



expanding economic opportunity

2007-2008 ASSETS & OPPORTUNITY SCORECARD

SUPPORT FOR IDA PROGRAMS

OVERVIEW

One in five Americans has zero or negative net worth. Twenty-two percent has so few assets that they could not stay above the poverty level for three months if their earnings were interrupted. Government policy decisions influence these outcomes. Through tax and spending decisions, government can create incentives for people to save and build assets. For example, the federal government spent \$367 billion in Fiscal Year 2005 to support asset-building for Americans. Unfortunately, most of that support went to those with very high incomes, and little to those who need it most.¹

There are, however, some policies that help low- and moderate-income people build assets. One example is a state-supported individual development account (IDA) program. IDAs are special savings accounts that match the deposits of low- and moderate-income savers, provided that they participate in financial education and use the savings for targeted purposes — most commonly post-secondary education, homeownership, or capitalizing a small business.

Extensive research on IDAs has demonstrated that these accounts are important tools that make families more financially secure and communities more stable.² The American Dream Demonstration (ADD), which ran from 1997-2003, was the first systematic study of IDAs. It proved that, with the proper incentives and support, the poor can and do save. The average monthly net deposits per participant were \$19, and — with an average match rate of \$2 for every \$1 saved — participants accumulated about \$700 per year.³

WHAT STATES CAN DO

Funding for IDA programs often comes from a combination of federal and state governments, foundations, and the private sector. State funding, in addition to directly helping low- and moderate-income savers, can also leverage federal Assets for Independence Act funds, which require a one-to-one non-federal match.

Generally, state-supported IDA programs involve a partnership between a state agency, non-profit service providers, and financial institutions. Once a state authorizes an IDA program through a legislative or regulatory process, it designates a state agency or non-governmental entity to serve as the program administrator and steward. At least half of the state programs surveyed in a recent study⁴ were administered jointly by a state agency and a non-profit.

The program administrator sets up accounts with the financial institution partner; provides fiscal management, administration, and overall marketing; and reports results to a state auditor or evaluator. The administrator also partners with non-profit service providers to interface with accountholders. Service providers manage outreach and recruitment, data collection, and individual accounts; and provide financial education training, budget and credit counseling, and asset-specific classes.

¹ L. Woo and D. Buchholz. (2007). Return on Investment? Getting More from Federal Asset-building Policies. (Washington, DC: CFED), p. 1. Retrieved 2/22/07 from http://www.cfed.org/imageManager/_documents/publications/hips2/return_on_investment.pdf.

² The Center for Social Development at Washington University in St. Louis (<http://gwweb.wustl.edu/csd/>) and CFED (<http://www.cfed.org/think.m?id=169&clusterid=1>) have each published numerous papers on IDAs, effective and innovative IDA policy design, and IDA uses.

³ M. Schreiner, M. Clancy, & M. Sherraden. (2002). Final Report: Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts. (St. Louis: Center for Social Development, Washington University).

⁴ N. Warren and K. Edwards. (2005). Status of State Supported IDA Programs in 2005. (St. Louis, MO: Center for Social Development), p.8. Retrieved 3/7/07 from <http://gwweb.wustl.edu/csd/Publications/2005/PR05-03.pdf>

ELEMENTS OF A STRONG POLICY

Based on direct work with IDA providers, government officials, and savers, CFED believes that a strong state IDA policy has the following characteristics:

- **Sufficient funding.** The state's annual commitment to IDAs should be no less than \$200 per low-income resident.⁵ This rate of funding covers the administrative and operating costs of the IDA program as well as the matching funds for savers.
- **State agency stewardship.** It is important for the IDA program to have a steward within state government and for the stewarding agency to be committed to all uses for IDA savings. The choice of agency to run the program is often based on the funding source. In some cases, however, the result has been that the IDA program is pigeonholed for one use or for one population. To avoid this drawback and to allow for a more broad-based asset-building strategy, a state could designate a department such as economic development or banking as the IDA program administrator. Assigned to a department with a broader focus, IDAs are more likely to be perceived for what they are: asset-building tools that cross programmatic areas.
- **State funding for all types of program costs.** IDA providers currently cobble together federal, private, and — if the state has established an IDA program — state funding. Restrictions on the uses of these monies are numerous and often force IDA providers to subsidize the operating and administrative costs of the program. In addition to matching deposits for IDA program participants, states should allow funds to be used to cover program administration and operating costs, as well as technical assistance to providers.
- **Stable state funding.** While state budgets grow and shrink with fluctuations in the economy and annual appropriations negotiations can be protracted, it is important for state funding for IDAs to come from a stable and protected source. Depending on a state's budget process and how the funding mechanism is structured, stability can come in a number of forms: for example, through a permanent line item in an agency's budget, a dedicated funding source such as a trust fund, or through a tax credit.⁶

IMPACT AND RESULTS OF POLICY CHANGE

IDAs have allowed low-income families to acquire high-return assets like homes, businesses, and additional education. With support of federal and state policies, public and private funding has led to the creation of more than 50,000 IDAs in programs run by more than 540 community-based organizations. Twenty-three states currently have IDA programs.⁷

⁵ This amount assumes \$2,000 per IDA and a 10 percent participation rate among eligible residents. Low-income is defined as having adjusted gross income no more than 200 percent of the federal poverty level, consistent with AFIA eligibility standards. It should be noted, however, that standards based on area median income are often stronger and more meaningful since they take into account differences in cost of living, especially in high-cost areas.

⁶ Some state tax credits are poorly structured and, as a result, may be underutilized or ineffective. However, experience in states with successful credits, such as Oregon, suggests that it is critical to structure credits so that they produce sufficient funding for IDAs, are large enough so that taxpayers have an incentive to contribute, and the tax credit program includes marketing. Oregon's tax credit, for example, is a credit against personal and corporate income tax—a tax where taxpayers have substantial tax liability. The credit is also set at a meaningful percentage for taxpayers: they receive a 75 percent credit against contributions to IDA programs. Oregon also has centralized marketing and communications for maximum visibility.

⁷ Warren and Edwards, p.1, and K. Edwards and G. Gunn. (2006, August 31). Personal communication.

For more information on this policy measure, *individual development account programs*, and more, go to www.cfed.org/go/scorecard.

In the 2007-2008 Assets & Opportunity Scorecard, the 50 states and the District of Columbia were rated on their predatory lending legislation. The ratings were based on all four criteria.