Chifley
RESEARCH CENTRE

Asset Based Policies

Matched Savings Accounts: Exploring Options

REPORT TO THE CHIFLEY RESEARCH CENTRE

Prepared by
The Allen Consulting Group

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Executive Summary

The Allen Consulting Group was commissioned by the Chifley Research Centre to provide advice on the policy parameters for introducing Matched Savings Accounts in Australia. The report draws on international experience and Australian expertise and is intended as a resource to aid further policy development and implementation strategies.

Matched Savings Accounts are innovative examples of social provision within a broader class of progressive asset-based policies. These policies have the potential to transform the delivery of targeted welfare and support payments as well as provide an efficient vehicle for achieving the broader social and economic objectives of generating a national learning culture and an inclusive community.

Inequalities in the ownership of assets and security in employment are severe. Over 60 per cent of assets are held by 20 percent of the population while around 20 percent of the population have virtually no tangible assets except their income. In Australia, the number of working poor, earning two thirds of the median income is estimated at around 1.2 million people or 14 per cent of those in the workforce.

Asset-based policies provide a powerful set of options to address the changing requirements of contemporary social policy. The core idea of asset-based strategies in welfare policy is to facilitate individuals' experience of ownership and provide opportunities to make decisions about building resources and capabilities for the future.

The main dimensions of Matched Savings Accounts as proposed in this report are summarised below.

Population

- 'Working poor' i.e. under 150% of Henderson Poverty Income as periodically adjusted for family situation.
- Welfare recipients.
- Eligibility set for over 25 years of age.

Vehicle

- Standard savings account, waived fees from participating financial institutions.
- Participants are individuals rather than households.
- Matching contribution with minimum deposit requirements.
- Funds encouraged from employers, foundations, civic groups, and government.
- Individual savings contribution to be paid directly into participating financial institution savings account.
- Withdrawals allowed for eligible purposes, upon meeting obligations including participation in financial training and education.
- Funds are approved for spending directly on eligible items (e.g. cheques are made to educational institutions, mortgage companies, etc.)

- MSAs would not affect eligibility for social security payments or be considered as liquid assets for the purpose of liquid asset waiting periods.

Incentives Benefits

- 2:1 matching offered to participants if obligations are met
- Possible tapering of matching rate to 1:1 for higher income participants, depending on administrative ease and how this impacts on simplicity and ease of marketing
- Training and education programs provided free, attendance required
- Tax deductibility for funding organisations is desirable

Take up Targeted Scheme

- Target participation of 150 people per pilot program
- Total budget of around $1.2 million per pilot, over a three year period ($400,000 per year)
- Participants budgeted to save around $1,500 over three years (A$42 per month compared to US pilot results of US$19 per month evaluated over 24 months)
- Matching funds providers (government, financial institutions, charitable foundations) budgeted to provide $3,000 in matching funds at a 2:1 ratio

Introduction

The Allen Consulting Group was commissioned by the Chifley Research Centre to provide information and advice to assist in the development of policies in Australia for asset-based welfare such as Matched Savings Accounts. The material presented in this report is intended to serve as a resource for more detailed policy development. The information was gathered through literature review and through consultation with relevant agencies and individuals in Australia, United Kingdom and the United States.

The nature of the economy is changing and welfare policies designed to address problems in an earlier time are falling short of fully meeting the ongoing demands of Australia in the 21st century. Recent years have seen the emergence of entrenched cycles of disadvantage and income-based welfare support struggles to prevent social and economic disadvantage and, indeed, may reinforce inequalities by not acting on the multidimensional nature of social exclusion. Participation in the labour market, access to lifelong education and training, belonging to a family and a community are all interrelated features of social inclusion and social welfare now needs to tackle disadvantage in a similarly integrated way.

The report proposes an approach to the introduction of Matched Savings Accounts as a specific example of assistance within a broader class of progressive asset-based policies. These policies have the potential to transform the delivery of targeted welfare and support payments, as well as provide an efficient vehicle for achieving the broader social and economic objective of generating a national learning culture and an inclusive community.

The report is divided into three parts:

- *Chapter One* provides the rationale for incorporating progressive asset-based policies as an innovative strand of social welfare policies. It identifies the target populations suitable for these initiatives, taking into account assistance already available.
- *Chapter Two* addresses the implementation of Matched Savings Accounts and provides an indicative benefit-cost analysis for introducing the scheme.
- *Chapter Three* provides a literature review for Matched Savings Accounts and related strategies.

Chapter One

Asset-Based Policies: Building Economic ownership and Providing Opportunities

Income support and welfare services are traditionally the core components of social welfare policy. Government programs have typically focussed on providing income support to the unemployed and the aged who meet prescribed needs testing. This has been supported by social policies that have pursued equality of opportunity through providing improved access to the building blocks of a decent standard of living – education, housing and health. Many of these policies are provided though the conventional government silos of income support, education, health and housing and only at the margins do policies seek to take account of the interconnected nature of disadvantage and the need for more flexible and responsive approaches.

Recent attention throughout many OECD countries is being focussed on asset-based policies that add another strand to the traditional social welfare strategies. Inequalities in the ownership of assets and security in employment are severe. In Australia, the number of working poor, earning two thirds of the median income is estimated at around 1.2 million people or 14 per cent of those in the workforce. Over 60 per cent of assets are held by 20 percent of the population while around 20 per cent of the population have virtually no tangible assets except their income.

Where the social welfare debate has mostly focused on providing income rather than assets, an expanding body of evidence is showing that ownership of assets has a strong impact on the choices people make and their life opportunities. The core idea of asset-based strategies in welfare policy is to facilitate individuals' experience of ownership and opportunities to make decisions about building resources and capabilities for the future. Through providing incentives to encourage new behaviour patterns, asset-based strategies assist people on low incomes purchase physical assets such as a home or invest in knowledge or human capital through purchasing education and training.

As well as providing innovative support for those in need, asset-based policies can also contribute to building greater social cohesion through stimulating local area social partnerships that cut across the traditional boundaries between the public, private and not-for profit sectors. Asset-based policies are an additional policy tool alongside income support, service provision and the equal opportunity strategies of traditional social welfare.

Policies that facilitate the accumulation of assets are well established in Australia with the superannuation guarantee, first home ownership grants and income contingent loans for the Higher Education Contribution scheme providing major examples. These asset-based policies do not focus specifically on asset accumulation by the most disadvantaged. Progressive asset-based policies are different in that they explicitly target support on those most in need.

Governments in general are searching for social policies that boost social cohesion and economic performance and reconcile the close links between the two.[1] They need active welfare programs that protect and encourage equality of opportunity but do not perpetuate dependence and alienation. There is growing understanding of the value of local community based innovative projects conducted in cross-sectoral partnerships and in ways that build the interconnection between environmental, social and economic well-being (see Box 1.1).

Box 1.1

CASE STUDY: THE UNITED WAY MATCHED SAVINGS EXPERIENCE

The United Way has pioneered matched savings initiatives in the Atlanta, Georgia region with a focus on trying to encourage affordable home ownership in targeted neighbourhoods. They view their strategy as an approach to crime-prevention, because they believe that neighbourhoods with a high percentage of owner-occupancy tend to be safer. United Way has adopted a community goal whereby, by 2003, 330 low-to moderate-income individuals will be working through Individual Development Accounts (IDAs) to gain financial stability, through responsible home ownership. Because they aim for 220 of these participants to purchase a home, United Way believes their IDA program will revitalise neighbourhoods.

Key Drivers for this community goal are the United Way's conviction that:

- When people have jobs and poor neighbourhoods improve, crime goes down. (Ralph Myers, criminologist, Stanford University);
- Home ownership leads to improvement in financial management patterns, on-going savings and improved budgeting after the IDA program ceases;
- Civic participation improves after IDA participation, including knowledge about and attendance of meetings of neighbourhood associations.

United Way's Atlanta IDA initiatives have progressed significantly recently. 89 out of approximately 240 participants have purchased homes since 1998. All participants attend economic literacy and home ownership classes as they save a total of $1,200, which triggers a match from United Way of $4,800, if the home is purchased in a target community.

United Way has triggered the development of key partnerships in the program, including participation of the Regional Affordable Home Ownership Task Force (United Way was instrumental in the development of this group); Atlanta Housing Association of Neighbourhood-based Developers; and creation of the Alliance (a network of 13 community development funders).

Seven new IDA communities have been formed since 1998 for a total of twelve active IDA programs, all working through established community organisations (often housing cooperatives). The United Way invested $1.3 million in eighteen programs and initiatives in FY 2001-02.

Source: The Allen Consulting Group

Core Objectives of Asset-Based Policies

Within this context, asset-based policies provide a potentially powerful set of options to address the changing requirements of contemporary social policy. The core objectives of progressive asset-based policies are summarised below.

Provide targeted assistance to those without assets and opportunities

Progressive asset-based policies focus attention on access to assets as an important dimension of inequality that has been ignored for too long. Traditional welfare has been built on assumptions about a certain sequence to life's stages – childhood, adulthood and the responsibilities of working life and caring for a family, and finally retirement that was mostly an inactive period according to a conventional view of productivity.

[1] OECD, (2001). *OECD Territorial Outlook: Territorial Economy*. Paris :OECD

Dramatic changes to economic and social life have shifted this pattern and the number and nature of the transition points have brought parallel changes to the occurrence of disadvantage. New risks are apparent at many more stages in life and are cumulative, especially for those in poverty or those who might fall into poverty with a sudden drop in family income. A pervasive sense of uncertainty and instability, particularly in the labour market, calls for forward-looking welfare strategies that anticipate new points of risk and provide people with the skills and resources to successfully make the many work and life transitions that are now required.

Considering access to assets as part of the tools of social provision is an important reform in that assets facilitate individual choice and fundamentally allow people to take control over many aspects of their lives. Providing those in poverty with access to learning through experience about the role assets could have in their lives is a strategy that addresses the need for active welfare policies that take account of the interconnected nature of disadvantage.

Prevention of disadvantage through addressing the determinants of poverty

A core aspect of asset-based policies is their prime focus on prevention. They seek to address the background determinants of disadvantage such as a lack of educational opportunities and savings habits rather than attempt to address directly the outcomes of inequality and poverty. Traditional welfare deals with the symptoms of poverty whereas asset-based policies deal with the means by which individuals can take positive and active steps to climb out of poverty and break the insidious pattern of intergenerational poverty. Asset-based policies focus on the triggers that precipitate occasions of poverty and ways to ameliorate those factors.[2]

Asset-based policies contain the idea of bringing forward a bundle of ongoing funding for use in a more useable lump to prevent poverty rather than address its effects on individuals. As competition increases for use of scarce public resources, governments need effective policies that reconcile the links between social conditions and economic performance and a blend of active welfare policies that provide protection but also prevent the cumulative effect of disadvantage.

