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Incentives, Financial Education and Saving Behaviors among the Poor in Taipei Family Development Accounts

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Abstract

In July 2000, the Taipei City Government launched an anti-poverty program, Taipei Family Development Accounts, which drew heavily on Sherraden's asset-based welfare theory, and was to provide matched savings accounts for low-income families in the City. This paper presents the background of the program and how the participants save in terms of incentives, financial education and saving behaviors.

Introduction

On July 17, 2000, the newly elected Taipei City Mayor, Ma, Ying-Chiu, announced to launch a three year anti-poverty program, Taipei Family Development Accounts (TFDAs), which was to provide 100 matched saving accounts for low-income families in the City. TFDAs were the first public assistance initiative in Taiwan which drew heavily on Sherraden's asset-based welfare theory that was developed to provide incentives for the poor to save for future, to gain access to financial information, and to make investment in a planned way. TFDAs was designed as an experimental program to know how institutional arrangements of saving incentives could facilitate the poor to plan for the future using matched savings and financial information gained in the program. Different from the traditional public assistance system that maintained minimum household's income through financial transfers, TFDAs encouraged assets accumulation as a means to economic self-sufficiency through attractive saving incentives through contractual savings mechanism .

This paper presents the background of developing TFDAs as an anti-poverty program and how institutional arrangements of saving incentives developed in TFDAs can impact the participants' saving behaviors. The paper then concludes with future prospects of this policy innovation in Taiwan.

Background of Developing TFDAs

TFDAs drew heavily on Sherraden's asset-based welfare theory suggesting that holding assets have positive impacts on people in several aspects of their lives. In his opinion, Sherraden (1991) made a distinction between income and assets in terms of household economic resources accumulation. Assets were referred to the stock of wealth in a household which is savings, investments, and other accumulations. Both human capital and tangible assets were legally held and could generate flow of income for specific purpose. In contrast, income refers to the flow of cash resources into household. He explained the sharp inequality in assets distribution between the rich and the poor as a result of institutionalized mechanism, formal as well as informal, that limited incentive and fostered barriers to asset accumulation for the poor. The two-tiered welfare system encouraged the middle class to save for investments through regressive tax system, but provide public assistance to the needy households with no assets holding allowed. According to Midgley (1999), in re-distributive social welfare, building assets for the poor is one of the most progressive ways to integrate low-income families into the mainstream of economic development.

Since 1965, Taiwan maintained a strong and rapid economic growth by taking advantage of an active export industrial technology development, which successfully transformed Taiwan from an agricultural society into industrialized country in a short period of time. Consequently, household income and assets values increased dramatically in the past three decades. Taiwan became one of the fast-growing "the four tigers" in the East Asian area (Dahlman & Sanaikone, 1997). However, the global economic recession since the mid-1990s has slowed down the rapid and sustained economic growth in Taiwan (Haggard, 2001; Kerongkaew, 2002), and witnessed a sharp decline in asset values, falling real wages, and rising unemployment rates (Haggard, 2001; Lee, 2002). Low inequality and low income disparities when compared to the developed countries were no longer maintained. According to the DGBAS (2002), the income gap between the rich and the poor has increased from a ratio of 4.2 in 1980 to 6.39 in 2001.

In the past, in order to continue a strong economic development, the government maintained a strong fiscal position on promoting economic growth, but undertook limited social contracts to provide implicit social safety nets for its citizens (Haggard, 2001). Years of neglect in providing basic services have devastatingly impacted the lives of needy citizens during this staggering economic recession. Beside the increasing income gap between the rich and the poor, even more notably, the value of net assets of the rich was 16.8 times that of the poor in 1991 and double that in 2001 (DGBAS, 2002). As a result, more working poor, more single parent families and more high school graduates replacing the old the disabled and the sick, have gradually changed the welfare population in Taipei. There is an urgent need for new social contracts to reduce the high social costs of growing economic inequality, especially the assets disparity between the rich and the poor. Since 1994, there has been a sharp increase in working individuals applying for public assistance as a result of the economic recession. Taipei city also has a larger share of the poor population compared to other areas of Taiwan, which led the Taipei City Government to call for a welfare reform to tackle the issue of urban poverty (Cheng, 2000).

