# Creating a State of Promise and Prosperity

## Illinois Children's Savings Account Task Force Report

November 2010

# ACKNOWLEDGEMENTS

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**Co-Chairs**
Dory Rand
Woodstock Institute
Service Based Human Rights Provider Organization

Laura Oakleaf
Illinois State Treasurer's Office

Jerome Stermer
Illinois Governor's Office
Member of Governor's Leadership Staff

**Members**
Joseph Antolin
Heartland Alliance for Human rights and Human Needs
Service Based Human Rights Provider Organization

John Bouman
Sargent Shriver National Center on Poverty Law
Poverty Law Center

Senator Jacqueline Collins
Illinois Senate
President of Senate Appointment

Rep. Marlow Colvin
Illinois House of Representatives
Speaker of the House Appointment

Rep. Beth Coulson
Illinois House of Representatives
Minority Leader of the House Appointment

James R. Dingman
Bank Orion
Bankers' Professional Association

Senator Kirk Dillard
Illinois Senate
Minority Leader of the Senate Appointment

Mark Dillon
Illinois Bankers Association
Bankers' Professional Association

Arden Handler
University of Illinois School of Public Health and
Illinois Maternal and Child Health Coalition
Child Advocacy Organization

Roger Hannan
Farm Resource Center
Rural Economic Development Entity

Edward Jacob
North Side Community Federal Credit Union
Credit Union

David Lowitzki
SEIU Healthcare Illinois and Indiana
Organized Labor

Evelyn A. Prasse
University of Illinois Extension
An Operator of an IDA or Matched Savings and Financial Education Program

Kate Maher Ritter
Illinois Action for Children
Grassroots Organization Entity

Mark Rogers
National City Bank
Bank

Peyman Salehi
J.P. Morgan
Investment Services Provider

Cassandra D. Slade
Lake Forest Bank and Trust Co.
Bank

**Ex-Officio Members**
Alexi Giannoulias, Illinois State Treasurer
Carol Brooks, Illinois State Board of Education
Marla Harris, Illinois Department of Financial and Professional Regulation
Megan Breheney, Illinois Department of Commerce and Economic Opportunity
Jennifer Hrycyna, Illinois Department of Human Services
Cynthia Moreno, Illinois Department of Healthcare and Family Services
Judy Erwin, Illinois Board of Higher Education
Dr. Elaine S. Johnson, Illinois Community College Board
Dr. Jean Ortega-Piron, Illinois Department of Children and Family Services

**Presenters**
Margaret Clancy, Center for Social Development at Washington University
Robert Friedman, CFED
Kilolo Kijakazi, Ford Foundation
Ralph Matire, Center for Tax and Budget Policy
Carol A. Fulco, Louisiana 529 START Program
Oppenheimer
Leigh Tivol, CFED
Min Zhan, University of Illinois at Champaign-Urbana

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**Illinois Children’s Savings Account Task Force Report**

**Summary of Recommendations**

*Within the context of shrinking savings rates, restricted economic mobility, and rising debt, this Task Force seeks to make recommendations that will increase the number of children in Illinois who own assets and acquire post-secondary education or training, as well as increase their level of financial literacy. Fulfillment of these goals will mitigate the current trend toward debt accumulation and will support positive savings behavior for future generations of Illinois residents.*

Vision Statement developed by the Children’s Savings Account Task Force

The lack of a savings infrastructure accessible to all, low savings rates and rising costs of post-secondary education and training have restricted workforce development, social mobility and economic security. Illinois Public Act 96-0329 (“Act”) created the Illinois Children’s Savings Account Task Force (“Task Force”), a diverse group of individuals from the government, nonprofit, and financial services industry, to review, recommend, and develop a strategic implementation plan for providing a savings account at birth for every Illinois child. The purpose of these children’s savings accounts (“CSA”) is to increase the number of children who own assets and acquire post-secondary education or training, increase the levels of financial literacy in Illinois and create positive aspirations, a sense of security, and orientation toward and hope for the future. In sum, a CSA program will create promise and prosperity in Illinois.

In order to ensure that a CSA program will fulfill these purposes, the Task Force has set forth the following recommendations:

<u>Financial Infrastructure</u>

- The Task Force recommends the use of the 529 college savings plan platform to provide a savings infrastructure for all children in Illinois. Post-secondary education and training is critical to promoting workforce development, social mobility and economic security. The 529 account structure provides a secure, tax-advantaged way to help defray the high costs of post-secondary education and training.

<u>Uses of Funds</u>

- The Task Force recommends that public CSA funds be used only for “qualified” post-secondary education purposes as defined by Section 529 of the IRS Code.

- Private CSA/529 funds may be used for “non-qualified” purposes subject to certain taxes and penalties under Section 529 of the IRS Code.

Eligibility

- The Task Force recommends automatically opening a CSA at birth for every child born to Illinois residents at the time of the child’s birth. Increasing the number of Illinois families saving for their child’s post-secondary education and training will increase college attainment, and therefore, generate a more competitive workforce, economically stable communities and a thriving State economy.

Ownership

- The Task Force recommends that CSAs be owned and operated by a third-party or public entity with the child as the designated beneficiary. This will ensure that investment in the account is simplified, safe and protected for the child’s future post-secondary education and training.