Addressing the multidimensional nature of disadvantage, formalising the sense of shared responsibilities and building social capital

A challenge for social welfare policy is to grapple not only with the redress of poverty but also with the multidimensional nature of social and economic disadvantage in the 21st century. The forms of disadvantage are changing alongside the constantly evolving global economy where access to employment and a decent income is increasingly restricted for those without the required skills. Poverty today is increasingly taking the form of groups dissociated from mainstream economic and social life, ironically often living close to areas of production but unconnected to that activity and entrenched in a culture of poverty.[3] In this sense, disadvantage is not only defined in monetary terms but in terms of the linkages people have with the dominant economic and social lifestyle.

2 Paxton, W. and Brynner, J. (Forthcoming) op. cit. *The Asset Effect*. London: Institute of Public Policy Research.

3 OECD 2001. *OECD Territorial Outlook: Territorial Economy*. Paris:OECD

Public policy to redress multidimensional disadvantage should extend beyond the conventional policies for income support and meeting social needs such as health and housing to those strategies that explicitly attempt to build social cohesion and belonging in a community. This has been largely outside the sphere of public policy in the past but now stands as a prime objective in Europe for example. Experiences in Europe and in the United States have demonstrated the immensely significant benefits to be gained from using an innovative mix of partnerships among community-based organisations, business and government in the design and implementation of progressive asset-based policies. Conducted in the context of other social inclusion strategies, asset-based policies are an important tool in building citizenship and social cohesion.

Owning assets also builds purchasing power and this can be a powerful tool in improving services.[4] Particularly related to purchasing training, choices of a provider and course type made by those encouraged to save and acquire assets for learning, has a positive effect on the quality and relevance of courses.

Behavioural change: encouraging positive personal behaviour to combat social exclusion

The potential success of asset-based policies over more traditional forms of income support hinges on the changes in individual behaviour. The main way of acquiring an asset is to save for it. The policies seek to promote a sense of autonomy, personal independence and forward planning.

Research in the United States and the United Kingdom is finding that holding assets can have an independent effect on welfare outcomes through the positive influence on factors such as health, long-term labour market performance and family life.[5] Access to a lump sum of money can facilitate step changes for long-term benefits. Assets can encourage people to think and plan in the longer-term. Careful design of policies can provide reinforcing incentives for individuals to think in a more concrete and strategic way about the investment decisions open to them.

Theories of savings behaviour have long suggested a precautionary motive for saving and this has been formalised in the past decade into theories about building a buffer stock of wealth to guard against unforseen circumstances and to provide a sense of security. Large numbers of the population do not have the means to generate such wealth but asset-based policies provide the vehicle to establish new patterns of personal behaviour.

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4 Pike, M. (2001). 'The Right to Expect: Delivering a Personalised Asset-Based Approach To Tackling Social Exclusion', in Regan, S (ed). *Assets and Progressive Welfare*. London: Institute of Public Policy Research.

5 Brynner, J., Paxton, W. (Forthcoming). *The Asset Effect*. London: Institute of Public Policy Research. www.ipr.org.uk

Empirical Findings: Asset Ownership and Positive Outcomes

A range of empirical findings are now available that demonstrate the relationship between asset ownership and positive economic and community impacts.

Social scientists have studied the links between asset accumulation and well-being for the last three decades. There is a growing consensus that positive effects arise from asset ownership, particularly as studied in the US. In his testimony to the US President's Commission on Social Security in October 2001, Professor Michael Sherraden of the Center for Social Development at Washington University in St. Louis presented a review of seventy-four studies focussed on the possible links between home and asset ownership and economic, social, and community well-being. The following table summarises some of his findings.

Table 1.1

EMPIRICAL STUDIES LINKING ASSET OWNERSHIP TO MEASURES OF WELL BEING

Effects of Home Ownership on Property Values	▪ Seven studies between 1993 and 1999 find that home ownership has modest to significant positive effects on property values. ▪ Home ownership can, however, increase class inequality because of greater gains for upper-income individuals, and some studies show that minority home buyers are more likely to buy in segregated or inner city areas.
Effects of Home Ownership on Residential Mobility	▪ Of eleven articles reviewed, ten found that homeowners are less likely to move than renters. ▪ Young homeowners are significantly more likely to leave distressed neighbourhoods than older homeowners.
Effects of Home Ownership on Property Maintenance	▪ Four studies positively correlate home ownership with maintenance and reinvestment. ▪ One study suggests that these effects are lessened (but not eliminated) by lack of confidence in the future of a neighbourhood.[6]
Effects of Home Ownership on Social and Civic Participation	▪ Sherraden reviews 16 studies reported between 1977 and 1999. Some find no difference in political participation, but reveal "neighbouring behaviours" improve with home ownership. ▪ All studies reviewed find some element of improved building, block, or neighbourhood participation. Increases in voluntary organisation participation also reported in several studies.
Effects of Asset Ownership on Marital Stability	▪ 7 studies are summarised with the following conclusions: home ownership reduces the risk of marital dissolution, has significant effects on marriage conflict and domestic violence.
Effects of Asset Ownership on Economic Security	▪ For this topic 13 studies were reviewed, in areas ranging from measuring difficulty paying bills and declaring bankruptcy to college entry and investment behaviour. ▪ All studies report significant positive effects on economic security in relation to asset ownership, controlling for other economic factors.

Source: Sherraden, M., "Assets and the Poor: Implications for Individual Accounts and Social Security". Center for Social Development, Washington University in St. Louis. Invited testimony to *The Presidents Commission on Social Security,* Washington DC, pp 25-35.

6 See Varady (1986), which examines the US Urban Homesteading Neighbourhood Residents Data Set to determine factors relative to revitalisation.

Snapshot: Matched Savings Accounts

Matched Savings Accounts (MSAs) are an asset-based initiative that meet these objectives. For implementation, asset-based policies require the following operational components:

- clear specification of eligibility criteria;
- an efficient and effective means of administering the assets over time, including prudential supervision, and supervision of the ultimate uses of the monies;
- defined rules around reciprocal requirements of participants in terms of contributions and matching payments;
- incentives such as matched amounts from governments and others (e.g. employers, philanthropic institutions) or tax concessions; and
- defined uses for the monies accumulated through the program.

The broad steps in designing asset-based programs include the following:

- establish the nature of the program;
- determine the behavioural changes and or other features on which the success of the program rests;
- identify which groups of people have the characteristics that are most likely to benefit from asset based approaches and make the behavioural changes; and
- quantify how many individuals fit into this category.

The following table 1.1 provides a snapshot of the key program dimensions of MSAs as proposed in this paper.

Table 1.2

CORE CHARACTERISTICS: MATCHED SAVINGS ACCOUNTS

Dimension	Matched Savings Accounts
Nature / focus of program / benefits	Help low income people save Accumulate assets and break entrenched disadvantage Meeting views of aspirational equity, particularly those from backgrounds of entrenched disadvantage Greater earnings power and stronger attachment to the workforce
Behavioural changes / other features required for success	Process of saving as well as actual savings themselves deliver psychological, economic, and social benefits Focussed on achieving a more equal and inclusive society. Process and actual accumulation facilitates (i) greater security and a base to build from (ii) improved attitude toward saving and associated discipline
Groups of people	Currently in entrenched poverty, looking to break cycle, and historically low training / limited experience in relation to savings
Means of delivery	Accounts administered by financial institution

Source: The Allen Consulting Group.

Before outlining in more detail the parameters of MSAs and the implementation strategies, the following discussion provides details of those in the population that theory and practical international experience suggests would benefit the most from asset-based welfare initiatives. An approximate quantification of the number of individuals within each of the categories is also provided.

Who Would Benefit from Asset-Based Initiatives?

Asset-based policies extend the scope of welfare provision beyond the traditional concepts of an income safety net and services to alleviate poverty. An asset-based approach includes social policy strategies that build individuals' capacity to prevent them falling into poverty.

Australian social welfare is designed primarily to assist people cope with periods of crisis in their lives rather than assist people make the normal transitions in life. Moreover, it is assumed that some people will only face a few periods of crisis. The reality of past decades has dramatically overturned these assumptions with life for many now characterised by financial disadvantage, persistent long-term unemployment and insecure casual employment. Increasing inequality has become a feature of our society. The patterns of family life have also altered with far more women working, often in part time positions. Families fall apart and reform and many parents support multiple households.

Asset-based policies are an innovative response to assist those who are suffering the negative consequences of contemporary social and economic life (see Box 1.2). They have the potential to tackle the entrenched problems of social exclusion and intergenerational poverty by focussing on equipping all individuals with the level of personal autonomy to make choices and the skills to find productive employment.

Box 1.2

EXPERIENCE OF AN ATLANTA UNITED WAY MATCHED SAVINGS PROGRAM PARTICIPANT

Kim Le, a divorced mother of two, is dedicated to making a better life for her family, but buying a house was a huge challenge. "I had been with the same company for 10 years. All my co-workers had houses. I didn't owe a lot of money. I knew I could afford it, but I got cold feet again and again."

Then Kim talked with a friend who had used something called an Individual Development Account, or IDA, to buy a house. Under this program, low- to moderate-income participants take classes in economic literacy, home ownership and home maintenance as they save a total of $1,200, which triggers a 4:1 match for their down payment.

Kim enrolled in the IDA program offered by Gwinnett Housing Resource Partnership (GHRP) and supported by United Way and other community partners. During that time, she also obtained her real estate license.

The result? Kim and her family moved out of the rental trailer and into a three-bedroom home in a new subdivision. She now serves on GHRP's board of directors and brings the message of home ownership to her community.

"I feel like I'm a different person," she adds. "Three years ago I thought I would never get into a house and would be in a mobile home forever. Now I want to help others."

Source: United Way, Atlanta Chapter Way, Atlanta Chapter

Asset-based policies can be designed for universal take-up, acting as an effective facilitating mechanism to encourage, in this case, savings behaviour or they can be targeted toward particular welfare objectives and equity groups. Schemes can also operate with a combination of a universally applicable facility supplemented by a targeted element that provides additional assistance for those in need. There are instances of asset-based initiatives that have universal application in a particular population, are targeted to those in need of additional assistance, or have a combination of both aspects. (Chapter Three contains descriptions of some international initiatives.)

Experience in the US and UK suggests that successfully targeting those in need can produce a range of economic, social, and psychological benefits:

- *the process of participation* leads to psychological or behavioural effects in terms of enhanced risk taking or long term planning and personal efficacy seen through greater control and empowerment;
- *possession of the asset* leads to a range of social effects linked to citizenship, social activity, household and marital stability, and improved health; and
- *utilising the asset* has economic effects in terms of labour market performance, occupational status, and inter–generational benefits.

The discussion below illustrates that programs targeted at the working poor are likely to best deliver these benefits. The analysis shows that:

- there are currently large numbers of individuals in the category that could usefully participate in the program;
- a number of trends and influences on work and society reinforces the need for an innovative new social policy; and
- the target population in the working poor have relatively few existing government programs directed toward their needs.

Analysing the Target Groups

The working poor and welfare recipients are the primary target group. Asset-based welfare assists in breaking the cycle of disadvantage through an asset building partnership. The working poor, in particular, are those in relative poverty or entrenched disadvantage who do not receive extensive assistance through other means. The assumption is that providing assistance that encourages new behaviour and opportunities is a strategy to prevent future disadvantage.

