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Economic Matters Committee

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THE MARYLAND HOUSE OF DELEGATES
Annapolis, Maryland 21401

TESTIMONY OF DELEGATE PAM QUEEN
HB 629 – Maryland College Investment Plan - State Contribution Incentives
SUPPORT

Greetings Chair Maggie McIntosh, Vice-Chair Michael Jackson, and members of the Appropriations Committee:

This bill outlines that the State make a $100 deposit into a 529 Plan account for each child born or adopted in the State, after a given date.

Since Michael Sherraden's book titled, "Assets and the Poor", the catalyst for state efforts to provide subsidies for child saving accounts (CSAs) have expanded. Low-income families often lack incentives to save and have limited access to mainstream financial institutions which CSAs address. CSAs benefit the lives of low- and moderate-income people by increasing their financial security, developing their financial capability, and improving their educational outcomes.

Child savings accounts in some form are available in 34 States. The following table highlights terms of some of these State sponsored child account programs.

State	Incentive	Limitations	Implementing Arm
Pennsylvania	$100 initial seed deposit through 529 college savings account	Only for postsecondary education	State Treasury Department
North Dakota	$200 match if 529 account is opened prior to child's first birthday	Only for postsecondary education	Established the state, administered by the Bank of North Dakota
Connecticut	$100 seed deposit for opening 529 account; $250 match for contributions of $150 or more by the child's fourth birthday	Only for postsecondary education	State Treasury Department
Tennessee	A 4-to-1 match for families within certain income requirements with a max state contribution of $500	Only for postsecondary education	State Treasury Department as authorized by Tennessee Code Annotated, Section 49-7-808(d)
Arkansas	$500 matching grants for up to 5 years to eligible children living in a household with an AGI of $60,000 or less	Only for postsecondary education	State Treasury Department as authorized by Arkansas Code, Section 6-84-114

Child savings accounts address the high cost of post-secondary education with incentives for low-income families to save for a child's college expenses. I ask a favorable report for this bill.

First-generation College Students

DEMOGRAPHIC CHARACTERISTICS AND POSTSECONDARY ENROLLMENT

The percentage of undergraduates who were first-generation college students depends on the definition. As of academic year 2015–16:

24% had parents with **no postsecondary education.**

56% had parents who **did not have a bachelor's degree.** The fact sheet uses this definition of first-generation student.

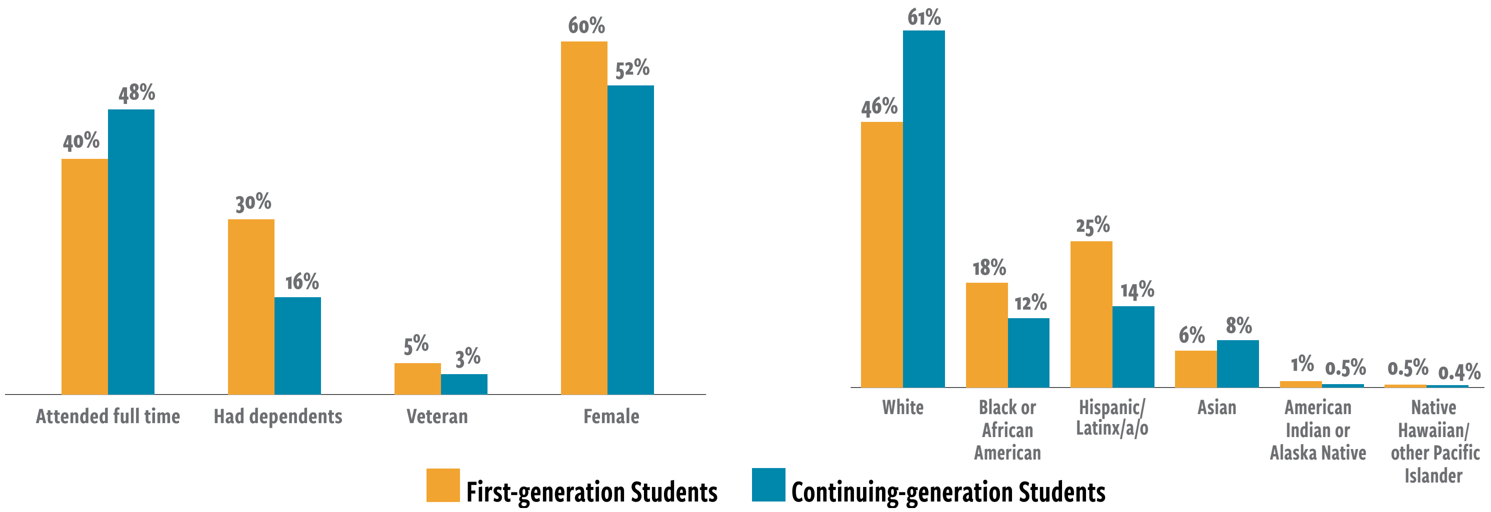
59% of students whose parents did not have a bachelor's degree **were also the first sibling in their family** to go to college.

