

108TH CONGRESS  
2D SESSION

# S. 2751

To encourage savings, promote financial literacy, and expand opportunities for young adults by establishing KIDS Accounts.

---

IN THE SENATE OF THE UNITED STATES

JULY 22, 2004

Mr. SANTORUM (for himself and Mr. CORZINE) introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To encourage savings, promote financial literacy, and expand opportunities for young adults by establishing KIDS Accounts.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “America Saving for  
5 Personal Investment, Retirement, and Education Act of  
6 2004” or the “ASPIRE Act of 2004”.

7 **SEC. 2. KIDS ACCOUNT FUND.**

8 (a) ESTABLISHMENT.—There is established in the  
9 Treasury of the United States a KIDS Account Fund.

1 (b) AMOUNTS HELD BY FUND.—The KIDS Account  
2 Fund consists of the sum of all amounts paid into the  
3 Fund under subsections (d) and (e), increased by the total  
4 net earnings from investments of sums held in the Fund  
5 or reduced by the total net losses from investments of  
6 sums held in the Fund, and reduced by the total amount  
7 of payments made from the Fund (including payments for  
8 administrative expenses).

9 (c) USE OF FUND.—

10 (1) IN GENERAL.—The sums in the KIDS Ac-  
11 count Fund are appropriated and shall remain avail-  
12 able without fiscal year limitation—

13 (A) to invest under section 5,

14 (B) to make distributions under section 6,

15 (C) to pay the administrative expenses of  
16 carrying out this Act, and

17 (D) to purchase insurance as provided in  
18 section 10(c)(2).

19 (2) EXCLUSIVE PURPOSES.—The sums in the  
20 KIDS Account Fund shall not be appropriated for  
21 any purpose other than the purposes specified in this  
22 section and may not be used for any other purpose.

23 (d) GOVERNMENT CONTRIBUTIONS.—

1           (1) IN GENERAL.—The Secretary of the Treas-  
2           ury shall make transfers from the general fund of  
3           the Treasury to the KIDS Account Fund as follows:

4                   (A) AUTOMATIC CONTRIBUTIONS.—Upon  
5                   receipt of each certification under section 3(b),  
6                   the Secretary of the Treasury shall transfer  
7                   \$500.

8                   (B) SUPPLEMENTAL CONTRIBUTIONS.—  
9                   Upon receipt of each certification under section  
10                  4(a), the Secretary of the Treasury shall trans-  
11                  fer the supplemental amount.

12                  (C) MATCHING CONTRIBUTIONS.—Upon  
13                  receipt of each certification under section 4(b),  
14                  the Secretary of the Treasury shall transfer the  
15                  matching amount.

16           (2) ADJUSTMENT FOR INFLATION.—

17                   (A) IN GENERAL.—For each fifth calendar  
18                   year beginning after 2005, the \$500 amount in  
19                   paragraph (1)(A) shall be increased by such  
20                   dollar amount multiplied by the cost-of-living  
21                   adjustment determined under section 1(f)(3) of  
22                   the Internal Revenue Code of 1986 determined  
23                   by substituting “calendar year 2004” for “cal-  
24                   endar year 1992” in subparagraph (B) thereof.

1 (B) ROUNDING.—If any amount adjusted  
2 under subparagraph (A) is not a multiple of  
3 \$50, such amount shall be rounded to the next  
4 lowest multiple of \$50.

5 (e) PRIVATE CONTRIBUTIONS.—The Executive Di-  
6 rector shall pay into the KIDS Account Fund such  
7 amounts as are contributed under section 3(f).

8 **SEC. 3. KIDS ACCOUNTS.**

9 (a) ESTABLISHMENT.—The Executive Director shall  
10 establish in the KIDS Account Fund a Kids Investment  
11 and Development Savings Account (hereinafter a “KIDS  
12 Account”) for each eligible individual certified under sub-  
13 section (b). Each such account shall be identified to its  
14 account holder by means of the account holder’s social se-  
15 curity account number.

