Investing in kids' future pays off

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The studies show the importance of families using child development accounts (CDA) as one measure to shift from an overreliance on credit and create a foundation for asset building. In other words, this program encourages households to maintain less debt and more savings.

CDAs can start as early as a child's birth. Deposits, earnings, and incentives help build the account over time, said Trina Shanks, an assistant professor of social work at the University of Michigan.

The account becomes more of a family affair as the children learn about the importance of savings and achieving education goals, she said.

"As the child grows older, there may be additional opportunities to learn about financial concepts and for the child to become more directly involved in making deposits or monitoring the account," said Shanks, who co-authored two recently published papers regarding CDA in Children and Youth Services Review.

Shanks has studied how child development accounts and other asset-building programs focused on children impact their short- and long-term outcomes.

Successful parent-child interactions can lead to the child having more self-esteem. This establishes a smoother transition into greater responsibilities and independence as the child grows older, whether in school, relationships or employment, Shanks said.

But for children growing up in disadvantaged circumstances, a child development account alone might not be sufficient, Shanks said. Particularly when early life experiences include persistent economic strain and toxic stress, supplemental interventions might also be necessary to help the child navigate critical milestones.

One CDA project that Shanks participates in is the Saving for Education, Entrepreneurship, and Downpayment (SEED) in Pontiac, Mich., one of 12 such programs nationwide. In this program, parents of preschoolers who opened a SEED account received an initial deposit of $1,000 from SEED funders into a 529 college savings account when they fell within state income guidelines. The results for this group were compared with a control group. Among the 495 accounts, the total accumulation after nearly four years averaged $1,483.

"While levels of saving may seem modest, the amount ($1,483) is sufficient to cover approximately 60 percent of one year's tuition at a community college," she said.

Given that the overall SEED demonstration had a four-year funding period, different programs targeted differing age groups. While the Pontiac program targeted pre-school students and their caregivers, other community-based sites targeted elementary school children, middle school children, high school children and children aging out of foster care.

Shanks said parents are excited about the accounts and what it might mean for their children's future, even when current financial circumstances prevented them from making additional deposits.

"SEED showed that CDAs are a viable policy option across a variety of circumstances," she said.

More information: Full article in Children and Youth Services Review

Provided by University of Michigan