WISCONSIN STATE ASSEMBLY · 88th ASSEMBLY DISTRICT

JOHN J. MACCO

STATE REPRESENTATIVE • 88TH ASSEMBLY DISTRICT

To: Assembly Committee on Ways & Means

From: Representative John Macco

Date: Tuesday, March 1st 2022

Ways & Means Committee Members,

Born out of the Retirement Security Task Force, AB 974 creates the 401(K)ids savings program in the state of Wisconsin. Essentially every kid born or adopted in Wisconsin will receive a birth certificate, social security card and a 401(K)ids savings account. This account would be seeded with an initial, modest $25 by the state, but contributions can then be made by family members throughout this child's life. Once the child is 18 years old, this money can then be used to pay for higher education, buying a home, or it can be move it into a retirement account.

Introducing saving at a young age will help build knowledge in our younger generation about the benefit of saving early. Too many people never effectively save or start saving late in life. Giving every child this platform and allowing them to watch it grow is an opportunity to teach financial literacy from birth. This is about people gaining the tools to help themselves with the end goal of being self-sufficient. AB 974 will help keep more people from needing government assistance which will cost the state more than $25 in the long run.

The 401(K)ids program created through this bill would be the first of its kind in the country. Wisconsin should prepare our kids to be the best they can be when they enter adulthood and financial literacy through a hands-on experience that no other state is providing is a great way to do so.

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EVAN
GOYKE
STATE REPRESENTATIVE
18th ASSEMBLY DISTRICT

Chairman Macco and Committee Members,

Thank you for hearing 2021 Assembly Bill 974, a bill we call the 401(K)ids Program. This is groundbreaking legislation to help every child in Wisconsin begin saving at birth. The framework for this legislation is a product of the Governor's Retirement Security Task Force. The Task Force examined the different challenges Wisconsinites face with saving, and then offered solutions to make saving easier and more accessible to all.

Representative Macco, Senator Ringhand, and I all served on the Task Force. The Task Force was chaired by State Treasurer Sarah Godlewski and the full report can be found on the Treasurer's home page. We heard from working Wisconsinites who wished they had begun saving for retirement earlier and engaged experts in the field like the Aspen Institute, AARP Wisconsin, UW System, and senior advisers and directors of the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis.

The 401(K)ids program creates an IRA-like investment account for every child born or adopted in Wisconsin. The account is invested and managed by the State of Wisconsin and at the age of 18, the individual account holder may access the savings, without tax penalty, for: tuition or expenses for higher education; first-time home ownership; a medical emergency; or the individual can roll the savings into a different retirement savings account. Each account is seeded with $25. The individual, family members, friends, philanthropic or business groups can also contribute to an individual's account.

The program's seed amount comes from an initial GPR investment to build out the program and cover administrative costs, but that initial investment will be repaid as assets under management grow and the program becomes revenue neutral. The State of Wisconsin Investment Board (SWIB) is charged with managing the investments and the Employee Trust Fund (ETF), or a private vendor, will be charged with managing the accounts.

Wisconsin currently offers two 529 college saving programs: Edvest and Tomorrow's Scholars. These accounts allow families to receive tax beneficial treatment on investments, but limit the use of the account for expenses associated with higher education. Roughly 300,000 Wisconsinites are enrolled in a 529 program, though the income and geographic distribution of account owners suggests limited participation outside of middle to upper middle income households. 401(K)ids is universal - every child born or adopted in Wisconsin has an account created and the same seed investment made. Parents may opt out if they wish.

A growing number of states have created universal college savings accounts at birth; Rhode Island, Connecticut, Maine, Nevada, and Pennsylvania. The longest running program, a longitudinal study conducted by the Brown School at Washington University (St. Louis) and privately funded by the Ford

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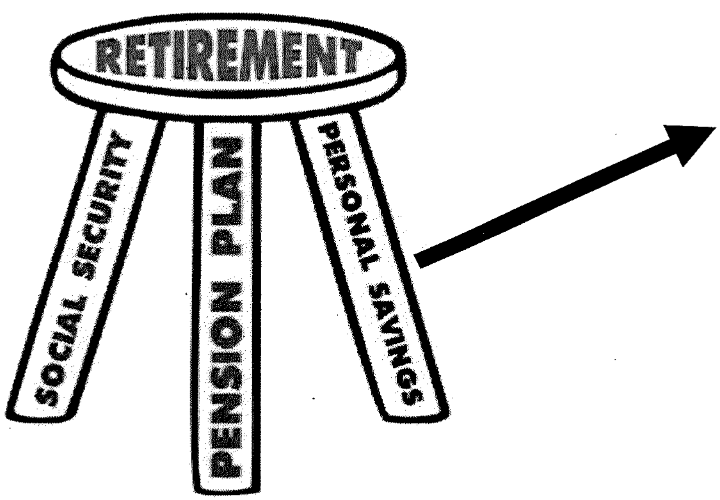
Foundation, is called SEED Oklahoma (SEED OK). The study began in 2008 with roughly 2,700 families in Oklahoma: 1,350 kids received $1,000 at birth and another 1,350 kids did not. Researchers have followed the families over time and the program has produced exciting results. Participation in Oklahoma's 529 program for families receiving the initial investment is 18%, while participation for families that did not receive an initial investment was 4%. The largest increase in participation was among low income families.

Wisconsin could follow the universal 529 movement, however, 401(K)ids is even bolder. This bill would be the first of its kind in the Nation. 401(K)ids accounts would be more flexible and transferable. The program will help families save, grow wealth, reduce debt and racial disparities, and put our future generations - and our state - in a stronger financial position.

Assembly Bill 974: Creating the "401(K)ids" Savings Program

State Rep. Evan Goyke
Featuring Miguel Goyke

Traditional Structure for Retirement



401(K)ids seeks to bolster personal savings through universal, early savings.

Personal Savings in Wisconsin

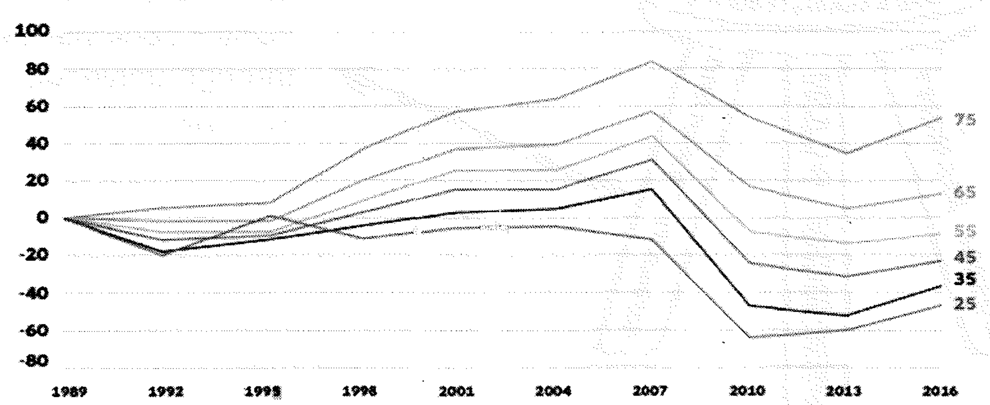
[redacted]

- [redacted]
- [redacted]

Kriger, Carter, Burr, and Collins. "The Case for Reducing Poverty Among Seniors: Encouraging Savings for Retirement by People in Wisconsin."

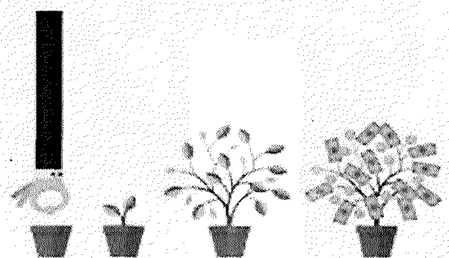
Wealth by Generation in America

Figure K: Younger Generations Have Significantly Less Wealth than Other Generations at the Same Age
Cumulative Change in Predicted Age-Specific Wealth Levels Since 1989



Source: Federal Reserve Board's Survey of Consumer Finances and St. Louis Fed Center for Household Financial Stability calculations

"The best time to plant a tree was 20 years ago. The second best time is now."