The administrative question concerns how the sub-groups would be selected for participation. Selection might be through some characteristic observable to government (and hence able to be reflected in the threshold criteria), through a self-selection process or a combination of both. For example, MSAs could be made available to those who qualify in clear terms and parties would nominate to participate.

The potential target groups would include:

- Those with low income and few assets — these are defined as the working poor.
- Welfare recipients.
- Individuals who have had limited access to education and training opportunities. This applies to two groups. Younger individuals around 20-35 years of age who may be at risk of falling into a cycle of disassociation with training. There are also older employed individuals from around 35 plus years of age who have missed out on education and training opportunities in the past, are unlikely to re-enter training, are struggling to adapt to changing conditions within the economy, but have many productive years left in the workforce.

An analysis of the first three years of fourteen US matched savings pilot programs reveals the demographics of participation compared to the potential target groups discussed above. Of the 2,364 low income participants, 26 per cent were aged 20 to 30; 36 per cent were aged 30 to 40; and 25 per cent were between 40 and 50; 47 per cent were Afro-American and 37 per cent were Caucasian; 48 per cent were never married, and 27 per cent were divorced or separated; 59 per cent were single parent households with one or two children, and 80% of participants were women.[7]

Quantifying Those in Need

There is likely to be a high degree of correlation between low incomes, low net wealth, and low educational attainment. The primary threshold criteria for eligibility are low income and the motivation to strive to help oneself.

The focus is on welfare recipients and the working poor. For those in employment but with low incomes these initiatives would provide timely facilitation in building assets and consolidating employment. For those receiving welfare payments, asset-based welfare would supplement an inadequate level of assistance and would serve as an incentive for new positive self-help behaviours that assist in making the transition from welfare to work.

While welfare recipients are an identifiable category, the working poor will most likely comprise the bulk of the voluntary participants in the initial pilots. The three alternative definitions of the working poor are those who are members of families that earn no more than:

- half median income ($361/week) — about 558 000 families and 621 000 adults in the labour force;
- the Federal minimum wage ($400/week) — about 690 000 families and 762 000 adults in the labour force; and
- two-thirds median income ($481/week) — about 1 119 000 families and 1 235 000 adults.

Two-thirds median income is consistent with the income test for current eligibility for family tax benefit payments (designed to assist families with the cost of raising children). Full family tax benefit payments are made to those with an income up to $30,000 per annum. Beyond this level of income, the payments reduce.

These figures are also consistent with Australian 'poverty line' benchmarks. The *Henderson Poverty Line* ranges between $12,500 and $25,000 depending on circumstance (for example the number of dependent children.)[8]

US programs[9] have adopted eligibility criteria for similar initiatives based on incomes up to 150-200 per cent of the poverty line. It is noted that the US definition of poverty line is significantly lower than the convention used in Australia, and so an equivalent eligibility criteria for Australia would be around the poverty line measure itself. ACOSS have the view that 150 per cent of the Henderson Poverty Line is appropriate for eligibility for Matched Savings Accounts.

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7 Sherraden, M., Clancy, M., Schreiner, M, (2002.) Final Report Saving Performance in the American Dream Demonstration, St Louis: Centre for Social Development Washington University, p. 8.

8 Brotherhood of St Laurence (July 2002) Poverty line up date: Facts, figures and suggestions *for the future*. Found at http://www.bsl.org.au accessed October 2002.

9 For further information see Chapter Three which contains a literature review of relevant international experience

Approximately 1.2 million employed adults earn two-thirds of median income or less. This is equivalent to around 14 per cent of the work force. However, not all would participate in MSAs. The Allen Consulting Group analysis on voluntary participation in superannuation matching schemes suggests that take-up is likely to be in the range of 10 to 20 per cent of the eligible population.

Some tapering of government contribution — that is, reduced government matching with rising income levels — would be desirable to avoid creating adverse incentives. The tapering could be made in terms of the size of government matching. An appropriate strategy that provides particular incentives for those most in need is for the full 1:1 matching being available for individuals of incomes up to $30,000 per annum. Thereafter, the matching would reduce with each additional $1,000 of income up to a maximum income of around $45,000 per annum. At this upper level of income, the government matching would be 1:2. That is, $1 government contribution for every $2 individual contribution.

However, there could be a trade-off between simplicity and ease of program administration and marketing on the one hand, and cost-effectiveness on the other. Pilot trialling of both a sliding scale and a set matching ratio in different communities is one way to determine which approach works best on balance.

In addition to welfare recipients, there would be a total eligible population in the working poor category of around 1.2 million with full eligibility, and a further 2.2 million with partial eligibility.

The target groups include individuals who have:

- low incomes;
- limited or no net assets; and
- limited educational background and/or few opportunities for education advancement.

As a result, they are at risk of entrenched disadvantage.

The following sections detail the issues that the eligible population faces and outline some of the societal drivers that are likely to further exacerbate current inequality. The section concludes by describing the pattern of current government mechanisms designed to assist the unemployed and, in particular, the gap in active assistance for the working poor vis–a–vis others in the community.

Unequal Distribution of Assets

It is likely that there is a high correlation between those deemed to be below measures of poverty and those without assets. The following Table 1.2 using 1998 data, provides an indication of the absolute and relative distribution of wealth across Australia.[10] The table shows that:

- the bottom twenty per cent of the population have low wealth — essentially have income only (or government support payments); and
- the majority of wealth within the bottom four deciles is bound up within superannuation and so is less accessible than other forms of wealth.

[10] Kelly, Simon (2001) “Trends in Australian Wealth — New Estimates for the 1990s” *Paper presented to the 30th Annual Conference of Economists, WA, September 2001* NATSEM

The bottom line is that large numbers in the Australian population lack any meaningful asset-base that would provide support in times of unforseen hardship, or provide a springboard for investments to achieve their own aspirations.

Table 1.3

INCOME UNIT WEALTH BY TYPE OF ASSET AND WEALTH DECILE, JUNE 1998

Decile	No. of Income units	Interest bearing deposits ($000s	Shares ($000s)	Home (net) ($000s)	Rental Property (net) ($000s	Business (net) ($000s)	Super ($000s)	Wealth (net) ($000s)
1st	912,920	0	0	0	–1	0	1	**0**
2nd	912,682	1	0	0	0	0	6	**7**
3rd	912,519	2	0	0	0	0	14	**16**
4th	912,636	4	1	5	0	1	27	**37**
5th	912,858	5	1	36	2	4	29	**77**
6th	911,960	8	2	68	5	7	32	**122**
7th	913,645	11	3	105	6	12	36	**172**
8th	912,753	16	5	132	9	30	57	**248**
9th	912,819	27	9	183	19	65	75	**377**
10th	913,631	109	125	292	65	120	142	**852**

Source: Kelly (2001) Table 6, p13

The inequality of asset distribution is likely to grow into the future. Modelling[11] demonstrates how asset distribution has changed in the last century and how it is likely to change in coming decades. The broad conclusion going forward is that overall family wealth is likely to increase, though the share of the bottom 50 per cent is predicted to decline. That is, there is increasing wealth inequality and this trend will continue.

The following table 1.3 shows that in 1915 there was a highly unequal share of wealth. By 1967 there was a trend toward more equal sharing of wealth, though this trend reversed in the years to 1998 – in the past thirty years the distribution has become less equal.

Table 1.4

DISTRIBUTION OF PERSONAL WEALTH IN 1915, 1967 AND 1998

Wealth quintiles & percentages	1915 Census (%)	1967 Survey (%)	1998 Survey (%)
1st quintile	0.0	0.9	0.4
2nd quintile	0.4	7.8	4.0
3rd quintile	2.0	15.1	11.1
4th quintile	7.8	22.7	21.6
5th quintile	89.7	53.5	62.8
Top 5 per cent	66.2	24.6	28.8
Top 1 per cent	39.5	9.3	10.4

Source: Kelly (2002)

11 Kelly, Simon (2002). *Simulating Future Trends in Wealth Inequality*. Paper presented at the 2002 Australian Conference of Economists, Adelaide, South Australia, 3 October 2002

The following table 1.4 shows estimated trends in the coming thirty years – the conclusion is that the trend toward inequality will grow. The wealth of the bottom half of the population will decline from holding around 7 per cent of wealth currently to under 5 per cent of wealth by 2030.

Table 1.5

ESTIMATED DISTRIBUTION OF WEALTH BY SELECTED PERCENTILES, 2000 TO 2030

Wealth Percentile	2000 (%)	2010 (%)	2020 (%)	2030 (%)
Top 1 per cent	13.0	11.7	11.8	11.7
Top 5 per cent	31.6	29.2	30.9	32.7
Top 10 per cent	45.3	43.1	46.1	49.5
Top 20 per cent	64.0	62.7	66.4	70.0
Bottom 50 per cent	7.0	6.7	5.7	4.9

Source: Kelly (2002)

Education and Disadvantage

Knowledge has become one of the most significant assets an individual can possess. Those without an adequate level of education and training are the losers in the radical transformation that has occurred to the nature of the economy and the work. The target population identified for asset-based strategies are those who have missed out on developmental opportunities in the past, continue to miss out on the opportunities now, and are likely to miss out into the future.

A potential target group is those who have (or have had) limited access to education and training opportunities as it is well established that there is a high correlation between low levels of educational attainment and low income earning potential. Australia has relatively low secondary school completion rates. ABS data show that over half the 35 to 64 year old cohort have Year 12 and below as their highest completed qualification. Over 30 per cent of this age cohort have Year 10 and below as their highest completed qualification and 60 per cent of the population have qualifications at the higher school level (Year 12) or below without any post compulsory education or training. There is a particular concentration of older workers in this category. The following table sets out educational attainment by proportion of age groups.

Table 1.6

LEVEL OF HIGHEST EDUCATIONAL ATTAINMENT BY AGE GROUP (AS AT MAY 2001) — PROPORTION OF COHORT

Level of Education	Age (Years) at May 2001						
	15–19 %	20–24 %	25–34 %	35–44 %	45–54 %	55–64 %	Total %
Postgraduate degree	0.0	0.3	2.3	2.9	3.6	2.7	**2.2**
Graduate diploma or graduate certificate	0.0	0.4	2.8	2.9	3.4	3.0	**2.4**
Bachelor degree	0.1	13.3	19.0	14.1	12.3	10.8	**12.5**
Advanced diploma or diploma	0.4	6.5	7.8	7.7	7.8	8.1	**6.7**
Certificate III or IV	1.7	12.2	16.2	17.5	15.2	18.0	**14.1**
Certificate I or II	0.3	0.5	0.6	0.9	1.4	2.4	**1.0**
Certificate not further defined	0.1	0.0	0.1	0.1	0.2	0.1	**0.1**
Year 12	28.9	44.0	22.0	15.1	12.2	11.6	**19.8**
Year 11	20.9	7.5	8.1	8.3	6.6	3.3	**8.6**
Year 10 and below	47.4	14.6	19.8	29.4	36.1	38.3	**31.5**
Level not determined	0.4	0.7	1.3	1.3	1.2	1.7	**1.1**

Source: ABS (May 2001) *Education and Work*, Catalogue 6227.0

The same information based on numbers rather than proportions is set out in the following table. This reinforces the large absolute numbers of individuals with minimal qualifications. It shows over 4 million individuals have year 10 as their highest level of educational attainment.

