Deciding on Allowable Uses of CSA Funds

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This document is part of a series of resources on CSA program design that are intended to supplement Prosperity Now’s CSA design guide, Investing in Dreams, which provides step-by-step guidance for developing a CSA program. Additional design resources can be found in the Starter Kit.

Background

Children’s Savings Accounts (CSAs) are designated for an asset-building purchase, and programs restrict incentive funds to paying for that asset. According to the 2017 Prosperity Now CSA Program Survey, 92% of programs only allow participants to use CSA funds for postsecondary education.¹ Three programs permit funds to be used for homeownership or entrepreneurship in addition to postsecondary education. One program lets participants use program funds for a “stable transition to adulthood” at age 23 if they have not been utilized for postsecondary education. All four of these programs are relatively small, making it easier to manage multiple allowable uses for CSA funds than it would be for larger programs.

For postsecondary education usage, the majority of CSA programs follow the IRS’s definition of qualified education expenses for 529 accounts. Those qualified expenses include tuition, room and board, books, supplies and computers associated with attending eligible postsecondary education institutions, such as colleges and vocational training.² Some programs that do not use 529 accounts as their account vehicle (and therefore are not subject to IRS restrictions) allow a broader range of expenses related to postsecondary education, such as transportation to and from campus.

Considerations

Deciding on allowable uses for CSA funds involves a set of competing considerations. For example, a broader range of uses gives CSA participants agency and flexibility, but it can make programs harder to administer and to “sell” to funders. Below are several key considerations that should be discussed and weighed when deciding on allowable uses of CSA funds:

- **Identified needs** – The starting point for this decision should be gathering information from prospective participating families—such as through focus groups or individual interviews—about their needs and how different allowable uses of CSA funds can help address those needs.

- **Flexibility** – Expanding allowable uses could give CSA participants flexibility and agency to decide how to use their money to achieve their vision of a successful future.³

¹ Source: Prosperity Now’s 2017 CSA Program Survey.
² 2017 federal tax legislation expanded the eligible education institutions for which 529 funds can be used to include private elementary and secondary schools, though rules still differ by state. See How Do Changes to 529 Rules Affect Children’s Savings Account Programs for more information.
³ Some in the field have also advocated for making a portion of CSA funds available for participants to use in case of emergencies to more accurately reflect the day-to-day realities low-income people face.
- **Administrative burden** – Having multiple allowable uses could increase the administrative burden of processing account withdrawals. The program manager would need to develop different rules and processes for each asset type.

- **Appeal to potential funders and other stakeholders** – Having multiple allowable uses could make it more complicated to market the program to potential funders or other key stakeholders (e.g., city officials). Having a program that helps low-income children attend college is a simple message that appeals to a set of funders and stakeholders who are focused on education. These funders may be less interested in supporting a program with broader uses or may worry about the efficacy of such a program. For instance, they may question the idea of using CSA funds for a business venture that could fail. At the same time, broadening the allowable uses could appeal to a different set of funders and stakeholders who are less interested in education, but support issues such as economic development and closing the racial wealth divide.

- **Messaging to parents and children** – Similar to the concern around the appeal to potential funders and other stakeholders, expanding allowable uses for CSA funds could complicate the simple messaging of the program to parents and children. At the same time, some parents and children may appreciate the idea of having multiple options for how the funds could be used.

- **Economic development potential** – Studies have demonstrated that local businesses generate a higher return for local economies than national chains. Allowing participants to use CSA funds for entrepreneurship could contribute to the future vibrancy of a local or state economy. Likewise, allowing young people to purchase homes with CSA funds could potentially keep more talent in the city or state. At the same time, it is important to note that most CSA programs provide relatively small initial deposits and incentives, so participants may not have nearly enough money for a down payment on a house, especially in expensive housing markets.

- **Racial wealth divide** – Expanding the uses of account funds could open avenues that may help address the racial wealth divide. Homeownership is a key building block to wealth. According to Prosperity Now’s report, *A Downpayment on the Divide*, creating parity in homeownership rates by race would increase Black household wealth by more than $32,000 and Latino household wealth by more than $29,000. Entrepreneurs of color also hold greater wealth than their counterparts who do not own businesses.

*If you have questions on this document or need additional support in designing your CSA program, contact savingsforkids@prosperitynow.org.*

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4 For example, see [Going Local: Quantifying the Economic Impacts of Buying from Locally Owned Businesses in Portland, Maine](https://www.prosperitynow.org/report-going-local-quantifying-economic-impacts-buying-from-locally-owned-businesses-portland-maine), which found that spending at local businesses generated a 76% higher return to the local economy than spending at national retailers.