

108TH CONGRESS
2D SESSION

S. 2751

To encourage savings, promote financial literacy, and expand opportunities
for young adults by establishing KIDS Accounts.

IN THE SENATE OF THE UNITED STATES

JULY 22, 2004

Mr. SANTORUM (for himself and Mr. CORZINE) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To encourage savings, promote financial literacy, and expand
opportunities for young adults by establishing KIDS Ac-
counts.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “America Saving for
5 Personal Investment, Retirement, and Education Act of
6 2004” or the “ASPIRE Act of 2004”.

7 **SEC. 2. KIDS ACCOUNT FUND.**

8 (a) ESTABLISHMENT.—There is established in the
9 Treasury of the United States a KIDS Account Fund.

1 (b) AMOUNTS HELD BY FUND.—The KIDS Account
 2 Fund consists of the sum of all amounts paid into the
 3 Fund under subsections (d) and (e), increased by the total
 4 net earnings from investments of sums held in the Fund
 5 or reduced by the total net losses from investments of
 6 sums held in the Fund, and reduced by the total amount
 7 of payments made from the Fund (including payments for
 8 administrative expenses).

9 (c) USE OF FUND.—

10 (1) IN GENERAL.—The sums in the KIDS Ac-
 11 count Fund are appropriated and shall remain avail-
 12 able without fiscal year limitation—

13 (A) to invest under section 5,

14 (B) to make distributions under section 6,

15 (C) to pay the administrative expenses of
 16 carrying out this Act, and

17 (D) to purchase insurance as provided in
 18 section 10(c)(2).

19 (2) EXCLUSIVE PURPOSES.—The sums in the
 20 KIDS Account Fund shall not be appropriated for
 21 any purpose other than the purposes specified in this
 22 section and may not be used for any other purpose.

23 (d) GOVERNMENT CONTRIBUTIONS.—

1 (1) IN GENERAL.—The Secretary of the Treas-
 2 ury shall make transfers from the general fund of
 3 the Treasury to the KIDS Account Fund as follows:

4 (A) AUTOMATIC CONTRIBUTIONS.—Upon
 5 receipt of each certification under section 3(b),
 6 the Secretary of the Treasury shall transfer
 7 \$500.

8 (B) SUPPLEMENTAL CONTRIBUTIONS.—
 9 Upon receipt of each certification under section
 10 4(a), the Secretary of the Treasury shall trans-
 11 fer the supplemental amount.

12 (C) MATCHING CONTRIBUTIONS.—Upon
 13 receipt of each certification under section 4(b),
 14 the Secretary of the Treasury shall transfer the
 15 matching amount.

16 (2) ADJUSTMENT FOR INFLATION.—

17 (A) IN GENERAL.—For each fifth calendar
 18 year beginning after 2005, the \$500 amount in
 19 paragraph (1)(A) shall be increased by such
 20 dollar amount multiplied by the cost-of-living
 21 adjustment determined under section 1(f)(3) of
 22 the Internal Revenue Code of 1986 determined
 23 by substituting “calendar year 2004” for “cal-
 24 endar year 1992” in subparagraph (B) thereof.

1 (B) ROUNDING.—If any amount adjusted
 2 under subparagraph (A) is not a multiple of
 3 \$50, such amount shall be rounded to the next
 4 lowest multiple of \$50.

5 (e) PRIVATE CONTRIBUTIONS.—The Executive Di-
 6 rector shall pay into the KIDS Account Fund such
 7 amounts as are contributed under section 3(f).

8 **SEC. 3. KIDS ACCOUNTS.**

9 (a) ESTABLISHMENT.—The Executive Director shall
 10 establish in the KIDS Account Fund a Kids Investment
 11 and Development Savings Account (hereinafter a “KIDS
 12 Account”) for each eligible individual certified under sub-
 13 section (b). Each such account shall be identified to its
 14 account holder by means of the account holder’s social se-
 15 curity account number.