Table 1.7

LEVEL OF HIGHEST EDUCATIONAL ATTAINMENT BY AGE GROUP (AS AT MAY 2001)

Level of Education	Age (Years) at May 2001						
	15–19 '000	20–24 '000	25–34 '000	35–44 '000	45–54 '000	55–64 '000	Total '000
Postgraduate degree	–	4.7	65.2	83.5	92.6	37.9	283.9
Graduate diploma or graduate certificate	0.2	5.8	80.6	82.6	89.1	41.9	300.3
Bachelor degree	0.8	180.0	540.4	406.4	317.1	150.8	1,595.5
Advanced diploma or diploma	5.1	87.3	223.0	223.1	202.4	113.7	854.6
Certificate III or IV	22.8	164.6	462.1	505.0	392.4	251.8	1,798.6
Certificate I or II	3.4	6.7	17.5	25.0	35.2	34.0	121.8
Certificate not further defined	1.3	0.6	2.3	4.1	4.8	0.8	13.7
Year 12	384.7	594.8	628.6	435.5	315.6	162.4	2,521.7
Year 11	277.7	101.4	231.3	240.5	169.9	46.3	1,097.1
Year 10 and below	630.8	197.8	564.2	848.9	933.6	535.8	4,011.1
Level not determined	4.8	9.3	36.0	37.5	31.8	23.3	142.7

Source: ABS (May 2001) *Education and Work*, Catalogue 6227.0

Australia has relatively low continuing education and training compared to OECD standards. OECD data show around 30 to 35 per cent of Australians (25 to 64 age cohort) participates in continuing job related education and training in each year. This compares to around 45 per cent participation in New Zealand and the United Kingdom.[12] Lack of educational opportunity is further compounded for those with low levels of attainment. Those with higher levels of education are around three and a half times as likely to participate in continuing education and training. Moreover, the individuals in the target group are also likely to be in workplaces or occupations that have traditionally low levels of employer contribution toward training. This means that those who would benefit most from continuing education and training participate the least.

Combined, these factors add up to a lack of opportunities for many individuals within the target population to pursue their own aspirations. Low levels of educational attainment are linked to being locked into a pattern of poor and insecure employment opportunities with minimal chances of acquiring new skills.

Societal Drivers into the Future

A number of trends combine to exacerbate the need for new social policy into the future. Many of these factors are not new, but continue to be significant and shape future outcomes. Unless action is taken, a number of changes and underlying drivers around the nature and organisation of work in society are likely to reinforce current inequalities. Together, these drivers form a powerful force for change.

Briefly, the drivers include the following.

Permanent full-time employment can no longer be considered the norm. Casual, part-time and seasonal employment, as well as a range of contracting and outsourcing modes, has grown significantly in the past thirty years. Around nine out every ten employees in 1974 were in permanent full-time positions. By 2001, this proportion had fallen to 62 per cent.[13] Over the same period, the proportion of permanent part-time employees has more than doubled, the proportion of casual part-timers has more than trebled and the proportion of casuals employed on a full-time basis has increased almost six-fold.[14] More than one-quarter of employees in Australia are now employed on a casual basis.[15]

People employed in 'non-standard' work arrangements are less likely to receive training through the work place. As the attachment between the worker and the enterprise is reduced, the obligation of the employer to employee becomes weaker. This has a significant impact on the capacity and willingness of employers to provide opportunities for workers to enhance their skills. Compared with casual workers, permanent employees are more than twice as likely to receive internal training, and are more than five times as likely to receive external training supported by an employer.

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12 OECD (2002) *Education at a Glance: OECD Indicators 2002. Paris:OECD*

13 Vanden, Heuvel and Wooden (1999) cited by Robinson, C. (2000). *New Directions in Australia's Skill Formation: Lifelong Learning is the Key*. Adelaide: NCVER.

14 Hall, R., Bretherton, T. and Buchanan J. (2000) *It's Not my Problem: The Growth of Non-Standard Work and its Impact on Vocational Education and Training in Australia*. Adelaide: NCVER

15 ABS (2002) *Employee Earnings, Benefits and Trade Union Membership*, Cat. No. 6310.0

Shifting the balance of responsibility for education and training in Australia. While workplace training is becoming a vital part of a competitive business, the trend in workplaces is for employers to expect employees to be more self-reliant, seeking training opportunities and determining their own career paths. Enterprises need highly skilled workers and commit resources to training but employers have also the opportunity to hire or contract skilled labour so they are not solely dependent on the existing workers and do not need to train them.[16] Employers using labour hire or outsourcing have tried to shift the responsibility of training onto the labour-hire firm or the outsourced service provider but they are also somewhat resistant and look to employees to assume more of the responsibility for their own training.[17]

Change in focus of employer provided training. Many individuals are motivated to enhance their skills and the time adults spend in training and further education is increasing. On the other hand, employers appear to be reducing the amount of training they provide in the workplace and the support they provide for training by external providers. The training they favour concentrates on the 'behavioural skills' needed to fit in with new production and service provision practices and enterprise specific skills. Significant employer involvement in technical (e.g. recognised trade and professional skills) and cognitive skills (e.g. literacy, numeracy) development was minimal in a study of six industry sectors.[18]

The decreasing rate of employer support for training is particularly apparent in medium and small business where more than half of the employees in Australia are located. Further, those least likely to be assisted in training by their employers include those in female dominated workforces, those of non-English speaking backgrounds, casual and part-time employees and those in certain jobs such as plant and machine operators. The responsibility for acquiring skills is therefore increasingly in the hands of individuals, and this is accentuated for those who are already in marginal and insecure positions in the labour market.

These trends leave many in the labour market virtually excluded from breaking out of low-skilled positions: they do not have the resources, the time or the encouragement to pursue their own training and they are not supported by their employer. The increasing fragmentation of the labour market into casualised, part time and contracted work means that this pattern will be exacerbated over time.[19]

A Gap in Social Provision

Asset-based welfare policies are one component of a suite of government programs to address the needs of those in the target population. Among the available current measures, the working poor, particularly those in the 35 plus age cohort, receive very little government assistance but do not have the means to exercise choice and accumulate assets. While the 15 to 24 year age cohort has access to the Youth Allowance and unemployed individuals have access to government benefits, there is considerable scope to add asset-based welfare strategies.

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16 The Allen Consulting Group (1999) *Training to Compete* Melbourne, Report to the Australian Industry Group

17 Robinson, C. (2000) *New Directions in Australia's Skill Formation: Life Long Learning is the Key*. Adelaide: NCVER

18 Buchanan, J., Schofield, K., and others. (2001) *Beyond Flexibility: Skills and Work in the Future.* Sydney: NSW Board of Vocational Education and Training.)

19 Considine, G. (2000) *Vocational Education and Training and the Labour Market: A Statistical Profile* Sydney: NSW Board of Vocational Education and Training.

The percentage of individuals receiving government payments is increasing. The current suite of arrangements is summarised in the following table. Most of these support mechanisms are income-based in nature and target the unemployed, the aged, those with disabilities and full / part–time students. Income and asset tests are applied in order to determine eligibility for the payments.

Targeting assistance to welfare recipients and the working poor is intended to provide the stimulus to build assets, including education, so as to strengthen their capacity to eventually be independent of social welfare.

Table 1.8

CURRENT SUPPORT MECHANISMS

Category of Assistance	Description of Assistance and Eligibility	Support Payments
Unemployment benefits	Newstart allowance. Income test (up to $62–$660 per fortnight depending on circumstance). Asset test of up to $145–$450k depending on whether a home–owner or not	$335–405 per fortnight depending on circumstance i.e. $8,700–$10,530 per annum Up to $500 advance available in each 12 month period, must be paid back. Minimum of $250 advance
Aged Pension	>65 (male), and between 60–65 for female, phasing in so that by 2014 female must be >65 also Income and asset tests	$360–$430 per fortnight i.e. $9,360–$11,180 per annum
Family Tax Benefit Payments	Payments to families (dual and single incomes) designed to assist with the cost of raising dependent children. Means tested within categories of dual and single income families.	Between $1,000 and $4,000 depending on age, number and dependence of child, as well as family income. Maximum payments are made to those with family incomes of $30,806, and decline to zero for family incomes of $79,643 per annum.
Support for study	Youth allowance and Austudy (>25 years) for full and part–time students within designated courses	Between $165 and $331 per fortnight depending on circumstances such as age, where living, and dependents.
Assistance with training / retraining	A range of programs including personal support, developing application skills, training accounts for mature age and indigenous job seekers, language literacy and numeracy training.	In–kind support through time, counselling and advisory sessions. Potentially up to an additional $21 per fortnight if completing a language literacy and numeracy training component. Up to $800 of training credits on completion of a set number of hours on a Work for the Dole or Community Work project. Can be used to cover the cost of accredited training.
Disability allowances	Available to those that meet criteria of certain numbers of 'points' based on established 'impairment tables'. Covers a range of physical and intellectual disabilities.	$250–$430 per fortnight i.e. $6,500–$11,180 per annum
Fostering asset accumulation / wealth building	Superannuation guarantee, capital gains tax concession *compared to the top marginal tax rates*, first home–buyers scheme. Those with low incomes have little ability to take advantage of tax concessions. The home–buyers grant was not means tested, except in a very blunt way to the extent that first home–buyers are likely to have relatively lower incomes compared to perhaps those with a home.	The first two depend on income / asset value. The first home buyers scheme ranged between $7,000 and $14,000 depending on circumstance and State.
Other (e.g. Range of project–based assistance and funding for particular initiatives and particular parties)	Varies by project, typically include particular equity groups (indigenous, disability, etc) in conjunction with income and means testing	Various.

Source: The Allen Consulting Group

Not only is the current need for the target groups clearly defined in terms of inequality in wealth, income and education, the trends in asset accumulation, employment and training show the need to prevent more from falling further into disadvantage. Social policy that facilitates new opportunities for poor is an investment in social and economic growth (see Box 1.3).

Box 1.3

CASE STUDY: MATCHED SAVINGS FOR US REFUGEE RESETTLEMENT[20]

The Office of Refugee Resettlement (ORR) of the U.S. Department of Health and Human Services (HHS) has brought asset-building opportunities to more than 1,250 refugees through its federal Individual Development Account (IDA) initiative. Since 1999, the ORR IDA initiative has created 16 refugee-serving IDA programs in 11 states. ORR awarded $5 million in FY 1999 to public and private community based non-profit organisations to support IDA program administration for low-income refugees and families.

ORR IDA goals are to:

- Increase low-income refugees' ability to save;
- Promote refugee participation in US financial institutions;
- Aid refugees in advancing their education;
- Increase refugee homeownership; and
- Assist refugees in gaining access to capital.

Like other IDA programs, ORR grantees provide matched savings accounts alongside financial literacy education and training.

