

Children's Savings Accounts

Vermont Child Poverty Council

July 1, 2014



Children's Savings Accounts (CSAs)

- ↳ Also known as Children's Development Accounts (CDAs).
- ↳ Long-term asset-building accounts established for children, as early as birth, and allowed to grow over their lifetime.
- ↳ Proposed in the early 1990s (Sherraden, 1991) as an inclusive and accessible opportunity for lifelong savings and asset building.
- ↳ Two Product Models
 - ↳ A deposit-only savings account offered by traditional lender. ([K2C Model, San Francisco](#))
 - ↳ A 529 savings plan (named for the relevant section of the federal tax code) is a state-sponsored, tax-preferred savings plan for qualified post-secondary education expenses. ([Harold Alfond, Maine](#))
- ↳ Either model can provide savings matches or other incentives to encourage families – particularly those of lower income – to save.

Why Children's Savings Accounts?

- ✓ CSAs have the potential to expand economic and educational opportunities for low- and moderate income families & children.
- ✓ CSAs support the interest of States in increasing the percentage of its population with college degrees, certificates and credentials ([Lumina Foundation Goal 2025](#)).
- ✓ CSAs represent a long term investment in your citizenry while helping support and achieve Vermont's workforce development aspirations.
- ✓ CSAs help to address New England's/Vermont's middle skills gap by addressing secondary education affordability.
- ✓ CSA's encourage and leverage both family and capital resources.

How Does Vermont Stack Up?

- 8.7% of Vermont residents do not possess a high school diploma or equivalent.
- 31.2% of Vermont residents only possess a high school diploma.
- 17.2% of Vermont residents possess some college (no degree)
 - **57.1%** of Vermont residents **do not** possess a college degree
- 42.8% of Vermont's adults 25 years and older hold at least a two – year degree
- To achieve the goal of 60% of Vermont citizen with a college degree, certificate or other credential Vermont would need an annual increase of at least 4.4%
- Vermont will need an additional 58,161 college degrees to meet its workforce demands in 2025.

CSA Research

- **CSAs have the potential to greatly impact and improve economic mobility.** Asset based policies for children could also be most direct and effective way to alter class reproduction and diminish intergenerational transmission of poverty (Sherraden, 2002). Starting early also provides lifetime potential for asset accumulation by allowing the accounts to effortlessly accumulate interest even when beginning with modest initial and annual deposits (Beck & Boshara, 2011).
- **Holding assets has a strong correlation to improved academic achievement.** Research supports that regardless of family income level, children of parents who own assets are more likely to have higher academic achievement and complete more years of education (CFED08), even with savings as limited as \$3000 (Zhan & Sherraden, 2003).
- **75% of children with their own savings are enrolled or have graduated from college, versus 45% of those without savings. Children's savings are connected with a more positive college-bound identity** (Elliott & Beverly, 2011). Both black and white children who have savings are about twice as likely to be in college or to have graduate than those without savings (Elliott & Nam, 2011).
- **For low to moderate-income families, children with savings of their own are twice as likely as those without to be enrolled in college,** although children's savings are not correlated with college graduation for high income families (Elliott, Constance-Huggins, & Song, 2011).

CSA Research

- Financial constraints also have an impact on children who expect to attend college, but do not do so soon after high school graduation, a phenomenon known as “wilt”. Research shows that **over 55% of children without their own account experience wilt whereas 80% of children with an account of their own do not experience wilt** (Elliott & Beverly, 2011).
- **Asset holding may also impact both children’s and families’ expectations and future orientation.** Children’s savings accounts can influence attitudes towards savings especially those created at very young ages because these attitudes are easier to change earlier in life (Shobe & Page-Adams, 2001) (Yadama & Sherraden, 1996). Furthermore, targeting children may have a multiplier effect by engaging larger family in the asset-accumulation process (Zhan M. , 2006).
- **Research shows that people who own assets are more likely to be more future oriented and have higher expectations for their futures** (Lombe, Nebbitt, & Buerlein, 2007) as well as the futures of their children (Zhan & Sherraden, 2003).
- Nevertheless, the holding of savings alone may not be enough to affect future orientation. Findings support that having savings is more effective when children also expect to graduate from college (Elliott, Chowa, & Loke, 2011). **Thus CSAs may need to be implemented in conjunction with financial education programs and college preparations to influence the use of the funds accumulated.**

