Children's Savings Accounts

A state policy Sourcebook

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INTRODUCTION

"Children's savings accounts are consistent with U.S. political values and the imperative to develop the human capital of the nation's children as we begin the twenty-first century. Just as another asset-based policy, the GI Bill, promoted human capital development in the middle of the 20th century—with enormous payoffs in educational attainment, increased productivity and incomes, and widespread home ownership—a children's saving policy would democratize educational opportunity, spread the distribution of wealth, build stronger households, and promote economic growth."—(Curley and Sherraden, 2000)

We have learned from research and practice that possessing even a few thousand dollars in assets gives people an economic place to stand. Holding assets connects people to the economy, raises their economic expectations, and allows them to shape their futures. If assets are important to adults, they are even more powerful earlier in life when aspirations, knowledge, and savings are growing. There is a growing body of academic research about the importance of saving in promoting educational attainment and breaking the cycle of poverty. Anecdotal evidence suggests that a lack of hope is a factor in many of the poor choices made by young people. However, with nest eggs, all children can look toward a future in which they invest in themselves.

Children's Savings Accounts (CSAs) are long-term asset-building accounts established for children at birth and allowed to grow over their lifetime. Accounts are seeded with an initial deposit of $500 to $1,000 and built by contributions from family, friends, and the children themselves. Accounts are augmented by savings matches and other incentives. Savings in CSAs are restricted to financing higher education, starting a small business, buying a home, or funding retirement. Accounts gain meaning as young accountholders and their families engage in age-appropriate financial education.

Five nationally respected partners—CFED, the Center for Social Development at Washington University, the Initiative on Financial Security at the Aspen Institute, the New America Foundation, and the University of Kansas School of Social Welfare—have embarked on a 10-year national policy, practice, and research endeavor to develop, test, inform, and promote matched savings accounts for children and youth accompanied by financial education. This endeavor, known as the SEED (Saving for Education, Entrepreneurship, and Downpayment) Policy, Practice, and Research Initiative, seeks to set the stage for universal, progressive American policy for asset-building among children, youth, and families.

Ultimately, a national CSA policy may be preferable to 50 different state policies; however, as with other areas of policy development, state experimentation can set the stage for federal policy. In addition, devolution of responsibility for many social welfare programs means state policy has come to play a more important role in recent years.

Experience in the SEED Initiative and in states across the United States suggests that state-level policy should both: remove barriers to saving in CSAs and create new progressive, inclusive opportunities for children to save for the future.

Purpose of This Guide

This guide is a tool kit for anyone interested in developing state CSA policy. Our hope is that this guide will assist those who want to:

- propose or further develop state CSA legislative initiatives;
- encourage state agencies or entities to develop and fund CSA programs;
- remove barriers to saving, such as asset and income limits in public benefit programs; or
- simply learn more about the process of CSA policy development.

This guide may be used to learn about or further consider policy and program options and assess what other states have accomplished or proposed in these areas. Information about federal CSA legislative efforts is also included. In this guide, we have condensed a considerable amount of current knowledge in the CSA policy arena and hope to facilitate sharing of the lessons to date.

There is no one formula for success in achieving state policy support for CSAs. This guide includes some promising options for doing so; however, as you will see in the pages that follow, the final decisions about strategy in any particular state will ultimately rest upon the political, cultural, and fiscal considerations in that state. Moreover, there may be more than one route that leads to success.

The Audience for This Guide

This guide will be helpful for those involved in state policy, such as governors, legislators, and legislative aides, as well as Individual Development Account (IDA) and/or children's savings program operators, advocates, IDA/CSA coalition members, social service organizations, funders, lobbyists, and others. It was designed with the hope of providing the best available and most current information, including suggestions for legislative/regulatory tactics, CSA successes to date, innovative practices, and current children's savings policy trends.

Background and Basics

What are Children's Savings Accounts?

Children's savings accounts (CSAs) are long term asset-building accounts established for children at birth and allowed to grow over their lifetime. Accounts are opened with an initial deposit of $500 to $1,000 and built through contributions from family, friends, and the children themselves. Accounts are augmented by savings matches and other incentives. Savings in CSAs are restricted for financing higher education, starting a small business, buying a home, or funding retirement. Accounts gain meaning as young accountholders and their families engage in age-appropriate financial education.

The SEED Initiative

The SEED Initiative is a 10-year national policy, practice, and research endeavor to develop, test, inform and promote matched savings accounts and financial education for children and youth. The initiative seeks to set the stage for universal, progressive American policy for asset building among children, youth, and families. Through the SEED Initiative, we aim to learn about:

- psychological, social, behavioral, and economic effects of CSAs;
- how to engage working-poor families in saving;
- the most effective roles of the public, private, and nonprofit sectors;
- public programs most likely to garner support; and
- systems able to deliver accounts efficiently to millions of children.

The SEED Initiative brings together national, state, and community partners that design, implement, and document specific aspects of children's savings programs. Eleven community partners are establishing more than 1,250 accounts and engaging different age cohorts, savings incentives, financial education approaches, and financial institutions. One additional demonstration and impact assessment partner is working with 500 accounts and controls from HeadStart programs in Michigan. The SEED Initiative also features four state policy partners, who are working to establish universal, progressive CSA policy in their respective states. (For a list of SEED State Policy Partners, see Appendix A).

In Oklahoma, the SEED Initiative will test the Universal Model, the policy idea of universal and progressive accounts at birth. The randomized experiment will include deposits of up to $1,000 into state-owned accounts of 1,000 state-resident infants selected at random and 1,000 controls without accounts, as well as progressive matches for low- and moderate-income families.

The SEED Initiative is led by nationally recognized partners—CFED, the Center for Social Development at Washington University, the Initiative on Financial Security at the Aspen Institute, the New America Foundation, and the University of Kansas School of Social Welfare.

Why are CSAs Important?

As a nation, we invest comparatively little in children. For example, in the late 1990s, federal spending on children represented only 2 percent of Gross Domestic Product (GDP), compared with 7 percent spent on Social Security and Medicare, 3 percent on defense, and 2.5 percent on interest. Including state and local spending on education, the share invested in children rises four percentage points, almost equaling the amount spent on Social Security and Medicare.[1] Yet there are powerful social, economic, political, and financial reasons for believing that a policy of providing all children with an initial endowment at birth might hold even greater promise than asset-building accounts for adults that have already demonstrated great success.[2] At a minimum, such a policy would increase the savings rate, ensure a greater level of investment in children, and increase the economic and social prospects for each succeeding generation. In addition, using the power of compound interest, a universal children's savings policy offers the prospect of modest investments early in life leading to substantial lifetime returns. Further, universal children's accounts also have the potential to grow into a large and potentially profitable market for financial institutions.

The United States has a strong record of helping its citizens to build assets. Currently, federal and state governments invest hundreds of billions of dollars annually to help Americans maintain homes, save for college, or put aside money for retirement. But these incentives largely benefit middle- and upper-income households. CFED's analysis of the federal government's asset-building budget finds that the United States spends approximately $335 billion annually to encourage individuals to accumulate assets.[3] Yet, these federal subsidies disproportionately benefit those who already have assets. For example, over one-third of the benefits go to the wealthiest 1 percent of Americans, while less than 5 percent of the benefits go to the bottom 60 percent of taxpayers.
Expanding the United States' asset-building policy to support a basic economic foundation for all, beginning at birth, could expand ownership and ensure more equal opportunity for all. After all, consider the following facts:

- More than a third of the four million American children born each year—and more than half of minority children—are born into families with negligible savings to weather emergencies or invest in their futures.[4] Yet, three out of four poor American children live in families where someone works full- or part-time.[5]

- $1,000 invested for 18 years at a 6 percent rate of return yields nearly $3,000. Add $100 per year and the sum jumps to more than $5,000. Contribute $50 per month to the base and the total reaches more than $22,000.
- People with bachelor's degrees earn over 80 percent more, on average, than those with only high school diplomas. Typical costs to attend a two-year public college are approximately $2,000 per year; four-year public college expenses are estimated to be just under $5,000 annually. Yet, two in five American children will never complete a single year of college. For many qualified students from lower-income families, the high cost of college tuition is one of the primary barriers to pursuing higher education.
- For the typical American household, home equity represents 30 percent of its net worth, far outreaching any other investment. While the average first-time homebuyer makes a downpayment of less than $19,000, a typical homeowner has a net worth of more than $130,000 while a typical renter has only about $4,000.

WHY SHOULD STATES PLAY A ROLE IN CHILDREN'S SAVINGS POLICY?

Although, ultimately, a national CSA policy may be preferable to 50 different state policies, state experimentation can set the stage for federal children's savings policy. States can play an important role in the development of universal children's savings policy for several reasons: like federal policy, state policy influences wealth building; as noted above, states can serve as laboratories of democracy, testing and advancing progressive policies; and, finally, given the continued devolution of authority from the federal to state governments, states now have a growing responsibility for social policy.

WHY SHOULD SAVINGS POLICY FOCUS ON CHILDREN?

The Downpayments on the American Dream Policy Demonstration (ADD) and the resulting emergence of IDA programs in hundreds of communities across the country have shown that assets matter—that savings and matches can increase skills, work, asset acquisition, expectations, and initiative; that families, even very poor families, will save and use their matched savings to move forward economically; that asset policies are politically popular and potent and have the potential for large-scale adoption.[6]

If assets are important to adults, they are even more powerful earlier in life, when aspirations, knowledge, and savings are growing. Yet, of the four million children born each year in the United States, nearly 40 percent (and more than half of African-American children) are born into families who are "asset poor"—meaning they are less than three months away from destitution should a sudden accident, divorce, or illness disrupt their normal income. Many of the remaining children—though born into relative financial security—will not grow up having or contributing to assets of their own or developing the financial or economic expectations, values, and skills that result from having assets.

However great the social, economic, and political potential of IDAs, the potential of children's savings accounts—IDAs for children—are greater. Because accounts are established at birth, CSAs can inspire, provide discipline and guidance, and grow with a child from his or her earliest and most impressionable years. From a financial product point of view, CSAs are likely to be much more profitable than IDAs, particularly if they are provided to all children, regardless of income, seeded with an initial large deposit, and allowed to grow with few withdrawals over a longer period of time. Because CSAs grow over the course of decades, they take full advantage of the "miracle" of compound interest and may require relatively modest levels of public investment. And like IDAs—but because children are particularly compelling beneficiaries—the bipartisan political support could be quite strong.

THE BASIC ELEMENTS OF CSA POLICY

Whether implementation of CSAs is achieved through state or federal policy, it is essential that it take into account the lessons from emerging practice and research and include input from a wide range of stakeholders to respond to economic, social, political, financial, and technological conditions. Based on the emerging lessons from the SEED Initiative and the details of early legislative proposals from the United States and abroad, the basic dimensions of children's savings policy are emerging. CSA policy should be:

- **Inclusive.** Accounts should be established at birth for every child in America.
- **Opened with an initial deposit.** Every newborn should receive a modest but significant start-in-life deposit (up to $1,000).
- **Designed to build lifelong assets.** Savings should be held until at least age 18 and should be used only for higher education/training, small business start-up, home purchase, or retirement.

- **Matched progressively.** Voluntary additional contributions from any public or private source (e.g., family, friends, relatives, community organizations, and parents' employers) should be incented by a public match that increases in value for lower-income families.
- **Simple.** Parameters of the account should be kept simple to enable low-cost, high-scale delivery (e.g., simple match rates, tax incentives, deposit structure, integration into tax forms).
- **Private-market oriented.** Accounts should be held primarily in private financial institutions that provide limited investment options.
- **Designed to build financial aspirations, knowledge, and skills.** Age-appropriate financial education should be delivered by a variety of sources (e.g., financial institutions, nonprofit organizations, youth development organizations, schools, and families).
- **Non-discriminatory to families on welfare.** Eligibility for means-tested programs should not be affected by savings in CSAs.

POLICY CONTEXT FOR CHILDREN'S SAVINGS ACCOUNTS

Current state and federal public policies reinforce asset inequality in the United States. Changing policies related to assets has the potential to increase equality. Nationwide implementation of progressive and inclusive CSAs would move the United States closer to a universal savings and asset-building system for all Americans. CSAs can increase the savings rate, ensure a greater level of investment in children, improve the economic and social prospects for each succeeding generation, and increase the economic and social welfare of the nation as a whole. In no small sense, CSAs are an investment in the future of the economy.

Over the last decade, there has been an increasing number of federal and state legislative proposals from both sides of the aisle to establish children's accounts. Moreover, the rapid growth of state 529 Education Savings Plans and the interest by some states in ensuring that lower-income families can participate suggests that this burgeoning system may provide a foundation for universal and progressive savings accounts for children.

Before turning to the context in which state policy operates, we review the federal policy context. Federal policy is relevant to state-level CSA policy because it:

- sets standards and defines eligibility for many social service programs and
- could potentially provide significant resources for CSA programs.

THE FEDERAL POLICY CONTEXT FOR CSAS

Federal policy to support children's saving accounts is a relatively new development. In the last few years, however, several congressional bills have proposed children's savings accounts or goals similar to those of the SEED Initiative. These federal policy proposals have taken various forms—from support for saving policy aimed at a broad range of uses to proposals targeted at specific savings for education or retirement.

THE ASPIRE ACT

In 2004, and again in 2005, the most comprehensive and progressive children's saving policy to date was introduced in Congress. The American Savings for Personal Investment, Retirement and Education (ASPIRE) Act[7] is designed to encourage savings, promote financial literacy, and expand economic opportunity by creating a Kids Investment and Development Savings (KIDS) Account for every child born after December 31, 2006. The ASPIRE Act proposal was developed with assistance from the New

America Foundation and enjoys bipartisan support in both houses of Congress. (For the full text of the Senate version of the ASPIRE Act, see Appendix C).

The ASPIRE Act includes the most important principles of children's savings policy. It would provide every child born after December 31, 2006, who is issued a Social Security number, with a $500 initial savings deposit into a KIDS account. For children whose families earn less than the median income, these accounts would be supplemented with up to an additional $500 and would receive a dollar-for-dollar match on private contributions, up to $500 (in the Senate bill) or $1,000 per year (in the House bill). Savings in a KIDS Account would grow until the child reaches the age of 18, at which time he or she could make tax-free withdrawals for postsecondary education, a first home, or a retirement savings account (rules similar to withdrawals from Roth IRAs).

How KIDS Accounts work

- All KIDS Accounts receive an automatic deposit of $500 at the birth of a child.
- Children below the national median income qualify for a supplemental deposit of up to $500. Those with incomes up to 50 percent of the median receive $500, but as income approaches the median, the supplemental deposit decreases to $0, based on an evenly pro-rated formula.
- Eligible accountholders can receive a one-to-one match on private contributions to their accounts on an annual basis until the accountholder reaches the age of 18. The Senate bill allows for accountholders with household incomes up to 100 percent of median adjusted gross income (AGI) to receive a dollar-for-dollar match on private contributions up to $500. The House bill allows for a match of contributions up to $1,000. The Senate bill phases out this match for accountholders with household incomes between 100 percent and 105 percent of median AGI. The House bill phases out this match for accountholders with household incomes between 100 percent and 200 percent of median AGI.
- Private, voluntary contributions can be made to each account each year until the accountholder reaches the age of 18. The Senate bill caps these contributions at $1,000 and the House bill caps these contributions at $2,000. Contributions are after-tax and can come from any source. After accountholders turn 18, contributions will be allowed according to Roth IRA rules.

- Accountholders may withdraw federal contributions, deposits, and earnings without penalty once they reach age 18 if the money is used for first-time home purchase or retirement, or before age 18 if funds are used for postsecondary education expenses.
- At age 30, accountholders must repay the initial $500 deposit, so that funds will be available for future KIDS Accounts. The supplemental federal deposit and matching funds need not be repaid.
- A KIDS Account Fund will be established in the U.S. Department of the Treasury. It will be governed by a board of directors, similar in structure to the Thrift Savings Plan (the retirement program for federal employees). Once a child reaches age 18, he or she will have a choice of whether to keep savings at Treasury or transfer the account to a financial service provider of Roth IRAs, Section 529 Education Plans, or privately managed KIDS Accounts.

RELATED FEDERAL POLICY PRECEDENTS AND PROPOSALS

Although the ASPIRE Act is the most comprehensive federal policy proposal to date, it was preceded by other federal legislative efforts, both enacted an proposed, that include aspects of children's savings accounts.

ENACTED LEGISLATION

Federal 529 legislation. 529 plans, or "qualified tuition plans," are tax-advantaged savings plans designed to encourage families to save toward their children's future college expenses. 529 plans are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code. There are two types of 529 plans: pre-paid tuition plans and college savings plans. Additionally, some private colleges and universities sponsor pre-paid tuition plans.

In 1996, Senator Bob Graham (D-FL) and Senator Mitch McConnell (R-KY) led a bipartisan effort to provide federal tax relief for state college savings plans, resulting in the creation of Section 529 of the Internal Revenue Code. Section 529 allowed for tax-deferred treatment on earnings when used for higher education and spurred the development of college-savings plans across the country (from 1996 to 2000, 30 states developed and launched 529 plans).[8] On June 7, 2001, the Economic Growth and Tax Relief Reconciliation Act was enacted, which provided further congressional support by exempting 529 earnings from federal taxation. Unless current tax law is extended or modified, many of the tax benefits of 529 plans will expire after December 31, 2010.

Every state now offers at least one 529 plan and each plan offers different tax advantages, investment options, restrictions, and fees. Some states also provide matching grants for low-income investors (discussed below).

Coverdell Education Savings Accounts (ESAs). Coverdell ESAs (formerly known as Education IRAs) are structured like traditional IRAs, but with the express purpose of accumulating funds for higher education.[9] Between 1997 and 2001, deposits into Education IRAs were not tax deductible and were limited to $500 per year. In 2001, as part of the Economic Growth and Reconciliation Act, Education IRAs were renamed Coverdell ESAs and the deposit limit was raised to $2,000 per year. A progressive structure was also introduced that phased out eligibility for contributors with between $190,000 and $220,000 AGI for joint filers and between $95,000 and $110,000 for single.[10] Therefore, Americans with lower to middle incomes can make deposits and accumulate tax-free savings for education in a Coverdell ESA.

PROPOSED LEGISLATION

Young Saver's Accounts. Young Saver's Accounts (YSAs)—Roth IRAs specifically for kids—would allow parents to direct contributions to Roth IRA accounts for their children. When the child reaches age 18, YSAs would permit penalty-free withdrawals for first-home purchase, higher education, and retirement. Contributions to the child's YSA would count toward the parent's annual limit (now $4,000 for those 49 and under, increasing to $5,000 in 2008), and would qualify for the Savers Credit, a federal tax credit to low-income savers who make deposits.[11]

YSAs were introduced by Senator Max Baucus (D-MT) in March 2006 as part of the Savings Competitiveness Act of 2006 (S. 2431). A similar provision was introduced in the House in July 2005 by Connie Mack (R-FL) as part of the Lifetime Prosperity Act (H.R. 3574). Current law has no age restriction on owning a Roth IRA, but children must have an earned income in order to contribute; as a result, very few kids open these accounts.

401Kids Family Savings Act of 2006. In May 2006, Representative Clay Shaw (R-FL) introduced the 401Kids Family Savings Act (H.R. 5314), which would amend the Economic Growth and Tax Relief Reconciliation Act of 2001 to rename Coverdell ESAs as "401Kids" accounts and to expand uses to allow for tax-free withdrawals toward first home purchase or rollover into a Roth IRA. Like Coverdell ESAs, 401Kids accounts would be restricted, tax-advantaged savings accounts that would allow for up to $2,000 of after-tax contributions per year and could be used toward primary, secondary, and postsecondary education. The bill would also extend federal tax incentives for 529 college savings plans through 2015.

KidsSave. Just as Coverdells are designed for education savings, KidSave accounts have been proposed as a savings policy for retirement accounts. In 1995, Senators Robert Kerrey (D-NE) and Joseph Lieberman (D-CT) proposed KidSave Accounts, into which $500 child tax credits would be deposited by eligible families. In 1998, Senators Kerrey and Lieberman were joined by Daniel Patrick Moynihan (D-NY) and John Breaux (D-LA) when they introduced the Social Security Administration's KidSave Accounts Act, which proposed crediting each newborn's account with $1,000. In 2000, Senators Kerrey, Moynihan, and Breaux were joined by Senators Rick Santorum (R-PA) and Charles Grassley (R-IA) in a proposal that would loan each American child $2,000 as seed money to start a retirement account. The interest-free loans would be adjusted for inflation and repaid by the accountholder's 35th birthday. Similar legislation was proposed in the House in 2005; however, no legislation has been enacted.[12]

Children's Financial Security Act. Similar to Young Saver's Accounts, the Children's Financial Security Act would allow parents to direct contributions to Roth IRA accounts for their children. The difference between making an initial deposit of $2,000 at birth versus at age 18 can be as much as $1 million. The Children's Financial Security Act of 1997 proposed the creation of a Children's IRA, into which gifts up to $2,000 a year could be invested tax free. This bill was not enacted.[13]

International CSA Policies

Although the concept of universal, progressive children's savings policy is relatively new, a number of countries have proposed or enacted public policies that embody, in whole or in part, our vision and provide a model for the children's savings movement. Three countries have already established universal children's savings initiatives: Singapore in 2001, Great Britain in 2003, and Canada in 2004.

