MHEC
POLICY BRIEF

Children's Savings Accounts: Increasing the Postsecondary Payoff for Low-Income Children

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After decades of making minor tweaks to the U.S. financial aid system, there is a need to develop truly novel approaches to paying for college. Until now, the goal of financial aid has been narrowly framed as providing young adults with enough money to pay for college while minimizing the short-term burden to taxpayers. Because of this narrow framing, student loans have emerged as the dominant form of financial aid in America (Elliott & Lewis, 2017). However, research has increasingly demonstrated that a strong debt-based approach to financial aid fails to equalize college opportunity and has exacerbated post-college inequities over the past thirty years. These failures raise questions about whether financial aid dollars could be better spent.

Child Savings Accounts (CSAs) represent a promising alternative to student loan debt. CSAs are accounts typically opened at birth or kindergarten that leverage families' investments with an initial deposit (usually from $25 to $1,000) and savings matches, usually on a 1:1 ratio. This brief begins with a closer look at the defining attributes and prevalence of CSAs across the nation. Then it discusses CSAs potential effects on the education pipeline (early childhood, school years, college years, and post-college years). It concludes by describing the challenges facing CSA programs and suggests innovations to address these problems.

FLAWS IN DEBT-BASED FINANCIAL AID

The problem with debt-based financial aid has its roots in systematic differences in debt aversion *and* debt accumulation. For example, lower-income and Black students may be particularly vulnerable to relying on student loan debt to finance their higher education. Huelsman (2015) reported that 84% of bachelor's degree recipients at public colleges who received Pell grants took out student loans, compared to only 46% of those with incomes too high to qualify for the Pell grant. Grinstein-Weiss et al. (2016) found that the odds of a Black, low- and moderate-income (LMI) student having outstanding student debt were twice as high as a white LMI student. Moreover, Black LMI students carried more student loan debt than white LMI

KEY INSIGHTS

- Children's Savings Accounts (CSAs) are accounts typically opened at birth or kindergarten that leverage families' investments with an initial deposit (e.g., $25 to $1,000) and savings matches by the state, usually on a 1:1 ratio. CSAs are a complement to the current financial aid system that simultaneously address concerns about access to college, the differential return on a college degree, excessive loan debt, and wealth inequality.
- Participation in CSAs has been associated with improved social and emotional well-being in young children, greater educational expectations, improved early academic achievement, better college outcomes, and a better return on a degree.
- CSAs can be strengthened with reward card programs that transform spending into saving by providing a rebate on all purchased goods (e.g., groceries) from particular vendors. Reward card programs do not require that participants have good credit or a social security number.
- The state provision of larger early assets ($10,500 initial deposit) in CSAs is needed to better address college affordability and improve the return on a degree for disadvantaged students.
- A P-Card rewards program can help provide city and state governments with new resources to fund matches and incentives for CSAs.

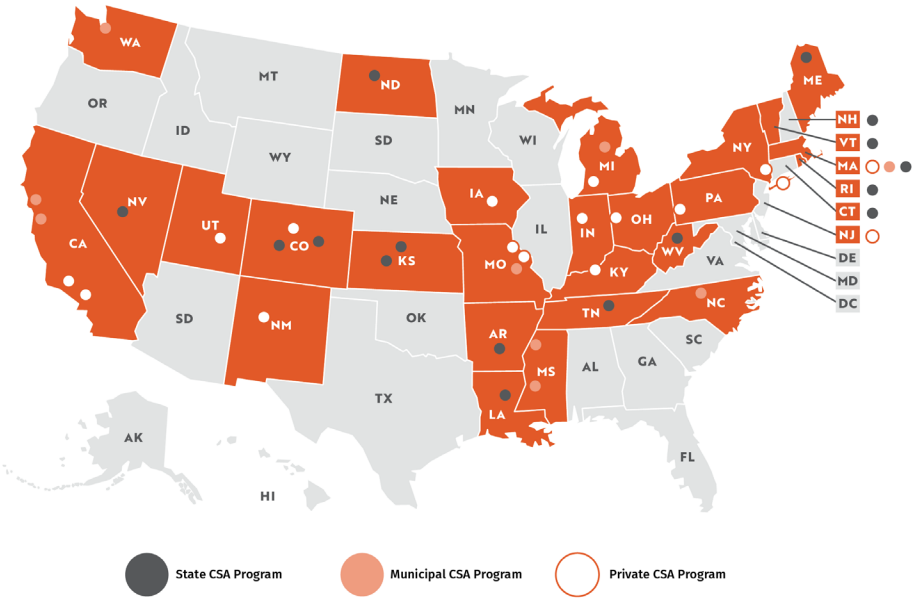
students, which amounted to about $7,721 more student loan debt than their white counterparts over the course of their college career. Moreover, four years after earning a bachelor's degree, Scott-Clayton and Li (2016) found that black graduates in 2008 held $24,720 more student loan debt than their white counterparts ($52,726 versus $28,006).