Eligible refugee account holders open and contribute to IDAs for specified savings goals including: home purchase or renovation; post-secondary education, vocational training, or recertification; micro enterprise capitalization; automobile purchase; and computer purchase.

Eligibility for ORR funded IDAs is limited to refugees who have earned income and whose household earned income at time of enrolment does not exceed 200% of the federal poverty level; and who have $10,000 or less in assets at time of enrolment, excluding the value of a primary residence.

Source: The Allen Consulting Group

Potential to Assist Behavioural Change

The previous sections outline the gap that those in need face in accumulating assets, including access to education and training. In addition to assisting welfare recipients, asset-based policies are particularly likely to achieve desired behavioural changes with the working poor as they have an income stream that supports participation in the program and which allows the individuals to meet the reciprocal requirements of the policy. The data showing higher rates of ongoing education and training by those with higher levels of prior education and training also support a case for likely behavioural change. It suggests that initial post-school education and training can generate a lifelong habit.

Implementing asset-based policies presents some logistical difficulties, and these are discussed in more detail in the following chapter. International experience identifies the risk of the lack of take-up, which most likely reflects the inherent difficulty in engaging some of the target populations — many of whom have made a conscious decision to disengage from the system and may suffer multiple social disadvantage that makes engagement difficult.

Asset-based welfare policies are a vital element in the 'stakeholder model' of social provision where no one in the population is excluded from active involvement and economic and social life. Some of the main aims of a stakeholder approach include[21]:

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[20] See http://www.idanetwork.org/index.php?section=initiatives&page=orr.html for a description of ORR programs and links to related websites.

[21] Latham, M. (2001). 'Stakeholder Welfare: An Asset-Based Approach to Australian Welfare', in Regan, S. and Paxton, W. (eds). (2001). *Asset-Based Welfare: International Experiences*. London: Institute of Public Policy Research.

- broadening ownership of economic assets across society, particularly through participation on the stock market;
- developing a 'buffer' of financial resources to assist in managing economic change;
- breaking the cycle of welfare dependency by bringing forward ongoing payments into a meaningful early intervention;
- using the financial resources to upgrade skills and qualifications; and
- leveraging off the schemes to build social capital within geographical areas of disadvantage.

The following Chapter Two discusses the implementation strategies for Matched Savings Accounts. The discussion includes:

- costs of the scheme including indicative calculations for initial establishment and set-up costs — raising awareness; ongoing administration costs; contributions from government and others to match individual contributions; and
- benefits to the economy from a better trained workforce; reductions in other government support payments; and broader social benefits.

Chapter Two

Matched Savings Accounts: Incentives to Save

Introduction

Matched savings accounts have emerged from the idea generated in the United States that low–income people can benefit by accumulating wealth to use in further wealth creation. The philosophy is about providing assistance through asset building rather than just income support. Typically governments and charitable foundations provide matching funds for eligible individual savings, and if savings are withdrawn appropriately and for use in defined purposes, low–income individuals can leverage their savings substantially. Local non-profit organisations provide program infrastructure and reach, and create legitimacy for community participation.

Governments around the world have encouraged significant asset holdings, but policies have typically been geared toward more affluent households. Support for lower–income and lower–wealth households have typically been through income policies. However, there is growing recognition that asset-based welfare policies have significant incentive and well-being impacts. This is especially important in the context of around 20 per cent of Australian households having no net asset holdings.

In addition, such policies can in some way counter entrenched inequalities in the distribution of wealth caused through inter-generational transfers of wealth. Micro-finance initiatives been in place for some time in the development economics paradigm.

Further, there is strong evidence that households typically have a 'precautionary' motive in their savings behaviour, and asset holdings are important in terms of countering against emergencies and assisting in the purchase of 'lumpy' investments. For low–income and 'working poor' households this may be difficult to achieve without a framework for assistance.

The major thrust of MSAs is the achievement of equity and redistribution. Higher income and higher wealth individuals have significant intergenerational transfers of assets, which lower income individuals do not. This has the potential to entrench levels of inequality over time. Matched savings accounts are a potential means to interrupt this cycle.

To the extent that asset accumulation benefits low income earners, then a community based multiplier effect applies. In those areas where savings and investment are encouraged through matching, the economic and psychological effects can spiral to impact on the entire community. Matched savings programs have achieved high levels of bi-partisan, public and private sector support in the US, because they enable people and communities to look ahead, making decisions that flow from the anticipated use of resources.

According to extensive US social science research into matched savings programs, assets spark hope, changing both the way low income people think and the way they act. Government benefits have for decades provided basic needs in developed economies. However, until matched savings initiatives were developed, there was no strategy for transferring resources to enable low-income earners to save and invest. As put by leading US Social Development Academic Michael Sherraden, 'while incomes feed people's stomachs, assets change their heads'.

Introducing Matched Savings Accounts (MSAs)

There is a range of proposed Asset based policies other than MSAs. MSAs complement other 'nest–egg' proposals for children (potentially up to the age of 18) with assistance for low–income and low–wealth 'working poor' households.

The vision for MSAs is that they:

- are delivered through a strong partnership arrangement encompassing government, individuals, industry and enterprises;
- meet changing aspirations for asset ownership, moving toward a greater desire for economic assets;
- encourage improved future investment strategies and financial independence;
- facilitate purchase of 'lumpy' investments in education, home–ownership and micro–enterprise areas; and
- improve recipient confidence and provide a buffer against future emergencies.

The most important facet is addressing entrenched wealth inequality that has built up with inter–generational transfers over time. For example, the top 20 per cent of households own around 65 per cent of Australia's wealth, while the bottom 20 per cent have zero net asset ownership.

The US experience with matched savings, as detailed in Chapter Three, has much to offer Australian policy makers. Individual Development Accounts (IDAs), or targeted low income matched savings accounts, are the preferred vehicle for encouraging low-income asset building in the US. Hundreds of targeted programs have mushroomed right across the US, and they are now being introduced in South Africa, Canada, the UK, and Taiwan. Typically, local community organisations carry delivery responsibility, with a variety of State and private funding partnerships.

IDAs are targeted at a community level for good reasons. Local charities have established, trusting relationships with residents and program recruitment initiatives stem from cultural and economic knowledge of community needs. On-going casework can build on existing community contact and relationships as well.

For IDAs in the US, there is a wide range of host organisations such as community groups, funding bodies, and vendors. The host organisation houses the program. Host organisations are established community groups which have existed, on average, for 21 years, and which employ an average of 24 staff and up to 314, working on a range of community-based programs.

Funding organisations provide resources to cover additional overhead, program and salary costs associated with hosting an IDA pilot. They also provide the costs of matching savings at an average ratio of 2:1. Funders include government agencies, private financial institutions, and a range of foundations and local charitable organisations. Funders transfer resources to host organisations on a quarterly basis to cover predicted IDA program costs.

Participants use conventional savings products, typically with fees waived, while matching funds are deposited with the host organisation for distribution when eligible. Matched funds are paid directly to 'vendors', which are those organisations that sell eligible products and services to participants when they elect to withdraw matchable funds. Typical vendors include banks (mortgages), universities (courses), training institutes (programs), builders (home repair) and doctors (health care services).

Implementing Matched Savings Accounts

Drawing on the vision for MSAs outlined in the previous section, this section outlines the various dimensions to the implementation task, drawing on experiences in other countries. The choice of parameters reflects the desire to build a system that will enable participation for those that need it most, the ability to generate assets in a way that counters entrenched disadvantage and a process that achieves meaningful behavioural change. The following section provides indicative benefit and cost calculations.

MSAs are a distinct component of a complementary suite of asset-based welfare policies that together can make a material difference to the distribution of wealth and overall community engagement.

Eligibility Criteria and Engaging Participants

Setting the target population is an important first step and is discussed at length in the initial sections of this report. For administrative ease, participants will be individuals rather than households.

In theory, MSAs could be universally available. However, policies such as 'nest–egg' accounts appear targeted (and better suited) to those under 18 years of age. There is also some element of fostering responsible behaviour, and while this is an issue that can only be addressed in practice, this suggests participants in excess of 25 years of age. In order to prevent middle and upper income participants from taking advantage of the matched savings intended for lower income participants, we recommend capping income at around 150 per cent above the Henderson Poverty Line published regularly by the Brotherhood of St. Lawrence. Some US IDA programs cap income at 200 per cent of the US poverty line, but the US benchmark is lower than Australia's Henderson measure.

Of course, those participants hoping to save in order to buy homes must also pass a credit eligibility test with financial institutions. In the US experience, it is advisable to offer credit tests early in the program so as to establish viable expectations and offer advice to those hoping to increase their credit rating to become eligible.

MSAs would not affect eligibility for social security payments. In the same way that superannuation accounts are currently exempt from asset tests for eligibility for social security payments such as for Newstart and Disability Support Pension, MSAs would be exempt. MSAs would also not be considered as liquid assets for the purpose of liquid assets waiting periods which require social security recipients to draw down on liquid assets before they are eligible for payments.

Engaging eligible participants has proven to be a challenge. The main lesson is that participants need to be engaged at the local community level, through non–threatening and 'trusted' institutions that capture their imagination. This could include 'spaghetti' nights, or BBQs as introductory launches and information sessions. A useful link into the West Indian community in England was through local reggae music nights.

Benefits and Obligations on Participants

The overseas material emphasises that there is a range of benefits from participating in MSA programs. Some of the benefits derive from the economic benefits of the accumulated asset, while others are possibly more important, such as building personal confidence, increasing numeracy skills, fostering of responsible decision-making and education about the benefits of forward planning.

In line with these objectives and consistent with overseas operation, program obligations on participants should include:

- attendance at financial education classes; and
- minimum required contributions prior to receipt of any matched funds.

Criteria will need to be developed about the minimum requirements and the penalties for not meeting such requirements. In order to provide incentives, these criteria need to be strictly policed and enforced.

Levels of Matching

International experience suggests a range of matching levels from 1.5 through to 4. An average appears to be around \$2 for every \$1 of net deposits. To set the appropriate incentive structures, participants need to establish a savings pattern prior to receiving any matching funds.

The optimal matching level is an empirical issue. It depends on the level in practice that achieves the incentive to change saving behaviour. Some insight into the incentives generated is provided by work by The Allen Consulting Group into possible superannuation scheme matching incentives, outlined earlier in this report. This work demonstrates that even for low income earners, there is the potential for voluntary contributions.

It also suggests that a sliding scale of matching could be appropriate, with a 2:1 matching payment necessary to provide the incentive for those with lower incomes that face particularly high opportunity costs (i.e. a reduction in current consumption / purchase of necessities). This could phase out to a 1:1 matching for those on relatively higher incomes. This is likely to be a more cost-effective use of government funds.

However, there could be a trade-off between simplicity and ease of administration and marketing on the one hand, and cost-effectiveness on the other. Progressive evaluation of IDA pilots by the University of Washington in St. Louis' Center for Social Development[22] reveals the importance of keeping IDA programs simple, in order to ease community based administration and communication requirements. Pilot of both a sliding scale and a set matching ratio in different communities is one way to determine which approach works best on balance.

