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WHO CAN BENEFIT FROM A+ ACCOUNTS?

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The House will soon debate the merits of the Affordable Education Act of 2000 (S. 1134). This bill, offered by Senators Paul Coverdell (R-GA) and Robert Torricelli (D-NJ), contains a provision for educational savings accounts that would allow parents and others a new way to invest in a child's education from kindergarten through 12th grade. Each year, families, single parents, or anyone earning less than \$95,000 (\$220,000 for joint filers) annually could deposit up to \$2,000 per child in after-tax income into interest-bearing savings accounts known as A+ Accounts. The funds would generate tax-free interest and could be used for any education-related expense, from books, computers, and transportation to private school tuition and uniforms.

This sensible approach to funding education would benefit not only individual students, but public schools as well. Parent-teacher associations currently are the only reliable source of additional funding for public schools. With A+ Accounts, Congress could create an incentive for parents and citizens in local communities to help educate children at a time when education costs are skyrocketing.

Who Would Benefit Most? According to the U.S. Bureau of Labor Statistics' 1997 *Consumer Expenditure Survey* (CES), over 11 million families with children and taxable income of less than the phase-out level currently set aside amounts that could be used to build an A+ Account (see Table 1). These families all have money in a savings or checking account, in a stock portfolio, or in government

bonds or a pension fund. Even families with less than \$25,000 in taxable income have substantial average savings of \$4,995. Furthermore, the survey notes that over 20 million children could benefit from these accounts; over 6 million of these children live in households earning between \$25,000 and \$50,000 a year.

Nearly half of the children whose families qualify for these accounts are from households making less than \$50,000 a year.

In addition, according to the CES, the 11 million families who stand to benefit from A+ Accounts live in every region of the country, with nearly equal numbers living in Midwestern and Western states (see Table 2). The CES survey shows that over 87 percent of these families live in the urban and suburban areas in which children most need educational opportunities. Only 13 percent live in rural neighborhoods.

How Would a Family Benefit? At a 7 percent interest rate, an A+ Account opened with a one-time deposit of \$2,000 when a child was born would earn an average of \$805 in interest after five years, or by the time the child enters kindergarten. By the time that child entered high school, the family would have accumulated \$4,522.

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A+ Accounts offer families and other concerned citizens a strong incentive to invest in education. Establishing A+ Accounts would generate additional opportunities for children to excel in school, from kindergarten through 12th grade. At the same time, Congress and the President would encourage parents and others to participate in children's education. A+ Accounts are one of the most innovative initiatives offered to date to improve the quality of education. They are not a panacea for all of the problems in today's educational system, but they could help an estimated 20 million children a year—a significant number indeed.

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Table 1

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Number of Children Who Could Benefit from A+ Accounts

Income	Mean Savings	Number of Children	Number of Families	% of Non-White Families	% of Blue Collar Families
Under \$25,000	\$4,995	3,062,663	1,659,143	22.44%	12.99%
\$25,000–\$49,999	\$5,184	6,151,884	3,196,101	14.34%	16.14%
\$50,000–\$74,999	\$12,756	5,872,003	3,338,498	13.53%	18.44%
Over \$75,000	\$32,102	5,245,776	2,958,942	11.69%	18.08%
Total	\$14,564	20,332,326	11,152,684	14.60%	16.88%

Source: 1997 CES Survey, complete reports of income only.

Table 2

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Number of Families Who Could Benefit from A+ Accounts, By Region

	Number of Families
Northeast	2,009,282
Midwest	2,751,789
South	3,840,850
West	2,550,763
Total	11,152,684

Source: 1997 CES Survey, complete reports of income only.

Addendum. This paper looks only at families that report their entire income and consumption information to the Bureau of Labor Statistics. The Bureau does not estimate income information for an additional 20 million families because of incomplete reporting. If these 20 million families possess the same demographic and economic characteristics as those who reported their entire income, the number of additional children who could benefit from A+ Accounts would exceed 4 million. Families were considered eligible for A+ Accounts if they had children under the age of 18 and income of less than \$95,000 (\$220,000 for joint filers), and if they reported money in either savings or investments.