Investment Strategy

- The Task Force recommends that a balanced, aged-based investment strategy be used.

Initial Deposits

- The Task Force recommends that every CSA be seeded with an initial public deposit. An initial contribution creates the savings infrastructure and serves as a catalyst to future savings and positive aspirations. The initial deposit amount will vary depending on family income.

Incentives

- The Task Force recommends that a targeted matched-saving component be implemented to encourage saving among lower-income families.

Asset Limits and Public Assistance:

- The Task Force recommends that CSAs be excluded from all asset tests in public benefits programs. Asset limits serve as a disincentive to saving; Illinois families should not be penalized for saving for their children’s futures.

Financial Education

- The Task Force recommends that the State make additional investments in financial education programs for children and youth, and additionally, integrate the CSA program into school curricula as a way for children and youth to understand savings. Greater financial literacy will maximize the effectiveness of a CSA program. Incorporating the CSA program into financial education allows young people to learn the tangible skills that will increase their financial capability as adults.

The Task Force held four public hearings across the state, in Chicago Heights, Bloomington, Edwardsville and Rockford, to solicit input from Illinois residents and communities. The input from the public at these hearings informed the Task Force in the preparation of its report and recommendations.

## Illinois Children's Savings Account Task Force Report

### Background

On August 11, 2009, Illinois Public Act 96-0329 created the Illinois Children's Savings Account Task Force to review, recommend, and develop a strategic implementation plan for providing a savings account at birth for every Illinois child.

### Task Force Membership and Structure

As designate by the Act, Task Force members were appointed as follows:

- A member of the Governor's leadership staff;

- One member appointed by the President of the Senate, one member appointed by the Senate Minority Leader, one member appointed by the Speaker of the House, one member appointed by the House Minority Leader, and one member representing the Office of the State Treasurer appointed by the State Treasurer;

- Public members with an interest in asset building in Illinois, including a representative from each of following types of organizations or entities appointed by the Governor:

    - An operator of an individual development account or matched savings and financial education program;
    - A grassroots organizing entity;
    - A poverty law center;
    - A service-based human rights provider organization;
    - A business association;
    - A bankers' professional association;
    - A child advocacy organization;
    - A rural economic development entity;
    - A representative of organized labor;
    - A bank;
    - A credit union; and
    - An investment services provider.

- Ex-officio members of the Task Force appointed by the Governor, including the:
    - State Treasurer or his or her designee;
    - State Superintendent of Education or his or her designee;
    - Secretary of Financial and Professional Regulation or his or her designee;

- Director of Commerce and Economic Opportunity or his or her designee;
- Secretary of Human Services or his or her designee;
- Director of Healthcare and Family Services or his or her designee;
- Executive Director of the Board of Higher Education or his or her designee;
- Executive Director of the Illinois Community College Board or his or her designee; and
- Director of Children and Family Services or his or her designee.

- Representatives of the Office of the Governor and the Office of the State Treasurer to serve as co-chairpersons of the Task Force along with one of the public members, as designated by the Governor, to serve as a third co-chairperson.

**Meeting Process:**

Members of the Task Force held six meetings to review, recommend, and develop a strategic implementation plan for a CSA program. The Office of the State Treasurer, with assistance from private and public partners, provided support for Task Force meetings – including coordination of Task Force member appointments, distribution of meeting notices and minutes, and coordination of meeting presentations and other logistics.

Meeting topics included: (1) eligibility, enrollment and incentives; (2) use, design and delivery; (3) issues related to a 529 platform account structure; and (4) costs and financing of a CSA program.

**Purpose**

> *"It is the policy of the State to encourage families' savings, to increase families' financial knowledge, to promote higher educational aspiration and attainment, to encourage home ownership, to assist small business development, to promote job creation, to strengthen communities, and to increase asset-building opportunities for all residents."*
>
> - 20 ILCS 4065 Illinois Children's Savings Accounts Act

The creation of the Task Force gives Illinois a unique opportunity to increase the savings, assets and financial skills of its residents, thereby boosting educational attainment, home ownership, job development and the long-term financial stability of the state. In accordance with this policy, the Illinois Children's Savings Account Task Force developed recommendations for the creation of a Children's Savings Account program.

The Children's Savings Account Task Force developed recommendations aimed at creating a statewide savings program that accomplishes the following:

- Complements, but is not a substitute for, income security programs;
- Benefits as many children as possible;
- Provides an opportunity for savings for post-secondary education, including college, non-traditional post-secondary education and training, as well as other uses to benefit children who may not attend college;
- Leverages the aspirational and empowerment aspects of the accounts to create a foundation for growth;
- Strives for simplicity to ensure the program's success; and
- Combines with education/ financial education initiatives such as those currently provided to Illinois schoolchildren in grades K-12.