Singapore: Baby Bonus and Child Development Accounts[14]. The Baby Bonus program, first introduced in April 2001, benefits children born into Singaporean families. Parents receive a S$3,000 cash gift for the first child, a cash gift and matched deposits totaling up to S$9,000 for the second child, and up to S$18,000 each for the third and fourth children.[15] Baby Bonus gifts and matching contributions are based on the number of children in a particular family:[16]

Birth Order	Cash Gift from Government	Maximum Matching Government Contribution	Total
First child	S$3,000	-	S$3,000
Second child	S$3,000	S$6,000	S$9,000
Third child	S$6,000	S$12,000	S$18,000
Fourth child	S$6,000	S$12,000	S$18,000

The Singaporean Government will also match dollar-for-dollar the amount of savings parents contribute to the child's Children Development Account (CDA). The CDA is a special savings account that the parent (Trustee) opens after registering for the Baby Bonus program. Parents are eligible for a CDA after the birth of their first child and can save in the CDA any time until the day before the child's sixth birthday. The CDA is eligible for a maximum government matching contribution of S$6,000 for the second child and S$12,000 each for the third and fourth child.

The savings in the CDA may be used to pay fees at child care centers, registered kindergartens, special education schools and registered early intervention programs. The money may be used by a family's children who are attending an approved institution. Beginning in December 2005, parents also are able to use the savings in the CDA to purchase Medishield[17] or Medishield-equivalent health insurance for their children.

Great Britain: Child Trust Fund[18]. The Child Trust Fund is based on the principle of progressive universalism, wherein every baby receives an endowment, but those born into lower-income families receive a larger lump sum. Every child born in Britain since September 2002 receives £250 and low-income children receive £500.[19] Additional contributions from the government will be made at age seven (amount is yet to be determined). Parents and others can make deposits up to £1,200 per year. Deposits and interest earned on savings in a Child Trust Fund are tax-free. Once the accountholder reaches 18 years of age, he and she has access to the proceeds in the account and there are no restrictions on how the funds can be used.

The savings in a Child Trust Fund will become an asset that every child can use as a young adult.

Canada: Learning Bond and Education Savings Grant[20]. The Canada Education Savings Act, enacted on December 15, 2004, created the Canada Learning Bond (CLB) and enhancements to the Canada Education Savings Grant (CESG), designed to help low and middle-income families save for their children's education.

The purpose of the legislation is to encourage families to set up a Registered Education Savings Plan (RESP).[21] The Canada Learning Bond will provide $500 to children born on or after January 1, 2004 into families entitled to the National Child Benefit (NCB) supplement—generally families with incomes under $35,000. Further, the initial bond will be followed by up to 15 annual $100 entitlements for each year the family is eligible for the NCB supplement. Children born after 2003, who are not eligible for the CLB at birth, but become entitled to the NCB supplement in a subsequent year, will qualify at that time for a $500 CLB. Thereafter, they will qualify for annual $100 CLB installments, in each year their family is eligible for the NCB supplement.

A child in a low-income family could receive CLB payments totaling up to $2,000. At the time the legislation was approved, it was estimated that the CLB would benefit over 120,000 newborns annually, at a cost of $85 million.

The Canada Education Savings Act also doubles the Canada Education Savings Grant from 20 to 40 percent on the first $500 of RESP contributions each year for families with a net income of $35,000 or less. The Act also increases the CESG from 20 to 30 percent on the first $500 of RESP contributions per year for families with qualifying net incomes greater than $35,000 but not exceeding $70,000. While the Canada Learning Bond benefits children born on or after January 1, 2004, all eligible children in low- and middle-income families stand to benefit from the improved CESG match rates effective on January 1, 2005. The enhanced CESG is available to the families of more than 4.5 million children. It is expected to cost $80 million annually.

The following is one example of how the Canada Learning Bond and enhanced Canada Education Savings Grant may help a child in a family earning $30,000 annually:[22]

- Madeline is born in 2004. Her parents together earn $30,000 annually and receive the NCB supplement each year.
- Madeline would receive the $500 Canada Learning Bond at birth and payments of $100 per year until she reaches 15, for a total of $2,000. Invested in an RESP, this amount could grow to $3,000 by the time she reaches 18.
- In addition, if Madeline's family puts $4 per week into the RESP, the Government of Canada would match these contributions at a rate of 40 percent under the CESG. Over 18 years, RESP contributions would grow to $7,500. With the CLB, total savings in the RESP could reach $10,500.
- This would be enough to finance three years of tuition at a typical community college.

The State Role in Children's Savings Policy

Ultimately, a federal CSA policy may be preferable to 50 different state policies, but as in other areas of policy development, experimentation in the states can help set the stage for federal policy. States can play an important role in the development of universal children's savings policy.

- **State policy can create opportunity for wealth-building.** States have enacted policies to help households build wealth through programs that promote homeownership or make homeownership affordable (e.g., low-interest loans, downpayment assistance, and Homestead exemptions); programs that promote the growth and development of small businesses (e.g., technical assistance and low-interest loans); and programs that encourage higher education (e.g., scholarships and student loans).

- **States can serve as "laboratories for democracy."** The idea that states serve as "laboratories of democracy" is both common and intuitively appealing. In describing our federalist system, Justice Brandeis famously wrote, "To stay experimentation in things social and economic is a grave responsibility. Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory and try novel social and economic experiments without risk to the rest of the country."[23] This formulation of the concept of states as laboratories of democracy, written in 1932, still resonates today. Varied state strategies continually test and winnow policy alternatives, providing the nation with information about what works and what does not work.[24]

- **Devolution means states now have more responsibility for social policy.** Beginning with the Reagan administration in the early 1980s, there has been a continuing trend toward scaling back the federal government and providing funding, power, and responsibility to the states. As a result, states now have more responsibility for a range of social policy issues, such as health care, income security, job training, and social services. Asset-building policy should be an important part of this effort, as it provides an essential complement to traditional efforts to help poor and low-income citizens via income-maintenance programs.

The development of children's savings policy at the state level is still a relatively new area of policy innovation. In the last several years, a handful of states have passed or seen proposals that explicitly call for children's saving policy or that include all or many of the basic elements of children's savings policy. These policies and proposals have taken, and continue to take, diverse forms in different states. The first state to pass children's savings account policy was Oregon in 1991; however, the Child Development Accounts authorized by the legislation were never implemented. The most common approach thus far has been to modify existing college savings plans (529 accounts) to make them more inclusive by encouraging and incenting participation by low-income families.

Although we provide examples of CSA policy from a number of states in the following pages, advocates for children's saving policy should choose a policy strategy that makes sense in a particular state context. The strategy should meet a well-defined need and complement existing policies and programs. In addition, those interested in designing and proposing children's saving policy at the state level should take into account a state's fiscal circumstances; the experience of policymakers in Oregon; the experience of those states that have acted to make 529 accounts more inclusive; and emerging ideas and proposals in a handful of states that are pursuing progressive, universal children's saving accounts as part of the SEED Initiative.

FISCAL CONTEXT

Unlike the large deficit at the federal level that is likely to persist for the foreseeable future, the improving health of the United States economy is beginning to produce strong revenue growth for some state governments. In the fourth quarter of 2004, state tax revenues grew by 7.8 percent. According to the Rockefeller Institute of Government, this was the seventh straight quarter of revenue growth that exceeded inflation, following eight consecutive quarters of revenue growing at or below inflation. The National Conference of State Legislatures reports that recent data on FY 2005 collections suggest that revenues are continuing to recover. "Personal income taxes are beating forecasts, sales taxes are largely on target, and corporate taxes are dramatically above estimates in most states."[25]

However, according to recent analysis by the Center for Budget and Policy Priorities, many states are not out of the woods. In addition to the cyclical nature of the economy, which saw a historic drop in revenue between 2002 and 2004, many states are beginning to feel the pressure from structural revenue problems caused by outdated tax systems. The result is that, with an economy driven largely by deficit spending and continued "unfunded mandates" from the federal government, many states still operate in a tight fiscal environment.

Although the fiscal situation in many states is not ideal for considering bold new policy initiatives, it is certainly an improvement over that of the last few years. In some states, the time might be right for a new investment. Children's savings policy presents state policymakers an opportunity to invest in the future of their constituents. Providing an economic base for the poorest citizens, through funding children's savings policy, is an effective long-term strategy for bringing additional resources into local and regional economies.

Children's savings policy can increase the savings rate, ensure a greater level of investment in children, improve the economic and social prospects for each succeeding generation, and increase the economic and social welfare of the nation as a whole. In no small sense, CSAs represent an investment in the future of the economy. Moreover, effective children's savings policy will also likely reduce the costs of state-level social services, as low-income citizens are provided with an economic leg to stand on.

STATE POLICY PRECEDENTS

Children's savings policy in Oregon. There is an historical precedent for legislating children's saving policy at the state level. In 1991, the Oregon legislature passed a bill that authorized the establishment of an Individual Child Development Accounts Trust Fund. The legislation called for accounts to provide support for children to invest in long-term assets such as education, job training, and homeownership. The legislation enjoyed bipartisan support from lawmakers and was backed by social service, education, housing, and child advocacy organizations. Unfortunately, the funding needed to implement the law was never authorized.[26]

State 529 policies as models or precedents for children's savings policy. 529 accounts are state-administered college savings accounts, named after the relevant section of the Internal Revenue Code, that are designed to allow individuals to make after-tax deposits for future postsecondary education expenses. Rules governing 529s vary by state, but most states offer a tax deduction for contributions and do not tax qualified withdrawals.[27] The suitability of 529 accounts as an appropriate platform for more inclusive and progressive saving and asset accumulation is a matter of debate. Some argue that the existence of a formal savings structure with state control presents a platform on which to build more universal and progressive children's savings policy. Others express concerns about the accessibility and usefulness of 529 saving structures for low-income families.[28] Evidence from practice suggests that the existence of a formal investment structure with centralized state control presents an opportunity to build a more progressive and inclusive children's saving account policy at the state level. As of 2006, seven states (Colorado, Louisiana, Maine, Michigan, Minnesota, Rhode Island, and Utah) now provide some level of matching funds for low-income families saving in their state's 529 College Saving Plan.

STATE STRATEGIES FOR SUPPORTING CHILDREN'S SAVINGS ACCOUNTS

There are two main issues to consider related to children's savings policy: first, ensuring that assets held in an account do not reduce or make one ineligible for public benefits and, second, authorizing and funding an inclusive and progressive account structure.

Remove barriers to saving in CSAs. At present, all states have a complex array of rules that limit the amount of assets that a household may possess and still qualify for public assistance. While designed with the intention of preventing scarce public assistance from going to those with ample resources, these "asset tests" create a disincentive for saving among low-income families that receive public benefits. Advocates for state-level children's savings policy must ensure that the regulations governing state-administered welfare programs (such as Temporary Assistance for Needy Families (TANF) and Medicaid) don't penalize children or families saving in CSAs. The tactical choices include:

- ensuring that accounts are treated like IDAs under existing asset limit exemptions;
- obtaining asset limit waivers for accountholders; and
- raising overall asset limits.

For programs controlled at the federal level, options include: continued advocacy, devising work-arounds for existing rules, and being mindful of asset limits and advising families on the implications of saving.

Create new structures for progressive and inclusive CSAs. In addition to reducing barriers to saving for low-income families, any effort to make universal, progressive children's savings structures available at the state level should include pubic policies that authorize and fund children's savings accounts. Two tactical choices include:

- using existing structures as a platform to advance children's savings policy and
- authorizing and funding a new structure for children's savings accounts.

Both removing barriers and creating new savings incentives are essential to comprehensive children's savings policy. However, advocates, legislators, and their allies must assess the particular circumstances in their state, including the resources available, possible champions, political climate, opportunities for linking to related policy initiatives, timing, and other factors in determining which strategy will most likely lead to positive outcomes and when to pursue that particular strategy.

Indeed, supporters may decide that it is possible to pursue both aspects of children's savings policy, in sequence or simultaneously, to achieve maximum results.

Removing Disincentives to Saving in CSAs

Federal and state public benefit policies discourage low-income and low-resource families from saving and accumulating assets. Though programs have shown greater recognition of the importance of asset accumulation in recent years, eligibility rules still hamper the ability of families to save for their future needs. [29]

Asset Limits in Public Assistance Programs

Almost all means-tested public assistance programs include asset tests in determining eligibility for assistance. These asset limits were initially enacted to ensure that assistance would not go to households who do not need means-tested assistance because they have ample resources of their own.[30] However, asset limits can inadvertently force low-income families into a precarious position, in which they must deplete their assets to low levels before getting help or avoid building up adequate reserves—which might move them toward economic self-sufficiency—while receiving assistance.[31]

For some programs, such as Food Stamps and Supplemental Security Income (SSI), the federal government sets the asset limits, while for others, such as TANF, Medicaid, and the State Children's Health Insurance Program (S-CHIP), states may set the asset limit and may even have the flexibility to eliminate asset tests entirely.[32] The Food Stamps and SSI asset limits have not increased since 1985 and 1989, respectively, though the 2002 Farm Bill has provided states with important options to make their asset rules more consistent with rules in TANF or Medicaid.

As a first step, advocates for state-level children's savings policy should ensure that the regulations governing state-administered welfare programs (such as TANF, Medicaid, and, to some extent, Food Stamps) do not penalize children or families saving in CSAs. Experience in the SEED Initiative suggests several tactics for removing barriers to saving in CSAs. These include: (1) obtaining rulings that clarify that accounts are treated like IDAs under existing asset limit exemptions; (2) obtaining waivers from asset limits for accountholders; and (3) raising asset limits for all participants in a public benefits program.

The Treatment of CSAs by Various Public Benefits Programs

The states and federal government have acknowledged the role of assets in helping families move out of poverty, but there is little uniformity across program rules:

Temporary Assistance to Needy Families. The TANF program is the federal government's primary cash assistance program to low-income families.

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Administered by states, it is funded jointly by federal and state governments. The 1996 federal legislation that authorized TANF allows states to decide whether or not to have asset limits; to set their own asset limits if they elect to have one; and to determine what assets will be counted, and to what extent, for purposes of the program's asset rules. Most states set their asset limits in the $2,000 to 3,000 range, though often with a range of assets excluded from the limit. Notably, Colorado increased its asset limit to $15,000 in 2006 (see Appendix E for more information). Ohio and Virginia have completely eliminated their TANF asset test and other states are considering adopting such a policy change.

Medicaid. Medicaid is a joint federal and state funded health insurance program administered at the state level. States have complete discretion to set their own asset limits in Medicaid in determining eligibility for parents and children and may disregard all assets of an entire family. Almost half of the states have eliminated asset limits entirely for family Medicaid and most have waived it for children. If the state does not have an asset test for Medicaid for children but does have one for parents, the child's asset can count against the family's asset limit if the whole family were to apply for benefits.

State Children's Health Insurance Program (S-CHIP). Congress authorized S-CHIP in 1997. The federal government provided states with $40 billion over 10 years to provide health insurance coverage to low-income children with incomes below 200 percent of poverty. States had the option of designing separate S-CHIP programs or implementing it as an expansion of their Medicaid programs. If S-CHIP was implemented as a Medicaid expansion, the Medicaid asset rules apply, but if the state established a separate S-CHIP program, states have complete flexibility in setting their asset rules. Only Oregon and Texas have asset limits in their separate S-CHIP programs.

Child Care and Development Fund (CCDF). CCDF provides states with funds for child care subsidies for working families and families in education and training with incomes below 85 percent of State Median Income (although states can and do set lower income eligibility limits). States have complete flexibility in setting asset rules and most states do not have asset tests.

Food Stamps. The Food Stamp program is a federally funded, state-administered program. Although the federal government sets most Food Stamp eligibility rules, including income and asset limits, states have some flexibility. The current asset limit is $2,000 (or $3,000 if there is a person with a disability or elderly household member); however, under the Food Stamp Act and proposed regulations related to the 2002 Farm Bill, a state may elect to exclude from treatment as a resource any financial resources that the state does not count as a resource for purposes of TANF cash assistance of Section 1931 Medicaid, subject to limited exceptions. Therefore, many states are allowing families that receive Food Stamps to accumulate savings in accounts which are exempt from asset limits in their other public assistance programs.

Supplemental Security Income. SSI is a federally funded and administered program that provides cash assistance to low-income adults and children who are aged, blind, or disabled. The asset limit, which is $2,000 for an individual and $3,000 for a couple, is set by the federal government. SSI permits some asset accumulation by adults and youth through its Plan to Achieve Self Support (PASS). These plans are designed to allow individuals to set occupational goals and to save and spend funds to achieve this goal. PASS accounts can only initially last for 18 months, although they can be extended for up to 48 months. It also does not appear that a PASS account has ever been approved for a child under the age of 14.

Thus, in some cases—TANF, Medicaid for families and children, S-CHIP, and child care—it is completely up to the state to determine whether to have an asset limit, and if so, where the asset limit should be set and what assets should count in determining asset eligibility. For Food Stamps, state options are more limited, but states do have the option to harmonize their Food Stamp rules with TANF or family Medicaid rules, subject to certain exceptions. States have the least flexibility for SSI, where federal rules specify the asset limit and what counts toward determining asset eligibility.

Evaluating the Impact of a State's Public Assistance Asset Tests on CSAs

To assess the impact of a state's asset rules, one must look at each public benefit program and ask:

- Is there an asset limit?
- If there is a limit, what is it?
- To what extent and under what circumstances do savings for the future needs of children count against the limit?

It is important to distinguish between savings that result from a child's own earnings or savings and savings from a parent or other family member that are expressly earmarked for the future needs of a child.

In TANF, a program in which the state has great discretion to determine exemptions, there are a patchwork of assets policies related to children's savings. According to the Urban Institute and our own review of state policies, most states exclude children's earnings from income limits if the child is a full-time student or a part-time student working part time. However, there are no corresponding assets exclusions for the child's disregarded income once the funds are deposited in a savings account. Nearly 40 states treat children's savings as an asset to the family in determining TANF eligibility, either by explicitly identifying such savings as a qualifying resource or remaining silent on the issue. Thus, even though the funds are excluded from income tests, these earnings are treated as a resource to the family if not spent in the month in which they are earned. Such policies can have the counterproductive effect of inducing youth to spend their earnings immediately, rather than aim for self-sufficiency by planning for costly future needs, such as postsecondary education. In addition, those states that exempt children's savings accounts from resource tests often require that all deposits come from children's earnings, therefore limiting the exemption to older children.

EXCLUDING CSAs FROM ASSET TESTS UNDER CURRENT RULES

If a state has not explicitly opted to exempt children's savings from asset limits, there are a number of restricted savings vehicles for consideration that may protect assets from limits. These include IDAs, restricted accounts, college savings plans, and trusts or accounts deemed inaccessible to the family. The downside of each of these savings vehicles is that the children's savings account must be structured to fit within the parameters of these products, which vary widely across states and often come with their own set of restrictions.

Individual Development Accounts. IDAs are matched savings accounts designed to help low-wealth families build assets and enter the financial mainstream. IDA programs encourage savings by providing financial education and matching deposits made by individuals and families. Many IDA programs are set up to promote savings for three uses: postsecondary education and training, homeownership, and business start-up. Approximately 40 states have some type of IDA policy.

IDAs are funded through a variety of mechanisms, which can determine how savings in IDAs are treated in public assistance programs. The 1996 federal welfare legislation allowed states to use TANF block grant dollars to develop and support IDA programs. Two types of IDAs can be funded with TANF: (1) those that adopt rules and the three uses—noted above—as dictated by the federal statute and (2) those that do not adopt the federally designated rules and allowable uses, but instead are designed by the state to be more flexible. The funds in the former are excluded from income and resource tests. Funds in the latter are not automatically disregarded from income or resource tests. In both cases, the individual participating in the IDA program must be a member of a low-income family, though the individual does not have to be receiving or qualify for TANF assistance. In addition, TANF IDA programs tend to be geared toward shorter-term savings, due to the time-limited nature of the benefit.

The Assets for Independence Act (AFIA), federal legislation passed in 1998 to promote asset development among low-income individuals and families, provides grants to state and local entities to run IDA programs. AFIA provides federal matching dollars for every non-federal dollar raised, up to the amount of appropriated funds. Savings in AFIA-funded IDAs are exempt from income and resource limits for federal means-tested benefit programs. Eligibility for AFIA-funded IDAs is broader than many TANF IDAs because states can set their income limits up to 200 percent of the federal poverty level.

In addition, a state is free to develop its own state-funded IDA program, under whatever rules the state chooses to establish, but accounts in such a state program would not automatically qualify for exemptions from asset tests for federal means-tested programs.

Most states have narrowly crafted their IDA programs in order to qualify for the relevant federal exemptions. Therefore, they largely limit deposits to those coming from earned income, making it difficult to use this structure for children's savings accounts. In addition, many IDA programs are limited to adults. The restrictions related to TANF-funded IDAs pose obvious challenges for those trying to promote children's savings because they are often limited to two to four years and geared to those receiving or eligible for TANF (thus excluding the working poor). In addition, states have adopted a wide range of limits on the amount of money that can be deposited in an IDA, ranging from $2,000 in Oklahoma, to $10,000 in Maine.

Restricted bank accounts. In California, TANF recipients (but not applicants) are allowed to save up to $5,000 in restricted savings accounts that do not count toward their asset limits. Interest retained on the savings is not counted as income as long as it stays in the account (http://www.dss.cahwnet.gov/pdf/CW86.PDF). Families can save for the future needs of children through this account, as the funds may be used to pay for education or vocational training (including related expenses such as housing, meals, transportation, and child care) for the accountholder or dependent, to purchase a home, and to pay for business capitalization. No emergency withdrawals are allowed and the account must be established specifically as a TANF Restricted Account.

Education savings accounts. A limited number of states exempt children's savings accounts if designated for education. However, most of these states specify that deposits must come from children's earnings.