In practice, a number of schemes specify a minimum matching amount that is organised through program partners, and then seek to supplement this by enlisting the participation of other parties. The government should set a defined contribution from its own budget with the end make–up determined by the nature of other partnership arrangements.

Leveraging Contributions from Other Parties

A fully functional MSA program will create a kaleidoscope of program partners, all with a shared interest. Government needs to leverage 'in–kind' provision of assistance as well as cash grants. Community Credit Unions and financial institutions can offer discounted standard savings products for matched savings programs and can offer financial support through matching grants.

A key contextual factor of the US approach that does not automatically translate to the Australian setting is the well-established culture of voluntary giving and the heavy participation of philanthropic organisations in schemes of this nature. However, in Australia, there are a growing number of philanthropic foundations currently being formed on the basis of the wealth being transferred to the baby-boomer generation. Many are targeting assistance on social issues and looking for opportunities to go beyond 'band-aid' solutions.

Potential organisations that may play a role in Australia similar to the philanthropic sector in the US and should be canvassed for their views include:

- Myer Foundation;
- The Ian Potter Foundation;
- The Jack Brockhoff Foundation;
- Pratt Foundation;
- Thomas Foundation;
- The William Buckland Foundation; and
- The Ian Potter Foundation.

There are many others. Some initial contact might be provided through the peak membership association — Philanthropy Australia. This organisation also provides a mechanism for channelling funds from members or contributors.

[22] Sherraden, M., Page-Adams, D., Johnson, L., Scanlon, E., Curley, J., Zhan, M., Bady, A., and Hinterlong, J., (1999.) *Start-Up Evaluation Report: Down payments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis; and also Savings patterns in IDA Programs, January 2000, and also Final Report Saving Performance in the American Dream Demonstration, October 2002.

Incentives should be given to the various and diverse range of partners / stakeholders. For example tax deductions for approved gifts by companies and individuals, information flows and other support for charitable organisations.

In-kind relationships could leverage private sector community initiatives. For example, eligible participants saving to buy computers for educational home use could benefit greatly from participation by computer and software companies wishing to develop business-community partnerships which bridge the digital divide.

Developing robust and wide–ranging partnership arrangements is not only crucial for the effective delivery of MSAs, it also has substantial benefits for community capacity building and associated development of social infrastructure.

Program Administration

For program credibility, integrity in the community, powerful word of mouth, and effective use of existing community infrastructure, it is crucial that sponsoring community organisations take a strong lead role in promoting the program. We recommend a wide a definition of eligible 'community sponsoring' organisations. This could include local housing cooperatives, childcare organisations, community health clinics and more traditional service delivery and charity groups. Some of the more successful pilots in the US were grounded in ethnic community organisations and low-income womens' help groups. Government has an important information provision role to play. This is a critical overarching role that has to begin before the pilots start, and continue throughout the process. Information dissemination has to be in a format conducive to use by the likely participant groups, and in a manner that will leverage participation across a range of parties.

Prudential Supervision

With bank/credit union administration of standard savings accounts, many prudential issues may be addressed. Nevertheless, safe-guards should be considered.

There is a need to police a range of issues such as:

- meeting of matching requirements;
- potential for participants to channel funds from others;
- purchasing 'accredited' goods but then selling these to use the money for others.

There is a role for government, though in close association with the administrative body and the host organisation.

Permissible Uses of Accumulated Funds

Flexibility in usage of accumulated funds is a significant driver of engaging individuals. Three possible targets in the Australian context are:

- housing;
- computers (potentially through a leasing scheme, or low cost donated computer schemes for participants seeking deep discounts); and
- education.

Monitoring of MSA Outcomes

In the context of wide acceptance of MSA principles, and significant numbers of pilot programs overseas, there is however some evidence that the intensive assistance costs are high.

A rigorous monitoring and evaluation framework needs to be established to run concurrently with any pilot program. This will provide input to future serious consideration of the ideal policy approach and mix.

Hard data will be needed to convince sceptics, and will be crucial in galvanising ongoing support. There will also be important issues surrounding what administrative arrangements work best in practice, and for what sets or sub–sets of the target population the incentive effects work best. This assists in the design of complementary policies to aid those that 'slip through the cracks' in the MSA approach.

The best evaluations are done when the evaluation framework is discussed up–front, and appropriate data collection processes are put in place, rather than trying to retrospectively generate the required data.

Following the US model, where a standard Management Information System was developed for reporting on sample pilot developments, the evaluation may usefully include the participation of Australian Universities where there are strong existing social policy programs, for example:

- NATSEM within the University of Canberra;
- Melbourne Institute of Applied Economic and Social Research at the University of Melbourne; and
- Social Policy Research Centre of the University of New South Wales.

Costs of Matched Savings Accounts

Results of a report by Schreiner,[23] summarised in Chapter Three, indicates the potentially high operational costs of MSAs. It is noted that the reported scheme was particularly high cost in nature, and in any event, judgements cannot be made simply based on an analysis of costs.

However, it is worth considering some indicative costing information based on how a pilot scheme may actually work in Australia.

There are four elements of costs, all incurred over an assumed time period of three years.

- Staff
- Overheads
- Marketing and Coaching
- Cost of Matching Participant Savings

[23] Mark Schreiner (February 2002) *"What Do Individual Development Accounts Cost? The First Three Years at Community Action Project of Tulsa County (CAPTC)"* Research Report, Center for Social Development, Washington University in St. Louis

The cost structure is almost entirely fixed, with the exception of matching costs and some operating expenses. This suggests the potential for economies of scale. However, there is an issue of the quality / quantity tradeoff. To the extent that leverage from government or foundation funding is available, it should be used to cover fixed costs.

The indicative cost figures and calculations below are based on ***an individual pilot program with around 150 participants***, which is slightly smaller than the average US participation range, but reflects the realities of Australian communities. There may be some synergies and reduction in per pilot average costs if a number of pilots operate at a particular time.

Indicative costings based on preliminary modelling by The Allen Consulting Group indicate that a typical three-year pilot is likely to cost around:

- Staff — $500,000;
- Overheads — $100,000;
- Marketing and Coaching — $250,000; and
- Matching — $350,000.

The preliminary total cost of $1.2 million for a three-year pilot includes contingency cost of 10 per cent within each category. Depending on location and structure, this cost could be reduced through sharing staff across pilot initiatives.

Costs may also be shared with other stakeholders. In particular, financial institutions and/or other corporations would be invited to fund at least half of the $350,000 matching cost. An analysis of the costing assumptions follows below, based on assumptions derived from 13 IDA pilot programs analysed by the collaborative US evaluation program led by the University of Washington in St. Louis's Center for Social Development. The assumptions are based on their evaluation in 2002 and the statistics serve as a guideline for Australian estimates, adjusted for local circumstances.

Number of Participants

US participants numbered 2,364, with a median participant per staff ratio of 65. Assuming 2.5 full time staff in a typical pilot project, we assume 163 participants could be recruited using the proven community based marketing mix. We use 150 participants for average costing purposes.

Percentage Making Eligible Withdrawals

In the 2002 US pilot review, 32 per cent of participants had withdrawn matchable balances (up from 13 per cent in 2001). We assume that by the end of a full three to four-year pilot project 75 per cent will withdraw matchable balances (consistent with significant net deposits available). Translated into estimated typical pilot results, 75 per cent or 113 out of 150 participants could reasonably be expected to withdraw matched funds for an eligible purpose.

Each of the four elements of costs is detailed below, assuming they are incurred over three years.

- Staff
- Overheads

- Marketing and Coaching
- Cost of Matching Participant Savings

Staff

We assume a breakdown of around 2.5 full time staff equivalents, costed in Table 3.1. below.

Table 3.1

STAFF COSTS

Staff (5% annual salary growth)	Year 1	Year 2	Year 3
Community Project Manager	$50,000	$52,000	$54,000
Marketing Coordinator	$40,000	$42,000	$44,000
Senior Project Manager (part time)	$30,000	$32,000	$34,000
Community Volunteer Coordinator (1 day per week including transport)	$10,000	$10,000	$10,000
Staff On-costs	$30,000	$30,000	$30,000
Total staff costs	$160,000	$166,000	$172,000
3 Year staff costs	$498,000		

Source: The Allen Consulting Group.

Overheads

Minimal overhead costs are assumed and outlined in Table 3.2 below.

Table 3.2

OVERHEADS

Overheads	Year 1	Year 2	Year 3
Shared NGO rent	$15,000	$15,000	$15,000
General office procurement	$15,000	$15,000	$15,000
Volunteer training and support	$5,000	$5,000	$5,000
Total overhead costs	$35,000	$35,000	$35,000
3 Year overhead costs	$105,000		

Source: The Allen Consulting Group.

Marketing and Coaching

These participant engagement costs reflect US pilot lessons.

Table 3.3.

MARKETING AND COACHING COSTS

Marketing and Coaching Costs	Year 1	Year 2	Year 3
Marketing sessions	$18,000	$15,000	$12,000
Transport costs	$12,000	$10,000	$8,000
Training	$50,000	$50,000	$50,000
Total marketing/coaching costs	$80,000	$80,000	$80,000
3 Year marketing/coaching costs	$240,000		

Source: The Allen Consulting Group.

Matching costs

The pilot case analysis calls for funds to match 116 participants. US pilot results indicated a likely A$2,147 cost of matching per participant, but to be conservative we have increased this to A$3,000 because average US costs could grow as the US pilot reaches completion.

Table 3.4

MATCHING COSTS

Matching Costs	Pilot Case
Enrolled participants (number)	150
Number withdrawing matched savings meeting criteria (1)	113
Average Dollars matched in US pilot (in Aus$) (1)	3000
Cost of matching — 3 scenarios, each totalling three years	$339,000

Source: The Allen Consulting Group.
Note (1): As of October 2002 reporting, over 24.5 months US participants had withdrawn an average of US $1,105 of matching funds. Adjusted for a full 36 months, this translates into US$1,491 in matching fund withdrawals, in addition to participant savings. At an exchange rate of $0.55 dollars, this is equal to A$2,712. We used $3,000 as a conservative estimate of the potential matching requirements per participant.

Benefits of Matched Savings Accounts

The benefits from the program include those that are tangible — such as reduced ongoing income support payments, reduced pension payments, and increased income tax receipts. They also include a range of important, but less easily quantifiable impacts — such as enhanced confidence and community building.

As reported in the literature review in the following chapter there are powerful reported impacts on participant confidence — 93 per cent of US program participants indicate they are more confident after participating, and 85 per cent indicate they are more in control.

There is also evidence of changed behaviour, 57 per cent indicate that they are more likely to plan for retirement.

Indicative calculations of the sorts of changes in behaviour and outcomes that would be required to offset MSA program costs are provided below.

Indicative Calculations

It is difficult to establish quantified causal links and associated benefits *a priori*. This is often the case with policy changes where the costs are easily discerned, are incurred up–front, and are generally quantifiable. The benefits typically accrue into the future and while it is easy to identify the source and nature of the benefits, it is much harder to quantify them.

