Volume 29, April 2007

Policy Points

A publication of the Southern Good Faith Fund Public Policy program

New Laws Promoting Asset-Building Opportunities

The Arkansas General Assembly recently enacted two key bills in Southern Good Faith Fund's 2007 legislative package that will promote and expand asset-building opportunities for lower-income Arkansans.

Act 1289 of 2007, the law that establishes the Arkansas Department of Workforce Services' appropriation, or spending authority, over the next two fiscal years, earmarks $1.7 million annually for the state's Individual Development Account (IDA) program. This represents a significant increase from the current IDA appropriation of $550,000 annually.

Another significant asset building measure from this year's session is Act 597 of 2007, which authorizes the state to create the Aspiring Scholars Matching Grant Program.

This pilot program is designed to encourage and enable lower-income families to participate in Arkansas' Tax-Deferred Tuition Savings Program, which is the state's 529 college savings plan. The pilot program will provide state funds to match the savings deposits lower-income families make into 529 accounts.

These savings match incentives are modeled after the successful IDA program, which has demonstrated that lower-income families will save if provided savings match incentives.

The funding source for the Aspiring Scholars Matching Grant Program will be fees the state collects from administration of 529 accounts.

Individual Development Account Funding Increase

IDAs are matched savings accounts to help low-income individuals and families establish a pattern of regular savings for the purchase of one of three allowable assets. Arkansas' IDA program was enacted by Act 1217 of 1999.

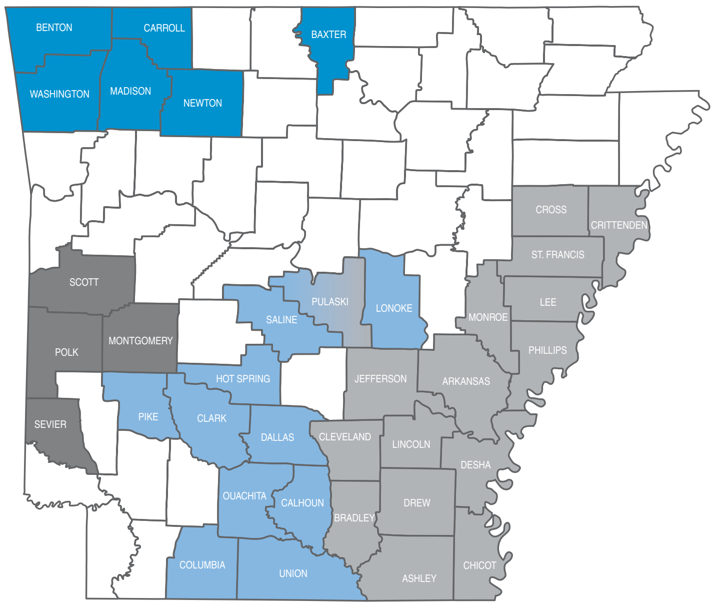
For every $1 saved a match of $3 is made to purchase a home or make improvements on an existing home; start or expand a business; or pay for postsecondary education. There is a $2,000 maximum match for individuals and a $4,000 maximum match for a household.

Arkansas' IDA program is funded with federal Temporary Assistance for Needy Families (TANF) dollars. The current annual appropriation for IDAs is $550,000. Currently, four organizations offer TANF-funded IDA accounts in just 36 of the state's 75 counties.

Those providers include:

- **Central Arkansas Development Council** offers IDAs in Calhoun, Clark, Columbia, Dallas, Hot Spring, Lonoke, Ouachita, Pike, Pulaski, Saline, and Union counties.
- **Economic Opportunity Agency of Washington County** offers IDAs in Baxter, Benton, Carroll, Madison, Newton, and Washington counties.
- **Healthy Connections, Inc.** offers IDAs in Montgomery, Polk, Scott, and Sevier counties.
- **Southern Good Faith Fund** offers IDAs in Arkansas, Ashley, Bradley, Chicot, Cleveland, Crittenden, Cross, Desha, Drew, Jefferson, Lee, Lincoln, Monroe, Phillips, Pulaski, and St. Francis counties.

