



AB 15, CHILDREN'S SAVINGS ACCOUNT. ASSEMBLYMEMBER ADRIN NAZARIAN

Bill Summary:

AB 15 would establish the Children's Savings Account Program under the Scholarshare Investment Board. The Board would administer a master 529 account held by the State. Each child born in California would be automatically enrolled in this program and receive an initial seed deposit from the account to jumpstart college savings. The account would also provide incentive money to children for school accomplishments.

Background:

Unfortunately, there is a consistent correlation between family wealth and educational achievement. According to a Washington University in St. Louis study, only 27% of high-income children do not have savings accounts contrasted with 61% of low-and moderate-income children.

Findings from this study indicate the following percentages of low-and moderate-income children graduate from college: 5% of those with no accounts, 25% of those with school savings of \$1 to \$499, and 33% of those with school savings of \$500 or more.

There is a growing recognition that the cost of higher education and the burden of student debt are serious barriers to economic mobility. However, just getting young people and their parents to the starting line—believing that post-secondary education is a viable option—remains one of the greatest barriers. This is where children's savings accounts (CSA) can play an important role.

CSAs are long-term savings or investment accounts that help children and their families, especially children from low-income families, build savings for the future. CSA programs provide an initial deposit, incentives to grow savings, and can follow a 529 account platform.

529 plans are a tax-advantaged savings plan. These programs are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue

Code. Investments from a 529 account may be used for tuition, fees, and books at a college, university, or trade school, among other qualified higher educational expenses.

San Francisco, Oakland, Los Angeles, St. Louis, and Boston have begun their own local CSA programs. Nevada, Rhode Island, West Virginia, Connecticut, Maine, and Pennsylvania have all implemented a statewide CSA program, using a 529 platform, that provides at least \$50 of an initial seed deposit to each enrollee. While each program varies, they all represent an important investment in the future of young people.

Solution:

Establishing a universal, at-birth, opt-out CSA in California will provide many more children with financial assets, a more equal playing field, and a transformative sense of possibility and hope for the future. The CSA program will consist of three types of contributions:

- 1) Universal Seed: An initial State deposit to every child born in California.
- 2) Community Investment: Community groups, non-profits, or foundations can contribute to the master CSA. This can be used for both the seed deposit and incentives.
- 3) Parent Contribution: Parents are encouraged to create their own 529 account for their child. A portal would be created to link the master and individual account to view a respective balance.

According to California's End Child Poverty Task Force, in 2016, roughly 5 in 10 high school dropouts were living in poverty (48%), compared to less than 1 in 10 college graduates (8.6%). California's CSA will invest in children's futures, encourage a savings habit in families, allow for the community to directly participate in its children's success, and help lift people out of poverty.

This program will ensure California's children and families foster a college-bound identity and practice education-related financial planning. AB 15 will give each child a financial boost in paying



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for college, and build the aspirations of children and their parents around higher education.

Support:

Prosperity Now
California Asset Building Coalition

Opposition:

None on file

Staff Contact:

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