# Every Baby a Trust Fund Baby

*Ray Boshara*

An American Stakeholder Account (ASA), established for every child at birth, would build a savings and ownership culture in America, promote financial literacy, and fortify the American economy for the long haul. Every child would automatically receive a $6,000 deposit in an ASA at birth and be eligible until maturity for dollar-for-dollar matching funds for voluntary contributions up to $500 a year. Over time, ASAs would evolve into a broad system of savings accounts that all Americans—especially low-income Americans—could tap to meet their asset needs throughout life to pursue higher education and lifelong learning, purchase a first home, start a small business, and build a nest egg for retirement.

At present, about a quarter of all white kids and half of all other kids grow up in households with zero or negative assets, apart from possible equity in a house. This means that there are no available assets for any sort of investment. The prospects for achieving economic success of children growing up in such households are pretty dim. Therefore, imagine what it would mean for such kids to have an investment account with their name on it—earmarked for their education, their first home, their retirement. Imagine the enormous effect such a program would have on our failed efforts to educate our kids about financial basics. And just imagine the effects on our economy: it doesn't take an army of economists to tell us that we would reap huge rewards if virtually all young people became owners, savers, taxpayers, and entrepreneurs—and if fewer people depended on the state, local charities, their communities, and their parents for their livelihood and well-being.

Is this pie in the sky? Actually, no. Starting last year, each British baby born after September 1, 2002, receives a "child trust fund" of £250 (about $460), with the poorest third of children receiving twice that amount. The government will make similar "top up" deposits when a child reaches age seven. Parents, relatives, and others can contribute up to £1,200 tax-free every year. With compound interest and ongoing contributions, the account could grow to £40,000 (about $70,000) at maturity on the child's 18th birthday. So far, almost 2 million such accounts have been opened. The idea is to give all kids—regardless of their backgrounds—a shot at economic success, to reduce their reliance on the state, and to foster a savings culture in the U.K.

Whether Britain's Child Trust Fund can deliver all this remains to be seen. But it is already apparent that the program is spurring significant savings—even among poor families. Moreover, the accounts are serving as "magnets" for contributions. The head of Children's Mutual, one of the main providers of the accounts in the U.K., tells of a Child Trust Fund voucher that came back with 30 baptism checks attached to it. British prime minister Tony Blair launched the trust fund to address challenges that are remarkably similar to those facing Americans. Like us, British parents worry deeply about how their children will ever afford to buy a home—the average age of a first-time home buyer in the U.K. is 34—and how they can help their kids pay for college.

**Americans accept inequality of outcomes, but they do not accept inequality of opportunity.**

The potential of our proposed stakeholder accounts is embodied in a 2005 front-page story in *The Washington Post*, which tells of five-year-old Austin Sambrano, whose own savings account is teaching him and his family about saving and family finances:

> Three weeks shy of his first day of kindergarten, Austin Sambrano is the only person in his family who has a savings account. Living with his parents and older brother in a trailer park near Pontiac, Michigan, he is part of an experiment called the SEED Initiative that is opening investment accounts for children, in an effort to ensure them a college education—and teach their families the habit of putting aside money for the future. Austin Sambrano's mother, Christine Albertson, had a humbler reason for signing up her son for a SEED account. Neither she nor her partner of 12 years, Steven Sambrano, has any savings. On the $400 a week he brings home from his new job driving a truck, "we are barely making the bills as it is," she said. Austin's account, she said, makes him feel special. "He's excited. He knows this is for college."

