youth savings account program

a program for rewarding young savers

The Youth Savings Account Program is designed to help establish and reward good savings habits for our young members and provide financial education through their life stages.

How does the program work?

Young members and their families can choose between three plan options to grow the child's savings:

1) Make a regular deposit of $10 monthly and the credit union contributes $2.50 per month to the account.
2) Maintain a four-product relationship and the credit union contributes $2.50 per month to the account.
3) Make a regular deposit of $10 monthly and maintain a four-product relationship and the credit union contributes $5 per month to the account.

Additional account deposits can be made by grandparents or other family members. However, the maximum monthly credit union contribution remains at $2.50.

An important mandatory component of the program is Financial Education that will be provided during the young members' life stages. The saving and relationship incentives will be pledged until the young member becomes 18 and has completed any required credit union financial education. At that time, the funds, including the credit union contributions plus interest, are available for use by the member. If at any time during the program, the parent select to close the Youth Savings Account, they will forfeit any funds that have been contributed by the credit union. If the parents no longer meet the criteria for the relationship incentive but the account remains open, the young member may collect the credit union contributed funds earned once they have completed the requirements of the program.

The Relationship Incentive allows the credit union to reward and educate the children of those members whom have strong relationships. The type and number of relationships were taken into consideration as to not be disparate to members who could not obtain a relationship due to credit restrictions.

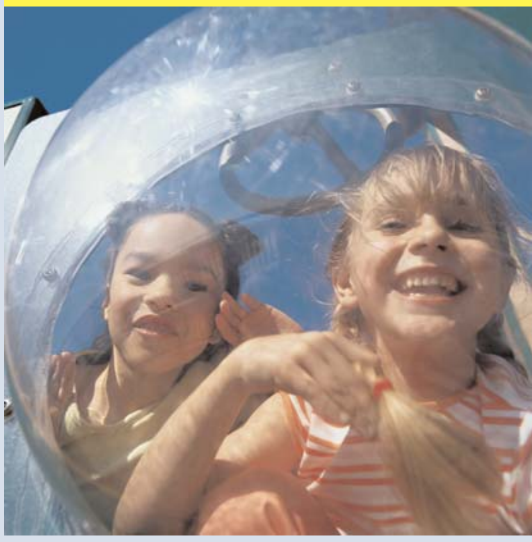
To earn the Relationship Incentive, parents or guardians must maintain at least four of the products and services listed below in order for the young member to receive the incentive.

Active Checking Account	Credit Card
Auto Loan	Other Consumer Loan
Bill Pay	Debit Card
Mortgage Loan	E-Statements
On-Line Banking	Direct Deposit
Money Market Account	Certificate of Deposit

The Savings Incentive will be earned after the young member/parents/guardian has made their monthly deposit or has a balance that equals or exceeds the amount of the credit union contributed incentive. The goal again is to assist young credit union members to establish a strong and consistent savings habit. Using the guidelines for the Savings Incentive, a young member could earn $540 in credit union contribution plus the $2,160 of their required savings contribution for a total of $2,700 plus interest over an 18 year period. Using the Relationship Incentive guidelines, a young member could earn an additional $540 plus interest over the same time period. Couple the two incentive programs together and a young member could have almost $3,500 vested into a savings account at the time they turn 18.

This type of program will grow strong, loyal and financially educated members. It provides the credit union with the opportunity to grant their student loans, their first checking account, debit card, credit card and auto loan. Considering what it costs to bring in a loyal, educated and profitable member to the credit union — is an investment in our youth, our future, and a $1,000 over an 18-year period worth it?

ATTRACTING YOUNG PEOPLE TO BECOME CREDIT UNION MEMBERS IS LESS EXPENSIVE THAN ACQUIRING AN ADULT.



