Los Angeles
HOUSING+COMMUNITY
Investment Department

Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

Community Services & Development Bureau
1200 West 7th Street, 9th Floor, Los Angeles, CA 90017
tel 213.928.9071 | fax 213.808.8999
hcidla.lacity.org

April 5, 2018

Council File No.: 16-0703
Council Districts: All
Contact Person:
Abigail R. Marquez (213) 808-8462

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012
Attention: Mandy Morales, Legislative Coordinator

Honorable Members of the City Council
City of Los Angeles
c/o City Clerk, City Hall
200 N. Spring Street
Los Angeles, California 90012
Attention: Eric Villanueva, Legislative Assistant

TRANSMITTAL: REPORT ON THE BENEFITS OF A CHILDREN'S SAVINGS ACCOUNT PROGRAM AND COMPREHENSIVE PROGRAM OVERVIEW

Summary

The General Manager of the Los Angeles Housing and Community Investment Department (HCIDLA) respectfully requests that your office review and approve this transmittal along with the attachment and forward to the City Council for further consideration. HCIDLA is submitting the attached report from Prosperity Now, the agency contracted by HCIDLA to assist with the development and implementation of a Children's Savings Account program for Los Angeles Unified School District students in the City of Los Angeles.

Recommendations

The General Manager of HCIDLA respectfully requests that the Mayor and City Council:

A. INSTRUCT the Housing and Community Investment Department, with the assistance of Prosperity Now, to report in 45 days with a detailed program outline that includes, but is not limited to details regarding: account type, account seed amount, participant eligibility requirements, account structure, account custodianship, account accessibility, incentive structure and program implementation.

B. INSTRUCT the Housing and Community Investment Department, Chief Legislative Analyst, and the City Administrative Officer, to report in 45 days, with recommendations regarding the oversight and administration of a Children's Savings Account Program, appropriate staffing levels, and funding for program implementation and administration.

Fiscal Impact Statement

Pending City Council's approval of recommendations, the necessary fiscal assessments will be conducted and submitted for review.

Attachment

Prepared by:

ABIGAIL R. MARQUEZ
Assistant General Manager

Approved by:

LAURA K. GUGLIELMO
Executive Officer

Approved by:

RUSHMORE D. CERVANTES
General Manager

RDC:LKG:ARM

PROSPERITY NOW

Section I: Benefits of Children's Savings Accounts (CSAs)

Children's Savings Account Overview

Children's Savings Accounts (CSAs) are long-term savings or investment accounts that help children—especially those from low-income backgrounds—build savings for the future. CSA programs differ, but they share three defining features:

- Savings are intended for postsecondary education.
- Provide incentives to grow savings (such as initial deposits, savings matches or benchmark incentives), in addition to any deposits families make
- Incentive funds are generally held in a restricted account

CSA programs combine the concept of savings accounts with methods of engaging children and their families through financial education and other wraparound services to build their financial capability and access to educational opportunity. Programs usually establish savings accounts for children with an initial "seed" deposit from a sponsor, such as a community organization, private institution, or government entity. Families are not obligated to contribute to the account in order to participate, but the seed deposit encourages college savings by providing children with a savings account and a positive association with financial planning. CSA programs provide incentives, which are often privately funded, to encourage contributions from families, friends, philanthropic sources, and eventually the children themselves.

Benefits of Children's Savings Accounts

A number of research institutions have reported on the potential benefits of providing savings accounts to low-income individuals who may lack access to mainstream financial institutions. Traditional college savings vehicles have often been out of reach for families. In 2013, the Federal Reserve reported that only 2.5% of Americans held a 529 account[i], which is often used as a proxy for college savings. It is not a perfect proxy measurement because families may choose to save for their child's college through a different type of account vehicle, but, it provides a measure for comparison. In addition, the Government Accountability Office (GAO) reported that 47% of families with 529 plans had an annual income of over $150,000.[ii] For reasons enumerated later in this report, college savings vehicles, such as 529 accounts, have been out of reach for many low- and middle-income families.

Prosperity Now
1200 G Street NW
Suite 400
Washington, DC 20005

T 202.408.9788
E hello@prosperitynow.org

prosperitynow.org

Research conducted by the Center for Social Development (CSD) at Washington University in St. Louis suggests that CSAs can help expand educational and economic opportunity for low to moderate-income families and increase the likelihood of attending college. CSD has determined that a low to moderate-income student with less than $500 in a college dedicated savings account is three times more likely to attend college and four times more likely to graduate college than a low to moderate-income student without a savings account.[iii] In addition to the educational outcomes of CSAs, a randomized control trial in Oklahoma (called SEED OK) found a variety of positive behavioral outcomes that extended beyond the child who received the account.

