

Clearinghouse REVIEW

Shriver
Center 4@

November–December 2007
Volume 41, Numbers 7–8

Journal of
Poverty Law
and Policy



Eviction in Cases of Compulsive
Hoarding and Cluttering

The Supreme Court's Shift
to the Right

American Human Development
Report 2008

Children's Development Accounts

A Civil Rights Road Trip

International Human Rights Law for Everyday Legal Aid Cases

 SHRIVER
CENTER

Sargent Shriver National Center on Poverty Law

Children's Development Accounts Promote Inclusive Prosperity

By Dory Rand and Stephanie Holmes



Dory Rand
Supervising Attorney, Community
Investment Unit

Sargent Shriver National Center on
Poverty Law
50 E. Washington St. Suite 500
Chicago, IL 60602
312.368.2007
doryrand@povertylaw.org

Stephanie Holmes
Law Student

University of Chicago Law School
1111 E. 60th St.
Chicago, IL 60637
scholmes@uchicago.edu

The Reverend Dr. Martin Luther King Jr. described the American dream as “a dream of equality of opportunity, of privilege and property widely distributed.”¹ As Dr. King observed, the American dream is centered on equality of opportunity and wealth.² Michael Sherraden, professor at the George Warren Brown School of Social Work and founder and director of the Center for Social Development at Washington University in St. Louis, astutely noticed, “The American dream is not to be born common and become noble, nor to be born ignorant and become smart, but to be born poor and become rich. It is a dream about financial wealth.”³

To achieve the American dream, individuals and families must be able to save money and build assets. Today, however, the savings prospects for most Americans are bleak. Approximately two-thirds of families in the United States live paycheck-to-paycheck.⁴ More than one-third live in asset poverty, meaning that their liquid assets are less than 25 percent of the federal poverty level.⁵ The savings rate in the United States is significantly lower than in Canada and much lower than the rate in most European countries.⁶ Even worse, less than one-half of all Americans would have enough savings to survive for just three months if their income were interrupted.⁷ The racial wealth gap is also troubling. Recent research suggests that African Americans own only seven to ten cents for every dollar of net worth owned by whites.⁸ This figure has remained stagnant over the last ten years.⁹

When Americans have trouble saving, various problems are likely to follow. For one, people without savings are particularly susceptible to predatory lending or high-cost

¹Martin Luther King Jr., Speech at Sixteenth Street Baptist Church, Birmingham, Alabama (Sept. 15, 1963).

²*Id.*, Speech at Fourth Annual AFL-CIO Convention (Dec. 11, 1961).

³MICHAEL SHERRADEN, ASSETS AND THE POOR: A NEW AMERICAN WELFARE POLICY 95 (1991).

⁴American Payroll Association, Getting Paid in America 2 (2006), www.nationalpayrollweek.com/documents/FinalResults_FORMATTED.pdf (Question No. 9).

⁵Robert Haveman & Edward N. Wolf, *The Concept of Measurement of Asset Poverty: Levels, Trends and Composition for the U.S., 1983–2001*, 2 JOURNAL OF ECONOMIC INEQUALITY 145, 145–169 (2004).

⁶See OECD [ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT] ECONOMIC OUTLOOK No. 81, STATISTICAL ANNEX TABLES (2007) (Table 23—Household Saving Rates).

⁷CHERYL ALLEBRAND, WOMEN TRAIL MEN IN SAVINGS, www.bankrate.com/brm/news/Financial_Literacy/July07_emergency_fund_poll_national_a1.asp?caret=46a (posted July 23, 2007).

⁸THOMAS SHAPIRO & MELVIN OLIVER, INSTITUTE ON ASSETS AND SOCIAL POLICY, BRANDEIS UNIVERSITY, CLOSING THE RACIAL WEALTH GAP 1 (2005), <http://iasp.brandeis.edu/pdfs/columns/sept05.pdf>.

⁹*Id.*

credit.¹⁰ For another, families without adequate savings often consider college an impossible dream rather than a practical reality.¹¹ And, of course, financial emergencies, such as job loss, car accidents, medical debt, or divorce, can drain those without savings.

Children's development accounts (CDAs) are an innovative solution to the problems that Americans face in building assets.¹² CDAs are publicly provided, individualized bank accounts for children. With a CDA program, the government gives a modest endowment to every child at birth. Inclusion of all children in a CDA program increases financial skills and savings among children and families at all income levels and helps narrow the ever-widening wealth gap. By the time the child turns 18, the account will have grown through investment earnings and contributions. At that point, the child may use the funds to pay for postsecondary education or training, a home, or an entrepreneurship opportunity. Alternatively the child may continue saving the funds for retirement. Some CDA programs have no restrictions on allowable uses of the funds.

Preliminary research shows that establishing consistent savings behavior in low-income people has positive effects beyond the monetary accrual of interest. For example, savers lead stable lives, focus on their goals, and are more likely to participate in politics and communities than nonsavers.¹³ Research related to CDAs is also encouraging: behavioral studies suggest that CDAs have positive, aspirational effects on children. For example, when children grow up knowing that college, homeownership, or entrepreneurship is possible, their goals change to reflect those opportunities.¹⁴

However, the bright promise of CDAs faces political, budgetary, and institutional challenges. Critics often worry that CDAs are too expensive. Others wonder why the public should fund a CDA program that includes children of affluent families, who may be able to afford college or homeownership without the public's help. Skeptics doubt that low-income people will be able to save. We address these questions and others below.

Lawmakers and advocates have already started working to create and implement CDA programs at the federal and state levels. In the U.S. Congress, for example, the America Saving for Personal Investment, Retirement, and Education (Aspire) Act was introduced in the 109th Congress with bipartisan support and was reintroduced in the 110th Congress in October 2007.¹⁵ At the state level, Illinois and Kentucky both passed legislation that created working groups to make recommendations about CDAs to the states. Other states have taken steps to give matching funds for low-income families saving for college.

Here we seek to inform advocates and interested readers about how CDAs work, why they are important, and how to promote their realization at the local, state, and national levels: We present background information on how CDA programs can be modeled and on efforts in the United States and abroad to implement CDAs (I); preliminary research on the positive effects of assets, lessons learned from the Saving for Education, Entrepreneurship, and Downpayment (SEED) program, research on the American Dream Demonstration, and analogies based on asset-building programs for adults (II); answers to common questions

¹⁰JAVIER SILVA, ANNIE E. CASEY FOUNDATION, *A HOUSE OF CARDS: REFINANCING THE AMERICAN DREAM 1* (2005), www.aecf.org/upload/PublicationFiles/FE3679K541.pdf.

¹¹See JOHN IMMERWAHR ET AL., NATIONAL CENTER FOR PUBLIC POLICY AND HIGHER EDUCATION, *SQUEEZE PLAY: HOW PARENTS AND THE PUBLIC LOOK AT HIGHER EDUCATION TODAY 14* (2007), www.highereducation.org/reports/squeeze_play/squeeze_play.pdf.

¹²Children's development accounts (CDAs) are also called children's savings accounts (CSAs). We prefer the former term because it emphasizes the lasting, substantive impact of developing savings habits early in life.

¹³SHERRADEN, *supra* note 3, at 148.

¹⁴See generally WILLIAM ELLIOTT III ET AL., CENTER FOR SOCIAL DEVELOPMENT, WASHINGTON UNIVERSITY IN ST. LOUIS, *COLLEGE EXPECTATIONS AMONG YOUNG CHILDREN: THE POTENTIAL ROLE OF SAVINGS* (2007), <http://gwbweb.wustl.edu/csd/Publications/2007/WP07-06.pdf>.

¹⁵America Saving for Personal Investment, Retirement, and Education (Aspire) Act of 2007, H.R. 3740, 110th Cong. (1st Sess.).

about and challenges to CDAs (III); current initiatives to implement CDAs (IV); and advocacy tips for promoting CDAs (V).

I. Background

Existing federal and state savings programs, individual development account and child savings account demonstration programs, and international children's savings programs offer options for how to model a child development account program.

A. CDA Program Models

Ways to structure a CDA program vary with the amount of control the government wants to exercise over the accounts, the range of permissible uses for the savings, and the desired features and investment returns. Because inflation shrinks the real value of savings over time, a savings vehicle for long-term investments, such as CDAs, must produce a return that exceeds the rate of inflation. A government-supported plan structure such as the 529 College Savings model or the Thrift Savings Plan can ensure that CDAs include all children, whether or not they affirmatively opt in.¹⁶ Financial providers are unlikely to hold low-balance and low-fee accounts without a plan structure that is large enough in terms of number of account holders and overall deposits to be profitable despite having numerous low-deposit accounts.¹⁷

One option is to create CDAs based on the existing 529 College Savings model. Named after the applicable section of the

Internal Revenue Code, 529 programs give tax benefits to parents who save for college.¹⁸ Every state has a 529 program available to encourage savings for higher education. States could open a 529 plan for every child and make an initial deposit at birth. Because 529 programs currently restrict qualified uses to postsecondary education, significant modification on the federal level would be needed to allow children to spend 529 funds on homeownership, entrepreneurship, retirement, or other uses. Because each state oversees its 529 plan, states can negotiate with financial institutions for features such as low fees, low balances, and minimal contribution requirements that promote participation by all, including low-income and limited-resource individuals and families.¹⁹

A second option is that a CDA program may adapt the Thrift Savings Plan for children's accounts. The Thrift Savings Plan is the retirement savings program for federal employees.²⁰ This plan takes deposits from employees' paychecks and offers a range of investment funds from which federal employees may choose.²¹ The Aspire Act is structured this way.