The development of TFDAs was advocated by networked coalitions of policy makers, welfare scholars, and collaborative partners. One key collaborative partner that should be given credit for the TFDAs establishment was the Polaris Securities Group (PSG), a stock firm. The firm’s chief executive learnt about the TFDAs proposal through its affiliated non-profit organization, Pai, Chen-Hsi Foundation (PCHF). In February 2000, the firm decided to take an active role in raising funds to meet 100 matched savings accounts for three years at a total of NT$1,440,000 (US$1=NT$33). The contract also stated that PCHF would help organize a team of lecturers for educational classes of TFDAs by taking advantage of the financial expertise of PSG’s personnel, and that the Taipei City Government would be in charge of program operation and welfare provisions for participants. The strong partnership built between the Taipei City Government and a non-profit organization is the first example of a collaboration effort made by the public sector in Taiwan to expand its welfare provisions and social assistance to the poor.

In short, public assistance based on the principle of income-based financial transfers, was long criticized for its ineffectiveness in enhancing the living standards of the poor and instead trapping them in a vicious cycle of welfare dependency (Sun, 1995). Promoting job skill training or lifting employment barriers for the poor were considered reasonable means to regain economic sufficiency, if they worked (Sun, 1995). In his study on “assets accumulation among low-income families in Taiwan” (Chang, 1993), Chang first introduced the idea based on Sherraden’s (1991) welfare theoretical framework, focusing on encouraging, the accumulation of assets by the poor instead of maintaining their incomes, as a way to future economic sufficiency. He showed how common it was for low-income families to save through more informal financial institutions than formal institutions to avoid the means tested procedures of public assistance. For example, he found that “Hui,” in Chinese, meaning a credit union or association organized through a network of friends and kin, was a very popular, but also a risky savings institution for low-income families. Being a key welfare consultant to Mayor Ma, the new policy initiative was introduced in the 1997 election as one of the key political promises to reform public assistance.

Saving Behaviors of the Participants in TFDAs

This section includes a description of methodology used for data collection, program characteristics of TFDAs and preliminary findings on the participants’ savings accounts and behaviors.

A. Data Collection

The data used to describe the program was collected from several sources over three years, and was based on a subset of an on-going evaluation project on how the participants responded to the structure of the program in terms of saving behaviors. Each participant was required to file a self-report annually, using a structured survey, about family condition, employment status, investment planning, and goal attained for two years. The Bureau received savings account statements of all TFDAs participants from the Taipei City Bank every half-year. In-depth interviews were also conducted in October 2001 and in May 2003 to inquire about subjectively felt impacts of the program. October interview met eight participants, two participants from each of the three different categories of goals selected and two of these participants changed goals during the program to inquire the midterm program impact. The second in-depth interview met with four participants who completed the program and used the matched savings on designated investment. A case manager monitored on-going educational classes and kept records on activities attended, group discussion, and social networking among participants. Information about dropouts is not included in this paper.

B. Program Characteristics

Adopting a cultural tradition, the program was named "Family Development Accounts," instead of "Individual Development Accounts" (IDAs) as suggested by Sherraden, to symbolize the value of co-residence or shared resources of a family. Table 1 shows the program structure of the TFDAs. The program started at the 17th of July in 2000 and ended at July of 2003. TFDAs was composed of a group of collaborative partners. PSG was the funder for the matched savings, Taipei City Bank was the affiliated bank, and the Bureau of Social Services was in charge of administration of the Program. Through a careful structural design, program applicants eligible to open accounts had to be current welfare recipients and employed for at least three months with a per capita income below 60 percent of mean consumption expenditure (equals NT$10,479 per month). This was to indicate that TFDAs were intended to target the working poor as aforementioned. The participation was voluntary, to encourage savings instead of mandating it. Each participant opened an account for matched saving by making the first deposit at a selected saving level, ranging from NT$2,000 to NT$4,000 (US$1=33). Once the fixed deposit level was selected, savings were matched for 36 months at the same level for three years. During participation, if savers were unemployed for up to three months, they would be referred to social workers for occupational assistance and no savings would be matched after that point of time. All the savers were also required to attend educational classes every three weeks, totaling 135 hours in three years, where they learned about credit, budgeting, banking, investment, how to buy a home, how to start a business, and how to make educational plans. The matched savings accounts could not be accessed until completing the three-year period of saving and attending educational classes. The accumulated saving funds could be then used for a range of investment purposes, such as higher education, small business, or first home purchase.

