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The Big Lift

Federal Policy Efforts to Create Child Development Accounts

Reid Cramer
New America Foundation

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Campus Box 1196 One Brookings Drive St. Louis, MO 63130-9906 • (314) 935.7433 • csd.wustl.edu

Washington University in St. Louis

The Big Lift: Federal Policy Efforts to Create Child Development Accounts

Children's accounts have been proposed as a means for creating an inclusive and accessible system for asset building throughout the life course. The idea gained traction in multiple settings, leading to a series of policies and demonstration projects across the globe. In the United Kingdom, the policy was adopted in the form of the Child Trust Fund program which began in 2005. A privately-funded project called the SEED Demonstration was launched in the United States in 2003. During this period a number of different children's savings account policy proposals have been made at the federal level in the United States. The details of these proposals differ but as a group reflect the recognition by select policymakers of the promise of this intervention. In particular, it has the potential to seed the savings process, facilitate financial education, increase economic opportunity, promote social development, and begin a lifelong process of asset accumulation.

The introduction and evolution of this policy idea over the past five years has been instructive. It has indicated the types of policy design choices that will have to be addressed if this policy is to be implemented on a large scale. The big lift will not just be getting this idea further into policy discussions, but will entail the consideration of a wide range of complex implementation issues including how the system would be funded and administered. This paper describes, the policy development process to date, analyzes the policy design choices and tradeoffs, reviews policy insights from demonstration projects, and assesses how the shifting political landscape may influence future policy deliberations and create implementation opportunities in the U.S.

Key words: *Child Development Accounts, child savings, federal policy, United States, social policy*

The rise of an assets perspective has colored federal policy discussions in recent years. Even though large scale policy change that enables families with fewer resources to build up savings has not been achieved, more attention has been paid to the importance of assets.. As interest among researchers, policy analysts, and policymakers in this topic has grown, so has the search for specific and effective policy tools and interventions. The financial crisis and the unfolding economic recession will likely elevate the issue of savings and assets further, creating a potentially enabling environment for the consideration and implementation of a large-scale system of children's accounts in the United States.

Initially, the concept of children's accounts was proposed as a means of creating an inclusive and accessible opportunity for lifelong savings and asset building. The idea gained traction in multiple settings, leading to a series of policies and demonstration projects across the globe. In the United Kingdom, the policy was adopted in the form of the Child Trust Fund program. A privately-funded project called the Saving for Education, Entrepreneurship and Downpayment (SEED) Demonstration was implemented in the United States. While some efforts focused on social development objectives and others on savings, the collective effect has raised the profile of children's accounts among federal policymakers.

The introduction and evolution of this policy idea over the past five years has been instructive. While the idea debuted in the 1990s, it has picked up stream and made significant progress within the last five years. Since the launch of the national SEED Demonstration in 2003, a number of children's savings account federal policy proposals have been introduced. These proposals differ in their details but as a group reflect the recognition by select policymakers that this intervention has the potential to seed the savings process, facilitate financial education, increase economic opportunity, and begin a lifelong process of asset accumulation. Rather than address the merits of specific legislative proposals, this paper will explore the types of policy design choices that will have to be addressed if this policy is to be implemented on a large scale. This is because the "big lift" is not getting policymakers interested in the idea of child development accounts, but instead involves getting them to agree on how such a policy can be implemented. This means they will be called upon to consider a number of complex issues which ultimately will determine who the policy covers, how it can be funded, and what administrative structures will be deployed. Accordingly, this paper strives to enrich that discussion by providing a brief description of the policy development process to date, analyzing some of the policy design choices and tradeoffs, and assessing how the shifting political landscape may influence the implementation of a children's accounts system.

