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

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Asset-based social initiatives here defined narrowly

- Programs to assist low income households to increase their financial assets

- Financial assets may not be fully liquid
  - May have to be held for specified period
  - May constrain spending of saved funds

- Asset-based social initiatives do not include general programs of tax assisted savings for households of all incomes
Four ‘types’ of possible objectives for asset-based social initiatives

- **Efficiency**
  - Achieve same welfare outcome with less spending, in terms of net present value, through asset-based program

- **Behavioural**
  - Incentives, education or experience to change behaviour

- **Redistribution**
  - More equal distribution of wealth, not just income

- **Fairness**
  - Similar incentives for low income households to save as for higher income households
Review of initiatives in Canada, the UK and the US

- Idea of asset-based policies came to prominence in 1991 with Sherraden’s *Assets and the Poor*

- Stimulated much debate, many conferences, advocacy and articles, but search of OECD countries reveals only a few program initiatives in the Anglo-American countries, and mainly in the UK

- Here we review initiatives in Canada, the UK and the US

- May have missed programs in other OECD countries — apologies if so
Canada
Learn$ave

Learn$ave is a randomized control trial (RCT) of a matched savings program for low income households, modelled on US Individual Development Accounts (IDAs).

About 3 600 participants in Learn$ave RCT 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
Learn$ave design

- Participants’ characteristics: low income, 21 to 65 years of age, neither student nor on social assistance
- Offer of a $3 matching grant for each $1 saved, up to $250 in a month and $1,500 over three year period
- Maximum match grant of $4,500, for total possible saving of $6,000
- Savings had to be used within one year of end of project for education, training or small business start-up
- Participants in Learn$ave-plus required to attend financial management training sessions, and were actively ‘case managed’
Learn$ave findings so far in Canada

- Project to be completed in February 2008, so not yet evaluated
- Being evaluated by Social Research Development Corporation, not the delivery agency or advocates
- Some early findings:
  - Participants hard to recruit; demand for the program among target groups estimated at 5% at most
  - Participants atypical of low income households: more immigrants, younger, living alone, better educated
  - Participants meeting saving targets
  - Participants more likely to maintain household budget
  - Financial management training seems to have little effect
Is Learn$ave meeting its goals?

- Meets the stated goal of ‘increasing saving’, but to what end and at what cost?
- Broader goal to improve financial management in longer term, increase earnings, improve human capital, increase self-confidence and well-being.
- Need to await results of RCT to see if there are statistically significant effects of this kind in short and longer run, and whether benefit is greater than cost.
Canada Education Savings Grant (CESG) and Canada Learning Bonds (CLB)

- CESG is a matched grant program with 40%, 30%, and 20% matching for low, moderate, and high income households respectively.
- CLB is a $500 dollar grant to any child born after 2003 in a low income household in Canada, plus $100 a year to age 15.
- In addition, parents, friends etc. may make contributions to the saving fund.
- Savings must be in a registered tax-free education savings plan, and used for education.
Are CESG/CLB meeting their goals?

- CESG/CLB stated goal of encouraging low income saving and education
  - Do not know yet about longer term impact, but cannot succeed if take-up problem is not solved
  - Large ‘deadweight’ cost because of those who would have saved and attended post-secondary education anyway, but still get benefit of program
    - What is the cost per incremental low income graduate?
    - Would a direct assistance program such as a bursary be more effective and efficient?
The UK
Child Trust Fund (CTF) UK

- CTF only universal and largest asset-based initiative identified
  - £250 deposited for each child born after August 2002, plus another £250 at age 7
  - An additional £250 for each child in low income household at birth and age 7
  - Anyone else can make additional deposits into the child's account of up to £1 200 per year
  - Earnings and withdrawals in the CTF are tax free
  - No constraints on how the money is spent
Child Trust Fund (CTF) is a UK investment account.

- Funds are held in a locked in registered account that the child can spend at age 18.
- Funds can be invested in a variety of ways; savings accounts, equities, or ‘stakeholder’ accounts (balanced portfolios).
- If a household does not open a child’s account on its own, government will open a stakeholder account on behalf of the child.
Is the CTF succeeding in its stated goals?

- CTF seems to be popular according to media.
- CTF stated goals of security, opportunity, and responsibility not all that relevant to actual program design.
- If security and opportunity were the goals than just giving an endowment at age 18 would be less risky.
- ‘Responsibility’ means encouraging savings habit and financial management skills.
  - Don’t really know yet whether CTF is having an effect on savings habits; but it appears about 25% of accounts are default accounts; if these are predominantly low income not a good sign.
  - Because CTF is universal most beneficiaries would have saved this amount and more anyway, so there is huge deadweight cost. If goal is ‘responsibility’ why not target it more on those less likely to save without it?
Is the CTF succeeding in meeting implicit goals?

