Converging Viewpoints

Making Asset-Building Policy for Children Possible

DISCUSSION BRIEF

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INTRODUCTION

In current U.S. politics, the Republican and Democrat parties seem to differ more than they agree on most policies. It can thus be difficult to imagine how any policy can be passed let alone one like the 401Kids legislation, which aims to provide low-income families with ongoing wealth-building deposits. However, in the case of asset-building for children, oral and written testimony from the U.S. Senate Finance Committee hearing on May 21, 2024, "Children's Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children," provides tangible hope (i.e., grounded in facts) that Congress can pass asset-building legislation for children. This hope arises from how Republican- and Democratic-selected testimonies converge on many of the same wealth-building principles that underlie 401Kids legislation.[1]

Citations for the four testimonies discussed in this brief:

Witnesses Selected by Republicans:

- Testimony of Veronique de Rugy, George Mason University, Hearing on Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children, U.S. Senate Finance Committee, 118th Cong. (2024). https://www.finance.senate.gov/imo/media/doc/05212024_derugy_testimony.pdf
- Testimony of Adam N. Michel, Cato Institute, Hearing on Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children, U.S. Senate Finance Committee, 118th Cong. (2024). https://www.finance.senate.gov/imo/media/doc/05212024_michel_testimony.pdf

Witnesses Selected by Democrats:

- Testimony of Colleen J. Quint, Alfond Scholarship Foundation, Hearing on Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children, U.S. Senate Finance Committee, 118th Cong. (2024). https://www.finance.senate.gov/imo/media/doc/05212024_colleen_quint_testimony.pdf
- Testimony of William Elliott, University of Michigan, Hearing on Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children, U.S. Senate Finance Committee, 118th Cong. (2024). https://www.finance.senate.gov/imo/media/doc/05212024_william_elliott_testimony.pdf

The 401Kids Savings Act would establish infrastructure supporting states' existing Children's Savings Account (CSA) programs or help states to put new CSA programs in place where they do not yet exist. Existing state 529 education savings plan platforms would provide infrastructure to build them on. CSAs are wealth-building accounts that provide a financial structure that facilitates contributions to children's accounts from multiple sources (e.g., government, individuals, families, employers, philanthropists, foundations, communities, and others) to ensure that all children have wealth to invest in their human capital development.

Most CSA programs consist of the following key components:

- Opportunity to own a wealth-building account, either through a traditional deposit institution (such as a credit union or bank), or through a state 529 college savings plan
- Initial and ongoing deposits to encourage account opening, jumpstart family saving, and/or foster greater balance growth
- Savings incentives, such as matches for family deposits, rewards for recruiting contributions, and/or bonuses for saving regularly
- Support for preparing children academically and financially for higher education by providing account statements, college and career readiness activities, and/or efforts to identify early aspirations to college attendance

One important way that 401Kids legislation diverges from current CSA models in the U.S. is that it would allow savings to be used not only for postsecondary expenses, but also for children's development more generally (i.e., buying a home, starting a business, and even saving for retirement).

However, the 401Kids bill adheres to all eight principles identified by a group of CSA experts for designing CSAs at scale (i.e., Democratic-selected witnesses were part of the group of experts identifying the principles):[2]

- Eligibility for all—everyone is included and gets a stake
- Automatic enrollment—remove barriers to enrollment
- Automatic initial deposit—jump-start wealth accumulation
- Start young—maximize wealth-building potential
- Targeted additional deposits—those with greater need get more
- Centralized savings plan—enable implementation and reduce costs
- Investment growth—augment the wealth-building capacity of families
- Simplified investment options—make decisions easy

The table below provides a summary of the 401Kids Savings Act.

TABLE 1

Summary of 401Kids Savings Act

Sources of Funds:	For Whom:	Amount:
An individual (parent, grandparent, nonprofit, the child herself)	All children (ages 0–17)	**Cap on Saving:** Up to **$2,500** in contributions per year per child
Annual Federal deposit every year until age 18	Children from LMI and EITC-eligible households (ages 0–17)	**$500** per year for all families with a modified Annual Gross Income below $75,000 ($150,000 married), with phase-out above that An **additional $250** per year for households eligible for the EITC (even if not claimed)
Annual Federal matching deposit	Children in EITC eligible households (ages 0–17)	**Dollar-to-dollar match** on individual contributions, not to exceed $250 per year for households eligible for the EITC (even if not claimed)
State government deposits	All children (ages 0–17)	States may make additional contributions into 401Kids beyond the $2,500 annual contribution limit
Third-party deposits	All children (ages 0–17)	Families, non-profits, employers, foundations, and others could contribute

Information for this summary table was taken from Casey, B. (2024). *401Kids: Building wealth for the next generation.* U.S. Senator, Pennsylvania. Congress's potential to pass asset-building legislation for children is even more encouraging given how Republican-selected testimony converges with these key principles for designing a national CSA policy. This brief presents evidence from the testimony of Republican-selected witnesses, whose testimonies converge on five of the eight principles.

