

AMERICAN STAKEHOLDER ACCOUNTS

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INTRODUCTION

To greatly expand opportunity, to broaden asset ownership, and to fortify the American economy for the long-haul, an American Stakeholder Account (ASA) should be established for every child born in America and made available to all other persons age 18 and under.¹ Over time, this “Homestead Act of the 21st Century” will evolve into a universal system through which all Americans can meet their asset needs throughout life—securing post-secondary education and life-long learning, purchasing a first home, making investments, starting a small business, and building up a nest-egg for retirement. For low-income Americans, ASAs will provide a means to develop savings and assets—an opportunity not offered, and in fact denied, by existing public policy. In the long run, building wealth through ASAs and other means will eventually break the vicious cycle in which inequality of outcomes in one generation becomes inequality of opportunity in the next.

POLICY RATIONALE

There are three key reasons to enact American Stakeholder Accounts.

First, stakeholding, as a public policy, has a long and successful history in the United States and around the world. In post-war Japan, land was redistributed to millions of farmers, laying the foundation for broad-based economic success. Singapore has achieved one of the highest rates of savings and homeownership in the world through its Central Provident Fund. And Britain recently announced that each of its 700,000 children born every year will receive a savings account, or “Baby Bond,” as a way of modernizing its welfare state and creating a nation of stakeholders. In the U.S., at least one-quarter of adults can trace their legacy of asset ownership to the Homestead Act, the GI Bill has generated returns of up to \$12.50 for every dollar invested, and the Alaska Permanent Fund generates up to \$2,000 per citizen per

year from one of its most lucrative assets, oil. Finally, asset building continues today through over \$300 billion a year in popular federal tax breaks for homeownership, college, business ownership, investments, and retirement—generating enormous social and economic returns to individuals, communities, and the nation.

Second—partly because federal policy neither allowed nor encouraged asset building by low-income and minority persons, and because poverty policy has been and remains centered on income and short-term consumption—millions of Americans have few or no assets whatsoever. Without assets, they lack economic security as well as the ability to make investments that expand their and their children’s opportunities. According to the most recent Survey of Consumer Finances (conducted by the Federal Reserve), the bottom sixty percent of the nation owns about 5% of the nation’s wealth (measured in terms of median family net worth), with the bottom 20% owning less than 1%. Moreover, the median wealth of black families is about 16% the median wealth of white families. Finally, one-quarter of white children and half of non-white children grow up in households with no resources at all for investment. While the vast majority—about two-thirds—of wealth in the U.S. is held by the top 10% of the population, the challenge is not to penalize or reduce the wealth at the top but rather to actively create opportunities for lower-income persons to save and accumulate wealth.

And third, research shows that assets have positive effects on children, families and neighborhoods. In general, there is growing evidence that assets are associated with household stability, educational attainment, local civic involvement, and health and satisfaction among adults. Assets are also associated with decreases in both marital dissolution and intergenerational poverty transmission. Finally, compelling anecdotal evidence from Individual Development Account programs (which match the savings of working-poor families to help them build wealth) suggest that these “asset effects” are earlier and stronger than anticipated.

POLICY DESIGN RECOMMENDATIONS

There are several ways to design American Stakeholder Accounts (ASAs), depending on ultimate goals and public resources available. Former IRS Commission Fred

¹ The ideas outlined here are further developed in *Net Worth at Birth: Creating a National System for Savings and Asset Building with American Stakeholder Accounts*, by Reid Cramer. This working paper is available at www.newamerica.net and www.assetbuilding.org.



Goldberg writes that, from a design and implementation perspective, three questions must be answered: (1) How are the accounts funded? (2) How are they administered? And (3) what rules govern distributions? Another critical question is whether the system is voluntary or mandatory, or some combination thereof. Regarding public contributions, initial deposits could range from \$1,000 to \$6,000, and these could be supplemented by a wide range of “top-off” deposits for various goalposts of service and achievement. And matching deposits could be available for voluntary contributions from lower-income accountholders.

The following recommendations represent one way ASAs could work in the U.S. They incorporate current research findings, the experience of privately funded demonstration projects in the U.S., public and private initiatives abroad, and some initial reactions to ASAs from potential accountholders, policymakers, and the public.

PARTICIPATION AND ELIGIBILITY

Beginning in 2005, an ASA would be set up for each person born in the U.S. since September 2002. A Social Security number (or federally issued ASA ID) shall be used throughout the accountholder’s life. The parent or guardian would be the custodian of the account until age 18, at which point the child becomes the sole owner. ASAs could be established by amending Roth IRA rules to create ASAs within Roth IRAs (see S. 1013, 106th Congress). Children and youth born before September 2002, but who are not yet age 18, would be eligible to open up an ASA at any participating financial institution.

FUNDING AND CONTRIBUTIONS

ASAs include four types of deposits, each of which shall be indexed for inflation (based on the Consumer Price Index):

1. **Seed.** Approximately 12 months following birth—once citizenship and a Social Security Number have been established, and the administering agency (the American Stakeholder Account Fund) has been notified—a \$2,000 Seed deposit shall be made into the ASA of all qualified persons.
2. **Merit.** Three Merit deposits shall be made: \$1,000 following the completion of kindergarten; \$1,000 following the completion of grade school; and a final \$2,000 deposit upon graduation from high-school. Schools would be required to forward this information to the ASA Fund regularly to ensure that deposits are made on a timely basis. Note that these deposits shall be made to anyone with an ASA, regardless of what age the account was started. For example, all children who have an ASA who complete kindergarten will receive a \$1,000 Merit deposit, whether their ASA was established at birth or thereafter.

