The Promise of Child Development Accounts: *Current Evidence and Future Directions*

By Trina Shanks, University of Michigan

Introduction

In 2010, 22.5 percent of U.S. households had zero or negative net worth[1], the largest proportion since such data started being collected in 1962. This means that almost a quarter of U.S. households face economic insecurity, with inadequate savings and no financial cushion. Broken down by race, the statistics paint a more troubling picture. Over a third of Hispanic and non-Hispanic black households had zero or negative net worth in 2010.[2] And disparities in wealth by race worsened following the Great Recession of 2007-2009—leading to white households having net worth 20 times higher than black households and 18 times that of Hispanic households.[3] The reality of such economic disparities has consequences for child outcomes in the U.S., particularly for the large and growing population of non-white children.[4] Without the potential buffer that wealth provides in times of unemployment and emergency expenses, family well-being can suffer.[5]

However, helping low-income, low-wealth households build assets could improve near-term economic security, and also help children in such households succeed academically and achieve future economic success. Children growing up in higher-wealth households experience better outcomes, particularly in areas such as math scores, high school graduation, college enrollment and college graduation.[6] These children also are thought to be more likely to stay on course and realize their college aspirations by developing a 'college-bound identity' that allows them to engage in school and persist even when tasks are difficult.[7]

What are Child Development Accounts?

Early on, asset building experts recommended that policies to help economically vulnerable households build assets should be progressive, universal, automatic, and start early.[8] Progressivity implies that more incentives and resources go to those who are low-income. Universal means that everyone in a community participates. Automatic means that people do not have to voluntarily sign-up or enroll, but are simply included as an eligible participant. Starting early not only takes advantage of compounding interest, but also instills positive financial behaviors and practices in childhood that are beneficial in adulthood but typically harder to take up late in life. These principles lead those interested in growing assets among low-income families to consider starting asset building at birth or during a child's pre-school or Kindergarten years.

At its most basic, a Child Development Account (CDA), also known as a Child Savings Account, provides a financial platform where a child can start to accrue savings and build a foundation for economic mobility. In a recent publication, the New America Foundation outlines the legislative history of this idea and the foundational policy considerations around participation, access, and program features that must be resolved before introducing a CDA program.[9] Choices about participation can include targeting, such as offering CDAs to just low-income children or public school students, rather than a universal offering to all children in a specified geography; and providing automatic enrollment to ensure universal participation. Choices about access focus on allowable uses. Most CDAs start with a sole focus on post-secondary education or training, but more flexible options might make saving in a CDA more appealing to a broader array of young people. Expanding access to include home ownership, entrepreneurship, and retirement savings can also improve long-term well-being while encouraging financial practices and capabilities that are beneficial over a lifetime. Program features, such as the type of account offered, minimum initial deposit requirements, default investment options, matching incentives, and benchmark deposits for achieving certain milestones, often vary among CDAs.

What helps families save for children?

In the absence of a national universal CDA program, current child-focused savings programs, such as 529 plans[10], do not address intergenerational disadvantage. Only three percent of all U.S. households participate in college savings plans now offered in every state and only 6 percent of U.S. households with children under 25 participate in such 529 plans.[11] Compared to households that do not open CDAs, these participating households tend to be more advantaged, with net worth 25 times that of non-

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participating households, total income three times that of nonparticipating households, and have twice the likelihood of at least one caregiver having a college degree than nonparticipating households.[12] Even in the Saving for Education Entrepreneurship and Downpayment (SEED) demonstration, which offered CDAs through 12 community based organizations located throughout the country to test and encourage the policy idea, families with higher levels of education were more likely to voluntarily open accounts and save.[13] One promising rationale for initiating a CDA program is to create a uniform experience of saving and preparing for future economic mobility that is not dependent on parental economic status and resources.

Through lessons from asset building programs throughout the country, several institutional features have been identified that correlate with an increased likelihood that adults will save.[14] These include: making transactions convenient; setting expectations for savings targets; ensuring information is clear; and providing financial education. These findings may differ somewhat for long-term savings focused on children, but the policy choices made and institutional features of the program offered can strongly influence how much participants were able to actually save.

