



Financial Inclusion as Part of a New, 22nd Century American Social Contract



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Abstract

The dismantling of the American social contract is jeopardizing the economic security and mobility of today's young people and that of future generations. The labor market no longer delivers on its promises of adequate compensation. Higher education, itself pruning opportunity by expecting young people to borrow heavily for its privilege, now has outsized importance for realizing the labor market's potential. Young people are increasingly born into opportunity that determines whether and how they can take advantage of these institutions and the opportunities they offer. This paper makes a case for financial inclusion as part of a new American social contract. Like owning stock in a company, financial inclusion may be one way of giving young people a stake within these institutions and affirming these institutions' commitments to their roles in the social contract. Children's Savings Accounts (CSAs) are presented as a way of beginning to deliver financial inclusion and create and shore up a new American social contract—one that can sustain future generations and the United States economy into the 22nd century.

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Historically, institutions have been responsible for delivering opportunity for economic security and mobility as part of an American social contract.¹ This contract is defined as a “system...of institutions” designed to empower citizens from childhood to adulthood and to ensure opportunities for economic mobility through avenues like labor market opportunities and adequate wages (Lind, 2012, p. 1), which are often bolstered by higher educational attainment. Institutions responsible for this social contract include the labor market that provides adequate monetary compensation in the forms of wages, income, and insurance for effort from labor (Kochan & Shulman, 2007; Sullivan, Meschede, Dietrich, Shapiro, Traub, Ruetschlin, & Draut, 2015), higher education whose degrees are often leveraged for greater labor market compensation (Rank, 2004), and the financial mainstream where income can be turned into wealth (Lin & Tomaskovic-Devey, 2013). However, as we shall see in the forthcoming paragraphs, the American social contract is under siege on many fronts and institutions are breaching their parts of the contract. The undermining of labor market opportunities—which are the primary way of participating in social insurance programs like Social Security and Medicare (and, until recently, health insurance)—coupled with lack of access to goods and services like affordable higher education do not bode well for young people's future economic security or the economic security of the nation. A new American social contract is clearly needed that prepares young people to enter the economy that awaits them, both now and in the future, and shores up and advances their economic mobility once they enter.

This paper argues that financial inclusion should be a part of the new American social contract. For the purposes of this paper, financial inclusion is defined as access to a basic bank or savings account in the financial mainstream (Friedline & Rauktis, 2014); though, others have acknowledged that a wider array of financial products may better constitute financial inclusion (Gardeva & Rhyne, 2011). Perhaps an even more accurate definition of financial inclusion includes the ability to accumulate money within those financial products, which eludes to the effectiveness of institutions responsible for the American social contract such as the labor market for providing adequate compensation. However, as a starting point, this paper uses the narrower definition of financial inclusion as a basic bank or savings account.

¹ The American social contract, as an organizing theme for this paper, is chosen purposefully. This is because the social contract as defined here places onus on institutions for creating opportunity and a

Financial inclusion may be one way of providing young people with resources within institutions—specifically, mainstream financial institutions²—and affirming these institutions' responsibilities to serving their young customers. One of the most common ways of expanding financial inclusion is by providing access to a basic bank or savings account (Federal Deposit Insurance Corporation [FDIC], 2014; Friedline & Rauktis, 2014; Gardeva & Rhyne, 2011). In particular, Children's Savings Accounts (CSAs; also known as Child Development Accounts [CDAs]) align with efforts to expand financial inclusion and are a promising financial inclusion tool to help young people realize—and help institutions deliver on—the American social contract. CSAs are specially-designed, universally available, progressively incentivized savings accounts opened for young people at birth or shortly thereafter (Cramer, 2010). Young people whose households' incomes fall below certain thresholds are eligible to receive progressive subsidies to incentivize their saving such as dollar-for-dollar matches on monies deposited into accounts. CSAs are proposed to be used across the life course with withdrawals permitted after age 18 toward expenses like education, entrepreneurship, home ownership, and retirement. In this way, CSAs give young people a stake in existing institutions and assist institutions in being better accountable to all the young people they serve who are striving toward upward economic mobility

Overview of Paper

This paper makes a case for financial inclusion via CSAs as part of the new American social contract by reviewing empirical evidence on financial inclusion and its potentially predictive importance for future economic security, with a special emphasis on young people. The explicit focus on young people is intentional because the birthplace of opportunities for financial inclusion likely occurs early in life (Sonuga-Barke & Webley, 1993). Researchers have suggested that the clock starts ticking on financial inclusion, in a sense, at or before age five or six (Friedline, 2015) and that understanding the state of young people's financial inclusion offers a glimpse into economic security experienced in adulthood (Ashby, Schoon, & Webley, 2011; Friedline & Rauktis, 2014). The economic security experienced in young adulthood—the combination of assets and debts that comprises the balance sheet—sets a foundation for economic security and mobility across the life course (Pew Charitable Trusts, 2013).

² Financial inclusion may also provide young people with resources in family (Fitzpatrick, 2015; Mosle & Patel, 2012), employment (Friedline, Johnson, & Hughes, 2014; Loke, Choi, & Libby, 2015), and educational (Center on Assets, Education, and Inclusion [AEDI], 2013) institutions; however, the focus of this paper is on inclusion within the financial mainstream may leverage these other institutions and serve as a multiplier of economic security and mobility.

The paper begins by delineating the systematic undermining of the American social contract with an emphasis on how institutions are breaching their part of the contract. The state of financial inclusion in the United States is reviewed, followed by a review of research on the potential of financial inclusion for producing positive effects on economic security—maintained relationships with financial institutions, diversified asset portfolios, accumulated assets, and secured and unsecured debt holdings. The institutions currently responsible for young people's financial inclusion are then evaluated: the family, the labor market, higher education, and the financial mainstream. The paper concludes by presenting financial inclusion as part of a new American social contract, including an overview of the piecemeal financial inclusion agenda in the US and a delineation of critical questions facing the field of financial inclusion.

The Breaching of the American Social Contract

The Changing Nature of Labor

Technological advances and globalization have changed the nature of labor over the last several decades (Card & DiNardo, 2002; Collins, 2013; Lynn & Salzman, 2010), meaning that young people are competing for jobs in a global labor market more than they ever have before. The skills young people need to compete for the jobs of today are in short supply, skills that are often knowledge-based like critical thinking, communication, collaboration, leadership, and initiative. Young people in the US may face tough competition given that they demonstrate fewer job skills than their peers in countries around the world and even the most competitive young adults in the US fall behind (Goodman, Sands, & Coley, 2015). These trends are disconcerting given that today's young people will eventually comprise a substantial percentage of the globalized labor force in the next several decades. It is widely believed that young people need education beyond high school to acquire these skills (Casner-Lotto & Barrington, 2006), raising the stakes on high school completion and placing outsized importance on institutions of higher education for teaching these skills. It remains unclear whether institutions of higher education adequately prepare young people with these necessary skills and whether the burdensome debt required to afford this education supersedes the potential harms to their long-term economic security (Elliott & Lewis, 2013, 2014a, c). In other words, it's a new world in which young people are expected to borrow heavily to acquire the requisite skills for success in today's global labor market, unlike in the past when these skills could be acquired without such indebtedness.

Unfortunately, without these skills, young people's employment options may be limited to a growing majority of jobs that are lower quality and in industries that lack living wages, retirement savings plans, or opportunities for advancement (Findlay, Kalleberg, & Warhurst, 2013). Young people's labor market attachment in particular is concentrated in the low-paying service industry (such as restaurants and retail stores; US Department of Labor, 2014). Labor is no longer rewarded as it once was by raising wages concurrently with productivity and reflecting adjustments in costs of living (Levy & Kochan, 2012). An increasing share of income is derived from capital, devaluing, or at the very least changing, labor's compensation (Piketty, 2014). Growing wage inequality is also attributed in part to declines in organized labor from de-unionization that undermine worker protections and overlook issues of fairness (Belman & Heywood, 1990), an accounting of increased wage inequality that holds as much explanatory power as do differences in compensation by levels of education (Western & Rosenfeld, 2011).

The Vanishing Path of Entrepreneurship

While entrepreneurial endeavors have historically offered an alternative path for labor market participation and contributed to economic growth, financial institutions' lending for small business start-up has declined and young people must increasingly rely on their personal savings and credit to advance their entrepreneurial endeavors (US Small Business Administration, 2013). From this perspective, young people's entrepreneurship may be hampered given that their relatively nascent starting place in life is characterized by limited savings of their own that in part lengthens financial dependence on their families of origin (Sironi & Furstenberg, 2012). Most discussions regarding US employment and entrepreneurship revolve around the potential of young people to revitalize new business growth (Kauffman Foundation, 2015); however, young people's capacity for entrepreneurship may be hindered by the facts that they are less likely to have savings accounts (FDIC, 2014), are more likely to be excluded from the labor market in a volatile economy (O'Sullivan, Mugglestone, & Allison, 2014), have more debt and thus limited credit at their age than previous generations (Fry, 2014), and are generally more risk averse (Paulsen, Platt, Huettel, & Brannon, 2012; Winograd & Hais, 2014).

