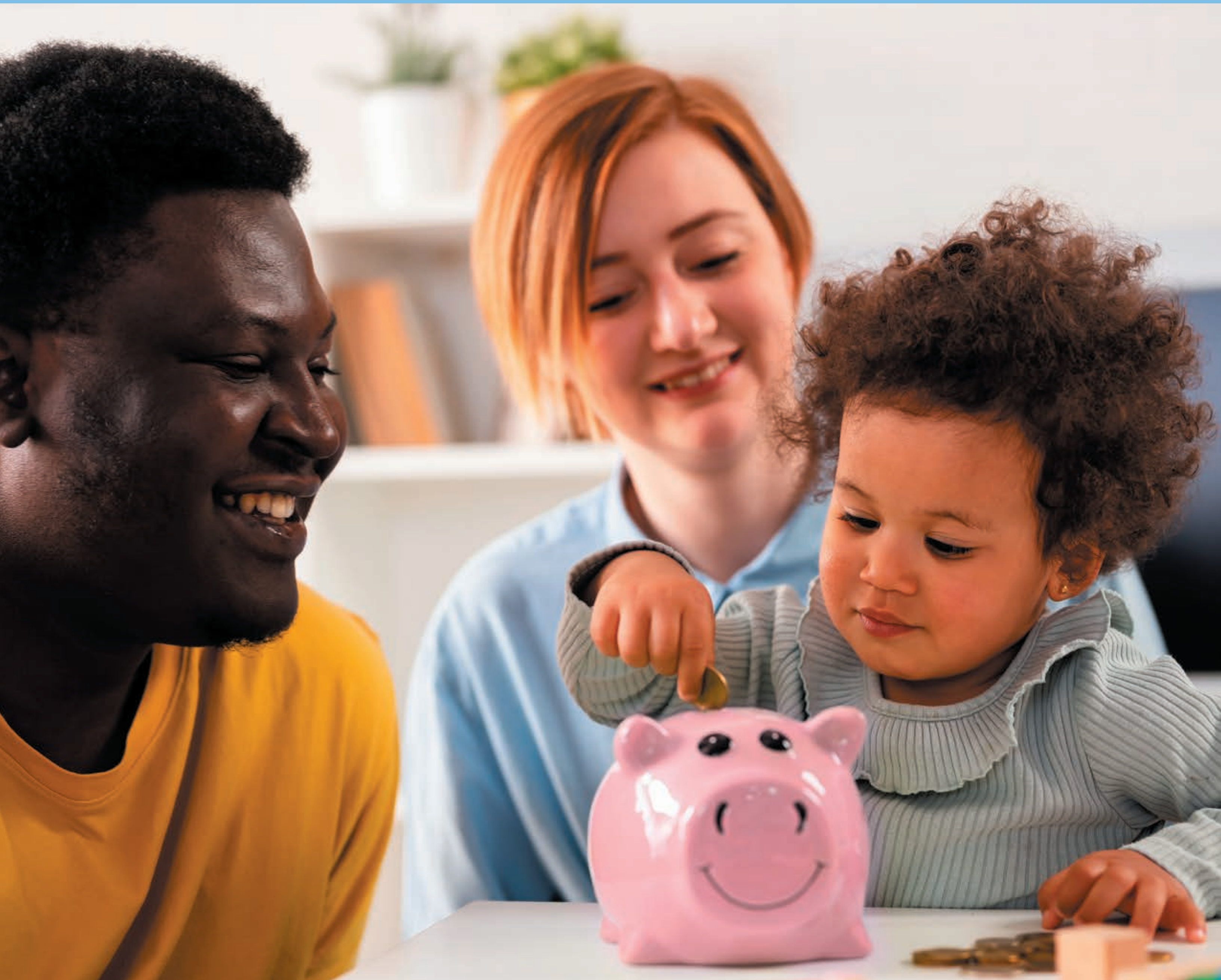
CONFERENCE BRIEF



CSAs, are more than a Savings Platform *(15 Minutes)*

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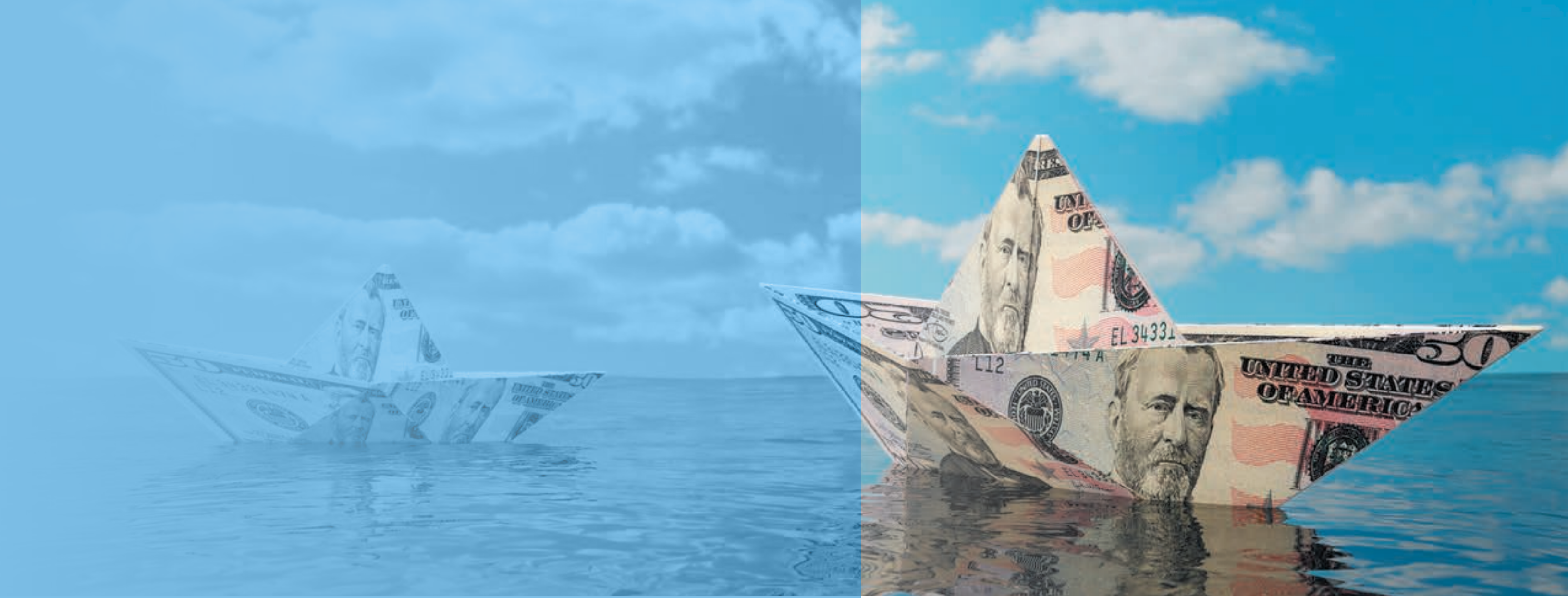

This Perspective presents remarks delivered by Dr. William Elliott in an address given during the conference, "Using Wealth and Income Policies to Forge a New Social Contract: Giving People Something to Live For," on September 16, 2024. The event was organized by the Center on Assets, Education, & Inclusion, Center for Social Development, Center for Guaranteed Income Research, and Poverty Solutions. Funders were Annie E. Casey Foundation, Charles Stewart Mott Foundation, McKnight Foundation, and the University of Michigan's School of Social Work.

Introduction

In this talk I want to make the point that CSAs have become much more than a financial vehicle for individuals to save in. This matters. First, it matters for understanding how to assess whether CSA programs are effective. Second, it matters for combating the myth that building wealth through CSAs continues to be primarily about personal saving. This myth has placed a roadblock between CSA and Baby Bonds movements being able to coalesce around a common financial infrastructure for building wealth for children and their families.

The Origin of CSAs as a Financial Instrument for Increasing Personal Savings

Major foci for the asset building field shortly after Sherraden (1991) wrote Assets and the Poor were on providing evidence that the poor can save and further developing an institutional theory of saving. For example, in an early paper outlining an institutional theory of saving Beverly and Sherraden (1999) said,

> However, at least two questions precede this discussion [the discussion about the positive effects of asset accumulation in low-income households, they are:] Can the poor save? And, if so, how can programs and policies promote saving by the poor? (457)

