

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 1830

SPONSOR: Senator Dawson

SUBJECT: Families/Individual Development Accounts

DATE: April 24, 2000 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Dowds</u>	<u>Whiddon</u>	<u>CF</u>	<u>Fav/6 Amendments</u>
2.	<u>Robinson Pierce</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable</u>
3.	_____	_____	<u>FP</u>	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

## I. Summary:

Senate Bill 1830 establishes Individual Development Accounts (IDAs) to enable families participating in the Work and Gain Economic Self-sufficiency (WAGES) program to save earned income for the specific purposes of either purchasing a home, paying for a college or vocational education, or starting a business. Funds in the IDAs are matched with other funding sources and are not considered in determining TANF, food stamps, or Medicaid benefits. Specifically, the bill:

- Establishes individual development accounts to provide families with the opportunity to accumulate assets to promote education, home ownership, and microenterprise development.
- Identifies eligible participants in an IDA program as any family who is fully complying with the WAGES program, who is subject to the time limits, and who has entered into an agreement with an approved fiduciary organization.
- Provides that participant contributions into the IDAs can only be made from earned income.
- Stipulates that IDA funds can only be accessed after the family is no longer receiving WAGES cash assistance and only for one of the qualified purposes.
- Provides for fiduciary organizations to serve as intermediaries between the families with the IDAs and the financial institutions holding the IDAs.
- Provides that funds in the IDA are to be disregarded in determining eligibility for any federal or state program.

This bill creates a yet unnumbered section of the Florida Statutes.

## II. Present Situation:

Individual Development Accounts (IDAs) are a policy tool to enable low-income families to build assets and achieve economic well-being. IDAs are dedicated savings accounts, similar in structure to Individual Retirement Accounts, that can only be used for purchasing a first home, education or job training expenses, or capitalizing a small business.

Section 404(h) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1986 (P.L. 104-193), authorized states to create IDA accounts for individuals eligible for assistance under the state's Temporary Assistance for Needy Families (TANF) program. The IDA accounts are designed to enable families to accumulate funds for one of the following qualified purposes:

- Postsecondary educational expenses: Tuition, fees, books, supplies, and equipment required for attendance and course work at an eligible educational institution.
- First home purchase: Cost of acquiring or constructing a residence for first time home buyers.
- Business capitalization: Expenditures for the capitalization of a qualified business pursuant to an approved business plan.

Individuals may only contribute funds to an IDA account that are derived from earned income which are then matched by or through a qualified entity. The qualified entity can be either a not-for-profit organization or a state or local governmental agency. States can use TANF funds, Welfare-to-Work funds, or non-state or federal dollars to match an individual's contribution to the IDA account. The funds in an IDA account are to be disregarded in determining eligibility for, or the amount of, any assistance in any federal means-tested program, including TANF, Food Stamps, and Medicaid. Withdrawals from the IDAs must be paid directly to a college or university, a bank, savings and loan institution, an individual selling a home, or a special account (if the recipient is starting a business).

Eligible educational institutions to which postsecondary educational expenses can be paid are as follows: 1) institutions described in section 481(a)(1) or 1201(a) of the Higher Education Act of 1965, which in Florida are any postsecondary education institutions accredited by an agency recognized by the Department of Education, with some exceptions; or 2) area vocational educational schools as defined in subparagraph (C) or (D) of section 521 (4) of the Carl Perkins Vocational and Applied Technology Education Act, which in Florida are the vocational education programs operated by the school districts and community colleges.

Federal welfare policy has historically penalized asset acquisition by low-income families by denying eligibility to public assistance for those families with assets in excess of \$2,000. However, IDA savings accounts are intended to encourage savings and increase asset accumulation with matching funds. IDAs can also act as an employment incentive and promote job retention since they provide the means to invest in additional training, skill upgrading, entrepreneurial avenues of employment, and affordable housing.

