



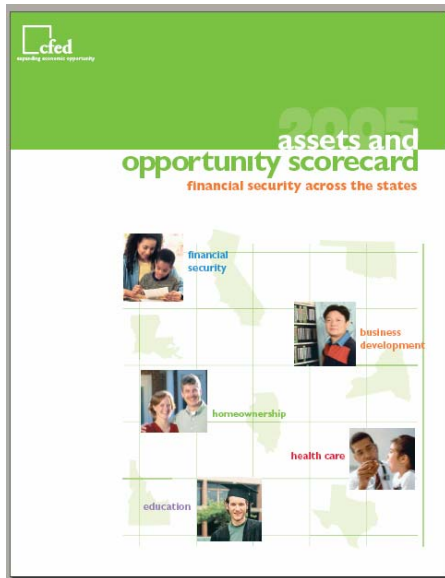
# Asset Building from Birth: The Impact of Children's Savings Accounts

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# Background: Assets across America



- Nearly one in five households owes more than it owns
- One in four families does not own enough to subsist at the poverty level for three months
- One in four female-headed households has zero or negative net worth
- One in three minority-headed households has zero or negative net worth
- See [www.cfed.org/go/scorecard](http://www.cfed.org/go/scorecard)



## Background: Kids and Assets

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- More than one-third of the four million children born in the U.S. each year are born into families with zero or negative net worth.
- More than half of minority children are born into households with zero or negative net worth.
- Research shows that saving and holding financial assets:
  - Promotes educational attainment,
  - Reduces the intergenerational transmission of poverty, and
  - Fosters healthy and satisfied parents.



# A New Idea: Children's Savings Accounts

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- What difference would it make if every child started with an account at birth?
- Vision:
  - \$1,000 at birth for every child,
  - Accounts used for asset building,
  - Universal system
  - Progressive matches
  - Appropriate financial education delivered at scale



# Children's Savings Policy: International Precedents

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- U.K. Child Trust Fund
  - As of 2005, every child born in U.K. (retroactive to Sept. 2002) receives £250 (£500 for lower-income families) at birth.
  - Additional contribution to be made at 7.
  - Parents and other can contribute up to £1,200 per year.
  - Earnings grow tax-free.
  - Funds available at age 18 with no restrictions.



# Children's Savings Policy: International Precedents

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- **Canada Learning Bond**
  - Designed to encourage low- and middle-income families to establish Registered Education Savings Plans (RESPs).
  - \$500 to children born after Jan. 1, 2004 to families entitled to receive the National Child Benefit (NCB) supplement.
  - Additional \$100 each year the family is eligible for the NCB supplement.



# Children's Savings Policy: Federal Proposals

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- ASPIRE Act (S. 868 and H.R. 1767)
  - To encourage savings, promote financial literacy, and expand opportunities for young adults by establishing a KIDS account for every newborn.
  - \$500 initial deposit (extra \$500 for households earning below median income).
  - Matching contributions 1:1 up to \$1,000 for eligible accountholders.
  - Tax-free earnings; private contributions allowed after taxes up to \$2,000.
  - Managed at Treasury much like Thrift Savings Program.
  - Withdrawals after age 18; treated like Roth IRA.



# Children's Savings Policy: Federal Proposals

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- Young Saver's Accounts.
  - Introduced by Sen. Baucus (D-MT) as part of Savings Competitiveness Act of 2006 and by Rep. Connie Mack (R-FL) as part of Lifetime Prosperity Act.
  - Allows contributions to a Roth-IRA from other than earned income.
  - For first time, would create a tax-benefited way to save for a child's higher education, first home and retirement.
  - Parent's allow limit applies; contributions by low-income families would qualify for Saver's Credit.
- 401 KIDS Accounts.
  - Introduced by Rep. Shaw (R-FL) as part of 401Kids Family Savings Act of 2006.
  - Uses: college, first-time homeownership, retirement; no match for low-income savers.



# Children's Savings Policy: State-Level Action

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- Protecting CSAs from public assistance asset limits:
  - Six states of 12 states with SEED sites have protected SEED accountholders by either:
    - Waivers, or
    - Raising or eliminating asset limits altogether.



# Children's Savings Policy: State-Level Action

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- Proposals for universal or large-scale account provision:
  - Oregon's Children's Development Accounts (1991-92)
  - 529 College Savings Plan matches (7 states),
  - Kentucky Cradle to College Commission (2004-2006).



# Children's Savings Policy: State-Level Action

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- More recent developments:
  - Oklahoma legislature passed legislation in May 2006 to create task force to examine the feasibility of universal, progressive CSAs using the 529 system.
  - Three candidates have made universal CSAs or large-scale delivery of CSAs a campaign issue:
    - Ted Strickland (candidate in OH for governor)
    - Bill Haller (candidate in AR for Lt. gov.)
    - Mac Campbell (candidate in AR for state treasurer)



# Children's Savings: Practical Demonstration

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- SEED Initiative:

- Multi-year, multi-site experiment with SEED (children's savings) accounts
- 1,250 accounts with children in 12 sites, including 500 in MI.
- State policy partners:
  - Illinois
  - Michigan
  - Kentucky
  - Oklahoma
  - Alaska
- One state "Universal Model" experiment in OK.



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