Individual Development Accounts (IDAs):

POLICY RECOMMENDATIONS FOR CRAFTING AN ASSET BUILDING PROGRAM FOR LOW INCOME FAMILIES IN MISSISSIPPI

What are Individual Development Accounts (IDAs)?

IDAs are matched savings accounts to help low-income individuals and families establish a pattern of regular savings for the purchase of one of three allowable assets:

-purchase a home or make improvements on an existing home

-start or expand a business

-pay for postsecondary education

Potential Impacts of the IDA Program

- Encouraging and sustaining savings,
- Increasing the use of traditional banking services
- Promoting greater economic self-sufficiency and less reliance on public assistance of various forms.

Who initiated the State Bill- Individual Development Accounts (IDAs)

Arkansas	Louisiana
• 7 State Senators supported the bill, Act 1058, (Arkansas Personal Responsibility and Public Assistance Reform Act) passed into law and into effect in 1997. • State Senator & Representative co-sponsored Family Savings Initiative Act 1217 . It superseded Act 1058 of 1997, The bill became law on April 9, 1999.	• 2 senators sponsored SB 530 bill in the 1997 legislative session, passed as Act No. 881 and became a regulatory statute, R.S. 46:460.6. was SB 530. No program instituted. • In 2002, HB 1732 re-enacted and amended the original IDA legislation which allows TANF funds as deposits into IDA accounts, along with state funds.

Purpose of IDAs

Arkansas

- Act 252, specifies four distinct purposes for establishing the IDA program:
  - Provide low-income families with an opportunity to accumulate assets.
  - Facilitate good saving habits.
  - Promote home ownership, microenterprise development, education, saving for retirement, and automobile purchase.
  - Stabilize families and build communities.

Louisiana

- The program focus on helping to move low-income people towards home ownership, business ownership, and educational advancement.
- Provide low income first-time home-buyers not only money but related financial education to gain economic self-sufficiency.
- IDA participants in LA could withdraw funds only for the purchase of a first home.

What Funds used for the IDAs?

Arkansas	Louisiana
• Temporary Assistance for Needy Families (TANF) dollars. • TANF funds appropriated to the Arkansas Department of Workforce Services with the approval of the Arkansas Transitional Employment Assistance (TEA) Board.	• Temporary Assistance for Needy Families (TANF) was to establish IDAs that defined the eligible uses of IDAs. • Department of Social Services (DSS) was directed to establish and administer program and expenditures of the TANF funds.

Annual IDAs Funds Appropriations

Arkansas	Louisiana
• Annual TANF appropriation for IDAs of $550,000. • 1.7 million in TANF funds have been authorized to be contracted for the contract period of July 1, 2011 through June 30, 2012 to operate the IDA program.	• DSS granted $2 million to the IDA Collaborative of Louisiana for one year(July 1, 2002, to June 30, 2003)of program operation and administration. • 2009 -Appropriates $1,500,000 for the implementation of an IDA program(Department of Social Service's Office of Family Support). • Appropriated an additional $275,000 from the State General Fund to the Louisiana Association of United Ways for IDA programming.

State Matching IDA Funds

Arkansas

The TANF funds are used as matching funds. For every $1 saved there was a match of $3.

-$2,000 maximum match for individuals,

-$4,000 maximum match for a household.

Louisiana

- The statewide IDA program provides a $4 match for every $1.
- Participant can saves up to $1,000 in contributions.
- If a participant saves $1,000, the program matches these funds with $4,000, for a total of $5,000.

Who administers the IDAs

Arkansas

- In 1997, through a request for proposals (RFP) the state selected two non-profit organizations to administer IDA program:
  - Good Faith Fund
  - Economic Opportunity Agency of Washington County
- In 1999,four nonprofit organizations are providers, offering IDAs:

  - Central Arkansas Development Council,

  - Economic Opportunity Agency of Washington County

  -Healthy Connections

  -Southern Good Faith Fund

Louisiana

- In 2002, National Center for Urban Community at Tulane and Xavier universities managed the state wide IDA Collaborative of Louisiana (IDACL)until 2006, the center was terminated.
- In 2007, statewide IDA program launched and managed Center for Social Research and Southern University and A & M College.
- The center has 30 agencies around the state serving as case managers, including two in Baton Rouge.
- Three other non-profit organizations operate IDA programs, most of them using AFIA grants:
  - Mental Health America of Louisiana
  - Total Community Action
  - United Way for Greater New Orleans Area

IDA State Income and other Eligibility Requirements

Arkansas	Louisiana
• A family is eligible to participate in the IDA program: ◦ income is 185 percent or less of the federal poverty level. • Under current guidelines, 185 percent of the federal poverty level is: -$30,710 a year for a family of three -$37,000 for a family of four. • Other criteria of the program includes: - attending financial education courses.	• Participant are eligible for any matched IDA funds: ◦ Currently working • Have at least one dependent child. • Have proof of earning an annual income that is less than 200% of the national poverty level. • Attend financial planning or education classes. • Save a part of their earned income, in a separate savings fund, to reach their goal.

