



## **CRS Report for Congress**

# **Individual Development Accounts (IDAs): Background and Current Legislation for Federal Grant Programs to Help Low-Income Families Save**

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### **Summary**

Individual Development Accounts (IDAs) are savings accounts to help low-income families and persons save for specified purposes, usually education, purchase of a home, or to start a business. Current IDA programs match an individual's contributions, much like retirement 401(k) accounts. The Assets For Independence (AFI) Act, enacted by Congress in 1998, specifically authorizes IDA demonstration programs. Authorization for the AFI programs expired at the end of FY2003, though Congress continued to appropriate money for the program. President Bush's FY2009 budget would fund AFI at \$24.025 million, the same funding level as provided for FY2008.

States are also given authority to use funds from the Temporary Assistance for Needy Families (TANF) block grant to fund IDA programs. The Deficit Reduction Act of 2005 (P.L. 109-171, S. 1932) "reauthorized" TANF through FY2010, making no changes to TANF's rules for IDAs. The AFI program remains unauthorized. This report will be updated to track legislative or appropriations activity.

### **Introduction**

Most federal and state programs of financial assistance to poor and low-income families either increase income or subsidize the purchase of goods and services to help them meet their basic, immediate consumption needs. The exceptions are education and training programs, that seek to build "human capital." More recently, Individual Development Accounts (IDAs) have been developed to help low-income families build financial capital. President Bush has mentioned IDAs as a component of his proposals to increase "ownership."

IDA programs are operated by community-based organizations (including faith-based organizations), as well as state and local governments in partnership with community-based organizations. From the participant's viewpoint, IDAs operate much like retirement 401(k) plans: the participant makes contributions, which are matched (at varying rates) by the program. Withdrawals from IDAs are restricted. Funds can be withdrawn to finance specific activities and purchases — generally, education, the purchase of a home, and to start a business. An individual's contributions may also be withdrawn for other purposes, but this leads to the loss of matching funds. In addition to providing matching funds for accounts, IDA programs also provide financial literacy education, case management, and supportive services to participants.

This report describes IDA programs funded by two major federal grants: the Assets for Independence (AFI) Act of 1998 and the Temporary Assistance for Needy Families (TANF) program created in the 1996 welfare reform law. Other federal initiatives that provide for more targeted IDAs (e.g., for refugees and for families in assisted housing) are not discussed in this report.

## **Assets for Independence Act Demonstrations**

The Assets for Independence Act (AFI, P.L. 105-285) authorized up to \$25 million per year for FY1999 to 2003 for competitively awarded IDA demonstration programs.<sup>1</sup> Congress has continued the AFI program absent an authorization. The Department of Health and Human Service (HHS) administers the AFI program.

**Table 1** provides a funding history for IDAs under the AFI program. In recent years, funding has been near the old \$25 million authorization level. President Bush's FY2009 budget would fund AFI at \$24.025 million, the same funding as provided for FY2008.

AFI grantees must raise nonfederal funds to operate AFI IDAs. The AFI federal grant cannot exceed the amount of nonfederal resources raised for the program. The maximum federal grant under the AFI program is \$1 million.

**What Types of Organizations May Operate AFI IDAs?** The AFI Act authorizes competitive grants for IDA programs to nonprofit organizations;<sup>2</sup> state, local, and tribal governments that apply with non-profits; credit unions; and organizations designated by the Secretary of the Treasury as community development financial institutions. Credit unions and community development financial institutions must demonstrate a collaborative relationship with local community-based organizations whose activities are designed to address poverty. Faith-based organizations may also operate IDA programs.

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<sup>1</sup> The AFI Act IDA program was subsequently amended by P.L. 106-554.

<sup>2</sup> Defined as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986. Exempt from taxation under Section 501(a) of the tax code.

**Table 1. Assets for Independence Act IDAs:  
Funding History, FY1999-FY2009**

(\$ in millions)

Fiscal Year	Appropriations
1999	\$9.994
2000	9.998
2001	24.891
2002	24.943
2003	24.827
2004	24.695
2005	24.704
2006	24.435
2007	24.452
2008	24.025
2009 (President's request)	24.025

**Source:** Congressional Research Service (CRS) compilation of information from HHS and Appropriations Committee documents.

