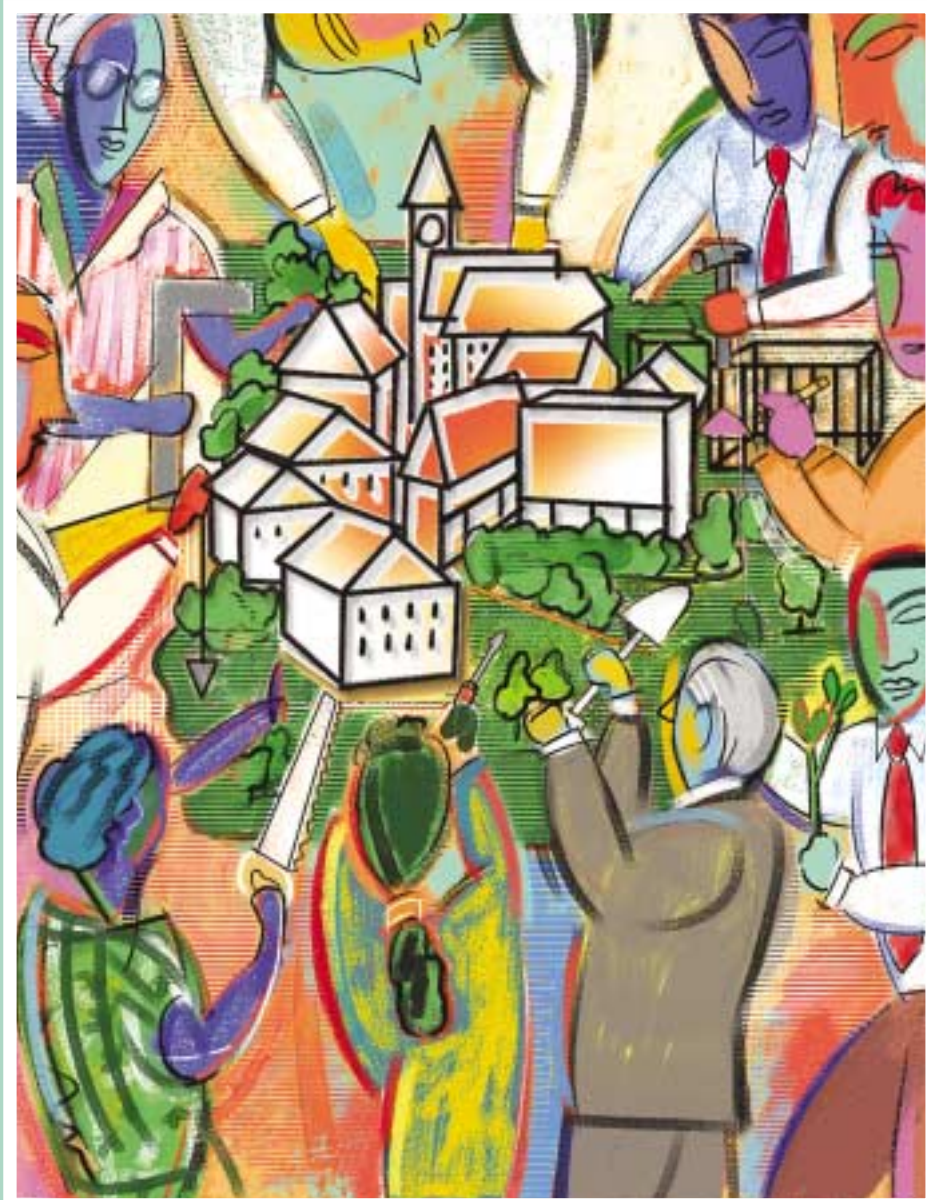


# *Encouraging Savings*

Financing Individual Development Account Programs



FINANCING STRATEGY SERIES \* OCTOBER 2002



# Encouraging Savings

## *Financing Individual Development Account Programs*



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### Introduction and Background

Across the country, policy makers, community leaders and program developers are realizing the importance of asset ownership for the economic advancement of low- and moderate-income households. Individual Development Accounts (IDAs) promote savings and asset accumulation among low- and moderate-income families and, in doing so, can enhance the economic and social well-being of those families and their communities.

The policy rationale for developing IDA programs is simple: income maintenance policies (e.g., cash assistance, food stamps, child care tax credits, earned income tax credits), while critical for supporting low- and moderate-income families (LMI), are insufficient means by which to build wealth for these families. To move up the economic ladder, families must be able to accumulate savings. Savings are vital to the economic health of families for two reasons. First, savings provide a financial cushion that can mitigate the destabilizing impact of unforeseen crises, such as illness or unemployment. Second, savings can be used to invest in appreciable assets, such as homes or businesses. However, despite the critical importance of accumulating savings, families are unlikely to save for two reasons. First, because LMI families often struggle to purchase the basic goods necessary for their subsistence, they are usually unable to develop significant savings. Second, LMI families may fear that acquiring savings will adversely affect eligibility and benefit levels for the means-tested programs (e.g., food stamps, Medicaid) on which they depend. As a



result, even when these families are able to generate some savings, they may be unwilling to do so. IDA programs were developed to help LMI households overcome these barriers.

IDAs are savings accounts that provide matching funds to encourage and promote savings among LMI families. IDA programs are structured similarly to 401(k) and other employee retirement plans, generally providing matches of between one and three dollars for every dollar a participant contributes to his or her account. IDA programs often set annual caps on the amount of matching funds each accountholder can receive and establish minimum savings periods, before which participants cannot withdraw their own funds without losing the matching funds. Most programs also require that accountholders receive financial management training. In addition, IDA accountholders are usually required to use the savings generated in their IDA account for specific investment activities, such as purchasing a home, establishing a business, or paying for post-secondary education, though many programs allow exemptions for emergencies. Government agencies and nonprofit organizations currently operate hundreds of IDA programs across the country.<sup>1</sup>

### **IDAs and Community Development**

Program developers and policy makers have typically restricted IDA accountholders to use their savings for homeownership, business development, and post-secondary education because these types of investments benefit not just individual households but can also enhance the economic stability of entire communities:

- \* *Resident Homeownership:* Increased homeownership rates benefit neighborhoods in two main ways. First, homeowners generally invest more in property maintenance and, consequently, property values generally increase with homeownership rates. Second, homeownership decreases residential turnover, helping to stabilize neighborhoods. Because homeowners are more permanent stakeholders in community assets, such as schools and public safety, homeownership generally leads to an increase in social and civic involvement.
- \* *Resident Ownership of Businesses:* Resident ownership of community businesses also creates positive effects for neighborhoods. Business development, regardless of ownership, can provide products or services previously

unavailable to residents, increase the number of jobs available to community members, and add to a locality's tax base. Resident ownership of businesses can have additional benefits, as resident owners may become more active in the community because of their vested interest in its economic and social stability.

