S. HRG. 118–805

CHILD SAVINGS ACCOUNTS AND OTHER TAX-ADVANTAGED ACCOUNTS BENEFITING AMERICAN CHILDREN

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

MAY 21, 2024

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PUBLISHING OFFICE

63–974—PDF WASHINGTON : 2026

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CHILD SAVINGS ACCOUNTS AND OTHER TAX-ADVANTAGED ACCOUNTS BENEFITING AMERICAN CHILDREN

TUESDAY, MAY 21, 2024

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10 a.m., in Room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Bennet, Casey, Whitehouse, Crapo, Grassley, Thune, Daines, and Barrasso.

Also present: Democratic staff: Drew Crouch, Senior Tax and ERISA Counsel; Grace Enda, Tax Policy Analyst; Jonathan Goldman, Senior Tax Counsel, International; and Joshua Sheinkman, Staff Director. Republican staff: Courtney Connell, Chief Tax Counsel; Jamie Cummins, Senior Tax Counsel; and Gregg Richard, Staff Director.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

The Senate Finance Committee has a long and very bipartisan tradition of working together on issues that relate to helping Americans save. This morning's hearing has a focus on child savings accounts and other savings programs for kids, and it is another opportunity for the committee, on both sides of the dais, to bring forward fresh ideas. There are a few key issues underpinning the discussion.

First, my view is wealth inequality is still a major challenge for America. The gap between working people and those at the top narrowed a bit when Congress passed major economic rescue programs during the pandemic. Most of those programs have expired.

Data from the Federal Reserve shows that the wealth gap is getting worse for young people, who are paying more than ever for rent and education. Also, among young people in America, we are seeing a real drop-off in what has been the traditional American optimism about our wonderful country. A recent USA Today-Harris survey found that two-thirds of Gen Z and three quarters of millennials believe that they are not doing as well as their parents were doing at a young age. They are certainly bringing up important reasons why they feel that way.

A study by an expert group called the Equality of Opportunity Project looked at how generations of Americans have fared economically, relative to those who came before them. The research found that in the middle of the last century, 90 percent of Americans out-earned their parents. These days, it is more like 50 percent.

Now, it is often said that getting an education is the surest way to guarantee your future. The fact, however, is many young people are better-educated than ever before, and they are still finding it hard to get ahead. And certainly if you are not born into wealth, being a young person in America leaves a lot of those young Americans feeling like they are stuck underwater.

Here today we have an opportunity to change that. There is big interest in using the tax code to help restore opportunity for kids and young people. So, this morning's hearing kicks off our debate on the best ways to help Americans build their savings and get ahead.

Child savings accounts, in my view, are a proposal with enormous promise. We are lucky to have a number of champions for young people on this committee, none bigger than Senator Casey, whose 401Kids bill is really the gold standard when it comes to child savings account proposals.

Now, the idea behind them is on Day One, a newborn child automatically gets an account with some seed money that grows over time. Later on, with enough contributions, they are able to use it in a way that will help them live out the American Dream, whether it is getting an education, buying a home, or starting a business.

These accounts—and I am going to close with this—they are really not some kind of radical, extreme concept. There are more than a hundred of these programs running in cities and States around the country. We are going to hear about one such program in the State of Maine, and these accounts are not all that different from some programs that exist in Federal statute, including the 529 and Coverdells.

In my view, this is the kind of idea—and we will probably hear this again over the course of the morning—that ought to bring Democrats and Republicans together. Saving is a bipartisan priority. There has been progress, but the numbers show that there is a lot more work to be done making sure that low-income families benefit.

Child savings accounts can accomplish that in a few key ways: first, by opening accounts automatically, which breaks down a barrier that keeps too many Americans from getting started; second, starting them with seed money. All the evidence from existing programs shows that money not only unlocks opportunities for kids, it is a smart investment. It goes right back into the economy down the road.

So, there is a lot for the committee to discuss today. We very much look forward to working with Senator Casey and the entire committee, on both sides of the aisle, on these issues. If you are looking out for kids in America, and you have Senator Casey and some of my colleagues who have a long history in this, as my mother would say, "you are running with the right crowd."

[The prepared statement of Chairman Wyden appears in the appendix.]

The CHAIRMAN. Senator Crapo?

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you, Mr. Chairman. Today's hearing provides an important opportunity to examine the ways working families can save their hard-earned income for their children's future.

Only 2 years ago, this committee and others worked together in a bipartisan, bicameral fashion to expand retirement savings through the SECURE 2.0 Act. As we continue to monitor its implementation and the effects the law had on retirement savings, it is appropriate for us to explore other savings needs beyond just retirement.

Fortunately, Americans already have access to numerous savings options, whether it is saving for a specific purpose through a tax-advantaged account or saving through traditional savings vehicles.

Tax-advantaged accounts allow benefits such as tax-free growth and withdrawals, making it easier and more efficient to save for a specific purpose. For example, 529 accounts can help families save for their children's education experiences. Health Savings Accounts and flexible spending arrangements can be used to help eligible individuals save for medical expenses. Dependent-care FSAs can help workers save for expenses for dependents, such as after-school or in-home care for kids or other family members. And ABLE accounts help those with disabilities save for critical tools like assistive technology and transportation, to name just a few.

Beyond these tax-advantaged accounts, Americans can also save through widely available traditional means, such as savings and brokerage accounts. And for children specifically, custodial accounts, and even some child-specific accounts offered by some institutions, can help teach children the ins and outs of saving. When paired with proper financial education, more children and young adults can learn how to budget and save from an early age, carrying best practices on into adulthood.

Any discussion concerning the options to save goes hand-in-hand with a conversation on the importance of planning and managing savings throughout one's life. Part of that planning includes the need for many to consider seeking professional financial advice in order to create comprehensive savings strategies.

Although families have access to many savings vehicles, navigating this often-complex web of options can be daunting, and every family's needs are different. Whether a family is saving for a down payment on a home or planning ahead for unforeseen emergencies or health expenses, understanding what options are available is key.

Effective planning becomes even more important at a time when Americans are experiencing inflation at levels not seen in decades. Higher costs of food, fuel, and housing eat up families' disposable income and squeeze their ability to save. In fact, as compared to January 2021, average U.S. households are spending over $1,000 extra each month just to maintain their standard of living.

Today's witnesses will discuss all of these topics, and I look forward to hearing how Congress can expand opportunities to save in a fiscally responsible manner. I also expect to hear testimony on child savings initiatives that some States have implemented. While I respect the steps some States are taking, implementing a similar program at the Federal level would come at a significant cost to taxpayers. Expanding options to save is a worthy goal, but we must do so in a way that does not exacerbate already out-of-control government spending or create another unsustainable government program.

To all of our witnesses, thank you for being here. I look forward to hearing your testimony.

Thank you, Mr. Chairman.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. Thank you, Senator Crapo.

Professor William Elliott will be our first witness. He is from the University of Michigan School of Social Work, and is a leading researcher in the field of child and college savings. He also has done a lot of outstanding work in wealth inequality.

Then Ms. Colleen Quint, the president and CEO of the Alfond Scholarship Foundation, will go next. They award a $500 grant at birth to every Maine resident baby for their future education after high school. And I also note that she was at the George J. Mitchell Scholarship Research Institute. And Senator Mitchell, in addition to being part of the Senate leadership, is an alum of this committee, so we are glad to have you here.

Veronique de Rugy is the George Gibbs chair in political economy and senior research fellow at the Mercatus Center, George Mason. Primary research interests include the U.S. economy, the Federal budget, taxation, tax competition, and cronyism. We welcome you.

And then we have Adam Michel, director of tax policy studies at Cato, which focuses on analyzing the economic and budgetary effects of taxation in the United States. Prior to joining Cato, Dr. Michel served as Deputy Staff Director at the U.S. Congress at the Joint Economic Committee. We work closely with them as well.

So, we welcome all of you. This is going to be a good debate.

We will go with you to begin, Dr. Elliott.

STATEMENT OF WILLIAM ELLIOTT, Ph.D., PROFESSOR OF SOCIAL WORK AND DIRECTOR, JOINT DOCTORAL PROGRAM IN SOCIAL WORK AND SOCIAL SCIENCE, UNIVERSITY OF MICHIGAN, ANN ARBOR, MI

Dr. ELLIOTT. Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, it is an honor to testify before you today regarding the promise of children's savings accounts for building wealth for children. I am grateful for the opportunity to address this committee and appreciate your continued attention to the urgency of wealth inequality—and to the potential of improving children's chances through investments in children's asset interventions.

CSAs are asset-building accounts that provide a type of financial structure that can facilitate wealth accumulation from multiple sources, for the purpose of giving all children an equal opportunity

to reach their full potential. A group of CSA experts identified eight key principles for designing CSAs at scale: eligibility for all, automatic enrollment, automatic initial deposit, starting young, targeted additional deposits, centralized savings plan, investment growth, and simplified investment options.

Importantly, the 401Kids bill includes seven of the eight principles. As a practical example, you will hear more about how Maine is utilizing these principles in Colleen Quint's testimony. By the end of 2023, there were 121 CSA programs in 39 States serving 5.8 million children in the U.S.

Currently, there are seven States with a statewide program: California, Illinois, Maine, Nebraska, Nevada, Pennsylvania, and Rhode Island. All seven States built their programs upon their State 529 savings plan. In the absence of passage of national CSA policy, some States and localities have developed their own children's savings initiatives.

Without Federal funding, existing CSA programs provide relatively small initial deposits ranging from $5 to $1,000. But research shows CSAs still build wealth. For example, at age 14 the average treatment child in the SEED for Oklahoma Kids experiment, a group that includes low-income and Black children, has about $4,373 in their account.

So, even when family's savings are minimal, significant assets accumulate in these types of accounts. CSAs provide an infrastructure for potentially leveling the playing field. Once every child has an account, it gives the government a tool like a water valve that can be used to control the flow of assets into households. By allowing multiple streams of assets to flow into accounts, in addition to giving the government a valve, third parties such as extended family members, employers, communities, as well as other entities, are also given access to smaller valves that can be used to increase the flow of assets going to low-income children.

The potential for different types of assets flowing into a CSA makes them tools that can provide a way for not only government, but people and groups outside of the government to help finance college and reduce the racial wealth gap. Existing CSAs have been designed to not only give low-income children access to the asset arm—as opposed to the credit arm—of financial institutions to build wealth, but to pay for college, and for launching them into adulthood.

They also have been shown to have an impact on children's preparedness for college. Research findings indicate that CSAs are associated with children's early social and emotional development, math and reading scores, improved children's educational expectations, and increasing the likelihood they enroll in and complete college.

Research also shows effects on parents. CSAs increase parental educational expectations, reduce punitive parental practices, and reduce maternal depression, for example. Importantly, some findings are consistently strong among low-income children, revealing that CSAs are the rare and valuable intervention that works best with those who need it most.

In conclusion, children's asset investments are more than just financial benefits for higher education. They have demonstrated the

potential to transform the opportunity landscape, and in the process to reset young people's confidence in U.S. institutions and their ability to deliver equitable returns.

In our context of rising student debt, encroaching artificial intelligence disruptions, and considerable post-pandemic disruption, CSAs help create an environment for forming tangible hopes. What makes them tangible is that they give children a stake in the future, their own and ours. They give them the power to purchase a piece of their future today.

Thank you again for the opportunity to testify, and I look forward to answering your questions.

[The prepared statement of Dr. Elliott appears in the appendix.]

The CHAIRMAN. Thank you, Dr. Elliott, and we will have some questions for you in a moment.

Ms. Quint, welcome.

STATEMENT OF COLLEEN J. QUINT, PRESIDENT AND CEO, ALFOND SCHOLARSHIP FOUNDATION, PORTLAND, ME

Ms. QUINT. Thank you very much. Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Finance Committee, my name is Colleen Quint. I am the president and CEO of the Alfond Scholarship Foundation located in the great State of Maine. It is a pleasure to be here today, and I thank you for the opportunity.

For more than 15 years now, the Alfond Scholarship Foundation has been investing $500 at birth for Maine children. We started on an opt-in basis for the first 4 years or so, but since 2013 we have been doing that automatically for every baby born a Maine resident, and to date we have invested that $500 for about 156,000 Maine children.

So, it is a great program to be part of, and the oldest of our grant recipients are like sophomores in high school now, so we are just a couple of years away from beginning to disburse those funds as they begin their education.

So, our CSA program reflects the vision of Maine businessman and philanthropist Harold Alfond. He really created the program to provide opportunity at what I call the micro and macro levels. So, at the micro level, it was really intended to have an impact on individual children as they think about their path to the future. But on the macro level, it was very much intended to build a more educated workforce for a prosperous future for the State of Maine.

Those benefits are really amplified, because it is invested at birth, so it has that 18 years to grow over time through market performance. And to be sure, there is real money invested in these accounts. To date, it is about $78 million from the foundation for those 156,000 children.

Mr. Alfond's vision was always very much that families would also contribute, and they have absolutely done that. In fact, families have contributed about three times what the foundation has put in, about $236 million. But the median contribution, for the most recent quarter, from a Maine family was $255.

So these are hardworking Maine families, many of them with modest means, who are doing what they can to lean in and contribute to build that future pathway for their children. The funds

are all invested in NextGen529, which is Maine's 529 plan, and those contributions from families have earned about $29 million in matching grants from the State.

So, the total value of $344 million that has been invested actually, in the market, at least at the end of April, was worth $477 million. So that is a lot of money for Maine kids, and to support the development of the State's future workforce.

The choice of 529s as a platform for our program was a very easy one for us. It was an existing platform. There was no need to reinvent the wheel, and it is designed to save for higher education, which was the purpose Mr. Alfond had in mind. So we knew we could achieve both quality and scale with a very small staff—also, the ability of the 529s to support a wide variety of post-secondary education. A lot of people think of it in terms of bachelor's or associate's degrees, but it can be used for many training and certificate programs, and even apprenticeships now.

So that gives flexibility to students as they start their career path, and again fills a wider range of jobs and needs of employers across the State. We continue to be encouraged by additional efforts by members of both the House and Senate, supported by members of Maine's delegation, to expand the uses of 529s even further to include even more training and certificate programs.

And Congress's passage last year of SECURE 2.0, as Senator Crapo mentioned, was a big boon. We had a lot of Maine families who wanted to make that early investment for their child, but would say to us, "I do not know if my toddler is going to continue education after high school, and I want to make sure the money I am investing now will benefit them later on." And now that unused funds in a 529 can roll over into a Roth IRA for retirement purposes, that has been something that has given families a lot of peace of mind and made them feel confident about investing that money for their child's future.

And of course, by investing that money at birth, that means we have 18 years not only for the money to grow, but it is also a platform through which we can share information and resources and supports with students and families. Every quarter, they receive a communication from us that shows the current value of their Alfond grant, as well as, again, tips and resources for them as the child grows. It is a simple and streamlined document that is really designed to call out the market growth and to help build financial literacy for families who might not have experience investing.

Like many CSA programs, My Alfond Grant has a small staff. There are 2½ of us, and so we develop close partnerships with a lot of organizations across the State: hospitals, family-serving organizations, State agencies, employers. We have a lot of Maine employers; over 100 of them in fact offer payroll deduction for college savings to their employees.

And so, what happens with the families is, when they find out about the program—not just from us, but it has been reinforced from other trusted sources—it builds trust for and engagement in the program.

So, our belief and the early data seem to demonstrate that this early investment of $500 has an out-sized impact on family expectations and aspirations, family savings behaviors, and family en-

gagement around education. It is exciting to see Senator Casey's proposed 401Kids savings account that would really take that substantial early investment nationwide, so that whether you live in Maine or California or Nebraska or any State, you would have that same kind of an opportunity.

We do not have to imagine what a national platform would look like. We can see it happening now. There is a saying in politics: "As Maine goes, so goes the Nation," and now there is an opportunity to see that in policy as well.

Thank you very much.

[The prepared statement of Ms. Quint appears in the appendix.]

The CHAIRMAN. Well said.

Okay. Dr. de Rugy, welcome. Glad you are here. Please proceed.

STATEMENT OF VERONIQUE de RUGY, Ph.D., GEORGE GIBBS CHAIR IN POLITICAL ECONOMY AND SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY, FAIRFAX, VA

Dr. DE RUGY. Thank you. Chairman Wyden, Ranking Member Crapo, members of the committee, thank you for having me.

Finding ways to help children from low-income families become economically self-sufficient is a really worthy goal. Creating inroads to make sure everyone saves is one way to ensure that low-income children are well-positioned for the future. However, creating one more government program paid for with borrowing will very likely backfire.

I would like to make three points today. First, our fiscal situation means that we should not create more government programs paid for with borrowing without significant offsets elsewhere. Second, trying to raise saving through government spending and debt is akin to fighting against windmills. Third, if Congress wants to encourage savings for low-income families, universal savings accounts are a much better solution.

So first, our Federal debt is more than $34 trillion, up from $28.5 trillion in 2021. Our debt-to-GDP ratio is close to 100 percent of GDP and heading to 166 percent in 30 years. While the debt-to-GDP ratio is lower than it was during the pandemic, most of the reduction is a result of inflation. And contrary to what some believe, it is too early to declare victory in the fight against inflation, which unfortunately hits lower-income households the most, as it eats away their savings and reduces the purchasing power of their income.

Not only has the credit agency Fitch Ratings downgraded the Treasury debt, but soon we might be in even more trouble and uncharted territory as Federal borrowing is projected to require an additional $120 trillion over the next 30 years. Rapidly increasing interest rates have also dramatically raised direct cost of service of the national debt.

According to the CBO, this year alone interest payments will be at least $870 billion, which will have to be borrowed since we do not have the money. Since so much of our debt has a maturity of less than a year, it means that in 2024 Treasury will have to roll over or borrow over $10 trillion at a higher rate than we have been used to.

I am bringing all this up as evidence that it is irresponsible to create a new program that requires adding to the Federal debt. It is equally irresponsible to believe that, contrary to the economic literature on the topic, this deficit spending will pay for itself. It will not. If anything, it could make it harder for the Federal Reserve to finish the fight against inflation.

Second, beyond the problem of creating a government program paid yet again with debt, persistently large public dissavings pose a fundamental economic challenge to policy aimed at boosting wealth and private savings. Economic research shows that increasing public dissaving through deficit spending offsets and crowds out private saving.

More debt also means an increased likelihood that future taxes will need to be raised to pay off the debt and its interest. The anticipation of higher future taxes can discourage people from saving, as they expect to have less disposable income in the future. In other words, when this body adds to the debt, it essentially borrows from future generations to fund current spending. It is a transfer of wealth from future generations to the current generation. It is not an increase in spending.

Instead of creating new spending, the government should prioritize placing the Federal budget in a sustainable long-term path to increase national savings. This could be achieved by implementing fiscal adjustment focused mostly on cutting spending rather than increasing taxes, as economic research has shown that spending cuts are more effective at reducing the debt-to-GDP ratio and promoting long-term economic growth. Historically, nothing has been as effective as economic growth in enabling societies to improve the life chances of their members, including those at the very bottom.

Third, to encourage saving, policymakers may want to consider enacting a more comprehensive savings program, such as a universal savings account. Universal savings accounts would allow workers to save in one simple account from which they could withdraw without penalty for any expected or unexpected events in their lifetime, and at any time.

Other restrictions from withdrawals imposed on all other savings accounts operate as a disincentive to save for those with limited resources. Universal savings accounts have successfully increased savings among lower-income earners in the United Kingdom, South Africa, and Canada. They would also, like all other accounts, have the benefit of sheltering some income from the punishing double taxation that our tax code imposes, which I assume Dr. Michel will be talking about.

Thank you very much.

[The prepared statement of Dr. de Rugy appears in the appendix.]

The CHAIRMAN. Dr. de Rugy, my apologies.

Dr. Michel?

STATEMENT OF ADAM N. MICHEL, Ph.D., DIRECTOR OF TAX POLICY STUDIES, CATO INSTITUTE, WASHINGTON, DC

Dr. MICHEL. Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for inviting me to testify today.

Saving is an important foundation for economic growth, personal well-being, and our kids' futures. When policymakers decide that an activity like saving is important, the impulse is always to subsidize more of it. Today, I encourage you to resist that impulse. Before designing new subsidy schemes with potentially negative effects and large fiscal costs, we should fix the places where government policy is currently making saving harder, places where poorly designed taxes, expensive spending programs, and burdensome regulations create perverse incentives against putting money away for the future.

For example, the tax code is a major impediment to savers. The income tax system double and triple taxes investment income, which discourages Americans from saving for their kids, for their retirement, for their dream of opening a business, or any of life's other priorities.

Our income is first taxed when we earn it by the income tax and the payroll tax. If we save some of our wages to spend in the future, the government taxes us again. They tax us on any of the gains we make while waiting to spend our savings. Thankfully, the tax code has many features that reduce some of this built-in disincentive to save.

Qualified investment accounts like 401(k)s for retirement and 529 plans for education protect some of our savings, but they come with complicated strings attached, complicated strings that discourage lower- and middle-income Americans from fully participating.

Lower capital gains taxes, lower corporate income tax, and estate tax exemptions all protect savers from the tax code's antisavings bias. That said, there is a lot more work that needs to be done to simplify and equalize the tax code's treatment of savings.

I will focus my remarks on the tax code, but it is also worth noting that the trillions of dollars that the Federal Government spends each year on social welfare through Social Security, Medicare, and a long list of other programs also undermines incentives to save. This spending keeps people from putting their own money away, particularly for lower-income Americans who are most targeted by government programs.

Their personal savings has been displaced by unfunded promises of future government benefits. Instead of adding new subsidies for personal savings, Congress should simply step aside. You could start by ensuring that the 2017 tax cuts are made permanent, so that American families and businesses can have the certainty they need to plan and invest for the future. You could also continue to cut income tax rates, cut capital gains taxes, and cut business taxes to reduce existing disincentives to save in the tax code.

Universal savings accounts, or USAs, would allow families to save for their kids or any of life's other priorities. The flexibility of these accounts makes them best suited for lower- and middle-income Americans, as we have seen with the wild success of similar accounts in the UK and Canada. For example, almost 60 percent of Canadians own tax-free savings accounts, and more than half of those account holders earn the equivalent of about $37,000 a year. These accounts have helped increase savings and supported the rest of the Canadian savings ecosystem.

Tax cuts that are paired with cuts to spending programs that are currently crowding out personal wealth-building and threatening higher taxes in the future would be even more effective at allowing Americans to save for their own priorities.

I will end with a quick reminder of the policy experiment we just finished running. During the pandemic, Americans accumulated more than $2 trillion in excess savings, following massive government spending. Just a few short years later, that excess savings has been spent, and saving rates are again near historic lows. In this case, checks from the government fueled more inflation than they did wealth-building. Instead of subsidies, getting government policy out of the way is a more effective means at supporting American savers.

Thank you, and I look forward to your questions.

[The prepared statement of Dr. Michel appears in the appendix.]

The CHAIRMAN. Thank you, Dr. Michel.

Let me start with you, Professor Elliott. I was struck, as we kind of prepared for this, seeing some of what is coming from Oklahoma, certainly a State that is pretty conservative in its politics, and they have undertaken, I gather, a kind of experimental, innovative approach with respect to kids and parents.

I gather that you have been doing some analysis of it and that it seems to be a very significant benefit to families, based on what they have seen. I would be interested in your elaborating a little bit. I gather that the program in Oklahoma is called the SEED program. I would be interested in what you are picking up and if there are some benefits that the research indicates are particularly worth studying as we go forward with Senator Casey's legislation and this debate.

Dr. ELLIOTT. Thank you, Senator. Yes, I have to first of all give credit to Michael Sherraden, who is kind of the godfather and guru of asset-building at Washington University in St. Louis. His center, called the Center for Social Development, actually is doing the analysis on SEED OK. I certainly am familiar with that research, and I am a part of that center as well.

And so, what they found, interestingly enough, is that children's savings account not only impact wealth-building, but they also impact early educational outcomes.