Additionally, the AFI Act “grandfathers” in eligibility to operate an IDA program to state programs funded at \$1 million or higher that were in operation on the date of enactment. “Grandfathered” state programs need not comply with AFI’s rules. Under this provision, Pennsylvania and Indiana received AFI funds.

**Who May Participate in AFI IDAs?** Participation in AFI Act IDA programs is limited to persons who

- are eligible for TANF assistance; *or*
- live in a household with income below 200% of the poverty line or have earnings low enough to qualify for the Earned Income Tax Credit *and* have a net worth of less than \$10,000. The net worth test takes into account the market value of all assets except the household’s primary residence and the value of one motor vehicle.

IDAs may be established for the benefit of the participant, as well as his/her spouse and dependents. Since IDAs are targeted to low-income families who might qualify for government aid based on low income and assets, the AFI Act requires that IDA funds be ignored when determining eligibility for federal assistance programs.

**What Are the Contributions and Match Rules in AFI IDAs?** Participants are required to contribute to their IDA with cash or a check. Contributions from earnings are matched by a minimum \$1 for each \$1 in participant contributions. Matching amounts are funded from both federal and nonfederal sources, with a minimum 50% funded from nonfederal sources. Maximum matching amounts from federal funds are limited to \$2,000 for any one individual and \$4,000 for any one household.<sup>3</sup>

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<sup>3</sup> For programs that have the minimum nonfederal 50% match, this would mean maximum matching amounts of \$8 per \$1 in contributions and a total \$4,000 per individual and \$8,000 per household (continued...)

### **For What Activities May a Participant Withdraw Funds from the IDA?**

Participants may withdraw their contributions, match funds, and interest for specified purposes. These specified purposes are:

- ***Post-secondary educational expenses.*** Payments are made directly from the IDA to an educational institution for tuition, fees, books, supplies, and equipment.
- ***The purchase of a home.*** Payments are made directly from the IDA to cover the acquisition costs (including the closing costs) of the home. The acquisition costs cannot exceed 120% of the average purchase price of similar residences in the area.
- ***Starting a business.*** The IDA may be used to finance expenditures under a business plan to acquire plant, equipment, working capital and finance inventory expenses. The business plan must be approved by a financial institution, micro enterprise development organization, or a nonprofit loan fund.

**Can Participants Make Withdrawals for “Emergency” Expenses?** The AFI Act allows participants to withdraw their contributions from the IDA to pay medical expenses for the participant and his/her spouse or dependents; payments to prevent the eviction of the participant from her home; and necessary living expenses following loss of employment. Match funds and interest earnings cannot be withdrawn for these emergency expenses.

### **What Additional Benefits and Services are Offered in an IDA Program?**

Under the AFI Act, IDA programs must use funds to provide financial literacy education (economic literacy, budgeting, credit, and credit counseling) to IDA participants. Of the federal and nonfederal funds used in the IDA program, up to 15% may be used for such financial literacy, administration, and assisting with an evaluation of the program.

**AFI Evaluation Requirements.** As a demonstration program, the AFI Act IDA program has an evaluation component. Organizations operating IDAs are required to submit annual progress reports to the Secretary of Health and Human Services (HHS) and HHS is required to submit periodic reports to Congress. Additionally, the AFI law requires an evaluation, which is being conducted by the Abt Research organization. (Annual reports from HHS and reports from the AFI evaluation are cited in the “Additional Reading” section of this report.)