Youth Savings Account Features and Benefits

Features	Benefits
No service charge[1]	
$2.50 - $5.00 a month savings incentive deposit[2]	Instills the value of savings and sensible money management at a young age
Earns interest at a higher rate than a regular savings account	Maximize earnings with compounding dividends accrued daily, compounded & paid monthly. Added bonus results in higher APYE
Financial education	Instills the value of savings and sensible money management at a young age
Electronic Statements	Convenience to member: cost savings to CU
24-hour access to account info through your personal computer or telephone	Convenience of account access anytime
Free deposit-only ATM Card	Easy access 24 x 7
Easy start up and just a $25 minimum balance	Low opening minimums to start building your assets now
No fee financial counseling with Investment Representative	Sound financial advice from your trusted advisor
Balances federally insured up to $100,000	Peace of mind knowing your savings are protected
Free automatic transfers to build account balances quickly and painlessly	Rewards the systematic saver

[1] As long as parent/guardian maintains relationship(s)
[2] As long as parent/guardian maintains relationship and qualifying deposit is made

ALL KIDS NEED IS A LITTLE HELP,
A LITTLE HOPE AND SOMEBODY
WHO BELIEVES IN THEM.
–Earvin "Magic" Johnson

Early Concept Document

Please contact
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for updated information.

Cost Benefit Analysis

Although there is undeniable cost associated with offering this product, the cost of not strategically doing all we can to attract and grow young members will impair the future growth of many credit unions.

It is understandable that some credit unions may initially find it difficult to justify the expense for funding this program, especially as earnings pressures continue.

The Program's matching deposit must be viewed as an investment in our future members. It costs an average of $100 to acquire a new member and lately, many financial institutions are willing to pay $75 or more to entice a member to open a relationship/premier checking account. The reason why institutions are willing to pay this much to acquire members is in anticipation of future profitability these members may bring to the financial institutions.

NCUA Board member Debbie Matz recently issued a press release detailing current threats to credit unions. At the top of the list is the threat that more than 50% of adult members have aged beyond their borrowing years. With the membership growth rate slowing and only 5% of adult members entering prime borrowing years, there are very few young members to sustain credit unions in the future.

In addition, the credit union industry has not done enough to differentiate itself from other for-profit financial institutions. Banks are encroaching on our market space to prove to consumers and legislators that they are complying with Community Reinvestment Act (CRA) requirements. On the other hand, credit unions are professing they serve the underserved and under-banked with identical products and services offered by other for-profit financial institutions. To separate ourselves from the pack, we must do more. The Credit Union Product Profitability Chart indicates the amount of profit that a credit union can make depending on the product type maintained by a member. It proves that while the initial cost of the Youth Savings Account Program may amount to $30 – $60 per year, the profitability gained for subsequent products surpasses the cost at a minimum ratio of three to one.

Credit Union Product Profitability Chart

Product	Average Balance	Interest Rate	Annual Average Profit[1]	Service per HH[2]	Annual Average Cross-Sell Profit[3]	Annual Average Total Profit[4]
Premium Checking	$4,944	0.26	$59	3.35	$94	$153
New Auto	$14,701	5.74	$173	3.57	$158	$331
Used Auto	$9,176	6.28	$84	3.22	$95	$179
Consumer Loan	$6,489	8.34	$67	3.38	$138	$205
Held Mortgage	$110,489	5.63	$1,215	4.24	$174	$1,389
HELOC	$29,945	6.77	$492	4.01	$265	$757
Home Equity Loan	$25,252	5.15	$398	4.18	$257	$655
Premium Card	$2,372	10.16	$118	3.66	$123	$241
Platinum Card	$2,954	8.76	$129	3.99	$133	$262

Data obtained from Raddon Financial Group
[1] Measures the amount of profit contribution from each product
[2] The average number of services purchased by a typical member who buys this product
[3] The additional profit from cross-selling other products to members
[4] Addition of Average profit and Cross-Sell Profit

Regulatory and Compliance Review

Compliance issues regarding the Youth Savings Account Program were considered. Input for legal sufficiency, compliance, disclosure development and to determine any concerns we sought. The law firm of Blaylock and Williams, CUNA, NAFCU and the NCUA were all contacted. Written support of the program from the law firm of Blaylock and Williams and verbal support from CUNA, NAFCU and the NCUA on all issues were received. An official opinion from the NCUA is currently under review and is expected shortly.