Policy Development Process

Children's accounts should be distinguished from government policies that provide financial resources to families with children, such as TANF and food stamps. Historically these policies are intended to provide income security with the primary objective of ensuring the welfare of children. This contrasts with children accounts that are focused on long-term savings rather than immediate consumption. During the 1990s, several legislative proposals were made that sought to connect support for children though savings vehicles tied to specific uses, including retirement, education, and first home purchase. One widely recognized scheme was KidSave, initially promoted by Senator Bob Kerrey (D-NE) in 1995. Under KidSave every child would have an account opened for them at birth and accumulated resources would be devoted toward supplementing Social Security.

As the KidSave proposal evolved, numerous funding mechanisms were considered, including direct deposits of federal money, a tax credit for parents, and family contributions. In each scenario resources were placed in an individual account that would supplement Social Security. The idea generated support during the late 1990s because it offered a solution to growing concern with retirement security. This concern was fueled in part by increased demographic and political pressure on the Social Security program. Furthermore, it connected personal accounts to the growing awareness of assets as a potentially powerful tool in helping to achieve social policy goals.

As the concept of asset-based social policy gained recognition during the course of the 1990s, it was elevated rhetorically by President Bush as part of his re-election campaign. His call to create an "Ownership Society" that would allow all Americans the opportunity to save and build wealth was highlighted during his second Inaugural Address. The President proclaimed:

> In America's ideal of freedom, citizens find the dignity and security of economic independence, instead of laboring on the edge of subsistence. This is the broader definition of liberty that motivated the Homestead Act, the Social Security Act, and the G.I. Bill of Rights. And now we will extend this vision by reforming great institutions to serve the needs of our time. To give every American a stake in the promise and future of our country, we will bring the highest standards to our schools, and build an ownership society. We will widen the ownership of homes and

> businesses, retirement savings and health insurance - preparing our people for the challenges of life in a free society.[1]

In many ways these words reflected the core objectives of those interested in asset-based welfare policy. For conservatives, this was a promising approach as it emphasized the ability of people to assume personal responsibility and exert greater control over their economic futures. But there was also crossover appeal. Even though progressives may have been concerned about limiting the responsibility of government and transferring risk to families, they were drawn to the underlying message of using ownership to expand economic opportunity. As it turned out, the White House never got behind specific proposals that were capable of matching the transformative vision of the Ownership Society rhetoric. Instead they opted to put a series of policies on the table, such as Health Savings Accounts (HSAs) and Social Security reform, which would have been more regressive in terms of their distribution of benefits than current policy. The subsequent policy debates over Social Security which took place in Congress during 2004 and 2005 eventually broke down along party lines. Most Republicans supported the President's proposal to create individual accounts that would be carved out of the existing Social Security system, and Democrats argued for the status quo. These partisan positions hardened quickly and seemingly undercut any opportunities for a bipartisan reconsideration of what an asset-based social policy framework might entail.

The debate did, however, motivate some policymakers to search for innovative asset building proposals that could attract bipartisan support. Common ground was found in the concept of children savings accounts. This led to the drafting and bipartisan introduction of the ASPIRE Act in 2004, which called for the creation of a universal system of child accounts, provided to every newborn at birth.[2] Initially, the bill was noteworthy because it united diverse partisans on opposite sides of the political spectrum and Social Security debate around a relatively novel idea. The bold nature of the proposal was one of its unique features as it called for every child to be given a $500 restricted account at birth. Additionally, children in lower income families would be given an additional $500 and the opportunity to have their annual deposits matched by the government up to $500 annually. It was also noteworthy in that it called for a major government role in creating a savings plan system that could span the life course.

Initially the sponsors of the bill, which in the Senate included Republican Rick Santorum and Democrat Jon Corzine, sought to distinguish it from the Social Security debate but they also recognized that it had the potential to be included in Social Security reform legislation. When the window closed on Social Security reform in 2006, the near term prospects for the ASPIRE Act proposal ended as well. Still, the introduction of the bill sparked interest in the children's account concept, which generated discussions that led to a proliferation of other legislative proposals. By the end of 2006, four additional proposals were put forth by policymakers to create children's savings account products or savings systems. These included proposals to create Young Savers Accounts, 401Kids Accounts, Baby Bonds, and Portable Lifelong Universal Savings Accounts. The table below provides a brief overview of these five proposals in order to highlight how each of them are distinct

[1] President Bush. Second Inaugural Address. Washington, D.C. January 20, 2005.