Wisconsin's 529 Programs: Edvest and Tomorrow's Scholars

Participation in 529's in Wisconsin:

Edvest total = 211,789
Edvest in-state = **186,374**

Tomorrow's Scholar total = 161,550
Tomorrow's Scholar in-state = **112,765**

Total = 373,339 or <u>**299,139** WI</u>

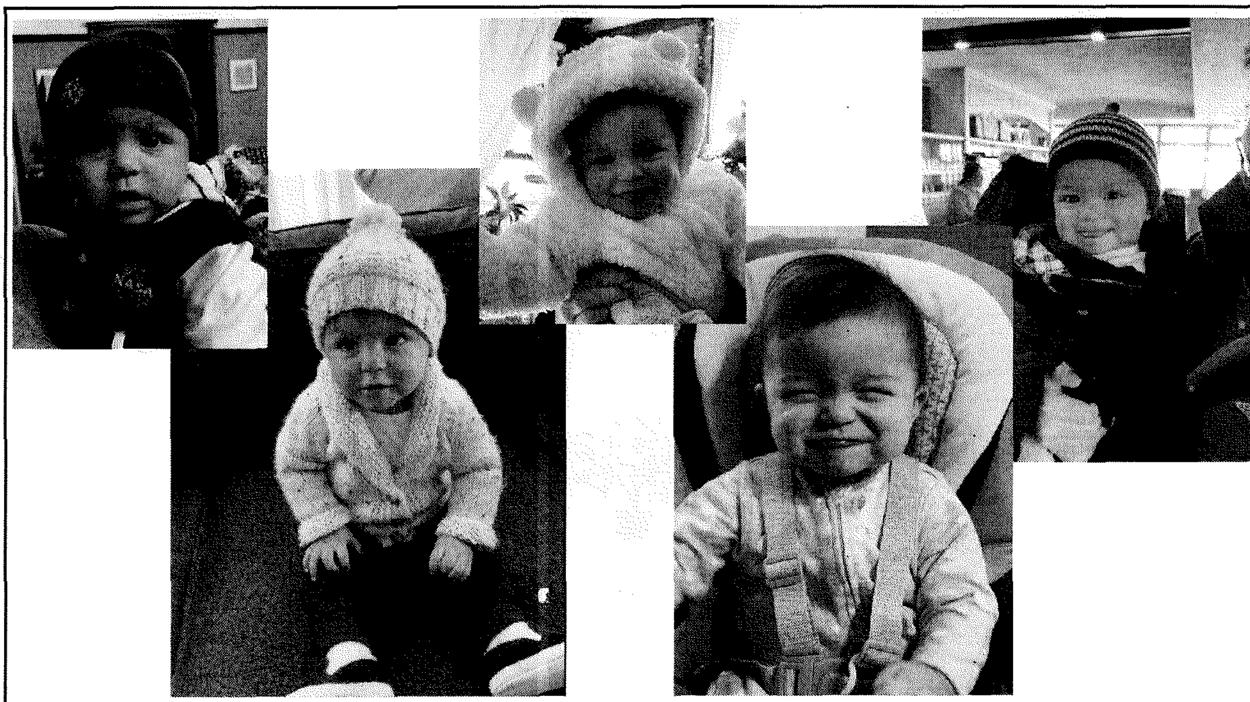
Challenges with 529's:

- Opt in
- Limited Use
- Complex

Top Ten Counties by Number of Account Owners

County	Total Assets ($000's)	% of Total Plan Assets	# of Account Owners	% of Account Owners	Assets per Account Owner
Dane	$893,174	19.4%	18,541	18.1%	$48,173
Waukesha	$765,774	16.6%	14,971	14.6%	$51,150
Milwaukee	$548,072	11.9%	12,152	11.9%	$45,101
Brown	$168,538	3.7%	4,010	3.9%	$42,029
Ozaukee	$235,022	5.1%	3,755	3.7%	$62,589
Outagamie	$142,829	3.1%	3,524	3.4%	$40,530
Washington	$113,649	2.5%	3,023	3.0%	$37,595
Winnebago	$113,945	2.5%	2,547	2.5%	$44,737
Racine	$81,820	1.8%	2,304	2.3%	$35,512
La Crosse	$76,034	1.6%	1,654	1.6%	$45,970

Dane, Waukesha, Milwaukee = 44.5% of all 529's; 32.2% of WI population



401(K)ids

Universal eligibility	An account will be created and seeded with $25 for every child born or adopted in WI
Automatic enrollment **Automatic initial deposit**	Parents and guardians do not have to apply for, set up, or deposit money to create accounts. There is the ability to "opt-out" only
Flexible/convenient deposits	Account holders, family, friends, philanthropic groups, and churches may all deposit money into accounts
Innovative partnership with DOR	Taxpayers may select to have tax returns (or portions thereof) automatically rolled into a 401(K)ids account
Investment growth	Assets are invested by SWIB can have the opportunity to build compound interest
Withdrawal provisions	At the age of 18 the account holder may withdraw money **without tax penalty** for 1) **tuition or expenses for higher education; 2) first-time home ownership; 3) a medical emergency; 4) or the individual can roll the savings into a different retirement savings account**

Growing Support for Universal Savings

- Oklahoma
- Maine
- Nevada
- Connecticut
- Rhode Island
- Pennsylvania
- Indiana (county-level)
- PLUS a growing number of municipalities and school districts

Longest Running Program is Oklahoma - SEED OK

- Child Development Account (CDA) Program launched in 2008
- Funded by the Ford Foundation in partnership with the Center for Social Development at the Brown School of Washington University
- Roughly 1,358 children received $1,000 at birth ("Treatment Group")
- Roughly 1,346 children born received no investment but were followed ("Control Group")
- Additional contribution in 2019 into Treatment Group: $600 for low-income kids, $200 for middle/upper income
- Kids are now 13-14

SEED OK - The Results are Stunning

Figure 3

Average Value of OK 529 Assets: Treatment and Control Children

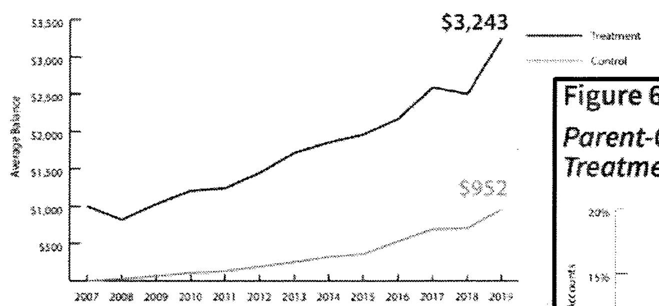
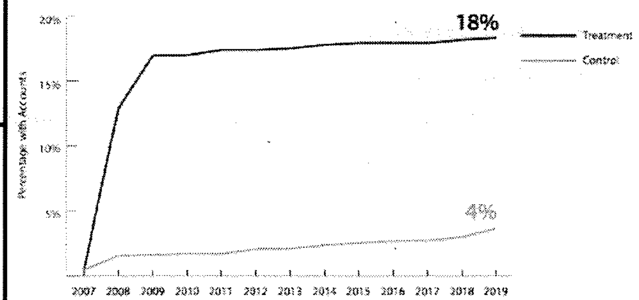


Figure 6

Parent-Owned OK 529 Accounts: Treatment and Control Children



Costs to Establish 401(K)ids

Administrative costs require initial investment, can be repaid and funded using a portion of investment proceeds as assets under management grow - this may take time

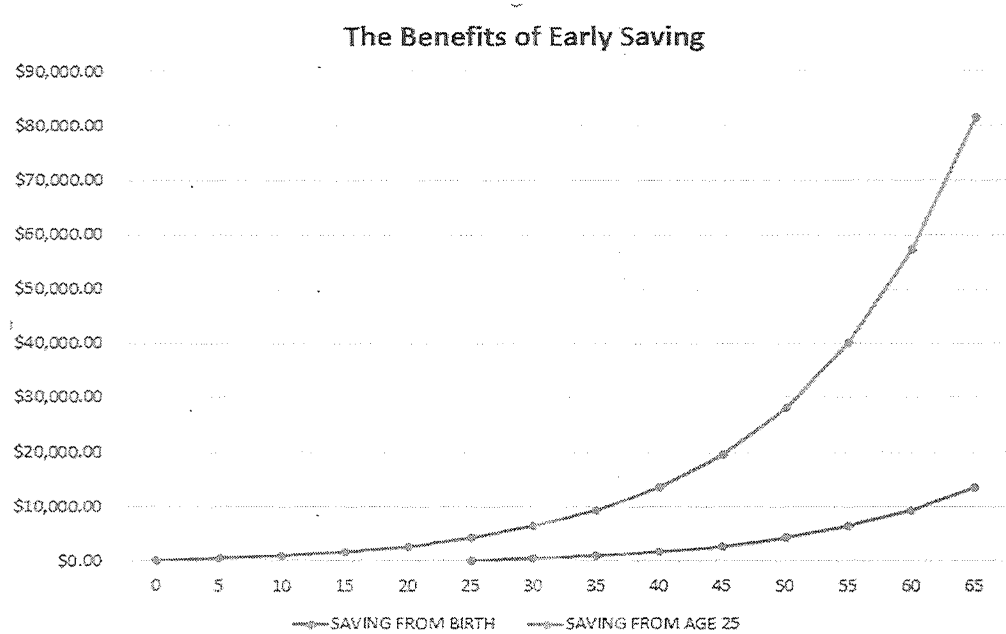
Roughly 65,000 kids born and/or adopted each year in Wisconsin. At $25.00 per account, the initial seed investment costs roughly $1,625,000 a year

