

CHILDREN'S SAVINGS ACCOUNTS

New America's Asset Building Program is widely credited with forging ideologically broad coalitions to introduce bold policies that would establish and progressively fund savings and investment accounts at birth for all newborns. Children's Savings Accounts (CSAs), which are typically restricted after age 18 for post-secondary education and training, buying a first home, and building up a nest-egg for retirement, would help create a savings and ownership culture, promote financial know-how, and broaden economic opportunity—especially for children from low-income, low-wealth households. Below is a brief description of congressional proposals followed by a summary of recent CSA activity in the US and abroad.

Congressional Proposals-109th Congress

ASPIRE Act - KIDS Accounts

Every child born after December 31, 2006 issued a Social Security number would have a KIDS Account opened for them automatically. Each account would be endowed with a one-time \$500 contribution, and children in households earning below national median income would be eligible for a supplemental contribution of up to \$500. Additional savings incentives include tax-free earnings, matched savings for eligible families, and financial education. Senate bill 868 is authored by Senators Santorum (R-PA), Corzine (D-NJ), Schumer (D-NY), and DeMint (R-SC); House bill 1767 is authored by Reps. Ford (D-TN), Kennedy (D-RI), and English (R-PA). ASPIRE Act will soon be reintroduced both in the House and the Senate.

Young Saver's Accounts

Roth IRAs for kids – called “Young Saver's Accounts” – would allow parents, for the first time, to direct contributions to Roth IRA accounts for their children, not just for themselves. YSAs were introduced by Senator Max Baucus (D-MT) in March as part of the Savings Competitiveness Act of 2006, and a similar provision was introduced in July 2005 in the House by Rep. Connie Mack (R-FL) as part of the Lifetime Prosperity Act. YSAs are anticipated to be included in savings bills in this Congress.

401Kids

Introduced as HR 5314 by Rep. Clay Shaw Jr. (R-FL) and other House Republicans, this proposal would convert Coverdell Education Savings Accounts into "401Kids Savings Accounts" which would have expanded uses and the ability to be rolled over into a Roth IRA. This proposal would make it possible for a restricted, tax-advantaged savings account to be opened in a child's name as early as birth, with up to \$2,000 of after tax contributions permitted a year. The funds could be used for the K-12 and post-secondary education expenses currently allowed under Coverdell Education Savings Account rules. Additionally, the accounts could also be used for a first home purchase, or rolled over into a Roth IRA for retirement. The bill has been reintroduced in the 110th Congress as H.R. 87 by Rep. Biggert (R-IL).

Baby Bonds

In a speech before the Democratic Leadership Council (7/24/2006), Senator Hillary Rodham Clinton (D-NY) called for \$500 “Baby Bonds” to be established for every child at birth and at age 10. Funds could be used for college or vocational training, buying a first home, and retirement savings. Families earning below \$75,000 a year would have the option of directing their existing child tax credits into the accounts tax-free. January 2007 at “Ten Big Ideas for a New America” event hosted by NAF, Sen. Clinton highlighted CSAs and her plans to introduce legislation to create these accounts.

PLUS Accounts

As proposed by Senator Jeff Sessions (R-AL), every U.S. citizen born after December 31, 2007 would have a PLUS Account opened for them automatically by the federal government endowed with a one-time \$1,000 contribution. Beginning January 1, 2009 individual PLUS accounts would be established for all working U.S. citizens under the age of 65 with a mandatory 1% of each worker's paycheck withheld pre-tax and automatically deposited into their account (workers could voluntarily contribute up to 10%). Employers would also be required to contribute at least 1% (and up to 10%) of earnings. No withdrawals from PLUS accounts could be made until account holder reaches the age of 65, although there would be a loan program for pre-retirement uses. Sen. Sessions plans to introduce legislation to establish “PLUS Accounts” this spring.

Recent CSA Activity

City in Puerto Rico Implements Children's Savings Accounts

In October of 2006, William Miranda Marín, Mayor of Caguas (Puerto Rico's second largest city) announced the creation of children's savings accounts for every child born in his municipality. The mayor plans to launch the program in early 2007 with an initial investment of \$1 million. The accounts would be seeded with an initial deposit of \$200 and parents are able to contribute directly as the child grows. Mayor Marín's vision is that these accounts will allow every child "to create a consciousness that he/she will have money that will continue to grow with interest to create in him/her an entrepreneurial feeling so that we will have a better country for everyone."

Children's Savings Accounts Legislation in California

A bill currently in the California State Senate would create a children's savings account for each of the 566,000 babies born annually in the Golden State. The proposed accounts would be seeded with an initial deposit of \$500, at a cost of \$283 million to the state. If enacted, California would be the first state to establish children's savings accounts for every newborn. Democratic State Senator Darrell Steinberg introduced the legislation in February, 2007.

L.A. Mayor Calls for Children's Savings Accounts

Antonio Villaraigosa, Mayor of Los Angeles and Chair of the U.S. Conference of Mayors Task Force on Poverty, Work and Opportunity, recently unveiled a plan to combat poverty that includes the establishment of children's savings accounts for every newborn in America. Aimed at providing every child with the opportunity to afford higher education, under Mayor Villaraigosa's plan, the federal government would establish tax-free savings accounts seeded with up to \$500 for every child born in the United States. The federal government would also then match annual parent contributions up to \$500. Such a plan would provide low-income high school students with nearly \$40,000 in savings for higher education or workforce training programs.

Universal Savings Accounts for College

The Middle Class Project at the Third Way, a progressive public policy institute in Washington D.C., has proposed establishing a 529 college savings account for every newborn. The accounts would be established at birth with \$500 in seed money from the government, at a cost of \$2 billion annually. Parents, relatives and friends can contribute to the account tax-free; withdrawals and tax liability would be subject to the same rules governing current 529 college savings accounts.

International Policy and Proposals

A few countries have recently implemented or are proposing policies to establish a children's savings account for every child starting from birth. Among the countries that already have some form of national Children Savings Account (CSA) policy are Singapore (Baby Bonus Scheme), the United Kingdom (Child Trust Fund), and Canada (Canada Education Savings Program). And, in August 2006, the South Korean government announced a proposal to implement Child Development Accounts to cover up to 50 percent of all newborns by 2010.¹

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For more information on the ASPIRE Act and other CSA proposals, see www.aspireact.org and www.kidsaccounts.org.

For the latest in asset building news, policy and research, see www.assetbuilding.org

To learn more about New America's Asset Building Program, see www.newamerica.net

¹ For more information on international proposals, see *Building Assets from Birth: A Comparison of the Policies and Proposals on Children Savings Accounts in Singapore, the United Kingdom, Canada, Korea, and the United States*. Vernon Loke and Michael Sherraden. Center for Social Development, Washington University, 2006.