3. **Service.** Up to three \$500 Service deposits shall be available to an ASA holder who performs a specified level of community or national service. Verification of such service would be provided by a broad range of public and non-profit institutions, and would be forwarded to the ASA Fund on a regular and timely basis.

4. **Voluntary.** Anyone—including the accountholder, family members, friends, corporations, and others—may voluntarily contribute up to \$1,000 per year into the ASA of anyone, regardless of age. To encourage contributions by lower-income persons, accountholders will be eligible for a larger refundable EITC and/or child tax credit, limited to \$500 per person per year, provided that the additional amount is saved directly in an ASA, which could be accomplished by allowing tax refunds to be saved into an ASA directly on a federal tax return.

Repayment of SEED Deposit

To enable the current generation to fund the next (the opposite of Social Security), to reduce costs to the federal government, and to help counter the charge that the initial deposit is “something for nothing,” the Seed deposit could gradually be repaid once steady employment has been secured. Using Social Security numbers and federal tax returns, payments of \$200 could be made over a ten-year period. These payments would then be forwarded to the ASA Fund on a yearly basis.

Financial Education

To help educate accountholders about savings, asset ownership, and managing and investing money, financial education would be offered through K-12 education. Existing public resources for financial education could be increased, and/or private providers (for- and non-profit) could compete for federal funding.

Withdrawals

No withdrawals are permitted prior to age 18. At age 18, withdrawals are permitted for post-secondary education and training, first-home purchase, and small business capitalization. At retirement age (as defined in Roth IRA rules), funds may be withdrawn for retirement. If ASAs are established within Roth IRAs, rules governing distributions of Roth IRAs would apply (although withdrawals for small business capitalization would have to be specified—see Title V of S. 476, 108th Congress, for guidance).

WHERE ACCOUNTS ARE HELD, AND INVESTMENT OPTIONS

Any financial institution authorized to hold IRAs may hold ASAs. All ASAs established at birth will be held at a government sponsored entity (such as the federal Thrift Savings Plan) to ensure that everyone—especially those

with no relationship with mainstream financial institutions—would have an account. At any point, however, an ASA may be transferred to any financial institution that meets federally provided specifications for ASAs. Participating financial institutions would be eligible for a one-time \$50 tax credit for each account held to help offset administrative and overhead costs. As noted above, those children voluntarily opening an ASA (i.e., those who did not have one established for them at birth) may do so at any participating financial institution. Finally, a menu of investment options (similar to those provided in the Thrift Savings Plan) shall be offered to each accountholder.

Tax Issues

All government-provided contributions are not taxable. Voluntary contributions by accountholders into their own accounts are after-tax, but earnings and withdrawals are tax free. Funds withdrawn for emergency purposes are taxable.

Administration

An American Stakeholder Account Fund (ASAF) shall be established at the Treasury Department. The Social Security Administration shall regularly provide the ASAF the name and Social Security Number of each person born in the U.S., and the ASAF then has the responsibility to establish the ASA at the government-sponsored entity. The ASAF shall also provide Seed, Merit and Service contributions to each qualified ASA at the appropriate time.

Relationship to Other Federal Programs

All balances in ASAs shall not be considered in determining eligibility for any means-tested federal program. At retirement, ASA balances may be annuitized.

COSTS

Given the wide range of policy choices, uncertainty about participation and contribution rates, and the present lack of any universal administrative system of accounts for children (as well as adults), it is difficult to estimate the exact cost of American Stakeholder Accounts. However, Goldberg and Cohen—who assume a \$1,000 deposit at birth and five annual \$500 deposits between the ages of two and six—calculated that the fully phased-in cost of their proposal is about \$14 billion per year. ASAs, as proposed here, would likely exceed that cost given higher initial deposits, broad range of merit and service deposits available, and tax incentives for voluntary contributions from lower-income persons.

While ASAs would be expensive, the costs should be compared to both other tax expenditures and potential benefits. For example, currently there are over \$300 billion a year in tax expenditures for asset building, with over 90% of those benefits accruing to the roughly 55%

of households earning more than \$50,000 per year. ASAs would help balance that. Also, the potential cost of ASAs would be close to the \$30 billion annual cost of the successful Earned Income Tax Credit, which is focused on income support; ASA would focus on building wealth. In addition, as calculated by Maya MacGuineas, the federal government spends approximately eight dollars on seniors for every one dollar spent on children; ASAs would begin to remedy that generational inequity. And finally, while no numbers are yet available, a universal system of ASAs would, over time, likely reduce public assistance expenditures as well as generate economic growth and tax revenues through higher rates of homeownership, college graduation, small business formation, and national savings. In sum, it is likely that a large public investment in ASAs would be well worth the investment for individuals, for communities, and for the nation.

REFERENCES AND RESOURCES

All references are available at www.newamerica.net and www.assetbuilding.org

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