

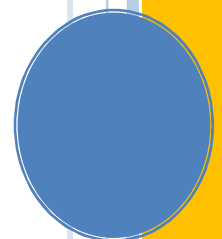
Increase support for matched savings accounts

Michigan has implemented a number of matched savings accounts programs. Since they were first established in Michigan through the Michigan Individual Development Account Partnership, Individual Development Accounts (IDAs) have proven to be successful tools to help low-wage workers build and develop assets. Michigan also has a nominal match for 529 educational savings accounts. Other matched savings accounts available in Michigan include Life-Long Learning Accounts (LiLAs) and retirement saving accounts provided through the private sector. Michigan should support existing matched saving accounts and expand its toolkit to help working families save and invest in their future.

Matched savings accounts incentivize asset building through saving by giving account holders a financial reward for making account contributions. Account programs facilitate the accumulation of assets by requiring that savings from the accounts be used to attain a post-secondary degree or work training, to save for retirement, or to purchase an asset, like a home or small business. Both public and private entities provide matched savings accounts, through government programs or employer-sponsored plans. Government-sponsored matched savings accounts usually target low-income populations. However, certain government programs have no income limits. Privately provided matched savings accounts are available to workers at all income levels. Thus, matched savings accounts can be both need-based and universal. Examples of matched savings accounts include IDAs, Child Savings Accounts (CSCs), 529 Education Plans, LiLAs, and employer-matched retirement accounts, namely IRAs and 401Ks.

Individual Development Accounts

IDAs are matched savings accounts that empower low-income families through savings, asset building and entrance into the financial mainstream. The goal is



two-fold: to help IDA participants accumulate a few thousand dollars toward the purchase of a high return asset investment in education or job training, homeownership, or to start a small business while positively impacting their attitude and relationship to money. While receiving a match incentive, IDA participants complete financial management classes and training related to their asset goal while saving regularly in their IDA. In Michigan, participant savings of up to \$1,000 are matched at a ratio of 3 to 1 for a home purchase and 2 to 1 for post-secondary education, job training or to start or expand a small business.

Aggregated statistics of participants' financial behavior during and after IDA participation confirm that IDAs are an effective program. The financial education classes and counseling provided through IDA programs in Michigan lead to improvements in participants' financial behavior. MIDAP evaluations of past participants show that 92% of IDA participants have a checking account after leaving the program compared to 78% at the start. 42% of participants continue to save after their IDA purchase and 19% of participants bounce checks after the program, compared with 58% of participants at the program's start. Finally, between 12 and 23% of participants (depending on the vendor) increased their credit score during or after participation.

Unfortunately, while included in the state budget since FY2001, state funding for IDAs is minimal. There are roughly 1,900 IDAs in Michigan. MIDAP, which administers the IDA program, can receive federal funding through the Assets for Independence Act (AFIA) but must raise funds to match AFIA funding. Initially, Michigan used private funding sources, namely the C.S. Mott Foundation, to seed funding for the IDA program. With time, however, private support has dwindled, leaving the IDA program not only unable to expand but also in danger of ending altogether.

Child Savings Accounts, 529 Plans, and Lifelong Learning Accounts

Child Savings Accounts are savings programs targeted toward youth and children. A variety of approaches to implementation exist for CSAs, and programs can be universal or needs-based or a combination of the two. One example of CSA was introduced by the American Savings for Personal Investment, Retirement, and Education (ASPIRE) Act of 2007. If enacted, the ASPIRE Act would create a small account at birth for every child with a government contribution, additional contributions, and government matched savings based need. The ASPIRE Act has not been acted upon by Congress.

Another model for CSAs was developed by CFED and provides CSAs at the municipal level. This model, the Saving for Education, Entrepreneurship, and Downpayment (SEED) Initiative, engages support from local government, business, and community based organizations. The SEED initiative was launched in 2003 and funded CSAs at the local level, run largely by community-based organizations. Michigan was a pilot state for the SEED initiative, with the Oakland Livingston Human Service Agency (OLHSA) the partner for the program. However, SEED no longer exists in Michigan. Additionally, municipal CSA initiatives have emerged across the country modeled after the SEED initiative but with a direct involvement by municipal authorities.

529 plans and LiLAs are matched savings accounts for educational purposes. A 529 savings plan is a state-sponsored, tax-preferred savings plan for qualified post-secondary education expenses. 529 Plans are administered by state governments, which partner with financial institutions to provide the accounts. Michigan is currently one of only six states that match individual's deposits into 529 college savings plans. The State of Michigan provides a \$1 match to every \$3 contributed up to a maximum grant of \$200 within the first year the account is open. To receive the match, beneficiaries must be 6 years of age or younger and

reside in a household that makes an annual income of \$80,000 or less. LiLAs aim to address worker skill shortages by providing financial support to workers who need additional training or degrees. LiLAs are employer-based, individual savings accounts. Employee contributions to LiLAs can be matched by employers and a third party.

Individual Retirement Accounts and 401K Accounts

Matched savings accounts are not limited to those provided through the public sector. Retirement accounts, like 401Ks, are matched savings accounts in which employees divert a portion of their earnings to invest in mutual funds with their contributions matched by their employer up to a certain amount. Contributions to both types of accounts are tax-deferrable as the income contributed is not taxed until it is withdrawn. Contributors to 401Ks, therefore, are able to postpone taxation of part of their income until retirement, when their yearly income is usually lower and the tax rate on their withdrawal is lower than it would have been if the income contributed were taxed when it was earned. These accounts promote saving for retirement and reward savers by allowing tax-deferment.

The ABPP advocates that Michigan increase support for matched savings accounts through federal, state, and private funding opportunities. Michigan should better fund its IDA program through direct state funding. Additionally, Michigan should explore other matched savings accounts programs that can be used in asset policy, like CSAs. Increased support for matched savings accounts will provide working families in Michigan with better opportunities to save and to develop good financial practices.

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