As we talk about early investment and why it might be important and why savings is important, what we are finding is that even with relatively small amounts—they have an initial deposit of $1,000 in these accounts—these kids experience greater social and emotional development, something we know is very predictive later in life of both educational and economic outcomes of children.

It produces things like improving parents' maternal depression. It reduces depression among parents, mothers in particular. It effects things like parental practices: they are less likely to spank their kids, and use different kinds of parental practices when they have access to these accounts.

It changes the expectations of kids and their parents. So, parents who have these savings accounts have higher expectations that their kids will go to college. Research outside of SEED OK also shows that when they have these accounts, parents are much more likely to talk to their kids about going to college, and that this is

a really important mechanism for improving their children's expectations for college.

So, it is also kind of like a two-generational approach, where these savings accounts, relatively small investments, are impacting the outcomes of children early on, their parents, and the parents' communications with their kids.

The CHAIRMAN. Okay. We are going to want to ask you some more questions down the road as this discussion in Oklahoma with the SEED program continues.

Now for you, Ms. Quint, my own view is that our country needs as many cost-effective, smart approaches as possible to give kids a hand up. And I believe that a child tax credit and a child savings account are a good fit together. I would be interested in hearing your thoughts on it, and I gather you have either written or discussed this along the way at some point, stressing that these two work well together and meet different needs, and would be a very good combination for the Finance Committee to look at in a bipartisan way.

Ms. QUINT. Yes, thank you, Senator Wyden, for the question. So, I guess I would say a couple of things about that. One is that I do think that if you are looking at kind of meeting needs now, the Child Tax Credit and other interventions like that help families meet current needs: getting food on the table and doing what they need to to get through today. But something like a CSA account gives them that hope for the future. Dr. Elliott uses a phrase often called "tangible hope," which I think is a really wonderful way of capturing what that is all about.

And so, to be able to do both of those things at the same time—we know from the CSA piece that really it changes behaviors and is motivating to families in different ways, and I think that is the piece that really gives you the prospect of changing a pathway or a trajectory for a child over time.

I think that that is really kind of the magic that gives, again, a pretty outsized impact for the relatively modest investment that is made up front. But it changes the orientation of the family to think not just about today, but about tomorrow as well.

The CHAIRMAN. Very good.

Senator Crapo?

Senator CRAPO. Thank you, Mr. Chairman.

And I will start out with you, Dr. de Rugy. You mentioned the value of universal savings accounts as an option in terms of evaluating how we should approach this issue. Could you explain a little bit more why you believe the universal savings account approach is the better approach to follow?

Dr. DE RUGY. Sure. I mean, I would like to say first that I think the first, best solution would be to actually reform the tax code to remove the disincentives to save that Dr. Michel has talked about, because ultimately these accounts, the reason they exist is to actually try to alleviate that double taxation of income.

So that is the first thing. And then the second—or maybe actually the first is, putting our country on a fiscally sustainable path is really a priority otherwise.

Yes, universal savings accounts have a benefit that they do not discourage savings for those who are concerned that the conditions

for withdrawal, all the regulation and the penalty for early withdrawals, would stop them from addressing an emergency in their family if they have saved away money in these accounts.

So the beauty of universal savings accounts is that a family can save up to a certain level tax-free. I think it functions like a Roth in countries where it has been operated. So, you put in income that has been taxed, but you can actually withdraw the money without penalty for whatever reason when you need it.

The reason why it encourages savings beyond the tax advantage is that again, it does not lock your money. If you have any anxiety about what the future will bring, then you can withdraw the money.

Senator CRAPO. Thank you very much.

And, Dr. Michel, I would like to follow up with you on the same line. I actually agree with your answer, Dr. de Rugy, about the fact that we need to fix our fiscal policy and stop eating away the value of savings and disincentivizing savings.

But, Dr. Michel, could you follow up on that, and as you do, I would like to ask you specifically to comment: when you talk about the double taxation or even triple taxation of savings—I think you mentioned the corporate tax. I believe that the corporate tax does have a significant impact on retirement savings, and it is one of the parts of our economy that pays the corporate tax. Could you comment on that?

Dr. MICHEL. Yes; thank you for the question. On universal savings accounts, I second everything that Dr. de Rugy said and add that USAs, I see them as an on-ramp to the rest of the savings ecosystem that we currently have, for people who are frankly scared of locking their money up until retirement, or having to earmark it for education.

It gives them the flexibility to choose what they want to save for, and allows more people access to the systems that frankly are primarily used by people who can make those long-term planning decisions, who do not need to withdraw money next year or 2 years down the road or however long it may be. And we have seen—this has been borne out in the UK and Canada. The accounts are widely used across the income distribution, and are widely popular and very successful.

On the corporate income tax, for investments that are made in equities where the returns come from C corporations, the corporate income tax is a big cost to those businesses and lowers the after-tax return on those investments. And so, to the extent that you lower the corporate income tax, you are going to encourage additional investment in savings by those entities.

And so, one of the things we saw after the 2017 Tax Cuts and Jobs Act—we reduced the corporate income tax from the highest rate in the developed world to something about average. Business investment increased, and that increases productivity, increases wages, and has sort of broader economic benefits as well.

Senator CRAPO. And many retirees don't actually manage a large part of their own investment portfolio. Those are pension plans and other types of investments; is that correct?

Dr. MICHEL. Correct. Most people are invested in indexed funds or target date funds, which are primarily invested in large corporations that pay the corporate income tax.

Senator CRAPO. All right. Thank you very much.

The CHAIRMAN. Thank you.

Senator Thune?

Senator THUNE. Thank you, Mr. Chairman, to you and Ranking Member Crapo for having this hearing today.

Dr. Michel, let me start off with you. In your testimony, you highlight how different features of the tax code both incentivize and disincentivize families to save and plan for the future. You also mentioned that Congress should be focused on making permanent the Tax Cuts and Jobs Act. To that end, beyond simply reducing rates across all tax brackets, what do you believe TCJA got right in helping Americans improve their capacity to put money away? And then as a followup, what are some things within the tax code that Congress should be thinking about to better assist Americans who want to plan and save for the future?

Dr. MICHEL. Thank you for the question. I will start where you ended. I think, as we have been discussing, universal savings accounts would be a great addition to the next round of tax reform, as we are making large portions of the TCJA permanent and then expanding on those gains.

In addition to the corporate income tax reduction that we have been discussing, full business expensing—the ability to write off investments in the year that you make them—was a significant boon for growth and investment, and just as important, if not more important than the rate reductions.

So, when we are thinking about tax reform, we want to be improving the tax base as well as lowering the rates. So, expensing was an important feature and, unfortunately, one of the things that's expiring currently.

Senator THUNE. Thank you.

Dr. de Rugy, in your testimony you say that research concludes our national debt and high deficit are adversely affecting families and their ability to save. I am interested in if you could explain this correlation for the committee, and how a lower debt-to-GDP ratio would encourage more families to plan and to save for the future.

Dr. DE RUGY. Sure. So when the government, if the government puts money in an account and has to borrow for it, it needs to take that money. It can crowd out private savings in the process.

But one of the big distortions that it creates is that today's debt means future taxes. So effectively, what you are doing is, since the U.S., I assume, intends to repay its debt—and we have primary deficits as far as the eye can see—it is going to have to raise taxes or cut spending significantly, or do a mix of both.

And as a result, basically what you are doing is, you are giving with one hand and in the future, you are raising the taxes of future generations. The anticipation of these increasing taxes could actually create disincentive to save for people, because they are expecting they are going to have less disposable income going forward.

There is another way actually that the debt can create a disincentive to save. There is enormous literature that shows that

debt, government debt actually slows growth, and slowing growth means less money for people, which then turns into less saving.

I mean it has—other than the economic issues, it actually creates a lot of dysfunction. It creates troubles, less tolerance. I mean, we want growth. So everything that Congress can do to actually promote growth is important for savings, but it is important beyond savings.

And finally, I will say that if Congress were tempted to actually grow the economy by spending more money, again the review of the literature would say that it is not a good idea, because the multiplier—which is basically the impact on economic growth for the money that we spend—is very often below one.

So it means that you will spend $1, which you take in the private sector, and you will get much less than $1 in return. That creates no economic growth, and it certainly creates then, further down the road, disincentive to save, and it really does not promote wealth.

Senator THUNE. So, I am a big believer in progrowth policies to get greater growth in the economy, and the rule of thumb that I have always seen or heard is that for every 1 percentage point increase in GDP, it generates about $3 trillion in additional tax revenue over a 10-year period. So, it helps with the deficit issue.

If you have progrowth policy, you are getting growth in the economy. But I am just curious. The data supports the idea that borrowing, that debt, reduces the rate of growth.

Dr. DE RUGY. Yes. I mean, there are two different ways of looking at it. It is like the mechanism by which debt, basically spending and paying for the spending with debt, creates less growth. It is through the crowding out and the expectation of future taxes and all of this.

But there is also the more macro literature that shows—actually there are over 40 studies that have been done since the Great Recession that actually show that high government debt slows down the economy. I mean, it is a pretty common now and noncontroversial finding in the literature.

Senator THUNE. All right; great. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague. We are waiting for other members to come, and I am going to just ask a couple of additional questions and give Senator Crapo a chance to do the same as we wait for our colleagues.

So, one of the issues that I always think is central, as we talk about new ideas and new approaches, is you have to reinvent the wheel. In other words, you have to go out there and set up all kinds of new stuff that is cumbersome and the like.

I think, Ms. Quint, you all and others have looked at this and have said, "Hey, wait a minute here." We are using—in the 100 programs, and I think yours as well—we are using existing architecture. We are using essentially the 529 model.

And I heard our colleagues, Dr. de Rugy and Dr. Michel, certainly making important points about not going out and creating new stuff or spending money where you do not have to, and I certainly share that view.

I was struck, and I thought it would be worth—I see Senator Daines is here, a valuable member of the committee, and I just

want to get an answer to this one, and then we will go right to our colleague. But we do not have to reinvent the wheel. We have existing architecture, is that right?

Ms. QUINT. Yes, that is exactly right, Senator Wyden. And I think Mr. Alfond was a savvy and flinty New England businessman, and he did not want to spend more on administration or to create something anew that already existed. So, the 529s really are designed to do exactly what we wanted to do.

So, having that already established platform was really important to our program, and the vast majority of CSA programs across the country do use that 529 platform. It also allows for contributions from multiple sources, which has been really important.

Obviously, the invested funds have an opportunity for growth over time. Investment options are often streamlined into like an age-based portfolio or a year of enrollment, which kind of simplifies things and provides that platform for communications also, as a way of really kind of working with families over the years as their child grows.

And you know, the broad permissible uses—I spoke about this a moment ago. But in our program, we always say "education after high school." We try not to use the word "college." We certainly do not say "post-secondary education," because nobody in Maine says "post-secondary education." They just say "college." But by that, they have a too-narrow definition, and it can be used again for many training and certificate programs, and apprenticeship programs. Congress is now considering even expanded uses. SECURE 2.0, as we talked about before, allows them to roll over to Roth IRAs. And then of course 401Kids, the legislation sponsored by Senator Casey, would expand to home ownership and entrepreneurship.

So, when we are talking about growth, these are kinds of assets that can help families grow their own wealth and opportunity over time in a way that we believe will eventually have generational impacts.

The CHAIRMAN. Okay.

Senator Daines?

Senator DAINES. Mr. Chairman, thank you.

Well, thanks to Bidenomics, Montanans are spending on average $1,100 more per month than they were before President Biden took office. Inflation is high, the interest rates are high, home prices are high, making home buying nearly impossible for the average American.

It is getting harder and harder to live in our beautiful State, not to mention to build savings for themselves and their children's future. In fact, just last month I attended an inflation roundtable with local Montanans in Billings who shared this same concern.

In fact, Montana has the third highest home-price-to-income ratio in the entire United States, reflecting the lasting impact inflation has had. Wages are not keeping up with housing prices, in part due to the reckless spending we have seen from this administration.

Interesting to note that Kamala Harris has broken more ties as Vice President than any Vice President in our Nation's history. She is now the gold medalist. She has surpassed both John Calhoun

and John Adams. We have had 47 Vice Presidents; she is number one in tie-breaking votes after just a little over 3 years, and both Calhoun and Adams served 8-year terms. Some of these tie votes have been massively consequential in terms of spending. Nearly $4 trillion where every Republican voted "no" on that massive COVID spending package. Every Republican voted "no" on the so-called Inflation Reduction Act, totaling nearly $4 trillion when looking over a 10-year horizon. And Kamala Harris broke the tie to allow both of those massive spending bills to pass.

Owning a home is one of the top ways that people build long-term wealth for themselves and their families. I grew up in the home construction business. My dad was, in fact still is, alive and director at the National Association of Home Builders. Dad turns 85 next month and he is a proud homebuilder. It is how we kept food on the table.

In his State of the Union address, President Biden proposed trillions of dollars in misguided housing subsidies. This tax-and-spend agenda will do nothing to fix this problem, but only make it more expensive for Montana families. These tax credits just throw money at one problem to distract from costs rising elsewhere, creating an endless Democrat-driven spending cycle.

Dr. Michel, can you explain why the housing policies outlined in President Biden's State of the Union address are harmful?

Dr. MICHEL. Thank you for the question, Senator. The fundamental problem of the new tax credits, as proposed by President Biden, is, they are going after the wrong problem. The housing market is—housing costs are elevated because there is a supply constraint on builders because of costs of inputs, because of local and State regulations on where you can build and what type of building you can do.

And so, instead of throwing money at the problem on the demand side, we will only inflate prices if you cannot expand supply. And so reform should be focused on the supply side. How do we build more houses? How do we make it easier for people to build? That is where these efforts should be focused. Throwing money at the problem simply makes the concerns of inflation and the rest of what you have highlighted just that much worse.

Senator DAINES. I saw, with Jamie Dimon here a few weeks ago, *The Wall Street Journal* talked about how he says interest rates may actually stay closer to 8 percent over the longer haul, for various reasons. But one of the reasons that he suggested was where monetary policy driven by the Fed starts to take more of a secondary position to fiscal out-of-control policy here, driven by massive deficits and debt here in Washington.

And of course, those who buy our debt every day at the debt auctions, the rates will have to be maybe inching upwards to keep our debt attractive to buyers. This is again a real concern. It ties right back to the housing problem, around why rates may indeed stay higher for longer periods of time, which pushes a lot of middle-income families out of the market.

Let me just say this in closing. I do not think Americans can afford these dangerous policies. We should incentivize putting their savings toward their home purchases, rather than continuing down

an irresponsible path of out-of-control spending that this administration has started.

I appreciate the chairman's interest in supporting children. I hope we can work together in passing my Child Tax Credit for Pregnant Moms Act to do just that. Thanks for the conversation.

I yield back.

The CHAIRMAN. I thank my colleague.

We are going to go to Senator Bennet in a second. But just let us reflect for a quick second on the fact that, if the Senate wants to take a progrowth step quickly with research and development and bonus depreciation policies that there is enormous support for here and in the business community—it got 357 votes—all we have to do is pull the bill down from the House of Representatives. It got 357 votes, and we need to figure out how to work together and pass something that is progrowth and paid for, every single nickel paid for. So, I am interested in working with my colleague, and of course the ranking member.

Senator Bennet?

Senator BENNET. Thank you, Mr. Chairman. Thank you to you and Senator Crapo, the ranking member, for holding this hearing. Thank you to the witnesses for being here. We really appreciate it.

Professor Elliott, your testimony highlights how inequality continues for low-income children, low-wealth children who are actually able to obtain a college degree in this country. Could you discuss the current research showing disparities and economic benefits of a college degree for children from low-income backgrounds versus higher-income families?

Dr. ELLIOTT. Yes, Senator. So bachelor's degrees—right now there is a growing body of research. It is not something we started looking at a whole lot until more recently.

But low-income bachelor's degree holders earn about one-third less than high-income earners. And so their degree, even though they obtain the college degree, kind of the American dream, they end up not earning as much.

Also, Black families with a head of household who's a college graduate have about 33 percent less wealth than White households with no high school degree, who dropped out of high school, right? And so, there is this gross wealth inequality when it comes to——

Senator BENNET. Say that again? Say that again, Dr. Elliott.

Dr. ELLIOTT. Yes. Black families with a head of household who graduated from college have about 33 percent less wealth than White families with a head of household who dropped out of high school, right? So, it just really emphasizes——

Senator BENNET. You are saying that African American college graduates versus White high school dropouts, in terms of wealth——

Dr. ELLIOTT. Yes; and we see the same kind of stats with regard to even college enrollment between high-achieving Black families and low-achieving White families. They are much more likely to go to college than Black families. And so there is this gross inequality happening within our system.

Senator BENNET. But that gross inequality, though, continues even beyond the college degree is what you are saying, and there are some people who have said, well, the solution to all this mas-

sive income inequality in our country is that everybody needs to get a college degree.

The reality in the United States is that—to put it slightly differently than you put it, it is my understanding that on average, if you are an African-American graduate of college in the United States, you are earning less than a White high school graduate in the United States.

Dr. ELLIOTT. And I want to expand that, sir, beyond race. I mean, it is also the case that for White low-income families who graduate from college and are low-income, earn less than White higher-income college graduates. And so, this is both a race and a nonrace issue.

Senator BENNET. Dr. Elliott, could you talk a little bit about what you think some of the solutions are here to change those trajectories? How do Pell Grants, for example, maybe relate to the conversation that we are having?

Are there other ways to keep people from situations where in order to try to get ahead, they are digging themselves deeper and deeper and deeper into debt that is making it more difficult for them to be able to get footing underneath them—you know, a generational footing underneath themselves and their families?

Dr. ELLIOTT. I think that is one of the beautiful things about the 401Kids bill by Senator Casey, right? It really would provide kids with enough money to pay for college, and so that means they do not have to go into debt, right?

So we know that students who go to college and end up in debt, compared to students who go to college and do not have debt, have much worse economic outcomes afterwards. Less wealth, less likely to buy a home, all these kinds of things are happening, and so it is really important.

I would like to also quickly mention that the College Board, which is a large institute that does a lot of studies in college financing, recommended that we take a portion of the Pell Grant and put it into an account early on.

So, as we think about how to finance it, it does not have to be new moneys, right? We could think about how we are using some existing moneys to finance some of these things. That is one way to tie in the Pell Grant to children's savings accounts in the 401Kids bill.

Senator BENNET. I think that is a really good point. I mean, we have seen—I used to be a school Superintendent, a school Superintendent in the Denver Public Schools. We have seen, unfortunately, this Department of Education, I think, do a horrible job with the FAFSA at a moment when kids are actually in the middle of applying to school.

The idea that we could change the incentives to bring them in earlier in their lives and in their schooling, makes a lot of sense to me. And I will just close, Mr. Chairman—I know I am out of time—by saying "thank you" again to the panelists.

I do think Senator Casey is on to something here. This bill is so important. We are living in a country now where students are burdened by levels of debt that no other generation has been burdened by, and it is not their fault. All they are trying to do is get themselves an education that this economy seems to demand, and they

are then constrained by 20 years' or 40 years' worth of debt repayment.

We have to fix this, and Bob Casey has given us a suggestion for how to make things better. I think that is extremely helpful.

The CHAIRMAN. Your years of advocacy for kids—that is a real plus to have you vocally and visibly in support of this, and we are going to spend a lot of time on these issues here. They are enormously important.

Senator Whitehouse?

Senator WHITEHOUSE. Thanks very much. I appreciate the witnesses being here.

Let me start by asking Ms. Quint—I am sorry, but I was in the Judiciary Committee, so if you have already gone over this, then I may be asking you to duplicate. But could you just give us the sort of summary overview of how it is that Federal 529 plans, as currently structured, do less for families who need help the most? Why is it that they deliver greater benefits to the better-off, and how does a Dynasty, so-called, 529 plan work?

Ms. QUINT. Sure. Thank you very much for the question, Senator Whitehouse. Let me say that I am familiar with the CollegeBound Rhode Island program.

Senator WHITEHOUSE. That is going to be my next question.

Ms. QUINT. Oh, excellent, as well as the Providence Promise. So much good work happening in your State.

Senator WHITEHOUSE. Yes.

Ms. QUINT. So, to answer the question about Federal 529 plans, you know, what I can do is speak to Maine's experience, and our experience has been that some families, especially those without prior experience with 529s or investments, can find it challenging to open an account, right?

So it is uncharted territory for them. They are not sure they have the money to save. They do not know that 529s exist or kind of why they are there, and it does not sound like something that families like them do. So those are all barriers to entry, right?

Credit to the industry, there have been a lot of strides for 529s in recent years that have simplified account opening, provided multiple ways to contribute, streamlined investment choices, and also significantly lowered the contribution rate. When I first started in this program 10 or 12 years ago, it was—I think the minimum contribution was something like $350. Now it is $5 into our account, right? So that is really helpful. But the tax advantages of 529s are not particularly motivating for families of lower and moderate income who might have little or no tax burden.

And the other thing is, that because they have smaller dollars to invest, families of smaller means will tend to be more conservative with their choices. They want to make sure the little bit of money that they have to invest, that they do not risk losing that. So they put it in something, even within a 529, as close to a savings investment choice as they can, whereas wealthier families who have more income to use, are investing more and they are choosing, not necessarily riskier portfolios, but maybe even just an age-based portfolio that would be better balanced.

And so that is the kind of thing that contributes to or can contribute to that inequality over time. Certainly, something like a Dy-

nasty 529 plan that will—and again, not my area of expertise, but as I understand it, it allows for a change in the beneficiaries. That means that more moneys can be invested over an even longer period of time, which could be a great thing for some families, but can absolutely contribute to the inequality.

Which is why a universal platform—like we have in Maine, like they have in the State of Pennsylvania with Keystone Scholars, like is being proposed in 401Kids—that would put meaningful dollars in for everybody automatically and universally at birth, in ways that get everybody onto that same platform——

Senator WHITEHOUSE. Well, thank you very much, and you were good enough to mention Rhode Island's CollegeBound program.

So let me ask Dr. Elliott a question or two about programs like that. By the way, my recollection is that the CollegeBound program was the creation of a dear friend and former State Treasurer, Paul Tavares. And it has grown considerably since then, but they really had the early wisdom about the importance of getting behind this. And it has, as I said, grown better since then.

So, Dr. Elliott, how do child savings accounts like those created by Rhode Island and those proposed by Senator Casey, address the shortcomings of Federal 529s? How do they ensure that the benefits go to those who need it the most, and why is automatic enrollment so important in that context?

Dr. ELLIOTT. Thank you, Senator. Yes, so there are a number of advantages to CSAs that I think have kind of been lost in some of this discussion here. One is the fact that low-income people, while they can save—we have shown that with experimental evidence—they can save smaller amounts of money.

And so what CSAs do, by adding some money into the account for the kids, with an initial deposit or whatever else, as we have seen in Maine's case—we have done some research on that, and that initial deposit really matters for them building wealth over time, particularly for low-income families, because they cannot contribute as much as wealthier families.

I think about it even from the sense of, if you have a high-interest account, if you have $10,000 to put in that, you will earn a lot more than if you have a little amount of money in it. So these CSAs—the money being put in there really actually matters.

They also streamline access too. So automatic enrollment, it allows every kid—and this is behavioral economics; it is a well-established fact. It is much easier to put people into a program and they will not opt out, and you have seen less than 1 percent of people opt out of these programs in most cases.

And so, once they are put into their programs, they stay in, and they get to have those experiences with the account: the higher expectation, the social/emotional thing, all these early outcomes that we are seeing. By putting them into the account, we assure that all families get access to these kinds of benefits and opportunities.

And then, by adding some money to those accounts, we allow them to build wealth to lower the wealth gap.

Senator WHITEHOUSE. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Grassley, you are next.

Senator GRASSLEY. Thank you. I was over in Judiciary, so I missed your testimony. Thank you for appearing before us.

