Congress of the United States

Washington, DC 20515
April 13, 2000

AK/PJW —
Can banks get CRA credit for IDA accts?
— BR

The Honorable William J. Clinton
President of the United States
The White House
Washington, DC 20500-0003

Dear Mr. President:

As moderate and conservative Democrats who strongly support your policies of helping provide opportunity for the less fortunate in society, we applaud your commitment to work with Speaker Hastert on legislation to encourage economic development in economically disadvantaged communities. As you continue this effort, we encourage you to work to include provisions that will help low-income workers by expanding the use of an innovative new financial instrument known as the Individual Development Account (IDA).

Encouraging business growth and job development in economically distressed communities is a worthy goal which we support. Legislation expanding access to Individual Development Accounts would be a natural compliment to such proposals. Strong communities require individuals equipped with tools necessary to take advantage of these opportunities and move into the middle class.

Individual Development Accounts have been tremendously successful in helping low-income families move up the economic ladder. Non-profit organizations and financial institutions work with families moving off of welfare and other low-income families to establish Individual Development Accounts. The organizations provide matching funds to supplement what the individuals can save. These organization also provide financial education and counseling to the participating individuals. These special savings accounts reward savings by matching deposits dollar-for-dollar. The savings accumulated in IDAs can be applied toward buying a home, investing in higher education, vocational training, or starting a small business.

A number of state and local IDA pilot programs are reporting real success in spurring savings and asset-building. In the Corporation for Enterprise Development's Downpayments on the American Dream Policy Demonstration, 1,326 account-holders saved $378,708 which leveraged $741,609 in matches. Monthly savings averaged $33, with the very poor (those earning less than 50 percent of the federal poverty line) saving 8 percent of their incomes while the moderate poor (those earning between 150 percent and 200 percent of poverty) saved 2 percent of their income. In other words, IDAs have been tested and shown to work: poor people can save, build assets, and dramatically improve their lives through IDAs.

However, current IDA efforts have been limited in scope because of a lack of funds. Given the success of IDA efforts at the local level, we believe that it is worthwhile for the federal government to expand the benefit across this country by providing federal tax incentives encouraging the development of IDA programs.

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Representatives Joe Pitts and Charlie Stenholm will be introducing legislation, The Savings for Working Families Act of 2000, which will provide federal tax credits for financial institutions and the broad range of non-profits that would partner with them. Similar legislation has been introduced in the Senate by Senators Joe Lieberman and Rick Santorum. These credits will also leverage private sector investments and community involvement in IDAs. Encouraging the development of IDAs program will not require a big government bureaucracy. Rather it is an innovative partnership of government, financial institutions and non-profits to help people who help themselves.

One of the biggest hurdles facing the working poor today is the growing wealth gap. A recent report by the Federal Reserve found that while the net worth of the typical family has risen substantially in recent years, it actually has dropped substantially for low-income families. Expanding the use of IDAs alter this imbalance, and thus enhance the economic independence of America's working poor.

We were proud to work with you in enacting welfare reform. Simply reducing the welfare rolls is not enough; our goal must be moving families from welfare into the middle class. As you have said eloquently on many occasions that we must continue or efforts to help individuals who are leaving welfare become self-sufficient. IDAs can be a valuable part of our effort to help low-income families help themselves as they work toward self-sufficiency.

We also share your commitment to maintaining fiscal discipline. Legislation creating tax incentives for IDAs, as well as the broader legislation creating tax incentives for economic development in poor communities, must be considered in the context of a fiscally responsible framework. We believe that the modest costs of this legislation can and should paid be for with offsets.

Thank you for your leadership on this issue. We look forward to continuing to work with you on this and other issues.

Sincerely,

Charlie Stenholm

Ronnie Shows

Mike McIntyre

Tim Roemer

David D. Phelps

James H. Maloney

Tim Holden

[illegible]

Cal Dooley

Loretta Sanchez

Tom Barrett

Members Signing Letter to the President Regarding Individual Development Accounts

Rep. Charlie Stenholm D-TX
Rep. John Tanner D-TN
Rep. Ronnie Shows D-MS
Rep. Mike McIntyre D-NC
Rep. Tim Roemer D-IN
Rep. David Phelps D-IL
Rep. James Maloney D-CT
Rep. Cal Dooley D-CA
Rep. Tim Holden D-PA
Rep. Loretta Sanchez D-CA
Rep. John Larson D-CT
Rep. Tom Barrett D-WI

H.R. 4106, The Savings for Working Families Act:

Sponsor: Rep. Joe Pitts (R-PA)

Cosponsors: (10) Charlie Stenholm (D-TX), John Kasich (R-OH), Tony Hall (D-OH), Mark Souder (R-IN), Rosa DeLauro (R-CT), David Camp (R-MI), John Larson (R-CT), Carolyn Maloney (R-CT), John Tanner (D-TN) and Tom Barrett (R-WI) .

Related legislation: S 2203, introduced in the Senate by Senator Joe Lieberman with ten cosponsors – Rick Santorum (R-PA), Spencer Abraham (R-MI), Dianne Feinstein (D-CA), Mary Landrieu (D-LA), Rod Grams (R-MN), Charles Robb (D-VA), Evan Bayh (D-IN), Bob Kerrey (D-NE), Richard Durbin (D-IL) and Diane Feinstein (D-CA).

Status: Referred to the Committee on Ways and Means on March 28, 2000.

Purpose: To provide for the establishment of individual development accounts (IDAs) projects for the following objectives:

1. providing individuals and families with limited means an opportunity to accumulate assets and to enter the financial mainstream;
2. promoting education, homeownership, and small business development; and
3. stabilizing families and building communities.

Summary:

Title I: Individual Development Accounts For Low-Income Workers

Sets forth requirements for IDAs for low-income workers, including the following: (1) the basic structure and administration of IDA programs established by qualified financial institutions (QFIs) either alone or in partnership with community-based, nonprofit organizations; (2) procedures for opening an IDA with a QFI and contributing money (of up to a certain amount, except in the case of qualified rollovers) in accordance with specified guidelines to qualify for matching funds from QFIs, State, local, or private sources to be held in either one of two special separate described accounts; (3) QFI deposits of all matching funds (matched dollar-for-dollar for the first $500 contributed by an eligible individual to an IDA for any taxable year) for each IDA in one such an account which is interest-bearing; (4) withdrawal procedures for IDA holders who have completed a QFI economic literacy course to obtain matching funds to pay for qualified expenses upon obtaining appropriate permission; (5) certification to the Secretary of the Treasury that IDAs and other described accounts are operating pursuant to this Act, and termination of IDA programs if the Secretary determines that a QFI is not operating an IDA program in accordance with this Act; and (6) reporting and evaluation requirements. Authorizes appropriations.

Title II: Individual Development Account Investment Credits

Amends the Internal Revenue Code to allow a tax credit for a QFI's IDA investment during the taxable year, including the aggregate amount of dollar-for-dollar matches under the IDA program, plus the lesser of $100 times the number of IDA accounts maintained by the QFI, or a specified portion of certain costs of providing economic literacy training to IDA holders and underwriting the activities of collaborating community-based, not-for-profit organizations.

(Sec. 202) Declares that QFIs which establish IDA programs shall receive credit for funding, administration, and education expenses under the services test contained in regulations for the Community Reinvestment Act of 1977 for those activities related to IDAs.

(Sec. 203) Authorizes an individual to designate that a specified portion (not less than $1) of any overpayment of tax for a taxable year which is attributable to the earned income credit shall be deposited by the Secretary into the individual's IDA.

The Savings for Working Families Act

The Savings for Working Families Act offers lower-income working families an industry-led incentive-driven opportunity to save toward developing assets and bettering their lives. Here is how it works:

- The Act allows for the creation by federally insured banks and not-for-profit institutions, such as credit unions, of Individual Development Accounts (IDAs) for U.S. citizens or legal residents aged 18 or over. Candidates for this IDA program will have a household income of not more than 80 percent of the area median income (AMI), and 1/3 of the IDAs established in a particular community must be for qualified individuals at or below 50% of AMI.

- IDAs are dedicated savings accounts. When a person deposits money into one, they receive dollar-for-dollar matching funds towards the purchase of a first home, education, job training, or business start-up (for the account holder, spouse or dependent). Any other use of this money will forfeit the use of the matching funds. Money in these accounts will accrue tax-free until withdrawal, and shall not be counted against federal means tested assistance programs (e.g., food stamps).

- The federal government will provide to all participating financial institutions up to $500 in matching funds for each IDA, plus initial administrative costs, in the form of a tax credit. All other sources of matching funds are welcome as well, including employers, charitable organizations, and the financial institutions themselves.

- Before an individual can open up an IDA, he or she must complete an economic literacy course that will be offered by participating banks and community organizations. The course will teach about saving, banking, investing, and IDAs.

- Two years from its establishment, the Act requires the Secretary of the Treasury to review the program for its cost-effectiveness and make recommendations as necessary to the Congress.

IDA programs already exist in pockets throughout the country now. This legislation will build on these successes by encouraging more of these programs to be established nationwide. It does not mandate that banks participate, but instead sets out to make it economically attractive for them to do so. As much as possible, this should be an industry-led effort. Many banks, like Citigroup, Bank of America, and Nationsbank have already started similar programs to benefit the communities they serve. In the process, they are increasing their long-term customer base, improving their public image, and encouraging investment in the American economy. What's more, because this Act allows individuals to divert some of their Earned Income Tax Credit into their IDA, it will increase the pool of resources that banks can draw from. So this is a winner for both banks and working families.

H.R. 4106, The Savings for Working Families Act of 2000

What is the purpose? This legislation aims help more Americans share in the nation's unprecedented prosperity, by promoting savings and asset ownership among low-income families. To encourage and enable more working-poor families to save and invest in their own futures, this legislation would expand the use of an innovative new financial instrument knows as the Individual Development Account, or IDA.

The Savings for Working Families Act of 2000 offers working families an opportunity to develop assets, better their lives, and join the economic mainstream. Far too often, lower-income working families find that they are caught in a cycle whereby daily living expenses soak-up so much disposable income, that they are unable to save and work toward owning a piece of America's economic success. The Savings for Working Families Act offers lower-income working families an industry-led incentive-driven opportunity to save toward developing assets and bettering their lives.

What are IDAs? IDAs are special savings accounts that match deposits dollar-for-dollar, but limit depositors to using the proceeds to invest in three specific kinds of assets: (1) buying a first home; (2) pursuing a post-secondary education or training; or (3) starting a small business. Individual and matching deposits are not co-mingled; all matching dollars are kept in a separate, parallel account. When the account holder has accumulated enough savings and matching funds to purchase the asset (typically over two to four years), and has completed an approved financial education course provided by the qualified financial institution or non-profit organization, payments from the IDA will be made directly to the asset provider. Both private sector and public funds could also be contributed to the accounts.

How does the bill work? IDAs are currently operating through a select number of state and local pilot programs around the country, which not only provide monetary contributions but also financial guidance, teaching depositors the skills they need to make the most of their investments. To encourage more banks, credit unions and community groups to start their own IDA programs, the Savings for Working Families Act would provide them with a tax credit to offset much of the cost of their matching contributions. Specifically, it would create two different credits:

1. __Financial Institutions Tax Credit.__ Banks would receive a 90 percent federal credit for every dollar contributed to an IDA, up to $500 in each account and up to $100 million overall. So the maximum tax credit would be $450 per account and a total of $90 million.

2. __IDA Investment Tax Credit.__ To leverage private sector investments and broader community involvement in IDAs, any taxpayer that contributes to an IDA program would receive a 50 percent "Investment" credit for every dollar contributed, up to $500 per account and $5 million per taxpayer.

Who Can Participate? Under this bill, IDAs would be available to citizens or legal residents of the U.S. at least 18 years of older, and whose household income does not exceed 80% of the area median income (AMI). But at least one-third of the IDAs in each program would have to be targeted to households at 50% or below of the AMI.

What other rules apply? Individual contributions to an IDA are limited to $2,000 per year. All IDAs must be held at a qualified financial institution, which is any financial institution eligible to hold an IRA. All IDAs must be part of a qualified IDA program that meets performance standards set by the Secretary of the Treasury or an organization appointed by the Secretary.

What is the tax treatment of IDAs? Individual deposits come from after-tax dollars, and interest earned on those deposits are taxable, but all matching funds and earnings thereon would be tax-free.

How do IDAs work with the EITC? Recipients of the Earned Income Tax Credit would be permitted to deposit their EITC refunds directly into their IDAs as matchable income.

Will IDAs affect eligibility for other programs? Individual deposits up to $10,000 and all matching funds would be disregarded in determining eligibility for any federal program based on need.

How will these programs be monitored? The Secretary of the Treasury, or an organization designated by the Secretary, will be responsible for establishing an annual monitoring protocol. The bill authorizes a $5 million appropriation for monitoring and evaluation.

Who Supports the Bill? The bill has the backing of a broad range of economic policy experts, national financial groups, and community development organizations, including the Corporation for Enterprise Development, the National Center for Neighborhood Enterprise, and the Credit Union National Association. The bipartisan Savings for Working Families Act introduced in the House has been cosponsored Reps. Joe Pitts (R-PA), Charlie Stenholm (D-TX), John Kasich (R-OH), Tony Hall (D-OH), Mark Souder (R-IN), Rosa DeLauro (R-CT), David Camp (R-MI), John Larson (R-CT), Carolyn Maloney (R-CT), John Tanner (D-TN) and Tom Barrett (R-WI). In the Senate, the legislation has been cosponsored by Senators Joe Lieberman (D-CT), Rick Santorum (R-PA), Spencer Abraham (R-MI), Dianne Feinstein (D-CA), Mary Landrieu (D-LA), Rod Grams (R-MN), Charles Robb (D-VA), and Evan Bayh (D-IN).

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106TH CONGRESS
2D SESSION

H. R. 4106

To provide for the establishment of Individual Development Accounts (IDAs) that will allow individuals and families with limited means an opportunity to accumulate assets, to access education, to own their own homes and businesses, and ultimately to achieve economic self-sufficiency, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 2000

Mr. PITTS (for himself, Mr. STENHOLM, Mr. KASICH, Mr. HALL of Ohio, Mr. SOUDER, Ms. DELAURO, Mr. CAMP, Mr. LARSON, Mrs. MALONEY of New York, Mr. TANNER, and Mr. BARRETT of Wisconsin) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To provide for the establishment of Individual Development Accounts (IDAs) that will allow individuals and families with limited means an opportunity to accumulate assets, to access education, to own their own homes and businesses, and ultimately to achieve economic self-sufficiency, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Savings for Working Families Act of 2000".

(b) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

SEC. 2. FINDINGS.

Congress makes the following findings:

(1) One-third of all Americans have no assets available for investment, and another 20 percent have only negligible assets. The household savings rate of the United States lags far behind other industrial nations, presenting a barrier to national economic growth and preventing many Americans from entering the economic mainstream by buying a

house, obtaining an adequate education, or starting a business.

(2) By building assets, Americans can improve their economic independence and stability, stimulate the development of human and other capital, and work toward a viable and hopeful future for themselves and their children. Thus, economic well-being does not come solely from income, spending, and consumption, but also requires savings, investment, and accumulation of assets.

(3) Traditional public assistance programs based on income and consumption have rarely been successful in promoting and supporting the transition to increased economic self-sufficiency. Income-based social policies that meet consumption needs (including food, child care, rent, clothing, and health care) should be complemented by asset-based policies that can provide the means to achieve long-term independence and economic well-being.

(4) Individual Development Accounts (IDAs) can provide working Americans with strong incentives to build assets, basic financial management training, and access to secure and relatively inexpensive banking services.

(5) There is reason to believe that Individual Development Accounts would also foster greater participation in electric fund transfers (EFT), generate financial returns, including increased income, tax revenue, and decreased welfare cash assistance, that will far exceed the cost of public investment in the program.

SEC. 3. PURPOSES.

The purposes of this Act are to provide for the establishment of individual development account programs that will—

(1) provide individuals and families with limited means an opportunity to accumulate assets and to enter the financial mainstream;

(2) promote education, homeownership, and the development of small businesses;

(3) stabilize families and build communities; and

(4) support continued United States economic expansion.

SEC. 4. DEFINITIONS.

As used in this Act:

(1) ELIGIBLE INDIVIDUAL.—

(A) IN GENERAL.—The term "eligible individual" means an individual who—

(i) has attained the age of 18 years;

(ii) is a citizen or legal resident of the United States; and

(iii) is a member of a household the gross income of which does not exceed 80 percent of the area median income (as published by the Department of Housing and Urban Affairs).

(B) HOUSEHOLD.—The term "household" means all individuals who share use of a dwelling unit as primary quarters for living and eating separate from other individuals.

(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term "Individual Development Account" means a regular interest bearing savings account established for an eligible individual as part of a qualified individual development account program, but only if the written governing instrument creating the account meets the following requirements:

(A) The sole owner of the account is the eligible individual.

(B) No contribution will be accepted unless it is in cash, by check, or by electronic fund transfer.

(C) The holder of the account is a qualified financial institution or a qualified nonprofit organization.

(D) The assets of the account will not be commingled with other property except in a common trust fund or common investment fund.

(E) Except as provided in section 105(b), any amount in the account may be paid out only for the purpose of paying the qualified expenses of the eligible individual.

(3) PARALLEL ACCOUNT.—The term "parallel account" means a separate, parallel individual or pooled account for all matching funds and earnings dedicated to an eligible individual as part of a qualified individual account program, the sole owner of which is a qualified financial institution or a qualified nonprofit organization.

(4) QUALIFIED FINANCIAL INSTITUTION.—

(A) IN GENERAL.—The term "qualified financial institution" means any person authorized to be a trustee of any individual retirement account under section 408(a)(2).

(B) RULE OF CONSTRUCTION.—Nothing in this paragraph shall be construed as preventing a person described in subparagraph (A) from collaborating with 1 or more qualified nonprofit organizations to carry out an individual development account program established under section 101.

(5) QUALIFIED NONPROFIT ORGANIZATION.—The term "qualified nonprofit organization" means—

(A) any organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code;

(B) any community development financial institution as certified by the Community Development Financial Institution Fund; or

(C) any credit union certified by the National Credit Union Administration,

that meets standards for financial management and fiduciary responsibility as defined by the Secretary or an organization designated by the Secretary.

(6) QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM.—The term "qualified individual development program" means a program established under section 101 under which—

(A) individual development accounts and parallel accounts are held by a qualified financial institution or a qualified nonprofit organization; and

(B) additional activities determined by the Secretary, or an organization designated by the Secretary, as necessary to responsibly develop and administer accounts, including recruiting, providing financial education and other training to account holders, and regular program monitoring, are carried out by such institution or nonprofit organization.

(7) QUALIFIED EXPENSE DISTRIBUTION.—

(A) IN GENERAL.—The term "qualified expense distribution" means any amount paid or distributed out of an Individual Development Account and a parallel account established for an eligible individual if such amount—

(i) is used exclusively to pay the qualified expenses of such individual or such individual's spouse or dependents,

(ii) is paid by the qualified financial institution or qualified nonprofit organization directly to the person to whom the amount is due or to another Individual Development Account, and

(iii) is paid after the holder of the Individual Development Account has completed a financial education course as required under section 102(b).

(B) QUALIFIED EXPENSES.—

(i) IN GENERAL.—The term "qualified expenses" means any of the following:

(I) Qualified higher education expenses.

(II) Qualified first-time homebuyer costs.

(III) Qualified business capitalization costs.

(IV) Qualified rollovers.

(ii) QUALIFIED HIGHER EDUCATION EXPENSES.—

(I) IN GENERAL.—The term "qualified higher education expenses" has the meaning given such term by section 72(t)(7) of the Internal Revenue Code of 1986, determined by treating postsecondary vocational educational schools as eligible educational institutions.

(II) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term "postsecondary vocational educational school" means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of enactment of this Act.

(III) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2) of such Code and by the amount of such expenses for which a credit or exclusion is allowed under chapter 1 of such Code for such taxable year.

(iii) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term "qualified first-time homebuyer costs" means qualified acquisition costs (as defined in section 72(t)(8) of such Code without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121 of such Code) for a qualified first-time homebuyer (as defined in section 72(t)(8) of such Code).

(iv) QUALIFIED BUSINESS CAPITALIZATION COSTS.—

(I) IN GENERAL.—The term "qualified business capitalization costs" means qualified expenditures for the capitalization of a qualified business pursuant to a qualified business plan.

(II) QUALIFIED EXPENDITURES.—The term "qualified expenditures" means expenditures included in a qualified business plan, including capital, plant, equipment, working capital and inventory expenses.

(III) QUALIFIED BUSINESS.—The term "qualified business" means any business that does not contravene any law.

(IV) QUALIFIED BUSINESS PLAN.—The term "qualified business plan" means a business plan which meets such requirements as the Secretary or an organization designated by the Secretary may specify.

