

FAQs II

In our paper entitled "Why should postsecondary institutions consider partnering to offer IDAs?" we reviewed frequently asked questions we encountered from higher education professionals about IDAs, but as our research continued so did the questions. FAQ II has more in-depth questions and answers for higher education practitioners as they begin working with education IDAs.

FUNDING SPECIFICS

- ◆ Will federally funded IDAs be around in the future?
 - IDAs have bi-partisan support. Michael Sherradan also works with other organizations like the Center for Economic Development and New American Foundation who believe in IDAs, provide technical support, and have lobby organizations. Therefore, IDAs may be around longer than partisan efforts. However, educators are concerned about whether they should invest in this effort since it is unclear whether it will be around for the long-term. Many programs for low-income populations have been taken away in recent years.
- ◆ Is applying for federal IDA funding an open application?
 - Yes, see the Assets for Independence (AFI) (<http://www.acf.hhs.gov/assetbuilding/>) website. They have on-going funding and are very well supported.
- ◆ How many IDAs are offered through AFI?
 - 80% of IDAs are offered through AFI and the remaining percentage are private and state IDAs.
- ◆ How many IDAs are used for education?
 - Since 1999, 43,934 IDA accounts were opened with AFI funds, and nearly 4,200 were used for educational purposes.
- ◆ How many people complete IDA programs successfully?
 - About half of IDA participants are successful, meaning they purchase an asset of their choice.
- ◆ What is the level of federal funding for IDAs?
 - Current federal funding is 25 million dollars. They provide nonprofits up to 1 million for five years. The average AFI project grant is approximately \$350,000 for a five year period.
- ◆ Can federal funds be used for match?
 - The match provided by the grant recipient must be non-federal funds. For example, if a GEAR UP program were to offer IDAs they could not use their federal funds to match the IDA but would instead have to raise additional money or leverage their postsecondary institution's scholarship money. Some organizations use their state IDAs to match the federal IDA.
- ◆ How much state funding exists for IDAs?
 - 8-10 million depending on the state. In some states, funding for IDAs is taken from existing

rather than new public assistance money. Unfortunately, given state budgets in last ten years, little new money is available.

- ◆ If students have a state IDA, do they need to go to school in that state?
 - Each state has different policies and requirements based on their program design. For example, Oregon students must use their IDAs at a school within the state. With a federally funded IDA, however, a student may go anywhere in the U.S.

ELIGIBILITY

- ◆ Do students need a social security number to sign up for an IDA?
 - No, but they need some type of number to open a bank account. This number can be a social security number, an individual taxpayer identification number, or any other number that banks recognize.
- ◆ What kind of proof do students need to show in order to demonstrate that the money they saved is from working? What if the student was doing odd jobs (lawn mowing, babysitting, etc)?
 - A signed slip of paper is sufficient. The paperwork can be very informal.
- ◆ Can multiple students from one family enroll in an IDA program?
 - Federal legislation limits \$4000 per household and \$2000 per individual, which usually translates into two individuals per household. State legislation varies. For example, in the state of Oregon they allow \$20,000 per household and \$10,000 per individual.
- ◆ Is eligibility determined as an individual or as a household?
 - It depends on whether participants considers themselves to be individuals or part of households. Household is defined by 1) physically sharing a dwelling unit with others, and 2) whether the participants consider themselves to be part of a household and whether the other people they live with consider them to be part of that household.
- ◆ At what age can an individual start saving?
 - Federal legislation allows individuals to start saving at age 12 and the state age limit varies. However, it is also important to consider when a child is developmentally ready to start saving. Maya Angelou Charter School, for example, has students begin saving in their sophomore year of high school. For more information, see: <http://www.seeforever.org/>.
- ◆ What if the saver's economic status changes (improves), and the family/individual moves out of poverty?
 - The criterion is established at the beginning of the program, thus if the situation were to change, the individual would still have access to the matched money. Few students in poverty change over time.
- ◆ What happens if the students can no longer save for an IDA?
 - If students drops out of the IDA program, they will get to keep their savings, but they will have to return the unused match to the nonprofit. This may require additional accounting by the institutions.
- ◆ What happens if the student has an emergency and needs to use their savings?
 - The student would need to explain to the nonprofit in writing why he/she needs to withdraw money and if approved (based on criteria) they will sign the paperwork to allow the student to withdraw from the account.

