IDAs: Building Assets to Break the Chains of Poverty

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It's a vicious circle. Alabamians born into poverty all too often stay there, because they start their lives with few of the material advantages of their wealthier counterparts. Low-income families live paycheck to paycheck. Many of them can't afford to buy a home or build up enough savings to pay for college or to pass on to future generations. And their children tend to grow up in communities where reliable information on how to manage money and attain financial success is hard to find. Because of these early disadvantages, many children in low-income families grow up to become adults who lack the financial and educational tools necessary to build a better life for *their* children.

But things don't have to stay that way. With just a small investment in a federally sponsored *asset-building* strategy known as *Individual Development Accounts (IDAs)*, the state could help hundreds of hard-working, low-income Alabamians break the chains of poverty by turning their dreams of going to college or owning a home or starting a small business into realities.

Triple play

As IDA account holders add to their savings accounts each month, the match doesn't just double their money but *triples* it:

$50 becomes $150.
$250 becomes $750.
$1,000 becomes $3,000.
$2,000 becomes $6,000.

How do IDA programs work?

IDAs are *matched savings accounts* designed to help low-income households build savings to spend on particular kinds of long-term assets. The *Assets for Independence Act of 1998 (AFIA)* set the guidelines under which people could receive a one-to-one match of their monetary contributions from both the federal government and a non-federal source, which can include state governments.

Under the AFIA, participants can get matching funds for up to $2,000 they save in an IDA. (The concept of the match is similar to the employer match of workers' 401(k) accounts.) After the federal government and a local contributor match that money, the account holder ends up with $6,000. That money is paid directly to an asset provider for one of three specified purposes: (1) to make a down payment on a first home, (2) to attend college or a job training program, or (3) to launch a small business. Depending on the program guidelines, account holders usually get either two or three years to reach their investment goal. Withdrawals of personal savings for any other reason are allowed only for emergencies, such as unexpected medical expenses, and account holders must pay that money back within a certain time to remain in the program. At no time may an account holder withdraw matching funds for any purpose other than the three mentioned above.

Aside from the matching funds, what other benefits do IDAs offer low-income people?

Participants in IDA programs typically must obtain financial education on budgeting, saving and other financial management issues. Programs established under the AFIA offer such classes, as well as instruction on credit counseling, credit repair, tax credits and long-term strategies for asset ownership. The programs require many hours of basic financial education, as well as several more hours devoted to how to manage the particular asset that the account holder seeks.

Financial education helps enrollees use the assets they have built to achieve lasting financial stability and success. Research has suggested that asset-building programs and the education that accompanies them improve low-income people's economic prospects by giving them greater

Keywords

Assets for Independence Act of 1998 (AFIA) – a federal law establishing grants for nonprofits or other agencies to operate Individual Development Account programs.

asset building – a strategy to fight poverty by helping low-income households acquire lasting assets.

earned income tax credit (EITC) – a refundable federal tax credit that cuts or eliminates low-income workers' tax bills and that often subsidizes their wages.

Individual Development Account (IDA) – a matched savings account to help low-income people build savings to acquire specified long-term assets.

matched savings account – a savings account in which every dollar the account holder contributes is matched by a government agency, business or other third party.

financial stability and enabling them to pass knowledge about money management to their children.

Who can participate in an IDA program?

People are eligible to participate if they have less than $10,000 in assets at the time of enrollment, not including their home and one car, and either (1) are eligible for a federal *earned income tax credit (EITC)* or (2) earn a total household income less than twice the federal poverty line, which was $20,615 for a family of four in 2006. People who qualify to receive Temporary Assistance for Needy Families (TANF), the program often referred to as welfare, also are eligible for an IDA. Participants' contributions must come solely from earned income.

In practice, many people use EITC funds as the largest portion of their IDA contributions. For example, a worker might save $10 a week for 20 weeks. Then, when her tax refund arrives (with a $4,000 EITC payment), she can make up the balance of the $2,000 goal.

Who administers IDA programs?

The federal government awards five-year AFIA grants to community-based nonprofits and other groups that manage local IDA programs. The Office of Community Services (OCS), a part of the U.S. Department of Health and Human Services, has issued the federal grants to dozens of state and local IDA programs across the country. The grant recipients oversee individual IDA accounts. Those recipients may include nonprofits, state or local governments working jointly with nonprofits, and banks or credit unions teaming up with a community-based anti-poverty group.

IDAs existed in a handful of states in the early 1990s, but they first came to national prominence in 1996, when a provision of the Welfare Reform Act allowed states to include them in plans to overhaul their welfare systems. Two years later, Congress passed the AFIA to allow direct federal participation in IDA programs. The AFIA originally was a five-year demonstration project, but Congress renewed the act in 2003. Since then, IDA programs have taken hold across the country. By fall 2007, more than 44,000 people were participating in more than 400 IDA projects nationally, according to the OCS. Today, more than two-thirds of the states have incorporated IDAs into their welfare reform plans.

What is Alabama's history with IDAs?

Dozens of Alabamians hold IDA accounts managed through groups affiliated with the Alabama Asset Building Coalition (AABC), a consortium of almost 50 nonprofit groups, businesses and government agencies that was established in 2005. The United Way of Central Alabama is fiscal agent for federal grants available in 10 counties: Baldwin, Blount, Dallas, Etowah, Jefferson, Mobile, Shelby, St. Clair, Sumter and Walker. Smaller IDA programs also have appeared in Huntsville and Tuscaloosa. Matching funds come from an array of public, private and municipal sources.

Sixty-two accounts have been opened in the first 18 months of the AABC's program, with more than $22,000 deposited thus far. Most of the participants are saving toward home ownership. As of late 2007, four families have bought first homes through the AABC program, and one has paid for postsecondary education. Two participants also have bought first homes through the Huntsville program.

Why should Alabama invest in an IDA program if others already exist here?

Many IDA programs are limited in scope and reach. For example, the City of Birmingham's local match requires enrollees to use IDA funds to purchase a house within the city limits. Other asset-building projects around the country are available only to people who work for a particular company or live in a particular area. And people in many parts of Alabama have no IDA program nearby.

The state's participation in plans established under the AFIA could break down geographic, demographic and other barriers that prevent many eligible Alabamians from taking part in IDA programs. As a result, low-income people across the state could share in the opportunity that IDAs offer to end the cycle of poverty for themselves and their families.

This fact sheet was prepared by policy analyst Chris Sanders. It may be reproduced with acknowledgment of Arise Citizens' Policy Project, Box 1188, Montgomery, AL 36101; (800) 832-9060; arisecitizens.org.