**Current Problems:**

Current family savings levels are not sufficient to promote large-scale educational aspiration and attainment, especially among low- and moderate-income families. Until very recently the personal savings rate in the United States was at the lowest level since the Great Depression – negative 0.5 percent.[1] Far too many families in America are living paycheck to paycheck. Nearly 1 in 5 American households and 1 in 4 women-headed households owe more than it owns and 1 in 3 minority-headed households has zero or negative net worth.[2] More than three quarters of low-income working families do not have enough assets to finance living expenses for three months at the federal poverty level if they lose their main source of income.[3]

Illinois mirrors these dire national statistics. The inflation-adjusted median household income in Illinois declined $3,929 between 2000 and 2006.[4] A typical household in Illinois has $2,911 in credit card debt, and installment debt of

[1] U.S. Department of Commerce, http://www.commerce.gov/; Associated Press, "U.S. Savings Rate hits lowest level since 1933," MSNBC, Jan. 30, 2006, http://www.msnbc.msn.com/id/11098797/).
[2] CFED, 2009-2010 Assets and Opportunity Scorecard, (Washington, DC: CFED, 2009) http://scorecard.dfed.org/index.php; CFED, "Seed Policy Update," (Washington, DC: CFED, May 2009)
[3] Signe-Mary Mckerran and Caroline Ratcliffe, "Enabling Families to Weather Emergencies and Develop: The Role of Assets," Urban Institute, July 2008, http://www.urban.org/publications/441734.html
[4] U.S. Census Bureau, "Households Table H-8A. Median Income of Households by State: 1984 to 2006 Two-Year Moving Averages," http://www.census.gov/hhes/www/income/histinc/h08a.html; CFED, *2007-2008 Assets and Opportunity Scorecard,* (Washington, DC: CFED, 2008) http://cfed.org/assets/pdfs/2007_Scorecard.pdf. "Asset poverty is a measure of economic security and mobility based on household net worth. Where *net worth* is defined as the total value of all assets, such as a house or a business, minus any liabilities, such as debts. A household is asset poor if it has insufficient net worth to subsist at the federal poverty level for three months in the absence of income. Thus, an asset poor household would not have enough savings or wealth to provide for basic needs during extended periods of economic hardship, such as a sudden job loss or a medical emergency."

$14,375.[5] These issues are more pressing in minority and lower-income communities. The median net worth of a non-white household in Illinois is $12,100, compared to $128,444 in white households.[6]

The current economic crisis has only made matters worse. All racial groups saw a decline in median family incomes during this economic crisis, but the severity of the decline varied greatly by race. The median income for white families dropped $2,185, while Hispanic families' median income dropped $3,163, and the median family income for African Americans dropped $5,049.[7] With high debt and insufficient income, communities across Illinois struggle to achieve financial stability and aspire for advanced opportunities for their children.

In addition, research looking at intergenerational correlations of wealth reveals that a large majority of children born into the lowest income group remains poor, and a majority of children born into the highest income group remains wealthy. This lack of economic mobility is an indicator that individuals at the bottom of the income spectrum have trouble getting ahead in the U.S. The picture is even bleaker when focusing on African-Americans. About 45 percent of middle-income African-American children end up falling to the bottom of the income scale over a generation, compared to 16 percent of white children — meaning that even solidly middle-class African-American families lead fragile economic lives.

The lack of personal savings and assets not only destabilizes families' economic security it also jeopardizes the long-term vitality and resiliency of state, city and local economies.[8] Fewer residents with the financial means to attend college or post-secondary training lead to fewer skilled workers, limiting job growth and decreasing business development. Concomitant with this downward trend is less family income, decreasing tax revenues and straining public resources for infrastructure improvements. An investment in educational opportunities for children sets the State on course to create a highly skilled workforce and improved economic security for all Illinois residents.

Given the dismal economic forecast and the lack of economic mobility present in the U.S., the widespread lack of savings is a serious issue demanding individual as well as systemic solutions. Just as America invests in its roads and bridges infrastructure, it must invest in the infrastructure of its children and families. Public policies must create opportunities for individuals to develop financial knowledge, build assets and create economic security and prosperity.

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[5] CFED, *2009-2010 Assets and Opportunity Scorecard*, (Washington, DC: CFED, 2009) http://scorecard.cfed.org/index.php

[6] Illinois Asset Building Group, "Illinois Asset Poverty Index," http://www.illinoisassetbuilding.org/data/assetpoverty/.

[7] Patrick Stonehouse, "Race and the Recession in Illinois," From Poverty to Opportunity Campaign Blog, entry posted Jan. 28, 2009, http://povertytoopportunity.blogspot.com/2009/01/race-and-recession-in-illinois.html; U.S Census Bureau, "American Community Survey (ACS)," http://www.census.gov/acs/www/index.html.

[8] CFED, 2009-2010 Assets and Opportunity Scorecard, (Washington, DC: CFED, 2009) http://scorecard.dfed.org/index.php; CFED, "Seed Policy Update," (Washington, DC: CFED, May 2009)

## Creating Promise and Prosperity:

Savings and investments influence future economic and educational success for individuals and the entire state. When children and families have the aspirations and financial means to invest in education and skills, they create a highly skilled workforce. Stronger, more skilled workers attract businesses, increase economic outputs and support a vibrant state economy. An investment in Illinois' children is an investment in Illinois' economic future.

