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ASSET-BASED SOCIAL PROGRAMS: A CRITICAL ANALYSIS OF CURRENT INITIATIVES

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ASSET-BASED SOCIAL PROGRAMS: A CRITICAL ANALYSIS OF CURRENT INITIATIVES¹

by

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1. Although several more or less expansive definitions may be possible, here we define the term ‘asset-based social initiatives’ narrowly to refer to programs intended to assist lower income households to increase their financial assets. For the most part, this paper concentrates on programs for households of pre-retirement age and that do not involve preparation for retirement. However, some asset-based programs do not involve fully liquid financial assets, in that the programs 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 programs are discussed here.

2. 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.

3. 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 program initiatives reveals only a scattering of programs in a few countries. The UK seems to be alone in introducing a large new country wide asset-based program. The US has many relatively small, individually-oriented savings program. Canada has introduced one new asset-based program and is in the process of concluding a large, social experiment with a randomized 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 our search, sixteen years after Sherraden’s study the sum total of asset-based programs remains modest indeed.

4. While the bulk of material about asset-based policies has been produced by enthusiastic advocates, there have been fewer rigorous analytic evaluations. Here we are interested in an assessment of

1. Draft -- not for circulation. Comments welcome at michael.mendelson@sympatico.ca.

the programs that exist – or, mainly, an evaluation of the evaluations since we are not undertaking any original review of data.

5. This paper reviews existing asset-based initiatives already under way in Canada, the UK and the US, reviewing the extent to which we can discern their success or failure in achieving their objectives. But measuring success or failure against the program's objectives, requires first a description of those objectives. Often program 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 programs in the context of broader possible objectives for income security programs, we first outline a 'typology' of the kinds of general objectives that asset-based social policies could be designed to achieve.

Possible objectives for asset-based social policies

Efficiency

6. 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 per cent of the net present value of the anticipated income stream, and achieve equal or better welfare outcomes by paying recipient the lump sum rather than the income stream, while spending less or at least no more.

7. For example, if a recipient of social allowance would have had a flow of benefits of, say, \$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 \$300,000 (in constant dollars); say, \$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 \$200,000 that the recipient could instead be given, say \$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 \$25,000.

8. 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.

9. 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 program 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 program 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 program, should it be attempted in reality – and it may be that some of the information is not knowable in advance, making the program more like a lottery.

10. 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 they 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.

11. No advocate of asset-based programs actually advances this theoretical argument or a program based upon it. Quite the reverse: most advocates of asset-based programs 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 program substituting a lump sum benefit for an income stream, and despite its not being actively pursued by advocates of asset-based programs, 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 specialized instances: for example, in providing a lump sum grant to assist long term renters of publicly subsidized housing to become owners instead (and there is a program 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 programs 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 program. The ‘efficiency’ argument as a possible justification for asset-based initiatives is reasonable, and 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 programs? In short, if it does work, why *not* partly replace income? Perhaps more importantly, in assessing asset-based programs is it 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 programs such as educational bursaries and social housing.

Behavioural

12. If asset-based programs are not meant to replace, at least in part, income-based programs, what are they meant to do? Asset-based programs 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 programs may be seen in the same vein as ‘working income credits’ or ‘child care subsidies:’ one more type of program among many programs for low income households. Advocates might argue that asset-based programs are all-too-often missing or insufficiently developed and improving these programs will fill a missing niche in our social programs.

13. 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 better reflect 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 programs (as has occurred in the UK and in some provinces in Canada), an allowance for savings plans for children with disabilities (as in Canada) or similar adjustments to existing programs. As well, programs that seem to fit this category include assisted savings vehicles, such as Canada’s Learn\$ave or the US Individual Development Accounts, as is discussed further below.

14. While this describes a type of program, it does not describe the program's objectives. In his report of a previous OECD conference on asset-based policies, Cornell [Cornell 2003] summarizes Sherraden's list of possible objectives of asset-based programs:

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

15. 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.

Redistribution

16. Asset-based programs may not be much interested in the distribution of wealth except as a possible unintended consequence. However, an asset-based program 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 UK much larger (say £25,000 to £50,000 rather than £250 to £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].

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

“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 percent of households command 83 percent of the nation's wealth, while the bottom 40 percent 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]

Fairness

18. A final type of objective for asset-based programs is fairness. Asset-based programs 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 US), but because these are structured as non-refundable tax credits and their value is often dependent on having taxable income in the first place, these savings vehicles are of little or no value to those with low incomes.

19. This 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]

20. An assisted savings program 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 programs.

CANADA

21. 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 programs is a social experiment designed to provide quantitative and reliable data respecting the consequences of an individualized savings account type of asset-based program. This experiment is known as Learn\$ave.