Possible Amendment idea: Nevada funds universal accounts using revenues from financial institution. Wisconsin's Department of Financial Institutions has lapsed revenues to the general fund over time

(The revenues below are just a small part of DFI's lapse, but mirror the revenue source used in NV)

DFI Transfer/Lapse History

Type of Transfer/Lapse	FY16	FY17	FY18	FY19	FY20	FY21
12% Banking and CU Revenue	1,695,700.02	1,764,648.15	1,811,700.38	1,743,320.35	1,821,292.75	1,903,146.92



Having or adopting a child is life changing. Let's make saving for their future as easy and stress free as possible.

Sarah Godlewski

Office of the State Treasurer | State of Wisconsin

Good morning, and thank you for the opportunity to speak before the Assembly Committee on Ways and Means today. I want to give a special thank you to Chairman Macco for bringing this important bill forward and for his leadership on the Retirement Security Task Force.

I was proud to serve as Chair of the Retirement Security Task Force and was honored to submit our findings and recommendations last year. One of the recommendations promoted by the Task Force was the idea we have before us today: 401(K)ids.

How did this recommendation come to be? It was a combination of listening to Wisconsinites to understand their needs, concerns, and struggles, and it was also about understanding the data. We set out to find answers. What is the retirement status quo in Wisconsin? What are the themes, challenges, and trends? What will happen if we don't take any action? And what we learned was deeply troubling.

As the State Treasurer and a data nerd, I want to start with the numbers and statistics that illustrate the breadth and depth of the retirement problem in Wisconsin. Here are the facts:

- 88% of registered voters in Wisconsin wish that they had saved more for retirement.[1]
- Almost one million Wisconsinites between the ages of 18 and 64 do not have access to a retirement savings plan at work.[2]
- 38% of people between the ages of 18 and 29 have no retirement savings[3], and 46% of all Wisconsinites do not have a rainy-day fund to cover a financial emergency.[4]
- The average monthly social security benefit for a Wisconsinite in January of 2022 was $615.19[5]. This is not enough to live off of alone, and social security benefits are the sole source of income for 3 in 10 older Wisconsinites.[6]
- Families of color have less access to retirement savings vehicles, which contributes to the stark racial wealth gap in our state.[7]

[1] Sauer, Jennifer, AARP 2018 Wisconsin Retirement Security Survey of Registered Voters. Washington D.C.: AARP Research, December 2018.

[2] John, David and Gary Koenig, "Fact Sheet: Wisconsin, Workplace Retirement Plans Will Help Workers Build Economic Security," American Association of Retired Persons Public Policy Institute, AARP, Aug. 2015.

[3] Board of Governors of the Federal Reserve System, Report on the Economic Wellbeing of Households, May 2019.

[4] Finra Investor Education Foundation National Financial Capability Study: Wisconsin Data at a Glance.

[5] Social Security Office of Retirement and Disability Policy, "SSI Monthly Statistics, January 2022".

[6] Krieger, Carter, Burr, and Collins, "The Case for Reducing Poverty Among Seniors: Encouraging Savings for Retirement by People in Wisconsin." (University of Wisconsin-Madison Robert M. La Follette School of Public Affairs January 2017).

[7] "Nine Charts about Wealth Inequality in America," Urban Institute, October 5, 2017.

- If our state takes no action, over 400,000 Wisconsin seniors will be in poverty by 2030 and Wisconsin will have to spend an additional $3.5 billion on public assistance programs annually.[8]

These numbers are incredibly concerning. To me, action is not only the right thing to do for our people, but it is the fiscally responsible thing to do for our state.

As impactful as those statistics are, I was deeply moved when I heard stories from across the state during our Task Force listening sessions that truly brought those numbers to life. At one of our listening sessions, a woman in her late sixties shared that she was there not for herself - she was able to retire with peace of mind. Instead, she was at the listening session for her children. She believed that retirement security was much harder for them to achieve than it was for her. She had three kids in their thirties, and not one had started to save for retirement. One worked for a small business that was unable to provide a retirement savings option, another one worked in the gig economy and retirement benefits were not offered, and the other was an independent contractor.

Soon after our Task Force started, the COVID-19 pandemic hit and we wanted to understand how this unprecedented event would impact retirement savings. What we found is that if Wisconsinites had a retirement account, they were relieved because many of them used it as a way to help weather the unexpected financial storm. As one Wisconsinite shared, their retirement account was all that they had after they lost their job. It was their only source of liquidity to help put food on the table and pay their bills. This story was not an outlier. In fact, nearly 60% of Americans withdrew or borrowed from their retirement accounts to help cover expenses during the pandemic.[9]

We know that much of building a financial future centers around having access to the tools and education that enable Wisconsinites to develop financial resiliency. As Wisconsinites, I believe we value innovation and independence as a way to move our state forward. These values serve as the pillars of 40(K)ids.

401(K)ids is a smart solution that uses the power of the market and the power of compound interest to help Wisconsinites save for their futures starting at birth. Those who are lucky enough

[8] Krieger, Carter, Burr, and Collins, "The Case for Reducing Poverty Among Seniors: Encouraging Savings for Retirement by People in Wisconsin."
[9] Kiplinger 2020 Retirement Survey.

to have a 401(K) or any retirement account know that one of the most effective elements of these accounts is compound interest, where small contributions can grow significantly over time. Harnessing the power of compound interest at such an early age is what makes 401(K)ids such an attractive and also creative idea. This program will make it easier for Wisconsinites to start saving their own money, and to start saving it early.

Further, the educational impacts are another positive outcome of the bill. 401(K)ids would help students put their classroom learning into practice. When people are taught how to save early they are more successful in the long term, as this savings habit becomes their reality. Additionally, research shows that financial literacy in teens is positively correlated with asset accumulation and net worth at age 25.[10]

What I am most excited about is that Wisconsin would be the first state in the country to establish such a program, giving Wisconsin kids a savings tool that uses the benefits of the market and compound interest to build financial empowerment and future financial success!

At the end of the day, 401(K)ids can help keep Wisconsinites out of poverty in their retirement years, help the state of Wisconsin avoid monumental costs for services, and help provide financial security for generations to come. The retirement security crisis is serious, and we can't risk inaction. Now is the opportunity to address this challenge head-on and get this done.

It doesn't matter if you live in De Pere or Manitowoc, or if you are a small business owner or a farmer, 401(K)ids will have a positive impact on Wisconsin families and communities. I believe it is possible for us - you, me, our loved ones, the neighbor next door - to prepare for and have a financially secure future. This legislation will help make this a reality for Wisconsinites.

I want to thank Chair Macco for holding today's hearing and for the Representatives for giving me the opportunity to testify. Thank you again for your time, and I'm happy to answer any questions.

[10] Kasman, Matt, et al. Financial Literacy Review. Brookings Institution, Oct. 2018.

STATE SENATOR JANIS RINGHAND

Sen. Ringhand's Testimony on AB 974

Chairman Macco, thank you for holding a hearing on Assembly Bill 974, the 401 Kids plan, and for authoring the proposal.

I have the pleasure of serving on the Governor's Task Force on Retirement Security with Chairman Macco, Representative Goyke, Senator Bernier, Treasurer Godlewski, and over a dozen other hardworking people who volunteered for the task force.

In addition, I am also a member of the Governor's Council on Financial Literacy and Capability. Thus, over past few years I have had the opportunity to learn more about the importance of teaching children the value of saving for their future and how it can lead to lifetime of good saving habits.