16 (b) CERTIFICATION OF ACCOUNT HOLDERS.—On the  
17 date on which an eligible individual is issued a social secu-  
18 rity account number under section 203(c)(2) of the Social  
19 Security Act, the Commissioner of Social Security shall  
20 certify to the Executive Director and the Secretary of the  
21 Treasury the name of, and social security number issued  
22 to, such eligible individual.

23 (c) ACCOUNT BALANCE.—The balance in an account  
24 holder’s KIDS Account at any time is the excess of—

25 (1) the sum of—

1 (A) all deposits made into the KIDS Ac-  
2 count Fund and credited to the account under  
3 subsection (d), and

4 (B) the total amount of allocations made  
5 to and reductions made in the account pursuant  
6 to subsection (e), over

7 (2) the amounts paid out of the account with  
8 respect to such individual under section 6.

9 (d) CREDITING OF CONTRIBUTIONS.—Pursuant to  
10 regulations which shall be prescribed by the Executive Di-  
11 rector, the Executive Director shall credit to each KIDS  
12 Account the amounts paid into the KIDS Account Fund  
13 under subsections (d) and (e) of section 2 which are attrib-  
14 utable to the account holder of such account.

15 (e) ALLOCATION OF EARNINGS AND LOSSES.—The  
16 Executive Director shall allocate to each KIDS Account  
17 an amount equal to the net earnings and net losses from  
18 each investment of sums in the KIDS Account Fund  
19 which are attributable, on a pro rata basis, to sums cred-  
20 ited to such account, reduced by an appropriate share of  
21 the administrative expenses paid out of the net earnings,  
22 as determined by the Executive Director.

23 (f) PRIVATE CONTRIBUTIONS.—

24 (1) IN GENERAL.—The Executive Director shall  
25 accept cash contributions for payment into the

1 KIDS Account Fund if such contribution is identi-  
2 fied (in such manner as the Executive Director may  
3 require) with the account holder of a KIDS Account  
4 to whom it is to be credited at the time the contribu-  
5 tion is made.

6 (2) ALTERNATIVE METHODS OF CONTRIBU-  
7 TION.—

8 (A) PAYROLL DEDUCTION.—Under regula-  
9 tions prescribed by the Executive Director and  
10 at the election of the employer, contributions  
11 under paragraph (1) may be made through pay-  
12 roll deductions.

13 (B) TAX REFUNDS.—Under regulations  
14 prescribed by the Secretary of the Treasury,  
15 contributions under paragraph (1) may be made  
16 by an election to contribute all or a portion of  
17 the tax refund of the contributor.

18 (3) ANNUAL LIMITATION.—

19 (A) ACCOUNT HOLDERS UNDER AGE 18.—  
20 In the case of an account holder who has not  
21 attained age 18 at the end of a calendar year—

22 (i) the limitation under section  
23 219(b)(1) of the Internal Revenue Code of  
24 1986 shall not apply, and

1           (ii) the Executive Director shall not  
2           accept any contribution identified with  
3           such account holder if such contribution,  
4           when added to all other contributions made  
5           under this subsection during such calendar  
6           year with respect to such account holder,  
7           exceeds \$1,000.

8           (B) ACCOUNT HOLDERS AGE 18 OR  
9           OLDER.—In the case of an account holder who  
10          is age 18 or older at the end of a calendar year,  
11          any contribution identified with such account  
12          holder shall be taken into account under section  
13          219(b)(1) of the Internal Revenue Code of  
14          1986 for such year.

15          (C) ADJUSTMENT FOR INFLATION.—

16           (i) IN GENERAL.—For each fifth cal-  
17          endar year beginning after 2005, the  
18          \$1,000 amount under subparagraph (A)(ii)  
19          shall be increased by such dollar amount  
20          multiplied by the cost-of-living adjustment  
21          determined under section 1(f)(3) of the In-  
22          ternal Revenue Code of 1986 determined  
23          by substituting “calendar year 2004” for  
24          “calendar year 1992” in subparagraph (B)  
25          thereof.

1                   (ii) ROUNDING.—If any amount ad-  
2                   justed under clause (i) is not a multiple of  
3                   \$50, such amount shall be rounded to the  
4                   next lowest multiple of \$50.

