



# Policy Points

A publication of the Southern Good Faith Fund Public Policy program

## Arkansas' Individual Development Account (IDA) Program: Survey Shows Broad Impact

A survey of Individual Development Account (IDA) program graduates in Arkansas was recently conducted by researchers for the Institute for Economic Advancement at the University of Arkansas at Little Rock College of Business. This brief presents the results of the survey, which provide a view of the impact of the IDA program in Arkansas and the many benefits it provides to program participants. Ways in which the program can be improved to provide more Arkansans with asset-building opportunities also are highlighted.

The survey's findings, summarized below, indicate the significant impact the IDA program is having on asset accumulation among low-income households, from increased homeownership and small business ownership to postsecondary educational opportunities. The findings also suggest some broader impacts of the IDA program, such as encouraging and sustaining savings, increasing the use of traditional banking services, and promoting greater economic self-sufficiency and less reliance on public assistance of various forms.

Remarkably, more than half of the survey participants who had received public assistance when they enrolled in the program no longer received such assistance when they graduated. More than two-thirds of survey participants said they earned a savings match of more than \$1,000.

### IDs in Arkansas: A Primer

Arkansas is one of 26 states that operate a state-funded IDA program. In Arkansas, the funding source is federal Temporary Assistance for Needy Families (TANF) dollars. TANF funds for IDs are appropriated to the Arkansas Department of Workforce Services with the approval of the

Arkansas Transitional Employment Assistance (TEA) Board.

IDs are matched savings accounts to help low-income individuals and families establish a pattern of regular savings for the purchase of one of three allowable assets. For every \$1 saved a match of \$3 is made to purchase a home or make improvements on an existing home; start or expand a business; or pay for postsecondary education.

Arkansas' IDA program was enacted by Act 1217 of 1999. As of April 30, 2006, under the IDA program:

- 570 participants had saved \$566,306 and used \$1,653,987 in matching funds to purchase assets;
- 117 homes had been purchased leveraging a total of \$6,853,516 in mortgage loans;
- 228 homes had been renovated;
- 154 people had accessed postsecondary education; and
- 71 people had started a new business or invested in an existing business.

There are income and other eligibility guidelines to participate in the program. Generally, a family is eligible to participate in Arkansas' IDA program if income is 185 percent or less of the federal poverty level.

Under current guidelines, 185 percent of the federal poverty level is \$30,710 a year for a family of three and \$37,000 for a family of four.<sup>1</sup>

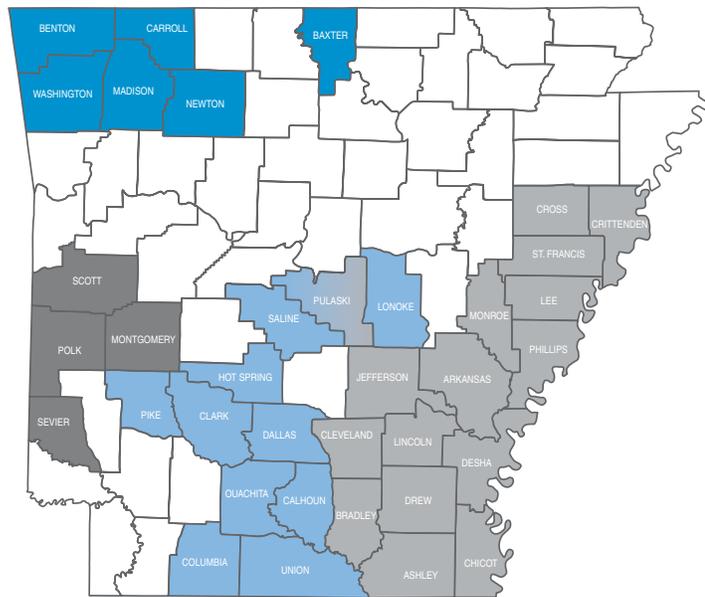
Other criteria include attending financial education courses. There is a \$2,000 maximum match for individuals and a \$4,000 maximum match for a household. A participating

household can have one house, one car, and no more than \$10,000 in other assets.