The implication of this was that the field first needed to answer the question of, "can the poor save?", and then explain how institutions could be designed to promote saving among the poor. Research from the American Dream Demonstration on Individual Development Accounts (IDAs), the precursor to Children's Savings Accounts, answered the first question by showing that when low-income families are given access to an IDA, the poor can save (for a review, see Schreiner & Sherraden, 2007). The institutional theory of saving was developed to answer the second question. It did so largely by explaining how institutions impacted a low-income family's decision to save and how that decision impacted saving behavior. **This made sense because the main understanding of how assets could be accumulated in IDAs at the time was through personal savings.** Moreover, these programs were administered in traditional bank accounts with low interest rates, and there were little program or government funds to go into accounts. However, focusing on institutions' impact on the decision to save took the focus away from explaining how institutions at times replace decision making and the importance of understanding this when designing wealth building interventions for low-income families.

In fairness and notably, by the time the CSA field really developed, the question of whether the poor can save began to fade into the background, having already largely been answered. The first major demonstration of CSAs started in 2003 and was called Saving for Education, Entrepreneurship, and Downpayment (SEED). A lesson learned from the SEED demonstration was that CSAs may have positive attitudinal, behavioral, and social effects or what have been called, asset effects (Sherraden & Stevens, 2010). In line with these insights, CSA researchers began to focus less on saving and more on explaining how CSAs could produce these asset effects, a key turning point in the CSA field's evolution. This coming shift in focus was foretold in the early quote from Beverly and Sherraden (1999).

Given this, CSAs began to be thought about less as financial instruments for saving, particularly among researchers, and more generally as financial vehicles for facilitating wealth building for low-income families. This is further illustrated in the experimental test of CSAs called SEED for Oklahoma Kids (SEED OK). SEED OK developed as part of the SEED demonstration and represented a split at the time in the field. The split was over whether the focus should remain on saving through programs administered at the local level or on universal automatic and progressive accounts delivered through a savings-plan structure and focused on producing asset effects and wealth building more generally. The focus of this research was to demonstrate that it is possible to implement universal, automatic, and progressive CSAs starting at birth. In line with these goals, the research coming out of SEED OK centered on asset effects and the potential of the CSA financial structure for building assets, not catalyzing saving.

Institutions Sometimes Replace Decision Making

Saving can occur due to a person's functioning, when ***a person decides*** to deposit money into their account. However, saving can also occur because of institutions. In talking about the role that institutions play in retirement saving, for example, Sherraden (1991) said, "This is not a matter of making superior choices. Instead, a priori choices are made by social policy, and individuals walk into the pattern that has been established" (p. 127). ***In this statement, Sherraden alludes to a different kind of institutional intervention, one that is not focused on how institutions can influence the decision to save, but on how institutions can act in place of an individual deciding.*** Notably, the institutional theory included a construct called facilitation, and the institutional change framework builds on this determinant. In describing what facilitation is, Beverly and Sherraden (1999) talked about mechanisms that make saving predetermined, like payroll deductions.

What is an Institutional Change Framework?

What I will call an institutional change framework attempts to explain the part of outcomes that is determined by financial institutions and by a child's economic environment. This framework draws on the macro social work tradition. Social work researchers look at problems from a social justice lens. Regarding the role of institutions in determining behavior, most psychological, sociological, and economic theories attempt to explain the impact that institutions and the environment have on individuals' decision making and in turn, their behavior. In contrast, social work's social justice lens and focus on disadvantaged populations —low-income and people of color— provides a rationale for examining institutions and the economic environment's impact on outcomes. I use the term outcomes here instead of behavior because the institutional change framework is not concerned with explaining an individual's behavior. Further, outcomes are not always associated with an individual's behavior. Instead, it is assumed that individuals function similarly and that it is differences in how institutions and the economic environment support or disadvantage people that explains a meaningful part of outcomes such as enrolling in college. This is the direct opposite assumption that most social psychology and behavioral economic theories make. They almost always assume that people decide and act and experience outcomes in a fair playing field, where outcomes generally correspond fairly with individual effort and ability—in other words, in a meritocracy (e.g., Scheier & Carver, 1987).

