Savings accounts for children linked with later financial success

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(Phys.org) —A new series of reports based on research conducted at the University of Kansas shows that young people who have savings from an early age are more likely to maintain positive relationships with financial institutions, diversify their financial portfolios and accumulate more assets as they age.

Terri Friedline, assistant professor of social welfare at KU, has authored "Children as Potential Future Investors," a three-part series published by the Assets and Education Initiative at KU's School of Social Welfare. She analyzed data from the Panel Study of Income Dynamics, a large nationally representative survey that has tracked American families since 1968. The reports are available online.

Friedline analyzed data from 2002 to 2009 with young people who averaged age 17 years old in the beginning of the study and 23 at the end. The data showed that those who had savings accounts to begin with maintained them, diversified their portfolios by investing in different financial products and accumulated more savings overall than their peers who did not start with accounts.

"We found they were twice as likely to continue to have savings accounts and four times more likely to have invested in stocks," said Friedline. "We also found that if young people had a savings account as a child, they accumulated an average of about $2,000 Those who didn't have a savings account earlier in life only accumulated about $100."

The studies controlled for things like whether the subjects attended college, were employed, if they grew up in lower-income households, if they were raised in a single- or two-parent family, if their parents attended college and a number of other factors.

"Holding for all of those things we found that the positive relationships between early savings accounts and financial outcomes held true," Friedline said. "In the long run it shows young people were more likely to invest. We can begin to see the financial benefits of savings accounts opened just a few years earlier. Imagine what these effects could look like if accounts were opened in kindergarten."

The findings illustrate that not only are savings accounts opened at an early age beneficial for the investor, but they may also be beneficial for banks and financial institutions. Initially, young people might not have much money to save or invest, which can be a disincentive for banks to take them on as customers. At the same time, account fees and startup costs can prevent some young people from opening savings accounts. But data show that as they age, young people save more, invest in multiple financial products and maintain their relationships with banks—making them ideal future customers.

"We see down the road that young people are saving more and using other financial products," Friedline said. "Even if banks have to think long-term, it might be beneficial to generate early relationships with customers who are potential future investors."

Saving from an early age not only provides assets, but it may give young people a real, tangible education in finance. "It's not an abstract idea or classroom lecture about what an interest rate looks like," Friedline said. "Young people might also get to learn about savings accounts and finances from experience."

Friedline is quick to point out that savings accounts are not a silver bullet that will automatically solve all financial problems. However, the research shows the positives that come with establishing savings accounts early and helps to justify making early childhood savings accounts widely available as a means for educating young people about finances.

In her future research, Friedline said she plans to continue exploring early savings and addressing questions such as whether young people with early savings accounts are able to use their savings to weather negative financial events, or improve life outcomes such as investing in homes or purchasing insurance.

Friedline also plans to explore at what point such accounts can become profitable for banks. Since the current findings indicate that young people invest more into their accounts and diversify their portfolios over time, early savings accounts may be beneficial for banks that are looking to gain future customers. Friedline thinks providing this type of evidence to banks could be compelling and could make it easier to justify lowering minimum balances and related account fees for young customers.

Policy makers who support programs that establish early accounts may also be interested in these findings. For example, Friedline's research served as part of the basis for the American Dream Accounts Act that was first introduced into Congress last year. The American Dream Accounts Act proposes to create online savings accounts that are accompanied by college readiness information as a way to simultaneously improve young people's educational and financial outcomes.

Provided by University of Kansas