5           (g) ELIGIBLE INDIVIDUAL.—For purposes of this  
6 Act, the term “eligible individual” means any individual  
7 who is—

8                   (1) a United States citizen or a person de-  
9                   scribed in paragraph (1) of section 431(b) of the  
10                  Personal Responsibility and Work Opportunity Rec-  
11                  onciliation Act of 1996,

12                   (2) born after December 31, 2005, and

13                   (3) less than 18 years of age.

14           (h) REPAYMENT OF AUTOMATIC CONTRIBUTION.—  
15 Beginning with the year in which an account holder of  
16 a KIDS Account attains the age of 30, such account hold-  
17 er shall repay, in such form and manner as the Executive  
18 Director shall prescribe by regulation, the amount trans-  
19 ferred under section 2(d)(1)(A) and credited to the ac-  
20 count of the account holder under subsection (d).

21           (i) RIGHTS OF LEGAL GUARDIAN.—Until the account  
22 holder of a KIDS Account attains age 18, any rights or  
23 duties of the account holder under this Act with respect  
24 to such account shall be exercised or performed by the  
25 legal guardian of such account holder.



1 **SEC. 4. CERTIFICATIONS RELATED TO GOVERNMENT CON-**  
2 **TRIBUTIONS.**

3 (a) SUPPLEMENTAL GOVERNMENT CONTRIBU-  
4 TIONS.—

5 (1) IN GENERAL.—Upon such showing as the  
6 Executive Director may require to establish the basis  
7 for certification, the Executive Director shall, with  
8 respect to each eligible account holder, certify to the  
9 Secretary of the Treasury the supplemental amount  
10 with respect to such account holder.

11 (2) ELIGIBLE ACCOUNT HOLDER.—For pur-  
12 poses of this subsection, the term “eligible account  
13 holder” means an account holder of a KIDS Ac-  
14 count who, for the last taxable year ending before  
15 such account holder’s certification under section  
16 3(b), has a modified adjusted gross income which is  
17 below the applicable national median adjusted gross  
18 income amount.

19 (3) SUPPLEMENTAL AMOUNT.—

20 (A) IN GENERAL.—For purposes of this  
21 Act, the term “supplemental amount” means  
22 \$500.

23 (B) INCOME PHASE-OUT.—With respect to  
24 any account holder who has a modified adjusted  
25 gross income for the last taxable year ending  
26 before such account holder’s certification under

1 section 3(b) which is in excess of 50 percent of  
2 the applicable national median adjusted gross  
3 income amount, the \$500 amount in subpara-  
4 graph (A) shall be reduced (but not below zero)  
5 by an amount which bears the same ratio to  
6 \$500 as such excess bears to 50 percent of the  
7 applicable national median adjusted gross in-  
8 come amount.

9 (C) ADJUSTMENT FOR INFLATION.—

10 (i) IN GENERAL.—For each fifth cal-  
11 endar year beginning after 2005, each of  
12 the \$500 amounts under subparagraphs  
13 (A) and (B) shall be increased by such dol-  
14 lar amount multiplied by the cost-of-living  
15 adjustment determined under section  
16 1(f)(3) of the Internal Revenue Code of  
17 1986 determined by substituting “calendar  
18 year 2004” for “calendar year 1992” in  
19 subparagraph (B) thereof.

20 (ii) ROUNDING.—If any amount ad-  
21 justed under clause (i) is not a multiple of  
22 \$50, such amount shall be rounded to the  
23 next lowest multiple of \$50.

24 (b) GOVERNMENT MATCHING CONTRIBUTION.—

1           (1) IN GENERAL.—Upon such showing as the  
2     Executive Director may require to establish the basis  
3     for certification, the Executive Director shall, with  
4     respect to each private contribution to the account  
5     of an account holder which is made before such ac-  
6     count holder attains age 18, certify to the Secretary  
7     of the Treasury the matching amount with respect  
8     to such contribution.

9           (2) MATCHING AMOUNT.—

10           (A) IN GENERAL.—For purposes of this  
11     subsection, the term “matching amount”  
12     means, with respect to the first \$500 of private  
13     contributions to an account during any calendar  
14     year, an amount equal to 100 percent of such  
15     contribution.