Given this, a useful technique to gauge potential impacts is to investigate the sorts of changes that would be necessary to justify the costs. By making such explicit calculations it allows insight and informed judgement about the feasibility of such changes, and hence whether benefits are likely to outweigh the costs.

On the basis of a total cost of $6,000 to $9000 per participant, the following sorts of changes would be required so that the benefits outweigh the costs:

- a reduction in support payments to each individual of one year over the course of their life — either unemployment benefits or age–pension payments;
- 5 per cent of participants stop receiving support payments over their life as a whole (assuming an average remaining working life of 20 years);
- improved tax receipts. Requires an increase in the average participant income of $2,000 per year — assuming an average marginal tax–rate of 25 per cent and a remaining working life of 20 years;
- improved productivity of the economy. Again, while there is a strong link between higher education and training levels and improved performance of the economy, the precise quantification of the link is difficult. Some insight — albeit an imperfect measure — is generated by looking at additional wages after engaging in the education and training course. Wages provide an indication of the individual's benefit to the enterprise, and hence, an indication of the benefit to the economy more broadly. On this measure, the costs of asset-based welfare would be justified if individuals were to receive additional wages in the order of $10,000 over the remainder of their working life — where the increase is attributable to the course of education or training. On an assumption of 20 years working life, this equates to an additional $500 per annum.

Alternatively, the benefits could accrue through some combination of these outcomes. These outcomes are not mutually exclusive, and achieving some of the benefits is likely to mean achieving others. For example, participants that receive reduced government support payments will have typically gained employment, and hence will be paying taxes and generating higher wages than previously.

Social benefits

Further, the benefits outlined above are those that are more easily quantifiable. To the extent that other benefits — for example improved self–esteem and greater social justice — are achieved, then the benefits necessary from the sources described above are reduced. Some comments from US matched savings pilots draw out the core social benefits this initiative offers.

Community — Several people expressed enthusiasm for the potential of IDAs as a community building strategy. At one site, the idea of asset building struck a chord with low-income staff members and ultimately resulted in strengthening both the program and the larger community:

> The staff was receptive to the IDA idea. Some were glad about instituting the program, and others wanted to know how they could get in on the program. As they were helping others, they saw advantages to getting matched money for their own savings. Our organisation started matching savings in the accounts of those staff members who wanted to buy houses within the community. This was a way of investing the staff in the program and in the community.[24]

Local economy — A program coordinator from one site described IDAs as a tool in the sponsoring organisation's ongoing work to build local economies and to help people develop lasting connections with the economic mainstream:

[24] Sherraden, M., Page-Adams, D., Johnson, L., Scanlon, E., Curley, J., Zhan, M., Bady, A., and Hinterlong, J., *Start-Up Evaluation Report: Down payments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, January 1999, p.23.

> IDAs are a natural extension of our work to restore health markets and communities by supporting entrepreneurship, self-sufficiency, and investment by local residents. Whether the focus is on business development or human development, our programming takes an asset-based approach to community revitalisation.[25]

Participants — One program coordinator described the larger effects on an earlier IDA initiative:

> Our early participants have been able to realise their dreams of owning a home, developing a business, or attending college. The stories of success are prevalent and well known around the community because IDA participants are residents within our community. They are our neighbours, and they are our friends.[26]

Social Enterprise — In addition, the development of asset-based welfare initiatives such as MSAs will dovetail with the growth of the social enterprise movement. A number of community sector organisations are seeking to advance active community development strategies where local communities and target groups have greater input into social and economic initiatives that are designed to improve their livelihoods. These communities have the opportunity to generate self-help and productive initiatives that build a sense of purpose and community identity as well as provide substantive assistance for those in need.

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[25] Ibid, Sherraden, et al., p. 23.

[26] Ibid, Sherraden, et al, p.22.

Chapter Three

Literature Review — Matched Savings Accounts

The American Dream Demonstration[27]

Schemes encompassing Matched Savings Accounts — or Individual Development Accounts (IDAs) as they are known in the US — have been in operation since the early 90's. The American Dream Demonstration (ADD) is a large IDA demonstration program with 14 pilots across the US, and is operated under the auspices of the Corporation for Enterprise Development (CFED) and the Center for Social Development (CSD) at Washington University in St Louis. The timeframe is 1997–2001 for the operation of the pilots, with a further two years of evaluation.

Program Design and Administration

Like other IDA programs, the ADD is designed from the premise that long–term improvement in well–being requires asset accumulation. While saving is not easy for anyone, it is more difficult for the poor because they have few resources relative to subsistence requirements, because they lack access to some public policy mechanisms that subsidise saving, and because scarce resources and restricted access may push saving out of their world view.

However, the IDAs are intended to address this issue in a number of ways:

- forging a new social pattern;
- providing realistic targets and support; and
- providing regular feedback and encouragement through regular reporting and monthly statements.

Program characteristics include:

- matched rates;
- monthly savings targets, where this is the amount that, if saved each month and not removed in unmatched withdrawals, would produce net deposits equal to the total match cap; and
- financial education with each participant attending on average 10.5 hours of general financial education.

Early Program Outcomes

The full evaluation of the ADD is only just beginning. A later section

[27] Information in this section draws on a range of publications and material available from the Center for Social Development at Washington University in St Louis: http://gwbweb.wustl.edu/csd/ accessed July–August 2002, and with most recent statistics from the Center's October 2002 report.

describes a report that analyses the financial cost of providing a specific pilot program. However, the ADD October 2002 evaluation provides a number of interim output / outcome measures:

- around 2,400 participants in 14 IDA programs;
- average monthly net deposits of US$19.07, and US$33.81 for participants who saved a net US$100 per month or more (56% of participants fell into this “saver” category);
- average participants saved 51 cents for every dollar that could have been matched;
- average participant made a deposit in 6 of 12 months; and
- with an average match rate of 2:1, participants accumulated about $700 per year in IDAs.

There is an issue surrounding whether deposits arise from new saving or transfer of other assets. The relative breakdown between these factors is not yet known within the ADD.

Participant Characteristics

A range of participants is found in the ADD. It is noted that the pilot programs specifically select those that are most likely to succeed, and/or include those that self–select into the program. Characteristics include:

- around 80 per cent of participants are female;
- have incomes of between 50 and 200 per cent of the poverty line, mean income was 116 per cent of the poverty line, for an average monthly household income of US$1,496;
- 47 per cent African–American, 37 per cent Caucasian, 9 per cent Hispanic, 3 per cent Native American, 2 per cent Asian–American, and 3 per cent ‘other’; and
- participants were relatively well educated given their income, 24 per cent had a college degree of some sort, and 85 per cent completed high school.

Underlying Success Factors

Key features of successful IDA programs are presented in Table 3.1.

Table 3.1

CHARACTERISTICS ASSOCIATED WITH EARLY STARTUP OF IDA PROGRAMS

IDA Program Level	Characteristics
Sponsoring Organisation	— Large, stable umbrella organisation — History of effective anti-poverty work and services to low-income people — Local funding secured before national demonstration kick-off in September 1997
IDA Program	— Clear, consistent articulation of plans for IDA program design — Simple, straightforward account design (deposits, match rates, totals) — Staffing by 2 to 3 full time employees hired early with no turnover
Specific Program Components	— Economic education classes and saving occur simultaneously — Flexible implementation of pre-savings program requirements — One-on-one work with participants

Source: Sherraden, M., Page-Adams, D., Johnson, L., Scanlon, E., Curley, J., Zhan, M., Bady, A., and Hinterlong, J., *Start-Up Evaluation Report: Down payments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, January 1999, p.29.

In addition to these, further strengths of the programs included:

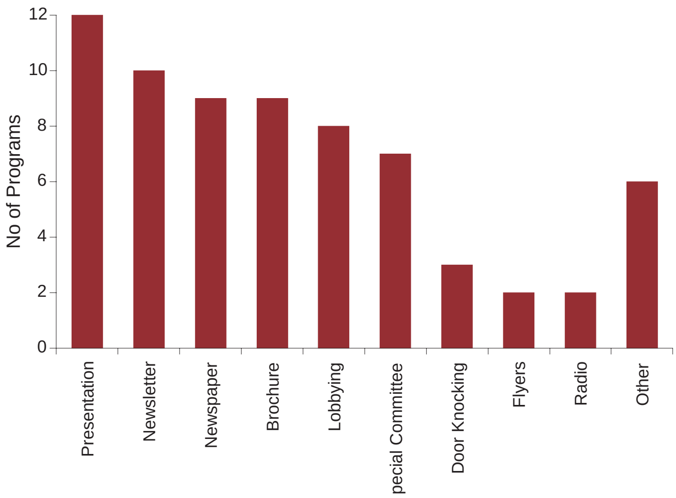
- innovative program design and community-level marketing;
- leveraging off the savings products already offered by financial institutions; and
- strong community partnerships.

Many organisations found it difficult to recruit participants in the initial stages of the program. They found that potential participants often experienced “time poverty”. Further, the programs were new and unfamiliar to people and so participants did not always grasp the concept on first hearing about it (presentation or brochure). During the first year, low deposit balances accumulated due to ineffective marketing.

IDA programs were active marketers, often using community-based approaches. Once enrolments began to rise, IDAs tended to catch on and then rise more rapidly. In other words, IDA participants themselves were often the best recruitment strategy. Marketing activities used in the various programs are presented in Figure 3.2.

Figure 3.1

TYPES OF IDA MARKETING ACTIVITIES



Source: Sherraden, M., Page-Adams, D., Johnson, L., Scanlon, E., Curley, J., Zhan, M., Bady, A., and Hinterlong, J., *Start-Up Evaluation Report: Down payments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, January 1999, p.37.

Personal outreach and community awareness presentations were best for spreading the word about new IDA programs — flyers and other written materials did not work well:[28]

> IDA programs…adapted rapidly to solve initial recruitment problems. By the end of the first year, 6 of 13 sites had either loosened their income and asset eligibility guidelines or had reduced the number of orientation sessions that were required before participants could open an account. Several sites had also increased the number of neighbourhoods, communities or organisations from which they were recruiting participants. One program had initiated innovative recruitment strategies including providing IDA information over free spaghetti dinners for potential participants, "donuts and IDA information to go" for early morning commuters, banners and buttons advertising the IDA program. One marketing theme was "Triple your money!" Such adaptations illustrate the perceived need to use a number of different approaches and strategies in order to get IDAs up and running.[29]

What are the Pros and Cons of More Flexible Spending Categories?

October 2002 US program evaluation analysis reveals that the largest proportion of matched withdrawals was used for home purchase (28 per cent) followed by micro enterprise (23 per cent), post-secondary education (21 per cent) and home repair (18 per cent).

US programs limit eligibility to between three and five spending categories, from the groupings defined in the table below. 24 per cent of early days matched withdrawals (1999 statistics) were for home purchase, and of the 87 per cent of participants that had not yet withdrawn, 57 per cent intended to buy a home. From the more recent results described above, it appears that home purchase and repair are some core objectives for joining IDAs.