Student debt is not only a *consequence* of wealth inequality, however; other research points to ways in which student borrowing *contributes* to inequality by negatively affecting children's educational outcomes on the way to college, including reduced enrollment among loan averse students (Callender & Jackson, 2005; Cunningham & Santiago, 2008; Fenske, Porter, & DuBrock, 2000; Perna, 2008). It also contributes to inequality during college; for example, students with college loans have a higher risk of dropping out of college (Cofer & Somer, 2000; Dwyer, McCloud, & Hodson, 2010; Kim, 2007). Other analyses have more directly linked student loans and unequal returns on a college degree. For example, Elliott and Rauscher (2016) find that an additional $10,000 of student debt is associated with a 26% decrease in the rate of achieving median net worth. Even after controlling for key differences, $10,000 in student loans is associated with an 18% decrease in the rate of achieving median net worth. Research on the potential of student loans to reduce the return on a college degree also shows that student loan debt influences the career students choose (Rothstein & Rouse, 2011) and results in delayed home purchase (Mishory & O'Sullivan, 2012; Shand, 2007), less net worth (Elliott & Nam, 2013; Hiltonsmith, 2013), less retirement savings (Egoian, 2013), and postponed marriage (Gicheva, 2011).

DEFINING CHILD SAVINGS ACCOUNTS

Children's Savings Account (CSA) programs are interventions that seek to build assets for children to use as long-term investments (Sherraden, 1991), particularly for postsecondary education. The asset-building accounts which comprise the core of a CSA program are provided through financial institutions, including banks, credit unions, and state 529 plans. Distinct from mere financial products, CSAs generally include such features as initial seed deposits, financial incentives for attaining certain benchmarks, or matches for savings deposits (e.g., Elliott & Lewis, 2014). Many CSA programs also include financial education, materials, and activities designed to cultivate identities aligned with postsecondary educational attainment as well as other family and student engagement strategies. CSA programs are operating in several jurisdictions around the United States and have been proposed in many more (see Figure 1). By the end of 2016, there were 42 programs serving 313,000 children in more than 30 states (Prosperity Now, 2017). Statewide CSA programs currently exist in Connecticut, Maine, Nevada, and Rhode Island. Among the Midwestern states, there are CSA programs located in municipalities in Indiana, Iowa, Kansas, Michigan, Missouri, and North Dakota. All of the Midwestern states have at least a 529 state college savings plan.

FIGURE 1. Prevalence of Child Savings Accounts in the United States.



Source: Reproduced from Prosperity Now.

CSAs across the nation differ in various respects. For example, the K2C program in San Francisco automatically enrolls every child in kindergarten. In contrast, Prosperity Kids in New Mexico and Promise Indiana require families to opt in to the program. Even among opt-in CSAs, there are distinctions regarding whether all children in a participating school are exposed to college-readiness and financial education content, as in Promise Indiana, or whether the interventions are mostly confined to those who have elected to open accounts (as in Prosperity Kids). Further, some of the programs are relatively "low touch" while others include school programs and frequent contact with families and their children.

