



February 10, 2005 House Appropriations Committee—Subcommittee: General Government 79th Legislature

Texas Workforce Commission: Individual Development Accounts and Skills Development Fund

Individual Development Accounts

Individual Development Accounts (IDAs) enable low and moderate-income families to build assets. IDAs are interest-bearing, tax-free savings accounts that can be matched by qualifying public or private sources. All deposits into IDAs are limited to earned income. IDA matching ratios can vary—ranging from 1:1 to 7:1.

Savings accrued in IDAs are generally restricted to the following asset purchases:

- Homeownership;
- Business capitalization;
- Postsecondary education and training.

Although the Legislature authorized Texas' IDA pilot in 1999 with \$560,000 from the TANF block grant, it wasn't until 2003 that TWC fully implemented the program, which limited its length to two years. Of these funds, \$392,000 (70%) was allocated to match the savings of program participants; and \$168,000 (30%) was designated for administrative costs.

As of January 31st, two grantees were denied access to matching funds originally allocated for the program, while the other grantee faces a similar fate at the end of February. By September 1, 2005, the Texas IDA legislation will sunset—thereby abandoning the state's commitment to asset development for low-income workers.

IDAs are emerging as one of the most promising tools that enable low-income and low-wealth families to save, build assets, and enter the financial mainstream. In many ways, IDAs and targeted savings vehicles represent the next stage of welfare reform, and a program that TWC and the state of Texas should embrace.

We believe that a statewide IDA program can be an effective workforce and economic tool that would reward work and move more families towards self-sufficiency. However, the TWC pilot was hamstrung by two major project design flaws.

These pilot design issues include:

- **Limiting the participation to the TANF population.** To be eligible for TANF, an individual's income cannot exceed 17% of the federal poverty level, or an annual income of less than \$3,000. This income level is less than ideal for accumulating sufficient savings to purchase an asset. Additionally, the TANF population continues to face multiple barriers to stable employment,

among other issues. Eligibles also included former TANF recipients and individuals at risk of returning to TANF.

- **Limiting the time period to 24 months.** Given a 2:1 match rate, a shorter time period acts a barrier to asset purchase. Within this pilot, the 24-month period included the outreach and start-up period, reducing the actual participant time period by several months.

In less than two years, these organizations were expected to complete outreach, enroll participants, and ensure the IDA account holders saved enough to purchase an asset. This 24-month pilot period gave enrollees an extremely short window in which to accumulate assets, draw eligible matching funds, and purchase assets. *Normally, IDA programs allow at least five years for this process.*

While the TWC pilot has produced few success stories to date, the existing Texas IDA programs had a much higher success rate, likely due to broader guidelines than the TWC pilot.

Participants should not be punished for the program's inadequate design. From the experiences of other IDA programs in Texas (not funded by the state), hundreds of participants have been successful in accumulating enough savings to purchase an asset. In total, the Texas IDA Network has facilitated over 1,000 asset purchases worth over \$18 million. Currently, these program administrators are coordinating nearly 1,500 active accounts with over \$1.6 million in savings.

With an innovative EITC and financial literacy effort growing out of the Heart of Texas Workforce Board and expanding to at least four additional board areas, the time to expand IDA accessibility, rather than restrict it, is at hand. We call on TWC and the state to revisit and retool a statewide IDA program—one that would move more workers towards owning their assets and becoming self-sufficient.

Skills Development Fund

We support the agency's request for increased funding for the Skills Development Fund. This program has proved to be an invaluable component of the workforce system and an important mechanism in aligning workforce and economic development efforts throughout the state. As mentioned previously, the Fund receives approximately \$100 million of eligible training requests per biennium—quadrupling the SDF's budget. The Skills Development Fund not only benefits workers and employers alike, but builds the state economy by upgrading the skill sets of thousands of Texans every year.

At this time, we remain silent on LBB's recommendation to require a 50% employer match for Skills Development grants. Although this program modification might create more training opportunities, TWC should study any potential impact before implementation. This proposal possibly needs further examination by an interim house committee before full consideration.