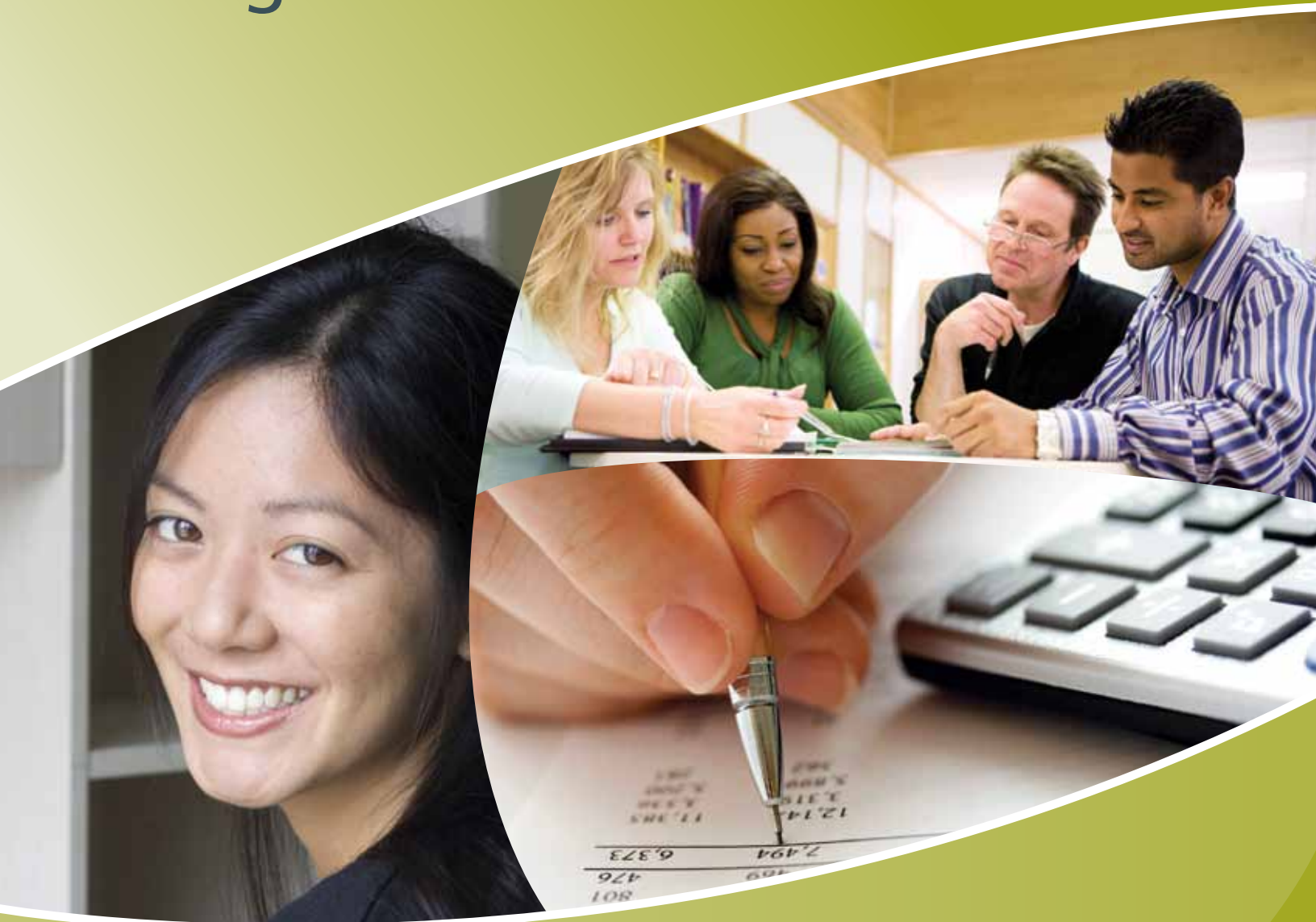


Learning *to* Save, Saving *to* Learn

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SOCIAL RESEARCH
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learn\$ave

Individual Development Accounts Project

Final Report: *Highlights*

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The Social Research and Demonstration Corporation (SRDC) is a non-profit research organization, created specifically to develop, field test, and rigorously evaluate new programs. SRDC's two-part mission is to help policy-makers and practitioners identify policies and programs that improve the wellbeing of all Canadians, with a special concern for the effects on the disadvantaged, and to raise the standards of evidence that are used in assessing these policies.