Another option is the "retail model," which gives parents the most control over how their child's money is invested. Each child receives at birth a coupon, which the parent can use to open a CDA at a participating financial institution.²² Investment choices, such as a basic savings account, a mutual fund account with age-based investment, and a more aggressive stock market and equity-based

¹⁶See Margaret Clancy & Leslie Parrish, *Reforming 529 College Savings Plans to Better Reach Low-Income Families* 1 (2006), http://gwbweb.wustl.edu/csd/SEED/Reforming_529s.pdf.

¹⁷E-mail from Michael Sherraden, Benjamin E. Youngdahl Professor of Social Development and Director, Center for Social Development, Washington University in St. Louis (Aug. 23, 2007) (on file with Dory Rand).

¹⁸See I.R.C., 26 U.S.C. § 529 (2006). States administer 529 college savings plans. To find more information about your state's plan, see College Savings Plans Network, *My State's 529 Plan*, www.collegesavings.org/viewState.aspx (last visited Oct. 23, 2007).

¹⁹See MARGARET CLANCY ET AL., *ASSET BUILDING PROGRAM, NEW AMERICA FOUNDATION, SECTION 529 SAVINGS PLANS, ACCESS TO POST-SECONDARY EDUCATION, AND UNIVERSAL ASSET BUILDING* 4 (2005), www.newamerica.net/files/archive/Doc_File_2246_2.pdf.

²⁰Federal Employees' Retirement System Act of 1986, 5 U.S.C. § 8402. For more information on the Thrift Savings Plan, see TSP [Thrift Savings Plan] Features for Civilians, www.tsp.gov/features/chapter01.html (last visited Oct. 18, 2007).

²¹TSP, Returns and Share Prices, www.tsp.gov/rates/index.html (last visited Oct. 18, 2007).

²²HM Revenue and Customs, Introduction to the Child Trust Fund, http://childtrustfund.gov.uk/templates/Page____1171.aspx (last visited Oct. 31, 2007).

investment, are limited.²³ The retail model has a safeguard through which the government automatically opens a standard account if the parent has not done so by the child's first birthday.²⁴ Thus no children are left out.²⁵

Individual retirement accounts (IRAs) are another savings vehicle that could be adapted for use in a CDA program. IRAs are tax-advantaged accounts for saving for retirement.²⁶ Because the accounts are always set up with a financial institution serving as custodian, minors are not restricted from having IRAs.²⁷ Although IRAs are designed primarily for retirement savings, accountholders may withdraw funds for a first-time home purchase, postsecondary education, and a few other types of asset purchases.²⁸

A few aspects of the current IRA structure would need to be revised to be used for a CDA program. For example, current law allows only an accountholder's taxable compensation or nontaxable combat pay to be deposited into an IRA.²⁹ For children's accounts, however, parents, families, friends, and the public should be allowed to contribute. Another likely barrier is that, because IRAs are individual accounts rather than state-managed accounts, financial institutions are unlikely to have the features necessary to make a CDA program truly inclusive.

B. Implementing CDAs in the United States

The Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy, Practice, and Research Initiative, according to the Corporation for Enterprise Development, is

a multiyear national initiative to develop, test, and impel matched savings accounts and financial education for children and youth in the United States. The initiative seeks to set the stage for universal, progressive American policy for asset building by bringing together national and community partners to design, administer, and document specific aspects of children's savings programs.³⁰

The SEED program began in 2003 and is the first initiative of its size to test the capability and influence of CDAs as an asset-building tool in the United States. Eleven SEED demonstration sites throughout the United States and Puerto Rico are each working with a slightly different program model and each with children of different ages.³¹ For example, the Sargent Shriver National Center on Poverty Law and the William M. and Charles H. Mayo Elementary School in Chicago are partners in delivering eighty-two

²³Investment Management Association, Guide to Investing in a Child Trust Fund: The Three Options, www.investmentuk.org/FactSheets/CTF/three_options.asp (last visited Oct. 31, 2007).

²⁴HM Revenue and Customs, Child Trust Fund—Key Features, www.hmrc.gov.uk/ctf/key-features.htm (last visited Nov. 5, 2007).

²⁵The United Kingdom uses the Child Trust Fund—the retail model—in its universal CDA program. For more information, see HM Revenue and Customs, Child Trust Fund, www.childtrustfund.gov.uk/ (last visited Oct. 18, 2007); LISA MENSAH ET AL., THE ASPEN INSTITUTE, THE CASE FOR CHILD ACCOUNTS (2007), www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/IFS_CaseforChildAccounts.pdf (Appendix A: "About the Child Trust Fund in the United Kingdom").

²⁶26 U.S.C. § 408 (2006).

²⁷See CARL RIST ET AL., CORPORATION FOR ENTERPRISE DEVELOPMENT (CFED), CHILDREN'S SAVINGS ACCOUNTS AND FINANCIAL AID 10 (2006), www.cfed.org/publications/CSAs_financial_aid.pdf.

²⁸26 U.S.C. § 408 (2006).

²⁹*Id.* §§ 408, 408A; see Internal Revenue Service, Publication 590 (2006), Individual Retirement Arrangements (IRAs), www.irs.gov/publications/p590 (last visited Oct. 23, 2007). The Savings Competitiveness Act of 2006, S. 2431, 109th Cong., introduced by Sen. Max Baucus (D-Mont.), proposed allowing parents to deposit earned income into a Roth individual retirement account (IRA) for their children. All parental contributions would count toward the parents' own individual IRA contribution limits. *Id.* § 301(4)(b).

³⁰CFED, SEED [Saving for Education, Entrepreneurship, and Downpayment] Policy and Practice Initiative, www.cfed.org/fo cus.m?parentid=31&siteid=288&id=288 (last visited Oct. 6, 2007).

³¹Lisa Reyes Mason et al., Center for Social Development, SEED Account Monitoring Research: Participants and Savings Outcomes at June 30, 2007, tbl. 1 at 1 (2007), <http://gwbweb.wustl.edu/csd/Publications/2007/RP07-22.pdf>.

SEED accounts to elementary school students. Each accountholder received an initial deposit of \$500 and can earn a dollar-for-dollar match and savings incentives up to \$2,000. As of September 2007, SEED participants had accumulated more than \$108,313 in their accounts, with an average account balance of \$1,321, including matching funds.³²

C. CDA Programs in Other Countries

The United States is not the first country to consider CDAs. A few other countries already have CDA programs in place.³³ Perhaps the best-known program is the United Kingdom's Child Trust Fund. In the United Kingdom every child receives £250 at birth, and low-income children are entitled to an additional £250.³⁴ At age 7 each child receives another £250 deposit, and low-income children again receive an additional £250.³⁵

The U.K. model is less restrictive than the CDA programs proposed in the United States. For one, the United Kingdom allows children to use their funds for any purpose after they reach the age of majority.³⁶ One advantage of this approach is that it lowers administrative costs by

eliminating the need to track how the funds are used. For another, the United Kingdom uses the retail model, which gives parents choices as to how to invest the money.³⁷

Canada has two national children's savings programs. The Canada Education Savings Grant is available to all children up to age 17; Canada matches educational savings up to a certain cap, and lower income families receive a larger match than wealthier families.³⁸ Canada's Learning Bond program makes an initial deposit of \$500, plus \$100 per year until the child reaches age 15.³⁹ The Learning Bond is not universal; only children who receive the National Child Benefit Supplement are eligible for the program.⁴⁰ Children who do not qualify for the program at birth but qualify later become entitled as soon as their family falls into the eligible income range and receives the supplement.⁴¹

In Singapore asset-building programs begin at birth and last until retirement. In 2001 Singapore created the Baby Bonus program to promote higher birth rates.⁴² Singaporean parents receive S\$3,000 for the first and second child and S\$6,000

³²*Id.* at 35. For more information on the Sargent Shriver National Center on Poverty Law's partnership with a Chicago school, see SARGENT SHRIVER NATIONAL CENTER ON POVERTY LAW, SEED, www.cfed.org/imageManager/_documents/Shriver_Center.pdf (last visited Oct. 7, 2007).

³³For an overview of programs in other countries, see VERNAN LOKE & MICHAEL SHERRADEN, CENTER FOR SOCIAL DEVELOPMENT, WASHINGTON UNIVERSITY IN ST. LOUIS, 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 (2006), <http://gwbweb.wustl.edu/csd/Publications/2006/WP06-14.pdf> (Working Paper No. 06-14).

³⁴*Id.* at 7.

³⁵HM REVENUE AND CUSTOMS, KEY FACTS ABOUT THE CHILD TRUST FUND, www.childtrustfund.gov.uk/templates/Page____1177.aspx (last visited Oct. 6, 2007). As of October 2007, £250 was approximately \$508 in U.S. dollars.

³⁶*Id.*

³⁷*Id.*; see also Sonia Sodha, Institute for Public Policy Research, Lessons from Across the Atlantic: Asset-Building in the UK (Sept. 19–21, 2006) (paper presented at A Lifetime of Assets Conference), www.frbsf.org/community/research/assets/LessonsfromAcrossTheAtlantic.pdf.