Four nonprofit organizations are providers in the state's IDA program, offering IDAs in a collective 36 of the state's 75 counties.

The participating providers are:

- **Central Arkansas Development Council** offers IDAs in Calhoun, Clark, Columbia, Dallas, Hot Spring, Lonoke, Ouachita, Pike, Pulaski, Saline, and Union counties.
- **Economic Opportunity Agency of Washington County** offers IDAs in Baxter, Benton, Carroll, Madison, Newton, and Washington counties.
- **Healthy Connections Inc.** offers IDAs in Montgomery, Polk, Scott, and Sevier counties.
- **Southern Good Faith Fund** offers IDAs in Arkansas, Ashley, Bradley, Chicot, Cleveland, Crittenden, Cross, Desha, Drew, Jefferson, Lee, Lincoln, Monroe, Phillips, Pulaski, and St. Francis counties.



- Central Arkansas Development Council
- Economic Opportunity Agency of Washington County
- Healthy Connections
- Southern Good Faith Fund
- Pulaski County is served by both Central Arkansas Development Council and Southern Good Faith Fund

Currently, the state of Arkansas provides an annual TANF appropriation for IDAs of \$550,000.

## About the survey

### Methodology

An initial list of 446 names and phone numbers of IDA graduates was the starting point for the survey. A total of 174 telephone numbers were determined to be actual working numbers of IDA graduates. Ultimately, 89 interviews were completed.

The survey participants included graduates of IDA programs at Central Arkansas Development Council, the Economic Opportunity Agency, and Southern Good Faith Fund. The methodology for the interviews was jointly developed by UALR's Institute for Economic Advancement and Southern Good Faith Fund. Interviews were conducted between May 18, 2006, and May 25, 2006.

## Summary of key findings

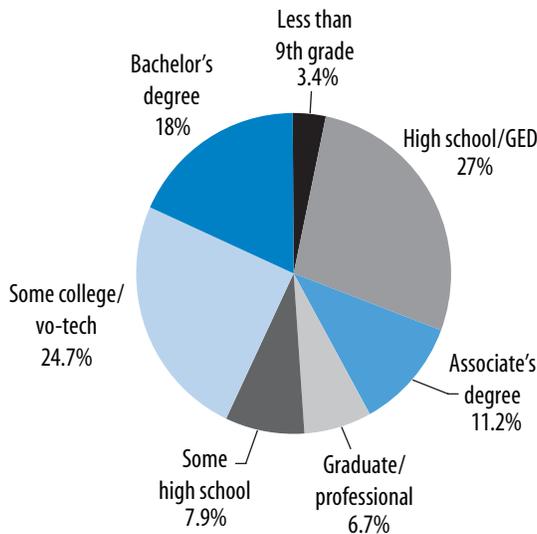
### Demographics

The following represents a demographic snapshot of IDA survey participants. When totals do not equal 100 percent, a certain percentage of participants declined to answer the question:

- **Gender:** 76.4 percent of survey participants are female and 23.6 percent are male.
- **Children:** 67.4 percent said they currently have children under 18, while 32.6 percent said they do not.
- **Race:** 64 percent are black, 32.6 percent white, and 2.2 percent list another race.
- **Annual income:** The following chart indicates that more than two-thirds of survey participants (69.6 percent) currently earn less than \$35,000 a year.

Less than \$10,000	11.2%
\$10,000 - \$14,999	12.4%
\$15,000 - \$24,999	20.2%
\$25,000 - \$34,999	25.8%
\$35,000 - \$49,999	15.7%
\$50,000 - \$74,999	3.4%

- **Employment:** 73.1 percent are currently employed—57.3 percent full-time; 3.4 percent part time; and 12.4 percent self-employed. Of those who said they are not employed, 9 percent said they are disabled; 4.5 percent retired; 4.5 percent homemakers; 4.5 percent unemployed; and 3.4 percent students.
- **Marital status:** 50.6 percent are married; 24.7 percent divorced; 12.4 percent have never married; 5.6 percent are widowed; 3.4 percent are separated; and 2.2 percent are living as married.
- **Age:** 66.3 percent are ages 25 to 44; 30.3 percent are ages 45 to 64; and 3.4 percent are 65 or older.
- **Internet access:** 67.4 percent have access to the Internet, while 32.6 percent do not.
- **Housing:** 88.8 percent live in single-family housing, with 4.5 percent each in apartments or mobile homes, and 2.2 percent in a duplex.
- **Educational attainment:** The following chart shows the highest level of education attained by survey participants.