- \* *Resident Education and Training:* Education and job training can enhance resident access to labor market opportunities. As the earning power of individuals increases, the economic stability of families and communities is enhanced.

### Strategies for Financing IDAs

This strategy brief presents information on financing for IDA programs. It is meant to give community leaders, policy makers and program developers a better understanding of what financial resources are available and how resources can be integrated into a financing strategy for establishing or supporting IDA programs.

This brief describes three basic ways to finance IDA programs:

- 1) Accessing federal resources;
- 2) Making use of state-controlled resources; and
- 3) Obtaining private resources.

These categories provide a helpful framework for thinking about the array of potential funding sources. However, it is important to recognize that there can be tremendous variation in the goals and structure of funding sources that fall within the same category. In particular, the restrictions imposed by different funding sources can vary considerably, and understanding these variations is fundamental for developing an efficient and effective financing plan.

Specifically, funding sources for IDAs may place restrictions on: 1) the use of their funds; 2) participant characteristics and/or expenditures; and program design.

#### *1. Restrictions on the Use of Funds*

Two sets of funding streams comprise the basic financing structure of IDA programs: matching funds and funds for related support or administrative activities (e.g., financial literacy training, program evaluation). Funders can, and often do, place restrictions on the use of their funds. For example, a particular grant may limit the use of its funds to matching participant contributions. In this circumstance, grantees would be unable to finance administrative costs with this particular set of funds.

### EARLY SIGNS OF SUCCESSFUL SAVINGS IN IDAS

Established in 1997 with private foundation funding, the Downpayments on the American Dream Demonstration (ADD) is the first large-scale test of IDAs for low-income households and communities. An evaluation of ADD through June 2000 shows:

- \* ADD established 14 IDA programs across the country serving about 2,378 participants.
- \* The average monthly net savings per participant was about \$25. Including matches, the average participant accumulated \$900 in IDA savings per year.
- \* 13 percent of the ADD IDA participants made approved withdrawals. The most frequent use of funds was for the purchase of a home (24 percent) or for investment in a microenterprise (24 percent). 21 percent used the withdrawal for post-secondary education and the remainder used their IDA savings for home repair, retirement or job training.

Source: Shreiner et al., *Savings and Asset Accumulation in Individual Savings Accounts*. Center for Social Development, St. Louis: Washington University, 2002.

## *2. Restrictions on Participant Characteristics or Expenditures*

Funders often target specific populations and, therefore, may restrict the characteristics (for example, the income or location of residence) of program participants for which their funds are used. In addition, IDA funders may (and usually do) restrict the ways in which program participants can spend the savings that they accumulate in their IDA. For example, IDA participants may be limited to using their IDA assets for specific purposes, such as buying a home, starting or expanding a business, or investing in higher education or training.

## *3. Restrictions on IDA Program Design*

Finally, funding for IDA programs may contain requirements that place parameters around the design of the program. For example, funders may require

that programs meet specific matching ratios or provide financial education to their participants.

The main challenge in financing IDA programs is securing a portfolio of funding that covers all programmatic costs while complying with the program restrictions of each funding source. The following sections provide information on the categories of funding and outline the characteristics and restrictions of each funding source. In addition, we highlight examples of and considerations for using these sources as part of an overall financing strategy. Although the emphasis of this brief is federal funds, we also provide information on state and private funding.

## **Accessing Federal Funds**

The federal government administers several programs that can be used to finance IDA programs. Most of these programs do not dedicate funds specifically for IDAs, and recognizing the difference between dedicated and non-dedicated funding programs is an important component of analyzing potential funding sources. Dedicated funding programs for IDAs appropriate resources only for the development and administration of IDA programs, while non-dedicated funding programs appropriate resources for broader, more general purposes, such as community or workforce development, with which IDA programs may be compatible.

Assets for Independence Act Funds (AFI) and Temporary Assistance for Needy Families (TANF) are the federal programs that are most widely used to finance IDA programs. Together they have provided tens of millions of dollars in grants to IDA programs over the past several years. In addition, several smaller federal grant programs can be used for IDAs. These federal resources are summarized in Table One and are described in greater detail in the following pages.