- CTF may be seen as effort to achieve more equal distribution of wealth by giving kids from low income households an equity ‘stake’ in society.
- Accompanying chart shows possible value in constant pounds of CTF accounts at maturity under reasonable assumptions.
- But the CTF accounts of high income households are likely to be much higher than those with low incomes.
- These results will increase, not decrease, perceived inequality.

### Comparative values of CTF in constant dollars at end of maturity period*

<table>
<thead>
<tr>
<th>Annual Household contribution</th>
<th>Real rate of return</th>
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<tbody>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>£0**</td>
<td>£1,011</td>
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<tr>
<td>£200**</td>
<td>£5,093</td>
</tr>
<tr>
<td>£400**</td>
<td>£9,176</td>
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<td>£600</td>
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<tr>
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<td>£1,000</td>
<td>£20,762</td>
</tr>
<tr>
<td>£1,200</td>
<td>£24,845</td>
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</tbody>
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* 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.
Savings Gateway (SG) UK

- Two Savings Gateway pilots (SG1 & SG2)
  - Matched individual savings plan
  - Some similarities to Canada’s Learn$ave and US IDA’s, but some critical differences
    - No constraint on how savings are to be spent
    - Much lower matching rates than Canada and US
      - highest in UK is 1:1, lowest is 1:5
    - Households with much higher incomes allowed to participate
    - Financial education available but not mandatory
Savings Gateway 1 & 2

evaluation findings now available

<table>
<thead>
<tr>
<th>Positive findings</th>
<th>Negative findings</th>
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<tbody>
<tr>
<td>▪ Low income households did manage to save</td>
<td>▪ No statistically significant increase in net worth, regardless of income</td>
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<tr>
<td>▪ Account holders mostly maximized matching</td>
<td></td>
</tr>
<tr>
<td>▪ Account holders are happy with the program</td>
<td>▪ Statistically significant evidence that higher income groups reduce balances in other accounts (just transfer savings); deadweight cost</td>
</tr>
<tr>
<td>▪ Match rates do not appear to matter much</td>
<td></td>
</tr>
</tbody>
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…but SG2 ‘final evaluation’ released on 25 May 2007 before all accounts matured
Is Savings Gateway meeting its goals?

- Savings Gateway appears to be meeting explicit goal of increasing savings among low income households, but...
  - Will there be long term effect on financial management once the project is complete?
  - Deadweight cost is, once again, very high as shown by evaluation

- Savings Gateway does appear to meet implicit goal of fair treatment for low income households (at lower match rates) by providing benefits comparable to tax-assisted savings plans for higher income households
The US
Asset-based policy in the United States

- Great deal of asset-based policy discussion in the US
  - Several ‘policy institutes’ with asset mandates
  - Some federal cost-sharing legislation
  - Many state-level and community initiatives, mainly Individual Development Account (IDA) type of matched-saving program

- However, despite all the talk, few real programs – only about 20,000 or so IDAs in the whole US
One US IDA was an US RCT: Tulsa

- Tulsa was a 3 year project with a 2:1 match for up to $2 250 saving, with many constraints and rules
  - Savings had to be used for home purchase or upgrade, education, business start-up, or retirement
  - Much ‘hand-holding’
- Findings:
  - Low income households can and do save
  - Modest increase in home ownership resulted
  - No changes in net worth, employment earnings, other measures
  - Extremely high administrative costs of $3.06 per $1 of participant savings
Are US IDA’s meeting US policy goals?

- Trying to encourage better financial management and improved standard of living, higher aspirations, better education, home ownership
  
  - Clear that people do save
  - Cost, especially admin. cost, seems disproportionate
  - Are savers really better off and are there any long term effects on the types of outcomes noted above? Need some good long term longitudinal follow-up
Conclusions
Asset-based programs useful addition to income security programs

- Asset-based programs are an important addition to the range of programs, not a revolutionary panacea. Perhaps the idea has been oversold.

- Like all other public programs, good design is required
  - Simple unconstrained matching programs similar to those for non-poor, with low admin. cost, likely best for saving
  - Hand-holding high touch programs may be unnecessary
  - Avoid high deadweight cost by targeted design
  - Application driven programs will not be effective redistributive tools