(v) QUALIFIED ROLLOVERS.—The term "qualified rollover" means, with respect to any distribution from an Individual Development Account, the payment, within 120 days of such distribution, of all or a portion of such distribution to such account or to another Individual Development Account established in another qualified financial institution or qualified nonprofit organization for the benefit of the eligible individual. Rules similar to the rules of section 408(d)(3) of such Code (other than subparagraph (C) thereof) shall apply for purposes of this clause.

(8) SECRETARY.—The term "Secretary" means the Secretary of the Treasury.

TITLE I—INDIVIDUAL DEVELOPMENT ACCOUNTS FOR LOW-INCOME WORKERS

SEC. 101. STRUCTURE AND ADMINISTRATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) ESTABLISHMENT OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.—Any qualified financial institution or qualified nonprofit organization may establish 1 or more qualified individual development account programs which meet the requirements of this Act.

(b) BASIC PROGRAM STRUCTURE.—

(1) IN GENERAL.—All qualified individual development account programs shall consist of the following 2 components:

(A) An Individual Development Account to which an eligible individual may contribute money in accordance with section 103.

(B) A parallel account to which all matching funds shall be deposited in accordance with section 104.

(2) TAILORED IDA PROGRAMS.—A qualified financial institution or qualified nonprofit organiza-

tion may tailor, its qualified individual development account program to allow matching funds to be spent on 1 or more of the categories of qualified expenses.

(c) ACCOUNT POPULATION DISTRIBUTION REQUIREMENT.—An individual development account program shall be treated as qualified under this Act only if not less than one third of the Individual Development Accounts under such program are owned by eligible individuals each of whom is a member of a household the gross income of which does not exceed 50 percent of the area median income (as published by the Department of Housing and Urban Affairs).

(d) TAX TREATMENT OF ACCOUNTS.—Any account described in subparagraph (B) of subsection (b)(1) is exempt from taxation under the Internal Revenue Code of 1986 unless such account has ceased to be such an account by reason of section 105(c) or the termination of the qualified individual development account program under section 106(b).

SEC. 102. PROCEDURES FOR OPENING AN INDIVIDUAL DEVELOPMENT ACCOUNT AND QUALIFYING FOR MATCHING FUNDS.

(a) OPENING AN ACCOUNT.—An eligible individual must open an Individual Development Account with a qualified financial institution or qualified nonprofit organization and contribute money in accordance with section 103 to qualify for matching funds in a parallel account.

(b) REQUIRED COMPLETION OF FINANCIAL EDUCATION COURSE.—

(1) IN GENERAL.—Before becoming eligible to withdraw matching funds to pay for qualified expenses, holders of Individual Development Accounts must complete a financial education course offered by a qualified financial institution, a qualified nonprofit organization, or a government entity.

(2) STANDARD AND APPLICABILITY OF COURSE.—The Secretary or an organization designated by the Secretary, in consultation with representatives of qualified individual development account programs and financial educators, shall establish minimum performance standards for financial education courses offered under paragraph (1) and a protocol to exempt eligible individuals from the requirement under paragraph (1) because of hardship or lack of need.

SEC. 103. CONTRIBUTIONS TO INDIVIDUAL DEVELOPMENT ACCOUNTS.

(a) IN GENERAL.—Except in the case of a qualified rollover, individual contributions to an Individual Development Account will not be accepted for the taxable year in excess of the lesser of—

(1) $2,000; or

(2) an amount equal to the compensation (as defined in section 219(f)(1) of the Internal Revenue Code of 1986) includible in the individual's gross income for such taxable year.

(b) PROOF OF COMPENSATION AND STATUS AS AN ELIGIBLE INDIVIDUAL.—Federal W–2 forms and other forms specified by the Secretary proving the eligible individual's wages and other compensation and the status of the individual as an eligible individual shall be presented at the time of the establishment of the Individual Development Account and at least once annually thereafter.

(c) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution to an Individual Development Account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the Federal income tax return for such taxable year (not including extensions thereof).

(d) CROSS REFERENCE.—

For designation of earned income tax credit payments for deposit to an Individual Development Account, see section 32(o) of the Internal Revenue Code of 1986.

SEC. 104. DEPOSITS BY QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) PARALLEL ACCOUNTS.—The qualified financial institution or qualified nonprofit organization shall deposit all matching funds for each Individual Development Account into a parallel account at a qualified financial institution or qualified nonprofit organization. The parallel account or accounts shall earn not less than the market rate of interest.

(b) REGULAR DEPOSITS OF MATCHING FUNDS.—

(1) IN GENERAL.—Subject to paragraph (2), the qualified financial institution or qualified nonprofit organization shall deposit not less than quarterly into the parallel account with respect to each eligible individual the following:

(A) A dollar-for-dollar match for the first $500 contributed by the eligible individual into an Individual Development Account with respect to any taxable year.

(B) Any matching funds provided by State, local, or private sources in accordance to the matching ratio set by those sources.

(2) CROSS REFERENCE.—

For allowance of tax credit to qualified financial institutions for Individual Development Account subsidies, including matching funds, see section 30B of the Internal Revenue Code of 1986.

(c) FORFEITURE OF MATCHING FUNDS.—Matching funds that are forfeited under section 105(b) shall be used by the qualified financial institution or qualified nonprofit organization to pay matches for other Individual Development Account contributions by eligible individuals.

(d) UNIFORM ACCOUNTING REGULATIONS.—The Secretary shall prescribe regulations with respect to accounting for matching funds from all possible sources in the parallel accounts.

(e) REGULAR REPORTING OF ACCOUNTS.—Any qualified financial institution or qualified nonprofit organization shall report the balances in any Individual Development Account and parallel account of an eligible individual on not less than a quarterly basis.

SEC. 105. WITHDRAWAL PROCEDURES.

(a) WITHDRAWALS FOR QUALIFIED EXPENSES.—To withdraw money from an eligible individual's Individual Development Account to pay qualified expenses of such individual or such individual's spouse or dependents, the qualified financial institution or qualified nonprofit organization shall directly transfer such funds from the Individual Development Account, and, if applicable, from the parallel account electronically to the vendor or other Individual Development Account. If the vendor is not equipped to receive funds electronically, the qualified financial institution or qualified nonprofit organization may issue such funds by paper check to the vendor.

(b) WITHDRAWALS FOR NONQUALIFIED EXPENSES.—An Individual Development Account holder may unilaterally withdraw funds from the Individual Development Account for purposes other than to pay qualified expenses, but shall forfeit the corresponding matching funds and interest earned on the matching funds by doing so, unless such withdrawn funds are recontributed to such Account within 1 year of withdrawal.

(c) DEEMED WITHDRAWALS FROM ACCOUNTS OF NONELIGIBLE INDIVIDUALS.—If the individual for whose benefit an Individual Development Account is established ceases to be an eligible individual, such account shall cease to be an Individual Development Account as of the first day of the taxable year of such individual and any balance in such account shall be deemed to have been withdrawn on such first day by such individual for purposes other than to pay qualified expenses.

(d) TAX TREATMENT OF MATCHING FUNDS.—Any amount withdrawn from a parallel account shall not be includible in an eligible individual's gross income.

SEC. 106. CERTIFICATION AND TERMINATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.

(a) CERTIFICATION PROCEDURES.—Upon establishing a qualified individual development account program under section 101, a qualified financial institution or qualified nonprofit organization shall certify to the Secretary, or an organization designated by the Secretary, on forms prescribed by the Secretary or such organization and accompanied by any documentation required by the Secretary or such organization, that—

(1) the accounts described in subparagraphs (A) and (B) of section 101(b)(1) are operating pursuant to all the provisions of this Act; and

(2) the qualified financial institution or qualified nonprofit organization agrees to implement an information system necessary to monitor the cost and outcomes of the qualified individual development account program.

(b) AUTHORITY TO TERMINATE QUALIFIED IDA PROGRAM.—If the Secretary, or an organization designated by the Secretary, determines that a qualified financial institution or qualified nonprofit organization under this Act is not operating a qualified individual development account program in accordance with the requirements of this Act (and has not implemented any corrective recommendations directed by the Secretary or such organization), the Secretary or such organization shall terminate such institution's or nonprofit organization's authority to conduct the program. If the Secretary, or an organization designated by the Secretary, is unable to identify a qualified financial institution or qualified nonprofit organization to assume the authority to conduct such program, then any account established for the benefit of any eligible individual under such program shall cease to be an Individual Development Account as of the first day of such termination and any balance in such account shall be deemed to have been withdrawn on such first day by such individual for purposes other than to pay qualified expenses.

SEC. 107. REPORTING, MONITORING, AND EVALUATION.

(a) RESPONSIBILITIES OF QUALIFIED FINANCIAL INSTITUTIONS AND QUALIFIED NONPROFIT ORGANIZATIONS.—Each qualified financial institution or qualified nonprofit organization that establishes a qualified individual development account program under section 101 shall report annually to the Secretary, directly or through an organization designated by the Secretary, within 90 days after the end of each calendar year on—

(1) the number of eligible individuals making contributions into Individual Development Accounts;

(2) the amounts contributed into Individual Development Accounts and deposited into parallel accounts for matching funds;

(3) the amounts withdrawn from Individual Development Accounts and parallel accounts, and the purposes for which such amounts were withdrawn;

(4) the balances remaining in Individual Development Accounts and parallel accounts; and

(5) such other information needed to help the Secretary, or an organization designated by the Secretary, monitor the cost and outcomes of the qualified individual development account program.

(b) RESPONSIBILITIES OF THE SECRETARY OR DESIGNATED ORGANIZATION.—

(1) MONITORING PROTOCOL.—Not later than 12 months after the date of enactment of this Act, the Secretary, or an organization designated by the Secretary, shall develop and implement a protocol and process to continually monitor the cost and outcomes of the qualified individual development account programs established under section 101.

(2) ANNUAL REPORTS.—In each year after the date of enactment of this Act, the Secretary, or an organization designated by the Secretary, shall issue

a progress report on the status of such qualified individual development account programs.

(3) APPROPRIATIONS FOR MONITORING.—There is authorized to be appropriated $5,000,000 for the purposes of monitoring qualified individual development account programs established under section 101, to remain available until expended.

SEC. 108. FUNDS IN PARALLEL ACCOUNTS OF PROGRAM PARTICIPANTS DISREGARDED FOR PURPOSES OF CERTAIN MEANS-TESTED FEDERAL PROGRAMS.

Notwithstanding any provision of the Internal Revenue Code of 1986 or the Social Security Act that requires consideration of 1 or more financial circumstances of an individual, for the purposes of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such provision to be provided to or for the benefit of such individual, the lesser of—

(1) the sum of all contributions by an eligible individual (including earnings thereon) to any Individual Development Account and matching deposits made on behalf of such individual (including earnings thereon) in any parallel account; or

(2) $10,000,

shall be disregarded for such purpose with respect to any period during which the individual participates in a qualified individual development account program established under section 101.

TITLE II—QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM INVESTMENT CREDITS

SEC. 201. QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM INVESTMENT CREDITS.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to other credits) is amended by inserting after section 30A the following:

"SEC. 30B. QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM INVESTMENT CREDIT.

"(a) DETERMINATION OF AMOUNT.—There shall be allowed as a credit against the applicable tax for the taxable year an amount equal to the qualified individual development account program investment provided by an eligible taxpayer during the taxable year under a qualified individual development account program established under section 101 of the Savings for Working Families Act.

"(b) APPLICABLE TAX.—For the purposes of this section, the term 'applicable tax' means the excess (if any) of—

"(1) the sum of—

"(A) the tax imposed under this chapter (other than the taxes imposed under the provisions described in subparagraphs (C) through (Q) of section 26(b)(1)), plus

"(B) the tax imposed under section 3111, over

"(2) the credits allowable under subparts B and D of this part.

"(c) QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM INVESTMENT.—For purposes of this section, the term 'qualified individual development account program investment' means, with respect to a qualified individual development account program of an eligible taxpayer in any taxable year, an amount equal to—

"(1) in the case of an eligible taxpayer which is a qualified financial institution, the sum of—

"(A) the lesser of—

"(i) 90 percent of the aggregate amount of dollar-for-dollar matches under such program by such taxpayer under section 104 of the Savings for Working Families Act for such taxable year, or

"(ii) $90,000,000, plus

"(B) the lesser of—

"(i) 50 percent of the aggregate costs paid or incurred under such program by the eligible taxpayer during such taxable year—

"(I) to provide financial education courses to Individual Development Account holders under section 102(b) of such Act, and

"(II) to underwrite program activities described in section 4(6)(B) of such Act), or

"(ii) $5,000,000, and

"(2) in the case of an eligible taxpayer which is not a qualified financial institution, the lesser of—

"(A) the sum of—

"(i) 50 percent of the aggregate amount of such dollar-for-dollar matches by such taxpayer for such taxable year, plus

"(ii) 50 percent of the aggregate costs described in paragraph (1)(B)(i) paid or incurred under such program by the eligible taxpayer during such taxable year, or

"(B) $5,000,000.

"(d) ELIGIBLE TAXPAYER.—For purposes of this section, a taxpayer shall be considered an eligible taxpayer if at least 70 percent of the expenditures by such taxpayer with respect to any qualified individual development account program for any taxable year are described in subsection (c)(1)(A).

"(e) OTHER DEFINITIONS AND SPECIAL RULES.—

"(1) OTHER DEFINITIONS.—For purposes of this section, the terms 'Individual Development Account' , 'qualified individual development account program', and 'qualified financial institution' have the meanings given such terms by section 4 of the Savings for Workings Families Act.

"(2) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of paragraphs (1) and (2) of section 41(f) shall apply for purposes of this section.

"(f) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a forfeiture under section 105(b) of the Savings for Workings Families Act in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.

"(g) TERMINATION.—This section shall not apply to any taxable year beginning after December 31, 2005.".

(b) TRANSFER TO TRUST FUNDS.—The Secretary of the Treasury shall transfer from the general fund of the United States Treasury to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund amounts equivalent to the amount of the reduction in taxes imposed by section 3111 of the Internal Revenue Code of 1986 by reason of the credit determined under section 30B (relating to the qualified individual development account program investment credit). Any such transfer shall be made at the same time that the reduced taxes would have been deposited in such Trust Funds.

(c) CONFORMING AMENDMENT.—The table of sections for subpart B of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 30A the following:

"Sec. 30B. Qualified individual development account program investment credit.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

SEC. 202. CRA CREDIT TREATMENT FOR QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM INVESTMENTS.

Qualified financial institutions which establish qualified individual development account programs under section 101 shall not receive credit for funding, administration, and education expenses under any test contained in regulations for the Community Reinvestment Act of 1977 for those activities and expenses related to such programs and taken into account for purposes of the tax credit allowed under section 30B of the Internal Revenue Code of 1986.

SEC. 203. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO INDIVIDUAL DEVELOPMENT ACCOUNTS.

(a) IN GENERAL.—Section 32 of the Internal Revenue Code of 1986 (relating to earned income credit) is amended by adding at the end the following:

"(o) DESIGNATION OF CREDIT FOR DEPOSIT TO INDIVIDUAL DEVELOPMENT ACCOUNT.—

"(1) IN GENERAL.—With respect to the return of any eligible individual (as defined in section 4(1) of the Savings for Working Families Act) for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than $1) of any overpayment of tax for such taxable year which is attributable to the credit allowed under this section shall be deposited by the Secretary into an Individual Development Account (as defined in section 4(2) of such Act) of such individual. The Secretary shall so deposit such portion designated under this paragraph.

"(2) MANNER AND TIME OF DESIGNATION.—A designation under paragraph (1) may be made with respect to any taxable year—

"(A) at the time of filing the return of the tax imposed by this chapter for such taxable year, or

"(B) at any other time (after the time of filing the return of the tax imposed by this chapter for such taxable year) specified in regulations prescribed by the Secretary.

Such designation shall be made in such manner as the Secretary prescribes by regulations.

"(3) PORTION ATTRIBUTABLE TO EARNED INCOME TAX CREDIT.—For purposes of paragraph (1), an overpayment for any taxable year shall be treated as attributable to the credit allowed under this section for such taxable year to the extent that such overpayment does not exceed the credit so allowed.

"(4) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any portion of an overpayment of tax designated under paragraph (1) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by this chapter (determined without regard to extensions) or, if later, the date the return is filed.

"(5) TERMINATION.—This subsection shall not apply to any taxable year beginning after December 31, 2005.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

○

HAS SEEN
6-16-98

THE WHITE HOUSE

WASHINGTON

June 14, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
BRUCE REED

SUBJECT: Individual Development Accounts

On Wednesday, the Senate Labor subcommittee will mark-up the Human Services reauthorization bill. Besides Head Start and LIHEAP reauthorization, the Committee is planning to include a demonstration of Individual Development Accounts. Given your record, we believe that you should get out in front on this issue and we should either endorse the proposal (with some modifications) or propose our own IDA demonstration.

For many years, you have strongly supported Individual Development Accounts (IDAs) as a means to build assets among lower-income Americans, help move people from welfare to work, expand homeownership opportunity, increase access to post-secondary education, and help people start their own businesses. Indeed, nearly six years ago -- in September 1992 -- you announced your support for IDAs, saying that they "would encourage poor Americans to set money aside in special savings accounts that they can use for a home, their education, their training or starting a small business." To that end, your 1994 Welfare Reform proposal included an IDA proposal and the 1996 Welfare Reform law allowed States to use welfare funds to establish IDAs.

However, the Federal government has yet to provide direct funding to create IDAs. This memo lays out three potential options for the Administration: (1) endorse the Coats-Harkin IDA demonstration bill; (2) put forward our own Coats-Harkin-*like* IDA proposal with a higher price tag; or (3) propose a narrower IDA demonstration for just homeownership.

Coats-Harkin IDA Demonstration Bill:

Senator Coats and Senator Harkin are the lead sponsors of a bill which would establish a four-year, $100 million IDA demonstration under which State and local agencies and/or non-profits would be funded to operate IDA programs. The demonstration would be open to households that are either eligible for welfare (TANF) or have an income level below the EITC phase-out point and a net worth below $10,000. For each dollar deposited into the IDA by a low-income family, the administering agency would provide a match of not less than 1:1 and not more than 8:1. Individuals could make qualified withdrawals from the IDA for only three purposes: (1) purchase of a first home, (2) post-secondary educational expenses, or (3) starting a new business. The Coats-Harkin bill gives a preference to entities that are able to attract pledges of substantial non-Federal, especially private sector, funding to serve as a match for the Federal dollars. And to determine whether this demonstration works, the bill requires that there be a rigorous evaluation of the program.

You should know that the Coats-Harkin bill has the support of a bipartisan group of Senators, including Abraham, Lugar, Collins, Moseley-Braun and Wellstone. On the House side, the lead sponsors of the companion bill are Tony Hall and Kasich. While there are no real substantive problems with the bill, there need to be some clarifications and technical corrections.

Options:

The following options would be coupled with two other measures to promote IDAs in the private sector and at the state and local level: first, we would ask the banking regulators to clarify that banks and thrifts can receive Community Reinvestment Act credit for IDA programs; and second, a letter would be sent from HUD clarifying that HOME and CDBG funds can be used to establish IDA programs. In addition, because of the need for an offset to pay for any of the following options, we are investigating whether we could place the IDA program within the Treasury Department instead of at HHS (as the Coats-Harkin bill does) and direct the Community Development Financial Institutions (CDFI) fund to set-aside funds from its existing budget request for FY99 to pay for its operations.

Option 1: Endorse Coats-Harkin bill

Pros:

- Could help approximately 50,000 lower-income Americans build assets, which is an important means to get out of the cycle of dependency.
- While the national homeownership rate is nearly 66 percent, the rate among lower-income and disadvantaged Americans is below 50 percent. IDAs would help expand homeownership opportunities to this group of people. IDAs would also help increase access to college and help low-income families start their own businesses.
- Provides another tool to move people from welfare to work.
- Enactment of Federal IDA legislation would complete the community empowerment agenda you laid out in your 1992 campaign.
- Would dovetail well with other housing proposals: Low-Income Housing Tax Credit expansion will help develop more rental housing units; Welfare-to-Work Housing Vouchers will help move welfare recipients into privately owned rental housing; and IDAs will help these families save to become homeowners.
- Of all the options being considered, most likely to be enacted this year.

Cons:

- The Coats-Harkin bill comes with a price tag of $25 million per year. One option to pay for our endorsement could be to place its operation within the CDFI Fund and direct the Fund to set-aside $25 million within its FY99 budget request.

- Some believe that Republicans would expand IDA bill to include K-12 private school education, reopening the same issues raised by Coverdell amendment, but in a less favorable context (IDAs help lower-income Americans, while IRAs disproportionately benefit those with higher incomes).

- This initiative would help only a small percentage of low-income persons who need help accumulating wealth.

- An IDA demonstration may be vulnerable to fraud, especially allowing withdrawals for small business activities.

- Endorsing Coats-Harkin means you will not have put forward your own IDA proposal (even though Coats-Harkin is based largely on the one included in our 1994 welfare proposal).

Option 2: Put Forward Our Own IDA Demonstration with a Higher Price Tag

Another option would be to put forward our own IDA demonstration proposal (with a higher price tag), while acknowledging the proposal from Senators Coats and Harkin. OMB believes that the largest our own IDA demonstration program could be -- within your FY99 budget -- is $30 million per year (or $150 million over five years). This option would allow us to make the small substantive and technical changes to the Coats-Harkin proposal without having to negotiate with their staffs.