TABLE ONE: SUMMARY OF FEDERAL FUNDS FOR IDAS

Federal Program	Federal Agency	Flow of Funds	Basic Restrictions on Fund Use	Basic Restrictions on Participants	Other Restrictions
Assets for Independence Act (AFI)	Health and Human Services (HHS)	Competitive grants from HHS to nonprofit organizations, Community Development Finance Institutions (CFDIs), and low-income credit unions supporting and/or administering IDA programs. State and municipal governments may partner with a nonprofit to apply for AFI funds.	Can be used for both matching and administrative (including education and evaluation) expenses. However, at least 85 percent of all AFI funds must be used for matching participant contributions.	Individuals automatically qualify if they are eligible for TANF. In addition, an individual qualifies if his/her household net worth does not exceed \$10,000 (excluding home and one car) and either: 1) his/her household income does not exceed 200 percent of the federal poverty guidelines; or 2) he/she qualified for earned income tax credit (EITC).  IDA savings must be used for purchasing a first home, financing a business, or paying for post-secondary education or job training.	Requires a 1:1 match of federal to non-federal dollars.  Participant contributions must be derived from earned income.
Temporary Assistance to Needy Families (TANF)	HHS	HHS distributes TANF funds to states, which may provide grants to IDA programs.	States determine whether their TANF funds may be used for matching funds or administrative costs.	Accountholders must be TANF-eligible.  IDA savings must go towards purchasing a first home, financing a business, or paying for post-secondary education expenses.	Participant contributions must be derived from earned income.  TANF funds may not be used to meet the non-federal funds match requirement under AFI.
Community Development Block Grants (CDBG)	Housing and Urban Development (HUD)	HUD distributes CDBG funds to entitlement communities and to states. States, in turn, distribute the funds to non-entitlement communities. If desired, communities may use their CDBG funds to support IDA programs.	Grantees may only use CDBG grants for matching funds.	Accountholders must have low- or moderate-income.  IDA savings must go towards purchasing a first home, financing a small business, or paying for education.	CDBG funds may be used as non-federal matching funds required by AFI.
HOME Investment Partnership Program (HOME)	HUD	HUD allocates formula grants to states and local governments, which can use HOME funds for public or private affordable-housing programs.	Funds may be used for matching, but may be withdrawn from the Treasury Department no more than 15 days prior to the home purchase.	Accountholders must be at or below 80 percent of area's median income.  Accumulated IDA assets must be used for homeownership.	State or local governments must match HOME funds by 25 percent.
Affordable Housing Program (AHP)	Federal Housing Finance Board (FHLB)	FHLB regional banks provide resources to member banks for homeownership programs.	Restrictions vary by FHLB and member bank.	Accountholders must have low- or moderate-income.  Accountholders must complete homebuyers/homeownership counseling.  Savings must be used for homeownership.	Applicants to the FHLB regional bank must be member banks.
Bank Enterprise Awards (BEA)	Treasury Dept.	Treasury awards competitive grants to banks, which may use them to support IDAs.	Restrictions vary by bank.	Accountholders must have low- or moderate-income in designated Distressed Communities.	BEA applicants must be insured depository institutions.
Office of Refugee Relocation (ORR)	HHS	ORR funds are granted on a competitive basis to state and nonprofit organizations. Recipients can use ORR to directly administer IDA programs to refugees, or to support intermediary organizations.	ORR funds may only be used for matching participant contributions.	Accountholders must be low-income refugees.  Savings goals are generally limited to homeownership, home renovation, microenterprise capitalization, and education/training.	ORR funds may not be used to meet the non-federal funds match requirement under AFI.

### GENERAL GUIDING PRINCIPLES FOR IDAS

Designing an IDA program can be complex and expensive. Though it may be too soon to know whether the benefits of IDAs outweigh the costs, there are strategies to maximize the benefits through program design and administration. The following principles are based on the experience of IDA program developers and should be considered by policy makers, community leaders and program developers interested in establishing an IDA program.

- \* **Design the program around a specific target population**—To maximize the benefits of IDA programs, community organizations should consider targeting specific populations or communities. Residents within a target community often share similar characteristics and traits. Knowledge of the community will assist in determining how to better tailor a financial curriculum and program design to the unique needs of the community and its residents. Established organizations and agencies may find that it proves helpful to first introduce an IDA program to individuals already served by their organization.
- \* **Have a simple account design**—IDAs may represent a foreign concept for many potential participants, especially those who do not have prior experience in savings and asset building, and who may feel alienated from mainstream financial institutions. An account design that mirrors typical savings accounts will prevent confusion or intimidation, both of which lead to low participation rates.
- \* **Publicize clear objectives and rules of the program**—Keep program goals and rules as simple and straightforward as possible. Account participants must understand the goals, purposes, and rules of the IDA program in order to maximize the benefits of the program. Established IDA programs have found many accountholders were hesitant to participate because they initially felt the IDA program was “too good to be true.” Publicizing clear regulations and rules, as well as the program’s goals and structure, will assist in recruiting and retaining participants and enhance the likelihood of successful outcomes.
- \* **Complement the IDA with financial literacy classes**—Requiring financial literacy classes, on topics such as money management, increases the savings rates of program participants. By enhancing participants’ knowledge regarding budgeting, savings, and the benefits of asset ownership, financial literacy classes have been shown to increase the efficacy of IDA programs, resulting in higher savings rates of program participants. Classes need not be too burdensome as significant benefits have been shown to result from only 6-12 hours of financial education.<sup>1</sup>
- \* **Systematically evaluate the IDA program**—Building a performance evaluation system into the IDA program assists in demonstrating the results to the community, while also providing an accountability mechanism for funders and partners. In addition, evaluation results can be a powerful tool for enhancing the program’s management and services. As a result, evaluations can help produce greater benefits for participants as well as the community.

1. See *Savings and Asset Accumulation in Individual Development Accounts: Downpayments on the American Dream Policy Demonstration, A National Demonstration of Individual Development Accounts*, February 2001, page viii.

### *The Assets for Independence Act*

The Assets for Independence Act (AFI) is the only federal dedicated funding program for IDAs. AFI provides federal grants on a competitive basis to non-profit organizations and collaboratives (which may include government agencies and tribal governments) to help finance IDA programs.<sup>2</sup> Individuals who qualify for TANF are automatically eligible for AFI-supported IDAs. In addition, an individual qualifies if the household’s net worth does not exceed \$10,000<sup>3</sup> and either: 1) the individual’s household income does not exceed 200 percent of the federal poverty rate; or 2) the individual qualifies for EITC. IDA programs can use AFI grants to support accounts that are restricted to three purposes: purchasing a first home; financing a business; or paying for post-secondary education.<sup>4</sup>

### AFI SUPPORTS ASSET DEVELOPMENT IN RURAL KENTUCKY

Kentucky River Foothills provides community action programs aimed at building and developing the surrounding rural community, as well as its individual residents and families. In 1999, the Kentucky River Foothills' Family Assets program began to help working families set and achieve financial and asset goals. The participating families agree to contribute at least \$10 a month in earned income into a savings account for two years, and for every \$1 deposited, Kentucky River Foothills provides a \$2 match, with an annual maximum match of \$2,400. The program is supported with federal AFI funds that are matched with local funds from the United Way of Bluegrass, Cumberland Valley Bank, People's Bank of Madison County, Family Resource Centers, and Kentucky River Foothills.

Families attend 12 educational seminars while participating in the program to prepare them to use the money wisely. Also, they must agree to meet with credit counselors and address any adverse credit problems throughout the savings period. To keep participants' interest, Kentucky River Foothills sends participants a monthly statement displaying the accumulated amount of their savings and the matched funds. Kentucky River Foothills partners with organizations such as Habitat for Humanity and the Kentucky Department of Housing to ensure Family Asset participants receive consideration for targeted homeownership programs that will further expand the financial base created by their deposited savings.

*For further information contact: Paula Woodman, Kentucky River Foothills, (869) 624.2046.*

In addition, grantee organizations must provide a 1:1 match for the federal grant with private, state, or local funds. While not a strict requirement, grant preferences are given to applicant organizations that work with families with children and that target individuals residing in neighborhoods with high rates of poverty or unemployment.