Leaders from across the state see strong investment in post-secondary education, skills training and workforce development that is promoted through a statewide child savings program as critical to fostering a positive business climate that encourages job growth and improves the state's economy.[9] One study indicated that bachelor degree holders pay almost twice as much in local, state and federal taxes as those with a high school education and nearly three times as much as those with no diploma.[10] Similarly, when families are unable to purchase homes, entire communities are affected; higher homeownership rates are associated with more stable communities, higher property values, better-maintained properties and increased civic involvement.[11]

By providing the infrastructure and tools for individuals and families to save for education, the State increases educational attainment and skills for its residents. Savings positively affect high school graduation, college enrollment and college graduation. [12] One study finds that family net worth (total assets minus any liabilities) has significant impacts on years of schooling; when net worth is doubled, the probability of high school graduation increased 8.3% and college graduation increased 5.6%.[13] Increased savings among Illinois residents will boost their education and skills for a more prosperous state.

The presence of assets positively influences the well-being of an individual beyond the monetary value of the actual assets. Assets create positive aspirations, such as self-esteem, self-efficacy, a sense of security, and orientation toward and hope for the future. Specifically, assets give children and families resources designated for the future, thereby changing their present outlook on life.[14] By holding an asset, such as a savings account, children develop a stake in their future as well as the will and the means to shape it. In fact, data show that holding assets by twenty-three years of age is associated

[9] CMAP Annual Report for Fiscal Year 2010, Chicago Metropolitan Agency for Planning, available at http://www.cmap.illinois.gov/annual-reports.

[10] D. Page-Adams, *Assets, Health and Well Being: Neighborhoods, Families, Children and Youth* (St. Louis, MO: Washington University, George Warren Brown School of Social Work, Center for Social Development, 2001).

[11] Sandy Baum and Jennifer Ma, *Education pays: The Benefits of Higher Education for Individuals and Society* (Washington, DC: College Board, 2007).

[12] D. Conley. "Capital for College: Parental Assets and Post-Secondary Schooling." Sociology of Education, 74(1), Pp. 59-72. 2001; and T.R. Williams Shanks and M. Destin. "Parental expectations and educational outcomes for young African American Adults: Do Household Assets Matter?" Journal of Race and Social Problems, 1(1), Pp. 27-35. 2009

[13] D. Conley. "Capital for College: Parental Assets and Post-Secondary Schooling." Sociology of Education, 74(1), Pp. 59-72. 2001.

[14] CFED, "American Dream Demonstration: The First Large-Scale Test of Individual Development Accounts," http://www.cfed.org/assets/pdfs/American_Demonstration.pdf

with later positive outcomes, such as better labor market experience, marriages, health, behaviors and interest in political engagement.[15] These findings suggest a virtuous cycle - having assets leads to positive attitudes and behaviors, and positive attitudes and behaviors lead to greater asset ownership.

Children's Savings Accounts create the financial infrastructure that helps children achieve their full potential as adults. The accounts offer an inclusive, long-term asset-building opportunity established for children as early as birth and allowed to grow over their lifetime.

Several proposals for child accounts have been introduced and adopted across the country. Key features of the proposals are the same. Accounts are seeded with an initial deposit and built by additional contributions from public or private entities and family, friends and the children themselves. Savings matches and other "benchmark" incentives can augment the accounts. Since saving can be difficult for lower-income households, the government or third party can further supplement the accounts of lower-income children through a larger initial deposit, higher match rates or both. CSAs are often linked to age appropriate financial education such that savings behaviors are further encouraged through educational instruction to develop a child's financial acumen as the account grows.

## Illinois Children's Savings Account Task Force Recommendations:

In order to create a vibrant future for the State of Illinois through enhanced educational opportunities for children and more highly skilled workers, the Task Force proposes the following recommendations:

### Financial Infrastructure

- *The Task Force recommends using the 529 college savings plan platform to provide a savings infrastructure for all children in Illinois.*

All 529 plans are a tax exempt means to save for college or post-secondary education and training. Nothing promotes financial and job security more than a college degree. Over the past four decades, those with a college degree have enjoyed a 46 percent increase in earnings—compared to an increase of only 13 percent for those with some college and 7 percent for those with only a high school degree.[16]

529 college savings accounts encourage college savings through their tax incentives, as well as secure and protect such funds so that they are only used for college and post-secondary education and training. 529 college savings plan

[15] Ray Boshara and Jamie M. Zimmerman, "Combating Poverty by Building Assets: Lessons from Around the World," *New America Foundation Pathways Magazine*, Spring 2009.
[16] Ibid, page 7.

accounts are not limited to colleges and universities; there are over 250 approved institutions in Illinois alone, including community colleges, trade schools, culinary institutes and beauty schools. Funds may also be used for any accredited post-secondary school nationwide or even internationally. Withdrawals are limited to qualified education and training related expenses -- tuition, fees, books, and required supplies and equipment as designated by an "eligible educational institution." Other uses are subject to penalty in accordance with the Internal Revenue Code §529. Children who are unable to attend college due to disability or other physical challenge shall be entitled to the full benefit of the program, despite their disability and inability to attend post-secondary education or training.

In creating this savings infrastructure, CSA funds are available in the following ways:

- Public CSA funds will be available, after a child completes high school or a G.E.D., for qualified uses as defined in the Internal Revenue Code §529.
- Private CSA/529 funds will be available for qualified uses in accordance with the Internal Revenue Code §529 and non-qualified uses subject to taxes and penalties in accordance with the Internal Revenue Code §529.