This brief begins by discussing some of the key areas where the Republican-selected witnesses agree the eight key principles for designing a national CSA program. Next, four areas where additional convergence would be helpful are discussed. The brief concludes by summarizing the points of convergence, how they align with principles in the 401Kids legislation, and the eight key principles identified by the asset building field.

WITNESSES AGREE ON MANY KEY PRINCIPLES

Democratic senators are the leading sponsors of the 401Kids legislation and support its major provisions. On examining the testimony of witnesses selected by Republicans, it appears they express considerable agreement on key policy principles, as follows:

Republican-selected witnesses agree that finding ways to encourage wealth-building among individuals is an important and valid role for government to play:

Veronique de Rugy: Finding ways to help children from low-income families become economically self-sufficient is a worthy goal. And creating inroads to make sure everyone saves is one way to ensure that low-income children are well-positioned for the future. (p. 1)

Adam N. Michel: The level of investment is one of the three main components driving long-run economic growth: capital investment, paired with labor (workers), and technological innovation. When businesses invest in capital, such as machinery, buildings, and factories, the economy can be more productive, generating more goods and services using the same quantity of labor. Since personal saving is an important component of overall investment, additional personal savings will lead to a larger capital stock and economy. (p. 3)

Republican-selected witnesses agree that families in the low-income bracket would gain the most from the government's creation of a new qualified savings vehicle:

Veronique de Rugy: USAs [Universal Savings Accounts] have the potential to increase savings for all groups, not just those saving for retirement. With fewer rules and more opportunities, USAs can encourage new populations to save. But people with the lowest income brackets may see the most benefit. (p. 4)

Republican-selected witnesses agree that state 529 plans have positive features that serve as a model for a national asset-building policy:

Veronique de Rugy: A better alternative would be for Congress to streamline these accounts into one universal tax-preferred savings vehicle. The introduction of Universal Savings Accounts would take what is good about specialized savings accounts such as 529 plans and apply it to all Americans, incentivizing them to save. (p. 4)

> **Adam N. Michel:** One way the tax code reduces the income tax system's built-in bias against saving is through qualified savings accounts, such as employer-administered 401(k) retirement accounts, Individual Retirement Accounts (IRAs), and 529 Plan education savings accounts. Qualified savings accounts remove taxes on capital gains and dividends from investment returns, although the corporate income tax still reduces the investment return. In the accounts, savers can purchase a wide range of stocks, bonds, mutual funds, and exchange-traded funds, although rules vary. (p. 3)

Importantly, their testimony highlights the convergence of principles that CSA experts identified as key to a national asset-building policy for children. Specifically, their testimony on 529s also aligns with the principle that a national asset-building policy for children should be built on a centralized savings plan, that it should offer the opportunity for investment growth, and provide families with simplified investment options.

Republican-selected witnesses agree that families should be able to use funds in the accounts for more than postsecondary education expenses:

> **Veronique de Rugy:** Policymakers should also consider enacting a more comprehensive savings program, such as the Universal Savings Accounts (USAs) program. USAs would allow workers to save in one simple account from which they could withdraw without penalty for any expected (college, childcare, or retirement, for example) or unexpected (major car repair or emergency medical expense) event throughout their lifetime. (p. 1)

> **Adam N. Michel:** To fix this problem, Congress could create a universal savings account that would function similarly to retirement accounts—income saved in the account would only be taxed once—but without restrictions on who can contribute, when fund can be spent, or on *what they can be spent* [emphasis added].

