New America Foundation

Asset Building Program

Senate Bill 752 (Steinberg)
California KIDS Accounts

Overview

What difference would it make if every Californian grew up knowing that she or he had a nest egg to go to college or buy a home? What benefits would accrue to individuals, families, and California as a whole? California can find out by creating California KIDS accounts.

The Proposal

California could launch the CA Kids program, providing a one-time, $500 deposit in an investment account at birth for the 566,000 children born in California each year. The state could match the savings of lower-income parents as they put aside money for their children. At just over $283 million for the first year, this relatively small investment—less than half a percent of the state's $100 billion budget—would be transformative.

Assuming low-income families managed to save or leverage just $50 per month, this small investment would grow to $17,500 when the child turns 18—enough to comfortably cover the first three years of tuition and fees at a public university in California. If the child does not use the account for college, it grows to $31,400 by age 30 and $173,000 by age 65. Besides post-secondary education and training, CA Kids funds could only be used for a down payment on a first home or rolled over into a retirement savings account; if the account is used any other manner, the at-birth deposit must be returned to the state, along with penalties and taxes. The accounts also provide a perfect catalyst and centerpiece to build the financial literacy of all young Californians.

The Need is Great

Many Americans have no assets to their name. They are disadvantaged from the start of their lives relative to those children born into affluence. Across the country, one quarter of white children and half of non-white children grow up in households without any significant savings or resources available for investment. Unfortunately, California families are no exception to this financial insecurity - some 7.8 million California households, or 29 percent, would only last three months at the *poverty* level if they lost their income and had to rely solely on their savings and wealth.

The Promise is Greater

While the need to broaden asset ownership is great, the promise is even greater. These accounts embody expectations; they are hope in concrete form. And, financial education is taken more seriously when people — including kids — have an account of their own to manage, with real money with which to make investment decisions. If we are witnessing the gradual rise of the "investor class" or ownership society, we must actively work toward a California in which private savings accounts are available to all, including our state's children.

Those with assets not only have brighter economic prospects, they're better, happier and more productive citizens. New research confirms that when families — including very poor families — own assets (as distinct from income), they are more likely to stay married, work harder, enjoy better physical and mental health, make educational plans for their children, feel more confident about and in control of their futures, take better care of their property, and be involved in community and political affairs. Who doubts that California and the rest of the nation will be better off with more savers, investors and owners? We certainly can learn from history: Nearly one-quarter of U.S. adults today have a legacy of asset ownership directly traceable to the Homestead Act and the GI Bill — once dubbed "the magic carpet to the middle class" — that have returned to the nation seven dollars for every one invested.

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