Making it Work:
Strategies for Leveraging Employer-IDA Partnerships

The Assets for Independence (AFI) ***"Tools for Success" Case Study Series*** *is intended to highlight successful programmatic strategies that AFI grantees might find relevant and helpful to their work. This is the second case study in the series, examining how Individual Development Account (IDA) programs can leverage partnerships with employers to increase recruitment, retention and access to non-federal funds.*

Advantages of employer-based IDAs

A largely untapped resource for IDA programs, businesses and employers represent an emerging opportunity for Assets for Independence (AFI) grantees looking to capitalize on existing community relationships, recruit asset-ready participants and raise non-federal funds. While there are unique challenges to forging partnerships with the local business sector, employer-IDA partnerships have enormous promise and are worth pursuing.

Currently, only 10% of active AFI projects focus on serving employees of a particular organization.[1] Yet in a difficult economy, where securing program funds and recruiting low-income clients able to save for an asset purchase are challenging tasks, it is critical to explore innovative options with unconventional partners, like businesses.

Employer-IDA partnerships can be a "win-win" for both the IDA program and the business. Employers seeking opportunities to attract and retain employees and provide work-related training may find an IDA program an attractive solution. At the same time, the workplace is a natural venue for building assets, as income earned at work can be easily and automatically transferred to a savings vehicle, like an IDA. Many workplaces have relationships with a credit union or bank, as well. Additionally, delivering accounts through employers and piggybacking on their existing human resource systems – like direct deposit, payroll deduction and benefit tracking programs – could allow IDA programs to reach more individuals efficiently and help facilitate account tracking and maximize program utility.

An employer-based IDA program could also positively impact program outcomes. Evidence from a handful of pioneering employer-based savings programs show promising participation rates. Several employers offering IDAs and similar savings incentives found

[1] Source: Office of Community Services, *Report to Congress: Assets for Independence Program; Status at the Conclusion of the Tenth Year.* U.S. Department of Health and Human Services (October 2010)

that the majority of program savers met their savings goals, moved on to purchase an asset, and demonstrated increased productivity in the workplace.[2]

More specifically, employers are an attractive delivery channel for IDA programs, providing an opportunity to leverage a number of scalable employer resources, including:

1. Access to lower-income employees;
2. Effective outreach and communications venues;
3. Existing benefits systems; and
4. Ability to provide non-federal funds.

This case study explores the benefits of employer-based IDAs, highlights an existing employer-IDA program partnership, and outlines the important considerations and steps to establishing an effective program with an employer.

Access to lower-income employees

Given their direct and routine access to a large number of employees, local employers have the potential to be effective partners for recruiting IDA participants. Just as employers deliver retirement, health, and other benefits to their employees, they also have the ability to deliver IDAs to their lower-income employees through the workplace. While not every employer will have large numbers of lower-paid workers, any employer could advertise an IDA program specifically to its income-eligible employees as a part of an employment package. With increasing demand for higher education and training credentials, IDA programs can also help low-income employees gain job-related skills required or encouraged by the employer. At the same time, the IDA program – having established a working relationship with the business – knows that this pool of potential IDA participants is receiving a steady paycheck. This is particularly important for AFI grantees, whose participants' deposits must be made from earned income.

Effective outreach and communication venues

Workplace settings have the potential to serve as effective venues for communicating information about an IDA program, both through informal peer-to-peer conversations as well as more official channels between employers to employees. In both employer and non-employer IDA settings, a positive reference from a current and or recently-graduated IDA participant is one of the most effective methods of encouraging enrollment and "selling" the benefits of participating in an IDA program. More formally, employers could also share information about IDAs directly to their employers in new employee orientations, newsletter announcements, meetings, information attached to paychecks, and human resource staff.

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[2] Portions of this document are based on *Employer IDA Initiatives: The Promise of Delivering IDAs through Employers* (2003), with permission by CFED (Corporation for Enterprise Development).

Through both word-of-mouth and direct company communication, employers can be an effective vehicle for delivering targeted outreach materials and program information to eligible individuals.

Existing benefits systems

Many medium and large businesses have developed tools and systems to administer employee benefits in a relatively cost-effective manner. Given employers' ability to track and administer a range of benefits – including paid vacation time, flexible spending accounts, and matched retirement plans – IDA programs could benefit from tapping into these existing systems to help recruit and track account incentives.

An employer's human resource staff will likely have the necessary information (e.g. salary information, Social Security numbers or other forms of identification) to verify incoming employees' qualifications for IDAs. As new employees complete forms to participate in retirement savings plans and other benefits programs, they could also enroll in the IDA program if they qualify.