Since its establishment in December 1991, SRDC has completed over 100 projects and studies for various federal and provincial departments, municipalities, as well as other public and non-profit organizations. SRDC has offices located in Ottawa, Toronto, and Vancouver.

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Key findings and policy implications

The *learn\$ave* research and demonstration project was primarily designed to test how effective a matched savings incentive would be in inducing low-income adults to save for and participate in adult education and training. The idea was conceived by Social and Enterprise Development Innovations (SEDI) based on the asset-building concept of Individual Development Accounts (IDAs), pioneered in the early 1990s in the United States.

IDAs have been used to combat poverty by encouraging low-income people to acquire productive assets ranging from a home or a vehicle, to micro-enterprise, education, and retirement savings. In general, IDAs work as regular savings accounts, with account holders receiving a matching grant for every dollar they deposit. To benefit from the matching grant, savings have to be used for the acquisition of eligible assets. In *learn\$ave*, the emphasis was put on human capital. The matching grant could be used for education, training, or starting a small business only.

Governments in Canada have been looking for ways to encourage Canadians to invest in their own human capital, recognizing that, in today's economy, people who lack sufficient education and basic skills are exposing themselves to lower earnings and higher risk of unemployment. Human Resources and Skills Development Canada took interest in the *learn\$ave* model thinking that low-income Canadians could perhaps benefit from stronger incentives to enrol in further education. However, the promise of IDAs, both in the U.S. and Canada, was largely unproven in the early 2000s. Hence, a demonstration project to rigorously evaluate IDAs was implemented.

In the *learn\$ave* IDA, participants received \$3 in virtual credits for every dollar they put aside, up to \$1,500 over a three-year period — meaning they could accumulate a maximum of \$6,000 to be used for education, training, or a small business start-up. To join the project, applicants typically had to have household income that amounted to no more than 120% of the Low-income Cut-off, had to have no more than \$3,000 in household assets, and could not be engaged in full-time studies.

The project was delivered in 10 communities representing a mix of large- and medium-sized urban areas and rural communities. At three of the sites (Halifax, Toronto, and Vancouver), the project was implemented using an experimental design with three different groups: a program group receiving the matched credits only; a program group receiving financial literacy training and enhanced case management supports in addition to the matched credits; and a control group made up of participants not receiving any credits or ancillary services. Some 4,800 Canadians participated in the study across all *learn\$ave* sites, with 3,583 participants in the experiment.

To estimate impacts, the outcomes of the two groups of participants receiving program benefits were compared to those of the control group. The control group represented the counterfactual, i.e., what program group members would have done if they had not participated in this intervention. As individuals were randomly assigned to the groups, they were socio-demographically similar and the differences in outcomes between the groups could then be ascribed to *learn\$ave*. This is considered to be the best way of measuring incremental impacts of a program or intervention, as opposed to the traditional program evaluation approach of using simple pre- and post-comparisons of outcomes.

The *learn\$ave* demonstration project is unique and noteworthy in several ways. It is one of a handful of innovative social program ideas that have been submitted to rigorous tests in Canada over the last two decades. *learn\$ave* is also one of the few experiments worldwide aimed at evaluating the effectiveness of IDAs. In addition, the project provided the opportunity to test the contribution of financial literacy training over and above the use of financial incentive to save. Lessons learned throughout the life of the project constitute a rich body of information and insights for any public authority or non-profit organization that is considering the introduction of similar approaches to assist low-income or low-skilled individuals.