16           (B) INCOME PHASE-OUT.—With respect to  
17     any account holder who has a modified adjusted  
18     gross income for the last taxable year ending  
19     before such contribution which is in excess of  
20     100 percent of the applicable national median  
21     adjusted gross income amount, the \$500  
22     amount in subparagraph (A) shall be reduced  
23     (but not below zero) by an amount which bears  
24     the same ratio to \$500 as such excess bears to

1           5 percent of the applicable national median ad-  
2           justed gross income amount.

3           (C) ADJUSTMENT FOR INFLATION.—

4           (i) IN GENERAL.—For each fifth cal-  
5           endar year beginning after 2005, each of  
6           the \$500 amounts under subparagraphs  
7           (A) and (B) shall be increased by such dol-  
8           lar amount multiplied by the cost-of-living  
9           adjustment determined under section  
10          1(f)(3) of the Internal Revenue Code of  
11          1986 determined by substituting “calendar  
12          year 2004” for “calendar year 1992” in  
13          subparagraph (B) thereof.

14          (ii) ROUNDING.—If any amount ad-  
15          justed under clause (i) is not a multiple of  
16          \$50, such amount shall be rounded to the  
17          next lowest multiple of \$50.

18          (3) PRIVATE CONTRIBUTION.—For purposes of  
19          this subsection, the term “private contribution”  
20          means a contribution accepted under section 3(f).

21          (c) DEFINITIONS AND RULES RELATING TO MODI-  
22          FIED ADJUSTED GROSS INCOME.—For purposes of this  
23          section—

24          (1) SPECIAL RULE FOR ACCOUNT HOLDERS  
25          WHO CAN BE CLAIMED AS DEPENDENTS.—In the

1 case of an account holder of a KIDS Account for  
2 whom a deduction is allowable under section 151 of  
3 the Internal Revenue Code of 1986 to another tax-  
4 payer, any reference in this section to the modified  
5 adjusted gross income of the account holder for any  
6 taxable year shall be treated as a reference to the  
7 modified adjusted gross income of such other tax-  
8 payer.

9 (2) MODIFIED ADJUSTED GROSS INCOME.—The  
10 term “modified adjusted gross income” has the  
11 meaning given such term in section 221(b) of the In-  
12 ternal Revenue Code of 1986.

13 (3) APPLICABLE NATIONAL MEDIAN ADJUSTED  
14 GROSS INCOME.—

15 (A) IN GENERAL.—The term “applicable  
16 national median adjusted gross income” means,  
17 with respect to any calendar year, the median  
18 amount of adjusted gross income (as defined in  
19 section 62 of the Internal Revenue Code of  
20 1986) for individual taxpayers for taxable years  
21 ending in the prior calendar year as determined  
22 by the Secretary of the Treasury.

23 (B) JOINT RETURNS.—The applicable na-  
24 tional median adjusted gross income shall be

1           calculated and applied separately with respect  
2           to joint returns and all other returns.

3 **SEC. 5. RULES GOVERNING KIDS ACCOUNTS RELATING TO**  
4                   **INVESTMENT, ACCOUNTING, AND REPORT-**  
5                   **ING.**

6           (a) **DEFAULT INVESTMENT PROGRAM.**—The KIDS  
7 Account Fund Board shall establish a default investment  
8 program under which, in a manner similar to a lifecycle  
9 investment program, sums in each KIDS Account are allo-  
10 cated to investment funds in the KIDS Account Fund  
11 based on the amount of time before the account holder  
12 attains the age of 18. Each account holder of a KIDS  
13 Account shall be enrolled in such program unless such ac-  
14 count holder, in such form and manner as prescribed by  
15 the Executive Director, elects otherwise.

