

## Scholarly Research on Children's Savings

A growing body of evidence documents the potential of children's savings, including those saved in special college savings accounts, known as Children's Savings Accounts, or CSAs. These savings expand educational and economic opportunity for low- and moderate income youth. Some of the studies featured here examine the impact of CSA programs specifically, while others examine the relationship between college savings and future educational and economic success.

CSA programs aim to boost college savings among low- and moderate-income families and equip them for success in higher education. To facilitate asset accumulation and cultivate college-saver identities, accounts are often seeded with an initial deposit and grow over time with additional family contributions and savings matches. At age 18, an account holder can use the savings in CSAs, typically to fund postsecondary education. These programs have expanded significantly over the past decade as growing evidence from dozens of academic articles, pilot programs and research initiatives have demonstrated the potential for CSAs to have profound effects on children and families.

This Fact File describes key findings about children's savings and CSAs from peer-reviewed research. Findings from randomized controlled trials (RCTs) are marked with the ✓ RCT symbol.<sup>1</sup>

**FACT:** CSAs improve early childhood development and academic performance.

Several scholarly studies have shown that starting kids with savings early in life can improve their social-emotional development, while improvements in social-emotional development have been linked with gains in later academic achievement.<sup>2</sup>

*Finding #1:* Children provided a CSA at birth score better on parent-reported social-emotional development indicators at age four than their counterparts who did not receive a CSA. The impact of CSAs on early childhood development is similar in size to at least one estimate of the effect of Head Start.<sup>3</sup> ✓ RCT

*Finding #2:* The most disadvantaged children gained the most from the social-emotional benefits of CSAs; effects were particularly pronounced for children whose mothers have low education levels, low incomes, receive welfare benefits or rent their homes.<sup>4</sup> ✓ RCT

*Finding #3:* Mothers in a CSA treatment group showed reduced maternal depressive symptoms compared to mothers in a control group who did not receive a CSA.<sup>5</sup> These maternal outcomes, in turn, are associated with increased engagement with children and their education.<sup>6</sup> ✓ RCT

### NUMBERS TO KNOW:

Children with just **\$500 or less** saved for college are **3 times** more likely to go to college and **4 times** more likely to graduate than those without savings.

Source: Center on Assets, Education & Inclusion (2013)

**Finding #4:** Saving early works. As young as ages 5-6, a child begins to recognize the goals of a savings account and can develop a preference for saving over spending. Giving children early opportunities with money and savings can have a noticeable impact on and future economic knowledge and behavior.<sup>7</sup>

**Finding #5:** Students aged 12-18 with savings accounts scored an average of nine points higher on standardized math exams than their counterparts without savings.<sup>8</sup> Pairing school-based financial education with the opportunities for hands-on financial management through a CSA may also help children learn and retain more financial knowledge.<sup>9</sup>

**FACT:** Parents and children with early savings have greater college expectations.

**One of the first steps toward putting a child on the pathway to college is ensuring that they have strong college expectations.** Research shows that children develop ideas about their higher education plans early on and those expectations are strongly linked with their educational outcomes.<sup>10</sup> While parental aspirations for college are almost universal at birth, these often fade for disadvantaged families as they encounter barriers to educational attainment. Children from low-income households often have lower expectations of completing college than their higher-income peers, but research indicates that CSAs can change that trajectory.<sup>11</sup> They help children and their parents envision a future in which they attend college.<sup>12</sup>

**Finding #1:** Children formulate ideas about their futures, including college attendance, as early as elementary school.<sup>13</sup>

**Finding #2:** Having an account specifically designated for college helps children build positive expectations about college.<sup>14</sup>

**Finding #3:** 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.<sup>15</sup>

**Finding #4:** Financial assets, such as savings in a CSA, are strongly connected to parents' expectations for their children, and variations in parental expectations between white households and households of color is partly attributable to disparities in financial assets.<sup>16</sup>

**Finding #5:** Over four years, mothers in a treatment group whose children received a CSA at birth were more likely than mothers in a control group whose children did not receive a CSA to maintain or increase their expectations for their children's education.<sup>17</sup> ✓ **RCT**

**Finding #6:** Parents with no college education whose children received a CSA and college coaching were thirteen times more likely to expect their child to attend college than other similar parents.<sup>18</sup>

**FACT:** Children with college savings are more likely to go to and graduate from college.

**As children's expectations for the future grow alongside the savings in their CSA, research indicates that they also improve academically, with higher math scores than children without savings for college.**<sup>19</sup> In the longer-term, research demonstrates that children with savings dedicated to college are more likely to attend college and to complete their degrees.

