Date of Hearing: April 25, 2017

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Jose Medina, Chair
AB 34 (Nazarian) – As Amended April 20, 2017

SUBJECT: Children's Savings Account Program

SUMMARY: Establishes a 529 college savings account for every child born in California after January 1, 2018. Specifically, **this bill**:

1) Establishes the Children's Savings Account Program (CSAP), to be administered by the Scholarshare Investment Board (SIB) for the purpose of expanding access to higher education through savings.

2) Provides that each child born on or after January 1, 2018, who is a California resident at the time of birth, is eligible for the program.

3) Requires the Department of Public Health (DPH) to provide the SIB with a copy of the child's birth certificate within 90 days of issuance, after which the board shall open an account for the program, and requires that the parent or legal guardian be given information about the program and an opportunity to opt out.

4) Requires, upon appropriation by the Legislature, that the board do all of the following:

   a) Make an initial (seed) deposit for each account established per (3);

   b) Make an additional seed deposit for each beneficiary from a low-income household—gross income less than $75,000;

   c) Provide an annual dollar-for-dollar match of up to $100 per account for contributions made into the account by a participant, who could be a parent, legal guardian, or any other private individual or entity who contributes to the account on behalf of the beneficiary;

   d) Establish additional dollar incentives for accomplishments of the child, as determined by the board, including for good school attendance; and

   e) Provide additional savings incentives for beneficiaries from low-income households.

5) Stipulates that distributions from a beneficiaries' accounts are only permitted for qualifying higher education expenses in compliance with Section 529 of the Internal Revenue Code.

6) Stipulates that a beneficiary is not eligible for the incentives described in 4(c) through (e) during any period in which they are not a California resident.

7) Provides that the parent or legal guardian, residing in California, of a child who was either born a California resident before January 1, 2018, or was not a California resident at the time of birth may apply to enroll their child in the program, and that the child would be eligible for the incentive described in 4(c) through (e), but not for a seed deposit.

8) Provides that, if a beneficiary does not use any portion of the funds in their account for a qualified higher education expense for any reason, including for death or disability, all state, local, and federal contributions made to the account and associated earnings shall be forfeited and deposited into the fund for the program.

9) Provides that a participant shall retain ownership of his or her contributions made to an account up to the date of utilization for payment of higher education expenses of the beneficiary, and all interest derived from investment of the contributions shall be deemed held for the benefit of the beneficiary.

10) Stipulates that, if an account is canceled before any payment is made, each participant (parent, legal guardian, or other private entity or individual) linked to the account retains ownership of their contributions and any associated interest earnings and is entitled to a refund equal to the current market value of their contributions.

11) Stipulates that, if an account is canceled after any payment is made, each participant linked to the account will receive a proportionate refund of the balance of funds in the account.

12) Requires the SIB to encourage parents, legal guardians, beneficiaries, and community entities to invest in accounts.

13) Authorizes the SIB to adopt regulations for implementing and administering the program and accept any grants, gifts, appropriations, and other moneys for deposit into the CSAP Fund, which is established, and stipulates that moneys in the CSAP fund are continuously appropriated to the SIB without regard to fiscal years.

14) Requires, subject to available funding, that the program be implemented and enrollment of beneficiaries shall begin before January 1, 2019, unless the board does not secure adequate funds to implement the program by that date, whereby the implementation may be delayed. The board may also accept moneys from non-state sources to implement the program on terms the board deems advisable.

15) Requires the Director of Finance to determine, at the start of each fiscal year, whether there are sufficient funds to implement the program for that year.

EXISTING LAW:

1) Establishes the Golden State Scholarshares Trust Act as the California's state-sponsored college savings plan, pursuant to Section 529 of the Internal Revenue Code. (Education Code (EC) Section 69980 et seq.)

2) Establishes the SIB, which consists of the Treasurer, the Director of Finance, the executive Director of the State Board of Education, a member of the Student Aid Commission appointed by the Governor, a member of the public appointed by the Governor, a representative from a California public institution of higher education appointed by the Senate Committee on Rules, and a representative from a California independent college or university or a state-approved college, university, or vocational/technical school appointed by the Speaker of the Assembly. The Treasurer serves as chair of the board. (EC Sect. 69984)

FISCAL EFFECT: Unknown

COMMENTS:

Background. AB 530 (Lempert)/Chapter 530, Statutes of 1997 established the SIB and the state's 529 college savings program. These plans are designed to encourage saving for future college costs. Investment earnings in 529 plans are not subject to federal or California income tax as long as withdrawals are used for eligible college expenses, which include tuition and fees, books and supplies, and certain room and board charges. As of December 2016, the program was managing over $7 billion of assets in more than 280,000 separate accounts. This is an opt-in program for those families that choose to participate.

Purpose. According to the author,

> "Research indicates that parents with more education, other investments, and a financial advisor are more inclined than those who are less financially sophisticated to enroll their children in a children's savings account (CSA). The likely result is that those not participating in these programs are from families who would benefit most
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> "Establishing a universal, at-birth, opt-out, CSA in California will eliminate the administrative barriers to opening a college savings account, giving access to all families, regardless of income level. It will provide all of California's newborns with financial assets, a more equal playing field, and a transformative sense of possibility and hope for the future.
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> "Not only do Children's Savings Accounts (CSAs) give participants a financial boost in paying for college, they help build the aspirations and expectations of children and their parents around higher education."