A Cambridge University study in Britain found that most children formed core behaviors, which they will take into adulthood, by the time they were 7 years old. Children that age can recognize the value of money and count it out, understand that it can be exchanged for things they want, and appreciate the need to have an income.

Additionally, Children as young as 5 can understand the idea of saving, according to research from the University of Kansas. In the study, children were offered one piece of candy now or two pieces later. Most recognized that waiting benefitted them in the long run.

The same research shows that children who grew up with a savings account were more likely to hold "diverse asset portfolios and to accumulate more savings as young adults."

A 2019 FDIC Survey estimated 5.4 percent of U.S. households (approximately 7.1 million) were "unbanked" in 2019, meaning that no one in the household had a checking or savings account at a bank or credit union

I strongly believe the 401 Kids plan will help families learn and teach the importance of savings to their children. Hopefully, by providing a modest amount of seed money it will be easier for families who don't use traditional saving institutions or under use them to learn and teach their children it a safe and secure place to keep their money.

Again, Chairman Macco thank you for holding a hearing on this innovative and new proposal and I'd be happy to answer any questions committee member may have.

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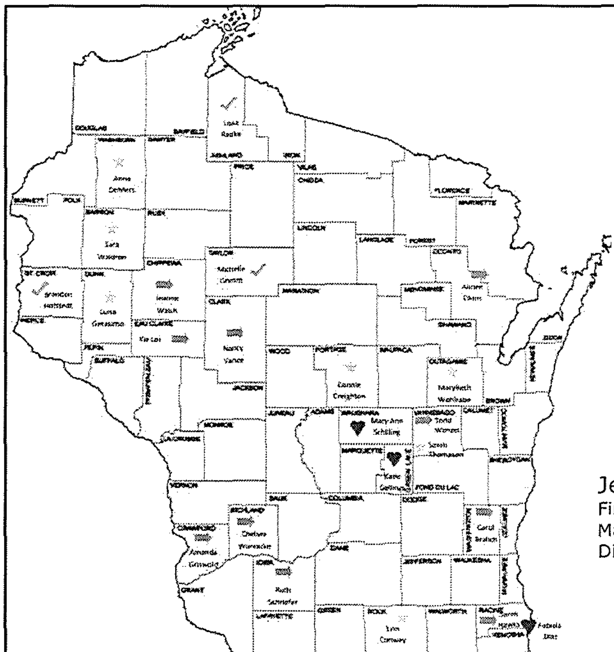


Youth Forward Wisconsin

Extension Institutes:

Community Development
Health & Wellbeing
Human Development & Relationships
Positive Youth Development

Jenny Abel
Financial Security Program Manager, UW-Madison Division of Extension

Chelsea Wunnicke,
Extension Educator
Richland County

Extension
UNIVERSITY OF WISCONSIN-MADISON

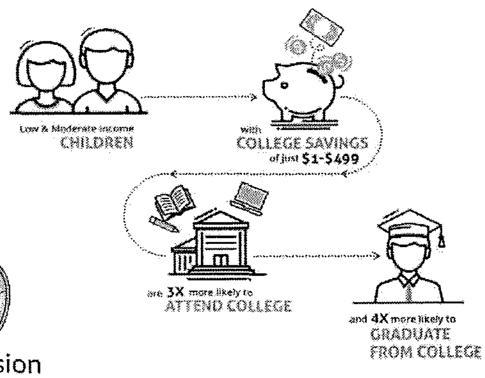
Good afternoon. My name is Chelsea Wunnicke, and I am an Extension Educator in Richland County, WI. And I'm Jenny Abel, Financial Security Program Manager for UW Madison Division of Extension. We are here representing a team of UW-Madison Division of Extension Educators from across the sate, and across 4 institutes who have been researching the potential impacts of Universal child savings accounts on our communities for over 2 years. We call this team Youth Forward Wisconsin. While Extension touches every community in the state, Youth Forward Wisconsin members live and work in 17 different counties, and have specialties in Community Development, health & wellbeing, human development & relationships, and Positive youth development. In each of these communities we are working with partners like public schools, health systems, business, and philanthropies interested in bringing universal child savings account programs to their communities.

Youth Forward Wisconsin

Wisconsin communities, parents, and youth know that the future is brightest when the most opportunities are open to them.

Wisconsin communities need young people with the education to succeed in the jobs of tomorrow, so how can we build our community's chance to thrive?

Go.wisc.edu/YFWonepager



Extension
UNIVERSITY OF WISCONSIN–MADISON

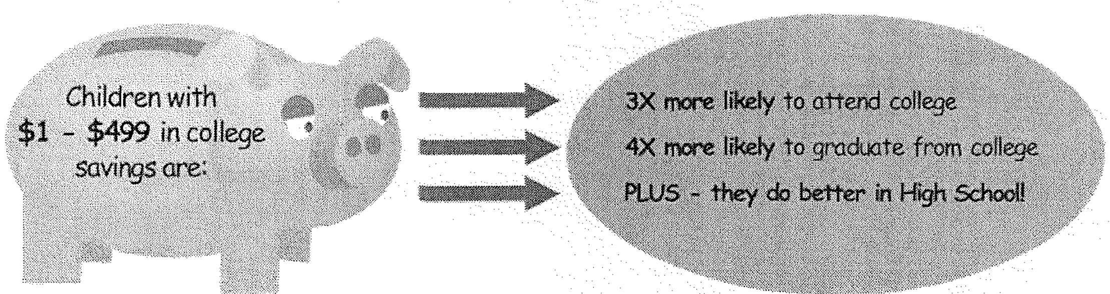
Youth forward Wisconsin team of Extension Educators have been learning impacts of Universal Child Savings Account programs, from research done in other states and communities who have been studying the impacts of making universal investments in savings accounts for all of their children, either at birth, kindergarten or other milestones. Our team has been growing the awareness of these research impacts in our communities, and conducting community needs assessments to determine interest and readiness in universal child savings accounts as a way that communities can decrease educational disparities, increase workforce readiness, improve family financial wellbeing, and attract & retain young families to the benefit of the local economy.

The role of Extension is bring University research from UW and beyond & connecting it to the needs and desired impacts for Wisconsin communities. This includes bringing interesting research findings back to our communities, and asking our community what they want and need. This is what Extension work looks like. In this picture, we see an Extension Educator, Bev Doll from Grant County, talking to a mom and her baby at an Early Head Start Family Night about the topic of early child savings accounts.

Extension Education to parents
Small Savings Build Big Dreams

https://finances.extension.wisc.edu/article-topic/saving-for-post-secondary-education

Compared to children with no college savings . . .



Source: Assets and Education Initiative (AEDI). (2013). Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education. In W. Elliott (Ed.), *Biannual report on the assets and education field*. Lawrence, KS.

Most of the research that we have been looking at for Universal Child Savings Accounts is looking at programs that are targeted at post-secondary education. Understood that the proposed 401Kids account have multiple qualified uses, but with post-secondary education as one of those, there are great potential benefits. Here is some of the research around early universal child savings accounts, and how they impact future-oriented behavior for youth. A dedicated savings account for higher education makes a big difference. Look at how the research shows that having even $1 in a higher-ed savings account changes the educational outcomes. These are big impacts from small dollars. Having money set aside for higher education, that the student KNOWs is there to help open these doors for them, helps keep their dreams for the future relevant, and actionable.

Universal Child Savings Accounts

Raising students' educational expectations

Enabling families to build savings

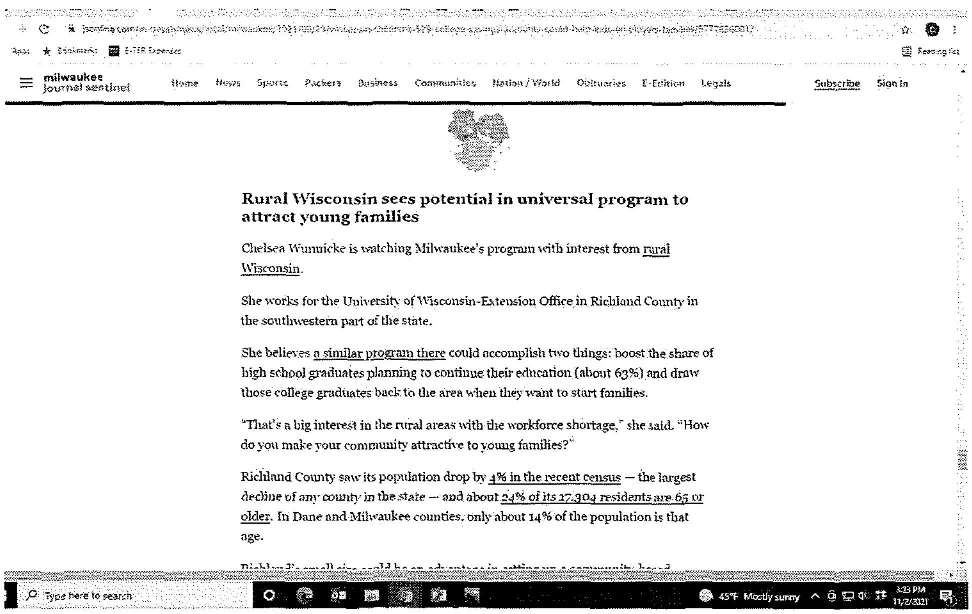
TODAY, MORE THAN 129 Children's Savings Account PROGRAMS COVER OVER 1.2M CHILDREN NATIONWIDE, AND THE NUMBERS GROW EACH YEAR.

