

Individual
Development
Accounts

Building financial assets for Michigan's low-income citizens

The Michigan IDA Partnership is an innovative partnership between the State of Michigan Family Independence Agency (FIA) and the Council of Michigan Foundations (CMF).

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IDs Only the Beginning of
Asset Building Movement

Michigan has become a central point of activity in providing Universal Children's Saving Accounts. Creating a universal and progressive savings account at birth for every child in America has been a long-term goal of the Asset Building field. Individual Development Accounts (IDAs), the not so distant cousin of Children's Savings Accounts, has garnered the research and knowledge to make this major asset building policy push possible.

By infusing each generation of our children with asset building opportunities at birth, we can help ensure that inequality of our outcomes in one generation does not become inequality of opportunity in the next.

In December 2004, the largest site (500 Children's Accounts) in the National SEED (Saving for Education, Entrepreneurship, and Downpayment) Policy and Practice Initiative kicked off at the Oakland Livingston Human Service Agency (Pontiac, MI), an experienced provider of IDAs in Michigan. The SEED initiative is generating policy inspiration for a nationwide system of children's savings accounts.

On July 22 of 2004, bi-partisan legislation – called the ASPIRE Act – was introduced in Congress to create a "KIDS Account" for every newborn child in America. The bill was introduced by six quite unlikely partners: Senators Rick Santorum (R-PA) and Jon Corzine (D-NJ), and Representatives Harold Ford (D-TN), Tom Petri (R-WI), Patrick Kennedy (D-RI), and Phil English (R-PA).

Under the ASPIRE Act – which stands for the America Saving for Personal Investment, Retirement, and Education Act – every child born in 2006 and beyond would automatically receive a \$500 deposit into a KIDS Account once a Social Security number is issued. Children from households below the national median income would receive a supplemental deposit of up to \$500 at birth, and they would also be eligible to receive dollar-for-dollar matching funds up to \$500 per year for voluntary contributions. These may come from any source – including, for example, family members, corporations, and charities – but are limited to \$1,000 per year from all sources. All funds grow tax-free. Access to the account prior to age 18 would not be permitted, but youth – in conjunction with their parents and financial educators at schools – would participate in investment decisions and watch their money grow.

Assuming steady voluntary contributions of \$250 per year, a typical low-income youth would have over \$21,000 saved by age 18. At that point, he or she can keep their funds in the KIDS Account Fund, or roll it over to a Roth IRA, 529 college savings plan, or a privately managed KIDS Account at a financial institution of their choice. Whatever the financial product and regardless of where it is held, the account may be used to go to college, buy a first home, or build up a nest-egg for retirement. Using the funds for small business development is being considered as well.



Success Story

"The Joys of Living in a Safe Neighborhood"

A year ago Olga and Joaquin wouldn't let their two children play outside. The neighborhood around their rented home was noisy and dangerous. Cars would speed up and down the street; the music blaring from open windows, even at 2 a.m. "It was not a safe place for children to grow and play," says Olga.

Thanks to the IDA program at Goodwill Industries of Detroit, which helped them buy a new house, today Olga and Joaquin aren't afraid to let their kids play outside and ride their bikes through the neighborhood. The kids have made lots of new friends in the quiet community. "We could not be happier," says Olga.

In the Fall of 2002, while working as a hair and nail stylist, one of Olga's clients told her about a new program that could help her save to buy a home while teaching her about finances. The program would match her savings, four dollars for every dollar she saved, to use for a downpayment. Olga immediately called Greg Vasquez at the IDA program at Goodwill Industries of Detroit, and learned what she needed to do to qualify for the program.

Before the IDA program Olga and Joaquin were regular savers, but they



didn't have a bank account. Once in the IDA program, they faithfully deposited \$50 into a savings account each month. Every month the program would match their \$50 in a separate account. The couple also took classes on financial management and homebuyer training. Although they both work, they made it to every class. They even found themselves looking forward to the classes and felt better about themselves after each one.