<u>Eligibility</u>

- *The Task Force recommends automatically opening a CSA for every child born to Illinois residents at the time of the child's birth.*

The provision of an account to every child ensures that all children have a basic tool for building savings. Additionally, increasing the number of Illinois families saving for post-secondary education and training will increase college attainment and, therefore, generate a more competitive workforce, stronger communities and a thriving State economy. The future of Illinois is intrinsically linked to the success of its residents.

CSAs should be opened automatically at birth. Account opening can be tied to existing systems that interact with parents and their newborns, such as hospitals or birth certificate record-keeping systems.

<u>Ownership</u>

- *The Task Force recommends the account be owned and operated by a third-party or public entity with the child as the designated beneficiary.*

Family contributions are highly encouraged, but the owner will decide how the funds are invested and ensure that the funds are removed only for qualified expenditures. This will ensure a simple and safe way to save for the future of Illinois children.

<u>Investment Strategy</u>

- *The Task Force recommends that a balanced, age-based investment strategy be used.*

The Task Force recommends that the CSA program administrator be limited to using a balanced, age-based investment strategy that becomes more conservative as the child approaches the age of enrollment in college or other post-secondary education.[17]

Initial Deposits

- *The Task Force recommends that every account be seeded with an initial public deposit.*

- *The Task Force recommends that supplemental public deposits be provided based on family income.*

All accounts should be seeded with an initial deposit to create a savings infrastructure for all children. For families unsure of or unfamiliar with financial investments, the initial contribution will serve as a catalyst to saving, as well as ensure that investment is not limited to those with financial means and acumen. Furthermore, the initial contribution sends a strong message to Illinois families that the State is serious about investing in the future of its residents. Families wishing to make deposits to the account will be able to do so through direct deposit or mail. The funding source for the supplemental deposits could be block grants targeted to advance the well-being of low-income families.

Incentives

- *The Task Force recommends that a targeted matched-saving component be implemented to encourage saving among lower-income families.*

Matched savings incentives encourage savings by providing a financial match relative to the amount that is contributed to the account. Research shows that incentives increase participation across demographics. The Assets for Independence (AFI) program, a federally funded asset-building program that supports the development of matched savings for low-income adults,[18] reveals that prior to enrolling in AFI, 52 percent of participants did not have a savings account and 91 percent had never used direct deposit.[19] Through participation in the AFI program, participants have saved more than $38 million dollars in their Individual Development Accounts since 1999. For the CSA program, eligibility for a matched incentive will be based on family income.

Asset Limits and Public Assistance:

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[17] Parents may open other 529 accounts and select other investment strategies for such accounts.
[18] The AFI program is the primary funding source for IDA programs nationally.
[19] Office of Community Services, Administration for Children and Families, *Report to Congress: Assets for Independence Program Status at the Conclusion of the Seventh Year* (Washington, DC: U.S. Department of Health and Human Services: 2009). http://www.afterschool.ed.gov/programs/ocs/afi/seventh_interim_report.pdf.

- *The Task Force recommends that 529 accounts be excluded from all asset tests in public benefits programs.*

In light of the fact that public funds in CSAs are restricted to the child's educational and professional development, Illinois families should not be penalized for saving for their children's future. Currently, Illinois excludes 529 accounts from asset tests when considering Medicaid, State Children's Health Insurance Program (SCHIP) and Supplemental Nutritional Assistance Program (SNAP).[20] Illinois still considers 529 accounts when determining the eligibility of a resident for Temporary Assistance to Needy Families (TANF) and General Assistance (GA) benefits. The federal Supplemental Security Income (SSI) programs consider 529 accounts as assets when they are accessible to the recipients, but not when held by a third party.

<u>Financial Education</u>

- *The Task Force recommends that the State make additional investments in financial education programs for youth and integrate the CSA program into school curricula as a way for children to understand savings.*

Although Illinois law currently requires Illinois students to complete a consumer education class in order to graduate from Illinois public high school,[21] greater financial literacy will maximize the effectiveness of a CSA program. A survey of findings from the Savings for Entrepreneurship, Education, and Downpayment (SEED) Demonstration Project, a national CSA pilot project, showed that three months after participating in a financial education course, 58 percent of youth participants improved their spending habits, 56 percent improved their savings habits, and 39 percent identified "starting a savings account" as the most important impact of the program. Financial education helps people connect the dots in their lives - actions today affect outcomes tomorrow - and a CSA is a salient example of this.

<u>Conclusion</u>

Children's Savings Accounts provide a multiplicity of positive impacts – they are a means to increase savings and post-secondary attainment, to increase the tax base, to alleviate long-term poverty and to grow the state's economy. Beyond their financial benefits, CSAs also promote positive aspirations and promise, including improved self-esteem, self-efficacy, orientation toward the future, a sense of security, and fiscal prudence.

The Task Force acknowledges the State's current budget shortfall. Short-term budget solutions and one-time revenue streams inhibit the long-term economic vitality of Illinois' economy. Elected officials and leaders must give Children's

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[20] Rourke O'Brien, 529s and Public Assistance, New America Foundation Nov. 2009

[21] 105 ILCS 5/27-12.1 and 23 Ill. Adm. Code 1.440(a)(11).

