

Holding on to the Dream: Hybrid IDAs

People in Los Angeles who enroll in Individual Development Account (IDA) projects have traditionally faced many barriers to completing financial education training or reaching their savings goals. An example is the area's extremely high cost of living, which is now compounded by the tough economy. Such factors have reduced the number of participants who remain in the program long enough to achieve their dreams, and a high percentage of IDA participants never reach their final goal of converting their savings into tangible assets.

That was the case at the United Way of Greater Los Angeles (LA United Way). To address the situation, the LA United Way developed an innovative tool to increase savings for IDA holders. Since 2002 the agency has invested more than \$8 million in its IDA program, and recently implemented the Hybrid IDA, which offers participants additional interest subsidies on their monthly deposits. Thus far, Hybrid IDA holders report higher and more frequent savings than regular IDA participants. [AFI](#)

long-term goals. To tackle the problem, the LA United Way molded the project to fit a high-cost-of-living economy and began to provide an extra incentive for participants who made regular monthly deposits into their IDAs. Called the Hybrid IDA, the program offers participants additional interest subsidies of up to 19 percent on their monthly deposits, above the \$2 in matching funds provided for every \$1 saved.

Addressing High Dropout Rates

The LA United Way has operated the Saving for the American Dream project since 2002. Assets for Independence (AFI) has awarded the organization a total of \$3.1 million to help run the program. Saving for the American Dream supports more than 2,300 IDA savers, and many savers have reached their goals. More than 110 people have obtained a combined \$30 million in home equity. More than 650 microbusinesses have received startup help totaling \$1.9 million, and 200 people have opened IDAs for postsecondary education. So far, nearly 70 people have graduated from college. Household savings have increased by \$2 million, or an average of \$1,050 per person.

Despite those gains, however, nearly 40 percent of those who enroll and make initial deposits either drop out of the project or never save enough to meet their



Hybrid IDA participant Covella Smith credits the program with helping her stay on track in managing her income, decreasing her expenses, and saving toward homeownership, despite a difficult economic environment.

With the Hybrid IDA, participants can keep the added bonus even if they do not complete the program. Edmund Khashadourian, the LA United Way's IDA program officer, observes that at least for those who drop out, the rules for the traditional IDA require sacrifices for savings. Participants also forfeit any claims to the IDA match funds. The Hybrid IDA addresses these issues effectively, so participants' savings decisions are not affected by the prospects of their asset investments. Even if participants ultimately fail to convert their savings into assets, for reasons such as a sudden job loss or lack of affordable housing, they can retain the accrued interest for the future. The goal, says Khashadourian, is simple: "Let's do something to reward savings for the sake of savings." [AFI](#)

Pilot Testing the Hybrid

The LA United Way launched its Hybrid IDA pilot in 2007, after almost a year of studying economic, behavioral, and psychological theories about saving. While Khashadourian could have envisioned a multistage project, he first wanted to test the concept to assess its strengths and weaknesses. The pilot program began with a simple structure: Whereas the traditional IDA only provides the match funds when participants make an asset purchase, the Hybrid IDA would receive an additional interest rate of 15–19 percent on deposits—a contribution not tied to completion of the program. The bonus interest rate would apply to all deposits up to \$80 per month for postsecondary education or a new business, or \$120 for a first home. The LA United Way committed its own funds to the added interest subsidies. Khashadourian calculated the subsidies monthly and posted them to participants' IDAs quarterly.