Table 1: Program Structure of Taipei Family Development Accounts

Characteristics	Description
Time Period	July 17th, 2000 to July 17th, 2003
Applicants	Welfare household, employed, and voluntary participation
Administration	The Bureau of Social Services, Taipei City Government
Funder	Polaris Securities Group and its affiliated foundation
Affiliated Bank	Taipei Bank
Matching rate	1:1
Deposit levels	NT$2,000, NT$3,000, 和 NT$4,000
Economic classes	Participants must complete 135 hours educational classes, less than 14 hours was not optional
Purpose for use	House purchase, micro enterprise, and higher education

C. Participant Characteristics

Based on the annual self-report survey data, table 2 describes the demographic profiles of participants across years. In July 2000, 184 low-income households enrolled, but only 100 savings accounts could be matched. For those randomly selected participants, 68 dropped out of the program by the end of 2000. Including the enrollers that replaced these dropouts, 75 participants made their regular deposits for twelve months by the end of the first year. Seventy-two continued for another year, with only three leaving the program due to emergency family crises (e.g. sudden death and sickness of family members). Finally, sixty-nine participants have stayed in TFDAs for the whole three years. It seemed that participation during start up appeared to be unstable, but then remained very stable in the following years. The demographic profile in table 1 shows that most participants in TFDAs were females, mid-aged (41 to 50), single parents, and high school graduates, which closely resembled the new welfare population in Taipei.

Table 2: Participants' Characteristics of TFDAs.

Variable	**Label**	**9.30.2000**	**6.30.2001**	**6.30.2002**	**6.30.2003**
Gender	Male Female	18(18%) 82(82%)	8(11%) 67(89%)	8(11%) 64(89%)	8(11.6%) 61(88.4%)
Age	Under 30 31- 40 41-50 Over 50	7(7%) 29(29%) 49(49%) 15(15%)	2(3%) 18(24%) 46(61%) 9(12%)	2(3%) 15(21%) 46(64%) 9(12%)	2(4%) 14(19%) 45(65%) 8(12%)
Education	Primary school Junior school High school College	19(19%) 25(25%) 46(46%) 10(10%)	12(16%) 18(24%) 31(41%) 14(19%)	12(17%) 18(25%) 29(40%) 13(18%)	12(17%) 16(23%) 28(41%) 13(19%)
Marital status	Single Married Divorced Widowed Separate	8(8%) 30(30%) 39(39%) 19(19%) 4(4%)	6(8%) 18(24%) 23(31%) 24(32%) 4(5%)	4(6%) 17(24%) 24(33%) 24(33%) 3(4%)	3(4%) 16(23%) 24(35%) 23(33%) 3(4%)
Participants		100	75	72	69

D. Saving Patterns

Based on the half-year account reports provided by the bank, Table 3 describes the change in savings patterns at different saving levels. By the end of 2000, 21 out of 75 who stayed in the program chose to start at NT$2,000, seven chose NT$3,000 and 47 chose NT$4,000. However, the savers, as a group, began to demand more flexible saving patterns. Requesting a meeting with the Division Head in May 2001, they asked to be given more freedom to adjust their deposit levels every six months, based on their own judgment of their saving capacity. After the liberation of the structure, a large group of participants changed their saving levels from NT$2,000 or NT$3,000 to NT$4,000 for higher matched savings in the following year. Obviously, participants of TFDAs cautiously started their savings at a lower level, but when given opportunities or incentives, they moved to higher deposit levels for matched savings.

Table 3: The changes in saving patterns across years.