16 (b) CERTIFICATION OF ACCOUNT HOLDERS.—On the
 17 date on which an eligible individual is issued a social secu-
 18 rity account number under section 203(c)(2) of the Social
 19 Security Act, the Commissioner of Social Security shall
 20 certify to the Executive Director and the Secretary of the
 21 Treasury the name of, and social security number issued
 22 to, such eligible individual.

23 (c) ACCOUNT BALANCE.—The balance in an account
 24 holder’s KIDS Account at any time is the excess of—

25 (1) the sum of—

1 (A) all deposits made into the KIDS Ac-
 2 count Fund and credited to the account under
 3 subsection (d), and

4 (B) the total amount of allocations made
 5 to and reductions made in the account pursuant
 6 to subsection (e), over

7 (2) the amounts paid out of the account with
 8 respect to such individual under section 6.

9 (d) CREDITING OF CONTRIBUTIONS.—Pursuant to
 10 regulations which shall be prescribed by the Executive Di-
 11 rector, the Executive Director shall credit to each KIDS
 12 Account the amounts paid into the KIDS Account Fund
 13 under subsections (d) and (e) of section 2 which are attrib-
 14 utable to the account holder of such account.

15 (e) ALLOCATION OF EARNINGS AND LOSSES.—The
 16 Executive Director shall allocate to each KIDS Account
 17 an amount equal to the net earnings and net losses from
 18 each investment of sums in the KIDS Account Fund
 19 which are attributable, on a pro rata basis, to sums cred-
 20 ited to such account, reduced by an appropriate share of
 21 the administrative expenses paid out of the net earnings,
 22 as determined by the Executive Director.

23 (f) PRIVATE CONTRIBUTIONS.—

24 (1) IN GENERAL.—The Executive Director shall
 25 accept cash contributions for payment into the

1 KIDS Account Fund if such contribution is identi-
 2 fied (in such manner as the Executive Director may
 3 require) with the account holder of a KIDS Account
 4 to whom it is to be credited at the time the contribu-
 5 tion is made.

6 (2) ALTERNATIVE METHODS OF CONTRIBU-
 7 TION.—

8 (A) PAYROLL DEDUCTION.—Under regula-
 9 tions prescribed by the Executive Director and
 10 at the election of the employer, contributions
 11 under paragraph (1) may be made through pay-
 12 roll deductions.

13 (B) TAX REFUNDS.—Under regulations
 14 prescribed by the Secretary of the Treasury,
 15 contributions under paragraph (1) may be made
 16 by an election to contribute all or a portion of
 17 the tax refund of the contributor.

18 (3) ANNUAL LIMITATION.—

19 (A) ACCOUNT HOLDERS UNDER AGE 18.—
 20 In the case of an account holder who has not
 21 attained age 18 at the end of a calendar year—

22 (i) the limitation under section
 23 219(b)(1) of the Internal Revenue Code of
 24 1986 shall not apply, and

(ii) the Executive Director shall not accept any contribution identified with such account holder if such contribution, when added to all other contributions made under this subsection during such calendar year with respect to such account holder, exceeds \$1,000.

(B) ACCOUNT HOLDERS AGE 18 OR OLDER.—In the case of an account holder who is age 18 or older at the end of a calendar year, any contribution identified with such account holder shall be taken into account under section 219(b)(1) of the Internal Revenue Code of 1986 for such year.

(C) ADJUSTMENT FOR INFLATION.—

(i) IN GENERAL.—For each fifth calendar year beginning after 2005, the \$1,000 amount under subparagraph (A)(ii) shall be increased by such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 determined by substituting “calendar year 2004” for “calendar year 1992” in subparagraph (B) thereof.

1 (ii) ROUNDING.—If any amount ad-
 2 justed under clause (i) is not a multiple of
 3 \$50, such amount shall be rounded to the
 4 next lowest multiple of \$50.

5 (g) ELIGIBLE INDIVIDUAL.—For purposes of this
 6 Act, the term “eligible individual” means any individual
 7 who is—

8 (1) a United States citizen or a person de-
 9 scribed in paragraph (1) of section 431(b) of the
 10 Personal Responsibility and Work Opportunity Rec-
 11 onciliation Act of 1996,

12 (2) born after December 31, 2005, and

13 (3) less than 18 years of age.