Organizations Offering TANF-Funded IDA Accounts



- Central Arkansas Development Council
- Economic Opportunity Agency of Washington County
- Healthy Connections
- Southern Good Faith Fund
- Pulaski County is served by both Central Arkansas Development Council and Southern Good Faith Fund

Expanding access to IDAs statewide was a key recommendation in Southern Good Faith Fund's *Arkansas Assets and Opportunity Scorecard 2005* policy report. This report highlighted asset accumulation in Arkansas and made several policy recommendations to expand lower-income Arkansans' access to asset-building opportunities. One key recommendation was increasing TANF funding to make IDAs accessible statewide.

Following up on that recommendation, the Arkansas Assets Coalition prepared a funding proposal for statewide expansion. Current IDA providers were surveyed regarding how many new accounts they could provide and the counties they could cover, and new providers were recruited to cover additional counties. This proposal was submitted to the state Transitional Employment Assistance (TEA) Board for consideration.

TANF funds for IDAs are appropriated to the Department of Workforce Services with approval by the TEA Board. The TEA Board on January 24, 2007, voted to more than triple the state's IDA appropriation, to $1.7 million annually.

Following the TEA Board's recommendation, Act 1289 of 2007 increases IDA funding to $1.7 million per fiscal year. Over the next biennium (July 1, 2007, through June 30, 2009), the IDA appropriation will total $3.4 million.

There are income and other eligibility guidelines to participate in the program. Generally, a family is eligible to participate in Arkansas' IDA program if their income is 185 percent or less of the federal poverty level and they have a dependent child.

Under current guidelines, 185 percent of the federal poverty level is $25,326 for a family of two; $31,764 for a family of three; and $38,202 for a family of four.[1]

Other criteria include attending financial education courses. A participating household can have one house, one car, and no more than $10,000 in other assets.

Act 1217 of 1999 also established a state income tax credit for any individual or corporate taxpayer who contributes money to an IDA provider for use in matching accountholders' savings.

The income tax credit is 50 percent of the contribution up to $25,000 per taxpayer per calendar year or the amount of individual or corporate income tax otherwise due, whichever is less. The maximum amount of IDA tax credits statewide is limited to $100,000 per calendar year.

Aspiring Scholars Matching Grant Program

Act 597 of 2007 authorizes the state's Section 529 Plan Review Committee to create the Aspiring Scholars Matching Grant Program. This pilot program would provide a state match to the savings deposits of lower-income accountholders in Arkansas' 529 college savings plan.

Like every state, Arkansas has a 529 college savings plan, named for the section of the Internal Revenue Service Code under which these plans are authorized. Arkansas' plan is named the Gift Plan, enacted by Act 996 of 1999.

In 1996 Congress authorized 529 college savings plans to enable contributions to a savings account with tax-free earnings to pay for qualified college expenses. The investment earnings from these savings accounts are not subject to federal or state income taxes. In Arkansas, taxpayers can take a state income tax deduction of up to $5,000 per tax year for contributions to Arkansas' 529 plan.

Although 529 plans are an increasingly popular college savings strategy, they are largely a strategy for middle- and upper-income households—those with an ability to save enough to make the plans a useful college savings strategy. To enable lower-income households to benefit from 529 plans, some states offer an incentive in the form of a savings match grant. Such grants match, within limits, the contributions families are able to make on their own.

Savings match grants make 529 plan participation possible and worthwhile as a savings tool for families with limited capacity to save on their own. Such incentives enable and encourage lower-income families to use 529 plans as a college saving tool.

Seven states currently offer a savings match grant as part of their 529 plans: Louisiana, Colorado, Maine, Michigan, Minnesota, Rhode Island, and Utah.

Savings match grants are a highly efficient way for states to invest in need-based financial aid. Savings match grants, particularly if deposited early in a beneficiary's life, can leverage the investment earnings potential of the financial markets to grow exponentially in value. No other state financial aid program offers such leverage.

