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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SIXTH
SESSION

HOUSE FILE No. 203

January 22, 2009

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The bill was read for the first time and referred to the Committee on Finance

1.1 A bill for an act
1.2 relating to early childhood education; establishing a Minnesota child savings
1.3 account initiative; appropriating money.

1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. **CHILD SAVINGS ACCOUNTS.**

1.6 Subdivision 1. Establishment. The Minnesota child savings account pilot initiative
1.7 is established to provide a onetime savings deposit for low-income children to accrue
1.8 assets for postsecondary education, career technical education, or training purposes.

1.9 Subd. 2. Definitions. (a) The definitions in this subdivision apply to this section.

1.10 (b) "Child savings account" means an interest-bearing savings account opened by
1.11 the parent or guardian of a child participating in the Minnesota child savings account
1.12 pilot initiative.

1.13 (c) "Fiduciary organization" means the Department of Education.

1.14 (d) "Financial institution" means a bank, bank and trust, savings bank, savings
1.15 association, or credit union, the deposits of which are insured by the Federal Deposit
1.16 Insurance Corporation or the National Credit Union Administration.

1.17 (e) "Permissible use" means:

1.18 (1) postsecondary educational, career technical educational, or training expenses
1.19 at an accredited public postsecondary institution located in Minnesota, including books,
1.20 supplies, and equipment required for courses of instruction; or

1.21 (2) individual retirement account deposits, including a qualified voluntary employee
1.22 contribution; simplified employee pension plan; self-employed retirement plan; cash or
1.23 deferred arrangement plan under section 401(k) of the Internal Revenue Code; or deferred
1.24 compensation plan under section 457 of the Internal Revenue Code.

2.1 Subd. 3. **Program eligibility; application.** The commissioner of education
2.2 shall allocate funds to provide child savings accounts through participating Head Start
2.3 programs located in an area with a local family assets for independence program. Head
2.4 Start programs must apply to the commissioner to participate in the child savings account
2.5 initiative according to the timelines and on the forms provided by the commissioner and
2.6 agree to partner with a local family assets for independence program in administering the
2.7 child savings account initiative. The commissioner shall review applications and choose
2.8 four programs representing rural, urban, suburban, and tribal Head Start to participate in
2.9 the child savings account initiative.

2.10 Subd. 4. **Duties.** A participating Head Start program must:

2.11 (1) provide separate accounts for the immediate deposit of program funds;

2.12 (2) establish a process to recruit or select participants and describe any priorities for
2.13 participation;

2.14 (3) enter into a child savings account agreement with the parent or guardian of each
2.15 participating child to establish the terms of participation;

2.16 (4) provide families with 12 hours of financial literacy education;

2.17 (5) provide families with information on early childhood family education; and

2.18 (6) establish a process to appeal and mediate disputes.

2.19 Subd. 5. **Child eligibility; participation.** To be eligible for funds in the child
2.20 savings account initiative, a family must meet the eligibility requirements of the federal
2.21 Improving Head Start for School Readiness Act, Public Law 110-134. Each participating
2.22 family must sign a child savings account agreement. A participating family must agree to
2.23 complete a 12-hour financial literacy training program. The child for whom the account is
2.24 established must graduate from high school prior to age 21 in order to access the funds in
2.25 the child savings account under this section.

2.26 Subd. 6. **Withdrawal; permissible uses.** (a) Participating families shall receive
2.27 a onetime deposit of \$750 from the child savings account initiative. The family must
2.28 provide a \$250 match at the time the account is opened.

2.29 (b) Families may contribute money to the child savings account according to
2.30 subdivision 5.

2.31 (c) A child may not use funds from the savings account until proof of high school
2.32 graduation has been shown.

2.33 (d) Funds may only be used for the permissible uses listed under subdivision 2,
2.34 paragraph (e).

2.35 Subd. 7. **Tax exemption.** A child savings account under this section shall be exempt
2.36 from taxation under section

3.1 Subd. 8. **Eligibility for other benefits.** Notwithstanding any other provision of law,
3.2 the funds in a child savings account under this section shall not be taken into account for
3.3 purposes of determining eligibility of an individual or family for a state or federal program
3.4 intended to provide assistance to low-income individuals or families.

3.5 Subd. 9. **Penalty for early or unauthorized withdrawal.** In the case of any early
3.6 withdrawal or distribution of funds from a child savings account that is not spent on a
3.7 permissible use under subdivision 2, paragraph (d), both of the following apply:

3.8 (1) any earning in the account shall be included in the gross income of the account
3.9 holder for the taxable year in which the distribution was made, and shall be subject to a
3.10 ten percent penalty; and

3.11 (2) an amount equal to the amount of initial deposit made by the state to the account,
3.12 as provided under subdivision 6, paragraph (a), shall be paid to the state by the account
3.13 holder for the taxable year in which the nonpermissible distribution occurred.

3.14 Subd. 10. **Program reporting.** Participating Head Start programs must report
3.15 quarterly to the commissioner of education identifying the participants with accounts, the
3.16 amount of savings for each participant's account, as well as any other information that
3.17 may be required for the commissioner to administer the program.

3.18 Subd. 11. **Sunset.** The Minnesota child savings account initiative sunsets on June
3.19 30, 2011.

3.20 **EFFECTIVE DATE.** This section is effective July 1, 2010.

3.21 Sec. 2. **CHILD SAVINGS ACCOUNTS; APPROPRIATION.**

3.22 \$..... is appropriated from the general fund to the commissioner of education in
3.23 fiscal year 2011 for the Minnesota child savings account initiative. Of this amount, up to
3.24 \$..... may be used for administrative costs.