### AFI FUNDS IDAS FOR HOMEOWNERSHIP IN TARGETED COMMUNITIES IN ATLANTA, GA

Since 1999, the United Way of Greater Metropolitan Atlanta has received AFI funds to operate an IDA program focused on home ownership. The United Way of Greater Metropolitan Atlanta has received one of the larger AFI grants, \$500,000, to administer the IDA program at sites in five targeted communities. The United Way contracts with community partners to operate the program. These partners include eight community development corporations or housing providers, two education organizations, and a bank. A community development corporation or a housing provider within each of the five communities offers the IDAs to clients or residents within the communities.

Participants in the program must commit to attending 15 economic literacy courses and saving a monthly minimum of \$50 which is matched 4:1. Uses of savings are restricted to a down payment, closing costs, a \$1,500 cash reserve for mortgage payments, and emergency repairs of a home in the chosen targeted community. Participants select a community for their home purchase when entering the program. The IDA program provides only a 2:1 match for home purchases outside the targeted communities. Currently, there are 121 accountholders in the program. To date 35 participants have purchased a home in one of the targeted communities.

*For additional information contact: Jim Beaty, United Way of Metropolitan Atlanta, (404) 527.7308.*

### *Temporary Assistance for Needy Families*

In 1996, the Temporary Assistance for Needy Families (TANF) program replaced Assistance to Families with Dependent Children as the primary federal welfare program. Established under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, TANF provides federal block grants to states, which have great flexibility in designing their state's welfare program.

Although the TANF program does not dedicate funds for IDAs, states may elect to use TANF funds for IDA programs under two statutes. Under Section 404(h) of the Social Security Act, states are permitted to use their TANF block grant funds to create or support IDA



programs for “qualified purposes,” i.e., homeownership, business capitalization, and post-secondary education. Under this provision, states must disregard all money saved in IDAs when determining eligibility for all means-tested government assistance.<sup>5</sup> In addition, since matching funds come from “non-assistance” TANF dollars, they cannot be counted against a family’s lifetime allowance or time limit for TANF assistance. To qualify, participants must meet their states’ eligibility requirements for TANF and their contributions must be derived from earned income. Each state determines whether its TANF funds can be used to match accountholders’ savings or to cover administrative costs.<sup>6</sup>

However, states can also create or support IDA funds under the broader Section 404(a) of the Social Security Act. Under this section, federal law allows states to use their TANF funds in “any manner reasonably calculated” to advance the four statutory goals of TANF, which are to:

- \* Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- \* End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- \* Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- \* Encourage the formation and maintenance of two-parent families.

As a result, IDA programs that do not meet the restrictions of Section 404(h) but that are designed to meet one of these broad goals may still be eligible for TANF funds. However, IDA assets accumulated under this provision are not automatically exempt when determining whether participants meet the eligibility requirements for means-tested assistance. States have discretion over whether and how these assets are treated.<sup>7</sup>

### ARKANSAS USES TANF TO FUND A STATEWIDE IDA PROGRAM

In 1999, Arkansas set aside \$500,000 in TANF allocations to fund IDA programs throughout the state. The Arkansas Department of Human Services administers the funds, making them available to non-profit organizations through a competitive grant process. The grantees operating IDA programs must provide a 3:1 match and require monthly contributions.

The Good Faith Fund, a nonprofit organization that works to increase the incomes and assets of low-income residents of southern and eastern Arkansas, successfully accessed the state-allocated TANF funds to finance IDA accounts. It also gained funding from a portion of the county's TANF block grant. The Good Faith Fund looked to individuals participating in their established programs to open IDAs. Currently, 191 IDAs are open, with 26 percent held by TANF recipients. Participants must save a monthly minimum of \$20. They receive the state-required 3:1 match with a maximum match cap of \$2,000. To date, six IDA accountholders have purchased assets such as tuition, a small business, and a home.

*For additional information contact: Ramona McKinney, Good Faith Fund, (870) 535.0741.*

Several states have used TANF funds to support IDA programs.<sup>8</sup> Program leaders seeking to secure TANF funding for their IDA programs should familiarize themselves with their state's TANF plan and TANF funding allocations process.

### Other Federal Sources

In addition to AFI and TANF, there are several other federal funding sources that can support IDAs, including:

#### *Community Development Block Grant*

The Community Development Block Grant (CDBG) program appropriates annual formula grants to states and certain municipalities (called "entitlement communities") to develop and sustain programs that enhance the economic and housing conditions of low- and moderate-income persons and neighborhoods. At their discretion, states and localities may use their CDBG funds to establish IDA programs.<sup>9</sup> To access CDBG funds for an IDA program in an entitlement community, the IDA program usually has to participate in a citywide competitive application process. Non-entitlement communities must apply for CDBG funds in a regional or statewide competitive grant process.<sup>10</sup> In these communities, IDA programs may wish to partner with their local government to be included in its application for non-entitlement CDBG funds, rather than apply for funds on their own.

In both entitlement and non-entitlement communities, CDBG funds for IDA programs are restricted.

### CDBG FUNDS IDAS

In Ithaca, New York, the Alternative Federal Credit Union (AFCU), a community development credit union, recently began to use CDBG to fund a portion of the 3:1 match in its IDA program. AFCU partnered with the city's Neighborhood Housing Services to get IDA programs included in the housing component of the City's regional CDBG Small Cities application. The city's application made the case that IDAs allow the city to further extend its services to its low-income population. The funds can be used only for homeownership and for people who buy houses within Ithaca through Neighborhood Housing Services.

Participants can annually receive up to \$750 to match their savings. CDBG also provides \$6,500 for the program's administrative costs. AFCU began its IDA program in 1998 with 109 accountholders. Since then 20 participants have purchased an asset. Since receiving the CDBG funding two participants have received the CDBG match and purchased homes through Neighborhood Housing Services.

*For additional information contact: Deirdre Silverman, Alternative Federal Credit Union, (607) 273.3582.*

Accountholders' household income must be at or below 80 percent of the area's median income and the accumulated IDA savings must be used exclusively for purchasing a home in the CDBG service area.