Many CSA programs use state 529 plans as the platform for administering the programs. Authorized in the Internal Revenue Code since 2001 and named after the section of the tax code that created them, 529 plans are tax-preferred vehicles for postsecondary education saving, administered by states, usually through contractual agreements with private financial institutions (Boshara et al., 2009; Clancy et al., 2010).

Across the U.S. population, 529s have not widely penetrated household finances, with an estimated 2.5% of all families having 529 college savings accounts in 2013 (Hannon, Moore, Schmeiser, & Stefanesea, 2016). Recent years have seen growth in 529 plans. At the end of 2015, there were 12.5 million active 529 accounts in the U.S. (College Savings Plan Network, 2016), compared to 10.1 million in 2009 (College Board, 2015). States have the flexibility to design many features of their own 529 plans, and many have used this power to offer savings incentives, particularly through the provision of state tax deductions for contributions (Newville et al., 2009). As of 2015, 14 states provided initial deposits and/or matches within their 529 plans while three states offered tax credits for saving in 529 accounts, and others sought to reduce savings barriers by reducing the minimum initial deposit required and/or reducing fees to account holders (Prosperity Now, 2018).

Currently, 529s overwhelmingly serve as savings vehicles for those likely to save for college anyway. In 2010, while only 11% of dependent college students had incomes over $150,000, close to half (47%) of families with a 529 account reported annual incomes over $150,000 (College Board, 2015). The General Accounting Office (GAO) found that families with 529 college savings accounts have on average three times the median income and 25 times the median assets of those without accounts (Government Accounting Office, 2012). While similar data are not available for every state, analyses of publicly available data also suggests skewed account ownership in 529 plans, with a resulting concentration of tax benefits among the already economically privileged. For example, in Kansas in 2007, 37% of tax deductions for 529 account contributions accrued to the top 1% of tax filers (Aldeman, 2011).

While CSA's are provided through financial instruments, such as 529s, the intervention of a CSA should be considered as distinct from the account platform on which it rests. CSAs streamline the paper work required to open 529s, and they provide families with an initial deposit and a match that helps them overcome the barrier of high fees to open an account while helping them build wealth. However, although the account and the money in it are very important resources, a CSA also represents the opportunity for families to begin planning for college at an early age, building hope that college is within reach.

NOTABLE EXAMPLES OF CSAs

Three programs illustrate distinct approaches to CSAs, including the Harold Alfond College Challenge, Promise Indiana, and SEED OK (see the Addendum).

The Harold Alfond College Challenge

The Harold Alfond College Challenge (HACC) in Maine is one of the oldest CSA programs in the country and a model for others. It started in 2008 as a pilot program in two hospitals. In 2009, it expanded statewide. HACC offered a modest $500 grant to every Maine resident infant for whom a 529 college savings account was opened by the baby's first birthday. While the funding for the $500 HACC grants comes entirely from the Harold Alfond Foundation, the state is an important partner, providing the delivery system of the 529 college savings plan, financing savings matches and other incentive grants, and sharing data to facilitate program operations. All HACC account holders can get a 50% state match on their contributions, automatically deposited for qualifying contributions, up to a maximum annual match of $300, with no lifetime limit or income threshold. In addition, 529 accounts set up with automatic deposits are eligible for a one-time additional $100 match from the Finance Authority of Maine. Account holders who make contributions to 529 accounts may also benefit from tax advantages associated with 529s.

Promise Indiana

Promise Indiana is an example of a state-supported and community-driven CSA intervention in the Midwest. It is designed

to equip young children and their families with the financial resources, college-bound identities, community support, and savings behaviors associated with positive educational outcomes. The program started in the fall of 2013. Promise Indiana's CSAs are administered using Indiana's direct-sold (i.e., opened directly through the plan manager instead of a financial planner) state 529 plan. Families opening 529 accounts through Promise Indiana use a shortened enrollment form to facilitate sign-up, most commonly conducted on-site at school during kindergarten enrollment. In addition, children receive a modest $25 seed deposit and, if they contribute $25, up to $100 in matched grants annually. Promise Indiana's model also includes financial education and college-readiness activities that are incorporated into the school experience, beginning in kindergarten.