Growing Support

Key CSA Initiatives (currently running and in planning)



- States that incentivize 529s
- ★ Major **statewide** initiative
- ★ Major **municipal/county** initiative
- ★ Major **private/philanthropic** initiative
- ★ Major **Native American** initiative

State Initiatives

- 15 states incentivize deposits into 529 plans for some children
- Statewide CSA initiatives in Colorado, Nevada, Hawaii
- Child Support System Initiatives in Texas and Kansas

Municipal/County Initiatives

- K2C in San Francisco, CA and Cuyahoga County, OH program
- Housing as CSA platform in Puget Sound, WA and Cambridge, MA

Private/Philanthropic Initiatives

- Jackson, MS and Grand Rapids, MI
- KIPP in DC, NYC, Houston, Chicago
- EARN's Triple Boost, FUEL, Propel Schools, CollegeSet, Children's Aid Society

Native American Initiatives

- First Nations (NM)
- Lakota Funds (SD)
- White Earth Investment (MN)

Harold Alfond College Challenge

- 👉 Began as a pilot in two hospitals in 2008, and expanded statewide in 2009.
- 👉 Most comprehensive program in the United States (Huang, Beverly, et al., 2011)
- 👉 Increase focus on the participation of low- and moderate income families.
- 👉 *“We’ve come to realize that providing the opportunity to receive the grant isn’t enough. We need to make sure that all Maine babies actually receive the grant”*
Gregory Powell, Chairman of the Harold Alfond Foundation
- 👉 In March, Maine becomes first state to provide universal college savings for all newborns.
 - 👉 **Why:** as of 2013, about 40% of eligible children had been enrolled and received the \$500 grant.
 - 👉 Procedural Barriers to entry: Child must be enrolled prior to turning one, and required that a parent complete an inquiry form and enrollment kit to join.