[2] The America Saving for Personal Investment, Retirement, and Education Act (ASPIRE Act) was originally introduced in July of 2004. Original Sponsors in the Senate included Rick Santorum (R-PA), John Corzine (D-NJ), Charles Schumer (D-NY), and Jim DeMint (R-SC) and in the House of Representatives included Harold Ford (D-TN), Patrick Kennedy (D-RI), Phil English (R-PA), and Thomas Petri (R-WI). Subsequent versions of the bill, also with bipartisan support were introduced in 2005 and 2007.

from one another. However, as a group, they reflect a striking level of convergence around the growing perception that children's accounts are a promising policy intervention.

Table 1. Recent proposals to enact Child Development Accounts in the 110th Congress (2007-2008)

Title and Description	Congressional Sponsors
ASPIRE Act (America Saving for Personal Investment, Retirement, and Education Act): Every newborn child would have a KIDS Account opened for them automatically when they apply for a Social Security number. 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.	Senator Charles Schumer (D-NY) and Representatives Patrick Kennedy (D-RI), Phil English (R-PA), Jim Cooper (D-TN), Rahm Emanuel (D-IL), and Thomas Petri (R-WI).
Young Savers Accounts: "Young Savers Accounts" would serve as Roth IRAs for children. Parents would be allowed to make deposits to Roth IRAs held by their children using their current IRA contribution limits. Opening an account would be voluntary.	Senators Max Baucus (D-MT), Hillary Clinton (D-NY), and Gordon Smith (R-OR).
401Kids Accounts: This proposal would convert Coverdell Education Savings Accounts into "401Kids Savings Accounts" with expanded uses. 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 annually. 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. Opening an account would be voluntary.	Current sponsor is Judy Biggert (R-IL). Original sponsor was Rep. Clay Shaw Jr. (R-FL).
Baby Bonds: Every child would be provided a $500 bond at birth and another at age 10. Although not yet introduced as a bill, 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.	Senator Hillary Clinton (D-NY).
Plus Accounts (Portable Lifelong Universal Savings Accounts): Every newborn would have a PLUS Account opened for them automatically by the federal government endowed with a one-time $1,000 contribution. 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 accountholder reaches the age of 65, although there would be a loan program for pre-retirement uses. Although not yet introduced as a bill, draft legislative language has been circulated.	Senator Jeff Sessions (R-AL).

Policy Design Choices and Trade-offs

Previous analytical work exploring the policy design issues at stake in designing a children's savings policy have provided a foundation for assessing the existing proposals, which represent a number of alternative approaches. (Cramer, 2008; Cramer, 2006; Goldberg, 2005; and Butrica, Carasso, Steuerle, & Desmond Toohey, 2008) The five proposals differ in important respects and these distinctions represent a series of policy design choices that will in turn affect their potential impacts.

For the purposes of this discussion, I believe it is helpful to distinguish between four primary policy design dimensions. While there are many other technical considerations to review, these dimensions reflect how the proposals vary among each other and reveal the range of program implementation and administrative issues that would need to be addressed should a policy effort make significant progress. The four dimensions to highlight for this analysis are policy design choices related to participation, funding and incentives, account management, and designated uses. The manner in which these issues are collectively addressed will give shape to future federal policy. It will also determine whether this policy can encourage financial education and lead to levels of accumulation capable of improving life chances.