While this might seem like a point of disagreement, it is not. Senator Casey's 401Kids bill would change section 529 of the Internal Revenue Code of 1986 to allow for multiple uses, such as buying a home or starting a business. Further recent changes to the code provide evidence that the two parties can come together, find agreement, and make changes to state 529 plans. The most recent change came about as part of the SECURE 2.0 Act of 2022, which allowed unused funds in a state 529 plan to be rolled over into an ABLE account or Roth IRA.[3] This, along with changes passed as part of the Tax Cuts and Jobs Act (TCJA) to state 529 plans, which allowed funds to be used for elementary and highs school tuition expenses, are evidence that the parties are willing to come together to change how state 529s can work best.[4]

While Republican-selected witnesses prefer not to impose limits on annual deposits, they agree that government can cap annual contributions:

> **Adam N. Michel:** To fix this problem, Congress could create a universal savings account that would function similarly to retirement accounts—income saved in the account would only be taxed once—but without restrictions on who can contribute… (p. 5)
>
> The annual contribution limit should be at least $10,000 to ensure the accounts can serve the majority of Americans' saving needs and could be opened as custodial accounts for children to encourage saving in early life. (p. 6)

The 401Kids legislation suggests an annual cap of $2,500. And while negotiations might be needed to determine the exact amount of the cap, there is agreement with the principle that government can establish a cap on how much families can contribute annually. Certainly, further convergence will be needed to agree on the exact amount of the cap.

The Republican-selected witnesses agree that starting early is important:

> **Adam N. Michel:** The annual contribution limit should be at least $10,000 to ensure the accounts can serve the majority of Americans' saving needs, and could be opened as custodial accounts for children to *encourage saving in early life* [emphasis added]. (p. 6)

AREAS WHERE ADDITIONAL CONVERGENCE WILL BE HELPFUL

There are some areas where agreement is not clear, and therefore some additional discussion between the parties might be needed. In this section, we identify four areas where current disagreement exists, and more discussion is needed for all parties to converge.

Republican-selected witnesses differ in their approach to asset poverty.

It might be said that the Republican-selected witnesses adopted an absolute understanding of asset poverty, whereas the Democratic-selected witnesses adopted a relative understanding of asset poverty.

An absolute perspective on asset poverty focuses on whether the asset level of low-income families generally increases. For example, witnesses' use of Canadian and United Kingdom (UK) data on Universal Savings Accounts (USAs) reflects an absolute approach to asset poverty:

> **Veronique de Rugy:** After USAs were implemented in the U.K. and Canada, moderate-income earners were the most responsive. In both countries, low- and moderate-income savers represent over 50% of USA holders. As the Cato Institute's Chris Edwards and Ryan Bourne found, in 2016 in the UK, 52% of USA holders earned less than £20,000—around $26,000. (pp. 4 & 5)
>
> **Adam N. Michel:** In 2020, 40% of Canadian households contributed to a Canadian tax-free savings account (TFSA)—almost 60% own a TFSA—and 51% of TFSA account holders earned less than Canadian $50,000 (about US $37,000). (p. 5)

The Republican witnesses highlighted data showing that about 50% of families living in low-income Canadian and U.K. households have a USA.

A relative perspective on asset poverty, however, focuses on how much wealth low-income households have as compared to higher-income households (i.e., the wealth gap). Given this, someone adopting the relative perspective of asset poverty would likely highlight evidence from the U.K., for example, that shows that the average account value for families earning between $16,500 and $33,000 was $32,200 in 2014 U.S. dollars compared to $106,000 for families earning more than $247,000 annually. Wealthy families have more than three times the wealth in these accounts and are much more likely to possess other types of asset-building accounts than families from low-income brackets. Thus, while USAs may reduce absolute asset poverty--low-income families have more wealth, relative asset

poverty may not be being reduced in the U.K.–– the size of the wealth gap (low-income vs. high-income) may have remained the same or even have grown.

Republican-selected witnesses differ in their approach to inclusion and how it should be achieved.

Republican-selected witnesses define inclusion as having access to an asset-building program for children using the data from Canada and the U.K. presented above (e.g., about 50% from the low-income bracket open a USA), and so we will not repeat it here. From this perspective, the focus of inclusion is on ensuring every child has access to the USAs. Inclusion as access aligns with an opt-in approach to enrollment (i.e., participants must choose to enroll).

In contrast, Democratic-selected witnesses focus on best practices that ensure every child has an account, or as close to full inclusion as possible. Inclusion as having an account aligns with an opt-out approach to enrollment (i.e., participants are automatically enrolled).