**Finding #1:** Low college enrollment among youth from low-income families is partly due to uncertainty about college affordability.<sup>20</sup> Traditional financial aid programs, such as student loans, may do little to overcome these doubts or to otherwise facilitate access to higher education.<sup>21</sup>

**Finding #2:** Most students do not know what amount of financial aid they qualify for until after they have been admitted to college. This timing is often too late to be of value to low-income students,<sup>22</sup> who may not have completed necessary college preparation activities or who may ‘undermatch,’ meaning they select a college of lower quality than they could otherwise qualify for because of financial concerns.<sup>23</sup>

**Finding #3:** Even small amounts of college savings can have a big effect on college enrollment and graduation rates.<sup>24</sup> Low- and moderate-income children with less than \$500 in dedicated savings for postsecondary education are three times more likely to attend college and four times more likely to graduate from college than children and youth without savings.<sup>25</sup>

**Finding #4:** Young adults who had their own account designated for college were twice as likely to be “on course” to complete college (i.e., progressing toward graduation) than those who did not.<sup>26</sup>

**Finding #5:** Children whose parents saved for their college expenses were less likely to take out high-dollar loans for their college education, putting the children at a lower risk of dropping out of college or accumulating burdensome debt.<sup>27</sup>

## **FACT:** Children’s savings increases a child’s future financial capability and reduces the racial wealth gap.

Panel data analysis and other studies show that adults who had savings as children enjoy improved financial capability, a greater diversification of savings and a higher level of savings overall. Also, by building financial capability early and leveling the playing field, children’s savings have the potential to lessen the racial wealth divide significantly.

**Finding #1:** Children’s savings initiatives have among the greatest demonstrated potential for closing the racial wealth divide—by about 20-80%, depending on the structure and funding of the accounts.<sup>28</sup>

**Finding #2:** The SEED OK experiment found that providing children an automatic CSA at birth removed all existing variation by race and income in owning a college savings account and having some college savings.<sup>29</sup> ✓ **RCT**

**Finding #3:** Young adults who had accounts in their names as children were twice as likely to own savings accounts later in life, and they are also more likely to have larger amounts of savings compared with young adults who did not have a childhood account.<sup>30</sup>

**Finding #4:** Parents of children who received an automatic CSA were more likely to open and save in their own college savings account for their children.<sup>31</sup> ✓ **RCT**

**Finding #5:** Fourth- and fifth-graders who were provided access to in-school banking had improved attitudes toward saving and were more receptive to learning about financial capability. Incentives as low as \$25 can be effective in encouraging students to open a bank account.<sup>32</sup>

**Finding #6:** Fourth-graders with a CSA were three times more likely to mention savings as an important element in financing college.<sup>33</sup>

**Finding #7:** Having a savings account at an early age can help young adults build healthier credit and protect them from predatory lending practices.<sup>34</sup>

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## NOTES

<sup>1</sup> Though no study is perfect, RCTs are broadly considered the gold standard for any research design as they enable a researcher to isolate the effects of a program—in this case CSAs. Like all rigorous research, a larger body of evidence pointing to similar findings is always more valuable than any single study.

<sup>2</sup> Joseph A. Durlak, Roger P. Weissberg, Allison B. Dymnicki, Rebecca D. Taylor and Kriston B. Schellinger, “The Impact of Enhancing Students’ Social and Emotional Learning: A Meta-Analysis of School-Based Universal Interventions,” *Child Development* 82, no. 1 (2011): 474-501.

<sup>3</sup> Jin Huang, Michael Sherraden, Youngmi Kim and Margaret Clancy, “Effects of Child Development Accounts on early social-emotional development: An experimental test,” *JAMA Pediatrics* 168, no. 3 (2014): 265-271.

<sup>4</sup> Jin Huang, Youngmi Kim and Margaret Clancy, “Material Hardship and Children’s Social-Emotional Development: Testing Buffering Effects of Child Development Accounts in a Randomized Experiment,” *Child Care, Health, and Development* (2016); Huang, Jin et al., “Contributions of Qualitative Research to Understanding Savings for Children and Youth,” *Economics of Education Review* 32, no. 1 (2013): 66-77.