14 (h) REPAYMENT OF AUTOMATIC CONTRIBUTION.—
 15 Beginning with the year in which an account holder of
 16 a KIDS Account attains the age of 30, such account hold-
 17 er shall repay, in such form and manner as the Executive
 18 Director shall prescribe by regulation, the amount trans-
 19 ferred under section 2(d)(1)(A) and credited to the ac-
 20 count of the account holder under subsection (d).

21 (i) RIGHTS OF LEGAL GUARDIAN.—Until the account
 22 holder of a KIDS Account attains age 18, any rights or
 23 duties of the account holder under this Act with respect
 24 to such account shall be exercised or performed by the
 25 legal guardian of such account holder.

1 **SEC. 4. CERTIFICATIONS RELATED TO GOVERNMENT CON-**
 2 **TRIBUTIONS.**

3 (a) SUPPLEMENTAL GOVERNMENT CONTRIBU-
 4 TIONS.—

5 (1) IN GENERAL.—Upon such showing as the
 6 Executive Director may require to establish the basis
 7 for certification, the Executive Director shall, with
 8 respect to each eligible account holder, certify to the
 9 Secretary of the Treasury the supplemental amount
 10 with respect to such account holder.

11 (2) ELIGIBLE ACCOUNT HOLDER.—For pur-
 12 poses of this subsection, the term “eligible account
 13 holder” means an account holder of a KIDS Ac-
 14 count who, for the last taxable year ending before
 15 such account holder’s certification under section
 16 3(b), has a modified adjusted gross income which is
 17 below the applicable national median adjusted gross
 18 income amount.

19 (3) SUPPLEMENTAL AMOUNT.—

20 (A) IN GENERAL.—For purposes of this
 21 Act, the term “supplemental amount” means
 22 \$500.

23 (B) INCOME PHASE-OUT.—With respect to
 24 any account holder who has a modified adjusted
 25 gross income for the last taxable year ending
 26 before such account holder’s certification under

1 section 3(b) which is in excess of 50 percent of
2 the applicable national median adjusted gross
3 income amount, the \$500 amount in subpara-
4 graph (A) shall be reduced (but not below zero)
5 by an amount which bears the same ratio to
6 \$500 as such excess bears to 50 percent of the
7 applicable national median adjusted gross in-
8 come amount.

9 (C) ADJUSTMENT FOR INFLATION.—

10 (i) IN GENERAL.—For each fifth cal-
11 endar year beginning after 2005, each of
12 the \$500 amounts under subparagraphs
13 (A) and (B) shall be increased by such dol-
14 lar amount multiplied by the cost-of-living
15 adjustment determined under section
16 1(f)(3) of the Internal Revenue Code of
17 1986 determined by substituting “calendar
18 year 2004” for “calendar year 1992” in
19 subparagraph (B) thereof.

20 (ii) ROUNDING.—If any amount ad-
21 justed under clause (i) is not a multiple of
22 \$50, such amount shall be rounded to the
23 next lowest multiple of \$50.

24 (b) GOVERNMENT MATCHING CONTRIBUTION.—

1 (1) IN GENERAL.—Upon such showing as the
2 Executive Director may require to establish the basis
3 for certification, the Executive Director shall, with
4 respect to each private contribution to the account
5 of an account holder which is made before such ac-
6 count holder attains age 18, certify to the Secretary
7 of the Treasury the matching amount with respect
8 to such contribution.

9 (2) MATCHING AMOUNT.—

10 (A) IN GENERAL.—For purposes of this
11 subsection, the term “matching amount”
12 means, with respect to the first \$500 of private
13 contributions to an account during any calendar
14 year, an amount equal to 100 percent of such
15 contribution.

