Unleashing the Power of Children's Savings Accounts (CSAs):

Doorway to Multiple Streams of Assets

EXECUTIVE SUMMARY

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The Full Report and the Five Case Studies can be accessed at https://aedi.ssw.umich.edu/unleashing-the-power-of-children-savings-accounts. To register for the webinar on March 29, 2023, please go to https://ssw.umich.edu/assets/rsvp-request/index.php?page=register&id=W539.

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PART ONE

CSAS ARE A DOORWAY TO MULTIPLE STREAMS OF ASSETS

A. CSAs, a Type of Scaffolding?

The picture that might immediately jump into your mind when you hear the term scaffolding used is one of a system of boards hung outside of a structure in need of repair. Scaffolding serves as a means for transporting much needed materials as well as workers to different parts of the structure. The scaffolding makes repair as opposed to tearing down the structure possible. This might provide an instructive illustration for understanding an important function that CSAs can play in social policy. From this perspective, CSAs act as a type of financial scaffolding for transporting streams of resources (i.e., assets) to families through an economic system that must be repaired to be able to serve low-income families adequately. Inasmuch as CSAs are a type of scaffolding constructed around mainstream institutions for the purpose of carrying much needed resources throughout the system, CSAs do not attempt to create a new ***separate*** institution for the poor. This is one way that CSAs differ from a lot of other types of policy proposals for the poor. Instead, they attempt to provide the poor with the support they need to function within mainstream institutions. In some ways, the problem CSAs are trying to solve, from my perspective, is how poor families can be put in a position to compete in and leverage the mainstream institutions they ultimately must navigate to reach their full potential.

A.1. *CSAs Augment Families' Financial Capability*

CSAs not only augment families' ability to build wealth in mainstream institutions, but they also augment their financial capability.

- Experimental research from SEED for Oklahoma Kids (SEED OK) finds that CSAs provide participants (in this case mothers aged 18-24) with a context for practicing financial knowledge and skills and in turn positively impacting their financial capability (Huang, Sherraden, Sherraden, & Johnson, 2022).

These are skills poor families need to build wealth long-term. Remember, though, CSAs are a type of scaffolding. As such, I am not suggesting that they are a replacement for financial literacy courses or coaching (i.e., a silver bullet), for example. Instead, it might be more appropriate to think of them as augmenting what people learn in financial literacy courses and coaching.

A.2. *CSAs as a Doorway to other Financial Services*

CSAs do not stop with providing families access to a mainstream financial institution, providing assets, and deepening their financial capability. They also serve as a doorway to other financial services.

- Friedline and Elliott (2013) find that children between ages 15 to 19 who have savings are more likely to have a savings account, credit card, stocks, bonds, vehicle, and a home at age 22 to 25.
- Friedline, Johnson, and Hughes (2014) find that most young adults owned a savings account at or before the acquisition of all financial products including checking, CD, money market, savings bond, stock, and retirement accounts.
- Huang, Sherraden, Sherraden, & Johnson (2022) also find that CSAs increase mother's use of other types of asset and debt products (e.g., stocks, mutual-funds, bonds, credit cards, home mortgages, among others).[1]
- Friedline et al. (2014) find that while owning a savings account as a young adult only contributed $50 toward liquid assets, the added contribution of combined stock and retirement accounts—themselves products of savings account ownership—was $5,283.

Asset accumulation in financial institutions outside of the CSA is a different type of indirect effect (or asset effect) than the social and psychological effects more commonly discussed in the field (see Part I, Section C for a discussion social and psychological effects). This type of asset effect is almost never talked about when discussing the potential impact/reach of CSAs. So, CSAs, not only might be a doorway to multiple asset streams for building wealth, but they also might act as a gateway financial instrument, leading to even greater asset accumulation opportunities outside of CSA ownership.

B. CSAs, a Solution in Search of a Problem

The potential to act as a type of financial scaffolding that connects a variety of different problems might be why sometimes it is said, CSAs appear to be a solution in search of a problem. That is because they stretch across a variety of different problems, it can be said of them that they do not fully address anyone problem. This statement fails to recognize the nature of being poor as a problem. Being poor is not a single isolated problem (e.g., not enough money to buy goods). Instead, there are a number of interrelated problems that add up to someone being poor.