A children's savings account functions as concrete reminder that post-secondary education is a real pathway for students, regardless of income. Recent research from existing CSA programs reveals positive short to mid-term results. For example, data from San Francisco's Kindergarten to College (K2C) program shows that students with a CSA account were 24% more likely to see themselves going to college, and families were 32% more likely to be informed about their financial aid options.[iv]

In addition to raising academic performance, dedicated college savings accounts are associated with reduced "wilt" - the phenomenon in which a high school graduate who expects to attend college while in high school does not enroll in postsecondary education. Wilt occurs at all income levels, but the effects are strongest for low-income students. Research from the Center on Assets, Education and Inclusion (AEDI) found that about 41% of youth without college savings experience wilt. In contrast, only 20% of youth with a college savings account experience wilt.[v] Having a dedicated college savings account reduced wilt among high school graduates by almost half.

The act of opening a savings account in elementary school can have impacts on future financial health as well. Research from the Center on Assets, Education, and Inclusion confirms that starting young is critical to extending the benefits of savings after college enrollment. Young adults with savings accounts in their names as children have larger amounts of savings and are twice as likely to own a savings account of their own, compared to young adults who did not hold savings as a child.[vi] The short and medium-term benefits of account ownership act as a force multiplier for the CSA program's long-term stated goal: increasing the number of young adults pursuing postsecondary education. The dedicated college savings account can function as an on-ramp to accessing significant benefits associated with higher education at the individual and community level.

Benefits of Postsecondary Education

According to the Pew Research Center, college graduates ages 25 to 32 earn more — estimated at $17,500 annually — than employed young adults holding only a high school diploma. In 1979, the typical high school graduate earned approximately 77 percent of what college graduates earned. Today, high school graduates earn 62 percent of what college graduates earn.[vii] Unemployment rates among individuals with a bachelor's degree (3.8 percent) are lower than individuals with a high school diploma (12.2 percent).[viii] But the benefits of education extend beyond wages. Higher levels of education also correspond to lower rates of crime and lower likelihood of an individual being incarcerated.[ix]

In Los Angeles, 51% of households headed by a parent or guardian with an Associate's degree or some college are living in liquid asset poverty, meaning that they do not have enough liquid assets to sustain themselves at the poverty level for three months if their income is interrupted. However, the liquid asset poverty rate drops to 26% for those households headed by someone with a Bachelor's degree, meaning a college degree mitigates some risk of experiencing asset poverty.[x] And according to research from the RAND Institute, college degree attainment is associated with a lower likelihood that the individual will draw on social support programs, such as Temporary Assistance for Needy Families (TANF), housing subsidies, Supplemental Nutrition Assistance Program (SNAP), and Medicaid. Notable exceptions to this finding are unemployment insurance and Social Security. RAND estimates the lifetime savings on social support program spending for degree holders to be nearly $15,000 per individual.[xi]

A report from the Economic Policy Institute (EPI) found that there is a "clear and strong" correlation between the educational attainment of a state's workforce and median wages in that state. In addition, the EPI noted that every additional student to earn an associate's or bachelor's degree will return higher taxes to the state over his or her lifetime that are substantially more than the cost of education.[xii] This applies to both state tax revenue and sales tax at the municipal level.

Section II: Coterminous Jurisdictions

The relationship between the city, county, and school district in which a CSA program is established has an impact on program implementation and administration. Because the Los Angeles Unified School District (LAUSD) operates schools outside of the city limits, the CSA program will have multiple options to consider for implementation. The CSA could cover LAUSD schools (public and district-affiliated charter) within the geographical boundary of the City, or it could cover LAUSD schools (public and district-affiliated charter) within the City and County with multiple public funding sources.

The City of Los Angeles cannot provide public funds to non-city residents who attend LAUSD schools. Approximately 37,504 first grade students, or 92% percent of the 40,643 LAUSD first grade student enrollment, attend schools located within the City of Los Angeles, while the remaining students are enrolled in schools that are part of Los Angeles County. LAUSD includes all or portions of 26 cities and unincorporated areas of the County, including the cities of Carson, Culver City, Inglewood, Long Beach, Montebello, Monterey Park, San Fernando, Torrance, and West Hollywood.

Identifying an additional non-city funding source to cover non-City resident LAUSD students could mitigate any Gift of Public Fund concerns. If another entity, such as the County of Los Angeles, LAUSD, or private philanthropic donors are not able to fund seed deposits for county residents in LAUSD, the CSA program would only include schools within the city limits. If non-City funding became available for seed deposits in future years, LAUSD schools outside of Los Angeles city could be added at a later date.

Since LAUSD is a separate entity, like the public school district in St. Louis, a Memorandum of Understanding (MOU) between the two entities outlining the responsibilities of each jurisdiction for the program will need to be executed.

Section III: Participant Eligibility and Enrollment

Participant Eligibility

An eligible student is a child who is a first-time enrolled student in the determined grade level at the time of the school district's student roster transmittal each year. Student must be enrolled in a participating school.

Participant enrollment process and age at enrollment vary by program. In statewide programs in Maine, Rhode Island, and Connecticut, children are eligible at birth. These programs receive birth records from the state agency to open accounts. Municipal programs and multi-jurisdiction programs typically enroll in elementary school and receive student information from the public school district. While enrolling kindergarten students is common in other jurisdiction's CSA programs, the unique characteristics of Los Angeles create a few constraints on kindergarten enrollment.

