

STATE IDA PROGRAM SUPPORT

OVERVIEW

One in seven Americans has zero or negative net worth. Twenty-three percent have so few assets that they could not stay above the poverty level for three months if their income 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 went to those who need it most.¹

There are, however, 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 postsecondary education, homeownership or capitalizing a small business. Extensive research on IDAs demonstrates that these accounts are important tools that make families more financially secure and communities more stable.²

The American Dream Demonstration, which ran from 1997 to 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 deposit per participant was \$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 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 that every federal dollar be matched by a non-federal source.

Generally, state-supported IDA programs involve a partnership between a state agency, nonprofit 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 2005 study⁴ were administered jointly by a state agency and a nonprofit.

The program administrator may set up accounts with the financial institution partner; provide fiscal management, administration and overall marketing services; and report results to a state auditor or evaluator. The administrator

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

² The Center for Social Development at Washington University in St. Louis and CFED have each published numerous papers on IDAs, effective and innovative IDA policy designs and IDA uses.

³ Schreiner, M., Clancy, M. & Sherraden, M. (2002). *Final Report: Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts*. St. Louis, MO: Center for Social Development, Washington University. Retrieved August 3, 2007 from <http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf>.

⁴ Warren, N. & Edwards, K. (2005). *Status of State Supported IDA Programs in 2005*. St. Louis, MO: Center for Social Development, p.8. Retrieved March 7, 2007 from <http://csd.wustl.edu/Publications/Documents/PR05-03.pdf>.

also partners with nonprofit service providers to interface with accountholders. Service providers manage outreach and recruitment, data collection and administration of individual accounts, and also provide financial education training, budget and credit counseling and asset-specific classes.

ELEMENTS OF A STRONG POLICY

Based on direct work with IDA providers, government officials and savers, CFED considers a state's IDA policy strong if it meets the following criteria:

1. **Is the state's commitment to IDAs sufficient to meet demand?** The state's annual commitment to IDAs should be no less than \$200 per low-income resident.⁵ This level of funding is sufficient to cover matching funds for savers as well as the operating expenses of running an IDA program.
2. **Is there a strong agency steward for the IDA program?** 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, have a system in place for gathering feedback that informs improvements to the program and ensure that at least 85% of state funding is utilized annually.
3. **Does the state allow at least 15% of state funding to be used for program administration, program services, operating costs and/or technical assistance to providers?** 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 at least 15% of state funding to be used to cover program administration, program services, operating costs and/or technical assistance to providers.
4. **Is state funding for IDAs stable over time?** Because 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. To be classified as having stable funding, states must display funding stability over a three-year period.⁶

IMPACT AND RESULTS OF POLICY CHANGE

IDAs have allowed low-income families to acquire high-return assets including homes, businesses and additional education. With support of federal and state policies, public and private funding has led to more than 1,200 sites providing IDAs to more than 85,000 savers around the country.⁷ Twenty-one states currently have funded IDA programs.⁸

⁵ This amount assumes \$2,000 per IDA and a 10% participation rate among eligible residents. Low-income is defined as having adjusted gross income no more than 200% 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 because they take into account differences in cost of living, especially in high-cost areas.

⁶ In the 2009-2010 Assets & Opportunity Scorecard, funding trends were determined by reviewing funding levels for the last three fiscal years. If funding remained the same, increased over time or if an average of all three years was within 10% of the peak year, funding was considered to be stable.

⁷ CFED research.

⁸ CFED State IDA Policy Survey results, June 2009.

For more information on this policy measure, State IDA Program Support, and more, go to <http://scorecard.cfed.org>.

In the 2009-2010 Assets & Opportunity Scorecard, the 50 states and the District of Columbia were rated on their existing support for IDAs. The ratings were based on all four criteria described above.