16           (b) **OTHER RULES.**—Under regulations which shall  
17 be prescribed by the Executive Director, and subject to  
18 the provisions of this Act, the provisions of—

19                   (1) section 8438 of title 5, United States Code  
20                   (relating to investment of the Thrift Savings Fund),

21                   (2) section 8439(b) of such title (relating to en-  
22                   gagement of independent qualified public account-  
23                   ant),

1 (3) section 8439(c) of such title (relating to  
2 periodic statements and summary descriptions of in-  
3 vestment options), and

4 (4) section 8439(d) of such title (relating to as-  
5 sumption of risk),

6 shall apply with respect to the KIDS Account Fund and  
7 accounts maintained in such Fund in the same manner  
8 and to the same extent as such provisions relate to the  
9 Thrift Savings Fund and the accounts maintained in the  
10 Thrift Savings Fund. For purposes of this subsection, ref-  
11 erences in such sections 8438 and 8439 to an employee,  
12 Member, former employee, or former Member shall be  
13 deemed references to an account holder of a KIDS Ac-  
14 count in the KIDS Account Fund.

15 **SEC. 6. DISTRIBUTIONS FROM KIDS ACCOUNTS.**

16 (a) IN GENERAL.—Under regulations prescribed by  
17 the Executive Director, amounts in a KIDS Account shall,  
18 at the request of the account holder, be distributed to the  
19 account holder if the account holder demonstrates to the  
20 satisfaction of the Executive Director that such amount  
21 will be used for qualified expenses.

22 (b) AGE LIMITATION.—

23 (1) EARLY DISTRIBUTIONS.—No distribution  
24 shall be made under subsection (a) with respect to

1 any account holder of a KIDS Account before such  
2 account holder attains age 18.

3 (2) EXCEPTION.—Paragraph (1) shall not  
4 apply with respect to amounts distributed for quali-  
5 fied higher education expenses (as defined in section  
6 529(e)(3) of the Internal Revenue Code of 1986).

7 (c) QUALIFIED EXPENSES.—For purposes of this  
8 Act, the term “qualified expenses” means, with respect to  
9 any account holder—

10 (1) qualified distributions (within the meaning  
11 of section 408A(d)(2) of the Internal Revenue Code  
12 of 1986),

13 (2) qualified higher education expenses (as de-  
14 fined in section 529(e)(3) of such Code), and

15 (3) amounts which within 60 days of distribu-  
16 tion are transferred to a qualified tuition program  
17 under section 529 of the Internal Revenue Code of  
18 1986 for the benefit of the account holder or a mem-  
19 ber of the family (within the meaning of section  
20 529(e)(2) of such Code) of such account holder.

21 **SEC. 7. TAX TREATMENT OF KIDS ACCOUNTS.**

22 (a) IN GENERAL.—Except as otherwise provided in  
23 this Act, for purposes of the Internal Revenue Code of  
24 1986—



1           (1) each KIDS Account shall be treated in the  
2 same manner as a Roth IRA (within the meaning of  
3 section 408A of such Code), and

4           (2) any distribution from such account shall be  
5 treated in the same manner as a distribution from  
6 a Roth IRA, except that distributions described in  
7 paragraphs (2) and (3) of section 6(c) shall be treat-  
8 ed as qualified distributions under section 408A(d)  
9 of such Code.

10 (b) QUALIFIED ROLLOVERS CONTRIBUTIONS.—

11           (1) IN GENERAL.—Except as provided in para-  
12 graph (2), no qualified rollover contribution (as de-  
13 fined in section 408A(e) of the Internal Revenue  
14 Code of 1986) shall be allowed with respect to a  
15 KIDS Account.

16           (2) QUALIFIED ROLLOVERS.—Under regula-  
17 tions prescribed by the Secretary of the Treasury in  
18 consultation with the Executive Director, after an  
19 account holder of a KIDS Account attains the age  
20 of 18, such account holder may elect to make a roll-  
21 over contribution from such account holder's account  
22 to—

- 23                   (A) a privately managed KIDS Account, or  
24                   (B) a Roth IRA.

1 (c) 100 PERCENT TAX ON GOVERNMENT CONTRIBU-  
2 TIONS.—

3 (1) KIDS ACCOUNTS.—

4 (A) IN GENERAL.—In the case of any  
5 amount distributed from a KIDS Account  
6 which is attributable to contributions made  
7 under section 2(d) and which would be includ-  
8 ible in gross income (but for this paragraph)—

9 (i) such amount shall not be includible  
10 in gross income, and

11 (ii) the tax imposed under chapter 1  
12 of the Internal Revenue Code of 1986 on  
13 the distributee for the taxable year in  
14 which such amount is distributed shall be  
15 increased by 100 percent of such amount.

