



The (Unknown) Children's Savings Accounts Federal Policy Landscape

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SHORT CONFERENCE DESCRIPTION:

The goal of the *Financial Independence* policy conference held on September 16 and 17, 2024 in Washington, D.C. was to bring together experts from the asset and income fields to share theory, evidence, and best practices. The conference was divided into four sessions. The first two sessions were on Children’s Savings Accounts and Baby Bonds, the asset arm of the conference. The third session focused on the income arm. More specifically, it focused on Unconditional Cash Transfers, the Child Tax Credit, and Child Allowances. The final session focused on why solving poverty requires both asset and income proponents to come together. This policy brief is part of the Children’s Savings Account session.

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The Federal CSAs landscape has shifted quite a bit since the first federal Children Savings Accounts (CSAs)¹ proposal emerged in the late 1990s: former Senator Bob Kerrey’s bipartisan “KidSave” proposal, which aimed to automatically establish retirement savings accounts for every newborn child. And that landscape is poised to shift again in less than two months with control of the White House, House and Senate up for grabs. The success, scope, and structure of federal CSAs depend entirely on who controls which branches of government, so it’s difficult to speculate on what the federal CSAs landscape might be.

What appears more certain, however, are the two tax-related legislative vehicles to which a federal CSAs *might* be attached in the next Congress:

- (1) The reauthorization of certain provisions of the Tax Cuts and Jobs Act (TJCA) of 2017.² Many of its provisions were enacted temporarily and will expire at the end of 2025; this includes what’s thematically related to CSAs: the Child Tax Credit, which will resort to \$1,000 if the TJCA expires.
- (2) The SECURE 3.0 retirement savings bill.³ The “Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 and SECURE 2.0 of 2022 both cleared Congress with bi-partisan support and were signed into law. Expectations are now growing for SECURE 3.0, which would likely further enhance opportunities for retirement savings—an explicit allowable use of the two current federal CSAs proposals, 401Kids and “Baby Bonds.”

Each bill is described in greater detail in Section III. I’d now like to turn to a brief history of federal CSAs, as well as the principles that have heavily influenced the design of many CSA proposals.

¹ I’m using “CSAs” broadly here to refer to any federal proposal to establish savings / investment accounts at birth, whether called KidSave, KidsAccounts, 401Kids, Baby Bonds, American Opportunity Accounts, etc.

² See Oshagbemi, C., & Sheiner, L. (2024). Which provisions of the Tax Cuts and Jobs Act expire in 2025? Washington, DC: Brookings Institution. <https://www.brookings.edu/articles/which-provisions-of-the-tax-cuts-and-jobs-act-expire-in-2025/>

³ See Place, N. (2023). *With retirement laws changing quickly, what might be in a ‘SECURE 3.0?’* Financial Planning. <https://www.financial-planning.com/list/after-secure-2-0-whats-next-for-retirement-legislation>

I. CSAs Federal Policy History

As the table below illustrates, CSA policies have been proposed by Democrats and Republicans (sometimes together) since the late 1990s. They vary widely in scope, purpose, allowable asset purchases, design, and the problem they are trying to solve—building retirement security, promoting savings and financial literacy, expanding opportunity, nar-

rowing the racial wealth gap, etc. Indeed, CSAs have been labeled “a problem in search of a solution,” though this flexibility could also be an advantage in efforts to include CSAs in a broad variety of bills moving through Congress—as the two pending opportunities illustrate.