### *Affordable Housing Program*

The Federal Home Loan Bank System, comprised of 12 regional Federal Home Loan Banks (FHLBanks) and over 7,000 member banks, was designed to increase the supply of funds available for home mortgages. Specifically, each FHLBank operates programs that increase the supply of credit available to its member banks which, in turn, expand mortgage opportunities in their jurisdiction.

The system's Affordable Housing Program (AHP) encourages FHLB member banks to increase affordable housing opportunities by providing subsidized advances for members to develop or support affordable housing programs for LMI households. The



Homeownership Set-Aside Program of the AHP allows each FHLBank to provide grants to their member banks for low- and moderate-income homeownership assistance programs. Once member banks acquire these funds, they may extend grants for IDA programs, though the grants are limited to \$10,000 per household. FHLBanks in Seattle, New York and Indianapolis have supported IDA programs with AHP funds.

### *SUPPORTING PARTICIPANT CONTRIBUTIONS TO IDAS*

IDA programs depend not just on matching and administrative funds, but also on participant contributions. For the most part, IDA participants are on their own to earn and deposit money into their IDA accounts. However, there are a couple of ways that the federal government helps families contribute to IDAs. For example, the Earned Income Tax Credit (EITC) is a federal tax benefit that supplements the earnings of low- and moderate-income workers. Workers who qualify for the EITC can receive credits against their federal income tax liability. The amount of the credit depends on a number of factors and is "refundable." This means that eligible families receive the full amount of the credit even if that amount is greater than the amount of taxes owed. Claiming the EITC provides low-income families with funds that can potentially be used to contribute to IDAs.

In addition, the Department of Housing and Urban Development Family Self-Sufficiency (FSS) program also helps families contribute to IDAs. Administered locally by public housing organizations, FSS assists families receiving Section 8 housing vouchers become economically self-sufficient by promoting employment, increased savings, and financial literacy. As household incomes of participants increase, causing their Section 8 vouchers to decrease, the local housing authority may use the incremental increase in rent to fund an escrow account for the participant. These funds may be used as participant contributions to an IDA account.

The Central Vermont Community Action Council (CVCAC) in Barre, Vermont uses the FSS program to help support participant contributions to IDAs. CVCAC partners with the local housing authorities in its service area to enroll Family Self-Sufficiency program participants into Tangible Assets, an IDA program. The matched funds offered to FSS participants through this partnership enhance their ability to accumulate assets and achieve economic self-sufficiency.

Households that participate in a program funded by the Set-Aside Program must have low- or moderate-income and must complete a homeownership counseling program. Other requirements vary by region and by the sponsoring member bank. It is important to understand that only member banks are eligible to apply directly to the FHLBanks for these funds, so community leaders, policy makers and program developers need to work with a member bank to access these funds.

### *HOME Investment Partnership Program*

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The Department of Housing and Urban Development's HOME Investment Partnership Program (HOME) provides yet another potential source of funds for IDA programs. HOME is the largest federal funding source for state and local governments that is designed exclusively to increase affordable housing opportunities for low-income households. Although HOME resources have generally been targeted at building, buying, or rehabilitating affordable housing (as well as providing rental assistance), HUD has explicitly included IDAs as an eligible HOME activity. Specifically, HOME funds may be used as a source of IDA matching funds for households at or below 80 percent of area median income, provided that the accumulated assets are used for homeownership.

A needs-based formula determines the amount of HOME funds a state or locality receives. States and localities are required to provide a 25 percent match for the HOME funds with public or private dollars. Each state or locality has the flexibility to determine how their HOME funds will best meet the needs of their community. Generally, IDA programs either receive a direct appropriation of HOME funds from the state or local government or must participate in a competitive grant process to access the funds.

### *Bank Enterprise Awards Program*

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The Community Development Financial Institutions Fund, a bureau of the Department of Treasury, operates the Bank Enterprise Awards program (BEA). Specifically, the BEA awards competitive grants to insured depository institutions to encourage community development lending and investment. These grants may be used to support IDA programs. Accountholders must have low- or moderate-income and activities are restricted to designated distressed communities. Funds may be used for matching or administrative funds, with administrative expenditures limited to \$100 per account.

### *Office of Refugee Resettlement*

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The US Department of Health and Human Services' Office of Refugee Resettlement provides up to \$5 million in competitive grants to non-profit organizations and state agencies to establish or operate IDA programs for low-income refugees. ORR funds must be used for matching participant contributions and, at the time of enrollment, accountholders must be refugees: who have earned income; whose household income does not exceed 200 percent of the federal poverty level; and whose assets (excluding their primary residence) do not exceed \$10,000. Savings goals are limited to homeownership, home renovation, microenterprise capitalization, and education and training.<sup>11</sup>

### *Considerations:*

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- \* It is important to remember that, while the federal programs discussed above may provide financing for IDAs, most of them are under no obligation to do so. Of all the federal programs mentioned, only AFI is a dedicated funding source for IDAs.
- \* Financial institutions and other potential IDA program funders may soon have additional incentives to invest in IDAs. If passed, the "Savings for Working Families Act," currently in Congress, would provide tax credits to offset the costs of



IDAs. The bill proposes granting two tax credits to financial institutions. The first would be worth 90 percent of all matching funds provided by that institution for IDAs. The second would be worth 50 percent of costs associated with education, administration, and monitoring. A smaller credit would be available to non-financial institutions.<sup>12</sup>

- \* In general, participant contributions to IDA accounts and the interest earned on those contributions are subject to the federal income tax. However, matching contributions are treated as gifts and, therefore, are not subject to the federal income tax.<sup>13</sup>
- \* IDA program directors should inform potential program participants that, when AFI and TANF funds are used to match contributions for an IDA

program, all federal and federally-assisted programs (e.g., Food Stamps, housing, SSI) must disregard accumulated IDA savings when determining benefits. This may alleviate the concerns of individuals receiving these supports and encourage them to participate in IDAs. In addition, IDA program directors should make sure that participants' benefits are not being adversely affected as a result of incorrect calculations of their assets.

### Using State-Controlled Resources

State support for IDAs generally comes either through legislative action or through administrative rule. States typically provide resources for IDAs in one or more of the following ways: through direct expenditure of federal funds under state control (e.g., TANF funds); through direct expenditure of general state revenue; or through the establishment of tax credit programs.