Savings Accounts, a long-term development initiative, top priority, creating a State of promise and prosperity.

Appendix A:  Savings Scenarios

The initial deposit amount, expected family savings contributions, and a matching component present various pathways to accessible post-secondary education and training. Account design, initial deposit and subsequent contributions influence a family's ability to generate a substantial nest egg to pay for college or other post-secondary education and training.

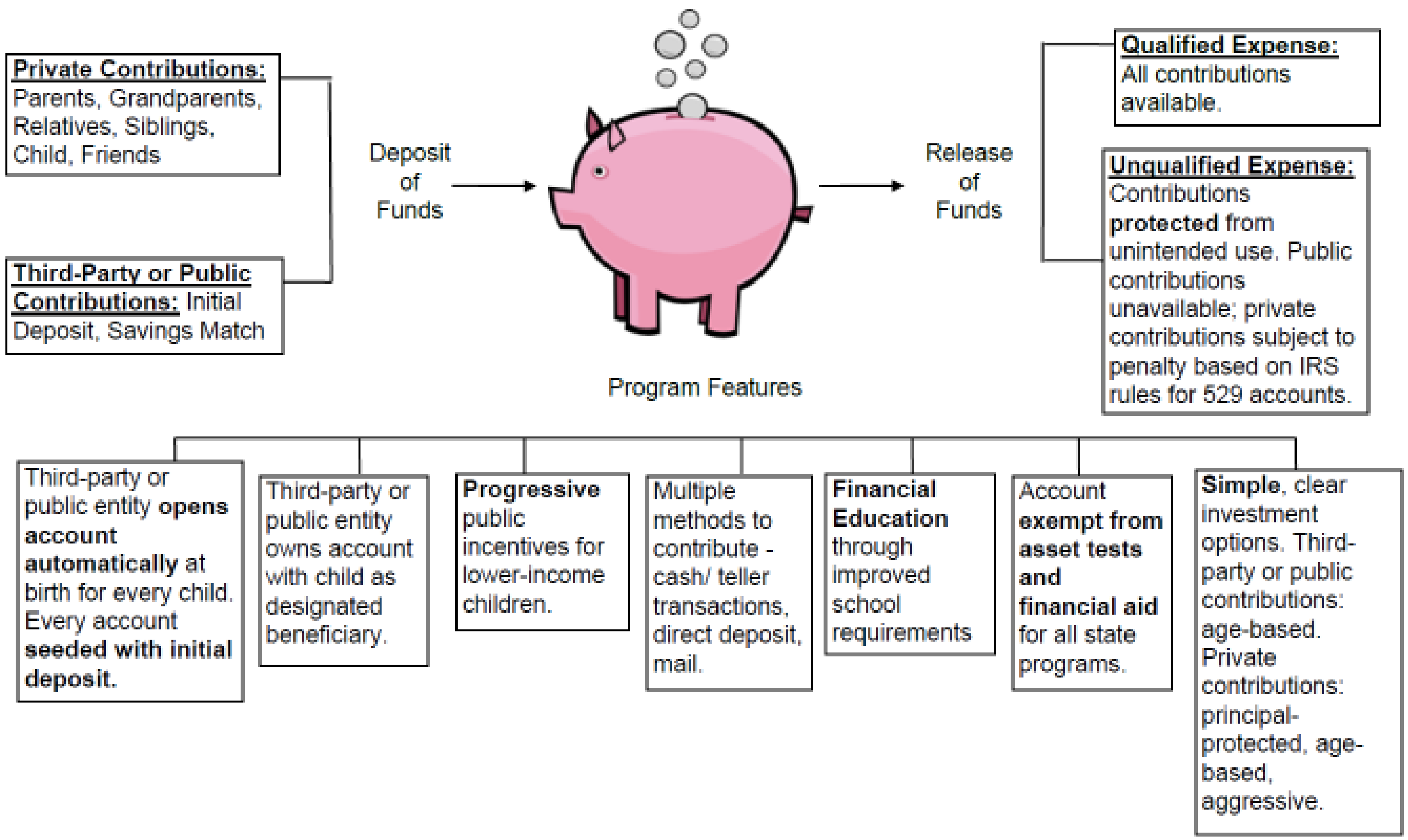
| | **Scenario 1** (2:1 match) | **Scenario 2** (2:1 match) | **Scenario 3** (1:1 match) | **Scenario 4** (No match) |
|---|---|---|---|---|
| **Initial Deposit** | $100 | $50 | $15 | $15 |
| **Supplemental Deposit** | $100 | $40 | $10 | $10 |
| **Parental Contribution** (per year) | $108 ($9/month) | $180 ($15/month) | $240 ($20/month) | $600 ($50/month) |
| **Savings Match** (subject to eligibility) | $216 (per year for first 3 years) | $360 (per year for first 3 years) | $240 (per year for first 3 years) | $600 ($50/month) |
| ***Net Savings** (After 18 years) | $4,360.75 | $6,766.20 | $7,591.39 | $15,678.61 |
| ****Impact:** | 2 yrs – community college tuition | 1 yr – tuition at University of Illinois at Urbana-Champaign | 1 yr – tuition, books, and part of room and board at University of Illinois at Chicago | 1 yr – tuition, books, and room and board at University of Illinois at Urbana-Champaign |

Potential Savings Scenarios:
* Net savings estimate assumes a 3 percent rate of return
** Impact - estimated impact based on net savings estimate combined with average financial aid grants awarded to students at the designated institution, and the institutions listed 2010-2011 cost estimates.