PERCENTAGE WHO WERE AGE 30 OR ABOVE

28% of **first-generation** students

16% of **continuing-generation** students

Distribution of Characteristics Among First-generation and Continuing-generation Students

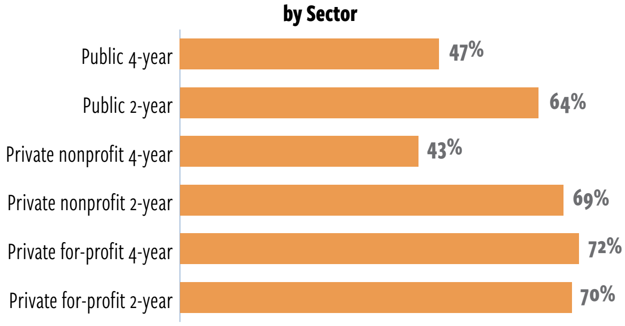


MEDIAN PARENTAL INCOME AMONG DEPENDENT STUDENTS

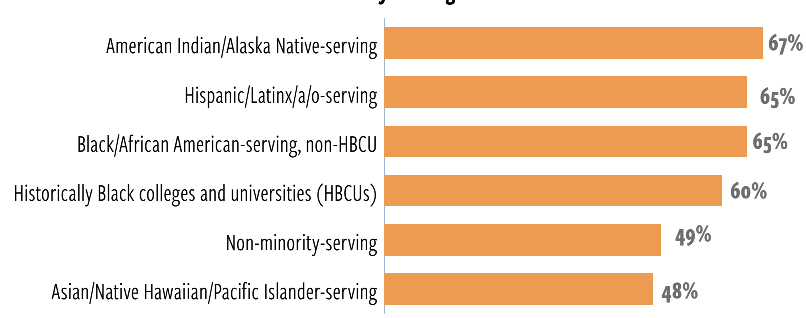
$41,000 for **first-generation** students

$90,000 for **continuing-generation** students

Percentage of Undergraduates Who Were First-generation, by Sector



Percentage of Undergraduates Who Were First-generation, by Type of Minority-Serving Institution



CENTER FOR FIRST-GENERATION STUDENT SUCCESS
AN INITIATIVE OF NASPA AND THE SUDER FOUNDATION

First-generation college student is defined as an undergraduate whose parents do not have a bachelor's or higher degree. Continuing-generation college student is defined as an undergraduate who has at least one parent with a bachelor's or higher degree. Data source is U.S. Department of Education, National Center for Education Statistics, 2015–16 National Postsecondary Student Aid Study (NPSAS:16). NPSAS:16 was released in 2018 and is the most recent iteration of NPSAS. Total number of study members is 89,000. Weighted sample size (population size) is 19.5 million. Fact sheet produced by RTI International.

firstgen.naspa.org

@FirstgenCenter

SiX RESEARCH MEMORANDUM

TO: Office of Maryland Del. Pam Queen
FROM: SiX Research Team
SUBJECT: Children's Savings Accounts
DATE: August 9, 2019

Overview

This memo provides a scan of state initiatives related to Children's Savings Accounts, Children's Trust Funds, or Individual Development Accounts. The sections of this memo are divided into the following:

- Background
- Examples of state-sponsored Children's Savings Account programs
- Examples of pending bills with legislative language
- Examples of recently failed bills with legislative language

As always, when moving forward with legislation, we recommend working with local and national advocates to craft the best solution for your state. Please let us know if you would like additional legislative examples, connections to experts, or connections to other legislators who have worked on this issue.

Background

Senator Cory Booker's main platform for president is the American Opportunity Accounts Act, colloquially known as the Baby Bonds program. The act proposes giving every child born in the United States an account with an initial seed deposit of $1,000 with additional annual contributions between $0 and $2,000 until the child turns 18 years of age. The child would then be able to use the money for qualifying asset-building purchases.