Illinois Kansas

Michigan Indiana Maine...

Universal Child Savings Accounts influence these outcomes by raising students' educational expectations and enabling families to build savings. Community Savings Accounts are associated with promising outcomes for children and their caregivers across the life course, including improved early child socioemotional development(,20,21) child health (22) maternal mental health (23) educational expectations,(1,24-27) and academic performance (28-30) (items in parentheses reference research from AFN report: https://assetfunders.org/wp-content/uploads/AFN_2022_Childrens-Savings-Accounts-Brief.pdf)

Fund My Future Milwaukee



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Rural Wisconsin sees potential in universal program to attract young families

Chelsea Wunnicke is watching Milwaukee's program with interest from rural Wisconsin.

She works for the University of Wisconsin-Extension Office in Richland County in the southwestern part of the state.

She believes a similar program there could accomplish two things: boost the share of high school graduates planning to continue their education (about 63%) and draw those college graduates back to the area when they want to start families.

"That's a big interest in the rural areas with the workforce shortage," she said. "How do you make your community attractive to young families?"

Richland County saw its population drop by 4% in the recent census — the largest decline of any county in the state — and about 24% of its 17,304 residents are 65 or older. In Dane and Milwaukee counties, only about 14% of the population is that age.

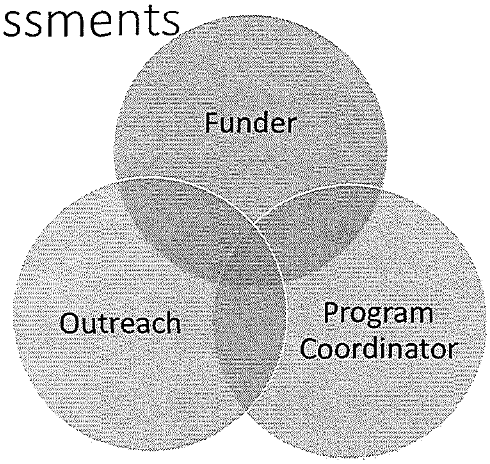
Wisconsin does have a Universal Child Savings Account program that was started a few years ago by the City of Milwaukee. The Fund My Future program funds $25 accounts for all students starting Kindergarten in Milwaukee. Here is a quote from a recent report from the Milwaukee Journal Sentinel that explained the program and looked at the research behind it. I am quoted in this report because of the mult-year work I have been doing looking at these types of programs and communicating with my rural community in Richland and others across the state. Our communities are looking at the Milwaukee program and would like to see something similar for their own children.

#4--The City of Milwaukee sponsors the Fund My Future Milwaukee program that other Wisconsin communities would like to emulate, but smaller communities have expressed challenges on the burden of program administration of starting their own Universal Child Savings Accounts.

https://city.milwaukee.gov/Fund-My-Future-Milwaukee.htm

Community Needs Assessments

- Local communities excited for the opportunity to help with funding and community outreach.
- Program coordination is the biggest barrier.



Counties: Chippewa, Clark, Crawford, Dunn, Eau Claire, Outagamie, Racine, Richland, Rock, Washburn, Washington, Waushara, Winnebago

As we've had conversations about Universal Child Savings Accounts, and the research behind their impacts based in other states. We've co-investigated with our communities that there are 3 key roles that need to be filled. Local communities are excited about, and believe they can help fill the roles of community outreach through youth and family serving organizations, including partnerships with Extension, and assist with funding to grow the accounts through local philanthropies. The role of Program Coordinator is one they see as challenging to fill with limited local capacity. Still, they are optimistic that a Universal Child Savings Account program could help their communities and is something they'd like to help actualize. Quotes from Community Needs assessments: **Chippewa**: "really like that it is for all youth, not only those who excel at sports or academically" **Clark**: "children need to have hope and a road to a brighter future to help them grow" **Eau Claire**: "we have students where this might the the only trigger or opportunity" **Racine**: "In order for a Children Savings Account to be impactful, I think the community would have to trust the system" **Richland** "the earlier a program starts, the more the investment will grow" **Rock**: "I think it is a good idea, if the kids know that this is something that will be there for them, that will be helpful" **Washburn**: "I do think it sounds like a promising idea if every child in the county is eligible" **Washington**: "We would love to see every student have the opportunity to advance their future opportunities"

Questions?

chelsea.wunnicke@wisc.edu
Jenny.abel@wisc.edu

Extension
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Richland County Community Snapshot

Graduation rate	Race & Ethnicity of students	Post-secondary enrollment
85.5%=Richland compared to 90.4% statewide.	87% White 7% Hispanic 2% Black 3% are 2 or more races.	61% in Richland compared to 58% statewide.

https://wisedash.dpi.wi.gov/Dashboard/dashboard/17992

Optional slide if there are questions on specific snapshot of community research. More information on a specific community (Richland) on how we know the baseline of what students are intending to do after graduation.

ASSET FUNDERS NETWORK | Grantmakers Advancing Economic Equity

Children's Savings Accounts
A Core Part of the Equity Agenda

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CONTEXT

Education after high school, or postsecondary education (PSE), is an important determinant of individuals' future opportunities, as well as their health and even lifespan. Children's Savings Accounts (CSAs) are programs that aim to increase access to PSE by building parents' and children's educational expectations and a "college-bound identity" starting early in children's lives.[1,2] CSAs are a vital part of the equity agenda that remain critically important even as other strategies are put in place to broaden postsecondary access.

Postsecondary Education is More Important than Ever

PSE has never been more important to determining people's economic well-being, health, and quality of life. The average worker with a bachelor's degree (BA) earns $26,000 more per year than a worker with a high school diploma. An associate's degree (AA) adds $7,300 to a high school graduate's annual earnings.[4,5] Beyond wages, PSE also opens pathways to good jobs with employer-provided benefits,[6] which, along with wages, help to build wealth and opportunities for mobility.[7] PSE also contributes to job stability and the ability to weather crises. For instance, workers with at least a BA were more likely to be able to work remotely and much less likely to be laid off during the COVID-19 pandemic.[8]

The benefits of PSE are not economic alone. Compared to those with more education, less-educated individuals suffer worse general health, more chronic conditions (including asthma, diabetes, heart disease, stroke, and cancer), and more disabilities.[9,10] In keeping with these health concerns, recent research demonstrates a growing divide in life expectancy between those with a BA degree or more and those without. Between 1990 and 2018, the life expectancy gap between these groups more than doubled, as the more-educated group is living longer, while those with less than BA are experiencing shorter lifespans. By 2018, those with a BA degree had a life expectancy three to six years longer.[11]

POSTSECONDARY EDUCATION (PSE)
is education after high school, including college, university, trade school, and vocational training.

TODAY, MORE THAN **129 CSA PROGRAMS** COVER OVER **1.2M CHILDREN** NATIONWIDE,[3] AND THE NUMBERS GROW EACH YEAR.

WHAT ARE CSAs?

CSA PROGRAMS PROVIDE CHILDREN WITH:

- **Savings Accounts**
- **Financial Deposits**

For the purpose of education after high school or other asset building

CSA program designs, enrollment procedures, and financial incentives vary widely across the U.S. CSAs have been flourishing at the local, city, and state levels over the past two decades.

