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Small-dollar children's savings accounts and children's college outcomes

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ABSTRACT

This is paper one of four in the small-dollar children's savings account series, which, studies the relationship between children's small-dollar savings accounts and college enrollment and graduation. This series of papers uses different subsamples to examine three important research questions: (a) are children with savings of their own more likely to attend or graduate from college? (b) does dose (i.e., having no account, only basic savings, savings designated for school [of less than $1, $1 to $499, or $500 or more]) matter? and (c) is having savings designated for school more predictive than having basic savings alone? Paper one of this series uses aggregate data from the newest wave of the Panel Study of Income Dynamics (PSID) and its supplements. Propensity score weighted findings suggest that children who have a small amount of money (e.g., less than $1 or $1 to $499) designated for school are 3 times and 2.5 times more likely, respectively, to enroll in and graduate from college, respectively, than children with no account. Findings also show that having savings designated for school might have a stronger effect on relationship with children's college outcomes than having basic savings that can be used for any purpose. The paper concludes by explaining how policies that create national children's savings programs might help cue a psychological process in which children form an identities as college-savers.

1. Introduction

This is the first paper in a series of four papers in this issue on the relationship between children's small-dollar savings accounts, college enrollment and graduation: (a) this paper examines a full nationally representative sample of children, (b) the current paper examines how findings vary by income level, (c) paper three examines findings by race, and (d) paper four examines whether wilt occurs among children who expect to graduate from college while in high school.[1] The way that children's savings has been operationalized in previous studies using Panel Study of Income Dynamics (PSID) data has not allowed researchers to answer the question of whether small-dollar accounts (accounts with $1600 or less) are significant predictors of children's college outcomes.

This question has become of interest with the announcement by the U.S. Department of Education of a Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) research demonstration project, the first large-scale test of college savings accounts incorporating a college savings and financial education component into GEAR UP. The demonstration will test the effectiveness of pairing new federally supported college savings accounts with GEAR UP activities against the effectiveness of standard GEAR UP activities that do not include college savings accounts. Over the course of the project, children will be able to save up to $1600. During question and answer at the announcement a reporter asked whether or not $1600 dollars would be enough to make a meaningful difference in a child's life (i.e. Do small-dollar accounts matter?). Given this, it is important to test the potential effects of the GEAR UP demonstration and its small-dollar accounts in advance, using any available empirical data.

1.1. CDAs, a way to help parents invest in their children

In 1991, Michael Sherraden proposed Child Development Accounts (CDAs) as a way to create an inclusive and accessible opportunity for lifelong savings and asset building. Specifically, CDAs have the potential to serve as a policy vehicle to allocate both intellectual and material resources to low- and moderate-income (LMI) children. Allocation of resources to LMI children is important because of disparity in the abilities of LMI parents and high-income parents to invest in their children. For example, Kornrich and Furstenberg (2010) find that in 2007, Americans at the upper end of the income spectrum spend nine times as much per child as low-income families do. In their study, spending includes childcare, education, clothes, toys, and other child-related costs. These investments appear to matter for children's educational outcomes (Entwisle, Alexander, & Olson, 2005). Similarly, Baily and Dynarski (2011) examine two generations of students: those born from 1961 to 1964 and those born from 1979 to 1982. By 1989, one-third of the high-income students in the first generation had finished college. By 2007, more than half of the second generation had done so. However,

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[1] Wilt occurs when a student expects to graduate from college but does not graduate by 2009.

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only 9% of the low-income students in the second generation had completed college by 2007.

Finding ways to allocate additional assets to LMI children might be particularly important. Elliott (2013) finds that children living in liquid and net worth asset-poor families have lower academic achievement scores, high school graduation rates, college enrollment rates, and college graduation rates than children living in families that are asset sufficient. He concludes, "a bifurcated welfare system, with income-based programs for poor families and asset-based programs for higher income families, provides higher income families with an educational advantage over low-income families and might ultimately help exacerbate educational inequalities in America" (p. 15). Moreover, Elliott and Friedline (in press) find that 41% of students from low-income ($0 to $20,000) families report paying for college with family contributions while 81% of students from high-income ($100,001 or higher) families report paying for college with family contributions.

Given the disparities in investment in children by income level and the impact of having assets on college completion rates, finding ways to allocate resources, in particular assets, to LMI children for human capital development appears worthwhile. In the United States, CDAs have been discussed as a promising asset-based approach for helping children think about their futures and prepare for college, but they have yet to be adopted at the national level. However, a number of legislative proposals have been developed, including the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act, Young Savers Accounts, 401Kids Accounts, Baby Bonds, and Portable Lifelong Universal Savings Accounts (Cramer, 2010).