Design, implementation, and delivery

Recruitment of participants and the front line delivery of services were the responsibility of local non-profit organizations in each site. Recruitment proved to be difficult. It took about two years for the targeted number of participants to be reached. A variety of means was used to reach the target population, but word of mouth was the most frequently identified way that people heard about *learn\$ave*.

Implication. If an IDA program like *learn\$ave* were offered nationwide, take-up would be slow at first. It would take considerable time and a variety of approaches to inform and attract the target population and build a track record, which is typically the case for any new program. A national campaign extolling the benefits of participation in education might have helped *learn\$ave* reach its target earlier by increasing the low-income public's comfort with the concept of asset-building.

The program was attractive to a subset of the target population: those already disposed toward education. In general, participants were more likely than the low-income population to be university degree holders (55% versus 20% for the overall low-income population), new immigrants (55% versus 25%) or employed (66% versus 55%). This should not have come as a surprise given that people for whom education had already been part of their lives were more likely to be interested in further learning and, therefore, to sign up for a program like *learn\$ave*. Evidence gathered in preparation for *learn\$ave*, and during the project itself, reveals that while low-income individuals may value education in general, many do not see it as a viable option for them personally, likely because of negative past experiences or life constraints.

Implication. A program like *learn\$ave* that is designed to promote education enrolment should appeal mainly to those already inclined toward increasing their human capital and getting ahead. If the program objectives were to be broadened beyond the acquisition of human capital, allowing for additional types of asset acquisition as is the case for most IDAs implemented thus far in the U.S., take-up among the target population would no doubt widen.

Community-based organizations played an important role in reaching the target clientele and supporting it throughout the process. This was particularly true in providing assistance to participants at the sign-up and cash-out stages. It has been suggested that more efficient IDA program delivery could be achieved if financial institutions or the income tax system were put at the centre of the delivery process, in lieu of community organizations. However, the implementation and service delivery experience with *learn\$ave* suggests an irreducible need for a basic level of support and personalized service that cannot be found through the income tax system alone and would be challenging to deliver through mainstream financial institutions.

Implication. This is not to suggest that efficiency gains cannot be realized by streamlining the delivery and management processes. For instance, bundling the IDA offer with the information systems associated with existing social programs could facilitate sign-up by generating a pool to recruit individuals, by reducing the need to check certain eligibility criteria, and by providing data already gathered by the host program. Permitting electronic deposits into the IDA and automatic transfers from other income sources could also be attractive to participants. The debates around the best IDA delivery process should be less about which party is best placed among government, community organizations, or financial institutions to deliver such programs, and more about how to achieve the most efficient combination of roles and responsibilities.

Saving outcomes

learn\$ave participants, on average, made significant use of the accounts and financial incentives offered by the project. Nearly all of them (93%) opened an account and made savings. Average deposits amounted to about \$1,100 over three years. Of those who saved and met the program requirements, some 20% never took advantage of the matched credits, that is, they did not enrol in education or start a small business. For one reason or another, those participants changed their mind or their plans along the way. At the other extreme, about one-quarter of all participants took full advantage of the program to earn their credits in less than 12 months; many of them might well have been able to do so without *learn\$ave* assistance.

Savings and matched credit use did not vary much by income and financial constraints, suggesting that those at the lowest income level and with the greatest financial difficulties were no less able to save than others. Furthermore, the project showed that participants altered their household spending and other expenditure patterns to accumulate their IDA savings. They did so without incurring undue financial hardship, which is a distinct risk when people with scarce resources are offered a generous saving subsidy.

Implication. Low-income Canadians, even those on income assistance, can save with the right incentives. This finding contrasts with concerns expressed by critics of asset-building approaches that low-income populations do not have resources to allow any savings at all; if they do save, they would reduce their consumption of necessary goods and endure hardship as a consequence.