³⁸HUMAN RESOURCES AND SOCIAL DEVELOPMENT CANADA, CANADA EDUCATION SAVINGS GRANT 5 (2006), www.hrsdc.gc.ca/en/hip/lld/cesg/publicsection/files/CESG-E-brochure.pdf.

³⁹*Id.*, CANADA LEARNING BOND 2 (2005), www.hrsdc.gc.ca/en/hip/lld/cesg/publicsection/files/CLB-E-brochure.pdf. As of October 2007, \$500 in Canadian dollars was approximately \$513 in U.S. dollars.

⁴⁰Families qualify for the National Child Benefit supplement if their income is below \$36,378 in Canadian dollars, which, as of October 2007, was approximately \$34,109 in U.S. dollars. HUMAN RESOURCES AND SOCIAL DEVELOPMENT CANADA, CANADA EDUCATION SAVINGS GRANT, *supra* note 38, at 4.

⁴¹Human Resources and Social Development Canada, Canada Learning Bond—Frequently Asked Questions (last modified July 24, 2007), www.hrsdc.gc.ca/en/hip/lld/cesg/publicsection/CESP/CLB_FAQs.shtml#Q08 (Question No. 8).

⁴²[SINGAPORE] MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS, CHILDREN DEVELOPMENT CO-SAVINGS (BABY BONUS) SCHEME 1 (2007), www.babybonus.gov.sg/bbss/html/English.pdf.

for the third and fourth child.⁴³ The funds are deposited into a CDA, which earns interest until the child is 6 years old.⁴⁴ Parental contributions are matched up to a given cap, depending on family size.⁴⁵ Parents may use the money to pay for child care and preschool.⁴⁶

After Singaporean children age out of the Baby Bonus program, they are automatically enrolled in the Edusave Scheme, which appears to be the world's first universal asset-building program for children.⁴⁷ Edusave annually gives S\$170 to S\$200 to all children between age 6 and age 16.⁴⁸ The funds may be used only for educational enrichment programs.⁴⁹ Unused money is transferred into the child's postsecondary education account when the child turns sixteen or leaves high school, whichever is later.⁵⁰

D. Asset-Building Programs for Adults

Although CDAs are a relatively new idea, asset-building programs for adults have demonstrated the power of individualized account programs to build wealth. Individual development accounts, the adult equivalent of CDAs, are matched savings accounts that are earmarked for certain purposes, such as homeownership, higher education, or entrepreneurship.⁵¹ The largest demonstration of

individual development accounts to date, the American Dream Demonstration, found that individual development accounts can successfully motivate people to build wealth.⁵² The lessons learned in the American Dream Demonstration project, discussed more in II.C, are essential in considering CDAs.

II. Research and Results

A growing body of research on individual development accounts, children's savings accounts, and other types of asset ownership supports the theory that ownership of CDAs and related financial education will produce positive social as well as financial results.

A. The Positive Effects of Assets

A large body of research on the positive effects of asset building demonstrates some of the positive changes that may be expected under a CDA program. For example, asset ownership corresponds with marital stability, physical health, and economic security, even after controlling for income and education, social scientists have found.⁵³

Children in families with assets perform better in school and attain higher levels of education than their cohorts, even after controlling for income and parental

⁴³LOKE & SHERRADEN, *supra* note 33, at 25 (Table 1—Comparison of Children Savings Accounts). As of 2006, S\$3,000 was U.S.\$1,875, and S\$6,000 was U.S.\$3,750.

⁴⁴[SINGAPORE] MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS, *supra* note 42, at 1.

⁴⁵*Id.*

⁴⁶See *id.*

⁴⁷Jami Curley & Michael Sherraden, *Children's Allowances: Lessons for Children's Savings Accounts*, 79 CHILD WELFARE 661, 662 (2000).

⁴⁸MINISTRY OF EDUCATION SINGAPORE, EDUCATION ENDOWMENT SCHEME: ANNUAL REPORT FOR THE FINANCIAL YEAR 2005/2006, at 3, www.moe.gov.sg/finance/edusave/report/EdusaveAnnualReport2005.pdf (last visited Oct. 16, 2007). As of October 2007, S\$170–200 was approximately U.S.\$116–136.

⁴⁹LOKE & SHERRADEN, *supra* note 33, at 4.

⁵⁰*Id.*

⁵¹Center for Social Development, Individual Development Accounts (IDAs): What Are IDAs?, <http://gwbweb.wustl.edu/csd/asset/idas.htm> (last visited Nov. 7, 2007).

⁵²Gregory Mills et al., What Do Individual Development Accounts Do? Evidence from a Controlled Experiment 6 (2006), www.brookings.edu/views/papers/gale/20060711.pdf.

⁵³Deborah Page-Adams et al., School of Social Welfare, University of Kansas, Assets, Health, and Well-Being: Neighborhoods, Families, Children and Youth 2 (2001), www.cfed.org/imageManager/_documents/01-9%20AssetsHealthandWellBeing.pdf.

education, researchers also have found.⁵⁴ Studies reveal intergenerational effects of savings behavior; unsurprisingly, children tend to learn their spending and saving habits from their parents.⁵⁵

B. Lessons Learned from SEED

During the first four years of the SEED program, researchers visited the SEED sites and interviewed program administrators and participants. Important lessons already learned from SEED should be considered in developing a universal CDA program.

1. Low-Income Children and Parents Can and Do Save

Preliminary research on the SEED program indicates that parents and children can save. As of September 2007, SEED participants had accumulated an average of \$1,318 in their savings accounts.⁵⁶ The average initial deposit was only \$462.⁵⁷

2. Financial Education Benefits Both Parents and Children

Financial education programs are rare among parents and youth.⁵⁸ Sixteen states require financial education in high

school.⁵⁹ However, saving should start much earlier to take advantage of the power of compound interest.⁶⁰ The impact of financial education is even more powerful when combined with a savings program that allows students to practice what they learn.

Little quantitative research documents the long-term benefits of financial education. Some studies focus on limited groups, such as high school students or mortgage borrowers.⁶¹ However, one intermediate-term, longitudinal study on the Federal Deposit Insurance Corporation Money Smart program found that participants were more likely to save, pay their bills on time, and create financial goals for themselves.⁶²

3. CDAs Are Good for Parents

Just as research shows the intergenerational effects that parental saving behavior can have on children, the effects transfer the other way as well. When children participate in youth savings programs, their parents take notice and begin to invest their own money more regularly.⁶³

⁵⁴*Id.* at 5.

⁵⁵*Id.* at 7.

⁵⁶Lisa Reyes Mason et al., Center for Social Development, Washington University in St. Louis, SEED Participant Characteristics and Financial Accumulation 17 (2007), <http://gwbweb.wustl.edu/csd/Publications/2007/RP07-14.pdf>.

⁵⁷*Id.* at 20.

⁵⁸CFED, SEED Community Consultations: Ten Key Lessons 1, www.cfed.org/ImageManager/_documents/SEEDTenKeyLessons.pdf (last visited Oct. 16, 2007).

⁵⁹The following states require financial education in the public school system: Alabama, Georgia, Idaho, Illinois, Kentucky, Louisiana, Missouri, New York, South Carolina, South Dakota, Texas, Utah, Virginia, Washington, West Virginia, and Wyoming. See Leslie Parrish et al., New America Foundation and Center for Social Development, State Policy Options for Building Assets 27 (2006), www.newamerica.net/files/Doc_File_3134_1.pdf.

⁶⁰E.g., investing \$100 per month for ten years (\$12,000) at 8 percent interest generates \$54,914 in twenty years. Investors Alliance, Compound Interest and Starting Early, www.powerinvestor.com/Primer/Types-of-Investments/Compound-Interest-and-Starting-Early.htm (last visited Nov. 6, 2007).

⁶¹Sharon M. Danes & Heather Haberman, University of Minnesota, Evaluation of the NEFE [National Endowment for Financial Education] High School Financial Planning Program Curriculum 2003–2004, www.kdcms.com/nefe/company1/content/273/2003-2004%20nefe%20hsfpp%20evaluation.pdf (last visited Oct. 16, 2007) (high school students); Abdighani Hirad & Peter Zorn, Freddie Mac, A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling (2001), www.freddie.com/corporate/reports/pdf/homebuyers_study.pdf (mortgage borrowers).

⁶²FEDERAL DEPOSIT INSURANCE CORPORATION, A LONGITUDINAL EVALUATION OF THE INTERMEDIATE-TERM IMPACT OF THE MONEY SMART FINANCIAL EDUCATION CURRICULUM UPON CONSUMERS' BEHAVIOR AND CONFIDENCE 3 (2007), www.fdic.gov/consumers/consumer/moneysmart/pubs/ms070424.pdf.

⁶³*Id.* at 29.

4. Incentives Can Improve Routine Participation

Benchmark incentives are rewards that parents and children earn for their CDA, either at regular intervals (e.g., on the child's birthday), for completing financial education programs, or for reaching certain savings levels. Benchmarks give incentives to participants and their parents to save more, remind parents about the program on a regular basis, and are often the only source of deposits for severely low-income families. For example, a parent facing financial hardship may not be able to afford a \$25 deposit into his child's CDA but may be able to spare a few hours to attend a financial management workshop. The SEED program at Harlem Children's Zone noticed that benchmarks are especially useful for families in financial stress.⁶⁴ Benchmarks that are automatic or regular are easiest to administer.