I am going to start out with Dr. Michel and Dr. de Rugy. In 1981, former Federal Reserve Chairman Volcker testified before the Senate Banking Committee at a time of growing deficits and elevated inflation. As part of his testimony, he called on Congress to cut spending, while also pursuing progrowth policies with respect to taxes. He urged Congress to focus on reforms that would incentivize Americans, in his words, "to invest, to save, and to work."

Are the prescriptions laid out by Chairman Volcker in 1981 good guiding principles for Congress today?

Dr. DE RUGY. Thank you, Senator Grassley. Well, it looks like Chairman Volcker understood that there is actually a connection between the monetary side and the fiscal side while fighting inflation, and that the Federal Reserve cannot do it alone.

It seems that his prescriptions are really important, because one of the things that happens when the Federal Reserve raises interest rates is that it actually makes interest payments more expensive and increases the need for borrowing, hence fueling inflation.

But also, increasing growth by freeing the supply side is also a way to actually help fight inflation. So it seems that, yes, they are really good prescriptions. And unfortunately, I am worried that actually the fact that there is no talk about austerity right now, however you want to define it, means it is fueling inflation. It is making the job of the Fed even harder. I am worried that the increase of tariffs is actually constraining the supply side. There are just a lot of things happening that make it much harder for the Federal Reserve to really lower inflation to target.

Senator GRASSLEY. Dr. Michel?

Dr. MICHEL. I will add that, with debt at 100 percent of GDP or higher, trending toward $2 trillion in deficits, a $400-billion-a-year tax increase hanging over Americans' heads at the end of 2025 when the 2017 tax cuts expire, all of this depresses economic activity.

Businesses and individuals have to plan for their future, and if they know that they are going to have to be sending more money to Washington, they are going to do less of all of the productive activities that grow the economy, expand the supply side, and make it easier to fight inflation.

And so, those fiscal threats that are hanging out in the future are certainly making things harder, and are something that was certainly understood at the time by Chairman Volcker.

Senator GRASSLEY. Also, Dr. Michel, your testimony discusses how our current tax code disincentivizes savings and recommends policies that counteract that bias.

Last Congress, I introduced the Middle-Class Savings and Investment Act that would effectively exempt the middle class from tax on most of their savings and investment income. It would do this by aligning the current zero tax rate bracket for capital gains and dividends with a 22-percent income tax bracket, excluding a modest amount of interest income from tax. Do you agree that a proposal along these lines could significantly reduce the current tax code

bias against savings? I am not asking you to endorse the bill, just the philosophy.

Dr. MICHEL. Well, thank you for your leadership on this issue, and certainly the additional layers of taxes through capital gains, on dividends, on interest, all decrease savings. To the extent that we can expand the number of Americans who do not get hit by these taxes and simplifying them by aligning brackets, as your bill does, all that pushes in the direction of getting more Americans greater opportunity to save and invest their own income.

So certainly, it is a great way of encouraging investment, and we should continue to push at expanding these types of policies.

Senator GRASSLEY. Dr. de Rugy, many of my colleagues on the other side of aisle claim our mounting debt and deficit can be solved solely by taxing the wealthy. Is it not true that absent spending reductions, tax hikes for middle-class Americans will become inevitable?

Dr. DE RUGY. Yes. The answer is "yes," and the reason—there are two. First, there is not enough tax revenue that can actually address our debt problem, right? That is the first thing. Plus, raising taxes to the level that that would require would be very detrimental to growth, which hence would then backfire.

But there is also a really big economic literature about the best way to reduce the debt-to-GDP ratio, which has been conducted in like 180 different countries, looking at what they have done to succeed, and what they have done when they did not succeed.

And what that literature finds is that the best way to reduce a debt-to-GDP ratio is to enact fiscal adjustments that are mostly based on spending cuts, preferably social spending, so that is entitlements in the American context.

The bad news from this literature is that actually in spite of the fact that we know what we should do, a lot of the time legislators choose to implement packages that are mostly made of taxes, and hence they fail. There is, by the way, other good news from——

The CHAIRMAN. Doctor, we're just going to have to move on.

Dr. DE RUGY. Sure, sure, sure.

The CHAIRMAN. Okay.

Dr. DE RUGY. I could go on for a long time talking about fiscal adjustments.

The CHAIRMAN. Great.

Senator Barrasso is next.

Senator BARRASSO. Thanks, Mr. Chairman.

Dr. Michel, I want to talk about universal savings accounts. You know during COVID, Americans saved a lot of money, over trillions of dollars. Unfortunately with high inflation, with higher interest rates, the savings dried up, and now people are carrying huge amounts of debt. I think we are talking about household debt of $18 trillion right now. And you know, in Wyoming the average family is spending over $1,000 a month more just to kind of stay up to where they were when this administration came into office.

So I think we need to look to find ways to turn the tide, help families build their own financial security. Congress has come together to pass bipartisan retirement legislation to help families save for retirement. I believe Congress can actually come together

to help working families save for the unexpected twists and turns that happen as a part of life.

My predecessor, Senator Craig Thomas of Wyoming, was a huge proponent of universal savings accounts. So you know, you have described universal savings accounts as a way to help Americans put away money for future use and for emergencies. So, how do you think universal savings accounts could complement what we have done in recent years on creating, expanding, and improving retirement savings accounts?

Dr. MICHEL. Thank you for the question. I think we have heard today that 529s in particular can be complicated to set up, for some families to feel comfortable putting money into that is earmarked for a very specific purpose in the future. Universal savings accounts give more families access to that same savings incentive, that same type of account to put money away, but they do not tell them they have to spend it on education or save it for retirement. But instead, they could save for starting a business, they could save for putting their child through college, but they could choose to use that money for something else.

So the flexibility allows people who do not want to earmark their money for A, B, or C, to save for the unexpected, save for a decision that has yet to be made in the future, sort of expanding the existing incentives we have to more types of Americans who are saving for diverse needs.

Senator BARRASSO. When you talk about planning for the future and poor decisions made, I want to talk about some poor decisions I think have been made by this administration, which have hurt our economy. People are living with high inflation rates, high interest rates, and people are feeling financially squeezed—that is what I heard this past weekend again in Wyoming—and having to dig deeper to pay for things. They get less for their money.

And so, prior to the pandemic and after the 2017 Republican tax reform, we saw the opposite of the current reality, of people really doing well. It was the best economy in my lifetime. In 2019, real household median wages increased by $4,000, the largest increase in U.S. history—lots of people lifted out of poverty.

So what impact would reversing some of the progrowth tax policies that we right now have—and President Biden has said if he is reelected, he is going to get rid of all of those. What impact would that have on working families and those trying to save their hard-earned dollars?

Dr. MICHEL. Reversing the 2017 tax cuts, I think, would have two—you can think about it in two different buckets. One is, tax rates would go up on individual families across the board, and that gives them less money to spend on whatever their priorities are, including savings.

Fully reversing the tax cuts would mean that businesses are again uncompetitive globally. Before 2017, businesses were often leaving the United States, moving jobs and investment overseas, and after the reform, we saw businesses increase investment. We saw wages go up. We saw businesses expanding here in America.

And so, undoing all of that, I think we would go back to that world where the U.S. and U.S. workers are globally uncompetitive,

and that would make our fiscal situation harder to solve, and it would make Americans, sort of at large, poor.

Senator BARRASSO. Can you talk a little about savings and economic growth? In terms of the country, can you speak about how boosting savings can help foster long-term sustainable economic growth, and what benefits there are, not just to the individual and the household level when they save money, but also at the national level?

Dr. MICHEL. Savings is the foundation of future investment. When you save money and it gets invested in a business, then that buys new machinery or invests in a new process. The people who work for those businesses can be more productive, which then leads to wage growth.

It is the foundation of economic growth—investment—which is fueled by savings. And so, we should be doing everything in our power to get the Federal Government and the tax code out of the way of savers and investors, as a way to ensure robust, long-run economic growth that benefits everyone.

Senator BARRASSO. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Casey, much praise has been directed at you and your bill, so please go ahead.

Senator CASEY. Mr. Chairman, thanks very much. I appreciate you calling this hearing, and you and the ranking member having this important hearing.

So, I am coming at the end, when I know we all have the benefit of each of your testimonies, as well as the hearing record. But I want to thank each of you for being here. Mr. Chairman, I want to thank you in particular for the work you have done on child savings accounts, something you have been leading on for years.

I think the way I look at this issue is one of those fundamental questions we have to wrestle with when it comes to what steps are we going to take to make sure that every child in the country has the full measure of freedom and security?

I have outlined a proposal in legislation to make it a goal for the country that we have five freedoms for every child, that every single child—not most, not some percentage, but every single child—has the guarantee of health care. Every child should have the freedom to learn, have opportunities for early learning. Every child should be free from harm. Every child should have the freedom to not be hungry. And every child should have the freedom to be economically secure.

You cannot have that kind of economic security for every single child unless we have savings accounts. So, it is critically important to their freedom—and I want to thank everyone who is here on the panel for providing your expertise to tell us about this issue—and in particular the 5.8 million American children, including more than a half a million, 546,000 Pennsylvania children, who have a savings account in their name.

I have sponsored bills since 2017 to make the promise of children's savings accounts a reality for all American children, so that every child can have a place where their family, their community, and their government can invest in their future. The 401Kids Savings Act will enable children, when they reach adulthood, to have

the money saved to pay for college or to start a small business, to buy their first home or to save for retirement.

So I will start with Dr. Elliott. Dr. Elliott, what effect does having a personal savings account have on a child from a low- or a moderate-income family?

Dr. ELLIOTT. Interestingly enough, the effects are strongest, in most cases, among the low-income kids. This is a rare event for interventions that we have.

So, it is really exciting, and we have seen that these accounts, even with small dollar amounts in them, can affect children's expectations, parents' expectations, social/emotional development, maternal depression, and many other things.

It was interesting as you were talking about the five freedoms. What is kind of unique about the children's savings account, while it is not a silver bullet, it does affect health, it does affect education, it does affect economic futures. So this is a program that can work across things.

And I will mention one other quick thing, which is that what we have not had a chance to talk much about is that once these structures are in place, not only do we have the Federal investment—this is not something that is just about the Federal investment—but you have a chance for multiple streams of assets to flow into these accounts to build wealth, right; so, foundations and employers and all different kinds of groups. We see this happening in New York; we see this happening in Indiana, where these different groups—pastors are getting together and putting $1,000 scholarships into kids' accounts in their communities.

And so, we are just really touching the tip of the iceberg of these accounts and their possibilities.

Senator CASEY. So really, it's foundational, not just for the obvious economic benefit, but on other aspects of the life of the family.

Dr. ELLIOTT. For sure, and it starts early, right? I mean, these effects start when we see social/emotional development and the kids are like 4 years old, right? And so we know from economics and the research around it that these early effects are so important to later academic success and later economic success.

And so, it really flips the whole paradigm of financing education and wealth and equality. When you start thinking about 18, we are having impacts as early as when the kids are just born and very soon after that. So, it is really important.

Senator CASEY. Ms. Quint, I was going to ask you why States like Maine and Pennsylvania begin our children's savings accounts at birth, and how does that help both children and families?

Ms. QUINT. Sure. Thank you very much, Senator Casey. And your Keystone Scholars program—and obviously the 401Kids Act is really exciting. And Maine is glad to be part of the mix of helping to think about all of that. So the benefit, obviously the biggest benefit, is that because it's invested early, it has more time to grow.

I did not mention it earlier, but for the oldest of our Alfond grant recipients, that $500 is now worth $2,036, and they are still a few years away from continuing their education after high school. It also provides, as Willy was just saying, more time for contributions from family as well as from other sources.

I mentioned earlier that in the most recent quarter, $255 was the average contribution amount, but the median amount of an account with savings from a family in Maine with an Alfond grant is about $5,500, and the mean is about $11,500. So again, real assets are accumulating here over time.

And with respect to Dr. de Rugy, who spoke earlier about these kinds of programs as potentially being a disincentive to save or crowding out savings, at least our experience in Maine has been families are saving at a rate of three to one what the foundation has put in. So that has certainly not been our experience.

Senator CASEY. Well, thanks very much. I really want to thank our witnesses. I know I am a little bit over, but I am really grateful for your time here today, and especially I am grateful for the committee's work on this issue.

The CHAIRMAN. Senator Casey, because this is so important to you and you put in all this time, is there anything else you wanted to ask about, and then we will go to Senator Crapo and we will get ready to wrap up.

Senator CASEY. I will submit some questions for the record.

The CHAIRMAN. Very good. And we really want to put a lot of time into this issue, Senator Casey. You have, and what was striking when you were out of the room, one of the issues that came up is the way your approach has developed. You do not have to go out and reinvent the wheel. You can basically build on a lot of the architecture that is out there.

This is a point that Ms. Quint made, and we have got some very good opportunities to do this in a cost-effective, smart way, and I appreciate all the sweat equity you have put in.

Senator Crapo, anything else?

Senator CRAPO. I have some questions, but I will submit them for the record, Mr. Chairman.

The CHAIRMAN. Okay.

Here is what we have learned. All over the country, States and cities are stepping up with cutting-edge child savings programs. We have 120 and counting, and we have learned that a lot of these programs feature approaches that social science teaches are sensible ideas that, in effect, when you have approaches like automatic accounts and seed money and contributions from families—this is one of the things I remember when we started talking about this, and I was a young member of this committee. So we have been talking about it a long time.

I remember a parent came up and said, "You know, I give my kid a gift every holiday and birthday, but the toys and stuff break. I think I want to have this savings account, because it is something they can keep building on," and you all have made that point. I think Senator Casey's 401Kids legislation has these kinds of cost-effective features.

So I am going to close my remarks. We have many colleagues talking, for example, about their concern about the economy and debate about the President's activities. I heard a rumor there is an election coming up. We will be talking about those kinds of things.

But what is on offer today is something that will help now, and that is the bipartisan effort that passed in the House of Representatives that brought together Democrats and Republicans. Every

Republican on the House Ways and Means Committee, for example, supported that effort.

That is because it is good for growth—the research and development effort, the bonus depreciation. These are smart kinds of efforts paid for by fighting fraud. So we are going to continue to discuss these kinds of ideas that have been talked about this morning, particularly savings.

But I just wanted to end this morning by saying it is something we can do right now, something that will make a big difference in communities, and we are going to continue to pursue those kinds of issues.

With that, the Finance Committee will stand adjourned.

[Whereupon, at 11:30 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Today's hearing provides an important opportunity to examine the ways working families can save their hard-earned income for their children's future.

Only 2 years ago, this committee and others worked together in a bipartisan, bicameral fashion to expand retirement savings through the SECURE 2.0 Act. As we continue to monitor its implementation and the effects the law had on retirement savings, it is appropriate for us to explore other savings needs beyond just retirement. Fortunately, Americans already have access to numerous savings options, whether it is saving for a specific purpose through a tax-advantaged account or saving through traditional savings vehicles.

Tax-advantaged accounts allow benefits such as tax-free growth and withdrawals, making it easier and more efficient to save for a specific purpose. For example, 529 accounts can help families save for their children's education expenses. Health Savings Accounts and flexible spending arrangements can be used to help eligible individuals save for medical expenses. Dependent-care FSAs can help workers save for expenses for dependents, such as after-school or in-home care for kids or other family members. And ABLE accounts help those with disabilities save for critical tools like assistive technology and transportation, just to name a few.

Beyond these tax-advantaged accounts, Americans can also save through widely available, traditional means, such as savings and brokerage accounts. And for children specifically, custodial accounts and even some child-specific accounts offered by some institutions can help teach children the ins and outs of saving. When paired with proper financial education, more children and young adults can learn how to budget and save from an early age, carrying best practices on into adulthood.

Any discussion concerning the options to save goes hand-in-hand with a conversation on the importance of planning and managing savings throughout one's life. Part of that planning includes the need for many to consider seeking professional financial advice in order to create a comprehensive savings strategy.

Although families have access to many savings vehicles, navigating this often-complex web of options can be daunting, and every family's needs are different. Whether a family is saving for a down payment on a home or planning ahead for unforeseen emergencies or health expenses, understanding what options are available is key.

Effective planning becomes even more important at a time when Americans are experiencing inflation at levels not seen in decades. Higher costs of food, fuel, and housing eat up families' disposable income and squeeze their ability to save. In fact, as compared to January 2021, average U.S. households are spending over $1,000 extra each month just to maintain their standard of living.

Today's witnesses will discuss all of these topics, and I look forward to hearing how Congress can expand opportunities to save in a fiscally responsible manner. I also expect to hear testimony on child savings initiatives that some States have implemented. While I respect the steps some States are taking, implementing a similar program at the Federal level would come at a significant cost to taxpayers. Expanding options to save is a worthy goal, but we must do so in a way that does not exacerbate already out-of-control government spending or create another unsustainable government program.

PREPARED STATEMENT OF VERONIQUE DE RUGY, PH.D., GEORGE GIBBS CHAIR IN POLITICAL ECONOMY AND SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY

Chairman Wyden, Ranking Member Crapo, and members of the U.S. Senate Committee on Finance, I thank you for the opportunity to testify today. My name is Veronique de Rugy, and I hold the George Gibbs Chair at the Mercatus Center at George Mason University, where I study tax and fiscal policy, the Federal budget process, and the implications of government spending for economic growth.

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. But asset limits, deposit restrictions, and investment options on newly proposed savings programs would affect participation and outcomes, especially for low-income participants, in the same ways existing savings options do. Indeed, there are already plenty of savings options in the U.S., but many of them discourage savings due to their complex rules, tax penalties for early withdrawals, or limitations on qualified uses.

Policymakers should fix these savings disincentives, the biggest being our debt and our tax code. 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, child care, or retirement, for example) or unexpected (major car repair or emergency medical expense) event throughout their lifetime. USAs have successfully increased savings among low-income earners in the United Kingdom, South Africa, and Canada.[1]

What comes next in my testimony is (1) a brief discussion of the limitations of the proposed child savings account (CSA) model, and (2) suggestions for better pathways to higher rates of savings for Americans.

1. THE LIMITATIONS OF CHILD SAVINGS ACCOUNTS

There are two primary limitations to the proposed child savings account model worth noting: (1) this model is simply shifting wealth around at a high cost, and (2) the proposed plan limits what the CSA may be used for, namely, post-secondary education and training, a small business, a first home, or retirement security. While all these investments are worth saving for, the CSA's lack of flexibility may prevent low-income families from using their savings for what they might need in the future.

A. Societal Wealth Would Not Increase

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. The government would purchase financial assets (through the 529 platform), likely from selling government bonds to older and higher-income households. The program will also likely require future tax hikes to pay for the ensuing debt accumulation. In other words, such a program would not create new savings per se since it would generate "savings" in one place with money from reduced savings in another. In that sense it would be different from a 401(k). In the best-case scenario, it would merely constitute a redistribution of existing wealth from current asset holders to children, and a redistribution across time. However, a review of the literature on the effects of government spending on the economy reveals that the multiplier is often well below one, meaning that the best-case scenario is unlikely.

On the plus side, the government-contributed assets would be held in private-market investments, thereby avoiding direct government ownership and emulating the ownership society. That is a better idea than investing the assets in treasuries or having the government itself invest and hold the assets.

Second, this plan is presented as a wealth-building proposal by which most of the money can be withdrawn when the child turns 18. A child can use the money for expenses other than college; if they do use it for college, however, it would be an expensive way to fund college, since the government already spends elsewhere in the higher-education system, allegedly to help low-income students.

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[1] Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings" (Heritage Foundation Backgrounder No. 3370, Washington, DC, December 4, 2018).

B. Complex Regulations and Penalties on Early Withdrawal Could Create Disincentives to Save

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 percent more likely to take a net-taxable withdrawal when they experience an income shock.[2] The Urban Institute found similar results: people with limited education, low income, and few assets tend to withdraw from their retirement accounts more frequently over a 2-year period than those with higher education and income.[3]

The same Urban Institute study indicates that 40 percent of those withdrawals are linked to either adverse events such as job loss or poor health, or investment events such as buying a home. Ten percent of the withdrawals were for necessary expenses during a job change. The study concludes that withdrawals from retirement savings accounts are more common when families experience a change in employment, the birth of a child, or starting college.[4] Of these, only starting college could be a qualified withdrawal from a Child Savings Account, and that is only if families withdrew for tuition payments, not for other costs related to attending college.

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.

2. BETTER WAYS TO ENCOURAGE SAVINGS

Encouraging savings, especially for low-income Americans, is a worthy exercise. But there are better ways to do it.

A. Government Debt Crowds Out Savings

While proponents may tout the CSA as boosting asset accumulation for future generations, the program faces an inherent contradiction given the U.S. Government's current fiscal position of running sustained budget deficits and accumulating debt. As Harvard University economist Robert Barro highlighted in his seminal work on debt neutrality, increasing public dissaving through deficit spending can offset and crowd out private saving.[5] The size of the debt accumulation's impact on savings is debated by economists, but it is not zero and it may also be quite large.[6]

The Federal Government has run deficits for decades, causing public debt levels to rise from around 30 percent of GDP in the 1970s to nearly 100 percent today. Debt has a share of GDP that is heading to 166 percent within 30 years assuming relatively low interest rates, prosperity, and a return of inflation to the Fed target. The government cannot readily boost national savings and wealth accumulation while continuing to dissave at high rates.

Rather than creating a new spending program, many economists argue that placing the Federal budget on a sustainable long-run path should be the foremost priority for increasing national savings. Reducing the projected debt-to-GDP ratio could help restore incentives for higher household savings rates. Economic research has established that the best way to do that is to implement fiscal adjustments that mostly focus on cutting spending rather than raising taxes.[7] Fiscal-adjustment pack-

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[2] Robert Argento, Victoria L. Bryant, and John Sabelhaus, "Early Withdrawals from Retirement Accounts during the Great Recession," IRS, November 2013.

[3] Barbara A. Butrica, Sheila R. Zedlewski, and Philip Issa, "Understanding Early Withdrawals from Retirement Accounts" (Discussion Paper 10–02, The Urban Institute, Washington, DC, May 2010).

[4] Butrica, Zedlewski, and Issa, "Understanding Early Withdrawals."

[5] R.J. Barro, "Are Government Bonds Net Wealth?", *Journal of Political Economy* 82, no. 6 (1974): 1095–117.

[6] D.W. Elmendorf and N.G. Mankiw, "Government Debt," in *Handbook of Macroeconomics,* ed. J.B. Taylor and M. Woodford (Elsevier), 5: 1615–69). A. De Serres and F. Pelgrin, "The Decline in Private Saving Rates in the 1990s in OECD Countries: How Much Can Be Explained by Non-wealth Determinants?" (OECD Economics Department Working Papers No. 344, OECD Publishing, Paris, 2003), 117–53; L. De Mello, P.M. Kongsrud, and R. Price, "Saving Behavior and the Effectiveness of Fiscal Policy" (OECD Economics Department Working Papers No. 397, OECD Publishing, Paris, 2003).

[7] A. Alesina and R. Perotti, "Fiscal Expansions and Fiscal Adjustments in OECD Countries" (NBER Working Paper No. 5214, National Bureau of Economic Research, Cambridge, MA, August 1995); J. Guajardo, D. Leigh, and A. Pescatori, "Expansionary Austerity? International Evi-

Continued

ages that feature smaller spending reductions and larger tax increases are unsuccessful at reducing the debt-to-GDP ratio. This finding is not controversial among economists who have studied the issue.

Another important finding is that fiscal adjustments based only on tax hikes are deleterious to both short- and long-term growth. However, fiscal adjustments based on appropriate spending cuts promote long-term economic growth. This matters since the preponderance of studies suggest higher economic growth generally leads to higher savings rates, especially over longer time horizons.

In summary, persistently large public dissaving poses a fundamental economic challenge to policies aimed at boosting private savings and wealth.

B. Create Universal Savings Accounts

Short of putting the U.S. on a fiscally sustainable path, there are other solutions Congress could pursue. While there are some dissenting views, the weight of evidence indicates the current system of double taxation of income—first taxing earned income, then taxing the returns from saving—creates considerable disincentives to save relative to a benchmark of taxing consumption only. Tax reform to integrate corporate and personal taxation is often proposed to mitigate these effects.