For instance, Minnesota excludes savings from earned income of a minor child or minor caregiver that is set aside in an account designated for future education or employment costs.[33] Some states—for example Arizona and Michigan—exempt from public assistance resource limits deposits in 529 college savings plans, which can be vehicles for long-term savings for postsecondary education and training. College savings plans or 529s accounts are savings vehicles that allow individuals to deposit after-tax dollars for future higher education expenses, including tuition, fees, books, etc. Withdrawals for eligible uses are tax free. Although largely benefiting those with high tax liability because of their preferential treatment by the tax code, some states match deposits from low-income families in order to provide an incentive for this population to participate.

Trusts or other funds deemed inaccessible to the family. Most public assistance programs exclude trust accounts or other funds not legally available to the household to meet basic needs. Trust accounts usually require a court order to be established, making them a burdensome vehicle for children's savings. Custodial accounts held on behalf of individuals but in the name of a nonprofit are usually protected, as they are considered inaccessible to the family if no emergency withdrawals are allowed.

REFORMING ASSET LIMIT RULES TO REDUCE DISINCENTIVES TO CHILDREN'S SAVINGS

ELIMINATING ASSET LIMITS

There are strong policy arguments for eliminating tests in means-tested programs in which the state has discretion. Asset rules can function both as a means to encourage divestment of assets and as a penalty for saving while receiving assistance. In states with asset rules, individuals cannot qualify for assistance until they have exhausted sufficient assets to meet the program eligibility rules, which may actually force families to divest from assets that have taken years to accumulate. In addition, the rules function as a penalty for savings because those receiving assistance risk exceeding the asset limit and losing program eligibility. Given these potential negative consequences, a key question for states is whether the adverse effects of assets rules outweigh their benefits.

Since the mid-1990s, when many public assistance programs shifted their focus to self-sufficiency and economic independence, some states eliminated their asset tests for their TANF and Medicaid programs. As mentioned above, Ohio and Virginia eliminated asset limits in their TANF programs. Other states are pursuing such changes through the regulatory and legislative processes. Because this program is now time-limited, requires participants to engage in work activities in exchange for benefits, and includes stringent income limits, the need to also include an asset test is diminished, compared to the previous program, Aid to Families with Dependent Children. Research from New Mexico and Oklahoma found that the elimination of asset tests in the Medicaid program for families and children led to administrative cost savings that far outweighed the small expenditure of state funds due to the increase in enrollment. (To read selected correspondence and rulings on exemption of SEED accounts from asset tests for public benefit programs, see Appendix E, Sections 1-11).

Raising Asset Limits

Since the passage of welfare reform in 1996, a majority of states have increased their asset limits, an acknowledgement of the importance of supporting the ability of families to save as a means of leaving public assistance. A higher asset limit can screen out those with substantial assets while resulting in fewer adverse effects on asset accumulation.

From a cost perspective, raising asset limits may be less desirable than eliminating the limits altogether. If the state eliminates the assets limit, there will be administrative savings from not needing to make individualized determinations and verifications. If the state has a limit, however high, it must still have a process for determining the amount of assets a family has and whether they exceed the limit.

Exempting CSAs from Asset Tests

If a state retains asset limits, it should craft policies that allow exclusion of savings for the future needs of low-income children. The expansion of federal- and state-funded IDA programs demonstrates support for savings among low-income families. Unfortunately, there has not been commensurate widespread interest in promoting asset development among children. As described above, some states have pursued categorically exempting particular types of children's savings accounts, such as those with deposits from earned income or earmarked for education, but these parameters prevent younger or non-working children from saving and fail to acknowledge the role a broader set of assets play in meeting children's future needs. If states want to promote low-income children's savings, they need to consider ways to structure exemptions that promote children of all ages saving for their future needs. These include:

- **Allow deposits to come from multiple sources.** Currently, most states that provide exemptions for children's savings limit deposits into those accounts to earned income. This limitation prevents broad access. Allowing deposits from family members, including earned income and the Earned Income Tax Credit (EITC); nonprofit organizations; and children's earned and unearned income (such as birthday gifts) helps ensure that children of all ages can participate and allows families, not simply the children, to participate in building a future for their children through asset development. In addition, it allows children who have started saving later in their life to accumulate savings faster.

- **Do not be unreasonably restrictive when setting the size of the accounts.** In a time of escalating home and college costs, encouraging deposits in children's savings accounts can further expand opportunity. In the SEED Initiative, a few sites have found that aggressive savers have saved beyond the amount that is eligible for a match because of their understanding that additional savings will make it easier for them to purchase their assets.

- **Do not impose more stringent rules for applicants than those that apply to recipients.** Some states have higher asset limits or allow more savings among public assistance recipients rather than applicants. Requiring a family to divest any savings they have accumulated for their future needs in order to access public assistance in these cases is discriminatory and short-sighted.

- **Ensure that the funds are not accessible for other purposes.** Because of the way federal and state public assistance eligibility rules are structured, securing exemptions for children's savings accounts is much easier if the account is inaccessible to the family. Limiting accessibility ensures that the account cannot be tapped by the child or family for short-term needs and desires. It also protects the account from being accessed by other family members or friends who are aware of the child's savings. SEED participants at Juma Ventures in San Francisco positively perceived the inaccessibility of their SEED accounts, noting that they felt it ensured their savings were protected for the long-term, rather than meeting their whims.[34] SEED programs will issue vouchers directly to the educational institution, mortgage lender, or bank to purchase assets for the children at the end of the initiative.

AUTHORIZING AND FUNDING CSAs

Advocates for children's savings policy may take action to authorize and fund accounts in tandem or in sequence with their efforts to remove barriers to saving. Findings from the SEED Initiative suggest two approaches to creating new opportunities for children's savings: (1) using existing structures as a platform for children's savings accounts or (2) authorizing and funding a new structure for children's savings accounts. The choice of approach will depend on a number of factors, including allies, intended use (education only versus broader asset-building goals, such as homeownership or small business development), and windows of opportunity. Examples include:

- Making a state's 529 plan more progressive by matching deposits of lower-income savers, which seven states—Colorado, Louisiana, Maine, Michigan, Minnesota, and Rhode Island, and Utah—have already done.
- Authorizing and funding new universal, progressive accounts.
  - In North Carolina, a candidate for statewide office proposed depositing $700 into accounts for every newborn; these accounts would grow over a lifetime and be used for retirement savings.
  - Tying initial deposit into accounts to public service requirements, as the Kentucky Cradle to College Commission has proposed.
  - Allowing employers to receive a tax credit for deposits into accounts (in addition to initial deposits and progressive matches), as a similar commission in Oklahoma is considering.

There are additional ideas that have been suggested—but not tested or even proposed—that may hold promise. For example, a state could advocate for providing an additional bonus on state Earned Income Tax Credit refunds if the recipient agrees to deposit all or part into a children's saving vehicle.

USING EXISTING STRUCTURES AS A PLATFORM FOR CHILDREN'S SAVINGS POLICY

STATES THAT CURRENTLY MATCH DEPOSITS INTO 529 ACCOUNTS

Several states currently offer savings matches for participants in their states' 529 college savings plan. The administrative details of how states match deposits vary by state. A brief overview of each state's system follows.

Colorado. In 2005, Colorado introduced the CollegeInvest Matching Grant Program, which provides a one-to-one match, up to $500 per account annually for a maximum of five consecutive years, to qualifying low- and middle-income families who open 529 college savings accounts. Families with incomes at 200 percent of the federal poverty level are eligible; families must open accounts for the children prior to the children's 13th birthday. Matches will be made on contributions from the previous calendar year. The matching grants are distributed on a first-come-first-served basis and are subject to the availability of funds. Funding is subject to annual appropriation and is not guaranteed beyond the first year of the program. (For a more in-depth description of the CollegeInvest Matching Grant Program, see Appendix D, Section 1). CollegeInvest is a not-for-profit division of the Colorado Department of Higher Education.[35]

Louisiana. In terms of progressively matched college savings plans, Louisiana offers one of the best options.[36] The Louisiana Student Tuition Assistance & Revenue Trust (START) college savings plan is administered by the Louisiana Office of Student Financial Assistance. Revenue generated from general funds is used to match deposits made by low-income accountholders. The initial investment for participation in Louisiana's START Plan is $10 and there is a $10 monthly commitment.[37] The state will annually match a percentage of the deposits made into an account during the calendar year. The match is dependent on the AGI of the accountholder. The savings match rate ranges from a high of 14 percent of contributions for those families with an AGI up to $29,999, to a low of 2 percent for incomes of $100,000 and above.

By providing matches for families up to AGI $100,000, Louisiana has a nearly universal policy of progressive children's savings. Also, the relatively minimal initial and monthly investment requirements allow low-income residents to participate in the START program. (For a more in-depth description of the START program, see Appendix D, Section 2).

Maine. In 2006, Maine became the first state to establish universal, progressive children's savings accounts at birth. Maine's NextGen®Plan, which is administered through the Office of the State Treasurer and the Finance Authority of Maine, now includes a $50 "First Step Grant." All Maine residents born after January 1, 2006, are eligible to receive the First Step Grant, with low- and moderate-income families eligible to receive an additional $200 initial matching grant. No other contribution is required to open the account. Accounts must be opened within a year of the child's birth. The First Step Grant represents a change from the previous match rules, which required low- or moderate-income families to deposit $50 in the account in order to qualify for the match. The NextGen® Plan still allows families with an AGI of less than $52,500 to apply for an annual match of 50 percent of contributions, up to a maximum of $200. Revenue generated from 529 plan fees are used to pay for the match.

With the introduction of the First Step Grant and the elimination of a monthly deposit requirement, Maine's NextGen®Plan now features progressivity that offers significant benefit to low-income savers in the state. (For a more in-depth description of Maine's NextGen®Plan, see Appendix D, Section 3).

Michigan. The Michigan Education Savings Plan (MESP) is administered through the Michigan Department of the Treasury (and is similar to the plan in Minnesota). In Michigan, revenue generated from general funds is used to match deposits made by low-income accountholders. The initial investment for participation in MESP is $25 and there is a $15 monthly commitment.[38] The State provides a matching grant of $1 for each $3 contributed to a MESP account up to a lifetime maximum matching grant of $200 per eligible beneficiary. Matching grants are only available during the first year that the beneficiary is enrolled in MESP and are based on the following eligibility requirements:

- beneficiary must reside in a household with a family income of $80,000 or less;
- Beneficiary must be six years old or younger when the account is opened; and
- beneficiary must be a resident of Michigan.

Under current policy, the minimal initial and monthly investment requirements allow low-income savers to participate in MESP.[39] (For a more in-depth description of Michigan's MESP Plan, see Appendix D, Section 4).

Minnesota. The Minnesota College Savings Plan is administered through the Minnesota Higher Education Services Office. Revenue generated from general funds is used to match deposits made by low-income accountholders. The initial investment for participation in Minnesota's plan is $25 and there is a $15 monthly commitment.[40] The program provides an annual matching grant to eligible in-state families contributing at least $200 to the plan during a calendar year. Maximum matching grants are $300 per year and the match rate is linked to AGI. Families with a federal AGI of $50,000 or less may receive a matching grant of up to 15 percent of their contributions during the year. Families earning between $50,000 and $80,000 may receive up to 5 percent of their contributions.

The relatively low initial and monthly investment requirements allow low-income savers to participate in the Minnesota plan. (For a more in-depth description of Minnesota's College Savings Plan, see Appendix D, Section 5).

Rhode Island. The Rhode Island CollegeBound fund is administered by the Rhode Island Department of the Treasury and the Higher Education Assistance Authority. In Rhode Island, revenue generated from 529 plan fees are used to match deposits made by low-income accountholders. The initial investment for participation in the CollegeBound fund is $250 and there is a monthly commitment of at least $1 (based on income).[41] A two-to-one match is offered to state-resident families with an AGI at or below 200 percent of poverty, with a $1,000 annual maximum. Families with an AGI between 201 percent and 300 percent of poverty are eligible for a one-to-one match, with a $500 annual maximum. To be eligible for the match, the account must be opened before the child reaches age 11 and matching grants are only available for a period of five consecutive years.

The relatively large initial investment required by Rhode Island's program and the complicated eligibility criteria may limit participation by low-income savers. (For a more in-depth description of Rhode Island's CollegeBound fund, see Appendix D, Section 6).

Utah. In 2004, Utah launched a pilot program within the Utah Educational Savings Plan (UESP), the state's 529 program. The pilot program provides a one-to-one match, up to $300 per year for four years, for Utah residents who meet income eligibility requirements, open accounts, and save at least $25 per month. The first phase of the pilot program is limited to the first 50 Utahns that have incomes of 200 percent of the federal poverty level or below or that are eligible for TANF. Once the beneficiary is enrolled in college, funds are paid directly to the higher education institution.

Upon launch of the pilot program, UESP had plans for a second phase with 100 participants, after which there would be an evaluation and assessment period to determine whether to continue or expand the program. UESP is overseen by the Utah State Board of Regents and the Utah Higher Education Assistance Authority (UHEEA) Board of Directors. (For a more in-depth description of the UESP pilot program, see Appendix D, Section 7).

OTHER PROPOSALS FOR MATCHED 529 PROGRAMS

Michigan. Although Michigan's current 529 matching plan is relatively modest, there is growing support for expanding the program.

The Asset Building Policy Project at the Community Economic Development Association of Michigan has proposed building on the existing structure to promote a more progressive and universal children's savings plan. The basic structure would remain the same, but under the proposed plan the Michigan Education Savings Program (MESP) would:

- provide a two-to-one match ($1,000 maximum lifetime match per account) for state-resident families with AGI at or below 200 percent of the poverty line;
- provide a one-to-one match ($1,000 maximum lifetime match per account)

for state-resident families with and AGI between 201 percent and 300 percent of the poverty line;

- eliminate the required age for the matching grant in order to encourage employers to use the MESP as a vehicle for employees to save toward their own postsecondary and adult education;
- allow matches for the first two years the beneficiary is enrolled in the MESP; and
- exclude savings in MESP accounts from state financial aid determinations for families with an AGI at or below 200 percent of the poverty line.[42]

Oklahoma. The Oklahoma Kids' College Saving Campaign, led by the Community Action Project of Tulsa County, is working to develop a policy that will allow for a matched savings system, linked to the state's 529 plan that will: (1) accommodate variable match rates from both public and private match sources, (2) involve financial education for program participants, and (3) prioritize enrollment of pre-school aged children from low-income families. In May 2006, the Oklahoma House and Senate approved the creation of an Oklahoma College Savings Task Force, which will review and recommend policies that increase low- and moderate-income family participation in 529 college savings plans.[43]

Other Models That Inform the State Role in Children's Savings Policy

The Province of Alberta, Canada has enacted the most universal state-level (or, in this case, province-level) children's savings policy to date. The Alberta Centennial Education Savings (ACES) Plan, introduced by the Government of Alberta, was approved in 2004 and took effect on January 1, 2005.[44] Similar to 529 plans in the United States, ACES is intended to help new parents start saving for their newborn's postsecondary education. ACES works hand-in-hand with the Canada Learning Bond and the Canada Education Savings Grant Program to provide Alberta residents with additional incentives to save for their children's college expenses.

Unlike grant programs that use American 529 plans as a platform, ACES is a universal policy—it provides $500 towards a Registered Education Savings Plan (RESP) for every child born to or adopted by Alberta residents in 2005 and after. Additionally, the plan calls for subsequent grants of $100 to be made available for children attending school in Alberta at ages eight, 11 and 14, starting with children born in 2005, meaning that the first of the $100 grants are slated for disbursement in 2013.

Under ACES, eligibility for the initial $500 grant requires that the parent register and obtain a social insurance number for the child. They then must open a RESP in the child's name, and request the ACES Grant, which is processed by the bank or RESP provider.

It’s estimated that approximately 40,000 children will be eligible for the ACES Grant each year. Accordingly, the Alberta government will invest $20 million annually in ACES, with that number growing to $30 million annually by 2019.

Issues to Consider When Using Existing Structures as a Platform to Advance Children’s Savings Policy

Structural Restrictions. At this point, 529 plans can only be used to finance postsecondary education. Ideally, children’s savings policy will allow savings to be used for homeownership, business finance, and/or retirement, in addition to education. However, it is conceivable that 529 savings eventually could be opened to other uses.

Fees. Account maintenance, set-up, and other miscellaneous fees associated with 529 accounts can add up. Each state’s plan is different. State advocates should assess plan fees to determine whether they will hinder low-income savers.

Minimum Deposit Requirements. Minimum monthly deposit and initial deposit requirements may preclude lower-income participation.

Interaction with Financial Aid. 529 plans are designed to be owned by parents or an organization for the benefit of a child. (Minors cannot own 529s directly because they are invested in securities.) In most cases, this ownership structure is most beneficial from a financial aid perspective, since only 5.64 percent of assets owned by parents are counted toward the child’s expected family contribution.[45] Minors can own 529s through a custodial/UTMA arrangement, in which case the accounts are still assessed at the same rate (5.64 percent) as parent-owned assets.

Federal Sunset of Tax-free Withdrawals. The law allowing federal income tax-free qualified withdrawals from state-administered 529 plans is set to expire December 31, 2010. Congress may or may not extend the law beyond this date. As this date approaches, state advocates should assess the political environment in which this legislation will be considered.

Inclusiveness. 529 structure is more inclusive than that of 401(k)s, Individual Retirement Accounts, or other existing asset-based policies.[46] There are several reasons to believe that 529 plans can be adapted to foster a large-scale, inclusive policy that serves both poor and non-poor Americans. This potential exists because 529s have (1) public sector oversight that allows incentives and coordination with other policy efforts, (2) centralized accounting functions, (3) a limited number of investment options, and (4) the ability to cross-subsidize between large and small accounts.[47] However, since states are not required to collect information on the characteristics of 529 investors, at this point little is known about the economic profile of accountholders. However, newer research suggests that 529 plans are predominantly a savings venue for middle- and upper-income families. According to a study by the Investment Company Institute in 2003, the median income of households using a college savings plan (including 529 and Coverdell accounts) was $99,200, and median household financial assets, including employer-sponsored retirement plans and excluding primary residence, were $129,100.[48] For comparison, in 2002 the median income of all households with children under age 18 was $52,336.[49] Thus, it appears that the median income of 529 and Coverdell users is higher than the median for families with children because fewer low-income households are saving through these plans. State advocates should assess the inclusiveness of the existing 529 plan structure to determine whether it is accessible to low-income savers. Any attempt to link existing 529 structures to more progressive children's savings policy must be accompanied by careful considerations with respect to inclusiveness.

Other Policy Structures That Could Provide a Platform for CSAs

The tax system can be a gateway to building savings and assets. In the 2004 tax season, the Internal Revenue Service sent refund checks averaging $2,300 to 130 million tax filers.[50] These cash infusions are often the best chance people have to save some money in any given year, particularly low-income working families receiving the Earned Income Tax Credit.

The EITC is a powerful work incentive and anti-poverty tool that has benefited millions of low-income families since its inception, especially since the expansion of the EITC in the 1990s.[51] The EITC is a refundable credit offered through the federal tax system and through state tax systems in 14 states and the District of Columbia. The credit is available to low- and moderate-income workers with children in the household, regardless of their tax liability (meaning that, even if they do not have to file or pay taxes, many working poor families can still file for taxes and get an EITC refund).

In addition to the federal EITC, some states have instituted state EITCs that are typically tied to the federal credit. Families who file taxes in these states receive an even larger EITC. The states with EITCs are: Colorado, Delaware (non-refundable), Illinois, Indiana, Iowa (non-refundable), Kansas, Maine (non-refundable), Maryland, Massachusetts, Minnesota, New York, Oklahoma, Oregon, Rhode Island, Vermont, Virginia (non-refundable), and Wisconsin. There are also some cities that offer a citywide EITC in addition to the federal and state credits. Examples of cities that offer city EITCs include Washington, DC; Denver; and San Francisco. The federal EITC refund plus a state EITC refund can be as much as $5,000 for families in cities such as Milwaukee or Baltimore.

One promising idea, with respect to children's savings policy, is to use state funds to provide a "bonus" for low-income savers to deposit a portion of their state EITC refund into a savings vehicle. A study from the Retirement Security Project provides compelling evidence that providing such a bonus would generate results. Researchers found that a randomized sample of Americans were willing to invest four to eight times more in a long-term savings vehicle (IRAs in this case) when these investments were matched by 20 or 50 percent respectively.[52] Providing an incentive to low-income savers, through a bonus on a state EITC refund, would be a way to create progressive children's savings policy.

AUTHORIZING A NEW CSA STRUCTURE

Given the momentum of the federal ASPIRE Act (S. 686 / H.R. 1767) in Washington, some state legislators are interested in authorizing and funding new children's savings account structures—essentially creating a state version of ASPIRE.

In Michigan, state senator Buzz Thomas (D-Detroit) drafted legislation in early 2006 that would establish children's savings accounts in the state. Sen. Thomas has worked with the bipartisan Urban Caucus in the Michigan Legislature to generate additional support for his proposal.

In seeking to authorize and fund a new children's savings account structure, states should be aware of the following:

- The tax implications of creating and maintaining children's savings policy can be significant, especially when considering the creation of new savings account structures. In proposing a new account structure, be aware of how it will interact with existing federal and state laws and programs, particularly public benefits programs, federal and state financial aid, and federal and state tax codes.
- Any attempt to reallocate state funds will be met with resistance. However, strong bipartisan partnerships can advance big ideas. Coalitions and partnerships that cross party lines and believe in a common goal can be effective at funding children's savings policy.

BUILDING MOMENTUM THROUGH GOVERNMENT-SPONSORED STUDY COMMISSIONS

Often big policy shifts occur incrementally, and are spurred along by big ideas. Children's savings policy is no different. In various states, policymakers and advocates are raising the visibility of children's savings policy in order to build greater public support over the long run.