C. American Dream Demonstration Results

Between 1997 and 2002 the Corporation for Enterprise Development organized the American Dream Demonstration, the largest demonstration program of individual development accounts to date. The demonstration program involved 2,364 participants at fourteen sites around the United States.⁶⁵ The results of the demonstration program are encouraging and suggest that CDAs could be even more successful than individual development accounts.

First, the American Dream Demonstration debunked the common myth that low-income people are unable to save.

Even though demonstration program participants earned an average 116 percent of the federal poverty guidelines, they saved an average of \$19.07 per month, about 1.6 percent of participants' income. Income was not significantly linked to savings behavior.⁶⁶ The lowest-income group of participants in the demonstration program (\$0 to 500 per month) saved at the highest rate (3.1 percent).⁶⁷

Second, students are significantly more likely to save than members of any other employment group.⁶⁸ This finding suggests that CDA programs may be even more successful than American Dream Demonstration, which focused primarily on adults.

Third, the American Dream Demonstration confirmed the value of incorporating financial education into matched savings programs. Researchers found that up to twelve hours of financial training led to positive changes in the amount and frequency with which participants saved.⁶⁹ Most adults get information about financial planning through their employer, but low-income people are least likely to have opportunities to save through their job, so financial education is crucial. Financial education may help overcome some barriers to participation and saving that SEED participants faced. Those reasons included wariness and distrust of financial institutions, disbelief that saving was possible, and uncertainty about the distant future.⁷⁰

Fourth, the American Dream Demonstration revealed the psychological and social effects of individual savings accounts. For example, 59 percent of dem-

⁶⁴LIANA HUMPHREY, CFED, REWARDING SAVERS: LESSONS ABOUT USING "BENCHMARK" INCENTIVES TO ENCOURAGE SAVINGS 4 (2007), www.cfed.org/imageManager/_documents/Growing_Knowledge-April_2007.pdf.

⁶⁵Center for Social Development, Washington University in St. Louis, Downpayments on the American Dream Policy Demonstration (ADD), www.gwbweb.wustl.edu/csd/asset/add.htm (last visited Nov. 12, 2007).

⁶⁶Mark Schreiner et al., Center for Social Development, Washington University in St. Louis, Final Report: Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts 15 (2002), <http://gwbweb.wustl.edu/csd/Publications/2002/ADDReport2002.pdf>.

⁶⁷*Id.* at 27–28.

⁶⁸*Id.* at vi.

⁶⁹*Id.* 51.

⁷⁰LIANA HUMPHREY & CARL RIST, CFED, GETTING TO YES: LESSONS FROM RECRUITMENT IN THE SEED INITIATIVE 2 (2005), www.cfed.org/imageManager/_documents/Growing_Knowledge_from_SEED-October_2005.pdf.

onstration project participants indicated that they were more likely to make educational plans for themselves; 57 percent indicated that they were more likely to plan for retirement; and 41 percent indicated that they were more likely to increase their work hours.⁷¹

Fifth, the matching element is key for poor families. In the United States the government gives asset-building incentives through a system of tax breaks for certain asset purchases such as homes, individual retirement accounts, and other investments. A shortcoming of using tax benefits to give incentives to save is that low-income families, who often pay little or no taxes, are not rewarded through the tax system for saving.⁷² As a result, the matching element of the American Dream Demonstration was crucial in motivating participation. Matching funds help small accounts grow not only by providing additional money but also by making the contribution of small deposits worthwhile.⁷³

III. Questions and Challenges

The costs of operating a universal CDA program, effects on means-tested programs and college financial aid, and safeguarding of funds for use as intended are some of the frequently asked questions and challenges in promoting CDAs.

A. How Much Would Implementing and Maintaining a CDA Program Cost?

A nationwide CDA program based on the Aspire Act universal model would cost an estimated \$3.25 billion in the first year.⁷⁴ The government would give \$500 to every child, with an additional \$500 for children in families below the national median income.⁷⁵ That \$3.25 billion price tag works out to approximately 0.11 percent of the federal budget for the 2008 fiscal year.⁷⁶

For state programs, some of the costs can be calculated on the basis of the number of children born each year multiplied by an amount for initial deposits. For example, about 181,000 children are born in Illinois each year.⁷⁷ That means that a statewide CDA program could cost approximately \$90 million or \$181 million per year to implement, based on an initial endowment of \$500 or \$1,000 per child at birth. To find birth data for your state, visit the website for the National Vital Statistics System.⁷⁸ Program costs would increase if additional government deposits were added or if government matching funds were offered to encourage additional savings.

Implementing a CDA program would require some start-up costs. After start-up, the program should become self-

⁷¹Amanda Moore et al., *Saving, IDA Programs, and Effects of IDAs: A Survey of Participants 2001*, at 19–20, <http://citeseer.ist.psu.edu/737944.html> (last visited Nov. 12, 2007).

⁷²MICHAEL GRINSTEIN-WEISS & KATE IRISH, CENTER FOR SOCIAL DEVELOPMENT, WASHINGTON UNIVERSITY IN ST. LOUIS, *INDIVIDUAL DEVELOPMENT ACCOUNTS: FREQUENTLY ASKED QUESTIONS 5* (2007), <http://gwbweb.wustl.edu/csd/Publications/2007/P07-09.pdf>.

⁷³See MENSAB ET AL., *supra* note 25, at 8.

⁷⁴Reid Cramer, New America Foundation, *The America Saving for Personal Investment, Retirement, and Education Act ("The Aspire Act of 2007")* (2007) (Question No. 15). For more information, see CFED, *The Aspire Act: America Saving for Personal Investment, Retirement, and Education*, S. 868 H.R. 1767, www.cfed.org/imageManager/_documents/Aspire_One_Pager_109th_Cong_final_.pdf (last visited Oct. 17, 2007) (fact sheet on 2005 version of Act).

⁷⁵CFED, *supra* note 74.

⁷⁶See OFFICE OF MANAGEMENT AND BUDGET, *MID-SESSION REVIEW: BUDGET OF THE U.S. GOVERNMENT, FISCAL YEAR 2008*, at 19 (2007), www.whitehouse.gov/omb/budget/fy2008/pdf/08msr.pdf (Table S-1 indicates that total budgeted outlay amount for 2008 is \$2,918 billion).

⁷⁷Joye A. Martin et al., National Vital Statistics System, Centers for Disease Control and Prevention, *Births: Final Data for 2004*, 55 NATIONAL VITAL STATISTICS REPORTS 52 (2006) (Table 11—Number of Births, Birth Rates, Fertility Rates, Total Fertility Rates, and Birth Rates for Teenagers 15–19 Years, by Age of Mother: United States, Each State and Territory, 2004), www.cdc.gov/nchs/data/nvsr/nvsr55/nvsr55_1_table11.pdf.

⁷⁸National Center for Health Statistics, Centers for Disease Control and Prevention, National Vital Statistics System, www.cdc.gov/nchs/nvss.htm (last visited Nov. 12, 2007).

sustaining through typical administrative fees charged by the financial institution holding the accounts. In the United Kingdom's Child Trust Fund, fees are limited to 1.5 percent.⁷⁹ The Aspen Institute proposes that fees in an American CDA program be limited to 1.5 percent as well.⁸⁰

B. Would CDAs Be Counted as Assets in Determining Eligibility for Other Public Benefit Programs?

Any money saved in a CDA should be exempt from asset rules for public benefits, including Temporary Assistance for Needy Families (TANF), Medicaid, the State Children's Health Insurance Program (SCHIP), the Food Stamp Program, and the Supplemental Security Income (SSI) program. Otherwise, considering assets in determining eligibility for public benefits is a disincentive to save.

Some assets are usually exempt from asset rules. For example, states often exclude an applicant's primary residence, car, and pension plan from the asset calculation.⁸¹ The reasoning is that, unlike personal savings, people cannot use their house, vehicle, or retirement fund to pay for daily expenses. Thus considering those assets in determining need would be unreasonable.⁸² The same logic applies to CDAs. With the exception of a CDA model proposed by the Aspen Institute's Initiative on Financial Security, CDAs in the United States would have re-

stricted uses and would generally be unavailable to children before age 18 or 25.⁸³ Because the funds in a restricted CDA would be unavailable, they would not be considered in an eligibility calculation.

States have the power to exempt CDAs from state-administered public benefit programs. The Personal Responsibility and Work Opportunity Reconciliation Act allows states to create their own asset limits for TANF benefits.⁸⁴ The Act also mandates that states exempt assets held in certain individual development accounts for homeownership, postsecondary education, or entrepreneurship.⁸⁵ Similarly Medicaid, SCHIP, and the Food Stamp Program give states some discretion to exclude certain assets from their eligibility calculation.⁸⁶ CDAs should be among the excluded assets.

C. Why Should Children of Affluent Families Be Included in a CDA Program?

CDAs should be universal—that is, given to all children in the United States regardless of family income—for several reasons. Savings and affordability are not a problem that is unique to low-income people. Some 76 percent of parents of high school students—regardless of income level—worry about being able to afford college.⁸⁷ Moreover, 44 percent of families think that the cost of a home is outside their reach, while 36 percent feel this way about retirement.⁸⁸ Family

⁷⁹HM REVENUE AND CUSTOMS, CHILD TRUST FUND: WHAT WILL YOURS GROW INTO? 10 (2007), www.childtrustfund.gov.uk/Documents/information_pack/070308%20-%20CTF6%20March%2007%20low%20res%20web%20version.pdf.