Kindergarten is not mandatory in California. It is mandatory in the majority of CSA programs that enroll kindergartners, including St. Louis, Lansing, Indiana, and Nevada (San Francisco is a notable exception). Additionally, there are a number of students who are home schooled or attend private kindergarten programs and don't enroll in LAUSD until the first grade. There is also evidence to suggest that low-income students are less likely to attend kindergarten than their higher resourced peers, meaning kindergarten enrollment would miss students who stand to benefit most from having an account.[xiii]

Data from LAUSD and the University of Southern California (USC) demonstrate significant movement in and out of the District, and between schools within the District, between kindergarten and first grade. Given kindergarten mobility, it is more likely that a student would fall between the cracks and miss the opportunity to participate in the program. Opening CSAs for first-graders could provide a more stable population of participants and lower overall administrative cost without reducing impact.

Finally, parents are often bombarded with paperwork on the first day of kindergarten, more so than in future grade years. CSA programs are most effective when students and parents are able to interact with their accounts and take advantage of the resources made available to them. For example, while the Maine CSA program (which enrolls at birth) notifies families immediately after the account is opened, they wait until the child is one-year old to begin actively communicating with the family about saving. The same concept applies for a child's first year of school as a kindergartner.

Participant Enrollment
CSA programs utilize either opt-out or opt-in policies to enroll eligible students. In an opt-in approach, parents or guardians must take actions to sign up for the program in order for their children to participate. This usually entails providing identifying information to the program manager, often including a Social Security Number, to open an account. Savings accounts are opened one at a time as families enroll. Smaller programs or programs with limited staff capacity tend to utilize the opt-in model. In an opt-out model, a third party such as a state agency or school district, provides the necessary information about each student to the program manager. Accounts are opened en masse once per year. Using this model, families are not required to submit sensitive identifying information such as their child's Social Security Number or Individual Taxpayer Identification Number (ITIN). Families who do not wish to participate in the CSA typically have an opportunity to opt-out of the program, usually as part of completing their student's regular school enrollment period. Families may also elect to stop participating in the program at any time.

Among large-scale programs (ones that enroll at least 2,000 new children per year), 71% are opt-out and 29% are opt-in.[xiv] An opt-out model ensures that all children —especially those with limited English proficiency or less financial knowledge—benefit from the program. Research from the Center for Social Development found through a randomized control trial of an opt-out CSA program that disadvantaged students were more likely to be included than in an opt-in model[xv]. Additionally, in larger jurisdictions such as Los Angeles it is more administratively feasible to automatically enroll children rather than expend resources encouraging all parents to sign their children up for the program.

Implementation Options

CSA programs across the country have used three implementation strategies: full-scale rollout, pilot, or phased rollout. In choosing from among these options for the Los Angeles CSA program, the size of LAUSD enrollment and the geographic scope of the district are important considerations.

Full Scale Approach

In this approach, the CSA program is implemented at all schools in the first year of the program. Some programs in smaller jurisdictions, such as the College Kids program in St. Louis, have chosen this approach. Two important considerations in selecting the full-scale approach are the administrative lift and the cost. First, rolling out to an entire city or state at once requires significant administrative investment up front and does not provide an opportunity to work out any logistical challenges with a smaller group of children. The full-scale approach is feasible, though still challenging, in a jurisdiction with a relatively small number of schools and student population. For example, full-scale in St. Louis included just over 3,000 students in 67 elementary schools. However, in a district the size of LAUSD, with 507 elementary schools, it would be more challenging. Second, the full-scale approach is the most expensive implementation option. It would require raising sufficient funds to cover all children before having the chance to demonstrate impact among a smaller group.

Pilot Approach

In this approach, a CSA program is implemented as a small-scale program in a few schools to test and refine the model before deciding whether to implement it more widely. The City of Boston, in conjunction with the Eos Foundation, launched a CSA pilot program in fall 2016. The initial pilot program served about 500 children in five schools. (Boston Saves later decided to fully implement the program at all schools beginning in the fall of 2019.)

Benefits of a pilot approach include the opportunity to work through implementation challenges and to test and potentially tweak program features before implementing the program on a wider scale, though these can also be accomplished with a phased rollout. However, an important consideration is that it can be difficult to decide which community or communities to choose for the pilot. In many cases, school selection is determined by an application process. The schools that apply tend to have more resources and staff, higher median income than the district as a whole, and higher rates of parent engagement. As a result, the evaluation can be skewed, with higher engagement rates than may be the case in other schools with fewer resources and more students from low-income families. Another consideration is that testing a CSA program may be an unnecessary extra step as there is substantial data available about existing programs to inform decisions about program design.