Kentucky Cradle to College Commission[53]. In July 2004, Kentucky created the Cradle to College Commission through Administrative Order. The purpose of the Commission is to explore approaches to making college education in Kentucky more affordable. It is comprised of students, educators, community leaders, private sector stakeholders, and financial service industry representatives. The Commission is by the Republican Secretary of State and the Democratic State Treasurer.

The Cradle to College Commission is examining a proposal to provide Kentucky newborns with a college savings account, under one of Kentucky's existing 529 savings programs, in the year of his or her birth. The account would be funded to the degree that would ensure that families could afford at least a community or technical college education and parents and grandparents could contribute to the account on a monthly or lump-sum basis to ensure funding for a higher level of education. The accounts would be structured as a trust fund that combines the contributions of all participants in order to maximize benefits from institutional investment activities, rather than as individual savings accounts. There would, however, be separate accounting records for each participant.

The balance of the savings account immediately prior to college matriculation would be available to students, pending their agreement to fulfill certain community or military service requirements. By offering responsibility along with opportunity, the program aims to allow children to take ownership of their futures and the program hopes to inspire a cycle of mutually beneficial connectedness between the individual and the community.

The Commission convened in fall 2004 to discuss program funding, structure, and beneficiaries. Since then, additional Commission meetings have focused on issues of college affordability.

Oklahoma Kids College Saving Campaign[54]. In Oklahoma, children's savings account advocates have framed their work as a campaign—rather than a permanent coalition—and have focused specifically on enacting CSAs. State representative Randy Terrill introduced House Concurrent Resolution 1075, which would create an Oklahoma College Savings Task Force. HCR 1075 passed both the Oklahoma House and

Senate in May 2006. Thus, beginning in 2007, the Oklahoma College Savings Task Force will review and recommend policies that increase low- and moderate-income family participation in 529 college savings plans.

Potential Funding Sources for CSAs

One of the challenges in enacting children's saving account policy at the state level will be finding the funds to support it. Appropriating general fund revenues for children's saving accounts is a possibility, but requires strong leadership, political will, and regular appropriations negotiations. Another option for funding CSAs is to earmark funds to increase the likelihood that they will be protected from political whims or during budget crises. One way to earmark funds and create a sustainable funding stream is to create a trust fund designated for a specific purpose and funded by fees, proceeds, or one-time payouts. Funds can be invested and the revenue generated by these investments can be used for children's savings policy. For information on six potential funding sources for CSAs, see the table below.

Children's Savings Accounts: Potential Funding Sources

Source	Process	Pros	Cons
General funds	Legislative appropriation (annual and biennial)	▪ Can provide significant source of money ▪ Can lay groundwork more reliable funding for CSA policy	▪ Requires periodic appropriation, necessitating ongoing advocacy ▪ May be subject to changing political realities
TANF funds	Legislative appropriation or administrative allocation (one-time or periodic)	▪ Precedent exists of using TANF funds to support IDAs ▪ Federal flexibility allows funds to be used for non-cash assistance	▪ Deposits may have to come from earned income ▪ Flat federal funding for the next five years ▪ Post-reauthorization, greater pressure to meet work participation rates ▪ Competition for funds among several worthy uses
CDBG funds	Administrative allocation	▪ Widely available ▪ Generally flexible uses	▪ Application and reporting fairly time- and labor-intensive for community partners ▪ Small Cities CDBG funds can only be used in small towns and rural areas ▪ Competition for funds among several worthy uses

Source	Process	Pros	Cons
Fees, proceeds, or one-time payouts	Legislative authorization of trust fund	▪ Funds are earmarked so that they cannot be "raided" during economic downturns ▪ Once established, doesn't require annual appropriations, thus not subject to political whims	▪ One-time payout would have to be relatively large to generate sufficient interest to fund CSAs ▪ One-time payouts often go to capital expenditures (e.g., schools and roads) ▪ Most states already have multiple trust funds; may be politically difficult to establish additional fund, particularly for a "new" idea such as CSAs ▪ Revenue from "sin taxes" (e.g., cigarettes) may diminish over time
Tax credits for matching entities	Legislative authorization	▪ Insulates CSAs from appropriations battles ▪ Effective strategy for generating sustained source of funding in long run ▪ Federal legislative model exists (Savings for Working Families Act)	▪ May be unpredictable; funds generated depend in large part on demand for the tax credits among financial institutions ▪ May pose an obstacle to leveraging other financial support because total dollars available cannot be predicted in advance
Tax credits for accountholders	Legislative authorization	▪ Federal legislative model exists (Saver's Credit) ▪ Uses same mechanism (tax code) that benefits higher-income people ▪ Reduces bureaucracy by using the tax code	▪ Utilization may be low without education and outreach

Examples of State Trust Funds

Alaska Permanent Fund[55]. The Permanent Fund is Alaska's "savings account." Created in 1977, it allows the state to save a portion of non-renewable revenues that the state receives from oil production. The Permanent Fund was envisioned as a permanent source of revenue for the state through the conversion of a non-sustainable flow of dollars into a permanent financial resource. The State constitution prohibits legislators from spending the principal from the Permanent Fund and over time its value has grown though deposits and reinvestment of earnings. The fund currently exceeds $29 billion.

In 1982, the Alaska Permanent Fund Dividend (PFD) program was established. This program provides an equal payment each year to every Alaskan, regardless of age, from a portion of the earnings of the Permanent Fund. The size of the PFD is a function of the earnings of the Permanent Fund and fluctuates each year. For example, in 2004, each Alaskan received a check for $919; in 2003, each Alaskan received a check for $1,108.

The PFD has incredible potential to empower people, especially lower-income families and individuals. Although residents are not required to save, rather than spend, these dividends, the fund provides a potential permanent funding stream for CSAs. A large portion of the proceeds from the Permanent Fund go to children—in 2003, almost 185,000 children under the age of 18 received PFDs.

Given the existence of real financial resources in Alaska, the state has a tremendous opportunity to earmark a portion of the liquid assets in the PFD and invest in the future of Alaska's children. The state could create incentives through progressively matched deposits for Alaskan families to deposit their PFD checks into children's savings accounts.[56]

Wyoming Investment in Children Trust Fund[57]. In March 2004, the Wyoming Legislature passed and the governor signed legislation directing the Department of Family Services (DFS) to create the Wyoming Children and Family Initiative. As part of the initiative, DFS was charged with developing a comprehensive plan to improve the lives and futures of all children and families in Wyoming. This initiative and a state budget surplus (which NCSL predicted to be more than $600 million in early 2005) presented an opportunity for advocates of children's savings policy.

On January 27, 2005, a $1 billion "Wyoming Investment in Children Trust Fund" was proposed by a coalition of legislators, executive branch officials and children's advocates to boost preschool education and pay college tuition for most high school graduates.[58] The trust would serve as a dedicated fund that provides early care and education services for children from pre-natal to age six and provides funds for postsecondary education.

The fund, as envisioned by supporters, would receive $200 million per year for five years (pending approval by two-thirds of the legislature and subsequent voter approval). The interest on these investments, at a modest rate of 5 percent, would be used to finance the new program. Money generated by the trust fund would help augment Head Start and early education centers and help families with daycare expenses. Additionally, $18 million per year would be used to pay for college tuition for high school graduates who maintain a 2.5 grade point average, score near or above average on the ACT, and "stay out of trouble."[59]

The legislative proposal in Wyoming, geared to take advantage of a budget surplus, would set a precedent for a nearly universal, state-level investment in children's postsecondary education and could serve as a platform for individual children's savings structures.

California Hope Endowment[60]. In 2005, the California State Treasurer and allies in the legislature proposed legislation designed to help young Californians go to college by transforming the State's poorly managed real estate assets into a $5 billion-plus "California Hope Endowment" for higher education. The legislation would create the seventh largest higher education endowment in the nation, which could provide more than $2 billion in funding over the next 10 years for initiatives to increase college opportunities.

The California Hope Endowment offers an innovative solution to use the State's existing resources to expand opportunities for the next generation. The proposed legislation would convert billions of dollars in mismanaged, state-owned real estate that could be worth more than $5 billion into an endowment to expand the number of young Californians who can attend college and receive degrees. The Endowment would be funded by a transfer of State-owned property—including offices, industrial property, warehouses, and non-environmentally sensitive urban land clearly suitable for development—from the bureaucracy to the CalHope Trust, a public trust corporation that would manage the property like a business on behalf of the taxpayers and the Endowment. Managed properly, these assets could yield more than $2 billion over the next 10 years for the Endowment. This revenue would be used to support and fund the most promising and innovative approaches to increasing the number of Californians who achieve a college degree.

The California Hope Endowment (AB 593) passed both the California Senate and Assembly in September 2005, but was vetoed by Gov. Arnold Schwarzenegger in February 2006.

Example of Using Interest from Unclaimed Property as a Funding Source

In 2006, Missouri state treasurer Sarah Steelman developed the Missouri Legacy Initiative, which would provide matching college grants for parents or grandparents who start college savings plans for their child by opening an account in the Missouri Saving for Tuition (MOST) 529 plan. Steelman's proposal, which was part of HB 2035 sponsored by Representative Mike Cunningham, would use interest earned from unclaimed property to help low and middle-income families pay college costs for their children. Steelman has estimated that changes to unclaimed property laws would generate approximately $2.5 million annually for these matching college grants.

APPENDICES

APPENDIX A: 2005-06 SEED STATE POLICY GRANTEES

On June 1, 2005, in cooperation with national partners and advisors, CFED announced the selection of coalitions in four states—Illinois, Michigan, Kentucky, and Oklahoma—to work as partners with SEED to develop state policies to create or expand progressive savings opportunities for children.

The goal of forging these new partnerships is to invest in state efforts that have a real possibility for a public policy breakthrough within five years. The selected policy partners are responsible for leading state policy development, advocacy efforts and constituency organizing in their state. This effort is part of the Saving for Education, Entrepreneurship, and Downpayment Policy, Practice, and Research Initiative.

Working with our national partners and advisors, the policy partners will have access to the best available information on children's savings and asset-building policy and practice. Additionally, CFED will provide access to comprehensive research findings for use in policy advocacy; opportunities to share lessons with other partners; and assistance with communications, research, policy development, and advocacy.

The 2005-06 state partners are:

- **Illinois.** The Sargent Shriver National Center on Poverty Law; Voices for Illinois Children
- **Kentucky.** The Cradle to College Commission
- **Michigan.**The Community Economic Development Association of Michigan (CEDAM)
- **Oklahoma.** Community Action Project of Tulsa County (CAPTC)

CFED will make grants to several of these organizations for 2006-07 and potentially make grants to additional partners, based on an assessment of political opportunity.

APPENDIX B: SELECTED ACADEMIC PROPOSALS

Leading economists and social policy theorists have advanced the concept of publicly-supported savings mechanisms that begin at birth.

Stakeholder Society. In 2000, Bruce Ackerman and Anne Alstott proposed giving each American child $80,000 "as a birthright of citizenship."[61] The $255 billion would come from an annual wealth tax "equal to 2 percent of every individual's wealth in excess of $180,000."[62] Stakeholders would have no restrictions on the use of funds, but there would be conditions under which the funds become available: high school graduates bound for college would have access to the money for tuition; high school graduates bound for immediate employment would have access to 25 percent each year beginning at age 21; high school dropouts would have access to only the earnings of the stake. The proposal requires repayment of the $80,000 upon death, if possible, thereby creating a revolving pool of funds for future stakeholders.

An Asset-Based Egalitarian Strategy. In 1999, Richard Freeman described a strategy that would endow each newborn American with a trust fund whose future value would be equivalent to his/her Social Security pension.[63] Funded through progressive taxes on inheritance, wealth, and income, Freeman's transfer would ensure that every child—not just those whose parents hold assets—with a basic standard of living. Accountholders would be able to spend only the interest earnings; the principal would revert to a revolving fund that would endow the newest generation of Americans.

Starting Even. In 1998, Robert Haveman proposed "a universal personal capital account for youths" that would give each 18-year-old access to funds (as a starting point, he suggested $20,000) that could be used for educational or medical purposes.[64] If the educational and medical expenses did not deplete the account, the balance could be held to supplement retirement funds.

Appendix C: America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act (S. 686)—Legislative Language

Sponsor: Sen. Rick Santorum [PA] (introduced 4/21/2005)
Co-sponsors: Sen. Jon S. Corzine [NJ]; Sen. Jim DeMint [SC]; Sen. Charles E. Schumer [NY]
Related Bills: H.R.1767

Section 1. Short Title.

This Act may be cited as the `America Saving for Personal Investment, Retirement, and Education Act of 2005' or the `ASPIRE Act of 2005'.

Section 2. KIDS Account Fund.

(a) Establishment- There is established in the Treasury of the United States a KIDS Account Fund.
(b) Amounts Held by Fund- The KIDS Account Fund consists of the sum of all amounts paid into the Fund under subsections (d) and (e), increased by the total net earnings from investments of sums held in the Fund or reduced by the total net losses from investments of sums held in the Fund, and reduced by the total amount of payments made from the Fund (including payments for administrative expenses).
(c) Use of Fund-
(1) IN GENERAL- The sums in the KIDS Account Fund are appropriated and shall remain available without fiscal year limitation—
(A) to invest under section 5,
(B) to make distributions under section 6,
(C) to pay the administrative expenses of carrying out this Act, and
(D) to purchase insurance as provided in section 9(c)(2).
(2) EXCLUSIVE PURPOSES- The sums in the KIDS Account Fund shall not be appropriated for any purpose other than the purposes specified in this section and may not be used for any other purpose.
(d) Government Contributions-
(1) IN GENERAL- The Secretary of the Treasury shall make transfers from the general fund of the Treasury to the KIDS Account Fund as follows:
(A) AUTOMATIC CONTRIBUTIONS- Upon receipt of each certification under section 3(b), the Secretary of the Treasury shall transfer $500.
(B) SUPPLEMENTAL CONTRIBUTIONS- Upon receipt of each certification under section 4(a), the Secretary of the Treasury shall transfer the supplemental amount.
(C) MATCHING CONTRIBUTIONS- Upon receipt of each certification under section 4(b), the Secretary of the Treasury shall transfer the matching amount.
(2) ADJUSTMENT FOR INFLATION-
(A) IN GENERAL- For each fifth calendar year beginning after 2006, the $500 amount in paragraph (1)(A) shall be increased by such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) of the Internal

Revenue Code of 1986 determined by substituting `calendar year 2005' for `calendar year 1992' in subparagraph (B) thereof.

(B) ROUNDING- If any amount adjusted under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

(e) Private Contributions- The Executive Director shall pay into the KIDS Account Fund such amounts as are contributed under section 3(f).

Section 3. KIDS Accounts.

(a) Establishment- The Executive Director shall establish in the KIDS Account Fund a Kids Investment and Development Savings Account (hereafter in this Act referred to as a `KIDS Account') for each eligible individual certified under subsection (b). Each such account shall be identified to its account holder by means of the account holder's social security account number.

(b) Certification of Account Holders- On the date on which an eligible individual is issued a social security account number under section 203(c)(2) of the Social Security Act, the Commissioner of Social Security shall certify to the Executive Director and the Secretary of the Treasury the name of, and social security number issued to, such eligible individual.

(c) Account Balance- The balance in an account holder's KIDS Account at any time is the excess of—

(1) the sum of—

(A) all deposits made into the KIDS Account Fund and credited to the account under subsection (d), and

(B) the total amount of allocations made to and reductions made in the account pursuant to subsection (e), over

(2) the amounts paid out of the account with respect to such individual under section 6.

(d) Crediting of Contributions- Pursuant to regulations which shall be prescribed by the Executive Director, the Executive Director shall credit to each KIDS Account the amounts paid into the KIDS Account Fund under subsections (d) and (e) of section 2 which are attributable to the account holder of such account.

(e) Allocation of Earnings and Losses- The Executive Director shall allocate to each KIDS Account an amount equal to the net earnings and net losses from each investment of sums in the KIDS Account Fund which are attributable, on a pro rata basis, to sums credited to such account, reduced by an appropriate share of the administrative expenses paid out of the net earnings, as determined by the Executive Director.

(f) Private Contributions-

(1) IN GENERAL- The Executive Director shall accept cash contributions for payment into the KIDS Account Fund if such contribution is identified (in such manner as the Executive Director may require) with the account holder of a KIDS Account to whom it is to be credited at the time the contribution is made.

(2) ALTERNATIVE METHODS OF CONTRIBUTION-

(A) PAYROLL DEDUCTION- Under regulations prescribed by the Executive Director and at the election of the employer, contributions under paragraph (1) may be made through payroll deductions.

(B) TAX REFUNDS- Under regulations prescribed by the Secretary of the Treasury, contributions under paragraph (1) may be made by an election to contribute all or a portion of the tax refund of the contributor.

(3) ANNUAL LIMITATION-

(A) ACCOUNT HOLDERS UNDER AGE 18- In the case of an account holder who has not attained age 18 at the end of a calendar year—

(i) the limitation under section 219(b)(1) of the Internal Revenue Code of 1986 shall not apply, and

(ii) the Executive Director shall not accept any contribution identified with such account holder if such contribution, when added to all other contributions made under this subsection during such calendar year with respect to such account holder, exceeds $1,000.

(B) ACCOUNT HOLDERS AGE 18 OR OLDER- In the case of an account holder who is age 18 or older at the end of a calendar year, any contribution identified with such account holder shall be taken into account under section 219(b)(1) of the Internal Revenue Code of 1986 for such year.

(C) ADJUSTMENT FOR INFLATION-

(i) IN GENERAL- For each fifth calendar year beginning after 2006, the $1,000 amount under subparagraph (A)(ii) shall be increased by such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 determined by substituting `calendar year 2005' for `calendar year 1992' in subparagraph (B) thereof.

(ii) ROUNDING- If any amount adjusted under clause (i) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

(g) Eligible Individual- For purposes of this Act, the term `eligible individual' means any individual who is—

(1) a United States citizen or a person described in paragraph (1) of section 431(b) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996,

(2) born after December 31, 2006, and

(3) less than 18 years of age.

(h) Repayment of Automatic Contribution- Beginning with the year in which an account holder of a KIDS Account attains the age of 30, such account holder shall repay, in such form and manner as the Executive Director shall prescribe by regulation, the amount transferred under section 2(d)(1)(A) and credited to the account of the account holder under subsection (d).

(i) Rights of Legal Guardian- Until the account holder of a KIDS Account attains age 18, any rights or duties of the account holder under this Act with respect to such account shall be exercised or performed by the legal guardian of such account holder.

Section 4. Certifications Related to Government Contributions.

(a) Supplemental Government Contributions-

(1) IN GENERAL- Upon such showing as the Executive Director may require to establish the basis for certification, the Executive Director shall, with respect to each eligible account holder, certify to the Secretary of the Treasury the supplemental amount with respect to such account holder.

(2) ELIGIBLE ACCOUNT HOLDER- For purposes of this subsection, the term `eligible account holder' means an account holder of a KIDS Account who, for the last taxable year ending before such account holder's certification under section 3(b), has a modified

adjusted gross income which is below the applicable national median adjusted gross income amount.

(3) SUPPLEMENTAL AMOUNT-

(A) IN GENERAL- For purposes of this Act, the term `supplemental amount' means $500.

(B) INCOME PHASE-OUT- With respect to any account holder who has a modified adjusted gross income for the last taxable year ending before such account holder's certification under section 3(b) which is in excess of 50 percent of the applicable national median adjusted gross income amount, the $500 amount in subparagraph (A) shall be reduced (but not below zero) by an amount which bears the same ratio to $500 as such excess bears to 50 percent of the applicable national median adjusted gross income amount.

(C) ADJUSTMENT FOR INFLATION-

(i) IN GENERAL- For each fifth calendar year beginning after 2006, each of the $500 amounts under subparagraphs (A) and (B) shall be increased by such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 determined by substituting `calendar year 2005' for `calendar year 1992' in subparagraph (B) thereof.

(ii) ROUNDING- If any amount adjusted under clause (i) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

(b) Government Matching Contribution-

(1) IN GENERAL- Upon such showing as the Executive Director may require to establish the basis for certification, the Executive Director shall, with respect to each private contribution to the account of an account holder which is made before such account holder attains age 18, certify to the Secretary of the Treasury the matching amount with respect to such contribution.

(2) MATCHING AMOUNT-

(A) IN GENERAL- For purposes of this subsection, the term `matching amount' means, with respect to the first $500 of private contributions to an account during any calendar year, an amount equal to 100 percent of such contribution.

(B) INCOME PHASE-OUT- With respect to any account holder who has a modified adjusted gross income for the last taxable year ending before such contribution which is in excess of 100 percent of the applicable national median adjusted gross income amount, the $500 amount in subparagraph (A) shall be reduced (but not below zero) by an amount which bears the same ratio to $500 as such excess bears to 5 percent of the applicable national median adjusted gross income amount.

(C) ADJUSTMENT FOR INFLATION-

(i) IN GENERAL- For each fifth calendar year beginning after 2006, each of the $500 amounts under subparagraphs (A) and (B) shall be increased by such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 determined by substituting `calendar year 2005' for `calendar year 1992' in subparagraph (B) thereof.

(ii) ROUNDING- If any amount adjusted under clause (i) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

(3) PRIVATE CONTRIBUTION- For purposes of this subsection, the term `private contribution' means a contribution accepted under section 3(f).

(c) Definitions and Rules Relating to Modified Adjusted Gross Income- For purposes of this section—

(1) SPECIAL RULE FOR ACCOUNT HOLDERS WHO CAN BE CLAIMED AS DEPENDENTS- In the case of an account holder of a KIDS Account for whom a deduction is allowable under section 151 of the Internal Revenue Code of 1986 to another taxpayer, any reference in this section to the modified adjusted gross income of the account holder for any taxable year shall be treated as a reference to the modified adjusted gross income of such other taxpayer.