Small business start-ups are on the decline and financial institutions have fewer incentives to invest in innovative, entrepreneurial, and potentially risky activities in the wake of the Great Recession (Ryan, 2014). The number of loans for new small business start-ups has dropped substantially and almost half of existing small businesses that need a loan are unable to obtain one (Institute for Local Self-Reliance,

2014; US Small Business Administration, 2013); minority- and women-owned businesses have been disproportionately affected. More businesses are closing than starting, an understandable trend given a lending context necessitating substantial reliance on personal savings and credit for new business growth (Clifton, 2015; Institute for Local Self-Reliance, 2014) coupled with households' paltry amounts of personal savings and limited credit (Lusardi, Schneider, & Tufano, 2011). It is uncertain whether young people's potential for entrepreneurship will be realized unless the US begins to make critical, substantial investments into young people—investments that can be divisive in times of fiscal austerity and political partisanship.

The changing labor market and limited potential for entrepreneurship demonstrate that young people can no longer expect their hard work—in and of itself—to translate into economic security and mobility. No matter how hard or how many hours a young person works in their minimum wage job, the compensation may be insufficient for affording daily expenses and is likely never going to facilitate their economic security or mobility (Dreier, 2014). In fact, the national news media has publicly shamed large corporations for their lack of awareness of and sensitivity to their employees' inadequate compensation (Halloran, 2013; Weissmann, 2013). All together, it is unsurprising that few young people advance higher up the ladder of economic opportunity than their parents (Pew Charitable Trusts, 2013).

The Public Demand for Financial Inclusion

Demand for financial inclusion among young people in the US may be driven by the simultaneous acknowledgements that our nation's increasing inequality limits opportunities for economic mobility (Pew Charitable Trusts, 2013) and that young people, given their generation's position at the forefront of limited opportunities (Corak, 2013), are a key constituency for increasing financial inclusion (Friedline & Rautkis, 2014). The Great Recession fueled the realization that a growing percentage of the population is born into opportunity (Putnam, 2015) and the extent of inequality of opportunity has been a rallying cry of protests and political movements around the country (Milkman, Luce, & Lewis, 2013). Combined, these trends may represent growing demand for financial inclusion.

Unequal Starting Lines

Young people are born into a race with an unequal starting line, with some young people better able than others to take advantage of institutions and their opportunities (Putnam, 2015). Imagine life as a marathon race, during the course of which runners pass chronologically through the stages of childhood,

adolescence, and young and middle adulthood before reaching the finish line in old age. Having trained and competed in previous races, elite runners start the marathon before everyone else and excel ahead of those who lack the same rigorous preparation and training. Elite young people—for instance, those with families who are economically secure, hold college-going expectations for their children, and provide them with financial resources to afford college tuition or the downpayment on a first home—may start the race with good economic security that can be leveraged for their future economic mobility. Elite young people endure through the miles, weathering periods of unemployment, investing in housing, and accumulating wealth. They easily reach the finish line (perhaps gaining momentum along the way) with sufficient wealth to supplement their income during retirement and to bequest any wealth that remains. In contrast, young people born into the race without these resources are slowed down by thousands of other runners. The extra effort they expend sidestepping obstacles like unemployment and weaving in and out of crowds of debt slows their progress and ebbs away at their momentum; they struggle through the remainder of the race with little if anything left over at the end.

From this perspective, institutions are not necessarily designed to compensate for the unequal starting line into which young people are born or raised and their leverage remains largely constant in response to young people's extra efforts. Some young people have to work harder than others to compensate for their disadvantaged position at the starting line in order to take advantage of institutions' opportunities and without necessarily expecting extra compensation for their hard work (or, without expecting equal pay for equal work). In other words, institutions are designed with the assumption that young people begin life at a relatively equal starting line and do not necessarily work harder to adjust for differences based on things like poverty and socioeconomic circumstances. For example, young adults who work in a minimum wage job may save the same percentage of their incomes³ as their more highly compensated peers—a potentially impressive feat given that minimum wage jobs require stretching already limited incomes with smaller margins for error (Lusardi, Schneider, & Tufano, 2011; Schreiner & Sherraden, 2007). However, financial institutions reward these young adults equally through the standard

³ These young adults may also work just as hard and for the same length of time, yet their labor is compensated at drastically different rates. This is another example of how an unequal starting line contributes to differences in financial inclusion via opportunities for saving in mainstream financial institutions; however, since the emphasis is on financial inclusion as use of a basic bank or savings account, the example of mainstream financial institutions and their creation of and response to opportunity is followed through here.

interest rates earned on their savings accounts and may even favor young adults from well-off circumstances; the effort required of young adults in minimum wage jobs to save is masked by their disadvantaged position at the starting line. This is because the same personal saving rate translates into different amounts of money saved with regressive rewards from financial institutions: saving 10 percent of \$100,000 in income garners greater rewards than saving 10 percent of \$10,000. For instance, young adults who save more money may receive extra rewards for equal (or lesser) efforts in the form of higher interest rates, lower maintenance fees, or easier access to a suite of financial products. Despite working just as hard as their more highly compensated peers, young people from lower economic circumstances who struggle to catch up may never do so and eventually experience limited opportunities for economic security and mobility. In contrast, their peers receive and leverage opportunities across institutions like higher education, the labor market, and the financial mainstream that propel them even further ahead. While mainstream financial institutions are not necessarily intended to equally distribute economic opportunity, the extent to which they cater to the socioeconomic elite and exclude the poor has been highly criticized for blocking opportunities for economic advancement (Engel & McCoy, 2007).

Demanding Financial Inclusion

The demand for financial inclusion through equality of economic opportunity—or at the very least, anger toward formal financial institutions⁴ exploitation and ignorance of the plight of a majority of the populous on the financial margins—was demonstrated most poignantly by the Occupy Wall Street movement that swept across the US in 2011. Occupy Wall Street’s call for inclusive financial institutions came on the heels of a recession for which these institutions were largely blamed. Thousands of people, half of whom were under the age of 30 (Milkman, Luce, & Lewis, 2013), gathered in financial districts of major US cities to collectively demand accountability from financial institutions and their products and practices that prevent a majority of households from participating in and benefiting from the national economy. A few of the principles articulated by this revolutionary grassroots movement included reclaiming the indebted futures of “the 99 percent,” recalculating the value of labor, and redesigning financial institutions capable of delivering equality (Occupy Wall Street, 2011).

⁴ The movement was concentrated in financial districts with much of the critiques levied at investment institutions that lend to banks and cater to the very wealthy, not necessarily the deposit institutions that provide basic bank and savings accounts to the average individual householder. However, from the perspective of the public and their declining trust of financial institutions, this distinction may not be important.

While the economic race into which young people are born may never be entirely level or equal (perhaps, nor should it be), its institutions need uniting to deliver on a more equal starting line if they are ever to hold their end of the American social contract or to be responsive to individuals' efforts and abilities. Financial inclusion is one way of equaling the starting line is by providing young people with modest and progressive resources within institutions at the very beginning of life, ensuring that institutions are designed to provide opportunities for economic security and mobility and that young people are included in and can access those institutions across the life course. Like owning equity in a company, giving young people a stake in these institutions also conveys to institutions that they are responsible for fulfilling their part of the American social contract and provides a way for institutions to be responsive to young people's unequal starting places.

The Potential of Financial Inclusion

What exactly is financial inclusion and what does it look like in the US? Accion and its Center for Financial Inclusion (CFI), a think tank that advocates for financial inclusion and is endeavoring toward global realization of this goal by 2020, define financial inclusion as follows:

Full financial inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients (Gardeva & Rhyne, 2011, p. 1).

While this definition refers to financial inclusion as access to and use of a suite of financial services, one of the most common ways of initiating financial inclusion is by providing access to a basic bank or savings account (FDIC, 2014; Friedline & Rauktis, 2014; Gardeva & Rhyne, 2011). In other words, a savings account is a starting place for financial inclusion rather than an end in and of itself. The features of the accounts used in the delivery of inclusion vary depending on the financial institution from which the account originates and the social, political, and economic environments in which it is offered (Ardic, Heimann, & Mylenko, 2011); for example, sometimes the account is interest-bearing, relies on transactions through brick-and-mortar branches or retail and ATM locations, provides means for online and or mobile banking, incorporates progressive incentives,⁵ waves maintenance fees, or is linked to a debit card.