Here are three case studies that can help inform the discussion about the different approaches to enrollment (opt-in or opt-out):

Child Account Policy Example No. 1:

Maine's Statewide My Alfond Grant Program

Maine's My Alfond Grant (originally called the Harold Alfond College Challenge) is a statewide CSA program that uses the state's 529 platform called NextGen529. My Alfond Grant was first administered statewide in 2009 as an opt-in (i.e., families chose to enroll) program. To enroll and receive the $500 Alfond Grant, families had to open a NextGen account within one year of a child's birth. Using the opt-in model, the My Alfond Grant program was able to enroll about 25,000 Maine families. So, about 35% of eligible children received the $500 grant.[5] ***Importantly, research also showed that children who lived in households that were less educated, who did not have other investments, and who did not have a financial advisor were less likely to be enrolled.***[6]

However, in 2014 the My Alfond Grant switched to an opt-out model (i.e., all newborn babies were automatically enrolled). ***Using an opt-out model they were able to achieve nearly 100% enrollment, or nearly full inclusion.***

Child Account Policy Example No. 2:

The Canada Education Savings Program

In 1972 the Canadian government created the Registered Education Savings Plan (RESP). RESPs are similar to U.S. state 529 education savings plans. However, like enrollment rates in U.S. state 529 plans, higher-income families are far more likely to enroll in RESPs.[7,8]

In 1998, Canada launched the Canada Education Savings Program (CESP) to help increase participation in RESPs. When it began, families had to open an RESP (i.e., opt-in) and once enrolled, Canadians were eligible for the Canada Education Savings Grant (CESG) –a 20% match from the Government of Canada on contributions up to $2,500 (or a maximum grant of $500 per year, to a lifetime amount of $7,200). The CESG is available for youth up to age 17.

Despite access to RESPs and even with the advent of matching funds, the Canadian government in 2004 recognized that low-income families were using these registered accounts at much lower rates than middle- and higher-income families. To encourage higher uptake, the government introduced the Additional CESG (A-CESG) and created the Canada Learning Bond (CLB). Both the A-CESG and the CLB are income-tested benefits, with the thresholds updated yearly. Through the A-CESG, families with incomes between $53,360-$106,717 CAD (threshold for July 2023 through June 2024) receive an additional 10% match on the first $500 contributed to the RESP, while those with lower incomes ($53,359 or less) receive an additional 20% match, meaning an extra $50/$100 respectively per year.

Through the CLB, the Canadian government provides up to $2,000 without requiring any RESP contributions, with eligibility based on adjusted income ($53,359 or less) and family size. The CLB consists of a $500 payment the first year a child is eligible, and $100 each subsequent year they are eligible up to age 15. An eligible youth can also request their CLB retroactively until they turn 21. The only requirement is to open an RESP and request the CLB. But awareness of eligibility for these funds is low, and even for families who are aware of the program, it can be challenging to first open an RESP for a child.[9] Children in care of the state are also eligible for the CLB, but there are often significant challenges to enrolling them. Thus, despite the additional money available to low-income families, higher-income families continue to be more likely to have an RESP and to receive the majority of the CESP benefits.[10]

Therefore, the data showing low uptake made it increasingly clear to the Canadian government that the only way to achieve full inclusion and ensure low-income children can access their CLB payments is by ***automatically enrolling all eligible children***. So, starting in 2028–2029 the Canadian government plans to automatically open an RESP for all eligible low-income children born in 2024 or later, and auto-deposit the CLB payment into the account.[11]

Child Account Policy Example No. 3:

The U.K.'s National Child Trust Fund Program

The U.K. example differs from both the Maine and the Canadian example. Whereas to achieve full inclusion Maine and Canada moved from an opt-in approach to an opt-out approach, the U.K. moved from an opt-out approach to an opt-in approach.

Asset-building work in the U.S. led by Michael Sherraden and his center, Center for Social Development at Washington University in St. Louis, MO, directly led to and informed the Child Trust Fund policy in the U.K.[12] In 2005 the U.K. set up universal savings accounts for children born from September 2002 onwards with an initial deposit of £250 (about $312 today) or £500 (about $624 today) for low-income children.

Interestingly for this conversation, in the U.K., unlike the U.S. or Canadian versions of automatic enrollment that use birth records or tax data to enroll children, the parent/guardian was expected to open an account. Only if the parent/guardian did not open an account did the government open an account for the child. ***Research shows that the government had to set up 28% of accounts on behalf of children.***[13] This highlights the potential benefit of automatic enrollment for ensuring full inclusion.