(2) MODIFIED ADJUSTED GROSS INCOME- The term `modified adjusted gross income' has the meaning given such term in section 221(b) of the Internal Revenue Code of 1986.

(3) APPLICABLE NATIONAL MEDIAN ADJUSTED GROSS INCOME-

(A) IN GENERAL- The term `applicable national median adjusted gross income' means, with respect to any calendar year, the median amount of adjusted gross income (as defined in section 62 of the Internal Revenue Code of 1986) for individual taxpayers for taxable years ending in the prior calendar year as determined by the Secretary of the Treasury.

(B) JOINT RETURNS- The applicable national median adjusted gross income shall be calculated and applied separately with respect to joint returns and all other returns.

Section 5. Rules Governing KIDS Accounts Relating to Investment, Accounting, and Reporting.

(a) Default Investment Program- The KIDS Account Fund Board shall establish a default investment program under which, in a manner similar to a lifecycle investment program, sums in each KIDS Account are allocated to investment funds in the KIDS Account Fund based on the amount of time before the account holder attains the age of 18. Each account holder of a KIDS Account shall be enrolled in such program unless such account holder, in such form and manner as prescribed by the Executive Director, elects otherwise.

(b) Other Rules- Under regulations which shall be prescribed by the Executive Director, and subject to the provisions of this Act, the provisions of—

(1) section 8438 of title 5, United States Code (relating to investment of the Thrift Savings Fund),

(2) section 8439(b) of such title (relating to engagement of independent qualified public accountant),

(3) section 8439(c) of such title (relating to periodic statements and summary descriptions of investment options), and

(4) section 8439(d) of such title (relating to assumption of risk), shall apply with respect to the KIDS Account Fund and accounts maintained in such Fund in the same manner and to the same extent as such provisions relate to the Thrift Savings Fund and the accounts maintained in the Thrift Savings Fund. For purposes of this subsection, references in such sections 8438 and 8439 to an employee, Member, former employee, or

former Member shall be deemed references to an account holder of a KIDS Account in the KIDS Account Fund.

Section 6. Distributions from KIDS Accounts.

(a) In General- Under regulations prescribed by the Executive Director, amounts in a KIDS Account shall, at the request of the account holder, be distributed to the account holder if such distribution is a qualified distribution (within the meaning of section 408A(d)(2) of the Internal Revenue Code of 1986).
(b) Age Limitation- No distribution shall be made under subsection (a) with respect to any account holder of a KIDS Account before such account holder attains age 18.
(c) Minimum Balance- No amount shall be distributed under subsection (a) to the extent such distribution would cause the balance of such account to be less than the amount transferred to such account under section 2(d)(1)(A) before the account holder—

(1) attains age 59 1/2 ,
(2) dies, or
(3) becomes disabled (within the meaning of section 72(m)(7).

Section 7. Tax Treatment of KIDS.

(a) In General- Except as otherwise provided in this Act, for purposes of the Internal Revenue Code of 1986—

(1) each KIDS Account shall be treated in the same manner as a Roth IRA (within the meaning of section 408A of such Code), and
(2) any distribution from such account shall be treated in the same manner as a distribution from a Roth IRA.

(b) Qualified Rollovers Contributions-

(1) IN GENERAL- Except as provided in paragraph (2), no qualified rollover contribution (as defined in section 408A(e) of the Internal Revenue Code of 1986) shall be allowed with respect to a KIDS Account.
(2) QUALIFIED ROLLOVERS-

(A) IN GENERAL- Under regulations prescribed by the Secretary of the Treasury in consultation with the Executive Director, after an account holder of a KIDS Account attains the age of 18, such account holder may elect to make a rollover contribution from such account holder's account to—

(i) a Roth IRA, or
(ii) a qualified tuition program (within the meaning of section 529 of the Internal Revenue Code of 1986).

(B) LIMITATION- No rollover contribution may be made under this paragraph to the extent that such rollover contribution would cause the balance of such account holder's account to be less than the amount of the contribution transferred to such account under section 2(d)(1)(A) before such account holder—

(i) attains age 59 1/2 ,
(ii) dies, or
(iii) becomes disabled (within the meaning of section 72(m)(7).

(c) 100 PERCENT TAX ON GOVERNMENT CONTRIBUTIONS-

(1) KIDS ACCOUNTS-

(A) IN GENERAL- In the case of any amount distributed from a KIDS Account which is attributable to contributions made under section 2(d) and which would be includible in gross income (but for this paragraph)—

(i) such amount shall not be includible in gross income, and

(ii) the tax imposed under chapter 1 of the Internal Revenue Code of 1986 on the distributee for the taxable year in which such amount is distributed shall be increased by 100 percent of such amount.

(B) ORDERING RULES- For purposes of this paragraph, distributions from KIDS Accounts shall be treated as made from amounts attributable to contributions made under section 3(f) and from earnings before made from amounts attributable to contributions made under section 2(d).

(2) ROTH IRAS- Section 408A(d) of the Internal Revenue Code of 1986 (relating to distribution rules) is amended by adding at the end the following new paragraph:

`(8) 100 PERCENT TAX ON DISTRIBUTIONS RELATED TO CERTAIN GOVERNMENT CONTRIBUTIONS-

`(A) IN GENERAL- In the case of any distribution which is attributable to contributions made under section 2(d)of the America Saving for Personal Investment, Retirement, and Education Act of 2005 and which would be includible in gross income (but for this paragraph)—

`(i) such amount shall not be includible in gross income, and

`(ii) the tax imposed under chapter 1 on the distributee for the taxable year in which such amount is distributed shall be increased by 100 percent of such amount.

`(B) ORDERING RULES- For purposes of this paragraph, distributions shall be treated as made from amounts attributable to other contributions and from earnings before made from amounts attributable to contributions made under section 2(d) of the America Saving for Personal Investment, Retirement, and Education Act of 2005.'.

(3) QUALIFIED TUITION PROGRAMS- Section 529(c)(3) of the Internal Revenue Code of 1986 (relating to distributions) is amended by adding at the end the following new subparagraph:

`(E) 100 PERCENT TAX ON DISTRIBUTIONS RELATED TO CERTAIN GOVERNMENT CONTRIBUTIONS-

`(i) IN GENERAL- In the case of any distribution which is attributable to contributions made under section 2(d) of the America Saving for Personal Investment, Retirement, and Education Act of 2005 and which would be includible in gross income (but for this subparagraph)—

`(I) such amount shall not be includible in gross income, and

`(II) the tax imposed under chapter 1 on the distributee for the taxable year in which such amount is distributed shall be increased by 100 percent of such amount.

`(ii) ORDERING RULES- For purposes of this paragraph, distributions shall be treated as made from amounts attributable to other contributions and from earnings before made from amounts attributable to contributions made under section 2(d) of the America Saving for Personal Investment, Retirement, and Education Act of 2005.'.

Section 8. KIDS Account Fund Board.

(a) In General- There is established in the executive branch of the Government a KIDS Account Fund Board.
(b) Composition, Duties, and Responsibilities- Subject to the provisions of this Act, the provisions of—

(1) section 8472 of title 5, United States Code (relating to composition of Federal Retirement Thrift Investment Board),
(2) section 8474 of such title (relating to Executive Director),
(3) section 8475 of such title (relating to investment policies), and
(4) section 8476 of such title (relating to administrative provisions), shall apply with respect to the KIDS Account Fund Board in the same manner and to the same extent as such provisions relate to the Federal Retirement Thrift Investment Board.

Section 9. Fiduciary Responsibilities.

(a) In General- Under regulations of the Secretary of Labor, the provisions of sections 8477 and 8478 of title 5, United States Code, shall apply in connection with the KIDS Account Fund and the accounts maintained in such Fund in the same manner and to the same extent as such provisions apply in connection with the Thrift Savings Fund and the accounts maintained in the Thrift Savings Fund.
(b) Investigative Authority- Any authority available to the Secretary of Labor under section 504 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1134) is hereby made available to the Secretary of Labor, and any officer designated by the Secretary of Labor, to determine whether any person has violated, or is about to violate, any provision applicable under subsection (a).
(c) Exculpatory Provisions; Insurance-

(1) IN GENERAL- Any provision in an agreement or instrument which purports to relieve a fiduciary from responsibility or liability for any responsibility, obligation, or duty under this Act shall be void.
(2) INSURANCE- Amounts in the KIDS Account Fund available for administrative expenses shall be available and may be used at the discretion of the Executive Director to purchase insurance to cover potential liability of persons who serve in a fiduciary capacity with respect to the Fund and accounts maintained therein, without regard to whether a policy of insurance permits recourse by the insurer against the fiduciary in the case of a breach of a fiduciary obligation.

Section 10. Assignment, Alienation, and Treatment of Deceased Individuals.

(a) Assignment and Alienation- Under regulations which shall be prescribed by the Executive Director, rules relating to assignment and alienation applicable under chapter 84 of title 5, United States Code, with respect to amounts held in accounts in the Thrift Savings Fund shall apply with respect to amounts held in KIDS Accounts in the KIDS Account Fund.
(b) Treatment of Accounts of Deceased Individuals- In the case of a deceased account holder of a KIDS Account which has an account balance greater than zero, upon receipt of notification of such individual's death, the Executive Director shall close the account and shall transfer the balance in such account to the KIDS Account of such account holder's surviving spouse or, if there is no such account of a surviving spouse, to the duly appointed legal representative of the

estate of the deceased account holder, or if there is no such representative, to the person or persons determined to be entitled thereto under the laws of the domicile of the deceased account holder.

Section 11. Accounts Disregarded in Determining Eligibility for Federal Benefits.

Amounts in any KIDS Account shall not be taken into account in determining any individual's eligibility for any federally funded benefit, including student financial aid.

Section 12. Reports.

(a) Annual Report- The Executive Director, in consultation with the Secretary of the Treasury, shall annually transmit a written report to the Congress. Such report shall include—

(1) a detailed description of the status and operation of the KIDS Account Fund and the management of the KIDS Accounts, and

(2) a detailed accounting of the administrative expenses in carrying out this Act, including the ratio of such administrative expenses to the balance of the KIDS Account Fund and the methodology adopted by the Executive Director for allocating such expenses among the KIDS Accounts.

(b) Repayment of Automatic Contributions- Not later than 2 years before the issuance of any final regulation under section 3(h), the Executive Director shall transmit a written report to the Congress. Such report shall include a draft of the proposed regulation to be issued under such section and a description of the conclusions and recommendations of the Executive Director regarding the implementation of the following repayment options:

(1) Repayment through service or employment in high-need professions or areas.

(2) Increasing the Federal income tax liability of each account holder of a KIDS Account by $100 per year for 5 years after the account holder attains age 30.

(3) Repayment from the account or other sources before the account holder of a KIDS Account attains age 30.

(4) Alternatives for individuals facing financial hardship, including deferred repayment and forgiveness.

Section 13. Programs for Promoting Financial Literacy.

The Secretary of the Treasury, in coordination with the Financial Literacy and Education Commission, shall develop programs to promote the financial literacy of account holders of KIDS Accounts and the legal guardians of such account holders who have the rights with respect to such accounts under section 3(i).

Appendix D: Descriptions of Matched 529 Programs

Colorado's CollegeInvest Matching Grant Program

Summary. In 2005, CollegeInvest, a not-for-profit division of the Colorado Department of Higher Education responsible for administering the state's 529 program, introduced the CollegeInvest Matching Grant Program. The Matching Grant program provides a one-to-one match, up to $500 per account annually for a maximum of five consecutive years, to qualifying low- and middle-income families who open a 529 college savings account. Matches are made on contributions from the previous calendar year.

Matching dollars go into a separate Matching Grant Account, which is owned by CollegeInvest and set up in the beneficiary's name. CollegeInvest will only make payments from a Matching Grant Account to an institution of higher education in an amount that is equal to a qualified withdrawal from the participant's owned CollegeInvest Account for the beneficiary. Matching funds are distributed on a first-come-first-serve basis, and are subject to availability. Funding beyond initial two years is subject to annual appropriation, and is not guaranteed.

Eligibility. To be eligible, families must have incomes at or below 200 percent of the federal poverty level based on family size, not to exceed the state median family income. Beneficiary must be no older than 12 years of age when the account is opened.

Tax implications. Earnings are exempt from state and federal taxes when used to pay qualified higher education expenses, including tuition, fees, books, supplies and equipment. Contributions are fully deductible up to the contributor's adjusted gross income; rollover contributions are not eligible for the deduction.

Maximums/minimums. Initial contribution must be at least $25. Subsequent contributions must be at least $15. Accepts contributions until all Colorado account balances for the same beneficiary reach $280,000.

Fees. No enrollment fee. Account maintenance fees are waived for Colorado residents. An annual program management fee of 0.75 percent is assessed on each account.

Investment Options. CollegeInvest offers three distinct plans, each with its own variety of options ranging from conservative to higher-risk. The Stable Value Plus College Savings Plan**,** backed by the Travelers Insurance Company, is a fixed income fund designed to protect your principal investment, under a funding agreement that declares a new interest rate each year. The Direct Portfolio College Savings Plan**,** managed by The Vanguard Group and Upromise Investment, Inc., offers a combination of equity, fixed income and money market options. The Scholars Choice College Savings Program, managed by CAM North America, LLC., an affiliate of Legg Mason Inc., offers a combination of equity, fixed income and money market options available only through financial advisors.

Other details. If the participant makes a non-qualified withdrawal from the CollegeInvest Account(s), CollegeInvest will reduce the amount in the Matching Grant Account by an amount equal to the Participant's non-qualified withdrawal plus any applicable earnings on that amount. If there is no qualified withdrawal from the Matching Grant Account within four years after the beneficiary is eligible for such withdrawal (typically 18 years of age), CollegeInvest will revoke the total amount of the value of the Matching Grant Account. No withdrawals will be allowed from a Matching Grant Account after six years after the Beneficiary is eligible for such withdrawal, regardless of whether qualified withdrawals have been made during that period, and any funds remaining in the Matching Grant Account after that period will be revoked.

Louisiana's Matched 529 Plan

Summary. Louisiana Office of Student Financial Assistance, under the direction of the Louisiana Tuition Trust Authority (LATTA). LATTA is a public body composed of representatives from all of the state's education governing boards, and includes the State Treasurer and one member from each house of the Louisiana Legislature.

Revenue generated from general funds is used to match deposits made by low-income account holders into the state's 529 college savings plan. Deposit matches are called "Earnings Enhancements." The current value of an account may be used to pay for qualified higher education expenses at any accredited college or university (in or out-of-state) and at in-state technical colleges and state-approved proprietary schools.

Eligibility. Match rate determined by AGI—ranges from a high of 14 percent of contributions for those families with an AGI up to $29,999 to a low of 2 percent for incomes of $100,000 and above.

Tax implications. Earnings are exempt from state and federal taxes when used to pay qualified higher education expenses, including tuition, room, board, books and supplies. Deposits may be excluded from taxable income reported on the account owner's State tax return, up to $2,400 per year, per account. Unused exclusions may be carried forward to subsequent tax years.

Maximums/minimums. There is not limitation on the frequency of deposits and the minimum deposit amount is $10.

Fees. Unlike many other state-sponsored 529 college savings plans, which have become targets of industry criticism and governmental review, Louisiana's 529 plan does not charge fees for its accountholders.[65] The program includes "no enrollment fees, no account maintenance fees, no administrative fees, and no broker commissions."[66] One hundred percent of all deposits into the START plan go toward earning interest.

Investment Options. Six investment options which range from very conservative to very aggressive. Deposits into the fixed earnings portion of any investment option are guaranteed by the State.

Other details. As of the end of 2004, START assets totaled more than $63 million, including $44 million in depositor contributions and earned interest, $17 million in Vanguard investments (mutual funds) and more than 1.6 million in Earnings Enhancements and interest on the enhancements.[67]

See http://www.startsaving.la.gov for details on the Louisiana plan. For sample legislation establishing Louisiana's START program and its corresponding progressive savings matches, see http://www.legis.state.la.us/lss/lss.asp?folder=143.

Maine's NextGen® Plan

Summary. Maine's NextGen® Plan is administered through the Office of the State Treasurer and the Finance Authority of Maine. The Maine State Treasurer and the Maine Advisory Committee on College Savings oversee the investments.

Revenue generated from general funds is used to match deposits made by low-income account holders into the state's 529 college savings plan. All Maine residents born after January 1, 2006, are eligible to receive a $50 First Step Grant. No other contribution is required to open the account. Any *new* NextGen® account may apply to receive an initial matching grant of $200. Further, any *existing* NextGen® account receiving contributions of at least $50 may apply to receive an annual matching grant of 50 percent of all amounts contributed, up to a maximum grant for any one beneficiary of $200. Assets in a NextGen® account can be used for eligible expenses at accredited postsecondary schools in the U.S., including graduate school and accredited trade schools.

Eligibility. The family's AGI must be $52,500 or less for the most recently completed tax year. Either the participant or the beneficiary must be a Maine resident. Only one account per beneficiary is eligible to receive a matching grant. Accounts must be opened within a year of the child's birth to receive the First Step Grant.

Tax implications. Earnings grow free from federal income tax when funds are withdrawn for qualified higher education expenses. For Maine residents, earnings grow state tax exempt if used for qualified expenses. Contributions are not deductible for federal income tax purposes.

Maximums/minimums. There is no longer a minimum deposit required to open an account.

Fees: If either the NextGen® participant or beneficiary is a Maine resident, an amount approximately equal to the annual Maine Administration Fee (15 basis points or 0.15 of 1 percent) of the net asset value of the account paid will be automatically rebated to the accountholder.[68] Further, the annual account maintenance fee is waived for Maine residents.

Other details. The NextGen®Plan is currently one of the most successful 529 Plans in the country with over $3.1 billion in assets (as of May 27, 2005). The program had net contributions of $577 million during fiscal 2004.[69] See www.nextgenplan.com for more details on Maine's NextGen Plan.

Michigan's Education Savings Program (MESP)

Summary. The Michigan Education Savings Plan (MESP) is administered through the Michigan Department of the Treasury. The Michigan Department of Treasury selected TFI (a subsidiary of TIAA) to serve as program manager of MESP.

Section 933 of Michigan Public Act 327 of 2004 provides funding for the matching grant program pursuant to which an Account Owner can apply to the State for a matching grant (the "State Matching Grant") on MESP contributions, subject to certain eligibility criteria. For qualified applicants, the State provides a matching grant of $1 for each $3 contributed to a MESP account up to a lifetime maximum matching grant of $200 per eligible beneficiary.

Eligibility. Each matching grant is only available during the first year that the beneficiary is enrolled in MESP, and is based on the following eligibility requirements:

- beneficiary must reside in a household with a family income of $80,000 or less;
- beneficiary must be 6 years old or younger when the account is opened; and
- beneficiary must be a resident of Michigan.

Tax implications. The amount contributed each year to an account, less the amount of any qualified withdrawals from the accounts during that tax year, can be deducted from the Michigan adjusted gross income up to a maximum of $10,000 for a joint return and $5,000 for a single return. Rollovers from another qualified tuition program into MESP are not eligible for the Michigan income tax deduction. Account earnings may grow on both a federal and Michigan income tax-deferred basis until the beneficiary is ready to go to college. Earnings on any distributions used to pay for qualified higher education expenses will be free from federal and Michigan income tax.

Maximums/minimums. An account may be opened a minimum initial investment of $25, and participants must meet a $15 minimum monthly commitment. There is no annual deposit limit, but there is an overall maximum account balance limit of $235,000 which applies to all accounts opened for a beneficiary (including amounts paid into the Michigan Education Trust program, a state-established prepaid program).

Fees. For the Managed Allocation Option and the 100 percent Equity Option, an annual asset-based management fee will be paid to TIAA-CREF to cover the cost of investment management and administrative services. This fee is computed at an annual rate of 0.65 percent of the average daily net assets of MESP. No other fees or charges will be applied to an account.

Investment Options. MESP offers three investment choices: an Age-Based Managed Allocation Option, a Guaranteed Option and a 100 percent Equity Option. These choices vary in their investment strategy and degree of risk. For a description of these investment options, see http://www.misaves.com/options.html.

Other details. For general information, see www.misaves.com. Detailed program description available at http://www.misaves.com/pdf/mi_discl.pdf.

Minnesota College Savings Plan

Summary. Minnesota's plan is very similar to the plan offered in Michigan. The program provides an annual matching grant to eligible in-state families contributing at least $200 to the plan during a calendar year. Maximum matching grants are $300 per year, and the match rate is linked to AGI.

Revenue generated from general funds is used to match deposits made by low-income account holders into the state's 529 college savings plan.

Eligibility. To qualify for a matching grant, the following requirements must be met.

Application

- The Account Owner must apply for a matching grant by May 1 of the year immediately after the calendar year in which contributions were made.

- Minimum Contribution: $200 or more must have been contributed to the Account during the calendar year ending on December 31st.

Residency

- If beneficiary is younger than age 25, the parent(s) or legal guardian(s) must have filed a Minnesota income tax return as a Minnesota resident and claimed the beneficiary as a dependent on their federal income tax return as a Minnesota resident for the calendar year in which contributions were made.
- If beneficiary is age 25 or older, the beneficiary and spouse, if any, must have filed a Minnesota and a federal income tax return as a Minnesota resident for the calendar year in which contributions were made.

Family Income

- The household AGI of the beneficiary must be $80,000 or less for the year in which contributions were made.
- If the beneficiary is younger than age 25, family income is defined as the combined AGI of the beneficiary's parent(s) or legal guardian(s), as reported on their federal income tax return for the calendar year in which contributions were made. If the beneficiary's parents are divorced, the income of the parent claiming the beneficiary as a dependent on his or her federal income tax return and the income of that parent's spouse, if any, is used to determine family income.
- If the beneficiary is age 25 or older, family income is the combined adjusted gross income, as reported on their federal income tax return, of the beneficiary and his or her spouse, if any, for the calendar year in which contributions were made.

