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Child Development Accounts, parental savings, and parental educational expectations: A path model

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ABSTRACT

Parents' expectations for their children's education, and efforts to foster suitably positive expectations, are worthy of policy attention. Previous research indicates that early saving for a child's postsecondary education can foster and sustain high parental expectations, yet little is known about the operative mechanisms. This study presents analyses from a randomized experiment with Child Development Accounts (CDAs), a policy to encourage early financial investments for education and to shape parents' expectations concerning their young children's educational goals. Our research provides key evidence on whether parental account holding for children's college (a) has a positive impact on parents' expectations for their children's educational attainment and (b) mediates the CDA's effect on their educational expectations at an early stage in their child's development. We employ data from the SEED for Oklahoma Kids (SEED OK) experiment, the first randomized social experiment to test universal and progressive CDAs. We conduct a path analysis and a supplemental analysis with marginal structural models (n = 2160). We find that holding a college-savings account has a significant effect on parents' educational expectations for their children and that whether one holds an account mediates the effect of CDAs on such expectations. Findings suggest that CDAs may promote early parental financial investment and high expectations. Research and policy implications are discussed.

1. Introduction and background

1.1. Parents' expectations concerning their children's education

A parent's expectations concerning a child's education are important in many ways. They can affect the parent's investments of time and resources, the child's own expectations, and the child's academic outcomes (Gill & Reynolds, 1999). The implications of those effects can resonate throughout a child's life. Some prior research indicates that the parent's expectations for a child's educational attainment influence the child's academic outcomes: children whose parents have higher expectations for them tend to have better academic achievement (e.g., Elliott, 2009), a higher rate of college enrollment, and a higher rate of degree completion (e.g., Elliott & Beverly, 2011). Together, these findings suggest that it is possible to positively influence children's long-term educational success by cultivating parental expectations.

Status-attainment theory describes the complex process by which children learn values, attitudes, and behaviors from their parents (Smith, 1982). A desire to maximize their children's prospects for educational and occupational success motivates parents to transmit socioeconomic status (Kerckhoff, 1989) through the attitudes and outlooks they impart to their children (Sewell & Shah, 1968). Some components of status have direct implications for parents' expectations concerning their children's educational attainment. For example, the education attainment of a child's parents is a significant predictor of their expectations for that child's education, regardless of whether analyses control for parental income (Kim, Sherraden, & Clancy, 2013). Similarly, parents with more income are more likely to spend some of it on education-related materials and on cognitively stimulating elements for the home (Kao & Tienda, 1998). Through such investments, parents transmit attitudes on education, encouraging children to adopt similar outlooks.

1.2. The roles of assets in the formation of expectations

In the status-attainment theory, parental income, education, and

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occupation serve as indicators of socioeconomic status. We extend the list to include parental assets. Sherraden (1991) suggests that assets should be understood within a developmental framework: assets — independent of income and other factors — may promote long-term development of individuals and households, fostering future orientation, providing resources for human capital development, and safeguarding stability by cushioning households from unexpected shocks. These theoretical underpinnings suggest that parents' assets affect their expectations concerning their children's education attainment and the expectations that children develop for themselves. Further, they suggest that parental expectations can be shaped by interventions that target parental assets. Theoretical work provides support for these positions. Research grounded in Sherraden's (1991) framework finds that assets, often measured as net worth or liquid holdings, are positively tied to expectations for postsecondary education (Williams Shanks, Kim, Loke, & Destin, 2010). Parents' savings and assets are significantly associated with their educational expectations for their children (Zhan & Sherraden, 2003, 2011) as well as with the children's own expectations (Kim & Sherraden, 2011; Zhan & Sherraden, 2011).

Identity-based motivation theory is also relevant in this discussion of the roles that assets play in the processes by which parents shape their children's outlook. The theory holds that, by saving for their children's college, parents cultivate a school-focused identity in their children: children come to see higher education as important and attainable (Oyserman, 2013); the identity influences children's educational efforts, their self-image, and the ways in which their parents see them. The presence of a savings account in a child's name and dedicated for future schooling significantly predicts children's positive expectations concerning their own educational attainment, and the finding is not dependent upon the amount of savings (Elliott, 2009; Elliott & Beverly, 2011). The findings suggest that parental assets play important roles in the formation of parental and child educational expectations but that dedicated accounts may be more effective than general parental assets in fostering expectations. Therefore, encouraging parents to develop high expectations for their children and persuading them to maintain those expectations are efforts worthy of policy attention.