Some of the key issues addressed were, Regulation D – Truth in Savings, IRS reporting requirements, disparity concerns and consideration of establishing a 501©(3). Since the deposits to youth accounts are in exchange for maintaining or increasing account balances, these deposits into the young members account will be classified as a "bonus" per the definition in Truth in Savings. The contingent nature of the gift deposits does not take them out of the "bonus" definition, because the deposits would be for the child's benefit and as an incentive to open, maintain, renew or increase the child's deposits in youth accounts. The child would not be considered the "owner" of the gift deposits for tax reporting purposes until they are finally awarded at age 18 and completion of financial training. To meet IRS requirements, a 1099 INT would be issued at the time the funds are released to the child. The Youth Savings program was designed to allow the youth to benefit in two ways and the products and services were carefully reviewed and selected to prevent any form of disparate treatment.

The 501©(3) review was conducted for future consideration and the ability for the 501©(3) to fund the Youth Savings Incentive/Bonus from investments provided by the credit union and other sources. The creation of a Foundation with local and national partners who are also focused on investing in our youth could provide access to monetary and merchandise support to further enhance the incentives of the program, while establishing strong partnerships with and for the communities we serve.

Other Available Savings Programs

Credit unions are a natural vehicle for helping Americans build wealth. They have the access, means, and most importantly, the desire to help make a difference. There are several existing initiatives that help provide consumers with education to stress the importance of saving however, to our knowledge, no program exists that provides tangible rewards for savers, financial literacy at an early age, and relationship-building opportunities between member and credit union.

Programs such as the ***Faith Saves Initiative*** and the ***JumpStart Coalition for Financial Literacy*** have been receiving some press. And in recent years, initiatives in the form of Federal grant programs have emerged to help grantees assist "unbanked" low and moderate income individuals in opening accounts at insured depository institutions. For example, there is the ***First Account***, introduced in May of 2002 by the U.S. Treasury Department, and the AFI (Assets For Independence) project, assisting families with grants that offer matching funds in the form of ***Individual Development Accounts*** (IDAs) to acquire assets, such as a first home. An IDA is a special account that helps low-income earners save for large purchases or payments like education, purchase of a first home or start a business. There is a matching provision by some states up to an established income limit.

America Saves is a nationwide campaign in which a broad coalition of nonprofit, corporate, and government groups help individuals and families save and build wealth. Through information, advice, and encouragement, they assist those who wish to pay down debt, build an emergency fund, save for a home, save for an education, or save for retirement. The goal of the campaign is to convince all Americans that they can build wealth and to assist them in doing so. Overall management for the campaign is being provided by the nonprofit Consumer Federation of America (CFA). CFA is a federation of some 300 consumer education, advocacy, and cooperative organizations dedicated to advancing the consumer interest.

Plan It. Save 4 It is a two-year pilot campaign sponsored by the National Credit Union Foundation, with funding by a grant from the Ford Foundation. The aim is to help credit unions market their existing savings products and services. This campaign was not well received and has been discontinued. The preceding product offerings and campaigns to encourage savings have had very limited success. Some of the reasons for the failure of these initiatives include:

- Exclusive focus on low income segment or minority groups.
- Incoherent argument to justify cost and effectively communicate benefits of programs to consumers.
- Reliance on government and or foundation support for funding.
- Lack of mandatory financial education requirement.

The Youth Savings Account Program differs from the aforementioned programs in that it provides a stronger incentive for members to embrace it by offering a monthly "matching deposit" to an established youth account and requiring mandatory financial education throughout a participating youth's formative years (up to age 18).

Reasons People Don't Save:

- Finding savings boring and difficult
- Not understanding financial matters
- Not trusting financial institutions
- Reliance on Social Security and other retirement assets to cover future retirement need