Instead of fixing the tax code, we have created tax-deferred saving accounts, such as 401(k)s and IRAs, meant to alleviate some of that double taxation. Federal law currently provides several such tax-preferred savings vehicles, each with varying rules and limitations: some are for retirement, some are for education and disability, some for health and dependent care, and some for emergencies.[8]

Unfortunately, as mentioned earlier, the rules and restrictions on withdrawals for each of these accounts likely create disincentives to save for low-income workers or parents who are worried about not being able to use their savings in case of an emergency.

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. In simple terms, USAs make lower tax rates on savings more accessible to a greater number of people for a greater number of reasons. One study by Harvard economist Daniel Benjamin found that nearly 50 percent of 401(k) balances were new private savings.[9] This is a generous estimate, but even the most modest estimates, like the one by the Brookings Institution,[10] still demonstrate that absent income tax penalties, retirement savings have compounding returns.

USAs 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. After USAs were implemented in the UK and Canada, moderate-income earners were the most responsive. In both countries, low- and moderate-income savers represent over 50 percent of USA holders.[11] As the Cato Institute's Chris Edwards and Ryan Bourne found, in 2016 in the UK, 52 percent of USA holders earned less than €20,000—around $26,000.[12] Furthermore, in the UK, low-income savers earning between €9,500 and €20,000 (about $12,000 and $26,000, respectively) utilizing USAs reported a 23-percent increase in savings that would not have been saved or invested absent the USA.[13]

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dence," *Journal of the European Economic Association* 12, no. 4 (2014): 949–68; A. Alesina, C. Favero, and F. Giavazzi, *Austerity: When It Works and When It Doesn't,* (Princeton, NJ: Princeton University Press, 2019); O. Jordà and A.M. Taylor, "The Time for Austerity: Estimating the Average Treatment Effect of Fiscal Policy," *The Economic Journal* 126, no. 590 (February 2016); 219–55.

[8] Alex Durante, William McBride, and Garrett Watson, "Dwindling Savings and Increasing Financial Stress Highlights Need for Tax Reforms," *Tax Foundation* (blog), November 9, 2023.

[9] D. Benjamin, "Does 401(k) Eligibility Increase Saving? Evidence from Propensity Score Subclassification," *Journal of Public Economics* 87 (2003).

[10] Eric M. Engen et al., "Do Saving Incentives Work?", *Brookings Papers on Economic Activity* 1994, no. 1 (1994).

[11] OECD, *Encouraging Savings through Tax-Preferred Accounts* (OECD Tax Policy Studies, No. 15, OECD Publishing, Paris, 2007).

[12] Ryan Bourne and Chris Edwards, "Tax Reform and Savings: Lessons from Canada and the United Kingdom" (CATO Institute, Tax and Budget Bulletin No. 77, May 1, 2017).

[13] OECD, *Encouraging Savings through Tax-Preferred Accounts*.

There is great potential for USAs to help our lowest-income earners begin saving for whatever life may bring.

Conclusion

With the expiration of the Tax Cuts and Jobs Act at the end of next year, there is an opportunity for policymakers to simplify the tax system and create pathways to savings and building financial security for all Americans. Universal Savings Accounts are a preferable method for boosting savings and ensuring that American families are financially equipped for whatever life may bring.

PREPARED STATEMENT OF WILLIAM ELLIOTT, PH.D., PROFESSOR OF SOCIAL WORK AND DIRECTOR, JOINT DOCTORAL PROGRAM IN SOCIAL WORK AND SOCIAL SCIENCE, UNIVERSITY OF MICHIGAN

Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, it is an honor to testify before you today regarding the promise of children's savings accounts for building wealth for children. I am grateful for the opportunity to address this committee and appreciate your continued attention to the urgency of wealth inequality—and to the potential of improving children's chances through investments in children's asset interventions. Thank you for the opportunity to participate in today's hearing.

Here is an overview of what this testimony will cover:

- Education has long played a crucial equalizing role in the U.S. economy and in the promise of the American Dream.
- Return on degree is unequal, by family wealth.
- Strengthening return on degree requires asset-based financial aid.
- CSAs can be such an asset-based financial-aid system.

THE AMERICAN DREAM AND EDUCATION

European nations have relied on the "direct redistributive role of the welfare state to reconcile citizenship and markets," but the United States has chosen to use education as a lever for ensuring equitable outcomes (Carnevale and Strohl, 2010, p. 83). This distinctly American belief—that economic disparity can be narrowed through individual effort in school and calculated public investments in educational opportunities—has been around almost from our conception as a country. It is inextricably tied to the American Dream.

However, what if education isn't the great equalizer we once believed it to be? What if education, today, is instead helping to increase inequality in some unintended ways? In America in 2024, children who grow up poor face substantial barriers to moving up the economic ladder through effort and ability in school, barriers wealthy children do not face. The inability to buy necessities due to a lack of income—income poverty—is only half of the story. The other half—asset poverty—is rarely talked about. Policies are seldom created to address it among low-income families.

Asset poverty has been defined as not having sufficient net worth (from savings and durable assets, such as homes or businesses) to cover 3 months of living expenses without income (Wolff, 2017). This definition of asset poverty is limited to the amount of emergency savings families have. Recent survey research shows that one in four U.S. adults said they had no emergency savings, and two in three Americans would be worried about having enough savings to cover a month's living expenses (Gillespie, 2024). Other analysis suggests that about 37 percent of Americans would have to borrow or sell something to cover an unexpected $400 expense (Federal Reserve Board, 2022).

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.

UNEQUAL RETURNS

Expecting income- and asset-poor children to compete in the same marketplace with wealthy children, whose effort and ability are enhanced by assets in the form of family wealth transfers, has caused the attainment of a college degree to be disconnected from the use of effort and ability in schools. This reality plays out in individual households and in our collective conversation. It brings the American Dream into question and erodes confidence in the American ideal told to children as exhortation to study hard.

> For example, research examining a link between intelligence and genetics finds that fewer than 24 percent of high-potential children born to a low-income father graduate from college, compared with 63 percent born to high-income fathers (Papageorge and Thom, 2018). The other end of the spectrum might paint an even clearer picture of how higher-income children avoid the same consequences as their poor counterparts. Papageorge and Thom (2018) find that 27 percent of low-potential children who have high-income fathers graduate from college, a greater proportion than that of high-potential children born to low-income fathers (24 percent).

However, the built-in inequality of opportunity for fair reward—that is, inequality in the opportunity for low-income and low-wealth children to be fairly rewarded for using effort and ability to obtain a degree—is not limited to degree attainment. It continues for those low-income, low-wealth children who attain a college degree despite the odds. It is what I call America's "return-on-degree problem." Research increasingly reveals that the returns on degree achieved by these children lag the returns enjoyed by their more advantaged peers. And make no mistake about it: this is an American problem faced by low-income, low-wealth children of all color. Therefore, it is an us problem. And it can only be solved by joining together to fix it.

Given the role of education as an equalizer within the American welfare system, the financial aid system is correctly understood as an investment in economic well-being. Because of the financial aid system's role in creating economic well-being for all, it is not enough for the system to provide low-income children with access to education, financial literacy classes, or even financial institutions; they must be able to achieve economic outcomes similar to those of their wealthier counterparts. This is contrary to what we currently see. The following data illustrates the return-on-degree problem:

- Bachelor's degree holders from low-income families start their careers earning about one-third less than those from high-income families (Hershbein, 2016).
- Black students receive less benefit from having obtained a college degree ($52,147 income and $32,780 net worth), compared with their White counterparts ($94,351 income and $359,780 net worth; Emmons and Noeth, 2015).
- Black families with a head of household who graduated from college have about 33 percent less wealth than White families with a head of household who dropped out of high school (Hamilton et al., 2015).
- A small wealth premium remains for White college graduates born in the 1980s when compared to White high school graduates.[1] However, researchers find that the wealth premium has disappeared altogether for Black college graduates born in the 1980s relative to Black high-school graduates during the same time (Emmons, Kent, and Ricketts, 2019).

The unequal return on a degree is out of sync with the American sense of meritocracy and the belief that education can be the great equalizer. Researchers point to the rising cost of college and student debt as reasons for the decrease in the wealth premium that a college degree provides. For example, researchers find that acquiring the relatively small amount of $10,000 in student loans is associated with an 18-percent decrease in the rate of achieving median net worth (Elliott and Rauscher, 2018).[2]

After looking at the data on the return on degree, Tough (2023, para. 20) said, "Higher education no longer resembles a safe, reliable blue-chip investment, like

[1] Wealth premium is the additional wealth acquired by a family headed by a member with a college degree over a family headed by a member who does not have a college degree.

[2] The study defined mobility as the likelihood and rate of achieving median household net worth among individuals who have at least a 4-year college degree and were at least age 22 (Elliott and Rauscher, 2018).

buying a Treasury bill. It's now more like going to a casino. It's a gamble that can still sometimes produce a big windfall, but it can also bring financial disaster." Americans who are questioning the value of college and rethinking their own plans likely agree.

- According to an article in *The New York Times,* public-opinion polls in the early 2010s all told the same story. In one survey, 86 percent of college graduates said that college had been a good investment; in another, 74 percent of young adults said a college education was "very important"; in a third, 60 percent of Americans said that colleges and universities were having a positive impact on the country (Tough, 2023, September 5th).
- However, a decade later, the percentage of young adults who said that a college degree is very important fell to 41 percent from 74 percent. Only about a third of Americans now say they have a lot of confidence in higher education. Among young Americans in Generation Z, 45 percent say that a high school diploma is all you need today to "ensure financial security." And in contrast to the college-focused parents of a decade ago, now almost half of American parents say they'd prefer that their children not enroll in a 4-year college (Tough, 2023, September 5th).

A danger of a growing number of people no longer seeing college as an important path for achieving the American dream while other countries are experiencing more young adults enrolling in college is that America will have fewer people to fill a growing number of jobs that require a college degree (Marcus, 2022, January 22nd, Tough, 2023, September 5th). And while there are some well-paying jobs that don't require a degree, the fastest-growing jobs available to non-degree holders are mostly low-wage service jobs; at the same time, the demand for college graduates keeps rising (Tough, 2023, September 5th). This suggests, while understandably Americans have grown frustrated with education's ability to act as an equalizer, it will continue to be an important institution for determining who has real access to the American dream.

As such, a part of education's role would be preparing college students to be in the best position to leverage their degree and get the maximum return from it.

Strengthening the return on degree requires a shift in how college is financed from debt and even a grant model, toward a wealth-building model. The question becomes, why? Assets have been said to hold the following characteristics (Sherraden, 1991):

- Financial stability.
- Orientation toward the future.
- Capitalist (*i.e.,* a builder of wealth).
- Focus and specialization.
- Risk taking.
- Confidence.
- Social influence.
- Political influence.
- Enhance the welfare of offspring.

When people own assets, they gain the corresponding characteristics of the assets which in turn increases their opportunity to improve their capability. However, the degree to which owning assets alone increases what children can achieve is also tied to their ability to utilize the asset (*i.e.,* children's functioning).[3] Maximizing the economic returns on a degree requires a certain level of financial capability, and the level of financial capability a child has is determined by the level of financial knowledge, skills, access to institutions, and assets they have (Elliott and Zheng, 2023, November).

Among the characteristics listed above, in this section I focus on a characteristic often overlooked in understanding wealth inequality: that is, whether a child starts off with a sufficient level of wealth to build wealth of their own (*i.e.,* wealth begets more wealth). What is being suggested is that a child who has wealth takes on the characteristic of being a wealth builder or capitalist. The simple way to say this is, families need wealth to build wealth. And they need wealth to reap just returns on their effort in college.

- A $1 increase in income translates to a $5 increase in wealth for White families but only a 70-cent increase for Black Families.

[3] Functioning represents what the person succeeds in being and doing with the commodities and characteristics at their command or being/doing (Sen, 1999a, b).

- But, importantly for this discussion, when Black families start off with similar levels of assets, they have a return of $4.03—not *equal* to White families, but far closer (Shapiro, Meschede, and Osoro, 2013).

- The power of income for generating wealth is determined at least in part by the amount of wealth older adults (ages 44–67) start off with as younger adults (ages 25–44); that is, to build wealth you must have a certain amount of wealth as younger adults (Elliott, Rauscher, and Nam, 2018).
  - Older age adults living at the 50th or 75th percentile as younger adults can expect to generate more wealth from each dollar they earn than those living at the 25th percentile as younger adults (Elliott, Rauscher, and Nam, 2018).
- While holding a degree makes a substantial difference in the amount of net worth younger adults have when they are older, a college degree matters more for net worth when younger adults start off with assets than when they do not (Elliott, Rauscher, and Nam, 2018).
  - While the institutions and economic forces that fuel wealth building have changed dramatically within the past 2 decades, this truth—that children face huge odds in trying to overcome their starting positions—is not new. In 1999, Conley found that parental net worth is a more important predictor of young adults' net worth than education, income, or age.

It must be understood, even if education provides a strong return on degree to financially literate (*i.e.,* financially knowledgeable, and skilled) students who are financially included (*i.e.,* "full access to social welfare policies and appropriate, affordable financial services to receive financial resources," see Huang, M.S. Sherraden, and M. Sherraden, 2021, p. 8), the size of the chasm earning a degree is being asked to close is too vast without a wealth-building strategy that helps children leave college with wealth, rather than debt.

To strengthen the return on degree and enable education to be an equalizer, the type of institutional access financial aid should focus on providing is wealth building, not indebtedness. Children's savings accounts (CSAs) are a form of financial aid used to provide students with access to the wealth building arm of financial institutions.

CSAS ARE A WEALTH-BUILDING STRATEGY FOR CHILDREN

CSAs are asset-building accounts that provide a financial structure that can facilitate wealth accumulation from multiple sources for the purpose of giving all children an equal opportunity to reach their full potential. In the absence of passage of national CSA policy, some States and localities have developed their own children's savings initiatives. While the details vary, these investments in children's futures include initial contributions and matching contributions for low-income savers, opening accounts for children at birth or in some cases kindergarten. Some programs are also experimenting with including financial literacy programs as part of their CSA program (Goldberg, Friedman, and Boshara, 2010).

By the end of 2023 there were 121 CSA programs in 39 States serving over 5.8 million children in the U.S. (Prosperity Now, 2024). There are seven States that have a statewide program (California, Illinois, Maine, Nebraska, Nevada, Pennsylvania, and Rhode Island) (Sherraden and Clancy, 2021). All seven States built their programs upon their State 529 Savings Plan structure.

Even With Relatively Small Initial Deposits, CSAs Build Wealth and Improve Children's and Their Families' Economic, Educational, Social, and Psychological Outcomes

Existing CSA programs have provided relatively small initial one-time deposits of anywhere from $5 to $1,000, what might be referred to as small-dollar accounts. But even these relatively small initial deposits have resulted in the accumulation of real assets for low-income and students of color. That's the advantages our financial markets deliver—over time—extended through CSAs to children who would otherwise be left out. For example, at age 14 the average treatment child (*i.e.,* randomly selected to receive a CSA) in the SEED for Oklahoma Kids experiment, SEED OK for short, a group that includes low-income and Black children, has about $4,373 in their account (Clancy, Beverly, Schreiner, Huang, and Sherraden, 2022, June). While this is not enough to pay for college, the SEED OK experiment definitively demonstrates that CSAs can be a fully inclusive financial institution that facilitates asset building.

What makes CSAs proposals like 401Kids one of the most promising proposals for increasing children's chances to succeed beyond their starting point is the fact that

they have the potential not only to increase wealth, but also to deliver positive impacts on children's educational attainment and their families' social and psychological outcomes as well—even while the account balances are still relatively modest. Research on CSAs shows positive impacts on children's early social and emotional development, academic performance, likelihood of enrolling in college, and likelihood of persisting to graduation from college. These are valuable gains that are often difficult to produce—at scale—through other interventions. These gains largely eluded the significant investments in debt-centered financial aid, but CSAs:

- **Quasi-experimental Findings** [4]
  - Increase children's math and reading scores (Elliott, 2009; Elliott, Sorensen, Zheng and O'Brien, 2023).
  - Increase children's educational expectations (Elliott, 2009; Elliott, Zheng, Saborl, and O'Brien, 2021).
  - Reduce wilt among children who have the academic ability and expect to attend college but fail to do so shortly after high school graduation (Elliott and Beverly, 2011).[5]
  - Increase college enrollment and college graduation of low- to moderate-income children (when they have school-designated savings of $1 to $499 or $500 or more) (Elliott, Song, and Nam, 2013).
  - Increase college enrollment and college graduation of Black children (when they have school-designated savings of $500 or more) (Friedline, Elliott, and Nam, 2013).
- **Experimental Findings**
  - Increase parental educational expectations for their children (Kim, Sherraden, Huang, and Clancy, 2015).
  - Increase social emotional development among young children, particularly among low-income children (Huang, Sherraden, Kim, and Clancy, 2014).
  - Reduce punitive parenting practices (Huang, Nam, Sherraden, and Clancy, 2019).
  - Reduce maternal depression (Huang, Sherraden, and Purnell, 2014).

Importantly, some findings are consistently strongest among low-income children, revealing that CSAs are the rare and valuable intervention that works best for those who need them most.

But maybe equally important, in a time when the ability to hope seems to be diminishing, CSAs help create an environment where hope can serve as motivation to act. Not mere aspirational hope, but what I have called tangible hope. Assets give children a stake in the future—that is, the power to purchase a piece of the future today. Another way to say this is assets allow children to more clearly see how they will be able, for example, to pay for college, buy a home, retire comfortably. Assets are real money stored away today for future purchases, making the future tangible as though one can touch it, experience it—even own a piece of the future today. This creates an environment where children can then act consistent with their hopes, thereby bringing hope and action even closer. In this sense, CSAs as a type of asset building program allow children to purchase stock in their future selves. Orientation toward the future is a characteristic of assets that people can internalize as part of their own identity when they own assets (*e.g.,* Sherraden, 1991). Asset ownership makes children, and their families feel secure enough to begin to plan for their futures today. In this way, CSAs can help children reach their full potential—not only by helping them build wealth, but by helping them build tangible hope. Tangible hope is grounded in the ability CSAs give children to build wealth, to then finance the education that can bring their other hopes within reach. However, what is needed is a policy that extends this opportunity to all children.

A Well-Structured Policy Framework Is Critical for Scalable and Sustainable Early-Life Wealth-Building Policies Such as 401Kids, American Opportunity Accounts Act, and Others

SEED OK, a long-running experiment ran by Professor Michael Sherraden, director of the Center for Social Development (CSD) at Washington University in St. Louis, has shown that policy models like the 401Kids bill can be scaled to serve the

[4] Both quasi-experimental and experimental studies are designed to show a cause-and-effect relationship between an independent (*i.e.,* CSAs) and dependent variable (*i.e.,* some outcome). However, a quasi-experiment does not rely on random assignment.

[5] Wilt is the gap between expectations and attainment.

full population of children, delivering financial and nonfinancial benefits, some of which are greater for disadvantaged children.

To guide program and policy development, a group of CSA experts collaborated to identified eight key principles for designing CSAs at scale (Cisneros et al., 2021):

- 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.

Importantly, the 401Kids bill includes seven of the eight principles. To be effective, Federal early-life wealth building policy requires an efficient, effective, scalable, and sustainable account structure. This is fundamental for ensuring that the policy will reach all eligible beneficiaries, manage funds successfully, accumulate assets, and distribute those assets effectively. The policy structure and delivery mechanisms matter. These elements are strengths of CSAs.

Agreement on Principles for Early-Life Wealth-Building Policy Extends Beyond the CSA Field and the 401Kids Bill

These wealth-building principles are not only incorporated into CSAs but also found within the broader children's wealth building space. At the present time, two early wealth-building proposals are before the Congress: the 401 Kids Savings Account Act and the American Opportunity Accounts Act, briefly summarized below:

The 401Kids Savings Account Act of 2024

U.S. Senator Bob Casey has newly revised and renamed Federal legislation aimed at establishing a nationwide children's account policy. This initiative is crafted to empower children across the country, especially those from disadvantaged backgrounds, with a pathway to build assets and wealth for future investments such as funding higher education. The legislation would create asset-building accounts for all children in the United States.

The American Opportunity Accounts Act of 2024

U.S. Senator Cory Booker and U.S. Representative Ayanna Pressley have reintroduced this Act, which aims to establish a federally funded account for every child to promote economic opportunity and address the racial-wealth gap. This legislation provides a $1,000 seed savings account at birth, with additional deposits annually (up to $2,000) based on family income and allows access to funds for purposes such as homeownership or education at age 18.

In a recent report, I discussed the similar origins and content of these policy proposals (Elliott, 2022, October). In short, the use of the term Baby Bonds as used in Senator Booker's proposal was first coined by Hamilton and Darity Jr. (2010). The stimulus for Baby Bonds was the United Kingdom's Child Trust Fund and the American Savings for Personal Investment Retirement and Education (ASPIRE) proposal.[6] Both the Child Trust Fund and ASPIRE were developed from the principles and concepts articulated by Sherraden in *Assets and the Poor* and came about with his counseling. Because Baby Bonds were inspired by the Child Trust Fund and ASPIRE, it seems fair to say that the origin story of Baby Bonds can be traced back to Assets and the Poor much in the same way that CSAs can be. However, despite sharing a similar origin, the policy discussions remain somewhat separated (Elliott, 2022, October). Motivated by our shared commitment to secure asset-building commitments that improve children's chances, we are making progress on bringing them together.

In November 2023, policymakers and researchers gathered to discuss wealth building policy at the Urban Institute. Policy views on both CSAs and Baby Bonds (*e.g.,* American Opportunity Accounts Act) were represented, and discussants reached consensus on policy principles and design features for early-life wealth building Federal policies (Brown, Biu, and McKernan, 2024):

- Start at the beginning.
- Ensure inclusion and reduce wealth inequities.
- Make real investments.

[6] For information on ASPIRE, go to *https://www.govtrack.us/congress/bills/110/s3557/text*.

- Structure, scale, and transparency.
- Ease of access and use.
- Support vertical integration.

These six policy principles and their related policy design features have substantial empirical footing in CSA research and implementation to date and overlap considerably with the eight key principles for designing CSAs at scale (Cisneros et al., 2021). Further, the SEED OK experiment has demonstrated that these six principles and the associated features can serve a full population of children (Huang, Shanks, Clancy, Elliott, and Sherraden, 2024).

CSAs Were Envisioned as Large-Dollar Accounts

There is one substantial difference between current CSA models and one of the six wealth-building policy principles, "make real investments." Current CSA models mostly provide small one-time initial deposits. This is very different from the 401Kids proposal and American Opportunity Accounts proposal both of which emphasize the importance of a real investment by the Federal Government in wealth building for children.

Despite the current small initial deposits common in CSAs today, when describing the possibilities of what a CSA could be in *Assets and the Poor,* Sherraden's (1991) seminal book where he proposed CSAs, he provided a wide range of options for what they could become. For example, while current models of CSAs are restricted to education, Sherraden also laid the groundwork for multipurpose CSAs—that is, CSAs that were for other wealth building goals such as homeownership, starting a business, or retirement. While the most popular and widespread form of CSAs today are accounts with small one-time initial deposits, the CSA concept is not restricted to this model and can also accommodate large-dollar principles outlined in 401Kids, for example.

While there is evidence that CSAs alone can have valuable impacts, they also provide an infrastructure for delivering scholarship programs that can bolster student academic outcomes in important ways (Elliott, Grant, and Case, 2023, March; Elliott, May 2024). They may also provide means for delivering free college proposals (Promise Programs in practice) using the CSA infrastructure.[7] This proposition that CSAs provide an infrastructure that can be used to deliver free college proposals is like what Elliott (2022, October) has proposed regarding Baby Bonds. Free college and Baby Bonds proposals are extensions of traditional scholarships in as much as they both focus on giving children a sum of stored away money (or assets) when they turn age 18. As such, I suggest traditional scholarships and financial aid more generally, is a type of asset building institution for children.

