House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

INDIVIDUAL DEVELOPMENT ACCOUNTS

House Bill 4969 (Substitute H-2))
First Analysis (1-23-04)

Sponsor: Rep. Paul Condino
Committee: Family and Children Services

THE APPARENT PROBLEM:

The 1996 federal welfare reform act - the Personal Responsibility and Work Opportunity Reconciliation Act - authorized states to create community-based individual development account (IDA) programs with Temporary Assistance for Needy Families (TANF) block grants. Individual Development Accounts are savings accounts that are designed to help low-income and low-asset families accumulate a few thousand dollars for high-return investments, such homeownership, post-secondary education, and business ownership/development. Money in an IDA is matched by public and private agencies at the time an individual uses the money in the IDA for the allowed purposes. Individuals who save $1,000 for a home are provided a match of $3,000, and individuals who save $1,000 for education or business ownership/development are provided a match of $2,000. While there is a cap on the amount that will be matched, there is no cap on the amount that can be held in an IDA.

In Michigan, the IDA program began with the enactment of Public Act 361 of 1998 (enrolled House Bill 4786). Public Act 361 established the IDA program within the Social Welfare Act, though the act limits the program to first-time homebuyers. The act provides that an individual eligible to receive family independence assistance, or another person on behalf of that individual, may establish an IDA for the purpose of accumulating funds for the acquisition costs of a "qualified principal residence". The act further provides that the Family Independence Agency (FIA) shall not consider funds in an IDA when determining eligibility for family independence assistance.

While the actual program, which is administered by the Michigan IDA Partnership (a joint effort between Council of Michigan Foundations and the FIA), allows individuals to set up IDAs to provide assistance in purchasing a first home, education, or small business development, the statute only allows an IDA to set up for first-time homeowners. Legislation has been introduced to clarify the allowable purposes for which an IDA may be used.

THE CONTENT OF THE BILL:

The Social Welfare Act requires the Family Independence Agency to operate a program allowing individuals eligible for family independence assistance to establish an individual development account for the purchase of a first home. The bill would expand the eligible uses to include post-secondary education and business capitalization.

MCK 400.57k

BACKGROUND INFORMATION:

The state IDA program is administered by the Michigan IDA Partnership (MIDAP). Locally, the program is administered through 50 program sites and five regional coordinating organizations (RCOs). The RCOs serve to coordinate service providers, coordinate financial management education and asset-specific education, provide orientation sessions, monitor eligibility guidelines, and facilitate bank partnerships.

According to the Michigan IDA Partnership, over 900 families have established over 1,000 accounts to assist them in buying their first home, attaining post-secondary education, or developing a small business. Accounts are open for a period of time ranging from six months to 36 months. Under the program's requirements, an individual must save at least $20 per month and complete a financial management training program, which includes courses in financial literacy and workshops in attaining their asset goal.

According to an evaluation of the second year (September 2000 through September 2002) of the state IDA program by the Institute for Social and

Economic Development, the typical participant in the program is a 33-year old unmarried African-American woman with some college education, two children living at home, a full-time job, and a monthly household income of about $1,800. The report further notes that while the program is not specifically designed for low-income individuals, 28 percent of participants were receiving cash assistance through the FIA at the time of enrollment.

The report further notes that through September 30, 2002, 632 IDA accounts were established by 630 participants, with the vast majority of recipients establishing the account to assist them in purchasing a home (81 percent) and the rest of the participants equally divided in using the account for business purposes or education. Reviewing the account activity of 601 participants, the study found that the average amount deposited was $375. Of the 601 participants, 34 (six percent) made at least one "matched" withdrawal, with the average being $875. Another 101 participants made at least one "unmatched" withdrawal, with the average being $356. [A matched withdrawal is a withdrawal used for an allowable purpose, such as buying a home. Similarly, an unmatched withdrawal is one that is for a reason other than an allowable purpose.] Of the 34 who made a matched withdrawal, 56 percent purchased homes, 29 percent made business-related purchases, and 15 percent used their saving to pay for post-secondary education. According to information provided by the Michigan IDA Partnership, through January 9, 2004, 216 participants have made an asset purchase. Of those purchases 138 were for homes, 41 were for education uses, and 37 were for business uses.

In looking at program data between participants who are receiving public assistance and those who are not, the ISED study notes that while the average monthly deposit is similar ($62 - public assistance; $63 - no public assistance), the average matched withdrawal is significantly higher for those not receiving public assistance ($873) compared to those participants who are receiving assistance ($578).

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that the bill would have no fiscal impact on the state or on local units of government. Current funding for the program ceased with the expiration of a 2002 work project. Existing participants continue to receive matching funds, although that is money that was obligated in prior fiscal years. (1-22-04)

ARGUMENTS:

For:

The bill is necessary to make state law consistent with federal law. Under the current provision in the Social Welfare Act, the IDA program is for first-time home purchases. Under federal law, IDAs may also be established for the purpose of providing post-secondary education and business development. As a result of state law only permitting an IDA to be created for homeownership, state money is mostly used to match savings for that purpose (although a limited amount of money has been used for educational purposes). However, when an IDA is established to help finance education or business development, it is established under federal law and, as a result, a mix of private and federal money has been used to provide matching grants for those purposes. The bill would allow state money to be used to provide matching grants for IDAs established for post-secondary education or business development. This is money that has been appropriated in prior years, so the bill would have no fiscal impact on the state.

POSITIONS:

The Family Independence Agency supports the bill. (1-21-04)

The Michigan IDA Partnership indicated that it supports the bill. (1-21-04)

The Center for Civil Justice indicated that it supports the bill. (1-21-04)

Analyst: M. Wolf

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.