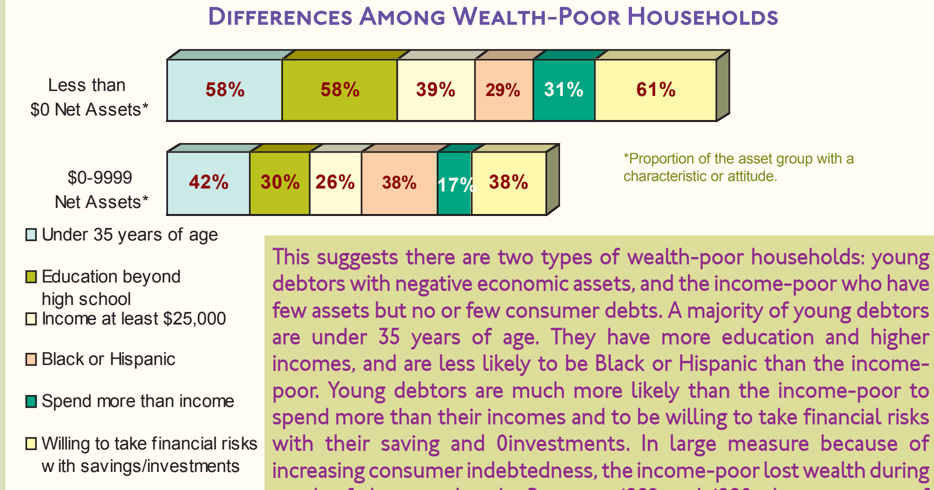
Background

With the decline of the U.S. savings rate to near zero last year, household asset accumulation warrants greater attention as a national priority. Until recently, the issue of low household savings has received limited attention from government officials, the press, and nonprofit organizations. Certainly it has received much less attention than continuing campaigns to reduce smoking, curtail drunken driving, use safety belts, test for radon, practice safe sex, and "say no" to drugs.

The neglect of household savings is especially troubling because most low- and moderate- income households have accumulated few assets that will allow them to survive financial crises and sustain levels of living into retirement. With no or low assets, these families have difficulty investing in a home, car, education, or a business that can help them improve their economic condition.

According to the Administration for Children & Families, an agency of the U.S. Department of Health & Human Services, more than 25% of American households are "asset poor," meaning the individuals and families do not have sufficient financial resources to support them at the poverty level for three months (during a suspension of income). Even more troubling, asset poverty affects children at a disproportionately greater rate. Forty-seven percent of all American children live in households with no net financial assets. Statistics on racial and ethnic minorities and minority children are even more severe.

Research conducted throughout the last decade on the effects of asset building on low-income, low-asset families indicates that its effects extend beyond tangible assets accumulated. Families with assets show a psychological orientation toward the future, a decrease in marriage dissolution, and improved housing stability. According to the Consumer Federation of America, families engaging in asset building also tend to experience improved health and well-being, increased civic and community involve ment, and decreased rates of transfer of poverty to the next generation.

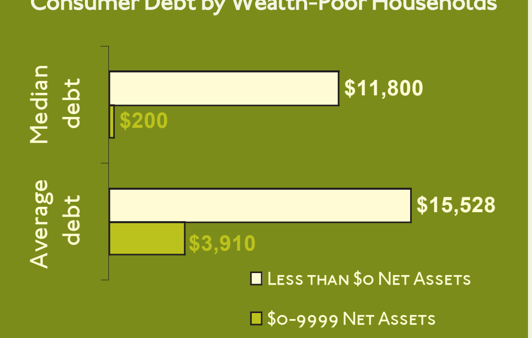


This suggests there are two types of wealth-poor households: young debtors with negative economic assets, and the income-poor who have few assets but no or few consumer debts. A majority of young debtors are under 35 years of age. They have more education and higher incomes, and are less likely to be Black or Hispanic than the income-poor. Young debtors are much more likely than the income-poor to spend more than their incomes and to be willing to take financial risks with their saving and 0investments. In large measure because of increasing consumer indebtedness, the income-poor lost wealth during much of the past decade. Between 1992 and 1998, the net assets of those households with incomes under $25,000 declined by 6%.

