



POLICY ALERT

An Urgent Update on Issues that Affect You

Center for Public Policy Priorities

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CSSB 1538: Senate Passes Bill To Help Low-Wage Workers Save for the Future, Bill Moves to House

Hearing: House Financial Institutions Committee
Monday, May 16, 2:00 p.m. or upon adjournment
Capitol Extension E2.012

Background

On April 5 the Senate voted 30-1 to pass CSSB 1538 by Senator Barrientos. The House companion to this bill is HB 2450 by Representatives Naishtat, Luna, Guillen, and Jim Keffer. CSSB 1538 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.

IDAs provide low-income, working Texans the opportunity to build assets through matched savings accounts. Savings can then be used to purchase of a home, start or expand a small business, or pursue a post-secondary education. Each dollar from earned income that a participant deposits in an IDA is matched by public or private donations (e.g., governments, employers, foundations, etc.).

There is \$1 million earmarked in the House's version of the budget (SB 1) to fund the grants program, should the legislation pass. This funding would be used to draw down up to \$1 million in federal funds under the Assets For Independence (AFI) program. These funds would be used to match the savings of individual account holders.

IDAs represent a core strategy in President Bush' "ownership society." The Administration's 2006 budget proposal includes \$25 million for AFI and a tax credit for businesses that contribute to IDAs. The "Savings for Working Families Act" – which mirrors the President's IDA tax credit proposal – was introduced in Congress last week by Senators Rick Santorum and Joseph Lieberman. This bipartisan legislation would create 900,000 additional Individual Development Accounts for low-income families.

What CSSB 1538 does

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; 2) post-secondary education or training; and 3) starting or expanding a small business. 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).

IDA program participants would also be required to attend mandatory financial literacy classes, 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.

In Texas over 20 organizations operate IDA programs.¹ This legislation would help grow existing programs and provide the funds necessary to start IDA programs in unserved areas, particularly in rural areas of the state.

CSSB 1538 is available on the legislature's web site at www.capitol.state.tx.us.

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.

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** is an informal organization of locally-based organizations committed to fostering the economic independence of low-income households through asset-based remedies to poverty. Check out its web site at <http://www.covenantcapital.org/html/publicpolicy/idanetwork.html>.
- For more information about the Santorum/Lieberman bill in Congress, see <http://www.santorum.senate.gov> or <http://www.lieberman.senate.gov>.

¹ For a report on these programs see <http://www.covenantcapital.org/library/IDA%20Success%20Publication.pdf>.