The *Post* also tells the story of young Brianna Jones. She and her parents have a new attitude about saving and spending because of Brianna's savings account:

> Some parents say that they are learning new habits—and that their children are learning important lessons. "This program here gives me a chance to save. I know it's there. I can't mess with it," said Almedia Jones, of Lexa, Ark., who opened an account in May and made a $20 deposit in June and July. She took her daughter, Brianna, 5, to a SEED class where the children decorated two cans, labeled "savings" and "withdrawal," with butterfly stickers. Brianna began to put her allowance into a can. One day, Jones took Brianna along when she went shopping for a present for another daughter, Brittney, who had just had surgery. Brianna spotted a pretty purse and turned to her older sister. "If you buy me this purse," Brianna said, "when I turn 18, you know I will have money in the bank, and if I go to college, I'll have even more money, and I'll pay you back."[1]

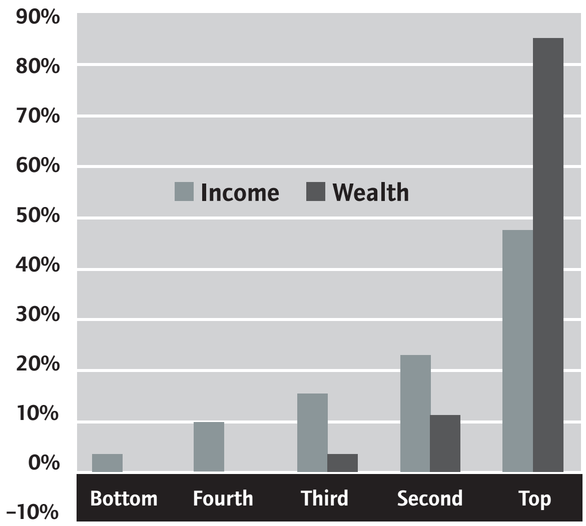
As these stories vividly show, the one-two punch of a owning a savings account, combined with financial education, changes savings habits and the attitudes and aspirations of both children and their parents.

### Why American Stakeholder Accounts?

The broader case for American Stakeholder Accounts is compelling.

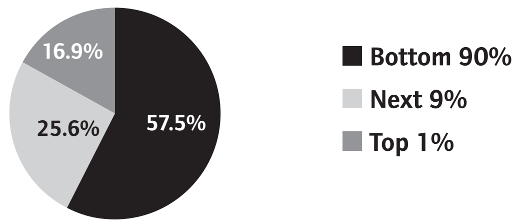
First, stakeholding, as a public policy, has a long and successful history in the United States and around the world. In postwar Japan, land was redistributed to millions of farmers, laying the foundation for broad-based economic success. Singapore has achieved one of the highest rates of savings and home ownership in the world through its Central Provident Fund. In the United States, at least a quarter of adults can trace their family legacy of asset ownership to the Homestead Act, signed into law by Abraham Lincoln, which awarded land in the American West to those pioneers with the courage to settle it. The GI Bill, passed in 1944, has generated returns of up to seven dollars for every dollar invested. And there is the nearly $400 billion

SHARE OF TOTAL INCOME AND WEALTH BY QUINTILE

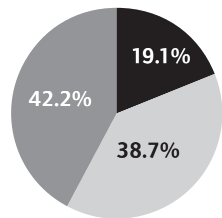



Source: *The State of Working America, 2006/2007*, Economic Policy Institute, 2006.

DISTRIBUTION OF HOUSEHOLD INCOME, 2004




DISTRIBUTION OF NET FINANCIAL ASSETS, 2004




Source: *The State of Working America, 2006/2007*, Economic Policy Institute, 2006.

a year in popular federal tax breaks for homeownership, college, business ownership, investments, and retirement—subsidies that fail, unfortunately, to reach the bottom half of the population.

Second, that failure—combined with antipoverty policies that focus on income and consumption while discouraging asset ownership—contributes to a severe absence of asset ownership among the bottom half of the population. When families lack income, they don't get by; when families lack assets, they don't get ahead. According to New York University scholar Edward N. Wolff's analysis of the most recent Survey of Consumer Finances (conducted by the Federal Reserve), the top fifth of households in 2004 held 84.7 percent of all wealth, while the middle fifth held a mere 3.8 percent, and the bottom fifth actually had negative net wealth—it *owed* 0.5 percent of all wealth. Between 1962 and 2004, the top fifth increased its share of wealth by 3.7 percentage points, while the bottom four-fifths gave up that much. Seventeen percent of all households actually had zero or negative net worth, while 29.6 percent had net worth of less than $10,000. Thus, nearly half of all households in America had net worth of $10,000 or less. However, the challenge is not to reduce the wealth at the top—we should reward creativity and hard work—but rather to actively create opportunities for lower-income individuals to save and accumulate wealth.