A potential source of non-federal funds

Securing non-federal funds is one of the most pressing challenges for AFI-supported IDA programs, who must raise a dollar of non-federal match for every dollar of federal AFI funds they wish to use. Particularly in a difficult fundraising climate, it is essential for nonprofits to explore unconventional fundraising opportunities, and local businesses can be an excellent local resource for raising non-federal funds. Employers may be more likely to fund an IDA program if incentives are available to encourage these contributions and if businesses feel confident that their contributions (or a meaningful portion of them) would benefit their employees directly.

Tax treatment of employer-provided match contributions: The Internal Revenue Service (IRS) has identified one scenario in which employers could receive charitable tax deductions for making match contributions to IDA programs. When employers make contributions, including matching funds and operating support, to nonprofits administering IDAs, the IRS considers these donations to be tax deductible to the donors, as well as tax exempt to the IDA holders.

An employer could make a contribution to an IDA initiative that is administered by a 501(c)(3) (a nonprofit organization) and serves the community at large. Employees of the contributing employer could participate in the IDA program, but other individuals from the community must also benefit from the program. As administrator of the IDA initiative, the 501(c)(3) could not provide a *"quid pro quo"* to the employer; in other words, the employer could not be guaranteed that its employees would directly benefit from its contribution. Under such an IDA initiative, the employer would be eligible to take a tax deduction for its

IDA match and operating contributions. Employees who participate in the IDA initiative would not be taxed on their IDA match funds of the interest that accrues on those funds.

In another scenario, if an employer chose to administer an IDA program solely for the benefit of its own employees, the employer would not be eligible for a charitable tax deduction and match contributions would be subject to payroll and withholding taxes. However, the employer would likely qualify for a standard business expense tax deduction that applies to all ordinary compensation. Unlike the tax treatment of match funds generated through non-employer IDAs, match contributions made by the employer and interest that accrues on those match funds would be treated as taxable income for IDA participants.

Spreading Goodwill:
A model for employer-based IDAs in San Antonio

There are multiple ways to partner with employers, from simply conducting outreach onsite to providing IDAs as an employee benefit. This case study examines the latter strategy, and how one AFI grantee is beginning to see the positive benefits of this relationship.

Goodwill Industries is known for offering exceptional career and social supports to its employees, including health services and workforce development training – and in the case of Goodwill Industries of San Antonio (Goodwill SA), this includes IDAs.

Funded through Assets for Independence (AFI), the Goodwill SA IDA program has helped 35 people purchase a home and eight individuals go on to college or training. Goodwill SA offers a 4:1 match for participants saving toward a home and a 3:1 match for education savers. Both Goodwill SA and the local United Way provide the non-federal funds required for the AFI grant. Goodwill SA offers in-house financial education training for its employees and program participants, and is beginning to collaborate with other community programs offering homeownership classes and other financial education training.

Sylvia Sanchez – the IDA manager at Goodwill SA – manages the program from top to bottom, and can see the benefits of offering an IDA at Goodwill from both the employer and the program perspective.

"There's so much upward mobility at Goodwill, and people can use their increases in pay toward IDA savings," notes Sylvia. Sylvia is also seeing individuals go back to school who might not have had the opportunity to receive a training or college in the past. "[I notice that] employees feel more in control of their own destiny and take more pride in their job. This gives them the opportunity to get an education and become a homeowner when they might not have had the chance," she says.

Many single parents and individuals who are older than the average college-going student take advantage of the IDA program. Some participants are eager to continue their education, particularly those who did not have the opportunity after high school because of the need to support a family or earn a significant amount of money immediately after graduation. Even after graduating from the IDA program, Sylvia notes that past participants are continuing to demonstrate good savings habits and continue to save even after they have met their goal.

Most of Goodwill's employees meet the federal income requirements to apply to the IDA program. Still, the Goodwill SA IDA program is also open to the public, and Sylvia continues to do external outreach while reminding Goodwill retail and team directors of this opportunity for Goodwill employees.

For IDA programs looking to partner with employers, Sylvia offers this advice: "[IDAs are] a buy-in tool, a motivator. It makes an individual proud of who they work for and of the end result – being a homeowner or a college graduate." While the program took a lot of effort to establish, Sylvia is beginning to see the benefits, hitting a comfortable "stride" with the way she delivers the program, and is even beginning to offer advice to other Goodwill Industries in neighboring cities.

Structuring employer partnerships: making the case

IDA programs can fill an employer's need for additional employee incentives, recruitment and retention, while supporting critical financial stability strategies for their low-income employees. Based on past employer-based savings programs, employers that participate in IDA programs and similar employer-based asset-building efforts could reap significant benefits, including:

1. Lowered absenteeism and improved employee retention;
2. Increased recruitment of lower-income employees;
3. Improved workplace productivity;
4. Useful asset-building substitute for employers – especially small employers – who do not provide benefit / retirement plans;
5. Additional skills and improved career opportunities, particularly if the IDAs are used for educational purposes; and
6. Psychological benefits, such as improved expectations about the future and a more positive outlook of the workplace.

