July 23, 2004

The America Saving for Personal Investment, Retirement, and Education Act
(S.2751, "The ASPIRE Act")
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, 2005 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. Accounts will be supported by a series of incentives, including tax-free earnings, match 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 of up to $500 on an annual basis until the account holder reaches the age of 18. Account holders with household incomes up to 100% of the national median AGI will receive a dollar for dollar match on private contributions up to $500. Account holders with households incomes between 100% and 105% of national median AGI will have their match rate phased out at the same ratio as their income exceeds 100% of national median AGI.

Private Contributions

Private, voluntary contributions can be made to each account up to $1,000 each year. These contributions will be after-tax and can come from any source, such as parents, grandparents or nonprofit organizations.

Repayment
Each account holder will be required to repay the initial automatic contribution 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.

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
Account holders can use money from their accounts to pay for post-secondary education at any time; otherwise no withdrawals can be made until the account holder reaches the age of 18. Once accountholders turn 18, withdrawals shall be generally governed by the same compliance and distribution rules which currently apply to the Roth IRAs. These rules permit withdrawals without penalty prior to retirement for first-time home purchase and post-secondary education. Non-qualified distributions will be penalized at a rate of 10% for earning and private contributions and 100% for government contributions. All of the exceptions to the early withdrawal penalties for the Roth IRA will apply. Accountholders can access their private contributions without penalty after age 18.

Account Transfers
Account holders will be able to keep their accounts within the Fund or transfer their accounts to private sector providers when they reach the age of 18.

Tax Treatment of Accounts
Qualified distributions from these accounts will be tax-exempt and not included in gross income. Non-qualified distributions will be subject to a 10% tax and a 100% tax on government contributions. Voluntary contributions to each account will be after-tax and will not be tax deductible. Government contributions will not be included in federal income tax calculations.

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.