Biannual Report on the Asset and Education Field

Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education

Chapter 3 (Brief): CSAs As An Early Commitment Financial Aid Strategy

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When thinking about the role CSAs may play in increasing college enrollment and completion, we need a broader frame than just helping children pay for college. Emerging research linking assets with academic achievement suggests that CSAs may be a valuable tool for addressing long-term barriers to closing the attainment gap—a potentially greater challenge in improving outcomes and equity. As early commitment financial aid strategies, CSAs may help to shape children's college expectations, thereby impacting parents' investments in their children's education and potentially mitigating some of the effects of poverty on educational attainment. The potential for cumulative effects starting in early childhood and CSAs' potential impact on post-college outcomes bolster the argument for including CSAs in the financial aid system and considering the role of timing in influencing financial aid efficacy.

> **What is 'early commitment'?** Early commitment programs make financial aid promises by the early years of high school and impose conditions for students to meet by graduation.[1] The conditions must be perceived as within reach, if the program is to have power to influence students' behavior and expectations.

Educational Inequities, Human Capital, and Constrained Economic Mobility

- Contrary to the American myth of upward mobility, 43% of poor Americans remain poor as adults.[1] A comparable number of children born in the highest income bracket remain there as adults. Considering wealth instead of income mobility, there is even less opportunity for movement from the bottom to the top; 66% of children born into the bottom of the wealth distribution in the U.S. remain there as adults.
    - Policy Implication: Policy reform should restore a core principle of the American Dream, that people should be able to see progress in their own lives and the lives of their children.
- Despite the lack of economic mobility, attaining a college degree still remains the best hope of moving out of poverty. Only 10% of poor children who earn a degree remain poor as adults.[2] However, educational attainment displays similar patterns of disadvantage, closing this avenue of escape from the poverty ranks. Despite decades of investment in financial aid, just 30% of children in families in the bottom income quartile can expect to enroll in college, compared to 80% from the top quartile.[3]
    - Policy Implication: Unless gaps in educational attainment by class are narrowed, higher education cannot function as a true equalizer in American society.
- Household assets might have cumulative effects on children's college outcomes, representing one mechanism through which economic disadvantage is perpetuated in the U.S. economy. Early liquid assets (while children are between ages 2 to 10) have a significant relationship with children's long-term outcomes.[4] Children in families that experienced asset poverty or an asset

[1] Urahn, S. K., Currier, E., Elliott, D., Wechsler, L., Wilson, D., and Colbert, D. (2012). Pursuing the American Dream: Economic mobility across generations *Economic Mobility Project*. Washington, DC: The Pew Charitable Trusts.
[2] Ibid.
[3] Bailey, M. J., and Dynarski, S. (2011). Inequality in postsecondary education. P. 117-132 in G. Duncan and R. Murnane (Eds.), Whither opportunity? New York, New York: Russell Sage Foundation.
[4] Huang, J., Guo, B., Kim, Y., and Sherraden, M. (2010). Parental income, assets, borrowing constraints and children's post-secondary education. *Children and Youth Services Review, 32*, 585-594.

shock have lower achievement scores, high school graduation rates, and college enrollment and graduation rates than children living in families that do not experience one of these events.[5]

- Policy Implication: CSAs and other efforts to provide children and families with meaningful access to asset accumulation, especially while children are young, may affect academic performance, thus muting the effects of poverty on children's future prospects.

- Given the positive returns on a college education, families invest generously in children's education. On average, families allocate about 17% of their total budget to educational expenses from birth through age 17,[6] and wealthier parents invest more than their poorer counterparts.[7] Inequality in parental investments, then, may lead to some children gaining an advantage in school, irrespective of innate ability.
    - Policy Implication: Efforts to address disparities between schools, while important, may fail to remedy the disadvantage experienced by poorer children, unless efforts to equip their households with assets for investing in educational inputs are also considered.

The Long-Term Challenge of Preparing Students for Academic Success

- Research suggests that insufficient financial and academic preparation, partly attributable to the perception that college is unaffordable and out of reach, are two reasons students from low-income families under-enroll in college and often fail to graduate.[8]
    - Policy Implication: Because early intervention is more efficient than investments made at the point of college enrollment, CSAs' potential to shape attitudes and behaviors may increase the likelihood that disadvantaged students are academically prepared for college, critical to closing achievement gaps.
- The failure to plan for college enrollment from an early point in K-12 schooling is detrimental because academic pathways to college are structured and sequential.[9] For example, the track to college-level math begins in middle school and fewer students from low-income families engage at that time, even though the benefits of early engagement in such coursework disproportionately accrue to them.[10]
    - Policy Implication: Even ensuring that disadvantaged children are in schools that offer quality curriculum and instruction may not be sufficient to prepare them for college success, unless interventions help children to see higher education as a viable option, reasonably proximate and demanding their attention.

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[5] Elliott, W. (2013). Small-dollar children's savings accounts and children's college outcomes. *Children and Youth Services Review, 35*(3), 572-585.

