Individual Development Accounts for Foster Youth

By Qiana Torres Flores and Aubrey Hasvold  
November 2013

Nearly 26,000 young people “age out” of the foster care system annually, which means that between the ages of 18 and 21 they lose most or all public support. A report examining trends in financial and material assistance provided by parents to their young adult children showed that 62 percent of young adults receive assistance from their parents. It suggested that former foster youth are likely to be disadvantaged compared to those who were raised in a traditional family setting. Suddenly absent of financial and social supports, foster children are vulnerable to unemployment and homelessness and often lack the resources to attain higher education, which can lead to reliance on public assistance. Individual development account (IDA) programs are one tool for current and former foster youth to learn money management skills and build assets to successfully move forward in life.

Traditionally, IDAs are matched savings accounts that may be invested in housing, pursuing an education or developing a small business. These accounts are intended to encourage low income people to save by matching their monthly deposits. IDAs for foster youth aim to assist participants with the transition out of care and into adulthood and financial independence. In addition to the traditional asset goals, IDA programs for foster youth often allow participants to save for their unique needs such as job training, technology for work or school, a vehicle, health insurance premiums or a housing deposit. Many IDA programs serve individuals ages 13-26 and offer a match for every dollar saved ranging between a 1:1 and 4:1 ratio. Accountholders are usually required to participate in financial education, credit and debt counseling, or business development training to instill long-term positive money management skills. Program funding is typically provided by public and private resources.

Local Action
Community-based programs are the primary providers of IDAs to foster youth. The Youth Financial Empowerment (YFE) program was launched by the New York City Administration for Children’s Services (ACS) in 2008. Savings are matched 2:1 for up to $1,000. Participants are allowed to use savings to rent an apartment, buy furniture, pay for college, take an educational trip, start a business or home ownership. Since its inception, more than 600 foster youth participated in the program with 404 completing a financial literacy workshop, and 287 opening IDAs. The New York City Center for Economic Opportunity, the Department of Health and Human Services, the United Way of NYC, Wells Fargo & Company, and Citibank partner with ACS to administer the program. This program is funded by city, state, and private funds.

The Bridging the Gap program in Denver, Colo., was established by the Mile High United Way in partnership with the Young American’s Bank in 2005. Individuals’ savings are matched 1:1 up to $500 per year for two years. Accountholders can also receive incentive payments for good grades, securing employment or opening other savings accounts. Between 2002 and 2013, 628 foster youth opened IDA accounts. Almost 60 percent of participants who closed their account made at least one asset purchase, with a total of 1,213 disbursements. Of those, 261 used their savings for housing, 249 to purchase a vehicle, and 209 for education expenses. The program is funded by state, federal, and private funds.

State Action
Washington is the only state to pass legislation to establish a pilot program to provide IDAs to foster youth. The program was implemented in 2005, but the program was eliminated due to budget shortfalls in 2010.
Participants could receive a 2:1 match and get up to $4,000 over a four-year period. Of 66 purchases made by participants in the statewide IDA program in 2008, six were made by foster youth through the pilot program. The Department of Community, Trade and Economic Development administered the program in partnership with local community-based programs; it was funded by state and federal dollars. New York and Texas introduced bills to create IDA programs for foster youth in 2013. Indiana enacted a bill requiring caseworkers to inform foster children about IDA programs in 2010.

Federal Action
The primary federal funding source for IDAs for foster youth is the Chafee Foster Care Independence Program (CFCIP). This source allows programs to match savings for some of the unique needs foster youth have, such as a vehicle or housing deposits. Other common sources of federal funding for IDAs are Temporary Assistance for Needy Families grants and the Assets for Independence Act funds which allow matches for a home, education and small businesses costs.

Research
The Jim Casey Youth Opportunity Initiative, an organization which aims to improve policies, practices, and access to resources to ensure a smooth transition from foster care to adulthood, conducted a five-year study on its IDA program for foster youth, the Opportunity Passport. This program offers IDAs with a 1:1 match for up to $1,000 per year for foster youth 14-24 to save for education, a vehicle, housing, investments, microenterprise and health care. Communities in at least 13 states have adopted this program, including Connecticut, Delaware, Florida, Georgia, Hawaii, Iowa, Maine, Michigan, Nebraska, New Mexico, North Carolina, Tennessee and Rhode Island. Nearly 5,000 foster youth have participated in the Opportunity Passport program since its inception in 2001.

The study found that:

- Thirty-five percent of participants withdrew matched savings.
- The most common assets purchased were a vehicle (41 percent), housing (24 percent), and education costs (21 percent).
- After making their first purchase, almost half of participants stayed in the program to save for another purchase.
- Those with additional challenges, including having no permanent adult connection, experiencing homelessness or were parents, actually saved and matched at a higher rate than others.

The Opportunity Passport savings and match rates are similar to the results from an evaluation of the American Dream Demonstration, an adult IDA program. The initiative has found that 30-40 percent of those who enroll meet their savings goal and receive a match; the match averages $700-800 for the extent that they participate in the program.

Conclusion
IDAAs for foster youth have shown some capacity to meet the unique needs of this population through local programs. The Opportunity Passport report suggests that IDAs promote regular employment with many participants saving for a car and housing, helping them to get to work and attain a safe place to live. However, this strategy is a relatively new concept and there are no long-term results-based studies to suggest whether IDA programs for foster youth can improve their outcomes over time.