Participation

The two central questions which address participation are: Is eligibility universal or targeted? Is participation mandatory or voluntary? The argument for making the provision of children's accounts universal is that it creates an inclusive and accessible system. Everyone is included and no one falls between the cracks. This makes it easier to connect these accounts to other opportunities, such as financial education. It also means that the account structures can be present regardless of economic circumstance, which can fluctuate over time. To achieve the full benefits of universal eligibility, it is likely that program participation will have to be made mandatory. While some might argue for an opt-out model that allows for voluntary exit, limiting this option affords participants a degree of protection from decisions made on their behalf by their guardians. Mandatory participation and universal eligibility may create additional costs and political challenges, but they are also fairer and have the potential for the greatest impact.

Alternatively, eligibility can be restricted to those that may potentially benefit the most. Targeting could involve a mean-test designed to create a threshold that distinguishes worthy beneficiaries. Alternatively, a phase-out could be crafted that offers fewer benefits to children in wealthier families. Means tests are difficult to design well and also difficult and costly to administer. They create compliance problems which themselves add costs associated with processing applications, providing case management and technical assistance, and verifying income as well as monitoring fraud. Some proposals entail both a universal and a targeted component, such as in the ASPIRE Act. Under ASPIRE every child receives an account with an initial endowment of $500However, some children in targeted families also receive a supplemental endownment and have access to additional savings incentives.

A voluntary program will lower the participation rate even with targeted benefits for lower-income families. More likely, a voluntary structure would be pursued to minimize the direct federal cost associated with accounts. This is reflected in the YSA and 401Kids proposals, where parents may choose to open accounts for their children and gain access to potential tax benefits. In this respect, it is similar to the current 529 plan model which is directed toward post-secondary education uses. In fact, it is somewhat duplicative of this model except it has the potential advantage of a larger set of qualified uses.

Funding and incentives

The existing policy framework that govern targeted savings accounts, such as IRAs, 401Ks, and educational savings accounts, uses tax preferences as an incentive to increase personal savings. (Bell, Carasso, and Steuerle, 2004) Traditional IRAs offer tax deductibility for contributions and Roth IRAs offer tax-free earnings on after-tax contributions. The rising cost to government of these incentives has been accompanied by declines in the personal savings rate since the mid-1990s, reflecting limitations in this approach to promoting savings. Tax preferences reward deposits but do not necessarily require net new savings to occur. In fact, little analytical work has been done to estimate the impact of these tax preferences on saving. Although a tax-free earnings policy will push the costs into the future since it removes the ability of the government to tax the growth of assets at a later date, nonetheless this approach does represent a real cost to the federal treasury. If it is not augmented by other policies, the effect of this approach will generally be regressive since it will tend to benefit higher income households that can take full advantage of the tax preferences. Despite these limitations, it remains common for policymakers to offer favorable tax treatment to deposits into accounts with use restrictions. Each of the current federal policy proposals described above includes some element of tax policy.

An alternative approach is to offer direct federal deposits into accounts that would be triggered by specific behavior or conditions. The ASPIRE Act, Baby Bond, and PLUS Accounts proposal all employ some version of this approach. The include an initial seed deposit and direct matches to savings contributions made to the participants accounts. Initial research evaluating the SEED demonstration has confirmed that the promise of matching savings deposits motivated youth to participate in the project. Other institutional factors, such as the dedicated nature of the accounts, were seen as supporting the inaccessibility of the savings, and direct deposit. One of the most predominant themes to emerge in qualitative interviews was the positive way in which participants responded to the match structure offered by the program. (Scanlon and Adams, 2006)

Fred Goldberg (2005) has proposed funding children's accounts with a refundable tax credit. This could work similarly to a direct match approach but has the added advantaged of facilitating a means-test administered through tax filing. This approach could ensure that benefits be phased out for higher-income taxpayers but means that additional compliance rules would be required. Another set of incentives have been discussed that extend beyond contributions to consider behavior, such as community service and school performance. In recent years, an increasing number of conditional cash transfer programs have emerged to explore the effect of cash incentives on the behavior of target populations.[3] Evaluation of these pilot programs in the U.S. and abroad may yield additional insights into the most effective structure for savings incentives.