National interest in the potential for CDAs to provide greater access to and completion of college for more children is evident in the rapidly changing U.S. Department of Education (DOE) policy on children's savings. In November 2010, the DOE, Federal Deposit Insurance Corporation (FDIC), and National Credit Union Administration (NCUA) established a new federal partnership to encourage schools, financial institutions, federal grantees, and other stakeholders to work together to increase financial literacy, access to federally-insured bank accounts, and savings among students and families across the country.[2] In 2011, the next year, as part of GEAR UP, the DOE announced an invitational priority that reflected Secretary of Education Arnie Duncan's interest in financial literacy and savings as part of a plan for ensuring secondary school completion and postsecondary education enrollment of GEAR UP students. Of the 66 grants awarded, 42 included some aspect of financial literacy and savings in their applications. Further, on May 31, 2012, the DOE announced a new college savings account research demonstration project, which will be implemented within the GEAR UP program discussed above.

Despite the growing interest in children's savings, important questions remain unanswered. This study examines whether having only small amounts of money in savings accounts—specifically small-dollar accounts—can have a positive effect on children's educational outcomes; whether having savings specifically for school is a stronger predictor of educational outcomes than having only basic savings; and if children's savings are associated with college graduation.[3]

2. Review of research on children's savings and college outcomes

Six studies discussed below under College Enrollment Findings (Advisory Committee on Student Financial Assistance [ACSFA], 2006; Elliott & Beverly, 2011a; Elliott, Choi, Destin, & Kim, 2011; Elliott, Chowa, & Loke, 2011; Elliott, Constance-Huggins, & Song, in press; Elliott & Nam, 2012) are part of a growing body of work that may be particularly informative for developing CDA policies designed to help children accumulate assets and develop their own human capital.[4] Before discussing specific findings on children's savings and their relationship to college outcomes, it is important to provide some background information on the data used in these studies, how college outcomes have been measured, and how children's savings have been measured.

2.1. Panel study of income dynamics

The six studies reviewed in this paper use data from PSID and its supplements, the Child Development Supplement (CDS) and the Transition into Adulthood supplement (TA). This paper also uses data from the PSID and its supplements. While the PSID and it supplements provide one of the few opportunities researchers have to examine the potential effects of children's savings on educational outcomes, previous research on the subject has been limited to college enrollment and college progress/persistence. Until the 2009 wave of data was released, too few children in the TA had graduated from college to conduct a meaningful analysis of the savings/college graduation relationship. *College enrollment* is measured as having ever enrolled (i.e., having enrolled at any point—but not necessarily graduated—and not necessarily currently enrolled), and *college progress* is measured as either having graduated from college or being currently enrolled and progressing toward a degree.

College enrollment and college progress are important indicators to study because they reflect steps toward college graduation. For example, Baily and Bynarski (2011) find that inequality in college persistence explains a substantial share of inequality in college completion. Children must be prepared to *enter* college and able to *persist* in college if they are to graduate. People fail to persist at every stage, so interventions that have positive effects at any point are useful, and those that have positive effects at multiple stages might be especially effective for improving children's outcomes and appealing to policy makers.

In almost all college enrollment studies using the PSID, children's savings has been measured either as a binary variable or a three level variable in almost all cases. The CDS asks children between the ages of 12 and 18 whether they had a savings or bank account in their name. The children's basic savings variable divides children into two categories: (a) those who had an account in 2002, and (b) those who did not. An account here refers to a basic savings account that can be opened at a local bank or credit union, for example. If children answer yes, they are asked whether they are saving some of this money for future schooling, like college (yes, have an account in 2002/no, did not). The main focus of college enrollment studies has primarily been whether children have savings for future schooling (children's school savings) (see Elliott & Beverly, 2011a; Elliott, Choi et al., 2011; Elliott, Chowa et al., 2011; Elliott, Constance-Huggins, & Song, 2012; Elliott & Nam, 2012). Children's school savings has been operationalized in PSID studies as a binary variable: (a) children who have no account and children with only basic savings as the reference group, and (b) children who have designated a portion of their basic savings for future school. Note, this question in the CDS does not refer to having an actual savings account for school (e.g., a state 529 college savings plan); but instead, it refers to children's mental accounting of savings — a topic that will be discussed more in the theoretical framework section of this paper.

There are two exceptions to how children's savings has been operationalized. Elliott and Beverly (2011b) use a three level variable: (a) no account, (b) basic savings only, or (c) school savings. Using a

[2] For more information go to http://www.ed.gov/news/press-releases/fdic-and-ncua-chairs-join-education-secretary-announce-partnership-promote-finan.

[3] I would like to thank Dr. Terri Friedline for suggesting the phrase "small-dollar accounts."

[4] The idea of universal and progressive accounts made available at birth is being tested in a large randomized experiment called SEED for Oklahoma Kids (SEED OK). SEED OK aims to test whether (a) institutions for saving and asset accumulation can be extended successfully to the full population in a progressive rather than regressive manner and potentially over a lifetime and (b) this eventually increases savings, asset accumulation, attitudes and behaviors of parents, and attitudes, behaviors, and achievements of children (Nam, Kim, Clancy, Zager, & Sherraden, 2011). Such programs will provide a more direct test of CDA policies. However, because the accounts were opened in 2008 for newborns, researchers will not be able to test this design as it relates to college outcomes for several years.