CSAs provide a type of financial scaffolding that can allow resources to be carried throughout the expanse of the problem of being poor in a way that augments the efforts to solve what have appeared and often have been treated as separate solutions for solving separate problems. Note, not only do the CSAs themselves act as a vehicle for transporting resources to families, but families who have a CSA (in the scaffolding illustration they are

[1] For a complete list see Huang, Sherraden, Sherraden, Johnson (2022, p. 40).

the people running along top of the boards carrying the resources to wherever they are needed) can also act as vehicles for transporting resources as asset effects manifested in them. So, a reason for why CSAs have been thought of at times as a solution without a problem to solve is because of a misunderstanding of the nature of the problem and their role in helping solve the problem.

C. What Makes CSAs a Big Policy Idea?

Researchers and practitioners in the CSA field frequently say that CSAs are more than bank accounts for saving. When they say this, they are often referring to the capacity of CSAs to produce social and psychological effects (i.e., asset effects or indirect effects).[2] This aspect of CSAs, their ability to produce asset effects, is different from the power they provide families to purchase an asset such as college (i.e., direct effect of owning assets). I suggest their ability to produce asset effects is a reason for why CSAs might be considered a big idea and one of the best (i.e., most likely to produce success) vehicles for transferring wealth to families. Here are some examples of how CSAs have produced social and psychological effects:

- Infants who were randomly assigned to receive a CSA demonstrate significantly higher social-emotional skills at age four than their counterparts (Huang, Sherraden, Kim, & Clancy, 2014).
- CSAs positive effects on children's social and emotional well-being are realized through influences on parent/child interaction, including by reducing maternal depression (Huang, Sherraden, & Purnell, 2014) and interrupting the effects of material hardship on children's development (Huang, Kim, & Sherraden, 2016).
- Huang, Nam, Sherraden, and Clancy (2019) indicate that CSAs reduce punitive parenting and promote positive parent-child interactions. Positive parenting practices are associated with more positive school adjustment and fewer behavior problems in school (Pettit, Bates, & Dodge, 1997).

Another reason CSAs are a big policy idea is because of their ability to give low-income families access to multiple flows of assets. In this way CSAs may expand the notion of wealth transfers from being exclusively a government transfer to a transfer from a variety of different sources. As such, it might be argued that they have the potential to far exceed the potential of free college and Baby Bonds proposals as wealth building proposals, though that currently is not the perception within the policy world.

[2] I have done often also focused on explaining the power of small dollar accounts to produce social and psychological effects (e.g., Elliott, 2009).

D. Understanding How CSAs Fit into the Racial Wealth Inequality Discussion

Inasmuch as CSAs are not in conflict with the idea of a significant wealth transfer and, in fact, can help facilitate one, it seems reasonable to include them as a potentially important tool in the fight to reduce racial wealth inequality. However, because there has been a lack of discussion and development in the CSA field of the multiple ways CSAs can build wealth, they are often left out of policy discussions on racial wealth inequality. It is just that, for some people the small dollar version does not seem like it can live up to the challenge.

- Research shows that a progressive children's asset building intervention with a larger initial deposit of $7,500 for low-wealth households that incrementally declines down to $1,250 for the highest wealth households could close the Black/White wealth gap by 23% and the Latino/White wealth gap by 28% (Sullivan, Meschede, Shapiro, Asante-Muhammed, and Nieves, 2016).

What this section reveals, is that sometimes the potential of CSAs to be a tool for delivering significant wealth transfers whether it is for college or reducing racial wealth inequality is being undervalued sometimes because of the small dollar nature of the CSAs that now exist. These programs are small dollar, in part, because of a lack of federal investment, a misunderstanding by states and local communities about the potential of CSAs as a tool for providing wealth transfers, and CSA programs' sometimes singular focus on increasing individual saving while neglecting the development of other forms of contributions.

E. CSAs are Community Accounts

CSAs have typically been thought of as a type of individual child account. This idea of a CSA being an individual account took hold among programs and in the minds of the public, in large part, because of their connection to what ironically was called Individual Development Accounts (IDAs). IDAs were the precursor to CSAs, and they put the focus on facilitating individual savings, and asked "can the poor save?" However, if CSAs are understood as an individual account, then it is understandable that many programs would disproportionately focus on individual contributions. But, despite being assigned to individual children which may be important for producing some of those social and psychological affects discussed earlier, I suggest CSAs are really community accounts opened on behalf of a child. In this way they may provide a policy structure that can bring to life the idea that it takes a community to raise a child. Further, understanding CSAs as a community financial instrument for building wealth and not an individual financial instrument, better positions CSAs as a viable solution within the asset building conversation whether it is regarding financing college or racial wealth inequality.

F. CSAs as Scaffolding for Connecting Income and Asset Approaches

The goal of income policies has been singularly focused on ending poverty. From this perspective poverty means something like the inability to purchase enough food, clothing, and shelter to make it through the day, week, or month. However, I think it is important to point out that income policies when combined with asset polices can also be a potential way to increase the power of poor families to save.

