Biannual Report on the Assets and Education Field

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

Executive Summary

The University of Kansas School of Social Welfare

Assets & Education Initiative

www. Save4Ed.com

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The U.S. financial aid system is in crisis. Retention and graduation rates remain flat, while student debt is climbing for all borrower groups, with an average debt load now in excess of $26,000. As a nation, we can't significantly increase college completion rates by primarily relying on borrowing. Research shows that debt over $10,000 begins to reduce graduation rates for the vast majority of college students, as well as harm long-term post-college financial health. Furthermore, student loans do little, if anything, to address what may be the most serious challenge to higher education in the United States: the task of academically preparing students to succeed in college.

Unfortunately, none of the many proposals for fixing financial aid—forgiving student loans or lowering their interest rates, increasing education tax credits, creating multiple tiers of Pell Grants, in-state tuition guarantees—focus on the one lever that simultaneously improves college affordability, readiness, and completion: student financial assets. Children's savings accounts (CSAs) are evidence-based vehicles for improving young peoples' outcomes in college and after college.

The Biannual Report on the Assets and Education Field, *Building Expectations, Delivering Results*, brings together a wide body of research to demonstrate the potential that CSAs have for transforming the way that students pay for, and prepare for, college. By changing the timing of aid delivery and strengthening household finances in the years leading up to college, an asset-based financial aid system need not cost more than our current system, either. This transformation could, in turn, restore the promise of economic mobility for a generation of talented but disadvantaged young people.

Key Features of Successful CSAs

1) Automatic enrollment for every child, preferably at birth. Because individuals and households move in and out of official poverty ranks, and to maximize educational savings and their corollary attitude and behavior effects for children, universal enrollment beginning as early as possible is best. Automatic enrollment should be combined with concerted outreach to and special incentives for low-income households, to increase awareness of the account and plan for future deposits.

2) Initial contributions, at least for low- and moderate-income families. To maximize savings for low- and moderate-income families, as well as encourage future savings, CSAs should be seeded with initial contributions from public monies.

3) Matching contributions. CSA contributions should be matched with public funds to accelerate asset accumulation, engage parents in planning for children's futures, and leverage parental expectations and aspirations for their children.

4) Allowable withdrawals for pre- and post-college expenses. CSAs should be a valuable savings tool across an individual's lifespan. For children in school, funds should support human capital investment, such as enrichment and academic support, while for youug adults, CSAs should support homeownership and other asset purchases. These are uses for which 529 plans and education IRAs, as currently enacted, are not well-suited.

Some CSAs Incorporate Best Practices

- As part of the SEED OK study, 529 plans with an initial $1,000 deposit were automatically opened for over 1,300 Oklahoma newborns. Children receive bank statements in their name, solidifying their identity as future college-goers. Unlike most 529 plans, SEED OK plans were opened automatically, though parents could opt-out of participation. Only one family declined to participate.

- San Francisco's Kindergarten to College program also includes automatic account enrollment for kindergartners in the San Francisco Unified School District. It combines financial incentives and a wide range of incentives to save, including matching contributions and bonuses for setting up auto-deposits and enrolling in the free and reduced-price lunch program.

CSAs build on over a decade of research, reviewed in Chapter 2, showing that for students to achieve their potential, they need to feel that the institutions around them—broadly construed to encompass family, school, mentors, and saving vehicles such as CSAs—support their aspirations. Low-income and minority students are disadvantaged not because of innate limitations or lower aspirations, but because they often encounter institutions that do not help them overcome the barriers to educational attainment they confront.

Chapter 2 argues that CSAs are a kind of institution that, early in a child's life, validates her goal of college attendance and completion, thus improving her confidence in her ability to achieve these aims. This improved confidence—high "self-efficacy"—raises outcomes throughout her school years, during college, and even post-graduation.

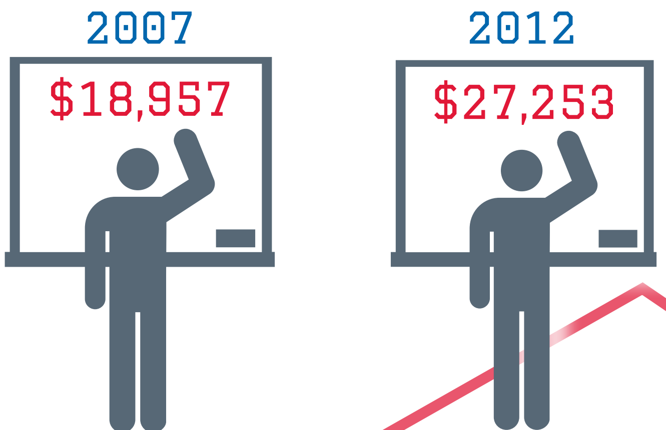
Asset-based approaches like CSAs are not entirely absent from college financing. Wealthy students benefit from their parents' ability to signal early and often that, because assets are available, college will be attainable for them. And affluent and middle-class families are likely to benefit from tax-advantaged vehicles that encourage saving for college.