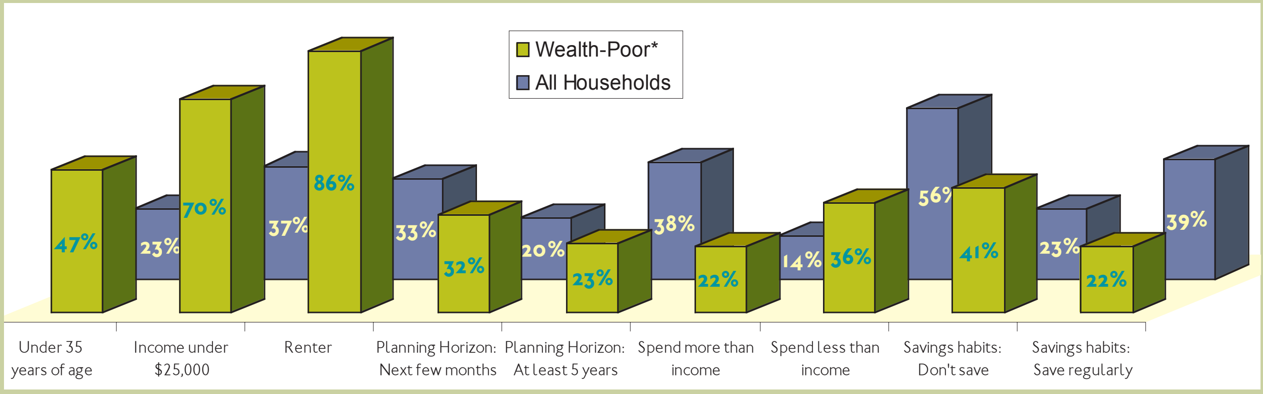
A number of credit unions overall – including roughly 50% to 75% of credit unions with assets of $20 million or more and "expansion" credit unions, provide programs that are geared primarily for low and moderate income members, programs such as check-cashing services for members, money orders and risk-based lending. However, none that we could identify offer tangible rewards for savers. There is no one system in place to help speed up the accumulation of wealth; modify consumer behavior; and provide financial literacy to children at an early age.

"Wealth-poor" Americans are only a lay-off or emergency expenditure away from financial disaster. They also lack the financial assets which allow investments in a home, an education or personal business, notes Stephen Brobeck, Executive Director of Consumer Federation of America (CFA). Adds Dan Mica, CUNA CEO, "Living paycheck to paycheck is no way to live."

As the table below indicates, the wealth-poor tend to be young, have low or moderate incomes, and rent rather than own homes. They also tend to plan for the next few months rather than for at least five years; tend to spend more than their incomes; tend not to save; and tend to be unwilling to take financial risks when saving or investing.



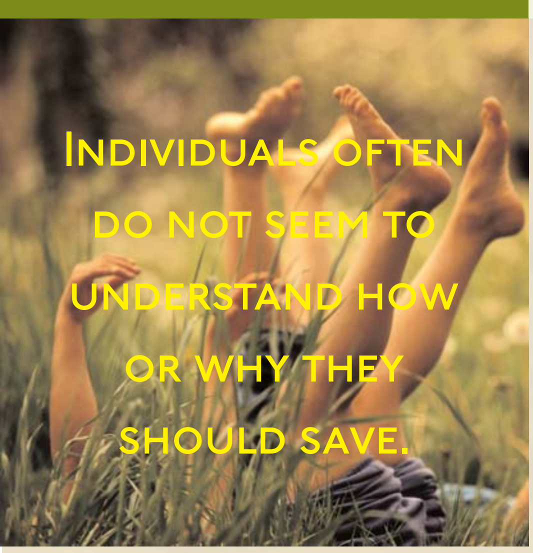
The Fed data indicates that those with negative assets carry far more consumer debt than households with net economic assets of zero to $9,999.



The Wealth-Poor Compared To All American Households

*For households with net assets under $10,000 proportions of this group with the characteristics or attitude.
(Data obtained from the Federal Reserve Board's Survey of Consumer Finances, 1998.)

There are wealth-poor households that don't share these characteristics or financial attitudes. Of these households with net assets under $10,000, 10% are over 65; 7% have incomes of at least $50,000; and 14% are homeowners. Moreover, of those households with net assets of at least $50,000, 14% don't save; 13% plan only for several months, and 11 % spend more than their incomes.



Living paycheck to paycheck is no way to live.

–Dan Mica, CUNA CEO

Reluctance of Consumer Saving Behavior

Given the many benefits – to individuals and to society as a whole – that savings can bring, in addition to the number of programs that are and have been in existence, there must be powerful reasons why people do not save enough. Individuals often do not seem to understand how or why they should save.

Nearly half of low-income groups have no savings at all. Studies show that poverty itself does not explain these low saving levels, rather the explanation lies in the lack of effective government and private incentives, and lack of financial education in society as a whole.

Millions of Americans lack the basic financial knowledge and services–more specifically, the tools to build wealth, acquire significant assets like a home, and work toward a more stable future. The Youth Savings Account Program is one of the tools to help build savings and financial awareness starting with kids.

