Grand Challenges for Social Work

Start Lifelong Asset Building With Universal and Progressive Child Development Accounts

A policy action to Build Financial Capability and Assets for All and to Reduce Extreme Economic Inequality

Issue

People require financial capability to save and accumulate assets for economic security and stability. Unfortunately, financial vulnerability is widespread, and many lack access to appropriate financial services for building assets.[1] Universal and progressive Child Development Accounts (CDAs) have been proposed as an inclusive policy to encourage lifelong asset accumulation, to practice and promote individual financial capability, and to reduce wealth inequality.[2] The policy has been demonstrated and implemented at state and municipal levels.[3] Integrating CDAs into a nationwide policy platform will maximize the policy's effects and efficiency.

Action

Create universal and progressive CDAs that are based on the existing nationwide policy platform (529 college savings plans and the proposed Dependent Care Savings Accounts),[4] automatically enroll all newborns, and provide financial incentives to financially vulnerable groups. Building on current evidence and policy developments, we propose the following:

- Improve 529 college savings plans by expanding them to accommodate new features:[5]
    a. Amend the current law on 529 college savings plans to create new governing principles that require 529 plans established and maintained by a state to automatically enroll state newborns in a state-owned account for public or charitable contributions.[6]
    b. Amend the current law on 529 college savings plans to specify that age-based investment options are a qualified default investment for 529 plans.
    c. Amend the current law on 529 college savings plans to exempt assets in 529 plans from the asset limits associated with means-tested programs.
- Create new Dependent Care Savings Accounts with the following features:[7]
    a. Automatic enrollment: Amend the current law on Dependent Care Flexible Spending Accounts (FSAs) to automatically enroll all newborns in the program.
    b. Targeted tax credits: Amend the current law on FSAs to provide a tax credit of $500 per year for low-income parents.
    c. Permissive provisions on rollovers: Amend the current law on FSAs to allow rollovers between Dependent Care Savings Accounts and 529 plans while holding the annual contribution limit of Dependent Care Savings Accounts.
    d. Asset exemptions: Amend the current law on FSAs to exempt assets in the new Dependent Care Savings Accounts from asset limit requirements of means-tested programs.

Evidence

Evidence from a randomized policy experiment shows that universal and progressive CDAs can be implemented in a full population by expanding existing policy platforms so that they include automatic enrollment and initial deposit features. College savings plans and FSAs, if expanded to include these features, offer unique opportunities to reach financially vulnerable groups and have several advantages:

They provide a legal and accounting structure and offer investment growth potential. Most plans require low- or no-minimum initial contributions and have low fees.[8] Furthermore, experimental evidence shows that CDAs have positive impacts in households with young children. For example, having a CDA increases account holding and asset accumulation. The accounts are also associated with positive nonfinancial outcomes: parenting practices, parental mental health, the parent's expectations concerning the child's educational attainment, and the child's social-emotional development.[9]

Informed by such research, states and municipalities have initiated CDAs with various program designs, creating opportunities to learn from each other and to generate an integrated policy framework.[10] Pioneering states have developed inclusive and progressive asset accounts using the 529 college savings platform. For example, Maine has automatically enrolled newborns in its 529 college savings plan since 2014, and Rhode Island has a check-box enrollment item on each birth record. Rhode Island also automatically deposits contributions into in the state's 529 college savings plan accounts opened for newborns. The state experiences with CDAs inform the development of policy at the federal level.

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End Notes

1. Sherraden, Huang, et al. (2015).

2. Sherraden (1991).

3. Beverly, Clancy, and Sherraden (2016); Clancy, Beverly, Sherraden, and Huang (2016); Sherraden, Clancy, et al. (2016).

4. See Section 529 of the Internal Revenue Code for 529 college savings plans and Section 129 for measures on dependent care assistance programs; for a preliminary summary of the proposal to create Dependent Care Savings Accounts, see Trump (n.d.).

5. Beverly and Clancy (2017); Beverly, Clancy, and Sherraden (2016); Clancy and Beverly (2017); Clancy, Orszag, and Sherraden (2004); Clancy, Sherraden, and Beverly (2015).

6. Child Development Accounts built on 529 college savings plans typically have a dual-account structure, including a state-owned account to hold public or charitable contributions and an individually owned account to hold personal savings. While the current law does not allow automatically opened, individually owned accounts, such account ownership is highly desirable and encouraged.

7. Current law (Section 129 of the Internal Revenue Code) permits the use of Flexible Spending Accounts for dependent care expenses, but recent Dependent Care Savings Account proposals seek to expand the parameters of these vehicles (Trump n.d.). This action statement broadens those proposals by recommending additional features to ensure that the accounts will be accessible to all U.S. households and additional financial incentives will be accessible to low-income households.

8. Clancy et al. (2015).

9. Beverly et al. (2016); Huang, Sherraden, Kim, and Clancy (2014); Huang, Sherraden, and Purnell (2014); Kim, Sherraden, Huang, and Clancy (2015); Nam, Kim, Clancy, Zager, and Sherraden (2013); Nam, Wikoff, and Sherraden (2016).

10. Beverly et al. (2016).

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About this policy action

This policy action statement was developed by members of the networks engaged in the Grand Challenges to Build Financial Capability and Assets for All and to Reduce Extreme Economic Inequality. The Grand Challenges initiative's policy action statements present proposals emerging from Social Innovation for America's Renewal, a policy conference organized by the Center for Social Development at Washington University in collaboration with the American Academy of Social Work & Social Welfare, which is leading the Grand Challenges for Social Work initiative to champion social progress through a national agenda powered by science.