Children's Savings Accounts: An Investment in America's Future

More than one third of the four million American children born each year—and more than half of minority children—are born into asset poor families. These families lack adequate savings to survive at the poverty line for three months if they had no income. Such disadvantage is harmful to a child's future, affecting their ability to pursue a college education, achieve homeownership, pursue entrepreneurship and prepare for retirement.

Children's savings accounts (CSAs) are powerful financial products that could expand economic and educational opportunities for children by encouraging long-term planning, building family wealth, and promoting financial literacy. Furthermore, CSAs offer a critical opportunity to improve the nation's saving behavior and chart Americans back on the course of "back-to-basics" saving, investing and ownership.

CSAs address this problem by providing children with tax-favored, investment accounts that allow their families to save for post-secondary education, retirement, among other uses. Moreover, some CSA models offer additional benefits to children from low-income families, countering the negative impact of poverty on a child's future achievement. CSAs help adults too, as they promote long-term regular savings habits among parents and their children throughout life and encourage higher rates of saving that may have positive effects upon the economy. Finally, CSAs provide long-term patient capital to the financial institutions that hold the accounts providing a growing source of liquidity over nearly two decades.

President Obama's "Save and Invest Economy:"

President Obama has called for a paradigm shift from borrowing and spending to saving and investing. His budget includes an expansion of financial products to reach low-income families including Auto IRA and a progressive Saver's Credit. He also included $10 million in his FY2010 budget request to establish 20 Promise Neighborhoods across the country modeled after the Harlem Children's Zone which includes CSAs.

Types of Children's Savings Accounts:

Children's savings accounts can take on a variety of forms. From universal accounts opened at birth to modified versions of existing savings products, there are a number of ways to expand the savings opportunities for children, particularly for children from low-income families.

One of the broader CSA models, universal savings accounts, would provide every child with a one-time government contribution at birth. The accounts, typically restricted in use, can receive investments by family and friends and are available at a designated age for designated purposes, such as education.

Policy Details:

An example of the universal savings model can be seen in the *America Saving for Personal Investment, Retirement and Education Act* (ASPIRE) (H.R. 3740 in the 110th Congress). Under ASPIRE:

- Every child would be endowed with a one-time, $500 government contribution at birth.
- Children born into families that earn below the national median income would be eligible for a supplemental contribution of up to $500 as well as matching funds of up to $500/year until the child reaches 18.

- Any family would be allowed to contribute up to $2,000/year in a KIDS Account until the child reaches age 18.
- Withdrawals from accounts could only be made once the child reaches age 18 and could only be used for post-secondary education, purchasing a home, or retirement.
- Financial literacy programs would also be made available to help families decide how to select the appropriate investments and to teach children the importance of saving.

An example of expanding existing savings infrastructure includes the ***New Saver's Act of 2007*** (S. 1967 in the 110th Congress)**.** Under this proposal:

- A qualified individual could use her allocation for an IRA to open a Young Saver's Account (YSA) account for her child. Like Roth IRAs, the YSA would allow penalty-free withdrawals for postsecondary education and the purchase of a first home.
- Contributions could be made to the account by any qualified individual. Contributions made by low-income families would qualify them for the Saver's Credit.

Other models that have been proposed include the conversion of Coverdell Education Savings Accounts into a 401 account for children (401Kids Savings Accounts), Individual Development Accounts for youth in the Foster Care System, expansion of Individual Development Accounts, and expansion of existing state 529 College savings plans to benefit low-income children. Additionally, various forms of children's savings accounts have already been enacted in other countries, including Canada, South Korea and most notably the United Kingdom. Since enacted in the U.K., more than 3 million new accounts have been created. Seventy-five percent of U.K. families are taking advantage of the opportunity to save and invest in their child's future.

Recommended Action:

- Enact CSAs as part of the upcoming Tax Bill or other legislative opportunity.
- Include universal savings accounts for children in FY 2010 Budget.

Legislative Language:

See America Saving for Personal Investment, Retirement and Education Act (H.R. 3740) and (S. 3557)

See the New Saver's Act of 2007 (S. 1967)

Resource Information:

http://www.cfed.org/go/seed and http://www.cfed.org/go/advocacy

http://www.childtrustfund.gov.uk/

http://www.newamerica.net/programs/asset_building/aspire_act_kids_accounts#

http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/IFS_CaseforChildAccounts.pdf

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