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Congress Should Revive KidSave as an Innovative Step Toward Better Retirement Security

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Studies of retirement savings plans show that the most important step toward retirement security is the decision to save. This simple decision is even more important to an individual's retirement income than how the money is invested. The United Kingdom recognized this fact by creating a small trust fund for every child born in Britain after September 2003. Although not limited to retirement, the British plan would enable people of all income levels to build savings for the future.

In this country, a bipartisan proposal in 2000—sponsored by former Senator Robert Kerrey (D–NE) and cosponsored by Senators Rick Santorum (R–PA), Charles Grassley (R–IA), and John Breaux (D–LA) and former Senator Daniel Patrick Moynihan (D–NY)—would have made that decision much easier by creating "KidSave" accounts as a first step toward providing retirement security for future generations. Congress should revive the Kerrey proposal as a way to encourage all Americans to begin building nest eggs for their futures.

- The KidSave proposal would enable each child, regardless of economic background, to build a retirement nest egg.
- The seed money would be loaned from the Social Security trust fund, and that loan would be fully repaid after the child enters the workforce.

How KidSave Would Work. Under Senator Kerrey's original proposal, at birth, every American child would receive a loan of $2,000 from Social Security to open a KidSave account. After 2005, the amount would be indexed annually for inflation. The funds could be withdrawn only at retirement or after the account owner's death. Even if no other money is ever added to the account, the $2,000 initial loan could grow to more than $50,000 by the time the child retired. The nest egg could then be used for such things as increasing retirement income, sending a grandchild to college, starting a small business, or making a donation to a church or community organization.

This money would be invested through the Thrift Savings Plan (TSP), which helps federal employees invest for retirement. The TSP currently offers three safe and low-cost investment options: a stock index fund, a corporate bond fund, and a government bond fund. Under the proposal, the parents or legal guardians of under-age citizens would choose one of the investment options. In addition to the base loan of $2,000, parents would be allowed to deposit up to $500 annually in each child's account until the child is 19. Part of the $500 could also come from grandparents, who would be allowed to roll over money, tax-free, from 401(k) or similar retirement plans.

When the account owner reached the age of 30, the initial loan would be repaid without interest in five equal annual installments. However, the account

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owner would repay an inflation-adjusted amount. In other words, if the $2,000 initial loan had increased to $3,500 in inflation-adjusted dollars over the 30 years, the owner would repay $3,500 in five equal annual installments.

Positive Features of KidSave. In addition to enabling all individuals to build a retirement nest egg, the KidSave plan would have other benefits. Specifically:

- **KidSave would be available for everyone.** Every child, regardless of family income level, would receive a KidSave account. Instead of attempting to redistribute income or targeting only a few specific groups, the program would help all Americans save for retirement. Lower-income workers would have the same opportunity to build assets as those in higher income brackets.
- **KidSave would be a loan, not a gift.** KidSave would teach children that while people may be willing to assist them, loans must be repaid. Unlike proposals to "seed" retirement accounts with government matching grants, KidSave would not divert other people's tax dollars into the accounts.
- **KidSave would help to reduce the gap between rich and poor.** Many lower-income individuals find it impossible to save because Social Security and other taxes leave them with nothing after rent, food, and other expenses. KidSave would enable low-income families to accumulate a nest egg for the family's future without cutting into their paychecks. Furthermore, since a KidSave account would be owned by the individual and would become part of his or her estate, it would help the family even if the worker died before retirement.
- **KidSave money would stay in the community.** Since every KidSave account would be owned by the individual worker and become part of the worker's estate after death, the KidSave accounts of lower-income workers would tend to remain in their communities, giving these communities a greater opportunity to build wealth.
- **It would be harder to divert KidSave money to other purposes.** A continuing problem with other types of retirement savings plans is that Congress allows workers to use that money for other expenses, such as education and purchasing a home. While these may be worthy goals, they do not directly help a worker prepare for retirement. Because KidSave accounts would be funded by a loan from Social Security, it would be politically difficult for future Congresses to permit account holders to divert KidSave money to non-retirement uses.

Making KidSave Even Better. The Kerrey proposal could be improved by allowing workers to divert a portion of their Social Security retirement taxes into their KidSave accounts in return for a pre-determined reduction in their individual Social Security retirement benefits. Because KidSave accounts can be expected to yield a greater rate of return than Social Security, this would improve these workers' retirement income while reducing Social Security's unfunded liability.

Conclusion. Congress should revive Senator Kerrey's KidSave plan. Such a move would be an innovative step toward enabling every American to build a retirement nest egg, permitting all income groups to build assets. This would be especially important in lower-income communities, where today workers often retire with only Social Security for income. KidSave would allow all young Americans to look forward to a retirement that did not depend entirely on traditional Social Security benefits.

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