Figure 1. Automatic Enrollment and Communications in the College Challenge

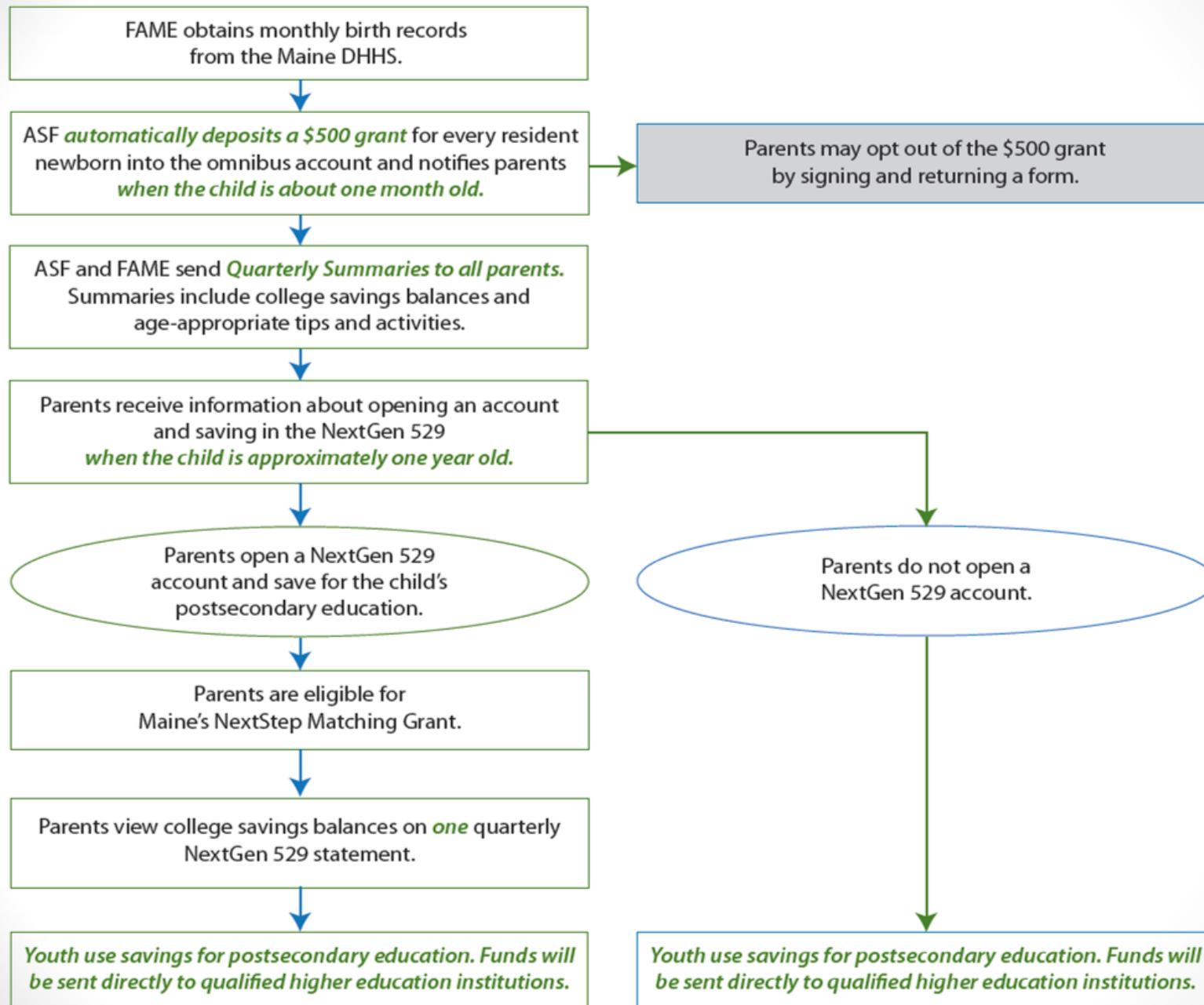


Table 1. College Challenge Opt-In versus Opt-Out Enrollment and Communications

Opt-in strategy (2008–2013) ^a	Opt-out strategy (2014 and beyond)
Enrollment	
<p>Parents⁴ had to open a Maine NextGen 529 account before the child’s first birthday to receive the \$500 grant.</p>	<p>College Challenge automatically enrolls Maine resident children at birth and deposits \$500 into the ASF omnibus account.</p>
Application	
<p>Parents completed a short form available at hospitals, doctors’ offices, and libraries and online to obtain an enrollment kit.⁵</p> <p>Parents were required to complete a NextGen 529 application to receive the \$500 grant.</p>	<p>Parents are not required to take any action.</p>
Financial and educational communications	
<p>All parents received information about opening an account and making contributions in their own NextGen 529 account.</p> <p>Communications specific to the College Challenge (i.e., explaining that no initial contribution was required, etc.) supplemented the NextGen 529 materials.⁶</p>	<p>The College Challenge notifies all parents of the \$500 grant when the child is about one month old.</p> <p>All parents will receive information about opening and contributing to their own NextGen 529 account when the child is approximately one year old.</p>
<p>Parents who opened their own NextGen 529 account received Quarterly Summaries with college savings balances—which include the College Challenge grant, family contributions, NextGen Matching Grants, and earnings—and age-appropriate tips and activities (Figure 2).</p>	<p>All parents^b receive Quarterly Summaries (see Figure 2) with college savings balances—which include the College Challenge grant, family contributions, NextGen Matching Grants, and earnings^c—and age-appropriate tips and activities.^d</p>
<p>Parents who opened their own NextGen account viewed their child’s college savings balance—including the College Challenge grant, family contributions, NextGen Matching Grants, and earnings on <i>one</i> quarterly NextGen statement delivered by the 529 program manager.</p>	<p>Same</p>

