DESIGNING CSAs: THE INDEPENDENT EFFECTS OF ACCOUNTS IN CHILDREN'S NAMES

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In the last few decades, children's savings accounts (CSAs) have emerged as a strategy for preparing children for their educational and financial futures, especially for those from low- to moderate-income households. This means a savings account is opened early in life and any accumulated savings can be used toward children's future expenses like college tuition or small business entrepreneurship. One question regarding CSA design is whether ownership over accounts should reside with children or parents. In other words, do children benefit educationally and financially when CSAs are in their names, or is it sufficient for parents to save on their children's behalf? This brief presents findings of the effects on children's financial futures when savings accounts are opened in their names. Findings validate the design of many existing CSAs and point to the need to reexamine policies that may discourage families from establishing accounts in children's names.

Children may benefit when accounts are opened in their names, even when parents make deposits and manage accounts. Accounts in children's names give them a claim to savings and a stake in their futures.[1]

- The distinction between accounts in which parents save on children's behalf and accounts in children's own names is a slight, yet potentially critical one. Children with accounts in their names are the legal owners of accounts and beneficiaries of any accumulated savings.
- Ownership helps children integrate savings accounts into the self and may explain the effects of these accounts on educational and financial outcomes.[2] Children may feel and perceive that the savings accounts belong to them when opened in their names, even if their parents help them make deposits or decisions about investments.
- Children may interact differently with these accounts, gaining knowledge about the world of money and finances and practice with using savings to plan for the future—developing financial capability along the way.[3]
- Savings accounts in children's names may produce effects on their financial outcomes in young adulthood that are independent from the effects of accounts in which parents save on children's behalf.

A combined measure of children's and parents' savings accounts can be used to test different types of CSA designs, comparing the effects on outcomes when accounts are opened in children's names versus accounts in which parents save on children's behalf.

- Sometimes children have savings accounts opened in their names. Sometimes parents have savings accounts on their children's behalf. Sometimes children have savings accounts in

[1] Elliott (2012), AEDI (2013).
[2] Ibid.
[3] Sherraden (2013).

their names *and* parents have accounts on their children's behalf—at the same time. Sometimes neither children nor parents have savings accounts.
- A combined measure can compare all of these combinations to explore whether children experience effects on their financial outcomes in young adulthood when they had savings accounts in their names independently from their parents.
- Findings derived from this combined measure can also inform the design of CSAs.[4]

In many cases, children appear to be better off financially in young adulthood when savings accounts are in their names.

- Young adults accumulate significantly more savings when they had accounts in their names as children, whereas parents with savings accounts on children's behalf does not produce an effect on accumulated savings that is different than chance.[5]
- Young adults have an average of $2,596 saved when they had accounts in their names as children—slightly more than when their parents had accounts on their behalf ($2,399) and more than when no one had savings for them ($705).
- Young adults from high-income households accumulate significantly more savings when they had accounts in their names as children or when they had accounts simultaneously with their parents, compared to parents having savings accounts on children's behalf.[6]
- Among high-income households, young adults have an average of $2,954 saved when they had accounts in their names as children, compared to $1,875 when their parents had accounts on their behalf and $1,747 when no one had savings for them.

Parents' savings still makes a difference in their children's financial futures. For children from low- to moderate-income households that start off at a financial disadvantage, it may take both children and parents saving to help them experience improved financial outcomes in young adulthood.

- When children have accounts in their names at the same time as parents saving on their behalf, they accumulate an average savings of $4,311 in young adulthood.[7] Among those from high-income households, young adults saved $3,862 when they had accounts in their names as children simultaneously with their parents.[8]
- Among young adults from low- to moderate-income households, they accumulate significantly more savings when their parents save on their behalf as children.[9]
- Young adults from low- to moderate-income households whose parents had accounts on their behalf as children accumulated $1,534 in savings. These young adults accumulated $2,421 when they had savings accounts in their names simultaneously with their parents—more than if they had only had savings accounts in their names as children.

[4] Lewis, Elliott, Cramer, & Black (2013).
[5] Friedline (2013).
[6] Friedline & Showalter (2013).
[7] Friedline (2013).
[8] Friedline & Showalter (2013).
[9] Ibid.

The designs of many existing CSAs are validated by findings from the combinations of children's and parents' savings that produce effects on financial outcomes in young adulthood. However, some policies serve to discourage families from establishing accounts in their children's names and, therefore, should be reconsidered.

- Savings accounts in children's names can produce effects on their financial outcomes in young adulthood, independently from and simultaneously with parents who save on their behalf.[10]
- Young adults are more likely to have savings accounts—which is indicative of their connectedness to the financial mainstream—with all combinations of children's and parents' savings compared to when no one saved on their behalf as children.[11]
- Young adults accumulate significantly more savings in the aggregate—which is indicative of their financial stability and portfolio diversification—when they had accounts in their names as children. Savings accounts in children's names are the sole and strongest predictor of how much savings young adults accumulate in their accounts.[12]
- Financial aid policies, including those that determine eligibility for need-based grants and loans, judge more harshly the assets held in a child's name than familial assets. These rules result in a greater savings 'penalty' for these assets, despite evidence suggesting that these are precisely the assets most likely to render positive educational and financial outcomes.

[10] Friedline (2013), Friedline & Showalter (2013).
[11] Ibid.
[12] Friedline (2013).

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