SEED OK

The SEED for Oklahoma Kids (SEED OK) is a randomized statewide CSA experiment (Clancy et al., 2016) implemented in conjunction with the Oklahoma Treasurer's Office, by the Center for Social Development (CSD) at Washington University in St. Louis. Started in 2007, the SEED OK experiment was designed to test a universal approach to asset development by automatically providing an Oklahoma 529 College Savings Plan (OK 529) to infants born in Oklahoma. Participant accounts were opened with a $1,000 initial deposit, and for low- and moderate-income families, matches on individual OK 529 deposits were available. The SEED OK program also included materials describing the accounts, financial incentives, messages about the importance of education, and other small educational materials for the child.

THE EFFECT OF CSAs ON THE OPPORTUNITY PIPELINE

CSAs may affect student outcomes in four stages of the opportunity pipeline: (1) early childhood; (2) school years; (3) college years; and (4) post-college years. Success in all four stages is crucial to the realization of strong returns on postsecondary educational attainment and the construction of a solid ladder of equitable upward mobility. The brief review of research below places particular emphasis on the SEED for Oklahoma Kids (SEED OK) randomized control trial, conducted by the Center for Social Development at Washington University. The SEED OK experimental sample was drawn randomly from birth records provided by the Oklahoma State Department of Health for all infants born during certain periods in 2007 (Nam et al., 2013). As the first randomized control trial testing the principles of universal CSA access and automatic account opening in the United States, SEED OK is of particular importance in establishing the effects of CSAs.[1]

Early Childhood

Social and emotional development. Research has demonstrated that social and emotional competency is the foundation of intellectual development, essential for progress in school. Early measures of social and emotional development are predictive of academic achievement in the primary grades (Merrell & Bailey, 2008; Shala, 2013), an outcome which then determines later success. Durlak and colleagues (2011) conducted a meta-analysis of 213 school-based, universal social and emotional learning (SEL) programs involving 270,034 students. They used an experimental randomized design to compare SEL participants to students who did not receive these interventions on a number of measures of social and emotional competency. The results revealed that SEL participants demonstrated significantly improved social and emotional skills, attitudes, and behavior, when compared to the control students. Moreover, the SEL participants showed an 11 percentile-point gain in academic achievement, which was positively correlated with their future college enrollment.

SEED OK tested the effects of CSAs on children's social and emotional skills directly and found that infants who were randomly assigned to receive the SEED OK account at birth demonstrated significantly higher social-emotional skills at age four than their counterparts who did not receive the CSA (Huang et al., 2014). These findings align with other literature that shows that the effects of parental investment on children's well-being are detectable around age 5 (Votruba-Drzal, 2006). The SEED OK effects were strongest among families with household incomes less than 200% of the federal poverty line and, importantly, not confined only to those children whose parents were investing their own resources for their children's education (Huang et al., 2014). This research underscores the potential value of CSAs as an equalizing force on children's early development.

SEED OK findings have also revealed that ownership of a CSA mitigates about 50% of the negative association between

[1]For a more complete review, see Elliott and Harrington (2018).

material hardship and children's social and emotional development (Huang et al., 2016). This is particularly notable since the funds in the SEED OK account are not accessible to the family while the child is young. Researchers believe that these developmental benefits are transmitted through influences on parenting practices and parental expectations (Huang et al., 2016), even though no money is actually put into circulation in the family's budget. Further, a recent study found that the SEED OK CSA reduced the disparity in social and emotional development between children of unmarried mothers and their peers with married mothers by almost 90% (Huang et al., 2017).