Deposit Levels	**12. 31.2000**	**6.30.2001**	**6.30.2002**	**6.30.2003**
NT$2,000	21	8	6	4
NT$3,000	7	7	2	3
NT$4,000	47	60	64	62
Participants	75	75	72	69

E. Savings accumulation

Table 4 indicated the savings accumulated in the participants' accounts. In total, a sum of NT$19,735,311 was saved by these 69 savers by the end of the third year, an average of NT$286,019 per account. For welfare recipients who depended on public assistance to maintain the living, the amount of saving accumulated in the accounts was impressive and valuable to be noted. According the bank savings account statement, the net savings per account was ranged from the lowest NT$72,100 to the highest NT$244,610 and matched savings ranged from NT$72,000 to NT$144,000. Unfortunately, the interest rate had been in the low tide for the past three years in Taiwan, which incurred only a 1.5 percent rate for the savings accumulated. In total, the net savings accumulated accounted for 48.7 percent of all the accounts. But the bonus incurred from the matched savings accumulated was paid well from bonds exchange in the past three years, which rebated the accounts with a 6 percent rate interest. As a total, matched savings accounted for 46.7 percent of all the savings accumulated.

Table 4: The savings accumulated in TFDAs.

Each account	Net savings	Interest incured	Total savings	Matched savings	Matched interest	Matched total	Account total
Lowest	72,100	2,008	74,108	72,000	4,705	76,705	150,813
Highest	244,610	7,488	251,629	144,000	9,410	153,410	405,039
Average	139,204	4,350	143,540	133,739	8,740	142,479	286,019
Total	9,605,104	300,163	9,904,285	9,222,800	603,026	9,831,026	19,735,311

Percent	48.7	1.5	50.2	46.7	3.1	49.8	100

F. Savings patterns

Table 5 shows the saving patterns in each account every half year. From the table, the amount of money each participant deposited into his/her account ranged from 0 to NT$110,100 every other six months, with an average of NT$23,215 every half year. The amount equaled to NT$4,000 per month. Although some participants deposited savings in an irregular way, the savings accumulated every half year indicated a regular pattern within these three year period.

Table 5: The saving patterns of each account by half year.

Half year	I half	II half	III half	IV half	V half	VI half	Average
Lowest	0	0	0	0	0	0	0
Highest	110,100	50,000	70,000	59,000	50,000	49,200	64,716
Average	22,826	23,442	20,702	24,725	25,563	21,943	23,215
Saving	1,575,155	1,617,500	1,428,500	1,706,010	1,763,851	1,514,088	1,600,851
Interest	11,622	46,359	63,855	60,611	61,169	56,547	50,027
Total	1,586,777	1,663,859	1,492,355	1,766,621	1,825,020	1,570,635	1,650,879

G. Employment Status

Due to the rigid qualification, to be a saver of TFDAs, participants could not be unemployed for over three months. Participants who became unemployed were referred to social workers for occupational assistance. In three years, except for the dropouts, only eight participants reported unemployment once, but were employed again in less than three months. Two participants changed jobs for salary increases. Ten reported finding a second part time job to increase family income and savings. It was reported that the national unemployment rate in 2000 was 2.99 percent, 4.57 percent in 2001, and 5.14 percent in 2002. In comparison, 69 participants of TFDAs, impressively, stayed employed during almost the entire three-year period.

H. Planning for Investment

Table 6 shows the changes in purposes for use across years. Each participant was asked to select one of three designated goals of savings when entering TFDAs. A selected goal for future investment could be changed at the end of the first year, as participation moved along. Based on the goal selected, participants were assigned to attend relevant educational classes, in addition to the required courses. As indicated in table 6, over half of 100 participants chose first home purchase as their purpose of savings when entering the program. Based on the annual self-report survey data, however, more participants chose to invest their savings in higher education or small business as participation moved along. It was not clear if people dropping out of TFDAs in the beginning perceived matched savings as an insufficient sum for purchasing a house in the future. But, in-depth interviews with two changers in October 2001 indicated that the reason for shifting their goal from home purchase to other categories were mainly concerns about high house prices in Taipei, long-term mortgage payments, limited employment-friendly locations, etc.

Table 6: The change in goals for savings across years.

Variable	**Label**	**9.30.2000**	**6.30.2001**	**6.30.2002**	**6.30.2003**
Saving Goals	Higher education Micro enterprise Home purchase	33(33%) 15(15%) 52(52%)	32(43%) 28(37%) 15(20%)	31(43%) 26(37%) 15(20%)	31(44.9%) 25(36.2%) 13(18.8%)
Savers	100	75	72	72	69

In April 2003, fifty-seven out of 69 participants reported to program social workers that they had undertaken the first steps towards goal achievement. In accordance with their designated purposes, 26 out of 31 intending to use savings for higher education reported that their children had advanced to higher education levels for now. Among 25 participants planning to use savings for small business, 21 started a small business with a partner. And at the moment of the interview, twenty-eight participants had exited out of welfare, most due to family income increase, the others due to savings cross the assets baseline for eligibility.