Importantly for this discussion, in 2010 the U.K. government ended the Child Trust Fund program for children born after January 2, 2011, and replaced it with what they called Junior Individual Savings Accounts (ISAs). Junior ISAs did not come with government contributions, and families had to opt into the program. They resemble state 529 plans, as they have a maximum annual contribution cap of £9,000 (about $11,234 today). Like state 529 plans, higher-income families are far more likely to have a Junior ISA, and to save far more in their ISA.[14,15]

While these case studies make clear that adopting a full-inclusion approach assures everyone has access, the approach still does not ensure everyone will have an account. Further, access would appear more appropriate if wealth-building in 401Kids accounts, for example, was limited to individual saving. However, if the government makes contributions, both the Canadian and U.K. examples support the notion that full inclusion is a more applicable approach, assuring that everyone receives these contributions. Similarly, research and practice in U.S. CSA programs indicate that CSAs support not only individual and government contributions, but also third-party contributions from such entities as foundations, philanthropists, employers, communities, and many others.[16] Full inclusion assures that these funds can flow to everyone. Additional evidence supporting the full inclusion approach demonstrates that just owning an account produces important social and psychological impacts that complement their economic impacts.[17]

Republican-selected witnesses differ in their approach to what children living in low-income families can and should save for.

They suggest that national asset-building policies for low-income families should focus on emergency savings, and that encouraging low-income families to save for their long-term needs can be harmful:

> **Veronique de Rugy:** One of the greatest concerns of low-income earners has traditionally been access to liquidity, and convoluted savings rules and penalties for early withdrawals only restrict liquidity. Research from the Internal Revenue Service demonstrates that low-income earners are 31% more likely to take a net-taxable withdrawal when they experience an income shock. (p. 2)
>
> Withdrawing from savings to cover rent after a job loss or to cover an unexpected hospital visit should not be penalized. Putting many restrictions on the use of the funds may dissuade parents from adding money to the account. (p. 3)
>
> **Adam N. Michel:** To the extent that government savings programs go beyond removing disincentives to save, they could make some people worse off. For example, default auto-enrollment features and matching incentives may prompt some individuals to save more than is *optimal for lifetime financial needs* [emphasis added]. This over-saving can reduce the resources available for current consumption or lead to higher debt levels as individuals attempt to maintain their lifestyles. (p. 6)

While this brief categorizes this as a difference in approach, the gulf appears small. The difference in approach lies is Republican-selected witnesses' emphasis on emergency saving for low-income families, to the point of suggesting that saving for developmental purposes (i.e., long-term savings for college) may actually harm low-income families; they should instead save to meet their 'financial needs' (i.e., emergency savings). Thus, the government should not encourage low-income families to save for their development needs (e.g., initial deposits, matches, targeted ongoing deposits).

We categorize the gulf between the positions as small because the Democratic-selected witness also value the importance of emergency saving for low-income families. For example, in the home state of Democratic Senator Bob Casey, who introduced 401Kids legislation, emergency savings had bipartisan support, indicating that it should be integrated into long-term asset-building strategies. Pennsylvania currently has a statewide CSA program, Keystone Scholars, which is administered through their state 529 plan.[18] Recently, Pennsylvania's Treasury Department along with Flourish FI designed what they call the Savings Pocket (i.e., emergency savings vehicle) pilot. This pilot program gave families emergency savings accounts linked to a 529 plan. The pilot sought to test whether families were more likely to engage with 529 plans if they could at the same time both save and access funds for emergencies without penalty. They found that 40% of participants made at least one contribution in the Savings Pocket, and 20% opened a PA 529 if they did not have one.[19] Money in the Savings Pocket account could be transferred into a PA 529 account.

However, while the gap is small, it is nonetheless important. Unlike Republican-selected witnesses, Democratic-selected witnesses asserted that government has a role in encouraging asset-building for developmental needs among low-income families.

