

NEW AMERICA FOUNDATION

ASSET BUILDING PROGRAM

**The America Saving for Personal Investment, Retirement, and Education Act
("The ASPIRE Act of 2005")**

**S. 868 Senators Santorum (R-PA), Corzine (D-NJ), Schumer (D-NY), DeMint (R-SC)
H.R. 1767 Representatives Ford (D-TN), Kennedy (D-RI), English (R-PA)**

Summary of the Bill

Purpose of the Bill

To encourage savings, promote financial literacy, and expand opportunities for young adults by establishing a KIDS Account for every newborn child.

KIDS Accounts

Every child born after December 31, 2006 issued a Social Security number will have a KIDS Account opened for them automatically. Each account will be endowed with a one-time \$500 contribution, and children in households earning below national median income will be eligible for a supplement contribution of up to \$500. Additional savings incentives include tax-free earnings, matched savings for eligible families, and financial education.

The KIDS Account Fund

The bill establishes the KIDS Account Fund within Treasury, which will be governed by a Board of Directors similar in structure to the Board overseeing the Thrift Savings Plan (TSP), the retirement program for federal employees. The Director of the Fund will be appointed by the Board and shall have the same powers and responsibilities as the Director of the TSP.

Government Contributions:

- *Automatic Contribution*

After an account has been created, the Secretary of the Treasury shall automatically transfer to the Fund a contribution of \$500. All contribution amounts will be indexed for inflation.

- *Supplemental Government Contribution*

A child will qualify for a one-time supplemental contribution if their household income is below the national median income. The maximum supplemental contribution will be \$500. The bonus amount will be evenly pro-rated so that a child receives the full amount if their household income is at or below 50% of the national median Adjusted Gross Income (AGI) and a lesser amount as the household income approaches 100% of the national median AGI.

- *Matching Contributions*

Eligible account holders can receive a one-to-one match on private contributions to their accounts on an annual basis until the accountholder reaches the age of 18. The Senate bill allows for accountholders with household incomes up to 100% of the national median AGI to receive a dollar-for-dollar match on private contributions up to \$500. The House bill allows for a match of contributions up to \$1,000. The Senate bill phases out this match for accountholders with household incomes between 100% and 105% of national median AGI. The House bill phases out this match for accountholders with household incomes between 100% and 200% of national median AGI.

Private Contributions

Private, voluntary contributions can be made to each account each year until the accountholder reaches the age of 18. The Senate bill caps these contributions at \$1,000 and the House bill caps these contributions at \$2,000. Contributions will be after-tax and can come from any source. After accountholders turn 18, contributions will be allowed according to Roth IRA rules.

Investment of the KIDS Account Fund

Investment Funds

A range of investment options will be provided similar to those offered by the Thrift Savings Plan, including a government securities fund, a fixed income investment fund, a common stock fund, and other funds that may be created by the Board.

Account Custodians

Parents and legal guardians will serve as account custodians and make investment decisions until the accountholder reaches the age of 18. The account custodian shall elect how money in the KIDS Account is invested. If no election is made, a life cycle investment option will be specified as a default.

Distributions from KIDS Accounts

No withdrawals can be made until the accountholder reaches the age of 18. Once accountholders turn 18, their KIDS Account will be treated in the same manner as a Roth IRA. Withdrawals from these accounts will be governed by the same compliance and distribution rules which currently apply to the Roth IRAs. These rules permit withdrawals without penalty for select pre-retirement uses including first-time home purchase and post-secondary education.

Rollouts and Minimum Balances

Accountholders will have the choice to either keep their accounts within the Fund or transfer a portion of their account to private-sector Roth IRA provider or a State-run Section 529 Plan. To maintain the account as a savings platform for retirement security and life-long asset building, a minimum balance equal to the automatic contribution (initially \$500) is required in the KIDS Accounts held by the KIDS Account Fund at all times until retirement age. Rollouts to accounts managed by private sector financial providers or State 529 Plans will be permitted for balances above the minimum.

Tax Treatment of KIDS Accounts

KIDS Accounts will be treated in the same manner as Roth IRA accounts. Qualified distributions from these accounts will be tax-exempt and not included in gross income. Non-qualified distributions will be subject to the Roth IRAs 10% penalty on earnings and a 100% tax on government contributions. Accountholders can access their private contributions without penalty after age 18. Government contributions will not be included in federal income tax calculations.

Repayment

Each accountholder will be required to repay the initial automatic contribution beginning at age 30. The Executive Director will develop procedures to govern options for repayment, and will consider community service and hardship forgiveness provisions. The repayment obligation will not be indexed over time; the supplemental contribution does not have to be repaid.

Assets Test

Account assets will not be considered in determining eligibility for any Federally-funded benefit.

Financial Literacy

The bill explicitly calls for the development of programs to promote financial literacy among persons who contribute to and benefit from these children's savings accounts.

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