16 (B) INCOME PHASE-OUT.—With respect to
17 any account holder who has a modified adjusted
18 gross income for the last taxable year ending
19 before such contribution which is in excess of
20 100 percent of the applicable national median
21 adjusted gross income amount, the \$500
22 amount in subparagraph (A) shall be reduced
23 (but not below zero) by an amount which bears
24 the same ratio to \$500 as such excess bears to

1 5 percent of the applicable national median ad-
2 justed gross income amount.

3 (C) ADJUSTMENT FOR INFLATION.—

4 (i) IN GENERAL.—For each fifth cal-
5 endar year beginning after 2005, each of
6 the \$500 amounts under subparagraphs
7 (A) and (B) shall be increased by such dol-
8 lar amount multiplied by the cost-of-living
9 adjustment determined under section
10 1(f)(3) of the Internal Revenue Code of
11 1986 determined by substituting “calendar
12 year 2004” for “calendar year 1992” in
13 subparagraph (B) thereof.

14 (ii) ROUNDING.—If any amount ad-
15 justed under clause (i) is not a multiple of
16 \$50, such amount shall be rounded to the
17 next lowest multiple of \$50.

18 (3) PRIVATE CONTRIBUTION.—For purposes of
19 this subsection, the term “private contribution”
20 means a contribution accepted under section 3(f).

21 (c) DEFINITIONS AND RULES RELATING TO MODI-
22 FIED ADJUSTED GROSS INCOME.—For purposes of this
23 section—

24 (1) SPECIAL RULE FOR ACCOUNT HOLDERS
25 WHO CAN BE CLAIMED AS DEPENDENTS.—In the

1 case of an account holder of a KIDS Account for
 2 whom a deduction is allowable under section 151 of
 3 the Internal Revenue Code of 1986 to another tax-
 4 payer, any reference in this section to the modified
 5 adjusted gross income of the account holder for any
 6 taxable year shall be treated as a reference to the
 7 modified adjusted gross income of such other tax-
 8 payer.

9 (2) MODIFIED ADJUSTED GROSS INCOME.—The
 10 term “modified adjusted gross income” has the
 11 meaning given such term in section 221(b) of the In-
 12 ternal Revenue Code of 1986.

13 (3) APPLICABLE NATIONAL MEDIAN ADJUSTED
 14 GROSS INCOME.—

15 (A) IN GENERAL.—The term “applicable
 16 national median adjusted gross income” means,
 17 with respect to any calendar year, the median
 18 amount of adjusted gross income (as defined in
 19 section 62 of the Internal Revenue Code of
 20 1986) for individual taxpayers for taxable years
 21 ending in the prior calendar year as determined
 22 by the Secretary of the Treasury.

23 (B) JOINT RETURNS.—The applicable na-
 24 tional median adjusted gross income shall be

1 calculated and applied separately with respect
2 to joint returns and all other returns.

3 **SEC. 5. RULES GOVERNING KIDS ACCOUNTS RELATING TO**
4 **INVESTMENT, ACCOUNTING, AND REPORT-**
5 **ING.**

6 (a) **DEFAULT INVESTMENT PROGRAM.**—The KIDS
7 Account Fund Board shall establish a default investment
8 program under which, in a manner similar to a lifecycle
9 investment program, sums in each KIDS Account are allo-
10 cated to investment funds in the KIDS Account Fund
11 based on the amount of time before the account holder
12 attains the age of 18. Each account holder of a KIDS
13 Account shall be enrolled in such program unless such ac-
14 count holder, in such form and manner as prescribed by
15 the Executive Director, elects otherwise.