Building Expectations, Delivering Results makes the case that, applied more broadly, asset-based approaches such as CSAs can be a powerful tool for equity in higher education. By giving families incentives to save, they increase the financial health of low-income families, help them plan for the future, and improve the school outcomes of their children. These are all features missing from our current just-in-time, debt-dependent financial aid system.

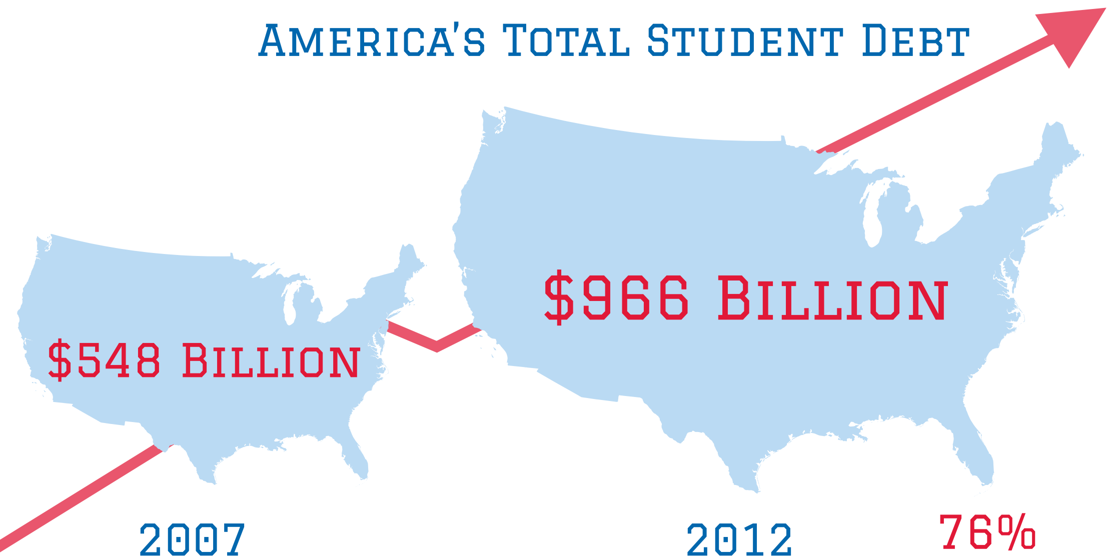
We estimate that account balances of around $16,000, in today's dollars, are necessary to mitigate the potential negative effects that debt can have on the average student. In practical terms, this means that—assuming no initial deposit, 1:1 matching contributions, and a 5 percent return—families need to save about $23 per month, starting at a child's birth, to achieve $16,000 in savings by the time the child reaches 18.