It might seem foreign to think of free college or scholarships (*i.e.,* financial aid) as a type of asset-building policy because education and wealth building have often been thought of as separate ideas on different policy tracks. However, what is a free college proposal but a policy to provide children with a significant asset when they reach age 18? In addition to how they are talked about, the major difference is the structure used to deliver each of these asset building strategies. What CSAs provide is a "well-structured policy framework" capable of delivering all different kinds of assets to children (Huang, Shanks, Clancy, Elliott, and Sherraden, 2024, p. 2). However, unlike the financial aid delivery system or even the trust accounts proposed in Baby Bonds, CSAs as a delivery system extends back into childhood, as early as birth. They also can extend into older adulthood (*e.g.,* 401Kids proposes rolling over assets into a Roth IRA). As such, it gives these policies the ability to impact children's early outcomes as well as post college outcomes and by doing so may provide the best existing, tested, and scalable vehicle for strengthening the return on degree, a proposition that requires an institutional structure that can impact children's pre-college outcomes, college outcomes, and post-college outcomes.

Federal investments of the size discussed in 401Kids, Baby Bonds, and free college proposals can have an identifiable impact on wealth inequality. 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 percent (Sullivan, Meschede, Shapiro, Asante-Muhammed, and Nieves, 2016). This moment in U.S. history post-pandemic facing the pending labor

[7] For more information on Promise Programs and free college proposals, go to *https://www.freecollegenow.org/promise_programs*.

market disruptions of AI, grappling with political polarization and its relationships to wealth inequality demands urgent action to close wealth gaps. That was part of the motivation of participants in the Urban Institute convening—to emphasize the need for a significant Federal investment. Real change requires a strong investment by the Federal Government.

To deliver on the idea that free college can also be accomplished using the CSA infrastructure I recommend connecting the size of the government investment in CSAs for an individual child to what it would cost to provide a free college education. Currently, the average cost of attendance at a public 4-year college in-state institution in the 2022–2023 school year is $11,260 which would be $45,040 for 4 years (College Board, 2022). Estimates by the Joint Economic Committee of the U.S. Congress indicate that if a child of an EITC-eligible single parent received the 401Kids deposits from birth, the child's account could accumulate over $53,000 by age 18 (Casey, 2024). That sum would fully cover the average cost of tuition and fees at a 4-year, in-state, public college, or university in 2023–2024 and leave some money over to be placed in a retirement account (though ideally these accounts would stay with children throughout their lives; birth to retirement). This is also in line with Senator Corey Booker's (2023) Baby Bonds proposal. His proposal, which also would phase out based on income level (*i.e.,* the poor get more), would provide every child with an initial deposit of $1,000 at birth and then an additional $2,000 every year after until they turn 18. As a result, a child whose family's annual income is 100 percent of the Federal poverty level would have about $46,215 in their account when they were 18. It is worth noting, the Federal investment would not include the potential for additional assets to flow into these accounts from third parties.

History Teaches Us That a Significant Federal Investment—Though It Might Seem Unthinkable at the Time—Can Have a Measurable Impact on American Outcomes and Be Heralded in Hindsight as a Cornerstone of American Opportunity

History tells 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 U.S. 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 (Wells, 2022). Despite the heavy financial cost of war, this post-war investment not only improved millions of lives, but within 8 years of the bill's signing, it had returned every dollar invested in education nearly seven-fold in economic output and Federal tax revenue (*Improving access to preschool and postsecondary education,* 1988). Returning veterans represented a crisis to the postwar economy, and a significant investment was necessary to restore faith that the American dream was still attainable for all. Investment in CSAs shows signs of also being such an investment. An analysis by Jose Diaz, an economist with the Constellation Fund, showed that every dollar invested in 401Kids Accounts would generate $2.61 in benefits to society. The benefits, Diaz noted, would come from "increased income, improved health, additional tax revenues, and savings to other government sectors" (Diaz, 2023).

Notably, investment does not have to solely fall at the feet of the Federal Government. The CSA design proposed in 401kids distinguishes itself from other wealth building policies not only for its social and psychological effects, but because it provides a structure that allows for multiple streams of assets to flow into a child's account.

The True Wealth-Building Power of CSAs Is in Their Ability to Allow for Multiple Streams of Assets to Flow into a Child's Account

CSAs that include targeted ongoing progressive deposits as outlined in 401Kids provide a financial infrastructure for reducing the level of wealth inequality in society. The ability to provide targeted ongoing deposits provides the Federal Government with a type of valve that can be used to facilitate the flow of assets into households. The transformed 529 plan detailed in 401Kids acts as the plumbing for carrying assets wherever children need them throughout the country, leveling the playing field.

By allowing multiple streams of assets to flow into accounts, in addition to the government and families' own participation in asset building, third parties such as extended family members, employers, philanthropists, communities, as well as other entities are also given access to valves that can also be used to increase the flow of assets making sure they get to where they are needed. These types of institutions are already available in high-income communities. Not giving low-income communities access to this type of financial institution only prevents them from being able

to distribute the wealth they do have more easily to those in need in their communities.

The idea that CSAs provide the opportunity to have multiple streams of assets is not merely theoretical. CSA programs have begun to tap into the power of CSAs to bring together multiple streams of assets into a child's account. For example:

- New York City's Kids RISE program announced in December of 2022 that 1,200 first graders from Canarise and East Flatbush will receive a $1,000 community scholarship to be placed into their Kids RISE accounts (Cox, 2022).[8]
- The Community Foundation of Wabash County's Early Award Scholarship Program in Indiana informs donors that their CSA program allows them to transform traditional scholarships awarded at age 18 into early award scholarships. For example, recently a donor opted to put $1,000 in the accounts of all children in K–4 who are participating in the program as an early award scholarship (Weaver, 2020).[9]
- Pennsylvania's statewide CSA program, Keystone Scholars, has a program called, The Bright Future Booster. It provides an additional, one-time $50 deposit to accounts for babies born between January 1st and June 30, 2021, to mothers enrolled in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) at the time of their baby's birth. It was the first automatic targeted deposit at scale in a statewide CSA program.[10]
- The College Board (2013) recommended supplementing the Pell Grant program by opening savings accounts for children as early as age 11 or 12 who would likely be eligible for Pell once they reached college age and making annual deposits of 5 percent to 10 percent of the amount of the Pell Grant award for which they would be eligible.

The city of Saint Paul, MN is not only rigorously testing the power of CSAs to provide an infrastructure that allows multiple streams of assets to flow into a child's account, but they are also testing how this same infrastructure can be used to connect income strategies together with asset strategies in an experimental study they call CollegeBound Boost. This program builds on their existing citywide CSA program, CollegeBound, by adding a guaranteed income component and ongoing targeted deposits (like 401Kids and Baby Bonds).

The experimental study provides families individual interventions related to education, income, and the racial wealth gap using CSAs as the scaffolding to bind them together:

- No-treatment control condition.
- Quarterly CSA deposits only condition ($250 quarterly, total of $1,000 annually).
- Guaranteed income payments ($500 per month) + quarterly deposits condition.

This experiment augments the ability of families to save by providing them with additional cash to meet their basic needs, which in turn increases the amount of income they have left over to save. It also boosts the total assets they have for paying for college by directly transferring city funds into the CSA of children living in the city. Finally, St. Paul uses the CSA infrastructure as a financial mechanism to deliver 401Kids or Baby Bond-type deposits to their constituents. As such, it serves as one of the first tests of whether a small dollar CSA could act as a delivery system for large ongoing targeted deposits.

The potential of different types of assets flowing into a CSA makes it a tool that can provide a way for not only government but foundations, faith-based organization, philanthropists, employers, and many others to help finance college and reduce wealth inequality. Furthermore, CSAs' potential to connect different poverty, wealth building, and even education (to include financial education) strategies so that they

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[8] To learn more about NYC's Kids RISE and how it is leveraging CSAs' capacity for facilitating multiple streams of assets to flow to its children, go to *https://aedi.ssw.umich.edu/sites/default/files/documents/Reports/csa-doorway/csa-doorway-case-study-5.pdf?v=1.0*.

[9] To learn more about how the Early Awards Scholarship program is leveraging CSAs' capacity for facilitating multiple streams of assets to flow to its children by transforming traditional scholarships into early award scholarships, go to *https://aedi.ssw.umich.edu/sites/default/files/documents/Reports/csa-doorway/csa-doorway-case-study-2.pdf*.

[10] To learn more about The Bright Future Booster and how Keystone Scholars is leveraging their CSA infrastructure, go to *https://aedi.ssw.umich.edu/sites/default/files/documents/Reports/csa-doorway/csa-doorway-case-study-1.pdf*.

can work together under one umbrella might be a game changer in the fight against poverty, wealth inequality, and eroding return on degree.

POVERTY AND WEALTH INEQUALITY ARE FINANCIAL CAPABILITY PROBLEMS

From a financial capability perspective, solving poverty is not mainly an issue of feeding, clothing, and sheltering children. Nor is solving wealth inequality mainly a problem of transferring wealth to families to reduce the wealth gap. Both are important for equipping children with what they need to become financially capable, but they are not sufficient. In short, what I am suggesting is that the root cause of poverty and wealth inequality is lack of financial capability. Building on Sherraden (2013), Zheng and I (2023, November) have posited that to be financially capable, children must have access to financial institutions (*e.g.,* CSAs), assets (*e.g.,* 401Kids or Baby Bond-like deposits), and financial literacy (*e.g.,* financial education training). *If a goal of social welfare policy is to make children financially capable, then ending poverty and wealth inequality would be byproducts not the primary goals of social welfare policy.* The financial capability perspective is reflected in the saying, "give a person a fish, and you feed them for a day; teach a person to fish, and you feed them for a lifetime." However, teaching in the context of financial capability emphasizes experiential learning, which means inclusion in financial institutions, having access to income and assets, and access to quality financial education are necessary parts of becoming financially capable.

Generally, the CSA movement has been associated with the effort to create the institutional structure so that everyone can have access to wealth, the Baby Bonds movement with supplying enough wealth to be able to build one's new wealth, and the financial education movement with assuring children have enough financial knowledge and skills to be able to use financial institutions and income and wealth to become producers of wealth; that is, fishers. It seems that to solve poverty a financial capability framework is needed that brings all three poverty and wealth alleviation strategies under one umbrella. The CSA infrastructure may be that umbrella as demonstrated by the CollegeBound Boost experiment in Saint Paul, MN.

POLICY RECOMMENDATION

The proposed 401Kids Savings Account Act would establish a Federal CDA policy with universal, automatic, and progressive features. By serving all children at birth through a centralized savings platform—a transformed 529 college savings plan—this policy would promote asset building, wealth equity, and child development, particularly for people of color and disadvantaged families. Research has shown that this evidence-based policy design is efficient and sustainable, and it has often garnered bipartisan support in the States. Legislation is now before the Senate Committee on Finance, the House Committee on Ways and Means, and the House Committee on Energy and Commerce. I recommend that policymakers consider evidence from sound research in developing an effective, sustainable policy to advance equity and address wealth inequality.

More specifically I make the following recommendations:

- Connect the size of the Federal investment in CSAs over the course of 18 years for an individual child to what it would cost to provide children with a free college education (roughly $45,000 currently). This amount is in line with the 401Kids proposal and the American Opportunity Accounts proposal.
- Changes to section 529 of the Internal Revenue Code of 1986 that were prescribed in 401Kids be enacted. Specifically, that expanded uses beyond education to include buying a home, starting a business, or saving for retirement be allowed. As of January 1, 2024, the Code has already been changed to allow funds to roll over into a beneficiary-owned Roth IRA tax-free and penalty-free. Allowing for expanded uses would better equip the CSA infrastructure to act as a deliver system for other children's asset building programs such as Baby Bonds proposals.
- Regarding the 401Kids bill and the annual contributions cap of $2,500. I recommend, in the case of low-income families, it only apply to Federal matching funds. Restricting contributions to $2,500 per year for low-income families will have the effect of limiting the ability to take advantage of the full power of CSAs to build wealth (*i.e.,* the ability for multiple streams of assets to flow into an account) discussed in this testimony. If third parties (*e.g.,* family members, employers, philanthropists, communities, and other entities) can contribute amounts over the $2,500 for low-income children, this will reduce wealth inequality while leveling the playing field for all children.

Regarding concerns of wealthy families unfairly taking advantage of the opportunity to save in 401Kids and thus potentially increasing wealth inequality, this would be muted by the fact that children living in wealthier families would not be able to receive contributions that totaled more than $2,500 per year in their 401Kids account.

- Accounts should remain in place from birth until retirement, taking full advantage of the potential for assets to continue to flow into or remain in accounts throughout an individual's life.

Again, I would like to thank the committee for the opportunity to participate in today's hearing.

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QUESTIONS SUBMITTED FOR THE RECORD TO WILLIAM ELLIOTT, PH.D.

QUESTIONS SUBMITTED BY HON. BENJAMIN L. CARDIN

Question. Child savings accounts provide viable options for families to have the opportunity to save money for their children's education. However, persistent economic disparities exist that may prevent certain children from enrolling in college or vocational schools. This is why it is important that underserved communities

have access to child savings plans as these accounts act as important vehicles to ensuring access to education.

As of 2023, there are 121 child savings account programs in 39 States and DC, with 5.8 million accounts. Access to child savings accounts can remove certain economic barriers increase the likelihood that individuals in underserved communities have the option to pursue higher education.

Can you speak to some of the barriers that exist which prevent families from starting a child savings account?

Answer. Inclusion can be defined as having **access** to an asset-building program for children. 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. Policies and programs that adopt an opt-in approach require participants to enroll. However, there are barriers that low-income families face to enrolling that make opt-in less than desirable if full inclusion is the goal. For example, they are very busy trying to make it day to day and so a lengthy application process is likely to discourage enrolment, low financial knowledge can also be a barrier, and many low-income families simply are not aware of the programs or their benefits.[1] Not surprisingly then, opt-in programs invariably end up favoring higher-income families. This can be seen in examples Dr. Elliott's uses in his testimony on the Canada Education Savings Program, UK's National Child Trust Fund and Individual Savings Accounts (ISAs), and Maine's My Alfond Grant programs also copied below in the second part of this question as well.[2]

In contrast, inclusion can mean ensuring 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. Policies and programs that adopt an opt-out model automatically enroll participants.

Question. What can be done by the Federal Government to reduce these barriers and ensure equitable access to child savings accounts for low-income families?

Answer. In a recent brief I presented three examples that illustrate why automatic enrollment is the best way to ensure equitable access to CSAs for low-income families (Elliott, 2024, June). Here are the 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 1 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 percent of eligible children received the $500 grant.[3] **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.**[4]

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-percent enrollment, or nearly full inclusion.**

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[1] Clancy, M., and Lassar, T. (2010). *College savings plan accounts at birth: Maine's statewide program* (CSD Policy Brief 10–16). St. Louis, MO: Washington University, Center for Social Development; Government of Canada (2024). Budget 2024 (see section entitled "Making it Easier to Save for Your Child's Education"). Find at Chapter 2: Lifting Up Every Generation | Budget 2024 *(https://budget.canada.ca/2024/report-rapport/chap2-en.html#s2-2).*

[2] Hearing on Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children, U.S. Senate Finance Committee, 118th Cong. (2024). (Testimony of Colleen J. Quint). *https://www.finance.senate.gov/imo/media/doc/05212024_colleen_quint_testimony.pdf.*

[3] Hearing on Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children, U.S. Senate Finance Committee, 118th Cong. (2024). (Testimony of Colleen J. Quint). *https://www.finance.senate.gov/imo/media/doc/05212024_colleen_quint_testimony.pdf.*

[4] *Ibid.*

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.[5, 6]

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-percent 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-percent match on the first $500 contributed to the RESP, while those with lower incomes ($53,359 or less) receive an additional 20-percent 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.[7] 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.[8]

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.[9]

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.

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[5] Hannon, S., Moore, K., Schmeiser, M., and Stefanescu, I. (2016). Saving for college and section 529 plans. Board of Governors of the Federal Reserve System. FEDS Notes. Find at FRB: FEDS Notes: Saving for College and Section 529 Plans *(https://www.federalreserve.gov/econresdata/notes/feds-notes/2016/saving-for-college-and-section-529-plans-20160203.html)*.

[6] Frenette, M. (2017). Which families invest in registered education savings plans and does it matter for postsecondary enrolment? Analytical Studies Bank Research Paper Series. Statistics Canada. Find at Which Families Invest in Registered Education Savings Plans and Does It Matter for Postsecondary Enrolment? *(https://www150.statcan.gc.ca/n1/pub/11f0019m/11f0019m2017392-eng.htm)*.

[7] Employment and Social Development Canada (2022). Evaluation of the Canada education savings program. Government of Canada. Find at *(https://www.canada.ca/content/dam/esdc-edsc/images/corporate/reports/evaluations/education-savings/cesp-2022-en.pdf)*.

[8] Government of Canada (2024). Budget 2024 (see section entitled "Making it Easier to Save for Your Child's Education"). Find at Chapter 2: Lifting Up Every Generation | Budget 2024 *(https://budget.canada.ca/2024/report-rapport/chap2-en.html#s2-2)*.

[9] Government of Canada (2024). Budget 2024 (see section titled "Making it Easier to Save for Your Child's Education"). Find at Chapter 2: Lifting Up Every Generation | Budget 2024 *(https://budget.canada.ca/2024/report-rapport/chap2-en.html#s2-2)*.

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.[10] 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 percent of accounts on behalf of children.**[11] 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.[12, 13]

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.[14] 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.[15]

Question. Housing is a key priority in closing the wealth gap as homes can be the primary nest egg for many families in this country and a tool to build and pass down wealth. Under the Biden administration's leadership, we have made progress towards ensuring that families that otherwise would not have access to homeownership can make strides towards purchasing a home.

Tax credits such as the Low-Income Housing Tax Credit (LHITC) and my proposed legislation, the Neighborhood Homes Investment Act (NHIA), support affordable housing developments and wealth building for individuals. This is ultimately intertwined with family savings. By creating incentives for affordable housing, we can increase the supply and access to home ownership for families.

Can you speak to the specific benefits of incentivizing homeownership as it relates to wealth building and family savings?

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[10] Finlayson, A. (2008), Characterizing New Labour: The Case of the Child Trust Fund. *Public Administration* 86(1), 95–110.

[11] National Audit Office (2023). Investigation into Child Trust Funds. London. *https://www.nao.org.uk/reports/investigation-into-child-trust-funds/*.

[12] Hannon, S., Moore, K., Schmeiser, M., and Stefanescu, I. (2016). Saving for college and section 529 plans. Board of Governors of the Federal Reserve System. FEDS Notes. FRB: FEDS Notes: Saving for College and Section 529 Plans *(https://www.federalreserve.gov/econresdata/notes/feds-notes/2016/saving-for-college-and-section-529-plans-20160203.html)*.

[13] Broome, Corlett, and Leslie (2023). ISA ISA Baby: Assessing the government's policies to encourage household saving. Resolution Foundation. *https://www.resolutionfoundation.org/app/uploads/2023/01/ISA-ISA-baby.pdf*.

[14] For information on how CSA can facilitate third-party contributions (*i.e.,* multiple streams of assets), *see* Unleashing the Power of Children's Savings Accounts | Center on Assets, Education, and Inclusion *(https://aedi.ssw.umich.edu/unleashing-the-power-of-children-savings-accounts)*.

[15] For a review of these findings, *see* Elliott, W. (2024, Jan.). Assessing the evidence for Children's Savings Accounts (CSAs) as an effective strategy for improving children's postsecondary outcomes: The continuum of evidence of effectiveness. University of Michigan. Center on Assets, Education, and Inclusion (AEDI). Find at *(https://aedi.ssw.umich.edu/sites/default/files/documents/Reports/evolution-of-csa-research.pdf?v=1.1)*.

Answer. The Pew Research Center finds that in 2021 half of U.S. homeowners derived more than 45 percent of their wealth from the equity in their homes.[16] Homeownership is even more important for building wealth among Black and Hispanic households. About 63 percent of Black homeowners net worth is derived from home equity and about 66 percent for Hispanic homeowners. Importantly, while about 62 percent of U.S. households own their home, they also find that only 40 percent of Black households owned their home and 47 percent of Hispanic households. Furthermore, households who do not own a home are also far more likely to be asset poor (*i.e.,* living in a household that does not have enough assets to allow them to remain above the official poverty line for 3 months).[17] It stands to reason, policies that help to increase homeownership rates, particularly among Black and Hispanic households, can help households build wealth.

It is commonly recognized that one of the biggest barriers to buying a home is lack of funds for down payment and closing costs. Individual Development Accounts (IDAs) are matched-savings accounts primarily targeted to **adults** and designed to assist low-income households build assets through homeownership, education, or entrepreneurship.[18] The American Dream Demonstration (ADD)[19] began in 1997, initiated by the Corporation for Enterprise Development,[20] to test whether lower-income families and households could build assets in IDAs. The 5-year ADD demonstration concluded with promising results that produced insights that have informed the design of other asset building interventions.[21] During that same year, the Assets for Independence (AFI) Act was passed into law, which established a Federal grant program to provide nonprofits and government agencies with funds to offer IDAs to lower-income families and households.[22]

Regarding homeownership, findings from the ADD experiment show:

> The treatment had a significant positive effect on the rate of homeownership. After 48 months, the homeownership rate was 6.2 percentage points higher in the treatment group than in the control group. Proportionally, this was a 14-percent increase, relative to the homeownership rate for the control group (42.9 percent at month 48). The favorable effect on homeownership was pronounced among the following subgroups (as defined at baseline): those who did not own a home, African-Americans, families comprised of two or more adults with children, those with more than $1,100 in total financial assets, those not on public assistance, and those with a checking or savings account. Additionally, the extent to which baseline nonhomeowners subsequently engaged in activities preparatory to home purchase (such as attending an open house or repairing credit to apply for a mortgage) was significantly higher among those in the treatment group.[23]

Sherraden initially proposed that IDAs should be opened early in life—ideally, at birth—to promote asset building and well-being across the life span. Sherraden writes, "Because asset-based welfare is a long-term concept, some of the best applications of IDAs would be for young people. Young people would be given specific information about their IDAs from a very early age, would be encouraged to participate in investment decisions for the accounts, and would begin planning for use of

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[16] Pew Research Center (2023). The assets households own and the debts they carry. Urban Institute. Washington, DC. *https://www.pewresearch.org/2023/12/04/the-assets-households-own-and-the-debts-they-carry/#:~:text=Among%20U.S.%20homeowners%20overall%20%E2%80%93%20that,the%20other%20half%20derived%20less.*

[17] Rank, M.R. and Hirschl, T.A. Estimating the life course dynamics of asset poverty. Center for Social Development, Washington University in St. Louis. *https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1836&context=csd_research.*

[18] Sherraden, M. (1991). *Assets and the poor: A new American welfare policy.* Armonk, NY: M.E. Sharpe.

[19] For more information, *see https://csd.wustl.edu/areas-of-work/.*

[20] They are now called Prosperity Now. For more information, *see https://prosperitynow.org/.*

[21] Richards, K.V. and Thyer, B.A. (2011). Does Individual Development Account Participation Help the Poor? A Review. *Research on Social Work Practice,* 21(3), pp. 348–362.