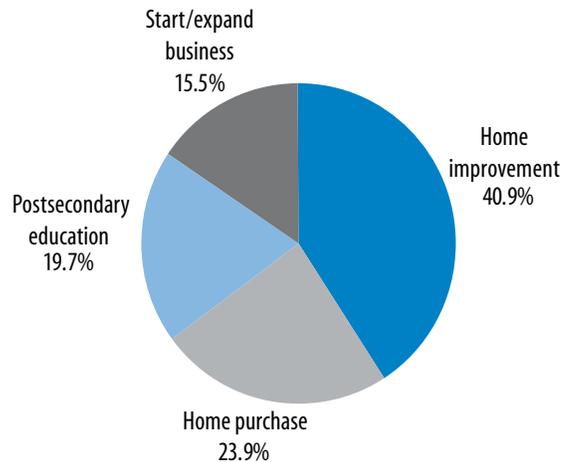
### Summary analysis of survey participant population

Most survey participants are African-American, female, and married with children under 18. Almost three-quarters are employed, and more than two-thirds earn less than \$35,000 a year. Arkansas' median household income is \$34,246 according to the most recently compiled data. <sup>2</sup>

In summary, the survey suggests working parents earning very low incomes are the primary beneficiaries of IDAs. This is a population that often struggles to develop assets without assistance or incentives to help, which is precisely what IDAs are designed to provide. This is a population that is able to accumulate assets, as the survey results provided below underscore, if provided the right assistance or incentives.

### Types of asset purchases

The following chart shows the different types of assets purchased by survey participants. When totals do not equal 100 percent, a certain percentage of participants declined to answer the question:



The most common type of asset purchase was **home improvement** (40.9 percent of respondents). Improvements included kitchen remodeling; a new roof; insulating windows and doors; and electrical rewiring.

**Home purchase** was the next most common asset purchase (23.9 percent). All of these respondents stated that they still owned the home. The stated value of the home ranged as follows:

Less than \$30,000	18.8%
\$30,000-\$39,999	6.3%
\$40,000-\$49,999	6.3%
\$50,000-\$69,999	25.0%
\$70,000-\$99,999	25.0%
\$100,000 or more	12.5%

The third most common asset purchase was **postsecondary education** (19.7 percent). Of the respondents who said they used IDA funds to attend school, 53.8 percent said they personally had attended a postsecondary institution, while 30.8 percent said a spouse or a child had attended as a result of the funds.

Follow up questions indicated that 63.6 percent of the respondents in this category were still in school, with estimated graduation dates ranging from May 2006 to May 2011. The balance of respondents said that they or a family member had graduated.

**Starting or expanding a business** was the asset purchased by 15.5 percent of survey participants. The types of businesses started or expanded included car repair/garage; janitorial; child care; photography; electronics; barbershop; and recording studio. All of these respondents stated that they still own the business.

### Suggested broader impact of IDA participation

The kinds of assets purchased are the most tangible impact of IDAs. However, IDAs were envisioned to have a broader, long-term impact on individual financial behavior and economic well-being. The survey’s findings suggest that IDA participants in Arkansas are experiencing these broader impacts. Some relevant findings include:

- **Less reliance on public assistance.** 22.5 percent of those surveyed received public assistance when they enrolled in the IDA program. The most frequently cited type of public assistance was food stamps. More than half (55 percent) of program graduates who had previously received public assistance no longer receive such assistance.

- **Increased use of traditional banking services.** Survey respondents reported using more financial services after participating in the IDA program than before.