## **TANF Program IDAs**

Temporary Assistance for Needy Families (TANF) is a federal block grant that gives states broad flexibility in the use of its funds in aiding needy families with children. Generally, TANF funds (and required state monies spent under its “maintenance of effort”

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<sup>3</sup> (...continued)

household. However, if the program is able to raise additional funds (beyond 50%), those funds, too, could be used to match participant contributions.

requirement) can be used to further any of its statutory goals.<sup>4</sup> In addition, TANF provides specific authority and rules for states to operate IDA programs. States may use TANF and state maintenance of effort funds for IDAs *either* as an activity that furthers the statute's broad goals, in which case it must conform only to general TANF rules, or under TANF's specific authority to use funds for IDAs, in which case it must follow TANF's specific IDA rules.<sup>5</sup>

**TANF's Specific IDA Rules.** The TANF law provides explicit authority for states to use federal block grant funds for IDA programs and rules for their operation.<sup>6</sup> Under this provision, IDA programs may be established for individuals eligible for TANF assistance who may make contributions from earned income to the account. Many of the rules for the TANF IDA are similar to the rules under the AFI Act: contributions are to be matched through a nonprofit organization or a state and local government (though there are no limits to matching rates or amounts); withdrawals may be made for educational expenses, purchase of a first home, or starting a business; and the IDA is not to be considered when determining the financial eligibility status of a recipient applying for or receiving federal aid. Eligibility to participate in TANF IDA programs is limited to those "eligible" for TANF assistance. There are no provisions for "emergency" withdrawals from TANF IDAs.

**IDAs Under TANF's General Use of Funds Provisions.** As mentioned above, IDAs may also be established under TANF's authority to permit federal and state funds to be used to accomplish any TANF purpose. Except for general requirements regarding the use of TANF funds,<sup>7</sup> states are free to design IDA programs without regard to federal limits and rules. For example, such IDAs may be established for purposes other than educational expenses, home purchase, or starting a business — such as purchasing a car.

**IDAs in Determining TANF Cash Eligibility.** Most states require that a family have low assets in addition to low income to be eligible for TANF cash welfare. Ohio and Virginia eliminated this "asset test," basing eligibility on income alone. As of January 2004, 37 other states exempted funds in IDA accounts from being counted as assets when

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<sup>4</sup> TANF statutory goals: to (1) provide assistance to needy families so that children may live in the homes of their relatives; (2) end the dependence of needy parents on government benefits through work, job preparation, and marriage; (3) reduce the rate of out-of-wedlock pregnancies; and (4) promote the formation and maintenance of two-parent families.

<sup>5</sup> The basic TANF block grant is \$16.5 billion; state "maintenance of effort" spending is \$10.4 billion per year. IDAs have represented only a small share of this funding, though the exact amount of TANF funding used by IDAs year-to-year is not available. In FY2003, total reported federal and state TANF expenditures on IDAs totaled \$26.6 million, but about half of that, \$13.7 million, represents a reclassification of spending in a Wisconsin program from being reported as a tax credit to being reported as an IDA expenditure.

<sup>6</sup> See Section 404(h) of the Social Security Act.

<sup>7</sup> See CRS Report RL32748, *The Temporary Assistance for Needy Families (TANF) Block Grant: A Primer on Financing and Requirements for State Programs*, by Gene Falk.

determining eligibility for TANF cash welfare.<sup>8</sup> (The exemption of IDAs from countable assets could apply to TANF, AFI, or otherwise funded IDAs.)

## **Additional Reading**

Boshara, Ray. *Individual Development Accounts: Policies to Build Savings and Assets for the Poor*. Brookings Institution Policy Brief, Welfare Reform and Beyond #32. March 2005.

Ciurea, Michelle, et al. *Assets for Independence Act Evaluation: Second Annual Site Visit Reports*. Abt Associates, prepared for the U.S. Department of Health and Human Services. December 2002.

Sheridan, Michael. *Assets and the Poor*. M.E. Sharpe Inc., Armonk, New York. 1991.

U.S. Department of Health and Human Services. *Interim Report to Congress. Assets for Independence Demonstration Program Status at the Conclusion of the Third and Fourth Years Volume 1 of 3: Narrative*. May 2004.

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<sup>8</sup> This is based on a Congressional Research Service survey of financial income and benefit rules in state TANF programs. See CRS Report RL32598, *TANF Cash Benefits as of January 1, 2004*, by Meridith Walters, Gene Falk, and Vee Burke.