16 (b) **OTHER RULES.**—Under regulations which shall
17 be prescribed by the Executive Director, and subject to
18 the provisions of this Act, the provisions of—

- 19 (1) section 8438 of title 5, United States Code
20 (relating to investment of the Thrift Savings Fund),
21 (2) section 8439(b) of such title (relating to en-
22 gagement of independent qualified public account-
23 ant),

1 (3) section 8439(c) of such title (relating to
 2 periodic statements and summary descriptions of in-
 3 vestment options), and

4 (4) section 8439(d) of such title (relating to as-
 5 sumption of risk),

6 shall apply with respect to the KIDS Account Fund and
 7 accounts maintained in such Fund in the same manner
 8 and to the same extent as such provisions relate to the
 9 Thrift Savings Fund and the accounts maintained in the
 10 Thrift Savings Fund. For purposes of this subsection, ref-
 11 erences in such sections 8438 and 8439 to an employee,
 12 Member, former employee, or former Member shall be
 13 deemed references to an account holder of a KIDS Ac-
 14 count in the KIDS Account Fund.

15 **SEC. 6. DISTRIBUTIONS FROM KIDS ACCOUNTS.**

16 (a) IN GENERAL.—Under regulations prescribed by
 17 the Executive Director, amounts in a KIDS Account shall,
 18 at the request of the account holder, be distributed to the
 19 account holder if the account holder demonstrates to the
 20 satisfaction of the Executive Director that such amount
 21 will be used for qualified expenses.

22 (b) AGE LIMITATION.—

23 (1) EARLY DISTRIBUTIONS.—No distribution
 24 shall be made under subsection (a) with respect to

1 any account holder of a KIDS Account before such
 2 account holder attains age 18.

3 (2) EXCEPTION.—Paragraph (1) shall not
 4 apply with respect to amounts distributed for quali-
 5 fied higher education expenses (as defined in section
 6 529(e)(3) of the Internal Revenue Code of 1986).

7 (c) QUALIFIED EXPENSES.—For purposes of this
 8 Act, the term “qualified expenses” means, with respect to
 9 any account holder—

10 (1) qualified distributions (within the meaning
 11 of section 408A(d)(2) of the Internal Revenue Code
 12 of 1986),

13 (2) qualified higher education expenses (as de-
 14 fined in section 529(e)(3) of such Code), and

15 (3) amounts which within 60 days of distribu-
 16 tion are transferred to a qualified tuition program
 17 under section 529 of the Internal Revenue Code of
 18 1986 for the benefit of the account holder or a mem-
 19 ber of the family (within the meaning of section
 20 529(e)(2) of such Code) of such account holder.

21 **SEC. 7. TAX TREATMENT OF KIDS ACCOUNTS.**

22 (a) IN GENERAL.—Except as otherwise provided in
 23 this Act, for purposes of the Internal Revenue Code of
 24 1986—

1 (1) each KIDS Account shall be treated in the
 2 same manner as a Roth IRA (within the meaning of
 3 section 408A of such Code), and

4 (2) any distribution from such account shall be
 5 treated in the same manner as a distribution from
 6 a Roth IRA, except that distributions described in
 7 paragraphs (2) and (3) of section 6(c) shall be treat-
 8 ed as qualified distributions under section 408A(d)
 9 of such Code.

10 (b) QUALIFIED ROLLOVERS CONTRIBUTIONS.—

11 (1) IN GENERAL.—Except as provided in para-
 12 graph (2), no qualified rollover contribution (as de-
 13 fined in section 408A(e) of the Internal Revenue
 14 Code of 1986) shall be allowed with respect to a
 15 KIDS Account.

16 (2) QUALIFIED ROLLOVERS.—Under regula-
 17 tions prescribed by the Secretary of the Treasury in
 18 consultation with the Executive Director, after an
 19 account holder of a KIDS Account attains the age
 20 of 18, such account holder may elect to make a roll-
 21 over contribution from such account holder's account
 22 to—

- 23 (A) a privately managed KIDS Account, or
- 24 (B) a Roth IRA.

1 (c) 100 PERCENT TAX ON GOVERNMENT CONTRIBU-
2 TIONS.—

3 (1) KIDS ACCOUNTS.—

4 (A) IN GENERAL.—In the case of any
5 amount distributed from a KIDS Account
6 which is attributable to contributions made
7 under section 2(d) and which would be includ-
8 ible in gross income (but for this paragraph)—

9 (i) such amount shall not be includible
10 in gross income, and

11 (ii) the tax imposed under chapter 1
12 of the Internal Revenue Code of 1986 on
13 the distributee for the taxable year in
14 which such amount is distributed shall be
15 increased by 100 percent of such amount.

