

# Children's Savings Accounts Delivery System

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# Principles for Design of CSA Delivery Systems

- Allow universal, automatic child enrollment that includes account opening without necessitating parental action
- Carry a national footprint, equitable among different jurisdictions, as a platform for interventions that could then follow preferences of particular communities
- Allow identification and engagement with accounts, including parent/child deposits, in-person and electronic interface
- Restrict accounts to asset-building purposes, but not strictly to higher education, so that they can be used to build wealth across the life course
- Be administratively efficient in all essential operations, including disbursement, and sustainable at scale, with tolerably low administrative costs and integration into existing policy systems
- Accommodate significant, progressive transfers of wealth, such that low- and moderate-income households have equitable opportunities for upward mobility
- Adequately protect consumers, with publicly-provided accounts or private accounts with substantial regulatory oversight

# Today's Options for Delivering CSAs

- State 529 Plans
- Depository Institution Model

# 529s as CSA Delivery System

- Attractive attributes:
  - Control by a state entity with interests in facilitating universal account holding
  - Co-location of large and small-dollar accounts
  - Potential for economies of scale, which may result in lower costs to participants, as well as higher returns
  - Ability to dictate low account administration fees
  - Budget and infrastructure to conduct intentional outreach to underrepresented populations
  - Potential for alignment with financial aid, tax, college preparation, and public welfare systems
  - Availability of simple investment options with potential for investment return
  - Established systems that can facilitate rapid implementation of other asset innovations

# Agenda to Strengthen 529s as CSA Vehicle

- Change requirement for identification numbers, to allow automatic enrollment in *individual* accounts
  - Unclear how omnibus account holdings relate to CSAs' educational effects
- Eliminate perceived barriers to saving
  - Asset limits
  - Penalties for non-educational use
- Allow cash deposits and other behaviors that build habits associated with financial capability
- Encourage transfers and accumulation
  - Tax-deductible philanthropic contributions
  - Lifelong ownership
- Streamline information-sharing

# Depository Institution-Based CSA Models

- Automatic enrollment without parental action/disclosures
- Location in visible, accessible, localized institutions
- Principal protection
- Customization for particular CSA application

# Designing a Product for Depository Institution-Based CSAs

- Develop an actual CSA ‘product’
- Determine standards and the right mix of incentives/sanctions to guide offerings by private financial institutions
- Increase investment returns for long-term assets
- Eliminate perceived barriers to saving
- Resolve barriers to distribution of funds for postsecondary education
- Complement with centralized account management system
- Use technology to overcome disparities in access

# Questions to Move CSA Field Forward

- Metrics
  - What metrics should be used to evaluate delivery systems? How should ‘engagement’ be defined? If scaling means reach *and* penetration, what should be the target for ‘interaction’ with accounts? How much money do accounts need for asset accumulation effects to be significant?
- Trade Offs
  - What compromises should we be willing to accept? How do the trade-offs equate in comparing the advantages and disadvantages of retrofitting an existing account structure v. designing something specifically for CSAs?



# Questions to Move CSA Field Forward

- Financing
  - What are the best sources for the transfers to seed and supplement CSAs? How should these be calibrated and timed (e.g., accounts at birth or kindergarten, matches v. seeds, match ratios, use of benchmark incentives)? What costs are acceptable to sustain CSAs at scale?
- Scaling
  - What types of delivery systems would help to make the transition from state CSAs to a national effort? How will states' investment in CSAs complicate or facilitate national adoption?