Educational Inequities Manifest Early and Persist

As of 2019, only 36% of the U.S. population age 25 or older had completed a BA degree or higher,[12] so nearly two-thirds of Americans do not benefit from the economic, health, and lifespan benefits of higher education. PSE completion is still plagued by racial and economic inequalities in access, preparation, and success. For instance, 40% of White (non-Latinx) and 57% of Asian American and Pacific Islander (AAPI) individuals have completed a BA degree or higher, while only 26% of Black, 17% of Indigenous, and 19% of Latinx individuals have done the same.[12]

2 OUT OF EVERY 3

AMERICANS

do not benefit from lifespan benefits of higher education.

Large gaps also exist by the income level of students' family of origin. In 2019, 62% of young adults from the highest family income quartile* had earned a BA degree by age 24, compared to 13% of youth from the lowest family income quartile.[13]

Despite the "American dream" that individual effort and aptitide are paramount, the reality is that hard work is not enough to guarantee success. Regardless of children's efforts or academic aptitude, their family's socioeconomic status (SES) plays a role in school success from the very beginning of their education.

Achievement gaps by family income have grown dramatically in recent years, exceeding racial achievement gaps.[14] These SES-based gaps manifest in kindergarten and persist throughout children's education.[14,15] By high school, family SES is a stronger predictor of college attainment than students' test scores. The highest-SES students with bottom-half math scores in 10th grade are more likely to complete a college degree than the lowest-SES students with top-half math scores.[15] These findings illustrate that young people from low-SES families often do not make it to and through PSE despite considerable talent and hard work.

Similarly, parental wealth is a strong predictor of children's college attendance and completion,[16] not only due to parents' ability to finance the costs of PSE but also due to their investments throughout children's lives in neighborhoods, schools (directly through tuition or indirectly through property taxes), test preparation, and enrichment activities that make PSE success more likely.[17,18]

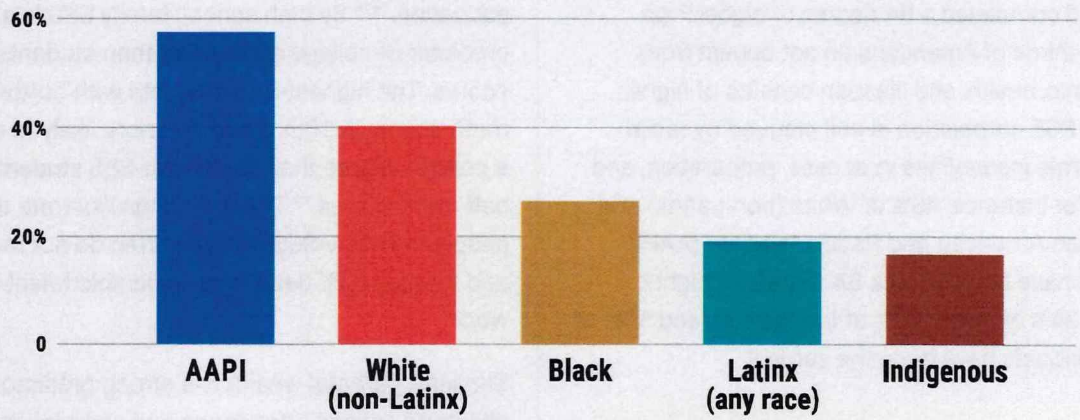
PSE is a key to equitable economic mobility and wealth-building opportunities for our youth. Yet, access to PSE is limited to just over a third of U.S. adults[19] and strongly correlated with parents' SES.[14,15] Broader access to PSE for youth from lower-income families and underrepresented youth of color is crucial to a more equitable economy. The question is: How do we get there?

SOCIOECONOMIC STATUS (SES)

refers to a family's income level and occupational prestige.

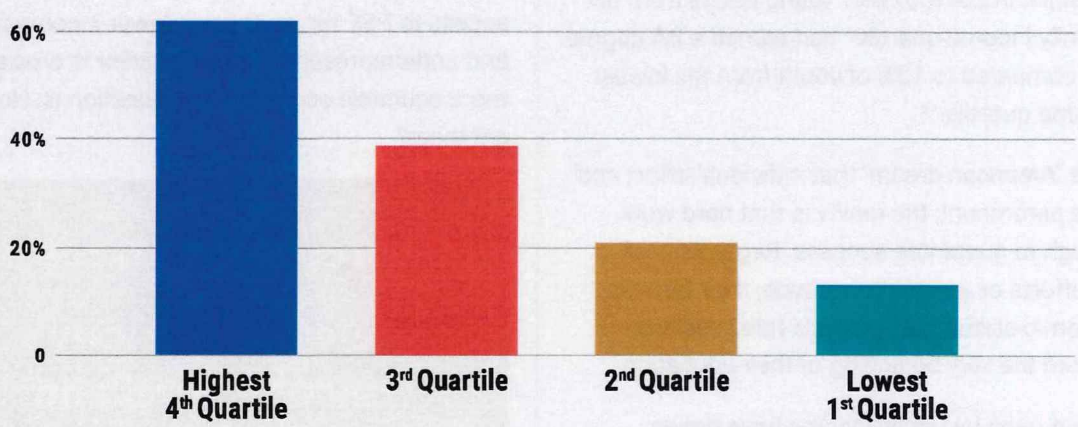
* If all households in the U.S. are ranked by their total family income, then divided into quarters, the 25% with the highest earnings are the top quartile. The 25% with the lowest earnings are the lowest quartile.

BA Completion by Race and Ethnicity



Age 25 or older. Source: De Brey, C., Snyder, T. D., Zhang, A., & Dillow, S. A. (2021). Chapter 1: All levels of educational attainment (Table 104.10). *Digest of Education Statistics 2019*. Washington, D.C.: National Center for Education Statistics, U.S. Department of Education.

BA Completion by Family Income Level



By age 24. Source: Cahalan, M. W., Addison, M., Brunt, N., Patel, P. R., & Perna, L. W. (2021). *Indicators of Higher Education Equity in the United States: 2021 Historical Trend Report*. Washington, D.C.: The Pell Institute for the Study of Opportunity in Higher Education.

The Challenge: College Affordability and Building a Pipeline of Diverse Students

Standing in the way of broader PSE enrollment and attainment are many barriers, including both high and ever-growing costs of attendance, inequitable opportunities to academically prepare, and an insufficient population of diverse students. Recent policy debates have focused on the affordability of PSE. The range of potential solutions includes tuition-free community college, reduced tuition at public universities, increased tuition tax credits, significant expansion of College Promise programs, an overhaul of the federal loan and grant system, employer-provided benefits, and a host of other ideas.

While each is extremely valuable, most of these approaches are focused on tuition costs alone, not the related costs of gaining an education, such as housing, food, transportation, books, and computers. Further, most of these programs reach young people when they are in late high school and already of an age to be applying for PSE. By this age, young people have often developed clear expectations about whether PSE is in their future, and opportunities to academically prepare for PSE have largely passed. For instance, traditional college scholarships tend to go to high school students who are already college-bound. This is in contrast to CSAs, which by design reach each child and their family early in the life course, instilling the message that "college (or other PSE) is an option for you."

Work on PSE affordability must go hand-in-hand with efforts to broaden the pipeline of PSE-ready students. Doing so requires building a strong PSE-going mindset early in students' lives. Even if we achieve perfectly affordable PSE, educational equity still requires a broad expansion in PSE-readiness and applications from underrepresented students, especially those from lower-income families, first-generation PSE students, and Black, Latinx, and Indigenous youth.

CSAs Can Expand the College-Going Pipeline

CSAs play an important role in addressing the pipeline challenge by building students' and families' educational aspirations and expectations from a young age. Since SES-based achievement gaps already exist when children enter kindergarten, interventions designed to raise children's awareness of PSE and instill the belief that they are "college material" will be most effective if they too begin early in life. Despite variations in program design, the unified goal of CSAs is to improve equity in access to PSE, so that a child's family income or race does not determine their access to education after high school. CSAs indeed show promise to expand the pipeline of underrepresented PSE-going students by identifying PSE as a goal early in life and building the expectation that, "PSE is for me."

How do CSAs keep children in the PSE-bound pipeline? CSAs are associated with promising outcomes for children and their caregivers across the life course, including improved early child socioemotional development,[20,21] child health,[22] maternal mental health,[23] educational expectations,[1,24-27] and academic performance.[28-30] Many of these benefits are strongest for children from low-income families.[20,21,23,28] Families with CSAs also engage in increased planning and saving for PSE.[27,31] While most CSA programs have not been in operation long enough to definitively know their effects on PSE attainment, many of CSAs' documented effects – including socioemotional development, educational expectations, and academic performance – are important predictors of future PSE enrollment and completion.[32]

Looking at the body of evidence as a whole, CSAs emerge as a model with tremendous potential to expand the pipeline of PSE-bound students to increase racial and economic equity.