Appendix B: Task Force Process-flow Chart for the Illinois Children's Savings Account Program

# Illinois Children's Savings Account Program:

Third-party or Publically-administered 529 Plan for Postsecondary Education and Training



Appendix C:  Frequently Asked Questions

1. **Eligibility:**

   ***Who is eligible***? All newborn children born to Illinois residents at the time of the child's birth after the effective date of the program would receive a CSA account.

   ***How is Illinois residency determined***? Illinois residency would be determined based on current definitions of "residency" under Illinois law.

   ***Do parents have to be U.S. citizens***? No. Eligibility would be based on the citizenship of the child and the residency of the parents. Any child born in the U.S. is automatically a U.S. citizen and would therefore be eligible. Parents would be required to meet the Illinois residency requirements.

   ***What about children other than newborns? For example, would a 3 year old be eligible for this account?*** No. Only newborn children who are born after the effective date of the program would get accounts. Parents could, however, open a 529 college savings plan account for their existing children at any time. Additionally, parents could open a 529 college savings plan account for the newborn in addition to the CSA opened by the State for the child. (See Discussion on Parental Contributions below).

   ***What happens to the account if a child moves out of state***? The CSA account would remain open and available for parental contributions, but no further public contributions would be made to the account. The parents could also choose to close the account and withdraw the private funds, however, such withdrawal would not include any public contributions and income taxes and other penalties may apply to the parental contributions that are withdrawn.

   ***What if my child has a disability***? The Task Force is recommending that second similar type of account program be established for children with disabilities who cannot participate in post-secondary education or training. The eligibility requirements, opportunity for initial deposits and matching grants, account management and investment options under this second plan would be the same as under the CSA. However, under this separate program account funds could be used for purposes other than post-secondary education such as rehabilitation, assistive technology and other uses that might be more suitable for these children.

***Are foster children and wards of the state eligible***? Yes. Eligibility would be based on the citizenship of the child and the residency of the parents. In the event that a newborn child, born to Illinois parents, became a ward of the State at birth, the account would be opened by the State. In the event that a child became a ward of the state or entered the foster care system at a later age, the CSA account would follow them and be monitored by the guardian or foster parent. Neither the guardian nor the foster parent would have the ability to withdraw the CSA account funds except for the benefit of the child as prescribed by the program rules.

**2. <u>Uses of Funds</u>:**

***How can CSA funds be used***? The CSA program will be using a 529 account structure and therefore the same rules would apply to CSA funds that apply to 529 funds. Under a 529 platform, the only "qualified" use for 529 funds is for educational purposes. Specifically, 529 account funds may only be used for college and post-secondary education and training. 529 college savings plan accounts are not, however, limited to colleges and universities; there are over 250 approved institutions in Illinois, including community colleges, trade schools, culinary institutes, and beauty schools where they can be used. Additionally, 529 funds can be used at accredited educational institutions outside of Illinois and in other countries. Withdrawals are limited to "qualified education and training related expenses" -- tuition, fees, books, and required supplies and equipment as designated by an eligible educational institution.

***What if my child will not attend college***? If the beneficiary chooses not to attend college, the parents or guardian would have three options:

- Keep the funds in the account. Since there are no age restrictions on the investments, the funds would be available in future years if the beneficiary changes his or her mind about school;
- Change the beneficiary. Beneficiaries can be changed at any time, if the new beneficiary is eligible. The initial public deposit and supplemental deposit, if applicable, would be forfeited since the new beneficiary would have already received these amounts. Additionally, this may create a taxable gift.
- Make a nonqualified withdrawal of any family contributed funds. Earnings would be subject to federal income taxes and any applicable state income tax, as well as an additional 10 percent federal tax.

***What if I only use part of the funds***? There would be no requirement that all of the CSA funds be used at one time. For example, assume a child accumulates $10,000 in his or her CSA account. After high school graduation or completion of a

G.E.D., the child could use $5,000 to attend community college. Subsequently, at age 20, the child could use the remaining $5,000 to attend culinary school.

***Is there a time limit on when the funds must be used***? No. CSA funds could be used anytime after a child completes high school or a G.E.D.

***What if I want to use CSA funds for a non-qualified use***? The only “qualified” use of public funds would be for educational purposes. Initial deposit and matching funds may not be withdrawn for any non-qualified use of funds; family contributed funds used for other, non-qualified expenses earnings would be subject to ordinary federal income tax and any applicable state income tax, as well as an additional 10 percent federal tax.

***What if I experience a financial hardship and need to access the CSA funds***? The only “qualified” use of public funds would be for educational purposes. If private funds were used for other, non-qualified expenses, earnings would be subject to ordinary federal income tax and any applicable state income tax, as well as an additional 10 percent federal tax.

