



**SANDRA SHEWRY**  
Director

State of California—Health and Human Services Agency  
**Department of Health Services**



**ARNOLD SCHWARZENEGGER**  
Governor

June 25, 2004

TO: ALL COUNTY WELFARE DIRECTORS  
ALL COUNTY ADMINISTRATIVE OFFICERS  
ALL COUNTY MEDI-CAL PROGRAM SPECIALISTS/LIAISONS  
ALL COUNTY HEALTH EXECUTIVES  
ALL COUNTY MENTAL HEALTH DIRECTORS

Letter No.: 04-24

SUBJECT: INDIVIDUAL DEVELOPMENT ACCOUNTS EXEMPTION

The purpose of this letter is to provide clarification on the implementation of 42 United States Code, Section 604(h) as it relates to the treatment of Individual Development Accounts (IDA) under the Medi-Cal program. This section of federal law provides that funds retained and interest accrued in IDAs established by and for individuals eligible under California Work Opportunity and Responsibility to Kids (CalWORKs) shall be exempt when determining eligibility for any federal means-tested program. Deposits to IDAs must be made from earned income only. Income tax refunds may also be deposited into IDAs. There is, however, no income exemption for earnings prior to their deposit into an IDA.

IDAs are trust accounts established only for specific purposes. Those purposes are:

1. **POSTSECONDARY EDUCATIONAL EXPENSES** – Post-secondary educational expenses paid from an IDA directly to an eligible educational institution.
2. **FIRST HOME PURCHASE** – Qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer and if paid from an IDA directly to the person(s) to whom the amounts are due.
3. **BUSINESS CAPITALIZATION** – Business capitalization expenses paid from an IDA directly to a business capitalization account, which is established in a federally insured financial institution and is restricted to use solely for qualified business capitalization expenses.

"Qualified entities" act as trustees. "Qualified entities" are:

1. Not-for-profit organizations that is exempt from taxation under Section 501(c) or 501(a) of the Internal Revenue Code.
2. A State or local government agency acting in cooperation with a not-for-profit organization described above.

To verify the existence of an IDA, county eligibility workers must retain a copy of IDA trust documents and documentation of deposits and withdrawals in the case record. Counties must also verify that the person who created the IDA trust account was eligible for CalWORKs at the time that the IDA was established. The trust remains exempt as long as deposits are being made to the IDA or funds are maintained in the IDA whether or not the individual or any family members remain eligible for CalWORKs.

If funds are withdrawn from an IDA and used for another purpose, the amount withdrawn is considered property.

If you have any questions, please feel free to call Mr. Robert Laederich at (916) 552-9486, Ms. Sherilyn Walden at (916) 552-9502 or Ms. Nichole Hansen at (916) 552-9484.

Original signed by

Beth Fife, Chief  
Medi-Cal Eligibility Branch