ACCOUNT INFORMATION

- ◆ Do students open an IDA account with the nonprofit?
 - Yes, the IDA application is with the nonprofit and the nonprofit usually conducts case management and maintains the banking relationship for the account.
- ◆ Who owns the IDA?
 - There are two bank accounts. One holds the student's savings and both the student and the nonprofit are on the account so that money cannot be withdrawn without both of their signatures. It is basically a custodial account for which the nonprofit is the custodian. The second bank account is where the match contribution is held and, while the nonprofit has control over the account, the money is reserved for the student. So the nonprofit reserves the money for the participants on their behalf and the nonprofit is bound to match the participants' savings according to the contract they signed.
- ◆ Who administers the IDA funds?
 - The nonprofit tracks the students' saving habits, provides case management, and, when notified by the students, the nonprofit will arrange for the bank to write a cashier's check to the school. The school usually receives two checks: one from where the savings is held and one from where the match is held.
- ◆ Do the student's savings and match go directly to the university?
 - Yes.
- ◆ What is the procedure for the students to deposit money?
 - Students can deposit money manually or through automatic withdrawal from their paycheck. Depending on the IDA program, students can deposit money once a month, once every three months, or even all at once. However, the philosophy of the IDA initiative is for individuals to build savings with monthly payments.
- ◆ What is the minimum amount an individual must save in a month?
 - This varies depending on whether the IDA is federal, state, or privately supported. The federal minimum requirement is a deposit every three months, but there is no particular dollar amount. Students might only put away \$20 each month during the school year but put away more during the summer.
- ◆ Do the individuals gain interest on their savings and match?
 - Yes, both.

529s

- ◆ How do IDAs compare to 529s?
 - 529s do not work well for low-income people because there are usually no incentives and are costly to set up. Few states provide match funds with their 529s. One exception is Maine and other states are emerging. In addition, 529s do not offer financial education or case management, which is a large component of the IDA program which helps low-income individuals move out of the cycle of poverty and learn new life skills.
- ◆ Can you roll IDAs into 529s?
 - Private IDAs can be rolled into 529s and states can create their own policies around 529s, but federal IDAs cannot be rolled into 529s.

TAX CREDITS

- ◆ How do IDAs relate to tax credits?
 - A few states have IDA tax credits, which allow individuals and businesses to decrease their state tax liability. The nonprofits can use the funds for match and operational support. However, it is more common for states to have IDAs as a budget item.

EDUCATION IDA SPECIFICS

- ◆ Can students save in high school and continue saving in college?
 - Yes, currently a couple of IDA nonprofits are using this model.
- ◆ Can for-profit institutions offer IDAs?
 - Yes, IDAs can be offered at any accredited postsecondary institution.
- ◆ How do you encourage students to save?
 - The nonprofits have a connection to the community and their needs and the TRIO programs on college campuses have gained the trust of low-income students and their families.
- ◆ Can work-study money be accepted as earned income?
 - Yes, students can save the money they earn in an IDA account and this would not be considered double-dipping.

LOW-INCOME

- ◆ What is typical gap funding for a low-income student?
 - Gap funding is a gap between the estimated cost of attendance and the amount of aid a student receives. Gap varies tremendously by state and cost of institution. But after federal grants are considered, Pell grant recipients still face an average unmet need of \$8,873 for all institutions types and after all aid received, including student loans, Pell grant recipients faced an average-unmet need of \$3,516 for all institution types.¹

PROGRAM DESIGN

- ◆ How are education IDA programs designed?
 - First, nonprofits and their education partners will discuss how best to assist their savers and consider issues like intermittent bank disbursements, length of savings, match rate, age limits, maximum and minimum amount students save, parental involvement (if a youth IDA), and administrative fees. Then, nonprofits make the necessary changes in their AFI grant application or within their program to successfully implement these considerations.
- ◆ How can you offer IDAs across a multi-campus system?
 - Many for-profit educational programs are offered across a variety of areas and states. This would require either multiple partnerships with various nonprofits in the different cities or the involvement of a national nonprofit that works with all the campuses.
- ◆ Can the PSEI have more than one partner?
 - Yes, you can have as many as you want. The nature of IDA programs is partnering. A post-secondary institution may want to partner with another organization to offer financial education.

1. Cook, B. & King, J. (2007). 2007 Status report on the Pell grant program. Washington, DC: American Council Education.

- ◆ Do postsecondary institutions receive any financial support for offering IDAs?
 - Educational institutions can be given up to 15% to administer financial education and asset-specific training, but this is dependent on the agreement with the nonprofit. Some institutions already offer similar services to the IDA, and therefore they do not need the money.
- ◆ Which institutions are successful in offering IDAs?
 - High touch institutions or institutions with high touch programs (i.e. TRIO), smaller institutions, and institutions with a large number of low-income students. These types of institutions better understand low-income students' needs and have high touch programs already built into their existing services.
- ◆ How are people recruited?
 - Educational institutions recruit students through programs like TRIO and GEAR UP, which are already targeting low-income students. They are also recruited through their student service offices (such as advising, financial aid, or admissions) and more generally through mass-marketing approaches, like flyers. However, the personal connection between higher education practitioners working closely with students seems to work best.
- ◆ Can you structure the IDA as an incentive to transfer from a two-year to a four-year institution?
 - Yes, some nonprofits are offering IDAs in community college to help students save for a four-year university.