College Savings Accounts: More Degrees, Less Debt

Student Debt: Up 31% in Five Years

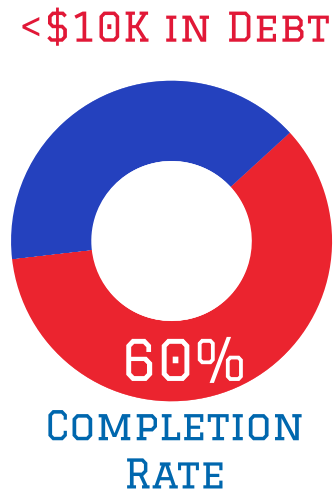


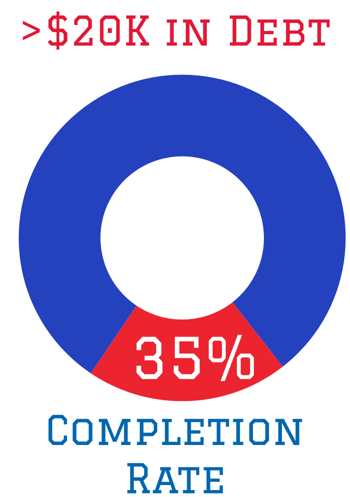
America's Total Student Debt



Higher Student Debt = Lower Graduation Rates

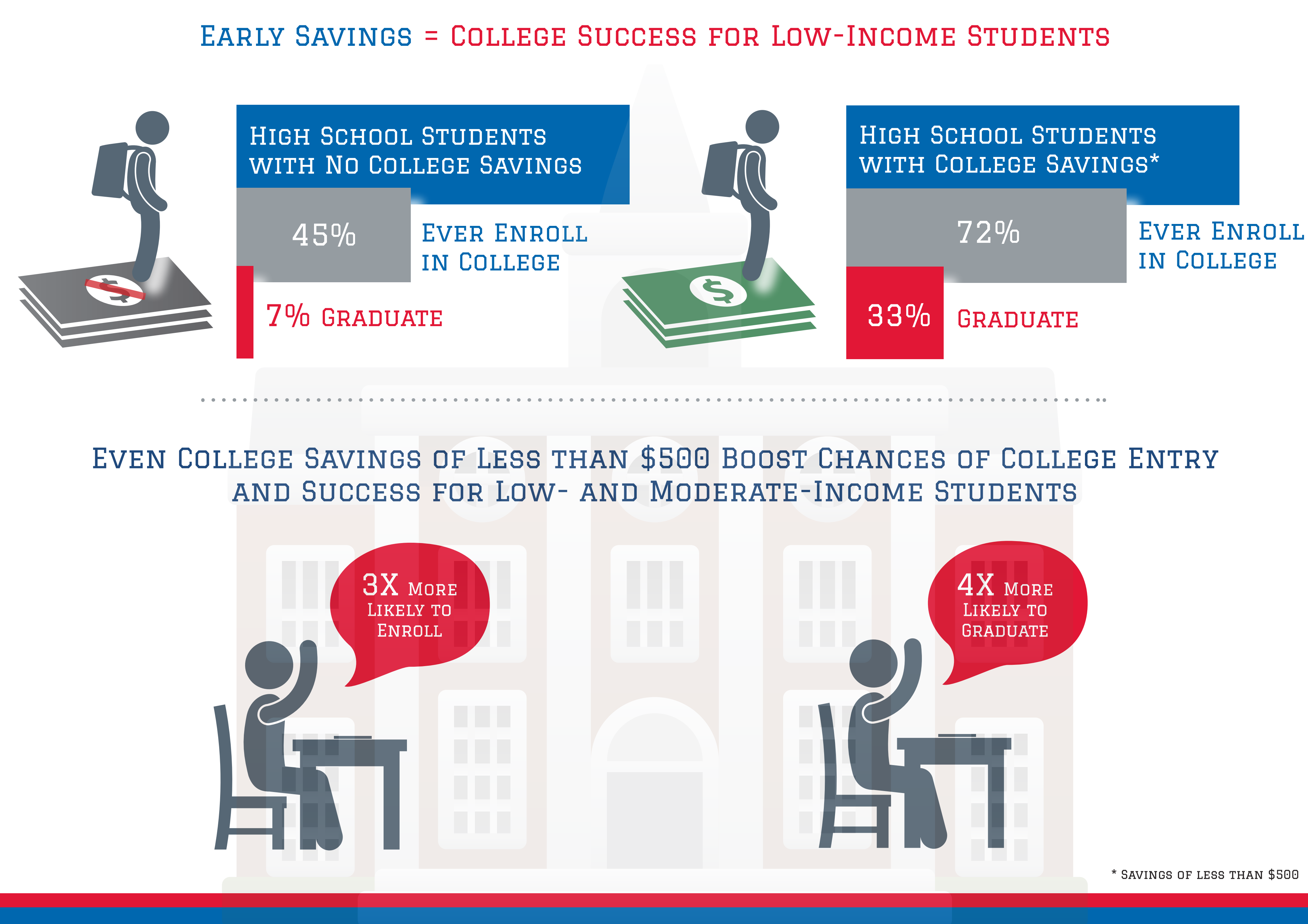
Debt above $10,000 has a negative relationship with college completion for all income groups at public institutions, especially the bottom 75% of the income distribution.





*Confidence intervals show that there is a fair amount of uncertainty about the specific graduation probability at a given level.

Source: Dwyer, R. E., McCloud, L., & Hodson, R. (2012). Debt and graduation from American universities. *Social Forces*, 90(4), 1133-1155.