Table 3.2

DISTRIBUTION OF ACTUAL USE OF MATCHED WITHDRAWALS FOR PARTICIPANTS WITH MATCHED WITHDRAWALS

Use	Participants (%)	Participants (No)	Number of Withdrawals (%)	Number of Withdrawals (No)
Home Purchase	24	76	18	114
Post-Secondary Ed	21	66	22	139
Micro-enterprise	24	76	30	189
Home Repair	20	63	20	126
Retirement	9	28	8	50
Job Training	3	9	2	13

Source: Schreiner, M., Sherraden, M., Clancy, M., Johnson, L., Curley, J., Grinstein-Weiss, M., Zhan, M. and Beverly, S., *Savings and Asset Accumulation in Individual Development Accounts: Down payments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, February, 2001, p.42-43.

[28] Sherraden, M., Page-Adams, D., Johnson, L., Scanlon, E., Curley, J., Zhan, M., Bady, A., and Hinterlong, J., *Start-Up Evaluation Report: Downpayments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington Univ. in St. Louis, January 1999, p.25.

[29] Sherraden, M., Page-Adams, D., Johnson, L., Scanlon, E., Curley, J., Zhan, M., Bady, A., and Hinterlong, J., *Start-Up Evaluation Report: Downpayments on the American Dream Policy Demonstration*, Centre for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, January 1999, p.26.

There are also administrative arguments for limiting use of funds to certain categories. Funding organisations (governments, banks, credit unions, foundations) pay matching dollars into a separate account, which is reconciled regularly and reported to participants. When matched funds are "withdrawn", they are paid directly to eligible "vendors" (mortgage providers, universities, technical colleges, etc.). This introduces another layer of accountability, which was considered necessary in the US after earlier IDA pilots reported some inappropriate use of funds.

It is also important to keep matching funds in separate accounts administered by the local host community organisation (and not placed under individual participant names). This makes it easy to administer a case where a participant exits without eligibility for matching.

The strengths and weaknesses associated with providing greater flexibility are provided below, followed by case studies from the American Dream Demonstration's interim progress reports.

Table 3.3

SWOT Analysis – Merits of a more flexible spending approach

Strengths	Weaknesses
Easier recruitment Meets individual needs directly Simple to explain Need less education on investing	Enables frivolous expenditure Can lead to short term thinking Pilot funder and administrator lose control of matched funds because they no longer pay them directly to vendor (mortgagee, university, home repair shop etc.)
Opportunities	**Threats**
Would encourage participation Would respond to individual wishes, motivating participants to save more Could deliver short term program satisfaction	Program could lose credibility with potential future allies (foundations, government, charities) Embarrassing PR about flippant spending could compromise post-Pilot evolution

Source: The Allen Consulting Group.

Community Action Project Tulsa County (CAPTC)[30]

The study estimates the value of resources used in the first 33 months of an IDA program at the Community Action Project of Tulsa County (CAPTC). It primarily focuses on financial costs, and does not attempt to quantify any benefits of the program. This paper is one of the major pieces of evaluation work undertaken as part of the American Dream Demonstration project.

The paper notes the following objective for IDAs:

> IDAs are designed to address institutional constraints on asset accumulation by the poor. Withdrawals from IDAs are matched if used for home ownership, post–secondary education, or micro enterprise. IDAs also bundle other services meant to facilitate saving, including financial education and support from peers and from program staff.
>
> Schreiner (2002), p1

[30] Mark Schreiner (February 2002) *"What Do Individual Development Accounts Cost? The First Three Years at Community Action Project of Tulsa County (CAPTC)"* Research Report, Center for Social Development, Washington University in St. Louis

Seven key stakeholder groups are identified:

- participants;
- non–participants;
- federal government;
- state and local government;
- employees of IDA programs;
- private donors; and
- society as a whole.

The conclusion of the paper is that IDAs are costly from a simply financial perspective. In the 33 months between October 1998 and June 2001, the IDA program at CAPTC produced:

- 471 enrolments;
- 9,336 participant–months;
- $271,090 in net deposits; and
- 3.5 million dollar months of savings.

Excluding matches, operational costs were about $595,366. Thus, cost per unit of output was:

- $1,264 per enrolment;
- $64 per participant–month;
- $2.20 per dollar of net deposits; and
- $0.17 per dollar–month saved.

At CAPTC, the average match rate is about 1.5:1. If all net deposits were taken as matched withdrawals, then each $2.50 withdrawn (deposits plus match) would cost society $2.20, or 88 cents per dollar of assets accumulated.

Significant matching grants were received from philanthropic associations and home–ownership grant schemes.

The sources of total costs were as follows:

- salaries 56 per cent;
- overheads 19 per cent;
- rental 9 per cent; and
- other / miscellaneous 16 per cent.

The study concludes that there is likely to be limited scope for further operating cost-reductions, given that most had been achieved over the 33 month operating period. However, the author notes that the CAPTC project involved relatively high personal contact between IDA staff and participants, and that this was a potential area for reducing costs.

Sources of resources included the following:

- private 37 per cent;
- federal government 62 per cent; and
- state / local government 1 per cent.

The paper notes the high cost of providing the service, and indicates that an evaluation of the benefits is scheduled to take place in 2003. It is not possible to fully evaluate the program in the absence of understanding such benefits. Compared to the option of simply using the operational funds as direct 'cash transfers' to individuals, the paper makes the following points:

- it is difficult to compare without knowledge of benefits;
- cash transfers are less targeted in their application;
- such a scheme would also involve administrative costs that need to be taken into account;
- IDAs encourage greater incentives and the development of longer–term planning; and
- IDAs involve a paternalistic element in that they restrict the use of purchases of assets.

The paper concludes:

> Certainly, the concept of long-term improvement in the well being of the poor through assisted asset accumulation — be they financial assets, human capital, physical assets, or social capital — is the only way to speed up the defeat of poverty. The only question is whether IDAs — or some variant on their current design — will be part of the battle.
>
> Schreiner (2002), p20

Recent Trends on Social Governance Reform in US [31]

The author notes the overarching push from 'welfare' to 'workfare', and that the major thrust of the US policy agenda is broad-based asset ownership at a local level. Assets are thought to matter because they provide an economic cushion and enable people to make investments in their future. It impacts on peoples' psychological outlook and the incentives they face.

It is important because in the US around 20 per cent of the population do not have bank accounts.

The paper notes a range of complementary policies in the US in addition to IDAs:

- Empowerment Zone / Enterprise Counties;
- rural empowerment zones;
- low-income housing tax credits;
- renewal communities;

[31] Tsobanoglou, G. (2001). *Recent Trends on Social Governance Reform in the US. Attempts at a New Social Integration. What Lessons for Europe*?, Paper for Symposium June 2001, The Hague

- charitable choice expansion; and
- new millennium classrooms act providing increased ICT resources for classrooms.

IDAs are thought to be more focused on individuals, with restricted permissible purchases, and targeted toward the working poor or welfare recipients.

There are 300 community based IDA programs in the US. There is a range of other asset encouragement plans for higher income individuals such as IRAs and 401(k) plans that attract concessional tax treatment.

IDAs are typically targeted at individuals at less than 150 per cent of the poverty level.

Personal Accounts: More Than Just Assets [32]

The author raises a number of benefits of IDAs and wealth building policies. He highlights the flow-on benefits to strengthening families and counties, and also the impact on raising retirement incomes of participants in the future. He notes certain results:

- participants' improved educational standard;
- 84 per cent of participants feel more secure and 57 per cent say they are more likely to plan for retirement;
- a corollary is improved relationships; and
- 93 per cent of participants indicate they are more confident, and 85 per cent indicate they are more in control.

The author concludes with a caveat that IDAs are not the ultimate solution for the very poor. However, the overall impression is favourable:

> Ongoing research indicates that the non–financial benefits of individual wealth building could be greater than the dollars and cents personal accounts would pay in retirement.

Council for Adult and Experiential Learning (CAEL) — Lifelong Learning Accounts Demonstration Pilot [33]

CAEL is a US national non-profit organisation focussed on lifelong learning in companies, educational institutions and communities. It sees its stakeholders as being employers, colleges and universities, and adult learners.

CAEL is currently operating a Lifelong Learning Accounts (LiLAs) demonstration pilot. CAEL describes LiLAs in the following terms:

> Lifelong Learning Accounts are self-managed educational advancement accounts for adult workers. They are universal, portable, and funded by the workers themselves and matched to an established cap by employers and third party sources.

[32] Andrew Biggs (July 2002) "Personal Accounts Build More than Just Assets" Cato Institute. http://www.cato.org/dailys/07-08-02.html

[33] information obtained from CAEL website: http://www.cael.org/lilas.asp accessed August 2002.

> CAEL's goal is for LiLAs to become a standard part of workers' compensation packages, similar to a 401(k) or health insurance. Our strategy for advancing the LiLA policy agenda has three components:
>
> (i) a multi-year, multi-site demonstration involving 250-400 individual participants
>
> (ii) national policy development
>
> (iii) a comprehensive evaluation
>
> Source: http://www.cael.org/lilas.asp

LiLAs are seen to target the working poor who receive very few opportunities for training, and hence are limited in their aspirations and potential advancement. They are designed as a supplement to unemployment training that prepares the unemployed for future jobs. There is a perceived disparity between the private support of training for high–income workers and that for low–income workers

Three sites have been chosen for the pilot, including:

- Chicago — launched October 2001 with 125 participants drawn from the restaurant industry;
- Fort Wayne, Indiana — beginning September / October 2002 with 150 participants across the manufacturing and public sectors; and
- San Francisco — expected 125 participants in the allied health sector.

Key features of the LiLA include:

- universal eligibility, where the program is targeted to low–income individuals through the choice of industry, but where the eligibility is universal so as to avoid any potential stigma attaching to participants;
- funds used for individual career-related needs;
- contributions from individual, matched by an employer up to an established cap (say $500) per annum on a one-for-one basis; and
- availability of education and careers advisors to assist employees in establishing their learning goals and assess available options.

CAEL has successfully enlisted a number of philanthropic foundations to provide financial support, as well as partners drawn from industry associations and local government.

The vision for a national policy program includes the following elements:

- tax exempt contributions to LiLAs for account holders;
- tax credits to employers for contributions to employee LiLA accounts;
- private management of accounts.

There is a desire to modify a range of existing legislative and policy programs to incorporate LiLAs rather than start from scratch.

Asset-Based Welfare: International Experiences[34]

This volume documents the range of asset based policies in operation in the US, Canada, Australia (potentially), and Sweden.

The volume addresses a number of key questions underlying policy decisions and thinking:

- what do we mean by assets?
- how do we make current asset policies more progressive?
- how is asset-based policy relevant to today's welfare challenges?
- how does it relate to existing social insurance systems?

Some of the design principles suggested in the volume include:

- inclusive and progressive;
- large and real;
- build on existing programmes;
- complement the safety net; and
- cover multiple sectors.

[34] Regan, Sue and Paxton, Will. Eds. (2001.) *Asset Based Welfare: International Experiences*. London: Institute for Public Policy