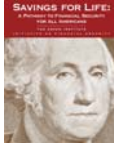




## Child Accounts: The Beginning of Savings for Life

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College Savings & Financing Summit 2008  
Washington, DC  
May 21, 2008



## The College Gap

### Who goes to college (age 18-24)?

- 31% from low-income families
- 56% from middle-income families
- 75% from high-income families

### Who graduates (age 18-24)?

- 6% from low-income families
- 19% from middle-income families
- 52% from high-income families

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## The 529 Plan Gap

### Who has a 529 plan?

- By household income
  - 3% less than \$50k in annual income
  - 6% income between \$50k and \$100k
  - 10% income between \$100k and \$150k
  - 22% income greater than \$150k
- By household financial assets
  - 3% less than \$50k
  - 4% between \$50k and \$150k
  - 8% between \$150k and \$250k
  - 13% greater than \$250k

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## Child Accounts: A Bridge Over the 529 Plan Gap

- a long-term investment account for every child in America
- a financial asset to fund the transition to adulthood
- a new generation of savers and financially-savvy consumers
- a firm connection to the U.S. savings system for millions of families

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### Child Accounts: Contributions

- At birth, every child is given a certificate for \$500
- Parents redeem certificate at a participating private provider to open a tax-free account
- Parents, family, churches, friends can contribute up to \$2,000 annually

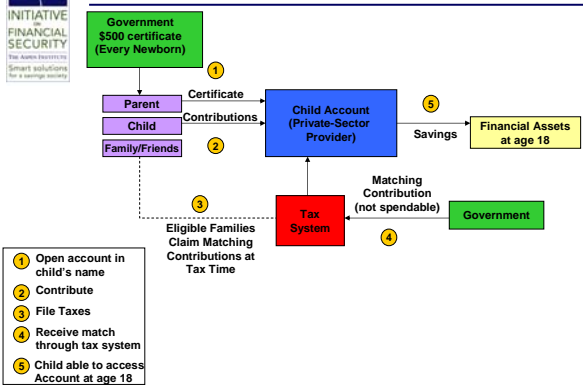


### Child Accounts: Account Design

- Incentives
  - 100% match, up to \$1,000 for low and moderate-income families (EITC eligible)
- Investments
  - Only 2 choices: principal preservation product or target date investment fund
  - Limit on fees and expenses
- Access
  - None before age 18
  - Thereafter, for any purpose with incentives for use towards education, business start-up, home ownership, retirement



### Child Accounts: Operation



### Child Accounts: Potential Growth

Accounts could grow to between \$10,000 and \$55,000 depending on contributions and matching funds

Amount of Contributions	Year 1	Year 5	Year 18
Low-Income Moderate Contributions (\$20/month, matched)	\$782	\$3,156	\$14,018
Middle-Income Moderate Contributions (\$50/month)	\$846	\$3,829	\$17,475
Middle-Income Aggressive Contributions (\$100/month)	\$1,152	\$6,966	\$33,676
High-Income Aggressive Contributions (\$2000/year)	\$1,560	\$11,148	\$55,277

Assumes a lifestyle investment with rate of return ranging from 8% to 4% as the child grows.



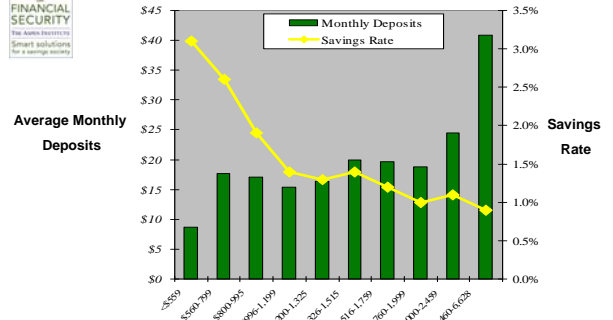
### Is More Saving By Low- and Moderate Income Households Feasible?

Research shows that

- when opportunities and incentives are available
- even extremely low- income households are capable of saving a relatively large portion of income



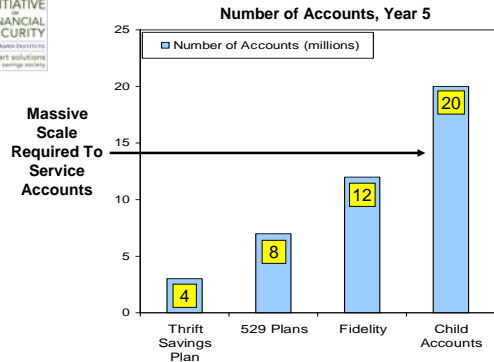
### Lessons from Individual Development Accounts



Source: Center for Social Development, Washington University in St. Louis; "Saving Performance in the American Dream Demonstration," Mark Schreiner, Margaret Clancy, Michael Sherraden, October 2002



### Child Accounts: Why a Private Sector Platform?



### Child Accounts: Potential Market Size, 10 Years Out



Source: IFS Analysis



### Child Accounts: Next Steps

#### Two state-based pilot projects

- Challenge fund
- Mississippi work well underway
  - \$15,000,000 commitment from the Kellogg Foundation
- Second state work in progress

#### Federal legislation

- Active interest in bipartisan legislation in Senate and House

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### The Case for Child Accounts

#### A long-term investment in children and their futures

- A universal saving campaign
- A hands-on lesson in financial literacy
- An exercise in choice and responsibility
- An opportunity fund for adulthood
- A bridge between working families and the U.S. savings system

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## SAVINGS FOR LIFE: A PATHWAY TO FINANCIAL SECURITY FOR ALL AMERICANS

THE ASPEN INSTITUTE  
INITIATIVE ON FINANCIAL SECURITY



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