Researcher's proposal touts savings accounts to ease student debt crisis

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William Elliott III, assistant professor of social welfare at the University of Kansas, released a report that addresses the student debt crisis by establishing savings accounts for all American children at birth. Elliott, director of the Assets and Education Initiative at KU, based his suggestion on research he and colleagues have performed that shows savings not only reduce students' debt once they complete college but makes them much more likely to enroll in and complete higher education.

Elliott presented his research at Saving Financial Aid: Expanding Educational Opportunity and Reimagining the Way We Pay for College through Promoting Children's Savings in Washington, D.C. The event, organized by the New America Foundation, brought together national experts on higher education and asset building.

"The American financial aid system is in crisis," Elliott said. "We simply cannot continue to rely on borrowing. Not only does it leave students with crippling debt, it significantly reduces college completion and enrollment rates, especially for low-income students. Our research has shown that establishing savings accounts for children early in life, even in modest amounts, greatly increases the likelihood that they will attend and complete college, which benefits the student, the economy and the nation as a whole."

Elliott and Melinda Lewis, policy director of KU's Assets and Education Initiative, took part in a panel discussion at the conference. The student loan crisis has been widely acknowledged but thus far, none of the main proposals, such as forgiving student debt, lowering interest rates, increasing education tax credits, creating multiple tiers of Pell grants or in-state tuition guarantees, address the one variable that improves college affordability, readiness and completion: student financial assets.

Child Savings Accounts, also known as CSAs, are the cornerstone of the solution Elliott and colleagues propose in their Biannual Report on Assets and Education, "Building Expectations, Delivering Results." They recommend creating CSAs that feature automatic enrollment for every American child, preferably at birth; initial contributions, at least for low- and moderate-income families; matching contributions; and allowable withdrawals for pre- and post-college expenses.

Elliott and colleagues have performed research for more than a decade on savings accounts formed for children at a young age. A program in Oklahoma, known as SEED OK and San Francisco's Kindergarten to College program, both established such accounts for children early in life. They featured incentives to save and worked by both providing financial assets and building youth's expectations to attend college.

"CSAs are a kind of institution that, early in a child's life, validate his or her goal of attending and completing college," Elliott said. "By setting that expectation at a young age, children learn that their hard work will pay off and develop improved confidence that raises outcomes throughout their school years, during college and even after graduation. They also give families an incentive to save throughout a child's life."

The time for addressing the debt crisis is now, as student debt in the United States has risen 31 percent from 2007 to 2012, reaching an average of $27,253 per student. Nationally, total student debt increased 76 percent in the same time period, growing from $548 billion to $966 billion. That not only means more debt to pay off, but studies show that students with less than $10,000 in debt have a 60 percent completion rate, while those with more than $20,000 in debt have only a 35 percent completion rate. When students from low-income families incur more than $20,000 in debt the completion rate drops to a mere 20 percent.

Research suggests that savings help students reach and complete college. Only 45 percent of high school students with no savings ever enroll in college and just 7 percent graduate. Conversely, of those with some form of savings, 72 percent enroll in and 33 percent graduate from college.

Establishment of CSAs would not require a radical change, Elliott said. Nearly all states currently offer 529 savings plans, which offer tax incentives when saving for college. However, they do not feature automatic enrollment, publicly funded initial deposits, at least for low- and moderate-income families; publicly funded matching contributions; or allowable withdrawals for human capital investments. One option is making Pell grant funds available earlier to help students accumulating savings in their CSAs.

"CSAs are a common-sense solution to the student debt crisis," Elliott said. "These accounts are not about adding new spending or eliminating current public funding, but maximizing money being spent. And return on investment from CSAs could be huge. Students and educators could see improved academic performance, colleges and universities might improve completion rates and recruitment of talented but lower-income students, banks could receive new customers to help build a new foundation of economic security, and policy makers concerned about our ability to compete economically with other nations might see better return on the country's financial aid investment."

More information: www.save4ed.com/

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