

Universal Children's Accounts: An Investment in Our Future

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What difference would it make if every child were born with an account that he or she could use at maturity to go to college, buy a home, start a business, or save for retirement? A number of state and federal initiatives and privately funded programs have been launched in the belief that an investment in universal children's accounts, like investments in early childhood education and healthcare, will produce huge long-term returns for children and for society.

Voices for Illinois Children and the Sargent Shriver National Center on Poverty Law are working with CFED (a nonprofit dedicated to expanding economic opportunity) and partners in three other states (Kentucky, Michigan and Oklahoma) to explore the development of universal, progressive children's accounts in Illinois. These accounts would be opened at birth, endowed with an initial deposit, and structured so that lower-income families receive greater incentives to build savings.

In the United States, the concept first appeared in print in 1991 in the seminal book "Assets and the Poor: A New American Welfare Policy," by Professor Michael Sherraden of Washington University in St. Louis. The book explained how government policy promoting assets (in addition to income) could provide "hope in concrete form" for poor families. Around the same time, Oregon

became the first state to pass legislation to establish kids' accounts.

Sherraden's asset-building theories have now been widely tested in the field of matched savings accounts, often called individual development accounts or IDAs, with adults. The American Dream Demonstration proved that low-income adults can and will save and build assets, given the opportunity, financial education, and incentives. Nationwide, over 20,000 low-income adults have successfully completed financial education programs and used IDAs for college, homeownership, small business, and other assets through programs supported by federal, state, and private funds. Building on this track record, the United Kingdom already passed national child trust fund legislation under which the British government opens an account for every child at birth and endows it with an initial deposit.

People in the United States are becoming increasingly interested in asset building for children and youth, too. In 2003, CFED launched Savings for Education, Entrepreneurship, and Downpayment (SEED), a multi-year policy and practice initiative to develop, test, and impel universal children's accounts at 12 sites throughout the country, including a Chicago site administered by the Shriver Center. Even before the SEED results could be established, the kids' accounts concept caught fire and a bipartisan group in Congress, led by Sen. Rick Santorum (R-PA) and Sen. Jon Corzine (D-NJ), launched the Americans Saving for



Personal Investment, Retirement, and Education Act, first introduced in 2004 and reintroduced in 2005.

Meanwhile, at least five states have added a matched savings component to their 529 college savings plans (available in every state through the state treasurer). Under section 529 of the Internal Revenue Code, earnings may be withdrawn tax-free for qualified higher education expenses. These 529 plans, like most provisions of the tax code that primarily benefit the wealthy, are underutilized by lower-income families. By providing an initial deposit and matched savings incentive through the existing infrastructure of 529 plans, states could expand college opportunities and change the expectations and outcomes for generations to come.

Dory Rand is Supervising Attorney for Community Investment at the Sargent Shriver National Center on Poverty Law, a Chicago-based organization that champions law and policy promoting equal opportunity and support for low-income individuals, families, and communities so that they can escape poverty permanently. To learn more or get involved in efforts to establish universal, progressive children's accounts in Illinois, please contact Dory Rand at 312-368-2007 or doryrand@povertylaw.org or Ann Courter at Voices for Illinois Children at 312-516-5556 or acourter@voices4kids.org.