Theoretical and empirical research to date offers guidance for structuring successful Child Development Account programs.[15] CDAs may have substantial cumulative effects, perhaps starting with how parents think about the child's future and eventually influencing the child's own attitudes and outcomes. Though the accounts do not operate entirely through asset accumulation, assets do matter; positive pathways may form regardless of the amount of money in the account, but could be more robust at higher asset levels. In addition, CDAs do not operate entirely, or even primarily, through individual behavior. Even if accounts are opened automatically and assets deposited automatically, there can be positive effects if children and parents are aware of the accounts—results don't necessary depend on the motivation or ability to save. Automatic opening and automatic deposits can bring the potential benefits CDAs to all families, without requiring them to sign up, and may have particularly strong impacts on low-income families. Regular account statements might reinforce pathways to saving, which are likely to be more robust the longer the children have CDAs. In-

creases in financial capabilities are most likely if CDAs are opened and seeded automatically, and if the accounts are incorporated into financial education.[16]

Where do CDAs exist and what are the results?

Although the U.S. does not currently have a federal CDA program, there are now many program examples both internationally and at the state and local level.

Canada faced low take-up rates to its Registered Education Savings Plan (RESP), which are similar to U.S. 529 college savings plans, but households there were offered a universal 20 percent match on contributions made to a RESP for a child under 17. Participation rates have increased steadily since the start of this program in 1998, but low-income families remained persistently unlikely to start an account.[17] As a response, in 2004, the Canada Education Savings Program (CESP) began to offer an initial $500 deposit, a higher match rate, and subsequent $100 annual deposits for children of low-income families to further incentivize these families' participation.[18] The only allowable use for these savings is post-secondary education, although funds can be transferred to siblings.

The United Kingdom initiated a universal child savings account program, called the Child Trust Fund (CTF), which launched in 2005. It offered certificates to all children, with retroactive inclusion for those born between 2002 and 2005. Parents could take the certificate to a private financial institution to open a child account with a £250 initial deposit from the government. An additional £250 contribution was given to low-income households.[19] If parents or caregivers did not use the certificates to start an account for their child within one year, the non-opener children were automatically enrolled into a default account by the government. In the first year, 750,000 of the first 2.56 million certificates issued (about 30 percent) were not redeemed by families leaving the government to open accounts on the eligible child's behalf.[20] Family and friends could contribute up to £1,200 a year. The money could not be accessed until the child turned 18, but at that point could be used without restrictions. With a change of government, the CTF program was ended in 2010 and no additional £250 certificates are being issued.[21]

Singapore introduced a Child Development Account that can be used for preschool and other education- or health-related expenses from birth to age 12. Any deposits are matched dollar for dollar up to a match cap.[22] The government has also created the Post-Secondary Education Account (PSEA) to cover approved education-related expenses between the ages of 12 and 20. Unused balances from the CDA can roll over to a child's PSEA, and unused balances from PSEAs can be rolled over to the adult child's Central Provident Fund—a retirement account. Thus, Singapore has established a lifelong system of accounts to help its citizens build assets and meet personal and financial goals.[23]

SEED for Oklahoma Kids (SEED OK) began in 2007 as a rigorous policy test of many of the ideal features of a CDA program.[24] More than 2,600 participants, mostly mothers of newborns sampled statewide, were randomly assigned to the treatment group or a control group that was interviewed, but did not receive an account. The treatment group was automatically enrolled in the Oklahoma 529 College Savings Plan. SEED OK deposited $1,000 in each account—which was owned by the State of Oklahoma with the infant child as beneficiary. Treatment-group parents were also sent promotional materials and a time-limited $100 incentive to open a separate Oklahoma 529 account to save for the child's college expenses. For low- to moderate-income households SEED OK matched any individual savings in this account at either 1:1 or 0.5:1 for up to four years. Treatment families also receive a SEED OK account statement quarterly.

As a policy question, SEED OK demonstrates that it is possible to set up a program of universal accounts with automatic deposits, progressive matching, and restricted usage for post-secondary education. In addition, early results show that a CDA account positively impacts a child's social and emotional development at age four, at least among more disadvantaged households. Specifically, among families that have low-education levels, are low-income, receive welfare benefits, and rent their homes, children in the treatment group receiving SEED OK accounts score better on a test of social emotional development than similar control group families.[25] Mothers in the treatment group also report fewer depressive symptoms at follow-up.[26] The children participating in SEED OK are still young, so it will be important to continue following these families to examine medium- to long-term outcomes over time.

