



## **SB 752 (Steinberg)** **California Kids Investment and Development Savings** **(KIDS) Accounts**

### **QUESTIONS AND ANSWERS**

#### **1. What does this bill do?**

SB 752 creates a California Kids Investment and Development Savings (KIDS) Account for every child born in California from 2008 onward. Each account will be seeded with an initial \$500 contribution by the state, and housed in the treasurer's office. Once account holders turn 18, they may withdraw the funds for college or career technical education, a first-time home purchase, or to roll over into a retirement account.

#### **2. Why are these accounts important?**

Success in today's economy depends not only on a job and a growing income, but increasingly on the ability to accumulate a wide range of financial assets. It is therefore troubling that the personal savings rate nationwide is negative—meaning more Americans owe *more* than they save—and is at its lowest since the Great Depression. Furthermore, nearly half of children in the U.S. grow up in households with zero or negative savings. Lacking savings leaves many families just a layoff or accident away from poverty. In California, 7.8 million households, or 29 percent, would last only three months at the *poverty level* if they lost their income and had to rely on their savings and financial assets.

By creating a permanent platform for lifelong savings, KIDS Accounts have the potential to expand opportunity, broaden wealth accumulation, and fortify the American economy for the long haul by helping children and their families save. California's children may grow up knowing they own a modest pool of resources that can help them get started in life as a young adult. For some, these funds will be used to seed profitable and productive investments; for others, it may provide a sense of security that many currently lack. For all, it will provide a basis for financial literacy, and will engage them in investing in their own futures.

#### **3. Who is eligible?**

Every child born in California on or after January 1, 2008 will receive an account.

#### **4. Why do the children of wealthy families get these accounts?**

Policies that include everyone but are targeted to people with greater needs have proven to more enduring. Including everyone in the same system will provide the strongest foundation for increased savings for all. While a KIDS Account will be universally accessible to each and every child, the majority of benefits will flow to families with low or modest incomes. Also, since a family's income level can fluctuate over the course of a career, this universal structure will ensure that children are not unfairly included in or excluded from the program because their parent's or parents' income level reached a high or low point when they were born.

#### **5. Why do the children of low-income families get accounts?**

The ability to move up and out of poverty often depends on one's ability to accumulate wealth. But millions of Americans live in households with few or no assets. For children in these families, which are oftentimes low-income households, KIDS Accounts would provide an easy mechanism

---

to save. By creating the basic infrastructure for all children to build savings over time, those children of low-income families that might not otherwise have an investment account, will have the opportunity to invest in their own futures.

**6. Is it unrealistic to expect those with low incomes to save when they already struggle to get by?**

Locally administered Individual Development Accounts (IDAs), which help low-income individuals save by creating accounts and matching their savings, have proven successful throughout California and the United States. Although the KIDS Accounts, as proposed, do not include matching funds, they do make it easier for low-income parents to begin to save by providing accounts into which they can put aside some money for their children. By simply putting the basic mechanisms in place, these accounts could make it a great deal easier for people to save.

**7. Will funds in the accounts penalize people applying for public assistance?**

No. Amounts in accounts will not be considered when determining eligibility for any state- or federally-funded benefit.

**8. Who can contribute to the accounts?**

Private, voluntary contributions can be made to each account. These contributions will be after-tax and can come from any source, including parents, grandparents, friends, employers, non-profit organizations, and children themselves.

**9. Who will control and administer the accounts?**

Parents and legal guardians will serve as account custodians and make investment decisions until the accountholder reaches the age of 18. The treasurer's office will administer the account like a public pension fund, by investing it in funds and financial markets.

**10. How much will this cost?**

The Department of Finance projects that approximately 566,000 babies will be born in 2008. If the State invested \$500 dollars per child, the deposits would cost an estimated \$283 million for the first year, plus administrative costs. The initial costs would undoubtedly be offset in the future, as accounts would grow from the initial deposit, and would create more investors and homebuyers in the Golden State.

**11. How can money in a KIDS Account be used?**

There are a set of withdrawal restrictions to ensure that the accounts are used for purposes that promote the building of financial assets. No withdrawals can be made from the KIDS Accounts until an account holder turns 18. Once the child reaches the age of adulthood, he or she may withdraw the funds tax-free for college or career technical education, a first-time home purchase or to roll over into a retirement account.

**12. Has this been done before? How do other policies compare?**

The California KIDS Account Act is innovative in many respects, but it has historic precedents both abroad and in the United States.

The United Kingdom has created a national system of Child Trust Fund accounts. Every child born in the UK after September 2002 is eligible to receive a voucher of £250; children from low-income families receive an additional £250. Funds are invested until children reach the age of 18. Unlike the KIDS Accounts bill, the Child Trust Fund accounts were administered as vouchers,

---

which parents could take to participating banks. Additionally, there were no use restrictions on withdrawals.

Canada has recently proposed helping low-income families save for their children's education with Learning Bonds. This program will give low-income children a \$500 endowment toward a Registered Education Savings Plan at birth, and \$100 top-up deposits every year. In addition, families with low incomes will be eligible to receive a matching grant on the first \$500 saved into the account.

In the United States, both the Senate and House of Representatives introduced bipartisan federal KIDS Accounts proposals, known as the ASPIRE Act, in 2005. Both bills made it through their respective policy committees and on to fiscal committees.

### **13. How much would a child save in a KIDS Account?**

If families saved just \$50 per month, with a conservative growth rate of 5 percent, this small investment would be worth nearly \$17,500 when the child turned 18. That would more than cover the cost of two years of student fees at a University of California or California State University campus. If the accountholder were to allow the funds to develop, they would grow to approximately \$31,000 by age 30 and \$173,000 by age 65. If the contributions or growth rate were greater, so too would be the payout.

### **14. How will this bill help promote financial literacy?**

KIDS Accounts may be used as valuable teaching tools in ensuring that all children become financially literate. While parents and legal guardians will serve as account custodians and initially make investment decisions, children will have a stake in learning about an account that has their name on it. Additionally, providing every child with an account would facilitate introducing financial education into K-12 curriculum.

### **15. How can I help?**

Write a letter of support and mail it to:

Senator Darrell Steinberg  
State Capitol, Room 4035  
Sacramento, CA 95814

### **16. Who can I contact if I have more questions?**

Olivia Calderon, Policy Representative, New America Foundation can be reached at (916) 448-5299 or [Calderon@newamerica.net](mailto:Calderon@newamerica.net)

---