Citibank helped Khashadourian put the pilot in four sites and provided \$15,000 to help train the LA United Way's IDA partners on the hybrid concept. Online access to accounts also was essential. "It was low touch, at a low cost," says Victor Ramirez, a Citibank community relations officer who assisted the startup. As a result, the pilot would not mean extra work for program participants. [AFI](#)

Success Follows Challenges

The pilot phase tested the Hybrid IDA to make sure it would be successful. With additional assistance from Citibank, the LA United Way designed a study to track the deposit and savings habits of 42 Hybrid IDA participants and 42 regular IDA participants for 1 year. Both the hybrid group and the traditional control group had similar gender and ethnic characteristics. Findings at the end of the year showed that:

- Hybrid IDA participants saved 28 percent more money than people with the LA United Way's other IDAs. They also were less likely to drop out of the program.
- Hybrid IDA participants were more likely to make regular deposits. They generally deposited funds in 3 out of every 4 months, while people in the LA United Way's other program deposited funds about every other month.
- Hybrid IDA participants saved an average of \$765 (excluding the interest bonus), while the control group saved only \$597. [AFI](#)

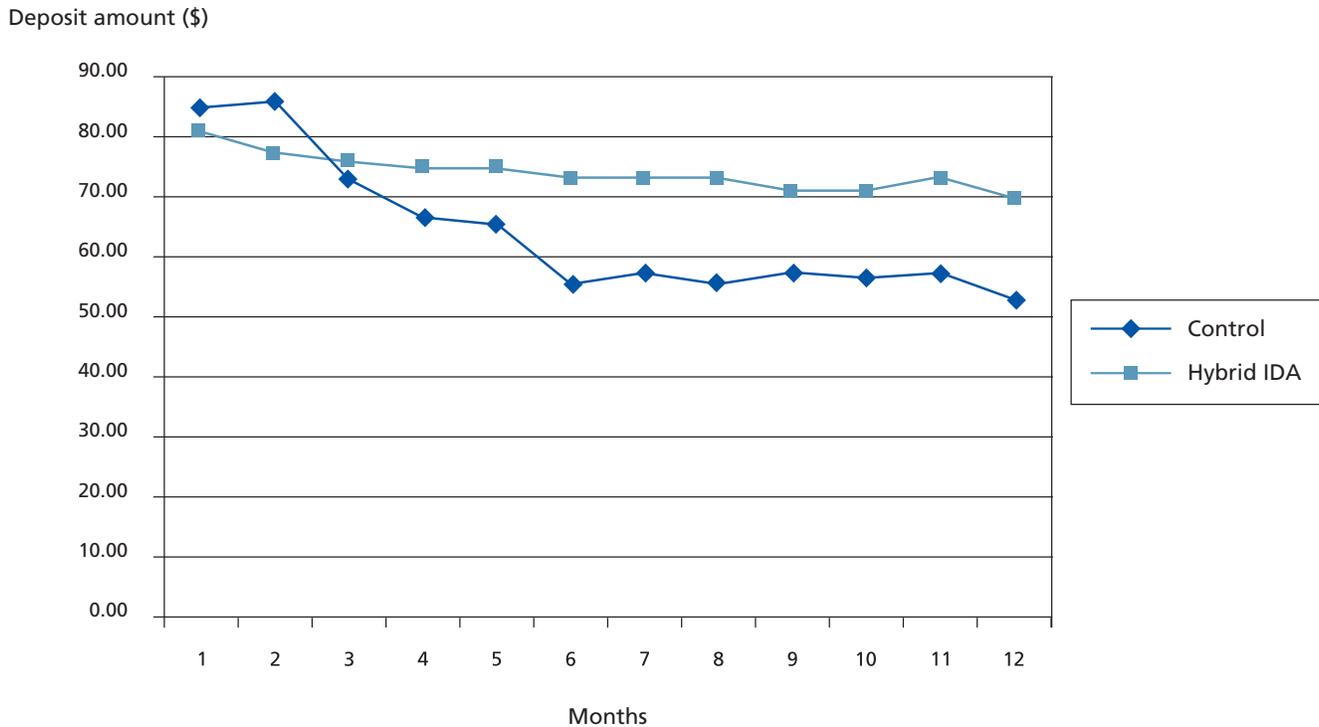
United Way of Greater Los Angeles

With roots in the community that go back to 1924, the LA United Way offers programming, resources, and expertise to address poverty in Los Angeles County. Its current 10-year action plan focuses on meeting basic needs, improving educational achievement, and increasing financial stability. As part of this final goal, the agency seeks to double the number of people in family savings programs, such as IDAs. The agency provides its IDA match from donors who contribute to its Creating Pathways Out of Poverty campaign.