16 (B) ORDERING RULES.—For purposes of
17 this paragraph, distributions from KIDS Ac-
18 counts shall be treated as made from amounts
19 attributable to contributions made under sec-
20 tion 3(f) and from earnings before made from
21 amounts attributable to contributions made
22 under section 2(d).

23 (2) ROTH IRAS.—Section 408A(d) of the Inter-
24 nal Revenue Code of 1986 (relating to distribution

1 rules) is amended by adding at the end the following
 2 new paragraph:

3 “(8) 100 PERCENT TAX ON DISTRIBUTIONS RE-
 4 LATED TO CERTAIN GOVERNMENT CONTRIBU-
 5 TIONS.—

6 “(A) IN GENERAL.—In the case of any dis-
 7 tribution which is attributable to contributions
 8 made under section 2(d) of the America Saving
 9 for Personal Investment, Retirement, and Edu-
 10 cation Act of 2004 and which would be includ-
 11 ible in gross income (but for this paragraph)—

12 “(i) such amount shall not be includ-
 13 ible in gross income, and

14 “(ii) the tax imposed under chapter 1
 15 on the distributee for the taxable year in
 16 which such amount is distributed shall be
 17 increased by 100 percent of such amount.

18 “(B) ORDERING RULES.—For purposes of
 19 this paragraph, distributions shall be treated as
 20 made from amounts attributable to other con-
 21 tributions and from earnings before made from
 22 amounts attributable to contributions made
 23 under section 2(d) of the America Saving for
 24 Personal Investment, Retirement, and Edu-
 25 cation Act of 2004.”.

(3) QUALIFIED TUITION PROGRAMS.—Section 529(c)(3) of the Internal Revenue Code of 1986 (relating to distributions) is amended by adding at the end the following new subparagraph:

“(E) 100 PERCENT TAX ON DISTRIBUTIONS RELATED TO CERTAIN GOVERNMENT CONTRIBUTIONS.—

“(i) IN GENERAL.—In the case of any distribution which is attributable to contributions made under section 2(d) of the America Saving for Personal Investment, Retirement, and Education Act of 2004 and which would be includible in gross income (but for this subparagraph)—

“(I) such amount shall not be includible in gross income, and

“(II) the tax imposed under chapter 1 on the distributee for the taxable year in which such amount is distributed shall be increased by 100 percent of such amount.

“(ii) ORDERING RULES.—For purposes of this subparagraph, distributions shall be treated as made from amounts attributable to other contributions and from

1 earnings before made from amounts attrib-
 2 utable to contributions made under section
 3 2(d) of the America Saving for Personal
 4 Investment, Retirement, and Education
 5 Act of 2004.”.

6 **SEC. 8. PRIVATE MANAGEMENT OF KIDS ACCOUNTS.**

7 (a) IN GENERAL.—Part I of subchapter D of chapter
 8 1 of the Internal Revenue Code of 1986 is amended by
 9 inserting after section 408A the following new section:

10 **“SEC. 408B. PRIVATELY MANAGED KIDS ACCOUNTS.**

11 “(a) IN GENERAL.—Except as provided in this sec-
 12 tion, a privately managed KIDS Account shall be treated
 13 in the same manner as a Roth IRA, except that:

14 “(1) Qualified distributions shall include—

15 “(A) qualified higher education expenses
 16 (as defined in section 529(e)(3)) of the bene-
 17 ficiary of a privately managed KIDS Account,
 18 and

19 “(B) amounts which within 60 days of dis-
 20 tribution are transferred to a qualified tuition
 21 program under section 529 for the benefit of
 22 the account holder of a privately managed
 23 KIDS Account or a member of the family
 24 (within the meaning of section 529(e)(2)) of
 25 such account holder.

1 “(2) Section 408A(d)(2)(B) shall not apply.