> **William Elliott:** In this testimony, I will extend the concept of asset poverty beyond the emergency savings discussion, which is more comparable to income approaches to poverty. I include in the definition of asset poverty the concept of families having enough assets to invest in their children's human-capital development (i.e., a college degree or some form of postsecondary education or training plus financial knowledge and skills). I also include the concept of having assets for the purpose of building additional or new assets. This is a developmental approach to asset poverty. A developmental approach better aligns with an American Dream of giving people something to live for, the understanding of assets as stored money for the future, and the role that Children's Savings Accounts—a policy intervention I will discuss later—can play in leveling the educational and economic playing field on which Americans are asked to compete. (pp. 1–2)

When Democratic-selected witness Elliott says, "I will extend the concept of asset poverty beyond the emergency savings discussion, which is comparable to income approaches…," he is not saying that saving for emergencies is income but is a form of saving. Instead, he highlights that in line with a 'financial needs' approach to poverty, saving for emergencies is insufficient to resolve poverty or reduce the wealth gap by itself. Low-income families need to have policies that help them build wealth for both emergencies and their own development.

As they believe that the government should encourage building assets for development, Democratic-selected witnesses do not see asset-building in these accounts as being exclusively the role of low-income families (i.e., individual contributions). In the next section we will discuss how a national CSA asset-building policy provides a platform allowing multiple streams of assets to flow into a child's account––so encouraging asset-building for development does not necessarily encourage low-income families to save beyond their current means. This may help reduce the concerns of Republican-selected witnesses about low-income families saving too much because of government encouragement. As individual contributions are only one of the ways wealth can be contributed to these accounts, they will make up far less wealth accumulation among low-income families.

Data from Maine's My Alfond Grant CSA program helps to illustrate the role of individual contributions in developing assets for low-income families. In 2017, for example, families with annual incomes of less than $25,000 earned about 58% less on their account than families with annual incomes of $150,000 or more when the initial My Alfond Grant of $500 was excluded. However, when the initial $500 grant was considered, families with incomes under $25,000 earned about 54% less than families with annual incomes of $150,000 or more. This suggests that the initial deposit of $500 reduces the earnings gap between high- and low-income families by about 4%.[20] While 4% is not a large reduction, the amount of

the initial deposit was small, and was not progressively distributed (i.e., both low- and high-income families received the same amount).

A larger deposit (or ongoing deposits, as 401Kids calls for) administered progressively would further reduce the wealth gap. For example, policy simulations show that if a universal CSA program had been established in 1979 with a progressive initial deposit of $7,500 for low-wealth households (less than $5,000 net worth) with incremental declines to $1,250 for the highest-wealth households ($25,000 net worth or more), the Black/White wealth gap would be decreased by 23%.[21]

Republican-selected witnesses differ in their approach to whether government should spend to help low-income families build wealth.

Republican witnesses point out that in periods of high deficit, spending to build wealth for children can make saving harder rather than easier (i.e., crowds out saving).

> **Veronique de Rugy:** First, the proposal to establish CSAs—government-contributed investment accounts for some children—faces several economic and philosophical objections to moving existing assets from one group to another. (p. 2)

> **Adam N. Michel:** Tax cuts can boost savings in two ways. First, allowing individuals to keep more of their earnings gives them additional resources to save and a greater incentive to invest in human capital, from which they can keep more of the returns. Second, individuals will save more and consume less if the tax cut increases the after-tax investment return by cutting capital gains, dividends, estate, or business taxes. The 2017 tax cuts worked through both channels, cutting taxes for individuals and reducing the after-tax cost of capital by cutting the corporate income tax and allowing full investment deductions (full expensing). (pp. 7 & 8)

This is a discussion about what type of government intervention is needed to build wealth among low-income families. As already stated, witnesses from both parties agree that building wealth among low-income families is something the government should do. Clearly reducing taxes on capital gains, dividends, estate, and business can encourage saving, as Republican witnesses testified. However, evidence also suggests that high-income, more-educated individuals are the most likely to have assets to sell, to be shareholders, to have an estate, and to own a business.[22] And thus, while reducing these types of taxes leads to more wealth-building, it does so disproportionately among those who already own assets, not the asset-poor. This suggests that to make wealth-building tax cuts inclusive, they must accompany federal policy providing low-income families with initial assets so that they too can benefit fairly from tax cuts.[23]

As with tax cuts, mere access to a Universal Savings Account or a Children's Savings Account is not enough. Nor is having an account enough. If the goal is to build wealth among low-income households so they can invest in their own development and reduce the wealth

gap, asset-building policies must include government deposits. Simply put, they require government spending. Institutions alone are not enough to build wealth among low-income families at a level that allows them to build wealth for their own development and not merely for subsistence purposes (i.e., saving for financial needs). That is, to be full participants in the American experience, low-income children must be able to build wealth that will aid in their own development. From this perspective, it takes assets to build assets.

