

Individual Development Accounts

IDAs for Families and Youth



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Individual Development Accounts - Building a Statewide Program in Nebraska

Individual Development Accounts

Individual Development Accounts (IDAs) are matched savings accounts, dedicated to investments in assets such as home ownership, education or job training, or small business development or expansion.

There are currently 35 states that have passed IDA legislation (excluding Nebraska) and, all 50 states have some type of an IDA program already in progress.

IDA programs and requirements are specifically targeted to low-income individuals (in 2008, low-income is considered a salary of \$35,200 or below for a family of three), providing participants with incentives and opportunities to save. Results of the American Dream Demonstration, a longitudinal study of IDAs, show “given the right combination of incentives, access and institutional supports, low-income people can and do save.”

How do IDAs Help Nebraska’s Youth and Families?

An estimated 98,000ⁱ low-income families and 2,192ⁱⁱ foster youth in Nebraska are potentially eligible for

IDAs. A statewide IDA program could provide these families and youth with necessary opportunities to increase wealth and build assets. The incentive of matched savings, similar to matched 401(k) contributions, reward savings behavior for families and individuals with the fewest resources. As a result, IDA participants are able to build up financial resources which work to reduce financial concerns, and ultimately lead to the improvement of families’ financial positions. According to a 2007 survey of IDA participants in the Assets for Independence (AFI) program, completed by the Corporation for Enterprise Development, 59% utilized their savings to purchase a home, start or expand a small business, or invest in post secondary education. Additional asset goals among participants included: home repair, auto purchase, car purchase, job training or land purchase. IDAs continue to be an effective means with which to build savings and assets.

Why Focus on Transitional Youth?

Transitional and foster youth are among the most vulnerable in our population. More often than not, these youth have fewer resources from which to draw than youth with permanency. For example,

foster youth planning for independent living are less likely to have access to college savings plans or other savings mechanisms that many may receive from their families. In providing the necessary tools for financial stability and access to financial education, the state can provide youth with the opportunity to excel and build wealth for themselves.

The Jim Casey Youth Opportunities Initiative created a program entitled *Opportunity Passport*, which is designed to provide foster youth and former foster youth, ages 14 to 23, with the tools needed to “learn financial management; obtain experience with the banking system; save money for education, housing, health care, and other specified expenses; and gain streamlined access to educational training and vocational opportunities.”

A Cross-Site Report, authored in June 2006, provided information on 569 out of the 1,390 total *Opportunity Passport* participants. Data show that by March 31, 2006, the 569 reporting participants had saved \$392,616 - which could be used toward asset development. These data provide evidence that youth can and will save when provided the support and opportunity.

IDA Highlights

- ◆ A 1:1 to 3:1 match on savings deposited into an IDA.
- ◆ With matched savings, individuals are able to achieve financial and asset-building goals sooner.
- ◆ Individuals receive financial education classes to assist in how to best save for one's future.
- ◆ Financial education classes include information on credit counseling, budgeting, and establishing a sound savings schedule.
- ◆ Individuals are able to purchase an asset, which will work toward achieving goals and dreams at the end of the IDA term.
- ◆ An IDA provides an opportunity to increase wealth.
- ◆ Relationships are established with banks or credit unions that can provide long-term benefits.

Essential IDA Components

- ◆ **Information and Learning Tools:** Including professional development and problem-solving tools to meet the needs of program participants.
- ◆ **Training and Technical Assistance:** Services that are responsive, flexible, frequent, accessible, affordable, and comprehensive enough to meet the wide array of stakeholders' interests and abilities.
- ◆ **Performance and Outcomes:** Institutionalized support for continued research and development of IDA products and services.
- ◆ **Policy:** Regulations and programmatic rules that foster further IDA development and integrate IDAs into current programs and funding streams (at all levels of government).
- ◆ **Resources:** Diverse and stable sources of funding.



Why Statewide Administration?

Youth and families throughout Nebraska are struggling to be financially stable. Nebraska's proposed IDA program will prioritize transitional youth in Nebraska and provide an opportunity to other low-income specific populations across the state, such as TANF recipients. According to the 2006 Current Population Survey, 23.7% of Nebraskans, aged 18 - 64, were considered low-income, or living at or below 200% of the federal poverty guidelines.ⁱⁱⁱ Of children under age 18, 33.5% were considered low-income.ⁱⁱⁱ Despite Nebraska's high employment rate and a strong workforce, Nebraska's families and youth are finding it more and more difficult to provide a secure financial foundation for their future - IDAs provide a means to build that foundation.

Matched funds for IDAs come from a variety of sources: federal grants, state and local government grants, financial institutions and private foundations. States can provide match funding with general fund appropriations, federal and state Temporary Assistance for Needy Families dollars, Community Development Block Grant funds, and with tax credits for match contributors and individual account holders. States may also choose to use general funds for administrative costs.

IDAs are often administered by community nonprofit organizations or Community Action Agencies in collaboration with state and local entities, banks and credit unions.

Financial institutions maintain the accounts and often provide other services to participants including budget counseling, homebuyer workshops and general financial education. Some financial institutions also provide funds for match contributions.

Pathway of Opportunity for all Nebraskans

Individual Development Accounts provide individuals a pathway toward savings and asset development. While some pockets of Nebraskans are experiencing the benefits of IDAs through non-profit and company-specific programs, most Nebraskans do not have access to the opportunity and success of IDAs. By developing a statewide infrastructure and implementing a statewide program, Nebraska can work toward breaking down geographic and demographic barriers that currently prevent eligible youth and families from participating in a program which can lead toward long-term financial stability.

ⁱ U.S. Census Bureau, Current Population Survey. 2007. Annual Social and Economic Supplement. Table Pov46.

ⁱⁱ Nebraska Department of Health and Human Services. Data reflect youth in care, ages 16-19, on April 30, 2008.

ⁱⁱⁱ U.S. Census Bureau, Current Population Survey. 2007. Annual Social and Economic Supplement. Table Pov46.