2 “(3) In lieu of the definition given the term
 3 ‘qualified rollover contribution’ under section
 4 408A(e), such term shall mean a rollover contribu-
 5 tion to a privately managed KIDS Account from an-
 6 other such account or from a KIDS Account under
 7 section 7(b)(2)(A) of the America Saving for Per-
 8 sonal Investment, Retirement, and Education Act of
 9 2004, but only if such rollover contribution meets
 10 the requirements of section 408(d)(3).

11 “(4) In the case of any distribution which is at-
 12 tributable to contributions made under section 2(d)
 13 of the America Saving for Personal Investment, Re-
 14 tirement, and Education Act of 2004 and which
 15 would be includible in gross income (but for this
 16 paragraph)—

17 “(A) such amount shall not be includible in
 18 gross income, and

19 “(B) the tax imposed under chapter 1 on
 20 the distributee for the taxable year in which
 21 such amount is distributed shall be increased by
 22 100 percent of such amount.

23 For purposes of this paragraph, distributions from
 24 privately managed KIDS Accounts shall be treated
 25 as made from amounts attributable to contributions

1 made under section 3(f) of the America Saving for
 2 Personal Investment, Retirement, and Education
 3 Act of 2004 and from earnings before made from
 4 amounts attributable to contributions made under
 5 section 2(d) of such Act.

6 “(b) PRIVATELY MANAGED KIDS ACCOUNT.—For
 7 purposes of this title, the term ‘privately managed KIDS
 8 Account’ means an individual retirement plan (as defined
 9 in section 7701(a)(37)) which is designated (in such man-
 10 ner as the Secretary may prescribe) as a privately man-
 11 aged KIDS Account.”.

12 (b) CONFORMING AMENDMENT.—The table of sec-
 13 tions for part I of subchapter D of chapter 1 of the Inter-
 14 nal Revenue Code of 1986 is amended by inserting after
 15 the item related to section 408A the following new item:

“Sec. 408B. Privately managed KIDS Accounts.”.

16 **SEC. 9. KIDS ACCOUNT FUND BOARD.**

17 (a) IN GENERAL.—There is established in the Execu-
 18 tive branch of the Government a KIDS Account Fund
 19 Board.

20 (b) COMPOSITION, DUTIES, AND RESPONSIBIL-
 21 ITIES.—Subject to the provisions of this Act, the provi-
 22 sions of —

23 (1) section 8472 of title 5, United States Code
 24 (relating to composition of Federal Retirement
 25 Thrift Investment Board),

1 (2) section 8474 of such title (relating to Exec-
2 utive Director),

3 (3) section 8475 of such title (relating to in-
4 vestment policies), and

5 (4) section 8476 of such title (relating to ad-
6 ministrative provisions),

7 shall apply with respect to the KIDS Account Fund Board
8 in the same manner and to the same extent as such provi-
9 sions relate to the Federal Retirement Thrift Investment
10 Board.

11 **SEC. 10. FIDUCIARY RESPONSIBILITIES.**

12 (a) IN GENERAL.—Under regulations of the Sec-
13 retary of Labor, the provisions of sections 8477 and 8478
14 of title 5, United States Code, shall apply in connection
15 with the KIDS Account Fund and the accounts main-
16 tained in such Fund in the same manner and to the same
17 extent as such provisions apply in connection with the
18 Thrift Savings Fund and the accounts maintained in the
19 Thrift Savings Fund.

20 (b) INVESTIGATIVE AUTHORITY.—Any authority
21 available to the Secretary of Labor under section 504 of
22 the Employee Retirement Income Security Act of 1974 is
23 hereby made available to the Secretary of Labor, and any
24 officer designated by the Secretary of Labor, to determine

1 whether any person has violated, or is about to violate,
2 any provision applicable under subsection (a).

3 (c) EXCULPATORY PROVISIONS; INSURANCE.—

4 (1) IN GENERAL.—Any provision in an agree-
5 ment or instrument which purports to relieve a fidu-
6 ciary from responsibility or liability for any responsi-
7 bility, obligation, or duty under this Act shall be
8 void.