⁸⁰INITIATIVE ON FINANCIAL SECURITY, THE ASPEN INSTITUTE, SAVINGS FOR LIFE: A PATHWAY TO FINANCIAL SECURITY FOR ALL AMERICANS 17 (2007), www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/Savings_for_Life.pdf.

⁸¹See Dory Rand, *Reforming State Rules on Asset Limits: How to Remove Barriers to Saving and Asset Accumulation in Public Benefit Programs*, 40 CLEARINGHOUSE REVIEW 625, 626 (March–April 2007).

⁸²*Id.*

⁸³INITIATIVE ON FINANCIAL SECURITY, *supra* note 80, at 16–20.

⁸⁴Personal Responsibility and Work Opportunity Reconciliation Act, 42 U.S.C. § 604(a) (2006).

⁸⁵*Id.* § 604(h)(4).

⁸⁶See *id.* § 1396a(a)(17) (Medicaid); § 1397bb (SCHIP). The Food Stamp Program (7 U.S.C. § 2014 (g)(1) (2007) (eligible households)) is less flexible, but the 2007 authorization of the Farm Bill may offer an opportunity to remove some asset limits. See REID CRAMER ET AL., NEW AMERICA FOUNDATION, THE ASSETS REPORT 2007: A REVIEW, ASSESSMENT, AND FORECAST OF FEDERAL ASSETS POLICY 8 (2007), www.newamerica.net/files/Assets%20Report%202007%20Elec.pdf.

⁸⁷IMMERWAHR ET AL., *supra* note 11, at 4.

⁸⁸NATIONAL CENTER FOR PUBLIC POLICY AND HIGHER EDUCATION, LOSING GROUND: A NATIONAL STATUS REPORT ON THE AFFORDABILITY OF AMERICAN HIGHER EDUCATION 14, 31 (2002), www.highereducation.org/reports/losing_ground/affordability_report_final_bw.pdf.

circumstances can change, and children who are born into families that are well-off may end up less wealthy later. Financial institutions are more likely to take on the challenge of administering a universal CDA program because a universal program will involve much more money than a program limited to low-income families. Universal programs are likely to attract broad and enduring political support because they include everyone. An inclusive model encourages a broader cultural shift in expectations for achieving children's full potential and in savings behavior. An inclusive CDA plan also is a vehicle for broad-based and lifelong financial education.

D. Would CDAs Affect Children's College Financial Aid Opportunities?

Eligibility for federal financial aid for college is calculated by determining a family's expected family contribution to a child's college education.⁸⁹ Assets are one factor included in the expected family contribution calculation.⁹⁰

However, federal law provides that 529 savings are not counted in the expected family contribution calculation for a student whose family's adjusted gross income is below \$50,000 or who has at least one family member participating in a means-tested federal program.⁹¹ Thus parents concerned about financial aid eligibility should not be dissuaded from saving for college through this type of plan.⁹² For middle-income families, however, savings accounts and 529 accounts are usually counted in the expected family contribution calculation (although 529 accounts are treated much

more favorably than other types of savings accounts).⁹³

From a financial aid perspective, the most favorable account model is the individual retirement account, which is completely disregarded in the expected family contribution calculation.⁹⁴ Any CDA model that is adopted should exempt CDAs from the expected family contribution calculation so that children and parents who make deposits in CDAs would not be penalized by a reduction in financial aid.

E. What Safeguards Would Prevent Individuals from Using Their CDA Money for a Nonapproved Purpose?

A few safeguards can protect against children or families using CDA funds for purposes other than those approved by the program. The SEED and individual development account demonstrations use a parallel account structure. The account holder's savings are kept in an account that is separate from matching funds. This system allows account holders to use their own savings in an emergency but does not give them access to the matched savings. One problem with the parallel account structure is that administering it on a large scale may be difficult. Multiple accounts per person make bookkeeping more arduous.

Another way to ensure that CDA savings are used for intended purposes is to disburse funds directly to an approved recipient. For example, the individual development account demonstration programs paid the mortgage company, college, or other recipient directly.⁹⁵ CDAs could use a similar disbursement method.

⁸⁹See RIST ET AL., *supra* note 27, at 4.

⁹⁰See *id.* at 3.

⁹¹Higher Education Reconciliation Act of 2005, 20 U.S.C. § 8019(d)(3) (this Act is Title VIII of the Deficit Reduction Act of 2005).

⁹²Saving for College, Intro to 529s, www.savingforcollege.com/intro_to_529s/index.php?general_faq_id=4 (last visited Oct. 23, 2007).

⁹³RIST ET AL., *supra* note 27, at 4.

⁹⁴See *id.* at 10.

⁹⁵CFED, AMERICAN DREAM DEMONSTRATION: DATA ON SAVINGS AND WITHDRAWAL, http://add.cfed.org/savings_data.html (last visited Oct. 18, 2007).

F. Why Should States Rather than the Federal Government Create CDA Programs?

CDA proponents would like to see a national CDA program created. However, creating statewide programs first is preferable for a couple of reasons. First, states—which often serve as laboratories of innovation for social programs—would inevitably design their programs differently; this can help distinguish best practices from policies to avoid. Second, successful state initiatives can advance the national agenda by documenting results and building support among congressional representatives from the states that adopt CDAs early.

IV. Current Initiatives to Implement CDAs

A wide range of federal, state, and city-based CDA initiatives has been proposed in recent years. Leading advocates and researchers believe that a good CDA proposal should be consistent with some or all of the following principles or program components: universal (i.e., eligibility for all children regardless of family income); progressive (e.g., higher initial deposit or savings matches for children in lower-income households); lifelong (e.g., opened at birth and open until death); asset building (e.g., restricted to or used for asset-building purposes, exempt from resource tests in means-tested programs, and protected from creditors); adequate (e.g., includes an initial deposit and larger deposit or match or both for lower-income families to make the program more progressive); low cost to participants (in terms of annual fees); simple (in terms of enrollment, deposits, and investment choices); choice (of pro-

viders, investment options, and uses); automatic (enrollment, account creation, and deposits); and financial education. The CDA delivery system should have the following components: coherent program (e.g., centralized accounting system and data set for tracking and research); low administrative costs; and partner engagement (e.g., federal, state, local, and tribal government, nonprofit organizations, financial institutions, and employers). The proposal should be politically feasible (e.g., bipartisan and public support, cost, subsidy structure, and private-sector engagement).⁹⁶

A. Federal Initiatives

A diverse and bipartisan group of senators and representatives has introduced legislation—based on existing and new savings structures—that would create CDAs at the federal level.

1. Aspire Act

The Aspire Act was first introduced in July 2004 in the House of Representatives by then-Rep. Harold Ford Jr. (D-Tenn.), with Phil English (R-Pa.), Patrick Kennedy (D-R.I.), and Thomas Petri (R-Wis.) as cosponsors.⁹⁷ On the same day then-Senators Rick Santorum (R-Pa.) and Jon Corzine (D-N.J.) (cosponsor) introduced an identical bill in the Senate.⁹⁸ The Aspire Act was reintroduced in April 2005 with the same sponsors, but the 109th Congress did not act on the bill.⁹⁹ In the 110th Congress, on October 3, 2007, Representative Kennedy, along with cosponsors Jim Cooper (D-Tenn.), Rahm Emanuel (D-Ill.), English, and Petri reintroduced the bill (H.R. 3740).¹⁰⁰

The bipartisan bill would provide every child at birth with a savings account

⁹⁶Center for Social Development et al., Child Development Account Platform Matrix (Sept. 4, 2007) (federal policy) (on file with Dory Rand); *id.*, State CSA Policy Matrix (Sept. 4, 2007) (on file with Dory Rand). For more information on CDA programs in the United States, see NEW AMERICA FOUNDATION, SAVINGS ACCOUNTS AT BIRTH AND OTHER CHILDREN'S SAVINGS ACCOUNTS PROPOSALS, www.newamerica.net/files/CSA%20two%20pager.pdf (last visited Oct. 18, 2007).

⁹⁷Aspire Act of 2004, H.R. 4939, 108th Cong. (2d Sess.).

⁹⁸Aspire Act of 2004, S. 2751 108th Cong. (2d Sess.).

⁹⁹Aspire Act of 2005, S. 868, 109th Cong. (1st Sess.); H.R. 1767, 109th Cong. (1st Sess.).