[22] For more information, *see https://www.hudexchange.info/resource/4482/assets-for-independence-program-fact-sheet/#:~:text=AFI%20is%20a%20federal%20program,income%20individuals%20and%20their%20families.*

[23] Abt Associates Inc. (2004). Evaluation of the American dream demonstration: Final evaluation report (p. vi). *file:///C:/Users/ellio/OneDrive/Documents/Evaluation%20of%20the%20American%20Dream.pdf.*

the accounts in the years ahead."[24] As implemented, however, in part due to funding constraints and the need to produce demonstrable outcomes on timelines acceptable to philanthropic and government investors, IDAs have continued as short-term programs to assist families and households in achieving home ownership, education, enterprise, or other development goals. In the ADD experiment, the average total asset (net deposits plus match) accumulation in an IDA was $1,543 (among savers it was $2,755).[25]

IDAs were the precursor to children's savings accounts (CSAs). The 401Kids legislation, a type of CSA policy, has the potential to have a far greater impact on housing outcomes of low-income families. This is because it allows wealth to start accumulating in these accounts from birth. And they are not solely reliant on individual contributions for building wealth in these accounts. Estimates by the Joint Economic Committee of the U.S. Congress indicate that if a child of an EITC-eligible single parent received the 401Kids deposits from birth, the child's account could accumulate over $53,000 by age 18.[26] This does not even include the potential of CSAs for producing wealth from multiple streams of assets beyond individual and government contributions (*e.g.,* from philanthropists, employers, foundations, communities, and other third parties).[27]

Combining 401Kids with legislation like the Neighborhood Homes Investment Act, which helps families to develop and renovate their homes would only further increasing the equity families have in their homes.[28] Funding for home repairs is particularly important for low-income families and families of color being able to stay in their home and for increasing the value of the home.[29]

QUESTIONS SUBMITTED BY HON. ELIZABETH WARREN

Question. You testified about the importance of education as an equalizer in the U.S. economy, but also emphasized the clear unequal return on degrees by family wealth. Your research has also found that taking out just $10,000 in student loans is associated with an 18-percent decrease in the rate of achieving median net worth.[30] Addressing wealth inequality, investing in children's futures, and reducing future student debt are powerfully important, but unfortunately, today more than 43 million borrowers in the United States already carry a total of $1.6 trillion in student debt and more than 2 million borrowers have been repaying those loans for at least 20 years.[31]

What role does student debt cancellation play in addressing inequities in our higher education system?

Answer. The U.S. Federal student loan program has received considerable policy attention in recent years. However, the policies proposed almost exclusively focus on softening the blow dealt by student loans, rather than avoiding the damage in

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[24] Sherraden, M. (1991). *Assets and the poor: A new American welfare policy*. Armonk, NY: M.E. Sharpe.

[25] Schreiner, M., Clancy, M., and Sherraden, M. (2002). Saving performance in the American Dream Demonstration. Center for Social Development, Washington University in St. Louis. *https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1342&context=csd_research.*

[26] Casey, B. (2024). 401Kids: Building Wealth for the Next Generation. U.S. Senator, Pennsylvania. *https://www.casey.senate.gov/imo/media/doc/401kids.pdf.*

[27] Elliott, W. (2023, March). Unleashing the power of Children's Savings Accounts (CSAs): Doorway to multiple streams of assets. University of Michigan, Center on Assets, Education, and Inclusion. *https://aedi.ssw.umich.edu/sites/default/files/documents/Reports/csa-doorway/csa-doorway-full-report.pdf?v=1.2.*

[28] *See https://www.congress.gov/bill/118th-congress/senate-bill/657.*

[29] Eisenberg, A., Wakayama, C., and Cooney, P. (2021). Reinforcing low-income homeownership through home repair: Evaluation of the make it home repair program. University of Michigan, Ann Arbor. Poverty Solutions. *https://poverty.umich.edu/files/2021/02/PovertySolutions-Make-It-Home-Repair-Program-Feb2021-final.pdf.*

[30] Testimony of William Elliot, Ph.D., professor, University of Michigan, and director, Center on Assets, Education, and Inclusion, U.S. Senate Finance Committee, "Child Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children," May 21, 2024, *https://www.finance.senate.gov/imo/media/doc/05212024_william_elliott_testimony.pdf.*

[31] Federal Student Aid, "Federal Student Aid Posts New Quarterly Reports to FSA Data Center," press release, August 30, 2023, *https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2023-08-30/federal-student-aid-posts-new-quarterly-reports-fsa-data-center;* U.S. Department of Education, "Biden-Harris Administration Announces New Plans to Deliver Debt Relief to Tens of Millions of Americans," press release, April 8, 2024, *https://www.ed.gov/news/press-releases/biden-harris-administration-announces-new-plans-deliver-debt-relief-tens-millions-americans.*

the first place. Approaches such as income-based repayment plans, in their various iterations, are all designed to help borrowers cope with the consequences of their student borrowing, yet none have been demonstrated to truly avoid the educational, social, and financial hazards of using student loans to finance college in the first place.

EXTENDING PAYMENT PERIODS MAY ACTUALLY EXACERBATE INEQUITY IN HIGHER EDUCATION

Even as understanding of student loans as a dis-equalizing force has permeated popular discussion to some degree, there has been little reconsideration of the fundamental wisdom of relying so heavily on student loans to level the education playing field. Indeed, some proposals might even exacerbate inequity in higher education. For example, if we encourage low-income students to enroll in less expensive 2-year schools to reduce their expenses,[32] institutions where they would still need to borrow to pay for them, and economically advantaged students can choose their schools without worrying about how to pay for college, we run a real risk of creating an explicitly two-tiered structure, particularly since all institutions are not created equal in terms of educational outcomes.[33]

Reimagining, and then, rebuilding, the U.S. financial aid system must begin with a more complete accounting for the true costs of student loans, to students and the larger economy.[34] And so, while current proposals largely center on reducing monthly payment burdens for students to reduce the incidence of delinquency and default, they do little to address the long-term effects of student loans, before and after college.

- About 21 percent of borrowers avoid delinquency by using deferment or forbearance.[35]
  - Nine years after leaving school, the 2005 cohort has paid down only 38 percent of its original student debt. Under a standard 10-year amortization schedule, these loans would be approaching full repayment, and only about 10 percent of the original balance would remain.[36]
    - Racial Disparities: 4 years after earning a bachelor's degree, Black graduates in the 2008 cohort held $24,720 more student loan debt than White graduates ($52,726 versus $28,006). It was less than $2,000 in 1993.[37]
  - Of high-balance borrowers, 22 percent have student loan balances higher in 2014 than they did in 2009, even without ever falling into severe delinquency or default.[38]

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[32] Goldrick-Rab, S., and Kendall, N. (2016). *The real price of college* (College Completion Series: Part Two). Washington, DC: The Century Foundation. Retrieved from *https://tcf.org/content/report/the-real-price-of-college/*.

[33] National Center for Education Statistics. (2011). *Community college student outcomes: 1994–2009*. NCES 2012–253.

[34] Hiltonsmith, R. (2013). At what cost: How student debt reduces lifetime wealth (pp. 1–15). New York, NY: Demos. *https://www.demos.org/research/what-cost-how-student-debt-reduces-lifetime-wealth*.

[35] Cunningham, A.F., and Kienzl, G.S. (2011). *Delinquency: The untold story of student loan borrowing*. Washington, DC: Institute for Higher Education Policy. Retrieved August 2, 2014 from *http://www.ihep.org/assets/files/publications/a-f/delinquency-the_untold_story_final_march_2011.pdf*.

[36] Brown, M., Haughwout, A., Donghoon, L., Scally, J., and van der Klaauw, W. (2015). Looking at Student Loan Defaults through a Larger Window. *Liberty Street Economics*. New York, NY: Federal Reserve Bank of New York. Retrieved January 12, 2016 from: *http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.VpVJeStGmKz*.

[37] Scott-Clayton, J. and Li, J. (2016). *Black-white disparity in student loan debt more than triples after graduation*. Washington DC: Brookings. Economic Studies. Find at *https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf*.

[38] Brown, M., Haughwout, A., Donghoon, L., Scally, J., and van der Klaauw, W. (2015). Looking at Student Loan Defaults through a Larger Window. *Liberty Street Economics*. New York, NY: Federal Reserve Bank of New York. Retrieved January 12, 2016 from: *http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.VpVJeStGmKz*.

- Racial Disparities: Nearly half (48 percent) of all Black graduates owe more on their Federal undergraduate loans than they did at graduation, compared to just 17 percent of White graduates.[39]

Indeed, policies that seek to reduce the strain on student borrowers by extending the repayment period or making other modifications to the student loan program may only prolong the harmful effects on students financial and life outcomes.

FAILURE OF STUDENT LOANS

Research suggests that student loans' fail to catalyze greater educational achievement, increase students' engagement in school, and foster stronger economic foundations.[40] There is a growing body of evidence that reveals the dimensions on which student loans endanger the well-being of individual borrowers, the institutions dependent on them, and our macro-economy.[41] Data reveal that disadvantaged students, particularly low-income and students of color, are disproportionately affected by these forces,[42] unacceptable effects given the desired role of higher education in fostering greater equity and upward mobility.[43] Research shows, when comparing students who graduate from college with student loan debt and those who graduate but with no debt, those without debt do better:

- Labor market decisions.[44]
- Delay marriage.[45]
- Earn less by the time they reach their 40s.[46]
- Less net worth.[47]
- Less retirement savings.[48]
- Less likely to own a home.[49]
- Less likely to start up a new business.[50]

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[39] Scott-Clayton, J. and Li, J. (2016). *Black-white disparity in student loan debt more than triples after graduation*. Washington DC: Brookings. Economic Studies. Find at *https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf*.

[40] Cofer, J. and Somers, P. (2000). A comparison of the influence of debt load on the persistence of students at public and private colleges. *Journal of Student Financial Aid,* 30, 39–58; Perna, L. W. (2000). Differences in the decision to attend college among African Americans, Hispanics, and Whites. *The Journal of Higher Education,* 71(2), 117–141; Heller, D.E. (2008). The impact of student loans on college access. In S. Baum, M. McPherson, and P. Steele (Eds.), *The effectiveness of student aid policies: What the research tells us* (pp. 39–68). New York: College Board.

[41] Frizell, S. (February 26, 2014). Student loans are ruining your life. Now they're ruining the economy, too. *Time Magazine*. Retrieved August 13, 2014 from: *http://time.com/10577/student-loans-are-ruining-your-life-now-theyre-ruining-the-economy-too/*. Korkki, P. (May 24, 2014). The Ripple Effects of Rising Student Debt. *The New York Times*. Retrieved August 13, 2014 from: *http://www.nytimes.com/2014/05/25/business/the-ripple-effects-of-rising-student-debt.html?_r=0*.

[42] Fenske, R.H., Porter, J.D., and DuBrock, C.P. (2000). Tracking financial aid and persistence of women, minority, and needy students in science, engineering, and mathematics. *Research in Higher Education,* 41, 67–94. Retrievable at Springer website: *http://link.springer.com/article/10.1023%2FA%3A1007042413040* and Kim, D. (2007). The effects of loans on students' degree attainment: Differences by student and institutional characteristics. *Harvard Educational Review,* 77(1), 64–100.

[43] Greenstone, M., Looney, A., Patashnik, J., and Yu, M. (2013). Thirteen Economic Facts about Social Mobility and the Role of Education. Washington, DC: The Brookings Institution. Retrieved August 12, 2014 from: *http://www.brookings.edu/research/reports/2013/06/13-facts-higher-education*.

[44] Rothstein, J. and Rouse, C.E. "Constrained After College: Student Loans and Early-Career Occupational Choices." *Journal of Public Economics,* 95 no. 1–2 (2011): 149–163.

[45] Gicheva, D. "Does the student-loan burden weigh into the decision to start a family?" University of North Carolina at Greensboro, 2011. *http://www.uncg.edu/bae/people/gicheva/Student_loans_marriageMarch11.pdf*.

[46] Hiltonsmith, R. (2013). At what cost: How student debt reduces lifetime wealth (pp. 1–15). New York, NY: Demos. *https://www.demos.org/research/what-cost-how-student-debt-reduces-lifetime-wealth*.

[47] Elliott, W. and Nam, I. (2013). Is Student Debt Jeopardizing the Long-Term Financial Health of U.S. Households? *Review* 95(5): 1–20. *https://www.stlouisfed.org/household-financial-stability/events/20130205/papers/Elliott.pdf*.

[48] Egoian, J. (2013, Oct.). *73 Will Be the Retirement Norm for Millennials.* Nerdwallet, October 23, 2013. *http://www.nerdwallet.com/blog/investing/2013/73-retirement-norm-millennials/*.

[49] Cooper, D. and Wang, C. "Student Loan Debt and Economic Outcomes." *Current Policy Perspectives* (Washington, DC) 2014. *https://www.bostonfed.org/publications/current-policy-perspectives/2014/student-loan-debt-and-economic-outcomes.aspx*.

[50] Ambrose, B.W., Cordell, L., and Ma, S. (2015). The impact of student loan debt on small business formation. (working paper). Federal Reserve Bank of Philadelphia.

From an equity standpoint, the underlying problem is not high default rates, for example, the underlying problem is funding education through student loans in the first place. Extending the time people have to pay back loans in order to maintain a broke system of financing college through loans only reduces the opportunity for building wealth over a longer period of time.

EVEN SMALL AMOUNTS OF DEBT CAN HAVE NEGATIVE IMPACTS

A closer examination of student loans reveals not only the different dimensions on which student loans may harm prospective, current, and former college students and their households, but also the serious limitations of reforms that relies on student loans as a way of financing college. Contrary to popular belief, it is not only the extremely "high-dollar" loans—still relatively rare—that should be alarming.[51] One of the things that makes loans particularly risky is that it is not clear what is a "safe" level of student loan debt to have. Analysis reveals negative effects on asset accumulation and subsequent financial well-being at levels even far below "recommended" thresholds, revealing the limitations of any efforts to protect students by simply trying to avoid huge loans.[52] Researchers measure mobility as the likelihood and rate of achieving median household net worth among 4-year college graduates or above who were at least age 22. After controlling for key differences, they found that acquiring the relatively small amount of $10,000 in student loans is associated with a 18-percent decrease in the rate of achieving median net worth.[53]

STUDENT DEBT CAN DIMINISH THE RETURN ON DEGREE

Research has consistently shown that children from lower-wealth families are less likely to attend and complete college than their counterparts.[54] However, maybe even more damaging is the growing evidence that suggests even when low-income and minority children do the right things and earn a degree, the degree is not an equalizer. Researchers find that bachelor's degree holders from low-income families start their careers earning about one-third less than those from higher-income families.[55] Hispanic and Black American students with a degree have less income and net worth than their White and Asian counterparts.[56] Furthermore, during the Great Recession, Black and Hispanic college-grad families experienced wealth declines far greater than White families without a college degree.[57] This suggests that having a degree provides less financial protection for Black and Hispanic graduates.

The unequal return on a degree suggests that strategies that focus **only** on college affordability, even free college, will fail to achieve some of our most cherished aspirations for education to fulfill its role as an antipoverty strategy or equalizer. It also means that where you start off in life matters and whether you have assets growing up matters for the types of outcomes you will be able to achieve and for whether education pays off equally for all. When it comes to investing in higher education as a path to the American Dream of equitable opportunity for all, then, "free" without asset building will fail to reduce inequality.

HOW CAN STUDENT LOAN CANCELLATION HELP?

Today, though, we see that we cannot articulate children's savings accounts (CSAs) as mere "complements" to student loans, although we still believe that it might, theoretically, be possible to build a policy structure that incorporated both elements to some extent. In the footprint of the current U.S. system, however, gar-

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[51] Egoian, J. (2013, October). *73 Will Be the Retirement Norm for Millennials.* Nerdwallet, October 23, 2013. *http://www.nerdwallet.com/blog/investing/2013/73-retirement-norm-millennials/.*

[52] Akers, B. and Chingos, M.M. (2014). Is a Student Loan Crisis on the Horizon? Washington, DC: The Brookings Institution. Egoian, J. (2013, Oct.). *73 Will Be the Retirement Norm for Millennials.* Nerdwallet, October 23, 2013. *http://www.nerdwallet.com/blog/investing/2013/73-retirement-norm-millennials/.*

[53] Elliott, W., and Rauscher, E. (2018). When Does My Future Begin? Student Debt and Intragenerational Mobility. *Sociology Mind,* 8, 175–201. *https://doi.org/10.4236/sm.2018.82015.*

[54] Pfeffer, F. (2015). How Has Educational Expansion Shaped Social Mobility Trends in the United States? *Social Forces,* 94(1), 143–180.

[55] Hershbein, B. (2016). A college degree is worth less if you are raised poor. *Brookings Social Mobility Memos.* Retrieved from *http://www.brookings.edu/blogs/social-mobility-memos/posts/2016/02/19-college-degree-worth-less-raised-poor-hershbein.*

[56] Emmons, W.R. and Noeth, R.J. (2015). Why didn't higher education protect Hispanic and black wealth? Retrieved from *https://www.stlouisfed.org/~/media/Publications/In%20the%20Balance/Images/Issue_12/ITB_August_2015.pdf.*

[57] *Ibid.*

nering the political will and fiscal resources needed to catalyze national commitment to children's asset-building must begin with a shared acknowledgement of the failures of our student loan experiment, particularly as practiced in the past few decades. In part, this need for a moment of reimagining of financial aid from a debt dependent model to an asset building model is fiscal and pragmatic, though it would have to happen incrementally, as a long-term strategy.

The Federal Government must also recognize that it cannot simply pivot away from the loans' central role in financial aid and pretend that it then begins with a blank slate. Instead, in addition to a new future direction, the Federal Government must also extend some help to those harmed by debt-dependence (*i.e.,* through loan cancellation policies). Critically, if constructed correctly, loan cancellation policies could not only help millions of American households escape oppressive debt loads and the footprint left by their discharged debt but could also improve families' asset positions. This should include debt forgiveness on a wider scale than seen to date, with the objective of ensuring that college leavers are out from underneath their debt in time to build positive financial assets during the critical young adult period. Simulations show that a progressive student loan forgiveness policy would dramatically reduce the racial wealth gap among low-wealth households. Eliminating student debt among those making $50,000 or below, for example, would reduce the Black-White wealth gap by nearly 37 percent among low-wealth households, and a policy that eliminates debt among those making $25,000 or less reduces the Black-White wealth gap by over 50 percent.[58]

Acknowledging the difficulties students have faced in trying to finance college safely with a flawed product, a thoughtful and fair policy of debt forgiveness need not incur moral hazards (*i.e.,* having to once again forgive loans in the future). This is because enacting student debt cancellation policies alongside a long-term plan to prevent families from having to rely on loans to pay for college like 401Kids does, eliminates the need for future generations having to rely on loan forgiveness in the first place.

PREPARED STATEMENT OF ADAM N. MICHEL, PH.D.,
DIRECTOR OF TAX POLICY STUDIES, CATO INSTITUTE

Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for inviting me to testify today.[1]

Saving is an important foundation for economic growth, personal well-being, and intergenerational support. When economists and policymakers determine that an activity, like saving, is important, the impulse is to encourage more of it. Today, I will urge you to first address the places where the government makes it harder for individuals to save.

The tax code is a major impediment to savers. The income tax double and triple-taxes investment income, discouraging Americans from putting money away for their kids, their retirement, or their dream of opening a business. The trillions of dollars the Federal Government spends on social welfare programs each year also undermines incentives to save, crowding out personal savings for government promises.

Thankfully, the tax code has many features, such as qualified investment accounts and lower capital gains taxes, that reduce some of the built-in disincentives to save. However, more work must be done to simplify and equalize the tax code's treatment of savers.

Instead of subsidizing personal savings, Congress should simply get out of the way. You could start by ensuring the 2017 tax cuts are made permanent so American families and businesses can have the certainty they need to plan and save for the future. Further reforms to the tax code, such as universal savings accounts (USAs) and lower income and capital gains taxes, would remove additional disincentives to save. Tax cuts that are paired with cuts to spending programs that crowd

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[58] Huelsman, M., Draut, T., Meschede, T., Dietrich, L., Shapiro, T., and Sullivan, L. (2015). Less debt, more equity: Lowering student debt while closing the black-white wealth gap. Retrieved from *http://www.demos.org/publication/less-debt-more-equity-lowering-student-debt-while-closing-black-white-wealth-gap*.

[1] The views I express in this testimony are my own and should not be construed as representing any official position of the Cato Institute.

out personal wealth would be most effective at allowing Americans to save for their own priorities.

Following pandemic-era stay-at-home orders and massive government financial support, Americans accumulated $2.1 trillion in excess savings (savings above the previous trend). As of March 2024, that excess savings has been spent, and Americans are drawing down other assets as savings rates are again historically low, solidifying a half-century decline.[2] Checks from the government fueled more inflation than wealth building. Getting government policy out of the way is a better way to reverse the decline in American's savings.

THE TAX CODE DOUBLE TAXES SAVERS

Traditional income tax systems encourage consumption over saving by assessing multiple layers of tax on interest and investment returns.

Wages are first taxed by income and payroll taxes. Individuals then choose to spend or save their after-tax income. Saved income is delayed consumption, saved to be spent in the future—in retirement, for a down payment on a home, to start a business, or to pay for education. A saver's earned interest income or investment returns are what the market pays to delay spending.

Under the income tax system, the increased value of investments is often taxed again as interest, capital gains, dividends, and transfers at death by the estate tax. The corporate income tax adds another layer of tax on income earned from corporate equity investments. Taxing investment returns reduces the market incentives to save by lowering the payment to delay consumption. Proposals to tax unrealized capital gains through mark-to-market taxes and wealth taxes would further increase effective tax rates on saving.[3]

SAVING AND INVESTMENT ARE KEY TO GROWTH

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.

A tax base that equally taxes income from labor and capital creates the smallest economic distortions. Such a tax is commonly referred to as a consumption tax.[4] When the income tax system lowers the after-tax return to savings, more income is consumed immediately, and entrepreneurs have fewer resources to invest in future technologies, expand their businesses, and raise wages. The U.S. tax system mitigates the worst of these effects through lower capital gains and corporate income tax rates, as well as tax-advantaged savings accounts, but additional reforms are needed.

QUALIFIED ACCOUNTS REDUCE THE DOUBLE TAX

One way the tax code reduces the income tax systems' 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 capital gains and dividends taxes from investment returns, although the corporate income tax still reduces the invest-

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[2] Hamza Abdelrahman and Luiz Edgard Oliveira, "Pandemic Savings Are Gone: What's Next for U.S. Consumers?", Federal Reserve Bank of San Francisco blog, May 3, 2024. *https://www.frbsf.org/research-and-insights/blog/sf-fed-blog/2024/05/03/pandemic-savings-are-gone-whats-next-for-us-consumers/*.

[3] Chris Edwards, "Taxing Wealth and Capital Income," Cato Institute Tax and Budget Bulletin No. 85, August 1, 2019, *https://www.cato.org/tax-budget-bulletin/taxing-wealth-capital-income;* and Nicole Kaeding, "Structural Questions Abound With New Mark-to-Market Tax Proposal," National Taxpayers Union Foundation Policy Paper, December 18, 2019, *https://www.ntu.org/foundation/detail/structural-questions-abound-with-new-mark-to-market-tax-proposal*.

[4] N. Gregory Mankiw, Matthew Charles Weinzierl, and Danny Yagan, "Optimal Taxation in Theory and Practice," *Journal of Economic Perspectives,* Vol. 23, No. 4 (2009), pp. 147–174, *https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.4.147;* and Alan J. Auerbach, "The Choice Between Income and Consumption Taxes: A Primer," NBER Working Paper No. 12307, June 2006, *http://www.nber.org/papers/w12307*.

ment return. In the accounts, savers can purchase a wide range of stocks, bonds, mutual funds, and exchange-traded funds, although rules vary.

Qualified accounts allow taxpayers to contribute tax-deferred income (traditional accounts) or after-tax income (Roth accounts). Contributions to traditional savings accounts are deducted from taxable income so that income taxes are not due when the contribution is made. For Roth accounts that receive after-tax contributions, no tax is due at withdrawal. If the contribution and withdrawal are made while the taxpayer is in the same tax bracket, the effective tax rate on an investment in Roth and traditional savings accounts is identical.