After about two years, they had completed all their necessary coursework and reached their savings goal. They found a new house being built in Melvindale. It was scheduled to be ready in November, but they found that the waiting was the hardest part of becoming new homeowners. Six months after they were scheduled to

move in, they closed in May of 2004 on the beautiful two-story Cape Cod. Olga says the best thing about their three-bedroom, two-bath home is the friendly, quiet community. "Now we can go away without worrying what we will find when we come home," says Olga. "It was something that was always on our minds before, although we did not realize it. Now we live in a safe, friendly place, and it only costs about \$50 more each month than we were paying in rent."

Olga says the best part of the program for them wasn't even the match money. It was the valuable information they got from the classes. "We tell everyone to go – get into the classes and get that information," she says. "Learning about financial management and buying a house will make you feel great. Don't think about the money - your savings and match will be there when you need them for the downpayment."

Goodwill Industries of Detroit is a human services agency focusing on rebuilding self-image and self-respect by providing individuals with opportunities to become independent, self-supporting citizens through training, work experience, and employment in the community.

Asset Building *continued from page 1*

The accountholder keeps all the government-provided funds (those at birth and all the matching funds) if the account is used in one of these ways. If the funds are used for any other purpose, the accountholder keeps all the voluntary contributions (minus some taxes and penalties) but loses all the government funds.

The IDA and Asset Building field is heartened by the fact that the bill's chief sponsors have stated unequivocally their intention to move this bill forward when the new Congress convenes this year. When asked about the bill's prospects, Senator Corzine remarked, "Getting Jon Corzine and Rick Santorum to agree on anything is a heck of an initiative."

One-quarter of white youth and one-half of all other youth live in households with zero or negative assets for investment. Moreover, of the multitude of worthy programs the government now funds to help poor children – WIC, Head Start, refundable

tax credits, etc. – not one addresses their lack of assets. The ASPIRE Act focuses solely on assets. It is a beginning, a marker designed to build on lessons learned from SEED, other research, and nonprofit organizations gaining experience in providing asset-focused services to low-income households.

We live in a world where there is not equality in the outcomes we provide many of our children, but one that strives to provide equality of opportunity. By infusing each generation of our children with asset-building opportunities at birth, we can help ensure that inequality of our outcomes in one generation does not become inequality of opportunity in the next.

For detailed information on the ASPIRE Act go to www.KIDSAccounts.org or www.AspireAct.org.

United Ways Support Asset Development Programs

United Ways in Michigan have quietly become one of the largest contributors to Individual Development Account (IDA) programs in the State of Michigan. Currently United Ways have invested nearly \$500,000 to support IDA Programs in communi-

We can create sustained change in our community with programs that promote asset building such as owning a home, getting an education, or opening a small business.

ties throughout the state. The largest single United Way agency supporting IDAs is also the largest United Way in the state, United Way Community Services of Detroit. It serves as the Regional Coordinating Organization (RCO) for Southeastern Michigan and has provided over \$350,000 in match funding to support nearly 200 IDA accountholders in their network of programs.

United Way of America, the national trade association of 1,400 United Way Agencies, has created an initiative called "Assets for Family Success" that works to increase the capacity of local United Ways to address issues of poverty through asset development programs like IDAs and increasing the use of the Earned Income Tax Credit in low-income households.

"IDAs match so well with the United Way of America's goals of strengthening and supporting families, promoting self-sufficiency, building vital and safe neighborhoods... more United Ways should consider funding IDA accounts," says Judy Peterson, Deputy Director of Southwest Michigan Community Action Agency. Judy first received start-up funding from United Way of Southwest Michigan (UWSM, located in Benton Harbor) to establish their IDA program. Now, as the state and federal government are providing larger pools of match funding for IDAs, UWSM is supporting IDA direct services including financial management training, credit counseling, asset specific training, and coaching of IDA households.

Anna Murphy, Vice President of UWSM, sees this as a wise investment. "Supporting the IDA programs to provide financial management for individuals helps them become more self-sufficient. We can create sustained change in our community with programs that promote asset building such as owning a home, getting an education, or opening a small business."

