Policy Brief

COLLEGE PROMISE | DECEMBER 2020

Reimagining College Promise Programs: A Wealth Perspective

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Education is one of the largest investments America makes in reducing poverty and promoting economic mobility. From this perspective, education is perceived by many as a long-term strategy for achieving individual, family, and intergenerational prosperity; a tool for increasing overall productivity; and an engine of economic growth on which our collective fortunes depend. However, like poverty policies in America, education policies have largely focused on providing children with enough financial aid to survive, not enough to thrive. This brief will argue that to deliver on the promise of money, we posit that a better notion of free is to provide low-income and underserved students with targeted ongoing deposits into a Children's Savings Account from an early age. Further, we should consider integrating this long-term strategy with a long-term education investment, like College Promise (frequently referred to as "free college") programs, to reverse this damaging trend, build a college going culture within families and their communities, and remove economic barriers to higher education and adult success.

American policies have long been defined by a means to survive, not necessarily prosper and flourish. Riding the wave of popularity that followed his New Deal, in the era of the Great Depression, President Franklin D. Roosevelt told his fellow Democrats in 1936: "Liberty requires opportunity to make a living decent according to the standard of the time, a living that gives man not only enough to live by, but something to live for." Without this opportunity, he continued, "life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness." The contrasting approaches of providing the poor with what is necessary to survive while providing the wealthy with something worth living for have resulted in a bifurcated welfare system that essentially offers different life chances depending on a family's financial status. This brief suggests that education has become similarly bifurcated, offering different opportunities depending on a family's financial status. Given this, we proposed that financial aid should embrace the spirit of President Roosevelt's words and go beyond providing a minimum amount of goods required to survive (i.e., "do I have enough to pay my tuition bill?"). While eradicating the education gap should remain a main goal of policies seeking to end economic inequality in America, we do not see that this can be accomplished without attending to and making every effort to close the wealth gap.

RECOMMENDATIONS

Invest in large dollar rather than small dollar CSAs

Utilize targeted ongoing deposits to increase the impact of small dollar CSAs

Broaden and integrate Promise and CSA programs to promote economic mobility

Unequal Educational Returns for Low-Income and Underserved Students

It is clear from data and evidence that college pays off overall. However, what we contend here is that while those who have a college degree do better than those with little or no college, college is coming up short of its intended role as an equalizer. Research reveals that neither in the case of income nor wealth does a college degree reduce inequality, even if it raises one's standard of living. For example, findings indicate that young adults from low-income families start their careers earning about one third less than those from higher income families [1]. Findings are similar regarding race/ethnicity. Research shows that Black, Hispanic, Native/Indigenous populations with a degree have lower incomes than their White and Asian counterparts [2]. Like income, wealth has remained strongly correlated with education [3]. However, in contrast to income, the wealth premium for attaining a college degree has mostly declined across generations when race is considered [4]. Similarly, researchers from The New School find that Black families with a head of household who graduated from college have about 33% less wealth than White families with a head of household who dropped out of high school. This is evidence of effort to increase education resulting in educational attainment but not a primary goal of what education is supposed to secure—financial status commensurate with achievement. Moreover, findings suggest that even if Blacks graduated college at the same rate as Whites, this feat would only slightly reduce the racial wealth gap [5]. These findings are important to the free college conversation and how we should think about what the best conceptualization of free is. This is because Americans expect education to serve not only as a certificate and/or degree conferring institution, but as the great equalizer in society.

Imagining a Different Notion of Free College that Uplifts Education to Its Lofty Ideals

We suggest that a more robust and potentially powerful way of imagining what it means to provide families with a free college education is needed: one that ties financing college with asset accumulation. Another important factor that makes the role of wealth in the education system even more imperative to address is the evidence that parental educational attainment contributes to inequality in the educational attainment of children. Children of educated parents are themselves more likely to attain education, reinforcing the societal status quo [6].

From a wealth perspective, asset accumulation is understood to be essential not only to the attainment of a degree or postsecondary credential of value, but also to the ability to maximize the return on the investment of furthering one's education beyond high school. So, instead of providing children with a promise of money, we posit that a better notion of free is to provide

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low-income and underserved students with money at an early age: an early award scholarship. Financial aid as asset accumulation as opposed to tuition payment might be imagined as financial aid in the way that is meant to launch low-income and underserved children successfully into adulthood, an economic mobility investment that aims to level the playing field. Researchers find, after controlling for key differences, that acquiring the relatively small amount of $10,000 in student loans is associated with a 16% decrease in the rate of achieving median net worth among those age 22 who have at least a four-year college degree [7]. How education is financed matters for children's ability to launch successfully into adulthood.