⁵ Progressive incentives refer to features like initial deposits, dollar-for-dollar matches on money saved, or rewards for accomplishing benchmarks that help account holders to accumulate savings, especially for those from lower income backgrounds.

However, despite these varying features, affordability and convenience⁶ remain important constants in efforts to expand and scale up financial inclusion.

There is good rationale for why financial inclusion may begin with access to a basic bank or savings account. Xiao and Anderson (1997) draw on Maslow's (1948, 1954) human needs theory to show how the acquisition of financial products may ascend a hierarchy based on the needs the products are designed to meet. Human needs are assumed to be hierarchical, with the achievement of higher level needs conditional on the achievement of lower level ones (Maslow, 1948, 1954). These assumptions have been applied to the acquisition and use of financial products (Xiao & Anderson, 1997; Xiao & Noring, 1994; Xiao & Olson, 1993). Here, lower level needs are referred to as "survival" and higher level needs are referred to as "growth" (Xiao & Anderson, 1997),⁷ labels that also provide some indication of the achievement of economic security. From this perspective, a savings account is one of the first financial products acquired because it is lower risk, easily liquidated, and designed for the achievement of daily, lower level needs. Financial products such as stock and retirement accounts or small loans entail higher risk, have liquidity constraints, and are designed for long term investments. Young people may ascend a financial hierarchy by acquiring a savings account that facilitates their achievement of daily, lower level needs such as buying groceries or paying utility bills. As young people transition to achieving long term, higher level needs like affording the down payment on a new home, saving for retirement, or starting a business, they may acquire stock and retirement accounts or small business loans. A diverse portfolio, then, potentially indicates that young people have ascended the financial hierarchy (Canova, Rattazzi, & Webley, 2005; Xiao & Anderson, 1997). This trend toward diversification is consistent with an optimal portfolio arrangement that spreads potential risk across multiple assets (Fabozzi, Gupta, & Markowitz, 2002;

⁶ The importance of affordability and convenience for expanded and scaled financial inclusion take two perspectives. First, affordability and convenience of the savings account for the end user or consumer is of critical importance particularly for the lower income children and families who stand to benefit the most from inclusion. Costly and inconvenient financial products like high minimum balances and maintenance fees, inaccessible bank branches, or limited deposit options undermine the very premise of financial inclusion. Second, for financial inclusion to be a realistic national goal in the US and sustainable over time, the delivery and scale up of inclusion—from the financial product used to the day-to-day administration—must also be affordable and convenient. If financial inclusion is to be desired and realized nationally, then the micro- and macro-economic benefits of expanding inclusion must outweigh the costs of administering it especially over time.

⁷ Xiao and Anderson (1997) also identify a third category of needs—"security"—or middle-level needs such as saving for a home or investing in human capital. Certificates of deposit, bonds, and money market accounts are financial products theorized to be consistent with meeting these middle-level needs.

Markowitz, 1952), although the extent of diversification of most asset portfolios is generally limited (King & Leape, 1998).

The State of Financial Inclusion in the US

In the US, most of the population is financially included (92 percent), as defined by ownership of a basic bank or savings account (FDIC, 2014). However, this percentage drops to 72 percent if financially included adults are combined with those who are on the financial margins, meaning that their use of alternative financial services and predatory lenders calls into question the extent of their financial inclusion (FDIC, 2014). In other words, despite the majority of adults in the US having accounts, the insufficient savings accumulated within may enable reliance on alternative financial services in times of need for almost one third of the population. The poorest and youngest households are the most likely to linger on the financial margins. Households headed by singles (18 percent), younger age groups (between ages 15 to 24; 16 percent), racial/ethnic minorities (Blacks [21 percent], Latinos [18 percent], American Indian/Alaskan [17 percent]), foreign-born non-citizens (23 percent), the less-educated (no high school degree; 25 percent), and lower income households (< \$15,000; 28 percent) report not owning a basic bank or savings account more often than their counterparts. For comparison, less than 1 percent of households earning annual incomes above \$75,000 lack this same basic account (FDIC, 2014)—a percentage that could just as easily be attributed to survey error as it could to reality.

Young people's financial inclusion mirrors these trends. While a majority of young people in the US have savings accounts, the poorest or potentially most vulnerable young people are least likely to experience financial inclusion. Sixty-eight percent of adolescents ages 12 to 17 have savings accounts, which rises to 84 percent by the time young people reach young adulthood between ages 17 to 23 (Friedline, Elliott, & Nam, 2011; Friedline & Song, 2013). Among those ages 12 to 17, 40 percent of black adolescents and 44 percent of adolescents from lower income households have savings accounts (Elliott, 2012; Friedline, 2014; Friedline & Elliott, 2011; Friedline, Elliott, & Chowa, 2013). While all young people experience increases in savings account ownership as they grow older (Friedline, Johnson, & Hughes, 2014; Friedline & Nam, 2014), gaps by race and income remain (Friedline & Elliott, 2013). These groups also have less money saved, with black young adults and young adults from lower income households both accumulating median amounts of \$300 by ages 22 to 25, compared to accumulated amounts of \$1,668 and \$2,409 for their respective counterparts (Friedline & Song, 2013).

A Gateway to Economic Security and Mobility

Evidence supporting the potential financial inclusion for contributing to economic stability and mobility comes from research that explores the role of a savings account for predicting future economic security. Many researchers working to examine indicators of economic security—often with emphasis on identifying implications for young people from lower income households—have observed that “assets beget assets” (Elliott & Lewis, 2014a, p. 9; Schreiner & Sherraden, 2007, p. 20; Schreiner, Sherraden, Clancy, Johnson, Curley, Zhan, et al., 2005, p. 189). That is, the ownership of financial products and the savings accumulated within are predictive of current and future use of products at mainstream financial institutions, accumulated savings, the continued growth in accumulated savings from capital, and access to healthy debt (Chowa, Masa, & Ansong, 2012; Elliott & Lewis, 2014a; Friedline, Elliott, & Nam, 2011; Friedline & Freeman, 2014).

Given that empirical evidence demonstrating history's tendency to repeat itself (Elliott & Lewis, 2014a; Schreiner & Sherraden, 2007; Schreiner, Sherraden, Clancy, Johnson, Curley, Zhan, et al., 2005), it should come of no surprise that the opportunities into which young people are born shape their future. For instance, in their examination of the relationship between the previous ownership of a basic financial product—a savings account—and asset diversification and accumulation among young adults ages 18 to 40, researchers find that a savings account is highly predictive and its inclusion in statistical models explains an additional 56 percent of the variance (Friedline, Johnson, & Hughes, 2014). Ownership of a savings account reveals how the financial resources and opportunities with which one starts can determine where one goes and ultimately ends up in terms of economic security (Friedline & Rauktis, 2014). Financial inclusion via a savings account, once achieved, may relate to economic security as indicated by maintained relationships with financial institutions, diversified asset portfolios, accumulated assets, and accessed and accumulated secured and unsecured debt. As such, for those who are fortunate enough to own one early in life, a savings account is a promising tool for shoring up and advancing economic security and mobility.

Maintains Relationships with Mainstream Financial Institutions. Relationships with financial institutions can eventually be leveraged when young people need to acquire other financial products or secure loans. Here, the continued ownership of a savings account serves as a proxy for these maintained relationships. Studies consistently find that savings accounts measured at baseline are predictive of

maintained relationships with financial institutions. For example, among those from lower income (< \$50,000; $n = 354$) and low to moderate income (< \$79,111; $n = 530$) households, adolescents ages 13 to 17 are more likely to report having savings accounts in young adulthood between ages 18 to 22 (Friedline, Elliott, & Chowa, 2013). Independent of household income, young adults are two times more likely to have a savings account by their early to mid 20's (Friedline, 2014; Friedline, Elliott, & Nam, 2011; Friedline, Nam, & Loke, in press).

Some evidence suggests that these relationships are more likely to be maintained when financial inclusion is combined with financial education (M.S. Sherraden, 2013), giving young people hands on experience and opportunities to operationalize their knowledge about finances. The combination of financial inclusion and education is referred to as financial capability (M.S. Sherraden, 2013). Among young adults ages 18 to 34 ($N = 6,865$), those who are financially capable are 224 percent more likely to save for emergencies and 21 percent less likely to use alternative financial services (Friedline & West, 2014). This suggests that those with a savings account may be more connected to and have more resources saved in mainstream financial institutions (West & Friedline, 2014), potentially reducing their reliance on predatory lenders in the alternative financial services industry.