Congressional Proposal	Framing / Problem Solved	Allowable Asset Purchases	Lead Democrat Sponsors	Lead Republican Sponsors
KidSave (1990s) \$1,000 - \$2,000 at birth, plus \$500 for LMI kids in years 1-5; repaid in retirement	Retirement security, keeping older Americans out of poverty	Retirement	Senator Kerrey	Senators Gregg, Grassley
ASPIRE Act (mid-2000s) \$500 at birth for all newborns, \$1,000 if LMI. Matching deposits for LMI families; initial deposit repaid for certain families	Savings, financial literacy, financial independence/ smaller government	Post-secondary education, first home, retirement	Senators Corzine, Schumer Reps. Ford, Kennedy, Cooper, Emanuel	Senators Santorum, DeMint Reps. English, Petri
Baby Bonds (2007) \$500 at birth for all newborns, plus annual deposits tied to Child Tax Credit	Expand opportunity for LMI kids	Post-secondary education, small business, first home	Senator Clinton	
PLUS Accounts (2007) \$1,000 at birth for all kids, plus mandatory employee and employer contribution once in the workforce	Retirement security, shortfalls in pensions	Retirement		Senator Sessions
Young Savers Accounts / Roth at Birth / RAY's Act (2006-2015) No initial deposit but allows children without earned income to make deposits into Roth IRAs	Retirement security, building a savings culture early in life	Retirement (though Roth IRAs also permit limited tax- and penalty-free withdrawals for post-secondary education, first home and emergencies)	Senator Baucus Reps. Hinojosa, Cartwright, Serrano, Takai, Blumenauer, Kind, Loeb sack	Reps. Poliquin, Stivers, Hanna, Moore Capito
401Kids (2007) No deposits for newborns; renames Coverdells to 401Kids; expands uses to include first-home purchase and rollovers to Roth IRAs	Lifelong saving and financial security	Post-secondary education, first home, retirement security	Rep. Shuler	Rep. Biggert
USAccounts (2014-2018) Automatically deposits \$500 into a USAccount, plus \$500 in matching deposits, more if LMI	Reducing poverty and inequality, investing in poor children	Post-secondary education, with rollovers to private saving and Roth IRAs permitted.	Reps. Crowley, Ellison	
American Opportunity Accounts (“Baby Bonds”) (2018-2024) Federal TSP-like program; \$1,000 deposit at birth for all kids, plus up to \$2,000/yr. for LMI kids	Reduce the racial wealth gap and expand economic opportunity	Post-secondary education, small business, first home, retirement security	Senator Booker	Rep. Pressley
401Kids (previously CSAs) (2017-2024) Built on state 529 platforms; automatic annual deposits for LMI kids, plus matching and additional deposits for EITC-eligible families	Expand opportunity for LMI children, reduce wealth inequality, build generational wealth	Post-secondary education, first home, small business, retirement, rollovers to Roth IRAs and ABLE Accounts	Senator Casey	Rep. Beyer

TABLE 1

II. Principles for Policy Design

401Kids and Baby Bonds were heavily informed by policy design principles starting with the SEED Policy Council in the 2000s, followed by the Center for Social Development’s influential 10 policy design principles published in 2019. These were then summarized and published by a group of national CSA experts (Cisneros et al., 2021) and included in the box below. Earlier this year, the Urban Institute published a set of reinforcing and complementary principles that were “the result of deliberations among policy experts who have years of experience....[with an aim] to emphasize a wide foundation of shared vision and principles as federal policy development moves forward” (Brown, Biu & McKernan, 2024).

The policy design challenge for federal CSAs has changed significantly since the early 2000s. The earlier proposals described above were blank slates—there were no CSAs, programs, policies, or evidence to inform policy design; it was, in many ways, an academic exercise. In about the mid-2000s,

city and state CSA policies and demonstration projects began to emerge, providing crucial evidence not only that CSAs could work but how they could work—evidence well summarized in other papers in this volume.

The research evidence and actual policy experiences in Oklahoma, Maine, San Francisco, and Pennsylvania (to name just a few) have been critical to the design of current CSA policies— especially to 401Kids, which was intentionally designed to build off the success of the roughly six million CSAs now opened in the U.S. These principles will be essential as Congress drafts different versions of the CSAs in preparation for inclusion in TJCA, SECURE 3.0, or a possible reconciliation bill.

Indeed, as fiscal constraints and budget rules likely reduce the cost of introduced versions of 401Kids and Baby Bonds, these principles will be needed even more to inform the difficult choices and tradeoffs the field is likely to confront.

KEY CDA PRINCIPLES FOR ACHIEVING SCALE, SUCCESS, AND SUSTAINABILITY

(Reprinted from “The Case for a Nationwide Child Development Account Policy”)

1. **Eligibility for all**—everyone is included and gets a stake.
2. **Automatic enrollment**—remove barriers to enrollment.
3. **Automatic initial deposit**—jump-start wealth accumulation.
4. **Start young**—maximize wealth-building potential.
5. **Targeted additional deposits**—those with greater need get more.
6. **Centralized savings plan**—enable implementation and reduce costs.
7. **Investment growth**—augment the wealth-building capacity of families.
8. **Simplified investment options**—make decisions easy.
9. **Restricted withdrawals**—prioritize wealth building.
10. **Means-tested public benefit exclusion**—remove disincentives to building wealth.

Source: Cisneros, Clancy, Elliott III et al., (2021)

FIGURE 1

III. Current Proposals and Prospects

As mentioned, there are two major CSAs-at-birth proposals currently in the U.S. Congress, with each receiving several external endorsements and generating Democrat co-sponsors in both the House and Senate. While 401Kids and Baby Bonds share nearly identical purposes, their policy designs are quite different—Baby Bonds is modeled on the federal Thrift Savings Plan, while 401Kids is built on state 529 college savings plans. This is not problematic; just as there were several versions of the Affordable Care Act and Child Tax Credit before each became law, there is more than one way to create federally funded CSAs at birth.