FINANCIAL EDUCATION

- ◆ What are the different models for financial education?
 1. Nonprofits have relationships with banks and/or the IRS that offer financial education (e.g. Wells Fargo and Bank of America). They have pre-packaged financial literacy/education program, which can be accessed online or in workshops (free of charge). This is the more generic model.
 2. Nonprofits have developed their own financial education that works well with IDAs and general financial management (budgeting, credit, and planning). These workshops are intended specifically for low-income individuals.
 3. Postsecondary institutions can develop their own financial education curriculum. For example, the Central New Mexico Community College has developed an in-depth 10-week curriculum that combines several different approaches, like classroom activities and individual counseling. They have also tailored the education to their population of working adults.

MATCH

- ◆ What are different ways to fundraise for match?
 - Match depends on what the partners offering the IDA think they can raise, here are four funding models:
 1. A postsecondary institution can work with an IDA nonprofit that provides match to the federal or state contribution.
 2. A postsecondary institution can work with a nonprofit that provides match and also leverage scholarship funds.
 3. A postsecondary institution can work with a nonprofit that provides match, leverage scholarship funds, and/or raise private funds (See our website for an example of Central New Mexico Community College: <http://www.usc.edu/dept/chepa/IDApays/examples.html>).
 4. An educational institution that does not work with an IDA nonprofit can apply for an IDA themselves or they can apply with an education nonprofit instead of an IDA

nonprofit. Then, the institution can use their own scholarship money as match funds or raise private funds (See our website for an example of the Oregon Independent College Foundation:
<http://www.usc.edu/dept/chepa/IDApays/examples.html>).

- ◆ What is the incentive for institutions to raise match funds?
 - Matching funds can be used as a retention or admissions tool. Financing college is one of the key reasons that students either drop out or do not enroll in college. The additional match provided by the college can help these students to enroll and can sustain them later on. In addition to raising match funds, postsecondary institutions can leverage their scholarship funds as match for the students' IDA.
- ◆ Can postsecondary institutions save for the student (by using their scholarship pool) or do the students have to save that money on their own?
 - This issue has been a challenge for some universities that want to provide the savings money for the student, but the goal here is that students gain self-efficacy through saving and eventually overcome poverty. The IDA demonstration project found that low-income individuals can and do save. So, if the university provides the student's savings, this takes away from the concept of the IDA itself. It is possible, but is it desirable.

FINANCIAL AID

- ◆ How do IDAs impact financial aid?
 - According to the Department of Education's current language, IDA savings would be considered as an asset of the student or parent and the match would be counted as an outside resource. Outside resources do not affect Pell and other entitlement money, but it does affect the school based funding allocation. However, if the student is dependent it is best for the match to be considered an asset of his/her parents. Non-AFI IDAs can be rolled into 529s and treated as a 529 which limits impact and is generally more favorable than how the IDA match fund is currently handled.
- ◆ Are there any best practices around financial aid?
 - Financial aid officers should apply funds from the Pell first and then the IDA because IDAs can be used for tuition and textbooks but not for housing.

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Our project focuses on how IDAs can be used to increase low-income students' access to and retention in postsecondary institutions through partnerships. For more information on IDAs visit the Assets for Independence website at www.acf.hhs.gov/programs/ocs/afi/ and for a further description of our research project and to view other papers and tools we have written from this study, visit our website at <http://www.usc.edu/dept/chepa/IDApays/>.

December 2008

About CHEPA

The Center for Higher Education Policy Analysis (CHEPA) is an interdisciplinary research unit led by Director, William G. Tierney, and Associate Director, Adrianna Kezar. The Center was established to engage the postsecondary-education community actively, and to serve as an important intellectual center within the Rossier School of Education; it draws significant support and commitment from the administration. The Center's mission is to improve urban higher education, strengthen school-university relationships, and to focus on international higher education, emphasizing Latin America and the Pacific Rim. Working on fulfilling that mission are the Center's faculty, research assistants, and staff.

Over the last decade we have received funding from the Ford Foundation, the Goldman Sachs Foundation, Atlantic Philanthropies, the James Irvine Foundation, the U.S. Department of Education, the William and Flora Hewlett Foundation, the J. Paul Getty Trust, Lumina Foundation for Education, and the Haynes Foundation.

This work is based on our findings through research supported by a grant from Lumina Foundation for Education.

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