



POLICY ALERT

An Urgent Update on Issues that Affect You

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HB 2450/SB 1538: Legislature to Consider Bills That Would Help Low-Wage Workers Save for the Future

Background

Representative Naishtat (HB 2450) and Senator Barrientos (SB 1538) have introduced legislation that would establish a \$1 million grants program at the Comptroller's office to assist local communities in setting up Individual Development Accounts (IDA) for their low-income residents. An IDA is an interest-bearing, tax-free savings account created to help low- and moderate-income families build assets and move into the middle class. Each dollar from earned income that a participant saves in an IDA is matched by public or private sources (e.g., banks, foundations, etc.). Representative Vilma Luna succeeded in adding \$1 million to the House's draft appropriations bill (HB 1) to fund the grants program, should either bill pass. In the Senate's version of the proposed budget (SB 1), \$1 million is earmarked on a "wish list," but did not make it into the bill itself. This funding could be used to draw down up to \$1 million in federal funds under the Assets for Independence program. Most of these funds would be used to match individual account holders' savings, with some money to cover grantees' administrative costs.

What the legislation would do

The proposed legislation authorizes the comptroller to make grants to nonprofit organizations to operate IDA programs. Potential grantees must be capable of performing outreach, enrolling participants, coordinating financial literacy education, and case management. Grantees would partner with a financial institution to hold participants' savings accounts.

The legislation would restrict savings to purchase of the following assets: 1) A first home or necessary repairs to an existing home; 2) post-secondary education or training; 3) starting or expanding a small business; and 4) purchasing a used car if needed to get to work or take a child to day care in order to work.

The legislation requires IDA programs to target families and individuals with earnings at or below 200 percent of the federal poverty level (\$38,700 annual income for a family of four in 2005). The rate at which participant savings would be matched will be determined by the Comptroller during the rulemaking process. In existing IDA programs in Texas and other states, match rates vary—ranging from 1:1 to 7:1—depending upon program design and the source of matching funds. The timeframe for achieving the required savings can range from six months to five years.

IDA program participants would also be required to attend mandatory financial literacy classes, offered by the grantee, which emphasize money management skills along with long-term financial planning. Account holders may also receive training specific to their asset goals, such as a class for first-time homebuyers.

Why are IDAs important?

IDA initiatives represent a major asset-building strategy that rewards work and saving, fosters self-sufficiency, and increases financial literacy. At least one-third of all American families own virtually no assets. With no savings or assets, low-income families are unable to plan for the future and have no cushion against sudden unemployment,

serious illness, or a family emergency. This leaves many low-income Texans trapped in a cycle of poverty that may lead to a regular reliance on government assistance. IDAs offer an effective mechanism for moving working families towards self-sufficiency through purchase of a valuable asset.

What does President Bush think about IDAs?

President Bush's proposed FY 2006 budget aims to increase the number of IDAs nationwide by providing:

- 1) \$25 million annually in funding for the Assets for Independence program, and
- 2) An IDA tax credit for businesses that match individuals' savings. It is estimated that this tax credit would generate \$1.7 billion in matching funds for 900,000 accounts over 10 years.

What's Next?

Both bills can be viewed and downloaded from the legislature's web site at www.capitol.state.tx.us. HB 2450 has been referred to the Financial Institutions Committee, which will likely hold a hearing on the bill some time in April. SB 1538 will be considered by the Senate Finance Committee. Hearing dates will be posted on the legislature's web site.

How do I find out more about IDAs?

- Download a fact sheet on IDAs from our web site at http://www.cppp.org/fact_sheet_ida.pdf.
- Visit our web site to find out more about CPPP's **Family Asset Building Project**, an effort to help low-and moderate-income families build financial security through assets, savings, and financial literacy. All of the publications related to this project can be found at <http://www.cppp.org/products/policyanalysis/eitc.html>.
- The **Texas IDA Network**, an informal organization of locally-based organizations committed to fostering the economic independence of low-income households through asset-based remedies to poverty. (Woody Widrow, Project Director, 512-477-4431, widrow@consumer.org; web site: <http://www.covenantcapital.org/html/publicpolicy/idanetwork.html>)