401Kids

The *401Kids Savings Account Act of 2024*, led by Senator Bob Casey (D-PA), would automatically establish a 401Kids Savings Account for all newborns and children under 18 in states that opt-in to the program, with a federal backstop for children born in states that chose not to participate (and for children born abroad, too). Built on 529 college savings platforms and managed by state Treasurers (who are already managing 529 plans), 401Kids would provide federal deposits (direct and matching) for children living in low- to moderate-income households and, starting at age 18, allow withdrawals for post-secondary education and training, first home purchase, small business development, retirement security, and rollovers to Roth IRAs and ABLE Accounts.

Payments would go directly to the asset provider, except in the case of retirement, starting at age 59½. Contributions from families and any outside source are capped at \$2,500 total per year, though there is no limit on what states may contribute.

The bill, which was developed throughout 2023 with several stakeholders in the public, non-profit, and investment sectors, aims (as mentioned) to build on the success of six million CSAs now in existence at the state and local levels (thanks largely to statewide policies in Maine, Pennsylvania, and California). States opting into 401Kids could amplify their efforts (with federal funds and expanded uses) or start new ones; furthermore, city and state-level Baby Bonds ef-

forts could be started or enhanced as well on the 401Kids platform (hence the provision placing no limits on state funding).

With this design of 401Kids, the Joint Economic Committee of the U.S. Congress estimates that the newborn child of a lower-income, EITC-eligible single parent with \$40,000 in adjusted gross income could have over \$53,000 by age 18. This sum includes about \$21,000 in direct federal funding (annual deposits and matching funds), about \$8,500 in family contributions, and nearly \$24,000 in investment returns. This amount approximates the “investable sums” or “start-up capital” the Aspen Institute believes is necessary for young Americans to begin their lives (Andres et al., 2023).

On the macro level, an independent, external analysis of 401Kids by economist José Diaz finds that 401Kids delivers \$2.61 in benefits for every \$1 invested—from increased income later in life, improved health, additional tax revenues, and lower crime.⁴ Senator Casey also released a report summarizing the rationale, design, evidence, and impacts of 401Kids, along with state profiles, case studies, and the like.⁵

“Baby Bonds”

The American Opportunity Accounts Act (often called “Baby Bonds”), led by Senator Cory Booker (D-NJ), would establish a federal Thrift Savings Plan-like program with automatic \$1,000 deposits at birth for all newborns in an American Opportunity Account, with an opt-in for children under age 15. Up to an additional \$2,000 in Federal deposits for certain lower-income kids would also be automatically deposited. Funds would reside in a Federally insured account managed by the Treasury Department, achieving roughly 3% interest. Outside contributions from states, families, etc., are not permitted.

Like 401Kids, there would be no access to the funds until age 18, at which point the funds may be used for post-secondary education, first home, small business, and retirement. Payments would also go directly to the asset provider, except in the case of retirement.

⁴ See Casey Jr., R. P. (2024). *Constellation fund analysis of 401Kids*. https://www.casey.senate.gov/imo/media/doc/constellation_fund_analysis_of_401kids.pdf

⁵ See Casey Jr., R. P. (2024). *401Kids: Building wealth for the next generation*. <https://www.casey.senate.gov/imo/media/doc/401kids.pdf>

Baby Bonds is framed as a response to the racial wealth gap, though it would likely reduce the educational, gender, and generational wealth gaps as well (as would 401Kids). Impacts on the racial wealth gap of Baby Bonds and similar proposals, however, have been quantified:

- Naomi Zewde (2019) of UCLA found that the ratio of median wealth for the current cohort of young White Americans to young Black Americans would have decreased from 16-to-1 to 1.4-to-1 if universal Baby Bonds were administered when they were newborns.
- McKinsey and Company estimate that the GDP of the United States could be 4% to 6% higher (an increase of \$2,900 to \$4,300 in GDP per capita) by 2028 if the racial wealth gap were closed (Noel et al., 2022).
- According to a simulation from Morningstar, early wealth-building accounts could reduce racial wealth disparities between Black and Latino households and White households by 20 percentage points.⁶

A more thorough discussion of these studies was published in 2023 by the Urban Institute. It also includes a literature review of CSAs and similar early wealth-building accounts to “assess the outcomes that may be achievable with baby bond policies” (Brown, Sawo & Biu, 2023).

