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TESTIMONY IN SUPPORT OF HB 5048, AN ACT ESTABLISHING THE CHET BABY SCHOLARS PROGRAM

Good Afternoon Senator Fonfara, Representative Widlitz and Members of the Finance, Revenue and Bonding Committee. I am Roger Senserrich, Policy Coordinator at the Connecticut Association for Human Services (CAHS). CAHS is a statewide, nonprofit agency that works to reduce poverty and promote economic success through both policy and program work.

I am here to express our support for HB 5048, a bill that would establish children savings accounts to help pay for college for all children born in the state. The proposed bill offers \$100 to all parents who create a CHET Baby Scholar account, a 529 savings plan under the Connecticut Higher Education Trust Fund, and offers up to \$150 in matching funds for additional deposits.

CAHS strongly supports the principles behind this bill: providing incentives for families for asset building is good policy, and encouraging forward looking investments in higher education generates powerful returns both for the students and the economy at large. Research shows that family assets and debt are powerful predictors of college completion, and might in fact be more influential than income.¹ The CHET Baby Scholar program gives families tools to start planning for college from the very start.

Although the direct dollar incentive in the proposal appears to be modest (up to \$250), research suggest that even a comparatively small amount of funds can push parents and students towards preparing for college.² Children savings accounts do encourage asset building, but above all produce a change in attitudes: they encourage students to see themselves as college bound. A college savings account also nudges parents into having the same expectation for their kids. This higher expectation for success is associated with greater academic effort and achievement, meaning that a small investment can go a long way towards creating opportunity for children.

¹ <http://csd.wustl.edu/Publications/Documents/WP13-36.pdf>

² <http://csd.wustl.edu/Publications/Documents/P13-27.pdf>

It is important to take into account some of the implementation details on these accounts however, and here HB 5048 could be improved with some changes. The experience in other states that have introduced similar programs shows that how enrollment is handled is crucial for its success. The CHET Baby Scholars framework is an “opt-in” plan: the accounts are available for all newborn kids, but parents need to apply for a 529 account in order to be able to receive the initial \$100 grant and participate in the program. Maine first implemented a college savings account program in 2008, the Harold Alfond College Challenge, implementing an opt-in model with an initial \$500 grant. During the first five years of operation, only 40% of all eligible children were enrolled in the program. Research indicates that parents in Maine with more education, other investments and financial advisors were much more likely to apply for the program, while lower income families stayed out.³ The cumbersome application process deterred many parents, making the program regressive.

Maine policymakers reacted by changing the program to an “opt-out” model: children are automatically enrolled at birth, receiving a \$500 account right away.⁴ Parents who want to make additional contributions then open a 529 that receives matching contributions from Maine’s NextStep fund. The initial grant is in the form of a deposit into an “omnibus” 501c3 scholarship account,⁵ avoiding the need for using Social Security Numbers and enabling the use of birth record information to create the account. The parents receive a single quarterly statement with the returns, making the process transparent while acting as reminders for the need to save. The result is a truly universal program without the entry barriers of an opt-in model. Parents are strongly encouraged to save, and as the initial grant is deposited on a 501c3, they cannot use those funds for anything other than education.

To make the CHET Baby Scholar program effective for those lower-income children and families that need it most, Connecticut should adopt an opt-out model, making the system truly universal. The program needs to be as simple as possible, to make sure that less financially aware families are not excluded. To ensure that the state’s resources target those families that need them the most, matching funds should be focused on low-income families.

In addition, the program should include financial education: quarterly reports should include financial advice, and the CHET Baby Scholar program should provide easily accessible financial education opportunities and encourage voluntary participation. Working in parallel,

³ Huang, J., Beverly, S., Clancy, M., Lassar, T., & Sherraden, M. (2013). Early program enrollment in a statewide Child Development Account Program. *Journal of Policy Practice*, 12(1), 62–81

⁴ Clancy, M. and Sherraden, M. (2014). Automatic Deposits for All at Birth: Maine’s Harold Alfond College Challenge. CSD Policy Report, 14-05.

⁵ The Internal Revenue Code 26 USC § 529 (e) views “entity scholarship accounts” as either an omnibus account without designated beneficiaries or an account with a specific beneficiary.

financial education should become required throughout the K-12 school system. HB 5490, a bill currently sitting on the Banks Committee, would create this requirement.

The CHET Baby Scholars program has the potential to open the doors of opportunity for thousands of kids in the state. For this to happen, however, we need to make sure that the program is truly available for those that need it the most. Saving for college can give a powerful sense of purpose for students and parents alike. Let's make sure that the door opens for all of them.

CAHS has consulted with experts from CFED, formerly the Corporation for Enterprise Development, who have studied children's savings account programs from across the U.S., in preparing this testimony. We are including with the testimony more information regarding the Maine program with specific details on its implementation.. Please contact me at rsenserrich@cahs.org if you need more information CAHS would also be pleased to work with members of this Committee or others to strengthen HB 5048 as it goes through the legislative process.

We encourage you to support HB 5048 and strengthen it. Thank you again for your consideration.