

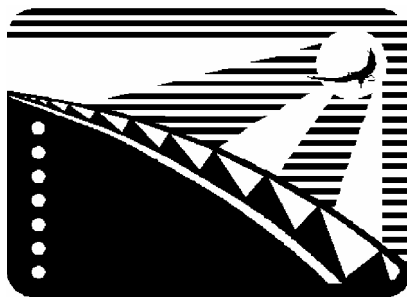
Assets for the Future: Saving for the Seventh Generation

The Tribal IDA Initiative Initial Report

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ASSETS FOR THE FUTURE: SAVING FOR THE SEVENTH GENERATION

I. Introduction

In the Spring of 1998, First Nations Development Institute released a request for full proposals (RFP) to fund tribes and Native organizations interested in establishing Individual Development Account (IDA) programs in Native communities. Similar to Individual Retirement Accounts (IRAs), Individual Development Accounts are designated savings accounts aimed at helping low-income individuals build their financial asset base. Individual contributions to the accounts are “matched” from federal, state, or private sources to augment their savings and provide incentives to save. IDA savings can be typically used for purchasing a home, education or training expenses, or capitalizing a small business. Individual savings are “matched” either through federal, state, or private sources as a means to assist in building financial assets within a community.

Fourteen applications were received, and five grants were awarded in the summer of 1998. Two grants of \$5,000 each were made to two tribes to investigate the feasibility of an IDA program in their communities. Three larger grants were made to one tribal program and two Native non-profit organizations to plan and implement an IDA program in three communities over a three-year period. These funds were primarily provided as match funds, although some operational support was included.

This report summarizes the experiences and lessons learned from the tribal IDA pilot sites after one full year of operation. The first section describes their programmatic and administrative features. Although relatively simple in concept, an IDA initiative requires a great deal of management and oversight. Putting together the individual components takes time and adjustment. The importance of planning for an IDA program, using and integrating existing services, and providing flexibility in establishing and implementing program parameters, are among the areas highlighted in this discussion. The second part of the report presents information on the program participants and their associated savings pattern. Although the number of participants is small, this initial analysis provides some insight into who is being served by the program and whether they are able to save.

Information for this report was collected in several ways. Two meetings of the project administrators were held in March 1999 and 2000 at the Corporation For Enterprise Development (CFED) annual IDA conferences. These one-day sessions provided an opportunity for the project staff to discuss the implementation of their projects, and the issues they had encountered. First Nations also conducted a visit to each site and met with program staff, board members and participants. Finally, written documentation from the projects were submitted and reviewed. Project administrators completed a mail survey as well. The small number of demonstration sites and participants means that while no firm conclusions can be drawn, a number of important observations can be made which may be better tested in the future, and lessons learned can be shared with other IDA programs.

II. Lessons Learned from Planning and Administering an IDA Initiative

The experience of the pilot sites demonstrates the need for sufficient planning time in developing an IDA program. Although the organization or tribe may provide many of the services for an IDA program, the particular components of the program absorb a great amount of administrative and managerial resources. Monitoring and oversight of the IDA accounts, developing relationships with the financial institution, providing training and one-one counseling to IDA participants require a great deal of coordination and integration.

Planning

In planning for an IDA program, program administrators identified several critical issues. The first is the importance of soliciting input from community members on the value and need for these services, as well as assisting in the design of the program itself. One program administrator noted, “[A] program could certainly be designed by people with experience in the community; however, community member input in the fine-tuning stage is critical. Planners and community members must find common priorities to design a successful program.” Project administrators employed several strategies for gathering community input, including holding public meetings, and conducting a community survey.

A second identified area is the need to educate tribal leadership. Not only may the tribal government be able to provide additional financial support, but their commitment to the program can increase its effectiveness. Several programs found it difficult to work without this support. As one program administrator noted, “... in dealing with a tribal government, you are having to deal with their mindset also. We must also compete with [other] interests because there is so much to deal with.” A lack of support within the tribal administration can prevent the initiative from moving forward.

Administration

Administration of an IDA initiative involves performing a wide variety of tasks, including monitoring and oversight, working with participants, forming partnerships with financial institutions, and coordinating training services. Although several programs initially staffed their initiative with part-time positions, it became evident that providing these services required at least one full-time staff person.

In addition to full-time staffing, each program established an advisory committee to assist in developing policies for the program. These committees serve as a link between the community, participants, program administrators, and tribal government agencies. In the case of the Native non-profit organizations, the Board of Directors serves as the advisory committee, while an interagency group oversees the tribally run program. Although participants are represented on the advisory committees, one program also attempted to establish a separate participant advisory group that could serve as peer mentors and provide the program assistance in improving the services provided. This effort has been hard to sustain, however.