However, many advocates of an income approach to solving poverty might shiver at the idea of poor families saving because it means less money for day-to-day needs. And because ending poverty and providing children the opportunity to reach their full potential have been seen as separate problems, even asset advocates have often prioritized income approaches.

In this section, up until this point, I have presented poverty and reaching full potential as different problems. However, I would contend that they are actually different parts of the same problem (i.e., different sides of the same coin). The problem of being poor is not only that a child does not have food, but also equally that they do not have the opportunity to reach their full potential.

In a country like America, people are drawn to its shores by the hope of not only surviving the day but the hope of finding something to live for. This requires of America something more than policies singularly focused on ending hunger. Assets give people a stake in the future by giving them the power to purchase a piece of their futures today. That is, assets allow families to clearly see how they will be able, for example, to pay for college, buy a home, retire comfortably. As such, they make the future tangible so that a person can touch it and experience it today. Therefore, solving poverty requires scaffolding capable of connecting income and asset strategies if we understand the problem of being poor as being more than the inability to purchase food, clothing, and shelter but also the lack of opportunity for a child to reach their full potential which resides in the future.

G. The Importance of Progressivity in CSAs Reaching their Potential as Wealth Building Tools

Acknowledging that while poor families can save, they only have small amounts of money from which to draw, speaks to why emphasizing the importance of progressivity in CSA programs is also so important for their success as a strategy for repairing the playing field. To make this clearer, when all families receive the same amount of initial deposit, for instance, poor families have less potential to save. Therefore, overtime as non-poor families outpace poor families in saving whatever reduction in wealth inequality was initially achieved will evaporate. Programs that provide all children with the same initial deposit are less likely to have as much success at reducing inequality than programs that incorporate elements of progressivity into them. It might be in order to be most effective at reducing wealth inequality, progressive CSA policies at the very least must be large enough to eliminate the gap in what poor families save (can be expected to contribute) and what non-poor families save.

H. The Untapped Power of CSAs: The Potential for Multiple Streams of Assets

The idea that CSAs provide the opportunity to have multiple streams of assets is not merely theoretical. Some CSA programs have begun to tap into the power of CSAs to bring together multiple streams of assets into a child's account. For example:

- New York City's Kids RISE program announced in December of 2022 that 1,200 first graders from Canarise and East Flatbush will receive a $1,000 community scholarship to be placed into their Kids RISE accounts (Cox, 2022).
- The Community Foundation Early Award Scholarship Program provides funding for a traditional scholarship, a donor opted to put $1,000 in the accounts of all children in K-4 who are participating in the program (Weaver, 2020).
- The College Board (2013) recommended supplementing the Pell Grant program by opening savings accounts for children as early as age 11 or 12 who would likely be eligible for Pell once they reached college age and making annual deposits of 5% to 10% of the amount of the Pell Grant award for which they would be eligible.

The potential of different types of assets flowing into a CSA, makes it a tool that can provide a way for government, foundations, faith-based organization, philanthropists, employers, and many others to help finance college and reduce the racial wealth gap.

PART TWO

WHY STARTING YOUNG REMAINS IMPORTANT EVEN WHEN FAMILIES DO NOT START SAVING EARLY ON

As discussed earlier, saving is another way that CSAs augment families' ability to build assets. Further, starting to save for college early in a child's life increases the opportunity for asset accumulation (Clancy, Beverly, Schreiner, Huang, & Sherraden, 2022). However, saving in CSAs, as they are currently constructed, still require families to make decisions and act. When CSA programs experience less than expected savings outcomes early on, a question sometimes arises about whether it makes sense to start CSAs early if many families do not start saving for college until later. Part II of this report attempts to discuss this question in some depth.

A. Overcoming the Cultural Norm of Waiting to Save for College

To start, a deeper understanding of why families might not start saving early, could help us better understand why starting early is important. I suggest a seldom discussed reason for why some families wait to save in CSA programs might be because of a cultural norm in America that suggests families don't need to begin to plan and save for college until children are older and closer to college age. Given this, it is not surprising if families do not start saving immediately in a CSA program even though most families have a general sense that college costs a lot today. The more realistic expectation for CSA programs is to begin to see the cultural norm regarding when to start saving for college to start to shift over time, not immediately. As more and more families start to save earlier because of having access to CSAs, it is likely that this norm will slowly begin to change over time.