Prospects

Each of these bills has a House companion, also led by Democrats. Currently—unlike CSAs-at-birth proposals from the last two decades—there are no Republican sponsors in the House or Senate, though that could change after the election, especially with some Republican-leaning organizations taking great interest in CSAs at birth.⁷ Both bills have been referred to the tax-writing committees in Congress: House Ways and Means, and Senate Finance. Senator Ron Wyden (D-OR), who chairs the Senate Finance Committee, has publicly expressed enthusiastic support for CSAs (401Kids in particular) and convened a Senate Finance Committee full hearing on CSAs in May 2024 (U.S. Senate, 2024).

The two potential legislative vehicles mentioned above—TJCA and SECURE 3.0—also fall under the jurisdiction of the Senator Finance Committee. Senator Wyden’s leader-

ship of the committee (and Senator Casey’s membership on that committee) thus greatly improve the prospects for the inclusion of a federal CSAs proposal if Democrats retain control of the Senate (though his strong support of CSAs could also lead to CSAs inclusion even if Republicans control the Senate).

As noted earlier, due to the uncertainty of the upcoming election, it’s very difficult to predict the landscape and prospects for national CSA legislation. This naturally is further complicated by large federal debts and deficits, which includes the necessity of finding budgetary offsets to cover the cost of a Federal CSA proposal.

And it is possible that CSAs could be included in what’s called “reconciliation,” which, according to the Center on Budget and Policy Priorities, “allows for expedited consideration of certain tax, spending, and debt-limit legislation” (Kogan & Reich, 2022). If, for example, Democrats control the White House, Senate, and House, a potentially larger CSA Bill could move forward without any Republican support.

Bear in mind, though, that preparing any bill for inclusion in a reconciliation package requires following strict rules, including the “Byrd Rule,” which allows “extraneous” provisions to be blocked. Several “extraneous” provisions in 401Kids and Baby Bonds would not survive what is called a “Byrd Scrub,” likely limiting the scale, scope, and impact of any new federal CSA policy.

Indeed, rarely does a bill, as introduced, become law; a bill often represents a vision, an ideal policy. Whatever current CSAs proposal moves forward—401Kids, Baby Bonds, perhaps a new one?—will be no exception. Moreover, as mentioned, the political landscape will greatly influence the Bill’s success, scope, and structure; different kinds of synergies may be created with different legislative vehicles.

For example, CSAs in a SECURE 3.0 may include an opportunity to coordinate 401Kids with “Secure Choice” retirement plans since both fall under the auspices of state treasurers. Or the Savers Match authorized in SECURE 2.0 may be coordinated in some way with the matching deposits offered in 401Kids.

⁶ See Lia Mitchell and Aron Szapiro, “How Baby Bonds Could Help Close the Racial Wealth Gap,” Morningstar Policy Research, <https://www.morningstar.com/lp/baby-bonds>.

⁷ See *Empower Kids*. Invest America. <https://www.investamerica.org/>

Meanwhile, CSAs in a tax bill—where literally over \$3 trillion of tax breaks are on the table, making a new federal CSA policy potentially much larger—could potentially integrate an expanded Child Tax Credit with the automatic deposits in 401Kids. Indeed, Vice President Harris has proposed—as part of her Presidential campaign—a \$6,000 tax credit for parents of newborns; why couldn’t \$1,000 of that fund a CSA? Advocates of CSAs would be wise to be opportunistic in connecting CSAs to other policies and funding sources.

However, it’s critical that whatever scaled-back version of CSAs may get enacted start right—that we do not start where we do not want to end up. That is, the field must start in a way that (a) establishes the right, universal “plumbing”; (b) could be dialed-up as more funding becomes available; and (c) promotes state, local, family, and all external contributions to the accounts—especially since federal funding is likely to be limited at the onset of the policy. Again, this is where the CSA policy design principles mentioned above will be instructive.

IV. Conclusion

Prospects for a national CSA policy are exciting and closer at hand than ever before. Two broadly sponsored CSAs bills have been introduced in Congress; one has received a Senate Finance Committee hearing and the backing of the chairman of that committee—the committee of jurisdiction. Moreover, lawmakers are eyeing two specific legislative opportunities in the next Congress to advance CSAs. How those opportunities play out, along with the scope and design of an enacted

CSA bill, depends entirely on the outcome of the November 2024 election.

Hopefully, advocates, whether for CSAs or Baby Bonds, will work closely together to advance the best bill possible. It’s not often that the field will have a tangible opportunity to build wealth and renew economic opportunity afresh for each generation, starting the day each child is born.

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