Pros:

- Same as option 1, but you would have ownership of the proposal.

Cons:

- Same as option 1, but the price tag for this option would be higher and would require a larger offset.

- Could upset Harkin and Coats that we are proposing a similar IDA demonstration without endorsing their proposal.

Option 3: Propose More Narrow IDA Demonstration for Only Homeownership

Another alternative would be to propose a narrow IDA demonstration which would be focused solely on homeownership -- the only qualified withdrawal would be for the purchase of a first home.

Pros:

- Focuses message on homeownership and focus attention on the importance of saving for homeownership.

- Allays concerns of education community that IDAs would be used as vehicle for Coverdell.

- Costs less than other two options.

Cons:

- Some may question why we did not propose allowing post-secondary education as a qualified withdrawal from IDAs, given your strong record on expanding access to college. We would get the same criticism for not allowing withdrawals for starting a new small business.

Recommendations:

NEC, DPC, OMB, White House Legislative Affairs, OVP, Treasury, HUD, CEA, SBA, and HHS recommend that you support the Coats-Harkin bill with some modifications. There is unanimous agreement that endorsing Coats-Harkin would be consistent with your goals of helping move people from welfare to work, provide educational opportunities, help people buy their own homes, and help people start their own businesses. If you decide to endorse Coats-Harkin, we will work with their staffs to ensure that the bill is modified to address the specific concerns of your advisors; for example, we want the bill to include a stronger evaluation component so that we have rigorous evidence on whether this initiative works or not.

Education is concerned that endorsing an IDA demonstration <u>now</u> may provide the Republicans an opportunity to open up the accounts to K-12 private school education. You should know that Senator Harkin has indicated that he will <u>not</u> support the IDA demonstration if the Republicans try to attach a Coverdell-like amendment. Your advisors believe that we should work with Senator Harkin to obtain a similar pledge from Senator Coats before we endorse the bill. In the end, we believe that Senator Coats will provide us this guarantee because he is retiring and wants to pass the IDA bill.

__✓__ Endorse Coats-Harkin Bill (RECOMMENDED)

_____ Put Forward Your Own, Bigger IDA Demonstration Proposal

_____ Propose Narrow IDA Demonstration Program Targeted To Homeownership

_____ Discuss Further

Cynthia
FYI
BR

To: Carolyn O'Brien
Small Business Association
From: Lyn Hogan
Date: November 12, 1996
Re: Microenterprise and
Individual Development Accounts

Carolyn, I enjoyed meeting you finally in person at Joline Godfrey's event. Attached, for your information, is a discussion of microenterprise as treated in the new welfare law, including the relevant pages of the law. Microenterprise is discussed as business capitalization under Individual Development Accounts (IDAs).The discussion falls under section 404 of P.L. 104-193, "The Personal Responsibility and Work Opportunity Reconciliation Act of 1996."

This section of the law discusses the use of grants, referring to the block grants for temporary assistance for needy families. The language allows the use of block grant funds for IDAs established by individuals eligible for assistance under the state program.

Under the law, IDAs may be established by, or on behalf of, an individual to help that individual accumulate funds for a qualified purpose. The law allows accumulated IDA funds to be used for one or more of the following:

1) Post-secondary education expenses
2) First Home Purchase
3) Business capitalization (microenterprise)

Business capitalization: Amounts paid from an IDA directly to a business capitalization account established in a federally insured financial institution and restricted to use solely for business capitalization.

This means that those on welfare are now able to save money to start up their own small business *without* the savings going against their welfare benefits. Further, those funds can be matched by a qualified entity -- a nonprofit organization or state or local government acting in cooperation with a nonprofit -- for a qualified purpose, again *without* counting against welfare benefits.

This section of the welfare law is important in that it gives states the encouragement and opportunity to help welfare recipients use IDAs to fund microenterprise or start-up businesses as a method of moving recipients from welfare to work.

I'd be happy ~~to~~ discuss this with you at any time.

cc: Bruce Reed — FYI
Jeremy Ben-Ami

"(A) STATE.—The term 'State' means each of the 50 States of the United States and the District of Columbia.

"(B) SECRETARY.—The term 'Secretary' means the Secretary of the Treasury.

"(8) ANNUAL REPORTS.—The Secretary shall annually report to the Congress on the status of the Fund.

42 USC 604.

"SEC. 404. USE OF GRANTS.

"(a) GENERAL RULES.—Subject to this part, a State to which a grant is made under section 403 may use the grant—

"(1) in any manner that is reasonably calculated to accomplish the purpose of this part, including to provide low income households with assistance in meeting home heating and cooling costs; or

"(2) in any manner that the State was authorized to use amounts received under part A or F, as such parts were in effect on September 30, 1995.

"(b) LIMITATION ON USE OF GRANT FOR ADMINISTRATIVE PURPOSES.—

"(1) LIMITATION.—A State to which a grant is made under section 403 shall not expend more than 15 percent of the grant for administrative purposes.

"(2) EXCEPTION.—Paragraph (1) shall not apply to the use of a grant for information technology and computerization needed for tracking or monitoring required by or under this part.

"(c) AUTHORITY TO TREAT INTERSTATE IMMIGRANTS UNDER RULES OF FORMER STATE.—A State operating a program funded under this part may apply to a family the rules (including benefit amounts) of the program funded under this part of another State if the family has moved to the State from the other State and has resided in the State for less than 12 months.

"(d) AUTHORITY TO USE PORTION OF GRANT FOR OTHER PURPOSES.—

"(1) IN GENERAL.—A State may use not more than 30 percent of the amount of any grant made to the State under section 403(a) for a fiscal year to carry out a State program pursuant to any or all of the following provisions of law:

"(A) Title XX of this Act.

"(B) The Child Care and Development Block Grant Act of 1990.

"(2) LIMITATION ON AMOUNT TRANSFERABLE TO TITLE XX PROGRAMS.—Notwithstanding paragraph (1), not more than ⅓ of the total amount paid to a State under this part for a fiscal year that is used to carry out State programs pursuant to provisions of law specified in paragraph (1) may be used to carry out State programs pursuant to title XX.

"(3) APPLICABLE RULES.—

"(A) IN GENERAL.—Except as provided in subparagraph (B) of this paragraph, any amount paid to a State under this part that is used to carry out a State program pursuant to a provision of law specified in paragraph (1) shall not be subject to the requirements of this part, but shall be subject to the requirements that apply to Federal funds provided directly under the provision of law to carry out the program, and the expenditure of any amount so used shall not be considered to be an expenditure under this part.

"(B) EXCEPTION RELATING TO TITLE XX PROGRAMS.—All amounts paid to a State under this part that are used to carry out State programs pursuant to title XX shall be used only for programs and services to children or their families whose income is less than 200 percent of the income official poverty line (as defined by the Office of Management and Budget, and revised annually in accordance with section 673(2) of the Omnibus Budget Reconciliation Act of 1981) applicable to a family of the size involved.

"(e) AUTHORITY TO RESERVE CERTAIN AMOUNTS FOR ASSISTANCE.—A State may reserve amounts paid to the State under this part for any fiscal year for the purpose of providing, without fiscal year limitation, assistance under the State program funded under this part.

"(f) AUTHORITY TO OPERATE EMPLOYMENT PLACEMENT PROGRAM.—A State to which a grant is made under section 403 may use the grant to make payments (or provide job placement vouchers) to State-approved public and private job placement agencies that provide employment placement services to individuals who receive assistance under the State program funded under this part.

"(g) IMPLEMENTATION OF ELECTRONIC BENEFIT TRANSFER SYSTEM.—A State to which a grant is made under section 403 is encouraged to implement an electronic benefit transfer system for providing assistance under the State program funded under this part, and may use the grant for such purpose.

"(h) USE OF FUNDS FOR INDIVIDUAL DEVELOPMENT ACCOUNTS.—

"(1) IN GENERAL.—A State to which a grant is made under section 403 may use the grant to carry out a program to fund individual development accounts (as defined in paragraph (2)) established by individuals eligible for assistance under the State program funded under this part.

"(2) INDIVIDUAL DEVELOPMENT ACCOUNTS.—

"(A) ESTABLISHMENT.—Under a State program carried out under paragraph (1), an individual development account may be established by or on behalf of an individual eligible for assistance under the State program operated under this part for the purpose of enabling the individual to accumulate funds for a qualified purpose described in subparagraph (B).

"(B) QUALIFIED PURPOSE.—A qualified purpose described in this subparagraph is 1 or more of the following, as provided by the qualified entity providing assistance to the individual under this subsection:

"(i) POSTSECONDARY EDUCATIONAL EXPENSES.—Postsecondary educational expenses paid from an individual development account directly to an eligible educational institution.

"(ii) FIRST HOME PURCHASE.—Qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer, if paid from an individual development account directly to the persons to whom the amounts are due.

"(iii) BUSINESS CAPITALIZATION.—Amounts paid from an individual development account directly to a business capitalization account which is established in a federally insured financial institution and is restricted to use solely for qualified business capitalization expenses.

"(C) CONTRIBUTIONS TO BE FROM EARNED INCOME.—An individual may only contribute to an individual development account such amounts as are derived from earned income, as defined in section 911(d)(2) of the Internal Revenue Code of 1986.

Regulations.

"(D) WITHDRAWAL OF FUNDS.—The Secretary shall establish such regulations as may be necessary to ensure that funds held in an individual development account are not withdrawn except for 1 or more of the qualified purposes described in subparagraph (B).

"(3) REQUIREMENTS.—

"(A) IN GENERAL.—An individual development account established under this subsection shall be a trust created or organized in the United States and funded through periodic contributions by the establishing individual and matched by or through a qualified entity for a qualified purpose (as described in paragraph (2)(B)).

"(B) QUALIFIED ENTITY.—As used in this subsection, the term 'qualified entity' means—

"(i) a not-for-profit organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code; or

"(ii) a State or local government agency acting in cooperation with an organization described in clause (i).

"(4) NO REDUCTION IN BENEFITS.—Notwithstanding any other provision of Federal law (other than the Internal Revenue Code of 1986) that requires consideration of 1 or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such law to be provided to or for the benefit of such individual, funds (including interest accruing) in an individual development account under this subsection shall be disregarded for such purpose with respect to any period during which such individual maintains or makes contributions into such an account.

"(5) DEFINITIONS.—As used in this subsection—

"(A) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' means the following:

"(i) An institution described in section 481(a)(1) or 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1088(a)(1) or 1141(a)), as such sections are in effect on the date of the enactment of this subsection.

"(ii) An area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this subsection.

"(B) POST-SECONDARY EDUCATIONAL EXPENSES.—The term 'post-secondary educational expenses' means—

"(i) tuition and fees required for the enrollment or attendance of a student at an eligible educational institution, and

"(ii) fees, books, supplies, and equipment required for courses of instruction at an eligible educational institution.

"(C) QUALIFIED ACQUISITION COSTS.—The term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. The term includes any usual or reasonable settlement, financing, or other closing costs.

"(D) QUALIFIED BUSINESS.—The term 'qualified business' means any business that does not contravene any law or public policy (as determined by the Secretary).

"(E) QUALIFIED BUSINESS CAPITALIZATION EXPENSES.—The term 'qualified business capitalization expenses' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

"(F) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

"(G) QUALIFIED FIRST-TIME HOMEBUYER.—

"(i) IN GENERAL.—The term 'qualified first-time homebuyer' means a taxpayer (and, if married, the taxpayer's spouse) who has no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this subsection applies.

"(ii) DATE OF ACQUISITION.—The term 'date of acquisition' means the date on which a binding contract to acquire, construct, or reconstruct the principal residence to which this subparagraph applies is entered into.

"(H) QUALIFIED PLAN.—The term 'qualified plan' means a business plan which—

"(i) is approved by a financial institution, or by a nonprofit loan fund having demonstrated fiduciary integrity,

"(ii) includes a description of services or goods to be sold, a marketing plan, and projected financial statements, and

"(iii) may require the eligible individual to obtain the assistance of an experienced entrepreneurial advisor.

"(I) QUALIFIED PRINCIPAL RESIDENCE.—The term 'qualified principal residence' means a principal residence (within the meaning of section 1034 of the Internal Revenue Code of 1986), the qualified acquisition costs of which do not exceed 100 percent of the average area purchase price applicable to such residence (determined in accordance with paragraphs (2) and (3) of section 143(e) of such Code).

"(i) SANCTION WELFARE RECIPIENTS FOR FAILING TO ENSURE THAT MINOR DEPENDENT CHILDREN ATTEND SCHOOL.—A State to which a grant is made under section 403 shall not be prohibited from sanctioning a family that includes an adult who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government or under the food stamp program, as defined in section 3(h) of the Food Stamp Act of 1977, if such adult fails to ensure that the minor dependent children of such adult attend school as required by the law of the State in which the minor children reside.

"(j) REQUIREMENT FOR HIGH SCHOOL DIPLOMA OR EQUIVALENT.—A State to which a grant is made under section 403 shall not be prohibited from sanctioning a family that includes an adult who is older than age 20 and younger than age 51 and who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government or under the food stamp program, as defined in section 3(h) of the Food Stamp Act of 1977, if such adult does not have, or is not working toward attaining, a secondary school diploma or its recognized equivalent unless such adult has been determined in the judgment of medical, psychiatric, or other appropriate professionals to lack the requisite capacity to complete successfully a course of study that would lead to a secondary school diploma or its recognized equivalent.

42 USC 605.

"SEC. 405. ADMINISTRATIVE PROVISIONS.

"(a) QUARTERLY.—The Secretary shall pay each grant payable to a State under section 403 in quarterly installments, subject to this section.

"(b) NOTIFICATION.—Not later than 3 months before the payment of any such quarterly installment to a State, the Secretary shall notify the State of the amount of any reduction determined under section 412(a)(1)(B) with respect to the State.

"(c) COMPUTATION AND CERTIFICATION OF PAYMENTS TO STATES.—

"(1) COMPUTATION.—The Secretary shall estimate the amount to be paid to each eligible State for each quarter under this part, such estimate to be based on a report filed by the State containing an estimate by the State of the total sum to be expended by the State in the quarter under the State program funded under this part and such other information as the Secretary may find necessary.

"(2) CERTIFICATION.—The Secretary of Health and Human Services shall certify to the Secretary of the Treasury the amount estimated under paragraph (1) with respect to a State, reduced or increased to the extent of any overpayment or underpayment which the Secretary of Health and Human Services determines was made under this part to the State for any prior quarter and with respect to which adjustment has not been made under this paragraph.

"(d) PAYMENT METHOD.—Upon receipt of a certification under subsection (c)(2) with respect to a State, the Secretary of the Treasury shall, through the Fiscal Service of the Department of the Treasury and before audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Secretary of Health and Human Services, the amount so certified.

42 USC 606.

"SEC. 406. FEDERAL LOANS FOR STATE WELFARE PROGRAMS.

"(a) LOAN AUTHORITY.—

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

February 12, 1997

To: LYN
cm - cc: Cynthia
BR

NOTE FOR BRUCE REED
ELANA KAGAN

FROM: John Monahan

Per your request, attached you will find information concerning Individual Development Accounts (IDAs) and other asset development strategies. The first four items in this package were proposed by the Corporation for Enterprise Development. Of particular interest may be 1) the description of state activities on p. 2-3 of the paper entitled ``Building Assets and Economic Independence: IDAs'' and 2) examples of State asset strategies in the Appendix A of the same paper.

Also, as the final item (ACF's chart of TANF Plan submissions) shows, the following states have specifically identified IDAs in their TANF plan: AZ, CA, CT, DE, IA, MS, OR, PA, SC, TN, TX, VA, & WS.

Attachment

POLICY BRIEF

Building Assets and Economic Independence: Individual Development Accounts (IDAs)

Summary

Americans of most economic classes are having increasing difficulty climbing the economic ladder. Fully half of all Americans have no, negligible or negative investable assets just as the price of entry to the economic mainstream -- the cost of a house, an adequate education or starting a business -- is increasing. Out of this economic reality, a new policy tool has emerged directed to enabling struggling families to achieve economic well-being and build assets. Individual Development Accounts (IDAs) are IRA-like matched savings accounts restricted to use for post-secondary education and training, business capitalization and home ownership. Already, 16 states have implemented IDA programs in different forms and IDAs provisions were included in the new federal welfare reform law.

In this issue brief, we examine (1) how by supporting and encouraging savings, investment, and asset-building IDAs can help families move forward economically, (2) different ways states have implemented IDAs, (3) various funding sources that states which start IDA programs can tap, and (4) several different ways states can implement IDA initiatives.

Background

In his seminal 1991 book, *Assets and the Poor: A New American Welfare Policy*, Washington University Professor Michael Sherraden argues that people move forward economically through savings and investment, not through spending and consumption. Owning assets gives people a stake in the future -- a reason to save, to dream, to invest time, effort, and resources in creating a future for themselves and their children. As Sherraden puts it, "Income may feed people's stomachs, but assets change their heads."[1]

The distribution of assets in this country is much more unequal even than income distribution: while the top 10% of Americans command 40% of national income, the top 1% control as many assets as the bottom 80%. The fact that half of all Americans lack significant investable assets is cause for concern. Asset deficiency places homeownership, entrepreneurship, and higher education out of the reach of many Americans and in doing so prevents them from advancing economically.

[1] Michael Sherraden, *Assets and the Poor: A New American Welfare Policy*. Armonk, NY: M.E. Sharpe Inc. 1991.

American's low asset levels are not surprising considering the low American household savings rate (less than 5%), and lack of government support for asset building for a sizable segment of the populace. While the US Government subsidizes asset acquisition for the non-poor at a level of $200 billion annually at the Federal level in the form of the home mortgage deduction, preferential capital gains, and pension fund exclusions, many Americans lack the resources to take advantage of these subsidies. At the same time, the government actually has penalized asset acquisition by the poor by denying eligibility to public assistance recipients who have exceeded the $1,000 asset limit.

While significant, America's asset deficiencies and inequalities are not irreversible. Several times in American history, the government has implemented policies which have successfully boosted asset levels of all Americans, regardless of income. For example, the Homestead Act of the late 19th century provided 160-acre plots to those Americans who agreed to settle and farm the land, and the 20th century GI Bill subsidized college educations and secured home mortgages for millions of World War II veterans. Modeled after these programs, IDAs look to broad-based asset-building as a tool for economic growth.

The Rise of IDAs

IDAs have already generated unprecedented by partisan support. They are politically feasible in all states. Jack Kemp and Bill Clinton support IDAs. Bill Bradley (D-NJ), Orrin Hatch (R-UT), Carol Moseley-Braun (D-IL), Dan Coats (R-IN), Thad Cochran (R-MS), Spencer Abraham (R-MI), and Virginia Governor George Allen are also advocates. Even John Kasich (R-OH) who has led the battle to cut federal spending believes that IDAs are worth state and federal investment.

Recently, the federal government included IDAs in its welfare reform legislation (see below). Additionally, more Federal legislation on IDAs is imminent. Senate Bill 1212, The Assets for Independence Act, introduced by Senators Dan Coats (R-IN) and Carol Moseley-Braun (D-IL) would create a $100 million, 50,000 account national IDA demonstration. This provision was also introduced into the House by John Kasich (R-OH). Due to its broad bi-partisan appeal and the legislative momentum for IDAs evidenced by the inclusion of IDA provisions in welfare reform, the Assets for Independence Act has a good chance of passing during the next Congress. Those states who are running IDA programs or are planning them will be most likely to receive federal dollars. (S1212 would also provide the same tax treatment of IDA contributions that is now given to IRAs.)

IDAs and Welfare Reform

While providing states considerable latitude in determining eligibility standards and benefits for its most needy citizens, the new welfare reform law also contains strict work participation requirements and time limits for recipients. The new law directs states to find policies that help low-income residents climb the economic ladder. IDAs address this need by helping transition families from economic dependency to self-sufficiency by providing a mechanism for families to save, invest, build assets, and create businesses and jobs.

Section 404 (h) of the welfare reform law (H.R. 3734, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996) authorizes states to set up IDA programs which provide additional employment incentives, increase job retention, upgrading and creation, and promote economic independence. Specifically, states are permitted to create community-based IDA programs with Temporary Assistance for Needy Families (TANF) state block grant funds and can disregard all money saved by the poor in IDAs in determining their eligibility for all means-tested government assistance. The legislation also provides that only earned income can be saved in IDAs, designates non-profit, community-based organizations as custodians of IDA accounts, and permits IDAs to be used for education, homeownership, and business capitalization.

By including IDAs in their State Plans (whether or not they choose to fund them with TANF), states will remove current penalties for savings and investment and create an infrastructure for future federal investment. In addition, states may also consider broader IDA initiatives which include the asset-poor majority and encourage savings through (refundable) tax credits to savers or contributors to accounts, or other mechanisms. With the Federal Home Loan Banks, churches, foundations, employers and the Federal government all beginning to fund IDAs, states that act now to set up frameworks for IDAs will be first in line to tap into this funding.