Diversifies Asset Portfolios. The most common trajectory of asset diversification is to begin by acquiring savings and checking accounts and progress to acquiring longer term assets like homes, retirement accounts, and stocks (Keister, 2003). Indeed, a savings account is significantly related to the diversification of young people's asset portfolios. Adolescents with savings accounts between ages 15 and 19 are two times more likely to own savings accounts, two times more likely to own credit cards, and four times more likely to own stocks in young adulthood between ages 22 to 25 (Friedline & Elliott, 2013). In addition, these young adults own significantly more financial products overall seven years later (Friedline & Elliott, 2013). Compared to those without savings accounts, adolescents with savings accounts who are age 19 and younger are two times more likely to own checking accounts, three-and-a-half times more likely to own savings accounts, three times more likely to own certificates of deposit, two-and-a-half times more likely to own stocks, and own significantly more financial products overall as young adults four years later (Friedline, Despard, & Chowa, in press). In one of the first studies to examine the relationships between young adults' savings account acquisition or take-up (separate from savings account ownership), diverse asset portfolios, and asset accumulation (Friedline, Johnson, & Hughes, 2014), researchers find that savings

account acquisition between ages 18 to 40 almost always coincides with or precedes the acquisition of diverse savings products, like stock and retirement accounts.

Accumulates Assets. A savings account relates to the amount of assets that young people accumulate, both in terms of their savings and their liquid assets. For instance, adolescents with savings accounts at ages 15 to 19 accumulate medians of \$1,000 in savings accounts and \$4,600 in total assets five years later, amounts that are more than triple the savings and assets accumulated by their counterparts without early savings accounts (Friedline & Song, 2013). Adolescents with accounts of their own accumulate significantly more savings over time, even when their parents' savings is taken into consideration (Friedline, 2014). In a study evaluating the effects of a policy within United Kingdom that changed electronic transfer payments from optional to required, savings account ownership increased by 9 to 12 percentage points and the effect of account ownership translated to a 13 percentage point increase in having at least \$109 saved (Fitzpatrick, 2015). The amount of financial assets held across bank, bond, stock, and investment accounts also increased by 137 percent as a result of this policy change.

Young people can also leverage the assets accumulated in a diverse portfolio for generating additional wealth throughout life (Friedline, Despard, & Chowa, in press; Friedline & Song, 2013; King & Leape, 1998). A diverse portfolio may be an indicator of the ascension of the financial hierarchy to achieve higher level needs, and the distribution of accumulated assets across the portfolio may further indicate young people's economic security (Beutler & Dickson, 2008; Canova, Rattazzi, & Webley, 2005; Xiao & Anderson, 1997). For example, the amount of money held in savings accounts decreases as portfolios are diversified (Xiao & Anderson, 1997); this suggests that as young people diversify their portfolios, the bulk of their accumulated assets shifts from savings accounts to financial products designed for higher level, longer term needs. These financial products like stocks and retirement accounts are often income-generating. From this perspective, savings accounts may serve as a gateway for ascending the financial hierarchy as demonstrated by the distribution of accumulated assets across the portfolio. The amount held in a savings account contributes the most to accumulated liquid assets for households at the bottom 10 percent of the asset distribution compared with the amounts held in stock and retirement accounts for households at the top 10 percent of the distribution (Xiao & Anderson, 1997). These findings are also confirmed by research on young adults' diverse portfolios. The combination of stock and retirement

accounts, themselves products of savings account ownership, contribute the most to liquid asset accumulation—\$5,283.05 (Friedline, Johnson, & Hughes, 2014).

Accesses Secured Debt, Protects from Unsecured Debt. Young people's economic security can also be assessed by examining their secured and unsecured debt. Secured debt is often considered productive since it is lower risk than unsecured debt and may be used for activities that might promote economic mobility, such as obtaining a home or investing in education (Boot, Thakor, & Udell, 1991). Secured debt can help borrowers build credit and improve their financial standing (Dwyer, McCloud, & Hodson, 2011), potentially serving both as an indicator of and catalyst for upward economic mobility. While secured debt may not always assist in promoting economic mobility—as was the case during the Great Recession when unemployment rose, equity on some home mortgages was negative, and many households found themselves overleveraged (Ferreira, Gyourko, & Tracy, 2010)—its collateralized nature allows borrowers to leverage existing assets and bend credit markets to their advantage (Campbell & Hercowitz, 2005). In contrast, borrowers of unsecured, uncollateralized debt have not leveraged existing assets, and their use of credit markets is riskier (Chatterjee, Corbae, Nakajima, & Rios-Rull, 2007); for these reasons, unsecured debt is often referred to as unproductive. While there may be times when unsecured debt from credit cards, overdraft fees, or payday lenders helps young people meet short-term financial goals on their path to economic mobility (Morse, 2011), unsecured debt generally costs its borrowers more and places them at greater financial risk than does secured debt.

The evidence is just beginning to identify relationships between savings accounts and debt (though, some research focuses on financial education and debt; Brown, Grigsby, van der Klaauw, Wen, & Zafar, 2014; Brown, Haughwout, Lee, Scally, & van der Klaauw, 2014; Friedline & West, 2014; West & Friedline, 2014). Most of this evidence comes from research on student loans, where a savings account relates to reduced student loan burdens (Elliott & Lewis, 2014a, b; Elliott, Lewis, Nam, & Grinstein-Weiss, 2014; Elliott & Nam, 2013). This evidence builds on the awareness that student loans may compromise young people's future economic security, delaying their investments in homes and retirement (Brown, Haughwout, Lee, Scally, & van der Klaauw, 2014; Hiltonsmith, 2013). Less evidence exists on the relationships between savings accounts and other types of debt. For example, lower income households in the second and third deciles of the asset distribution rely on unsecured debt during shortfalls in income from unemployment, increasing their unsecured debt by 12 to 13 cents for every dollar lost in income,

whereas households in higher asset deciles do not rely on unsecured debt (Sullivan, 2008). These findings imply that households from higher asset deciles—potentially those with a savings account and access to a diversity of financial tools—do not rely on unsecured debt during income shortfalls. In other words, their assets may protect them from acquiring and accumulating unproductive, unsecured debt in times of financial need. Friedline and Freeman (2014) provide one of the first, direct tests of this question, examining whether the acquisition of a savings account relates to take-up and accumulation of secured and unsecured debt. While a savings account relates to more accumulated debt overall, the type of debt accumulated is less risky and potentially more productive. A savings account is associated with a 15 percent increase, or \$7,500, in the value of secured debt and a 14 percent decrease, or \$581, in the value of unsecured debt. Thus, a savings account may help young people “invest in their debt” by entering healthier credit markets and protecting them from riskier ones.

Institutions Currently Responsible for Financial Inclusion

Currently, young people rely on the family, the labor market, the higher education system, and the financial mainstream for financial inclusion. These institutions are chosen for discussion here because they are depended upon for delivering different aspects of the American social contract (Lind, 2012), as opportunities for economic security and mobility hinge on their successes and failures. That is, families teach young people about money and finances, employment can provide young people with the money to save, the socioeconomic benefits of a college degree spill over to financial inclusion, and banks and credit unions are the primary providers of savings accounts in the financial mainstream.

The Family

The family is the first and arguably one of the most important institutions for shaping young people's opportunities and outcomes in a variety of domains, not the least of which is financial (Friedline & Rauktis, 2014; Gudmunson & Danes, 2011; M.S. Sherraden & Grinstein-Weiss, 2015; Van Campenhout, 2015). In large part, young people rely on their families for financial inclusion given that their knowledge about and access to money and finances are almost always connected to the family (Lunt & Furnham, 1996). According to Ozmete (2009), socialization is “the process whereby a person learns the value system, norms and required behavior patterns of a given society in which he belongs” (p. 373). Thus, the family is pivotal for

shaping young people's financial inclusion. Even if families do not specifically open savings accounts for their children as part of financial socialization, the experiences within the family provide a context and reference point for understanding young people's opportunities and preparedness for financial inclusion. In this case, the family is the institution that molds opportunity—sometimes the family's influence on financial opportunity is explicit, direct while other times it is implicit, indirect (John, 1999).

Families may facilitate young people's financial inclusion and shape their economic opportunity by offering socialization experiences like giving allowances, opening savings accounts, or teaching them the importance of saving (Kim, LaTaillade, & Kim, 2011; Mandell, 2008). Indirect socialization experiences include parental guidance and self-reflection that help young people develop skills and strategies such as developing a future time orientation and a habit of saving (Sonuga-Barke & Webley, 1993; Webley et al., 1991). Parents are important models of financial inclusion (or exclusion) for their children (Shim, Barber, Card, Xiao, & Serido, 2010; Shim, Serido, Bosch, & Tang, 2013), socializing by example: children overhear their parents' conversations about money, pick up cues about household financial decision making, and accompany parents on errands to the bank or to pay bills. These socialization experiences communicate messages about finances and financial inclusion to young people; depending on the messages that are communicated, young people may or may not identify savings accounts or financial institutions as facilitators of their financial goals.