[3] Conditional cash transfer program compensate participants when they behave in a prescribed manner, such as ensuring children attend school or receive medical attention. They are becoming a widespread intervention in development settings and a recent effort in New York City begun by Mayor Michael Bloomberg is being evaluated by the research firm MDRC.

Account management

A fundamental policy design issue is found in the choices of account management. A number of distinct account management functions inherent in any children's account policy can be identified. (Cramer, 2006) These include policy oversight, rulemaking, record keeper, distributor, and the institutions that hold the accounts and manage the investments. In any policy, there will necessarily be roles for both the private and public sectors to fill, but the manner in which these functions are distributed will in large measure define the policy. As a result, it is usually inaccurate to distinguish between a private sector approach and a public sector approach to managing a universal child development account system. But there are different models of account management which determine what type of financial institutions can hold accounts and manage funds as well as whether these accounts are held individually or are managed within a savings plan structure.

Recent work in the field of behavioral economics has reinforced the theoretical foundation of an institutional theory of savings. (Beverley, Sherraden, Cramer, Zhan, Nam, & Williams-Shanks, 2008) This theory does not discount individual characteristics but considers how savings and asset accumulation are largely facilitated through access to institutional support structures. Some examples of these structures are direct deposit, employer matches, and automatic enrollment. Savings plans have additional features that make an advantageous foundation for a large-scale children's account policy. These include centralized accounting, provision of financial information, low-cost investment options, consumer protections, and automatic defaults. The savings plan structure offers an attractive opportunity to bundle together many of the institutional constructs that encourage saving. These features are present in savings plans, which can be provided by the private sector, but are usually supported by public policies. To be effective, savings plans require that individual accounts are managed under a uniting structure rather than in isolation. The economies of scale afforded the manager of a 401(k) plan with large assets under management allow them to offer fees which may be below the costs of managing individual accounts.

Voluntary proposals, such as the YSA and 401Kids policy, will be harder to incorporate within a savings plan format given that the accounts are voluntary. It is conceivable that the market could develop attractive savings plan models that emulate the voluntary 529 system, but it is unlikely that they could build up a sufficient level of market share to make this feasible if there is competition among numerous providers. The advantage of an account management system that sits more fully in the private sector is the incentive that flows to the financial service provider to maximize savings contributions since they will have a financial stake in maximizing accounts and assets under management.

A universal, large-scale children's account system more readily lends itself to a savings plan system with significant account management functions assigned to the public sector. Both the ASPIRE Act and PLUS Accounts propose creating an administrative entity similar to the one that currently operates the retirement plan for federal employees, the Thrift Savings Plan (TSP).[4] The TSP has an independent oversight board that establishes policy, relies on the federal government to set the rules

[4] The Thrift Savings Plan was established by Congress in 1986 to provide retirement income for federal employees. It is a defined contribution plan tjat accrues assets based on participant contributions and the financial performance of investments.

which govern the accounts, and contracts with a private sector assets manager and a public sector record keeper. Through this approach, which concentrates assets under management and restricts investment options to a small set of diversified mutual funds, the TSP is able to keep costs low and pass along savings to the plan participants. This approach is similar to the structure of 529 college savings plans. The federal government has established a broad set of rules but has allowed each of the fifty states to craft its own system. This has created a healthy competition among state providers which has driven down administrative costs over time. This could also serve as a model for a national system where multiple savings plans providers compete against each other for market share.

Accounts do not have to be held in a savings plan structure. This is a policy choice. The alternate model is represented by Individual Retirement Accounts (IRAs) allow account holders to invest in a broader range of investments. But savings plans have the advantage of mandating that assets are held in pooled resources which diversifies risks and lowers administrative costs. Rules could be established that require individual account resources are also held in these types of investments. This would distinguish them from the IRA model and likely limit the number of providers that would seek to offer such accounts.

