



# NEW AMERICA FOUNDATION

JUNE 2009

## **The America Saving for Personal Investment, Retirement, and Education Act ("The ASPIRE Act of 2009")**

*Introduction in the 111<sup>th</sup> Congress is Currently Pending*

### *Summary of the Proposed Bill*

#### **Purpose of the Bill**

To encourage savings, promote financial literacy, and expand opportunities for young adults by establishing a Lifetime Savings Account for every newborn child.

#### **Lifetime Savings Accounts**

Every child born after December 31, 2009 will have a Lifetime Savings Account opened for them automatically when their Social Security card is issued. 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. Additional savings incentives include tax-free earnings, matched savings for eligible families, and financial education.

#### **The ASPIRE Fund**

The bill establishes the ASPIRE 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 75% 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 on an annual basis until the accountholder reaches the age of 18. The bill allows for accountholders with household incomes up to 75% of the national median AGI to receive a dollar-for-dollar match on private contributions up to \$500 and phases out this match for accountholders with household incomes between 75% and 100% of national median AGI.

#### **Private Contributions**

Private, voluntary contributions can be made to each account each year until the accountholder reaches the age of 18. The bill caps these contributions at \$2,000. Contributions will be after-tax

and can come from any source. After accountholders turn 18, contributions will be allowed according to Roth IRA rules.

### **Investment of the ASPIRE 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 Lifetime Savings Account is invested. If no election is made, a life cycle investment option will be specified as a default.

### **Distributions from Lifetime Savings Accounts**

No withdrawals can be made until the accountholder reaches the age of 18. Between the ages of 18 and 25 the only allowed use of the funds will be for post-secondary education with distributions being made directly to post-secondary education providers. After reaching the age of 25, homeownership and retirement security will be the additional allowed uses.

### **Rollouts and Minimum Balances**

Accountholders have the choice to keep their accounts within the Fund or rollout a portion of their account to another Lifetime Savings Account provider. These providers may offer different investment options than accounts held in the Fund. This rollout may occur at anytime after the initial account has been opened. However, to maintain the account as a savings platform for retirement security and life-long asset building, a minimum balance equal to the automatic contribution (initially \$500) is required in the accounts held by the ASPIRE Fund at all times until retirement age.

### **Tax Treatment of Lifetime Savings Accounts**

Lifetime Savings Accounts will be treated in the same manner as Roth IRA accounts. Qualified distributions from these accounts will be tax-exempt and not included in gross income. Non-qualified distributions will be taxed and subject to the Roth IRAs 10% penalty on earnings and there will be a 100% tax on government contributions. Accountholders can access their private contributions without penalty after age 18. 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.