States may elect to administer IDA programs themselves, though it is more common for states to use their resources to support the IDA programs of non-profits or municipalities. As is true with federal sources, state policy for IDAs may have restrictions on the use of funds, as well as on participant characteristics, account expenditures, or program design. Currently, at least 35 states support IDA programs or have IDA legislation pending.<sup>14</sup>

### *Direct Expenditure of Federal Dollars*

Federal funding sources for IDA programs sometimes pass through the state. For example, although TANF funds are generated at the federal level, these funds are disbursed to states, which have great flexibility in using them. Many state governments have authorized use of federal funds such as TANF and CDBG funds (for non-entitlement communities) to support IDAs.

## Direct Expenditure of State Revenue

Several states use funds from their general revenue to run, or help support, IDA programs. Most of these states allow their funds to be used for both matching and administrative expenses, although a few restrict usage to one or the other. Typically, the total amount of available funds is capped and distributed to non-profits and local governments on a competitive grant basis. IDA programs are then administered by the selected grantees, who are required to comply with state regulations regarding matching rates, eligibility criteria, and state tax treatment.

### PENNSYLVANIA'S FAMILY SAVINGS ACCOUNTS

In 1997 the Pennsylvania state legislature passed HB 1414, which established funding for a statewide IDA program. The state appropriated over \$1.25 million in Fiscal Year 2000 to finance the matching funds of IDAs (called "Family Savings Accounts"). Every two years, the state allocates general funds through the Department of Community and Economic Development to award these funds to non-profit organizations operating or establishing IDA programs with at least 100 accounts. Twenty-one non-profit community organizations received grants through a competitive application process in 2000. The grants are used to provide Family Savings Accounts with a 1:1 match. To receive the matched funds a participant must save a minimum of \$1,200 in two years. The program has grown from 100 accountholders to 2,584, with at least one IDA program in each county. After two years in operation, participants have saved \$631,000. Over 100 participants have already withdrawn their account funds to purchase an asset.

*For additional information contact: Fred Abrams, Office of Community Empowerment, (717) 787.1984.*

## Tax Credits

Several states use tax credits to promote private contributions to IDA programs within targeted communities. Tax credits provide financial incentives for private contributions to IDA programs by reducing the tax liabilities of contributors, thereby decreasing the "cost" of donations. States have typically provided up to a 50 percent tax credit for the amount of the private contribution from an individual or corporation. However, the total amount of the credits available from the state usually is limited and administered on a first come/first serve basis, and contributors to IDA programs are only eligible for credits if their funds are donated to state-selected non-profits.

### TAX CREDITS STIMULATE IDA DONATIONS IN INDIANA

Indiana supports IDA programs with two funding strategies. The state annually allocates \$2 million in grants to non-profits to provide a 3:1 match for IDAs in their programs. In addition, Indiana allocates \$200,000 in general funds to provide a tax credit to encourage private individuals or organizations to contribute to IDA programs. Private donors contributing between \$100 and \$50,000 to IDAs receive a tax credit for 50 percent of their investment in an IDA program. To receive the tax credit, donors must contribute to IDA programs through community development corporations that apply for and secure the tax credits from the state. Administering the tax credits through the community organizations assists in fundraising efforts for the program because the organizations are able to give an incentive when approaching potential private funders.

*For additional information contact: Robin Townsend, Indiana Department of Commerce, (317) 232.8911.*

## SELECTED STATE-SUPPORTED IDA PROGRAMS, AS OF SEPTEMBER 2001

	State Action	Legislation or Program
Arkansas	1999 Legislation	Family Savings Initiative Act
Colorado	2000 Legislation	The Individual Development Account Act
Connecticut	2000 Legislation	Connecticut IDA Initiative
District of Columbia	1999 Legislation	Opportunity Accounts Act of 1999
Hawaii	1999 Legislation	Individual Development Accounts
Illinois	2001 Administrative Rule	Financial Links for Low-Income People
Indiana	1997 Legislation	Indiana Individual Account Program
Iowa	1993 Legislation	Iowans Save
Maine	1997 Legislation	Family Development Account Program
Michigan	1998 Legislation	Michigan Individual Development Account Program
Minnesota	1998 Legislation	Family Assets for Independence in Minnesota (FAIM)
Missouri	Administrative Rule	St. Louis Regional Jobs Initiative
	1999 Legislation	Missouri Family Development Account Program
North Carolina	1998 Legislation	North Carolina Individual Development Account Demonstration Program
	Administrative Rule	Department of Human Services IDA Program
Ohio	1997 Legislation	Ohio Individual Development Account Program
Oklahoma	1998 Legislation	The Family Savings Initiative Act
Oregon	1999 Legislation	Oregon Individual Development Account Program
Pennsylvania	1997 Legislation	Family Savings Account Program
South Carolina	Administrative Rule	South Carolina Statewide Individual Development Account Program
Tennessee	1996 Legislation	Tennessee Individual Development Account Pilot Project
Texas	1999 Legislation	Texas Individual Development Account Pilot Project
Vermont	Legislation and Administrative Rule	Individual Development Savings Program
Virginia	Legislation	Virginia Individual Development Account Program
Washington	Administrative Rule	Washington Individual Development Account Program

1. As of September 2001, the credit had not yet been implemented.

Source: Center for Social Development, Tables 2-4, September 2001; State Policy Contacts: <http://gwbweb.wustl.edu/csd/statepolicy/StateIDAtable.pdf>

State Allocation of TANF or CDBG Funds	State General Funds	State Tax Credit	Contact
TANF	No	Yes	Dan.chambers@mail.state.ar.us
TANF	No	Yes	Chuck.Shannon@unitedwaydenver.org
No	Matching and administrative costs	Yes <sup>1</sup>	Brian.bailey@po.state.ct.us
No	Matching and administrative costs	No	rhall@caab.org
No	No	Yes	edcghayase@pacthawaii.org
TANF	No	No	doryand@povertylaw.org
TANF	Matching and administrative costs	Yes	dlewis@commerce.state.in.us
TANF	Matching and administrative costs	No	sgranbe@dhs.state.ia.us
No	No	Yes	Acp@ceimaine.org
TANF	No	No	cocciare@msu.edu
No	Matching and administrative costs	No	denise@devaanassociates.com
TANF	Matching and administrative costs	No	kbarr@ded.state.mo.us
No	No	Yes	
No	Matching costs only	No	cgardner@mail.dol.state.nc.us
CDBG	No	No	
TANF CDBG	Administrative costs only	No	ohiocdc@ohiocdc.org
TANF CDBG	No	No	sdow@captc.org
CDBG	No	Yes	mandrews@enterprisefoundation.org
No	Matching and administrative costs	Yes	nsingletar@state.pa.us
TANF	Matching and administrative costs	No	ebeach@dss.state.sc.us
TANF CDBG	Matching and administrative costs	No	tnced@aol.com
TANF	No	No	Cindy.geisman@twc.state.tx.us
TANF	Matching and administrative costs	No	mniebling@cvcac.org
TANF CDBG	No	No	shollifield@dhcd.state.va.us
TANF	No	No	janeta@cted.wa.gov