Moreover, there is little debate over the idea that wealthy families invest more in their children's education as a means of giving them a leg up on their lower income counterparts. For example, findings indicate that among families that spend money on their children's education, there is a 9% increase in amount spent per $10,000 increase in income [8]. Wealthy families spend more on their children's education and their children are more likely to graduate from college [9]. However, crucial for this conversation, these early parental educational investments by wealthy parents turn into financial advantages in adulthood. Research shows that predicted household income and net worth are higher for adults who received parental financial support for college than for those receiving no such support [10]. This support continues into early adulthood. While poorer children are unlikely to be able to turn to their parents for infusions of assets, wealthy children can benefit greatly from such supports [11]. This further augments the return on a degree possible by wealthy adult children.

This research shows that the unequal return on a college degree received by children of wealthy and White families can be explained at least in part by these early financial investments in a child's education. It also suggests that financial aid policies that do not simultaneously address the issue of wealth inequality are unlikely to have the desired effect of making education the great equalizing force it is meant to be in society. While government investments to mimic these early transfers from wealthy parents to their children might reduce wealth inequality, it is not at all clear that simply providing children with a free education will do the same.

Therefore, we posit that free college detached from asset building strategies will not produce the desired result of reducing wealth inequality and providing children with a future to live for. University of Michigan researchers have suggested that Children's Savings Accounts (CSAs), if transformed from their small dollar form into large dollar accounts, might offer a more robust and hugely imperative way of conceptualizing free college because of its close alignment with asset building and the potential of asset building for increasing the return on a degree [12].

CSAs, also sometimes called Child Development Accounts (CDAs), are provided through financial instruments (State 529s or savings accounts). CSAs are asset-building accounts for children, usually dedicated for expenses associated with postsecondary education. While the design and implementation of CSA programs vary substantially, efforts that meet the accepted definition of what a Children's Savings Account typically include most, if not all, of these key components:

- Opportunity to own a wealth-building account, either through a traditional deposit institution (such as a credit union or bank) or through a state 529 college savings plan.
- Initial seed deposit, to encourage account opening, jumpstart family saving, and/or foster greater balance growth.

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- Savings incentives, such as matches for family deposits, rewards for recruiting contributions, and/or bonuses for saving regularly.
- Support for children's academic and financial preparation for higher education, in the form of provision of account statements, college and career readiness activities, financial education, and/or efforts to promote early identification with the aspiration of college attendance.

There has been dramatic growth in the number of CSA programs across the United States over the last five years. CSA programs, today, are operational in local communities and statewide as promising models for national expansion. By the end of 2018, there were 65 CSA programs serving 457,000 children in more than 34 states [13]. The dramatic growth in the number of CSA programs is fueled not only by increasingly compelling evidence, but also by rising concern with the high cost of college and the associated returns on degrees and other postsecondary credentials. As policymakers, educators, and other stakeholders seek solutions that restore education as a pathway to prosperity, they are more often turning to CSAs.

Nevertheless, today's growing economic inequality means that small dollar CSAs (i.e., initial deposits of $25 to $1,000) are not enough. Low-income families have little discretionary money and will never be able to save enough to make up for their from-behind start in life. These children compete on an uneven playing field against peers with entrenched, generational wealth advantages. These wealth advantages are only magnified during periods of economic instability which are becoming more frequent (e.g., Great Recession, Government Shutdown, and now the Coronavirus Pandemic).

The Potential of CSAs as a Component of a Free College Strategy

While saving is important within CSA programs, it is not the only tool at their disposal for building assets. By providing every child with an account, as several states have done, the scaffolding is put in place to augment the saving efforts of low-income families through targeted ongoing deposits. Targeted ongoing deposits might take the form of automatically created accounts at birth for every child born in the United States that provide an initial deposit of $1,000 and, each year after, low-income and underserved children would receive ongoing yearly deposits of $2,000 or more until they reach 18.

Why targeted ongoing deposits are needed to transform small dollar CSAs to an effective strategy for paying for college and reducing wealth inequality among low-income and underserved students:

- **CSAs are More than a Financial Instrument**
  - CSAs not only provide a vehicle for transferring wealth, which is not to be understated, but they also provide proven social, psychological, and emotional effects. As such, CSAs are more than a financial instrument for paying for college or reducing wealth inequality. They move the exclusive focus of financing college from whether kids have enough to pay for college at the time of enrollment, to the social, psychological, and emotional development of kids starting at birth.

> College Promise programs as well as CSAs programs, as they currently exist, should be linked and broadened to reflect what a large part of the investment in education really is: an investment in promoting economic mobility for American children and families.