[6] Lino, M. (2012). Expenditure on children by families, 2011. U.S. Department of Agriculture: Center for Nutrition Policy and Promotion.

[7] Mauldin, T., Mimura, Y., and Lino, M. (2001). Parental expenditures on children's education. *Journal of Family and Economic Issues, 22*(3), 221–241.

[8] Heller, D. E. (2006). Early commitment of financial aid eligibility. American Behavioral Scientist, 49, 1719-1738; Goldrick-Rab, S., Harris, D.N., and Trostel, P. A. (2009). How and why financial aid does (or doesn't) matter for college success. In J.C. Smart (Ed.), Higher education: Handbook of theory and research, Vol. 24 (pp. 1-45).

[9] Hallinan, M. T. (1996). Track mobility in secondary school. Social Forces, 74, 983-1002; Klasik, D. (2012). The college application gauntlet: A systematic analysis of the steps to four-year college enrollment. *Research in Higher Education, 53*, 506-549.

[10] Rees, D. I., Argys, L. M., and Brewer, D. J. (1996). Tracking in the United States: Descriptive statistics from NELS. *Economics of Education Review, 15*, 83-89; Lucas, S. R., and Berends, M. (2002). Sociodemographic diversity, correlated achievement, and de facto tracking. Sociology of Education, 75, 328-348; Long, M. C., Conger, D., and Iatarola, P. (2012). Effects of high school course-taking on secondary and postsecondary success. American Educational Research Journal, 49, 285-322.

- Research has linked household asset holdings with reading and math scores, GPA, adverse behavioral consequences, and interest in school, all independently connected to another outcome correlated with assets: high school graduation.
    - Policy Implication: CSAs may affect educational attainment not only by equipping children with assets to access college, but also by positioning them to qualify for admission and even for merit-based and institutional aid, in large part through the media of changed attitudes and expectations.
- Poverty can have cumulative effects on the lives and even the brains of low-income children, possibly through the medium of toxic family stress. As CSAs may affect parental investments in the academic and social environments of children, they may be part of interventions that mediate this context.
    - Policy Implication: While CSAs cannot erase all of the effects of poverty on children's lives, their unique ability to potentially affect not only household balance sheets but also orientation towards the future may provide a cushion beyond what could be expected from the scale of the investment.

Financial Aid Timing and Inequity in Higher Education

- Most low-income students only receive actionable information about college costs during their final years of high school; far into the college choice process and long after students need to prepare for a college-preparatory path.[11] Information about college costs needs to reach students earlier: affects on college enrollment are detectable for interventions as late as tenth grade[12] but are not statistically significant in twelfth grade.[13]
    - Policy Implication: CSAs, especially when connected to schools, provide a vehicle through which to ensure that children receive early information about college as a goal and about the investments needed to prepare for it, as well as a tool to engage parents, children, and school personnel in navigating college admission and financial aid, earlier in a child's career.
- Evaluation of early commitment programs reveal potential to improve educational outcomes; for example, the Indiana program may have induced students to enroll in college at somewhat higher rates.[14] Emerging evidence suggests that students who know they will receive a scholarship to attend college because of 'Promise' programs work harder in high school; teachers have higher expectations for them,[15] and low-income students may be encouraged to apply to more selective universities.[16]

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[11] Hossler, D, and Gallagher, K. S. (1987). Studying student college choice: A three-phase model and the implications for policymakers'. *College and University, 62*(3), 207-221

[12] Ford, R., Frenette, M., Nicholson, C., Kwakye, I., Hul, T.S., Hutchison, J., Dobrer, S., Smith Fowler, H., and Hebert, S. (2012). *Future to Discover: Post-Secondary Impacts Report*. Ottawa, Ontario: Social Research and Demonstration Corporation.

[13] Bettinger, E. P., Long, B. T., Oreopoulos, P., and Sanbonmatsu, L. (2012). The role of application assistance and information in college decisions: Results from the Hand Block FAFSA experiment. *The Quarterly Journal of Economics, 127*, 1205-1242.

[14] St. John, E. P., Musoba, G. D., Simmons, A., Chung, C-G., Schmit, J., and Peng, C-Y. J. (2004). Meeting the access challenge: An examination of Indiana's twenty-first century scholars program. *Research in Higher Education, 45*, 829-871.

[15] Bartik, T. J., and Lachowska, M. (2012). The short-term Effects of the Kalamazoo Promise scholarship on student outcomes. Kalamazoo, MI: Upjohn Institute Working Paper 12-186; Jones, J. N., Miron, G., and Kelaher-Young, A. J. (2012). The Kalamazoo promise and perceived changes in teacher beliefs, expectations, and behaviors. *Journal of Educational Research, 105*(1), 36-51.

[16] Andrews, R. J., DesJardins, S., and Ranchhod, V. (2010). The effects of the Kalamazoo Promise on college choice. Economics of Education Review, 29, 722-737.