16 (B) ORDERING RULES.—For purposes of  
17 this paragraph, distributions from KIDS Ac-  
18 counts shall be treated as made from amounts  
19 attributable to contributions made under sec-  
20 tion 3(f) and from earnings before made from  
21 amounts attributable to contributions made  
22 under section 2(d).

23 (2) ROTH IRAS.—Section 408A(d) of the Inter-  
24 nal Revenue Code of 1986 (relating to distribution

1 rules) is amended by adding at the end the following  
2 new paragraph:

3 “(8) 100 PERCENT TAX ON DISTRIBUTIONS RE-  
4 LATED TO CERTAIN GOVERNMENT CONTRIBU-  
5 TIONS.—

6 “(A) IN GENERAL.—In the case of any dis-  
7 tribution which is attributable to contributions  
8 made under section 2(d) of the America Saving  
9 for Personal Investment, Retirement, and Edu-  
10 cation Act of 2004 and which would be includ-  
11 ible in gross income (but for this paragraph)—

12 “(i) such amount shall not be includ-  
13 ible in gross income, and

14 “(ii) the tax imposed under chapter 1  
15 on the distributee for the taxable year in  
16 which such amount is distributed shall be  
17 increased by 100 percent of such amount.

18 “(B) ORDERING RULES.—For purposes of  
19 this paragraph, distributions shall be treated as  
20 made from amounts attributable to other con-  
21 tributions and from earnings before made from  
22 amounts attributable to contributions made  
23 under section 2(d) of the America Saving for  
24 Personal Investment, Retirement, and Edu-  
25 cation Act of 2004.”.

1           (3) QUALIFIED TUITION PROGRAMS.—Section  
2           529(c)(3) of the Internal Revenue Code of 1986 (re-  
3           lating to distributions) is amended by adding at the  
4           end the following new subparagraph:

5                   “(E) 100 PERCENT TAX ON DISTRIBU-  
6                   TIONS RELATED TO CERTAIN GOVERNMENT  
7                   CONTRIBUTIONS.—

8                           “(i) IN GENERAL.—In the case of any  
9                           distribution which is attributable to con-  
10                           tributions made under section 2(d) of the  
11                           America Saving for Personal Investment,  
12                           Retirement, and Education Act of 2004  
13                           and which would be includible in gross in-  
14                           come (but for this subparagraph)—

15                                   “(I) such amount shall not be in-  
16                                   cludible in gross income, and

17                                   “(II) the tax imposed under  
18                                   chapter 1 on the distributee for the  
19                                   taxable year in which such amount is  
20                                   distributed shall be increased by 100  
21                                   percent of such amount.

22                           “(ii) ORDERING RULES.—For pur-  
23                           poses of this subparagraph, distributions  
24                           shall be treated as made from amounts at-  
25                           tributable to other contributions and from

1 earnings before made from amounts attrib-  
2 utable to contributions made under section  
3 2(d) of the America Saving for Personal  
4 Investment, Retirement, and Education  
5 Act of 2004.”.

6 **SEC. 8. PRIVATE MANAGEMENT OF KIDS ACCOUNTS.**

7 (a) IN GENERAL.—Part I of subchapter D of chapter  
8 1 of the Internal Revenue Code of 1986 is amended by  
9 inserting after section 408A the following new section:

10 **“SEC. 408B. PRIVATELY MANAGED KIDS ACCOUNTS.**

11 “(a) IN GENERAL.—Except as provided in this sec-  
12 tion, a privately managed KIDS Account shall be treated  
13 in the same manner as a Roth IRA, except that:

14 “(1) Qualified distributions shall include—

15 “(A) qualified higher education expenses  
16 (as defined in section 529(e)(3)) of the bene-  
17 ficiary of a privately managed KIDS Account,  
18 and

19 “(B) amounts which within 60 days of dis-  
20 tribution are transferred to a qualified tuition  
21 program under section 529 for the benefit of  
22 the account holder of a privately managed  
23 KIDS Account or a member of the family  
24 (within the meaning of section 529(e)(2)) of  
25 such account holder.

