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U.S. Senate Finance Committee
"Child Savings Accounts and Other Tax-Advantaged Accounts Benefitting American Children"

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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 & 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 three 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% 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% of high-potential children born to a low-income father graduate from college, compared with 63% born to high-income fathers (Papageorge & 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% 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%).

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 colors. 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 illustrate 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 & Noeth, 2015).
- Black families with a head of household who graduated from college have about 33% 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, & 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% decrease in the rate of achieving median net worth (Elliott & 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 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% of college graduates said that college had been a good investment; in another, 74% of young adults said a college education was "very important"; in a third, 60% of Americans said that colleges and universities were having a positive impact on the country (Tough, 2023, Sept. 5).
- However, a decade later, the percentage of young adults who said that a college degree is very important fell to 41% from 74%. Only about a third of Americans now say they have a lot of confidence in higher education. Among young Americans in Generation Z, 45% 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 four-year college (Tough, 2023, Sept. 5).

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, Jan. 22, Tough, 2023, Sept. 5). 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, Sept. 5). This suggests, while understandably Americans have grown frustrated with educations 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. They question becomes, why. Assets have been said to hold the following characteristics (Sherraden, 1991):

[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 four-year college degree and were at least age 22 (Elliott & Rauscher, 2018).

- 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 & Zheng, 2023, Nov.).

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 begats 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.
    - 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, & 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, & 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, & 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, & Nam, 2018).
    - While the institutions and economic forces that fuel wealth building have changed dramatically within the past two 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,

[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).

M.S. Sherraden, & 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 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, & Boshara, 2010).

By the end of 2023 there were 121 CSA programs in 39 states serving over 5.8 million children in the US (Prosperity Now, 2024). There are seven states that have a statewide program (California, Illinois, Maine, Nebraska, Nevada, Pennsylvania, and Rhode Island) (Sherraden, M. & 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 dollars in their account (Clancy, Beverly, Schreiner, Huang, & 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 & O'Brien, 2023).
    - Increase children's educational expectations (Elliott, 2009; Elliott, Zheng, Saborl, & 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 & 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, & Nam, 2013).
    - Increase college enrollment and college graduation of Black children (when they have school-designated savings of $500 or more) (Friedline, Elliott, & Nam, 2013).

- **Experimental Findings**

    - Increase parental educational expectations for their children (Kim, Sherraden, Huang, & 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, & Clancy, 2019).
    - Reduce maternal depression (Huang, Sherraden, & Purnell, 2014).

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

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[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.

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 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, Oct.). 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, Oct.). 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, & McKernan, 2024):

- Start at the beginning
- Ensure inclusion and reduce wealth inequities
- Make real investments
- 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, & 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 onetime 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, & Case, 2023, March; Elliott, May 2024). They may also provide means for delivering

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

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, Oct.) 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, & 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 strengthen 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% (Sullivan, Meschede, Shapiro, Asante-Muhammed, & Nieves, 2016). This moment in U.S. history post-pandemic facing the pending labor 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 four 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 four-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% 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.

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

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 US 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 eight 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 "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]

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[8] To learn more about how NYC's Kids RISE and how it is leveraging CSAs capacity for facilitating multiple streams of assets to flow to its children go to

- 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 1 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% to 10% of the amount of the Pell Grant award for which they would be eligible.

The city of Saint Paul, Minnesota 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 can

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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.

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, Nov.) 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 colour 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 levelling 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 totalled 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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