



Building Family Economic Success

INDIVIDUAL DEVELOPMENT ACCOUNTS (IDAs) and OTHER SAVINGS TOOLS

Accumulating assets and saving for the future—or a "rainy day"—are critically important to a family's long-term financial well-being. Unfortunately, low-income families, who constantly struggle to pay for basic necessities, seldom have extra money to set aside or invest. Individual Development Accounts (IDAs) have been developed as a strategy to address this need. They are special savings accounts offering low-income individuals and families a valuable opportunity to build assets and save for the future. In IDA programs, the savings deposited by low-income account holders are matched by public or private funds – often at a ratio of \$2 or more for every dollar saved by the account holder. IDA account balances can be used only for specified purposes, such as buying a home, starting a small business, or paying for education.

The Importance of Savings for Low-Income Families

Historically, most efforts to measure and combat poverty have focused only on current income – the ability of families to earn enough in any given year to put a roof over their heads, clothes on their backs, and food on their tables. Yet increasingly, experts recognize that financial assets are an equally important measure of financial well-being.

Unfortunately, asset poverty is widespread in America. One-third of all American families and 60 percent of African-American families have no – or negative – net financial assets: the amounts they owe in debts and other obligations are greater than or equal to the value of their home equity, bank accounts and all other financial assets. Forty percent of white children in America and 73 percent of black children grow up in families with zero or negative net financial assets. Low savings rates and lack of assets can make families vulnerable to high-cost financial services and predatory practices.

Accumulated assets can mean the difference between stability and financial ruin when a family runs into hard times—a job is lost, a car breaks down, or an illness strikes. Leveraging assets can stabilize a family's income stream, and it can enable people to further their education, buy a home, build a positive credit history, or start a small business. Assets also can promote family stability, encourage political participation, and give people a stake in their communities.

Some important facts about savings and low-income families:

- An estimated 25 percent of all American households (and 50 percent of nonwhite households) are asset poor – i.e., they do not have enough net worth to live at the federal poverty level for three months.
- The median white household has seven times more assets than the median African-American household.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success*, or FES. This fact sheet is one in a series outlining the key strategies of the Foundation's FES grantmaking agenda.

Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

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Resources

Center for Social
Development
(www.gwbweb.wustl.edu/csd)

Corporation for Enterprise
Development (CFED)
(www.cfed.org)

New America Foundation
(www.assetbuilding.org)

FES and Savings

A combined effort of individuals, government, and the private market can help low-income families achieve financial stability, maximize their income, and build wealth. In order for families to become financially stable and begin to build assets, they must first achieve a steady and predictable income to pay for their basic needs. Families then can begin to grow their income and accumulate savings and practical assets such as a car. Eventually, they may begin to build long-term wealth through owning assets such as a home or a small business. Once families have accumulated assets, it is important to protect them from predatory, wealth-stripping practices that are common in many low-income neighborhoods.

Individual Development Accounts are a key component of asset accumulation. First proposed in 1991, IDAs have spread quickly throughout the nation. Currently, more than 400 IDA projects are operating in urban, suburban and rural areas with support from the federal government, more than 30 state governments, and several national foundations.

Currently, FES is supporting several strategies to help low-income working families save and accumulate assets. These strategies include:

- Building an infrastructure for scaling up the IDA field to reach millions of low-income families. Currently IDAs only reach about 20,000 families out of the millions who could benefit. The IDA field needs increased resources dedicated to policy, research, and technical assistance to expand its reach to more people.
- Promoting federal and state policies supportive of asset development. For example, states can modify Temporary Assistance for Needy Families (TANF) regulations to allow federal and state funds to support IDAs, or change asset limitations within public benefit programs so that families don't lose benefits like Food Stamps and Medicaid when they save money in IDAs.
- Investing in innovations to broaden the range of asset development strategies available to communities and policymakers. Examples include:
 - Expanding matched 529 college savings plans.
 - Widening the reach of the U.S. Housing and Urban Development Department's Family Self-Sufficiency account program, which is an IDA-like savings account for families in public housing.

Challenges and Opportunities

- The main federal support for IDAs, the Assets for Independence Act, requires local matching dollars. There is a need for additional resources at the local level devoted to matching IDA accounts to leverage federal dollars for IDAs.
- The IDA field also needs more resources devoted to technical assistance, training, and other services for practitioners, to ensure the effectiveness of local IDA programs.
- IDAs currently reach a tiny fraction of the millions of families who might benefit. If they were made simpler and more cost-effective, IDA programs could more easily be expanded to a greater scale. For example, a streamlined financial product combined with additional public matching dollars could help the IDA field reach many more families.
- Purchases that could be invaluable in helping families move ahead (i.e., a car or tools for a self-employment trade) are not eligible under some IDA programs.

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