

The Case for a Nationwide Child Development Account Policy

A policy brief developed by CDA experts and researchers

Investing in children is fundamental for families, communities, and the U.S. economy. Child Development Accounts (CDAs), also called Children's Savings Accounts (CSAs), offer a proven and efficient model for investing in all children.

What Are Child Development Accounts?

CDAs build assets to ensure that early investments are available to all children. Experimental research documents that CDAs have large positive effects on savings for college, with the largest effects among households of color, lower incomes, and lower parental education. Additional research indicates that predicted household income and net worth are higher for adults who received financial support for college. Research also shows that children with college savings in their name—even if that amount is modest—are three times more likely to pursue postsecondary education and four times more likely to graduate.

More Than Savings: Developing All Children to Reach Their Potential

In early childhood, access to the accounts shapes development, parental outlook, and family relationships. An experimental test of CDAs finds that children who were randomly assigned to receive an account in infancy demonstrated significantly higher social-emotional skills at age 4. CDAs give parents new hope for their children's future and may change how they interact with their children.

During the school years, CDAs cultivate college-going identities. Many low-income students and students of color fail to transition to college despite having the desire and ability to go. Low-income

students who expect to go to college and also have identified savings to help pay for it are more likely to enroll in college and complete college.

In adulthood, people are more likely to save if they saved in childhood, and CDAs can connect children to assets such as retirement accounts, real estate, and other investments. CDAs help children avoid student debt, an important outcome since indebted college graduates accumulate less wealth than do graduates who never borrowed to finance their degrees.

Key CDA Principles for Achieving Scale, Success, and Sustainability

The designs and implementation of current CDA programs vary, but there is consensus that a national or state policy should contain the following 10 design principles:

- ✓ **Eligibility for all**—everyone is included and gets a stake
- ✓ **Automatic enrollment**—remove barriers to enrollment
- ✓ **Automatic initial deposit**—jump-start wealth accumulation
- ✓ **Start young**—maximize wealth-building potential
- ✓ **Targeted additional deposits**—those with greater need get more
- ✓ **Centralized savings plan**—enable implementation and reduce costs
- ✓ **Investment growth**—augment the wealth-building capacity of families
- ✓ **Simplified investment options**—make decisions easy

- ✓ **Restricted withdrawals**—prioritize wealth building
- ✓ **Means-tested public benefit exclusion**—remove disincentives to building wealth

States Already Deliver CDAs at Scale

A policy instrument for universal asset building already exists; it does not need to be created. State 529 college savings plans provide tax-advantaged accounts and are offered by every state to support saving for postsecondary education. Historically these accounts have not been used by a broad range of families—but with policy and practice changes, college savings 529s could be a *delivery system* for CDAs. Such a system would offer a number of positive features:

- ✓ Control by a state entity with interest in inclusive asset building
- ✓ Potential for economies of scale
- ✓ Ability to set low account-administration fees
- ✓ Budget and infrastructure to conduct intentional outreach
- ✓ Alignment with financial-aid, tax, college-preparation, health, and public-welfare systems
- ✓ Availability of simple investment options
- ✓ Established systems that facilitate rapid implementation

CDA Policy Growth With Bipartisan Support

CDA policies and programs in the United States are growing. By the end of 2020, 109 CDA programs in 36 states were serving 922,000, a 30% increase in participants from the end of 2019. *Statewide policies* are receiving bipartisan support from leaders in states as diverse as Maine, Nebraska, Pennsylvania, and California. State treasurers across the political spectrum have also supported CDAs.

CDAs as a Bridge in Ongoing Policy Discussions

CDAs easily bridge to other policy reforms for higher-education financing and for reducing educational and wealth inequality. Giving every child an account and assets as early as birth, with more to those with greater disadvantage, can bring

multiple policy proposals together to develop all of our children and secure the nation’s future.

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