Third, assets don't just change people's pocketbooks, they change the way people think and behave. Evidence from around the world shows that owning assets—even among very poor families—is associated with an orientation toward the future, household stability, staying employed, educational attainment for adults and children, local civic involvement, and health and satisfaction among adults. Those with assets are also more likely to stay married, and to see less poverty in future generations.

### How American Stakeholder Accounts Could Work

Under the proposed American Stakeholder Account Act, every child born in 2008 and beyond would automatically receive $6,000 in an ASA once a Social

Security number was issued. Children from households below the national median income would also be eligible to receive dollar-for-dollar matching funds for voluntary contributions up to $500 a year. These matching contributions could be deposited directly into the account, or delivered directly on tax returns through a larger earned income tax credit or child tax credit. To encourage good performance in school, as well as community or national service, "merit" and "service" deposits should be offered as well. After-tax voluntary contributions—from family members, churches, corporations, foundations, etc.—should be encouraged, but limited to $1,000 a year from all sources. All funds would grow tax-free.

**We don't need an army of economists to know the U.S. would reap huge rewards if virtually all young people became owners, savers, taxpayers, and entrepreneuers.**

A typical low-income kid, saving or leveraging about $20 a month and earning about a 7 percent annual return would have over $38,000 by the time he or she reached 18—an amount that would set generations of kids on a lifelong path of saving, investing, and ownership.

Withdrawals from the account prior to age 18 would not be permitted, but kids—in conjunction with their parents and financial educators at school—would participate in investment decisions and watch their money grow. An ASA Fund and its governing board, modeled after the highly efficient Federal Thrift Savings Plan for government employees, would be established within the U.S. Treasury Department to hold and manage the accounts.

At age 18, the beneficiary could choose to keep accumulated savings in the ASA Fund (the default option) or roll it out to a financial institution of his or her choice. However, to preserve the account and a lifetime platform for saving, a $500 minimum balance would have to be retained within the ASA Fund (that is, rollouts to private financial institutions would be permitted above the $500 threshold), with additional contributions governed by existing Roth rules.

ASAs could be used tax- and penalty-free for postsecondary education or for the purchase of a first home, or retained in the account for retirement. If the assets were used for one of these purposes, the account holder would keep all the government-provided funds (those deposited at birth and all the matching funds); if the assets were withdrawn for any other purpose, the account holder would keep all voluntary contributions (minus some taxes and penalties) but lose all the government funds. And to signal that ASAs were not something for nothing—as well as to help endow the next generation of kids—the account holder would have to begin paying back the $6,000 at-birth deposit at age 30, although payments could be spread out over ten years and exceptions would be permitted for hardship.

### A Fresh Opportunity for Each Generation

There's no doubt that the American Stakeholder Account program would be costly. But as the stories of Austin and Brianna show, and given the historical returns on asset building in America, this would be money well spent. If we ever hope to address the growing problem of inequality of income and wealth, we must embrace such a program.

It is important to note, however, that ASAs are not meant to combat inequality of *outcomes*, but inequality of *opportunity*: Americans accept inequality of outcomes as a by-product of how we reward the hard work, initiative, and creativity that underpin our much envied economy. But they do not and should not accept inequality of opportunity. Expanding the ownership of assets by means of American Stakeholder Accounts would help to ensure that the inequality of wealth in one generation will not result in inequality of opportunity in the next.❖

[1]Amy Goldstein, "Initiatives to Promote Savings from Childhood Catching On," *Washington Post*, August 20, 2005.