1           “(2) Section 408A(d)(2)(B) shall not apply.

2           “(3) In lieu of the definition given the term  
3 ‘qualified rollover contribution’ under section  
4 408A(e), such term shall mean a rollover contribu-  
5 tion to a privately managed KIDS Account from an-  
6 other such account or from a KIDS Account under  
7 section 7(b)(2)(A) of the America Saving for Per-  
8 sonal Investment, Retirement, and Education Act of  
9 2004, but only if such rollover contribution meets  
10 the requirements of section 408(d)(3).

11           “(4) In the case of any distribution which is at-  
12 tributable to contributions made under section 2(d)  
13 of the America Saving for Personal Investment, Re-  
14 tirement, and Education Act of 2004 and which  
15 would be includible in gross income (but for this  
16 paragraph)—

17                   “(A) such amount shall not be includible in  
18 gross income, and

19                   “(B) the tax imposed under chapter 1 on  
20 the distributee for the taxable year in which  
21 such amount is distributed shall be increased by  
22 100 percent of such amount.

23 For purposes of this paragraph, distributions from  
24 privately managed KIDS Accounts shall be treated  
25 as made from amounts attributable to contributions

1       made under section 3(f) of the America Saving for  
 2       Personal Investment, Retirement, and Education  
 3       Act of 2004 and from earnings before made from  
 4       amounts attributable to contributions made under  
 5       section 2(d) of such Act.

6       “(b) PRIVATELY MANAGED KIDS ACCOUNT.—For  
 7       purposes of this title, the term ‘privately managed KIDS  
 8       Account’ means an individual retirement plan (as defined  
 9       in section 7701(a)(37)) which is designated (in such man-  
 10      ner as the Secretary may prescribe) as a privately man-  
 11      aged KIDS Account.”.

12      (b) CONFORMING AMENDMENT.—The table of sec-  
 13      tions for part I of subchapter D of chapter 1 of the Inter-  
 14      nal Revenue Code of 1986 is amended by inserting after  
 15      the item related to section 408A the following new item:

“Sec. 408B. Privately managed KIDS Accounts.”.

16      **SEC. 9. KIDS ACCOUNT FUND BOARD.**

17      (a) IN GENERAL.—There is established in the Execu-  
 18      tive branch of the Government a KIDS Account Fund  
 19      Board.

20      (b) COMPOSITION, DUTIES, AND RESPONSIBIL-  
 21      ITIES.—Subject to the provisions of this Act, the provi-  
 22      sions of —

23              (1) section 8472 of title 5, United States Code  
 24      (relating to composition of Federal Retirement  
 25      Thrift Investment Board),

1 (2) section 8474 of such title (relating to Exec-  
2 utive Director),

3 (3) section 8475 of such title (relating to in-  
4 vestment policies), and

5 (4) section 8476 of such title (relating to ad-  
6 ministrative provisions),

7 shall apply with respect to the KIDS Account Fund Board  
8 in the same manner and to the same extent as such provi-  
9 sions relate to the Federal Retirement Thrift Investment  
10 Board.

11 **SEC. 10. FIDUCIARY RESPONSIBILITIES.**

12 (a) IN GENERAL.—Under regulations of the Sec-  
13 retary of Labor, the provisions of sections 8477 and 8478  
14 of title 5, United States Code, shall apply in connection  
15 with the KIDS Account Fund and the accounts main-  
16 tained in such Fund in the same manner and to the same  
17 extent as such provisions apply in connection with the  
18 Thrift Savings Fund and the accounts maintained in the  
19 Thrift Savings Fund.

20 (b) INVESTIGATIVE AUTHORITY.—Any authority  
21 available to the Secretary of Labor under section 504 of  
22 the Employee Retirement Income Security Act of 1974 is  
23 hereby made available to the Secretary of Labor, and any  
24 officer designated by the Secretary of Labor, to determine



1 whether any person has violated, or is about to violate,  
2 any provision applicable under subsection (a).

3 (c) EXCULPATORY PROVISIONS; INSURANCE.—

4 (1) IN GENERAL.—Any provision in an agree-  
5 ment or instrument which purports to relieve a fidu-  
6 ciary from responsibility or liability for any responsi-  
7 bility, obligation, or duty under this Act shall be  
8 void.