Parents or other family members often provide socialization experiences directly by giving an allowance contingent upon chores, supporting young people in opening savings accounts, and providing the money for saving (Ashby et al., 2011; Furnham & Thomas, 1984; Sonuga-Barke & Webley, 1993). Parents' explicit socialization experiences have been linked to their children's economic security. For instance, children who argue with their parents about money and whose parents do not approve of their spending habits also have lower financial stress (Serido, Shim, Mishra, & Tang, 2010), suggesting that any type of direct communication about

money, even if contentious, may lower young people's financial stress. A combination of parents' direct socialization strategies like giving allowances, overseeing spending habits, and advising about budgeting are related to the increased likelihood that young people will save, and save more money, in adulthood (Buccioli & Veronesi, 2014).

However, the family may be an inadequate institution for young people to depend upon for financial inclusion. This is because the financial resources with which families are equipped shape their ability as financial socialization agents (Grinstein-Weiss, Yeo, Despard, et al., 2010). Measures of socio-economic status like family members' education levels, occupational prestige, income, and wealth demonstrate the types of financial resources available to families; moreover, these measures are consistently related to young people's savings account ownership and their saving behaviors (Grinstein-Weiss, Spader, et al., 2011; Shim, Barber, Card, Xiao, & Serido, 2010). This makes logical sense given that lower income families often have limited connections to the financial mainstream themselves (Bricker, Kennickell, Moore, & Sabelhaus, 2012; FDIC, 2014; Grinstein-Weiss, Spader, et al., 2011), which limits their ability to model saving behaviors or to establish accounts for their children. In other words, families may “trickle down” financial inclusion or exclusion to their children. In fact, families’ financial resources explain more about young people's savings outcomes than their financial socialization experiences like having conversations with their parents about money or receiving allowances, as demonstrated by the variances in outcomes that are explained by predicted models (Friedline, 2012a, 2012b). This isn't to say that families and the financial socialization they provide to their children aren't important; simply that their ability to function as financial socializers should be understood from the perspective of resource capacity.

When and how young people experience financial socialization within their families may relate to their financial inclusion throughout their lives. In other words, how young people initially experience financial inclusion may be associated with their access to savings accounts and saving behaviors across the life course primarily based on the success or failure of their families as socializers (Friedline, Elliott, & Chowa, 2013; Grinstein-Weiss, Spader, et al., 2011). If families have encouraged habitual saving, modeled a future-oriented approach to financial decisions, and provided opportunities to save, young people may more readily gain entrée into financial institutions. If families have not done this or their attempts have been unsuccessful, financial exclusion may continue into adulthood. From this perspective, young people

walk into the patterns of opportunity established by the family when the family is the primary institution connecting them to opportunity. The limited ability of some families to facilitate inclusion suggests a need to directly empower young people by extending financial inclusion and also provides a role for “two-generation” approaches to financial inclusion (Aspen Institute, 2014). That is, children can benefit from financial inclusion interventions that disrupt the “trickle down” effects of their families' financial exclusion, while financially excluded families themselves can benefit from interventions and whose children may simultaneously benefit from having their own financial goals reaffirmed within their families.

The Labor Market

Many young people participate in the labor market, which is another institution with the potential to shape financial inclusion (Consumer Financial Protection Bureau [CFPB], 2014a). Here, the labor market as an opportunity for financial inclusion suggests that managing money may necessitate the opening of a bank or savings account. For example, young people may open a bank or savings account as a way to cash their paychecks. For young people ages 16 to 24, around 60 percent are employed or looking for work and they earn a median income of \$31,000 annually (DeNavas-Walt & Proctor, 2014; US Department of Labor, 2014).⁸ The percentage of employed young people ages 16 to 19 ranges between 24 and 33 across the year, peaking in the summer months during breaks between high school and college academic years (US Department of Labor, 2014). Much of young people's labor market attachment is seasonal, particularly at younger ages. However, once young people are employed, their paychecks need cashing, direct payroll deposit needs establishing, and maybe even their employer-sponsored retirement saving plans need opening. Taken together, even young people's sometimes marginal engagement with the labor market can catalyze financial inclusion. Some have described young people's entrance into the labor market and receipt of their first paycheck as “teachable moments” to educate young people about saving and connect them with the financial mainstream (Loke, Choi, & Libby, 2015, p. 3).

Employment is often statistically related to young people's savings account ownership when it is included in models predicting their financial inclusion (Friedline, 2014; Friedline & Rauktis, 2014). For instance, young adults ages 18 to 40 are more likely to open a savings account when they become employed (Friedline, Johnson, & Hughes, 2014). They are also less likely to open an account and more

⁸ Here, median annual income is for young heads of households ages 15 to 24 (DeNavas-Walt & Proctor, 2014). This amount may be higher than expected and is likely driven by older young people who are designated as heads of households by the Census Bureau.

likely to close one when they are unemployed (Friedline, Johnson, & Hughes, 2014), suggesting that the labor market may also contribute to financial exclusion when young adults' attachment to it is intermittent. Young adults around age 21 and who are employed are two times more likely to have a checking account and two times more likely to have a retirement account; employed young adults also own more financial products overall compared to those who are unemployed (Friedline, Despard, & Chowa, in press). MyPath, a non-profit program in San Francisco, uses employment as an opportunity for extending financial inclusion to young people. MyPath piloted a program in 2011-2012 that connected young people to employment via targeted job placements, opened savings accounts for them, and taught financial education (Loke, Choi, & Libby, 2015). For many young people, MyPath provided them with their first job and their first savings account. Other employment-based savings programs like MyPath are emerging around the country (CFPB, 2014a), with similar models in Chicago, Washington, DC, Philadelphia, and New York.

Though, as eluded to in the introduction, the labor market as a path to financial inclusion can be a double-edged sword by facilitating or hindering financial inclusion. This is because labor market attachment can be intermittent, especially among young people who are employed seasonally or who work in the low-paying service industry (such as restaurants, retail stores, or babysitting services). Some employers and industries are better than others at financial inclusion through the financial services that they offer: some may mandate employees' use of direct payroll deposit for receiving paychecks (CFPB, 2013), offer financial education (Bayer, Bernheim, & Scholz, 2009), and provide profit sharing or other financial benefits (Pendelton, 1997). Employers that do not offer these services may have limited effectiveness for promoting financial inclusion. Given that young people's employment is concentrated in the low-paying service industry (US Department of Labor, 2014), the extent of their opportunities for financial inclusion through the labor market is unclear. In recent years, young people have been disproportionately squeezed out of an already-competitive labor market (Annie E. Casey Foundation, 2012), meaning that their financial inclusion via the labor market may be unreliable in a volatile economy. Moreover, young people's often seasonal employment—or at the very least temporary or transient employment—can make financial inclusion difficult (Scanlon, Buford, & Dawn, 2009; Wheeler-Brooks & Scanlon, 2009); any opportunities for financial inclusion and related efficiencies for saving that were built into the existing employment arrangement like direct payroll deposit may need to be reestablished when young people change jobs. Even if young people reestablish direct payroll deposit with their next employer, any periods of unemployment

disrupt regular deposits into their bank or savings accounts (Wheeler-Brooks & Scanlon, 2009). The loss of a job can undermine financial inclusion, even while labor market attachment by acquiring a job can bolster it (FDIC, 2014; Friedline, Johnson, & Hughes, 2014; Rhine & Greene, 2012).

The Higher Education System

Institutions of higher education, such as training or vocational programs, colleges, and universities, also have the potential to shape financial inclusion for the young people that they serve (Allen, Demirguc-Kunt, Klapper, & Martinez Peria, 2012; Eades, Fox, Keown, & Staten, 2013). Here, the effects on financial inclusion may not necessarily be driven by colleges and universities themselves; rather, the socioeconomic benefits of receiving a college education like higher incomes and increased labor market attachment (Mishel, Bivens, Gould, & Shierholz, 2012) may carry over to young people's financial inclusion. Higher institution's potential for inclusion is demonstrated by young people's saving as they ascend levels of education. For example, a degree from an institution of higher education positively effects monthly savings amounts and savings rates as percentages of income (Park & Son, 2015), even after adjusting for the facts that young people who attend college may have been more likely to save in the first place and more likely to have jobs post-college that facilitate their financial inclusion. This empirical evidence is supported by descriptive increases in the percentages of young people with savings accounts that are most noticeable once young people attend some college or earn a bachelor's degree. For example, 81 percent of full-time college students have savings accounts compared to 63 percent of high school seniors (Mandell, 2008). Ninety-six percent of young adults ages 22 to 25 who are enrolled in college have savings accounts compared to 70 percent of their counterparts who never enrolled in college (Friedline, 2014). Among adults ages 18 and older, 79 percent with at least a college degree have savings accounts—a percentage that declines along with levels of education (66 percent of adults with some college education, 62 percent of adults with a high school degree, 46 percent of adults with no high school degree; FDIC, 2014).