San Francisco launched Kindergarten to College (K2C) in 2011. The program automatically opens a special Citibank account for all kindergarteners in the city's public elementary schools. The accounts are started with a $50 deposit from the City and County of San Francisco, and children receiving free and reduced-priced lunch are eligible for an additional $50.[27] There are match incentives for the first $100 saved, and an additional $100 if a minimum of $10 is saved each month for six months. The public contribution can only be used for post-secondary education expenses, but the family can withdraw its own contributions in case of an emergency. K2C is one of the first publicly funded CDA programs in the country. The program has now reached over 13,000 children and going forward should enroll 4,500 new students each year.[28]

Maine offered the first statewide CDA program in the

U.S. From 2008 to 2013, the Harold Alfond challenge promised $500 to every newborn in the state of Maine, as long as parents signed up for a Maine 529 college savings account before the child's first birthday. Using this model, 23,000 accounts have been opened, but typically only 40 percent of eligible infants receive the account.[29] The parents that did open accounts tended to be more advantaged, with higher levels of education and other financial investments.[30] Given this evidence that the program was likely not reaching those who most needed it, the Alfond Challenge recently announced that it would be shifting to an opt-out policy. Since July 2014, the Alfond Challenge automatically opens 529 accounts with a $500 deposit for all children born in the state. The program sponsors estimate that approximately 12,500 more accounts will be opened each year going forward. Family contributions are eligible for a 50 percent match up to $100 a year. The money is restricted to use for qualified educational expenses, and any unused funds accrued by age 28 will revert back to the Fund.[31]

Nevada started a College Kick Start program, establishing a 529 college savings plan for all public school Kindergarten students with a $50 initial deposit in each account. In 2013, 35,000 students received accounts and a similar number is expected for the 2014-2015 school year. Families are encouraged to open their own 529 accounts, which could qualify for state matching funds up to $1,500. Funds are restricted to educational use.[32]

Cuyahoga County in Ohio announced its child savings account program in 2013 and plans to enroll its first students in the fall of 2014. The program is estimated to open 15,000 accounts for kindergarten students with a $100 deposit in an account with Key Bank. The money is restricted to post-secondary education expenses and must be spent before the age of 25, unless the individual is in active military service.[33]

New CDA programs are being considered all over the country. For example, Lansing, MI is planning a program that should start with a small group of kindergarteners in 2015. The Department of Human Services in Colorado and the state of Connecticut have announced their own CDA programs. Other states and municipalities are also in discussion about how they might offer a meaningful child account program.

Conclusion

When children grow up in households with no wealth and face economic insecurity, they may experience significant stress and have limited opportunities for upward mobility.[34] Child Development Accounts are a promising way to build assets and increase financial capability as well as promote pathways toward economic mobility for young people. There are many different approaches and potential program features currently being modeled. The one approach that has been proven to reach a full population and provide promising experimental evidence of results has utilized state 529 college savings plans as a platform. It will be interesting to see if this becomes the standard for new programs that emerge.

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Over time and with additional research, there will be more evidence on which program features seem to achieve better long-term results, but experience thus far points to several key lessons. First, if the priority is to reach all children and not have CDAs reproduce intergenerational disadvantage, it seems clear that automatic enrollment and deposits are necessary, especially for the most vulnerable populations to participate. Second, most CDA account models now in place are restricted to post-secondary education. Although this is an important first goal, it would be helpful for new programs to consider expanding possible uses to include home ownership and entrepreneurship, similar to adult Individual Development Account options. Third, it is often the case that the city or state becomes the owner of the account, which prevents the assets from being counted against financial aid or welfare benefits, but also leaves control of the accounts outside the family, particularly if the household is not making any personal deposits. As programs consider communication strategies and seek to build financial capability, it might be helpful to understand how families are engaging with CDA accounts and whether they see them as their own assets. When there are opportunities to interact with children in classrooms or with parents one-on-one, attention to this messaging could be important.

It is exciting that other countries and U.S. state and municipal governments have started to implement child development account programs. Although the field of practice is somewhat new, there are lessons to be learned from the research and examples that already exist. An examination of what we know and what is being done can help orient those newly entering this space, as well as synthesize the knowledge of those actively working in CDA programs on the ground. There is still much work to be done, but CDA programs are a promising foundation upon which to pull together policy strands to better assist low-income families and children. CI

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Native Americans and the Low Income Housing Tax Credit Program: Lessons from the California Tribal Pilot Program

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