



RURAL DYNAMICS INCORPORATED

CONSUMER CREDIT COUNSELING SERVICE

Montana Children's Financial Security Act Establishing Child Accounts to invest in the future of Montana's children

Imagine a Montana where every child is born with a savings account he or she can use to finance their college education, buy a home, start a business, or save for retirement. The Montana Children's Financial Security Act will expand economic and educational opportunities for future generations of Montanans by establishing a Child Account, with a \$500 initial seed grant, for all newborns in the state.

Building Wealth for Montana Children

In the face of the current economic downturn, success in today's economy depends not only on employment and growing income, but increasingly on the knowledge and ability to accumulate a wide range of financial assets. Research and practice clearly demonstrate that possessing even a few thousand dollars in assets can connect people to the economy, raise their financial expectations, and allow them to shape their futuresⁱ. Holding assets can be even more powerful early in life when aspirations are still growing. With that in mind, policy makers in the United States and abroad have begun focusing on asset building strategies that start early in life.

In Montana, child poverty rates are alarmingly high. In 2005, 20 percent of children under age 18 lived in households with incomes below the federal poverty level. More troublesome, however, is that the percentage of children living in households with incomes below 150 percent of the federal poverty level jumped to 34 percentⁱⁱ. This is a clear indication that a large portion of Montanans have not been able to sufficiently build their assets and provide for their future financial security.

Has this been done before?

Yes. A major initiative for increasing personal savings is underway in the United Kingdom. Every child born on or after September 1, 2002 is given a savings account called a Child Trust Fund (CTF), endowed with a government contribution of £250. The intent is that by building savings capacities of families, CTFs will give all children in the U.K. a financial asset to fund their transition to adult life. To date, over 3 million CTF accounts have been openedⁱⁱⁱ. Thus far, the data indicate that the CTF policy has been successfully launched and shows great promise for the future^{iv}.



Northern Plains Initiative
Partnerships to expand sustainable rural communities

Child Account Policy in the United States

Modeled after the promising Child Trust Fund policy in the United Kingdom, the America Saving for Personal Investment, Retirement, Education Act (ASPIRE Act), was introduced in 2007 by a bipartisan coalition in Congress. The ASPIRE Act calls for the establishment of KIDS Accounts at birth for every American child endowed with an initial \$500 contribution. Children living in households with incomes below national median income will be eligible for both a supplemental contribution of up to \$500 at birth as well as the opportunity to earn \$500 per year in matching funds for amounts saved in the account. Financial education would be offered in conjunction with the accounts, which later can be used to pay for post-secondary education, a first home, or retirement. The ASPIRE Act has been sponsored by a bi-partisan group of national legislators: Senator Charles Schumer (D-NY), and Representatives Patrick Kennedy (D-RI), Phil English (R-PA), Jim Cooper (D-TN), Rahm Emanuel (D-IL), Zoe Lofgren and Thomas Petri (R-WI).

While universal children's savings account policy has yet to be implemented at the state level in our country, a promising budget, continuing profits from the state's natural resources and the relatively low cost of this initiative in comparison to other states provide Montana with a fantastic opportunity to be at the forefront of the progressive children's savings account movement.

What would this policy look like in Montana?

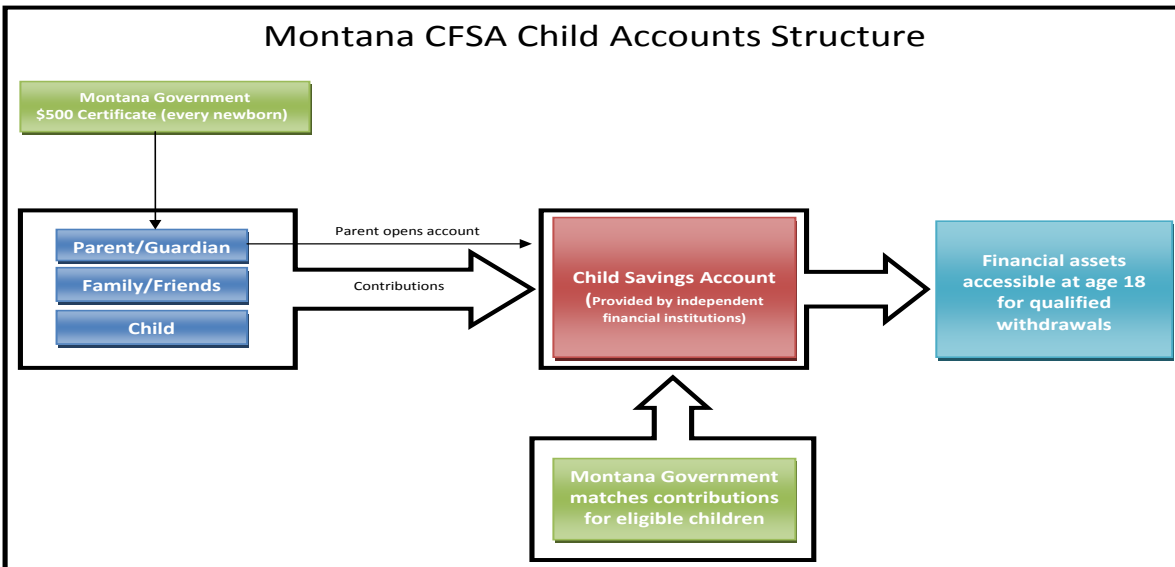
- The Montana Children's Financial Security Act would make available a \$500 certificate for investment in a Child Account for every child born in the state on or after January 1, 2009. Parents and guardians would use these certificates at participating financial institutions to open an account which would grow tax free.
- Families of the children, friends, churches, charities or others would be able to contribute up to \$2,000 per year to a child's account and receive a state tax deduction.
- Low- and moderate-income families would be encouraged to save through a government matching contribution on deposits up to \$500 annually.
- The accounts would be managed by private sector financial institutions.
- Child account holders could use the accounts for qualified purposes upon reaching age 18. These qualified withdrawals include: paying for post-secondary education, home ownership, vehicle purchase for transportation to and from work, investing in a small business, or funding a retirement account.
- The Aspen Institute estimates that with a monthly contribution of \$50 (or \$25 with the government match), such an account would be worth about \$16,000 after 18 years^v.