If the beneficiary's family income is $50,000 or less, the matching grant is equal to 15 percent of the contributions, up to a maximum of $300. If the beneficiary's family income is more than $50,000, but not more than $80,000, the matching grant is equal to 5 percent of the contributions, up to a maximum of $300. If multiple Accounts are established for the same beneficiary, the maximum matching grant per year per beneficiary cannot exceed $300.

Tax implications. Qualified withdrawals are exempt from Federal and Minnesota state income taxes.

Maximums/minimums. An account may be opened a minimum initial investment of $25, and participants must meet a $15 minimum monthly commitment. There is no annual deposit limit, but there is an overall maximum account balance limit of $235,000

Fees. There is an annual asset-based management fee of 0.65 percent of the average daily net assets in the plan (excluding assets held in the Guaranteed Option) that covers the Plan's investment and administrative services. There are no commissions or application fees.

Investment Options. The Minnesota College Savings Plan offers three investment choices: a Managed Allocation Option, a Guaranteed Option and a 100 percent Equity Option. These choices vary in their investment strategy and degree of risk. For a description of these investment options, see http://www.mnsaves.org/invest_opt.html.

Other details. www.mnsaves.org

Rhode Island's CollegeBoundFund

Summary. Rhode Island's CollegeBoundfund is a state-sponsored college savings plan managed by Alliance Capital. The matching grant program is funded by fees generated from national sales of the CollegeBoundfund. Under CollegeBoundfund rules and regulations, the state may use account maintenance fees paid by non-Rhode Island residents and a portion of out-of-state direct sales fees for the development of CollegeBoundfund grants and scholarships to benefit Rhode Island families.

Eligibility. A two to one match is offered to state-resident families with an AGI at or below 200 percent of the poverty level, with a $1,000 annual maximum. Families with an AGI between 201 percent and 300 percent of the poverty line are eligible for a one to one match, with a $500 annual maximum. To be eligible for the match, the account must be opened before the child turns 11 and matching grants are only available for a period of five consecutive years.

Two-to-one match on deposits, up to $1000 based on the following family size and AGI criteria:

FAMILY SIZE	ADJUSTED GROSS INCOME (AGI)	FAMILY SIZE	ADJUSTED GROSS INCOME (AGI)
2	$25,000 or less	5	$45,000 or less
3	$32,000 or less	6	$51,000 or less
4	$38,000 or less	7 or greater	$53,000 (median) or less

One-to-one match on deposits, up to $500 based on the following family size and AGI criteria:

FAMILY SIZE	ADJUSTED GROSS INCOME (AGI)
2	$25,001 up to $38,000
3	$32,001 up to $48,000
4	$38,001 up to $53,000 (median)
5	$45,001 up to $53,000 (median)
6	$51,001 up to $53,000 (median)

Tax implications. Qualified withdrawals are exempt from Federal and Rhode Island state income taxes.

Maximums/minimums. The initial investment for participation in the CollegeBoundfund is $250, and there is a $50 monthly commitment.

Investment Options. CollegeBoundfund offers a choice of 15 investment options, including nine9 mutual funds as a portfolio and the new Principal-Protection Income Portfolio (PPI). The objective of the Principal-Protection Income Portfolio is to generate higher returns than most money market funds from a portfolio of fixed-income securities protected from fluctuations in value typically associated with bond funds. For more info see http://www.collegeboundfund.com/ri/.

Other details. www.collegeboundfund.com
http://riheaa.org/saving/fiveten/programdescription.pdf

Utah's Matched 529 Pilot Program

Summary. In 2004, Utah launched a pilot program within the Utah Educational Savings Plan (UESP), the state's 529 program. The pilot program provides a one-to-one match, up to $300 per year for up to four years, for Utah residents who meet income eligibility requirements, open an account, and save at least $25 per month. The first phase of the pilot program is limited to the first 50 Utahns that have incomes of 200 percent of the federal poverty level or that are eligible for TANF. Once the beneficiary is enrolled in college, funds are paid directly to the higher education institution. Since UESP is a "direct-sold" 529 plan—meaning that account setup and contributions can be performed by contracting directly with UESP and do not require a financial advisor—administrative costs are relatively low.

Upon launch of the pilot program, UESP had plans for a second phase with 100 participants, after which there would be an evaluation and assessment period to determine whether to continue or expand the program. UESP is overseen by the Utah State Board of Regents and the Utah Higher Education Assistance Authority (UHEEA) Board of Directors.

Eligibility. To be eligible, families must have incomes at or below 200 percent of the federal poverty level and/or must be eligible to receive TANF benefits, and they must save at least $25 per month. Beneficiary is eligible for the match for up to four straight years or until high school graduation, whichever comes first. The account must be established before the beneficiary's 19th birthday.

Tax implications. Earnings are exempt from state and federal taxes when used to pay qualified higher education expenses, including tuition, room, board, books and supplies. Utah taxpayers may deduct contributions of up to $1,560 ($3,120 if filing jointly) per beneficiary. All contributors may gift of up to $60,000 ($120,000 if filing jointly) at one time without adverse gift tax consequences, as long as they elect to prorate the gift over five years.

Maximums/minimums. Initial contribution of at least $25; minimum monthly contribution of $25. Up to $319,000 can be contributed in all UESP accounts on behalf of one beneficiary.

Fees. No enrollment fee. No maintenance fees for Utah residents. No fees for accounts selecting Option 1–PTIF. Total asset-based fees on all other options currently range from 0 to 0.141 percent.

Investment Options. Five age-based investment options and four static investment options are offered. Investment options utilize a variety of funds managed by The Vanguard Group and the Utah Public Treasurers Investment Fund (PTIF).

Other details. With the exception of Custodial accounts established with UGMA/UTMA funds, the account owner remains in control of the account even after the beneficiary becomes an adult. The beneficiary cannot initiate, approve, or otherwise authorize any transactions or changes on the account. If the beneficiary does not attend an eligible educational institution or if excess funds remain after the beneficiary finishes their higher education, the account owner can change the beneficiary or transfer on the account to a member of the family of the preceding beneficiary. Remaining funds may also be withdrawn and used for non-qualified expenses, but the earnings will be subject to federal and state taxes, and an additional 10 percent federal penalty tax on the earnings (except in the case of death, disability, receipt of a scholarship, or acceptance to a U.S. military service academy). If funds disbursed from a UESP account are not used for qualified higher education expenses and a Utah state tax deduction was claimed in any prior tax year, the account owner must add the deducted amount to his or her taxable income for Utah state income tax purposes in the year of the non-qualified disbursement.

APPENDIX E: EXAMPLE CORRESPONDENCE, ARGUMENTS, AND RULINGS TO RAISE ASSET LIMITS OR EXEMPT SEED ACCOUNTS FROM PUBLIC BENEFIT ASSETS TESTS

PENNSYLVANIA: TEXT OF LETTER FROM PEOPLE FOR PEOPLE TO GOVERNOR'S OFFICE REQUESTING WAIVER OF ASSET AND INCOME TESTS

March xx, 2005

Donna Cooper, Secretary
Governor's Office of Policy and Planning
238 Main Capitol
Harrisburg, PA 17120

Re: Helping poor families save by waiving asset and income tests for public benefits for SEED accountholders

Dear Ms. Cooper:

People for People, Inc. is helping 75 Philadelphia-area children save for college, to purchase a first home, or start a business through a national initiative called the Saving for Education, Entrepreneurship, and Downpayment (SEED) Initiative. Nationally, this initiative is coordinated by CFED, a non-partisan, nonprofit organization dedicated to expanding opportunity.

More than one-third of American children, and half of all minority children, are born into families with negligible savings to invest in—let alone imagine—their futures. We know that possessing even a few thousand dollars in assets gives people a firm economic place to stand. Holding assets connects people to the economy, raises their economic expectations, and allows them to shape their futures. We know that, given the opportunity and support, even those living well below the federal poverty line will save, build assets, and connect to the mainstream economy. We also know that families pass on more than resources; they impart values and skills.

In the SEED initiative, low-income families in Pennsylvania can build assets by receiving matching funds for money they deposit into SEED accounts. Accounts are opened in the child's name with an initial private deposit of $250. Children, along with family or friends, deposit their own savings to the accounts. Every dollar deposited is matched with private funds up to $1,250. Additional dollars (up to $500) are also deposited into the accounts when children reach particular benchmarks or milestones, such as completing financial education. After four years, children can roll the funds into either a 529 or Coverdell education savings account, or a Roth IRA.

SEED accounts are intended for long-term asset accumulation; however, families may withdraw funds in emergency situations. Withdrawals, however, are strongly discouraged, must be authorized by People for People, and come with the penalty of forfeiting matching dollars. Participants are limited to withdrawing only the funds they have deposited; they cannot withdraw the initial deposit or benchmark incentives.

The 75 children in Pennsylvania who are part of this initiative join over 1,000 children nationwide who have the opportunity to invest in their futures. This initiative will show the transformational power of asset-building and help move the United States closer toward a more universal and inclusive asset-building system for all Americans. SEED accounts can increase the savings rate, ensure a greater level of investment in children, and increase the economic and social prospects for each succeeding generation. In no small sense, SEED accounts are an investment in the future of the economy.

Protecting SEED families while they save

Most of the families who will be enrolled in the Pennsylvania SEED initiative will qualify for free or reduced-price lunch, many of whom will also rely on some form of public benefits (e.g., Food Stamps, health care, cash welfare, SSI or child care) to help them meet their day to day needs. As you know, these programs have rules regarding the amount of income and assets families can have and qualify or remain eligible for assistance.

From a policy perspective, in some cases these income and asset limits are a legitimate response to limited resources. However, in other cases, the limits significantly hamper families' long-term progress toward self-sufficiency by focusing only on short-term costs. Pennsylvania has recognized the need to focus on long-term family self-sufficiency when it created the Family Savings Account program in partnership with the Women's Opportunities Resource Center. The FSA program assists individuals, whose income is at or below 200 percent of the Federal poverty level, in building matched savings for home purchase, home repair, financing a small business or higher education. FSAs are exempt from asset limits in TANF and Medicaid. In addition, educational savings accounts are exempt from resource limits in TANF.

Although SEED accounts and TANF savings accounts or FSAs have some minor differences, they are substantially the same and have the same end goal: to help low-income families build assets so that they can achieve long-term self-sufficiency.

We request that the Pennsylvania exempt assets in SEED accounts from income and asset limits for public benefit programs. Several other states in the SEED demonstration have taken this step by exempting the accounts or deeming the account inaccessible to the family in the determination of public assistance eligibility. For instance, Michigan, Arkansas, and Illinois found the overlap between SEED accounts and their Individual Development Account policy to be substantial enough to provide an exemption for SEED accounts. It appears the remaining states in the SEED initiative will take this approach, as well, particularly because of the small number of accounts involved.

The request

For all of the programs that the Department of Public Welfare administers—including TANF (Temporary Assistance for Needy Families), Food Stamps, Medicaid, CHIP, subsidized child care assistance (Child Care Development Fund or state child care programs, such as Child Care Works) , and any state supplemental payment SSI program we request that the Department disregard funds deposited in SEED accounts, including contributions, matching funds, lump-sum benchmark payments, and interest earned on the account for the purposes of determining eligibility against income and asset tests. Ideally, we would like this blanket exclusion spelled out in a letter to ensure that SEED families are protected and will not lose their public assistance by participating in this nationwide demonstration project.

As I noted above, People for People is partnering with CFED on the SEED Initiative. The Center for Law and Social Policy is also providing assistance is ensuring that SEED families on public benefit programs are protected. If you have questions, please contact either Jennifer Brooks, Policy Director for CFED at 202-207-0131, brooks@cfed.org, or Amy-Ellen Duke at the Center for Law and Social Policy 202-906-8009, aduke@clasp.org.

I look forward to your response.

Sincerely,

Reverend Herbert H. Lusk, II
Founder & President, People for People

PENNSYLVANIA: ARGUMENTS IN SUPPORT OF RAISING TANF ASSET LIMITS—MEMO FROM CFED

To:	Heather Tyler, Pennsylvania Department of Banking
From:	Jennifer Brooks, CFED
Re:	Arguments in support of raising TANF asset limits
Date:	June 27, 2005

Per our conversation in early June regarding the Governor's Task Force on Working Families recommendation to increase the asset limit in Pennsylvania's welfare program, the information that follows describes Pennsylvania's asset limit rules in the context of what other states are doing and provides a justification for why Pennsylvania should move to a more progressive asset limit policy.

Overview

A key recommendation included in the Governor's Task Force on Working Families report *Dollars and Sense* to help families move beyond living "paycheck to paycheck" is to increase the limit on the amount of assets a family can have, as well as exclude certain assets altogether, for the purposes of determining eligibility for Temporary Assistance for Needy Families (TANF). Specifically, the Task Force recommends that the Commonwealth increase the TANF asset limits from $1,000 to at least $5,000 and that it exempt savings that are in safeguarded accounts earmarked for specific purposes that help families invest in themselves, as well as tax refunds, especially those that result from the Earned Income Tax Credit.

Under the policy that preceded TANF, Aid to Families with Dependent Children (AFDC), asset limits were necessary in a system that provided non-time-limited basic resources to needy families. The current TANF policy, by contrast, focuses on helping families become self-sufficient in a limited amount of time. Under TANF, asset limits are a barrier to self-sufficiency for low-income families. They also send conflicting messages to welfare recipients. On one hand, low-income families are encouraged to work, become self-sufficient, and build up adequate reserves for future economic shocks. On the other hand, asset limits force families to deplete their cash reserves to low levels before becoming eligible for temporary assistance (Parrish 2005).

Pennsylvania's current TANF asset limit is $1,000 (with one car and home excluded). The Commonwealth already exempts assets in several promising savings programs that support long-term family self-sufficiency. Both the Family Savings Account program and education savings accounts (including 529s) are excluded from consideration for TANF eligibility. However, the Department of Public Welfare should ensure that all such accounts are excluded, including SEED children's savings accounts (being demonstrated by People for People with 75 Philadelphia-area children).

Five reasons to increase TANF asset limits and exempt safeguarded savings accounts:

1. **Pennsylvania's TANF asset policy is more restrictive than most states.** While Pennsylvania has been a leader in eliminating other barriers to financial security—including, in 1993, being one of the first states to eliminate asset limits in Medicaid (Smith 2001)—it lags behind other states in terms of

TANF asset limit policy. Most states have TANF asset limits in the $2,000-$3,000 range, while Ohio and Virginia have eliminated asset limits outright. The Commonwealth is one of only nine states with asset limits at or below $1,000 (Office of Family Assistance 2005).

2. **Asset limits are a holdover from AFDC policy.** Prior to welfare reform in 1996, federal eligibility for welfare included a $1,000 asset limit. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced AFDC with the TANF block grant. Asset limits are a relic of the entitlement philosophy implicit in AFDC policy. Under AFDC, each state could draw down unlimited federal funds to pay for a portion of cash benefits to families who met federal and state eligibility requirements. By contrast, TANF is not an entitlement program. Under TANF, each state receives a fixed level of funding and has much greater flexibility over how it spends those funds. States may now determine many of the key policies that affect families receiving benefits.

   TANF, unlike AFDC, emphasizes work and self-sufficiency. TANF recipients must meet certain performance standards and work activity requirements in order to receive time-limited benefits. These requirements discourage asset-rich individuals from "gaming the system," as they would likely not elect to participate in the day-to-day activities required to remain TANF-eligible (Parrish 2005).

3. **Asset limits force TANF applicants to deplete resources before receiving assistance.** It is counterproductive to make people get rid of resources before they can receive the Commonwealth's assistance in moving toward true self-sufficiency, which includes rebuilding their resource pools. Many families seeking assistance through TANF are a single medical emergency, layoff, divorce, or other disruption away from financial desperation. Limiting the amount of asset holdings that TANF applicants are allowed forces families who are already financially insecure to spend down their savings before receiving assistance.

4. **Asset limits create a disincentive to saving for TANF recipients**. A recent review by the Center on Budget and Policy Priorities (CBPP) concluded that the empirical evidence on the impact of asset limits suggests that they may reduce saving by lower-income families (Orszag 2001). One study that CBPP reviewed, which uses data from the National Longitudinal Survey, found that each additional $1 increase in a state's AFDC asset limit led to 25 cents of additional savings among low-income families (Powers 1998). Other research on the effects of vehicle exemptions under TANF eligibility indicated that more generous vehicle exemptions (i.e., a higher asset limit) led to increases in total wealth for low-income single mothers (Sullivan 2004).

   As noted in a recent speech by Secretary Richman, the Pennsylvania Department of Public Welfare aspires to undertake "a policy shift away from merely reacting to the crisis of the day" (Richman 2004). Helping the needy to save for the future is a crucial step in moving away from a purely reactionary state welfare policy. Given the research suggesting that asset limits discourage saving among TANF recipients, it follows that the Commonwealth should take measures to provide saving incentives, not disincentives, to low-income Pennsylvanians by raising TANF asset limits.

5. **Asset limits are administratively inefficient.** Currently, TANF caseworkers in Pennsylvania must ensure they include the correct types of assets in their calculations for TANF eligibility; and further, they are required to follow-up with welfare recipients regularly to account for any changes to their

financial situation. According to new research from the New America Foundation, despite the substantial cost and effort involved in administering asset limits, few TANF applicants possess significant assets (Parrish 2005). Research by the Federal Reserve found that families who comprise the bottom 20 percent of earners only hold a median of $2,000 in financial assets and $7,900 in total net worth, including cars and homes (Aizcorbe 2003).

The Kaiser Foundation found that states that have waived the asset limit for Medicaid eligibility indicate that the cost and time savings in administering Medicaid have far exceeded the costs of additional cases (Smith 2001). For example, since eliminating the asset limit for Medicaid, Oklahoma has spent $1 million less on program administration (Parrish 2005). In Ohio, officials indicated that the administrative process associated with verifying assets for Medicaid eligibility was very costly in terms of the state's resources and few applicant families had countable assets in excess of the limits (Smith 2001).

Evidence from Virginia. After the 1996 welfare reform, Virginia began gradually relaxing its asset limits (Parrish 2005). In the process of liberalizing the state's limits, researchers discovered that only 2 percent (1,200 out of 60,000) of TANF applications were being denied due to excess resources (Golden 2005). Citing the small number of denials and the excessive administrative burden of managing asset limits, the Virginia Department of Social Services acted to eliminate asset limits for TANF eligibility in December of 2003. Preliminary data shows that TANF caseload has been only minimally impacted (see table, below). Asset limits were eliminated in Virginia in a comprehensive effort to reduce administrative costs and complexity.

TANF case loads in Virginia	
July 2003	32,369
December 2003*	35,078
January 2005	35,971

Source: (Golden 2005)
* TANF asset limits eliminated

Evidence from Ohio. In response to the 1996 welfare reform, Ohio created a TANF program with strict time limits and work effort requirements. As part of these reforms, which were focused on moving away from eligibility and income maintenance and toward helping recipients achieve true self-sufficiency, asset limits were eliminated from TANF eligibility requirements. Since Ohio's TANF reforms were enacted in 1997, the number of TANF recipients in the state has declined nearly 65 percent, from 552,000 in 1996 to 194,000 in 2004 (Parrish 2005). Asset limits were eliminated in Ohio as part of a larger strategy to help recipients achieve self-sufficiency.
While each state followed its own rationale for eliminating asset limits from TANF eligibility, the results of both are positive. Neither state has conducted a study that isolates the impacts of eliminating their asset limits; however, neither have they experienced any "horror stories" of asset-rich applicants abusing the system (Parrish 2005).

Sources

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PENNSYLVANIA: DIVISION OF WELFARE REFORM INITIATIVES' RESPONSE TO REQUEST FOR EXEMPTION OF SEED ACCOUNTS FROM ASSET TESTS

PCA-13003-140 - SEED Accounts Page 1 of 1

Deputy's Corner / Focus on the CAO / Up and Coming / MEDA / TANF R

Policy Clarifications
Cash Assistance - All - PCA13003140
Medicaid - All - PMA13003340
Food Stamp - PFS13003540

Submitted: 4/6/06 **Agency: CAOs**

Citations:

Subject: SEED Accounts

How should CAOs treat SEED (Saving for Education, Entrepreneurship, and Downpayment) Accounts when determining eligibility for cash assistance, food stamp and Medicaid benefits?

Response By: Division of Welfare Reform Initiatives **Date: 4/24/06**

All funds deposited in SEED accounts, including interest, are excluded as income and as a resource when determining eligibility for the cash assistance, food stamp and TANF-related, GA-related and SSI-related Medicaid programs.

SEED accounts are accounts established for children born on or after January 1, 2006. These accounts are "seeded" with $500 at the child's birth. The funds may be matched up to a certain amount. The child gets possession of the money at the age of 18 and may use it for post-secondary education, to purchase a home or start a business.

These accounts closely resemble Educational Savings Accounts. Currently, the SEED program is a demonstration project and affects only a few individuals in the Philadelphia area. An account is identified as a SEED account if:

- It is a savings accounts held at a PfP (People for People) Credit Union
- It has restricted access (withdrawals may only be made with PfP's permission)
- It is intended to be used for post-secondary education, career-specific training, to start a small business or to purchase a home.