### Considerations:

- \* Securing state support for IDA tax credits may be politically easier than securing support for direct expenditures. However, tax credits generally produce a less predictable stream of financing than direct expenditures. While tax credits encourage private contributions, other factors (such as the level of attention given to IDA programs, and general economic conditions) also affect donations.
- \* Refundable tax credits are another way that states can support IDA programs. A refundable tax credit provides refund checks to taxpayers whose tax credits exceed their tax obligations. Iowa now provides a refundable tax credit on IDA savings for IDA accountholders. While such credits do not help finance IDA programs, they do provide additional incentives for low- and moderate-income workers to participate in IDA programs.<sup>15</sup>
- \* Several states have implemented policies to support “IDA-like” arrangements between employers and employees. For example, Massachusetts has enacted employment programs that subsidize employment wages for welfare recipients. In exchange for these subsidies, the employers are required to contribute money into savings accounts for the employees’ future education or job training.<sup>16</sup>

### PRIVATE FUNDING FOR IDAS IN LOS ANGELES

The Worker Income Security Program (WISP) is an employer-based IDA program that helps manufacturing workers save for a home, technical and higher education, or a small business. The program is privately funded, with the support of two local foundations and two local banks, and is administered by the Community Development Technologies Center. WISP targets low-wage manufacturing workers in Los Angeles County and small and medium-sized companies in the Los Angeles Empowerment Zone.

Employees whose annual income does not exceed \$28,000 per year are eligible for the program. In addition to matched savings accounts, English as a Second Language (ESL), math, and financial literacy classes are provided to all employees participating in WISP. Participating employers are required to pay 50 percent of training expenses, provide on-site facilities for trainings, and grant 12 hours per month of worker release time for training sessions to participating employees.

Currently, WISP has four participating employers and 63 employee account holders. Accountholders are required to save at least \$20 per month and are eligible to receive a 2:1 match on amounts up to \$40 per month.

*For additional information contact: Miguel Bonilla, WISP Program Director, (213) 763.2520.*

### Accessing Private Resources

A variety of possible partners in the private sector may have an interest in jointly developing, administering, or funding an IDA program. For some of these partners, supporting IDAs may be directly relevant to the mission of the private organization. Numerous philanthropic organizations have demonstrated their interest and belief in the merits of IDAs by providing funding to community organizations administering such programs. However, private partners may be willing to support IDAs even if their mission is not philanthropic in nature. For example, many businesses incorporate charitable giving into their business plans. These private grants and donations can enhance visibility and promote positive community relationships, while enhancing the economic activity of the community. Private entities located in states that have tax credits for contributions to IDA programs have a further incentive to provide funds for IDAs.<sup>17</sup>

In addition to these incentives, area financial institutions may be inclined to support IDAs because of the incentives created by the Community Reinvestment Act (CRA). The CRA is a federal initiative to increase the availability of credit and financial services to lower-income and minority communities. Unlike most government loan or grant programs, the CRA

does not appropriate public funds nor does it require potential beneficiaries to submit formal applications to the government. Rather, the law simply requires that regulated financial institutions use their private-sector resources to meet the financing needs of all communities in which lenders conduct business. While not a direct source of funding, CRA can be a valuable financing tool for IDA programs. Under CRA regulations, financial institutions may receive credit for such IDA-related activities as providing funding, financial literacy courses, fee-free savings accounts, and extending loans to IDA participants to help them purchase an asset upon program completion.<sup>18</sup>

Compared with many public sector funding sources, private grants and donations often have few restrictions and less stringent reporting requirements. However, these grants may be less stable because private grants often have short funding periods and private donations are vulnerable to fluctuations in the economy.

### *Considerations:*

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- \* Program leaders need to look broadly at private funding sources, including those not exclusively used for IDA programs. Most private funding is not explicitly designed to support IDAs. However, there are plenty of private resources that are intended to enhance community and economic development, adult education, and economic self-sufficiency activities geared to LMI households. Many of these private funders may be willing to provide support for an IDA program.
- \* Because foundation grants and other private funding sources are usually more flexible than public monies, these funds may be best used to help fill financing gaps resulting from the restrictions of public monies.
- \* While this brief focuses on financial resources that may be available to IDA programs, these are not the only resources that can contribute to an IDA program's financial development and sustainability. When developing a financing strategy for IDAs, program developers should also consider seeking non-financial resources, such as technical assistance and in-kind contributions, which private sources may be able and willing to contribute. Accessing these types of resources can significantly defray the administrative costs of operating an IDA program.

### **Conclusion**

IDAs can help strengthen families and communities by connecting residents with asset development opportunities and enhancing their understanding of and experience with financial services and money management. Financing for IDA programs can come from a variety of sources—public, private, and nonprofit—and can take the form of grants, donations or tax credits. The variety of strategies and examples provided here illustrate the range of financing options. The challenge of developing an effective financing plan is identifying a portfolio of funding sources that can cover the costs of the program and that are compatible with the goals and purposes of the program.

## Resources for Further Information:

### *Organizations*

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Corporation for Enterprise Development  
777 North Capitol Street, NE, Suite 800  
Washington, DC 20002  
(202) 408.9788  
[www.idanetwork.org](http://www.idanetwork.org)

Center for Social Development  
George Warren Brown School of Social Work  
Washington University  
Campus Box 1196  
One Brookings Drive  
St. Louis, MO 63130-4899  
(314) 935.7433  
<http://gwbweb.wustl.edu/csd>

Asset Building Program  
New America Foundation  
1630 Connecticut Avenue, NW, 7th Floor  
Washington, DC 20009  
(202) 986.2700  
[www.newamerica.net](http://www.newamerica.net)

Welfare Information Network  
1401 New York Avenue, NW, Suite 800  
Washington, DC 20005  
(202) 528.5790  
[www.welfareinfo.org](http://www.welfareinfo.org)

### *The Finance Project Publications*

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*Encouraging Asset Development for Low-income Workers*, Resource for Welfare Decisions, Vol. 6, No. 7, Pamela Friedman, May 2002.

