Indiana Institute for Working Families
Research and Public Policy

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Individual Development Accounts

What is an Individual Development Account?

Indiana's Individual Development Accounts (IDAs) are matched savings accounts that enable Hoosiers of modest means to save money and build financial assets to purchase a home, to pay for postsecondary education expenses, or to start a small business.

Asset building is an anti-poverty strategy that helps low-income people move toward economic self-sufficiency by accumulating savings and purchasing long-term assets while building financial literacy skills. Helping people purchase an asset reduces dependence on external support and provides the stability that can allow them to escape the cycle of poverty permanently.

Who is Eligible for IDAs?

Indiana's IDA program is targeted at low-income Hoosiers and families qualifying for the federal Temporary Assistance to Needy Families (TANF) program. In order to qualify, participants must be able to save at least $35 per month and meet one or both of the following household income limitations:

- Participant is a qualifying individual that receives, or is a member of a household that receives, TANF under Indiana Code 12-14-2; or
- Is a member of a household with an annual household income that is less than 175 percent of the FPG.

Eligibility for IDAs in Indiana Based on Annual Household Income

Family Size	Annual Income Based on 175% of FPG in 2013
1	$20,108
2	$27,143
3	$34,178
4	$41,213
5	$48,248
6	$55,283

Source: Indiana Housing and Community Development Authority www.in.gov/ihcda

How IDAs are Matched and Used

Indiana's IDA program currently offers a minimum 3:1 match, which means that for every dollar saved, IDA participants will receive at least a three dollar match on their deposit—up to $900 a year. However, state statute allows accounts to be matched up to 6:1 if additional funds are available. If an IDA participant successfully saves the required $400 a year, then the State will match it with $1,200, totaling a combined potential savings of $1,600. IDA guidelines require that deposits come from earned income, and participants may also deposit money from income tax refunds. Participants may **not** deposit money from sources such as TANF, Social Security, welfare or pension programs. Participants can choose weekly, bi-weekly, monthly, or quarterly deposits in order to develop routine savings habits.

IDAs in Indiana can currently be used for up to three assets: to purchase or renovate a home; to pay for postsecondary education expenses; or start or expand a small business. Indiana's IDA program is distinct from some in that it allows savings to be used for owner-occupied rehabilitation. This includes essential improvements to the participants' home such as energy-efficient windows, siding, roofing, water heater replacement, heating and cooling. The program does **not** allow for non-essential improvements.

In order to use IDA funds, participants must successfully complete the Financial Literacy Education administered by their program. All IDA participants must also save for a minimum of six months before they may make their first withdrawal for a qualified asset purchase. Participants can contribute to their account for up to four years. The length of time an IDA participant may be considered active, and therefore eligible for match, varies greatly depending on the savings rate of the individual IDA participant. While most participants' tenure lasts four years, participants may opt to be active for the lesser of four years or until they reach the state program match cap.[1] Thus, if funds are available, some IDA participants may 'fast track' to graduate in as little as two years.

How are IDAs Funded?

Matching sources include federal grants, state and local governments, financial institutions, private foundations, and tax credits. States can use a variety of funding sources to match IDA contributions including general fund appropriations, federal and state TANF dollars, and Community Development Block Grants (CDBG) funds.

Assets for Independence (AFI) is a federal program administered by the Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services (OCS). AFI provides grants to enable community-based non-profits and state, local, and tribal government agencies to support innovative asset building projects that feature matched savings through IDAs, financial education, and related services that improve the economic status of working individuals and families. AFI is one of the major federal funding sources that support IDA programs and awards about 60 AFI grants each year.[2]

Indiana started its program using TANF and state funds. The Indiana Housing and Community Development Authority (IHCDA) has received up to $1,000,000 in state funds (either from the general fund or the Indiana Housing Development Fund) from the Indiana General Assembly. These funds are used to administer the program and match IDA accounts. Additionally, IHCDA sells $200,000 in tax credits to businesses to help support the IDA program for $0.50 on the $1.00. If all tax credits are sold, this means an additional $400,000 in revenue will be generated that can be used for IDA program administration and match funds.

How Many People Participate in IDA Programs?

In State Fiscal Year (SFY) 2011[1], Indiana had 995 IDA accounts that were matched with state funds and a total of $448,022 was saved by IDA participants. Despite the downturn in the national and state economies, over 93 percent of Indiana IDA participants fully met their savings requirement over the past five years.

Additionally, since 2001, Hoosiers have saved nearly $3.4 million and IDA accounts have been matched over 10,000 times.

Participant Savings in Indiana, SFYs 2001-2011

Year	Participant Savings	Accounts Matched	Avg. Savings	% Fully Saved
01-02	$166,495	606	$274.74	34.39%
02-03	$242,958	902	$269.35	48.23%
03-04	$261,386	1049	$249.18	59.42%
04-05	$270,543	1006	$268.93	65.98%
05-06	$274,080	973	$281.69	80.86%
06-07	$349,176	1198	$288.81	**93.13%**
07-08	$456,791	1128	$404.96	**96.39%**
08-09	$463,689	1101	$421.15	**94.46%**
09-10	$456,174	1053	$433.21	**94.21%**
10-11	$448,022	995	$450.73	**93.47%**

Source: Indiana Housing and Community Development Authority, January 2012. www.in.gov/ihcda.