Parental expectations. Using experimental data from SEED OK, Kim et al. (2015) directly examined the impact of CSAs on the durability of parents' educational expectations from birth to age four. They found that parents whose children received the CSA had higher expectations for their children's future education and that their expectations were more likely to remain constant or increase than parents whose children did not receive the CSA. In a follow-up study, Kim et al. (2017) examined one of the possible pathways through which SEED OK affects parental expectations. Specifically, they examined whether opening a parent-owned OK 529 college savings plan account in order to 'save alongside' the SEED OK account mediates the relationship between the SEED OK treatment and parental expectations. Findings from this study indicated that (1) the SEED OK treatment had a positive and significant causal effect on parental expectations and (2) parents who opened their own 529 college savings plan account had higher expectations than those who did not.

School Years

There is some correlational evidence to suggest that CSAs may also be able to improve children's math and reading scores during the school years. Elliott (2009) examined the association between children's savings and the math scores of children ages 12 to 18. Children with savings designated for school had significantly higher math scores than their peers who lacked education-designated savings. The analysis further suggested that this relationship could be partly explained by the effects of children's savings on children's college expectations. This study helped establish that savings designated for school may be associated with improved math scores even when comparing children with similar incomes.

Early research from Promise Indiana reveals some promising results when it comes to the effects of CSAs on children's math and reading scores. Elliott et al. (2016) analyzed achievement for the full sample of children and those eligible for free or reduced-price lunch. While the full sample revealed some differences between students without a CSA or not contributing to the account and those saving in Promise Indiana, effects were stronger for the sub-sample of students eligible for free or reduced-price lunch. For this group, having a CSA had a positive, statistically-significant relationship with both reading and math scores, accounting for nearly 29% of the variance in reading and 23% of the variance in math scores. The analysis revealed that, for every additional $100 contributed, reading and math scores increased (Elliott et al., 2016).

College Years

While the effects of CSAs on underrepresented students' college graduation rates have not yet been examined, research suggests that students who expect to attend college are more likely to actually enroll when they have savings designated for their studies (Elliott et al., 2013). One way that children's assets appear to increase educational attainment is by bridging the psychological distance between high school and postsecondary education for those students who have the desire and ability to continue but often fail to make the transition (Elliott & Beverly, 2011). In a quasi-experimental study, Elliott (2013) found that a child with $500 or less in assets designated for school is three times more likely to enroll in college and two and a half times more likely to graduate than a child without such savings. These effects are somewhat larger for low- and moderate-income (LMI) students, again illustrating the equalizing power of children's assets. Elliott, Song, and Nam (2013) found that LMI students with education savings were three times more likely to graduate from college than LMI students without education savings. Similarly, Elliott, Constance-Huggins, and Song (2013) found that LMI students with school-designated savings were two times more likely to be 'on track'—having either already graduated or still attending college—than those without such savings. Notably, these asset effects were not statistically significant for high-income students.

Post-College

Unique among financial aid interventions, research on parental financial support suggests that CSAs may have particular potential to strengthen the return on a degree. Rauscher (2016) found that predicted household income and net worth is higher

for adults who received parental financial support for education when the support exceeded $600 in the case of income and $2,200 in the case of net worth. Moreover, evidence suggests that CSAs may be a gateway not only to greater educational attainment, but also to a more diversified asset portfolio (i.e., in addition to savings, investments such as stocks, retirement accounts, and real estate) (Friedline & Elliott, 2013; Friedline et al., 2014). These types of investments carry some risk but also provide the opportunity for greater returns. For instance, SEED OK's initial $1,000 deposit into a 529 account has grown more than 40% over seven years through investment in the stock market despite losses during the recession (Clancy et al., 2016). The wealth gap will never be eliminated if low-income families are not given the opportunity to participate in wealth building.

In this context, assisting families in building wealth through saving may reduce economic inequality. For example, researchers found that 71% of children born to high-saving, low-income parents move up from the bottom income quartile, compared to only 50% of children of low-saving, low-income parents (Cramer et al., 2009). By helping families and children build savings and by building a more diversified asset portfolio post-graduation, CSAs may be associated with increased asset accumulation, which in turn may be associated with younger adults being more likely to move up the economic ladder and increase the return they get on a college degree.