Learn\$ave

22. 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 program 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 program justify its expense?

23. 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 US. Here we focus on the primary sites. There was also one randomized control trial of IDAs in the US (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].

24. 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.

25. The recruits had to meet various eligibility requirements. Participants income had to be less than 120 percent 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 \$3 matching grant for every dollar saved over a three year period, up to a maximum of \$250 in any one month and \$1,500 over the whole three years (i.e., maximum matching grants of \$4,500).

26. 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 \$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 program 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 percent of participants in the business stream.

27. 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.

28. 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.

29. 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.

30. 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].

31. 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 per cent could be expected for a generally available program 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.

32. The full evaluation of the outcomes based on the randomized 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.

33. 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 program. 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 paper?

34. 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. Individualized matching grant programs are by their very nature relatively modest programs in size and therefore cannot be seen as having substantial wealth redistribution as their goal. What about the other three objectives?

35. The Learn\$ave program is not designed to achieve better results by diverting spending to asset acquisition from income programs, 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 program. 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 out weigh 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.

36. 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 programs in the US, 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 programs.

37. The Learn\$ave type of program, however, even if its benefits outweigh its costs, will never amount to more than a minor contributor to improvements in income security programs because of its small potential target audience and its relatively modest size. It is at best a good program 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 program cannot deliver the kind of revolutionary reform in our approach to income security that has sometimes been implied by the rhetoric of advocates.

38. The Learn\$ave matching grant program 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 programs.

39. Finally, the Learn\$ave program 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 programs for those with higher incomes. In fact the incentives in the Learn\$ave program 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.

40. In sum, Learn\$ave (and similar IDA programs) is most appropriately seen as a potentially valuable ‘niche-product’ to add to the array of programs 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 program – 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.

Canada Education Savings Grant (CESG) and Canada Learning Bonds (CLB)

41. Canada offers a tax-assisted education savings plan called a Registered Education Savings Plan (RESP). Anyone can open an RESP and contribute up to \$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.

42. The RESP cannot be described as an ‘asset-based social policy initiative’ according to the definition being used in this paper since it is not designed for low income households; indeed it is an example of the type of tax-assisted program which benefits those with significant taxable income and largely excludes those with low incomes. However, Canada does have two programs 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).

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

44. The 40 percent 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 \$500 into the RESP of any child in a low-income family (below about \$37,000 household income in 2006 – median income for couples is about \$65,000) born after 2003, upon application. Further as long as the household’s income remains low, the government will add an additional \$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 an RESP in order to become eligible for a CLB, households may add on to their RESP just as they would for any RESP/CESG.

45. The CESG and the CLB are budgeted to spend \$575 million and \$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 per cent 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 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 \$40,000) and only about 10 percent to those with very low incomes (under \$20,000).

46. 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 an 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 \$85 million, while actual spending turned out to be \$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 per cent, coincidentally the same estimated ‘ideal’ take-up rate for a matching grant type of program. If take-up remains at 5 per cent it will not be successful in correcting the distributional imbalance in the RESP/CESG program.

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

Source: Human Resources Development Canada [2003 Table 5.3]

47. 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.

48. The problem of low take-up is encountered everywhere in the world in every program meant for low income working people that requires the target population to self-identify as ‘poor’ and apply for a separate program 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 per cent) do now collect the relevant Child Tax Credits. If, as in the UK, 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.

49. Looking at the programs from the perspective of our four over-arching possible objectives, the CESG/CLB is not an attempt to improve the efficiency of government programs, 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 program more as a symbolic gesture than a real attempt to provide an asset to low income Canadians.

50. However, the stated aim of the CESG program 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 programs 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 programs 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)?

51. 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 randomized 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 program. As such, loosely targeted programs of general application, such as, especially, the CESG, can turn out to be surprisingly expensive, remembering that 30 and 20 per cent 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 program instead be more effective in inducing post-secondary attendance among those who would not otherwise attend, for the same expenditure?

52. A bursary program 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 programs 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 programs that depend upon the child’s parents making an informed decision about their children’s future education.

UNITED KINGDOM

The Child Trust Fund (CTF)

53. 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 UK introduced the CTF in 2003. It provides every child born after August 2002 with an initial endowment at birth of £250 and an additional £250 for children in families with household income less than less than £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 7 of £250 with children from lower-income families again receiving an extra £250.

54. 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 £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).

55. 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 minimization 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.

56. 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 UK, 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.

57. 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 per cent. Total cost to-date is more than £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 percent. [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.

58. 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.

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

60. 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 7 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.

61. 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 in savings account. 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.