How do IDAs Benefit Indiana?

IDAs benefit Indiana by providing economic stability through financial literacy skills and assets. Asset poverty measures a family's financial vulnerability to economic shocks—if one's income was suddenly cut off due to unemployment or a medical or family emergency. According to the Corporation For Enterprise Development's 2013 Assets & Opportunity Scorecard, Indiana has an Asset Poverty rate of 22.9 percent, meaning that more than 1 in 5 Hoosiers could not withstand an economic shock. In addition, 27 percent of Hoosiers are unbanked or underbanked, and Indiana's bankruptcy rate exceeds the national average. These factors make economic assets like those that IDAs make possible even more crucial to keeping families out of poverty.[3]

In addition to the benefits of assets, IDAs also provide users with financial skills that far outlast participation in the program, and provide a foundation for smart financial decisions and planning. In order to purchase an asset, participants of Indiana's IDA program must successfully complete financial education requirements designed to help participants properly use their asset and build financial literacy skills. According to the Heritage Foundation's discussion paper 'Improving Economic Mobility Through Increased Savings', the required IDA education component "has proved to be an essential component of the success of these programs", citing that homeowners who saved through IDA programs are two to three times less likely to face foreclose than those not using IDAs.[4]

Indiana's IDA financial educational program is substantial and involves 12 hours of core financial literacy training, followed by asset-goal specific training for entrepreneurs, homeownership, and education. Basic financial training includes: setting and reaching financial goals; understanding credit scores; differentiating between needs and wants; knowing consumer rights; and developing and maintaining a household budget. Homeownership counseling includes information on: knowing how much one can and can't afford; purchase and closing process; and maintenance basics. Small business training helps recipients to develop target markets, write a business plan, develop a marketing plan, and learn about small business loans and other resources for entrepreneurs. Finally, education and career counseling training provides: counselors for career goals; help with searching and applying; information about grants and scholarships; and job training programs.[5]

How can the IDA Program be Strengthened?

Indiana can strengthen its successful IDAs by safeguarding and building on funding for the program, expanding allowable uses for IDA funds, and allowing more Hoosiers the opportunity to save and build assets.

1. **Safeguard and Build Funding for Indiana's IDAs**
   While at one time, Indiana was 'grandfathered' into AFI's funding for IDAs and virtually guaranteed $1 million annually in matching funds, the state must act to ensure that funding remains robust to meet demand for the program. Federal funds for Indiana's IDAs depend on a 1:1 investment of state funds, up to $1 million in potential federal matches. However, because the application process for federal matches has become more competitive, Indiana can no longer take the $1 million for granted, and must be able to compete with other states' applications. At the same time, Indiana's IDA program consistently experiences more demand from prospective participants than it has funds to meet that demand. In order to receive the full match and to meet demand, Indiana must consistently contribute its full part of the match and expand funding to give more families the opportunity to build assets.

2. **Increase Public Awareness and Participation through Tax Preparation**[6]
   In 2007, in compliance with the Pension Protection Act of 2006, the Internal Revenue Service began giving taxpayers the option of electronically splitting their tax refund among two or three financial institution accounts. Consumers now can choose to divide their refunds between their IDA and a checking account, for example, which would give them immediate access to some of the funds while allowing them to save the remainder for longer-term goals.

In addition, a small-scale demonstration of refund splitting was conducted in the 2004 tax season by the Doorways to Dreams (D2D) Fund in Boston, Massachusetts.

- 516 tax filers given the opportunity to open an account to split their refunds, 27 percent accepted the offer, and 15 percent were able to participate after meeting account-opening criteria;
- 47 percent of their refunds, or an average of $606. This represented at least a 90 percent increase over their existing savings; and
- Four months later, two-thirds of participants continued to save a portion of their refunds.

3. **Expand IDA Uses, as defined in Indiana Code, to Include Additional Needs Such as Vehicles, Child Care, and Mortgage Payments**[7,8,9]

Over the years, Pennsylvania has expanded the uses of IDA program funds and has one on the most flexible IDA programs in the country. IDA funds in Pennsylvania can be used for to purchase a home, start or expand a small business, or to pay for postsecondary education, the same as Indiana, but can also be used for automobile purchases, insurance costs, child care, college savings plans, and/or retirement.

While some IDA programs do not allow vehicle purchases due to the fact that an automobile is a depreciating asset, transportation constraints, such as costs of automobile repair or lack of public transportation should be considered.

Indiana has recently expanded the state IDA program to cover asset preservation activities such as owner-occupied rehabilitation, but does not allow IDA funds to be used to purchase an automobile. Indiana should consider including purchasing of and/or repair of a vehicle in order to increase the work participation, as does Kansas, Illinois, and Pennsylvania.

Some states have begun to allow IDA funds to be used to make mortgage payments to avoid mortgage default and foreclosure. However, IDA program participants have one of the lowest rates of mortgage default and foreclosure. This may be a way Indiana can expand use of IDA program funds to preserve a family's asset in emergency cases, such as unemployment.

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