Early Savings = College Success for Low-Income Students
High School Students with No College Savings
45%
Ever Enroll in College
7% Graduate
High School Students with College Savings*
72%
Ever Enroll in College
33%
Graduate
Even College Savings of Less than $500 Boost Chances of College Entry and Success for Low- and Moderate-Income Students
3X More Likely to Enroll
4X More Likely to Graduate
* Savings of less than $500

Today, nearly all states offer tax-advantaged 529 plans, a type of children's savings account named for the section of the tax code that authorizes them, to encourage saving for college. However, most do not include the key features that make CSAs most meaningful, especially for disadvantaged students. Research reviewed in Chapters 5 and 6 suggests that to be most effective, CSAs must have several key components:

- Automatic enrollment for every child, preferably at birth;
- Publicly funded initial deposits, at least for low- and moderate-income families;
- Publicly funded matching contributions; and
- Allowable withdrawals for human capital investments prior to college and for post-college expenses.

Collectively, these institutional features can transform CSAs into a potent force for cultivating college-bound identities and shaping students' academic expectations and engagement.

An asset-based approach to financial aid is not about adding new spending or eliminating existing public funding, but maximizing dollars already being spent. One option for maximizing these monies is financing CSAs with Pell Grant funds. Rather than issuing awards at the time of college enrollment, as currently constructed, this early commitment approach to Pell Grants could stay within the fiscal footprint of the current program. By manipulating timing—spreading it out over many years as matching contributions to CSAs deposits—these funds could leverage parental and student contributions and potentially shape student educational outcomes leading up to college enrollment.

CSAs, even ones that include the key components described above, must be combined with other policies to adequately address the student debt and completion crisis. These include better financial education, especially for low-income students; the removal of asset limits from public-assistance programs, or at least standard advantaged treatment of CSA balances by such programs; and tax policies that encourage saving, such as through paycheck withholding or diversion of tax refunds to savings vehicles.

The good news is that nationwide implementation of CSAs need not be costly. Evidence shows that even a few hundred dollars in savings designated for education can significantly improve a child's educational outcomes: low- and moderate-income students with savings of $1–499 designated for college are three times more likely to enroll in college and four times more likely to graduate from college than their peers.

What's more, the return on investment from CSAs may be huge. Many of the key stakeholders now affected by the student loan crisis would reap benefits from a nationwide rollout of high-quality CSAs. For students and K–12 educators, evidence suggests that savings for college will improve student performance in school, addressing the long-term challenge of college readiness. Colleges and universities will improve completion rates, improve recruitment of talented but lower-income students, and move more students through college more efficiently.

Banks will receive many new customers, as more families save and more students complete college and build a foundation of economic security. Banks may also be contracted by states or the federal government to administer CSA programs. Finally, students will graduate with stronger financial well-being and face fewer compromises in building their asset foundations as young adults, with attendant benefits to those invested in the U.S. housing and consumer markets. And U.S. policymakers concerned about our ability to compete economically with other nations will see better return on the nation's financial aid investment.

An asset-based approach to financial aid is a common sense solution to the student-debt and college-completion challenges facing the nation. There are several potential paths forward for CSAs. Regarding the infrastructure for broader CSA implementation, a straightforward option would be to build on the current 529 college-savings plan system, enhancing existing plans to include more of the key components described above. However, 529 plans have some restrictions on post-college withdrawals and other features that prevent them from including each of the key components. Better still would be to create, through state or federal law, new, universal CSA programs that are designed with all of the key components in mind, including allowances for pre- and post-college withdrawals.

These new CSAs would serve as a vehicle that increases students' sense of preparation before they arrive at college, makes college more affordable for more students, builds a foundation for lifelong asset accumulation, and complements existing grant and loan programs. This role could be transitional, perhaps the first step toward the United States moving to a financial aid system based on assets, not debt.

The Research Basis for CSAs

Children's savings accounts (CSAs) build on a decade of research studying how children form expectations and beliefs about the world. At a very young age, children form idealized normative expectations about how the world works. For most American children, this includes a normative expectation that hard work will be rewarded with new opportunities.

As children age, they test these expectations, forming cognitive expectations based on a more realistic view of their own ability to influence their future (these beliefs about their ability are called self-efficacy) and the extent to which institutions are supportive of their goals (institutional efficacy). Rooted in normative expectations, most children begin with high self-efficacy.

But for many children, especially low-income and minority children, their sense of self-efficacy erodes as they experience instances in which their efforts do not yield the results they expect. In contrast, a CSA signals that a child should expect to attend college and that assets are available to attain this goal, thus preserving high self-efficacy, as well as cognitive expectations aligned with normative expectations.

By preserving children's beliefs that their efforts will be rewarded, CSAs display high institutional efficacy and improve not only college-attendance rates but also educational outcomes up to, during, and after college.

To read the full report, visit www.Save4Ed.com

Project supported by:

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