State IDA Initiatives

IDA and asset-building initiatives are proliferating across the country:

- 41 states have received welfare waivers to raise AFDC asset limits, making this among the most popular state waiver request along with the expansion of earned income disregards.
- 16 states have received waivers to legally recognize IDAs and protect AFDC recipients who build assets in restricted accounts from losing eligibility.
- 9 states have actually enacted some sort of matching program ranging from refundable tax credits to employer contributions to child support pass-throughs.

Iowa was the first state in the nation to pass IDA legislation. As part of Iowa Invests, which included the Iowa Family Investment Program (IFIP), a large welfare reform effort implemented statewide in 1993, the state passed legislation that created IDAs for Iowans with income less than 200% poverty. For each dollar saved by low-income Iowans participating in IDA programs, the state provides a refundable tax credit. Participants in the demonstration can use their IDAs for education, homeownership, or business capitalization. In total, Iowa's demonstration will create 10,000 IDAs and will provide $1 million in matching funds to the IDA savings of low-income families by the year 2000.

North Carolina, meanwhile, is funding a multi-site IDA demonstration with Community Development Block Grant Funds. Meanwhile, other states (Massachusetts, Mississippi, and Oregon) have passed legislation which combines IDAs with wage subsidies. Under these "Full Employment Plans," public benefits (AFDC and Food Stamp payments under previous welfare guidelines) are "cashed out" to provide wage subsidies to employers hiring welfare recipients. After 30 days of employment, employers are required to pay $1 per hour worked into an IDA for the welfare recipient. The account holder may use the funds in the account to pursue additional education, training, or business development. (States have made different determinations as to what IDAs can be used for.) Appendix A (*Basic Approaches to Matching Individual Development Accounts*) provides a full list of mechanisms that states are using to match IDAs.

Why States Should Act Now

There are a number of reasons states should act now to begin to create systems of IDAs. Among the more salient of these reasons:

- With the rapid implementation of welfare reform, employment, education and job creation incentives for welfare recipients are at a premium;
- With new sources of support for IDAs opening up, including possible Federal demonstration funding, foundation funding, as well as support from employers and congregations, states and communities that begin crafting initiatives now will be first in line to leverage support from such sources;
- There has been sufficient experimentation that states and communities initiating programs can build on experience.

IDA Options for States

States contemplating IDA initiatives should concentrate in setting up a framework for private and community IDA initiatives that can draw out and organize grassroots interest and action. Additionally, it makes sense to start with welfare reform's invitation to set up an IDA program. Some options follow:

1. Remove penalties facing welfare recipients who set up IDAs. The Temporary Assistance to Needy Families (TANF) legislation invites states to set up "a program of individual development accounts" and provides that savings in such accounts should not affect the eligibility or grant levels of recipients of any federal benefits program. Thus, once a state specifies an IDA program in the state plan -- even in the roughest of terms -- eligible welfare recipients may participate without losing not only TANF, but also Food Stamp, Medicaid and other benefits. Even if no money is dedicated to matching IDAs, states should include this protection. Language as general as "The State shall carry out a program for IDAs for individuals eligible for assistance consistent with Section 404 (h) of the TANF legislation," should be sufficient.

Additionally, many IDA programs have reached out to youth participants who have opened college savings accounts and started businesses. States should disregard savings, assets, and income of children when determining eligibility of their parents to receive government assistance.

Since IDA savings can only come from earned income, protecting IDA savings acts as an employment incentive. Even more critically, IDA savings will tend to extend job retention: a primary limit of welfare-to-work programs has been the fact that most employed welfare recipients return to welfare at sometime as they have no savings to weather illnesses, accidents and setbacks, nor any means of advancing beyond the sub-poverty entry-level job they obtain first. IDAs provide a buffer against accidents and illnesses; they provide a means to invest in additional training and skill upgrading; and they provide hope and a means to economic independence. Some recipients will even be able to use IDA funds to create jobs for themselves and others.

Moreover, establishing a legal structure for IDAs may be all that is necessary to catalyze matches from non-state sources -- congregations, employers, foundations and others -- who may not consider contributing.

2. Dedicate some TANF funding to match accounts of welfare recipients as an investment in their economic independence. States which receive an increase in TANF funding -- which most should given the fall in caseloads since the 1994 base year -- may want to consider dedicating a small percentage (5%) of additional funds provided under TANF to matching monies in the IDAs of eligible recipients. New funds will be scarce, but the real challenge of TANF is to move welfare recipients into enduring employment. Given the evidence that 70% of employed welfare recipients return to the welfare roles, the employment incentive, the tool for skill and job upgrading, the investment in job creation, economic stabilization, goal orientation and economic independence that IDAs provide is significant and deserving of investment.

A match of the first $100-500 per account per year would be quite significant and not extremely expensive (matching the savings in 1,000 accounts would cost $100,000 to $500,000). The number of accounts created could be apportioned to the number of recipients expected to transition off welfare. Such a match would leverage not only private savings, but also contributions from other sources, public and private. And it would position state and community organizations sponsoring IDA initiatives for Federal and private demonstration monies.

Any such IDA initiative should be structured to meet the requirements of the Federal legislation (see Appendix B, *How to Structure Individual Development Account Legislation*) to maximize the chances of additional contributions and also to maximize the impacts. Management, monitoring, counseling and enforcement should be delegated to community organizations willing to take on the responsibility of insuring IDAs are used as intended. Funds should be held in licensed financial institutions (notably banks and community development credit unions). An investment of at least 20% of the match total should be made in community institution operational expenses.

3. If the state chooses to convert some of the TANF block grant into a wage/employment subsidy paid to employers who hire welfare recipients, employers could be required to contribute to the IDAs of their new employees, just as states implementing "Full Employment Plans" have done. Again, IDAs represent an investment in enduring economic independence that should reduce recidivism and provide paths to economic upgrading and self sufficiency. Such a requirement costs the state nothing and should not scare away employers.

While IDAs make sense as an additional tool for economic independence for welfare recipients, states may not want to limit them to welfare recipients. Welfare recipients generally comprise only about 23% of the poor; other people in poverty -- working families, men, recipients of other benefits -- indeed, other families near poverty or vulnerable to economic changes have need for and potential to use IDAs. The following options relate to developing a more inclusive IDA system.

4. Legislate a framework for an inclusive IDA system. Such a system should be patterned on the framework contained in Federal IDA legislation to open the possibility of accessing such funds if they materialize -- and maximizing chances of success. Sliding scale matches (usually for households up to 200% poverty) insure that participants at different income levels can accumulate adequate funds to purchase assets. Again, by legislating an IDA framework, states can take advantage of welfare reform benefits even if no state matching funds are provided.

5. Consider a range of options for matching IDAs -- and encouraging others, including accountholders themselves to invest in IDAs. While some of even the poorest of the poor will choose to save, the fact is that without matching their savings will not be capable of accumulating adequate funds to purchase a home or education, or start a small business. By matching all funds in accounts from any source, states can provide a magnet for other partners while limiting their exposure by placing caps on the annual matches. Among the possible funding sources for the match that states have used and might consider are:

- Tax incentives to accountholders: These can include deductibility of savings in IDAs from earned income, exemption of earnings in the accounts, and or exemption of funds withdrawn. These sorts of incentives are particularly useful and cost-effective for extending the reach of IDAs to above-poverty accountholders. For low income accountholders, refundable tax credits, perhaps on a sliding scale, like Iowa has pioneered are useful. Iowa's experience suggests however that refundable tax credit rates above 20% are preferable, the governing rules should be kept as simple as possible, and some program operating expenses should be provided.
- Tax incentives to individual and corporate contributors to the accounts of holders below the poverty line, as Virginia and Colorado have proposed. In states which already have a Neighborhood Assistance Tax Credit which provides a credit to contributors to community based development organizations, the existing legislation may be used as is, or specifically amended and expanded to cover IDAs of low income people. States which don't have such tax credits might want to consider the broader legislation as a way to increase the support for and impact of such a program.
- Use of CDBG funds, low income housing and home ownership funds, scholarship funds, job training funds, and microenterprise programs for IDA matches. In this context, IDAs are an effective mechanism to deliver asset-building options while at the same time encouraging savings and investment and building economic literacy.

6. Consider funding evaluation/monitoring efforts to accompany IDA efforts in order to tract the costs and returns on their investment. This data will allow states to determine the impact of IDAs and help create support for additional investments in IDAs.

7. Consider providing support for community organizations which provide the counseling, education, monitoring and enforcement of IDA programs. Such investments can be modest (and expected to draw matches from private and local sources), but represent a prudent investment in the quality of the IDA program, and will be necessary to allow interested community organizations to participate.

APPENDIX A

BASIC APPROACHES TO MATCHING INDIVIDUAL DEVELOPMENT ACCOUNTS

APPROACH	DESCRIPTION	EXAMPLE
Refundable Individual Tax Credit	Individuals receive tax credit (which may be refunded if it exceeds tax liability) for savings deposited in IDA.	Iowa provide a refundable tax credit of 20% for deposits of people below 150% poverty into IDA; percentage slides to 10% from 150 to 200% poverty.
Tax Exemption of Deposits in IDA	Deposits to IDAs do not count as income for state tax purposes.	Virginia is proposing.
Tax Exemption for Withdrawals	IDA amounts withdrawn including capital appreciation, interest and dividends are not taxed upon withdrawal for approved purposes.	Virginia is proposing.
Tax Credit to Contributors to the IDA of a Low Income Person	Individuals and corporations who contributed to the IDA of low income people receive a tax credit (generally 50%) for contributions.	Colorado has proposed; Virginia is proposing as an extension of the existing Neighborhood Assistance Program which already provides such credits for contributions to neighborhood development efforts.
Required Employer Matches	Employer who receives wage subsidies for employing welfare recipient is required to contribute $1 per hour worked after 30 days of employment.	Arizona, Delaware, Massachusetts, Maryland, Mississippi, Oregon, and Virginia are using versions of Full Employment (wage subsidy) Plan. Massachusetts, Mississippi, and Oregon combine both the wage subsidy and IDA.
Child Support Pass Through	Portion of child support payment is passed through if placed in IDA for children.	Missouri has legislated.
Earned Income Tax Credit Pass Through	State/Federal governments permit EITC lump sum payment to be deposited in IDAs without affecting grant eligibility or levels.	
Direct Match	State agrees to match deposits (from whatever source) to low income/asset IDAs up to a stated ceiling (e.g., first $120 in savings).	Direct General Fund 1:1 matches the first $120 in IDA savings of low income people have been proposed in California, North Carolina, and elsewhere.
Voluntary Employer Match	Employers match savings of employees, or provide training vouchers/accounts.	Private firms working with the Council for Adult & Experiential Learning have established 100,000 such accounts.
Direct Match with CDBG	The state matches savings in IDAs with HUD Community Development Block Grant funds.	North Carolina is implementing an IDA demonstration which uses CDBG funds to match IDA participants' savings.
Direct General Fund Matches	The state matches savings in IDAs with general fund revenues.	Proposed in California and North Carolina.
Other		The Texas legislature has instructed the Department of Human Services to encourage private sector employers to provide matches. Iowa leverages matches out of community groups chosen to administer IDA refundable tax credits by making such matches a criterion for awarding the tax credits.

APPENDIX B

HOW TO STRUCTURE INDIVIDUAL DEVELOPMENT ACCOUNT LEGISLATION

It makes sense to design your state legislation to meet the requirement of both the welfare reform law and the likely language of a federally-funded national IDA demonstration. This means:

- Should have the three permissible uses of IDAs (education, homeownership, and business) start up as they are broadly defined in the legislation.
- Only government entities and 501c(3) organizations can act as intermediaries.
- Savings accounts should be set up only at accredited financial institutions.

The current structure of the national IDA demonstration legislation (S1212) states that when deciding which IDA projects will receive funding, HHS will look at:

- Degree to which the project helps low-income people achieve self-sufficiency.
- The ability of the applicant to responsibly administer the project.
- The ability of the applicant to help low-income people to achieve economic self-sufficiency through the development of assets.
- The amount of direct funds from non-Federal public sector and private sources that are formally committed to the project.

HHS will give preference to those applications:

- dealing with households with children.
- that provide a commitment of non-Federal funds with a proportionally greater amount of funds committed by private sector sources.
- that target individuals residing in low-income or high unemployment areas.
- Additionally, HHS will seek diversity of populations.

APPENDIX C

INVESTMENT AND RETURNS ON INDIVIDUAL DEVELOPMENT ACCOUNTS

Monies saved in IDAs should be understood as investments in the strict sense -- as applications of money today in anticipation of substantially greater returns in future years. Indeed, savings by any party are immediately leveraged by matching contributions, enlarged by regular interest and earnings, and ultimately combined with individual energy, talent and learning into businesses, skills, employment or housing which, in turn, yield salaries, profits, taxes, savings and social benefits. The precise magnitude of those returns will depend upon match and interest rates, the preparation of accountholder/investors, and the quality of the undertaking underwritten by the IDA. It is possible, however, to project the nature of the returns. Based on the IDA model contained in the proposed Federal demonstration legislation (S1212), which we suggest states follow in designing their own initiatives, each 1,000 IDAs should generate a total investment from all parties of $2.91 million:[2]

- 70 businesses
- 688 job-years of employment
- $7.3 million in additional earnings
- 60 new and 60 rehabilitated homes
- $2.87 million in savings in community financial institutions
- $1.88 million in increased assets of low income families
- 117 families off welfare
- 320 additional high school and college degrees.
- net returns of $16 million within a decade.[3] Annual rates of returns for all investors exceed 23%.

Moreover, models suggest that all investors will break even within 3 years from their investment. Of course, in order to be appropriate, the model and the projections needs to be adapted to the particular IDA program design used.

[2] Daphne Clones, Robert Friedman, Brian Grossman, and Cicero Wilson, *The Return of the Dream: An Economic Analysis of the Probable Returns On A National Investment in Individual Development Accounts*, Washington, DC: Corporation for Enterprise Development, c1995.
[3] *Ibid.*

Additional Information on Individual Development Accounts and Asset-Building Strategies

- ✦ Adams, Deborah Page and Michael Sherraden, *What We Know About the Effects of Asset-Holding.* Working paper no. 96-1. St. Louis, MO: CSD, 1996
- • *Assets: A Quarterly Update for Innovators* (newsletter). Washington, DC: CFED. Free.
- • Clones, Daphne, Robert Friedman, Brian Grossman and Cicero Wilson, *The Return of the Dream: The Probable Economic Returns of a National Investment in Individual Development Accounts.* Washington, DC: CFED, 1995. $15.00+$3.90 s/h.
- • CFED, *Universal Savings Accounts Briefing Book.* Washington, DC.
- • CFED, *Individual Development Accounts State Sourcebook.* Washington, DC. $27.50 (includes s/h).
- • Friedman, Robert E., Brian Grossman and Puchka Sahay, *Building Assets: Self-Employment for Welfare Recipients - An Overview of the Results of the Self-Employment Investment Demonstration.* Washington, DC: CFED, September 1995. $15.00 (includes s/h).
- • Friedman, Robert E., *The Safety Net as a Ladder: Transfer Payments and Economic Development.* Washington, DC: Council of State Policy and Planning Agencies, 1988.
- • Grossman, Brian, Puchka Sahay and Robert Friedman, *Designing Your Own Individual Development Account Demonstration: An Information and Resource Handbook for Community-Based Organizations,, Revised Edition.* Washington, DC: CFED, 1996 $30.00 (includes s/h).
- • Keeley, Kathryn and Chris Weiss, *Savings Groups: A Tool for Community Organizations.* Washington, DC: CFED, September 1993. $15.00+$3.90 s/h.
- ♦ Oliver, Melvin L. and Thomas M. Shapiro, *Black Wealth/White Wealth: A New Perspective on Racial Inequality.* New York: Routledge, c1995.
- • Rist, Carl and Robert Friedman, *Building the Ladder: Strategies for Economic Independence-Oriented Welfare Reform.* Washington, DC: CFED, September 1996.
- • Schweke, Bill, Victoria Lyall and Carl Rist, *Jobs By the Poor, For the Poor: Profiles of Community Innovation.* Washington, DC: CFED, September 1996.
- ♦ Sherraden, Michael. *Assets and the Poor: A New American Welfare Policy.* Armonk, NY: M.E. Sharpe, Inc., c1991. Ph. 914-273-1800 Fax: 914-273-2106. $23.95+$4.52 s/h.
- ✦ Sherraden, Michael. *IDA Evaluation Handbook.* St. Louis, MO: Center for Social Development, 1995.
- ♦ Wider Opportunities for Women, *Six Strategies for Family Economic Self-Sufficiency: Great Ideas for Getting Low-Income Families Out of Poverty,* Washington, DC: Wider Opportunities for Women, (202) 638-3143. $35.00.

• Available from:	Corporation for Enterprise Development, 777 N. Capitol Street, NE, Suite 410, Washington DC 20002. Ph: 202-408-9788 Fax: 202-408-9793 CFED requires prepayment by check or money order or written purchase orders for all orders. Washington, DC residents: Please add 5.75% sales tax.
✦ Available from:	Center for Social Development, Washington University, Campus Box 1196, One Brookings Drive, St. Louis, MO 63130. Ph: 314-935-7433 Fax: 314-935-8511

MODEL IDA LEGISLATION

A BILL

To provide for the establishment of a pilot system of Individual Development Account (IDA) projects designed to provide individuals and families, especially those with limited means, an opportunity to accumulate assets, facilitate and mobilize savings, promote education, homeownership and microenterprise development.

TITLE

(1) This Act may be cited as (choose one)
a) The (state) Individual Development Account Act
b) The (state) Family Savings Initiative
c) The (state) Assets and Independence Act
d) The (state) Family Development Account Act

FINDINGS.

The State of _______ finds that--

(1) Americans of most economic classes are having increasing difficulty climbing the economic ladder. Fully half of all Americans have no, negligible or negative investable assets just as the price of entry to the economic mainstream -- the cost of a house, an adequate education or starting a business -- is increasing.

(2) Economic well-being does not come solely from income, spending, and consumption, but also requires savings, investment, and accumulation of assets, since assets can improve economic stability, connect people with a viable and hopeful future, stimulate development of human and other capital, enable people to focus and specialize, yield personal, and social dividends, and enhance the welfare of offspring.

(3) There is an urgent need for new means for Americans to navigate the labor market -- to provide incentives and means for employment, upgrading, mobility, and retention.

(4) The household savings rate of the United States lags far behind other industrial nations presenting a barrier to economic growth. The state of ________ should develop policies, such as individual development accounts, that promote higher rates of personal savings and net private domestic investment.

(5) In the current tight fiscal environment, the state of _____ should invest existing resources in high-yielding initiatives. There is reason to believe that the financial returns,

including increased income, tax revenue, and decreased welfare cash assistance, of individual development accounts will far exceed the cost of investment.

(6) Tens of thousands of ______ residents continue to live in poverty and receive public assistance. Poverty is a loss of human resources, an assault on human dignity, and a drain on social and fiscal resources of the state. Traditional public assistance programs, concentrating on income and consumption, have rarely been successful in promoting and supporting the transition to economic self-sufficiency.

(7) Income-based welfare policy should be complemented with asset-based welfare policy, because while income-based policies ensure that consumption needs (including food, child care, rent clothing, and health care) are met, asset-based policies provide the means to achieve economic self-sufficiency and, accordingly, to leave public assistance.

PURPOSES

(1) PURPOSES -- To provide for the establishment IDA projects designed to:

(a) provide individuals and families, especially those with limited means, an opportunity to accumulate assets;
(b) facilitate and mobilize savings;
(c) promote education, homeownership, and microenterprise development, and
(d) to stabilize families and build communities.

DEFINITIONS

(1) INDIVIDUAL DEVELOPMENT ACCOUNT -- The term "individual development account" means a trust created or organized in the United States exclusively for the purpose of paying the qualified expenses of an eligible individual or family. IDAs are special accounts similar to IRAs. They are optional, earnings bearing, subsidized, tax-benefited accounts that can be used for any of the following qualified uses: homeownership, education, job training, or small business capitalization.

(2) FIDUCIARY ORGANIZATION -- The term "fiduciary organization" means any nonprofit fundraising organization which is exempt from taxation under section 501 (c) (3) of the Federal IRS Code of 1986. The fiduciary institution will serve as an intermediary between individual account holder and financial institutions holding account funds. Their responsibilities may include marketing participation, soliciting matching contributions, counseling program participants, and conducting required verification and compliance activities.

(3) FINANCIAL INSTITUTION -- The term "financial institution" means an organization authorized to do business under state or federal laws relating to financial

institutions, and includes a bank, trust company, savings bank, building and loan association, savings and loan company or association, and credit union.

(4) ELIGIBLE EDUCATIONAL INSTITUTION- The term `eligible educational institution' means the following:

`(i) An institution described in section 481(a)(1) or 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1088(a)(1) or 1141(a)), as such sections are in effect on the date of the enactment of this subsection.

`(ii) An area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this subsection.