Regardless of how many providers ultimately participate, any management structure requires a mechanism to open accounts. The ASPIRE Act uses the issuance of a child's social security number as the trigger for opening accounts. It can do this because initially accounts are held and managed within a single savings plan and there are fewer legal hurdles for sharing this type of information between various public sector agencies. One of the primary virtues of this approach is that it uses an automatic default, which would be difficult to replicate if the family had to affirmatively choose a provider. In contrast, the UK's Child Trust Fund system issues vouchers to the families of newborns which can be deposited at participating financial institutions. If families fail to do so within one year, an account is automatically open for their child at a random institution, which them notifies the family where the account is being held.

Designated uses

A fourth fundamental policy design issue for a children's account policy is what rules will govern distributions and withdrawals. These rules will determine what restrictions should be placed on the use of account funds, how long these accounts can be held, and at what age participants can gain access to their funds. These rules will greatly affect the public's perception of the policy effort and will most clearly convey the overall purpose of the policy. For instance, if the policy allows for funds to be withdrawn for any purpose at any time, it is less likely to be seen as an effort to support the purchase of specific assets. In the UK's Child Trust Fund program, no restrictions are placed on withdrawals once accountholders reach 18. Since account resources can be used for any purpose, the public thinks of the policy as an effort to promote a savings habit. In the five federal children's account proposals made in the U.S., accountholders can be penalized if they use their funds for uses other than post-secondary education and training, homeownership, or retirement security. With this approach, the message is more clearly delivered that the policy is intended to facilitate certain types of asset purchases that can pay off over the long run.

Initial focus group research revealed a high degree of interest in connecting these accounts to post-secondary education and training.[5] Other uses were contemplated as well, such as homeownership and retirement security. Each of these uses has different implications as to what age restrictions there should be to access funds. Many proponents are attracted to the inability of accountholders to withdraw funds from their accounts until they reach a specific age. Most but not all 18 year olds are beginning to pursue post-secondary education by the time they reach the age of majority. Yet very few of these 18 year olds are ready or interested in homeownership. The last version of the ASPIRE Act allowed 18 year olds to use their accounts to fund education but required they wait until they were at least 25 to use them to become homeowners. Congressional sponsors felt these rules were more aligned with the life cycle needs of young adults. Consequently, they choose to define what would constitute a qualified use of funds in terms of both use (education, homeownership, and retirement) as well as age.

All of the proposals apply penalties to the non-qualified use of earnings, but allow accountholders to access their after-tax contributions without consequence. This requires an accounting of both contributions and earnings as well as what is a qualified use and what is not. Another dimension of account monitoring could be introduced if the policy allows accountholders to borrow against funds in their account. The TSP has such a policy and the PLUS Accounts proposal envisions allowing this borrowing to occur as well. However, the TSP has the advantage of being administered through an employer and a new set of administrative issues is created when this relationship does not exist.

Recent Insights from the Field

The launch of the SEED Demonstration in 2003 was fortuitous in that it came at a time when a small but influential set of policymakers were interested in placing a brighter spotlight on the larger issues of savings and social insurance. The original purpose of the SEED Demonstration was to explore the potential dynamics of children's savings, influence policy discussions, and learn from experience. Although the SEED project is still ongoing, preliminary qualitative research has confirmed the promise of these accounts. In-depth interviews with youth account holders supported the hypotheses that access to an account would increase interest in savings, improve self-worth, and foster planning for the future. (Scanlon and Adams, 2005) Participants identified several institutional program features, such as direct deposit, access to a match of their deposits, and financial education, as playing a positive role in promoting savings. Furthermore, increased financial knowledge gained through the program was considered helpful by participants and contributed to an increase in fiscal prudence, future orientation, and a sense of security. (Scanlon and Adams, 2005)