Figure 3. Participation and Investment in the College Challenge

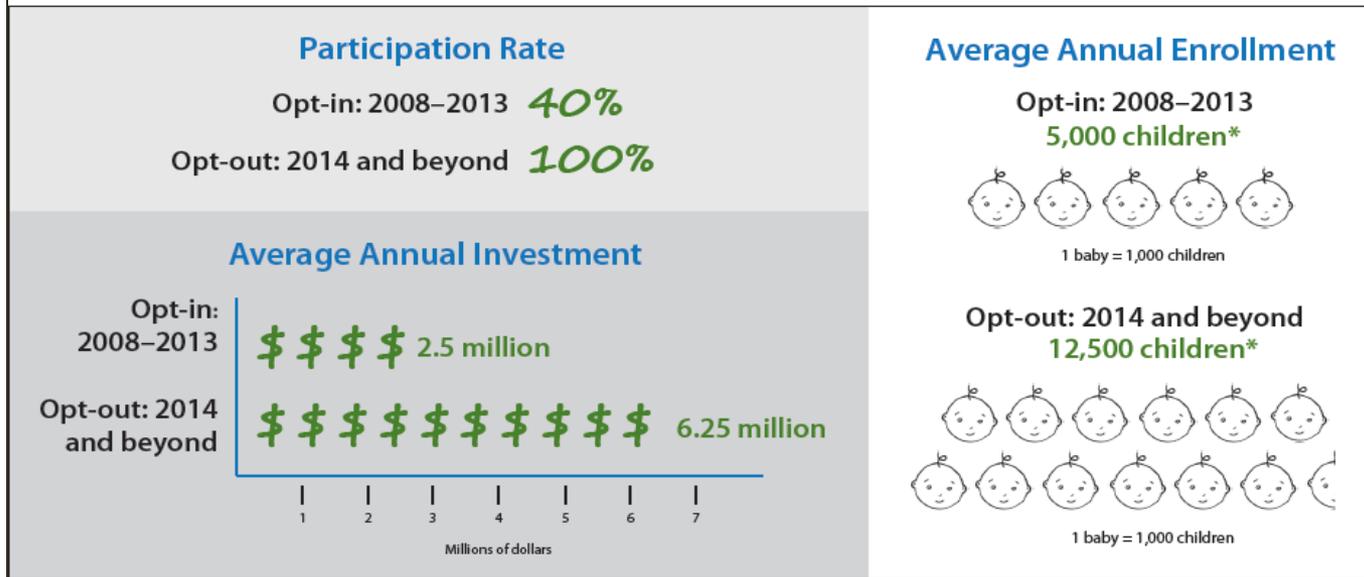
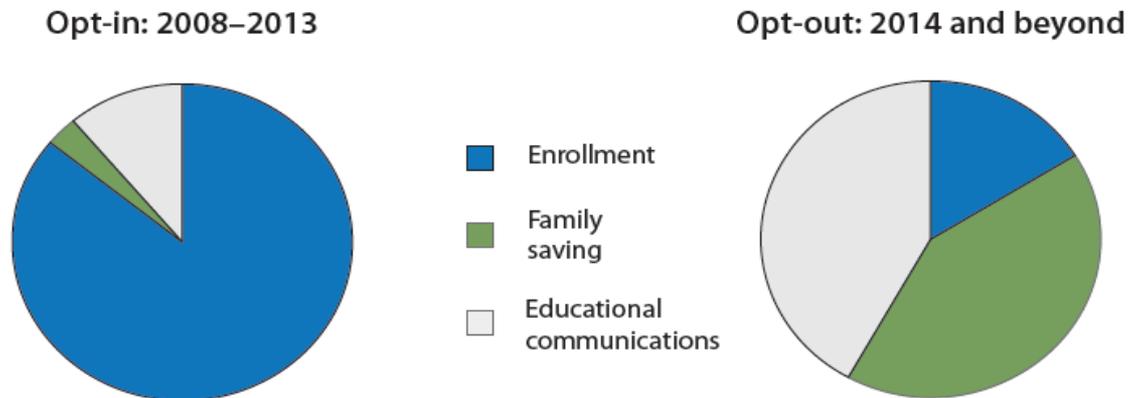


Figure 4. Allocation of College Challenge Operational Resources



New England's CSA Momentum

Maine

- [Harold Alfond Foundation](#) leads the national by making Maine the first state in the nation to make college savings for newborns universal and automatic.

New Hampshire

- Passes HB 1146 establishing a Legislative Study Committee to study the feasibility of funding a kindergarten-to-college/career-ready program and a universal college savings account.

Rhode Island

- Higher Education Assistance Authority ([RIHEAA](#)), with State Treasurer Gina Raimondo, is actively pursuing a universal CSA agenda and has set aside funds for a state wide pilot.

Connecticut

- Governor Malloy, introduced House Bill 5048 in February and passed its CSA legislation on May 19.

New England's Children's Saving's Account Consortium (Regional Effort)

- The newly formed New England CSA Consortium convened its first meeting on June 9th. The group met with the City of San Francisco's treasurer, [Jose Cisneros](#), to learn more about his city's [Kindergarten 2 College CSA Program](#), established in 2010.



Questions

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