CSA Design Matters

To reach the children who have been historically left behind and achieve maximum impact, it matters how CSAs are designed and implemented. Program structure and design can play an important role in accessibility equity.[33]

CSA Design and Operational Components that Matter for Equity and Inclusion

TACTIC	HOW IT WORKS
AUTOMATIC ENROLLMENT: Children are enrolled automatically; their parents/guardians do not need to take any action to enroll. Parents may opt out.	This removes barriers created by complicated forms, language, and unfamiliar financial products. This also removes the requirement that families furnish Social Security numbers or Individual Taxpayer Identification Numbers.
INTEGRATION WITH COMMUNITY PARTNERS: Universal CSAs are integrated into community institutions, such as public school curricula	This allows awareness of and engagement with CSAs to grow through partners that families trust, and provides a structure to continually reinforce the "college-going" message to children throughout their growing years.
AUTOMATIC BONUS DEPOSITS: Bonus deposits are made automatically upon a family reaching a milestone (such as a child's birthday or checking their balance online) and do not require additional paperwork or financial sacrifices by families.	This allows savings to grow without requiring parents' time or financial resources.
PROGRESSIVE INCENTIVES: Additional financial deposits are given to families who reside in lower-income areas, attend lower-income schools, or qualify based on family income.	This allows children from lower-income families to grow their account balances beyond what their families may be able to afford and helps reduce the savings gaps between higher- and lower-resource families.[30,34]
SAVINGS INCENTIVES NOT TIED TO FAMILY CONTRIBUTION AMOUNT: For programs that specifically aim to encourage family savings, incentives encourage family contributions of any amount, rather than dollar-for-dollar matches.	This structure encourages deposit activity while also respecting the financial limits of lower-income families.
COMMUNICATION WITH FAMILIES: Families receive frequent, accessible information about their accounts.	For children and families to benefit from CSAs, they must know about the account, its balance, and how to use it.

As highlighted on page 6, CSAs can have a range of structures and incentives. When programs require families to complete application forms or to make their own deposits, these requirements can deter participation by lower-income families, non-citizens, those not fluent in English, and others who may lack familiarity with financial products and institutions. In such cases, CSAs end up benefitting higher-resource families – because they are familiar with the financial products, have funds to contribute, and have the time to learn and avail themselves of the opportunities – while families of lower means are disproportionately excluded. Lower-income parents have particularly limited time and financial resources, so program features that are automatic and low-barrier will enhance opportunities for their inclusion.

Universal, automatic enrollment may play the most important role in reaching students who have historically been excluded. Not only does universal, automatic enrollment ensure participation by children from low- and moderate-income families and Black, Latinx, and Indigenous families, it also reduces racial and income disparities in savings.[35-37]

Because they reach all children, universal, automatic CSAs also have the unique opportunity to integrate their message into community institutions, such as public school curricula, for continuous, ongoing reinforcement over a child's growing years. For instance, San Francisco's CSA program, Kindergarten to College (K2C), automatically opens an account seeded with $50 for each kindergartener in San Francisco public schools and offers savings bonuses as well as additional deposits aimed to reach families in lower-income neighborhoods. Lessons about K2C are integrated into the kindergarten through 12th grade curriculum, for ongoing reinforcement of the program's message of hope.

Financial deposits for families, sometimes called incentives, are another central component of CSA programs. These may include an initial or "seed" deposit, a match on family contributions, or deposits made when milestones are reached, such as the start of a new school year or a family checking their account balance online. To maximize equity, these deposits should be automatic if possible and minimize the time and financial resources required of families. Progressive incentives – additional seed, match, or milestone deposits provided to lower-resource families – are another way to ensure that children's account balances grow without adding financial burden or stress to already-struggling families.

While some CSAs aim to grow account balances without ever requiring parental contributions, other programs specify family savings as a central goal. For these programs, it is important to balance inclusive practices with encouragement to save. While dollar-for-dollar matches can encourage family deposit activity,[38] they tend to benefit high-resource families disproportionately. To maximize equity, some programs have shifted away from dollar-for-dollar matches, offering bonus deposits instead, to reward even small family contributions. For instance, the NYC Kids Rise Save for College program in New York City offers a $25 reward bonus for families who make a deposit of at least $5. Such a structure encourages savings while having a greater proportional benefit for low-income families, because the $25 bonus is likely to be a greater share of their deposit amount.

Frequent communication with families is another way to ensure that all enrolled children benefit from the CSA's message of hope. Regular account statements, information about the program, and resources for planning for PSE, allow families to remain engaged with and aware of the program throughout their children's growing years. For instance, Maine's statewide CSA, My Alfond Grant, sends quarterly account summaries showing the current value of the grant and also provides targeted, age-appropriate content for students and their families to plan for PSE. My Alfond Grant's website includes the current grant value (from close of business the previous day) as well as resources for parents of children from birth through high school, savings guides and an interactive game targeted at middle and high school students, and content for teachers as well.

Philanthropic Funding is an Essential Ingredient for CSA Equity

The CSA field relies on both public and philanthropic funding and support. Public funding has been important to building large-scale programs, such as statewide opt-out programs in Nebraska and Nevada and several city- and county-wide opt-out programs. At the same time, the majority of CSA programs in the U.S. rely on philanthropic support: 83% of CSA programs receive some private funding, and 55% of CSAs rely exclusively on private funding.[39]

Whereas publicly funded programs often have the benefit of being universally available, many CSAs leverage philanthropic funds to target their outreach or engagement strategies to reach children who might otherwise benefit less from the program. For instance, Pennsylvania's Keystone Scholars program receives both public and private funding. The program allocates $100 within a 529 plan for use on PSE expenses for each child born or adopted in the state. For six months in 2021, philanthropic funding allowed the program to automatically provide additional $50 deposits to low-income children whose mothers qualified for the Women Infants Children (WIC) program at birth. Keystone Scholars is seeking sustainable funding to reinstitute the additional WIC deposit and make it permanent.

Another example of a program that leverages philanthropic support to reach underserved populations is Semillitas, or little seeds, in Santa Cruz County, California. Semillitas automatically allocates $25 for babies born in the county – or $50 for those from low-income families – and offers additional "milestone" deposits for ordinary activities like accessing preventive health care. Although Semillitas receives both public and private funding, all of the deposits into families' accounts – seed deposits and milestones – are funded philanthropically. In the program's initial phase, most families (92%) had low income and were Medicaid eligible at the time of birth.[40] Many families in the service area work in agriculture or domestic work, have seasonal employment, and lack the financial capacity to contribute directly to savings accounts,[40] suggesting the CSA program is providing a unique resource and an equity-increasing opportunity to save for their children's future.

CSA programs can also be embedded in a package of wrap-around services aimed to help families address the multiple and complex barriers they face; philanthropic support often facilitates such integration. For instance, Brilliant Baby is a CSA in Oakland, California, which receives public and private funding. Available to Medicaid-eligible babies in the city, Brilliant Baby has integrated with over a dozen early childhood programs, including a children's hospital, medical clinics, an infant home-visiting program, and Early Head Start.[26] In addition to a 529 account seeded with $500, Brilliant Baby offers families educational workshops, community activities, and financial coaching. Another program that embeds CSAs into wraparound services is the Oklahoma Native Assets Coalition (ONAC). Utilizing both public and private funding, ONAC brings CSAs to numerous Native American communities, many of them rural and remote, and connects CSA participants with emergency financial assistance, affordable financial products, and food resources. These programs reflect a recognition that saving for the future is only possible when families' needs are met today.

Some CSA programs create extensive opportunities for community organizations to participate in and support the CSA and its students. For instance, Promise Indiana, a CSA launched in 28 Indiana counties that relies primarily on philanthropic funding, offers opportunities for community organizations and individuals to contribute to children's accounts. Promise Indiana also sponsors annual events that bring young children to college campuses to learn about the college experience and how PSE relates to their dream careers. Programs of this kind foster community building, bringing representatives of PSE institutions and local employers into contact with students from a young age.

All told, well-designed CSAs help address the intersectional, systemic barriers to the widening of the PSE pipeline in ways that "affordable college" alone cannot do.

