

# **Long-Term Impacts of Individual Development Accounts on Homeownership Among Baseline Renters: Evidence from a Randomized Experiment**

Michal Grinstein-Weiss  
Michael Sherraden  
William Gale  
William M. Rohe  
Mark Schreiner  
Clinton Key

## Executive Summary

How can public policy help low-income people improve their long-term economic prospects?

The United States has historically focused on a combination of publicly provided education, income maintenance, consumption support, and work incentives to help families maintain a minimum level of subsistence. In recent years, an additional approach has aimed to complement traditional policies by helping low-income households save and accumulate wealth.

Individual Development Accounts (IDAs) provide people with saving accounts in which withdrawals are matched if they are used for qualified purposes—for example, purchasing a home or furthering post-secondary education—and are designed to help low-income people accumulate wealth (Sherraden 1991). From 1999 through 2008, more than 50,000 IDAs were opened at 544 project sites through the federal Assets for Independence Program, which provided grants to community-based organizations and local governments (U.S. Department of Health and Human Services 2010). Variants of IDAs are also in place or under consideration in numerous other countries, as are matched saving accounts for children (Loke and Sherraden 2009; Deshpande and Zimmerman 2010).

Previous experimental research on IDAs is limited. In *learn\$ave*, a randomized IDA experiment in Canada starting in 2001, IDAs had positive impacts on post-secondary education and small-business start-ups, two of the qualified uses of contributions in that program (Leckie et al. 2010). The only randomized experiment with IDAs in the United States took place in Tulsa, Oklahoma starting in 1998. Baseline renters who were eligible to participate in that program had, at the end of the program in 2003, a 7 percentage point higher homeownership rate compared to those in the control group. Among renters living in unsubsidized housing at baseline, the impact was 11 percentage points (Grinstein-Weiss et al. 2008; Mills et al. 2008a).

These results can be described as short-term impacts. Participants had three years to save in their IDAs, and another six months to use those savings for qualified purposes. Longer-term analysis is important, however, for at least two reasons. First, longer-term effects are the ultimate goal of policy interventions designed to increase saving. Second, there is no experimental study on the long-term effects of IDAs on homeownership and, indeed, very little long-term experimental evidence regarding the efficacy of saving policies in general. Analysis of other (non-saving) policies has shown that long-term effects can be stronger or weaker than short-term effects.

For IDAs, the long-term effects could exceed the short-term impacts for several reasons. Saving for a down payment may require more than three years, especially for low-income households. Alternatively, people might initially use the IDA to invest in education, in which case their homeownership rates may not be affected positively until that education translates into higher incomes several years after the IDA experiment. Likewise, the cumulative effects of financial education or the impacts of saving and increased wealth (as posited by Sherraden 1991) might spur members of the treatment group to lasting gains relative to the controls after the

program ended in 2003.

On the other hand, the presence of strong intertemporal substitution patterns in response to the timing incentive embedded in the Tulsa IDA program could make the long-term effects smaller than the short-term effects. Specifically, treatment group members had incentives to purchase homes before the end of 2003 (to receive a 2:1 match) while control group members had incentives to delay home purchases until 2004 (when their release from the experiment allowed them to be eligible for a variety of home-buyer assistance programs offered by the community organization that implemented the experiment in Tulsa).

This paper examines the long-term effects of the Tulsa IDA program. Using data from a survey of treatment and control group members administered about 10 years after the start of the experiment and about six years after the experiment ended, we re-examine the impact of the Tulsa IDA on homeownership rates and related issues, focusing on two groups: all households who rented at baseline (“all renters”) and households who rented at baseline and were living in unsubsidized housing (“unsubsidized renters”). Unsubsidized renters are a subset of all renters. These are the two groups that had the largest treatment effects on homeownership as of 2003, and, as renters at the beginning of the program, they are the sample members who would naturally have been most attracted to a program offering a 2:1 matching rate for downpayments.

We present several main findings. First, the Tulsa IDA program had an economically small and not statistically significant effect on the 2009 rate of homeownership. Second, the control group caught up to the treatment group very quickly after the experiment ended in 2003. These results, combined with earlier results showing positive and significant impacts on homeownership through 2003, are consistent with intertemporal substitution on the part of sample members in response to the timing incentives for home purchase embedded in the

program. Third, despite the homeownership impact as of 2003, the Tulsa IDA had no economically or statistically significant impact on the number of years in which respondents reported owning a home during the 1998–2009 period. Fourth, the Tulsa IDA had no economically or statistically significant impact as of 2009 on a variety of home-related outcomes, including house value, mortgage debt, the prevalence of fixed-rate versus variable-rate loans, late payments, or foreclosure activity.

Several caveats are appropriate in interpreting these findings. First, the results imply that a three-year Tulsa IDA program had no lasting impact on ten-year homeownership patterns, but do not speak to the effects of a lifelong and permanent IDA program, which was originally proposed by Sherraden (1991). Second, while the sample members were randomized into treatment and control groups, several issues may affect the generalizability of the results. For example, sample members were not a random cross-section of low-income households. In particular, we show that between 1998 and 2009, homeownership rates increased dramatically for baseline renters in both the treatment and control groups. This result does not measure the impact of the Tulsa IDA program; rather, it speaks to the importance of having a randomized control group to account for the non-random selection of participants into the overall IDA experiment and for any location-specific influences on homeownership. Moreover, housing costs, the proportion of sub-prime loans, and both delinquency and foreclosure rates in Tulsa were lower than the respective national figures during the study period.