Illustration of the Principle that Assets Beget Assets[24]

A simple example is how earning occurs in a high-yield savings account. Let's say a person puts $1,000––a lot of money for a low-income person–– in a high-yield savings account with a monthly Annual Percentage Yield (APY) of 5%. If they deposited nothing else that year, they would earn only about $51. To better understand how initial assets can create inequality, we need to carry this thought experiment out a little further:

- $5,000 initial deposit = $256/year
- $10,000 initial deposit = $512
- $20,000 initial deposit =$1,023
- $50,000 initial deposit =$2,558
- $1,000,000 initial deposit =$51,162

From this simple example, four things become obvious:

- First, financial structures like high-yield savings accounts augment individual effort. When an individual works and earns, for example, $1,000 and puts it into a high-yield savings account, the institutional structure adds an additional $51 to their effort. However, high-yield savings accounts, if not structured correctly, can build inequality instead of reducing it.
- Second, the amount of assets people start with plays a key role in how much they can benefit from savings vehicles.
- Third, the amount of the initial deposit matters. Small initial deposits produce small returns. Therefore, when the wealth gap is large, larger initial deposits are required to substantially reduce the gap.
- Fourth, for savings vehicles to be truly effective at reducing wealth inequality, it's necessary to cap deposits by higher-income groups, but not low-income families.

Let us emphasize that we are not suggesting that institutions are not a necessary or very important part of building wealth. As the illustration and research from the asset-building field show, financial institutions like CSAs augment the amount of wealth people produce.[25] The amount of wealth people start off with determines the amount of wealth they can

produce from financial institutions. Understanding this also makes clear that institutions that intend to help reduce the wealth gap need to cap how much money families can put in these accounts based on income. Otherwise, such funds simply become another tool for the already wealthy to increase the wealth gap even if unintentionally. Lastly, if we understand wealth's role in maximizing the returns institutions can provide, then it should also be clear that the higher the cap is for the amount of wealth that can go into a low-income family's account, the greater an institution's potential for reducing the wealth gap. The opposite is also true: the lower the cap is for low-income families' accounts, the less effective the institution will be at reducing wealth inequality. This has implications for the 401Kids legislation's across-the-board (low-income and high-income families) $2,500 cap for total annual contributions. The more wealth that goes into the low-income family's account, the more the institution can help reduce wealth inequality.

Can Spending be Helpful in Times of High Debt?

Another aspect of the argument that tax cuts are a better strategy for building wealth among low-income children than targeted ongoing deposits is that it does not make sense for the government to spend when debt is high. While the principle that spending is bad in a time of high debt can be a good strategy, it does not mean it is always the best strategy. Even when debt is at its very highest, the government--as well as families and individuals--must continue to spend. The question is not whether to spend, but what type of spending is

necessary for survival, and what type of spending will do the most to reduce debt (i.e., has the greatest return on investment). That is, part of reducing debt is spending.

For example, history shows us that the GI Bill made higher education and housing possible for millions of veterans. Undoubtedly the expense seemed unthinkable to many at a time when the country was recovering from war spending. In 1944 the US spent $14.5 billion (about $139.6 billion in 2020 dollars) on the GI Bill, nearly doubling the number of college graduates between 1940 and 1950.[26] Despite the heavy financial cost of war, this post-war investment not only improved millions of lives, but within 8 years of its passage, the GI Bill returned every dollar invested in education nearly seven-fold in economic output and federal tax revenue.[27]

An important lesson to take from the GI Bill is that spending on human capital development is the kind of government spending that produces a high return on investment and actually helps reduce deficits in the long run. Legislation like 401Kids allows families to accumulate long-term wealth that can be used for their own human capital development.

Furthermore, there are ways to pay for initial and ongoing deposits for low-income families that do not require new spending. For example, the College Board recommended supplementing the Pell Grant program by opening savings accounts for children as early as age 11 or 12 and making annual deposits of 5% to 10% of the amount of the Pell award for which they would be eligible at college age.[28] The U.S. has always found a way to spend on things it believes are important. However, when the two parties come together, they will undoubtedly be able to figure out many ways to help low-income children build assets while staying within current budget expenditures. Even if not, this is the kind of investment––even in a period of high debt––that can pay off handsomely.