Phased Roll Out Approach

In this approach, a program is rolled out in one or more phases. Over time, the program is ramped up to include all eligible children in the jurisdiction. This approach is often used by large jurisdictions because of the significant administrative burden and cost of a full-scale rollout described earlier. For example, San Francisco's Kindergarten to College program was first implemented in 2011 in select schools, with 1,000 children enrolled in the first cohort. The next year, the number of enrollees increased, until reaching full rollout (approximately 4,500 children/year) within three years.

A significant advantage of a phased rollout approach over a full-scale rollout is that it provides the opportunity to work through any early challenges in implementation and make any program adjustments before rolling the program out to a larger group of children. It also provides more time to raise philanthropic money to cover the cost of a full rollout, potentially reducing the cost to the taxpayer. In addition, it affords time to provide trainings to appropriate school staff and community organizations over the course of a few years as new schools are added to the program.

Given the size of LAUSD, LA could potentially use a five-year phased rollout approach in which, 10 percent of enrolled students in the determined grade level receive accounts in the first year, 25 percent in the second, 50 percent in the third, 75 percent in the fourth, and finally 100 percent of enrolled students in the determined grade level in the fifth year. Councilmember Ryu's office engaged the University of Southern California to aid in the development of a potential school selection plan for this potential 5-year phased rollout based on data from LAUSD. The school selection plan was designed using the following criteria:

- Selected schools for each year of the rollout will include all LA City Council districts and LA County Supervisorial Districts;
- The percentage breakdown of student numbers in each district and city remains constant; the selection of students should be reflective of the larger LAUSD student body in terms of socioeconomic status;

The table below shows the potential number of students for each phase of the five-year implementation plan based on 2017-2018 LAUSD enrollment data for first grade students.

Year	1	2	3	4	5
Target Percentage	10%	25%	50%	75%	100%
Total # of selected students	4,186	10,465	20,930	31,395	41,860
Total # of unselected students	37,674	31,395	20,930	10,465	-
# increase of students	4,186	6,279	10,465	10,465	10,465
% increase of students	10%	16.67%	33.33%	50.00%	100.0%
Total # of low-income students	1,967	4,916	9,833	14,749	19,665
% poverty level	47%	47%	47%	47%	47%
Total # of CSA participants	4,186	14,651	35,581	66,976	108,836

Section IV: Program Coordination

Two key entities in the administration and management of a CSA program are the account custodian and the program manager/administrator, in some cases this can be the same entity.

Role of the Account Custodian

The role of the account custodian is to hold accounts on behalf of participating children, either in a control or master account or individual custodial savings accounts. The primary reasons for having a third-party (non-parent) custodian in a CSA program are to:

- **Enable automation and scale** — Individual parent signatures are not required to open third-party custodial accounts at banks or credit unions, allowing large numbers of children to be automatically enrolled quickly and efficiently.

- **Open accounts on behalf of minors** — Most financial institutions are not willing to open bank accounts for children under age 18 but will allow individuals or organizations to own bank accounts on behalf of minor children.
- **Secure savings** — Third-party custodianship safeguards incentive funds and family deposits alike, ensuring that they are restricted until the participant is ready to make an allowable asset purchase, such as paying for postsecondary education.
- **Protect families from asset limits** — Families are protected from the potential loss of federal and state benefits when participating in public programs that place "asset limits" on the amount of savings and other resources that recipients can accumulate without losing eligibility.

The entities serving as program administrators and account custodians for municipal programs vary. In San Francisco and St. Louis, the CSA program is housed in the Office of Financial Empowerment within the Treasurer's Office. Both programs operate alongside other programs related to financial empowerment, including financial coaching. Other programs have nonprofit organizations serving as the program administrator, including New York City, which spun off its program into a newly-launched 501(c)3 organization, NYC Kids Rise.

Program Administration
Each program creates its own eligibility guidelines for participant account use, qualified expenses, and withdrawals.

Participant Account Use
In most CSA programs, account use is restricted to qualified postsecondary educational expenses, as described in the next section. Since program-provided funds (including seed deposits and other incentives) are usually held in an account owned by the account custodian, CSA programs may set eligibility requirements in order to claim these funds. For example, Oakland requires that students graduate from the public school district in order to access any program-provided funds.

Many programs also set age restrictions for account use to encourage account use and provide a mechanism for the program to recover funds in the event a child does not attend a postsecondary institution. The typical maximum age ranges from 25-29. This allows students to use their CSA funds if they enroll in school part-time, serve in the military or other service program, or take advantage of scholarships or Promise programs and do not need to access their savings directly after high school. By the maximum age, if no withdrawal request has been submitted, seed and incentive funds earmarked for individual students will be rolled back to the program for use with future cohorts. If contact cannot be made with the student, programs typically release any additional personal or family funds contributed to the account to the state's unclaimed property division for retrieval by the individual.

