**Child Accounts: The California Advantage**

Child Accounts are a bold, new proposal aimed at putting all American children on the path to financial security from the very beginning of life. They would build financial resources for a college education, buying a home, and starting a business. They would connect more families to the U.S. financial services sector, be an important tool in making financial education relevant for children, and help create a new generation of savers and financially-savvy consumers.

In 2007, the Aspen Institute Initiative on Financial Security (IFS) proposed establishing a system of Child Accounts in the United States, modeled after the Child Trust Fund in the United Kingdom. From birth, every child would have an investment account initially funded through a modest government contribution. Later contributions from family and friends and matching contributions for low- and moderate-income children, along with investment earnings, would help the account grow.

**What Would Child Accounts Look Like?**

The IFS vision of Child Accounts includes several key elements. At birth, each child will be given a $500 certificate for an investment account. Parents will take these certificates to a participating financial institution to open an account, which will grow tax-free. Family, friends, churches, and charities will be able to add up to $2,000 a year in new contributions. Low- and moderate-income families will be encouraged to save through a 100% government matching contribution up to $1,000 annually ($2,000 maximum on all account contributions).

The standard Child Account will be easy to understand and safe, with one basic investment fund structured for an 18-year investment horizon and limits on account fees and expenses. Account funds will be locked up until the child

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reaches age 18. At that time the assets can be used for any purpose. Child Accounts could offer additional incentives for children to use their accounts toward education, home ownership, business startup, or retirement income.

Discussion about Child Accounts has largely focused on the amount of government funding needed and whether the political will exists to enact such a policy. But there is a more mundane problem hindering implementation. The U.S. saving system today does not offer a private-sector investment account designed just for children.

For states that want to create such accounts, IFS wrote a model state statute. In addition, several localities have recently expressed interest in creating a Child Accounts program. But without a suitable account for children that is already available, most localities could not have such a program without either state or federal enabling legislation. California, however, is the exception.

What Are Coogan Trusts and Where Did They Come From?

Thanks to Hollywood, a unique type of account already available in California – known as a “Coogan Trust” – is quite similar to the Child Accounts proposed by IFS. This gives localities in California the ability to implement a Child Accounts program at any time and to lead the way for the rest of the nation.

The “Coogan Trust” is named after the child actor of the 1920s and 1930s – Jackie Coogan. Jackie Coogan became famous for starring in Charlie Chaplin movies, such as “The Kid” and, as a minor, became a multi-millionaire. But when Jackie came of age, his money was largely gone, spent by his parents who held the legal rights to his income. In 1938, although too late for Jackie, California rectified this situation by passing the “Coogan Act” to protect child performers.

The modern version of the Coogan Act is found in Section 6753 of the California Family Code, most recently revised in 2004. The purpose of the law is to protect at least a portion of the earnings of child performers until they become adults. Parents or the child’s legal guardian are required to open a Coogan Trust in a qualified financial institution before the child can work in California. Employers then must deposit 15 percent of the child performer’s gross earnings into the account. The account belongs to the child, although the parent usually retains investment control. No withdrawals are permitted before the child becomes 18 and assumes full ownership of the account.

How Would Coogan Trusts Work as Child Accounts?

Although Coogan Trusts are required only for child performers, they could readily be used as a vehicle for Child Accounts. In design, they satisfy many of the elements identified by IFS as central to a successful Child Accounts policy.

Coogan Trusts belong to the children themselves. The purpose of the Coogan trust is to preserve a specific child’s funds while a minor. The trustee is obligated to make sure those funds remain in trust for that child. Technically, the child is named as the beneficiary of a Coogan Trust, while a parent or other guardian serves as the trustee. Practically speaking, the child is the legal owner of the account and assumes full control at age 18.

Coogan Trusts offer no withdrawals until age 18 and unrestricted withdrawals thereafter. Without a court order, no funds may be withdrawn from the Coogan Trust until the child reaches 18. At that time, account funds can be spent for any purpose.