<sup>5</sup> Jin Huang, Michael Sherraden and Jason Q. Purnell, “Impacts of Child Development Accounts on Maternal Depression: Evidence from a Randomized Statewide Policy Experiment,” *Social Science & Medicine* 112, 2014: 30-38.

<sup>6</sup> See, among others: Yijie Wang and Aprile Benner, Parent-Child Discrepancies in Educational Expectations: Differential Effects of Actual Versus Perceived Discrepancies,” *Child Development* 85, no. 3 (2014): 891-900. doi: 10.1111/cdev.12122; Ryan Wells, Tricia Seifert and Daniel Saunders, “Gender and Realized Educational Expectations: The Roles of Social Origins and Significant Others,” *Journal of the Association for Institutional Research* 54, no. 6 (2013): 599-626. doi: 10.1007/s11162-013-9308-5; Yoko Yamamoto and Susan Holloway, “Parental Expectations and Children’s Academic Performance in Sociocultural Context,” *Educational Psychology Review* 22, no. 3 (2010): 189-214. doi: 10.1007/s10648-010-9121-z

<sup>7</sup> Terri Friedline, “A Developmental Perspective on Children’s Economic Agency,” *The Journal of Consumer Affairs* 49, no. 1 (2015): 39-68.

<sup>8</sup> William Elliott, Hyunzee Jung and Terri Friedline, “Math Achievement and Children’s Savings Accounts: Implications for Child Development Accounts,” *Journal of Family and Economic Issues* 31, no. 2 (2010): 171-184.

<sup>9</sup> Kasey Wiedrich, J. Michael Collins, Laura Rosen and Ida Rademacher, *Financial Education & Account Access among Elementary Students: Findings from the Assessing Financial Capability Outcomes (AFCO) Youth Pilot* (Washington, DC: CFED, 2014), [http://cfed.org/assets/pdfs/AFCO\\_Youth\\_Full\\_Report\\_Final.pdf](http://cfed.org/assets/pdfs/AFCO_Youth_Full_Report_Final.pdf).

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- <sup>10</sup> William Elliott and Kelly Harrington, "Identifying Short Term Outcome Metrics for Evaluating Whether Children's Savings Accounts are on Track," *Federal Reserve Bank of Boston*, 2016, <https://www.bostonfed.org/publications/community-development-issue-briefs/2016/identifying-short-term-outcome-metrics-for-evaluating-whether-childrens-savings-accounts-programs-are-on-track.aspx>.
- <sup>11</sup> Zena Mello, "Racial/Ethnic Group and Socioeconomic Status Variation in Educational and Occupational Expectations from Adolescence to Adulthood," *Journal of Applied Psychology* 30, no. 4 (2009): 494-504.
- <sup>12</sup> Huang, Kim, and Clancy, "Material Hardship," 1.
- <sup>13</sup> Margaret Sherraden, Lissa Johnson, Baorong Guo and William Elliott, "Financial Capability in Children: Effects of Participation in a School-based Financial Education Savings Program," *Journal of Family and Economic Issues* 32, no. 3 (2011): 385-399; William Elliott, "We Save, We Go to College," *New America Foundation*, 2012, <http://files.eric.ed.gov/fulltext/ED540298.pdf>.
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- <sup>18</sup> Emily Rauscher, William Elliott, Megan O'Brien, Jason Callahan and Joe Steensma, *We're Going to Do This Together': Examining the Relationship Between Educational Expectations and a Community-Based Children's Savings Account Program* (Lawrence, KS: University of Kansas Center on Assets, Education, and Inclusion, 2015), <https://aedi.ku.edu/sites/aedi.ku.edu/files/docs/publication/Working-Papers/WP01-16-Brief.pdf>.
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- <sup>20</sup> Sara Goldrick-Rabet, *Higher Education: Handbook of Theory and Research* (New York, NY: Springer International Publishing, 2009).
- <sup>21</sup> D.E. Heller, "The Impact of Student Loans on College Access." In *The Effectiveness of Student Aid Policies: What the Research Tells Us* (New York: College Board, 2008), edited by S. Baum, M. McPherson, and P. Steele.
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