(5) POST-SECONDARY EDUCATIONAL EXPENSES- The term `post-secondary educational expenses' means--

`(i) tuition and fees required for the enrollment or attendance of a student at an eligible educational institution, and

`(ii) fees, books, supplies, and equipment required for courses of instruction at an eligible educational institution.`

(6) QUALIFIED ACQUISITION COSTS- The term `qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. The term includes any usual or reasonable settlement, financing, or other closing costs.

(7) QUALIFIED BUSINESS- The term `qualified business' means any business that does not contravene any law or public policy.

(8) QUALIFIED BUSINESS CAPITALIZATION EXPENSES- The term `qualified business capitalization expenses' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

(9) QUALIFIED EXPENDITURES- The term `qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

(10) QUALIFIED FIRST-TIME HOMEBUYER-

`(i) IN GENERAL- The term `qualified first-time homebuyer' means a taxpayer (and, if married, the taxpayer's spouse) who has no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this subsection applies.

`(ii) DATE OF ACQUISITION- The term `date of acquisition' means the date on which a binding contract to acquire, construct, or reconstruct the principal residence to which this subparagraph applies is entered into.

(11) QUALIFIED PLAN- The term `qualified plan' means a business plan which--

`(i) is approved by a financial institution, or by a nonprofit microenterprise program having demonstrated business expertise,

`(ii) includes a description of services or goods to be sold, a marketing plan, and projected financial statements, and

`(iii) may require the eligible individual to obtain the assistance of an experienced entrepreneurial advisor.

(12) QUALIFIED PRINCIPAL RESIDENCE- The term `qualified principal residence' means a principal residence (within the meaning of section 1034 of the Internal Revenue Code of 1986), the qualified acquisition costs of which do not exceed 100 percent of the average area purchase price applicable to such residence (determined in accordance with paragraphs (2) and (3) of section 143(e) of such Code).

(13) FEDERAL POVERTY LEVEL - The term 'federal poverty level' means the poverty income guidelines published in the calendar year by the United States Department of Health and Human Services.

(14) HOUSEHOLD - The term 'household' means the adults related by blood, marriage or adoption, or who are unrelated but have maintained a stable family relationship together over a period of time, and individuals under 18 years of age related to the above adults by marriage, blood or adoption, who are living together. Living together refers to domicile as evidenced by the parties' intent to maintain a home for their family and does not include a temporary visit.

(15) NET WORTH - The term 'net worth' means the amount equal to the aggregate market value of all assets that are owned in whole or in part by any member of a household, minus the obligations or debts of any member of the household.

PROGRAM

(1) NUMBER OF ACCOUNTS -- For the ____ year period beginning January 1, 1997, and ending December 31, ______, the total number of IDAs shall be limited to __________

accounts to ________ (your state) residents whose household income does not exceed 200% of the federal poverty level *(another option, which may better reflect regional differences in cost of living, is 80% of the area's median household income).* Not more than _______ accounts shall be established during the first calendar year of the period.

INDIVIDUAL CONTRIBUTIONS

(1) CONTRIBUTIONS TO BE FROM EARNED INCOME- An individual may only contribute to an individual development account such amounts as are derived from earned income. Tax return reports of earned income shall be used to verify compliance.

(2) LIMIT ON FUNDS ACCUMULATED IN AN IDA - The total amount of any individual development account (savings, matches, and interest) may not exceed twenty thousand dollars.

PERMISSIBLE USES

(1) PERMISSIBLE USES - Individual Development Accounts may be used for any of the following three uses.

> `(1) POSTSECONDARY EDUCATIONAL EXPENSES- Postsecondary educational expenses paid from an individual development account directly to an eligible educational institution.
>
> `(2) FIRST HOME PURCHASE- Qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer, if paid from an individual development account directly to the persons to whom the amounts are due.
>
> `(3) BUSINESS CAPITALIZATION- Amounts paid from an individual development account directly to a business capitalization account which is established in a federally insured financial institution and is restricted to use solely for qualified business expenses consistent with approved business plan.

(2) WITHDRAWAL PROCEDURES -- The state shall establish such regulations as may be necessary to ensure that funds held in an individual development account are not withdrawn except for 1 or more of the qualified purposes (permissible uses) described above.

ELIGIBLE INDIVIDUALS

(1) INCOME LIMIT -- The income of the household of the account holder does not exceed 200% of the federal poverty level *(or alternatively 80% of the area household median income).*

(2) AGREEMENT WITH FIDUCIARY ORGANIZATION -- The individual or family has entered into an individual develop account agreement with a certified fiduciary organization or community based organization. (this assumes that the fiduciary organization and the community based organization are not one and the same. Another possibility, is that a fiduciary organization will enter into a contract with another organization to provide certain IDA services).

(3) NET WORTH LIMIT -- The net worth of the household does not exceed $20,000 (disregarding home equity).

FIDUCIARY ORGANIZATIONS

(1) FIDUCIARY ORGANIZATIONS -- Locally-based organizations ("fiduciary organizations") are 501 (c) (3) organizations that serve as intermediaries between individual account holders and financial institutions holding accounts. Their responsibilities may include marketing participation, soliciting matching contributions, counseling program participants, and conducting verification and compliance activities.

(2) COMPETITIVE PROCESS -- Locally-based organizations will enter into a competitive process for the right to become fiduciary organization for a portion of the ______ accounts that would be authorized initially. Organizations' proposals would be evaluated and participation rights awarded on the basis of such items as their:

(a) ability to market the program to potential account holders and potential matching fund contributors;
(b) ability to provide safe and secure investments for individual accounts;
(c) overall administrative capacity, including the certifications or verifications required to assure compliance with eligibility requirements, authorized uses of the accounts matching contributions by individuals or businesses, and penalties for unauthorized distributions;
(d) capacity to provide financial counseling and other related service to potential participants; and
(e) links to other activities designed to increase the independence of individuals and families through home ownership, enhance education and training, and small business development.

(3) PROGRAM AUTHORITY- If the State approves an application to fund an IDA project under this section, the State shall, not later than __ months after the date of the enactment of this Act, authorize the applicant to conduct the project for ____ project years in accordance with the approved application and this section.

(4) GRANT AUTHORITY- For each IDA program approved under this section, the State shall make a grant to the qualified entity (fiduciary organization) authorized to conduct the

project on the first day of the project year in an amount not to exceed $______.

(5) SELECTION OF PARTICIPANTS -- From among the individuals eligible for assistance under the ____ IDA program, each qualified entity grantee (selected fiduciary organization) shall select the individuals (or families) whom the fiduciary organization deems to be best suited to receive such assistance.

PENALTIES

(1) PENALTIES FOR NONAPPROVED WITHDRAWALS -- If the fiduciary organization receives evidence that moneys withdrawn from IDAs are withdrawn under false pretenses and are used for purposes other than for the approved purposes indicated at the time of the withdrawal, the fiduciary organization should make arrangements with the financial institution to impose a ___% penalty on the moneys withdrawn or loss of matches and may, at its discretion, close the account.

(2) TAXATION OF NONAPPROVED WITHDRAWALS -- Any withdrawal for purposes other than the permissible uses, or withdrawn for purposes other than for the approved purpose indicated at the time of the withdrawal are subject to taxation.

(3) RESOLUTION OF DISPUTES. The fiduciary organization shall establish a grievance committee and a procedure to hear, review, and decide in writing any grievance made by an IDA account holder who disputes a decision of the operating organization that a withdrawal is subject to penalty.

(4) INDIVIDUALS UNABLE TO COMPLETE THE PROJECT- The State shall establish such regulations as are necessary, including prohibiting eligibility for further assistance under an IDA project conducted under this section, to ensure compliance with this section if an individual participating in the IDA project moves from the community in which the project is conducted or is otherwise unable to continue participating in the project.

INCLUSION IN WELFARE REFORM PLAN

(1) USE OF TANF FUNDS -- The _____ IDA program has been created in accordance with all provisions in section 404 (h) of HR 3734, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. State Temporary Assistance for Needy Families (TANF) funds may be used to match account holders contributions to their IDAs as provided in section 404 (h).

(a) Matches of up to $500 per year in the account of TANF eligible individual will be provided on a 1:1 basis through those fiduciary organizations/community based organizations selected to run IDA programs.

(b) TANF funds may also be used to provide operating expenses to those fiduciary organizations/community based organizations selected to run IDA programs.

(2) NO REDUCTION IN BENEFITS -- As provided in section 404 (h) (4) of HR 3734, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 -- Notwithstanding any other provision of Federal law (other than the Internal Revenue Code of 1986) that requires consideration of 1 or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such law to be provided to or for the benefit of such individual, funds (including interest accruing) in an individual development account under this subsection shall be disregarded for such purpose with respect to any period during which such individual maintains or makes contributions into such an account.

MATCHES

(1) STATE MATCHES -- Payment by the state of a match on the amounts of up to $_______ per calendar year on deposits in an IDA. The state match shall be based on the individual or families income level.

(a) For an account holder with a household income which is less than or equal to 100% of the federal poverty level, one dollar for each dollar saved.
(b) For an account holder with a household income which is greater than 100% of the federal poverty level but less than 150% of the federal poverty level, .5 dollars for each dollar saved.
(c) For an account holder with a household income which is greater than or equal to 150% of the federal poverty level, but less than or equal to 200% of the federal poverty level, .25 dollars for each dollar saved.

(2) STATE MATCH LIMIT -- Not more than $________ in state match should be deposited into any IDA in a given year.

(3) MATCHING FUNDS -- Selected fiduciary organizations may receive no more than $_____ in matching funds in any given year.

SAVINGS REFUND

(1) STATE SAVINGS REFUND -- Payment by the state of a savings refund on the amounts of up to $_______ per calendar year that an account holder deposits in an IDA. The state savings refund shall be the indicated percentage of the amount deposited:

(a) For an account holder with a household income which is less than or equal to 100% of the federal poverty level, (50% - 100%).
(b) For an account holder with a household income which is greater than 100% of the federal poverty level but less than 150% of the federal poverty level, (25%-75%).

(c) For an account holder with a household income which is greater than or equal to 150% of the federal poverty level, but less than or equal to 200% of the federal poverty level, (25%).

(2) STATE SAVINGS REFUND LIMIT -- Not more than $________ in state savings refund should be deposited into any IDA in a given year.

TAX EXEMPTION

(1) STATE TAX EXEMPTION -- All money contributed into an individual development account (including state and private matches, individual savings, and interest earned) are not subject to state tax. (or perhaps ....not subject to state tax until withdrawn).

TAX CREDIT

(1) TAX CREDIT FOR PRIVATE CONTRIBUTORS -- Individuals, organizations, or businesses contributing matching funds for IDAs will receive a tax credit equal to 50% of the amount contributed.

(2) CONTRIBUTIONS MADE THROUGH FIDUCIARY ORGANIZATION -- Individuals, organizations, and businesses seeking the tax credit can contribute a matching share to designated individuals or contribute to a fiduciary organization (501 (c) (3) organization that is administrating an IDA program) and permit it to allocate the funds to all its participants on a proportionate basis.

ADMINISTRATION/EVALUATION/INFORMATION/REPORTING

(1) LOCAL CONTROL OVER IDA PROGRAMS -- Each qualified entity grantee (selected fiduciary organization) running an IDA program shall have sole authority over the administration of the project. The state may prescribe only such regulations with respect to demonstration projects under this section as are necessary to ensure compliance with the approved applications.

(2) PROGRAM REPORTING -- Each IDA program shall report (at least annually) the number of accounts, the amount of savings and matches for each account, the uses of the account, and the number of businesses, homes, and educations purchased, as well as such other information as may be required for the state to responsibly operate the program.

(3) STATE REPORTING -- The state shall prepare a written report annually regarding the implementation of and recommendations concerning the state IDA program. Said report shall be transmitted to the general assembly on or before ______ 1 of each year commencing in 1997.

(3) ADMINISTRATION COSTS -- Selected fiduciary organizations may receive no more than $______ to cover administrative costs in any given year.

APPROPRIATION

(1) STATE APPROPRIATION -- To effectively implement and manage the IDA program, the state of _____ will appropriate $______ million per year.

(2) TANF FUNDS -- The state will provide (up to 5% ($_____)) of TANF grant for support of the IDA program. Of these funds x%, y%, and z% may be used respectively, for matches, program operation administrative costs, and evaluation/reporting expenses.

(3) TAX CREDITS -- The state will provide no more than $_____ in tax credits for private individuals, businesses, and organizations contributing funds to IDA programs.

Introductory
IDA info from our website
(http://www.cfed.org

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Building Assets -- *Savings/Asset Development*

What are Individual Development Accounts?

Individual Development Accounts are dedicated savings accounts, similar in structure to Individual Retirement Accounts (IRAs), that can only be used for purchasing a first home, education or job training expenses, or capitalizing a small business. They are managed by community organizations and accounts are held at local financial institutions. Contributions for lower income participants are matched using both private and public sources. Additionally, all participants receive economic literacy training that shows them how to clean up their credit, set up a budgeting and savings schedule, teaches them the basics of money management and participate in the new global economy.

Current income maintenance policy raises people to the poverty line, leaving them only one sickness, one accident, or one divorce away from poverty. While providing food, shelter and clothes to low-income families is imperative, this aid alone will not produce viable escapes from poverty. Washington University Professor Michael Sherraden notes, "Income may feed people's stomachs, but assets change their heads."

Sherraden, who introduced the concept of IDAs in his seminal 1991 book, *Assets and the Poor*, explains that the distribution of assets in this country is much less equal even than income distribution. While the top 10% of Americans command 40% of national income, the top 1% control 90% of assets. Fully one-third of American households have no or negative investable assets; more than half have negligible amounts. National policy reinforces asset inequality. The federal government subsidizes asset acquisition for the non-poor by over $200 billion annually in the form of home mortgage deductions, preferential capital gains, and pension fund exclusions. Meanwhile, the federal government penalizes asset acquisition by the poor by denying eligibility to welfare recipients who exceed the $1,000 asset limitation from acquiring the piece of business machinery that could enable them to create their own job, or save for their or their children's college education, or purchasing a first home.

Owning assets gives people a stake in the future -- a reason to save, to dream, to invest time, effort, and resources in creating a future for themselves and their children. Sherraden pinpoints nine effects of asset-building. Assets:

- Improve household stability.
- Psychologically connect people with a viable, hopeful future.
- Stimulate development of other assets, including human capital.
- Enable people to focus and specialize.
- Provide a foundation for risk-taking.
- Increase personal efficacy.
- Increase social influence.
- Increase political participation.

* Enhance the welfare of offspring.

IDAs address the deficiencies of the current system by returning to the asset-based policies responsible for America's greatest periods of economic growth and prosperity. Our long history of asset-building policies includes the Homestead Act of the 19th Century and the GI Bill of the 20th Century. The former provided land on the frontier to stimulate economic growth. The latter subsidized college tuition for war veterans, who in turn, drove our post-war economic expansion.

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Corporation for Enterprise Development, National Office, 777 North Capitol, NE, Suite 410, Washington DC 20002
Email: cfed@cfed.org, Phone: (202) 408-9788, Fax: (202) 408-9793

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Building Assets -- *Savings/Asset Development*

How IDAs Work

Toni Davis, a 21-year-old African-American mother of three, fled from Atlanta to Indianapolis to escape an abusive husband. Shaken by physical abuse and lacking both a high school education and marketable job skills, Toni seemed destined to fall through the cracks of our welfare system. Two years later, after opening an Individual Development Account (IDA), Toni has transformed her life and is brimming with confidence and optimism about the future. Already having earned her GED and completed a year of college, she will soon have saved enough money to purchase her first home. She attributes her success to the opportunity and hope that IDAs provided her, "I saw [the IDA] as my way out -- not to have to go back into the [battered women's] shelter...It made me want to go out there and do things."

IDAs are a potent tool used by community organizations throughout the United States. IDA demonstrations are underway at several sites nationwide, stimulating participants' savings rates, building their assets, and connecting these individuals to the economic mainstream. Currently, most of the demonstrations are funded by private foundations. Ideally, in the future, IDAs will be funded by a combination of private and public sources. The following four-step process documents how an IDA participant, like Toni Davis, moves through a typical IDA demonstration.

Step 1 -- Introduction and Orientation

Toni enrolls in Eastside Community Investment's (an Indianapolis-based community development corporation) BASTA program shortly after her arrival in Indianapolis. BASTA provides transitional housing and counseling for battered women. While in the BASTA program, ECI staff tell Toni about Individual Development Accounts and recommend that she attend an IDA orientation session.

Participants in ECI's various existing programs (including BASTA, Home Ownership, YouthBuild, and Microenterprise) attend ECI's IDA Orientation Session. The orientation explains the importance of asset-building, how IDAs work, introduces participants to various asset-building options, demonstrates how assets transform lives, stresses the importance of continued savings, and demonstrates how savings can compound and accumulate over a lifetime. ECI also invites graduates of its IDA program and current IDA participants to their orientation to explain what IDAs have meant to them.

Step 2 -- Opening Accounts

After attending the orientation Toni and several other ECI program participants decide to open Individual Development Accounts. Toni opens an IDA savings account at ECI's local credit union where she deposits money every month (or more often, if she so chooses). Periodically, ECI contributes matching funds for each dollar Toni saves into a separate parallel account. At the same time, ECI's IDA management information system tracks how much each participant has saved, how much in matching funds they have earned, and the interest they have accumulated. Toni receives monthly banking statements from ECI showing her current levels of savings, matching contributions, and interest in her IDA account.

Step 3 -- Credit Counseling, Budgeting, Economic Literacy and Training

Shortly after she enrolls in the ECI IDA program, Toni meets with ECI staff to develop an asset acquisition plan. During the first step in this process, ECI conducts a review of Toni's credit, where if necessary, they will help her develop a plan to esta blish or clean up her credit. Second, staff discusses income and consumption patterns of Toni's household and works with her to develop a savings schedule based on how much her household can afford to save each month.

Toni then attends mandatory economic literacy sessions where she follows a curriculum specifically designed to teach the vital concepts necessary for success in today's economy (such as banking, investing and money management skills). Eastside Community Investments has collaborated with the Purdue University Cooperative Extension Service to create an economic literacy curriculum entitled, "Making Your Money Work." This five-session curriculum includes lessons on money management, getting the most from your money, understanding and managing credit, money plans, and recordkeeping, in addition to individual meetings and homework for each IDA participant.

Toni receives specific training in the area of homeownership, the asset for which she will use her IDA (those who wish to use their IDAs to start their own business must complete microenterprise training). Additionally, during the asset accumulation process, ECI provides Toni one-on-one counseling when she has questions concerning financial management and on how the IDA program works. Many IDA participants also form weekly or bi-weekly support groups where they discuss IDAs with fellow participants and with "graduates" of the IDA program.

Step 4 -- Withdrawal, Purchasing Assets, and Beyond

After Toni has accumulated adequate funds in her account (savings + matches + interest) to purchase the asset of her choice, and has completed both economic literacy training and counseling in the specific asset area in which she will use her IDA, she is ready to make a withdrawal. Toni fills out withdrawal forms which state the asset she wishes to purchase (a first home) and the asset vendor, and ECI reviews her request to check the legitimacy of the asset vendor. After approving Toni's withdrawal request, ECI writes a check (from the matching funds Toni has accumulated) to the asset vendor, and at the same time Toni writes a check (from her IDA savings account) to that asset vendor.

After Toni uses her IDA funds to purchase a home, she continues to save for her own and her family's future (but without matches).

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Email: cfed@cfed.org, Phone: (202) 408-9788, Fax: (202) 408-9793

Savings/Asset Development -- *Individual Development Accounts*

Seven Myths and Realities About IDAs

The promise and success of Individual Development Accounts have already begun to dispel commonly held myths concerning IDAs, savings and community development. Seven of the most prevalent myths are listed below along with the realities that disprove them.

Myth # 1: The poor are unable to save.

Reality: Poor people throughout the country are already saving, and IDAs are providing a mechanism to increase savings rates.

Poor people do save -- even when saving means having less for food, clothing, and housing. Tens of thousands of low-income Americans have opened accounts at Community Development Credit Unions throughout the country. Currently 60% of accounts in these credit unions are opened by those with family income levels below $10,000. Additionally, there is a growing movement among public housing residents to form savings clubs, pooling $2, $3, $4 per month so that the group will have access to a small (though growing) pool of money for loans in case of an emergency.

Why the sacrifice? Because this is the price of stability -- a buffer against the certain, if unpredictable, illness or accident that will otherwise throw the family into disarray. And because saving is the price of hope, savings offer the luxury of imagining a future better than the present, justifying, planning, and preparing for that future, and enabling an individual to invest in that future. Additionally, low savings rates are a threat not only to the poor, but to this wealthy nation as a whole, undermining our ability to make needed investments in businesses, education, and infrastructure that will determine our future economic well-being.

Myth # 2: IDAs are a giveaway.

Reality: IDAs are an investment in America's future.

The IDA program invests government and private dollars in proportion to the savings of the poor and working poor account holders. Just as the government provides incentives for asset-building investments in businesses, homes, and retirement savings for the non-poor, IDAs provide a vehicle for the poor to build assets.