G. Subjective Felt Incentives and Impacts

Based on the in-depth interview conducted in October 2001, the main attraction for participating in TFDAs was said to be the 1:1 matched savings. And saving was a good thing, anyway, in their belief. In terms of saving, they reported several strategies they used to manage savings, ranging from managing family consumption, cutting down unnecessary expenses, and older children sharing part of their earned incomes. Many of them agreed that attending economic classes was beneficial since they left school a long time ago. In the classes, they especially enjoyed learning about investment, budgeting, home purchasing, and human resource development. Besides the intended effects of TFDAs, the savers pointed out that they, subjectively, felt empowered by participation in TFDAs. They outlined an action they took in negotiating with the Taipei City Government to liberate fixed deposit levels in a meeting with the Division Head of PSG. They also perceived the participants as a group for networking and information exchanging where they shared job opportunities, current trend of small business investment and home purchasing experiences. The relationship they built through attending classes or group sessions had transformed their isolated lives to a more outward networked circle of friends or colleagues. And, lastly, they mentioned how the family worked together as a team to save more money or make a plan, how older children worked harder for higher education after they participated in TFDAs.

Moreover, at the beginning of the program, many participants shifted the goal used for house purchase into the other two goal groups. However, ten out of 13 planning for home purchase had placed down payments for their new homes within one year after the savings matched. Two new homeowners interviewed on May 2003 shared that it was better to start by owning a home that was affordable rather than one that was expensive or fancy. By using the information learned from the educational classes on home purchase, both were able to collect enough funds for their first home purchases. Possible funds for their first home purchase ranged from public subsidy schemes like the First Home Purchase Scheme and the Labor Home Mortgage Scheme to private loans from family or relatives. They also reported that the older children in the family shared their earned income to use as accumulated down payment and mortgages as well. The first participant who started a small business at September 2003 shared her intuitive thinking learned from the classes in operating the business and her resourceful networking from the classmates' constant support.

Conclusion

The preliminary findings, thus, indicate that the participants had quite a positive picture of the impacts of TFDAs. In terms of participants' characteristics, the demographic composition of TFDAs seemed to fit well with the new welfare population profile in Taipei City. The participants would choose to save more, if given opportunities or incentives. They also willingly chose to stay employed to maintain their savings accounts. And, their goal-oriented investment plans became more practical and realistic, as their financial literacy advanced from attending related economics classes. Moreover, subjectively, the participation of TFDAs had positive personal and social impacts on their lives.

Based on the positive results of TFDAs, Taipei City Government decided to start another two matched savings programs for the poor in the future. Taipei Youth Development Accounts has been implemented at the end of 2003 to match savings for the poor youth. Taipei City Bank, the financial partner of the first TFDAs program, will grant NT$4,800,000 as the first year fund to match the 107 savings accounts, particularly for educational investment for youth from low-income families. And, the second three-year TFDAs program will follow a similar program structure, and will be in operation to encourage another 100 poor families to accumulate assets as a way to future economic security. PSG will invest a total of NT$5,000,000, including the remaining matched savings (NT$480,000) from the first TFDAs program. The Division will also raise more funds to match up to 100 savings accounts from other for-profit firms in Taipei. Further, it was strongly recommended that encouraging low-income families to accumulate assets was to be included as a clause of the newly revised Social Assistance Act. Once passed, local governments should consider implementing similar TFDAs programs for low-income families at the local level.

At the policy level, the idea of TFDAs drew largely on Sherraden’s (1991) asset-based welfare theory focusing on encouraging and facilitating the accumulation of assets by the poor instead of income maintenance, as a way to future economic security, and has broadened the principles of public assistance in Taiwan. The nation’s social safety net for low-income families can be built by encouraging them to be economically active actors and generate future oriented material resources or accumulate welfare assets, and not just altruistically maintaining their basic consumption levels. At the social integration level, the establishment of TFDAs was innovative, more progressive than ever and promoted an alternative opportunity to equality and social inclusion by integrating low-income families into mainstream society through social and economic development.

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