9 (2) INSURANCE.—Amounts in the KIDS Ac-
10 count Fund available for administrative expenses
11 shall be available and may be used at the discretion
12 of the Executive Director to purchase insurance to
13 cover potential liability of persons who serve in a fi-
14 duciary capacity with respect to the Fund and ac-
15 counts maintained therein, without regard to wheth-
16 er a policy of insurance permits recourse by the in-
17 surer against the fiduciary in the case of a breach
18 of a fiduciary obligation.

19 **SEC. 11. ASSIGNMENT, ALIENATION, AND TREATMENT OF**
20 **DECEASED INDIVIDUALS.**

21 (a) ASSIGNMENT AND ALIENATION.—Under regula-
22 tions which shall be prescribed by the Executive Director,
23 rules relating to assignment and alienation applicable
24 under chapter 84 of title 5, United States Code, with re-
25 spect to amounts held in accounts in the Thrift Savings

1 Fund shall apply with respect to amounts held in KIDS
2 Accounts in the KIDS Account Fund.

3 (b) TREATMENT OF ACCOUNTS OF DECEASED INDIVIDUALS.—In the case of a deceased account holder of a
4 KIDS Account which has an account balance greater than
5 zero, upon receipt of notification of such individual's
6 death, the Executive Director shall close the account and
7 shall transfer the balance in such account to the KIDS
8 Account of such account holder's surviving spouse or, if
9 there is no such account of a surviving spouse, to the duly
10 appointed legal representative of the estate of the deceased
11 account holder, or if there is no such representative, to
12 the person or persons determined to be entitled thereto
13 under the laws of the domicile of the deceased account
14 holder.
15

16 **SEC. 12. ACCOUNTS DISREGARDED IN DETERMINING ELIGI-**
17 **BILITY FOR FEDERAL BENEFITS.**

18 Amounts in any KIDS Account shall not be taken
19 into account in determining any individual's eligibility for
20 any federally funded benefit, including student financial
21 aid.

22 **SEC. 13. REPORTS.**

23 (a) ANNUAL REPORT.—The Executive Director, in
24 consultation with the Secretary of the Treasury, shall an-

1 nually transmit a written report to the Congress. Such re-
 2 port shall include—

3 (1) a detailed description of the status and op-
 4 eration of the KIDS Account Fund and the manage-
 5 ment of the KIDS Accounts, and

6 (2) a detailed accounting of the administrative
 7 expenses in carrying out this Act, including the ratio
 8 of such administrative expenses to the balance of the
 9 KIDS Account Fund and the methodology adopted
 10 by the Executive Director for allocating such ex-
 11 penses among the KIDS Accounts.

12 (b) REPAYMENT OF AUTOMATIC CONTRIBUTIONS.—

13 Not later than 2 years before the issuance of any final
 14 regulation under section 3(h), the Executive Director shall
 15 transmit a written report to the Congress. Such report
 16 shall include a draft of the proposed regulation to be
 17 issued under such section and a description of the conclu-
 18 sions and recommendations of the Executive Director re-
 19 garding the implementation of the following repayment op-
 20 tions:

21 (1) Repayment through service or employment
 22 in high-need professions or areas.

23 (2) Increasing the Federal income tax liability
 24 of each account holder of a KIDS Account by \$100

1 per year for 5 years after the account holder attains
2 age 30.

3 (3) Repayment from the account or other
4 sources before the account holder of a KIDS Ac-
5 count attains age 30.

6 (4) Alternatives for individuals facing financial
7 hardship, including deferred repayment and forgive-
8 ness.

9 **SEC. 14. PROGRAMS FOR PROMOTING FINANCIAL LIT-**
10 **ERACY.**

11 The Secretary of the Treasury, in coordination with
12 the Financial Literacy and Education Commission, shall
13 develop programs to promote the financial literacy of ac-
14 count holders of KIDS Accounts and the legal guardians
15 of such account holders who have the rights with respect
16 to such accounts under section 3(i).

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