Qualified Expenses
Since CSAs are intended to promote postsecondary education, programs set rules around "qualified expenses" for which program funds can be used. Programs that utilize a 529 (e.g., Oakland, Nevada, Indiana, Maine) must follow the federal IRS guidelines on qualifying 529 uses. These guidelines allow 529 savings to be used at the following types of postsecondary institutions:

- accredited college or university, including public and private institutions
- vocational, trade, training, or other credential program at an accredited institution
- accredited institutions for students with special needs

Savings in 529 accounts may only be used to pay for postsecondary expenses. This includes but is not limited to tuition, mandatory fees, books, supplies (including computer equipment), and equipment required for enrollment or attendance, or for any other necessary cost of attending school. If a student has special needs, distributions can be used to pay for any accommodations that are required to make it possible to attend school.

CSA programs that use savings accounts at banks or credit unions as their account vehicle have more flexibility in determining qualifying expenses that CSA funds can be used to cover, although most programs generally follow 529 qualified expense guidelines. These savings account-based programs could, for example, also add expenses associated with applying to college or transportation to college to the list of qualifying expenses. For example, College Kids in St. Louis expanded qualified expenses to include pre-college expenses, such as college application fees, SAT/ACT testing fees or preparatory classes, pre-enrollment enrichment services such as "summer bridge" programs, and deposits for room and board (on-campus).

LAUSD data from 2014 noted that nearly half of students between 2008 and 2014 took neither the SAT or ACT. Currently, LAUSD does not offer an SAT/ACT fee-waiver for all high school students, though there are some LAUSD schools that participate in a fee-waiver program. The Los Angeles Education Research Institute (LAERI) reported that nearly 40% of the 2013 and 2014 graduates who did not take the SAT or ACT enrolled in two-year colleges.[xvi] The percentage of students who enrolled in a four-year college was negligible because most four-year colleges require either an SAT or ACT score for admission. LAUSD graduates who took either exam were more likely to enroll in a four year college, regardless of score. Using a CSA to pay for these exams could increase the number of students taking the SAT/ACT and therefore could potentially reduce "under matching" of students whereby academically qualified low-income students enroll in a two-year college instead of a four-year college.

Qualified Expense Withdrawal Process
Upon receiving a request for a qualifying expense withdrawal from a student, CSA programs will assess the request to determine if (1) the participant's qualified withdrawal request meets program criteria and (2) participant eligibility is verified. If the withdrawal is approved, the program will typically transfer funds directly to the postsecondary institution or other vendor (such as the College Board for the SATs). The transfer will include non-program funds (deposits) in the account, incentives earned (if any), and the seed deposit. Funds will not be directly transferred to the student, with exceptions noted in the Withdrawal section below.

Withdrawals

CSA programs sometimes include a provision for emergency withdrawals. In the event of a financial emergency or unforeseen circumstance, the student and/or parent/guardian may submit a non-qualified use withdrawal request. If approved, only non-Program funds may be withdrawn. Programs review emergency withdrawal requests on a case by case basis. San Francisco, St. Louis, and Boston allow for up to three withdrawals during a student's tenure in the program. Allowing emergency withdrawals is a key distinction between CSAs and typical 529 Plans, which do not allow for emergency withdrawals. Qualitative interviews with parents in St. Louis revealed that the emergency withdrawal provision may encourage parents to save more, without fear that their funds will be "locked up" in case of an emergency. In a 529 Plan, any participant may withdraw their funds for an unqualified expense at any time. Those funds will be taxed at a rate determined by each state.

If a student completes their postsecondary education and does not use all the funds in their account, any non-program funds contributed to the account can be withdrawn. The student must document proof of completion. However, any funds donated by or to the program manager for the program will not be disbursed and will remain with the account custodian.

Section V: Account Types

CSA programs vary in the type of financial institution and account type used based on the needs of the population. Programs may utilize a 529 Plan, a college savings plan sponsored by a state or state agency, or a custodial savings account held at a private financial institution. The account type decision in other jurisdictions is based on the needs of the population served.

529 Plans

Very few municipality-wide programs have chosen to use a 529 as their account vehicle. Oakland is a notable exception; it uses Utah's 529 plan (called My529) as its account vehicle. Statewide programs, including Maine, Nevada and Rhode Island, generally use 529 accounts. Because they are state administered, the rules, tax benefits, and plan features of 529 plans vary by state. Both individual account owners and CSA programs are not restricted to using the 529 plan for their state. The 529 vehicle undoubtedly provides a higher return on investment than a traditional savings account. However, several features and restrictions of 529 accounts could create barriers for Angelenos participating in the CSA program or other administrative challenges, including identification requirements, limited deposit options, minimum deposits, asset limits, and recent changes to qualified 529 uses. Each of these barriers is described below.

Identification Requirement
In most states, a Social Security Number (SSN) is required to open a 529 account. A few states (e.g. Illinois) allow an Individual Taxpayer Identification Number (ITIN) to be used, but many undocumented residents do not have ITINs. Some programs get around this issue for undocumented participants by using an omnibus account owned by the program or account custodian to hold program funds for undocumented students. However, undocumented parents would not be able to open a concurrent 529 to contribute their own savings into because of the lack of an SSN. In addition, participants need to furnish an SSN or ITIN when they withdraw money from a 529, creating a further barrier to accessing funds for undocumented students.