¹⁰⁰Aspire Act of 2007, H.R. 3740, § 13, 110th Cong. (1st Sess.). For a detailed account of the Aspire Act, see NEW AMERICA FOUNDATION, ASPIRE ACT BILL SUMMARY (2007), www.newamerica.net/publications/policy/aspire_act_bill_summary; for questions and answers regarding the Act, see Cramer, *supra* note 74.

containing an initial endowment of \$500 or \$1,000, depending on the family's income.¹⁰¹ Contributions to and distributions from the accounts would be treated the same for tax purposes as a Roth IRA (deposits are not tax deductible but earnings and withdrawals for qualified purposes are federal tax-free).¹⁰² After the child's 18th birthday, the child would be permitted to use the funds to pay for college, buy a home, or save for retirement.¹⁰³ The Aspire Act also would provide for financial education for children and parents.¹⁰⁴ Qualified distributions for higher education during the period between age 18 and age 25 would be paid directly to the institution of higher education.¹⁰⁵

2. Young Savers Accounts

In August 2007 Sen. Hillary Rodham Clinton (D-N.Y.), with Gordon Smith (R-Or.) as cosponsor, introduced the New Savers Act.¹⁰⁶ One provision of the bill would create a new, tax-favored savings account for children based on the Roth IRA structure.¹⁰⁷ These young savers accounts depart from the individual retirement account model by allowing

parents to contribute to their child's account.¹⁰⁸ Parental contributions would apply to the parent's annual limit for Roth IRAs.¹⁰⁹ The bill includes a matching program for low-income families who qualify for the saver's credit.¹¹⁰ Similar to the Kids Investment and Development Savings (KIDS) accounts that would be created under the Aspire Act, young savers accounts would be allowed to be used for college, retirement, or buying a first home.¹¹¹ Sen. Max Baucus (D-Mont.) previously proposed Young Savers Accounts in 2006 as part of the Savings Competitiveness Act of 2006.¹¹²

3. 401Kids Savings Accounts

Rep. Judy Biggert (R-Ill.) introduced the 401Kids Family Savings Act of 2007 in January 2007.¹¹³ The Act would rename Coverdell Education Savings Accounts as "401Kids Savings Accounts," which would have a structure similar to IRAs.¹¹⁴ The Act would allow these accounts to be opened as early as birth and would allow after-tax contributions of up to \$2,000 per year.¹¹⁵ The accounts would not be created automatically, and the funds

¹⁰¹Aspire Act of 2007, H.R. 3740, §§ 2(d)(1)(A), 4(a), 110th Cong. (1st Sess.).

¹⁰²*Id.* § 6(a).

¹⁰³See *id.* § 7(a) (Aspire Act seeks to amend 26 U.S.C. § 408 by inserting after Section 408A a new section, 408B, which outlines how privately managed Kids Investment and Development Savings (KIDS) accounts should be treated—generally the same as Roth IRAs); see also 26 U.S.C. § 408A(d)(5) (2006) (governing Roth IRAs; early withdrawals are allowed without penalty as long as they meet provisions of 26 U.S.C. § 72(t)(2) (2006)).

¹⁰⁴Aspire Act of 2007, H.R. 3740, § 13, 110th Cong. (1st Sess.).

¹⁰⁵*Id.* § 6(d).

¹⁰⁶New Saver's Act, S. 1967, 110th Cong. (1st Sess. 2007). For an overview of the New Saver's Act, see New America Foundation, Summary of Senate Bill 1967 as Introduced August 2, 2007 (Aug. 2, 2007), http://newamerica.net/publications/resources/2007/new_savers_act.

¹⁰⁷See New Savers Act, S. 1967, § 301, 110th Cong. (1st Sess. 2007).

¹⁰⁸*Id.* § 301(a).

¹⁰⁹*Id.* In 2008 the annual limit is \$5,000 for individuals 49 years old or younger (26 U.S.C. § 21((b)(5)(A) (2006)); the annual limit is increased by \$1,000 for individuals 50 or older (26 U.S.C. § 219(b)(5)(B) (2006)).

¹¹⁰New Saver's Act, S. 1967, § 301, 110th Cong. (1st Sess.).

¹¹¹See *id.* § 301(a) (New Savers Act seeks to amend 26 U.S.C. § 408A by adding a new Section 408A(g), Young Savers Accounts, which would be generally treated the same as Roth IRAs).

¹¹²Savings Competitiveness Act of 2006, S. 2431, 109th Cong. For information about this bill, see Press Release, Committee on Finance, U.S. Senate, Baucus Introduces Savings Competitiveness Act of 2006 (March 16, 2006), www.senate.gov/~finance/prb/2005press/prb031606.pdf.

¹¹³401Kids Family Savings Act of 2007, H.R. 87, 110th Cong.

¹¹⁴*Id.* § 5.

¹¹⁵26 U.S.C. § 530 (b)(1)(A)(iii) (2006).

would be restricted to K-12 and postsecondary education, first-time homeownership, and rollover into a Roth IRA for retirement.¹¹⁶ Rep. Clay Shaw (R-Fla.) originally introduced the 401Kids program in 2006.¹¹⁷

4. Lifelong Learning Accounts

Lifelong learning accounts are a proposed federal program to help adults save for career-related education and training. In 2007 Senators Maria Cantwell (D-Wash.) and Olympia Snowe (R-Me.) introduced the Lifelong Learning Accounts Act, which would establish a national demonstration of these accounts.¹¹⁸ Each participant would be allowed to contribute up to \$5,250 each year and would receive a tax credit for contributions up to \$500.¹¹⁹ Employers would be allowed to match employees' contributions and would receive a tax credit for each dollar matched up to \$500 annually.¹²⁰ Employer contributions to an employee's lifelong learning account would not be counted toward the employee's gross income.¹²¹ The framework for lifelong learning accounts could be expanded or adapted to allow children to participate.

5. PLUS Accounts

In 2006 Sen. Jeff Sessions (R-Ala.) proposed a retirement savings program called portable lifelong universal savings (PLUS) accounts.¹²² PLUS accounts would be given to all U.S. citizens born after December 31, 2007.¹²³ Each account would receive \$1,000.¹²⁴ Instead of accessing the funds at age 18, account holders would be required to wait until age 65, when they would be permitted to use the money to pay for retirement.¹²⁵ PLUS accounts are significantly more restrictive than other CDA programs because they would be used only for retirement and only after age 65. Some advocates are wary of PLUS accounts because of the possibility that they could be offered as a way to eliminate social security retirement benefits.¹²⁶

6. Lifetime Learning Savings Accounts

In 2007 Los Angeles Mayor Antonio Villaraigosa advocated making universal CDAs a top federal priority for the U.S. Conference of Mayors Taskforce on Poverty, Work, and Opportunity.¹²⁷ The federal government would open a savings

¹¹⁶See H.R. 87, §§ 3(a), 3(b), 4, 5(a); see also 26 U.S.C. § 530(b)(2) (2006) (Coverdell education savings accounts already cover elementary and secondary education expenses).

¹¹⁷401Kids Family Savings Act of 2006, H.R. 5314, 109th Cong.

¹¹⁸Lifelong Learning Accounts Act of 2007, S. 26, 110th Cong.

¹¹⁹*Id.* §§ 2 (modifying 26 U.S.C. § 529 by inserting after Section 529 a new section 529A: Lifelong Savings Accounts, which would authorize qualified higher education expenses as governed by 26 U.S.C. § 127), 3(a) (modifying 26 U.S.C. § 25 to add a new Section 25E, which would set the maximum tax credit per taxable year at \$500).

¹²⁰*Id.* § 4.

¹²¹*Id.* § 450(d).

¹²²See 153 CONG. REC. S894 (Jan. 23, 2007) (statement of Senator Sessions). As of November 27, 2007, Sen. Jeff Sessions (R-Ala.) had not yet introduced legislation to create portable lifelong universal savings (PLUS) accounts.

¹²³*Id.*

¹²⁴*Id.*

¹²⁵*Id.* at S895.

¹²⁶See Tyler Cowen, *Universal 401(k) Accounts Would Bring the Poor into the Ownership Society*, NEW YORK TIMES, Dec. 28, 2006, at C28 (federal government could cut Medicare and social security to pay for PLUS accounts); Jeanne Sahadi, *Social Security Debate: It's Back*, CNNMoney.com, Jan. 18, 2007, money.cnn.com/2007/01/18/pf/retirement/social_security_debate/index.htm (Democrats oppose "care out" individual investment accounts in which workers would divert some of their social security taxes to fund other accounts).

¹²⁷Lifetime learning savings accounts were one of the "federal action steps" proposed by Mayor Antonio Villaraigosa. For the full report, see Mayor Antonio Villaraigosa, Taskforce on Poverty, Work, and Opportunity, U.S. Conference of Mayors, *Repairing the Economic Ladder: A Transformative Investment Strategy to Reduce Poverty and Expand America's Middle Class* 13-14 (2007), www.preschoolcalifornia.org/assets/US-Conf-Mayors-Poverty-Work-and-Op-Task-Force-Jan-2007.pdf.

account for every child born in the United States and deposit up to \$500 at the child's birth as well as annual income-indexed matching funds up to \$500 until the child's 18th birthday.¹²⁸ The proposal would allow children to access CDA funds after age 18 and use their savings to pay for postsecondary education or training.¹²⁹

B. State Initiatives

A few states have taken preliminary steps to create universal CDAs, while a growing number of states have adopted matched savings for all or some participants in 529 College Savings plans.

1. Efforts to Create CDAs

The California KIDS Account Act would create a universal CDA program.¹³⁰ Each account would include an initial endowment of \$500, and children would be allowed access to their funds starting at age 18.¹³¹ Permitted uses for CDA funds would be postsecondary education and training, homeownership, or retirement.¹³²

Illinois and Kentucky have created state-wide working groups to consider uni-

versal children's accounts. In 2004 the Kentucky Legislature created the Cradle to College Commission to consider universal savings accounts for college.¹³³ In 2007 the Illinois General Assembly unanimously passed legislation creating a Children's Savings Account Task Force, which will review and make recommendations about CDAs to the state.¹³⁴

2. College Savings Matching Funds

At least five states have taken a key step in asset building for children by matching 529 College Savings accounts. Colorado, Kansas, North Dakota, Rhode Island, and Utah each have pilot programs that make a dollar-for-dollar match on low-income people's 529 savings.¹³⁵

Other states have matching programs for 529 savings. Maine's Next Generation program gives a onetime matching grant of \$200 to low-income account holders who save at least \$50.¹³⁶ Each year the program matches 50 percent of all account holders' contributions up to \$400.¹³⁷ Arkansas, Louisiana, Michigan,

¹²⁸See *id.* at 18.