62. 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. There is no obvious relation between the security and the opportunity goal and the CTF program as it is designed.

63. This leaves the 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.

64. If the number of default stakeholder accounts remains at 25 percent 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. 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 taught many times before in many nations.

65. 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 program, which has already been considerable and will continue to increase over time? There will necessarily be huge deadweight costs in the CTF program, 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 program is not much more than a windfall with no stated public purpose.

66. If the goal is 'responsibility' surely a much different more targeted program 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 £1,000) for each child in the poorest third of households, had the program simply offered a tax exempted registered child savings account and no government endowments for those with higher incomes. Such a program would have had a much better chance of efficiently meeting stated government objectives.

67. How does the CTF look in relation to the four larger possible goals set out in the beginning of this paper? The CTF is not meant to improve the efficiency of government programs, 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 £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?

68. While the CTF is universal, it does give an additional two endowments of £250 each to households with low income. Table 2 below shows the value of funds at maturity under different assumptions. Table 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 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.

69. On Table 2, all households contributing £400 or less are assumed to get the additional low income £250 contributions, but all those at or above £600 annual household contributions are assumed not to get the added endowments, but only the two £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 £400 and the £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 tax shelter an existing savings stream.

Annual household contribution	Real rate of return		
	2%	3%	4%
£0**	£1,011	£1,172	£1,359
£200**	£5,093	£5,655	£6,288
£400**	£9,176	£10,138	£11,217
£600	£12,597	£13,862	£15,274
£800	£16,680	£18,345	£20,203
£1,000	£20,762	£22,828	£25,132
£1,200	£24,845	£27,311	£30,061
* Based on a straight line projection with a constant real rate of return and the same household contribution each year. **Assumes additional endowments of £250 at birth and at age 7.			

70. On the other hand, the mature accounts of households who cannot or do not make a contribution will likely be only a small fraction – 4 to 5 per cent – of the mature value for households that can make the full contribution every year. For these less lucky 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.

71. Table 3 takes the results in Table 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 £500 going to low income households, the highest costs to government are for the highest income families.

Table 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		
		2%	3%	4%
£0**	0%	£0	£0	£0
£200**	10%	£49	£106	£169
£400**	15%	£146	£291	£453
£600	20%	£259	£512	£795
£800	25%	£445	£861	£1,326
£1,000	30%	£679	£1,298	£1,990
£1,200	35%	£961	£1,824	£2,787
Same assumptions as Table 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).				

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

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

74. 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 £10 to £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 program needs to be undertaken to evaluate adequately asset-based policies – whether or not they are ‘meant’ to be replacing an income stream.

The Savings Gateway

75. The Savings Gateway is a pilot project in the UK. The first Savings Gateway pilots matched savings pound for pound up to a limit of £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 £1 remained in the account. However the maximum deposit in any month was £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.

76. 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 £15,000 a year; or
- Have a disability and household earnings of less than £15,000 a year; or
- Do not have children or a disability, but have individual earnings less than £11,000 a year; or
- Are out of work and receiving benefits.

77. 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 programs. In total, there were a little less than 1,500 accounts in the five sites. Although there was no formal randomized 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.

78. 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 program, 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 program so it is not known whether these effects are retained over the longer term.

79. 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 £25,000 and household earnings of less than £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 £1 saved to £1 for every £1 saved, with one pilot having a £50 bonus once the first £50 is saved.
- The maximum limit on savings varies from £25 to £125 per month, and from £375 to £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 to 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.

80. 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 program. The telephone group has a randomized matching control group which met the criteria for the program 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 program design, at least based on the randomized telephone portion.

81. 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 program, and are for the most part managing to maximize 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.

82. 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 UK 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.

83. It will also be useful to compare administrative costs between the experiences in the IDA-type programs in the US, Canada and the UK. In the US, administrative costs were very large compared to funds paid out to participants. In the UK, 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 US, 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 UK are both careful to collect good data on this topic. Although administrative costs are a mundane topic, they can pose a real barrier to the implementation of a program.

84. Like Learn\$ave and other Individual Development Account (IDA) types of programs, the Savings Gateway appears to be a potentially useful addition to the range of programs 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 program *before* a big new program is actually put in to operation, as novel as this concept might be. While all indications are that matched savings programs 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 program 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?

85. 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 program and, if so, deciding upon how it should be designed.

86. In respect of the broader objectives of Savings Gateway, unlike both the US and the Canadian IDA types of experiments and programs, 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 UK, 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 £50. In this respect, the UK Savings Gateway appears designed primarily to meet the fairness objective outlined in the introductory section of this paper.