FACING CHALLENGES AND INNOVATING CSAs FOR THE 21ST CENTURY

CSAs are confronted with the reality that, low-income families often have little, if any, money to save after they pay for basic needs such as food, clothing, and shelter. From this perspective, it is unconscionable to ask the poor to save (Bernstein, 2005). Rewards card programs might be part of a solution to this problem. Additional innovations to CSAs include increasing the initial deposit and creating sustainable funding sources.

Reward Cards

Community Link Foundation (CLF) is a private foundation located in Ann Arbor, Michigan that provides reward cards. CLF launched the Ferdinand Promise Fund as an innovative charitable financing system that is conceptually wholly sustainable. CLF provides families in participating CSA programs the opportunity to sign up for a rewards card that allows them to save every time they make a purchase at a participating vendor's store (in person or online). In the existing CLF model, retailers choose to offer a percentage of their sales from CLF loyalty card users to CSA programs, on the expectation of increasing sales volume when CLF users shop at their store instead of a competitor's. For example, CLF has a contract with Kroger grocery stores, the largest supermarket chain in the United States by revenue (Stores Media, 2013). Kroger has agreed to provide up to a 4% discount on any purchase made with the CLF card.[2] Because the product is being discounted, using the rewards card adds no additional cost for the consumer. At the same time, the transaction is generating rewards that can be directed to an external beneficiary—such as a Children's Savings Account. The maximum rewards are $150 per quarter or $600 yearly per household.[3] Additionally, households are eligible for a rounding up option at the point of sale. The ability to round up can potentially add an additional $300 per household per year. While CLF offers their own Ferdinand Fund Education Savings Account through a state 529, CSA programs could continue to use their own existing bank or 529 plan. The rebate is automatically deposited into the individual's CSA at the end of each quarter. Each time the CSA participant buys something with the rewards card, she receives a progress reminder, similar to a real-time statement. The frequent purchasing process has the potential to provide a powerful feedback loop to reinforce saving. Further, this could support the development of a college-saver identity by signaling that college—which is far off—is actually close and requires action now (Elliott, 2013).

Increasing the Initial Deposit

The promising effects of relatively small-dollar Children's Savings Accounts (Elliott, 2013) have catalyzed tremendous energy for

[2] The reward is on a sliding scale from 1% to 4%. It rises depending on the amount of money spent at the store in the program. That is, it is not based on what a particular household spends but on the amount the overall program spends. In this example, if there is $200 in eligible purchases per month by the program, each individual household will receive a 1% rebate on eligible purchases, a 2% rebate for $200.01 to $350, a 3% rebate for $350.01 to $500, and a 4% rebate for amounts over $500.

[3] Of note, this amount matches the amount of savings assumed in the Federal Reserve Bank of Boston's model discussed earlier in the paper providing some indication of how much could be potentially earned if families were able to save this amount for each child.

universal provision of early asset accounts. Within the CSA field and among many close observers, there is consensus that CSA policy should start with an account for every child in the United States. However, the current version of small-dollar CSAs fails to markedly address the problem of wealth inequality and its devastating effects on educational attainment and upward mobility. Therefore, the initial CSA deposit for low-income children should be significantly increased to $10,500 (deposit amounts would be less for wealthier families). Added to the initial deposit, $5 in monthly contributions could allow low-income children to turn 18 with approximately $40,000.[4] This $40,000 could be used to help pay for a public college education of their choice. At the same time, young adults are more likely to become college qualified because of receiving the early childhood and school year benefits that CSAs have been shown to produce.[5]

There is evidence that such an investment to create large-dollar CSAs could have a significant influence on reducing wealth inequality in America. Researchers from the Institute on Assets and Social Policy find that a universal, progressive children's asset building intervention could close the Latino/White wealth gap by 28% and the Black/White wealth gap by 23% (Sullivan et al., 2016). In their model, $7,500 was given to low-wealth households with incremental declines to $1,250 for the highest wealth households.

