**HB3691: Children’s Savings Accounts**

Senator Lightford – McGuire – McCann – Cunningham – Collins

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Frequently Asked Questions

**Children’s Savings Account Program Overview**

**What will HB3691 do?**

A 529 college savings account will be opened automatically for every child born in Illinois after 2018. The account, which is held by the Illinois State Treasurer with the child as the beneficiary, will be seeded with an initial investment of $50. After the initial deposit, low- and moderate-income families are encouraged to save in their own account through a savings incentive – a one-to-one dollar match up to $150. The seed investment, match incentives and the investment earnings on those funds can be used to pay for qualified postsecondary educational expenses. Combined with the amount the family has saved in their own 529 account, the child will be on their way to success in college or a career training program.

**What is a 529 College Savings Plan?**

A 529 College Savings Plan is named after Section 529 of the Internal Revenue Code, and it is often just called a 529 plan. A 529 plan is an account that helps people save money for higher education. It encourages people to save money by offering tax incentives. Someone with a 529 plan saves money in an account for a beneficiary, who will use the money for higher education. For example, a family member can open a 529 plan for a child or grandchild (the beneficiary), who can then use the money for college or other post-secondary training expenses.[[1]](#footnote-1)

**What is considered a qualified expense?**

Savings in a 529 account may be used for education expenses at any eligible educational institution, including public and private colleges and universities, graduate and post-graduate schools, community colleges, vocational schools or other postsecondary educational institutions eligible to participate in a student aid program administered by the U.S. Department of Education. It includes virtually all accredited public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. Education expenses may be tuition, fees, cost of books, educational supplies and equipment, and certain room and board expenses.[[2]](#footnote-2)

**How does HB3691 impact Illinois’ current college savings program – Bright Start?**

The bill does not do anything to alter the current structure of the Bright Start Program. A parent who wants to save their own money for their child's future must still open up a 529 account, through Bright Start, with their child as the beneficiary. The bill encourages savings by automatically opening up a custodial account where the treasurer is the custodian and the child is the beneficiary for every child born in Illinois. The custodial account holds the seed and any match funds. The match funds are dependent on the low- or moderate-income family depositing into their own Bright Start Account. The family’s 529 account and custodial account funds are invested separately.

**How are the funds invested & protected?**

The seed and match funds allocated to a child will be invested in a target-date fund based on the year of the child’s birth. For each year, the seed and match funds will be pooled together and professionally managed; ensuring that fees are low and investment performance is competitive. For example, the seed and match incentives allocated to every Illinois child born in 2018 will be pooled and invested in one target-date fund. The existing program manager of the Illinois College Savings Pool will be responsible for investing the seed and match funds. This program manager is selected through a competitive RFP process. These investments undergo an annual audit which is shared with the Illinois General Assembly. The investments must also comply with the investment policy set by the Illinois State Treasurer.  Additionally, the program is subject the investment transparency laws under the State Treasurer Act, which requires the State Treasurer to publish information on types of investments, return on investments, and asset allocation.

**What other states have CSA programs?**

In just the past few years, CSAs have grown tremendously, with seven states launching statewide programs including Nevada, Maine, Rhode Island, Vermont, Connecticut, New Hampshire and Colorado. Additionally Massachusetts, Indiana, Oregon, and Missouri are beginning to scale their existing 529 savings program to ensure that every child has a savings account.

**Use of the Savings Accounts**

**Who is eligible for the match savings incentive?**

A child is eligible to receive the match funds if they are living in a household with a total income of 250% or less of the federal poverty level and their parent or guardian is saving in a Bright Start account with them as the beneficiary.

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| --- |
| **250% of the Federal Poverty Level** |
| **Number of People in the Household** | **Total Income** |
| 1 | $30,015 |
| 2 | $40,600 |
| 3 | $51,050 |
| 4 | $61,500 |

**What if the beneficiary decides not to go to school?**

If the beneficiary does not attend a school by the time she or he is 29 years old, the seed funds, match funds, and any associated earnings in the custodial account are reinvested into the program. However, any funds that were invested by a parent or grandparent into their own 529 Bright Start Account remain untouched. There are three options for an account owner if their child (or other beneficiary) does not go to college:

1. Keep money in the account. The money will be available if your child changes her/his mind about school. There is no limit to when your child can use the money.
2. Change the beneficiary. You can change the beneficiary at any time, as long as the new beneficiary is a qualified family member.
3. Withdraw the money from the account. This would be called a “nonqualified withdrawal,” meaning that the money is not being used to pay for education expenses. The money you withdraw will be taxed.ii

**What if a child moves out of the state? Can they still participate in the program?**

If a child moves out of state, they can still save for college in their 529 Bright Start Account. Additionally any seed deposit, match funds, and earnings on those funds will continue to be invested on their behalf. However, they will no longer be eligible for the match incentive while they are not a resident of Illinois.

**Will these accounts affect the amount of federal financial aid a student may receive?**

The accounts holding the seed, match, and associated earnings are held by the State Treasurer, as the custodian. Therefore, the amount in that account will not be considered a family asset. The amount saved in the account owned by the family with their child as the beneficiary, will be considered a family asset and thus count towards financial aid determination. However, in either case, funds will likely have little to no impact on financial aid calculations for low- and moderate-income students. Under federal financial aid rules, for most low- and moderate-income students whose household income is less than $50,000, all assets are excluded in the calculation of the Expected Family Contribution (EFC) toward paying for postsecondary education. This means that the savings in these accounts is not taken into consideration in calculating federal financial aid for most students whose families earn less than $50,000. Even in cases where assets are considered, if the CSA funds are held in a 529 account, the savings would be considered a parent-owned asset, in which case only up to 5.6% of the value of the 529 is considered in calculating the EFC.

