



Essential Policy Design Elements for Statewide Child Development Accounts

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Statewide [Child Development Accounts](#) (CDAs) provide assets and encourage saving for postsecondary education through deposits into investment accounts. The most rigorous test of CDAs, the [SEED for Oklahoma Kids](#) (SEED OK) experiment, began in 2007. The CDA models a universal, automatic policy offering deposits at birth and progressive subsidies for those most in need.

Several states have adopted CDA policies informed by research results from SEED OK. In 2018, [Pennsylvania](#) became the first to enact legislation creating a statewide, universal, automatic, opt-out CDA. In the spring of 2019, [Nebraska](#) unanimously passed CDA legislation for every resident born on or after January 1, 2020. [Illinois](#) and [California](#) enacted statewide CDA policies in the months that followed.

Delivering CDAs at scale—to all newborns, in families across the socioeconomic and geographic spectrum—and in a financially sustainable way requires a sound policy structure. This Fact Sheet defines 10 essential and well-established design elements of state CDA legislation. Those interested in creating a statewide policy can view a full discussion and documentation of sample legislation in the [Policy Summary](#) from which this work is adapted.

Universal Eligibility

Universal eligibility includes infants in families across the full socioeconomic and geographic (rural and urban) spectrum. No state-resident baby is excluded. The CDA policy also covers newly adopted children.

Automatic Enrollment

Automatic enrollment ensures that all children benefit and that parents are not required to act. With “opt-out” (automatic) enrollment, every state-resident newborn is included, and

parents may elect to withdraw their children (or parents may opt out of receiving communications, but children retain their CDA). If CDA enrollment is nonautomatic and parents must take action, participation rates will be much lower, the policy will fall short of universality, and many disadvantaged families will be left out.

At-Birth Start

At-birth start maximizes time for assets to grow and, during the critical early childhood years, has the potential to change parent attitudes and behaviors regarding their children’s future. State birth records provide the only single, centralized source of information on all newborns, such as the full name and address of each child’s parent or legal guardian, the name and birth date of the child, the race and education level of the child’s mother and father, whether the mother receives public benefits, contact information, and other vital information. Legislation authorizes such data sharing between state departments. States can open at-birth CDAs without the Social Security numbers of the newborns if the program deposits for these beneficiaries are owned by the state or another entity in a single, omnibus 529 plan account.

Automatic Initial Deposit

Automatic initial deposit seeds assets for each child. A substantial initial deposit (e.g., \$500 to \$1,000) may shape education-related attitudes and behaviors from the beginning. Because of budget constraints, some statewide CDAs begin with a deposit of \$100 and one provides \$500. These deposits enable financially vulnerable children to accumulate assets despite limited household income. If funded with automatic, sizable, initial deposits when children are very young, a CDA may accumulate meaningful assets over time, even if the family cannot save.



Automatic Progressive Subsidy

Automatic progressive subsidies are structured to direct more funds to children most in need. Some CDAs offer savings matches, but low-income households may have difficulty saving. Private contributions or state sources can supplement the initial deposits with progressive subsidies not tied to family deposits. By targeting such subsidies, states boost asset accumulation for financially vulnerable children. Making these subsidies automatic ensures that all eligible children receive them.



Centralized Savings Plan

Centralized savings plan means that all CDAs issued through a state policy operate within the same financial platform. Forty-nine states operate 529 college savings plans, and all statewide CDAs use the state 529 plan as the financial structure. Use of state 529 plans facilitates statewide partnerships, efficiency, and economy of scale. State and state-contracted organizations are responsible for accounting, recordkeeping, and investing assets.



Investment Growth Potential

With *investment growth potential*, assets held in statewide CDAs have the potential for market appreciation and investment earnings. All state CDA policies hold deposits in investments. Market appreciation can substantially increase the assets for a child over time, especially if deposits are made when the child is very young. In SEED OK, the \$1,000 initial deposit invested in the Oklahoma 529 College Savings Plan in 2007 grew to \$1,669 by September 30, 2017, despite falling to a low of \$700 during the Great Recession.



Targeted Investment Options

Targeted investment options streamline the CDA program's investments for postsecondary education. Age-based funds, for example, are tailored to the beneficiary's age, change over time, and become increasingly conservative as the beneficiary nears college age. Also, an age-based option simplifies fund selection and eliminates investment decisions for families saving in their own 529 account. When families own their own 529, they may choose an investment that is more or less aggressive than the state-selected option, withdraw savings easily for personal or financial reasons, and benefit from a state tax deduction.



Restricted Withdrawals

Restricted withdrawals limit how and when the assets may be used. All state CDA policies restrict access to program

contributions (and earnings) for postsecondary education. States typically allow the funds to be used for qualified trade schools, colleges, and universities inside or outside of the state. CDAs will send program funds directly to the accredited school or forfeit them if not used before the beneficiary reaches a specified age, such as 26 or 30. In addition to making the goal of college more salient, such restrictions may shape how families view the assets, promote future workforce development, and influence families in other ways.

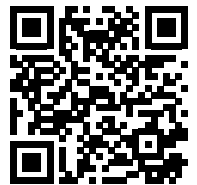


Means-Tested Public Benefit Exclusions

Means-tested public benefit exclusions protect CDA deposits and public benefits. The state or another entity owns the initial program deposits, so a family's eligibility for public benefits is not affected. Yet, CDA policies and 529 plans encourage and offer incentives for families to save their own money, which can affect public benefit eligibility. Assets in 529 plans do not count toward the asset limits for Supplemental Nutrition Assistance Program, the Children's Health Insurance Program, or Medicaid. At least eight states have abolished Temporary Assistance for Needy Families asset limits, and at least 15 states (and the District of Columbia) exclude 529 savings from such limits. Finally, state legislation can exempt the 529 plan for purposes of determining eligibility for public assistance, provided that the federal rules for these programs permit such an exemption.

Note

This Fact Sheet is adapted from [Child Development Accounts at Scale: Sample State Legislation](#), by M. M. Clancy, M. Sherraden, and S. G. Beverly, 2019 (CSD Policy Summary No. 19-46). St. Louis, MO: Washington University, Center for Social Development.



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