About 30% of U.S. households have no financial assets and 47% of all American children live in households with no net financial assets. The impact of the Youth Savings Account Program will result in more financially aware and educated young members and will have lasting positive personal and social affects. Savings is empowering. Research indicates that families engaging in asset building also tend to experience improved health and well being, increased civic and community involvement, and decreased rates of transfer of poverty to the next generation.

SAVINGS/RELATIONSHIP INCENTIVE MATRIX

Dividend Rate 1.50% Monthly Match $5.00
Beginning Balance $50.00 Monthly Deposit $10.00

Year	Deposit	Match	Dividends	Ending Balance	Approx. APY
1	$120.00	$60.00	$2.10	$232.10	
2	$120.00	$60.00	$4.83	$416.93	20.13%
3	$120.00	$60.00	$7.60	$604.54	13.34%
4	$120.00	$60.00	$10.42	$794.95	10.14%
5	$120.00	$60.00	$13.27	$988.23	8.28%
6	$120.00	$60.00	$16.17	$1,184.40	7.06%
7	$120.00	$60.00	$19.12	$1,383.52	6.21%
8	$120.00	$60.00	$22.10	$1,585.62	5.57%
9	$120.00	$60.00	$25.13	$1,790.75	5.08%
10	$120.00	$60.00	$28.21	$1,998.97	4.69%
11	$120.00	$60.00	$31.33	$2,210.30	4.37%
12	$120.00	$60.00	$34.50	$2,424.80	4.11%
13	$120.00	$60.00	$37.72	$2,642.53	3.89%
14	$120.00	$60.00	$40.99	$2,863.51	3.70%
15	$120.00	$60.00	$44.30	$3,087.82	3.53%
16	$120.00	$60.00	$47.67	$3,315.48	3.39%
17	$120.00	$60.00	$51.08	$3,546.57	3.26%
18	$120.00	$60.00	$54.55	$3,781.12	3.15%
TOTALS	$2,160.00	$1,080.00	$491.12	$3,781.12	

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Innovation Project April 2005

Teresa Freeborn
Kinecta Federal Credit Union

Laida Garcia
Florida Central Credit Union

Francis James
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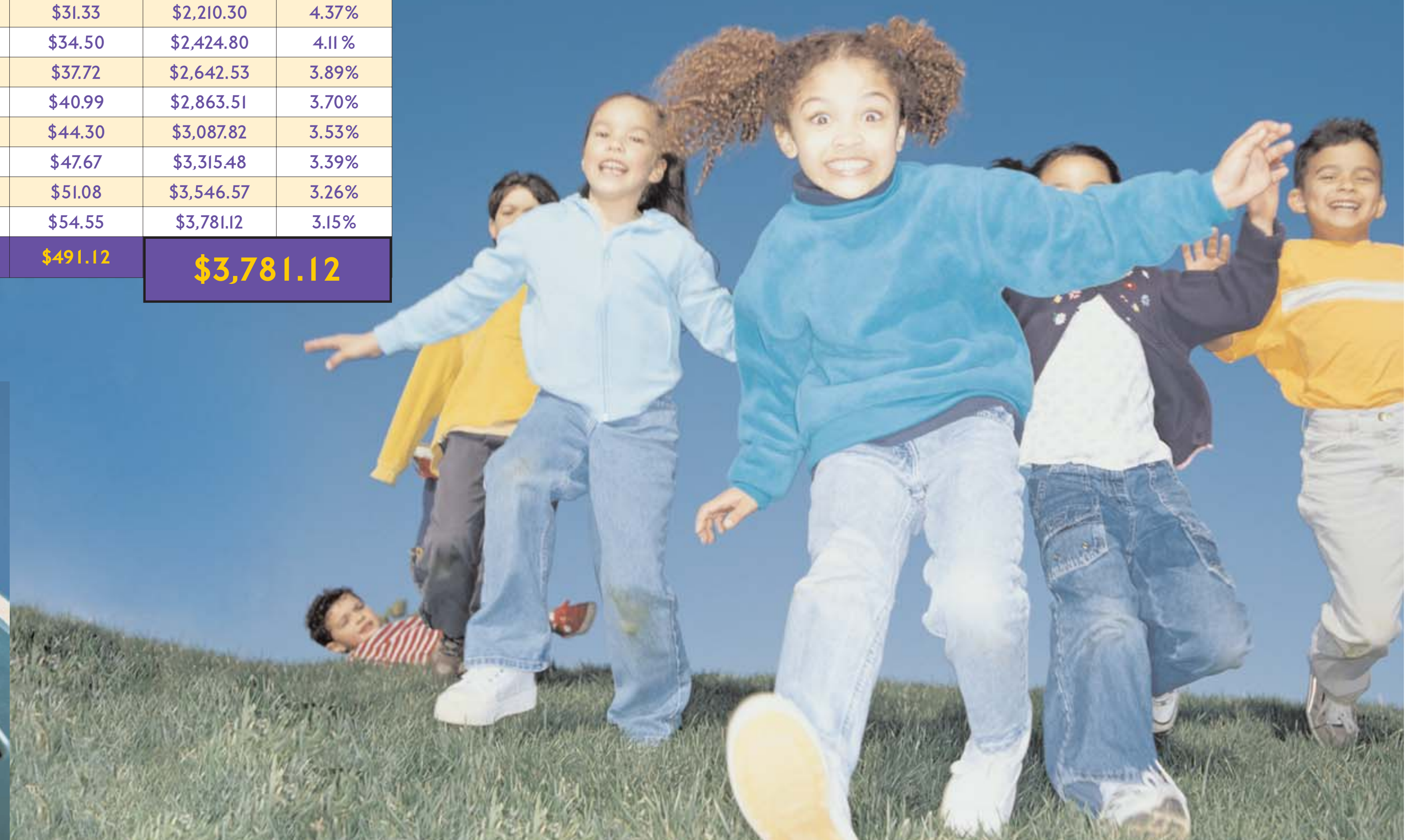