The *learn\$ave* IDA program had positive impacts on participant's budgeting and saving behaviour. For example, *learn\$ave* increased the percentage of individuals who set a budget from 49% for the control group to 57% for the program group receiving the matching grants and the financial training and case management services. As well, the proportion of participants who saved regularly went up from 35% in the control group to 41% in the program group. Levels of comfort dealing with financial institutions were also raised.

Implication. A matched saving program can be effective in promoting more regular saving behaviour and financial integration among low-income people. This was accomplished likely through the program requirements to open and make deposits in an actual bank or credit union and to save a minimum monthly amount for 12 months to qualify for credits. Similar requirements should be integral to any future IDA program.

Differences in the saving match rate, which varied from 2:1 to 5:1 across the sites, indicated that more generous matching grants tended to increase saving regularity and the amount saved, though at a declining rate past a 3 to 1 matching rate. Increasing the match cap (the maximum amount qualifying for the saving match) also positively affected the amount saved. Reducing the length of the saving period (the period during which IDA savings qualified for matches) had a positive impact on saving regularity but had no influence on the savings level.

Implication. Program parameters play an important role on performance. Raising the saving match rate past 3:1 would have diminishing returns in terms of increasing savings in individual accounts. Also, it may be possible to reduce the saving period with few implications for total amounts of savings realized.

One of the original ideas behind the concept of asset-building initiatives like *learn\$ave* is that the accumulation of assets confers on holders a number of financial and psychological benefits that eventually enable them to enjoy greater economic well-being. While *learn\$ave* had a positive effect on participants' life satisfaction, no impacts were recorded on average net worth. Indeed, *learn\$ave* program groups increased their financial assets at the beginning of the project period but the difference in financial assets between the program groups and control group had disappeared by the end.

Implication. It is important to note that these measurements were taken only six months after the project ended. They did not take account of potential longer term impacts that increased education could have on life satisfaction or assets accumulation. As such, the *learn\$ave* demonstration project was not designed to be a full test of IDAs as a means of asset accumulation. The main focus had always been on increasing education enrolment and micro-enterprise start-ups.

Impacts on education enrolment and small-business start-ups

The major objective of the *learn\$ave* IDA — to encourage low-income people to participate in education training — was attained. Enrolment in education and training programs leading to a credential was increased by 13 percentage points for the program group that received the matched saving credits and ancillary services of financial management training and enhanced case management. Close to 69% of that group enrolled in education programs, mostly in college and university, compared to 56% of those belonging to the control group. In relative terms, this translates into a 23% increase over what the participants would have done in the absence of *learn\$ave*.

These impacts were widespread, occurring for those who, at baseline, were at the lowest and highest educational levels. Some of the largest impacts were recorded among those with the lowest household incomes (less than \$20,000 a year) and for Canadian-born participants who, in the absence of *learn\$ave*, showed much lower education enrolment rates than immigrants.

Implication. A program like *learn\$ave* could be used to encourage a significant number and variety of low-income Canadians to enrol in adult education who would not have done so otherwise. Whether these positive impacts on education and training enrolment lead to improved employment outcomes and greater prosperity over the long term remains to be seen. Nevertheless, the fact that significant education enrolment impacts were recorded on university and college programs bodes well for the future, given the positive returns that are usually associated with post-secondary education programs.

The high rate of education enrolment recorded for control group members indicates that if such an IDA program is introduced at scale, it would benefit a large number of Canadians enrolled in education without government assistance. However, windfall gains are found in all government programs that include some form of financial or tax incentive, whether they are provided to individuals or to businesses. Moreover, these results point to the value of a control group in measuring the effectiveness of such programs, without which the impacts would have been vastly over-estimated.

The matched saving credits had a beneficial impact on the incidence of self-employment among those who considered a business start-up. The credits increased the incidence of self-employment by about 25 percentage points, which translates into an almost 60% increase over what these participants would have done in the absence of the program. As well, positive effects were observed on self-employment duration and income. However, the addition of financial management training and enhanced case management services seemed to have played a negative role, reducing the impact that the matched credits had on self-employment, income and other performance measures. Financial management courses may have encouraged participants to think twice about starting a small business.