If the program is expanded at a later date, you will be notified by an Operations Memorandum.

http://oimweb/MAIN/polclarif/cash/pca-13003-140.htm 4/25/2006

ILLINOIS: SYNOPSIS OF EXPERIENCE ADVOCATING FOR MORE PROGRESSIVE ASSET-BUILDING POLICIES[70]

1. **Background**. The Shriver Center's advocacy attorneys have been involved in public benefits advocacy for decades and have been instrumental in developing some of the most progressive welfare reform and work support policies in the nation. Whenever possible, we collaborate with the Illinois Department of Human Services (IDHS) and other advocates to create policies that work for both clients and administrators.

2. **Advocacy Tools**. The Shriver Center uses a variety of advocacy tools to effect policy changes in the public benefits system, including, legislative advocacy (drafting, supporting and lobbying bills), administrative advocacy (drafting, supporting, and commenting on regulations), communications (media articles in Shriver Center and public media, editorial board meetings, conference presentations), and, where necessary, litigation.

3. **Illinois's Progressive Policy Environment**. As the focus of welfare policy shifted from providing a safety net to promoting self-sufficiency through work, IDHS realized that public benefit recipient and applicant incomes would increase but that working families would need work supports to ease the transition from welfare to work. Even before enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, Illinois had passed rules (Work Pays) to count only $1 of every $3 earned by welfare recipients against eligibility until they worked their way off cash assistance.

   After PRWORA, IDHS incorporated advocates' ideas into a Temporary Assistance for Needy Families (TANF) state plan that was less punitive in many respects than other states' plans. IDHS also supported legislation drafted by the Shriver Center and sponsored by (then) State Senator Barack Obama that required IDHS to provide administrative data on results of welfare reform to a university consortium of researchers who have tracked and reported on the success and failures of Illinois's welfare policies Illinois Family Study). IDHS also adopted policies authored by the Shriver Center to "stop the clock" on counting TANF months of eligibility for persons working at least 30 hours a week, attending postsecondary education, or needing counseling or services as survivors of domestic violence. All of these policies were adopted under a Republican administration and with a majority of Republicans in the Illinois General Assembly.

4. **Illinois Advocacy and Asset Policies under Ryan administration (1996-2003)**. Under the federal TANF block, states create their own asset polices. Ohio was the first state to eliminate asset limits for TANF. Under Illinois's Public Aid Code, IDHS sets resource/asset limits by rule. Illinois initially chose to use its discretion to raise the asset limits. For example, a TANF family of three (a mom and two kids) could have up to $3,000 of countable assets and not lose any TANF benefits.

   In 1998, Illinois agreed to provide funding for the first state Individual Development (IDA) program and passed legislation exempting money in IDAs for home ownership, postsecondary education, and small business development from counting as income or assets for means-tested programs administered by IDHS.

After the Shriver Center introduced legislation to ban ATM fees for cash assistance recipients, IDHS agreed to form a committee and produced a brochure written by the Shriver Center to encourage cash assistance recipients to use direct deposit of benefits into bank accounts rather than having benefits deposited to the Illinois Link card (an electronic benefit transfer debit card) and paying fees to withdraw money and pay bills. (We tabled the bill.)

In 2000, IDHS agreed to partner with the Shriver Center and the Financial Links for Low-Income People (FLLIP) coalition to implement a two-year financial education and IDA pilot program and conduct an evaluation. IDHS adopted the recommendations of the FLLIP committee to propose and adopt administrative rules to allow IDAs to be used for additional asset goals such as home repair and car purchase or repair and to exempt all funds in IDHS-approved IDAs from counting as income or assets. In addition, IDHS agreed to count TANF recipients' participation in FLLIP financial education classes as an approved TANF "work activity" and provided child care and transportation subsidies for recipients to attend classes. We opted to proceed quietly with rules rather than taking the issue public with legislation and risking opposition.

FLLIP and the University of Illinois Extension included a special chapter in the *Your Money &Your Life* financial education curriculum to help advocates and recipients understand the asset rules and reduce fear that having bank accounts or other assets would result in ineligibility for or a reduction in public benefits. See https://webstore.aces.uiuc.edu/shopsite/ACE-4-CD.html. Results of the University of Illinois School of Social Work's two-year evaluation of the FLLIP financial education program showed that participants had the lowest knowledge levels in the areas of public and work-related benefits and investments. See www.povertylaw.org/advocacy/community_investment/fllip_evaluation_exec_summary.cfm.

5. **Illinois Asset Advocacy and Policies under Blagojevich administration (2004 -)**. When a Democratic governor was elected in 2003, Shriver Center attorneys participated in several transition team committees to influence the new administration's policies. The 2002 Farm Bill gave states additional discretion to align or eliminate asset rules in the Food Stamp Program. The Center on Budget and Policy Priorities published an important article in January 2004 on how states could implement new policies under the Farm Bill (www.cbpp.org/1-6-04wel.htm). As a partner in CFED's national SEED Initiative (launched in 2003), the Shriver Center had added incentive to revise asset policies so that SEED participants would not be penalized for having savings in 529 college savings accounts. We advocated to expand asset-building opportunities, protect assets, eliminate or raise asset limits or expand asset exemptions in means-tested program, and improve access to services at IDHS and the Illinois Department of Public Aid (IDPA):

   - Recommendations to transition team committees (consumer, financial services, budget) (Dec. 2003)
   - Recommendations to improve access to IDHS services (June 2004)
   - Letters to IDHS and IDPA to confirm application of rules to SEED accounts (Nov. 2004)
   - Comments to the Joint Committee on Administrative Rules (JCAR) in support of IDHS rules exempting retirement accounts from counting as income or assets for TANF, GA, and Food Stamps (Sept. 2004, effective Nov. 2004)

- Comments to JCAR in support of IDHS rules to eliminate asset limits for TANF and GA and eliminate vehicles as assets for Food Stamps, sample letter used by other advocates, no opposition comments (Nov. 2004, pending)
- Letter to and meeting with IDHS Director of Division of Human Capital Development and policy staff to discuss establishing categorical eligibility under Food Stamps, what other states have done (Nov. 2004)
- Follow up with IDHS and Governor's office via email and telephone to secure approval of proposed rules and send back to JCAR to finalize (March-April 2005)

In addition, the Shriver Center published papers and made presentations highlighting the confusion about conflicting asset rules in means-tested programs and advocating for elimination or simplification of these rules. See, e.g., "Financial Education and Asset-building Programs for Welfare Recipients and Low-Income Workers: The Illinois Experience," Brookings Institution (April 2004, includes preliminary FLLIP evaluation results) See http://www.brookings.edu/urban/publications/20040413_doryrand.htm.

We also invited IDHS representatives to speak at FLLIP events and press conferences and presented them with awards for their work in partnering with the Shriver Center and FLLIP coalition to expand financial education and asset-building opportunities.

IDHS has contracted with the Shriver Center to conduct training for IDHS supervisors and caseworkers regarding the importance of asset building and how to encourage clients (and staff) to use bank accounts, direct deposit, and build savings without jeopardizing eligibility for or the amounts of public benefits.

Going forward, the Shriver Center will work to finalize approval of the proposed rules that eliminate asset limits for TANF and GA and eliminate vehicles as assets for Food Stamps, and try to persuade IDHS to eliminate asset rules for Food Stamps by adopting a categorical eligibility policy.

6. **Key Issues, Arguments, and Strategies to Promote Progressive Asset Policies**

- State has authority to eliminate asset rules (show how other states did it)
- Consistent with agency goals of self-sufficiency/work (cite mission)
- Reduces administrative burden on agency (cite budget/staffing issues)
- Will not significantly expand caseload (get data on denials due to assets)
- Improves access to services for working poor (cite problems/confusion)
- Encourages positive behavior, does not penalize savings (poor can save)
- Builds more resilient families/stronger communities (cite research)
- Other advocates and stakeholders support (get others to weigh in)
- Collaborate with legal services attorneys/public benefits specialists if unfamiliar with public benefits laws, rules, process
- Recognize/thank state policymakers for implementing good policies

ILLINOIS: DEPARTMENT OF HUMAN SERVICES' RESPONSE TO REQUEST FOR VERIFICATION OF ASSET LIMIT RULES (FOOD STAMPS, TANF, STATE SSI, CHILD CARE)

April 22, 2004

Dory Rand
Supervising Attorney, Community Investment
Sargent Shriver National center on Poverty Law
50 East Washington, Suite 500
Chicago, Illinois 60602

Dear Dory:

This is in response to your e-mail of 4/7/04 requesting us to review a summary on Illinois income and asset policy.

Treatment of IDAs under Illinois Law
As stated, our current policy limits use of funds in an IDA account to starting a business, purchasing a home for first time buyers, paying for postsecondary educational expenses or purchasing an automobile. We agree that the SEED accounts would not qualify as an IDA under current policy.

TANF and Food Stamps
The citation under assets for TANF is unclear. Policy on the asset limit for TANF is as follows:

- $2,000 for a TANF household of 1 person.
- $3,000 for a TANF household of 2, and
- an additional $50 for each additional TANF unit member.

If the accounts continue to be held in the name of the Shriver Center, the accounts are an exempt asset because they are inaccessible to the client per PM 07-01-03 for TANF and PM 07-04-03 for Food Stamps.

Benchmark payments given directly to the client (excluding petty income mentioned in PM 08-01-07-q for TANF and PM 08-04-04-m for Food Stamps) is unearned income for the month received even if it was then immediately placed into the account.

If the SEED account is restructured or policy is changed to allow the account to be treated as an IDA, interest earned on the account is exempt if it remains in the account.

The question concerning how unearned income deposited into an IDA would be treated assumes that it is allowable to deposit unearned income into an IDA. However, deposits into an IDA must come from earned income. Deposits of unearned income into an "IDA" disqualifies the account, by definition, from being an IDA.

While we agree that the earned income of all dependent children is exempt for TANF, earnings of a dependent child are only exempt for Food Stamps if the child is age 17 or under and attending elementary or secondary school.

If the SEED account is set up as an UTMA, under current policy for both TANF and Food Stamps, interest or matching funds would be exempt.

Under the Asset Section of the Food Stamps heading, correct the statement to read "If SEED accounts are excluded as IDAs, families can have greater countable assets up to the maximum limit without becoming ineligible for benefits".

Child Care
No comments.

SSI State Supplemental Payments
To clarify the earnings disregard for our Aged, Blind, and Disabled (AABD) program, we suggest re-organizing the paragraph and including a sentence to read as follows:

> Income: Federal limits apply with the following additional income disregards. In Illinois, the first $25 per month of income is disregarded for all applicants. Aged, blind, and disabled individuals can disregard their work expenses. Aged and disabled individuals have an additional earned income disregard of $20 and ½ of the next $60 of earned income. Blind individuals have an additional earned income disregard of $85 and ½ of the earned income remainder.

Medicaid/SCHIP
We have shared your correspondence with the Department of Public Aid, and suggest you contact them directly for input in their policies.

You also asked about the proposal to simplify asset rules for TANF. It is still in the decision makers hands. I will keep John posted as this progresses.

Thank you for allowing us to review. Please let me know if I can be of further assistance.

Sincerely,

Carla Sheppard, Chief
Bureau of Policy Development

pdl/Response/Letter1
cc: Jacquetta Ellinger
File

ILLINOIS: DEPARTMENT OF PUBLIC AID'S RESPONSE TO REQUEST FOR VERIFICATION OF MEDICAID AND S-CHIP RULES

Medicaid/SCHIP

Illinois' Family Health Plans for children and their parents receive federal funding through Medicaid, SCHIP and a HIFA waiver. All plans are administered in a highly integrated fashion making them appear seamless to families. KidCare encompasses several plans. Infants born to women eligible for medical benefits at the time of the birth are enrolled in Moms & Babies, children of any age younger than 19 and their parents with income up to 133 percent of poverty are covered by FamilyCare, children of any age younger than 19 are enrolled in one of the following plans based on income: KidCare Assist, KidCare Share, KidCare Premium and KidCare Rebate.

Income. With Medicaid and SCHIP, Illinois covers pregnant women and their infants up to 200 percent of poverty (Moms & Babies), and children 0 to 19 and their parents or caretaker relatives with income at or below 133 percent of poverty. This coverage is called KidCare Assist if only the children are enrolled and FamilyCare if parents and children are enrolled. Illinois uses SCHIP to cover children with income above 133 percent of poverty up to 200 percent of poverty. While all children and parents have the same benefit package whether funded by Medicaid or SCHIP, cost sharing varies depending on income. KidCare Share, which is available to children in families between 133 percent and 150 percent of poverty, has no premiums but has small copays. KidCare Premium, which is available to children in families with incomes above 150 percent up to 200 percent of poverty, has both copays and modest premiums. *Illinois has no work requirements for parents.*

Assets. None of the above plans have asset limits in Illinois. Therefore, a SEED account would not interfere with a family's eligibility for any of the above medical benefit plans.

Whether or not the SEED account is considered an IDA. income from the account is not specifically excluded except deposits that are made from the earned income of a dependent child, *see* DHS PM MR 03.17 § 15-04-02-a. Other deductions from income include: monthly day care expenses up to $200 per child under age 2 and $175 per child 2 and over, monthly child support received up to $50, monthly child support paid and $90 for each adult with an income from a job. *See* DHS PM MR 03.17 § 15-04-02-b. While these deductions would not directly affect IDAs, they would give parents more of an ability to have income from IDAs and not lose eligibility for assistance.

Arkansas: Text from Department of Human Services TEA (Welfare) Policy Manual Exempting SEED Accounts from Asset Limits

TEA Policy - 2200 Section

TEA Manual 07/01/97	*2270 Resource Requirement* The countable resource limit for all family sizes is $3000. The resources of all persons included in the assistance unit must be determined. This includes all adults, children, and minor parents. In addition, the resources of a non-SSI parent or step-parent living in the home are always considered in determining the children/step-children's eligibility even if such parent or step-parent is not included in the unit as an eligible member. Certain types of resources, specified in TEA 2272, are not counted in determining the family's resource eligibility. Resource eligibility is determined as of the first day of a calendar month. If the countable resources are equal to or less than $3000.00 on the first day of the month, then the family is resource eligible for the entire month even if the resource value increases and exceeds the limit later in the month.
TEA Manual 3/15/00 1/20/2000	*2272 Resources to be Disregarded* The following resources are not considered in determining the family's TEA eligibility: 1. The family's homestead. (See TEA 2272.1 for more information regarding the homestead.) 2. One motor vehicle. 3. Household and personal goods. 4. Income-producing real or personal property. 5. Earmarked resources. This includes educational grants, loans, settlement payments that are intended and used for purposes which preclude their use for current living costs, etc. 6. Earned Income Credit (EIC) and other tax refunds. 7. Any type of life insurance policy, including the cash surrender value of the policy. 8. One burial plot per TEA family member. 9. Payments made under any federal, state, or local disaster assistance program. 10. Any property or payment required to be disregarded for eligibility purposes according to federal or state statute. See the Note on the

following page.

11. When the unit consists of a minor parent and his or her child, the resources of the minor parent's parent(s) or stepparent.
12. The resources of the spouse of a non-parent relative who is included in the TEA cash assistance unit. Note: If jointly owned, the caretaker relative's prorata share will be counted.
13. Individual Development Accounts (IDA). (See TEA 3445)
14. Funds up to $10,000.00 placed in an escrow account by a TEA recipient who is engaged in a micro-enterprise work activity.
15. Savings for Education, Entrepreneurship and Down Payment (SEED) Accounts.

NOTE: At any time there is a question as to whether a particular type of property or payment may be disregarded under Item #10 above, the worker should submit the pertinent documents or information concerning the property or payment to the Office of Program Planning and Development, Slot S33 for a determination. This information should include the specific federal or state statute under which it is believed the disregarded treatment is required.

ARKANSAS: TEXT FROM DEPARTMENT OF HUMAN SERVICES FOOD STAMPS POLICY MANUAL EXEMPTING SEED ACCOUNTS FROM ASSET LIMITS

Food Stamps Certification Manual - Section 5000

FSC Manual 10/01/04

5413.2 Individual Development Accounts Matching Payments

See FSC 5405, item 16 for information about SSI PASS plans.

When a Family Self-sufficiency program participant has an increase in earnings, the public housing authority increases his or her rent, but deposits the increase in an interest bearing account. When the participant successfully completes the program and can verify that no household member is receiving welfare assistance, he or she receives the funds in the account. Funds may be withdrawn from the escrow account before completing the program, with permission from the housing authority, but only for purposes related to the goal of the FSS contract, e.g. - completion of higher education, job training or start up costs of a small business.

Matching funds deposited into any of the following Individual Development Accounts (IDAs) will not be counted as income.

Under the Family Savings Initiative Act of 1999 (Act 1217) households with low income and few assets may accumulate assets by opening an individual development account (IDA). An IDA Program participant must be a resident of the State of Arkansas and a TEA recipient families or a member of a family with income below 185 percent of the federal poverty level. The family must have a net worth of $10,000 or less disregarding their primary dwelling and one motor vehicle. Account contributions are matched at a rate of $3.00 for each $1.00 contributed by the account holder. Matching dollars may not exceed $2,000 per account holder or $4,000 per household.

A Family Savings IDA may be used for any of the following reasons:

Home purchase (limited to qualified first-time home buyers)*

Business capitalization*

Post secondary educational expenses*

Individual retirement account

Vehicle purchase or repair (if not the sole purpose of the IDA)

(* If Federal TANF funds are used as a match, only purposes 1, 2 and 3 are allowable.)

Any matching dollars deposited into the account are excluded as income. (The value of the IDA is not a countable resource per FSC 4460.)

The Good Faith Fund is operating a demonstration program called the Savings for Education, Entrepreneurship, and Down Payment (SEED) Program. The Program helps 3 and 4 year old children and their families save and plan for college. A savings account is opened and initially deposited with $500 which will be matched by $500 deposited by the Good Faith Fund. Any deposits made by the household will be matched dollar for dollar by the Good Faith Fund. Withdrawal from a SEED account requires two signatures—the account holder and a designated employee of the Good Faith Fund. The Good Faith Fund will not permit withdrawal unless there is a documented emergency—e.g., so the child will not be without shelter or medical care. Any deposits made by the Good Faith Fund into the child's savings account will be excluded as income. (The SEED account will be excluded as a resource per FSC 4460.).

COLORADO: FINAL VERSION OF S.B. 134, WHICH AMENDS THE CURRENT STATUTE TO RAISE TANF ASSET LIMITS AND EXCLUDE CERTAIN CLASSES OF ASSETS FROM TANF ASSET TESTS

This bill was signed by Colorado Governor Bill Owens on April 24, 2006.

NOTE: This bill has been prepared for the signature of the appropriate legislative officers and the Governor. To determine whether the Governor has signed the bill or taken other action on it, please consult the legislative status sheet, the legislative history, or the Session Laws.

An Act

SENATE BILL 06-134

BY SENATOR(S) Sandoval, Bacon, Groff, Hanna, Shaffer, Tochtrop, Veiga, Williams, and Windels;
also REPRESENTATIVE(S) Boyd, Benefield, Borodkin, Carroll M., Coleman, Frangas, Gallegos, Hodge, Lindstrom, Madden, Marshall, McGihon, Merrifield, Riesberg, Todd, and Vigil.

CONCERNING RESOURCE LIMITATIONS AS A CONDITION OF ELIGIBILITY FOR THE COLORADO WORKS PROGRAM.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. The introductory portion to 26-2-706 (2) and 26-2-706 (2) (a) and (2) (b), Colorado Revised Statutes, are amended, and the said 26-2-706 is further amended BY THE ADDITION OF A NEW SUBSECTION, to read:

26-2-706. Target populations. (2) The state board shall promulgate rules to identify with specificity who may be a participant in the works program ~~the resource limits for participation in the works program,~~ and the income requirements for participation in the works program. The rules shall:

(a) Allow an applicant or a participant to own ~~a~~ ONE motor vehicle

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Capital letters indicate new material added to existing statutes; dashes through words indicate deletions from existing statutes and such material not part of act.

and AN ADDITIONAL MOTOR VEHICLE FOR EACH EMPLOYED MEMBER OF THE ASSISTANCE UNIT AND ALLOW AN APPLICANT OR A PARTICIPANT TO OWN a homestead property;

(b) Exempt a maximum resource level for an applicant ~~that shall be not less than one thousand dollars per family nor greater than two thousand dollars per family or the resource level for the food stamp program, whichever is greater~~ OF FIFTEEN THOUSAND DOLLARS. CONSISTENT WITH THE PROVISIONS OF SUBSECTION (6) OF THIS SECTION, the state board shall promulgate rules to specify which resources are countable resources, ~~and which~~ TO SPECIFY ADDITIONAL resources THAT are excluded as exempt resources for purposes of determining the maximum resource level for an applicant, AND TO FURTHER DEFINE THE RESOURCES AND ASSETS SPECIFIED IN SUBSECTION (6) OF THIS SECTION.

(6) THE FOLLOWING RESOURCES AND ASSETS DESIGNATED TO PROMOTE SELF-SUFFICIENCY SHALL BE EXEMPT FROM THE FIFTEEN THOUSAND DOLLAR RESOURCE LIMITATION SPECIFIED IN PARAGRAPH (b) OF SUBSECTION (2) OF THIS SECTION:

(a) RETIREMENT SAVINGS ACCOUNTS;

(b) HEALTH CARE SAVINGS ACCOUNTS;

(c) INDIVIDUAL DEVELOPMENT ACCOUNTS;

(d) EDUCATION SAVINGS ACCOUNTS, SCHOLARSHIPS, AND EDUCATIONAL STIPENDS;

(e) EARNED INCOME TAX CREDIT REFUNDS RECEIVED BY THE ASSISTANCE UNIT;

(f) ANY REAL ESTATE ASSET THAT DOES NOT PRODUCE OR PROVIDE INCOME FOR THE PARTICIPANT AND IS NOT A SECONDARY RESIDENCE OF THE PARTICIPANT;

(g) BURIAL PLOTS AND BURIAL INSURANCE PLANS;

(h) LIFE OR DISABILITY INSURANCE POLICIES THAT MAY HAVE A CASH VALUE; AND

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cfed
expanding economic opportunity

(i) ANY ADDITIONAL RESOURCE OR ASSET THAT THE STATE BOARD EXEMPTS BY RULE.