Existing relationships with local employers are an excellent starting point to begin building a partnership. Similarly, working with the employers of current IDA savers could open the door to recruiting additional employees of that company or tapping into company funds available to support the IDA program. Even without strong connections to any local businesses, it is still possible to make the case to employers about the advantages of offering IDAs to their employees.

Keep in mind that the community partner will need to launch and deliver the program. Most employer-based IDA programs are initiated by community-based organizations or other local nonprofit organizations. Also, the majority of employers who have partnered with an IDA program have relied heavily on the nonprofit partner to administer the accounts, provide the financial education, and track accountholders' savings.

Finally, employers interested in contributing to the IDA program may respond positively to the notion that their donation is being leveraged by federal money, effectively doubling the impact of every dollar that they contribute. This third-party match (provided by AFI funding and potentially other sources) is a key leverage point when soliciting a local business for additional support.

Steps to a successful partnership

IDA programs should take the following steps into consideration when beginning to forge a partnership with a local employer:

1. **Secure buy-in from upper-level management**. Given competing priorities, middle-management may be reluctant to implement and support IDAs. Meeting with the appropriate decision-makers – and getting their support – can be critical to the ongoing success and sustainability of the partnership.

2. **Determine eligibility criteria.** Employers may want to target specific groups of employees within their business. Any criteria that the employer wishes to develop must be aligned with AFI eligibility guidelines. It is essential that the employer understand the federal regulations and that any in-house policies align with AFI law.

3. **Test on a small scale.** Before rolling out a program to the entire workforce, consider testing the program with a smaller group of employees or department within a company. This is a good litmus test as to whether or not the program messaging and materials are effectively integrated into the hiring and/or human resource processes. Additionally, implementing on a smaller scale may help to facilitate word-of-mouth "marketing" when the program is offered to the broader workforce.

4. **Utilize direct deposit to institutionalize and facilitate routine savings.** Direct deposits are easy to implement at the workplace and mean that participants are more likely to regularly contribute to an IDA account. At the same time, direct deposit is a cost-savings mechanism for employers.

5. **Piggyback on existing programs and initiatives for low-income individuals**, such as welfare-to-work, TANF, and the Earned Income Tax Credit (EITC). Such programs could be sources of matching funds and could facilitate savings among employees. These programs could also help to identify employees who would be eligible for IDAs.

6. **Provide financial education and skills training in the workplace.** While the required financial education instruction is mostly taught by nonprofit partners, employers could allow the financial education classes to be provided at the worksite during the employee's normal work hours and without loss of pay. This ensures that employees would not have to arrange for transportation to and from classes-a noted barrier to successful completion of financial education courses.

Unique challenges

Despite the potential benefits to both the IDA program and the employer, there are several challenges to consider when establishing a partnership.

Limited resources in a weak economy: During a down economy, employers might not be as concerned about recruiting and retaining employers as they would under better financial circumstances. Employers who would normally be open to providing these types of additional benefits to their employees may be focused on reducing their workforce instead. In an "employer's market" such as this one, it is important to target local employers with reputations for treating their workers well, and probably best to avoid outreach to industries that are in great distress.

High employee turnover: Many large employers of low-wage workers regard high turnover as a cost of doing business, and are not interested in providing benefits whose value is felt only over the long term or through retention. As an employer recruits lower-income employees, offering an IDA as a part of the benefits package could help the employer attract and retain highly motivated individuals (those likely to enroll in an IDA program). Also, as seen in the example of Goodwill of San Antonio, employees participating in the IDA program may take more pride in their work, which could contribute to greater retention of a more motivated workforce.

Retirement plan participation: Some employers may be concerned that encouraging low-wage workers to save outside of a retirement plan will place their retirement plan at risk of violating top-heavy or non-discrimination rules (i.e. if lower-income employees contribute to the IDA program and not to the retirement program, there is a "top-heavy" distribution of income of those participating in the retirement program). If an employer adopts an "opt-out" retirement plan, where employees have to actively remove themselves from the retirement program, the employer would be exempt from top-heavy rules. Employees should always be encouraged to weigh the opportunity costs of forgoing contributions or contributing less to one employer-sponsored asset-building account (such as a retirement account) in favor of another (such as an IDA).

Conclusion

As you consider potential businesses and employers with whom to partner, be mindful of your approach and framing to from the employer's perspective. Employers with a shortage of resources to invest in their workforce may be reluctant at first to engage in a partnership; therefore, it is essential to articulate the potential value-add of an IDA partnership for the employer, and to secure buy-in from leadership at the business.

IDA programs can benefit from employer partnerships by building on employers' benefit systems, leveraging their access to low-income employees, and mobilizing employers as sources of matching funds. In turn, communities can be strengthened and employers can provide meaningful resources to their workers, while creating a culture of support and growth within the workplace.