PHYS.ORG

Researchers find early savings accounts help low-income kids reach college

September 19 2011

Anyone who has saved for a college education, whether for a child or for themselves, can attest it's not easy to put money away. A team of researchers from the University of Kansas and colleagues have shown that when savings accounts are started for children of low-income families and financial education is included, not only are the families more likely to save, but students can be more likely to attend college and graduate.

Deborah Adams, William Elliott, Edward Scanlon and Toni Johnson, faculty members in the KU School of Social Welfare, have authored numerous articles and studies documenting the effects of child development accounts on building assets of families living in poverty.

"The idea behind asset building is helping low-income families into the financial mainstream," Adams said. "It takes both income and assets to build financial security, but for too long we've acted like that doesn't matter for poor people."

Since 2000, the researchers have worked with community organizations and schools to start child development accounts for low-to-moderate-income children in 11 sites around the country. The program, called Saving for Education, Entrepreneurship and Downpayment (or SEED), was designed to test the efficacy of asset-building accounts and inform public policy regarding such accounts for all children.

The SEED program established accounts for students from kindergarten through fifth grade in certain sites, while working with adolescents and high school students in others, coupling that with financial education in many cases. The goal was to get tangible assets in the hands of lower-income families and evaluate the effects. In program sites, community organizations would deposit $500 to $1,000 in the students' accounts to start, and some offered matching contributions to a certain level for parental deposits for the first four years following account opening.

The researchers found that when money is set aside for college, families save more, find creative ways to save even when money is tight and view attending college as a more realistic possibility.

"We've found that it's not necessarily the amount that's saved," Adams said. "When you have savings, people start to do some mental accounting and find ways to put money aside. Parents at all socioeconomic levels want to see their kids do well. About 80 percent of the parents in our surveys said they believed their kids would finish college, and positive attitudes about the value of higher education grew more positive over time among parents of the children with the savings accounts."

Johnson said findings from the SEED study she conducted in Chicago echo the survey results. In her study, she talked with lower-income parents of elementary school children who had SEED accounts and learned that they were already actively thinking and planning for ways to help their children be prepared for college when they were older.

In a study published in the *American Journal of Education,* Elliott analyzed data regarding savings and its effect on students attending college

"Overall, findings suggest that policies, such as Child Development Accounts that help parents and youth accumulate savings — especially savings for college — may increase college attendance and graduation completion rates," Eliott and co-author Sondra Beverly of the Center for Social Development at Washington University wrote.

Scanlon, who has studied the perceptions of youth and adults participating in matched account programs, said regardless of the use designated for savings, participants with direct deposit accounts reported that saving required less effort. Many of the teens and parents he worked with also had expressed frustration with banks and confusion over related fees. Making designated college savings plans like 529s more user-friendly would likely be an incentive for many families to save more, he said.

While the SEED program has positive financial benefits, the researchers also found that child development accounts can also have positive attitudinal, behavioral and social effects.

"In-depth interviews with 27 parents at two SEED sites found perceived impacts on well-being," Scanlon and collaborators wrote. "These included perceived positive effects on self esteem, self efficacy, hope for the future, future orientation, sense of security, fiscal prudence and interaction with other children about finances and college."

SEED and child development accounts have obvious benefits for the individuals who take part in them, but the researchers argue that they can also be beneficial to the American economy as a whole. Government has made education loans increasingly available over the past few decades. While they have enabled many to attend college, they have often also resulted in students graduating with massive debt. Saving for education, and other uses, in advance can decrease dependence on credit, an ongoing factor in the recession the United States has been in since 2008.

They also argue that policy should be made to not only encourage citizens to save, but make it easier for them to do so. A growing number of countries have universal savings accounts that are established for children at birth with an automatic, one-time contribution and incentives for low-income families to earn more by contributing. The accounts can typically be used for education, home ownership, job and professional training or retirement purposes.

The KU research team's colleagues have also found that nearly 70 percent of American parents of all geopolitical backgrounds support the idea of universal child development accounts. They also found that participation in the SEED program was much greater when participants could be defaulted in. The finding mirrors the results of research on the retirement savings of employees in 401(k) plans. A relatively new federal policy allows companies to automatically establish 401(k) plans for employees unless they opt out.

Legislation has been introduced in the United States to establish such a program. The America Saving for Personal Investment, Retirement and Education (or ASPIRE) Act, was introduced in the 111th Congress and is now awaiting introduction in the 112th Congress. Adams has addressed the Congressional Savings and Ownership Caucus, presenting research findings to the bi-partisan group on children's development accounts. More recently, Elliott has been called upon to provide further information on the accounts by the New America Foundation to help inform Congress.

Adams and her colleagues are engaged in research on asset building for a number of reasons, in addition to their interest in the potential of assets to enhance financial security. Some of their early findings suggest an increase in hopefulness and future orientation among children, youth and parents participating in SEED.

"A young person who participated in one of our studies and was about to graduate from high school put it best when he said, 'If I wasn't in this program, I don't think I'd be thinking about college right now,'" Adams said. "'I would just be thinking about graduating and then, when I graduate, I would be lost.'"

Provided by University of Kansas

Citation: Researchers find early savings accounts help low-income kids reach college (2011, September 19) retrieved 20 April 2024 from https://phys.org/news/2011-09-early-accounts-low-income-kids-college.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.