SECTION 2. Repeal. 26-2-709 (1) (b), Colorado Revised Statutes, is repealed as follows:

26-2-709. Benefits - cash assistance - programs. (1) **Basic assistance grant.** (b) ~~The state board shall promulgate rules to increase asset limitations for participants so that participants are encouraged to accumulate personal savings.~~

SECTION 3. Effective date - applicability. This act shall take effect upon passage and shall apply to eligibility determinations made for the Colorado works program, part 7 of article 2 of title 26, Colorado Revised Statutes, on or after October 15, 2006.

SECTION 4. Safety clause. The general assembly hereby finds,

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determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

Joan Fitz-Gerald PRESIDENT OF THE SENATE	Andrew Romanoff SPEAKER OF THE HOUSE OF REPRESENTATIVES
Karen Goldman SECRETARY OF THE SENATE	Marilyn Eddins CHIEF CLERK OF THE HOUSE OF REPRESENTATIVES

APPROVED____

Bill Owens
GOVERNOR OF THE STATE OF COLORADO

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LETTER FROM CLASP TO USDA REQUESTING EXEMPTION OF SEED ACCOUNTS FROM ASSET TESTS FOR FOOD STAMPS

CLASP

CENTER FOR LAW AND SOCIAL POLICY

December 27, 2005

Mr. Clarence Carter
Deputy Administrator, Food Stamp Program
USDA Food and Nutrition Service
3101 Park Center Drive, Room 808
Alexandria, Virginia 22302

Dear Mr. Carter:

We are writing to follow up on the meeting that you and your colleagues at FNS had with Mark Greenberg from the Center for Law and Social Policy, Celia Hagert of the Center on Public Policy Priorities and Rochelle Watson of CFED on November 30, 2005. We very much appreciate your openness to working with us to explore ways to ensure that families participating in the SEED initiative do not lose access to the Food Stamp Program because they are participating in this initiative to promote savings for the future needs of children.

In the following paragraphs, we will provide background about the SEED initiative and the ways in which savings are structured under the initiative, and then seek your guidance about how states can act to ensure that funds deposited in SEED accounts are not treated as resources for purposes of the Food Stamp Program. Your guidance will be greatly appreciated by the participating programs and affected states.

The SEED Initiative

The Savings for Education, Entrepreneurship and Education (SEED) Initiative is a five-year project designed to help low-income, low-wealth children and youth save and invest in their futures. There are currently 12 community partners from various locations across the United States, including Puerto Rico and the Cherokee Nation. Families recently began saving and will continue to save into their SEED accounts for the next three years. SEED is serving children and youth ranging in age from pre-school to high school. The four age cohorts are pre-school, elementary school, middle school and high school. For those accountholders who will still be minors when the SEED program ends, there will be a rollover plan to preserve the account funds for their future purpose even after SEED is completed. Through evaluation data, we know that as of July 30, 2005, roughly 30 percent of SEED participants receive food stamps.

Based in large part on CFED's work with Individual Development Accounts (IDAs), SEED seeks to promote self-sufficiency by helping accountholders obtain an appreciating asset

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1015 15th Street, NW, Suite 400, Washington, DC 20005

through saving for postsecondary education, business start-up or home purchase. In three sites, there are expanded uses. For instance, in Denver, which is serving foster youth, many of whom are in the process of aging out, youth can use their SEED accounts for vehicle purchase and rental assistance, as the Denver site has determined this will help promote independence among this population. At Juma Ventures, in San Francisco, participants can use their SEED accounts to purchase computers related to schooling. We have attached a document providing more detailed information about the twelve sites, match structure, and allowable uses at each site.

From an accountholder perspective, the way SEED works is this: accountholders and their families and communities will deposit money on the accountholder's behalf in a special account. Those savings will be matched by CFED and its community partners in a separate account. At the same time, the accountholders and their families will receive financial management education. The SEED accounts will consist of three parts: an initial deposit which varies in amount by community partner site; matches of deposits made by the accountholders themselves, their families and members of their communities; and benchmark incentives which will be given to the accountholder families to reward achieving certain goals. For instance, a deposit might be given to an accountholder's family for completion of a financial management course or a child's placement on the honor roll. These benchmark incentives are given to the family in hopes that the family will use them for the SEED accounts, but some community partners have given the families the option to use the benchmark incentives to meet more immediate needs. In all cases, there is an added incentive to deposit the benchmark payment because the community partner will match the amount. These periodic benchmark payments average $25.

There are essentially two parallel accounts—one which includes the match and is completely inaccessible to the family and another one which includes the initial deposit (in some sites there is no initial deposit), the family's own savings and may include some benchmark payments. In all of the sites except Michigan, the latter account is a custodial account with the local SEED site as the custodian. Except in emergency circumstances, the custodial account may only be used for asset purchase. Emergency withdrawal is strongly discouraged, and in some sites completely disallowed, and must be approved by the SEED site director. Emergency withdrawal is limited to the funds deposited by the participant and does not include the initial deposit. Emergencies identified as good cause include health emergency of a child (not all of the families participating in SEED are Medicaid recipients or have health insurance), risk of eviction, and living expenses due to job loss. In such an event, participants may only withdraw their own monies and will forfeit any matching funds earned for the amount withdrawn.

In Michigan, the parent or guardian is the custodian of the 529 account which has a parallel match account owned by the state. Like all 529s, there are no limits on withdrawals, but withdrawals for anything other than education carry a 10% penalty and are taxed as income. Parents understand that withdrawals are strongly discouraged. The match account is inaccessible to the family and funds can only be used for a qualified withdrawal for the named beneficiary, otherwise the funds will revert back to the state of Michigan.

Treatment of SEED accounts for Food Stamp Resource Purposes

In reviewing the Food Stamp Act and regulations, it appears to us that:

- funds in match accounts should be excluded from treatment as resources because they are not resources of the household, and
- a state can elect to exclude family contributions in SEED accounts from being treated as resources if the state excludes such accounts from being treated as resources under its TANF cash assistance or Section 1931 Medicaid program.

We will outline our analysis below. We would greatly appreciate if you could either let us know if you agree, or alternatively, let us know if you believe that there are alternative bases under which states could act to exclude SEED accounts from being treated as resources for food stamp purposes.

First, it appears to us that SEED funds deriving from initial deposits and matches from community partners are not resources of the household. The household has no ownership rights to these funds and cannot under any circumstances convert them to cash to meet household needs. The funds remain segregated from the household's contributions to its own account, remain under the control of the community partner, and do not belong to the household. Thus, it would seem clear that such funds do not fall within the definition of a resource for food stamp purposes.

For the family's funds, as noted above, there are two structures under the SEED demonstration:

> In eleven sites, the household's funds are in a custodial account, and cannot be withdrawn from the account except with the signature of the community partner, for emergency needs;
> In the twelfth site, the household's funds are in a Section 529 account for savings for postsecondary education; if the funds are withdrawn, the household both faces adverse tax consequences, and a 10% penalty.

While these structures differ, we think the legal analysis of a potential food stamp resource exclusion applies equally to both.

Under Section 5(e)(6) of the Food Stamp Act, [7 U.S.C. §2014(e)(6)],[1] a state may elect to exclude from treatment as a resource any financial resources that the state does not count as a resource for purposes of TANF cash assistance or Section 1931 Medicaid, provided that the state may not exclude cash, licensed vehicles, amounts in a financial institution that are "readily available" to the household, and such other resources as the Secretary determines by regulation should be counted because counting them is "essential to equitable determinations of eligibility under the food stamp program."

To date, FNS has issued proposed, but not yet final, rules implementing these provisions. In questions and answers relating to the Farm Bill provisions, FNS expressly noted that while FNS was provided authority to specify resources that must be considered because doing so was "essential to fair determinations of food stamp eligibility and benefit amounts", the agency advised states that ":In the absence of such regulations, States should exercise their good judgment in identifying resources that should not be excluded."[2]

The proposed rules, 69 Fed. Reg. 20724, 20759 (April 16, 2004), provide in relevant part that states must count amounts in any account in a financial institution that are readily available to the household, including money in checking or savings accounts, savings certificates, stocks, or bonds, and then explain:.

> The term ''readily available'' applies to resources, in a financial institution, that can be converted to cash in a single transaction, without going to court to obtain access or incurring a financial penalty other than loss of interest. State agencies may exclude deposits in individual development accounts (IDAs) made under written agreements that restrict the use of such deposits to home purchase, higher education or starting a business.

Under the above definition, it would seem clear that funds in SEED accounts should not be considered readily available, because it is not possible to access them without incurring a financial penalty other than loss of interest – any accessing of SEED funds, even for emergency uses, results in a corresponding loss of match funds which surely should be viewed as constituting a financial

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[1] The relevant statutory language reads as follows:

EXCLUSION OF TYPES OF FINANCIAL RESOURCES NOT CONSIDERED UNDER CERTAIN OTHER FEDERAL PROGRAMS.—
(A) IN GENERAL.—Subject to subparagraph (B), a State agency may, at the option of the State agency, exclude from financial resources under this subsection any types of financial resources that the State agency does not consider when determining eligibility for—
(i) cash assistance under a program funded under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.); or
(ii) medical assistance under section 1931 of the Social Security Act (42 U.S.C. 1396u–1).
(B) LIMITATIONS.—Except to the extent that any of the types of resources specified in clauses (i) through (iv) are excluded under another paragraph of this subsection, subparagraph (A) does not authorize a State agency to exclude—
(i) cash;
(ii) licensed vehicles;
(iii) amounts in any account in a financial institution that are readily available to the household; or
(iv) any other similar type of resource the inclusion in financial resources of which the Secretary determines by regulation to be essential to equitable determinations of eligibility under the food stamp program.

[2] **Questions and Answers Regarding the Food Stamp Program (FSP) Certification Provisions of the Farm Bill, Question 4107-1 , http://www.fns.usda.gov/fsp/rules/Legislation/2002_farm_bill/farmbill-QAs.htm.**

penalty. In addition, funds in SEED accounts are closely analogous to IDA funds, for which the proposed rules provide an express exclusion. Finally, should there be any ambiguity, we would contend that, consistent with FNS' questions and answers, a state can exercise its own good judgment to conclude that SEED funds are not readily available pending promulgation of final regulations.

Conclusion

In a number of instances, states may wish to be supportive of the SEED initiative, but will want to ensure that they are fully complying with Food Stamp Program requirements in any exclusion of SEED funds from treatment as resources. Accordingly, it would be very helpful if you could respond to this letter by letting us know whether you agree that funds in a community partner's account are not resources to the household, and a state can elect to exclude funds in a household's SEED account if the funds are also excluded as a resource for purposes of TANF cash assistance or Section 1931 Medicaid.

Please let us know if we can provide any additional information. Thanks very much for your consideration.

Sincerely,

Mark Greenberg
Director of Policy

Amy-Ellen Duke
Policy Analyst

Response from USDA to request that SEED accounts be exempted from asset tests for Food Stamps

USDA

United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive

Alexandria, VA 22302-1500

FEB 2 2006

Mr. Mark Greenberg
Director of Policy
Center for Law and Social Policy
1015 15th St., NW, Suite 400
Washington, DC 20005

Dear Mr. Greenberg:

Thank you for your December 27, 2005 follow up letter concerning our November 30, 2005 meeting with the Center on Public Policy Priorities and the Corporation for Enterprise Development which included a discussion of the Savings for Education, Entrepreneurship and Downpayment (SEED) initiative. This initiative is designed to help low-income, low-wealth children and youth save and invest in their futures. You are interested in ensuring that families participating in the SEED initiative do not lose access to the Food Stamp Program (FSP) due to program resource policies.

We have reviewed these policies and concur in the analysis set forth in your letter. Funds in SEED accounts would not be considered household resources for FSP purposes as long as they are inaccessible to households for the purchase of food. However, funds, which can in any way be accessed by households for this purpose, must be considered resources unless a State excludes them under its TANF cash assistance or Section 1931 Medicaid programs and chooses to exclude them for FSP purposes. Such funds, containing cash or which are readily available to households, cannot be excluded. States can currently define the term "readily available" as they see fit.

Thank you for your interest in our program. If I can be of any further assistance, please let me know.

Sincerely,

Clarence H. Carter

Clarence H. Carter
Deputy Administrator
Food Stamp Program

AN EQUAL OPPORTUNITY EMPLOYER

[1] Isabel Sawhill, ed. *One Percent for the Kids: New Policies, Brighter Futures for America's Children,* (Washington, DC: Brookings Institution Press, 2003).
[2] "Saving Performance in the American Dream Demonstration: Final Report," Center for Social Development, Washington University in St. Louis, October 2002.
[3] Lillian Woo, F. William Schweke, and David Buchholz, *Hidden in Plain Sight: A Look at the $335 Billion Federal Asset-Building Budget,* (Washington, D.C.: CFED, 2004).
[4] Data from 1999 Panel Study of Income Dynamics (PSID).
[5] Children's Defense Fund, *The State of America's Children: 2004.*
[6] The literature on, and evaluations of the American Dream Demonstration are exhaustive. See http://www.cfed.org and http://gwbweb.wustl.edu/csd/ for extensive literature libraries.
[7] For more, see www.AspireAct.org.
[8] http://www.collegesavings.org.
[9] For a comprehensive list of pros and cons associated with Coverdale ESAs, see Sue Stevens, A Crash Course in College Savings Plans at http://news.morningstar.com/doc/pfarticle/0,,125536,00.html.
[10] See http://www.buyandhold.com/bh/en/retirement/qa/education_ira.html. Accessed 6/25/05.
[11] Roth IRAs for Kids: Young Saver's Accounts, New America Foundation, May 2006.
[12] The most recent *KidSave* legislation from the 109th Congress can be found at http://www.govtrack.us/data/us/bills.text/109/h1041.pdf
[13] The *Children's Financial Security Act* is available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_bills&docid=f:h194ih.txt.pdf.
[14] See http://www.babybonus.gov.sg/bbss/html/menu/index.html. To view the actual legislation, see the *Children's Development Co-Savings Act* at http://statutes.agc.gov.sg/.
[15] The value of a Singaporean dollars is currently approximately two-thirds of a U.S. dollar. As of June 2006, S$1000 = $625.
[16] Source: http://app.customerfeedback.mcys.gov.sg/bbs_faqmain.asp. Accessed on 7/29/05.
[17] Medishield is state-sponsored heath insurance.
[18] For more details on the UK Child Trust Fund, see http://www.childtrustfund.gov.uk/Homepage/fs/en.
[19] Tony Blair, "The saving grace of the baby bond," *The Guardian*, April 10, 2003. http://society.guardian.co.uk/publicfinances/comment/0,12671,933686,00.html accessed 7/5/05. Also, as of July 2005, £250 = $439.
[20] For more details on the Canada Learning Bond, see Budget 2004, Learning: Cornerstone of Canada's Economic and Social Progress, March 23, 2004. Available at http://www.fin.gc.ca/budget04/pamph/paleae.htm.
[21] Registered Education Savings Plans (RESPs) in Canada differ depending on the provider, however almost all require at least a minimal monthly contribution by the accountholder.
[22] http://www.fin.gc.ca/budget04/pamph/paleae.htm. Accessed on 7/19/05.
[23] Justice Brandeis, dissenting, New State Ice Co. v. Liebmann, 285 U.S. 262, at 311 (1932)
[24] John D. Donahue (1997). Disunited States. New York: Harper Collins.
[25] Corina Eckl, "Budgets on the Rebound?," *State Legislatures*, January 2005.
[26] For a complete narrative of the Oregon experience, visit http://gwbweb.wustl.edu/csd/Publications/2003/PolicyReport-Oregon.pdf.
[27] Margaret Clancy, Reid Cramer, and Leslie Parrish (2005), "Section 529 Savings Plans, Access to Post-Secondary Education, and Universal Asset Building," Issue Brief #7, New America Foundation, Washington, DC. See also, Margaret Clancy and Michael Sherraden (2003), "The Potential for Inclusion in 529 Savings Plans: Report on a Survey of States," Research Report from the Center for Social Development, Washington University.
[28] For more information on this debate, visit http://gwbweb.wustl.edu/csd/Publications/2004/Perspective-529andInclusion.pdf.
[29] The information in this section is excerpted from a forthcoming paper by Amy-Ellen Duke and Mark Greenberg at the Center on Law and Social Policy.
[30] Orszag, P.R. (2001), Asset tests and low saving rates among lower-income families. Washington, DC: Center on Budget and Policy Priorities. Available at www.cbpp.org.
[31] Parrish, L. (2005). To save or not to save: Reforming asset limits in public assistance programs to encourage low-income Americans to save and build assets. Washington, DC: New America Foundation.
[32] For more detail on this issue, see *Growing Knowledge from SEED*, CFED, Washington, DC, April 2006.

[33] For more information, visit
http://www.dhs.state.mn.us/main/groups/county_access/documents/pub/dhs_id_048180.pdf.
[34] Edward Scanlon and Deborah Adams, *In-Depth Interviews with SEED Youth: Profiles of Participants in a Pilot Study*, Center for Social Development, St. Louis, 2005.
[35] Additional details on the CollegeInvest Matching Grant Program can be found at www.collegeinvest.org/matchinggrant.
[36] See Sharon Zimmerman's *Reviewing 529 Plan Benefits* at http://news.morningstar.com/doc/article/0,1,103201,00.html
[37] Clancy, Orszag, and Sherraden (2004).
[38] Clancy, Orszag, and Sherraden (2004).
[39] The Asset Building Policy Project at the Community Economic Development Association of Michigan has proposed improvements to the current policy that would make it more beneficial for low-income families. See next section for details.
[40] Clancy, Orszag, and Sherraden (2004).
[41] Clancy, Orszag, and Sherraden (2004). And see http://www.collegeboundfund.com/RI/DesktopContainer.aspx?nid=637 accessed on 7/19/05.
[42] "Helping Working Families Achieve Financial Security: A Report of the Asset Building Coalition of Michigan," Asset Building Policy Project, Lansing, MI, January 2006. See
http://www.cedam.info/docs/Asset_Building_Jan06(Final%20Report).pdf.
[43] For more information on the Oklahoma Kids' College Saving Campaign, visit www.okseed.org.
[44] http://www.advancededucation.gov.ab.ca/aces/
[45] The expected family contribution (EFC) is the amount of money that a student and his/her family are expected to contribute to the student's education.
[46] Clancy and Sherraden, 2003.
[47] Clancy and Sherraden, 2003.
[48] Investment Company Institute. (2003). Profile of Households Saving for College. Available at:
http://www.ici.org/statements/res/1rpt_03_college_saving.pdf.
[49] United States Census Bureau, Current Population Survey. Annual Social and Economic Supplement, 2003. Available at http://ferret.bls.census.gov/macro/032003/hhinc/toc.htm.
[50] See http://www.assetbuilding.org/AssetBuilding/index.cfm?pg=docs&SecID=6&more=yes&DocID=318. accessed on 7/25/05.
[51] Much of the information presented here on the state EITC comes from the Annie E. Casey Foundation work on "Using the Tax Code to Support Family Economic Success."Available at www.aecf.org.
[52] See Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block, The Retirement Security Project, May 2005. Available at http://www.brookings.edu/views/papers/20050509galeorszag.htm.
[53] For more information, visit www.cradletocollege.ky.gov.
[54] For more information on the Oklahoma Kids' College Saving Campaign, visit www.okseed.org.
[55] See www.apfc.org and www.pfd.state.ak.us.
[56] It is important to note that the use of the Permanent Fund or its earnings for anything other than the established PFD program is a politically sensitive proposition. Numerous proposals to take advantage of the PFD have been presented throughout the years, most of which have been politically dead-on-arrival.
[57] Legislation available at http://legisweb.state.wy.us/2005/introduced/hj00007.pdf.
[58] Robert Black, 2005. Trust fund envisioned to help young children, high school grads. From the Casper Star Tribune, January 28, 2005.
[59] Op cit.
[60] Legislation available at http://www.aroundthecapitol.com/bills/AB_593/.
[61] Bruce Ackerman and Anne Alstott. "$80,000 and a Dream" The American Prospect, 11(16), July 17, 2000, p.1. www.prospect.org/print-friendly/print/V11/16/ackerman-b.html accessed 10/26/03.
[62] Ackerman and Alstott, p.1.
[63] Richard B. Freeman. Solving the New Inequality: Creating Solutions for Poor America. (Boston: Beacon Press, 1999), p.16.
[64] Haveman, pp.168-169.
[65] See *START's 529 Plan Tops Others*, (2005). In Starting Line, A Quarterly Publication of the Louisiana Tuition Trust Authority, Volume 7(2).
[66] Ibid.

[67] See *Year-End Figures Show Steady Growth of Program in 2004*, (2005). In Starting Line, A Quarterly Publication of the Louisiana Tuition Trust Authority, Volume 8(1).
[68] See http://www.famemaine.com/html/education/matchinggrant.html accessed on 7/13/05.
[69] NextGen College Investing Plan Annual Report, June 30, 2004. Available at http://www.nextgenplan.com/pdfs/2004_nextgen_colinv_ar.pdf. Also, see Catherine Reilly and Philip Trostel's *Saving for College in Maine: A Review of Current and Prospective Programs* (Maine Community Foundation, May 2004) and Margaret Clancy and Chang-Keun Han's *Inclusion in College Savings Plans: Participation and Saving in Maine's Matching Grant Program* (Center for Social Development, April 2006).
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