Impacts on IDA Asset Building Policy on Low Income Families

Arkansas	Louisiana
As of 2006, the impact on asset accumulation among low-income households were: • 570 participants had saved \$566,306 and used \$1,653,987 in matching funds to purchase assets • 117 homes had been purchased leveraging a total of \$6,853,516 in mortgage loans	• To date, 437 participants have registered with these impacts: • 350 families to actually purchase homes and 34 have purchased homes at an average purchase price of \$94,040 to include locales- Calcasieu, 11; Caddo, 7; EBR, 10; Ascension, 2; and Tangipahoa, St. John the Baptist and Orleans, one each.

Impacts on IDA Asset Building Policy on Low Income Families-con't

Arkansas	Louisiana
• 228 homes had been renovated • 154 people had accessed postsecondary education • 71 people had started a new business or invested in an existing business	• Assist over 120 low-income working families purchase their first home. • LA has made asset building a priority and LA DSS embraced the concept of asset building.

Policy Recommendations on IDAs-Arkansas

- Expand IDA coverage to all 75 counties in Arkansas, several policy changes needed:
- Increase TANF funding for IDAs from an annual TANF appropriation of $550,000. At least doubled the amount initially so that the remaining 39 counties can be reached.
- The Arkansas Assets Coalition, whose organizing members are the four providers under the state's IDA program, has recruited numerous organizations that have expressed an interest in providing IDAs should more funding become available.

Policy Recommendations on IDAs in Arkansas

- Increased funding would allow existing providers to expand their reach: several providers currently have participant waiting lists.

- Increased the percentage of TANF IDA funds for program operations. The TANF rule allow 20 percent of funds to be spent on program operation is not sufficient operational funding for every IDA program currently operating in state. Operation are subsidized with other funding.

- Increased is needed for the programs to maintain current operations, and to expand operations of IDA access to every county in the state.

Policy Changes Adopted in Arkansas

- The policy recommendations was adopted by Act 252 of 2007, as amended, which was commonly referred to as "the Family Savings Initiative Act". Act 252 specifies four distinct purposes for establishing the IDA program:
- Provide low-income families with an opportunity to accumulate assets.
- Facilitate good saving habits.
- Promote home ownership, microenterprise development, education, saving for retirement, and automobile purchase.
- Stabilize families and build communities.
- The funding was increased from of $550,000. Currently, $1.7 million in TANF funds have been authorized to be contracted for the contract period of July 1, 2011 through June 30, 2012 to operate the IDA program.
- The Arkansas Department of Workforce Services (DWS) is inviting proposals from Arkansas-based fiduciary organizations ("the Contractor") to operate an IDA program in one or more counties in the State of Arkansas.

Policy Changes Adopted in Arkansas

- IDA coverage area was expanded from 39 to all 75 counties in the state of Arkansas and also there of more than four providers of the IDA's.
- Proposals will be accepted for delivering IDA services in one or more of Arkansas' seventy-five (75) counties. DWS will provide funding to Contractors in two categories:
- A. Match Funds - To be accessed by the Contractors to match participant's savings, paid on a first-come first-serve basis.
- B. Operation and Administrative costs – For costs incurred by the contractor in operating an IDA program.

Challenges Faced in Establishing IDA as a New Policy Alternative

- **Reaching More Individuals -** When one in four families in America is considered asset poor, 20,000 IDA accounts is a small number.
- To bring these programs to scale and to reach more families is a challenge that must be taken into account before moving forward.
- **Finding and Retaining Match Sources -**The match rate is what allows a low-income family to turn a small bit of savings into a substantial asset.
- Secure and maintain public and private funding source is critical to the success of IDA programs.

Challenges Faced in Establishing IDA as a New Policy Alternative

- **Providing Follow-Up Services** - Protecting assets that families worked hard to secure is essential to long-term financial security.

  Homeownership is a way to build financial security but it can also be a quick path to foreclosure and even further debt if families are not provided with the necessary tools to protect their assets.

Summary: Factors to Consider in a Strong IDA State Policy

- ***<u>Sufficient Funding</u>****:* The state's annual commitment to IDAs should be no less than $200 per low-income resident.
- The rate of funding should cover the administrative and operating costs of the IDA program as well as the matching funds for savers.
- ***<u>State Funding for all Types of Program Costs</u>****:* Often IDA providers are forced to subsidize the operating and administrative costs of the program due to the numerous restrictions on the uses of these monies.
- Mostly IDA providers combines federal, private, and -if available -state funding.
- Therefore, matching deposits should be included for the IDA program participants, the state should allow at least 15 percent of state funding to be used to cover program administration, program services, operating cost and /or technical assistance to providers.

Summary: Factors to Consider in a Strong IDA State Policy

- ***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.

- State stewards should provide training and technical assistance for IDA providers. Also, have a system in place for gathering feedback that informs improvements to the program. In addition, to ensure that at least 85 percent of state funding is utilized annually.

- ***Stable State Funding***: It is important for state funding for IDAs to come from a stable and protected source.

- States must display funding stability over a three year period. Due to fact that state budgets grow and shrink with fluctuations in the economy and annual appropriations negotiations can be long-drawn-out.