Date of Hearing: April 2, 2019

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Jose Medina, Chair
AB 15 (Nazarian) – As Amended March 25, 2019

SUBJECT: Student financial aid: Children's Savings Account Program

SUMMARY: Automatically establishes a Scholareshare 529 college savings account for every child born in California after January 1, 2020, subject to available funding. 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, 2020, 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 notify the parent of each eligible child about the program. The parent shall have an opportunity to opt out of the program.

4) Requires that the board, upon appropriation by the Legislature or determination by the Department of Finance at the commencement of each fiscal year that there are sufficient moneys to implement the program in that fiscal year, do both of the following:

   a) Establish an account or accounts and make an initial (seed) deposit into an account, in an amount determined by the SIB but not less than $25 per child, and to be designated for each particular child for whom the board receives birth data per (3) and for whom the child's parent has not opted out of the program; and

   b) Make a payment to a higher educational institution for qualified higher education expenses - from monies designated for a child from the child's seed deposit plus any cumulative investment earnings from that deposit - upon receiving documentation of the child's enrollment at the institution.

5) To the extent sufficient funds are available, authorizes the SIB to:

   a) Provide additional college savings incentives for households with gross income less than $75,000; and

   b) Establish additional dollar incentives for accomplishments of the child, as determined by the board, including for good school attendance.

6) Authorizes a parent of a child - who is under 16 years of age, a current California resident and who was either born a California resident before January 1, 2020 or not a California resident at the time of birth – to enroll the child into the CSAP and participate in any incentives offered per (5), but not to receive a seed deposit.

7) 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, all contributions made to the account and associated earnings shall be forfeited and deposited into the fund for the program.

8) Requires the SIB to:

   a) Make information regarding a child's designated CSAP balance available to the child's parent or legal guardian through a secured internet link; and

   b) Encourage the parent or legal guardian of every child enrolled in the CSAP to establish their own 529 savings account to help pay for the higher education expenses of that child.

9) Requires, subject to available funding, that the program be implemented and enrollment of beneficiaries shall begin before January 1, 2021, 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.

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.)

3) Establishes the Every Kid Counts (EKC) College Savings Program, administered by the California Student Aid Commission (CSAC), to provide grants of at least $100,000 each to local governments and other entities sponsoring citywide or regional college savings account programs for families with students in grades 1 to 6. (EC Sect. 99100 et seq.) The 2017-18 Budget Act appropriated $3 million to the commission for this program.

FISCAL EFFECT: Unknown

COMMENTS:

Background. The Scholarshare Trust Program, established in 1999 and administered by the State Treasurer's Office, offers California families a tax-advantaged college tuition savings plan that allows them to invest and save for college. Under this program, a participant opens an account on behalf of a designated named beneficiary. The after-tax money contributed by the participant to the account is placed in a trust, and investment earnings grow tax-deferred. The program offers federal and California income tax-free treatment for qualified withdrawals from a Scholarshare account. A qualified withdrawal is one that is used to pay for qualified higher education expenses at any eligible postsecondary educational institution throughout the U.S., including many vocational schools.

As of December 31, 2018, the program had $8.3 billion invested and 317,000 separate accounts. In 2018, $505 million was withdrawn from Scholarshare accounts for qualified higher education expenses.

Purpose. Child Savings Accounts (CSAs) are long-term savings or investment accounts that help children and their families, especially children from low-income families, build savings for their future education. CSA programs provide an initial deposit, incentives to grow savings, and can follow a 529 account platform. The author cites a Washington University in St. Louis study indicating the following percentages of low-and moderate-income children graduating from college: 5% of those with no college savings, 25% of those with savings of $1 to $499, and 33% of those with savings of $500 or more.

The author believes that "Establishing a universal, at-birth, opt-out CSA in California will provide many more children with financial assets, a more equal playing field, and a transformative sense of possibility and hope for the future."

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."

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. 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.

A third survey will be conducted in 2020, when the children are about 12 years old. Prior to this survey, in early 2019, half of the children in the treatment group received a $200 deposit into their SEED account, and disadvantaged children within this group received an additional $400.

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 on 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 has increased 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.

Similar statewide CSA programs have recently been implemented in Connecticut, Rhode Island, and Pennsylvania.

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.

San Francisco Program. Since 2012-13, the City and County of San Francisco (CCSF) in partnership with the San Francisco Unified School District (SFUSD) have operated 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 incentive contributions by making deposits into their account, 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. As of October 2017, more than 30,000 kids in SFUSD have K2C accounts. In addition, families have saved over $2.9 million in their own accounts. Notably, 50 percent of students from participating families qualify for free and reduced price lunches.

Other cities with similar programs include Oakland, Los Angeles, St. Louis, New York, and Lansing.

Every Kid Counts College Savings Program. As mentioned earlier, this program provides grants of at least $100,000 each to local governments and other entities sponsoring citywide or regional college savings account programs for families with students in grades 1 to 6. The 2017-18 Budget Act appropriated an initial $3 million to the Student Aid Commission for this program, and in early March, commission staff recommended approval of grants to the nine local entities who applied for a grant. The grant amounts range from $100,000 for Santa Cruz Community Ventures to $927,000 to San Francisco’s K2C program.

Governor’s Budget Proposal. For 2020-21, the Governor has proposed a $50 million one-time General Fund appropriation to fund child savings accounts in order “[t]o support and encourage families to build assets for their children's post-secondary education”. According to the Administration his funding is intended for pilot projects and partnerships - with First 5 California, local First 5 Commissions, local government, and philanthropy – to support development or enhancement of cost-effective models that can be replicated or expanded to increase access to child savings accounts among incoming kindergartners.

Staff Comments. This bill provides for universal participation and seed 529-plan contributions at birth, while new parents would have an opportunity to opt out of the program. (In this respect, AB 15 is most similar to the statewide programs in Maine and Pennsylvania, rather than kindergarten-focused programs in Nevada or San Francisco.) AB 15 could replicate the apparent successes of the Oklahoma program, though it is yet too early to determine the ultimate success of such 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). Applying a minimum seed deposit of only $25—far below the seed amounts provided in either Oklahoma or Maine—would cost $12.5 million annually. The additional funding for low-income households and for California children born before January 1, 2020 could cost millions to tens of millions of dollars more each year. State costs could be less to the extent the program receives contributions from non-state sources.

Prior Legislation. In 2017, AB 34 (Nazarian), a similar bill, was held on Suspense in Assembly Appropriations.

SB 85 (Committee on Budget and Fiscal Review), Chapter 23, Statutes of 2017, established the Every Kid Counts (EKC) Act through a trailer bill to the 2017-18 Budget Act. The EKC was subsequently amended by AB 108 (Committee on Budget), Chapter 23, Statutes of 2018, to move program administration, and $3 million in associated funding, from the SIB to CSAC.

REGISTERED SUPPORT / OPPOSITION:

Support

American Academy of Pediatrics, California
California Asset Building Coalition
California Catholic Conference
County Welfare Directors Association of California
Santa Cruz Community Ventures
United Ways of California

Opposition

California Right To Life Committee

Analysis Prepared by: Chuck Nicol / HIGHER ED. / (916) 319-3960