Our research reveals that no state has yet enacted a program that is as ambitious as the Baby Bonds program wherein the government contributes money for the entirety of an individual's childhood. There are, however, several state-backed programs that contribute initial seed funds to an account like a Children's Savings Account (CSA). Prosperity Now maintains a map directory of all current CSA programs in the U.S. and their key features. While the mechanics and operations across programs have slight variations, Prosperity Now defines CSAs as having three main features:

1. ***Incentive structures to grow savings,*** *such as initial seed deposits or savings matches*
2. ***Savings designated for postsecondary education or for purchasing another type of asset*** *(e.g., a house, small business)*

3. ***Incentive funds that are restricted** to paying for postsecondary education or another allowable asset*

Enacted Programs

CSA programs currently exist in more than 34 states and are sponsored by both state and nonprofit entities. The table below gives a snapshot of some programs that have been established and/or administered by the state:

State	Incentive	Limitations	Implementing Arm
Pennsylvania	$100 initial seed deposit through 529 college savings account	Only for postsecondary education	State Treasury Department
North Dakota	$200 match if 529 account is opened prior to child's first birthday	Only for postsecondary education	Established the state, administered by the Bank of North Dakota
Connecticut	$100 seed deposit for opening 529 account; $250 match for contributions of $150 or more by the child's fourth birthday	Only for postsecondary education	State Treasury Department
Tennessee	A 4-to-1 match for families within certain income requirements with a max state contribution of $500	Only for postsecondary education	State Treasury Department as authorized by Tennessee Code Annotated, Section 49-7-808(d)
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OREGON

An alternative to the Children's Savings Account is an Individual Development Account (IDA). Oregon runs an IDA initiative for teen and adult Oregonians with lower incomes. An IDA is a matched savings program in which account holders can use their savings towards a home, education, small business, vehicle, retirement, home repair or replacement, assistive technology, rental, credit building, and credit repair. Oregon residents who are at least 12 years of age and have a low income and modest net worth are eligible for the program.

According to the program's website:

"The Oregon IDA Initiative began in 1999 when a group of Oregon legislators came together with a vision of creating a path to financial resilience within all of Oregon's communities. House Bill 3600 in 1999 created both the Initiative and a 25% tax credit as a funding mechanism… In the 2015 Oregon Legislative Session, the Oregon IDA Tax Credit was extended until 2022. Additional savings categories were added and the State allocated $7.5 million in expenditures to the Initiative."

The initiative is also supported by individual or business contributions. Contributions are now eligible for a state tax credit of 75% for every dollar contributed.

The following section of the Oregon Revised Statutes clarifies the features and rules of IDAs including the maximum match an account holder can accrue per year (subsection 2). For all sections related to IDAs, please see OR Rev Stat § 458.670 - 700.

OR Rev Stat § 458.690 (2017)

(1) Notwithstanding ORS 315.271, a fiduciary organization selected under ORS 458.695 may qualify as the recipient of account contributions that qualify the contributor for a tax credit under ORS 315.271 only if the fiduciary organization structures the accounts to have the following features:

(a) The fiduciary organization matches amounts deposited by the account holder according to a formula established by the fiduciary organization. The fiduciary organization shall maintain on deposit in the account not less than $1 nor more than $5 for each $1 deposited by the account holder.

(b) The matching deposits by the fiduciary organization to the individual development account are placed in:

(A) A savings account jointly held by the account holder and the fiduciary organization and requiring the signatures of both for withdrawals;

(B) A savings account that is controlled by the fiduciary organization and is separate from the savings account of the account holder; or

(C) In the case of an account established for the purpose described in ORS 458.685 (1)(c), a savings network account for higher education under ORS 178.300 to 178.355, in which the fiduciary organization is the account owner as defined in ORS 178.300.

(2) Account holders may not accrue more than $3,000 of matching funds under subsection (1) of this section from state-directed moneys in any 12-month period. A fiduciary organization may designate a lower amount as a limit on annual matching funds. A fiduciary organization shall maintain on deposit sufficient funds to cover the matching deposit agreements for all individual development accounts managed by the organization.