SUMMARY

The table below summarizes the areas where 401Kids legislation and Republican-selected testimony from the Senate Finance Committee hearing on "Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children" converge with the eight key principles identified by a group of experts for designing a national CSA program.

TABLE 2

Summary of Areas of Convergence between the Key Principles for a National CSA Policy, 401Kids Legislation, and Republican-selected testimony

Key Principles for a National CSA Policy	401Kids Legislation	Republican-selected Testimony
1. Eligibility for all	Convergence	Convergence
2. Automatic enrollment	Convergence	**Convergence needed**
3. Automatic initial deposit	Convergence	**Convergence needed**
4. Start young	Convergence	Convergence
5. Targeted additional deposits	Convergence	**Convergence needed**
6. Centralized saving plan	Convergence	Convergence
7. Investment growth	Convergence	Convergence
8. Simplified investment options	Convergence	Convergence

In addition to these key principles, this brief provides evidence of convergence on other important principles that makes passing a national CSA policy appear possible. Democrats and Republicans agree that it is important for the federal government to pass legislation encouraging asset-building, and that low-income families are the most in need of this legislation and would benefit the most from its passage. Both parties also converge on the idea that a transformed state 529 could provide an account structure that supports this legislation. In alignment with 401Kids, the Republican-selected witnesses point to transforming state 529s for multiple asset-building purposes (e.g., buying a home, starting a business, retirement, and postsecondary education) as important. Lastly, while more discussion is needed about the appropriate level at which to cap annual contributions, the Republican witnesses and 401Kids legislation converge on the principle that the government can establish a contribution cap.

This brief identifies four areas where additional convergence will be helpful. The table on the following page lists those four areas and the rationale for convergence.

TABLE 3

Areas Where Additional Convergence Will Be Helpful Outside of the Eight Key Design Principles for a National CSA Policy and Rationale for Convergence

Additional Convergence Needed	Republican-Selected Witnesses	Democratic-Selected Witnesses	Rationale for Convergence
Approach to Asset Poverty	Absolute (i.e., whether the level of assets among low-income families increases)	Relative (i.e., how much wealth low-income families have when compared to higher-income families)	A relative approach both increases the wealth of low-income families and reduces the wealth gap, meeting both goals.
Approach to Inclusion	Give Access (opt-in approach to enrollment)	Give Account (opt-out approach to enrollment)	An opt-out approach assures everyone has access and an account. Both goals are met.
Approach to what low-income families can save for	Emergency expenses (i.e., financial needs approach to asset-building)	Emergency expenses + Development (i.e., something to live approach to asset-building)	Integration of emergency saving policies with development policies like 401Kids. An example is the case of PA and its Savings Pocket Pilot, which gave families emergency savings accounts that could be linked to their 529 plan.
Approach to whether government should spend to help low-income children build wealth	Spending to build wealth for children can make saving harder, not easier	• First, financial structures augment individual effort • Second, assets beget more assets • Third, the amount of the initial deposit matters • Fourth, for savings vehicles to be effective at reducing wealth inequality, a cap on what higher-income groups can deposit is necessary but not on low-income families	A part of reducing debt is spending. The question is not whether to spend or not, but what type of spending will provide the greatest return on investment. The example of the GI Bill suggests spending on human development (e.g., education and homeownership) results in a high return on investment. Similarly, an analysis showed that every dollar invested in 401Kids Accounts would generate $2.61 in benefits to society.[29]

While there are areas where additional convergence will be helpful, the convergences identified in this brief between the Republican-selected testimonies and the eight key principles for designing a national CSA program identified in this brief make hope for passing asset-building legislation like 401Kids tangible, not just wishful. In other words, unlike with many other issues in American politics today, convergence on several key principles for designing a national asset-building policy for children gives the American citizenry concrete grounds for believing that Congress can pass impactful asset-building legislation for their children.

CONCLUSION

The 401Kids legislation introduced by Senator Bob Casey of Pennsylvania adheres to all eight of the key principles discussed in this brief, while the Republican-selected witnesses' testimonies also align with many of these principles. This suggests that 401Kids could serve as a good starting point for passing asset-building legislation for children. When it comes to building wealth for children, very little should stand in the way of Democrats and Republicans coming together to pass policy.

ENDNOTES

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