What Do Institutional Change Interventions Look Like

These different assumptions about how much behavior matters, for explaining outcomes, translate to different program and policy designs in the CSA arena. Using an institutional change framework to increase savings frequency, for example, would mean doing things to make saving more about institutions and less about the decision to save. Indeed, a pilot CSA program in Italy made saving mandatory by requiring participants to go no more than two consecutive months without making a deposit (Martini, Azzolini, Romano, & Vergolini, 2021). This can be categorized as an institutional intervention because it attempts to remove the individual decision-making aspect and replace it with an institutional strategy, in this case mandatory saving. This institutionalization of saving resulted in 94% of families with low incomes making a deposit (Martini, Azzolini, Romano, & Vergolini, 2021). It is worth noting that I am not advocating for mandatory savings. Further, it is made more acceptable in this case because it is an opt-in program. However, this does illustrate an intuitional change approach to increasing saving.

Knowing that institutions can be designed to act in place of people having to decide, policy makers can choose which is an appropriate role for institutions in each policy circum-

stance. **I would suggest that in the case of social welfare policies that provide government resources to people to level the playing field, institutions should be structured so that families must decide not to participate.** CSAs do this now in the case of automatic enrollment. This has resulted in nearly 99% of families in programs like My Alfond Grant receiving an account (Elliott, 2018). **Automatically enrolling all children into a CSA program is an institutional change intervention. Doing so provides every child with a financial structure capable of efficiently carrying assets and potentially even income to all children at the turn of a valve.**

What does Automatic Enrollment Mean for Access?

On May 21, 2024, along with Colleen Quint, I presented at a Senate Finance Committee hearing on *Children's Savings Accounts and Other Tax-Advantaged Accounts Benefiting American Children* (2024). In the written responses, the Republican-selected witnesses discussed access to wealth building programs from the perspective of eligibility. Thus, they favored an opt-in approach to enrollment where families must choose to sign up. In contrast, from an institutional change framework, access is achieved through automatic enrollment. **The focus is on all eligible children having an account, not simply having the opportunity to have an account.** The institutional change framework favors an opt-out approach to enrollment. This aligns with my suggestion that key social welfare programs should be designed so that they define access as automatic, allowing people the opportunity to opt-out. That is, receiving these benefits are so important to the **American system functioning as meritocracy, that government guarantees every child *who is eligible for the benefit, has the benefit.***

Automatic Enrollment Serves as an Institutional Structure for Carrying Multiple Streams of Assets into a Child's Account

Because CSAs provide a financial structure for third party deposits and access is automatic, each child is given a structure for assets to flow into their account from multiple sources. **I talk about the facilitation of third-party deposits from sources such as extended family members, employers, funders, communities, and other entities, in addition to the government as having potential to be the largest source of wealth building in CSAs** (Elliott, 2023, March.). I am not saying this was the original vision for CSAs; it might not even have been something that could initially be imagined.

This is in part because, at the time of the writing of *Assets and the Poor,* one of the primary ways people thought about and talked about building wealth, apart from homeownership, was through personal savings. Savings was emphasized to show that the poor could save, and that wealth also had value to people living in poverty. I am saying third-party deposits have the potential to be a major source for building wealth in CSAs. This is based on what I observe CSAs are best designed to do from an institutional perspective, and where the field appears to be heading.

CSAs expand the notion of wealth building for the poor from being exclusively an individual or even a government only responsibility to a community responsibility. From this perspective, despite being assigned to individual children, which is important for producing social and psychological effects, CSAs with automatic enrollment should really be understood as community accounts opened by the community on behalf of a child. From this perspective, wealth-building in CSAs is not all or even mostly dependent on what individuals can save on their own.

In Concluding, I Will Discuss Whether Third-Party Deposits Will Increase Inequality

Some have questioned whether third-party deposits will further exacerbate wealth inequality by making it easier for children living in wealthy communities to receive more assets from outside of their household than those living in low-income, low-wealth communities. However, there is a relatively straight forward institutional solution: a cap can be placed on the amount of annual contributions a wealthy family can receive whether from the family itself or third parties, while allowing unlimited third-party contributions to the accounts of low-income families. For example, U.S. Senator Bob Casey's 401Kids CSA proposal has a universal cap on deposits. However, a relatively modest tweak – a cap only for wealthy families – could address concerns about third-party contributions as an erosion of CSAs' equalizing potential. Removing the annual limit on third-party contributions for low-income families or making it a significantly higher cap than for wealthy families will maximize the power of CSAs as a tool for reducing wealth inequality.

I end with, if we understand that CSAs are much more than a vehicle for families to save in, we open the door to other wealth building policies being able to take advantage of the already tested CSA infrastructure and the benefits it brings. A topic I will dive into even more deeply on Day 2 of this conference.

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