(3) The Housing and Community Services Department shall adopt rules to establish a maximum total amount of state-directed moneys that may be deposited as matching funds into an individual development account. [1999 c.1000 §5; 2001 c.648 §5; 2003 c.280 §19; 2007 c.765 §5; 2015 c.843 §21]

Pending Legislation

MASSACHUSETTS

Like many states, the Massachusetts Treasury runs a seed deposit program for 529 accounts. However, there are two pending bills in the House and the Senate that aim to establish similar programs through the state legislature.

In October 2018, the Massachusetts' Treasury Department announced the expansion of a CSA pilot called the BabySteps Savings Plan. Beginning in January 2020, every baby born to or adopted by a Massachusetts resident will be eligible for a free $50 seed deposit into a UFund 529 college savings account. The $50 deposits would be funded through public-private partnerships and not taxpayer dollars; the first year is sponsored by the Hildreth Stewart Charitable Foundation.

In January 2019, H1213 was introduced to the House and has since been referred to the Higher Education committee for review. The bill aims to establish a college savings account for each eligible child born and issued a birth certificate in the state. The state government would provide an initial $250 seed deposit; withdrawals would only be allowed for qualifying education expenses.

Concurrently, in the Senate, Bill S.166 ("An Act promoting access to higher education beginning at birth") has been referred to the Revenue committee for further action. The bill establishes a tax-free $5,000 seed deposit for every child born in Massachusetts or to Massachusetts residents to be used for admission into a higher education institution.

MA H 1213 [IN HOUSE, LAST ACTION JUL 16, 2019]

SECTION 1. Chapter 15C of the General Laws, as appearing in the 2016 Official Edition, is hereby amended by inserting after section 14B the following new section:-
Section 14C. Massachusetts Child Savings Account Program
(a) The Massachusetts Educational Financing Authority shall establish a college savings program known as the Massachusetts Child Savings Account Program.
(1) The Massachusetts Education Financing Authority shall create a college savings account for each eligible child born and issued a birth certificate in the commonwealth.

(2) Upon establishment of a college savings account, the commonwealth shall deposit $250 into the account.
(3) For accounts where a child's parent or guardian is eligible for the Earned Income Tax Credit, the commonwealth shall match the amount deposited in the account by a child's parent or guardian on a dollar-to-dollar basis; provided, however, that the commonwealth shall deposit no more than $250 in matching funds per account per year.
(4) Deposits to an account may be made by the accountholder, a family member of the accountholder, and a private or public entity.
(5) No withdrawals shall be made from an account until the accountholder is 18 years of age or has enrolled full-time in post-secondary education program, including a college, university, vocational school, or a two or four-year degree program from an accredited educational institution.
(6) A withdrawal from an account shall only be permitted for qualifying post-secondary education expenses, including, but not limited to, tuition, mandatory fees, books, supplies or equipment required for enrollment or attendance, or any other necessary cost of attending school, including living expenses and travel to and from the post-secondary education program.
(7) A withdrawal from an account must be made prior to the accountholder attaining the age of 29; provided, however, that the age limitation shall be increased by each year an accountholder serves in a national service program, including the United States Military or Peace Corps.
(8) Undisbursed funds in an account when an accountholder reaches the age of 29 or receives a certificate of completion from a post-secondary educational institution shall be returned to their source; provided, further, that any funds contributed by the commonwealth will revert to General Fund.
(9) The manager of the accounts shall distribute financial education information and contact information for local service providers that can assist with financial education coaching, where available, to children participating in the program.
(10) Funds in a college savings account under this act shall not be counted as income or assets under chapter 117A.
(b) The Massachusetts Educational Financing Authority, in coordination with the state treasurer, shall identify a public or private manager of the accounts. Any private manager of the accounts shall be a statewide not-for-provide 501(c)(3) organization, approved by the Internal Revenue Service, with demonstrated success in managing state and federal funding of similar products in a network configuration with community-based nonprofit organizations, community development corporations, faith-based organizations, state housing authorities, and similar organizations. The manager shall have fiduciary responsibility for the accounts.
(c) The Massachusetts Education Financing Authority shall file an annual report detailing the status and operation of the program and management of the accounts with the chairs of the joint committee on higher education and the clerks of the senate and house of representatives not later than October 1.