Like young people's receipt of a first paycheck as an opening to extend financial inclusion, so, too, are the financial decisions with which young people are confronted when participating in institutions of higher education. Young people who participate in higher education make decisions about financial aid (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2012; Robb, 2011), acquire loans (Delisle & Holt, 2015; Gutter & Copur, 2011), and receive financial aid and loans in excess of tuition costs as reimbursements via

cash or electronic transfers (Cadena & Keys, 2013)—all of which have implications for their economic security. For instance, college students eligible to receive cash reimbursements when their interest-free loans exceed tuition costs are more likely to decline those loans out of fear that a large cash infusion could jeopardize their economic security by increasing their temptations to spend (Cadena & Keys, 2013). The receipt of federal student loans and need-based financial aid are negatively related to college students' economic security (measures of which include saving for emergencies and managing day-to-day finances), while their receipt of scholarship financial aid is positively related (Gutter & Copur, 2011). While these decisions are linked to broad measures of college students' economic security, it is understandable how such decisions could relate more narrowly to their financial inclusion. Many bank and credit union branches are located on college and university campuses (Consumer Reports, 2014), and the geographic proximity of these branches to young people potentially encourages their financial inclusion, or at least makes it easier. Credit card companies have certainly taken advantage of young people as captive audiences at institutions of higher education (CFPB, 2014b); though, credit card companies' aggressive targeting of young people at colleges and universities has been highly criticized for jeopardizing their economic security (Lyons, 2004).

However, institutions of higher education and the socioeconomic benefits attributed to the educational degrees they award cannot be leveraged for financial inclusion for the young people who do not enroll, making them imperfect institutions for facilitating the financial inclusion of all young people. Only about half of all young people enroll in institutions of higher education by age 20 (Aughinbaugh, 2008). Moreover, it could be argued that percentages of young people's financial inclusion by education level are broad reflections of their inherited opportunities, life stage changes, and transitions to financial independence rather than attributable to institutions of higher education themselves or to the educational degrees that young people receive. Yet education level still emerges as significant in models predicting young people's financial inclusion. For example, despite being similar on all other observed characteristics, young adults ages 22 to 25 who are enrolled in college are almost six times more likely to own savings accounts than their peers who never enrolled (Friedline, 2014). Young adults with a bachelor's degree are two-and-a-half times more likely to own an individual retirement account (IRA) and one-and-a-half times more likely to contribute to it compared to those with less education (Knoll, Tamborini, & Whitman, 2012). While these studies do not account for unobserved factors that may contribute to young people's financial

inclusion, like on-campus bank and credit union branches or financial aid decisions, it is clear at the very least that higher education and all of its benefits have spillover effects on financial inclusion for the young people who receive this education.

The Financial Mainstream

Mainstream financial institutions have the power to shape financial inclusion based on the financial products and services that they offer and how they offer them (FDIC, 2014). Here, mainstream financial institutions refer to banks and credit unions whose deposits are insured by the FDIC and National Credit Union Administration (NCUA). Financial inclusion may be determined in part by the availability of mainstream financial institutions and the features of their products and services—including savings accounts. A growing body of evidence describes how specific features can extend financial inclusion to young people when they are incorporated into savings accounts or, in the absence of these features, hinder their inclusion (Beverly, Kim, M. Sherraden, Nam, & Clancy, 2012; Johnson, Adams, and Kim 2010; Loibl, Grinstein-Weiss, Zhan, & Red Bird, 2010; Mason et al. 2010). Originally proposed by M. Sherraden (1991) and expanded upon by a number of scholars (Assets and Education Initiative, 2013; Beverly et al., 2008; Schreiner & M. Sherraden, 2007; M.S. Sherraden & McBride, 2010), the institutional model of saving⁹ articulates the importance of how accounts are accessed and savings goals identified, information is provided, deposits are facilitated, incentivized, and restricted, and security is delivered (Beverly et al. 2008; M.S. Sherraden & McBride, 2010). From this perspective, young people may be more likely to experience financial inclusion when savings accounts are automatically opened in secure and trusted financial institutions, paired with financial education, facilitated by features like direct deposit, incentivized by providing matches (e.g., every \$1 saved in the account is matched with an additional \$1), designed to identify expected savings goals (e.g., a minimum threshold for monthly savings), and penalized for making unapproved withdrawals. Presumably, young people are less likely to have savings accounts and have less money saved in the absence of these features.

⁹ The institutional model of saving did not originally or necessarily intend to critique these features within the financial mainstream; however, this model and its identified features can be applied to the financial mainstream to evaluate whether or not these institutions and their savings account products are effective facilitators of financial inclusion.

A few of these savings account features are discussed here, including access, facilitation and security.¹⁰ These features are chosen for discussion because they may represent affordability and convenience of savings accounts within the financial mainstream—two important considerations for financial inclusion. For example, access implies that accounts are simultaneously available to, taken up or opened by, and applicable to young people (M.S. Sherraden & McBride, 2010). Part of access in the context of the financial mainstream includes whether or not the account actually exists from financial institutions in the real-world marketplace, is geographically accessible, and applies to and is relevant for the needs of young people—especially for those from lower income households. Banks and credit unions are the primary channels through which most young people can access savings accounts; though, young people may rely on their families for access because in many states minors are unable to enter into legal contracts independently of adult approval (Board of Governors of the Federal Reserve System, 2015; Kalyanwala & Sebstad, 2006), such as opening a savings account. Young people may also lack mobility to get to the bank on their own or a regular income to save (Scanlon, Buford, & Dawn, 2009; Wheeler-Brooks & Scanlon, 2009), which further limits the availability of accounts. Even if they do have money to save, unaffordable minimum deposit and maintenance fees may make savings accounts inaccessible (Friedline, 2013). For example, the median savings amount of \$300 accumulated by black young people and young people from lower income households is exactly enough to meet minimum opening and balance requirements of the savings accounts offered by some of the largest mainstream banks (Friedline, 2013). These accounts leave no room for error, levying heavy fees if young people's withdrawals cause their account balances to dip below the minimum requirements.

Facilitation refers to assistance in saving, especially by automation. Facilitation is often measured as automatic enrollment, automatic payroll deductions/direct deposit, automatic transfers, precommitment constraints, and default options (Beverly et al. 2008). In the mainstream, institutions often encourage payroll deductions and automatic transfers of money into savings accounts. Beyond the initial step needed to enroll in automatic transfers, rather little effort is needed to continue regular deposits. In some cases, maintenance fees are waived when account holders use these features to deposit money into their accounts.

¹⁰ Friedline and Rauktis (2014) provide a more detailed accounting of all the features of savings accounts from the institutional model of saving and how these features exist within mainstream financial institutions' products and services. Access, facilitation, and security are discussed here to conserve space and because these features are critical for initiating young people's opening and use of savings accounts.

Automatic enrollment where accounts are opened automatically for all who are eligible is one of the most powerful facilitators of financial inclusion (Grinstein-Weiss, M. Sherraden, et al., 2012; Schreiner & M. Sherraden, 2007). This means that automatic enrollment goes beyond payroll deductions and automatic transfers to literally automate financial inclusion. An experiment in Oklahoma found that if 529 college savings plans were automatically opened for newborn children in the treatment group, 99 percent of children and their families retained the account (Nam, Kim, Clancy, Zager, & M. Sherraden, 2013). Based in large part on this experiment's findings in Oklahoma, Maine began automatically opening 529 college savings plans for all newborn children in the state with a \$500 deposit (Clancy & M. Sherraden, 2014). While 529s are specific types of accounts likely used for longer term needs given their restricted access for educational expenses, these examples demonstrate the power of automatic enrollment. However, in these examples, automatic enrollment targets specific populations (all children within a treatment group, all children within the state) overseen by researchers and state governments; the most powerful facilitator of financial inclusion does not exist within the financial mainstream.