Table 1 shows an illustrative example. Tom and Dan are both 30 years old, in the 24-percent income tax bracket, and want to save $5,000 this year. Tom deposits $5,000 directly into his traditional 401(k) and receives a corresponding income tax deduction, saving him $1,200 in taxes this year. Dan also saved $5,000 of pretax income this year but did not deposit it in a qualified savings account and paid $1,200 of income tax on his saved income. If Dan and Tom both earn the same 7-percent rate of return for 30 years, Tom will pay about $9,800 in taxes when he withdraws the savings, leaving him with $31,000. Dan only pays $4,600 in capital gains taxes when he sells his assets, but because his original seed money was smaller, he is left with $26,400 in after-tax savings ($4,700 less than Tom). Tom's marginal effective tax rate is 24 percent, and Dan's is 35 percent.[5]

Table 1. Qualified Accounts Lower Taxes on Saving

	Tom (traditional qualified account)	Dan (savings outside qualified account)
Pre-tax contribution	$5,000	$5,000
Income tax paid on contribution	$0	$1,200
Value of account, year 1	$5,000	$3,800
Value of account, year 30	$40,831	$31,031
Income Tax paid on withdrawal	$9,799	$4,655
After-tax value of savings	**$31,031**	**$26,377**

Source: author's calculations.
Note: Calculations are based on an income tax rate of 24 percent, capital gains rate of 15 percent, and a 7-percent continuously compounded rate of return for 30 years. This is a simplified example that does not account for discounting taxed in different time periods and other timing complications.

Without qualified accounts, the income tax system increases the tax rate on Dan's savings, discouraging him from setting money aside for the future. All else being equal, Dan will save less for retirement than Tom, and the broader economy will be poorer due to Dan's missing contribution to the capital stock. Without protections from investment taxes, the same is true for other types of savings.

Congress has created qualified accounts for several types of savings:

- Retirement: Employer-sponsored 401(k) accounts, IRAs, and about 10 other types of accounts for special circumstances.
- Education: 529 plans and Coverdell education savings accounts.
- Disability: ABLE 529.
- Health care: Health Savings Accounts (HSAs). In addition to the protection from capital gains and dividend taxes, HSAs are fully exempt from income tax and payroll tax when distributions are for qualified health expenses—sometimes called a triple tax advantage.

UNIVERSAL SAVINGS ACCOUNTS

The existing qualified accounts shield taxpayers from double taxation, but they also come with income and contribution limits, age restrictions, employer requirements, required minimum distributions, and restrictions on what and when the savings can be spent. These rules are enforced with additional tax penalties and regulatory hurdles designed to increase the cost of accessing the savings for nonqualified expenses. The complexity of this existing system and penalties for mistakes discourage uptake, especially among young and low-income savers for whom

[5] This example builds on a similar work in Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation Backgrounder no. 3370, December 4, 2018, *https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings*.

liquidity is most important. The restrictions also act as an implicit subsidy for savings spent on targeted activities, such as education and retirement.

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 funds can be spent, or on what they can be spent. Similar accounts have been set up in Canada, the United Kingdom, and South Africa, where they are wildly popular, have increased personal savings, and are used by people at every income level.[6] In 2020, 40 percent of Canadian households contributed to a Canadian tax-free savings account (TFSA)—almost 60 percent own a TFSA—and 51 percent of TFSA account holders earned less than Canadian $50,000 (about U.S. $37,000).[7]

A similar reform proposed in President George W. Bush's Fiscal Year 2005 budget would have simplified the existing retirement system and created a universal savings account, called a lifetime savings account, that would have "allow[ed] an individual to earn a tax-free return on deposit amounts and withdraw the funds as needed without paying further taxes and without facing a withdrawal penalty."[8] A small (annual limit of $2,500) universal savings account passed the House of Representatives in 2018 as part of the Family Savings Act.[9] 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.

NOT EVERYONE NEEDS TO SAVE MORE

The appropriate savings rate varies significantly among individuals and changes over the course of their lives. 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. This over-saving can reduce the resources available for current consumption or lead to higher debt levels as individuals attempt to maintain their lifestyles.

For instance, Andrew Biggs highlights the potential pitfalls of automatic enrollment in State-level retirement saving programs. He questions whether lower-income individuals—the target of the reforms—actually need to save more for retirement, whether State-run auto-IRA plans actually increase net household savings, and whether such plans improve the financial well-being of the poor, especially when accounting for interactions with means-tested government transfer programs. Biggs concludes that "the answer to all three questions may be 'no,'" suggesting that savings incentives could leave some people worse off.[10]

Supporting this view, a study of the Federal Government's Thrift Savings Plans found that automatic enrollment of Federal employees with less than a high school education led to increased borrowing, likely to compensate for lower take-home pay.[11] A similar dynamic could result from existing policies, such as the Saver's Credit, and proposed policies, such as the saver match in 401Kids. Artificially induced savings that incur additional tax penalties when accessed for non-approved spending further reduce individual economic security and wealth building.

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[6] Ryan Bourne and Chris Edwards, "Tax Reform and Savings: Lessons from Canada and the United Kingdom," Cato Institute Tax and Budget Bulletin No. 77, May 1, 2017, *https://object.cato.org/sites/cato.org/files/pubs/pdf/tbb-77-update-2.pdf*.

[7] "Table 1C: TFSA Holders by Total Income Class," Government of Canada, Canada Revenue Agency, last revised January 17, 2022, *https://www.canada.ca/content/dam/cra-arc/prog-policy/stats/tfsa-celi/2020/table1c-en.pdf*.

[8] "Promoting Prosperity, Expanding Opportunity," in Budget of the United States Government, Fiscal Year 2005 (Washington: U.S. Government Publishing Office), p. 33, *https://www.gpo.gov/fdsys/pkg/BUDGET-2005-BUD/pdf/BUDGET-2005-BUD-8.pdf*.

[9] Family Savings Act of 2018, U.S. House of Representatives, 115th Congress, (H.R. 6757), *https://www.congress.gov/bill/115th-congress/house-bill/6757*.

[10] Andrew G. Biggs, "How Hard Should We Push the Poor to Save for Retirement?", AEI Economics Working Paper, Updated October 2017, *https://www.aei.org/wp-content/uploads/2017/07/Biggs-WP.pdf;* and Andrew G. Biggs, "How Much Should the Poor Save for Retirement? Data and Simulations on Retirement Income Adequacy Among Low-Earning Households," Presentation at "Remaking Retirement? Debt in an Aging Economy." Sponsored by the Pension Research Council/Boettner Center for Pensions and Retirement Research, May 2, 2019, *https://www.aei.org/wp-content/uploads/2019/06/Biggs-Retirement-Saving-Goals.pdf*.

[11] John Beshears, et al., "Borrowing to Save? The Impact of Automatic Enrollment on Debt," *The Journal of Finance* Vol. LXXVII, No. 1 (2022), *https://scholar.harvard.edu/files/laibson/files/total_savings_impact_2017_12_06.pdf*.

GOVERNMENT CROWDS OUT PRIVATE WEALTH

Beyond the direct effects of the income tax system on personal savings, social welfare spending can also displace individuals' incentive to save.

Social Security likely crowds out the most private savings. Early work from Martin Feldstein in the 1970s, corroborated and refined by subsequent research, shows that each dollar of promised Social Security benefits can reduce private savings by as much as 50 percent.[12] Jagadeesh Gokhale, Laurence Kotlikoff, and John Sabelhaus find that increased Social Security and Medicare benefits are significant factors explaining the multidecade decline in the U.S. savings rate (which declined from an average of 12 percent in the 1970s to 6 percent in years before the pandemic).[13] The lost private savings and resulting smaller capital stock have likely placed significant downward pressure on the size of the U.S. economy.[14]

In addition to Social Security and Medicare, many other welfare programs similarly reduce the incentive for Americans to save for their own needs. The taxes necessary to finance these programs also reduce the funds available to save. Chris Edwards and Ryan Bourne review evidence showing that by crowding out private savings, and thus wealth accumulation, welfare spending increases wealth inequality.[15] It does this by reducing the wealth of the lowest-income Americans who rely most on the government alternative to private savings.

NEUTRAL, PROGROWTH TAX CODE IS IMPORTANT FOR SAVING

Policymakers should work to remove existing government barriers to saving and investment before considering new subsidies or transfer programs. In addition to reforming and reducing spending programs that crowd out wealth accumulation, Congress should build on the successes of the 2017 Tax Cuts and Jobs Act (TCJA) by making it permanent before the 2026 expiration and pursuing additional reforms.

The TCJA cut individual and corporate tax rates, made it easier for millions of Americans to pay their taxes, simplified family benefits, and overhauled the international tax system, among many other reforms. As a result, the law increased the share of taxes paid by higher-income taxpayers and successfully boosted economic growth, investment, and wages.[16]

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).

Due to the structure of the 2017 tax cuts, the most economically powerful incentives were for increased business investment, which can be financed by domestic and foreign savings. Additional investment is the primary channel through which the economy benefited from the tax cuts, as businesses raised wages, added jobs, and produced more goods and services. Kyle Pomerleau and Donald Schneider find that in the years immediately after 2017, "real GDP, consumption, business investment, and payrolls grew more rapidly than expected."[17] Gabriel Chodorow-Reich

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[12] Congressional Budget Office, "Social Security and Private Savings: A Review of the Empirical Evidence," CBO Memorandum, July 1998, *https://www.cbo.gov/sites/default/files/105th-congress-1997-1998/reports/ssprisav.pdf*.

[13] Jagadeesh Gokhale, et al., "Understanding the Postwar Decline in U.S. Saving: A Cohort Analysis," NBER Working Paper No. w5571, May 1996, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3550*.

[14] Andrew G. Biggs, "Social Security and Private Savings—Causes and Effects," AEIdeas, September 17, 2009, *https://www.aei.org/economics/aging/social-security-and-private-savings-causes-and-effects/*.

[15] Chris Edwards and Ryan Bourne, "Exploring Wealth Inequality," Cato Institute Policy Analysis No. 881, November 5, 2019, *https://www.cato.org/policy-analysis/exploring-wealth-inequality*.

[16] Adam N. Michel, "Protecting American Families from Higher Taxes," Testimony, Committee on the Budget, United States Senate, May 17, 2023, *https://www.cato.org/testimony/protecting-american-families-higher-taxes*.

[17] Kyle Pomerleau and Donald Schneider, "Making the Tax Cuts and Jobs Act Permanent: Two Revenue-Neutral, Pro-Growth Options for Tax Reform," American Enterprise Institute Report, updated April 8, 2024, *https://www.aei.org/research-products/report/making-the-tax-cuts-and-jobs-act-permanent-two-revenue-neutral-pro-growth-options-for-tax-reform/*.

and coauthors report similar results. Using variations in how the 2017 tax reform impacted different corporations, they found that the tax cut "caused domestic investment of firms with the mean tax change to increase by roughly 20 percent relative to firms experiencing no tax change."[18] Similarly, disposable personal income, personal savings, and mortgage delinquency rates all improved significantly for individuals in 2018 and 2019.

The most progrowth tax changes must be permanent. Individuals and businesses are always planning for the future and almost always, taxes play a key role in their decisions. Thus, temporary tax changes have little effect on long-term planning, savings decisions, or economic growth. Making the TCJA permanent and continuing to cut tax rates by reducing government spending and broadening the tax base would support families, individual savings, and economic growth. With automatic tax increases hanging over the economy, it is harder for individuals and businesses to save, plan, and invest.

PREPARED STATEMENT OF COLLEEN J. QUINT, PRESIDENT AND CEO, ALFOND SCHOLARSHIP FOUNDATION

Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Finance Committee, my name is Colleen Quint, and I am the president and CEO of the Alfond Scholarship Foundation located in Portland, ME. Thank you for the opportunity to be with you today to discuss children's savings accounts.

Children's savings accounts (CSAs) are restricted savings accounts intentionally designed to help children save and build assets for their future. They are usually automatically seeded with starter deposits ($50–$500) early in a child's life, most often at birth or at kindergarten. Most CSAs are held in an "omnibus" account managed by the State or the program—typically a 529 account—and funds are accessed after age 18, when they can be used for restricted purposes (*e.g.,* postsecondary education and training). Families can save their own funds, usually in an account they open that can be linked to the omnibus account. These accounts build assets as well as a future orientation for children and families.

With more than 121 programs in 39 States, children's savings accounts are making a difference for children and families today, and tomorrow. Nationally, over 5.8 million children in the United States benefit from early investments towards future success.

MAINE'S CSA PROGRAM: ORIGINS, HISTORY, AND MILESTONES

Maine's CSA program, known as My Alfond Grant, is one of the oldest and most established CSA programs in the country. We invest $500 at birth for every child born a Maine resident, to be used for their future education after high school. By the end of April 2024, we had invested over $78 million for more than 156,000 Maine children. Perhaps even more importantly, families have contributed greater than three times that amount in their own funds. And when contributions from the foundation and from families are combined with matching grants as well as growth in the markets, it means a total of $477 million is at work for these children and their future. (See below for a graphic showing total invested dollars for the My Alfond Grant program).

We also have seen the ways in which our early investment builds assets and spurs savings over time. The $500 that we invested at birth is now worth $2,036 for the oldest of our grant recipients. For those who have opened their own accounts and made contributions, the average value of savings for their child's education is $11,581. The mean value is $5,467. And, the median contribution this most recent quarter was $255.[1]

So, as exciting as the big picture is and as good as it is to know that $477 million has been invested for these 156,000 Maine children, it is also meaningful to think that for individual Maine families not only has the Alfond Grant grown in value but also their own contributions—even when modest—have helped build real assets to support their child's future success.

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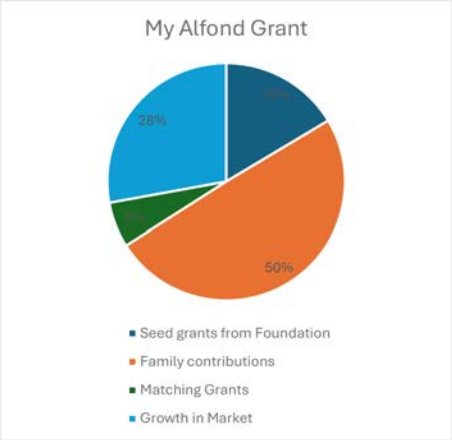
[18] Gabriel Chodorow-Reich et al., "Tax Policy and Investment in a Global Economy," NBER Working Paper No. 32180, March 2024, *https://conference.nber.org/conf_papers/f191672.pdf.*

[1] All figures as of March 28, 2024.



Value of Investments for Alfond Grant Recipients (4/30/24):

$78m Foundation seed grants

$236m Family contributions

$29m Matching Grants

$133m Growth in Market

A total of $477m invested for 156,000 Maine children

The My Alfond Grant program is a legacy gift from Maine businessman and philanthropist Harold Alfond. He recognized that education after high school is key to keeping open doors of opportunity for today's students. And his vision was that the program would have both practical and aspirational benefits: real money for each Maine child in an account, and the message to children and families that their future matters. We also often think about the program as operating at the micro and macro levels: it benefits individual students and the paths they seek to pursue, and it also has a bigger-picture impact by creating a more educated workforce and therefore helping to secure the future prosperity of the State's economy.

Originally called the Harold Alfond College Challenge (HACC), the first awards were made on a pilot basis to all children born at Maine General Hospital in Waterville, ME in 2008. Then, the program expanded statewide in 2009. During these first years of the program, it operated on what is sometimes called an "opt-in" basis: families were required to open a NextGen529 account (Maine's 529 plan) prior to the child's first birthday in order to be awarded the $500 Alfond Grant. About 25,000 Maine families did just that. At its peak, annual account openings represented about 35 percent of eligible children. This is a strong outcome by many measures, yet fell far short of the goals of the program of reaching and helping every Maine child.

After some internal conversation and exploration of various models, in 2013 the program moved to an "opt-out" or "universal" model through which all children born as Maine residents are now automatically awarded the $500 Alfond Grant. There is nothing families need to do to receive the grant. This important shift to automatically awarding the grants was made because, ultimately, the Foundation wanted to be sure that every Maine child actually had the Alfond Grant, not just the opportunity to have it. At this time, the program also shifted its name to My Alfond Grant (MAG) out of a desire to make a stronger and more personal connection between grant recipients and the program. In addition, we learned through parent interactions that the word "college" gave some families pause as it created a (false) assumption that the grant could only be used in traditional, 4-year baccalaureate programs. A new website, *www.MyAlfondGrant.org,* shares information and resources with families throughout their child's life.

HOW MAINE'S CSA PROGRAM WORKS—ADMINISTRATION

Three organizations are key to the workings and successes of the My Alfond Grant program. The Harold Alfond Foundation (HAF) provides funding for the program—both grants as well as operations. The program is managed by the Alfond Scholarship Foundation (ASF), a Maine nonprofit organization. And the Finance Authority of Maine (FAME), a quasi-State agency, helps to administer the program and also administers NextGen529 (Maine's 529 plan).

Approximately 12,000 babies are born in Maine each year (*i.e.,* an average of about 1,000 per month). Each month, FAME receives information from the State's Bureau of Vital Records regarding births of eligible children. FAME maintains the

database of names, dates of birth and contact information and reports an aggregate number of births to ASF, which then coordinates with HAF on the funding of the grants.

Under our universal/automatic enrollment program in place starting in 2013, all grant funds are deposited into an omnibus NextGen529 account that was opened and is owned by the Alfond Scholarship Foundation. All children in any given monthly cohort (*e.g.,* all babies born Maine residents in January 2024) are awarded grants and invested together as a cohort in ASF's NextGen 529 account. FAME then unitizes the value of the $500 grant on the day the funds are invested in the market, based on the value of funds that day and the number of children in the cohort, and uses this unit value to track the value of the $500 grant over time for all children in each cohort. Funds are invested in a Year-of-Enrollment sleeve within the NextGen529 Direct Series Portfolio.[2]

Some details on the administration of the grants that may be of interest to the committee:

- Birth data is received on a trailing 3-month basis (*e.g.,* information about babies born in January 2024 is sent to FAME in April 2024) to ensure that the list does not inadvertently exclude babies born at the end of the month or in other circumstances such as home births that might mean their records are not complete by month-end.
- FAME also adds 35 grants to the monthly total to account for children who may likely be later identified as eligible but are not yet showing on the birth data (*e.g.,* the nearest hospital is in another State, Mom serves in the military but Maine is her home State for residency and tax purposes, et cetera). This means that if a child is identified as eligible when they are, say, 3 or 4 years old, their grant will have been invested at the same time and in the same cohort as other eligible children born in the same month and year—in other words, they are not left out or left behind, and their grant is worth the same in the market as their peers.

From the program's inception, we have used a 529 platform. There are several reasons for this. First, we did not want to reinvent the wheel and, given Mr. Alfond's goals around creating pathways for success for individual students and a more educated workforce for the State, 529s were the obvious and appropriate choice. Relatedly, we knew that we would neither want nor need to build a large internal infrastructure to manage the program and so contract with FAME—which sits at the nexus between the My Alfond Grant program and the State's 529 program—to help administer it. Second, we wanted all children in the program, including those from families who may have little or no experience with investments, to be invested and have the benefit of returns that would likely increase the value of that initial $500 through the power of the market. Finally, we wanted Maine families to have the opportunity to learn how markets work and to see and experience the power of compounding.

If and when families want to make their own contribution for their child's future education, they open their own account. Because the seed monies for the Alfond Grants are invested by cohort, there is not a way to add money and allocate it to a specific child. Families are not required to save. If families do decide to do so, they can use whatever saving or investing vehicle is most appropriate for them. Many families choose to open a NextGen529 account—in fact, about 35 percent of all families with an Alfond Grant have taken that step. When they do so, the Alfond Grant and the family's NextGen account are linked so that everything can be seen in one place. And since families open their own account, they are in full control of both the investment choices as well as when and how the funds are used (in accordance with 529 regulations) in the account that they have opened. Importantly, this also means that contributions can be made to the family-owned account not just by parents but also by grandparents and other family members, friends and community members, businesses and other philanthropic organizations. This helps to build assets, and also a reinforces that important motivator that "someone else believes in my child and sees them and their future as having value."

[2] This is a relatively recent change. For most of the history of the program, the funds were invested in an Age-Based portfolio within the NextGen529 Direct Series. When NextGen transitioned from Age-Based to Year-of-Enrollment portfolios in the Fall of 2023, all of the Alfond Grant funds invested for each cohort were automatically migrated to the new investment option.

Maine's 12,000 births annually and a $500 Alfond Grant for each child means that the Harold Alfond Foundation funds about $6 million in seed funds each year. This most recent fiscal year, another $1.3 million has been awarded by HAF to cover operating costs. The budget is divided roughly into quarters: the administrative contract with FAME, staffing at ASF (2.5 FTEs total), monthly and quarterly communications to families, and marketing/communications/outreach/programs.[3]

HOW MAINE'S CSA PROGRAM WORKS—FAMILIES AND PARTNERS

At its core, the My Alfond Grant program has four key components: awareness, engagement, aspirations, and family savings. For that $500 initial investment to make a difference—both as the child grows and when it comes time to pursue education after high school—families need to know their child has the grant. We also want them to engage with the program by doing things like updating contact information and utilizing the tools and resources we make available on our website. Raising aspirations of Maine students in ways that encourage and support them to pursue pathways to a future they are excited about is very much what we are about. And, ultimately, getting families to take the step of opening their own account and contributing their own money, even if only modest amounts, gives them what Mr. Alfond would call "skin in the game."

Throughout the first year after a child is born and awarded the Alfond Grant, multiple communications are sent by ASF and by FAME. Families receive congratulations cards and a contact card to complete at hospitals, and these are resent to homes a couple of months later. A "welcome kit" that provides more information about the program and how it works is sent to families at about 3 months. And then every month or 2 after that some kind of email, postcard, or letter is sent to get the program on the radar for busy families throughout the child's first year of life.

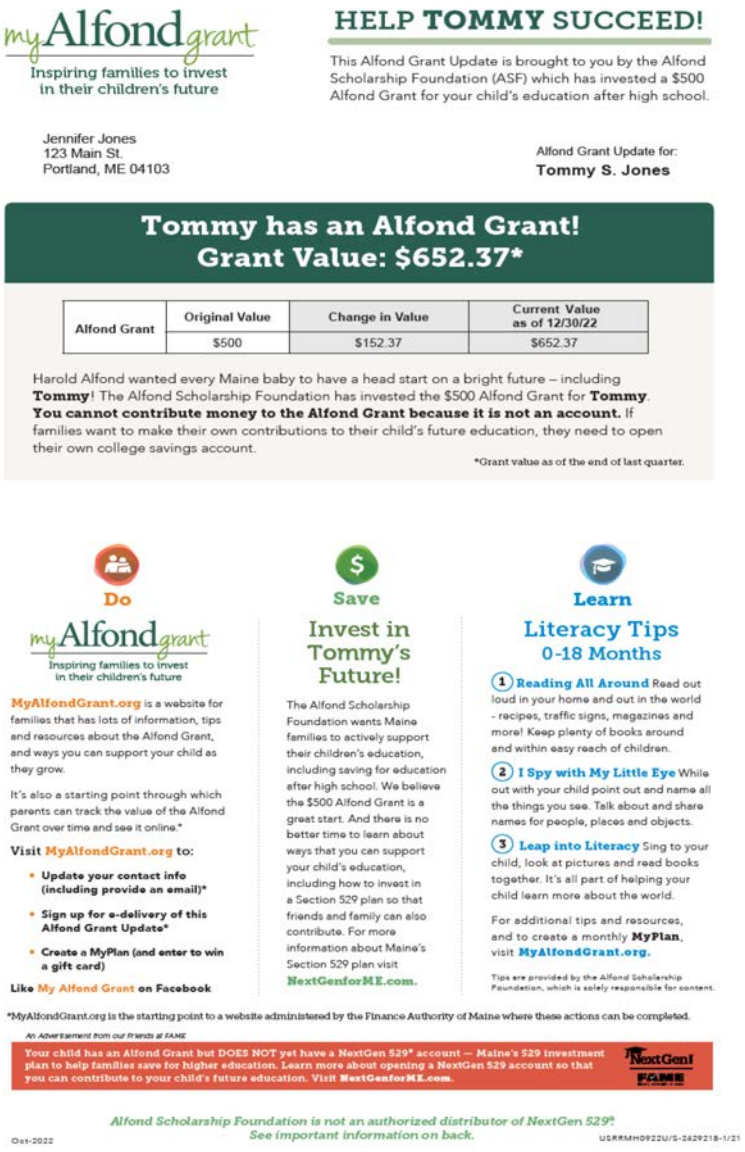
Starting at about 9 months of age, we begin sending quarterly communications. This is where we "marry the message with the money" and show the current value of the $500 grant and also share tips and resources with families. Importantly, these quarterly communications are designed to show a streamlined presentation of the current value and change in value. If a family also has a NextGen account then any contributions to that account as well as matching grants earned are also shown. This provides families with current information about the grant value as well as a regular update on the impacts of the market.

