Invest in Every Child’s Future with Children’s Savings Accounts

Creating a community with a vibrant and diverse economy, a skilled workforce and shared prosperity does not happen overnight—it requires meaningful investments. Nobel Prize-winning economist James Heckman argues that investments made during a child’s early years offer the biggest bang for the buck, creating significant long-term benefits for both the child and society. Children’s Savings Account (CSA) programs send all children the message that they have the potential and the support needed for academic success and economic mobility, regardless of where they come from or their family’s finances.

Children’s Savings Accounts (CSAs) Defined

Children’s Savings Accounts, or CSAs, are long-term savings or investment accounts that provide incentives (e.g., initial deposits or savings matches) to help children and their families—especially those from low-income households—build dedicated savings for postsecondary education. They are a concrete way for states and cities to invest in the future of every child. Here’s how they work:

- **Higher parental expectations for children’s future.** Mothers whose children received a CSA at birth in the SEED OK study, a randomized control trial designed to assess the impact of CSAs, had higher expectations for their children’s future education than mothers whose children did not receive a CSA.¹

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**KEY FEATURES OF CSA PROGRAMS**

Although programs differ, common among CSA programs is that:

- Third parties, such as government agencies or nonprofits, provide incentives for family members, friends and students themselves to contribute to their accounts.
- Account funds are restricted and can typically only be withdrawn to pay for postsecondary education, although in some cases, CSAs can be used to fund small businesses or other financial security-boosting asset purchases after high school.
Higher student expectations for their own futures. Children ages 12-18 with a savings account for college were twice as likely to expect to go to college as their counterparts without a college savings account. High expectations are strongly correlated with heightened educational outcomes.

Improved early childhood development. Children in the SEED OK study who received a CSA at birth had increased social-emotional development (i.e., the ability to identify and understand their own feelings, develop empathy, manage strong emotions, and establish and sustain relationships) at age four compared to other children the same age who did not have a CSA. Early social-emotional development is positively correlated with academic achievement later in life.

Increased likelihood of attending and graduating from college. Even a small amount of savings can make a big difference. Low- and moderate-income children with $1-499 designated for college are three times more likely to enroll in and four times more likely to graduate from a postsecondary degree or certificate program than children with no account.

Launching a CSA Program in Your City or State

Build on existing programs. With nearly 50 publicly or privately run CSA programs serving over 313,000 children in 31 states and DC, states and cities have a wide variety of models on which to draw.

Determine which process works best for your state. Programs can be created through legislation (e.g., the CHET Baby Scholars in Connecticut) or through administrative changes (e.g., the College Kick Start program in Nevada).

Be creative when finding the right partners. Find partners outside of, or in hidden corners of, the public sector. For example, find ways to streamline efforts with the state department of education or local private and philanthropic organizations.

Get support from Prosperity Now (formerly CFED). Prosperity Now, a leader in developing and supporting CSA programs, can provide technical support and resources for drafting legislation, designing programs and raising funds.

STATE GOVERNMENT PROGRAMS

College Kick Start (Nevada): The Nevada State Treasurer launched a CSA initiative in 2013 for incoming kindergarteners in 13 of Nevada’s rural counties, which was quickly expanded to the entire state in early 2014. Each child receives an automatic $50 deposit into a 529 college savings account.

CollegeBoundbaby (Rhode Island): Administered in collaboration with Rhode Island’s 529 College Savings Plans, CollegeBoundbaby offers a $100 grant to every baby born to or adopted by Rhode Island families. Parents simply check a box on the birth certificate worksheet at the hospital to enroll their child.
Frequently Asked Questions

Since $100 or $500 won't pay for college, why do CSAs matter?

With the high cost of college, we would not expect a low-income family to save nearly enough to cover the full cost of postsecondary education. However, even small amounts of money saved can make a difference in whether a child eventually ends up attending and graduating from college. Research indicates that children from low-income households with savings for college of just $1-499 are three times more likely to attend college and four times more likely to graduate than low-income children who do not have savings accounts for higher education. Having savings for college helps build children’s expectations and fosters a college-bound identity, in which children see themselves as someone who will go to college. And, research shows that children and young adults’ expectations have a strong impact on whether they do, in fact, attend college.