Security refers to having a safe place to hold money. Federally insured banks and credit unions provide insurance on deposits up to \$250,000 through the FDIC or NCUA. Having money in a bank or credit union also protects from such risks as theft and natural disasters—protections that savings under the mattress at home lack. Not having a savings account can be particularly risky for young people. Research shows that they are more likely to have their savings drawn down by family and friends if the money is saved in an unsecure location (Chiteji, 2007; Chiteji & Hamilton, 2002). Implicit in the definition of security is the issue of trust. Beverly et al. (2008) recognize the importance of trust in institutions, writing “Not everyone in the world has ready access to and trust in such institutions... Where such access and trust cannot be taken for granted, (lack of) security may be the dominant institutional construct in explaining saving action and savings outcomes” (122). Trust may be particularly relevant within the existing financial mainstream for young people from lower income households and racial or ethnic minority groups—all who have real reasons to mistrust financial institutions. In one study of unbanked households, lack of trust in financial institutions is the fourth most commonly reported explanation for not having an account, after lack of funds, poor credit history, and high fees (Lyons & Scherpf, 2004). Trust may be especially relevant given the blame placed on financial institutions and growing mistrust following the Great Recession (Pew Research Center, 2010; Shim, Serido, & Tang, 2013).

Financial Inclusion: Part of a New, 22nd Century American Social Contract

In light of the insufficiency of current institutions for delivering financial inclusion and financial inclusion's growing public demand, a new institution may be needed—one that serves to benefit to young people and becomes part of a new American social contract. If institutions are deemed critical for delivering on the American social contract, then institutions should be equipped to extend equal opportunities for their access. Otherwise, unequal positions at the starting line may determine whether young people can leverage institutions and their opportunities and may call into question whether institutions are sufficient for delivering their end of the bargain. Children's Savings Accounts (CSAs; also referred to as Child Development Accounts [CDAs]) may be a starting place for fulfilling this need. A number of national CSA policy proposals have emerged in the US and the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act is perhaps the most well-known (Cramer 2010). The ASPIRE Act proposes to roll out savings accounts with a \$500 initial deposit universally to all newborns and provide additional subsidies to children whose households' incomes fall below certain thresholds. CSAs are proposed to be maintained across the life course for use toward expenses like education, entrepreneurship, home ownership, and retirement (Cramer 2010). While the US has not adopted a national policy, CSA policies have been implemented in Singapore, Canada, and South Korea (Loke & M. Sherraden, 2009), among others.

One of the ways to ensure equal access, in part, is by making institutions universally accessible. For instance, CSAs via the ASPIRE Act are intended to be opened universally at birth. Under this proposal, universality is achieved by automatically opening a CSA for every newborn child. There is broad support for universality in programs like the minimum wage, Social Security, and Medicare. All working Americans benefit from these programs. Despite disagreements regarding where the minimum wage should be set or the age at which Social Security or Medicare benefits should be accessed, few questions are raised with any real credibility about whether these programs should even exist in the first place. For example, despite disagreements about the minimum wage, 76 percent of Americans agree that it should be raised to \$9 per hour (Dugan, 2013). In another example, despite recognizing Social Security's potential for future funding crisis given an aging population and declining labor market participation, almost two thirds believe that raising the age of eligibility to receive full benefits and reducing benefits for current retirees are bad ideas. Two thirds believe increasing Social Security taxes are a good idea for addressing the funding crisis

(Gallup, 2015). The Gallup surveys do not even ask respondents whether or not the minimum wage or Social Security benefits should exist in the first place. Their existence—and Americans' beliefs about their deservingness of these institutions—have become stalwarts and their existence is perhaps even more relevant in an era where institutions responsible for delivering on a 22nd century American social contract needs shoring up. Something similar is needed for financial inclusion via CSAs: that the existence of financial inclusion and the public's beliefs regarding its necessity for daily life go unquestioned.

The Piecemealing of the Financial Inclusion Agenda

Steady action to expand financial inclusion has been underway at the national level for several years, though somewhat inconspicuously and without a cohesive “inclusion” agenda. For the most part, these actions represent an attention toward improving the financial conditions of young people and of those from lower income households. For example, in 2003, a national demonstration—Saving, Education, Entrepreneurship, and Downpayment (SEED)—opened specially-designed savings accounts called Child Development Accounts (CDAs) for young people ages birth to 23 around the US to determine whether they were capable of using savings accounts and saving (Sherraden & Stevens, 2010). This demonstration was part of a national policy movement to open CDAs for every newborn in the US, which, if accomplished, would be a huge leap in the efforts to raise up future, financially included generations. The Federal Deposit Insurance Reform Act of 2005 (Pub. L. No. 109-171) and its companion statutes requires the FDIC to produce regular reports on financial exclusion as well as mainstream financial institutions' efforts to reach traditionally underserved groups like lower income households and younger age groups. In 2006, the Advisory Committee on Economic Inclusion (ComE-IN) and the Alliance for Economic Inclusion (AEI) were established by the FDIC to expand basic financial products like savings accounts to underserved groups.¹¹ In 2010, President Obama created the Advisory Council on Financial Capability under the U.S. Department of Treasury, which calls for expanding basic financial products and the knowledge to use those products.¹² The Financial Literacy and Education Commission (FLEC) operates with the aim to devise a national response for promoting financial literacy. In 2013, the President established the Advisory Council on Financial Capability for Young Americans to focus specifically on financial capability for younger age

¹¹ See for example, <http://www.fdic.gov/consumers/community/AEI/>

¹² See for more information, <http://www.treasury.gov/resource-center/financial-education/Pages/default.aspx>

groups.¹³ In 2015, the FLEC, in partnership with other federal regulators such as the Board of Governors of the Federal Reserve System, FDIC, and National Credit Union Association (NCUA), released guidelines to encourage financial institutions' development and implementation of savings programs for younger age groups.¹⁴ Implicit in these efforts is the emphasis on “the earlier, the better” for experiencing financial inclusion and the recognition that financial inclusion can have positive effects on economic security.

Developing Nations as Models for Financial Inclusion

While there are increasing efforts to expand financial inclusion in the US, much of the interest in and momentum for financial inclusion is happening on a global scale. Globally, approximately half of the adult population is financially excluded (i.e., 50 percent do not have a basic bank or savings account; Demirguc-Kunt & Klapper, 2012), 17 percent live at or below \$1.25 per day (World Bank, 2014), and economic growth is largely spurred by entrepreneurial activity (van Stel, Carree, & Thurik, 2005). In these global contexts, financial inclusion efforts are taking place at the demand of young people and households who are predominately on the financial margins and with innovations from financial and non-financial institutions (Demirguc-Kunt & Klapper, 2012; Gardeva & Rhyne, 2011; M.S. Sherraden & Ansong, 2013). The entrepreneurial endeavors of young people and households in developing nations, such as small business start-ups or expanded business models that leverage technology to serve an increasingly international customer base, have attracted the attention of institutions that are capitalizing on these new and emerging markets.¹⁵ For example, financial institutions in Kenya are using cell phones to help unbanked young people and households transfer money electronically (Hughes & Lonie, 2007), a “mobile money” innovation that has accelerated and modernized financial inclusion efforts. Over 250 “mobile money” services—delivered by financial and non-financial institutions—across 89 countries now reach 300 million customers (Groupe Speciale Mobile Association [GSMA], 2015). The supply and demand of financial inclusion is evident within this global momentum, particularly within developing nations. That is, young people and households conducting entrepreneurial activities that contribute to their economic mobility and their nation’s economic growth are in need of financial products, while financial institutions

¹³ See for more information, <http://www.whitehouse.gov/the-press-office/2013/06/25/executive-order-establishing-presidents-advisory-council-financial-capab>

¹⁴ For more information regarding these guidelines, see here: <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20150224a1.pdf>

¹⁵ The role of microfinance institutions in particular and their effectiveness in these endeavors is not without criticism (Bogan, 2012).

are incentivized to make the financial products available in nations where those entrepreneurial activities are in active development. From this perspective, financial inclusion is gaining a foothold as a catalyst of economic mobility in many developing nations. Though, it remains unclear whether the entrepreneurial endeavors driving financial inclusion in developing nations will be similarly relevant for the US.

Critical Questions for Financial Inclusion

Additional research is needed in order to generate the same sort of unquestioned belief in financial inclusion that exists for the minimum wage or Social Security, for example. If the public is going to buy in to CSAs as a catalyst of financial inclusion and as central to a new American social contract, critical questions are in need of answering. The following questions are facing the field of financial inclusion.

