The discussion started with the baseline question: Are universal children’s accounts good policy? Universal children’s accounts are savings accounts that would be established for all children at birth and funded with an initial government endowment to encourage savings and investment. The accounts would have tax advantages for higher income families and a match on savings for lower income families. At age eighteen, the child would have access to the account to pay for education, make a down payment on a home or begin saving for retirement.

In the U.S., “KIDS Accounts” were proposed in 2004 in the ASPIRE Act. Two of the sponsors of the act, Senator Corzine and Representative Petri, opened the discussion with their explanation of why this is good and necessary policy.

Senator Corzine explained that this policy is important in a “national economic sense” because “we have a virtual zero savings rate in this country, and we start that process because so many people get to the starting line of their adult life with...
little concept of the principles of capitalism or any savings account to start with.” He described how children’s savings accounts could create a stake in society that would “give people a greater commitment to the greater good” that not only expands their opportunities when they get access to their accounts but will also sink roots into our community and society. Senator Corzine asserted that KIDS Accounts “can change – over an extended period of time – the whole view and balance between consumption and savings in society” and suggested that while the $40 billion over ten years that KIDS Accounts would cost sounds like a lot of money, in fact it is a reasonable investment to change America’s attitudes on savings and investment. Finally, Senator Corzine said that he particularly thinks the match on savings for low-income families is important, because he “can imagine philanthropic individuals across this country working together with some of those who have the least in America to make this match be something that becomes very powerful.”

Representative Petri said that he comes at this question from a slightly different point of view in that he relates KIDS Account policy to the lack of saving for retirement and thus the bigger question is “how do we move from a pay-as-you-go to an endowment approach?” He suggested that if you look at KIDS Accounts in the Social Security context, “they are $2 billion a year to reform Social Security over 65 years. That’s not unmanageable, and the amount that that would grow to tax-free, compounded for 65 or 70 years, is about as much as the average person can expect to get out of the Social Security system.” Representative Petri also recommended looking closely at what the British are doing in this area of policy, in order to learn from their experience with the Child Trust Fund, and he suggested following the Social Security debate, looking closely at what the British are doing in this area of policy, in order to learn from their experience with the Child Trust Fund, and he suggested that if you look at KIDS Accounts in the Social Security context, “they are $2 billion a year to reform Social Security over 65 years. That’s not unmanageable, and the amount that that would grow to tax-free, compounded for 65 or 70 years, is about as much as the average person can expect to get out of the Social Security system.”

Michael J. Johnston, Executive Vice President, Capital Group Companies

“because as we get into that, people are going to run up against road blocks, and they’re going to have to fall back to some tier-two or tier-three positions. And at that point, this might fit in as something that people can come together around.”

This comment raised the question: Can people who support keeping Social Security as a universal insurance program also support children’s savings accounts? Senator Corzine’s answer: “Well, I do. I still believe that there is room in our society for having a safety net for retirement.” The senator pointed out that universal children’s accounts set up – over a long period of time – the “knowledge base that would allow people to manage their private savings accounts in Social Security, if that’s the direction you want Social Security to take” and suggested that right now, most Americans are not in a position “to be managing those private accounts because of the failure of our educational system to give people the tools.”

Providing a counterpoint, Douglas J. Elliott, president of the Center on Federal Financial Institutions, said that: “It seems to me that when programs go off the rails, it’s often because they’re trying to do too many different things. My concern with this program – which, in many ways, I love – is that we’re trying to...”

More Information on Universal Children’s Accounts

For more information about the ASPIRE Act, see www.aspireact.org.

A British version of universal children’s accounts, the Child Trust Fund, will be implemented starting in early 2005. For more information, see the British government’s site www.inlandrevenue.gov.uk/ctf and IFS’s issue brief on the Child Trust Fund at www.aspeninstitute.org/ifs.
help poor people to save, we're trying to help parents save for their kids going to college, we're trying to boost home ownership and we're trying to promote retirement savings. I think those four goals are going to come into conflict at various points, especially as the program evolves, even if in the beginning clever structuring keeps that from being a problem."

**HOW SHOULD THE ACCOUNTS BE STRUCTURED?**

A major question addressed by the group was how universal children’s accounts should be structured. The ASPIRE Act proposes the creation of a new federal agency, similar to the Thrift Savings Plan for federal employees’ retirement savings. The new agency would administer all the accounts and offer a limited number of investment options. The Child Trust Fund in the U.K. creates a system of private accounts, in which the initial government endowment is sent directly to parents, who use it to open an account at a private financial institution for their child.