Electronic Banking Requirements
Using a 529 requires an existing checking account to make transfers from, either via check or automated electronic transfer. This limits not only who can open an account but who can save in the account. Families may not make cash deposits. Transaction data from St. Louis show that more than one-third of family deposits are in cash. In Los Angeles, 13% of households do not have a checking or savings account, nearly twice the national rate. And, one in five households have a checking or savings account, but still relied on alternative financial services such as check cashing or payday loans in the past year.[xvii] Creating an account without deposit avenues that work for all families will limit the program's effectiveness and prohibit some of the most vulnerable families from saving with the program.

Minimum Deposits
Scholar Share, California's 529 Plan, requires a $25 minimum opening deposit, or $15 if the account owner enrolls in automatic payroll deduction. This threshold may be demotivating to families who want to open an account but are not able to afford the initial minimum deposit.

Asset Limits
Many states have "asset limits" in order to qualify for means-tested assistance programs, meaning that families cannot have more than a certain amount of assets in their name to be eligible for benefits. California has exempted savings in a 529 account for Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP), but the asset limits do not exempt 529 savings for Supplemental Security Income (SSI) or Medicaid. The asset limit on unrestricted assets is currently set at $2,000 for SSI and eligibility criteria are determined at the federal level. Even if families do not qualify for public assistance now, the fear of needing to access assistance programs later in life may prevent families from starting to save. A report from New America found that "asset limits present a real barrier to savings for both families currently receiving public assistance and low-income families who believe they may need to rely on assistance in the future."[xviii]

Changes to Qualified 529 Uses
The Tax Cut and Jobs Act passed by Congress in December 2017 made changes to the qualified uses of 529 plans, allowing up to $10,000 per year to be used for K-12 expenses, such as private school tuition. As a result, 529s no longer provide sufficient guarantees to safeguard the funds for post-secondary use. While families could be prohibited from withdrawing program funds for K-12 expenses, they would be permitted to withdraw their funds to pay for private education expenses in elementary, middle and high

school. In this way, the CSA program could unintentionally promote private K-12 education instead of postsecondary education.

Traditional Financial Institutions

Given the constraints of the 529 account vehicle as it currently exists, similar jurisdictions have engaged a financial institution to provide a traditional a savings account. As has been noted elsewhere in the report, a savings account can provide many benefits outside of assets for college. San Francisco and St. Louis utilize custodial savings accounts with private financial institutions, Citibank and First Financial Credit Union, respectively. Both cities are the custodians of the account, but family members and others may contribute to the sub-accounts for the students. Neither city provides individuals' social security number or ITINs to the financial institutions, using a student ID instead.

Key features for the custodial accounts used by other jurisdictions:

- Participants can view matches and make deposits online (Citibank platform in San Francisco and VistaShare for St. Louis);
- If a student does not use the funds for postsecondary education (by the cutoff date), any family contributions are returned to the student; City deposits and philanthropic contributions are forfeited;
- If a student leaves the school district, they may still save in the account, but will not receive matches and other incentives. The seed deposit will be returned to the city.
- Family savings are exempt from asset limits because deposits are held by the account custodian.

Section VI: Program Costs

Seed Deposit Costs

Initial deposits are offered by 70% of programs. Among programs offering initial deposits, $50 is the most common amount.[xix] Seed deposits are often the largest public expenditure for the program. Using the five-year phased implementation plan (see Participant Eligibility section for details), seed deposit appropriations would increase each year until full enrollment is achieved. Using the full-scale implementation plan, seed deposit appropriations would remain relatively constant.

Barring any unforeseen circumstances, CSA programs use the previous year's enrollment and relevant trend data from the school district to estimate the costs of seed deposits each year. If actual enrollment is lower than projected, the amount in excess would be subtracted from the allocation request the following year.

The table below assumes costs for the entirety of LAUSD, including schools in LA County.

Year	Percent of LAUSD Enrolled	Seed Deposit Costs
1	10%	$209,300
2	25%	$523,250
3	50%	$1,046,500
4	75%	$1,569,750
5+	100%	$2,093,000

Costs for the city of Los Angeles, not including funding from LA County are below. It is estimated that around 20% of LAUSD students are non-city residents in LA County.

Year	Percent of LAUSD Enrolled	Seed Deposit Costs
1	10%	$167,440
2	25%	$418,600
3	50%	$837,200
4	75%	$1,255,800
5+	100%	$1,674,400

Assuming stable enrollment, seed deposits are estimated to cost $2,093,000 each year after year five. Annual seed deposit costs for the City, if seed deposits were fully City funded for all LAUSD schools in the City, would be approximately $1,674,400; costs for LA County would be approximately $418,600.

Administrative Costs
Administrative costs include full time staff members to manage the program and conduct outreach to participants and families. In the early years of the program, administrative costs will be higher due to outsized outreach/marketing efforts and start-up costs (data management system, computer equipment, etc.).