The specifics of the Aspiring Scholars Matching Grant Program, including the savings match rate, will be determined by the Section 529 Plan Review Committee, which oversees Arkansas' 529 plan. The committee's members are the Director of the Arkansas Department of Higher Education, which has agreed to administer the Aspiring Scholars Matching Grant Program; the State Treasurer; and the Director of the Arkansas Teacher Retirement System.

Under Act 597, a three-person advisory panel appointed by the Governor and the Chairmen of the Senate and House Education Committees will advise the 529 Plan Review Committee on the specific design components and implementation of the Aspiring Scholars Matching Grant Program.

The Section 529 Plan Review Committee has agreed to consider the following design at the request of the lead sponsor of Act 597, Senator Gilbert Baker of Conway.

Under this proposed design the savings match rate would vary by family income. The rate would be 3-to-1 for families with incomes at or below 100 percent of the federal poverty level; 2-to-1 for families between 101 and 200 percent of poverty; and 1-to-1 for families with incomes of 201 percent to 300 percent of poverty. The annual savings match would be capped at $500 per accountholder and limited to five years. Under this design, eligible accountholders would be able to receive up to $2,500 in matching funds.

The table below provides a comparison between the balance of an account with a 3-to-1 match for five years (years two through six) and the balance of an account with no match. Both balances assume a $167 yearly contribution or deposit by the accountholder starting at birth and a very conservative annual investment earnings return of 5 percent. At a 3-to-1 match rate, $167 in annual accountholder deposits will leverage the maximum $500 annual savings match. A $167 annual deposit would average about $13.92 per month in accountholder savings.

The balance of the matched account, even with a very modest $167 annual accountholder contribution, is almost double the amount without a savings match.

529 Account Comparison With and Without Savings Match

Yearly Contribution	Annual Return	Account Value after 18 years
$167 annual deposit without match	5%	$5,335
$167 annual deposit with 3:1 match for five years	5%	$10,143

The documented success of another matched savings account program—IDAs—has proven that given savings match incentives, lower-income individuals can and will save for the purchase of a major asset including a college education.[2]

A national demonstration project known as Saving for Entrepreneurship, Education, and Downpayment (SEED), further demonstrates the value of incentives to encourage and enable lower-income families to save.

Southern Good Faith Fund is one of 12 organizations across the country testing the program. In Arkansas, the program features 75 pre-school age children in Phillips County. Each child has a savings account that is seeded with an initial deposit of $500 and a match of $500. The program matches dollar-for-dollar any deposits made to the account up to $1,000.

Most of the children in the SEED program are in families with incomes less than 200 percent of the federal poverty line. As of February 2007, $113,175 had been accrued in savings that can only be used for college when the children turn 18.

The Aspiring Scholars Matching Grant Program applies the lessons of IDAs and SEED to Arkansas' 529 college savings plan. More importantly, the program will help lower-income families access Arkansas' 529 plan and effectively use it to save for their child's college education.

Conclusion

The substantial increase in IDA funding and legislative authorization for the Aspiring Scholars Matching Grant Program represent two significant steps toward expanding opportunities for lower-income Arkansans to build assets. Arkansas has been at the forefront of states with its IDA program. A three-fold increase in funding for IDAs and a 529 plan savings match pilot program promise to further enhance our state's commitment to help lower-income families not just get by—but get ahead.

Endnotes

1. 2007 U.S. Department of Health and Human Services Federal Poverty Guidelines, accessed at http://aspe.hhs.gov/poverty/07poverty.shtml

2. There are numerous reports and studies documenting the success of IDAs nationally. Examples include *Promoting Economic Security for Working Families: State Asset-Building Initiatives*, McCulloch, H., July 2005, accessed at http://content.knowledgeplex.org/kp2/cache/documents/106925.pdf;

Building Assets: A Report on the Asset-Development and IDA Field, CFED, December 2001, accessed at http://www.cfed.org/publications/Building%20Assets%20-%20second%20edition.pdf; and

Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts, Center for Social Development, October 2002, accessed at http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf

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