washingtonpost.com
The Washington Post, August 20, 2005
www.washingtonpost.com/wp-dyn/content/article/2005/08/19/AR2005081901520.html

Initiatives to Promote Savings From Childhood Catching On

By Amy Goldstein
Washington Post Staff Writer

Three weeks shy of his first day of kindergarten, Austin Sambrano is the only person in his family who has a savings account.

Living with his parents and older brother in a trailer park near Pontiac, Mich., he is part of an experiment called the SEED Initiative that is opening investment accounts for children, in an effort to ensure them a college education – and teach their families the habit of putting aside money for the future.

The $800 deposited in his name places the rambunctious, blond 5-year-old at the leading edge of a new wave of thought about how to create wealth, curb poverty, and improve the abysmal savings rate among Americans, particularly those who are poor. The idea is to give newborns or young children a miniature version of what affluent families have long provided their offspring: a trust fund. To induce parents to save, families get their deposits matched if they add to the fund.

In today's economy, a savings account "is as fundamental as land was back in the 18th and 19th century," said Ray Boshara, of the New America Foundation, a centrist think tank that is a main advocate of children's accounts.

Involving several hundred children in a dozen communities around the country, SEED (Saving for Education, Entrepreneurship, and Downpayment) – a four-year experiment being conducted by local social service agencies, studied by researchers and paid for by several nonprofit foundations – is a modest version of the ultimate goal.

Legislation has been introduced in Congress that calls for the government to open a KIDS Account of at least $500 for every baby born in the United States. And President Bush's first Treasury secretary, Paul H. O'Neill, has been giving speeches around the country, promoting an even bolder plan he has devised for children's accounts that he says would guarantee every American at least $1 million by age 65, eventually eliminating the need for Social Security.

Fostering savings from childhood is, in a sense, a spillover from the debate over whether to establish private investment accounts in Social Security, the nation's fragile retirement system. But unlike the partisan rancor that runs through the Social Security debate, children's accounts are gaining proponents across the ideological spectrum. Conservative Republicans construe them as a form of the market-oriented "ownership society" that Bush touts. Liberal Democrats view them as an extension of the Great Society of the 1960s that created government programs to lift people from poverty.

"It's a simple kind of merging of the stereotypes of the parties," said Rep. Harold E. Ford Jr. (D-Tenn.), sponsor of a bill that would create KIDS Accounts. "You give to people; you put some responsibility on people to save, as well."

Despite bipartisan cheerleading, such accounts have skeptics on the right, who are disdainful of a new government handout, and on the left, who fear the expense would drain money from other social needs. So far, White House officials are unenthusiastic, saying that any available money should be used to prop up Social Security and that it would be wasteful to give an account to every baby, including ones born into families that are rich.

Still, proponents say that investing in children is a breakthrough in thinking about how to reverse a worrisome deterioration of savings habits. Since the early 1990s, the typical American's savings rate has plunged from $7.70 per $100 earned to $1.80, according to federal figures. Between 9 and 20 percent of U.S. households have no bank account, studies show, and the proportion is higher among African Americans, Hispanics and the poor.

"I don't find the current political process doing justice to the fundamental question: What meaning should be given to creating financial independence? The president puts his head down and keeps saying the same thing over and over again," said O'Neill, who was dismissed by Bush in 2002. O'Neill said his plan, which he estimates would cost $144 billion, would create "a fundamentally different society than any one on Earth."

Austin Sambrano's mother, Christine Albertson, had a humbler reason for signing up her son for a SEED account. Neither she nor her partner of 12 years, Steven Sambrano, has any savings. On the $400 a week he brings home from his new job driving a truck, "we are barely making the bills as it is," she said.

Austin's account, she said, makes him feel special. "He's excited. He knows this is for college."

The idea for children's accounts has been germinating for some time. In Britain, for example, the government in April began mailing vouchers worth 250 pounds – almost $450 – to the parents of all 700,000 children born in that country each year, under the Child Trust Fund announced two years ago by Prime Minister Tony Blair.

In the United States, meanwhile, states and foundations are pursuing different experiments. In Kentucky, the Democratic state treasurer and Republican secretary of state have created the Cradle to College Commission, which is working with banks, colleges, businesses and foundations to design a test program of accounts for children. They hope eventually to propose legislation to expand it statewide.

And St. Louis-based Jim Casey Youth Opportunities Initiative began three years ago to offer "opportunity passports" as part of its work with a vulnerable group of older youngsters -- teenagers graduating out of foster care. The program, in 12 communities around the country, provides $1,000 in matching funds for money these young people save for college, an apartment security deposit or a car. So far, slightly more than one-third of the 1,000 eligible participants are saving money.

The SEED Initiative, sponsored by the Ford Foundation and nine other foundations, is the most intensive effort so far in the United States. Investing in children of different ages and family incomes, it provides an initial deposit, then matches family contributions for four years – up to $1,200 in the Michigan experiment.

Organizers at some of its sites say they are discovering that giving away money can be harder than they imagined. In one SEED location, around Helena, Ark., Angela Duran, president of the Southern Good Faith Fund, said she and her co-workers had expected when they began looking for 75 families for SEED two summers ago that they would enroll them quickly through federally funded Head Start preschool centers for low-income children and a similar state preschool program. Instead, they have just finished setting up accounts – and only after opening them to other families in the area.

SEED organizers in Michigan found that one impediment was requiring parents to pay $25 up front to get an account. And even after that requirement was dropped, some parents who enrolled – nearly half of whom, such as Albertson, have no savings accounts of their own – are having difficulty adding to their children's accounts.

"Just calling something an ownership society doesn't make it an ownership society," said Don Jones of the Oakland Livingston Human Service Agency, who coordinates the Michigan site. Based on his experience, he said, any federal accounts would need to be accompanied by an intense campaign to enroll families and teach them about finances.

But some parents say that they are learning new habits – and that their children are learning important lessons. "This program here gives me a chance to save. I know it's there. I can't mess with it," said Almedia Jones, of Lexa, Ark., who opened an account in May and made a $20 deposit in June and July. She took her daughter, Brianna, 5, to a SEED class where the children decorated two cans, labeled "savings" and "withdrawal," with butterfly stickers. Brianna began to put her allowance into a can.

One day, Jones took Brianna along when she went shopping for a present for another daughter, Brittney, who had just had surgery. Brianna spotted a pretty purse and turned to her older sister. "If you buy me this purse," Brianna said, "when I turn 18, you know I will have money in the bank, and if I go to college, I'll have even more money, and I'll pay you back."