“Let’s do something to reward savings for the sake of savings.”

– Edmund Khashadourian, United Way IDA program officer

Figure 1: Average Monthly Deposits



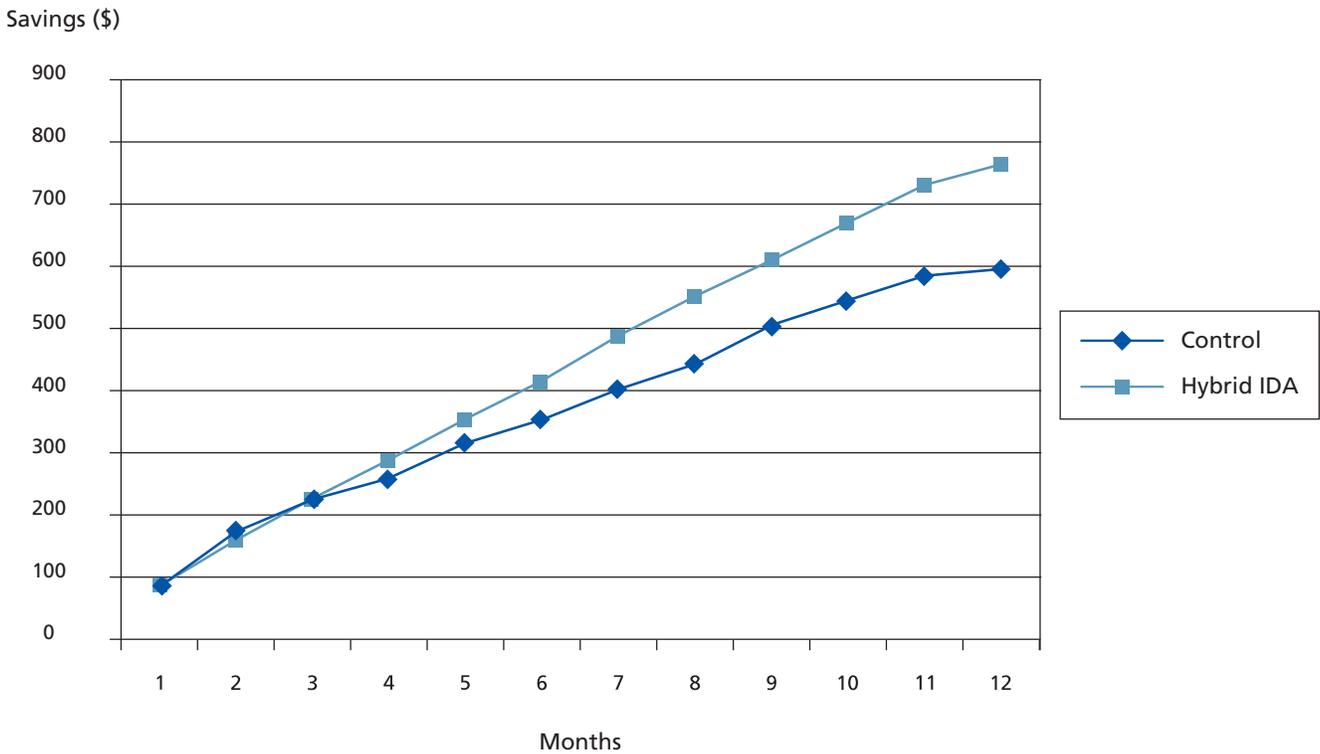
Source: Khashadourian, E. & Sheely, A. (December 2008). Ramping up for success: An evaluation of savings outcomes in hybrid IDAs. Los Angeles: United Way of Greater Los Angeles.