1.3. College savings and Child Development Accounts

Recognition of higher education's cost and importance is evident in numerous policies to increase parental expectations, involvement in schooling, awareness of college preparation, and financial planning. One important area of activity centers on college savings plans (also called 529 plans), which are products of a tax-based educational policy to encourage financial investment for children's postsecondary education (Small Business Job Protection Act of 1996, Internal Revenue Code § 529, 2013). Almost every state offers a 529 plan featuring a limited selection of funds with a variety of risk and return characteristics. Qualified withdrawals are exempt from federal and state taxes, and most states allow qualified contributions to be deducted from state income taxes (U.S. Department of the Treasury, 2009). Despite the potential benefits of 529 plans, few families have 529 accounts; those that do tend to be wealthier and more educated than are families that lack such accounts (Dynarski, 2004). Consequently, the 529 policy disproportionately benefits families with high socioeconomic status instead of those facing the greatest financial barriers to postsecondary education. However, a key strength of 529 plans is that they can be adapted for particular policy goals, and this study tests one such adaptation in which a state 529 plan is used to provide the features of Child Development Accounts (CDAs).

CDAs are a policy to encourage early financial investments and to shape parents' expectations for their young children's education (Sherraden, 1991; Sherraden & Clancy, 2008). The accounts are designed to serve as vehicles for the accumulation of assets from the time of a child's birth until the funds are accessed for postsecondary education. The accounts include features that are universal (automatic deposits for all children) and progressive (subsidies for children from low-income households). The features of CDAs are grounded in the institutional theory of saving, which holds that people require structured institutional supports to save money and hold assets (Beverly, Elliott, & Sherraden, 2013; Sherraden, 1991). Designed to address challenges that prevent saving by disadvantaged households with children and to promote asset holding in those households, CDAs build on standard 529 plans. Both offer structured opportunities for investment in postsecondary education, but CDAs provide institutional supports: initial seed deposits address obstacles that prevent parents from opening college-savings accounts, and deposits into CDAs are matched if the account beneficiary is from an eligible (e.g., low-income) household. Both standard 529 accounts and CDAs accumulate savings that may be withdrawn for specified purposes (primarily, expenses associated with the beneficiary's postsecondary education), but CDAs are also designed to serve as a means to support child development, education, and lifelong well-being. They are intended to be opened automatically for children as early as possible in order to enable adequate financial preparations for educational goals. Governments within and outside the United States have implemented CDA policies, which also have been replicated in various community-based initiatives (Loke & Sherraden, 2009).

1.4. The SEED for Oklahoma Kids experiment

Saving for Education, Entrepreneurship, and Down Payment (SEED) for Oklahoma Kids (*SEED OK* hereafter) is a randomized social-policy experiment implemented to test the impacts of a CDA. For the purpose of this policy test, SEED OK adapts the Oklahoma 529 College Savings Plan (OK 529) platform by expanding it to include the key features of a CDA. As Fig. 1 illustrates, the SEED OK intervention provided treatment participants with a state-owned OK 529 account, financial incentives, and relevant information, including information on OK 529 accounts and on education. The state treasurer's office automatically opened a state-owned OK 529 account, named as beneficiary each newborn child of a primary caregiver in the treatment group (these newborns are referenced hereafter as *focal children*), and automatically made an initial deposit of $1000. The state-owned accounts operate with an opt-out option: every focal child has such an account unless his or her primary caregiver declined it. The focal child may use the state-owned account for specified expenses at eligible postsecondary educational institutions (Oklahoma 529 College Savings Plan, n.d.). Caregivers must open a separate, participant-owned OK 529 account to hold their own savings for the child beneficiary.

As inducement to open participant-owned OK 529 accounts and to avoid a barrier that might prevent households from saving in them, SEED OK offered treatment participants a time-limited $100 incentive — the minimum initial deposit required to open a participant-owned OK 529 account — if they opened one by April 15, 2009. In addition, SEED OK provided matches for deposits made by December 2011 into the participant-owned accounts controlled by eligible treatment participants: those from households with an annual adjusted gross income below $29,000 were eligible for a 1-to-1 match, and participants from households with an annual adjusted gross income between $29,000 and $43,999 were eligible for a 0.5-to-1 match. Although control-group members may open a participant-owned account, just as any U.S. citizen or resident, SEED OK has not encouraged them to do so or provided information on the accounts.

As we mentioned above, information on OK 529 accounts is another component of the SEED OK intervention. Caregivers received information on the accounts and incentives, the costs of college, and saving for college. The information has three purposes: to increase awareness of college savings accounts, encourage caregivers to open a separate participant-owned account for their child, and motivate them to deposit savings into that account. As part of the intervention's final component,