Regardless of how high or low-touch the CSA program, most programs incur the following administrative expenses:

- Staff Positions: Staffing varies from 1-9 Full Time Employees, depending on enrollment size and program functions.
- Marketing and Outreach: Includes cost of marketing materials, training of school district and non-profit staff, promotion events at schools, etc.
- Database Maintenance: With the exception of San Francisco whose financial institution provides database management, municipal CSA programs use a third-party vendor for electronic recordkeeping.
- Evaluation: Programs may engage a local university to partner on research and evaluation.

Administrative budgets vary based on number of students enrolled each year and incentives offered. A higher number of incentives and additional programming require more staffing. The following are administrative expenses for the CSA programs in St. Louis and San Francisco. It should be noted that both St. Louis and San Francisco's school districts are about one-tenth of the size of LAUSD. San Francisco's expenses are higher than St. Louis due to higher total program enrollment (more than 30,000 students compared to 10,000).

CSA Public Administrative Expenditure Overview

Expense	St. Louis	San Francisco
Salary	$65,000.00	$467,805.00
Outreach and Marketing	$17,500.00	$116,000.00
Software and Equipment	$20,120.00	$3,500.00
Fiscal Sponsor	$1,200.00	$18,000.00
Professional Development	$5,000.00	$6,500.00

Fiscal Sponsor	$1,200.00	$18,000.00
Consulting and Professional Services	N/A	$16,050.00
Grants to Partner Schools (Incentives)	N/A	$80,000.00
Total	**$110,020.00**	**$725,855.00**

Incentive Costs

All CSA programs currently operating offer incentives to help students build savings for postsecondary education. Two-thirds (67%) of programs offer at least two types of incentives (including seed deposits). 52% of programs offer savings matches, and 43% of programs offer benchmark or milestone incentives.[xx] Benchmark incentives reward a range of achievements and behaviors, such as academic performance and completing college readiness milestones.

Incentives for CSA programs are often privately funded. A CSA's incentive offerings often align with the school district's goals and are designed to either boost savings or reduce barriers to postsecondary education. Best practices and examples of incentive offerings are detailed below.

- Savings Match: Programs offer a dollar for dollar match for personal/family contributions up to a certain threshold, ranging from $100 to $250, and encourage families to make deposits.
- Financial Education Bonus: Both St. Louis and Oakland offer up to $50 in incentive deposits for parents or guardians who complete financial education programming (either online via a non-profit partner or in-person), such as financial education, coaching, or credit counseling.
- Milestone Incentives: Programs offer a flat bonus (ranging from $10-$50) for academic completion, such as graduation from elementary, middle, and high school.
- Academic Performance: Programs may provide additional incentives for academic performance, such as grades, Grade Point Average (GPA), or attendance.
- Field Trip to the Financial Institution: San Francisco funds elementary school field trips during the school day to Citi Bank where students have the opportunity to make a deposit in person. St. Louis funds field trips to the credit union in zip codes with the highest rates of unbanked families, and provides an additional $20 deposit bonus for any family that makes a deposit of any amount. The credit union stays open in the evenings quarterly for CSA families whose work schedule prevents them from reaching the credit union during normal bank hours.
- Field Trips to a College Campus: Promise Indiana and Oakland fund field trips for CSA participants to tour a college campus, which has shown to be a predictor of college expectations.
- College Readiness Benchmarks: Programs incentivize behaviors that are significant predictors of future college enrollment, including taking the SAT/ACT, or completing the FAFSA (or state aid application for undocumented students).

Incentives are often developed in conjunction with the partner school district. Given the size of the district, the City of Los Angeles may choose to employ a modular incentive program, in which incentive offerings vary by region or sub-zone based on student need.

Section VII: Funding Models

Municipal CSAs are typically funded through a combination of public and private funds. The cost of seed deposits and administration may be funded by an annual appropriation from the city general fund or by a special fund appropriation from the account custodian. In the cases of San Francisco and St. Louis, funds are appropriated from the Treasurer's Office annual budget and city-owned parking residuals, respectively. Oakland, Boston, and New York are funded by a combination of the general budget and the mayor's office discretionary funds. The incentive portion of each program is often privately funded through a combination of philanthropy, grants, and individual contributions.

Location	Program Name	Government	Foundations	Individual Donors	Businesses	529 Plan (from fees or direct funding)
Maine	Harold Alfond College Challenge		X			
Nevada	College Kick Start					X
New York City, NY	NYC Kids RISE		X			
Oakland, CA	Oakland Promise		X	X	X	
San Francisco, CA	Kindergarten to College	X	X	X		
St. Louis, MO	College Kids	X	X	X	X	
Wabash County, IN	Promise Indiana	X	X	X	X	X
Washington, DC	Educare Future Scholars		X			

Public Expenditures
Assuming stable LAUSD enrollment, the table below shows seed deposit and administrative costs per cohort. During the first five years of a phased implementation, the public cost may outweigh the private program costs. This will shift to a greater private contribution as the program continues. It should be noted that these costs are reflective of seed and administrative deposit costs for the entirety of LAUSD (City and County).