B. The Possibility for Producing Asset Effects, a Reason for Starting Young

Importantly, however, asset accumulation is not the only reason for programs to start early. Research indicates that the returns of interventions earlier in a disadvantaged child's life are higher than from interventions in adolescence, and there is no trade-off between equity and efficiency in these early interventions (e.g., Cunha & Heckman, 2010; Heckman & Masterov, 2007). Because of this, there is reason to expect that CSA programs designed to start at birth or when children enter kindergarten are important even if families do not start to save until they are older.

C. Starting Young May be Important for Producing Cycles of Thriving

It is not just the case that assets produce effects in people, they also can empower people to produce social and psychological effects of their own. In this way, assets influence people and people influence assets, creating a type of virtuous circle for getting out of poverty and staying out of poverty (e.g., Yadama & Sherraden, 1996; Elliott, Choi, Destin, & Kim, 2011). This is similar to how some researchers have talked about cycles of poverty forming (Lewis, 1966). However, here I am describing potentially how cycles of economic thriving might develop. In this way, CSA programs can be thought of as also providing parents with a context for helping to produce positive social and psychological effects in their children (maybe another way to think of this it helps parents fulfill their roles as socializers).

This section of the report provides some evidence of how CSAs as scaffolding may produce a reinforcing cycle of thriving from one generation to the next. This is interesting because within the asset fields there has been a lot of conversation about the role of intergenerational wealth transfers, but less talk about the potential importance of intergenerational psychological transfers between parent and child, and the potential role they play in producing wealth and maintaining economic status. This also suggests that lack of early saving in CSA programs does not mean that families are not engaging in these programs. Communicating to children about college is a form of engagement, and benefits children even if families are not saving.

C.1. *CSAs, Scaffolding for Connecting Children's Expectations to Parents Saving for College*

Building on the importance of early communications and the formation of positive expectations in both parents and children, positive educational expectations are important not only to children's educational success but to whether parents start to plan and save for college (back to the virtuous circle).

- When high school students expect to graduate from college, they are more likely to report that their parents contribute to paying for college (Elliott & Friedline, 2013).
- Sallie Mae and Ipsos (2020) indicate that parents with a plan to pay for college are more likely to be saving for college (73% vs 19% respectively).
    - Parents with a plan are also more likely to expect their child will complete college (77% vs 47%).
    - Parents who have a plan are also more likely to report starting to save when their child is six years old or younger (48% vs 29%).

And so, again we see how CSAs can act as a scaffolding connecting what might otherwise be thought of as isolated social, psychological, educational, and economic domains to form a type of virtuous circle where each is working to augment the powers of the other, better enabling children to reach their full potential.

C.2. *CSAs have the Potential for Mimicking Early Educational Transfers*

As discussed in Part I, a reason it is important to start CSA programs early is because once the structure is in place, community contributions can begin to flow into these accounts. So, even if families are following societal norms about when to save or are living through a recession that makes saving difficult, starting CSAs earlier allows for other sources of asset to continue to flow into these accounts. This matters because in the case of poor children, CSAs have the potential of mimicking early educational transfers wealthy parents provide to their children.

CONCLUSION

The potential for large dollar CSAs is different from other policy proposals in that while a significant federal investment (i.e., wealth transfer) in our children must be included, it helps us realize that so much more is possible. As a result of the community nature of CSAs, they have the potential for providing multiple avenues for building wealth. Some of these avenues have been discussed in this report but others have not yet even been imagined. These additional asset streams should only enhance a substantial wealth transfer by the government. Beyond the multiple asset streams into CSAs, they also have the potential to act as a doorway to other financial services also designed for building wealth.

Being able to accumulate assets matters. Research shows that wealth has a strong relationship with moving up the economic ladder (Pew Charitable Trust, 2013) allowing children to reach their full potential. However, CSAs do more than help families build wealth. They also have the potential to produce important social and psychological effects or asset effects. Asset effects have been shown to not only help improve the mental health of parents (Huang, Sherraden, & Purnell, 2014) and children (Huang, Sherraden, Kim, & Clancy, 2014), but also help improve children's educational outcomes (Elliott, 2013). And being able to attain a college degree not only improves children's chances of moving out of poverty and up the economic ladder (Haskins, 2008), it also helps them build wealth (Yellen, 2017). In this way, instead of reproducing poverty, CSAs can help put all children in a position to reach their full potential. Further, this suggests that, while important, individual contributions in CSAs play only a small role in why CSAs are a potentially powerful tool in the fight against educational and economic inequality. Because of this, I suggest there has never been a better vehicle for transferring wealth to the poor in American history than CSAs.

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