The analysis and results in this paper bear on several key discussions in economics. First, besides providing the first evidence on long-term effects of a three-year IDA program on homeownership, this is the first study of a randomized experiment (to our knowledge) to examine long-term effects of three-year matching subsidies on saving behavior, despite a large

literature on the possible effects of billions of dollars of annual public tax expenditure for subsidies for private saving (Office of Management and Budget 2011). Second, the exogenous assignment of treatment status in the current paper creates a rare experiment on the impact on saving subsidies, free of the biases that arise from non-random selection.

Third, the magnitude of the intertemporal elasticity of substitution in consumption is a key question for a number of issues in economics (Hall 1988). While we cannot estimate the overall elasticity because only one component of saving was subsidized in the study, our results nevertheless point to clear patterns of intertemporal substitution, given the timing incentives in the program. Fourth, the paper adds to the literature on the impact of matching contributions on saving behavior (see for example, Duflo et al. 2006, Saez 2009, and Engelhardt and Kumar 2006).

Fifth, although it is not exclusively a first-time home-buyers program, the Tulsa IDA program provided strong incentives for sample members to accumulate downpayments. This subsidy created standard income and substitution effects and could be reflected in many different dimensions over which households can adjust behavior in the face of a change in rate of return on saving for housing, for example, the timing of the purchase, the size of the house, and the loan-to-value ratio (Dietz and Haurin 2003). Engelhardt (1996, 1997) finds strong effects of a Canadian first-time home-buyer's tax subsidy, but there is little evidence from the United States.

## REFERENCES

- Deshpande, Rani, and Jamie M. Zimmerman**, eds. 2010. "Youth Savings in Developing Countries: Trends in Practice, Gaps in Knowledge." A Report of the YouthSave Consortium. <http://csd.wustl.edu/Publications/Documents/YouthSavingsMay2010.pdf>
- Dietz, Robert D., and Donald R. Haurin**. 2003. "The Social and Private Micro-level Consequences of Homeownership." *Journal of Urban Economics* 54: 401-50.
- Duflo, Esther, William G. Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez**. 2006. "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block." *Quarterly Journal of Economics* 121(4): 1311-46.
- Engelhardt, Gary V.** 1996. "Tax Subsidies and Household Saving: Evidence from Canada." *Quarterly Journal of Economics* 111(4): 1237-68.
- . 1997. "Do Targeted Saving Incentives for Homeownership Work? The Canadian Experience." *Journal of Housing Research* 8(2): 225-48.
- Engelhardt, Gary V., and Anil Kumar**. 2007. "Employer Matching and 401(k) Saving: Evidence from the Health and Retirement Study." *Journal of Public Economics* 91(10): 1920-43.
- Grinstein-Weiss, Michal, Jung-Sook Lee, Johanna K. P. Greeson, Chang-Keun Han, Yeong H. Yeo, and Kate Irish**. 2008. "Fostering Low-Income Homeownership through Individual Development Accounts: A Longitudinal, Randomized Experiment." *Housing Policy Debate* 19(4): 711-39.
- Hall, Robert E.** 1988. "Intertemporal Substitution in Consumption." *Journal of Political Economy* 96(2): 339-57.
- Leckie, Norm, Taylor Shek-Wai Hui, Doug Tattrie, Jennifer Robson, and Jean-Pierre Voyer**. 2010. *learn\$ave Individual Development Accounts Project: Final Report*. Ottawa: Social Research and Demonstration Corporation. [http://www.srdc.org/uploads/learnSave\\_final\\_EN.pdf](http://www.srdc.org/uploads/learnSave_final_EN.pdf)
- Loke, Vernon, and Michael Sherraden**. 2009. "Building Assets from Birth: A Global Comparison of Child Development Account Policies." *International Journal of Social Welfare* 18: 119-29.
- Mills, Gregory, William G. Gale, Rhiannon Patterson, Gary V. Engelhardt, Michael D. Eriksen, and Emil Apostolov**. 2008. "Effects of Individual Development Accounts on Asset Purchases and Saving Behavior: Evidence from a Controlled Experiment." *Journal of Public Economics* 92: 1509-30.
- Office of Management and Budget**. 2011. *Budget of the United States Government, FY 2012*:

*Analytical Perspectives*. Washington, DC: GPO.  
<http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/spec.pdf>

**Sherraden, Michael.** 1991. *Assets and the Poor: A New American Welfare Policy*. Armonk, NY: M.E. Sharpe.

**U.S. Department of Health and Human Services,** Administration for Children and Families, Office of Community Services. 2010. "Report to Congress: Assets for Independence Program: Status at the Conclusion of the Ninth Year."  
[http://www.acf.hhs.gov/programs/ocs/afi/Final\\_AFI\\_9th\\_Report.pdf](http://www.acf.hhs.gov/programs/ocs/afi/Final_AFI_9th_Report.pdf)