*Individual Development Accounts, Resources for Policy Decisions*, Suzanne Freed.

State Plan Information Report, *Other State Provisions: Individual Development Accounts, Earned Income Tax Credits*, December 2000, (WIN, APHSA, NGA, ACF) January 2001. Includes information on maximum amounts allowed for IDAs, state EITCs and whether or not EITCs are refundable.

*Thinking Broadly: Financing Strategies for Comprehensive Child and Family Initiatives* by Cheryl D. Hayes, March 2002.

*Using the Community Reinvestment Act to Help Finance Initiatives for Children, Families and Communities* by Debbie Gruenstein, April 2002.

## *Additional Publications*

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Beeferman, Larry and Sandra Venner. *Promising State Asset Development Policies: Promoting Economic Well-being Among Low-Income Households. A Resource Guide for Policymakers and the Public.* Center on Hunger and Poverty, Boston: Brandeis University, April 2001.

Boshara, Ray. *Building Assets: A Report on the Asset-Development and IDA Field.* Washington, DC, Corporation for Enterprise Development, 2001.

*Individual Development Account Program Design Handbook: A Step by Step Guide to Designing an IDA Program*, 2000, Fourth Edition. Washington, DC, Corporation for Enterprise Development, 2000.

Edwards, Karen and Carl Rist. *IDA State Policy Guide: Advancing Public Policies in Support of Individual Development Accounts.* Washington, DC, Corporation for Enterprise Development, March 2001.

Dailey, Colleen and Ray Boshara. *Achieving Economic Self-Sufficiency through Asset Building: Opportunities for Low-Income Workers.* Jobs for the Future Conference Paper. 2000. Washington, DC, Corporation for Enterprise Development, 2000.

National Governors Association. *Building Assets and Economic Independence through Individual Development Accounts.* 1997. <http://www.nga.org/Welfare/WelfareDocs/IssueBriefBuildAssets.htm>.

Page-Adams, Deborah and Michael Sherraden. *Asset Building as a Community Revitalization Strategy.* Social Work 42(5). September 1997.

Sard, Barbara. *The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth.* Center on Budget and Policy Priorities. April 2001. Available at: <http://www.cbpp.org/4-12-01hou.htm>.

Sherraden, Michael. *From Research to Policy: Lessons from Individual Development Accounts.* St. Louis: Washington University, Center for Social Development, Perspective, May 2000.

Schreiner, Mark; Sherraden, Michael; Clancy, Margaret; Johnson, Lissa; Curley, Jami; Grinstein-Weiss, Michal; Zhan, Min & Beverly, Sondra (2001). *Savings and Asset Accumulation in Individual Development Accounts.* St. Louis: Center for Social Development, Washington University, 2001.

## **ACKNOWLEDGEMENTS**

The authors would like to extend sincere thanks to Alexandra Blain of Abt Associates Inc., Karen Edwards of the Center for Social Development, Gina Davis of the Capital Area Asset Building Corporation and Javier Silva of the Corporation for Enterprise Development for providing insightful comments and suggestions on this strategy brief. In addition, thanks to the many IDA program developers and administrators who provided valuable information on the challenges of and strategies for financing these initiatives. Finally, thanks to the staff at The Finance Project who contributed to the development of this brief, particularly Carol Cohen who managed the project and Pamela Friedman who served as an expert reviewer.

## Endnotes

1. Dailey, Colleen and Ray Boshara. *Achieving Economic Self-Sufficiency through Asset Building: Opportunities for Low-Income Workers*. Jobs for the Future Conference Paper, 2000.
2. Public Law 105-285; 42 U.S.C. 604. Additional information on the Assets for Independence program can be obtained at [www.acf.dhhs.gov/programs/ocs](http://www.acf.dhhs.gov/programs/ocs).
3. The net assets test for AFIA does not include the value of a primary residence or one car.
4. AFI does allow exemptions for emergencies, such as medical expenses and sudden unemployment.
5. Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, Section 404(h).
6. However, TANF funds may not be used to satisfy the matching requirement for AFI funds.
7. See [www.acf.dhhs.gov/programs/ofa/polquest/idas.htm](http://www.acf.dhhs.gov/programs/ofa/polquest/idas.htm).
8. As of 2001, the following states were using TANF funds to support IDA programs: Arkansas, Illinois, Indiana, Iowa, Michigan, Montana, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Vermont, Virginia, and Washington. Source: Center for Social Development, State Table 2.
9. The CDBG program is authorized under Title I of the Housing and Community Development Act of 1974, Public Law 93-383, as amended; 42 U.S.C.-5301 et seq. Program regulations are at 24 CFR 570, subpart F and subpart I.
10. Non-entitlement communities in Hawaii and Puerto Rico can apply directly to HUD's Small Cities CDBG program.
11. In some cases, using IDA accounts to purchase automobiles or computers may be permissible.
12. For more information, see [www.cfed.org/individual\\_assets/Assets\\_Policy/swfa\\_summary.html](http://www.cfed.org/individual_assets/Assets_Policy/swfa_summary.html).
13. This information is based on an advisory issued by the Corporation for Enterprise Development. The IRS has only made an explicit ruling on the tax treatment of IDA accounts funded through AFI. For more information, see [http://www.cfed.org/individual\\_assets/Assets\\_Policy/advisory\\_tax\\_consequences.html](http://www.cfed.org/individual_assets/Assets_Policy/advisory_tax_consequences.html)
14. The Center for Social Development at Washington University is an excellent source of information on state-specific IDA programs. This information is available on their website at <http://gwbweb.wustl.edu/csd/statepolicy/>.
15. Corporation for Enterprise Development *Funding Strategies for States* at <http://www.idanetwork.org/>.
16. Ibid.
17. If passed, the Savings for Working Families Act of 2000, legislation still pending in Congress, would offer another incentive for private funders by providing federal tax credits to taxpayers contributing to IDA programs.
18. For more information on CRA, see The Finance Project, *Using The Community Reinvestment Act to Help Finance Initiatives for Children, Families, and Communities*, available at <http://www.financeproject.org/newproducts.htm>.

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