Most recently UWSM provided a grant of \$15,000 to support the expansion of financial services to low-income populations in Van Buren, Cass and Berrien counties plus increase the number of available IDA accounts by 10 households. At the same time, this investment leverages \$30,000 in match funding for the families and community investment through home mortgages totaling about \$800,000.

This funding opportunity is easily replicable for other United Ways (as well as foundations) in any community in Michigan where there is an existing IDA Program that is part of the

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Michigan Asset Building Policy Brief

Bi-Partisan Support Critical to IDA Success

In a time of state budget stress, IDA Programs in Michigan achieved something not many other programs can claim, a line item appropriation of an additional \$200,000 to support IDAs in Michigan. Critical to this success was bi-partisan support from leadership in the house and senate (Senator Hardiman (R) – Kentwood, Representative Jerry Kooiman (R) – Grand Rapids, and Representative Chris Kolb (D) – Ann Arbor, plus the unwavering support of the Michigan Family Independence Agency.

The appropriation is recognition that IDA Programs in Michigan are having a positive impact in assisting low-income families in developing greater household stability through investment in assets like a home, an education, and small business creation. The IDA line item will help continue expansion in the availability of IDA accounts and maintain capacity through difficult economic times. "It is our hope that when the economy rebounds, this line item will be a foothold that leads to larger amounts of sustainable support for IDAs," said Rob Collier, President and CEO of the Council of Michigan Foundations.

FIA Expands Asset Building Policy for Michigan

Since becoming Director of FIA last January, Marianne Udow has infused the Department with a new attitude and direction that supports asset building opportunities for the poor. In January 2005, Michigan will be a leading state in the U.S. to allow low-income families to save in a 529 college savings account and not be penalized when applying for needed public assistance. Most public assistance programs have both an income and an asset test when determining program eligibility. Therefore, currently low-income families who successfully tuck away savings for their child's post-secondary education would not be eligible to receive assistance until they depleted their child's college fund. "529 Accounts that are accumulated as investments in the future of poor children should not preclude a family from receiving needed public assistance" says Marianne Udow. "Building of assets is essential for families and their children to permanently move out of poverty."

The policy change was prompted by a request from the Oakland Livingston Human Service Agency (OLHSA) to disregard their SEED Program accounts from the asset test. SEED accounts at OLHSA are matched investment accounts, held in the state 529 education plan, that provide a 1 to 1 match for 500 Headstart families saving for their child's education. The project is part of a national policy and practice initiative and more information is available at www.cfed.seed.org.

"Marianne Udow has not only been supportive of IDAs," says Eric Muschler, director of the MIDAP, "she sees the bigger picture of how FIA policy needs to support the concept of asset building for low-income households."



Michigan IDA Partnership program network. For further information on investing in local programs in your community, contact the Michigan IDA Partnership at 734.542.3951 or email muschler@earthlink.net.

Correction

The Spring 2004 MIDAP Asset Developments newsletter incorrectly indicated that the report "Investing in Michigan's Working Poor," coauthored by Susan Cocciarelli and Scott Darragh, was a product of Governor Granholm's Earned Income Tax Credit task force. In fact, the report was an overview of the EITC statewide demonstration initiative undertaken by MSU Extension Family & Consumer Services. The report on evaluation of Michigan's EITC campaign is available at www.fcs.msue.msu.edu/eic/report2004.pdf.

MIDAP Account Summary as of November 2004			
Active Accounts		Asset Investments	
Southern	210	Home Ownership	269
Western	210	Education	94
Northern	173	Business	60
Thumb	236	Total All Uses	423
Detroit	237	Participant Savings	\$391,154
Total All Regions	1,066	Match Amount	\$1,101,691
New mortgages leveraged = \$23,087,604			
A total of 1,568 accounts are now available in Michigan			



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Asset Developments

A complimentary, quarterly publication, *Asset Developments*, is distributed to IDA funders, potential funders, IDA providers, IDA participants, key state departments, legislators, and others who are interested in the implementation of IDAs. Funding for the publication is provided by the Charles Stewart Mott Foundation.

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