

Redesigning College Savings (529) Plans to Achieve Inclusive Child Development Accounts

A brief developed by CDA experts and researchers

Child Development Accounts (CDAs)—also called Child Savings Accounts (CSAs)—provide assets and encourage saving and asset building for children. (See the accompanying document, *The Case for a Nationwide Child Development Account Policy*.) An efficient, trusted, and sustainable system for delivering CDAs is already being implemented in some states. A nationwide policy would require federal funding and changes in policy and practice to deliver CDAs for all children with a seed deposit as early as birth.

Research shows that CDAs have positive effects on asset building and healthy child and family development, with greater effects for people of color and low-income households. Asset building over time is the key to these results. Positive effects for children and families occur even before the money is spent for education.

Policy and Practice Changes to Achieve Nationwide CDAs for All Children

The following proposed changes to policy and practice are fundamental to achieving a nationwide CDA policy that would be administered by the states and support the development of all of our children.

Create a structure for CDAs by transforming state college savings (529) plans to serve all children

- ✓ Commit federal resources to support CDAs for all children, with an initial budget of \$20 billion to \$30 billion annually. These federal funds would go entirely to asset building for children's future.

(Administrative costs would be supported by the states and 529 asset managers.)

- ✓ Fund CDAs via federal investments made through grants to states. States wishing to participate would request federal funding for account deposits via a formula that would be based on births per capita and provide greater resources for populations with lower income. Participating states, in turn, would be required to distribute federal resources by population formula, with greater public subsidies going to families that are less advantaged.
- ✓ Make deposits automatically, for all children, as early as birth. States could accomplish this by leveraging birth records. Existing local CDA programs could be merged with state systems to reach this goal.
- ✓ Begin each account with an initial deposit, ranging from \$1,000 to \$6,000 (more for children from families with lower income), that anchors asset building over time. Steady growth from an initial deposit is a major factor in CDA asset accumulation over time.

Remove barriers to entry and foster broader inclusion in 529 plans

- ✓ Authorize the use of simple, easy-to-understand disclosure agreements, marketing materials, and enrollment forms.
- ✓ Stipulate that all CDA funds from federal and state sources would be exempt in calculating federal financial-aid eligibility and exempt from asset testing for state and federal benefits.

Selected Resources

Latest evidence on asset-building impacts of CDAs: *Financial Outcomes in CDAs*

Examples of inclusive state CDA policies: *Sample State CDA Legislation*

Experience with statewide CDA policy: *Insights from State Treasurers on CDA Policies*

First statewide CDA: *Maine's Alford College Challenge*

First policy proposal for inclusive asset building starting at birth: *Assets and the Poor*

- ✓ Promote an inclusive CDA culture and communications to boost trust in CDAs, regardless of the beneficiary's family resources, race, ethnicity, nationality, religion, or other factors.

Facilitate and promote deposits by families and others

- ✓ Encourage state and local governments to join in funding of CDAs (as many already do).
- ✓ Use 20% of federal CDA support to states as matching funds to spur community support by individual donors, philanthropy, nonprofit organizations, and corporations. (A philanthropy might fund accounts for a particular population; a corporation might adopt a school.)
- ✓ Encourage local schools, parent-teacher organizations, student groups, youth groups, and others to initiate funding projects for CDAs.
- ✓ Promote and celebrate saving by families; CDA deposits can be gifts at holidays, birthdays, and other important occasions.

Encourage innovation and monitor outcomes

- ✓ Promote CDA innovations in the states, study these, and work with the [College Savings Plans Network](#) and others in communicating successful innovations across states.
- ✓ Track and report on CDA implementation and impacts, using rigorous research methods.

By making this investment in our nation's children, we would take important steps to secure both individual and societal benefits. These policy and practice changes would mean that 529 accounts would be used routinely by all families with children.

Authors

José Cisneros

OFFICE OF THE TREASURER AND TAX COLLECTOR, CITY AND COUNTY OF SAN FRANCISCO

Margaret M. Clancy

CENTER FOR SOCIAL DEVELOPMENT,
WASHINGTON UNIVERSITY IN ST. LOUIS

William Elliott III

CENTER ON ASSETS, EDUCATION, AND INCLUSION,
UNIVERSITY OF MICHIGAN

Amanda Feinstein

OAKLAND PROMISE

Martha Kanter

COLLEGE PROMISE

Muneer Karcher-Ramos

OFFICE OF FINANCIAL EMPOWERMENT,
CITY OF ST. PAUL, MINNESOTA

Clint Kugler

INDIANA YOUTH INITIATIVE

Julie Peachey

PENNSYLVANIA TREASURY DEPARTMENT

Colleen Quint

ALFOND SCHOLARSHIP FOUNDATION, MAINE

Thomas M. Shapiro

THE HELLER SCHOOL, BRANDEIS UNIVERSITY

Michael Sherraden

CENTER FOR SOCIAL DEVELOPMENT,
WASHINGTON UNIVERSITY IN ST. LOUIS