Thirty-four states have implemented IDA programs in different forms. Twenty-seven states have passed IDA legislation for TANF recipients and/or low-income citizens, while 14 states provide matching funds for IDAs and nine state use TANF funds as the matching funds. In addition, 20

states have allowed IDA funds to be used for all of the qualified purposes; postsecondary education, home ownership, and small business.

### **III. Effect of Proposed Changes:**

Senate Bill 1830 establishes Individual Development Accounts (IDAs) to enable families participating in the Work and Gain Economic Self-sufficiency (WAGES) program to save earned income for the specific purposes of either purchasing a home, paying for a college or vocational education, or starting a business. Funds in the IDAs are matched with other funding sources and are not considered in determining TANF, food stamps or Medicaid benefits.

Specifically, the bill sets forth the purpose of the act as establishing individual development accounts to provide families with the opportunity to accumulate assets to promote education, home ownership, and microenterprise development. This act implements the provisions of 404(h) of the Social Security Act (also 404(h) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996), relative to the individual development accounts.

The terms used in the act are defined. "Individual development account" is defined as an "account exclusively for the purpose of paying the qualified expenses of an eligible individual or family. The account is a trust created or organized in this state and funded through periodic contributions by the establishing individual and matched by or through a qualified entity for a qualified purpose." With the exception of "financial institution," all of the terms identified in the bill are delineated in federal law. The definitions set forth closely mirror those provided in federal law. One exception is the term "qualified plan," which includes both "a business plan or a plan to use a business asset purchased."

The Department of Children and Family Services is directed to amend the Temporary Assistance for Needy Families state plan to provide for the individual development accounts as specified in this act.

Individuals eligible to participate in an IDA program are identified as any family who is fully complying with the WAGES program, who is subject to the time limits, and who has entered into an agreement with an approved fiduciary organization. Contributions into the IDAs can only be made from earned income. Matching funds may be contributed from state and federal funds under the control of the local WAGES coalition, from local agencies, or from private donations, to the IDA of an eligible participant. Eligible participants may be awarded bonus payments for compliance with the WAGES program. The matching funds and bonus awards are provided as stipulated in the WAGES state plan and local coalition plans.

The bill stipulates that IDA funds can be accessed after the family is no longer receiving WAGES cash assistance, but only for one of the following uses:

- Postsecondary education expenses paid directly to the educational institution;
- Qualified acquisition costs for a home for first time home buyers paid directly to the persons to whom the payment for the residence is due; or
- Qualified business capitalization paid directly to a business capitalization account which is established in a financial institution.

The WAGES Program State Board of Directors is directed to develop policies and procedures to ensure that funds in the IDAs are not withdrawn except for one or more of the qualified purposes.

The bill provides for fiduciary organizations to serve as intermediaries between the families with the IDAs and the financial institutions holding the IDAs. Their responsibilities include marketing participation, soliciting matching contributions, counseling program participants, and conducting verification and compliance activities. Either local WAGES coalitions or other community-based organizations can serve as fiduciary organizations.

The WAGES Program State Board of Directors is required to establish penalties for withdrawal of moneys from the IDA for purposes other than permitted with this bill, including, at its discretion, specific conditions under which an account may be closed. The fiduciary organization is required to establish a grievance committee and procedures for considering any grievance made by an IDA participant who disputes the determination that a withdrawal is not for a qualified use and therefore subject to penalties.

IDA participants are to name a contingent beneficiary at the time the account is established. In the event of the death of the IDA participant, the IDA may be transferred to the ownership of the contingent beneficiary.

The bill authorizes financial institutions that are approved by the WAGES Program State Board of Directors to establish individual development accounts. The financial institutions are to certify to the local WAGES coalitions that the accounts have been established and deposits made. Requirements of the financial institutions for the establishment of the individual development accounts as well as the depositing and withdrawal into and from the accounts are provided. The bill provides that funds in the IDA, including matching contributions and interest accrued, are to be disregarded in determining eligibility for any federal or state program.