i. Rist, Carl and Jennifer Brooks (2007). Kids, accounts, and state capitols: policy lessons from SEED. Growing knowledge from SEED.

ii. Herling, Daphne. (2006). Poverty rate highest for Montana's children. Montana Business Quarterly. Winter 2006

iii. Corporation for Enterprise Development (2007) Why Children's Development Accounts? Arguments and Evidence to Support Long-Term Asset Building Accounts for America's Youth. SEED Policy and Practice Initiative.

th, individuals, and families achieve economic independence.



Why Child Accounts?^{vi}

- **Opportunities for Economic Mobility**
Recent studies have shown that regardless of a family's income level, the children of parents who own assets are more likely to have higher academic achievement and complete more years of education.
- **Enhanced Expectations for the Future**
People who own assets are more likely to have a more positive outlook and higher expectations for their futures and the futures of their children. Research suggests that having savings increases a child's expectations about attending college. Children with college savings are nearly twice as likely to have higher expectations for attending college than children with no college savings.
- **Increased Savings and Financial Education**
An initial state endowment in a child account creates an incentive for parents and children to make saving a habit, increasing their likelihood to build a sizeable savings account balance over the course of a child's development. Additionally, by administering these accounts through the private sector, low and moderate income consumers will have increased access to the financial services industry, building financial literacy and trust in financial products^{vii}.
- **Strengthened local and state economies**
The Aspen Institute projects that state investment in children's savings accounts will return significant assets to the state over the course of 18 years. Community members with bachelor's degrees pay almost twice as much in local, state and federal taxes as those with only a high school education, and higher homeownership rates are associated with more stable communities, higher property values, better maintained properties and increased civic involvement.

iv. Bennet, Jim et al. (2008) The UK Child Trust Fund: A successful launch. Institute for Public Policy and the Initiative on Financial Security at the Aspen Institute

v. Mensah, Lisa, Pamela J. Perun and Elena Chavez Quezada (2007) The Case for Child Accounts. The Initiative on Financial Security at the Aspen Institute.

vi. Corporation for Enterprise Development. (2007).

vii. Mensah, Lisa, Pamela J. Perun and Elena Chavez Quezada (2007)

Montana's opportunity to become a leader

The current recession has forced not only policy makers in our country, but members of society at all levels, to think about how best to secure their financial futures. If the current economic downturn should impart any lesson, it is the importance of practicing fiscal responsibility in our daily lives. What better way to promote this lesson than to create an incentive for Montanans to become financially educated, and to live within their means by saving for the future?

Montana is in the unique position of having a strong budget, granting policy makers an opportunity to pursue a bold new initiative during these trying times. With approximately 11,000-12,000 annual births this investment in the future of Montana would cost \$6 million per year. Coupled with the promise of continuing profits from natural resources in the state, Montana is in a great position to implement the Montana Children's Financial Security Act, and become a national leader in the growing arena of asset-building policy.

For more information about the children's savings account policy:

William Kinder
Policy Advisor, Family Economic Security
Rural Dynamics, Inc.
wkinder@ruraldynamics.org
(406) 454-5721

Paul Andrews
Director of Public Policy
Rural Dynamics, Inc.
pandrews@ruraldynamics.org
(406) 454-5732