Can the definition of financial inclusion be expanded? Here, financial inclusion has been narrowly defined as access to a basic bank or savings account. Others define financial inclusion more broadly as access to a suite of financial products (Demirguc-Kunt & Klapper, 2012; Gardeva & Rhyne, 2011). However, no matter by the number or type of products that financial inclusion is defined, people still need to be able to use those products. In other words, people also need to put money into their savings accounts. The current US financial inclusion statistics suggest that access to a basic bank or savings account may be insufficient for preventing many people from using alternative financial services when they need money quickly (FDIC, 2014)—they need money and that money is not available from their bank or savings account. Likewise, people may need access to loans and credit for the revival of entrepreneurship (Institute for Local Self-Reliance, 2014). The fact that people need to somehow accumulate money in or with their financial products cannot be ignored, which has implications for the labor market. Beyond a basic bank or savings account and the money accumulated within, can the definition of financial inclusion be extended to a labor market that provides adequate compensation?

Does macroeconomic evidence support financial inclusion? Microeconomic evidence suggests financial inclusion is good for young people's economic security; however, is it also good for the US economy and to what extent? The International Monetary Fund recently released a paper whose findings suggest financial inclusion may have impacts on gross domestic product and inequality in developing nations (Dabla-Norris, Ji, Townsend, & Unsal, 2015). Can these same findings be realized in the US? Does financial inclusion contribute to economic stability and growth in the US through saving and entrepreneurship, as has been the case among developing nations? Does this evidence support the potential

of financial inclusion, confirming that financial inclusion may be politically acceptable and feasible as part of the new American social contract?

When should financial inclusion begin? Consensus is growing that financial inclusion should begin very early in life, when young people and their families have the longest amount of time to benefit from financial inclusion and its multiplying effects (Beverly, Clancy, & M. Sherraden, 2015; Cramer, 2010; Huang, Sherraden, M. Sherraden, Kim, & Clancy, 2014; M. Sherraden, 1991). Often, this translates into financial inclusion from birth, as is the case with CSAs and the ASPIRE Act. If financial inclusion does not begin at birth, what are other natural milestones for initiating young people's financial inclusion? Emerging research on child development suggests that young people make natural gains in their ability to carry out financial behaviors and understand financial concepts at ages five or six, eight or nine, and 11 or 12—ages that are consistent with kindergarten enrollment, third grade, and sixth grade in the US educational system (Friedline, 2015). Enrollment in public school and subsequent advancements (elementary to middle school, middle school to high school), acquisition of a driver's license, first procurement of paid employment, enrollment in college, opening accounts with public utilities like water and sewage—these are all milestones that require interaction with existing institutions and may serve as ideal times to initiate financial inclusion.

Can families be leveraged for expanding financial inclusion? As they stand, existing institutions—the family, labor market, higher education system, and financial mainstream—are insufficient for expanding financial inclusion. However, questions remain regarding whether these institutions can be leveraged to expand financial inclusion and if so, how? For example, what are realistic expectations for families in young people's financial inclusion—and financial socialization generally—who are often ill-equipped, lack confidence in their own financial training, and have varying financial capacities? Moreover, young people operate within a drastically different world than their parents, a world that is increasingly technological and virtual. Young people often navigate through this technological and virtual world with greater ease and confidence than their parents. How do these changes influence young people's financial inclusion and their families as facilitators of that inclusion? It may be that a financial inclusion intervention directed at young people, who are the focus of this paper, also has spillover effects on other members of their family or household and their communities: the trickling *up* of financial inclusion. What are the trickle up effects of young people's financial inclusion for parents and previous generations? Are there trickle up

effects that spill over into and can be measured at the community level? That is, can financial inclusion be thought of as an intervention with the potential for “two-generation” effects (Aspen Institute, 2014)?

What is the role of the labor market in facilitating young people’s financial inclusion?

Financial inclusion is related to experiences in the labor market. The loss of a job can undermine financial inclusion, even while labor market attachment by acquiring a job can bolster it (FDIC, 2014). Moreover, the labor market may be an insufficient facilitator of financial inclusion for young people who are often seasonally employed in the low-paying retail and service industries. Along these lines, what is the role of the labor market for facilitating young people’s financial inclusion? Can the labor market be a facilitator of their financial inclusion? If so, are there differences depending on the occupations and industries in which young people are employed? What products and services are offered to young people through their employers that can facilitate financial inclusion and saving?

Is financial inclusion a complement to labor market participation? A hypothesized role of financial inclusion is that the savings accumulated within accounts can buffer income shocks, such as during periods of unemployment. This hypothesis is in need of empirical vetting through research that tests whether savings can indeed buffer income shocks and if so, the thresholds of savings needed to have this buffering effect. Do financial inclusion and accumulated savings buffer income shocks during periods of unemployment? If so, can financial inclusion contribute to upward economic mobility via labor market participation? Are there differences by occupations and industries? If supported by empirical research, financial inclusion may be a complement to labor market participation in the changing US economy where regular and consistent employment and increasing monetary compensation may no longer be norms.

Can financial inclusion build better credit? Another line of questioning that has relevance for the labor market has to do with credit. Credit is becoming important for labor market participation, with employers increasingly considering applicants’ credit histories as part of decisions surrounding employment offers (Rivlin, 2013). Credit histories can also play important roles in renting an apartment, buying a car, or taking out a home mortgage. Emerging research suggests that financial education delivered by public education systems via state mandates can have positive effects on credit scores (Urban, Schmeiser, Collins, & Brown, 2015). Does financial inclusion serve as a platform for building credit and can financial inclusion have similar positive effects?

Can financial inclusion revive entrepreneurship? As is the case globally, financial inclusion may renew small business start-up, revitalizing entrepreneurship as an available path within the labor market and contributing to economic growth. The credit histories that may transpire from financial inclusion could help young people qualify for small business loans, given that financial institutions must make these lending decisions in large part by reviewing applicants' personal credit histories. Can financial inclusion renew US entrepreneurship, particularly as driven by young people (Kauffman Foundation, 2015)? Can financial inclusion help to close the entrepreneurship gap that exists between lower income and higher income young people, which threatens to suppress opportunity for a growing percentage of the population and to undermine the US's ability to be competitive in the global economy (Putnam, 2015)?

What is the role of higher education for facilitating young people's financial inclusion? As aforementioned, much of the effects of higher education on financial inclusion may come through educational attainment its spillover effects on economic security. However, perhaps institutions of higher education can play a more direct role in facilitating financial inclusion. Do the financial decisions that young people make regarding higher education contribute to their financial inclusion, such as filling out the FAFSA or making decisions about financial aid or loans? Do bank or credit union branches on college and university campuses relate to young people's financial inclusion? If so, does this relationship exist through geographic proximity (simply that a branch is nearby) or are there other factors that contribute to financial inclusion (such as banks and credit unions targeting college students)? Are there trade-offs of the effects of financial inclusion for young people who attend institutions of higher education, where access to student loans and credit cards may dampen economic security?

How can mainstream financial institutions better facilitate financial inclusion? What are the roles of mainstream financial institutions in promoting young people's financial inclusion, in absence of a national CSA policy like the ASPIRE Act and as part of one? Are there different roles for different types of institutions? Credit unions—as a mission—serve the communities in which they operate, potentially making them invested partners in financial inclusion efforts. Likewise, is there a role for localized, grass roots approaches to extending financial inclusion to young people and if so, what is that role? For example, non-governmental organizations (NGOs) have been influential in extending financial inclusion and promoting entrepreneurship in developing nations (Demircuc-Kunt & Klapper, 2012). Is there a similar role for the post office in the US (Baradaran, 2014), which has been proposed as a means of facilitating

financial inclusion in the lower income communities that have been abandoned by mainstream financial institutions? What is the best product for financial inclusion—basic account, savings account, credit or prepaid card, a combination of products, or some other product all together? What type(s) of savings accounts and features do young people prefer and do their preferences change across the life course? How can mobile and online banking be used to extend financial inclusion to young people?

Can financial inclusion unify existing institutions, make the American social contract more effective? Financial inclusion’s potential may go beyond serving as a gateway to economic security; financial inclusion may unify the institutions currently responsible for financial inclusion and help them realize their roles in delivering the new American social contract. For instance, financial inclusion may support families as facilitators of their children's financial socialization, assist educational systems in realizing their roles as achievement and mobility equalizers, reinforce labor market participation, and help financial institutions better serve their customer base and recapture public trust. Thus, there are two considerations here: the first is whether financial inclusion has positive effects on young people’s outcomes measurable within the family, educational system, labor market, and financial mainstream. However, the second and perhaps more intriguing question for the economic health of the nation is whether financial inclusion helps these institutions more effectively facilitate financial socialization, realize their role as an equalizer of opportunity, reinforce labor market participation, and better serve their customers. If confirmed empirically, financial inclusion may help unify these institutions and make them more effective—contributing to the revitalization of institutions responsible and necessary for the future American social contract.

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