

Biannual Report on the Asset and Education Field

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

Chapter 6 (Brief 1): Designing for Success

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DESIGNING FOR SUCCESS: CHILDREN’S SAVINGS ACCOUNT POLICY FEATURES TO DRIVE EDUCATIONAL OUTCOMES

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What is a Children’s Savings Account (CSA)?

CSAs are matched savings accounts targeted at children. Children are typically unable to access money saved in CSAs until they reach age 18 or graduate from high school. Children and families contribute savings to the accounts, and matches are added for completion of key savings or developmental milestones. In most cases, allowable uses of CSAs are limited to higher education initially, with some allowance for homeownership, entrepreneurship, or other capital investment later. Although, more recent proposals for CSAs also include tiered structures so that children could access some savings while still in school, in order to close the gaps between disadvantaged and wealthier children, in terms of access to important educational inputs like computers and enrichment activities. A national CSA policy would likely include initial, publicly-funded deposits for all children, ideally at birth, with some progressive features to facilitate saving by low-income families. Because much of the attention to CSAs in recent years stems from the possibility to improve educational outcomes and address rising inequities in higher educational attainment, CSA policy development should carefully consider research about *how* asset accumulation contributes to educational outcomes, and to what this suggests regarding key features of CSAs important for delivering impact.

- Universal: CSAs should include every child of a given age—ideally, at birth, although there are certainly reasons to tie additional incentives to accomplishment of specific academic or life milestones. Including everyone in CSAs underscores the stake we all have in each other’s prosperity, which is particularly true when it comes to global competitiveness and the educational outcomes CSAs can deliver. Universality also means inclusiveness, or meaningful access to asset accumulation by low-income individuals who otherwise may not have truly equitable opportunities.¹ This speaks to the need for features such as automatic enrollment (opt-out), concerted outreach and education strategies, and special incentives for lower-income households, in order to avoid a ‘universal’ CDA policy turning into another asset development investment that disproportionately benefits those already advantaged.
- Lifelong: Because part of the intention of CSA policy is to create a system flexible and robust enough to carry individuals through their asset-building needs at various points in their development, CSA programs need to keep individuals connected to financial

¹ Loke, V., and Sherraden, M. (2009). Building assets from birth: A global comparison of child development account policies. *International Journal of Social Welfare*, 18(2), 119-129.

institutions and facilitate saving from birth to death.² Such a structure would capitalize accounts capable of being savings vehicles for young children whose dominant asset priority is higher education, but also for homeownership and other asset purchases post-graduation, and for retirement and continuing education needs for future generations.

- Progressive: Given that saving is particularly difficult for low-income families and that current asset-building policies are quite regressive in their concentration of tax-based incentives to higher earners,³ future CSA policy may want to focus on creating advantages for lower-income households to accumulate assets. There is ample evidence that low-income and people of color fare poorly, comparatively, in today's asset policy structure, and that children in these households suffer educational disadvantages as a result.⁴ CDA policy, correctly designed, can help to remedy these disparities.
- Asset-building: CSAs are best understood as vehicles for asset accumulation, not just to build habits of savings. When savings are used to purchase other assets—human and financial—they build a foundation from which to leverage opportunity. This provides the motivation for restricting allowable uses of CSAs, but, ideally, CSAs will be structured to facilitate development of both financial and non-financial assets throughout childhood and into adulthood. This may mean using tiered accounts that would allow children to withdraw some of their funds for critical investments at key points in their academic careers, such that their development of human capital is facilitated. CSAs should also include financial education, in order to build human capital alongside financial deposits. Financial education is widely regarded as a component of economic security, and CSAs provide an excellent vehicle with which to engage children in their financial decisions.⁵

Designing for Impact: CSA features may be linked to positive outcome effects

Given evidence of the weight of an institutional theory of savings and the degree to which economic behavior is shaped by access to institutional support structures,⁶ CSA policy success may hinge to a fair extent on appropriate incentives and effective administration.

- Matches and incentives: Contributions should be matched to accelerate asset accumulation, engage parents in planning for children's futures, and leverage parental expectations and aspirations for their children. Matches are particularly important for disadvantaged families;

² Cramer, R., and Newville, D. (2009). Children's savings accounts: The case for creating a lifelong savings platform at birth as a foundation for a "save-and-invest" economy. Washington, DC: New America Foundation.

³ Boshara, R. (2003). Federal policy and asset building. *Social Development Issues*, 25(1and2), 130-141.

⁴ Example, Conley, D. (1999). *Being black, living in the red*. Berkeley, CA: University of California Press; Oliver, M. L., and Shapiro, T. M. (1995). *Black wealth, white wealth: A new perspective on racial inequality*. New York, NY: Routledge; Shapiro, T. M. (2004). *The hidden cost of being African American: How wealth perpetuates inequalities*. New York, NY: Oxford University Press.

