverty, emergency savings, and inequality. She has testified before Congress and the Council of the District of Columbia. She has a PhD in economics from Cornell University.

Gregory B. Mills, an Urban Institute senior fellow, directs studies on food and nutrition policy, low-income saving and asset building, and access to financial services. He has a PhD in public policy from the John F. Kennedy School of Government at Harvard University.

Michael Pergamit, a senior fellow at the Urban Institute, is a labor economist whose research focuses on vulnerable youth. Before joining Urban, Pergamit spent 10 years at the National Opinion Research Center and 13 years at the US Bureau of Labor Statistics. He has a PhD from the University of Chicago.

Breno Braga is a labor economist and research associate at the Urban Institute. His research covers the effects of high-skilled immigration on labor markets, the role of local conditions in asset accumulation, and the local factors associated with debt in collections. He has a PhD in economics from the University of Michigan.

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