Furthermore, specific financial and social returns accrue to government, private sector, and society as investors in IDAs. IDAs produce homeownership, businesses, and increased earnings due to new education diplomas for account holders. In addition, IDAs produce new jobs, businesses, more home-building, decreased income maintenance expenditures, and an increased tax base for tax payers. In fact, a recent return on investment study by the Corporation for Enterprise Development (CFED) estimates that, based on the best data available, if the federal government were to run an IDA demonstration, for every dollar invested in IDAs, the federal government would earn \$2.71, state and local governments would earn \$4.79, and individuals would earn \$10.05. IDAs should be assessed in the same way other investments are assessed -- by the returns they generate.

Myth # 3: Savings in IDAs will not grow large enough to allow low-income people to accumulate assets.

Reality: IDAs are structured to provide participants sufficient funds to pay for the downpayment on a first home, tuition to a public college, or start-up costs for a small business.

IDA proposals enable Americans with very limited income to accumulate a few thousand dollars over two to three years, if they save a small percentage of their earned income every month. Powerful evidence exists that surprisingly low amounts of savings produce the hopefulness, future orientation, initiative taking, and planning that are theorized. Savings of \$2,500 to \$5,000 are enough to pay the downpayment and closing costs on an average priced affordable home (\$40,000 to \$65,000), annual tuition at a public college or technical school, or the start-up costs for a small business.

Myth # 4: IDAs are untested and will not work.

Reality: IDA demonstrations are currently operational at several community-based organizations in the country. Asset-based interventions have already proven to be extraordinarily successful.

IDAs and asset-building poicies have already achieved considerable success.

The IDA program of Eastside Community Investments in Indianapolis (ECI) has established over 100 IDAs.

Homeownership programs for low income families, such as the NeighborWorks program of the Neighborhood Reinvestment Corporation and the Community Centered Banking program of the Huntington Bank, have helped 5,000 low-income families purchase homes with an average default rate of 1.25%.

Business owners in the Self-Employment Investment Demonstration (SEID), a five-state microenterprise demonstration project comprised entirely of AFDC recipients, saw their reliance on AFDC as a primary source of income decrease 65%, and their reliance on food stamps as a secondary source of income decrease 62% from their time of entry in the program. At the same time, SEID business owners accumulated an average of \$4,867 in net business assets and \$8,738 in gross personal assets.

Myth # 5: IDAs will only enlarge the welfare system.

Reality: IDAs will transform the welfare system by creating an investment system which provides low-income individuals long term, lasting escapes from poverty.

IDAs used for home purchases would have the effect of reducing AFDC cash payments and direct housing subsidy payments because mortgage programs for low income families require one to two years of consistent employment. The opportunity for homeownership would be a powerful incentive for welfare recipients to find and keep full time jobs. Business IDAs would provide an opportunity for welfare recipients to create their own jobs through self-employment in microenterprises. Education IDAs would assist recipients to purchase the training and skills needed to command high wage employment and permanently leave the welfare system.

Myth # 6: IDAs will create a large government bureaucracy and become yet another target for welfare fraud.

Reality: IDA demonstrations are run through community organizations and accredited financial institutions which have built in safeguards against abuse and only allow account funds to be released for permissible asset-based uses.

Government will have a limited role in state or national supported IDA demonstrations. Currently, a few community-based organizations (CBOs) are running IDA demonstrations using the same basic framework that will be applied in a federal demonstration. Community-based organizations are the ideal delivery mechanism for IDAs due to their close contact with low-income clients and their understanding of low-income communities.

IDA participants will open accounts at accredited financial institutions. Community organizations will be charged with informing and monitoring participant withdrawals. Account holders will not have direct access to cash from the account. Withdrawals must be in accordance with specific provisions that result in direct payments to the educational institution, mortgage company, or business equipment supplier. CBOs will also ensure that asset vendors are legitimate.

Myth # 7: The Federal and state governments can not afford IDAs.

Reality: To compete in the global economy, America must invest in building the assets of low-income people and communities.

Unless we invest in the ability of low-income people and communities, and indeed the economy as a whole, to acquire skills and increase productivity, build businesses and jobs, and establish stable homes and communities, the likelihood is that needs will continue to grow while the resources to meet them, both publicly and privately, will only diminish. It is not a question of whether we can afford IDAs, but rather whether we can afford not to have them.

ASSETS

A QUARTERLY UPDATE FOR INNOVATORS

Vol II, No. 2 — *Corporation For Enterprise Development* — August 1996

IDAs Part of New Welfare Reform Law

For the first time, Congress has passed legislation on Individual Development Accounts (IDAs). The landmark welfare reform bill passed by Congress and signed by the President includes provisions that allow states to create community-based IDA programs with state block grant funds and that disregard all money saved by the poor in IDAs from affecting their eligibility for government assistance.

Professor Michael Sherraden of Washington University, who introduced the IDA concept five years ago, hailed the IDA provisions as producing "far and away the most important policy changes since we started this work."

Sherraden explains the significance of the IDA language, "The policy precedents are bold and sweeping. (1) asset building is now on an even footing with income transfer as a policy option, and (2) through IDAs, asset limits are virtually abolished in means-tested transfers." He further notes that with current AFDC expenditures totaling $12 billion, state block grants could translate into tens of millions of dollars for IDAs without reducing maintenance support.

The IDA provisions were introduced by Senator Dan Coats (R-IN) who is also co-sponsor with Sen. Carol Moseley-Braun (D-IL) of S1212, the Assets and Independence Act, which would create a 50,000 account, $100 million national IDA demonstration. House budget committee chairman John Kasich (R-OH), who introduced the Assets and Independence Act in the House, played a pivotal roll in steering the welfare reform IDA language through the conference committee.

In several respects, the IDA amendment mirrors S1212—it provides that only earned income can be saved in IDAs, designates non-profit, community-based organizations as custodians of IDA accounts, and permits IDAs to be used for education, homeownership, and business capitalization. It does not, however, provide additional federal funding for IDAs.

To utilize the IDA provisions, which are one of the few specific initiatives endorsed in the legislation, states would have to include IDAs in their state plans. Community groups eager to launch IDA initiatives including welfare recipients should begin educating state officials on the wisdom of including IDA provisions in their plan. States need not utilize block grant funds to match IDAs in order to disregard IDA savings.

By creating an infrastructure for IDAs and stimulating momentum for asset-development, the welfare reform bill is an important step in paving the way for passage of broader IDA legislation next session. Already, Senator Coats has committed to re-introduce S1212 in the next Congress, and is increasingly optimistic that it will pass.

In This Issue:

ALERT

Call Your Senators and ask them to co-sponsor the Assets and Independence Act (S1212). This legislation would authorize a federally-funded 50,000 account, $100 million IDA Demonstration Program. Senators interested in co-sponsoring the bill should call Vince Ventimiglia in Senator Dan Coats (R-IN) office at (202) 224-1133.

*****

Under the new federal welfare law, states must submit a State Plan to receive their Temporary Assistance for Needy Families (TANF) Block Grant. Community groups should contact their state legislators and government officials to urge them to include IDAs in their State Plans which will not only allow states to take advantage of the asset accumulation disregard, but also create an infrastructure for IDAs with the option of funding them with TANF grants.

National News

ASSETS
A QUARTERLY UPDATE FOR INNOVATORS

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ABOUT CFED

The Corporation for Enterprise Development's mission is to advocate and demonstrate that the pursuit of economic competitiveness and vitality must be coupled with expanding economic opportunity and equity to promote true and sustainable economic development. The future must embrace efficiency and equity, competitiveness and opportunity, economic progress and social advancement. CFED is a dynamic and innovative organization driven by making these connections and building bridges between government, business, labor, and the nonprofit sectors by developing and implementing economic strategies for competitiveness and opportunity.

Landmark Private IDA Demonstration Planned

The Corporation for Enterprise Development (CFED) and the Center for Social Development (CSD) of Washington University are in the advanced planning stages of the first large scale test of the efficacy of Individual Development Accounts as a route to economic independence for low-income Americans.

The privately-funded Downpayments on the American Dream Policy Demonstration (DAD) will establish at least 2,000 IDAs in low-income communities across the country. Up to ten community-based organizations (and their states) will be selected through a competitive process to mount local initiatives using different but comparable designs. Most of these initiatives will be small (100 accounts), but at least two will test the community impact of larger scale demonstrations by establishing 500 accounts or more.

CFED will coordinate the demonstration by raising and managing funds, conducting the selection of participating organizations, convening semi-annual meetings of demonstration participants, providing technical assistance, and spearheading state and federal policy development and media outreach. The Center for Social Development (CSD) of Washington University will conduct an extensive seven-part evaluation which will examine implementation, goal attainment, savings behavior, household outcomes, community outcomes, return on investment, and policy and program implications using a variety of evaluation methodologies.

As currently envisioned, DAD will span a seven year period beginning with one year of planning and set-up, four years of operation, and two years of post program follow-up. In total it will leverage $11 million in resources over that period, with $4.8 million allocated for the accounts of low income Americans (of which $1 million is their own savings), $2 million covering the operating and training costs incurred by participating community-based organizations, $2.5 million to cover the organization, technical assistance, policy advocacy, and public education, and $1.75 million for evaluation. CFED plans to send out a request for proposals for DAD in fall 1996.

For more information, contact: Brian Grossman at CFED, 777 North Capitol St., NE, Suite 410, Washington, DC 20002. Tel. # (202) 408-9788, Fax # (202) 408-9793.

IDAs Surface in Presidential Campaigns

Less than four years ago, then presidential candidate Bill Clinton advocated for the creation of Individual Development Accounts for low-income Americans, and as President included these savings accounts in his first welfare reform proposal. As the 1996 Presidential campaign gets into full swing, IDAs under various names have not only come to the attention of the President, but also Republican candidate Bob Dole, and former Colorado Governor Dick Lamm, an unsuccessful third party candidate.

To develop his economic plan, Dole convened an advisory group of six conservative economists including Nobel laureate Gary Becker of the University of Chicago, and a former head of the President's Council of Economic Advisors, Martin Feldstein of Harvard University. In a May 13, 1996 preliminary advisory memo, leaked to the *Wall Street Journal*, these economists recommend that Dole's economic platform include consideration of "personal security savings accounts" and "direct federal contributions to match the savings of low-income people." Dole's economic plan includes several provisions to encourage savings and productive investment though it fails to level the playing field.

Lamm, who unsuccessfully bid for the nomination of Ross Perot's Reform Party, has proposed the creation of a "National Thrift Plan" which would overhaul social security, moving the system from a pay-as-you-go structure to a fully-funded system of individually owned and privately invested Personal Thrift Accounts. Lamm's proposal also calls for the government to match the savings of low-income workers.

National News

A new project coordinated by Washington DC-based Wider Opportunities for Women (WOW) will provide resources and technical assistance to community-based activists and states on six strategies that promote self-sufficiency for low-income families including Individual Development Accounts and microenterprise development. (The other strategies are adopting a new self-sufficiency standard, targeting higher wage employment sectors, integrating literacy programs with occupational skills and family support programs, and improving the access of low-income women to nontraditional employment.)

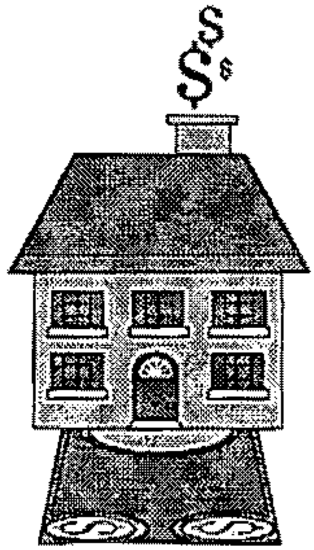
Cindy Marano, Executive Director of WOW explains that the project, a joint venture with the Corporation for Enterprise Development, the Ms. Foundation for Women, and the National Economic Development Law Center, responds to the "disappearance of many of the federal legislative provisions that had supported a development agenda for low-income families."

"Collectively, we decided that the changes required new vision and creative solutions," notes Marano, "It was time to roll up our sleeves and consider a new approach." Key project activities will include the development of a resource book on the six strategies, legislative analyses of federal welfare and workforce development bills, funding and technical assistance to local activist groups to achieve policy implementation of the six strategies, and technical assistance to other states interested in adopting the six strategies.

Pilot work in the project will be done in the District of Columbia and California. Other targeted states include: Georgia, Pennsylvania, North Carolina, Illinois, Minnesota, Texas, Montana, and Oregon.

To find out more about the Project or to see how you can participate, contact: Cindy Marano or Sandra Van Fossen at WOW, 815 15th Street, NW, Suite 916, Washington, DC 20005. Tel. # 202-638-3143 Fax # 202-638-4885.

Survey Finds Lack of Downpayment Biggest Obstacle to Homeownership



Fannie Mae's 1996 National Housing Survey reveals Americans of all income groups believe homeownership is central to their achieving the American Dream. Most notably, 52% of Americans surveyed cited not having enough money for a downpayment as an obstacle to homeownership. The survey also reveals that for low- to moderate-income renters, owning their own home is the most important goal in their lives. Other noteworthy findings:

- 83% of Americans believe homeownership makes a better home life for children than does renting.
- 43% of Americans feel homeownership is within reach for people 25 to 29, compared to 35% four years ago.
- 63% feel finding a qualified buyer for a home is very/fairly easy, compared to 45% in 1992.

While tens of thousands with low- to moderate-incomes have moved into homes in the past four years, homeownership remains elusive to a large number of low-income Americans. Seventy-six percent of low- to moderate-income renters report that they rent because of their circumstances, not as a matter of choice.

Missouri & Nation Lose Two Leaders in Asset Building

June 1996 brought the deaths of Congressman Bill Emerson, a Missouri Republican, and Justine Petersen, Managing Director of the St. Louis Reinvestment Corporation. Both made important contributions to asset building policy and community development.

Rep. Emerson, as the ranking member of the House Select Committee on Hunger, co-sponsored with Rep. Tony Hall (D-OH) the first federal legislation calling for an IDA demonstration in 1991. This bill, in several different versions, has remained influential in Washington. President Clinton included it in his 1994 welfare reform proposals, and Senators Dan Coats (R-IN) and Carol Moseley-Braun (D-IL) have re-introduced it in the current Congress. Mr. Emerson, a conservative, was a faithful supporter of anti-hunger and community development legislation.

He exemplified a constructive, bipartisan legislative style that was highly regarded among his colleagues.

Justine Petersen was one of the nation's path-breaking organizers in community reinvestment. Working for ACORN in the 1980s and early 1990s, she negotiated more than five hundred million dollars in lending packages for low-income and minority homeownership. Ms. Petersen was justifiably proud that these loans had extraordinarily low default rates. To protect against default, she pioneered the use of an escrow savings account with monthly deposits to be used in case of family emergency. In her position with the St. Louis Reinvestment Corporation, Ms. Petersen designed a plan to expand this savings mechanism to create individual development accounts. She was loved and cherished by thousands of St. Louisans whose families and communities benefited from her work.

— Michael Sherraden

National News

The Poor Do Save, CDCU's 60 Year History Attests

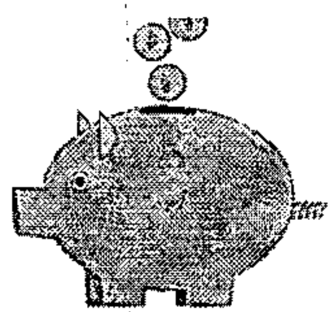
Community development credit union's (CDCU's) 60 year history of promoting savings among the poorest communities in America is strong proof that the poor can and do save. First formed in the 1930s in African-American communities (primarily in the South) that were denied access to credit and financial services by other financial institutions, CDCUs provided savings facilities and loans to its low-income members. Historically, CDCUs have gathered a large majority of their assets, in the form of member savings, from the low-income communities that they serve.

The National Federation of Community Development Credit Unions (NFCDCU) reports that as of December 31, 1995, there were 127 CDCUs in their membership nationwide which had an average of 1,352 savers per institution (for a total of 171,104 savers). These CDCUs served nearly four savers for every borrower. At the end of 1995, there was over $250 million in savings at CDCUs with only 9% of all CDCU assets coming (in the form of non-member deposits) from outside of the communities that they serve. While the average savings balance of CDCU savers was more than $1,200, the median family income for CDCU members was $19,000. The performance of CDCUs clearly demonstrates that low-income families can save significant amounts.

In recent years, CDCUs have expanded the range of products and services that they offer to now include mortgage and small business loans, checking accounts, and ATM access. At the same time, their central mission to promote thrift in low-income communities has remained constant throughout their 60+ years in existence.

Given their experience with saving and low-income communities, and their status as insured depositories, CDCUs are now embracing Individual Development Accounts. Already, two CDCUs (Near Eastside Community Federal Credit Union in Indianapolis, Indiana and SCICAP Credit Union in Leon, Iowa) are participating in IDA programs. Several other CDCUs are already actively developing initiatives. Moreover, the NFCDCU has received funding from the Charles Stewart Mott Foundation and the New York Community Trust to develop a broad program for CDCUs seeking to offer IDAs to NFCDCU members.

For more information contact
Morgan Sandquist, NFCDCU,
120 Wall Street, 10th Floor,
New York, NY 10005.
Tel.# (212) 809-1850
Fax # (212) 809-3274.



New IDA Legislation in the House

On May 16, Congressmen Watts (R-OK) and Talent (R-MO) introduced H.R. 3467, Saving Our Children: The American Community Renewal Act of 1996. The centerpiece of the legislation is the creation of 100 renewal communities (and the repealing of existing empowerment zone legislation).

In addition to receiving special tax benefits, and targeted federal assistance, these renewal communities would be authorized to establish Family Development Accounts (FDA) for community residents. EITC recipients living in a renewal community would be able to put a portion of their credit into a savings account that would receive a federal match. All withdrawals from FDAs would be tax free for the purchase of a home, post secondary education, or creation of a small business. Contributions to FDAs would be limited to $2,000 in unmatched income for a one year period and the federal match would be funded through Social Service Block Grant (SSBG).

On June 25, Congressman John Kasich (R-OH) and Senator Dan Coats (R-IN) jointly

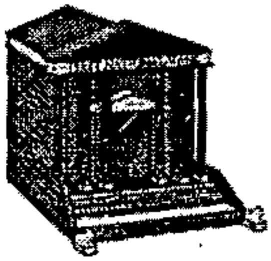
launched phase II of the Project for American Renewal—a comprehensive legislative package aimed at reinventing federal programs targeted to poor communities and individuals in poverty. Kasich has recently gained notoriety for his leadership in the battle to cut federal spending. His support of IDAs indicates that even the most fiscally conservative congressional members recognize the importance of asset-building to the U.S. economy.

The omnibus bills (H.R. 3716 and S.1904) package the 18 bills previously introduced in the Senate by Coats into one bill—including the IDA Demonstration authorized at $100 million over four years. While the legislative package is unlikely to pass during this congressional session, Senator Coats has expressed his commitment to pursuing the Project for American Renewal in the 105th Congress.

For more information on the progress of IDAs in Congress, contact:
Alison Feighan at
Robert A. Rapoza Associates,
601 Pennsylvania Ave., NW, Suite 850,
Washington, DC 20004.
Tel. # (202) 393-5225
Fax # (202) 393-3034.

National News

FHLBs Expand Matched Savings Program for Homeownership to $4.5 million for 1996



The Federal Home Loan Banks of Pittsburgh and Indianapolis have introduced programs that match the savings of low-to-moderate income families toward downpayment and closing costs on a first home. These two programs come on the heels of matched savings programs introduced by the FHLBanks of New York and Seattle during the past year.

The FHLBNY issued rules for its matching savings program in July 1995 and announced the program to its customer base that November. It already boasts 130 families currently in the savings process and another 100 who have signed up. It has committed $2 million to its program for 1996. Seattle approved its program in February 1996. While each FHLB has its own match rate, match cap, and annual budget, the four programs have several common elements.

In each program, eligible families (with incomes less than 80% of the area median) open savings accounts with a FHLB member financial institution (e.g. savings banks, commercial bank, savings and loans). The families then attend a mandatory homeownership counseling course and make monthly deposits to their dedicated savings accounts. Upon completion of the homeownership counseling course and a minimum 10 month savings period (Indianapolis does not require a savings period), the families' savings are matched by the FHLB.

Here is how the programs differ:

- FHLB of New York: Matches savings at 3:1 rate (three dollars match for each dollar saved) up to $5,000. Annual appropriation of $1 million. (For 1996, New York has merged its 1996 and 1997 funding.)
- FHLB of Seattle: Matches savings at 1:1 rate up to $3,000. Annual appropriation of $1 million.
- FHLB of Pittsburgh: Matches savings based on income level up to $5,000. Households with incomes at or below 50 percent of area median receive up to 3:1 match, from 51 to 65% of area median receive up to a 2:1 match rate, and from 66 to 80% of area median receive up to a 1:1 match. Annual appropriation of $1 million.
- FHLB of Indianapolis: Matches savings at 2:1 rate up to $4,000. Annual appropriation of $500,000.

