

SUBJECT: Individual development accounts for low-income individuals

COMMITTEE: Urban Affairs — committee substitute recommended

VOTE: 6 ayes — Carter, Burnam, Clark, Ehrhardt, Hodge, Najera

0 nays

3 absent — Bailey, Edwards, Hill

WITNESSES: For — Julian Huerta, Central Texas Mutual Housing Association; Jane McGuigan, Tarrant County Together

Against — None

DIGEST: CSHB 2563 would amend the Labor Code to require the Texas Workforce Commission (TWC) to develop and implement a pilot program to establish individual development accounts (IDAs) for certain low-income individuals employed by the public or private sector. TWC would have to contract with a nonprofit organization through competitive proposals to establish and administer the accounts in accordance with TWC rules. In adopting rules under the program, TWC would have to:

- ! design the program to give participants an opportunity to accumulate assets and to facilitate and mobilize savings;
- ! state the selection criteria for a nonprofit organization to establish and administer accounts under the program;
- ! establish procedures to receive requests for proposals from qualifying nonprofit organizations;
- ! limit participation in the program to individuals with a family income below 200 percent of the poverty level, according to the federal Office of Management and Budget's poverty index; and
- ! limit expenditures from a participant's IDA to post-secondary educational expenses for the adult account holder and dependent children, housing expenses (including the cost of buying or financing a home), expenses of a self-employment enterprise, or start up business expenses for the adult account holder.

TWC would have to establish the pilot program in two counties with a population between 500,000 and one million (El Paso and Travis, based on the 1990 census), two with a population between one million and two million (Dallas, Bexar, and Tarrant), two with a population of two million or more (Harris), and two that are primarily rural areas with per-capita poverty rates exceeding 1.5 times the statewide per-capita poverty rate.

The bill would define “nonprofit organization” to include community development organizations, minority economic development organizations, community-based organizations, and affordable housing agencies.

Within two years of implementing the pilot program, TWC would have to contract with an institution of higher education to evaluate the program and prepare a report of its findings.

No later than January 1, 2005, TWC would have to submit a report to the Legislature on the status of the pilot program in each selected county with recommendations on implementing the program statewide. The section requiring the pilot program would expire September 1, 2005.

The bill would take effect September 1, 1999, and TWC would have to develop and implement the pilot program as soon as possible after that date.

**SUPPORTERS  
SAY:**

CSHB 2563 would help working poor Texans achieve economic self-sufficiency over the long term. Lack of assets is a major barrier to escaping poverty. An IDA would make saving for the future a realistic and attainable proposition and would help the account holder establish good credit and money management habits. IDAs could be designed with considerable flexibility in regard to eligibility criteria, minimum savings deposits, match rates, and other factors to fit individual needs and circumstances. The IDA program created by CSHB 2563 would have a built-in safeguard against abuse, as the funds could be used only for specified purposes.

Although the bill would not specify a funding source, the program could tap funds from a variety of sources. Corporate sponsorship, federal grants, and surplus Temporary Assistance for Needy Families (TANF) funds all could be used to fund IDAs.

IDA programs are up and running in several states and have proven very successful in helping poor people increase their savings rates. They also can reduce the number of people relying on welfare or government aid. Savings provide a buffer against the vagaries of the future and allow the working poor not only to dream of a better future but to plan and prepare for it. Investing in low-income people and communities would help the entire Texas economy as those people became taxpayers and homeowners with a stake in their communities.

IDA programs often are set up so that a client can consult with a financial counselor to identify a qualified asset likely to enhance the client's long-term self sufficiency and then to develop a savings plan to acquire that asset. IDA programs usually set up an account for the client and a parallel matching account. The client deposits earned income into one account, and employers, nonprofit organizations, foundations, churches, or state and local governments match those funds and deposit them into the parallel account at a rate that enables the client to accumulate savings for a qualified expense. Once a savings goal is reached, the administrator of the parallel account makes a direct payment to a vendor or to a title company.

IDA programs invest government and private dollars in proportion to the savings of the poor, just as the government provides incentives for asset-building investments in education and retirement savings for the middle class. In turn, IDAs can produce new jobs, increase home ownership, and increase earnings due to educational opportunities. IDAs enable very low-income people to accumulate a few thousand dollars over several years by saving a small percentage of their income each month. A recent study by the Corporation for Enterprise Development estimates that for every dollar invested in IDAs, state and local governments would earn \$4.79.

The opportunity for home ownership and additional education serves as a powerful incentive to recipients to find and keep full-time jobs and leave the welfare system for good. CSHB 2563 would not create a new government bureaucracy. TWC would have a limited role in overseeing the program, which would be administered by a nonprofit organization.

**OPPONENTS  
SAY:**

As it is unclear how the program created by CSHB 2563 would be funded, TWC might end up developing a framework for a program that either could stagnate for lack of funding or end up having to be funded by state dollars. In

1995, the Legislature directed TWC to establish a pilot program to create IDAs for welfare recipients participating in employment and training programs. The project began serving clients only in January 1999. Before the Legislature establishes a similar program, the existing program should be evaluated.

IDAs are yet another program that would foster dependence among the poor and encourage a new generation to expect handouts. Encouraging the poor to save is an excellent idea, but IDAs only would enlarge the welfare system and create another bureaucracy that could become a target for welfare fraud. Although IDA programs are in place in some areas, it is not clear whether or not they are effective.

OTHER  
OPPONENTS  
SAY:

Medical expenses should be included in the allowable expenditures from IDA accounts. Unpredictable illnesses or accidents often push the working poor into destitution and homelessness. Allowing expenditures from IDAs for medical expenses could avert such a catastrophe.

NOTES:

The original bill would have required the Texas Department of Housing and Community Affairs, rather than TWC, to develop the IDA program and would not have included two counties (Travis and El Paso) that have a population between 500,000 and 1 million.

The original bill also would have included educational expenses, rather than post-secondary educational expenses, as well as medical expenses that could be paid from an IDA account.