- o <u>Policy Implication:</u> Shaping children's expectations may help CSA leverage parental investment. Children who have positive expectations about college graduation may model these expectations, spurring parents to invest more.[17]

Promoting Children's Asset Ownership to Increase Academic Engagement

- To maximize CSAs' potential as early commitment financial aid strategies, programs should view children as agents with some control over their own financial and educational outcomes, not passive subjects bound by their family contexts. While research on savings often overlooks children as agents,[18] children are clearly viewed as actors in the realm of consumption,[19] suggesting that their agency may be developed towards saving, as well.
    - o <u>Policy Implication:</u> CSAs, especially if children hold the assets in children's names and are given some control over the funds, may promote the non-cognitive skill of perceived control, otherwise elusive for children living in or near poverty and shown to be an important predictor of children's educational outcomes.[20]
- Financial aid that comes with a sense of having been earned rather than bestowed may help to deliver superior outcomes, compared with other forms of familial or institutional aid.[21] The same might be true of money in CSAs. It is *their* money and they are asked to participate in accumulating it, which may influence how they spend it, as well.
    - o <u>Policy Implication:</u> If one considers the process of obtaining a college education as a consumer transaction, 'spending' one's investment also includes how one engages with the education, suggesting that empowered 'student consumers' may differ from others in some characteristics important for determining success.
- CSAs act as an empowering tool for children, providing them with a mechanism to build assets of their own and shape their financial futures. In turn, this might instill more of a sense of ownership and control in children,[22] which might extend to their sense of control over being able to finance college. As a result of having a greater sense of control, having their own savings for school may instill in children a greater obligation to work hard in school (academic preparation) and to save (financial preparation). These effects may be particularly strong for low-income children. There is a long line of research that indicates that children who have a greater sense of control work harder in school.[23]
    - o <u>Policy Implication:</u> It may be that the greater control a child has over a CSA, the more a part of her own identity she perceives it to be, thus potentially increasing its effects.
    - o <u>Policy Implication:</u> Giving children control over their CSAs may protect the assets, as well. Compared to wealthier households, children living in low-income households are far more likely to have assets drained by unexpected expenses and income shocks.

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[17] Elliott, W., and Friedline, T. (2013). "You pay your share, we'll pay our share". *Economics of Education Review, 33*(1), 134-153; Flint, T. (1997). Intergenerational effects of paying for college. *Research in Higher Education, 38*(3), 313-344.
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[22] Belk, Russell W. (1988). Possessions and the extended self. *The Journal of Consumer Research, 15*(2), 139-168
[23] Skinner, E. A., Wellborn, J. G., and Connell, J. P. (1990). What it takes to do well in school and whether I've got it: A process model of perceived control and children's engagement and achievement in school. *Journal of Educational Psychology, 82*(1), 22-32.

CSAs as Early Commitment Financial Aid Strategies

- In the 2011-12 academic year, the federal government provided nearly $175 billion in financial aid, of which nearly $50 billion was grant aid, $105 billion were loans, and nearly $20 billion were tax credits.[24] While considerable attention has been directed to examining outcomes realized for this investment, the variable of timing, which could be manipulated to improve achievement, has not been targeted for innovation.
  - Policy Implication: Unlike other needed changes in higher education, reimagining financial aid as 'early commitment' programs and shifting resources to CSAs earlier in children's schooling may deliver superior outcomes—before, during, and after college—without increasing the net public cost.
- In many ways, early commitment programs mirror the realities of wealthy students, since "The children of high-income parents have a strong early commitment in that they can usually assume, from an early age, that their parents will pay their college expenses."[25] Because this strategy is not available to lower–income students, they do not grow up with the same assurance as their higher-income peers, that college is a viable path for them.
  - Policy Implication: CSAs, then, may be thought of as policy vehicles to allocate resources to low- and moderate-income children so that they can compete in the 21st Century.
- The effects of interventions earlier in a child's life have the potential to compound over time. Researchers have shown that the returns of interventions earlier in a disadvantaged child's life are higher than from interventions conducted in adolescence.[26] Because of this, we would expect that early interventions to improve family financial literacy and increase family assets—both important components of CSAs and predictors of college readiness and success—would be more successful than later interventions.
  - Policy Implication: CSAs, then, can function as a cumulative-impact early-commitment financial aid strategy. In an effort to improve families' ability to afford college and encourage superior achievement, a number of localities and states are turning to CSAs as early commitment programs. There is increasing interest in utilizing CSAs to intervene early in the lives of disadvantaged children, alter their educational trajectories, and, in turn, increase their economic mobility.

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[24] Baum, S., and Payea, K. (2012). Trends in student aid. New York, New York: College Board Advocacy and Policy Center.

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About Us

The mission of the **Assets and Education Initiative (AEDI)** is to create and study innovations related to assets and economic well-being. The specific focus is on the relationship between children's savings and the educational outcomes of low-income and minority children as a way to achieve the American Dream. AEDI, a division of the KU School of Social Welfare, builds the field's capacity to conduct rigorous research and advocates for the economic well-being of low-income and minority children. For more, visit http://aedi.ku.edu/.

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