9 (2) INSURANCE.—Amounts in the KIDS Ac-  
10 count Fund available for administrative expenses  
11 shall be available and may be used at the discretion  
12 of the Executive Director to purchase insurance to  
13 cover potential liability of persons who serve in a fi-  
14 duciary capacity with respect to the Fund and ac-  
15 counts maintained therein, without regard to wheth-  
16 er a policy of insurance permits recourse by the in-  
17 surer against the fiduciary in the case of a breach  
18 of a fiduciary obligation.

19 **SEC. 11. ASSIGNMENT, ALIENATION, AND TREATMENT OF**  
20 **DECEASED INDIVIDUALS.**

21 (a) ASSIGNMENT AND ALIENATION.—Under regula-  
22 tions which shall be prescribed by the Executive Director,  
23 rules relating to assignment and alienation applicable  
24 under chapter 84 of title 5, United States Code, with re-  
25 spect to amounts held in accounts in the Thrift Savings

1 Fund shall apply with respect to amounts held in KIDS  
2 Accounts in the KIDS Account Fund.

3 (b) TREATMENT OF ACCOUNTS OF DECEASED INDI-  
4 VIDUALS.—In the case of a deceased account holder of a  
5 KIDS Account which has an account balance greater than  
6 zero, upon receipt of notification of such individual's  
7 death, the Executive Director shall close the account and  
8 shall transfer the balance in such account to the KIDS  
9 Account of such account holder's surviving spouse or, if  
10 there is no such account of a surviving spouse, to the duly  
11 appointed legal representative of the estate of the deceased  
12 account holder, or if there is no such representative, to  
13 the person or persons determined to be entitled thereto  
14 under the laws of the domicile of the deceased account  
15 holder.

16 **SEC. 12. ACCOUNTS DISREGARDED IN DETERMINING ELIGI-**  
17 **BILITY FOR FEDERAL BENEFITS.**

18 Amounts in any KIDS Account shall not be taken  
19 into account in determining any individual's eligibility for  
20 any federally funded benefit, including student financial  
21 aid.

22 **SEC. 13. REPORTS.**

23 (a) ANNUAL REPORT.—The Executive Director, in  
24 consultation with the Secretary of the Treasury, shall an-

1 nually transmit a written report to the Congress. Such re-  
2 port shall include—

3 (1) a detailed description of the status and op-  
4 eration of the KIDS Account Fund and the manage-  
5 ment of the KIDS Accounts, and

6 (2) a detailed accounting of the administrative  
7 expenses in carrying out this Act, including the ratio  
8 of such administrative expenses to the balance of the  
9 KIDS Account Fund and the methodology adopted  
10 by the Executive Director for allocating such ex-  
11 penses among the KIDS Accounts.

12 (b) REPAYMENT OF AUTOMATIC CONTRIBUTIONS.—

13 Not later than 2 years before the issuance of any final  
14 regulation under section 3(h), the Executive Director shall  
15 transmit a written report to the Congress. Such report  
16 shall include a draft of the proposed regulation to be  
17 issued under such section and a description of the conclu-  
18 sions and recommendations of the Executive Director re-  
19 garding the implementation of the following repayment op-  
20 tions:

21 (1) Repayment through service or employment  
22 in high-need professions or areas.

23 (2) Increasing the Federal income tax liability  
24 of each account holder of a KIDS Account by \$100

1 per year for 5 years after the account holder attains  
2 age 30.

3 (3) Repayment from the account or other  
4 sources before the account holder of a KIDS Ac-  
5 count attains age 30.

6 (4) Alternatives for individuals facing financial  
7 hardship, including deferred repayment and forgive-  
8 ness.

9 **SEC. 14. PROGRAMS FOR PROMOTING FINANCIAL LIT-**  
10 **ERACY.**

11 The Secretary of the Treasury, in coordination with  
12 the Financial Literacy and Education Commission, shall  
13 develop programs to promote the financial literacy of ac-  
14 count holders of KIDS Accounts and the legal guardians  
15 of such account holders who have the rights with respect  
16 to such accounts under section 3(i).

○