We view these quarterly communications as especially important since they provide an 18-year platform for communicating information about the grant, sharing tools and resources, and increasing financial literacy.

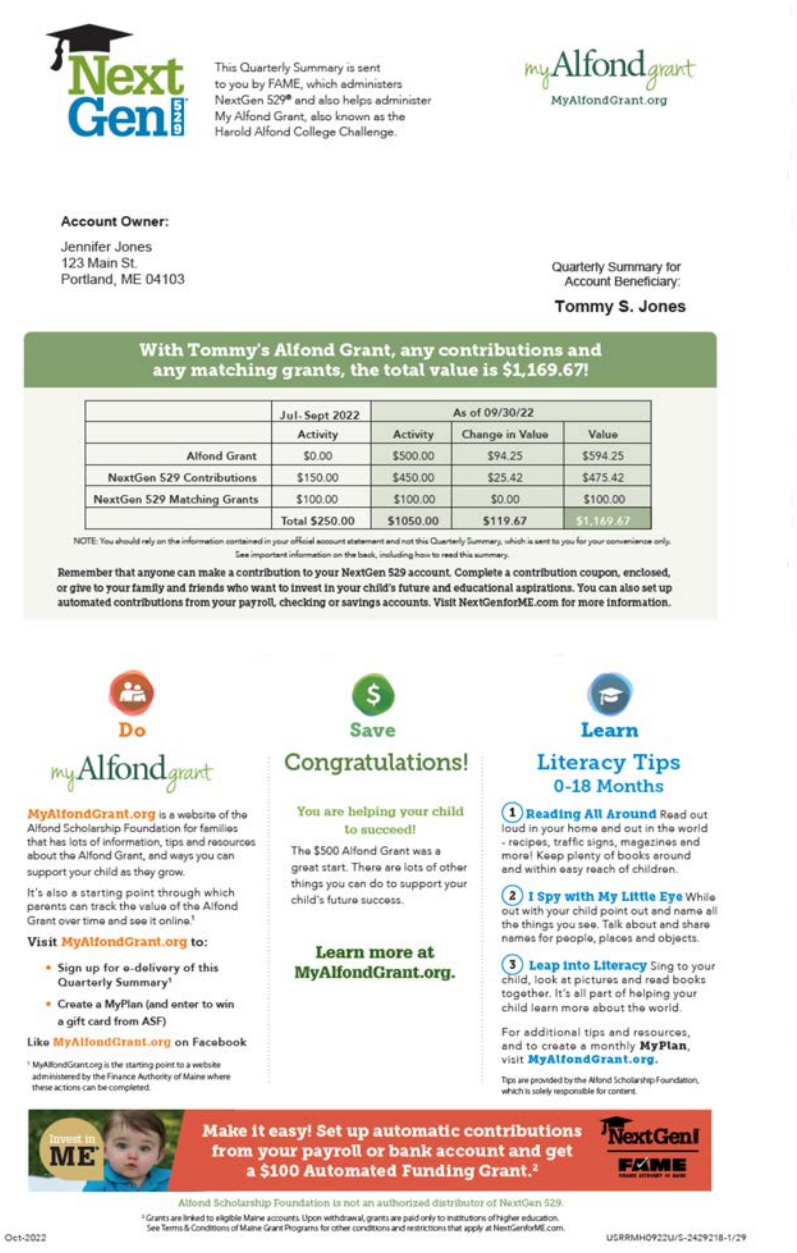
With our oldest Alfond Grant recipients now in high school, we are a few short years away from beginning to disburse the grants. When we do so, they will go directly to the postsecondary institution to be used for qualified education expenses. Before we get to that point, we are building the partnerships and scaffolding to regularly connect with students (and parents) as they chart their path after high school and transition to whatever education or training they might pursue. Our goal is to share information, tools and resources that will help students think about their future, and how the Alfond Grant can be part of their path towards the future they are building for themselves.

Please see below for illustrations of the Alfond Grant Update and the Quarterly Summary sent four times each year to each family starting at 9 months of age.

[3] *See below* for additional description of monthly/quarterly communications as well as general marketing, communications, program and outreach efforts.



Sample Alfond Grant Update sent to Maine families with an Alfond Grant (but no NextGen529 account), showing the current value of their Alfond Grant and also sharing tips and resources.



NextGen 529

This Quarterly Summary is sent to you by FAME, which administers NextGen 529® and also helps administer My Alfond Grant, also known as the Harold Alfond College Challenge.

myAlfondgrant
MyAlfondGrant.org

Account Owner:

Jennifer Jones
123 Main St.
Portland, ME 04103

Quarterly Summary for Account Beneficiary:
Tommy S. Jones

With Tommy's Alfond Grant, any contributions and any matching grants, the total value is $1,169.67!

	Jul-Sept 2022	As of 09/30/22		
	Activity	Activity	Change in Value	Value
Alfond Grant	$0.00	$500.00	$94.25	$594.25
NextGen 529 Contributions	$150.00	$450.00	$25.42	$475.42
NextGen 529 Matching Grants	$100.00	$100.00	$0.00	$100.00
	Total $250.00	$1050.00	$119.67	$1,169.67

NOTE: You should rely on the information contained in your official account statement and not this Quarterly Summary, which is sent to you for your convenience only. See important information on the back, including how to read this summary.

Remember that anyone can make a contribution to your NextGen 529 account. Complete a contribution coupon, enclosed, or give to your family and friends who want to invest in your child's future and educational aspirations. You can also set up automated contributions from your payroll, checking or savings accounts. Visit NextGenforME.com for more information.

Do

myAlfondgrant

MyAlfondGrant.org is a website of the Alfond Scholarship Foundation for families that has lots of information, tips and resources about the Alfond Grant, and ways you can support your child as they grow.

It's also a starting point through which parents can track the value of the Alfond Grant over time and see it online.[1]

Visit MyAlfondGrant.org to:

- Sign up for e-delivery of this Quarterly Summary[1]
- Create a MyPlan (and enter to win a gift card from ASF)

Like MyAlfondGrant.org on Facebook

[1] MyAlfondGrant.org is the starting point to a website administered by the Finance Authority of Maine where these actions can be completed.

Save

Congratulations!

You are helping your child to succeed!

The $500 Alfond Grant was a great start. There are lots of other things you can do to support your child's future success.

Learn more at MyAlfondGrant.org.

Learn

Literacy Tips
0-18 Months

1. **Reading All Around** Read out loud in your home and out in the world - recipes, traffic signs, magazines and more! Keep plenty of books around and within easy reach of children.
2. **I Spy with My Little Eye** While out with your child point out and name all the things you see. Talk about and share names for people, places and objects.
3. **Leap into Literacy** Sing to your child, look at pictures and read books together. It's all part of helping your child learn more about the world.

For additional tips and resources, and to create a monthly **MyPlan**, visit **MyAlfondGrant.org.**

Tips are provided by the Alfond Scholarship Foundation, which is solely responsible for content.

Make it easy! Set up automatic contributions from your payroll or bank account and get a $100 Automated Funding Grant.[2]

NextGen 529 FAME

Alfond Scholarship Foundation is not an authorized distributor of NextGen 529.

[2] Grants are linked to eligible Maine accounts. Upon withdrawal, grants are paid only to institutions of higher education. See Terms & Conditions of Maine Grant Programs for other conditions and restrictions that apply at NextGenforME.com.

Oct-2022

USRRMH0922UI/S-242921B-1/29

Sample Quarterly Summary for Maine families with both an Alfond Grant and a NextGen529 account, showing investments and change in value, and sharing tips and resources.

Like many CSA programs, My Alfond Grant is by design a low-touch model. With two and a half staff members and over 156,000 grant recipients it has to be. This means that partnerships are a critical part of how we reach and engage with families.

Hospitals share information about the grant with new parents and encourage them to complete the Contact Card before discharge. "We tell families the Alfond Grant is the second best thing the bring home from the hospital," says one Maine nurse. Head Start programs, libraries, and others serving families with young children share information as well—and to have families receive this information from a trusted source helps to build both awareness and comfort with the program. We routinely work with State agencies (Department of Education, Department of Health and Human Services, Department of Labor) to train staff and embed information about the Alfond Grant into the ways they work with Maine families. Our tools and resources are developed with input from the Maine Department of Education to ensure alignment with State learning standards, and come with resource guides for teachers and parents alike to encourage them to use the tools with their students/children.

In addition, businesses across the State also support the effort by offering payroll deduction for college savings. Over 100 Maine businesses across sectors and geography have taken this step. Some even also offer their own incentive grant (*e.g.,* a one-time $100 contribution to an employee's NextGen529 account when they set up payroll deduction) to encourage employees to take this step. Many employers tell us that this kind of low-cost benefit sends a signal to employees about their employer's interest in and support of them and their families, which is highly valued in today's competitive employment market.

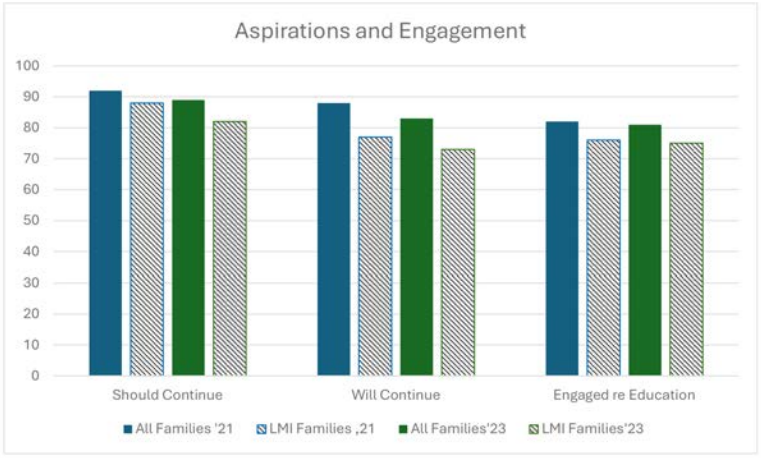
WHAT WE HAVE LEARNED IN MAINE

We know from both quantitative and qualitative research, as well as direct conversations with families, that the Alfond Grant encourages many Maine families to think differently about their child's future. Seeing money in an account not only boosts parents' aspirations but many also speak with us about what it means to them that someone else believes in and values their child and thinks that their child's future matters.

Given the opportunity and some additional scaffolding, even families of more modest means are finding ways to save. We have found that families with an Alfond Grant start saving for their child's future when their child is quite young (many of them in the first few years of a child's life) rather than waiting until middle school or even high school which is more typical for those Maine families without an Alfond Grant. With more money invested over a longer time period, opportunities for financial growth as well as boosts to aspirations and expectations are significant. Parents open accounts when they themselves are younger, and grandparents often play a role in supporting saving as well. And, we have found a somewhat broader economic dispersion of those opening accounts than one might more typically see with traditional 529 accounts.

Family Aspirations and Engagement in Their Child's Education

Our program regularly tracks aspirations of families with an Alfond Grant and pays particular attention to how low-and-moderate income families think about the Alfond Grant and their child's future. Our biennial survey of parents with an Alfond Grant show us that while there are some differences in how parents answer the question of whether their child should continue their education after high school based on household income, over 80 percent of parents believe their child should continue. The differences are greater when asked if they think their child will continue—where families in general maintain a relatively high expectation that their child will continue, lower-income families confidence level drops about 10 percent. Nevertheless, parents report high levels of engagement with their child's education and differences by income are quite small here.



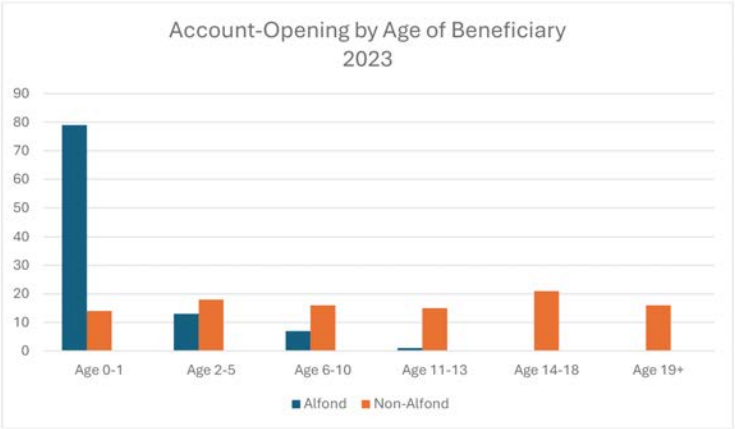
PanAtlantic Benchmark Survey Spring '21 (all respondents/blue, LMI families/blue hash) and Spring '23 (all families/green and LMI families/green hash) responding with a 4 or 5 (on 5-point Lichert scale) to questions of whether they think their child Should Continue education after high school, whether they Will Continue education after high school, and how engaged they describe themselves as being in their child's education.

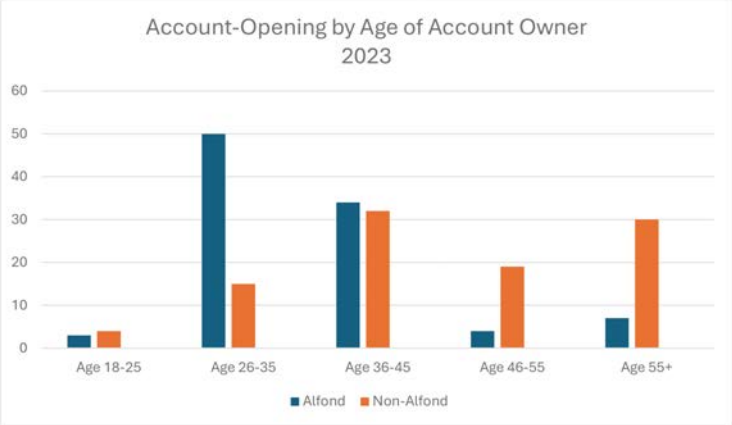
Family Savings: Demographics of Those Opening Accounts (Calendar Year 2023)

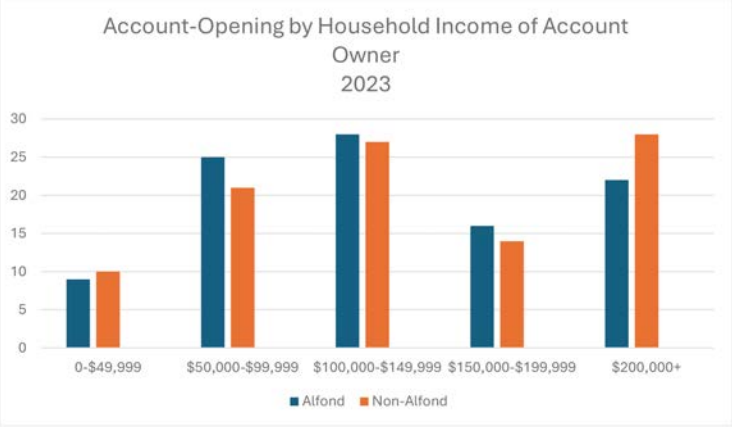
In the three charts below, you see data for NextGen529 account opening for beneficiaries with an Alfond Grant ("Alfond") and those Maine accounts without an Alfond Grant ("Non-Alfond"). All figures are from 2023 and are reported as percentages of the Alfond/Non-Alfond categories account-opening by demographic filter.

Key take-aways:

– Parents with a child with an Alfond Grant open accounts at a significantly younger age in their child's life, giving many more years of opportunity for contributions to the account (nearly 80 percent do so before the child turns 2).
– Parents with a child with an Alfond Grant open accounts when they themselves are much younger (*e.g.*, mid-20s to mid-40s) thereby again providing more years with the opportunity to contribute.
– Household incomes of those with an Alfond Grant opening accounts are more dispersed that non-Alfond Grants.







Finally, some broader learnings from Maine's My Alfond Grant program:

- Families want good things for their kids—and for kids to be in the driver's seat for their own future.
- Seeing real money in a real account builds trust, raises awareness and aspirations . . . and encourages families to take the step of adding their own savings.
- Families are busy and it takes a lot of different communications streams and messengers to get through—and getting information from trusted messengers helps to raise both awareness of and trust in the program.
- 529s provide an excellent, already existing platform to support early investment for children. While some may see 529s as problematic since their tax-advantaged savings most typically appeal to and are used by moderate- and higher-income households, they can be a good savings tool for families of a variety of income levels. And, policy options to expand uses of 529s as well as to improve ease of account opening and of contributions, could significantly contribute to 529s as an excellent platform for a national early investment program.

In conclusion, Maine's children's savings account program (My Alfond Grant) has already resulted in over $477 million in investments to support the future education of 156,000 Maine children. More children, and more dollars, come into the program every day. By making these early investments—and by regularly communicating

with families both directly and through trusted partners—the program is having both a practical and aspirational impact.

While the CSA field has grown dramatically in recent years, the adoption of these programs has been driven by State and local actors. This means that while many children have been reached, many have also been left out. And, initial deposits are typically relatively small (at $500 the My Alfond Grant program makes one of the larger investments in seed monies to its grantees).

Senator Casey's proposed 401Kids Savings Account Act would make substantial early investments in children using the existing 529 college savings platform—with extended reach and scope—to ensure that every child in the country, not just those living in States or communities with a CSA program, have access to the kind of early investment that could yield significant benefits at individual, societal and economic levels. We don't have to imagine what a national infrastructure like that could do—we can see it already happening on the ground. There's a saying in politics: "As goes Maine, so goes the Nation." Now there's an opportunity to see that in policy as well.

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

The Finance Committee has a long, bipartisan tradition of working together on issues related to helping people save. This morning's hearing, with a focus on child savings accounts and other savings programs for kids, is another opportunity for the committee to bring fresh ideas forward.

There are a few key issues underpinning this discussion. First, wealth inequality is still a big challenge. The gap between working people and those at the top narrowed a bit when Congress passed major economic rescue programs during the pandemic. But most of those programs have expired.

Data from the Federal Reserve show that the wealth gap is getting worse for young people who are paying more than ever for rent and education.

Second, among young people in America, optimism is getting harder to come by. A recent USA Today-Harris survey found that two-thirds of Gen Z and three quarters of millennials believe they're worse off than their parents were at a young age. They've got reason to feel that way.

A study by an expert group called the Equality of Opportunity Project looked at how generations of Americans have fared economically relative to those that came before them. Their research found that in the middle of the last century, 90 percent of Americans out-earned their parents. These days it's more like 50 percent—a coin flip.

People often say that getting an education is the surest way to guarantee your future. But the reality is, young people today are better-educated than ever before, and they're still finding it harder and harder to get ahead. For those who aren't born into wealth, being a young person in America today can feel like you're stuck underwater. Congress must do more to change that.

There's big interest in using the tax code to help restore opportunity for kids and young people. So this morning's hearing kicks off our debate on the best ways to help people build their savings and get ahead.

Child savings accounts are a proposal with enormous promise. We're lucky to have a lot of champions for young people on this committee, none bigger than Senator Casey, whose 401kids bill is really the gold standard when it comes to child savings account proposals.

The idea behind them is, on Day One a newborn child automatically gets an account with some seed money that grows over time. Later on, with enough contributions, they're able to use it in a way that will help them live out their own American Dream, whether it's getting an education, buying a home, or starting a business.

These accounts are not some kind of radical, new idea. There are more than 100 of these programs running in cities and States around the country.

This morning the committee will hear about one such program in the State of Maine. And these accounts are not all that different from programs that already exist in Federal law, including 529s and Coverdells.

In my view, this ought to be the kind of idea that's able to bring Democrats and Republicans together. This committee has proven that helping Americans save is a bipartisan priority. There's been a lot of progress, but the numbers show that there's a lot more work to be done making sure that lower-income families benefit too.

Child savings accounts can accomplish that in a few key ways: first, by opening accounts automatically, which breaks down a barrier that keeps too many Americans out of the financial system today; and second, by starting them with seed money. All the evidence from existing programs shows that that money not only unlocks opportunity for kids, it's a smart investment that goes right back into our economy down the road.

So there's a lot for the committee to discuss today. I'm looking forward to working more with Senator Casey and the entire committee on this issue. If you're looking out for kids in America and you've got Senator Casey on your side, you're running with the right crowd.

I want to thank our witnesses for joining us today, and I look forward to Q&A.

COMMUNICATION

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Statement of Michael G. Bindner

Chairman Wyden and Ranking Member Crapo, thank you for the opportunity to submit these comments for the record.

Child Savings Accounts are a lovely idea, but only when families who need and do not have adequate income for day-to-day living are taken care of first. Without such income, CSAs are only useful for the middle class. By middle class, we mean those who receive the middle third of total adjusted gross income. Families with under $110,000 in AGI cannot afford to save and many pay minimal taxes in the grand scheme of things. There is not much tax to offset for those who earn the bottom third of incomes.

Raising the minimum wage from a paltry $7.25 in many States to at least $18 per hour will benefit this entire income class—as higher than minimum wage employees will also receive more per paycheck, with franchisees demanding renegotiated rates or a guaranteed minimum salary. Congress can also require franchisers to adjust agreements to make sure that small business owners are not stuck between a rock and a hard place.

Even more important is an adequate and fully refundable child tax credit. At the very least, the legislation passed by the House needs to be passed by the Senate. The Minority cannot, in good conscience, favor regulating abortion without providing for adequate funding for families. Doing so would be the height of cruelty.

The level passed by the House could easily be doubled under our proposal, provided the home mortgage deduction is ended, along with Supplemental Aid to Needy Families, dependent care benefits under Social Security survivors and disability benefits programs (thus securing the program's long-term health) and the paperwork-intensive Earned Income Tax Credit.

During the pandemic, the IRS managed CTC advance payments. This had the "stink of welfare" that even some Democratic Senators objected to, which led to its discontinuance. We repeat our contention that, over the long term, it would be more acceptable to distribute them either through other government subsidies, such as Unemployment Insurance, Disability Insurance, or a training stipend OR through wages.

For middle-income taxpayers whose increased credits are less than their annual tax obligation, a simple change in withholding tables is adequate. Procedures are already in place to deliver refundable credits to larger families.

Employers can work with their bankers to increase funds for payroll throughout the year while requiring less money for their quarterly tax payments (or estimated taxes) to the IRS. The main issue is working out those situations where employers owe less than they pay out. This is especially true for labor intensive industries and even more so for low wage employers. A higher minimum wage would make negative quarterly tax bills less likely.

Tax reform can be used to facilitate this process. Instead of having each family file to collect their child tax credits and EITC (as an end of the year bonus), enact an employer-paid subtraction value-added tax and make child tax credits and health

insurance tax benefits an offset to the payment of this tax and remove most families from having to file taxes at all. Tax offsets could also be created to fund paid family medical leave, sick leave, and childcare provided through employers.

Enactment of a Credit Invoice Value-Added Tax will make sure every family pays something, especially wealthy individuals who dodge income tax payments for themselves and their heirs by borrowing money against their wealth rather than receiving it as income, taking advantage of capital gains tax rules for the transfer of intergenerational wealth and using insurance policies to do the same thing. Such a reform would do more than offset a higher CTC. It will also help lower the deficit by a significant amount.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.