UNITED STATES

87. The promotion of asset-based social initiatives began in the US in the early 1990s and remains the subject of intense policy discussion. Among institutes active in promoting or analyzing 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 programs – as opposed to discussions or proposals – there is a multiplicity of mainly local or state initiatives throughout the US. However, despite the policy fervour and the number of agencies delivering some form of asset-based program, it seems that the actual extent of programming is modest, especially compared to the UK.

88. At the federal (i.e., national government) level, the New America Foundation's Asset Building Program 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 \$24 million for the Assets for Independence program, which supports community level matching grant IDAs. In addition, federal financial support for state asset-based programs 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 programs through the Assets for Independence Act and other federal grant programs, including Community Services Block Grants. [Mills, Patterson et al 2004]

89. 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 \$1.7 billion proposal for a matching tax credit IDA savings program, which would have matched savings up to \$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 program this year (although it is not likely).

90. 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." [Sandra 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 \$183 so SEED remains in its early stages and as of yet is quite small.

91. SEED also includes an experimental project (SEED for Oklahoma Kids), with a randomized control group, paying a universal child grant at birth similar to the CTF in the UK 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 program. SEED for Oklahoma Kids is still in the start-up stage and has not yet begun to enrol participants. [Mason, Loke et al 2006]

92. 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.

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

94. Perhaps the most well known of the IDA projects in the US 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]

95. In respect of the current status of IDA programs in the US, Warren and Edwards [2005] surveyed all states and found that "22 state-supported IDA programs, plus the District of Columbia and Puerto Rico, are either currently being implemented or currently winding down from the implementation phase." Parrish, McCulloch et al surveyed existing IDA programs in the US 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, McCulloch 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 programs in the US but relatively few participants.

96. In addition to IDA programs there is a scattering of other asset-based programs 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 \$200 to \$500 for each beneficiary. [Venner 2006] However, until such time as results start becoming available from SEED, the main programs of interest in the US 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 US in respect of the experience in that country with asset-based programs.

The Tulsa Experimental IDA

97. The final evaluation report [Mills, Patterson et al 2004] of the Tulsa experimental IDA provides a summary of the design characteristics of the program:

- In the Tulsa experimental IDA program, the allowable account uses were home purchase or repair/improvement, post-secondary education, microenterprise startup/expansion, or retirement. Authorized withdrawals were matched at 2:1 for home purchase and at 1:1 for all other allowable uses. To be eligible for the program, participants had to be employed, with family income below 150 percent 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 \$10 in at least nine months of each year. Under the program design, matching funds accrued to the account holder for all IDA deposits made within 36 months after the account opening. The account holder 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 \$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 \$2,250. Participants making full use of their accounts over three years could accumulate \$6,750 for home purchase (\$2,250 in savings plus \$4,500 in match) or \$4,500 for other allowed uses (\$2,250 in savings plus \$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).

98. The Tulsa experiment assessed three types of results: those related to the specific savings objectives of the program 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.

99. Like all IDA-type programs, 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 program, the main outcome was a statistically significant 6.2 percent increase in home ownership over and above the rate of the control group (49.1 percent versus 42.9 percent) 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, Patterson et al 2004, Mills 2005]

100. 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 program 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.)

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

102. 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 US 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 US. In other words, there is no straight line from the primary to the secondary to the tertiary objectives of the Tulsa project.

103. 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.

104. 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 paper?

105. As with Learn\$ave and Savings Gateway and other IDA types of programs, 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 programs, and these were worth more than the costs, a strong efficiency case could be made for these sorts of programs. 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.

106. It appears that the form of IDA offered by many US programs, 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 program expenditures. In Tulsa administrative costs were estimated at \$3.06 for \$1.00 of participant savings, or about \$1.50 of matching grants [Schreiner 2004, 2005]. This is not all ‘pure administration’ in that some of the cost was in the required 4 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 program. 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 program.

107. 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 programs. 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.

108. 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 US, unlike the Savings Gateway in the UK. For one thing, as mentioned previously, there are more constraints and less choice in US IDAs than there are on ‘equivalent’ programs that offer tax savings. For another, the tax savings for most registered types of accounts amount to say, 30 or 40 per cent at most, depending upon tax progressivity. Yet the matching rates for low income households in a US style IDA are often 100 per cent or 200 per cent, 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.

109. 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.

CONCLUSION

110. We have here reviewed asset-based programs in Canada, the UK and the US. 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 programs and how they may be optimally designed.

111. In the meantime some of the rhetoric surrounding asset-based program advocacy needs to be balanced with realistic expectations. Asset-based programs 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 programs, this is not a technique which will radically alter our existing programs; rather, it will add, adjust and modify.

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