

## QUOTE OF THE DAY

“I’ve seen something, something that’s got a lesson in it for all countries, including mine. All of us need to change our lives from time to time.” — British Prime Minister Tony Blair on San Francisco’s Delancey Street drug rehabilitation center, which he visited in his innovation-themed tour of the West Coast.

## VIEWPOINTS

# Can California import a British plan?

By Anne Stuhldreher  
and Ray Boshara

Prime Minister Tony Blair swings through California this week to enjoy some down time with Governor Schwarzenegger and First Lady Maria Shriver. No doubt he’ll want to take a break from a string of bad press in the U.K.

Let’s hope he and the governor find time to talk about one of his quiet but groundbreaking successes that holds great promise for California — Blair’s new program to give every child a stake in Great Britain’s economic future.

Each British baby born after Sept. 1, 2002, receives a “Child Trust Fund” of £250 — about \$460 — with the poorest one-third of kids receiving twice that. The government will make similar “top-up” deposits at age seven. Parents, relatives, and others can contribute up to £1,200 tax-free every year. With the magic of compound interest and ongoing contributions, the account could grow to £9,000 — about \$17,000 — when it matures on the child’s 18th birthday. So far, almost 2 million accounts have been opened.

The idea is to give all kids — regardless of their backgrounds — a shot at economic success, to reduce their reliance on the state and to foster a savings culture in the U.K.

Time, of course, will tell if the Child Trust Fund can deliver all this.

What’s amazing is that the program is already spurring significant savings — even in poor families. Moreover, the accounts are serving as “magnets” for contributions: The head of Children’s Mutual, one of the main providers of the accounts in the U.K., tells the story of a Child Trust Fund voucher that came back with 90 baptism checks attached to it.

Blair launched the Child Trust Fund to address challenges that are remarkably similar to those facing California. British parents worry deeply about how their children will ever afford to buy a home — the average age of a first time home buyer is 34 — and how they can help their kids pay for college. One in five British students has debts of \$27,000.

If young adults have their own assets at 18, instead of draining their parents’, these problems may well



British Prime Minister Tony Blair, right, meets with Phil Angelides, California state treasurer and Democratic gubernatorial candidate, in San Francisco on Saturday. — Noah Berger/AP pool photo

be solved. Small amounts saved regularly in a long period of time can turn into meaningful, sometimes life-changing amounts, giving kids opportunities, choices and hope they otherwise may not have.

Goodness knows California — indeed the U.S. — could use its own version of the Child Trust Fund. In California about 7.8 million households, or 29 percent of the state’s population, would only last three months at the poverty level if they were forced to deplete all of their assets. That’s the fourth worst “asset poverty” rate in the nation and more than twice California’s “official” poverty rate of 12 percent. Furthermore, California has the lowest homeownership rate in the country, only 39 percent of California workers have access to a retirement plan through their employer, and 28 percent of Californians don’t even own a bank account.

How could this work in California? The state could establish a California Kids Account for each of the 540,000 kids born in California every year with a one-time, \$300 deposit. After-tax contributions, up to \$1,000 a year, would be permitted while encouraging families to direct their state and federal tax refunds — especially generous Earned Income Tax Credit refunds and Child Tax Credit refunds directly into the accounts. The accounts would build up tax-free. Assuming low-income families managed to save or leverage just \$50 per month, this small investment would grow to nearly \$19,000 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 \$34,000 by age 80 and \$185,000 by age 65.

Unlike Mr. Blair’s accounts, which can be spent on anything at age 18, California Kids Accounts could be used only for post-secondary education and training, a down-payment on a first home or rolled over into a retirement savings account. If the account is used any other way, the at-birth deposit must be returned to the state, along with penalties and taxes.

The accounts also provide a perfect catalyst to build the financial literacy of all young Californians and their parents, and it’s already doing exactly that in the U.K. At \$160 million a year, this relatively small investment — it’s less than three-tenths of one percent of the state’s \$100 billion budget — would be transformative.

It doesn’t take an army of economists to know that California would reap huge rewards with more owners, savers, taxpayers and entrepreneurs — and fewer people depending on the state, their communities, and their parents for their livelihood and well-being. No doubt Tony Blair knows this all quite well, as do senators as diverse as Rick Santorum and Hillary Clinton, each of whom has recently proposed progressively funded investment accounts for all newborns. Perhaps, after a walk together down one of California’s lovely beaches, Gov. Schwarzenegger will come to know this as well.

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