Beyond participant effects, the SEED experience has illuminated a number of administrative burdens placed on intermediaries at the community level. The work of providing accounts and supporting accountholders is particularly challenging when other policy supports are absent. For example, the management of accounts and ensuring that deposited financial resources are protected proved more than a matter of good faith. A number of sites in the demonstration project had difficulty meeting their clients' needs with existing financial products. Some sites negotiated directly with banks to develop appropriate products, and others opted to use the infrastructure of state-run 529 College Savings plans, which were already up and running. These 529 savings programs offered a tax-advantaged account for children's savings but that meant that qualified uses were restricted to

[5] Neeley-Bertrand, DeQuendre (2008).

post-secondary education and training. While these uses may be appropriate for many, others may value savings for additional and longer-term uses. This reveals a gap in the current array of tax-favored accounts which the Young Savers Account proposal seeks to fill by creating a more flexible tax-advantaged savings vehicle appropriate for children.

Creating this type of tax-favored vehicle to support children's savings is but one area where federal policy could be supportive. If a more inclusive framework is to be realized, there will be additional areas where federal policy is required because an accessible children's savings system cannot be delivered through private firms alone. Although accounts are often called "private," they are actually defined by public policies. Defined contribution accounts, such as IRAs, are defined and regulated by government. Any large-scale effort to create children's accounts will require the public sector to design the institutional framework that provides broad access, low costs, legal protection, and a uniform set of rules to ensure equal protection.

This new framework will require many different roles, some of which can be done by private and non-profit organizations. However, recent research into the determinants of savings has confirmed the importance of institutional support structures delivered through savings plans, such as a 401(k) plan or a 529 College Savings plan. (Beverley, et al., 2008) Savings plans have specific features that lend themselves to inclusion and cost containment. These include centralized accounting, limited investment options, automatic deposits, and streamlined consumer education. Additional insights from the growing field of behavioral economics identify links between savings performance and institutional default structures often found in savings plans.

In fact, these types of features may be more valuable in generating higher savings than the current federal incentives which focus on favorable tax treatment. Relative to a direct match of deposits, access to a tax-advantaged account is considered to be less effective for people with lower-incomes and lower tax liabilities. And given the long-term nature of children's accounts, the incentives and support structures will have to be applied over a long-time horizon.[6] This perspective is a particularly important one to consider because one of the strongest arguments for children's savings accounts is their potential to help chart a path to economic security. But this is not expected to happen quickly. Asset building is a long term process in itself, but it also takes time for the potential positive psychological, behavioral, and educational effects associated with account ownership to take hold. This means that the appropriate policies to support such outcomes will have to work over the long term as well.

Changing Landscape and Opportunities for Federal Policy Gains

Under normal circumstances, the arrival of a new administration and a new Congress create fresh opportunities to revisit an array of reform proposals, especially those that have increasingly attracted interest among policymakers. However, the early years of the Obama Administration will be marked by a national economy in recession and prevailing uncertainty in the financial sector. Bank failures, stock market fluctuations, failing housing prices, and rising defaults and foreclosures will undermine

[6] The SEED for Oklahoma Kids (SEED OK) project described by Sherraden and Clancey (2008) has recently been launched and has been designed to examine the long-term effects of this type of intervention. This demonstration involves a set of randomly selected newborns receiving a $1,000 deposit into Oklahoma's 529 plan along with a control group for comparison.

the potential for the economy to grow. Accordingly, it is likely that policy action in 2009 and 2010 will be directed toward ameliorating economic hardship brought on by the recession and creating the conditions for the next economic recovery. Once the focus shifts to the long-term, policy discussions can be expected to include a reconsideration of the optimal distribution of savings, consumption, and debt at both the household and national levels..