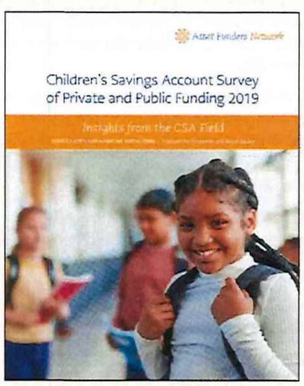
Conclusion

CSAs' unique value comes down to programs' financial investment in children coupled with their capacity to bring children and families into frequent contact with information about planning for PSE, savings, and high expectations for the future.

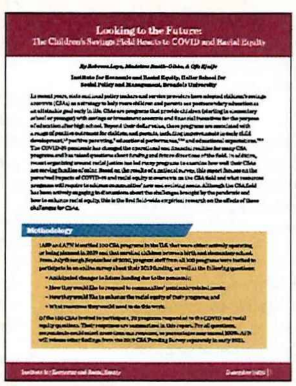
Such messages, integrated into schooling and community institutions, should be reinforced continually over children's growing years. CSAs complement other PSE readiness, scholarship, College Promise, and policy options currently underway or under consideration. As the CSA field, college access efforts, and financial aid reform continue to evolve, the fields must continue building connections and cooperation to make it easier for students and their families.

True educational equity requires intentional progress on building the pipeline of students historically left out of the college process, improving attendance and completion results for Black, Indigenous, Latinx students and other students of color, increasing PSE affordability, and knocking down remaining systemic barriers to PSE. CSAs are an important piece of the educational equity puzzle.

AFN's Related Work on CSAs



CSA Funding Survey



Pandemic and Racial Equity

Principles of CSAs

Funders' Motivations for Supporting CSAs

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Nested in the Heller School for Social Policy and Management at Brandeis University, the Institute for Economic and Racial Equity is a research institute that advances economic opportunity and equity for individuals and families, particularly households of color and those kept out of the economic mainstream.

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The **ASSET FUNDERS NETWORK (AFN)** is the leading national grantmaker membership organization focused on advancing equitable wealth building and economic mobility.

Through knowledge sharing, AFN empowers foundations and grantmakers to leverage their resources to make more effective and strategic funding decisions for confronting inequities.

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Testimony
Wisconsin Department of Employee Trust Funds
Assembly Committee on Ways and Means
March 1, 2022

Good afternoon, Chairman Macco, Vice-Chairman Wittke and members of the Committee. Thank you for providing the Department of Employee Trust Funds (ETF) the opportunity today to testify on Assembly Bill 974. I'm Tarna Hunter, Government Relations Director at ETF. In attendance with me today is Matt Stohr, ETF's Division Administrator for Retirement Services. We are testifying for information only today.

As you know, ETF is the State Agency that administers the Wisconsin Retirement System and several other fringe benefit programs for state, university, local government and school district employees across Wisconsin. ETF is a small, non-cabinet agency. We do retirement estimates, benefit counseling, education presentations, retirement calculations and all of the accounting and actuarial work. Our sister agency, the State of Wisconsin Investment Board, is responsible for investing the assets of the WRS.

The WRS has over 650,000 total members around the state: including about 260,000 active employees and about 215,000 retirees. Those active employees work for over 1500 public employers. The vast majority of active employees work for local units of government and school districts around the state.

Under the bill, ETF is responsible for, among other things, the following duties:

- Establishing and administering a 401Kids savings program.
- Establishing investment guidelines for contributions to and the earnings on 401Kids savings accounts.
- Paying distributions from 401Kids savings accounts for qualified expenses according to specific statutory criteria.
- Ensuring that, if the department changes vendors, the balances of 401Kids savings accounts are promptly transferred into investment instruments as similar to the original investment instruments as possible.
- Conducting public outreach and fundraising to generate donations for the 401Kids savings program.
- Developing a plan, after the program is fully operational, that allows ETF to devote revenues generated under the program to fund the establishment of future 401Kids savings accounts.

We appreciate the confidence you have put in ETF to administer this program, but as currently designed, the program presents some challenges to ETF's ability to maintain the integrity of the trust fund.

401Kids Program Oversight and Administration

As noted above, ETF administers the WRS and other fringe benefit programs for Wisconsin public employees. The bill creates a savings account program for children born or adopted in Wisconsin. The program is inconsistent with ETF's responsibility to administer governmental retirement and fringe benefit programs for Wisconsin public employees.

Furthermore, due to the need to maintain the integrity of the trust fund, ETF would not be an efficient organization to administer the 401Kids savings program. ETF is solely funded by the Public Employee Trust Fund. Under the Bill draft, ETF is properly prohibited from using any moneys from the Public Employee Trust Fund toward the 401Kids savings program.

Establishing the program and carrying out these requirements will necessitate funding for the savings accounts, funding for an outside vendor to administer the program, additional ETF staff and funding to provide general program administration and vendor oversight. Carrying out the requirements of the bill will necessitate the use of consultants, and other financial and legal professionals to assist with the needs analysis and plan design, as well as providing communication and marketing services during this process.

Proper administration of the 401Kids savings program will require day-to-day recordkeeping, including account data (contact information, investment options, beneficiary designations, quarterly statements); Enrollment/signup; all education, marketing and communication activities (in-person, virtual, live and recorded, print, etc.); website and call center; and processing transactions – contributions to accounts and then distributions, including tax withholdings. These are specialized functions which trust fund resources could not be used for. ETF anticipates that it would need to contract with an outside vendor that specializes in record keeping functions for financial institutions and others that administer similar account-based programs.

The recordkeeping services may be similar to the recordkeeping contracts for the state's Edvest program and the Wisconsin Deferred Compensation program, which are approximately $2 million annually.

Additionally, the 401Kids savings program will require qualified staff to oversee and direct vendor performance, coordinate and share information with other state agencies and stakeholders, address questions of participants and the general public, conduct annual audits of the program, conduct other required financial reporting, develop a plan to devote revenues generated under the program to fund the establishment of future savings accounts and ensure all aspects of the program are being administered correctly. Initial estimates for staff expenses range from $380,000 - $425,000.

Finally, the Bill does not provide for a "401Kids Savings Program Board" to handle appeals and provide oversight. The authors may want to consider adding provisions to cover assignments, coverage by levies, garnishments, division of accounts, court review, assumed consent, etc.

401Kids Savings Program Funding

From our understanding of the bill, there appears to be insufficient funds appropriated to cover both initial administration and $25 deposits in new accounts. With Wisconsin's birth rate of approximately 65,000 births per year, funding of the initial $25 deposits would require approximately $1.6M in year one of the program and for each year thereafter. The bill appropriates $1M annually for promoting the program, setting up new accounts, and other initial administrative expenses. Additionally, the membership will presumably grow annually, with new accounts for each birth or adoption in Wisconsin. In 10 years, the membership of the program could be over 600,000, rivaling the current number of participants in the Wisconsin Retirement System.

It also appears the intent of the bill is to be cost neutral in the future. The bill requires ETF to develop a plan, after the program is fully operational, that reimburses the general fund for costs associated with the program and allows ETF to devote revenues generated under the program to fund the establishment of future 401Kids savings accounts. It may be advisable to obtain a cost study to consider the costs and resources required and determine the nominal accumulations and interest rates required to make this program sustainable.

401Kids Savings Program Taxation

The Bill draft has no language that would confer any tax advantages to the contributions and interest earnings made under the 401Kids savings program. As structured, account owners would have to pay state and federal tax on the initial $25 deposits as income, and annually pay tax on interest income. Because the 401Kids savings program does not come under any federal tax provisions that allow deferral of taxes or other tax-favored status, there would be yearly impacts on account owners, including:

- Accounts may be funded with after-tax dollars only.
- Account owners would need to pay tax annually on any interest earnings, and ETF would be required to send 1099-INT interest statements for interest earnings of $10 or more.
- The initial $25 used to establish accounts would be taxable income (not interest income) to the adult account owners, jointly, for the year the account is established.

As structured, the inability to defer taxes on interest earned by 401Kids savings accounts, and inability to contribute to accounts with pre-tax income, coupled with the burden on account owners to pay account fees and annual taxes on interest earnings, etc., could create insurmountable difficulties in promoting/marketing the program as a viable alternative to existing tax-favored savings programs, such as the 529 program.

These comments address the major challenges ETF has identified in administering this program. We are continuing to review the bill for regulatory and compliance matters and have identified a number of issues and questions that are more technical in nature. We look forward to working with the authors as the bill moves through the process.