Integration with Existing Services

Perhaps the most critical lesson that can be drawn from the experience of the pilot projects is the importance of integrating the IDA program with existing services. The IDA initiatives represented a variety of tribal entities: a tribal government agency, a state-wide Native nonprofit organization which targeted a specific reservation within its service area, and a Native microenterprise loan fund. In each case, the purpose of the initiative was related to the existing mission or services of the agency or organization. For example, one program administrator commented, “[We] already offered the educational components of an IDA program. We already had an entrepreneurial training program, housing counseling, economic literacy classes, and a partnership with a consumer credit counseling agency.” Another noted that one of the strengths of the program was that they could draw from an existing client base.

The ability to utilize existing resources and services alleviates some of the administrative burdens of an IDA initiative, and knowledge of the community can assist in the recruitment and improvement of current services. As one administrator summarized, “[It] would be very difficult to start this program from scratch. The additional resources that we can draw from when needed have been an important element of our program.”

III. Establishing the Parameters of an IDA Program

The parameters of an IDA initiative are based on the needs of the community, and each community has chosen to adopt different standards depending upon the population to be targeted as well as the individual savings goals. Program administrators have recognized that this process requires flexibility, and all have had to modify and revise their existing policies and procedures. In setting program parameters, an early issue was the need to direct efforts to those who had stable incomes. Although administrators initially saw the program as a means to assist welfare recipients, they have realized the need to focus on those with low, but steady income levels, especially in light of recruitment, retention, and implementation issues. The difficulty of serving individuals without regular sources of income has been a national challenge for IDA programs.¹

Participant Eligibility

Each program adopted different eligibility requirements depending upon the community population that was targeted. In two cases, income was defined as 200 percent of the national poverty guideline and in one case at 150 percent. In addition, two of the programs adopted employment guidelines, requiring participants to be working.

Participant Savings Goals

Each program allowed for different savings goals depending upon the program parameters and the availability of matching funds. For instance, one program chose to focus specifically on business lending, while another also included retirement as a savings option. The savings goals chosen by the programs include homeownership and home improvement, small business

¹ Center for Social Development, 2000.

development, education or job training for the participant or family members, and retirement. The objectives established by each program reflect the priorities of the participants and the needs of the community.

One issue that arose was whether to consider a vehicle as an asset. Without transportation, many individuals in rural areas are not able to seek employment or schooling. Although saving for a car was not an allowable savings goal in the demonstration sites, transportation needs are a persistent and legitimate concern that continue to be debated nationally.²

Participant Savings Rate

Providing flexibility in the amount that an individual can save each month allows individuals to save what they can afford. On the other hand, a required monthly deposit can encourage a “habit” of saving. Tribal IDA pilots adopted both approaches. Two of the initiatives require a minimum monthly deposit, while the third allows participants to deposit differing amounts each month. The total amount an individual can save is capped over a one or two year period. These caps vary between \$360 and \$600 over a one-year period.

One issue that has not yet been fully investigated is the impact of automatic payroll deductions on participant’s savings rate. While allowing payroll deductions provide participants flexibility and ensures that regular deposits are made, it may result in an increase in the number of withdrawals because individuals are unable to afford the loss of income on a regular basis.

Match Ratios

Choosing a match rate can be a real challenge. High match rates can encourage individuals to participate and allow assets to accumulate quickly. However, they require more match funding and may not assist participants in understanding the importance of saving. Low match rates can discourage participation even though they can require a greater commitment on the part of the participating individuals.

Each program has established different match rates according to the purpose and needs of their communities, as well as funding constraints. One program chose a 4:1 match rate as an increased savings incentive. Another program developed a sliding scale depending on each savings goal. Concerned about the length of time to reach the individual’s savings goal, one program has recently raised its match rate from 1:1 to 2:1. In each instance, the match ratio can serve as an incentive for the participants.

Holding of Accounts

² Saving for a car is a frequent discussion topic on the IDA listserv. One organization, for example, has chosen to establish “opportunity funds” to distinguish between savings for these types of items and “IDAs” for longer-term assets.

IDA accounts can be held solely by the individual, or held as joint accounts between the program administrator and individual, who are co-signers on the account. The pilot sites again chose to handle the accounts differently because the two non-profit organizations are co-signers on their accounts.