- **Low-Income Families Can and Do Save, however, they Cannot Save Enough**
  - Research indicates that while low-income families can and do save for college, they save small amounts of money, infrequently. Therefore, while saving is important for kids developing habits that will allow them to better leverage their college degrees upon graduating, low-income families are not through saving alone going to be able to finance a college degree or reduce wealth inequality.

- **Ongoing Deposits have the Potential to Reduce Wealth Inequality**
  - Research from the Harold Alfond College Challenge (HACC), the oldest statewide CSA in the country, shows that families with incomes less than $25,000 have average contributions of $2,732, compared to $2,634 among families with annual income of $50,000 to $74,999. Even after annual incomes rise to between $75,000 to and $149,999, the contribution gap is rather small ($2,732 compared to $3,767, or a cap of $1,035 over five years). It is not until families' incomes climb to $150,000 or more that the gap grows exponentially (gap of $7,101) [14].
  - The HACC initial deposit of $500 makes up 75% of the asset value of all HACC participants and 37% of the balance of savers. Moreover, there is evidence from HACC that the initial grant makes up the biggest single component of low-income households' wealth accumulation in CSAs. In contrast, these initial grants are only a small part of non-poor households' asset accumulation, especially for those with the highest family incomes. This speaks to the importance of saving for higher income families and the potential role of ongoing deposits for low-income families in reducing wealth inequality.
  - Further, without considering the initial deposit of $500, families with annual incomes of less than $25,000 earn about 58% less on their HACC CSA than families with annual incomes of $150,000 or more. However, when the initial deposit is considered, families with incomes less than $25,000 earn about 54% less from their CSA than families with annual incomes of $150,000 or more. This suggests that the initial deposit of $500 reduces the earnings gap between high- and low-income families by about 4%, even though the initial deposit is not itself progressive (i.e., both low- and high-income families receive the same amount). Importantly, not only is the initial deposit in HACC not targeted for reducing its overall effect on the wealth gap, but it is also far smaller than what is proposed in this brief. Therefore, we can anticipate a much higher reduction in wealth inequality.

- **Targeted Ongoing Deposits Can Further Reduce Wealth Inequality**
  - Research done by the Institute on Assets and Social Policy at Brandeis University supports the importance of initial deposits. They find that a universal, progressive children's asset-building intervention with an initial deposit of $7,500 for low-wealth households and incremental declines 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%.

We also suggest that College Promise programs as well as CSAs programs, as they currently exist, should be linked and broadened to reflect what a large part of the investment in education really is: an investment in promoting economic mobility for American children and families. Most current models of CSAs and College Promise programs focus almost exclusively on the goal of postsecondary credentialing children, not on empowering children to ascend the economic ladder.

> **This is a vision of a financial aid system designed more as an instrument to promote economic mobility than as a tuition voucher, capable of unlocking the door to the 21st Century American Dream where education takes its position in society as the great equalizer.**

Thus, CSA programs, for example, often use 529 College Savings programs which only allow assets to be spent on education expenses. However, if we thought about financial aid as an investment in economic mobility, we might also allow children after they reach 25, and if they have not used the money for college or had left over money, to be able to use those funds for other asset building activities such as buying a home, starting a business, or for retirement.

Conclusion

While we acknowledge that CSAs are a long-term strategy often starting with children at birth, CSAs stand alone among financial aid policies in their ability to equip children with assets that enable education to become the great equalizer Americans have for so long envisioned it to be. Moreover, investing over long periods of time in economic mobility is not unusual. Education itself is a long-term investment in economic mobility from the time children enter preschool to the time they graduate from college. However, CSAs must be transformed from their current form, small-dollar investment accounts relying too heavily on the ability of families to save, to targeted large dollar investments that give low-income and underserved children the assets they need to pay for college and imagine and achieve a life worth living. Standing alone, CSAs and College Promise programs offer families immense benefits, but neither is a silver bullet to the college affordability, completion, and workforce supply challenges ahead, especially now. When implemented in tandem, the two complement each other well, with the relative strengths of the community and state-based initiatives helping to overcome the challenges of each alone. This is a vision of a financial aid system designed more as an instrument to promote economic mobility than as a tuition voucher, capable of unlocking the door to the 21st Century American Dream where education takes its position in society as the great equalizer.

College Promise is a national, non-partisan, non-profit initiative that builds broad public support for funding the first two or more years of postsecondary education for hard-working students, and ensuring those students have access to quality educational opportunities and supports.

Learn more at: collegepromise.org or email info@collegepromise.org

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