The Oklahoma Example. The SEED for Oklahoma Kids (SEED OK) experiment, which began in 2007, is the largest scale policy test of universal, automatic and progressive Children's Development Accounts (CDAs). Participants in this study were 2,700 primary care givers—mostly mothers—and their infant children, who together were randomly assigned to a treatment group or a control group. Infants in the treatment group received a seed amount of $1,000 automatically placed into a 529 college savings account and held by the State of Oklahoma. In addition, mothers in the treatment group were given a limited time to open an individual 529 account for their child, into which the state would deposit $100 as an incentive to do so. Low- and moderate-income mothers in this group were then eligible for savings matches from the state (either 1:1 or 0.5:1) for deposits the mothers made into their child's account over the next four years. Finally, these mothers received educational materials about college savings and their 529 accounts, and the children received quarterly SEED OK account statements. Mothers and infants in the control group received none of the benefits described above.

Under research conducted by the Center of Social Development at Washington University in St. Louis, 60 participating mothers completed extended in-person interviews when their children were between two and three years of age, which provided insight into the treatment mothers' early perceptions of the SEED OK program, including:

- A number of mothers expressed hope for their children's future because of the SEED OK account and deposit. Several expressed having a sense of security.

- The initial deposit symbolized for some mothers the notice that *someone outside the family* cares about their children's future.

- Regular account statements and program materials emphasize the importance of education and help some mothers "see their children as college bound."

Account holding and asset information was measured as of December 31, 2014 when the SEED OK children were 7 to 8 years old, and found that:

- While even most children in the treatment group did not have an individual 529 account or savings (about 17% did), they were much more likely to have done so than those in the control group (1.1%).

- For two of the most important financial outcomes—having a college savings account and having some assets for college—the CDA in SEED OK eliminates variation by income, race, and other socioeconomic characteristics. Without the CDA, advantaged children are much more likely than disadvantaged children to have OK 529 accounts.

- The CDA also increases the likelihood that disadvantaged children have OK 529 accounts opened by family or friends and that family or friends deposit savings into the accounts.

About 2,300 mothers completed a follow-up telephone survey when the children were about 4 years old. It was found that mothers in the treatment group were more likely than mothers in the control group to report that their expectations for their children's educational attainment remained the same or increased since SEED OK began.

Although it is too soon to draw conclusions about the long-term impacts of the CDA in SEED OK, the early positive impacts may be followed by longer term ones. Eventually, researchers can examine whether the CDA motivates parents and children to prepare for college, and later the effects of high school graduation and college attendance rates.

Maine. The findings from SEED OK have informed the development of programs in other states; most prominently in the State of Maine, where from 2008 to 2013, the Harold Alfond Foundation was offering $500 toward future college expenses to every state newborn if the parents enrolled their child in the state's 529 program before the child's first birthday. Under this opt-in structure, about 40% of newborns were enrolled in the program and received the $500 grant. Based on the results of the SEED OK program, the foundation board announced in 2014 that all Maine newborns would be automatically enrolled in and receive the $500 grant, making this the first universal, statewide at-birth CDA program in the country. This will increase the number of newborn children enrolled in the program from about 5,000 annually to 12,500 annually.

Under the program, all parents are notified of the $500 grant when the child is about one month old. When the child is around age one, parents also receive information about opening and contributing to their own 529 account, which is eligible to receive 50% matches, up to $100 per year with a lifetime maximum of $1,000, regardless of family income. Finally, parents receive quarterly statements of their 529 account balances, which include age-appropriate tips and activities.

Nevada. The Nevada College Kick Start Program established a 529 college savings accounts for all new fall 2013 kindergarten public school students in 13 of Nevada's most rural communities. In February 2014, the program expanded statewide to automatically include all public school kindergarten children in Nevada. The Board of Trustees of the College Savings Plans of Nevada funded the program for three successive school years—through 2015-16—and will review the impact of the program in helping Nevada families prepare for future college expenses. The Nevada College Kick Start Program is using a portion of the existing 529 program manager fees to provide an initial deposit of $50 for each account established by the state under the program. Through educational outreach efforts on many levels, many Nevada families are also being encouraged to consider opening a separate 529 savings account.

Similar programs to those discussed above have also been implemented in Connecticut and Rhode Island, and related legislation has been introduced in Oregon.

San Francisco Program. The City and County of San Francisco (CCSF) in partnership with the San Francisco Unified School District (SFUSD) have instituted the Kindergarten to College (K2C) Program, under which a K2C college savings account is automatically opened for each SFUSD student entering kindergarten. The CCSF starts each account with $50, and families have the opportunity to earn additional incentives, as follows: K2C matches every dollar saved, up to the first $100, and participants earn an extra $100 when a minimum of $10 per month is saved for six months in a row. More than 27,000 kids in SFUSD have K2C accounts. In addition, families have saved over $2.25 million of their own money, and 50% of these families qualify for free and reduced price lunches.

Staff Comments. This bill provides for universal participation and seed 529-plan contributions at birth, with incentives for parents and others to make their own contributions, and additional incentives for low-income households. AB 34 has elements of the programs in Oklahoma and Maine, and thus could replicate the apparent successes of the Oklahoma program, though it is yet too early to determine the ultimate success of these programs. The main challenge with this bill is fiscal, given the scale involved in a statewide program for California. While Maine estimates about 12,500 births annually, California, with about 30 times Maine's population, experiences about 40 times the number of annual births (about 500,000). Therefore, a seed deposit of just $100—far below the seed amounts provided in either Oklahoma or Maine—would cost $50 million annually. The additional seed deposit for low-income households would cost tens of millions of dollars more each year, as would the matching contributions and incentive-based contributions. Should the state seek to go forward with such a program, it will be committing significant ongoing resources.

Related Legislation. AB 1175 (Ting), pending in this committee, provides a state deposit of $100 into each new 529 account opened pursuant to the Golden State Scholarshare Trust Act.

REGISTERED SUPPORT / OPPOSITION:

Support
American Academy of Pediatrics, California
California Asset Building Coalition
California Association of Private School Organizations
Children's Defense Fund-California
California Federation of Teachers

Opposition
None on file.

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