IDA Account Characteristics

Program administrators have been able to negotiate with banks to provide certain IDA account benefits. These include service fee waivers, lower minimum account balances, and higher interest rates. Such characteristics are important in reducing potential burdens on participants and encouraging savings. Participants also receive regular bank statements. To facilitate monitoring and reporting of the accounts, program administrators have established electronic reporting systems with the banks, whereby account information is automatically sent to the program administrators.

Training Requirements

Economic literacy training is a critical component of an IDA program. Participants are required to complete training on monthly budgeting, money management, financial investment, and debt/credit tracking. In addition, each program offers specific training related to a person's own savings goal. One program, for example, requires twenty hours of business training and the completion of a business plan. Training classes in business management, homeownership, career counseling, and investment options are also offered. In order to accommodate the work schedules of participants, classes are repeated several times.

The importance of the training component cannot be overemphasized. In fact, several program administrators have suggested that this is perhaps the most valuable component of an IDA initiative. On the other hand, administrators have noted that there may not be enough emphasis on training, and as a result the participants often see it as "just a requirement." The pilot sites have worked to strengthen this component of their program by choosing a variety of different trainers and curricula.³

IV. Other Implementation Issues

Beyond setting the parameters of the IDA program, administrators highlighted a number of additional issues that are important to implementing IDA programs. These included recruitment, withdrawals, and counseling.

Recruitment

³ One of the weaknesses with many financial literacy curriculums currently available seems to be the lack of an assessment component that measures the degree to which knowledge and skills are transferred. Few include any long-term tools to determine whether participants continue to follow the techniques they learn.

As with many IDA programs, an initial assumption made was that recruiting participants would be relatively easy; instead, several of the programs found it necessary to expend additional resources in advertising and community outreach. A program administrator commented, *“We could have been better prepared to market the program [and] allowed ourselves more time during the recruitment stage and cultivated additional applicants.”* At least one program found that meeting with community groups is a more effective means to soliciting interest (and applicants) than paid advertisements. Once established, however, “word of mouth” can become quite effective for recruitment. Maintaining a list of future participants can be important to filling unexpected openings or expanding the program.

Withdrawals

Each program has adopted withdrawal policies that allow two to four withdrawals in a 12-month period. Emergency withdrawals are allowed for medical care, transportation, eviction, or loss of employment. At least one program has experienced large withdrawals from the IDA accounts. While withdrawn funds have generally been redeposited, understanding the reasons behind these types of withdrawals can provide insight into the challenges that individuals face when trying to save. The withdrawal activity of these accounts also proved to be a learning experience for the bank, which had not expected that individuals would withdraw funds from these accounts. Addressing the specific circumstances of individuals and providing one-to-one counseling may minimize non-emergency withdrawals.

Counseling

An often overlooked component of an IDA program is individual counseling. One program administrator noted that this service can be critical in implementing an effective initiative. Each program has found that a great deal of time and effort needs to be spent working with participants on an individual basis.

V. Forming Collaborative Partnerships

As mentioned above, identifying additional partners for an IDA initiative is important. Two collaborative relationships are particularly important: (1) the partnership with the financial institution that holds the accounts, and (2) the trainers who provide educational information to the participants.

Establishing a Relationship with a Bank

Ideally, “shopping around” for a financial institution may ensure the most favorable IDA account terms and services for participants. Unfortunately, this is often very difficult to do in tribal communities because there are few financial entities. Each pilot site experienced some difficulty in finding a bank willing to partner with them. For example, one site was unable to open participant savings accounts for more than six months, because the local branch of a national bank was unfamiliar with IDAs. Only by opening a dialogue with personnel at the regional and national level was this situation resolved, and accounts were opened. Other sites found smaller local banks to work with. In one instance, the supporting financial institution is an Indian-owned bank.

In addition to educating financial institutions about IDAs, at least one pilot site found it necessary to assist in the development of a bank-client relationship. As the program administrator commented “*the staff had to personally approach the bank with the participants and help develop a trusting relationship between [the two].*” The creation of these relationships can be hampered if there are great physical distances between the bank and the community.

Partnering with Outside Training Organizations

The use of outside trainers can supplement in-house resources. Each pilot site has recruited organizations and individuals within the community to provide classes on economic literacy and asset management. One resource, utilized by all three programs, has been the local county extension service, which has provided educational resources and training services. The pilot sites have demonstrated great resourcefulness in bringing this component together. For example, one site has recruited a local investment advisor to provide investment and tax training.