¹²⁹*Id.*

¹³⁰California State Sen. Darell Steinberg (D-Sacramento) introduced the KIDS Account Act in February 2007. KIDS Account Act, S.B. 752, 2007 Leg. Sess. (Cal. 2007).

¹³¹*Id.* (as amended April 18, 2007, http://www.leginfo.ca.gov/pub/07-08/bill/sen/sb_0751-0800/sb_752_bill_20070418_amended_sen_v98.html).

¹³²KIDS Account Act, S.B. 752, § 1, tit. 19, § 99102(b), 2007 Leg. Sess. (Cal. 2007). For more information on the Act, see ASSET BUILDING PROGRAM, NEW AMERICA FOUNDATION, SENATE BILL 752 (STEINBERG): CALIFORNIA KIDS ACCOUNTS (2007), www.newamerica.net/files/2007%20CA%20KIDS%20Account%20final%20policy%20brief.pdf.

¹³³For more information, see Cradle to College, www.cradletocollege.ky.gov/ (last visited Oct. 18, 2007).

¹³⁴See Illinois Children's Savings Accounts Act, Pub. Act No. 95-0358, 95th Gen. Assemb. (Ill. 2007).

¹³⁵For more information on 529 accounts, see 529 Plans, www.savingforcollege.com/compare_529_plans/?plan_question_ids%5B%5D=438&page=compare_plan_questions (last visited Oct. 18, 2007). For Colorado's plan, see COL. REV. STAT. § 23-3.1-205.4 (approved April 18, 2006), www.state.co.us/gov_dir/leg_dir/olls/sl2006a/sl_135.htm; see also Press Release, CollegenInvest, CollegenInvest's \$1-for-\$1 Matching Grant Program Helps Colorado Families Save for College (June 8, 2005), www.collegeninvest.com/PDF/MatchingGrantRelease6.8.pdf. For Kansas' plan, see KAN. STAT. ANN. § 75-650 (2007), www.kslegislature.org/legsvr-statutes/getStatutelInfo.do?number=75-650; see also KANSAS ACTION FOR CHILDREN, INCREASING PARTICIPATION IN COLLEGE SAVINGS ACCOUNTS BY LOW-INCOME FAMILIES, www.kac.org/docs/FFbrief2_529.pdf (last visited Oct. 18, 2007). For North Dakota's plan, see N.D. CENT. CODE § 6-09-38 (as amended March 30, 2008); see also College SAVE Matching Grant Application, https://a248.e.akamai.net/f/248/21630/7d/uii.s.upromise.com/rc/northdakota/images/pdf/nd_matching_grant_form.pdf (last visited Oct. 18, 2007). For Rhode Island's plan, see 92-030-005 R.I. CODE R. (WEIL) (effective JUNE 12, 2002); see also CollegeBoundFund, www.collegeboundfund.com/ri (last visited Oct. 18, 2007). For Utah's plan, see UTAH CODE ANN. 1953 § 53B-8a-103 (West 2005); see also Utah Educational Savings Plan, www.uesp.org/ (last visited Oct. 18, 2007).

¹³⁶NextGen, NextGen College Investing Plan Program Description and Participation Agreement 41 (Sept. 4, 2007), www.nextgenplan.com/pdfs/NexGen_Direct.pdf. For more information, see NextGen, NextGen College Investing Plan, www.nextgenplan.com (last visited Oct. 18, 2007).

¹³⁷NextGen, NextGen College Investing Plan Program Description and Participation Agreement, *supra* note 136.

and Minnesota match the 529 contributions of low-income people.¹³⁸

C. City Initiatives

At the local level, forward-thinking mayors have launched innovative child account programs.

1. Universal CDAs in Caguas, Puerto Rico

In October 2006 Mayor William Miranda Marin of Caguas, Puerto Rico (Puerto Rico's second largest city), announced the creation of a universal CDA program for every child born in that city. The accounts will have an initial deposit of \$200, and parents will be able to make contributions as the child grows.¹³⁹

2. Foster Youth Financial Empowerment

In 2007 New York City Mayor Michael Bloomberg created a pilot program to establish individual development accounts for children aging out of foster care.¹⁴⁰ The program includes 450 youth and matches deposits 2 to 1 up to \$2,000.¹⁴¹ The funds may be used for housing, education, or vocational training.¹⁴²

V. Advocacy Tips

The following tips for promoting CDAs are based on public opinion research and the experiences of CDA advocates at the federal and state levels.

A. Emphasize the Potential Universality of CDAs

One appealing aspect of CDAs is that they could be universal. In promoting CDAs, advocates should emphasize that CDAs are not just a tool to help low-income people. As noted in III.C, 76 percent of parents in the United States regardless of income level are worried about paying for college.¹⁴³ CDAs would have more mass appeal and be less vulnerable to budget cuts once in place if they have widespread support among the voting public and leaders such as newspaper editorial writers. Also, financial institutions probably would prefer to manage a universal program because the larger volume of funds allows financial managers to spread risk, decrease administrative costs, and create more profit.

B. Highlight Bipartisan Support for CDAs

CDAs are fairly unique in the amount of strong, bipartisan support they receive. In both the U.S. Senate and the U.S. House of Representatives, elected officials have demonstrated that asset building for children is an issue that merits reaching across the aisle and working on together. In a 2007 survey, both Democratic and Republican voters indicated that they were more likely to support a candidate favoring CDAs.¹⁴⁴

¹³⁸For more information on Arkansas' Aspiring Scholars Matching Grant Program, see ARK. CODE ANN. § 6-84-114 (West) (effective July 31, 2007). For Louisiana's Start Saving Program, see LA. REV. STAT. ANN. § 17:3091 (enacted June 18, 1995); see also Louisiana's 529 College Savings Program, www.startsaving.la.gov/savings/index-fl.jsp (last visited Oct. 23, 2007). For Michigan's program, see MICH. COMP. LAWS ANN. § 390.1473 (West) (effective June 16, 2000); see also Michigan Education Savings Program, www.misaves.com (last visited Oct. 18, 2007). For Minnesota's program, see MINN. STAT. ANN. § 136G.01 (as amended by 2007 Minn. Sess. Law Serv. Ch. 144 (H.F. 1063) (West) (approved May 30, 2007); see also Minnesota's College Savings Plan, www.mnsaves.com/index.html (last visited Oct. 18, 2007).

¹³⁹NEW AMERICA FOUNDATION, SAVINGS ACCOUNTS AT BIRTH AND OTHER CHILDREN'S SAVINGS ACCOUNTS PROPOSALS 2, www.newamerica.net/files/CSA%20two%20pager.pdf (last visited Oct. 18, 2007).

¹⁴⁰For more information, see Press Release, Office of the Mayor, Mayor Bloomberg and ACS Commissioner Mattingly Announce *Youth Financial Empowerment*, a New Financial Literacy and Savings Program for Youth Aging Out of Foster Care (July 26, 2007), www.nyc.gov/portal/site/nycgov/menuitemc0935b9a57bb4ef3daf2f1c701c789a0/index.jsp?pageID=mayor_press_release&catID=1194&doc_name=http%3A%2F%2Fwww.nyc.gov%2Fhtml%2Fom%2Fhtml%2F2007b%2Fpr258-07.html&cc=unused1978&rc=1194&ndi=1.

¹⁴¹*Id.*

¹⁴²*Id.*

¹⁴³IMMERWAHR ET AL., *supra* note 11, at 4.

¹⁴⁴PETER D. HART RESEARCH ASSOCIATES, CHILDREN'S SAVINGS ACCOUNTS 26 (2007), www.cfed.org/imageManager/_documents/Hart_Research_-_CSA_polling.pdf.

C. Underscore the Success of Adult Savings Programs

Advocates should use the experience from the American Dream Demonstration and other savings programs for adults to persuade lawmakers that CDA programs would work. The American Dream Demonstration showed that low-income people can save.¹⁴⁵ And it suggested that adults were more likely to plan for education or retirement if they had a savings account and basic financial education.¹⁴⁶

D. Use Research on CDA's Aspirational Effects

Research on the aspirational effects of CDAs is a powerful advocacy tool.¹⁴⁷ According to a recent paper from the Center for Social Development, most young children hope to attend college.¹⁴⁸ Further, the study found that young children who understood the importance of saving for college were more likely to think that college was within reach.¹⁴⁹

Research on the aspirational effects of CDAs also is helpful in responding to skeptics who argue that seeing the benefits of CDAs takes eighteen years. Because the existence of a savings account has immediate behavioral and aspirational effects, the benefits of CDAs start accruing right away.

E. Demonstrate the Broader Ripple Effects of CDA Programs

CDA programs not only help individuals save but also have ripple effects on communities. Sherraden, who has documented many of these effects, argues that people with assets are more likely to plan for the future and participate in their community.¹⁵⁰ Surveys conducted after the American Dream Demonstration indicated that participating parents were increasingly likely to talk to their kids about saving, set goals for themselves, and increase their income.¹⁵¹ Other research suggests that asset building's positive effects for communities include decreasing unemployment, increasing civic engagement, and increasing investment.¹⁵² Increased income generates tax revenue to support schools, infrastructure, and social programs.