Additionally, FHLBanks of Atlanta and Topeka are now developing matching savings programs. Details have not yet been released.

The FHLBanks of Chicago and Des Moines are also operating programs to assist potential low-income homeowners. These programs, with $1 million annual appropriations and mandatory homeownership counseling provisions, do not require matched savings.

For more information on the matched savings concept, contact Paul Heroux at the Federal Home Loan Bank of New York, 7 World Trade Center, Floor 22, New York, New York 10048. Tel. # (206) 340-2300.

Tufts Center Is An Asset

Founded in 1990, the Tufts University Center on Hunger, Poverty and Nutrition Policy is a powerful ally for reformation of federal and state laws which inhibit asset accumulation for the poor. The Center's mission is to advance public policy choices which reduce hunger and poverty, and enhance the development of and productive capacities of American families and children. It conducts research on asset-building among low-income Americans and on state asset-building policies.

It has recently released two studies on assets. "Asset Development Among America's Poor" examines trends in the distribution of income and wealth among the poor and non-poor. The Center's most recent study, "Economic Security Among America's Poor," tracks the impact of state welfare waivers on asset accumulation. The Director of the Tufts Center, J. Larry Brown, notes that while, historically, federal policies "have helped millions of Americans to develop 'assets'...this form of federal assistance typically is not available to the nation's poor."

He explains that in response to federal asset limitations for the poor, "35 states have changed their welfare policies in a massive form of experimentation....This document gives readers a summary of the most positive aspects of what is being tried by states."

John Cook and Laura Sherman, authors of the waiver study, draw on unpublished material provided by the U.S. Department of Health and Human Services on 38 welfare reform waivers they have approved and 21 waiver requests that are still pending. They conclude that "State waiver provisions approved by DHHS can have an impact on recipients' income levels, their accumulation of physical or financial assets, and their development of human capital."

To obtain a copy of "Asset Development Among America's Poor" or "Economic Security Among America's Poor," contact: Center on Hunger, Poverty and Nutrition Policy, Tufts University, Medford, MA 02155. Tel.# (617)627-3956 Fax # (617)627-3020.

State News

North Carolina Coalition Sparks IDA Demonstration

North Carolina

Since January of this year, a working group made up of representatives from community-based organizations, state government, community development financial institutions, and public housing authorities, as well as advocates for the poor, women and minority economic development, have been meeting to bring Individual Development Accounts to North Carolina. The working group has focused on launching three IDA initiatives.

Homeownership IDAs

The working group has convinced the North Carolina Department of Commerce's Division of Community Assistance (DCA) to set aside $250,000 of its "community empowerment" funds for 1997 for an IDA homeownership demonstration targeting working families who are on the cusp of buying a home. The demonstration calls for the establishment of 150 IDA accounts over a two-year period at three sites, with a 2:1 match rate and a $2,000 match ceiling. At each site, the demonstration will be implemented by a CDC or nonprofit partner that has an existing clientele of lower-income residents and some past experience working with CDBG and/or homeownership programs.

Welfare Reform: Self-Sufficiency IDAs

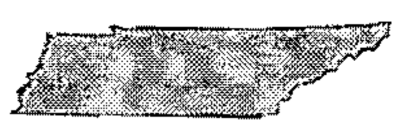
The working group has also helped draft legislation submitted with bi-partisan co-sponsorship during the current legislative session that calls for a $200,000 appropriation from the General Fund to the Department of Commerce to be used as matching funds for a 300-account IDA demonstration for Work First participants. Additionally, the working group has drafted a "Work First IDA Proposal" that it will present to the state's Department of Human Resources, the agency responsible for implementing Work First. This proposal seeks formal inclusion of IDAs as part of Work First and calls for a budget of $900,000 for matching funds, administrative expenses, and training expenses for a 300-account demonstration in four sites over three years.

Microenterprise IDAs

Finally, a microenterprise subcommittee of the working group has drafted a proposal for an IDA demonstration that would focus on IDAs as a tool in the start-up and growth of microenterprises by the poor and working poor. The working group will present this proposal to the Department of Commerce's Finance Center which already uses Small Cities CDBG funds to support the development of microenterprises.

For more information on IDAs in North Carolina, contact Carl Rist at CFED South, 1829 East Franklin Street, Suite 1200M, Chapel Hill, NC 27514.
Tel. # (919) 967-5300
Fax# (919) 967-2244.

Tennessee Passes IDA Legislation



Tennessee

Beginning in August 1995, the Tennessee Network for Community Economic Development (TNCED) drafted and advocated for legislation to support the establishment of an IDA pilot program in Tennessee. This draft, which was introduced in the 1996 legislative session as Senate Bill 2983 sponsored by Senator Harper, and House Bill 2891 sponsored by Representatives Pruitt, Langster, Brown, and Brooks, was incorporated into the Families First Legislation which passed the Tennessee Legislature in April 1996 and was signed into law by Tennessee Governor Sundquist.

The purpose of the law is to create an opportunity for AFDC recipients to build assets as a transition to self-sufficiency. Six urban and six rural communities in Tennessee, two in each of the grand divisions of the state, will participate in the demonstration project.

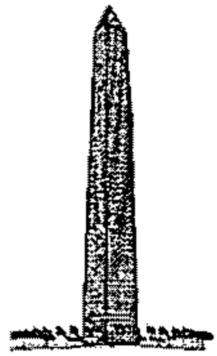
In the selected communities, AFDC recipients may deposit up to $5,000-in a special savings account designated for the purchase of a home, to secure a post-secondary education for themselves or their children, or to start or expand a business venture. A waiver request, which is currently pending at the office of the U.S. Secretary for Health and Human Services, and expected to be approved before the Tennessee initiative's proposed September 1996 start date, will disregard all IDA savings when computing AFDC and Food Stamp eligibility.

Although the law is directed to AFDC recipients, IDA groups will be comprised of a wide cross section of low- to moderate-income individuals. Currently, TNCED is contacting private sector sources to obtain matching funds for savings.

For more information, contact Michele Flynn, Tennessee Network for Community Economic Development, P.O. Box 23353, Nashville TN 37046.
Tel. # (615) 395-4341
Fax # (615) 256-9836.

State News

DC Groups Plan Group IDA Model



Until now, IDA programs have been hosted exclusively by the most comprehensive and innovative community-based organizations nationally (such as Eastside Community Investments in Indianapolis, Women's Self-Employment Project in Chicago, and ADVOCAP in Fond du Lac, Wisconsin). While clients of smaller and less advanced community-based organizations also need to build their assets to achieve self-sufficiency, small community organizations often lack the resources to run their own IDA programs. Now, several Washington, DC community based organizations have joined forces to plan a collaborative IDA program that will allow smaller specialized community-based organizations to offer IDAs to their clients.

Running a stand-alone IDA program requires commitment on the part of the host organization. It requires a sizable piece of the executive director's time, a fundraising commitment, a relationship with a financial institution, the development of an economic literacy curriculum, on-going technical assistance, homeownership and microenterprise training mechanisms, and the creation of a management information system. By combining forces in a group IDA initiative, participating DC organizations hope to share many of these responsibilities.

The DC groups (which include community development corporations, transitional housing organizations, and microenterprise groups) have already held three planning meetings to design a city-wide initiative. Originally convened at meetings sponsored by the Moriah Fund, the DC groups are looking into which functions of an IDA program should be shared by the collaborative (such as fundraising) and which should be housed at each participating organization (such as one-on-one counseling). Together, they are also working to develop language for a city-wide waiver for federal asset-accumulation limitations for AFDC recipients.

For more information, contact:
Brian Grossman at CFED
777 North Capitol Street, NE, Suite 410
Washington, DC 20002.
Tel. # (202) 408-9788
Fax # (202) 408-9793.

Community News

WSEP Expands its IDA Program

The Women's Self-Employment Project's IDA program is now seven months old and its more than 30 participants—all AFDC recipients and business owners—have saved over $4,000. WSEP is proud to announce that all participants are succeeding in meeting their savings goal. WSEP has extended the enrollment period and expects up to 30 additional enrollees this summer.

WSEP has already seen an increase in confidence and hope among the IDA account holders. For example, Arinez Gilyard, owner of a day care center and among the first to join the IDA program, has already transitioned off of public assistance: "Through my participation in the IDA program I've learned that I cannot go from check to check. I need savings as a cushion since I'm the sole breadwinner of my family of three children. The IDA program has encouraged me to save more than the minimum. I have a sense of pride when I get my monthly bank statements, because they show that I am progressing."

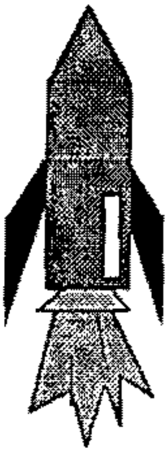
Participants also attend bi-monthly *Money and Assets* economic education sessions. Recent sessions have focused on the global economy, consumerism, and the distribution of wealth in the United States. The sessions are followed by an informal networking lunch.

For more information, contact Sherri Moses at the Women's Self-Employment Project, 20 N. Clark Street, Suite 700, Chicago, IL 60602.
Tel. # (312) 606-8257
Fax # (312) 606-9215.

WSEP IDA participants open bank accounts

Community News

ADVOCAP Launches IDA Project



ADVOCAP, a community action agency in Fond du Lac, Wisconsin reports that fifty families from its three county service area are now in the process of opening up IDA accounts.

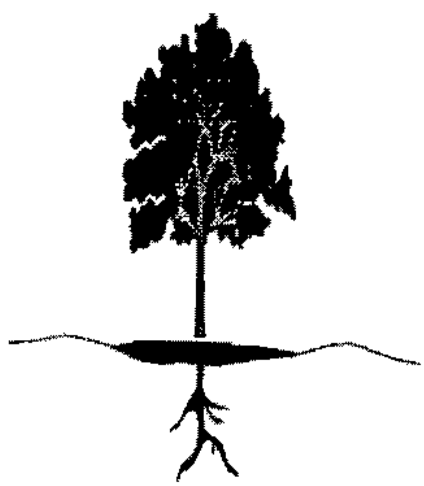
IDA participants are receiving planning and budgeting guidance from their case managers. Tina Potter, Project Coordinator of ADVOCAP's IDA program explains: "since families were recruited from ADVOCAP programs like Head Start and the Home Ownership Program, they already start off with a worker with whom they have an established relationship with. This eases apprehensions families have about discussing how they spend their money and make developing a savings plan easier. In fact, many families were already working with their case managers on budgeting issues."

As of the end of May, 25 families had opened accounts with participating banks. At the beginning of each month, banking representatives send ADVOCAP copies of participants' account statements. ADVOCAP uses the bank statements to produce monthly IDA statements that show families how much they have saved and generated in IDA match and spent on assets. After only two months, families have saved $1,534, yielding $6,136 in matched IDA dollars. One family, involved in ADVOCAP's Business Development Program, has already purchased three pieces of equipment to use on future work orders.

During the next phase of ADVOCAP's IDA program participants will attend economic literacy workshops structured to enhance their financial management skills.

For more information on ADVOCAP's IDA program, contact: Tina Potter at ADVOCAP, P.O. Box 1108, Fond du Lac, WI 54936-1108.
Tel. # (414) 922-7760
Fax # (414) 922-7214.

Eastside Community Investments' Asset Development Programs Grow



Over the past six months, Eastside Community Investments' (ECI) Individual and Home Ownership Development Accounts (HODAs) have grown considerably in several regards. In addition to significant account activity, 18 participants graduated from ECI's first "economic literacy" course taught by Purdue University Extension trainers. The graduates are participants in ECI's Basta and Home Ownership programs, and five of them will become trainers for subsequent economic literacy training for ECI participants.

Several graduates who spoke at the commencement ceremony expressed that, due to the economic literacy classes, they now have a greater sense of control over choices they can make in their lives and knowledge of different ways to prioritize and organize spending and investment. Graduates also expressed interest in learning about investment opportunities that would enhance their financial wealth in the long term. Purdue University faculty are currently working with ECI staff to write an economic literacy curriculum that explicitly teaches income management (savings and investment) strategies that build wealth.

Through March of this year, 140 participants in ECI programs have IDAs or HODAs in their names at the Near Eastside Community Federal Credit Union. One-third of these individuals are contributing their own savings that are being matched 9:1 with funds granted to ECI by the Joyce Foundation.

Fifteen IDAs have been used to leverage a subsequent asset—three for home ownership, four for education, and eight for small business investments. At least two residents at ECI's Ohio Street Townhomes expect to use their HODA to purchase homes by the fall.

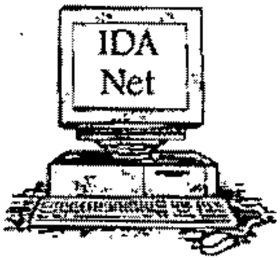
IDA and HODA activity varies across ECI programs that offer these investment tools. In two of the programs, Special Needs Housing and Basta, approximately two-thirds of the participants saved money in their accounts through March 1996. In the Microenterprise program, all of the participants have saved the maximum eligible for match ($75). Nearly one-third of the YouthBuild students, and just over 10% of Fast Track students, have saved in their IDAs. Several participants have also opened savings accounts for their children who they report deposit money regularly.

ECI is encouraged by the jump in activity and level of conversation between staff and participants during the past year since ECI instituted changes that better coordinate staff-staff and staff-participants relationships.

For more information on ECI's IDA program, contact: Gina Davis, Eastside Community Investments, Inc., 26 North Arsenal Avenue, Indianapolis, IN 46201.
Tel. # (317) 637-7300
Fax # (317) 637-7581.

IDA Development

IDA NET -- Individual Development Account Learning Network



Over the next few years, practitioners and policymakers at the community, state, and federal levels will continue to create prototypes for a national investment system based on funded, dedicated individual investment accounts. The quality of those prototypes is dependent on innovators having ready and continuing access to the experience, lessons, and ideas of their counterparts. To promote the most rapid learning and exchange possible, the Corporation for Enterprise Development, in conjunction with the Center for Social Development, will soon introduce a formal learning network for practitioners and policymakers interested in forwarding Individual Development Accounts.

Members of IDA Net will receive:

- Annually updated design manual for community IDA programs, *Designing Your Own Individual Development Account Demonstration*, which presents key design principles and describes the components of existing IDA initiatives in detail.
- Annually updated *State Individual Development Account Sourcebook*, which describes key design questions for state IDA initiatives and provides model legislation.
- *The Federal Individual Development Account Manual*, which describes federal funding sources, IDA programs, and pending legislation.
- *The Individual Development Account Evaluation Handbook* and monitoring packet, which contains model surveys, monitoring tools, and focus-group protocols.
- *Assets: A Quarterly Update for Innovators* newsletter.
- *The Cutting Edge: Innovations for Practitioners*, a series of practical updates on new techniques for increasing the effectiveness of IDA initiatives.

The centerpiece of IDA Net will be its interactive learning activities which will include:

- The development of a series of on-line Internet forums where practitioners and policymakers will consider key design issues, share their experiences, and discuss challenges confronting them.
- Preferential invitations to conferences and workshops on selected IDA topics.

There will be an annual membership fee for IDA Net to defray some of the direct costs of materials, and practitioner participants will be asked to provide semi-annual tracking updates. An IDA Net membership application will appear in the next issue of *Assets*.

Nine Suggestions For Communicating the IDA Message

Since the beginning of this year, the Corporation For Enterprise Development, with the financial support of the Joyce Foundation, has worked with communications experts to better tailor the IDA message to the American public. Millenium Communications and the public relations firm of Bennett, Petts, and Blumenthal conducted focus groups of Democrats and Republicans and through their research have yielded a series of insights to help guide IDA advocates in the transmission of our message. Among the findings:

1. Emphasize the outcomes of IDAs, especially homeownership, but also business generation and education. Present IDAs as a tool that enables families to achieve the American Dream.
2. Emphasize IDAs' bi-partisan support. Their advocacy by those on all points of the political spectrum signal that IDAs are unique and feasible. Moreover, individuals are more likely to support IDAs if they know that the politicians they support are IDA advocates.
3. Emphasize that IDAs help build communities. Community-based institutions, who will manage IDA programs, have broad public support. Additionally, savings deposits into community financial institutions will build the financial strength of those communities. Increased homeownership and business entrepreneurship make communities stronger.
4. Emphasize that IDAs expand individuals' control over their economic futures. IDAs are not a government program, rather a policy that helps people help themselves. IDAs are patterned after powerful and successful savings initiatives (401(k) and IRA plans).
5. Emphasize the savings component of IDAs. Americans recognize the importance of savings to individuals and the economy as a whole.
6. Emphasize how IDAs promote inclusion of the poor in the economy. Both Democrats and Republicans recognize that penalties for asset building and earning income discourage positive behavior and are counterproductive.
7. Educate the public about the capacities of low-income people. The public does not recognize that poor people save, start businesses, buy homes, and pursue higher education. Explain how IDAs link savings to economic literacy training.
8. Use terms which appeal to your audience. "Family Savings Accounts," or "Children's Savings Accounts" resonate well with most Americans.
9. Emphasize the universality and inclusiveness of the long-term goal for IDAs—an account in everyone's pocket. A universal savings and investment system will provide all Americans a new and powerful tool to navigate that turbulent global marketplace.

Research

Book Review

Black Wealth White Wealth

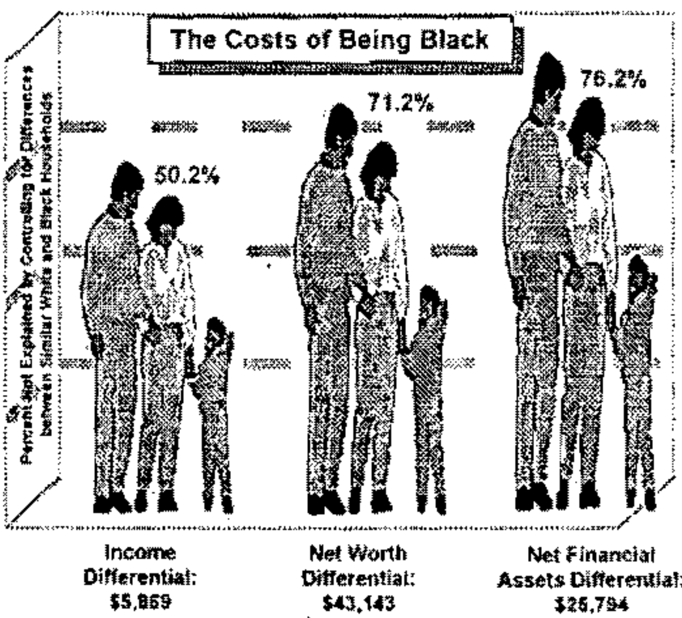
Melvin L. Oliver & Thomas M. Shapiro

It is almost impossible to read *Black Wealth/White Wealth: A New Perspective on Racial Inequality* by Melvin L. Oliver (the new director of anti-poverty programs for the Ford Foundation) and Thomas M. Shapiro and ever again consider racial inequality without reference to assets.

The book collects and presents the best and most comprehensive data on patterns of wealth (net worth) and net financial assets (wealth minus home and automobile equity which are not generally available for investment). Among the more stunning findings:

- In 1988, while the median income for Black Americans was \$15,630 compared to \$25,834 for Whites, the median net worth was only \$3,700 for Blacks versus \$43,800 for Whites, and the median net financial assets for Black Americans was \$0 versus \$6,999 for Whites.
- Differences in education, occupation, and demographics account for less than a third of the assets differential. Race alone accounts for 50% of differentials in income between Blacks and Whites, 71% of the differential in net worth, and 76% of the differentials in net financial assets. Put another way, the asset cost of being born black in America is \$43,143 in mean net worth and \$25,794 in mean net financial assets.
- Almost one-third (31%) of American households have no or negative financial assets, including over 60% of Black Americans, 54% of Hispanics, and 62% of single parent households.

Just over half of all Americans (55%) have sufficient net financial assets to tide them over more than three months without a job; only 21.1% of Black Americans, 27.5% of Hispanics, 33% of Americans under 35 years of age, and 21% of single parent households do.



But the major contribution of *Black Wealth/White Wealth* is not documentation of the disparities, but the understanding of what they mean and how they came to be:

> The burden of our claim is to demonstrate not simply the taken-for-granted assumption that wealth reveals "more" inequality.... More importantly we show that wealth uncovers a qualitatively different pattern of inequality on crucial fronts.... It is our argument that wealth reveals a particular network of social relations and a set of social circumstances that convey a unique constellation of meanings pertinent to race in America. This perspective significantly adds to our understanding of public policy issues related to racial inequality; at the same time it aids us in developing better policies in the future.

Indeed, Oliver and Shapiro explain in great detail and with precise analysis, the history of racially discriminatory asset policies that have brought us to this juncture. They demonstrate how at every turn in the history of our country, Black Americans were denied opportunities for building assets being supplied to their white fellow-countrymen: the denial of the benefits of the Homestead Act after the Civil War; the dispossession of Reconstruction and Jim Crow; the economic detour of restricted markets; the impact of occupational segregation; the way the Federal Home Administration foreclosed homeownership to Blacks through racial covenants and other techniques at the very time it created suburbia and the affordable home mortgage for Whites; through to contemporary asset discrimination in mortgage lending, tax, and welfare policy. They provide an analytic framework for assessing policies, detailing the "racialization of policy," the "economic detour," and asset holding patterns as the "sedimentation of past discrimination."