IF YOU TALK TO YOUR CHILDREN, YOU CAN HELP THEM TO KEEP THEIR LIVES TOGETHER.
IF YOU TALK TO THEM SKILLFULLY, YOU CAN HELP THEM TO BUILD FUTURE DREAMS.

–Jim Rohn

Summary – Good for the Future of Credit Unions

The development of a program that assists in establishing and rewarding regular saving habits for young credit union members and provides financial education through their life stages contributes to the core of what credit unions are all about.

While Financial Literacy is the buzz phrase from financial institutions to legislators, credit unions have claimed to provide this valuable service but are unable to prove it. According to the United States General Accounting Office on their Report on Credit Unions in October 2003, credit unions have no formal information available to evaluate the actual financial educational programs they are providing. While banks through CRA requirements track dollars and hours spent on such issues, the credit union industry has not and as of this writing, there is nothing scheduled. According to the Consumer Bankers Association Survey on Bank-Sponsored Financial Literacy programs, 89% are providing some form of financial literacy/education to their consumers. Unfortunately, perception is reality and credit unions are seen as falling short in this area. Financial literacy efforts may bring great face value but it is very difficult to measure their success. Only a comprehensive support program like the Youth Savings Account can provide the opportunity for better results.

Similar to the Seattle Federal Home Loan Bank's Home$tart Plus program, which matches two dollars for every dollar a family deposits into its self-sufficiency escrow account while also requiring participants to complete a program of homeownership counseling and money management, the Youth Savings Account Program will provide an instrument for asset savings that will incrementally grow and reward members for making consistent deposits.

Here is a summary of the program's benefits:

Key Member Benefits

1. **Encourages savings to start at an early age with small, regular deposits**
2. **Rewards deposits by providing an additional matching deposit**
3. **Focuses on building knowledge and awareness about the importance of savings**

Key Credit Union Benefits

1. **Developing life long member relationships**
2. **Contributing to the social and economic development of the community**
3. **Increasing product usage through member's life stages**

There are other product offerings and campaigns to encourage savings, with very limited success. In comparison to those programs, the Youth Savings Account Program and its inclusion of a monthly matching deposit provides a stronger incentive for members to embrace it, and more importantly, improve their savings habits.

According to the US Census, 20 years from now there will be a substantial dip in people aged 30-60, a prime lending market. Everyone will be vying for this group so it's a good idea to try and catch that group today.

The lack of savings is a national emergency which must be addressed. As the most trusted financial institution, credit unions have a unique role to play in the process.

What better way to start than building the next generation of savers by focusing on youth!