VI. A Profile of the IDA Participants⁴

In general, program administrators overestimated the number of participants whom they could serve. Each of the two pilot sites have experienced significant rates of attrition. During the first year of operation, more than 40 individuals enrolled in the programs; however, after 15 months of operation, only 24 participants remained, yielding an attrition rate of more than 40 percent. Many of the participants left because of a change in life circumstances that precluded saving on a regular basis (e.g. medical accident, loss of employment, personal issues, etc.). Others were unable to fulfill the program requirements - either in meeting the savings requirements or attending classes - or lost interest. Although further research is necessary, a comparison of those who dropped and those who stayed in one program revealed no significant demographic differences between the two groups.

The information presented below is based on the 24 individuals who enrolled in two pilot sites during the first year of operation. The length of participation varies from 8 to 15 months. These individuals are considered “consistent savers.” Although the overall number of participants is small, an analysis of their savings patterns provides some insight into who is utilizing and benefiting from these IDA programs.

Participant Characteristics

The characteristics of the participants mirror those of the much larger “American Dream Demonstration” (ADD) Project.⁵ Specifically, the participants are overwhelmingly women (75 percent). The majority of participants are single or divorced, with only 21 percent of the participants married. Two-thirds of the households have children, indicating that the typical household is comprised of a single adult with children. The age of the participants range from 21 to 58, with a median age of 32.

In addition, IDA participants are “well-educated” with at least 77 percent graduating from high school or receiving a GED. This compares to the national figure of 66 percent for the American Indian population living in tribal areas.⁶ In addition, 37 percent have attended college. As would be expected, all the individuals are employed full-time with at least two individuals attending school as well.

⁴ Information presented in this section is based on two pilot sites. The third site is not continuing with the program.

⁵ Center for Social Development, 2000.

⁶ U.S. Census, 1990.

Although the tribal IDA participants have more education than the national American Indian population, the median income level of the participants is \$14,700 compared to a national median of \$19,600.⁷ However, only 37 percent have income levels below the national poverty rate, compared to a national rate of 50 percent for American Indians living in tribal areas as a whole.⁸

Table 1. IDA Participant Characteristics

Participant Characteristics			
% women	75	% working full time	92
% married	21	median monthly income	\$1,225
% households with children	67	% with a vehicle	87
% with at least a high school diploma or GED	77	% who own a house	25
median age	32	% who own a business	8
		% using bank services	75
(n=24)			

In terms of their current assets, the vast majority of IDA participants own a vehicle (87 percent), while the numbers of homeowners and business owners is much smaller (25 percent and 8 percent respectively). This compares to 68 percent of the ADD participants owning a vehicle, 16 percent owning a home and 12 percent having a business.⁹ However, the majority of participants currently use banking services. Of these participants, 62 percent have checking accounts and 46 percent have savings accounts. Only 25 percent are “unbanked.”

The profile of tribal IDA participants that emerges is similar to that of the larger ADD demonstration sites. Participants in ADD are more likely to be women in single-headed households with children, and have higher educational attainment than the general low-income population.¹⁰ In addition, ADD participants are more likely to have a relationship with a bank.¹¹ In comparison to the national American Indian population living in tribal areas, IDA participants are more likely to be women and have higher educational attainment. However, they have lower incomes.

Savings Goals

The 24 participants are saving towards five goals. These include buying a home, securing job training or education (either for themselves or family members), saving for retirement, establishing a small business, and repairing a home. The breakdown is as follows:

⁷ U.S. Census, 1990.

⁸ U.S. Census, 1990.

⁹ Center for Social Development, 2000.

¹⁰ Center for Social Development, 2000.

¹¹ Center for Social Development, 2000.

Table 2. IDA Program Participant Savings Goals

Savings Goals	
Home purchase	10
Job training/Education	8
Retirement	3
Small business	2
Home renovation	1

Savings Outcomes

The Center for Social Development at Washington University in St. Louis has developed a number of measures to analyze the patterns of saving behavior for IDA participants. These include looking at the participant savings rate, the average monthly deposits, and analyzing the regularity of deposits.

Table 3. Patterns of Savings Behavior

All Programs	Mean	Median	Min	Max	St Dev
Participant Savings	\$341.49	\$300.00	\$27.1	\$855.73	197.60
Average monthly deposit	\$30.34	\$30.20	\$1.8	\$91.86	19.60
Savings rate	.03	.02	.002	.15	.03
Deposit regularity	.86	.92	.54	1.00	.17
Deposit lumpiness	14.59	2.11	1.0	225.0	46.0
Proportion of savings goal	.82	.96	.04	1.8	.43

Based on these measures, the following patterns emerge for the tribal IDA participants.

- The total amount saved by the participants as of December 2000 is \$8,195.75. The mean participant savings amount is \$341.49.
- The average monthly savings deposit for all participants is \$30.34, although the account deposits range widely from \$1.80 to \$92.