The GI Bill (also known as the Servicemen's Readjustment Act of 1944) is a good example of the potential societal payoff that can come from asset-building initiatives.¹⁵³ Most people are familiar with the tremendous success of the GI Bill in sparking economic growth and generating high levels of education and training for military veterans. Economists estimate that every dollar invested in the GI Bill generated nearly seven dollars in increased economic activity and tax revenue.¹⁵⁴ By investing in the human

¹⁴⁵Schreiner et al., *supra* note 66, at 23.

¹⁴⁶*Id.* at 33.

¹⁴⁷For a fact sheet on the aspirational research for CDAs, see Illinois Asset Building Group, *Research Shows Positive Impacts of Asset Building for Children and Parents* (2007), <http://iabg.vigilantweb.com/wp-content/uploads/2007/07/assetimpactfactsheet.pdf>.

¹⁴⁸ELLIOTT ET AL., *supra* note 14, at 1.

¹⁴⁹*Id.*

¹⁵⁰See Michael Sherraden, *From the Social Welfare State to the Social Investment State*, 128 SHELTERFORCE ONLINE (March–April 2003), www.nhi.org/online/issues/128/socialinvest.html.

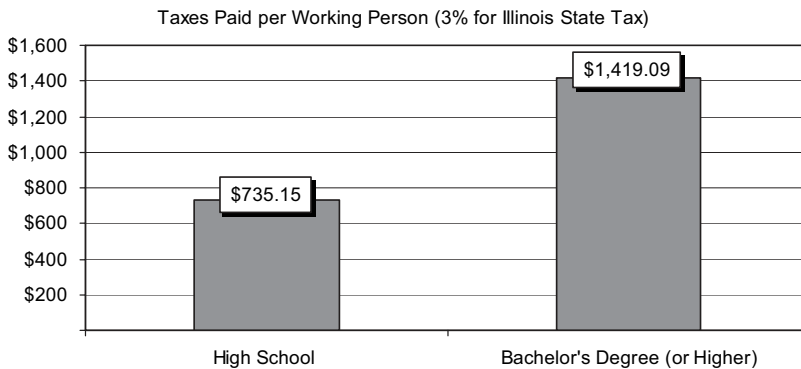
¹⁵¹MARGARET SHERRADEN ET AL., CENTER FOR SOCIAL DEVELOPMENT, WASHINGTON UNIVERSITY IN ST. LOUIS, *SAVING IN LOW-INCOME HOUSEHOLDS: EVIDENCE FROM INTERVIEWS WITH PARTICIPANTS IN THE AMERICAN DREAM DEMONSTRATION* 179 (2005), <http://gwbweb.wustl.edu/csd/Publications/2005/DIPResearchReport2005.pdf>.

¹⁵²STEPHANIE C. BODDIE ET AL., CENTER FOR SOCIAL DEVELOPMENT, WASHINGTON UNIVERSITY IN ST. LOUIS, *FAMILY SAVING & COMMUNITY ASSETS* 7 (2004), <http://gwbweb.wustl.edu/csd/Publications/2004/DanforthIDA.pdf>.

¹⁵³Servicemen's Readjustment Act of 1944, 78 Pub. L. No. 346, 58 Stat. 284.

¹⁵⁴Staff Report, Subcommittee on Education and Health, Joint Economic Committee, *A Cost-Benefit Analysis of Government Investment in Post-Secondary Education Under the World War II GI Bill 1* (1988) (unpublished report) (cited in Steven A. Ramirez, *Bearing the Costs of Racial Inequality: Brown and the Myth of the Equality/Efficiency Trade-Off*, 44 WASHBURN LAW JOURNAL 87, 102 n.108 (2004).

Increasing State Return on Investment: Illinois's Economy Grows as Children Build Assets



Source: U.S. CENSUS BUREAU, CURRENT POPULATION SURVEY: 2006 ANNUAL SOCIAL AND ECONOMIC SUPPLEMENT.

potential of children and enabling more children to attend college, buy homes, start businesses, and save for retirement, CDAs might have similar results in generating increased economic activity and tax revenue. (See graph.)

F. Showcase Success Stories

Advocates should take advantage of the SEED pilot programs to find stories of real children who have had success with saving. Using pictures, testimonials, and video can help the program come alive. Stories and a video about children participating in the SEED program are available online.¹⁵⁵

G. Get Involved!

Advocates can promote CDAs in many ways. Those who are interested should connect with a city or state coalition or form one. At least seventeen states have asset-building coalitions.¹⁵⁶ At least six of them are promoting CDAs, although they may use different terms.¹⁵⁷ Advocates can also reach out to their constituencies to

publicize current initiatives at the city, state, and federal levels.



An innovative tool at the local, state, or national level, CDAs can help all children achieve their full potential and deal with lack of savings and financial literacy and troubling levels of asset poverty and wealth inequality in America. Amid political, budgetary, and institutional challenges, the promising results of demonstration programs for individual development accounts and CDAs and growing political support for CDAs are creating momentum for implementing CDAs broadly.

Authors' Acknowledgments

We thank our colleagues Michael Sherraden, director, and Margaret Clancy, policy director, Center for Social Development, Washington University in St. Louis, and Carl Rist, director of the SEED Policy and Practice Initiative, Corporation for Enterprise Development, for reading and commenting on an earlier draft of this article. All conclusions, policy recommendations, and errors are our own. Special thanks to Meg Dunne, asset-building specialist, Community Investment Unit, Sargent Shriver National Center on Poverty Law, and Makeen Huda, law student intern at the Shriver Center and second-year student at Northwestern University School of Law, for their assistance on citations in this article. Funding for the Shriver Center's asset-building and child account work is provided in part by CFED, the Chicago Community Trust, the Richard H. Driehaus Foundation, the Ford Foundation, the Grand Victoria Foundation, the F.B. Heron Foundation, the Levi Strauss Foundation, the Woods Fund of Chicago, the Citigroup Foundation, Cole Taylor Bank, National City Bank, and TCF Bank.

¹⁵⁵To read more success stories, see CFED, SEED Policy and Practice Initiative, www.cfed.org/focus.m?parentid=31&siteid=288&id=288 (last visited Oct. 6, 2007).

¹⁵⁶For state asset coalitions, see Center for Social Development, Washington University in St. Louis, Comprehensive State Assets Policy Information, http://gwbweb.wustl.edu/csd/policy/states_comp.htm (last visited Oct. 25, 2007). For information on seven of the leading state asset policy groups, see SARGENT SHRIVER NATIONAL CENTER ON POVERTY LAW, PUTTING CHALLENGES ON THE TABLE: THE FIRST MEETING OF THE LEARNING CIRCLE (2007).

¹⁵⁷For additional advocacy information, see CFED, State Policy Resource Center for Children's Savings Accounts, www.cfed.org/focus.m?parentid=31&siteid=2166&id=2166 (last visited Oct. 18, 2007). The Resource Center has tools to help advocates develop and promote CDAs.

Resources on Child Accounts

Sargent Shriver National Center on Poverty Law:

www.povertylaw.org/advocacy/community-investment/saving-for-education-entrepreneurship-and-downpayment-seed.html

Asset-Building Program, The New America Foundation:

http://newamerica.net/programs/asset_building

Center for Social Development at Washington University in St. Louis, Information on SEED:

<http://gwbweb.wustl.edu/csd/SEED/SEED.htm>;

Information on State Asset Policy:

http://gwbweb.wustl.edu/csd/policy/states_comp.htm

Corporation for Enterprise Development's Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy and Practice Initiative:

www.cfed.org/focus.m?parentid=31&siteid=288&id=288

Initiative on Financial Security, The Aspen Institute:

www.aspeninstitute.org/site/c.huLWJeMRKpH/b.612041/k.42A9/Initiative_on_Financial_Security.htm

United Kingdom Child Trust Fund:

www.childtrustfund.gov.uk

Video: Building Savings and Ownership in America:

<http://video.google.com/videoplay?docid=3239356963422491760&q=shriver+center&total=15&start=0&num=10&so=0&type=search&plindex=4>

Subscribe to CLEARINGHOUSE REVIEW and www.povertylaw.org

Annual subscription price covers

- six issues (hard copy) of CLEARINGHOUSE REVIEW and
- www.povertylaw.org access to current issues of CLEARINGHOUSE REVIEW and all issues from 1990

Annual prices (effective January 1, 2006):

- \$250—Nonprofit entities (including small foundations and law school clinics)
- \$400—Individual private subscriber
- \$500—Law school libraries, law firm libraries, other law libraries, and foundations (price covers a site license)

Subscription Order Form

Name _____

Fill in applicable institution below

Nonprofit entity _____

Library or foundation* _____

Street address _____ Floor, suite, or unit _____

City _____ State _____ Zip _____

E-mail _____

Telephone _____ Fax _____

*For Internet Provider-based access, give your IP address range _____

Order

Number of subscriptions ordered _____

Total cost (see prices above) \$ _____

Payment

- My payment is enclosed.
*Make your check payable to **Sargent Shriver National Center on Poverty Law.***

- Charge my credit card: Visa or Mastercard.

Card No. _____ Expiration Date _____

Signature _____

We will mail you a receipt.

- Bill me.

Please mail or fax this form to:
Sargent Shriver National Center on Poverty Law
50 E. Washington St. Suite 500
Chicago, IL 60602
Fax 312.263.3846

CUT HERE