Senate Bill 1830 provides statutory authority for the establishment of an IDA program. Minimum requirements for the program and its operation are provided. Parameters are established for creating and operating the accounts. Funding for the match is not specifically allocated by this bill. Instead, the bill permits local WAGES coalitions to use the funds under its control to provide the match.

The bill provides an effective date of October 1, 2000.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

C. Trust Funds Restrictions:

None.

**V. Economic Impact and Fiscal Note:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The establishment of IDAs could produce a positive economic impact in several industries and through the encouragement to save, invest, and build assets provided by the IDA, some families may be provided with the means to transition to better paying jobs and greater self-sufficiency. First, funds will be held in accredited financial institutions. Second, some former public assistance recipients may be able to create jobs for themselves and others by utilizing the IDA to fund business capitalization. Third, some former public assistance recipients may use the funds to purchase a home, profiting the real estate and construction industry. And finally, some former public assistance recipients may use the funds to attend private colleges, universities, and schools.

C. Government Sector Impact:

The IDA program may be established using current funding and appropriations and may have a beneficial effect even without a specific allocation for matching funds. A one-to-one match of the first \$100 to \$500 per account per year would not be extremely expensive. For example, matching the savings in 1,000 accounts would cost between \$100,000 and \$500,000. The maximum number of accounts created could be tied to the funding level a particular local WAGES coalitions allocates for the program.

**VI. Technical Deficiencies:**

While the bill provides for some of the key components for the operation of individual development accounts, it does not contain a mechanism for local communities to establish individual development account programs.

“Qualified purposes” for which the IDA moneys can be used is referenced in the bill but not defined.

The bill directs the fiduciary organization to make arrangements with the financial institution for the imposition of penalties and loss of matching funds. The responsibility for imposing penalties may need to reside with the fiduciary organization. The determination as to the entity that has this responsibility will be made when the WAGES Program State Board of Directors establishes the penalties and procedures for enforcing the penalties.

The repayment of moneys withdrawn that were not used for one or more of the qualified purposes is not provided for in the bill.

Notification to the individual as to the requirements and expectations for the individual development accounts is not provided for in the bill.

The WAGES Program State Board of Directors is directed to establish a number of policies and procedures. However, there is no mechanism for public comment as is provided through a formal rule-making process.

## **VII. Related Issues:**

According to the WAGES Program State Board of Directors, the use of IDAs for home ownership purchase and business start up is more risky than using the funds for education and does not necessarily build greater self-sufficiency. The board has instead seen the IDAs as a companion to Individual Training Accounts in the federal Workforce Investment Act and Retention Incentive Training Accounts, which the Legislature enacted last year and as another tool to upgrade skills and promote self-sufficiency.

## **VIII. Amendments:**

# 1 by Children and Families:

Replaces the definition of “financial institution” with the definition provided by statute. This will ensure that all the entities that have been considered “financial institutions” by Florida law continue to be included for the purposes of the individual development accounts.

# 2 by Children and Families:

Identifies minimum components of the account agreement between the individual and the fiduciary organization for the individual development account.

# 3 by Children and Families:

Prescribes the qualified purposes for which individual development accounts are available once the family no longer receives cash assistance under the WAGES program.

# 4 by Children and Families:

Provides for the process for local WAGES coalitions to apply to the WAGES Program State Board of Directors to offer an individual development account program for their communities. Minimum components to be included in this process are identified. (WITH TITLE AMENDMENT)

# 5 by Children and Families:

Removes the stipulation that the financial institution impose penalties. The entity responsible for imposing penalties should be determined through the procedures developed by the WAGES Program State Board of Directors. This amendment also identifies the repayment of moneys wrongfully withdrawn as one of the penalties to be established.

# 6 by Children and Families:

Requires that an opportunity for comment and review by the local WAGES coalitions be provided for all of the procedures developed by the WAGES Program State Board of Directors and requires that these procedures be included in the board's annual statewide program plan. (WITH TITLE AMENDMENT)

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This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

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