	Children Enrolled	Seed Deposits	Admin Costs*	Total	Admin costs per student enrolled
Cohort 1	4,186	**$209,300**	**$501,200**	$710,500	$119.73
Cohort 2	10,465	**$523,250**	**$381,200**	$904,450	$26.02
Cohort 3	20,930	**$1,046,500**	**$381,200**	$1,427,700	$10.71
Cohort 4	31,395	**$1,569,750**	**$381,200**	$1,950,950	$5.69
Cohort 5	41,860	**$2,093,000**	**$381,200**	$2,474,200	$3.50
Cohorts 6-10	41,860	**$2,093,000**	**$629,855****	$2,722,855	$1.74
Total	359,996	**$15,906,800**	**$5,175,275**	$21,082,075	$14.37

*based on administrative cost estimates in other jurisdictions;
**based on current operating costs of jurisdictions serving students in grades K-12

Private Expenditures
Incentives for the program can be privately funded in all CSA programs, as can seed deposits. Philanthropic giving in CSA programs is often directed toward sustainably funding the incentive portion of a program. Fundraising for the incentive program is typically directed by program staff and includes corporate and foundation giving, grants, and contributions from individuals.

Prepared by:

Erin Thiemann

ERIN THIEMANN
Consultant, Prosperity Now

---

[i] Hannon, Simona M., Kevin B. Moore, Irina Stefanescu, and Max Schmeiser (2016). "*Saving for College and Section 529 Plans*," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, February 3, http://dx.doi.org/10.17016/2380-7172.1684

[ii] Reeves, Richard and Joo, Nathan (2017). *A tax break for 'Dream Hoarders': What to do about 529 college savings plans*. Washington: Brookings Institute

[iii] *Assets and Education Initiative, Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education*, in William Elliott (Ed.), Biannual report on the assets and education field, (Lawrence, KS: Assets and Education Initiative, 2013).
https://aedi.ku.edu/sites/aedi.ku.edu/files/docs/publication/CSA/reports/Full-Report.pdf.

[iv] Beer, A., Ajinkya, J., and Rist, C., *Better Together: Policies That Link Children's Savings Accounts With Access Initiatives to Pave the Way to College.*Institute for Higher Education Policy (2017).

[v] Elliott, W. and Beverly, S. (2011). *The role of savings and wealth in reducing —wilt between expectations and college attendance*. Journal of Children & Poverty, 17(2), 165-185.

[vi] Friedline, T. Elliott, W. & Chowa, G. A. (2013). *Testing an asset-building approach for young people: Early access to savings predicts later savings*. Economics of Education Review, 33, 31-51. DOI:10.1016/j.econedurev.2012.10.004

[vii] Taylor, P., Parker, K., Fry, R., Cohn, D., Wang, W., Velasco, G., & Dockterman, D. *Is College Worth It? College Presidents, Public Assess Value, Quality and Mission of Higher Education.* Pew Research Center (2011).

[viii] Bureau of Labor Statistics, U.S. Department of Labor, The Economics Daily, *Unemployment rates by educational attainment* (2015).

[ix] Grossman, Michael. *Education and Nonmarket Outcomes*. Working Paper 11582, National Bureau of Economic Research (2005)

[x] Family Assets Count: Building Financial Resilience in America (Los Angeles). *Building Economic Opportunity in Los Angeles: A Date Profile.* CFED (2015).

[xi] Carroll, Stephen and Erkut, Emre. The Benefits to Taxpayers from Increases in Students' Educational Attainment, MG-686-WFHF, RAND Corporation (2009).

[xii] Berger, Noah and Fisher, Peter. *A Well-Educated Workforce is Key to State Prosperity.* Economic Analysis and Research Network Report (EARN). Economic Policy Institute (2013).

[xiii] Clancy & Sherraden, 2014.

[xiv] *The Movement Takes Off: The State of the Children's Savings Field* (2017). Prosperity Now

[xv] Beverly, S., Kim, Y., Sherraden, M., Nam, Y., & Clancy, M. (2012). *Socioeconomic status and early savings outcomes: Evidence from a statewide Child Development Account experiment* (CSD Working Paper 12-30). St. Louis, MO: Washington University, Center for Social Development

[xvi] Phillips, Meredith, Yamashiro, Kyo, and Jacobson, Thomas. *College Going in LAUSD: An Analysis of College Enrollment, Persistence, and Completion Patterns*. Los Angeles Education Research Institute (2017).

[xvii] Family Assets Count: Building Financial Resilience in America (Los Angeles). *Building Economic Opportunity in Los Angeles: A Date Profile.* CFED (2015).

[xviii] O'Brien, Rourke. *529s and Public Assistance.* New America: Asset Building (2009).

[xix] *The Movement Takes Off: The State of the Children's Savings Field* (2017). Prosperity Now

[xx] *The Movement Takes Off: The State of the Children's Savings Field* (2017). Prosperity Now