Coogan Trusts are widely available in the private sector. California law permits banks, savings and loans, credit unions, brokerage firms, and mutual fund companies to offer Coogan Trusts. Two important qualifications apply: 1) the financial institution must be located in California; and 2) it has to be insured and/or registered under standard federal laws and regulations.

Coogan Trusts are simple in structure with limited investment options. Coogan Trusts can be invested in only two types of products: 1) mutual funds, which, if invested in equities, must be an index or broadly-diversified fund; and 2) an income generating bond, certificate of deposit, money market fund, or income mutual fund with maturity dates appro-

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<table>
<thead>
<tr>
<th>Bank/ Brokerage Name</th>
<th>Minimum Opening Deposit</th>
<th>Currently Restricted to Child Actors?</th>
<th>Fees/Service Charges</th>
<th>Type of Investment/ Account</th>
<th>Interest Rate</th>
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<td>AFTRA/ SAG Federal Credit Union</td>
<td>$50</td>
<td>Child actors/ actresses &amp; child athletes</td>
<td>$5 one-time deposit fee; no monthly or annual service fees</td>
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<td>Any child working</td>
<td>No monthly or annual service fees</td>
<td>Savings account/ CDs (with restrictions)</td>
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<td>City National Bank</td>
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<td>No monthly or annual service fees</td>
<td>Savings account</td>
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<td>Child actors/ actresses</td>
<td>No monthly or annual service fees</td>
<td>Savings account</td>
<td>0.20% APR</td>
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</tbody>
</table>
priet for the child’s 18th birthday. These investment options are roughly equivalent to those advocated by IFS.3

IFS advocates tax-free treatment for Child Accounts so they grow as large as possible. Unfortunately, Coogan Trusts are not tax-exempt. They are subject to the same tax rules as any other investment— that is, federal and state taxes on interest and capital gains income would apply every year.

In light of the original purpose of Coogan Trusts, this makes sense. Child performers, some of whom make millions of dollars, should not benefit from better tax treatment than other children who also work.

However, for Child Accounts, this is largely a non-issue. Unless children have other income, their Child Accounts will be free from federal tax until they earn over $900 a year. Assuming interest earned at 5 percent, a Child Account would need to have over $18,000 in assets to be taxable. California tax law is even more generous. So, from a practical perspective, most Child Accounts would be able to grow for years before experiencing a tax bite.

Can Coogan Trusts Be Effective in Building Assets for All Children?

Coogan Trusts are designed to safeguard the financial future of children with the potential of earning vast sums. Can they also help improve the financial future of children from families with more moderate means? IFS believes they certainly can with the assistance of the financial services industry.

A recent survey in the Hollywood area by www.BizParentz.org, a website for child performers, indicates that Coogan Trusts are widely available. But the requirements for opening an account, the fees charged, and the investment options available can vary widely from firm to firm. For some, Coogan Trusts are a specialized product not familiar to branch staff. Many offer only cash investments, which, in today’s economic climate, pay low levels of interest. IFS’s own informal survey, conducted in June 2008, illustrates the variety of financial institutions that participate in the Coogan Trust market as well as the parameters of the accounts (see table on page 3).

Child Accounts offer the financial services industry the opportunity to expand the Coogan Trust market significantly. The industry can also help make Child Accounts delivered through Coogan Trusts a success through three simple steps:

- The requirements for opening such an account should be standardized.
- The fees charged against the account should be minimized.
- The investment options available should provide all children with the opportunity to grow their accounts through robust investment returns.

In return, a Child Account Program in any city, town, or county should be designed to be attractive to the industry. That means making Child Accounts universal, providing public funds to launch the accounts, and offering incentives for private contributions, as well. The combination of large numbers of new accounts, all with the potential to increase in size significantly, will help persuade industry of the value of Child Accounts. The result would be a win for all children by putting them on the path toward financial security in adulthood.

3 Under the IFS proposal, there would be two investment options: (1) a life-cycle investment fund; and (2) a principal protection product. See The Care for Child Accounts, The Aspen Institute on Financial Security, 2007.