The following table gives a snapshot of the proportion of survey respondents who used various banking services before and after participation in the IDA program:

Service	Before IDA participation	After IDA participation
Checking account	73%	77.5%
Home mortgage	19.1%	36%
Debit card	27%	43.8%
Credit card	25.8%	36%
Car loan	15.7%	25.8%
Certificate of deposit	5.6%	10.1%

These findings suggest that IDAs are increasing the use of traditional financial services. Of course, long-term financial security is built upon access to basic financial services such as checking accounts.

### Other interesting findings

Survey participants also were asked about their use of other financial services. Some interesting findings include:

- Only 3 percent of respondents reported using non-traditional banking services such as cash for title, payday loans, or check cashing not located at a bank.
- 31.5 percent of respondents reported using tax preparation assistance from companies such as H & R Block and Liberty Tax Service.

Finally, survey participants also were asked a series of questions on how the IDA program might be improved. Some key findings included:

- An overwhelming majority (98.9 percent) of respondents said that they would recommend the IDA program to a friend or a relative.
- The most common suggestion to improve the program among respondents was more advertising and outreach to let others know about the opportunities offered by IDAs.

## Summary of findings and policy implications

The findings presented above from a survey of recent IDA program graduates further demonstrate that IDAs are an effective means of assisting low-income working families in building assets. These findings are consistent with a national body of research.<sup>3</sup>

The success of IDAs proves that low-income families, when offered a match incentive, will save money toward the purchase of major assets including a home, a business, or a college education.

The demographics of the survey participants indicate that IDAs are mostly serving low-income working parents, precisely the population that struggles to build assets and needs to and can take advantage of incentives that help facilitate the acquisition of assets.

Beyond helping low-income families acquire tangible assets, the survey findings suggest a potentially broader impact on IDA participants. One such impact is increased self-sufficiency, or in other words, less use of public assistance of various sorts. Another impact is increased use of a variety of traditional banking services, which are the cornerstone of long-term financial security.

In summary, IDAs produce a variety of positive outcomes for participants, from the acquisition of tangible assets to changes in financial behavior and overall economic well-being.

Despite these positive impacts, IDAs are not accessible statewide or in every county, which was the intent of the Arkansas Legislature when it created the state IDA program in 1999.

Currently, only four organizations offer TANF-funded IDA accounts around the state, covering only 36 of the state's 75 counties.

The clear policy implication of this limited accessibility is that more funding for IDAs needs to be provided so that IDAs are available in every county of the state.

## Policy recommendations

To expand IDA coverage to all 75 counties in Arkansas, several policy changes are needed:

- **Increase TANF funding for IDAs.** Currently, the state provides an annual TANF appropriation for IDAs of \$550,000. This amount should be at least doubled initially so that the remaining 39 counties can be reached.

The Arkansas Assets Coalition, whose organizing members are the four providers under the state's IDA program, has recruited numerous organizations that have expressed an interest in providing IDAs should more funding become available. Also, all of the existing providers could expand their reach with additional funding; several providers currently have participant waiting lists.

- **Increase the percentage of TANF IDA funds that can be used for program operations.** Currently, TANF rules allow 20 percent of funds to be spent on program operation. This percentage does not allow sufficient operational funding for every IDA program currently operating in Arkansas; all of them are subsidizing their operations with other funding. An increase is needed for these programs to maintain current operations, and certainly to expand operations which likely will be needed to expand IDA access to every county in the state.

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## Endnotes

1. 2006 U.S. Department of Health and Human Services Federal Poverty Guidelines, accessed at <http://aspe.hhs.gov/poverty/06poverty.shtml>
2. Source: U.S. Census Bureau, 2003 American Community Survey.
3. There are numerous reports and studies documenting the success of IDAs nationally. Examples include *Promoting Economic Security for Working Families: State Asset-Building Initiatives*, McCulloch, H., July 2005, accessed at <http://content.knowledgeplex.org/kp2/cache/documents/106925.pdf>; *Building Assets: A Report on the Asset-Development and IDA Field*, CFED, December 2001, accessed at <http://www.cfed.org/publications/Building%20Assets%20-%20second%20edition.pdf>; and *Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts*, Center for Social Development, October 2002, accessed at <http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf>

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