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 2): Investing In Our Future

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ASSETS & EDUCATION INITIATIVE

INVESTING IN OUR FUTURE: MOVING FROM ADEQUACY TO ASSET-BUILDING, AND IMPROVING EDUCATIONAL OUTCOMES

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Part of the explanation for rising inequity in educational attainment between disadvantaged children and their wealthier peers may be found in the different access to capital development—human and financial—afforded to these groups of children, within U.S. policy structures. Where wealthy children benefit from their families' ability to make college a likely part of their future, low-income children are more likely to perceive increasing college costs as insurmountable burdens. Where wealthy families receive considerable tax benefits from participating in state 529 college savings plans, low-income families participating in means-tested public assistance face strict penalties if they save money. These inequities are manifest, then, in lower college enrollment and graduation rates for disadvantaged children, and we collectively pay the price in lost productivity and a constrained ability to compete in the global economy.

To the extent to which evidence suggests that assets can alter these educational trajectories, CSA policy may be considered an investment in our shared future. CSAs would provide an alternative to current consumption-based welfare supports for low-income households and may help to close the gaps by using the lever of U.S. policy commitment to provide disadvantaged children with access to transformative asset development.

CSAs as way to restore U.S. commitment to children, economic mobility, and long-term development

- The current federal budget, largely already committed to mandatory spending, precludes significant expenditures in support of investment and growth, with predictable effects on the life trajectories of disadvantaged youth. Because they are underrepresented in the big-ticket budget items, children lose in the zero-sum game that pits entitlement spending against deficit reduction. In 1960, 20% of domestic spending went to children's programs; in 2007, this figure was 16.2% and, in 2018, it is expected to be only 13.8%.[1]
- The federal investment in the 'mobility budget', including spending that tries to enhance people's earning capability, savings, and asset accumulation, fares better than children, but the distribution of these resources is highly unequal.[2] Most of the spending in this category is dedicated to employer-related work subsidies, homeownership, savings and

[1] Steuerle, E. (2010). Policy Context for CDAs over the next 20 years. Children and Youth Services Review 32,1605–1608

[2] Boshara, R. (2003). Federal policy and asset building. *Social Development Issues, 25*(1 and 2), 130-141.

investment incentives, and education and training supports, with only 28% of this budget going to programs that provide significant benefits to low-income individuals.[3]

- State budgets also impact the higher educational opportunities available to American children, especially those whose limited personal and household resources leave particularly vulnerable to reductions in public supports. More than 75% of American college students are in public institutions, but these colleges and universities—and the educational experience they offer—may not offer the pathway to the American Dream imagined by many. The recent recession, in particular, may impact educational outcomes of disadvantaged youth for years to come. Nationwide, states spent 28% less on higher education in 2013 than in 2008, and these cuts can be directly linked to increases in tuition and other fees as well as reductions in educational quality.[4]

More than two decades of experimentation and scholarship have demonstrated that, given the right conditions and incentives, low-income people can save, and that assets can be transformative

- Demonstration programs involving different low-income populations around the United States have proven that, given the right conditions, institutional features, and incentives, poor people can and will—and do—save.[5] However, current vehicles for asset accumulation—401(k) accounts, 529 plans, traditional home mortgages, standard investment products—are not developed appropriately in order to meet the savings needs and aspirations of low-income Americans.[6]
- To address the reality that the most advantaged Americans receive disproportionately generous opportunities to further build their assets, states and local communities are moving forward with initiatives that build on the concept that providing vehicles and incentives for college savings among low-income families is sound policy. For example, as of September 2012, twenty-three states had implemented matching components within their state-sponsored 529 plans. In some states, subsidies are targeted towards lower-income savers,[7] in an intentional effort to parallel the subsidies provided through the tax code to wealthier savers.[8]

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[3] Carasso, A., Reynolds, G., and Steuerle, E. (2008). How much does the federal government spend to promote economic mobility and for whom? Washington, DC: Economic Mobility Project, An Initiative of the Pew Charitable Trusts.

[4] Oliff, P., Palacios, V., Johnson, I., and Leachman, M. (2013). Recent deep state higher education cuts may harm students and the economy for years to come (pp. 1-21). Washington, DC: Center for Budget and Policy Priorities (CBPP).

[5] Schreiner, M. and Sherraden, M. (2007). Can the Poor Save? Edison, NJ: Transaction Publishers.

[6] e.g., see Clancy, M., Lasser, T., and Taake, K. (2010). Saving For College: A Policy Primer. Washington University, St. Louis, MO: Center for Social Development, regarding 529 plans

[7] College Savings Plan Network (n.d.) 529 Plans Help Make Higher Education More Accessible and Affordable for American Families. Downloaded January 23, 2013 from:http://www.collegesavings.org/includes/pdfs/CSPN%20One%20Pager%202012.pdf.

[8] Boshara, R. (2003). Federal policy and asset building. *Social Development Issues, 25*(1 and 2), 130-141.

- CSAs could be part of a national savings strategy, beginning with accounts at birth and including efforts to enable young workers to build assets—in part by reducing their dependence on student debt—and to help people save for their retirement.[9] The greatest rationale for CSAs, however, remains the evidence that assets improve educational outcomes, and that investing in CSAs may create positive effects across U.S. policy, as children build human capital.

Moving beyond adequacy: Removing low-income Americans' disincentives for savings

- CSAs may be more successful if U.S. policy moves away from asset limits in means-tested assistance programs, in order to send low-income households a consistent message about the importance of asset-building. Some states have taken these steps, eliminating asset limits for Supplemental Nutrition Assistance Program (SNAP) eligibility, for example, a move that may help to reduce the negative effects on educational outcomes seen for SNAP participants.
- Similarly, to reduce disincentives for students' savings, eligibility for means-tested grants and loans could be based solely on income, or assets held in special education accounts could be treated differently than overall net worth. There is some precedence for this; as of 2010, 17 states exempted college savings held in 529 plans from financial aid determinations, but these same asset protections are not afforded in the federal financial aid system or to students whose savings are held in other vehicles.[10]
- CSA policy should align with tax policy so that individuals are encouraged to save from refunds,[11] and perhaps employee benefit policies, too, such as paycheck withholding. These considerations suggest a need for a broad shift in orientation towards asset accumulation, especially for those disadvantaged in today's economy, with resulting modifications across key policy spheres.

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[9] John, D. C. (2010). Perspective from the right building a cross-ideological consensus for child development accounts. *Children and Youth Services Review, 32*(11), 1601-1604.

[10] Clancy, M., Lasser, T., and Taake, K. (2010). Saving For College: A Policy Primer. Washington University, St. Louis, MO: Center for Social Development.

[11] Sherraden, M. S., Peters, C., Wagner, K., Clancy, M., & Guo, B. (2012). Contributions of qualitative research to understanding saving theory for children and youth (CSD Working Paper 12-23). 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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