



## Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

### **Testing Universal Accounts at Birth: Early Research from SEED for Oklahoma Kids<sup>1</sup>**

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Thank you, Chairman Sharpe and other members of the House Committee on Education for allowing me to submit written testimony for the proposed Vermont Universal Children’s Savings Account Program, Bill H 448. I am pleased to present research results related to testing universal asset building accounts at birth.

#### **Child Development Accounts**

Universal and progressive accounts for all children at birth have been proposed in the United States by numerous scholars and policy makers.<sup>2</sup> Child Development Accounts (CDAs) —savings or investment accounts for long-term developmental purposes—may be a promising pathway to inclusive asset building in United States.

Behavioral economics research identifies the benefits of defaults—that is, putting people in a saving plan (or some aspect of it) unless they make a choice *not* to participate (sometimes called “opt out” or “automatic”). Universal CDAs are the ultimate “default”: every child would automatically be born with a birth certificate and an account. Ideally, CDAs are: lifelong (begin at birth), universal (for all children), progressive (greater

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<sup>1</sup> This testimony borrows heavily from Beverly, Clancy, & Sherraden, (2014) and (2015).

<sup>2</sup> Sherraden (1991), Lindsey (1994), Boshara & Sherraden (2003), Cramer (2004), and Goldberg (2005).



subsidies for poorest children), automatic (opened without prior permission), and restricted (for education and child development).<sup>3</sup>

There are several reasons why it may be important to promote asset accumulation for newborns. First, it makes sense to begin very early because the longer the time saving and investing, the greater the financial returns. Saving even small amounts over long periods of time can yield significant sums. Second, positive psychological and behavioral effects for both parents and children may include future orientation, educational expectations, and effort.<sup>4</sup> Finally, opening accounts very early in a child's life may improve the child's growth trajectory and later educational outcomes. They may make parents and children more hopeful and thoughtful about the future, which may encourage the development of college-bound identity.<sup>5</sup>

### **SEED for Oklahoma Kids Experiment**

The SEED for Oklahoma Kids (SEED OK) experiment is a longitudinal large-scale study of universal CDAs with randomly selected newborns in 2007. The SEED OK policy and research collaboration involves multiple partners, including the Center for Social Development (CSD) at Washington University in St. Louis, the State of Oklahoma's Treasurer's Office, Department of Health, the Oklahoma College Savings Plan, and RTI International.

SEED OK examines whether the intervention has an impact on family attitudes and behaviors regarding higher education, saving for children, and children's developmental outcomes. This policy test of automatic and progressive CDAs to every child at birth is the first truly universal model in the United States of CSD Director Michael Sherraden's policy concept.<sup>6</sup>

SEED OK is a randomized experiment, which means that study participants—almost all are mothers—were assigned randomly to the treatment group or control group after completing a baseline survey. Mothers (2,704) completed the SEED OK survey soon

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<sup>3</sup> Sherraden (1991).

<sup>4</sup> Elliott & Beverly, 2011; Beverly, Elliott, & Sherraden, 2013.

<sup>5</sup> Beverly, Elliott, and Sherraden (2013).

<sup>6</sup> Sherraden & Clancy (2005).

after their children were born. In 2011, the mothers completed a follow-up telephone survey when children were about four years old.

Every newborn in the treatment group received an automatically opened Oklahoma College Savings Plan (OK 529) account with an initial deposit of \$1,000. (One mother opted out, stating that for religious reasons the family could not accept an account with earnings on capital).<sup>7</sup> Low- and moderate-income treatment participants were eligible for savings match incentives, where minimum deposits of \$25 into their own OK 529 were matched with SEED OK funds up to \$250 per year for four years. The state determined savings-match eligibility through official state records, so parents did not have to submit tax returns or self-certify their adjusted gross income.<sup>8</sup> Control participants were not given an account or any additional information about 529s.

Infants were randomly selected from records of every child born in Oklahoma during certain periods of 2007. African Americans, American Indians, and children of Hispanic origin were oversampled to ensure sufficient statistical power for analyses with each group. Random assignment for the children to receive the SEED OK CDA (1,358 treatment group) or not (1,346 control group) after the mothers completed a baseline survey allows researchers to attribute differences in outcomes to the SEED OK intervention rather than individual characteristics. Assigning participants randomly to treatment and control groups and sampling from a full state population are uncommon practices in social research, and they make SEED OK an unusually rigorous policy test.

### **Summary of Early SEED OK Findings**

This testimony summarizes selected early findings from SEED OK research. These studies begin to examine whether the SEED OK CDA affects parental attitudes and behavior and child development. In these studies, the children are very young, about 4 years of age or younger.