What makes a CSA program successful?

CSA programs differ depending on the locality’s specific needs and goals, but most successful programs share the following features:

- Automatic enrollment (i.e., participants opt out instead of opting in)
- Initial seed deposits, which ensure that all children start with savings toward their future, regardless of their families’ financial situation
- Matched savings or refundable tax credits to encourage savings and, ideally, progressive incentives that benefit low-income families
- Fewer barriers to entry, including having a default investment option, permitting small-dollar cash deposits and eliminating high fees and service charges
- Account savings do not affect eligibility for public benefits

How are CSA programs funded?

CSA programs receive direct funding and in-kind support from a variety of sources, including the public sector, philanthropy, the corporate sector and individuals. Public sector support is critical to maintaining large-scale, statewide CSA programs, but nearly all existing large programs also depend on some philanthropic support.

Why start a CSA program when my state already has a 529 plan?

529 plans are tax-advantaged investment accounts designed to help families save for postsecondary education, but according to a Government Accountability Office (GAO) report, fewer than three percent of families participate in these plans. The families that do participate have 25 times the median financial assets of the 97% of families that do not. In other words, 529 plans disproportionately benefit the wealthy, which means states also need CSA programs to ensure that all families can save for postsecondary education. The main distinction between a CSA and an ordinary 529 account is that a CSA program provides incentives to help participants build
savings more quickly, such as an initial seed deposit or matches for participants’ savings. This is particularly important for helping low- and moderate-income families increase their savings.

**What does the research say about the impact of CSA programs?**
First, research finds CSAs lead to gains in social-emotional development. Starting kids with savings early in life can improve their social-emotional development, which has been a proven predictor of increased academic achievement later in life. To learn more, check out the findings from the SEED OK experiment.

Second, research shows that savings is a predictor of college attendance. Evidence suggests that having even a small amount of savings is closely associated with postsecondary educational outcomes. Low- and moderate-income children with $1-499 designated for high education are three times more likely to enroll in and four times more likely to graduate from college than children with no account (Elliot, Song & Nam, 2013). A separate study found that savings and other financial assets are a consistent predictor of college graduation, even after controlling for variables such as income (Zhan & Sherraden, 2009).

Finally, CSAs have been found to change expectations for the better. Mothers whose children received a CSA at birth had higher expectations for their children’s future education at age four than mothers in a control group whose children of the same age did not receive a CSA (Kim, Sherraden, Huang & Clancy, 2015).

**How are Children’s Savings Accounts different from Education Savings Accounts, or ESAs?**
CSAs and ESAs are entirely different programs with different goals and target participants. ESAs are an extension of school choice and voucher programs that allow parents to use state-provided funding for private school, online courses and tutoring. ESAs are generally not for postsecondary education; 83% of all ESA funds in 2014-2015 were used for tuition costs at private secondary schools. ESAs do not provide opportunities or incentives for families to contribute their own savings, nor do they focus on helping low- and moderate-income families.

**Where do CSA programs exist?**
As of May 2017, more than 313,000 children have CSAs in 49 programs across 31 states and the District of Columbia. See the full list of programs [here](http://www.savingsforskids.org).
What are my next steps in starting a program?

*Investing in Dreams*, a CSA design guide, provides step-by-step guidelines for setting up a new CSA program. Some key decision points include:

- Which children the program should target
- Age at which accounts are provided
- Which savings vehicles to use
- The types and amounts of incentives
- When participants can withdraw funds
- What agency or organization will administer the program

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1 Sondra Beverly, Margaret Clancy and Michael Sherraden, *Universal Accounts at Birth: Results from SEED for Oklahoma Kids* (St. Louis, MO: Center for Social Development, Washington University in St. Louis, 2016).
2 Ibid.