Implication. A matched saving program model like the *learn\$ave* IDA could be used to increase small business start-ups. Whether these micro-enterprise start-up impacts translate into long-term gains in employment and well-being remains to be seen.

Role of financial management training and enhanced case management services

The 15 hours of financial management training and enhanced case management services when delivered with the matched saving credits did not have a strong incremental impact on saving or education outcomes. Despite prior expectations about these additional services, the credits alone were typically as effective as the services combined with the credits. Some qualitative research conducted during implementation indicates that the financial training curriculum had insufficient hard financial content for some participants, and that it was not specific to the asset (education or small business) being sought.

Implication. On the one hand, the experience of *learn\$ave* indicates that much attention needs to be paid to the currency and content of the financial education curriculum. Current interest in financial literacy renders this concern particularly relevant. On the other hand, the experience could suggest that the very act of saving toward a goal, as encouraged by the matched saving credits, may be more effective in promoting saving than being instructed on how to do so. Or, it may be that the main obstacle for low-income populations interested in education is more a lack of financial resources than a lack of financial knowledge.

Costs

The analysis of the cost of administrating and operating *learn\$ave* indicates that its cost-economy (the average cost of providing services to one program group participant) was about \$4,000. With regard to cost-efficiency (the average cost per unit of output, e.g., cost per dollar saved or cost per participant receiving education), *learn\$ave* cost about \$4 for every dollar saved in *learn\$ave* accounts and about \$4,600 per participant enrolling in education or training. These costs may seem high, but they compare favourably to costs of the U.S. Assets for Independence IDA program and those of the provincial income assistance and EI training assistance programs.

As for cost-effectiveness (the average cost to produce a unit of program impact), results indicated that the estimated cost per additional person prompted to enrol in an education program or courses, as a result of the *learn\$ave* matched credits and ancillary services would be fairly high — around \$55,000. To cover this cost, a 33-year-old new enrollee would have to earn about an extra \$3,500 per year over the rest of his or her career. Taking into consideration only participants who enrolled in education or training programs, the cost of an additional enrollee is reduced to about \$38,000. To cover these costs, participants receiving the matched credits and the ancillary services would need to earn an additional \$2,400 a year.

Implication. While these costs may seem high, they may not be unreasonably so in light of expected returns from post-secondary education programs. This is not an unlikely outcome if an individual enrolls in a college or university program, but it is not likely to happen as a result of attending one or two courses. If *learn\$ave* participants were encouraged or limited to using their accounts to fund education programs only and not courses as well, the cost-effectiveness of an IDA program could be much improved.

By far, the main reason why the cost of the program per incremental student was so high is that the introduction of a program like *learn\$ave* would provide windfall gains to a large number of participants who would have enrolled in adult education in the absence of the program. This is a problem that undoubtedly exists in other government assistance programs, but is not typically measured, as it was in *learn\$ave*.

Conclusion

All in all, *learn\$ave* has demonstrated that an IDA program with a generous incentive to induce savings could contribute to increase the number of low-income Canadian adults enrolling in education in a non-negligible way. As well, it was shown that this type of assistance for disadvantaged populations cannot be dismissed on the basis that it would be more expensive to provide than other types of government assistance. That aside, alternative delivery mechanisms could be introduced to lower operational and administrative costs.

Still, the analysis suggests that such a program would be quite expensive. Perhaps, other models (direct grants [or loans] or subsidized time off) could achieve the same objective at a lower unit cost. However, these alternative approaches may not generate IDA-related benefits, such as regular saving behaviour, commitment to goal attainment, and increased comfort with the financial system. Moreover, in the absence of complete data on the benefits of the various options, and without similar experiments on competing forms of student support, the merit of a *learn\$ave*-type program compared with these alternative measures remains uncertain.

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