These figures suggest that, in general, individuals are meeting the annual savings goals of the programs, and the average monthly deposit amount. However, there is a great deal of variation among participants. The low monthly deposits of some participants (n=4) indicate that these individuals are withdrawing substantial amounts of money. As a result, some accounts

experience widely fluctuating balances. In several instances, these withdrawals have been made up in subsequent months, while for others account balances have fallen rapidly. Overall, the average amount saved and the average monthly deposit are slightly higher than for the ADD demonstration sites.¹²

- The savings rate refers to the percentage of monthly household income saved (average monthly deposit divided by monthly household income). The median estimate of .02 means that the typical participant deposits 2 percent of their monthly income in their accounts. This figure is consistent with the ADD demonstration sites.

Although the numbers are very small, a comparison of the rate of savings for those with incomes above and below the poverty line does not reveal any significant differences. The comparison indicates that individuals with lower incomes are saving at the same rate as those with higher incomes.

Several additional measures reveal the pattern of deposits in IDA accounts.

- Deposit regularity measures the degree to which individuals are depositing money (regardless of the amount) on a regular basis. The median value of 0.92 indicates that a typical participant makes a deposit nine out of every 10 months. Forty-six percent of the participants have a ratio of 1, indicating that they are depositing every month. This is a positive figure that is actually higher than for the ADD demonstration sites as a whole. However, it may be due, in part, to the fact that payroll deductions are allowed in one program, resulting in automatic saving deposits.
- Deposit lumpiness refers to the degree to which individuals are depositing the same amount of money consistently into their accounts. The figure provides an indication of the variability of deposit amounts. The median value of 2.0 means that a typical individual is depositing twice the average monthly deposit. This figure is again consistent with the ADD findings, although a very high mean indicates that some accounts experience large deposits. This variation is consistent with the pattern of large withdrawals - and the associated repayments.
- Proportion of Savings Goal refers to whether a participant is saving the maximum allowable amount as determined by the program. The median estimate of 0.96 indicates that a typical participant is saving close to the eligible match amount provided by the program.

Although few in number, the results indicate that participants in the tribal IDA programs are managing to save - and save on a consistent and regular basis. In addition, the pattern of savings compares favorably with that of IDA participants nationally and demonstrates that such initiatives can assist tribal communities in building financial assets.

¹² Center for Social Development, January 2000.

The results also indicate areas for further review. As with the case of the larger ADD demonstration projects, tribal IDA programs seem to serve the “working” poor – that is, individuals and families with low but steady incomes. Whether IDA programs are effective tools for individuals with less stable sources of income remains an open question. In addition, more exploration is needed to explain the high level of attrition and some of the variation in savings patterns among the participants. It is expected that as these initiatives mature and the number of tribal IDA programs and participants grow, further explanations may be possible.

VII. Conclusion

Establishing an IDA initiative can be a major undertaking for a Native non-profit organization or a tribal government. Taking the time to create the programmatic structure, identify community partners and existing services, and developing a recruitment strategy are some of the “best practices” that can be drawn from the IDA pilot sites. Other critical elements of implementation include monitoring the accounts, and maintaining relationships with the participants, financial institutions, and training partners. The ability to be flexible and adaptable to specific community needs can increase a program’s effectiveness.

The experiences of the tribal IDA demonstration sites also indicate the potential of IDA initiatives, both in encouraging savings and educating community members about how to manage their financial assets. The initial findings indicate that despite challenges, IDA participants in these programs are saving on a consistent basis. As these programs mature, and additional programs develop in tribal communities, it will be possible to determine more fully the impact of these IDA initiatives.

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Appendix A

IDA Design Components

1. *Defining the objectives*

- What do you want to accomplish?
- Does an IDA program fit with your mission?
- Does the community support an IDA program?
- Is your tribal leadership supportive?

2. *Choosing a target population*

- How will you integrate the IDA program into your existing services?
- Can you draw from your existing client base?
- What is the eligibility criteria?

3. *Administrative and Financial Considerations*

- What are the staffing needs?
- Where is the match money coming from?
- Where is the funding for program operations coming from?
- How restrictive is the funding?

4. *Structuring the IDA program*

- What are the parameters of the program?
- What other resources are available for you to draw upon?
- Who will manage the IDA funds?
- Who will provide the training?

5. *Do you have strategy to:*

- Recruit and retain participants?
- Recruit community partners?
- Recruit funding sources?
- Evaluate the impact of the program?

Many of these questions are based on informational resources developed by the Women's Opportunities Resource Center, Philadelphia PA.