⁵ Cramer, R., and Newville, D. (2009). Children's savings accounts: The case for creating a lifelong savings platform at birth as a foundation for a "save-and-invest" economy. Washington, DC: New America Foundation.

⁶ Beverly, S., Sherraden, M., Cramer, R., Zhan, M., Nam, Y., and Williams Shanks, T. (2008). *Determinants of asset building*. Washington, DC: Urban Institute.

saving families earning less than \$35,000/year have only \$2,000 in median college savings, despite saving more as a percentage of their incomes than higher earners.⁷ While even small amounts designated for college may have significant effects, the reality of rising college costs and the need to reduce dependence on high-dollar loans necessitates subsidies in order to create equitable opportunities for postsecondary education. In order for CSAs to help reduce students' dependence on high-dollar student loans, these accounts would need to bridge the gap between students' average debt today (about \$26,000) and the level (about \$10,000) at which the negative consequences of debt are seen.⁸

- This suggests that account balances of around \$16,000, in today's dollars, would be necessary to mitigate the effects of debt for the average student. In practical terms, this means families would need to save about \$23/month, with a 1:1 match (and no initial deposit), with monthly compounding, to get \$16,000 at 5% interest after 18 years. It is important, however, to set policy parameters precisely, both to ensure workability and to reduce potential opposition. In this regard, it is clear that a relatively modest initial government deposit—say, \$500—can generate bipartisan support and would assist families in reaching this goal.⁹
 - CSAs might allow for third-party contributions to ensure that matches are high enough to serve as effective savings incentives and to help children attract deposits through leveraging their social capital for financial and human capital development.¹⁰

This might also help build group congruence for children around saving.
- Easy entry: Accounts might need to have low requirements for opening balances and very low fees, to ease entrance and direct as much of families' savings as possible directly to their goals. Opt-out, instead of opt-in, account opening might leverage inertia as a potent savings force; some have even called for mandatory participation, in part to protect children from decisions made on their behalf.¹¹ This is particularly important in light of recent research suggesting that even opening an account with little to no money may still increase the odds of college enrollment.¹² Even when accounts are opened automatically, any features that increase families' utilization will, in turn, increase deposits and the educational and economic advantages that accrue to children. To this end, investment options should be simple; even

⁷ Sallie Mae. (2009). How America Saves. Available from: <http://www.salliemae.com>.

⁸ Dwyer, R. E., McCloud, L., and Hodson, R. (2012). Debt and graduation from American universities. *Social Forces*, 90(4), 1133-1155; Elliott, W., and Nam, I. (2013). *Is student debt jeopardizing the long-term financial health of U.S. households?* Paper presented at the Restoring household financial stability after the great recession: Why household balance sheets matter, St. Louis, MO.

⁹ Goldberg Jr., E. T., Friedman, B., and Boshara, R. (2010). CSA legislative challenges and opportunities. *Children and Youth Services Review*, 32(11), 1609-1616.

¹⁰ Cramer, R., and Newville, D. (2009). Children's savings accounts: The case for creating a lifelong savings platform at birth as a foundation for a "save-and-invest" economy. Washington, DC: New America Foundation.

¹¹ Cramer, R. (2010). The big lift: Federal policy efforts to create child development accounts. *Children and Youth Services Review*, 32(11), 1538-1543.

¹² Elliott, W. (2013). Small-dollar children's savings accounts and children's college outcomes. *Children and Youth Services Review*, 35(3), 572-585.

when matches are provided, accounting should be streamlined, allowing families to see their account balances grow, including the matches they have earned.¹³

- Account ownership: It might be that assets need to be held in children's own name (or an equivalent) and at least mentally accounted as designated for education, since these 'dedicated' assets tend to have greater educational effects.¹⁴ However, there might be alternatives to having accounts in the child's own name; for example, in SEED OK, accounts are state-owned and children receive statements in their name, which may help to formulate the 'college-saver' identity theorized as critical to shaping children's expectations.
- Account structure: As described above, tiered structures (with short-term, intermediate, and long-term accounts) would allow children access to some of their assets as they progress in school, while others are held in reserve. Long-term accounts could be matched at the highest rate, while short- and intermediate-term accounts would be matched less generously, if at all. Research suggests that accounts students can access may increase children's ability to overcome financial obstacles to school success while building their competence to execute financial decisions,¹⁵ a critical competency for long-term financial security.

¹³ Goldberg Jr., E. T., Friedman, B., and Boshara, R. (2010). CSA legislative challenges and opportunities. *Children and Youth Services Review*, 32(11), 1609-1616.

¹⁴ Elliott, W., Destin, M., and Friedline, T. (2011). Taking stock of ten years of research on the relationship between assets and children's educational outcomes: implications for theory, policy and intervention *Children and Youth Services Review*, 33(11), 2312-2328.

¹⁵ Elliott, W. (2012b). *Ideas for refining children's savings account proposals*. (Creating a Financial Stake in College, Report IV). Washington, DC: New America Foundation; St. Louis, MO: Washington University, Center for Social Development.

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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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