**3. <u>Initial, Supplemental and Matching Deposits</u>:**

***Who receives an initial deposit***? All newborn children born to Illinois residents at the time of the child’s birth would automatically receive an initial deposit upon the opening of the child’s CSA. The initial deposit is a one-time deposit intended to begin the savings process.

***Who is eligible for a supplemental deposit***? In addition to the initial deposit, all newborn children born in Illinois to Illinois residents whose family income is below a certain poverty threshold, as determined by the program rules, would be eligible for a one-time supplemental deposit. The applicable poverty threshold will be determined by the program administrators and is intended to benefit those children whose family income makes them most in need of additional financial assistance.

***Who is eligible for matching deposits***? Children with CSAs whose family income is below a certain poverty threshold, as determined by the program rules, would be eligible for matching grants for the first five years they are in the program. The applicable poverty threshold will be determined by the program administrators and is intended to benefit those children whose family income makes them most in need of additional financial assistance.

**4. <u>Family Contributions</u>:**

***Are there any limits on the amount that families can contribute to the account***? Under current federal law, the maximum that can be contributed to a 529/CSA account is $320,000. After this maximum is reached, no additional funds may be contributed to the account, however, account funds would continue to accrue earnings and interest.

***What if I am unable to contribute to the account***? The public initial and supplemental deposits, if applicable, would be provided regardless of whether or not parental contributions are made. Matching grants would be made only to eligible families that have contributed to the account and would be based on the amount of such contributions.

***How can I contribute to my child's account***? Contributions could be made online, by mail or through direct deposit.

***Are contributions to a CSA account tax deductible or can they be made on a pre-tax basis***? Under current Illinois law, contributions to a CSA account would be tax deductible from Illinois state taxable income, up to $10,000 ($20,000 if married and filing jointly) per year. Contributions would not be tax deductible from federal taxable income and could not be made on a pre-tax basis.

## 5. Account Management and Investment:

***Who owns the account***? The account would be owned by a third party administrator. The beneficiary of the account would be the child. The parents neither own the account nor have a beneficial interest in the account. Parents can, however, open a separate 529 account for the child, which they would own and manage.

***Who invests the accounts***? The CSA program administrator would, after a competitive bidding process, contract with an investment fund manager to invest the funds in the market. The Task Force is recommending that the administrator use a balanced, age-based fund.

***How are the accounts managed***? The CSA program administrator would contract with an investment fund manager. The fund manager would invest the pooled CSA account funds, based on guidelines provided by the CSA administrator, in a balanced, age-based fund.

***Are these individual or pooled accounts***? CSAs would be pooled accounts for investment purposes.

6. **Financial Education:**

***Will children be taught how to manage the account***? The Task Force is recommending that the State make additional investments in financial education programs for youth and integrate the CSA program into school curricula as a way for kids to understand savings and help them to grow their CSAs and make wise financial decisions.

7. **Financial Aid and Public Benefits:**

***How does a CSA account affect financial aid determinations***? An important factor for determining federal financial aid eligibility is the expected family contribution. When figuring the role of CSA assets toward that contribution, they will likely be treated similar to 529 accounts. Specifically, under federal financial aid rules, if a 529 account is in the parents' name as the account owner, the account assets will be treated as assets of the parent and used in determining financial aid. If the child is owner of the 529 account, then account assets will not be counted. The CSA program structure would be designed to ensure that it will not be counted for financial aid purposes. Under the CSA program structure, the account would be owned by a third party – neither the parents nor the child would own the account – which will eliminate it from consideration for financial aid determinations.

***What if my child receives a scholarship?*** If your child receives a scholarship for higher education expenses, you can withdraw an amount equal to the value of the scholarship from your child's CSA. Earnings on the amount withdrawn would be taxed at your tax rate but will not be subject to an additional 10 percent federal tax.

***How does a CSA account affect a family's eligibility for public benefit programs***? The Task Force is recommending that CSAs be excluded from all asset tests on public benefits programs. Currently, Illinois excludes 529 accounts from asset tests when considering Medicaid, State Children's Health Insurance Program (SCHIP) and Supplemental Nutritional Assistance Program (SNAP).[22] Illinois still considers 529 accounts when determining the eligibility of a resident for Temporary Assistance to Needy Families (TANF) and General Assistance (GA) benefits. The Task Force is recommending that CSA accounts be excluded from all of these programs.

[22] Rourke O'Brien, 529s and Public Assistance, New America Foundation Nov. 2009

8. **Fraud Prevention:**

***How will these accounts be protected against fraud and abuse***? Although fraud can occur under any program, the CSA program would be structured to reduce incentives for fraud. Under the CSA program, public funds could not be accessed until the child completes high school or a G.E.D. After completion, funds can be spent only for “qualified” uses and payments could be required to go directly to the post-secondary institution. Additionally, since the account is owned by a third-party or public entity, access to the account is limited.

9. **Special Situations:**

***What happens to the account upon the death of a child***? Private (not third-party or public) funds may be withdrawn without penalty in the event of the death or disability of the beneficiary. Ordinary federal and state income taxes would be owed on any investment earnings included in gross income.