In demonstrating the effectiveness and impact of past, discriminatory asset policies, Oliver and Shapiro also suggest the potential of future, inclusive asset-building policies. "[O]ur analysis clearly suggests the need for massive redistributional policies in order to reforge the links between achievement, reward, social equality, and democracy." Understanding the vast impact of past asset policies should enable us to craft the kind of asset policies that cohere to the requisites of the current economy and advance social and economic equity and vitality. Oliver and Shapiro endorse individual development accounts as a prime strategy for accomplishing this goal, while underscoring the need to address specific racial asset inequalities and discrimination head on. In this sense, *Black Wealth/White Wealth* is evidence of possibility as well as a call to action. The call is an ambitious one, but there are few callings higher than "to reforge the links between achievement, reward, social equality, and democracy."

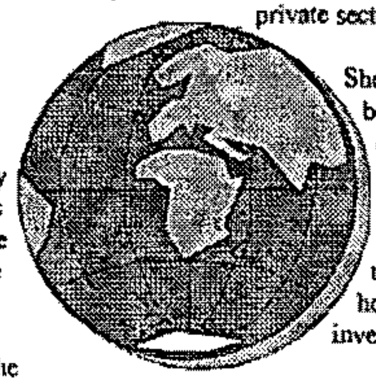
--Bob Friedman

Research

Social Security in the 21st Century

Sherraden Addresses International Symposium on Social Security

March 12, 1996—In the introductory address to open the International Symposium on Social Security in the 21st Century in Mexico City, Mexico, Washington University Professor Michael Sherraden outlined world wide trends in social security and presented a picture of the likely shape of social security in the 21st century.



Sherraden explains his thesis: "As information technology reshapes economic organization, we will live through major—and often chaotic—social changes. These will, in turn, dramatically reshape social security policy." Sherraden notes that "in the United States in 1885, almost no one could have imagined that a hundred years hence in 1996, less than two percent of the labor force would be employed in agriculture....Just as the agricultural era gave way to the industrial era, the industrial era is now giving way to the information era."

Sherraden reviews 20th century social security policy and concludes that the "basic idea of domestic policy [was] to have an industrial economy that is productive enough so that it can be taxed to provide for income for groups who do not receive sufficient income from the market economy....As the economy and social conditions change, income-based social policy is less and less functional to the world we live in."

Sherraden argues that industrial era assumptions that mass society can be sustained in low skill employment that is stable over the long term are no longer valid. At the household level, 20th century assumptions were that most people will have a long-term job, and social security policy would supplement the income from this job.

The 21st century reality, according to Sherraden, is that as defined benefit social insurance systems come under increasing fiscal pressure, they will be augmented and often replaced by defined contribution systems. "Indeed, by the middle of the twenty first century, I would anticipate that social insurance will no longer be the dominant pillar in social security policy in most countries. It will have been replaced by capital accounts....In the twenty-first century, we will not think exclusively in terms of social protections at the expense of economy growth. We will instead think of social protections *and* economic growth." In fact, many countries, including Singapore, Malaysia, and Chile have already shifted social security policy toward large-scale individual asset-based accounts.

According to Sherraden, a successful social security policy in the 21st century will integrate social policy with economic policy and provide full funding (rather than pay-as-you-go). Individual and universal capital accounts established at birth would become the dominant domestic policy instrument. They would be fully vested and fully portable (international agreements would make accounts portable across national borders), providing a range of investment options (managed by the private sector). While mandatory work-related contributions would be the main funding source, the state would work with the nonprofit and private sectors to provide subsidies for the non-poor.

Sherraden envisions a future where the boundary between social and economic policy largely disappears at the household level, where families can make their own policy decisions. Capital accounts would become the driving force of state social policy: "These capital accounts would be used not only for retirement security, but also for housing, education, health care, insurance, investments, and other domestic purposes."

For a copy of "Social Security in the 21st Century," contact:
The Center for Social Development
Washington University, Campus Box 1196,
One Brookings Drive, St. Louis, MO 63130.
Tel. # (314) 935-7433.

Resources

Attention IDA Practitioners

If you are planning an IDA demonstration and have not yet contacted either the Corporation for Enterprise Development or the Center for Social Development, we urge you to call Brian Grossman at CFED (202-408-9788), or Karen Edwards at CSD (314-935-7433) as soon as possible.

* * *

Exploring Asset-Building on the Internet

Both the Center for Social Development and Eastside Community Investments have homepages on the Internet dedicated to asset building. To access these try:

Center for Social Development

http://www.gwbssw.wustl.edu/~csd/

- Contains research working papers on asset-building, IDA evaluation materials.

Eastside Community Investments, inc.

http://www.enn.org/ennweb2/2122_19a.htm

- Contains information on ECI's asset-building programs.

CORPORATION FOR ENTERPRISE DEVELOPMENT
777 N. CAPITOL STREET, NE, SUITE 410
WASHINGTON, DC 20002
PHONE: 202-408-9788 • FAX: 202-408-9793

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ASSETS

A QUARTERLY UPDATE FOR INNOVATORS

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In This Issue of *Assets: A Quarterly Update for Innovators*

IDA Provisions Included in New Welfare Reform Law

- The new welfare reform bill passed by Congress contains language that will allow IDAs as a permissible use of block grant funds and will disregard savings in Individual Development Accounts from eligibility considerations for government assistance.

New Privately Funded IDA Demonstration Will Leverage $11 million

- The privately-funded Downpayments on the American Dream Policy Demonstration (DAD) will establish at least 2,000 IDAs in low-income communities across the country.

FHLBs Budget $4.5 Million for Matched Homeownership Savings Programs in 1996

- The Federal Home Loan Banks of Pittsburgh and Indianapolis have introduced programs similar to those already in place at the New York and Seattle FHLBs which match the savings of low-to-moderate income families toward downpayment and closing costs on a first home.

Also in this issue:

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Selected Provisions of State TANF Programs 1/

— Internal Use Only —

Total # of TANF plans submitted as of January 30, 1997: 43
States 41
Territories 1

Total # of TANF plans certified complete as of January 30, 1997: 35
States 35
Territories 0

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan –	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
ALABAMA Received: 10/01/96 Subject to TANF: 11/15/96	All (in 3 counties)	Consistent with 407	Immediate	As defined in 407	Reduction or Termination	Not specified	Yes	Not specified	No	Yes	No	Participation by Noncustodial Parent (ABSETS)
ARIZONA Received: 09/30/96 Subject to TANF: 10/01/96	All	24 out of 60 for adult household members	Individual	As defined in 407	Reduction	Yes	Yes	Yes	No	Not specified	Yes	Individual Development Accounts
CALIFORNIA Received: 10/09/96 Subject to TANF: 11/26/96	All	Not specified	24 if received aid in 22 of the last 24 months	Job Search, Unsubsidized or Subsidized Employment, Education, OJT or, Work Experience	Reduction	Not specified	Yes	Yes	Yes	Yes	Yes	Individual Development Accounts; Learnfare
CONNECTICUT Received: 10/01/96 Subject to TANF:	All	21	Immediate for job search; Upon entering the time-limited program, all recipients must participate in work activities	Work is defined by the State as employment or any other required activity, which seeks to either place recipients into employment or prepare them for employment as rapidly as possible. Activities include those defined in 407.	Reduction or Termination	Not specified	Yes (Employment Plan)	Yes	No	Not specified	Yes	Learnfare; Individual Development Accounts

Januar , 1997

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
DELAWARE Received: 01/22/97	All	24 for adults; if not able to locate job, 24 additional months pay-after-performance	Immediate	Work Readiness/ Life Skills, Job Search/Job Placement, Job Retention, Work Experience/OJT, Vocational Skills Training, Retention/Basic Skills Training	Reduction	Not specified	Yes	Yes	No	Yes (certified)	Yes	Learnfare; Participation by Noncustodial Parents; Convicted Drug Felons are Not Eligible; Individual Development Accounts
DISTRICT OF COLUMBIA Received: 12/05/96	Not specified	60	Not specified	In accordance with 407	Reduction	Not specified	Yes	Not specified	Yes	Not specified	Yes	
FLORIDA Received: 09/20/96 Subject to TANF: 10/01/96	All	(1) 24 out of 60 with lifetime of 48; (2) 36 out of 72 with lifetime of 48	Immediate	As defined in 407	Termination, Protective Payee for Child(ren) Under 13 Years Old	Yes	Yes	Yes	Yes3/	Yes (certified)	Yes	Upfront Diversion; Participation by Noncustodial Parents; Require Immunizations; Community Service After 2 Months
GEORGIA Received: 11/15/96 Subject to TANF: 01/01/97	All (determine within 90 days)	48	When determined able to engage in work or 24 months, whichever comes first	As defined in 407	Reduction or Termination	Not specified	Yes	Yes	Yes	Yes (certified)	Yes	Require Immunizations; Learnfare; Require Minor Noncustodial Parents to Participate; Convicted Drug Felons are Not Eligible
GUAM Received: 01/09/97	Not applicable	60	Immediate	In accordance with 407	Reduction	Not specified	Yes (teens)	Not specified	No	Yes (certified)	No	Community Service After 2 Months
INDIANA Received: 10/01/96 Subject to TANF: 10/01/96	All	24	24	Job Search, Subsidized Work, and Community Work Experience (Public Service)	Reduction	Not specified	Yes	Yes	Yes	Yes	Yes	

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 3/	Benefits to Aliens	Other Selected Options
IOWA Received: 11/15/96 Subject to TANF: 01/01/97	All	Individual Not to Exceed 60	When determined able to engage in work or 24 months, whichever comes first	As defined in 407	Reduction or Termination	Not specified	Yes	Not specified	No	Yes (certified)	Yes	Individual Development Accounts
KANSAS Received: 10/01/96 Subject to TANF: 10/01/96	Not specified	60	Immediately	As defined in 407	Not specified	Not specified	Yes	Not specified	No	Not specified	Yes	
KENTUCKY Received: 09/30/96 Subject to TANF: 10/18/96	Not applicable	60	6	Unsubsidized Work, Subsidized Private Sector, Community Service, Workfare, Relocation Assistance, Family Health Care Providers, and Regulated Child Care Providers	Reduction, Remaining Grant Paid to Protective Payee	Yes (Tax credits to employers)	Yes	Not specified	No	Yes	No	Upfront Diversion; Individuals Convicted of Drug Felons are Not Eligible; Learnfare; Require Immunizations; Participation by Noncustodial Parents
LOUISIANA Received: 10/01/96 Subject to TANF: 01/01/97	Terminate	24 out of 60	Not Specified	Unsubsidized Employment, Subsidized Private Sector, Subsidized Public Sector, OJT, Job Search and Job Readiness Assistance, Community Service, Vocational Education, Job Skills Training Directly Related to Employment, Provision of Child Care Services to an Individual who is Participating in a Community Service Program	Termination	Not specified	Not specified	Not specified	No	Yes	Yes	

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
MAINE Received: 10/01/96 Subject to TANF: 11/01/96	Unclear	60	When determined able to engage in work or 24 months, whichever comes first	OJT, Apprenticeships, Self-Employment, Other Non-Traditional Employment, and Full-Time Work	Reduction or Third Party Payments	Yes	Yes	Not specified	No	Not specified	Yes	
MARYLAND Received: 09/27/96 Subject to TANF: 12/09/96	Terminate PPI; Retain FIP except cash component	60	Not specified	Job Search and Other Unspecified Activities	Reduction or Termination	Not specified	Yes	Yes	Yes	Yes (certified)	Yes	Learnfare
MASSACHUSETTS Received: 09/23/96 Subject to TANF: 09/30/96	All	24 out of 60 continuous months	60 days	Job search, Job Readiness, Job Skills Training, Education, the Full Employment Program (FEP), Supported Work, Community Service, Subsidized or Unsubsidized Job, Two-Year Community College Programs, Vocational Education, Satisfactory Attendance at Secondary School, Child Care Services to Other Participants in Work Activities	Reduction, Termination, or Mandated Participation in Community Service	Yes	Yes	Yes	No	Yes	Yes	Learnfare; Require Immunizations
MICHIGAN Received: 08/17/96 Subject to TANF: 09/30/96	All	60	60 days	High School Completion, GED, Basic/Remedial Education, English Proficiency, Job Skills Training, Job Readiness Activities, Job Development and Placement	Reduction	Yes	Yes	Not specified	No	Decide Later	Yes	Learnfare

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
MISSISSIPPI Received: 10/01/96 Subject to TANF: 10/01/96	All	60	24	As defined in 407	Full Family Sanction or Termination	Yes	Yes	Yes	No	Yes	Yes	Learnfare; Require Immunizations; Community Service After 2 Months; Individual Development Accounts
MISSOURI Received: 10/01/96 Subject to TANF: 12/01/96	All	24/48	24	As defined in 407	Reduction	Yes	Yes	Not specified	No	Yes	Yes	
MONTANA Received: 11/01/96	All	18 two parents; 24 single parent	Not specified	State sets parameters but communities have been given flexibility to determine appropriate work activities. These activities are based on Montana's JOBS program, waiver authority, and local community operating plans.	Reduction	Not specified	Yes	Not specified	No	Yes (certified)	Yes	Learnfare; Community service for individuals who have used Pathways benefits but not achieved self-sufficiency
NEBRASKA Received: 10/01/96 Subject to TANF: 12/01/96	All (in 5 counties)	24 out of 48	Immediate	Job Search, Education, Job Skills Training, Job Readiness, Microbusiness Enterprise, Work Experience, OJT, Employment, and CWEP	Full Family Sanction or Termination	Not specified	Yes	Yes	No	Yes (certified)	Yes	Learnfare
NEVADA Received: 10/18/96 Subject to TANF: 12/03/96	Not applicable	60 (will submit change to 24)	When determined able to engage in work or 24 months, whichever comes first	Unsubsidized/ Subsidized Private or Public Sector Employment, Work Experience, OJT, Job Search, Job Readiness, Community Service, Vocational Education, and Child Care Services	Reduction	Not specified	Yes	Not specified	No	Yes	Yes	

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
NEW HAMPSHIRE Received: 10/01/96 Subject to TANF: 10/01/96	All	60	When determined able to engage in work or 24 months, whichever comes first	OJT, Alternate Work Experience, Job Search, Job Skills Training, Education	Reduction or Termination	Not specified	Yes	Not specified	No	Yes	Yes	
NEW JERSEY Received: 10/15/96 Subject to TANF: 02/01/97	Terminate	60	When determined able to engage in work or 24 months, whichever comes first	As defined in 407	Reduction	Yes	Yes	Yes	No	Not specified	Yes	Convicted Drug Felons are Not Eligible
NEW YORK Received: 10/17/96 Subject to TANF: 12/02/96	Not specified	Not specified	When determined able to engage in work or 24 months, whichever comes first	As defined in JOBS State Plan	Reduction or Termination	Not specified	Not specified	Not specified	Not specified	Not specified	Yes	2 Month Community Service
NORTH CAROLINA Received: 10/11/96 Subject to TANF: 01/01/97	All	24/60	Immediate	As defined in 407	Reduction or Denial	Yes (Cabarrus County)	Yes	Yes	No	Will Develop Standards	Yes	Require Immunizations; Learnfare; Upfront Diversion
OHIO Received: 09/19/96 Subject to TANF: 10/01/96	All	36 out of 60	24 months	Alternative Work Experience, Community Work Experience, Work Supplementation, OJT and Postsecondary Education	Reduction or Termination	Yes	Yes	Not specified	No	Yes	Yes	2 Month Community Service; Learnfare

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
OKLAHOMA Received: 09/30/96 Subject to TANF: 10/01/96	Terminate MAAPE Continue Learnfare	60	Immediate	Activities designed to assist in becoming employable or in obtaining employment; Alternative Work Experience, Job Search, Job Readiness Training, Job Skills Training, Job Corps, OJT	Not specified	Not specified	Not specified	Not specified	No	Yes	Yes	Learnfare
OREGON Received: 09/27/96 Subject to TANF: 10/01/96	All	24 out of 84	Immediate	As defined in 407	Reduction, or Termination	Yes	Not specified	Not specified	No	Yes	Yes	Individual Development Accounts
PENNSYLVANIA Received: 01/23/97		60	Immediate	Job Search, Job Readiness/Preparation, Subsidized Employment, Work Experience, OJT, Workfare, Community Service, Vocational Education, General Education, ESL, Job Skills Training, Any Employment or Training Funded/Approved by Department	Ineligible	Not specified	Yes	Not specified	Yes	Yes (certified)	Yes	Require Immunizations; Individual Development Accounts; Convicted Drug Felons are Not Eligible; Learnfare
SOUTH CAROLINA Received: 10/12/96 Subject to TANF: 10/12/96	Some	24 60 lifetime	Applicants: Immediate (2 weeks job search); Recipients: When determined able to engage in work or 24 months, whichever comes first	Work Experience, OJT, Vocational Training, Technical Schools, Literacy Classes, Adult Education, GED, Family Life Skills, and Job Club Activities	Termination	Not specified	Yes	Yes	No	No	No	Learnfare; Individual Development Accounts

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
SOUTH DAKOTA Received: 10/01/96 Subject to TANF: 12/01/96	Some	60	24	As defined in 407; additionally, Pre-Employment Training, Secondary Education, Vocational Education and College Education	Terminate Individual, Protective Payee for Remaining Grant	Not specified	Yes	Not specified	No	Yes	Yes	Upfront Diversion; Learnfare; Require Immunizations
TENNESSEE Received: 09/30/96 Subject to TANF: 10/01/96	All	18/24/60	Immediate	Unsubsidized Employment, OJT, Community Service, Job Search, GED	Termination	Not specified	Yes	Yes	No	Yes (certified)	Yes	Individual Development Accounts
TEXAS Received: 10/01/96 Subject to TANF: 11/05/96	All	12/24/36 for individual	Immediate	Education or Literacy Training, Employment Skills Training, Vocational Training, Life Skills Training, Parent Skills Training, Community Work Program or Other Work Program Approved by the State, A Business Internship, Subsidized Employment, Self-Employment Assistance	Reduction	Not specified	Yes	No	No	Not specified	Yes	Upfront Diversion; Learnfare; Require Immunizations; Individual Development Accounts
UTAH Received: 09/30/96 Subject to TANF: 10/01/96	All	36	24	Employment, Job Search, Mental Health Treatment, Training	Reduction or Termination	No	Yes	No	No	Yes (certified)	Yes	Upfront Diversion
VERMONT Received: 09/20/96 Subject to TANF: 09/20/96	All	60	Immediate	Unsubsidized Employment, Job Search, Community Service Jobs, Grant Diversion	Vendor Payments	Yes	Yes	No	No	Not specified	Yes	

State	Retain Waivers	Time Limit (Months)	Time Frame For Work (Months)	Major Work Activities	Sanctions For Noncompliance With Work Requirements	Employment Subsidy Component	Individual Responsibility Plan	Family Cap	2 Tier	Screen for Domestic Violence 2/	Benefits to Aliens	Other Selected Options
VIRGINIA Received: 12/06/96	All	24 out of 60	32 for CWEP	Unsubsidized, Subsidized Private/Public, Work Experience, OJT, Job Search, Jobs Sills Training, Job Development	Full Family Sanction	Yes	Yes	Yes	No	No	Yes	Upfront Diversion; Learnfare; Individual Development Accounts; Require Immunization
WASHINGTON Received: 12/12/96 Subject to TANF: 01/10/97	All	48 out of 60 (benefits reduced)	24	As defined under JOBS	Reduction	Not specified	Yes (teens); Employment Plan (adults)	Not specified	No	Yes (certified)	Yes	
WEST VIRGINIA Received: 11/26/96	Not specified	60	24	Unsubsidized Employment, Job Search, CWEP, Vocational Skills, Training, Secondary Education (for teen parents)	Reduction or Termination	Yes	Yes	No	No	Yes (certified)	U	Upfront Diversion
WISCONSIN Received: 08/22/96 Subject to TANF: 09/30/96	All	60	Immediate	As defined in 407	Reduction	Yes	Not specified	Yes	Yes	Not specified	Yes	Learnfare; Individual Development Accounts
WYOMING Received: 10/17/96 Subject to TANF: 01/01/97	Terminate	60	Immediate Under Pay After Performance	Work Experience, Community Service, Educational/Vocational Training	Termination	Not specified	Yes	Not specified	No	No	No	Participation by Noncustodial Parent

Footnotes

1/ Shading indicates plan determined complete by DHHS.

2/ Includes States that certified that the State will screen for domestic violence, as well as States that did not certify but included a description in their plan.

3/ For individuals who have moved from another state and have lived in Florida for less than 12 months, the time limit for temporary assistance shall be the shorter of the time limitations in the two states, and months in which assistance was received in any state shall count towards the 48-month cumulative benefit limit. Otherwise, new residents are treated the same as older residents.