MA S 1699 [IN SENATE; LAST ACTION JUL 17, 2019]

SECTION 1. In order to encourage every child in Massachusetts to seek higher education and to encourage residents of Massachusetts to stay in the commonwealth, there shall be established and set on the books of the commonwealth a program for investment by the commonwealth in the future college education of all newly born residents. The commonwealth shall deposit in a separate account to be maintained by the Massachusetts education financing authority or in the Massachusetts UFund, the sum of $5,000 for each child born in Massachusetts to Massachusetts residents, and said $5,000 will be accessible for use by each child for payment used for admission to an institution of higher education in Massachusetts. Exceptions will be defined by the department of revenue according to their current exceptions. There will be no tax implications on this initial deposit. Additional deposits to this fund are allowed and will have the same federal and state tax implications as the Massachusetts UFund.

CALIFORNIA

California has a pending bill that is currently under review by the Senate Committee on Education. The act would add an article to the education code that would establish a $25 seed deposit in a 529 account for every California resident child born on or after January 1, 2020.

AB 15 Section 1, Article 19.5, 69996.3 [IN SENATE; LAST ACTION JUN 27, 2019]

(c) Upon appropriation by the Legislature, or upon a determination by the Department of Finance pursuant to subdivision (c) of Section 69996.6, the board shall establish one or more accounts and shall make a seed deposit from the fund into *a subaccount established within* an account in an amount determined by the board. Each seed deposit shall be designated for a particular child for whom the board receives birth data pursuant to subdivision (b), if no parent or legal guardian has opted that child out of the program. Moneys in an account designated for a child, including any investment earnings attributed to the amount of the child's seed deposit since the date of the deposit as calculated by the board, shall be used for the purpose of providing awards for qualified higher education expenses associated with the attendance of the child at an eligible institution of higher education. No child shall receive more than one seed deposit. Each seed deposit shall be at least twenty-five dollars ($25).

(d) Upon receiving documentation of a child's enrollment as a student at an institution of higher education, the board shall make a payment to that institution in the amount of the seed deposit designated for the child pursuant to subdivision (c), plus any investment earnings attributed to that amount since the date of that deposit as calculated by the board, for qualified higher education expenses associated with the child's attendance at that institution.

Failed Legislation

NEW MEXICO

The New Mexico House failed to pass HB 239 which would establish and enact the Children's Savings Account Act. The bill directs the state Treasurer to create a CSA program with an initial seed deposit of $500 to be used only for postsecondary or vocational educational institutions. Individuals are eligible for an account if they are less than six months of age, a citizen of the

United States, a resident of New Mexico, and has a family household income that is less than 200% of the federal poverty level.

KANSAS

The failed HB 2096 would have been presented a more ambitious plan than most CSA programs. The bill directed the state Treasurer to establish a trust fund within the state treasury that would disburse $250 annually to CSAs that had had at least one contribution since the initial deposit.

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New Sec. 7. (a) (1) The Kansas children's savings account program trust fund
is hereby established in the state treasury. The Kansas children's savings
account program trust fund shall consist of moneys deposited by depositors
pursuant to the provisions of this act, moneys acquired from governmental and
private sources through grants, gifts or donations and state general fund
appropriations, if any. All interest derived from the deposit and investment
of moneys in such fund shall be credited to the fund. At the end of any
fiscal year, all unexpended and unencumbered moneys in such fund shall remain
therein and not be credited or transferred to the state general fund or to
any other fund. The state treasurer shall transfer $250 per year from the
Kansas children's savings account program trust fund to each account that has
received at least one contribution after the initial deposit. In the event
that there is insufficient funding to transfer $250 to each account, the
state treasurer shall prorate the existing funds to provide an equal or
lesser amount to each account.
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Additionally, a child who was eligible for any type of assistance would be provided with a $250 seed deposit from the unencumbered temporary assistance for needy families moneys.

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New Sec. 5. (a)(4) For a child who is eligible for any type of assistance as
provided in K.S.A. 39-709, and amendments thereto, the program shall provide
an initial funding of $250 per account out of unencumbered temporary
assistance for needy families moneys. The Kansas department for children and
families and the department of health and environment shall include an
optional release of information to the program as part of any application for
assistance. All assets in the account shall be exempt from any asset test for
the purpose of determining eligibility for any public assistance.
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Additional Resources

Prosperity Now - https://prosperitynow.org/topics/savings

Article - “WashU Expert: We already have ‘baby bonds’”

Issue brief of the United Kingdom’s own “Baby Bonds” experiment from 2001 to 2010 - “Child Trust Funds: Renewing the Debate for Long-Term Savings Policies”