Khashadourian, who published a theoretical argument for Hybrid IDAs in an academic journal, says the pilot was not designed as a true experimental study due to the project’s limited funding. The purpose “was only to demonstrate how a Hybrid IDA program would work,” he says. The small sample size was one limitation of the study. In addition, the LA United Way selected control group participants based on where and when they registered for the program. As a result, there were some differences in characteristics between those in the hybrid group and those in the control group. For example, the hybrid group had much less formal education, which likely put members at a

disadvantage compared to the participants in the control group. Nonetheless, hybrid participants still showed greater progress with their savings.

Implementation of the pilot added some complexities and costs. The LA United Way provided a total of about \$10,000 to cover the extra costs, which were for the additional interest payments for the IDA holders. The typical Hybrid IDA participant received \$250 in additional interest payments. Aside from the added interest, Hybrid IDA holders did not present additional direct costs to the program compared to those in the more traditional IDA project. [AFI](#)

Figure 2: Total Savings Balance



Source: Khashadourian & Sheely (2008).

Building for the Future

The LA United Way has built on this pilot in several ways. All along, Khashadourian believed the next step would be to recruit Hybrid IDA participants as they receive volunteer income tax assistance. “That is a significant moment for low-income individuals,” he says, since most qualify for a sizable refund through the Earned Income Tax Credit. For this phase of the project, the LA United Way conducted outreach to people at volunteer income tax centers in February–June 2008. “We believed this could build on the concept,” Khashadourian says.

Research on this phase of the project is ongoing, but LA United Way leaders say they believe the strategy is working. Since the start of the Hybrid IDA, there has been greater

attendance at IDA financial education workshops, several of which are sponsored by Citibank, according to Ramirez. “They clearly understand the value of the interest rate,” he says of attendees.

The LA United Way reports the Hybrid IDA is particularly important as participants face added challenges to their long-term goals of home ownership, entrepreneurship, and postsecondary education. “The Hybrid IDA offers a new perspective on asset building,” says Khashadourian. “My hope is that practitioners across the country see value in adopting and implementing this model in their respective markets.” [AFI](#)

Lessons Learned

- For IDA programs with significant attrition rates due to high costs of living coupled with tough economic conditions, a hybrid option can improve buy-in among participants. On a monthly basis, account holders can see important short-term advantages in saving. As a result, they can maintain the energy and commitment to carry long-term goals forward.
- While a Hybrid IDA in its original setup might not have additional direct costs, it does require additional training and administrative work to calculate the special interest accruals. However, the improvement in retention and savings more than offset the additional costs. A strong banking partner that is able to help with these tasks can help a project start quickly. Developing the proper technology for account tracking and calculating the match is also crucial for program expansion.
- The LA United Way built evaluation into its program, using a comparison group, to learn whether providing an interest subsidy worked. Early findings, while not tested for statistical significance, were positive. Documenting the initiative's success provided a strong rationale to expand the program.

United Way of Greater Los Angeles

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About Assets for Independence

Assets for Independence (AFI) is a multisite, national demonstration supporting and testing matched savings accounts called Individual Development Accounts (IDAs), financial education, and related supports and services to enable low-income people to improve their economic status. Participants in AFI-funded projects use IDAs to save, with the goal of acquiring long-term economic assets: first homes, businesses, or postsecondary education. Participants also receive an array of training and support involving family budgeting, credit counseling and repair, accessing refundable tax credits, and specialized training for owning economic assets. The AFI demonstration includes an ongoing evaluation of the effects of IDAs and related services. AFI is administered by the Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services.

To learn more, send a note to info@idaresources.org, call 1-866-778-6037, or visit the Federal program Web site (www.acf.hhs.gov/assetbuilding) or AFI Resource Center site (www.idaresources.org).