Increased government spending, which is expected in the near term, does not remove the importance of saving, especially at the household level. The attention afforded to consumption as a driver of the economy seemingly undermines the role savings should play in our economy going forward. While it is true that declining consumption will increase recessionary pressure on the economy, it is also true that the economic health and stability of many families will require they realign their spending and debt with their long-term savings needs. Policymakers will need to continue thinking about how to create the set of incentives, institutions, and policy supports that can establish the long-term foundations of our economy. In the near term, government spending should offset declines in consumer spending associated with the recession. However, over an extended time horizon, there is a strong case to be made for increased savings and a justification for a policy response that enables greater savings to occur. This policy response should focus in particular on families with lower incomes and fewer resources.

When policymakers turn their attention within the next few years to addressing long-term sources of economic insecurity, they will need to consider ways to encourage more Americans to save for their future and build up their asset base. This should, along with the growing awareness of the potential role for children savings accounts, create an opening for policy gains. An effective approach depends on an ability to articulate a strong rationale for action, identify a promising policy intervention and a set of policy design choices, and seize upon a strategic moment created by the political process.

Recent events in the economy have made the policy rationale for the children's accounts stronger in so much as they offer a means to promote greater savings behavior. These accounts have the potential to attract deposits and provide a means to promote financial education. Not only is the ability to manage personal finances an essential skill for the 21st century, account ownership makes financial education real for both youth and adults.. One of the major divides among competing children's account proposals is whether accounts should be voluntary or mandatory. If everyone gets an account, the opportunities to leverage financial education increase significantly. If accounts are only accessed through parent choice and deposits, fewer children will benefit and those that do will likely be from higher income families. This has been observed in the take-up of 529 College Savings Plans. A universal policy is a much bigger lift as large policy changes are harder to enact than smaller ones. Conversely, less costly proposals can be more readily attached to other related bills under consideration. The Young Savers Account proposal is potentially attractive to advocates because it creates a new tax-advantaged vehicle for children's savings but it is also attractive to legislators because it has a relatively modest cost. More ambitious proposals, such creating a universal children's savings account system, are more expensive and may require being included in larger legislative packages.

While it is difficult to predict congressional action, changing economic conditions create political expediencies that in turn create opportunities for policymaking. The shifting political landscape represents an additional layer of uncertainty. One event for policymakers to anticipate, however, is the expiration of a number of tax provisions in the next two years that were originally implemented in 2001 and 2003. This includes ones linked to the tax treatment of saving, capital gains, dividends, and estates. These expirations may trigger a larger tax reform effort that could encompass a revision of current tax-based savings incentives and include the consideration of ways to effectively encourage long-term savings through children's accounts.

The next few years are also likely to generate increased interest in the experience of other countries pursuing savings policies and children's accounts. Under the United Kingdom's Child Trust Fund policy each of the 700,000 children born in the UK each year receives a savings account. Implemented in 2005, the effort is already producing tangible results which may inform the design of a U.S. policy. (Cramer, 2007) Of particular interest is the emphasis on using the accounts as a means to deliver financial education in primary and secondary schools, a link which should interest U.S. policymakers across the political spectrum. Additionally, recent policy reforms have been put in place in the UK to ensure that savings in the child accounts can be seamlessly rolled over into other savings products once accountholder reach the age of 18. This reflects the potential value of child accounts to seed savings that extends across the life course. Although political and social conditions in the U.S. are distinct from the UK, the Child Trust Fund experience represents a promising policy framework for U.S. policymakers in that it is universal in scope, seen as part of a lifelong savings platform, and emphasizes links to financial education and asset building.

Implementing such a system in the U.S. will remain a big lift. Policymakers will need to weigh in on a number of fundamental policy design issues that will determine the ultimate shape of a children's account policy, but political hurdles will have to be overcome first. The transition to a new administration during a period of economic recession creates a potentially enabling environment for a consideration of children's accounts. This might especially be true if advocates are able to connect these accounts with other policy objectives, such as access to financial education and increased savings. Achieving both of these goals would provide a foundation for greater economic security and economic growth over the long-term, which should be high priorities for the new Obama administration.

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