**Won't parents be tempted to withdraw the money early?**

Access to the custodian account, the account holding the seed and match dollars, is restricted so that funds can only be used for postsecondary education. While these restrictions ensure incentives are not withdrawn early, research also indicates that even with fewer restrictions, parents are unlikely to withdraw funds early. One study of account-holders in a demonstration project found that even when accounts were more accessible, only 4% of parents withdrew their own money, and most of those withdrawals were due to emergency situations, such as a job loss or medical condition.[[3]](#footnote-3) Parents care about their child’s future and want to save.

**Impact of the Program**

**Will these accounts really make a difference?**

With the high cost of college, we would not expect a low-income family to save nearly enough to cover the full cost of postsecondary education. However, even small amounts of money saved can make a difference in whether a child eventually ends up attending and graduating from college. Research indicates that children from low-income households with savings for college of just $1-499 are three times more likely to attend college and four times more likely to graduate than low-income children who do not have savings accounts for higher education.[[4]](#footnote-4) Having savings for college helps build children’s expectations and fosters a college-bound identity, in which children see themselves as someone who will go to college. And research shows that children and young adults’ expectations have a strong impact on whether they do, in fact, attend college. The money saved in a CSA can help address critical gaps that financial aid may not cover, such as books, transportation or living expenses. These relatively small costs can loom large for students from low-income families, so having savings to cover them can make a big difference in whether students are able to complete college.

**Can families really save for their children?**

Both theory and practice indicate that, with the right opportunity and appropriate savings vehicles(such as CSAs), low- and middle-income families can and will save for their children. Demonstration programs suggest that, on average, lower-income families in CSA programs save approximately $10 per month.[[5]](#footnote-5) Indeed, there is evidence that low-income savers contribute, on average, a higher percentage of their incomes than higher-income savers. Some CSA initiatives have shown remarkable savings participation rates, as well. For example the SEED demonstration, 57% of low-income savers made positive net contributions to their account over a three-year savings period.

**Funding the Program**

**How does the bill address funding?**

The Illinois Children’s Savings Account program will be a private/public partnership – following the funding model used by other states. HB3691 allows for the State Treasurer to use state appropriated funds, private individual donations and foundation support to fund the program. This allows the State Treasurer to be innovative in their fundraising – engaging a number of different sectors in the program implementation. Additionally, HB3691 allows the State Treasurer to roll out the program with a reduced seed and match amount if the program is only partially funded initially. The State Treasurer is also required to prioritize funding the seed amount before funding the match incentive. This allows all families to engage in saving for college even if the program is not yet fully funded.

**How can Illinois fund the program?**

CSA programs around the country receive direct funding and in-kind support from a variety of sources, including the public sector, philanthropy, the corporate sector and individuals. In addition to state appropriations, here are innovative funding strategies that could be adopted in Illinois:

1. **Crowd Sourcing:** Individual donors are particularly attracted to the idea of providing match funding to support the aspirations of children in their own community. Here are a couple of examples:
* Individual Champions: Some CSA programs match kids up with an individual donor to provide the match incentive and ongoing mentorship.
* 1:1 Fund: Many CSA programs have partnered with the 1:1 Fund to build on their existing fundraising. The 1:1 Fund makes it easy for donors to help kids save for college by matching their contributions.
1. **Private Philanthropy:** Every statewide program receives philanthropic dollars for operating funds and/or funding for the seed and match dollars. CSA programs in Michigan and Indiana have also engaged local Community Foundations to support children saving in their respective counties.
2. **Corporate donations:** CSA programs most commonly use corporate donations to fund matching incentives. For instance, Subaru of New England was the first donor of Vermont’s new CSA program and Citi funds the CSA program in San Francisco.
3. **Reinvestment of Earnings:** Some states are exploring using a portion of the administrative fee on their advisor sold 529 plans to support the seed investment. For example, Nevada’s College Kick Start Program uses fees paid to the State Treasurer’s Office by the state’s 529 program manager.
4. **Reinvested Funds**: Not every child born in the state will attend college. Any seed and match dollars, plus the earnings on those funds, will be reinvested in the program – creating a revenue stream.
5. **In-Kind Donations**: Many CSA programs around the country receive pro-bono assistance from research institutions – including the Center for Social Development, University of Kansas and the Institute on Assets & Social Policy – to measure the impact of CSA programs in the state. Many states also leverage existing financial education services in communities to educate families about 529 accounts and the importance of saving.

**How much will the program cost?**

HB3691 will automatically open a 529 college savings account for every child born in Illinois. Each account will receive an initial $50 seed. According to the Illinois Department of Public Health, there were 158,522 births in 2014. While the birth rate in Illinois has been steadily decreasing, if we use that number, we estimate that the cost of the initial seed will be $7.9 million annually. After the initial deposit, low-and moderate-income families would be encouraged to save through savings incentives – a one-to-one dollar match up to $150 per year. The participation rate for the match is difficult to estimate. But based on a participation rate of 20%, the cost of the match would be about $2 million annually.

1. http://www.savingforcollege.com/intro\_to\_529s/what-is-a-529-plan.php [↑](#footnote-ref-1)
2. <https://www.brightstartsavings.com/OFI529/PN/generated/en_us/PrimaryNavigation_07-07-08-134327.xml> [↑](#footnote-ref-2)
3. <http://cfed.org/assets/pdfs/take_money_run_case_study.pdf> [↑](#footnote-ref-3)
4. <http://aedi.ku.edu/sites/aedi.ku.edu/files/docs/publication/CSA/reports/Full-Report.pdf> [↑](#footnote-ref-4)
5. <https://csd.wustl.edu/Publications/Documents/RP07-22.pdf> [↑](#footnote-ref-5)