Senator Corzine explained the rationale for using the Thrift Savings Plan model in order to hold costs down. As he said, “everything is in place here: a child is born, he gets a Social Security number, and you credit the already existing program, their savings account, with that money, and then you're going to have to have paper flowing to the parents. But you're leveraging off of already created systems that look as if they’re reasonably efficiently run. So you're not going to spend a lot of money on administration to get this program going.” He wondered if private financial institutions would be interested in managing the KIDS Accounts, which would at least begin and in some cases continue to be, small accounts.

Several financial executives in attendance responded to that concern and added additional thoughts on the market structure that would work best for universal accounts. Michael J. Johnston said that Capital Group would be happy to manage children’s accounts, but that he supported the contention in the bill that private financial institutions “should not be able to manage those assets, at least at the start, because I think it removes from the debate any sense of commercial bias.”

Mark Ernst, president and chief executive officer of H&R Block, expressed the concern that people not come to view this as simply another government program. His point of view was that, even if individuals receive statements about the accounts from the government, “if a program is really viewed as another government program, over time the incentive to view this as a savings account, to view this as somebody's personal stake will somehow get dissipated or will lose some of the value that you're trying to achieve with it.” He suggested that ensuring that sense of a personal stake is “the value that private accounts have that we may be missing.”

John M. Tippets, president and chief executive officer of the American Airlines Employee Credit Union, agreed with Mr. Ernst’s point and also described how his business serves “lots of $5 accounts.” In his words, “small accounts are costly and that’s a real issue.” But, he suggested that that is the case whether the accounts are held privately or by a government entity. He also reminded all the participants in the room about a costly savings program that engaged many Americans in savings: “We'd buy 25 cent stamps and we'd put them in a little book, and when we had enough of them in the book, we went and bought our savings bond. So there’s a way probably that we can put something together that’s not as costly as what we did 50 or 60 years ago.”

**HOW WILL CONSUMERS RESPOND?**

Financial literacy, and the possible consumer response to universal children’s accounts, was a major theme of the conversation. Participants discussed what the best use of the accumulated funds
would be, with some suggesting that the funds should be cordoned off until age 30 or even retirement, while others supported uses earlier in the lifecycle, such as education or home ownership. While there was some debate about the best way to educate consumers about the benefits and uses of the account, there was near unanimity on the idea that financial literacy is, in Senator Corzine’s words, “a major league problem” in need of public attention.

On the topic of how to best use the funds that accumulate in the KIDS Accounts, Scott Delman, president of Capital Z Investment Partners, argued that “rather than having people repaying it at age 30, you should lock them up until age 30.” He anticipated that “with the exception of, actually, upper middle-class Americans, who won’t actually require this money to pay for higher education, you’ll find the overwhelming majority of money here leaving the system at the point in time that these young men and women reach the age of 18” and suggested that this was not consistent with the goal of building long-term savings and financial literacy.

Carl Weisbrod, president of the Alliance for Downtown New York, disagreed, saying that “to be able to use this money for education probably is the best long-term investment, because it’s going to relieve the student in the long run of crushing student debts, or lower those debts after the student graduates.”

Mellody Hobson, president of Ariel Capital Management and a personal finance expert on “Good Morning America” pointed out that “people start to think anything related to a government program is going to be the tax code, and they’re scared to death.” So, simplicity, she suggested, would be extraordinarily important. She also pointed out that multiple access routes to using the account – “whether through the Internet, walking into a bank, being able to go to a currency exchange, whatever it might be” – would be critical, particularly in order to engage people of all socio-economic levels.

Bernard Wilson, vice president for national outreach at H&R Block agreed. He explained that “at low income levels, people are generally locked out of having a financial advisor, almost exclusively locked out.” He thought it critical that individuals of all income levels “have the opportunity to receive ongoing, sincere information and advice about” financial matters, and that if individuals have this advice, they will make the right decisions.

In the course of the discussion, Mary Laraia, senior vice president of Civic and Community Development at LaSalle Bank, was “reminded of the best kind of selling of public interest ideas in my lifetime: seat belts and smoking.” She argued that wearing seat belts and not smoking were unpopular ideas that were “sold” and suggested that the changed behavior that we need from greater financial literacy is similar. Financial literacy, she said, “needs to be in the education system. It needs to be marketed as the great idea it is. I think that’s the most important thing we can do with” universal children’s accounts.