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<sup>7</sup> Nam et al. (2013).

<sup>8</sup> The state Treasurer's Office determined savings-match eligibility using state tax return data provided by the Oklahoma Tax Commission. For mothers with no tax records, the state used information from the Oklahoma Department of Human Services to determine if mothers received public benefits (e.g., Supplemental Nutrition Assistance Program, Medicaid, or Temporary Assistance for Needy Families). Mothers without tax or public assistance records could self-certify. See Zager et al. (2010).

**The universal and automatic features of the SEED OK CDA eliminate essentially all inequality in OK 529 account holding and asset ownership.<sup>9</sup>**

- Automatic account opening with \$1,000 deposit is highly successful (only one mother of 1,361 “opted out”).
- The universal and automatic features of the SEED OK CDA eliminate essentially all inequality in OK 529 account holding and asset ownership by income, education, race, material hardship, and other socioeconomic characteristics.

**The SEED OK CDA increased the likelihood that mothers had taken steps to save for their children’s college.<sup>10</sup>**

- The CDA increased OK529 plan participation for a number of disadvantaged groups, including low-income, African American, American Indian, and unbanked mothers; mothers experiencing material hardship; and mothers receiving public assistance.
- The CDA also increased the likelihood that mothers—including low-income mothers and mothers receiving public assistance—had saved for children’s college expenses in an OK 529 account.

**The SEED OK CDA improved mothers’ expectations for their children’s education.<sup>11</sup>**

- At baseline, most mothers (93%) expected their children to go to college.
- Yet, previous research suggests that educational expectations decline over time.
- Mothers in the treatment group were more likely than mothers in the control group to report that their expectations remained stable or increased at the follow-up survey, when children were about 4 years old.
- The SEED OK CDA reduces by 3 percentage points the probability that treatment mothers’ expectations declined between survey waves.

**The SEED OK CDA improved disadvantaged children’s early social-emotional development.<sup>12</sup>**

- Changes in parental attitudes may improve parent-child interaction and so influence child development. Several studies demonstrate that the SEED OK CDA has

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<sup>9</sup> Nam, Kim, Zager, Clancy & Sherraden, (2013).

<sup>10</sup> Nam et al. (2013); Beverly et al. (in press); Wikoff et al. (2015).

<sup>11</sup> See Kim, Sherraden, Huang, & Clancy (2015).

<sup>12</sup> See Huang, Sherraden, Kim, and Clancy (2014).

positive effects on social-emotional development for children at about 4 years of age.

- At the time of the follow-up survey, disadvantaged treatment children scored better than disadvantaged control children on a measure of social-emotional development.
- The effects of the CDA on these groups are similar in size to at least one estimate of the effect of the Head Start program on early social-emotional development.<sup>13</sup>
- The SEED OK CDA improves disadvantaged children’s early social-emotional development *regardless of whether parents have saved*.

#### **The SEED OK CDA boosted mothers’ mental health<sup>14</sup>**

- About 3 years after the intervention began, the SEED OK CDA had reduced depressive symptoms among mothers.
- The impact of the CDA was greater for several disadvantaged groups, including low-income mothers, less educated mothers, and mothers experiencing material hardship.
- There is some evidence that the CDA reduces maternal depressive symptoms whether or not a mother has opened and saved in an OK 529 account for her child.

### **Conclusion**

Children who grow up knowing they have some assets for postsecondary education may be more future-oriented and may fare better in the long run than children without these assets. Unlike college savings programs that require parents to open an account, SEED OK’s universal, automatic, and progressive at-birth CDA model gives all children—not just those who are advantaged—the opportunity to benefit. This is important because there are many reasons to expect CDAs to improve outcomes for children.

Research on the impact of the SEED OK CDA on child outcomes is in an early stage. However, we have evidence that the SEED OK CDA positively affected mothers’ expectations for their children’s education, children’s early social-emotional development, and mothers’ mental health. Face-to face interviews with mothers suggest that the SEED OK CDA changes how some parents think about their young children’s future.

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<sup>13</sup> For an estimate of the effect of the Head Start program on early social-emotional development, see U.S. Department of Health and Human Services (2010).

<sup>14</sup> Huang, Sherraden, & Purnell (2014).

It is too early to draw conclusions about long-term impacts of the SEED OK CDA. Yet, early positive effects may result in long-term results, perhaps especially for disadvantaged children. In future studies, researchers will be able to measure and examine whether the SEED OK CDA continues to improve child development, motivates parents and children to prepare for college, and affects high school and college completion.

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