Sustainable Funding Sources for CSAs

As noted above, reward programs provide one way of increasing funding for CSAs. Reward programs support the development of new partnerships for giving between individual consumers, merchants, nonprofits, and financial institutions (such as bank or 529s). An example of how CLF reward cards can be used to set up a general fund can be found in Long Beach, California. In this case, the City of Long Beach itself has negotiated rebates with its vendors so that every time the city makes a purchase using its "p-card," they receive a 1.51% rebate that goes into a general fund for establishing 529 accounts. This fund is estimated to gross up to $15,000,000 annually.

Another approach to maximizing monies currently being spent on education is financing CSAs with Pell Grant funds. The Pell Grant program is one of the largest and most important resources for helping low- and moderate-income students afford college. One way to enhance the program's impact would be to add a savings component using CSAs, rather than issuing awards at the time of college enrollment, as the program currently does. Specifically, the College Board (2013) recommended supplementing the Pell Grant program by opening savings accounts for children as early as age 11 or 12 who would likely be eligible for Pell once they reached college age and making annual deposits of 5% to 10% of the amount of the Pell Grant award for which they would be eligible. This early commitment approach to Pell Grants could stay within the total fiscal footprint of the current program but, by manipulating timing, could leverage parental and student contributions and shape student educational outcomes during the years leading up to college enrollment, as the grant installments are deposited. Additional sources of funding include employer-employee matched contributions for CSAs.

CONCLUSION

Children's Savings Accounts are typically started at birth or kindergarten, and families' investments are leveraged with an initial deposit and matching donor funds usually at a 1:1 ratio. CSAs have the potential to work across the opportunity pipeline —early childhood, school years, college years, and post-college—to improve outcomes. With regard to early childhood and children's school years, an experimental test of CSAs found that infants who were randomly assigned to receive a CSA demonstrated significantly higher social-emotional skills at age four than their counterparts who did not receive a CSA (Huang, Sherraden, Kim, and Clancy, 2014). Importantly, these effects are strongest among low-income families. Children with improved social and emotional skills display attitudes, behavior, and academic performance that reflects a 11 percentile-point gain in achievement, compared to controls (Durlak et al., 2011). In addition, ownership of a CSA mitigates about 50% of the negative association between material hardship and children's social and emotional development. CSAs may improve children's social-emotional skills by giving parents new hope for their children's future educational attainment (Kim et al., 2015).

With regard to enrollment and graduation, "wilt" refers to the

[4] This calculation is based on an index fund whose performance tracks the S&P 500 assuming an initial deposit of $10,500 and $5 per month of family savings into a CSA being delivered through a state 529 plan. The amount of deposit needed is an illustrative estimate and will fluctuate based on the cost of a college degree and the goal of the program: to help pay for a certain portion of the cost or to cover the full cost of enrollment at a public four-year institution.
[5] The resulting accounts can be termed Opportunity Investment Accounts.

sizable number of minority and low-income students who fail to transition to college despite having the desire and ability. CSAs may reduce wilt by improving children's expectations for going to and graduating from college. From this perspective, it's not enough for a student to have big dreams for her future; she must have a tangible reason to believe that there's actually a way to get there (Elliott, Song, & Nam, 2013).

It is during the post-college period that CSAs may most evidently set themselves apart from other forms of financial aid. Evidence suggests that CSAs may be a gateway not only to greater educational attainment, itself a conduit of economic mobility, but also a more diversified asset portfolio that may result in greater asset accumulation in other forms such as stocks, retirement accounts, and real estate (Friedline & Elliott, 2013; Friedline, Johnson, & Hughes, 2014). Therefore, a robust asset building policy could be the cornerstone of a financial aid system for the 21st century, capable of not only paying for college, but also building assets.

Asset-based financial aid, such as CSAs, counters growing wealth inequality and its corrosive effects on all aspects of our society. However, in order to ensure that the way that people pay for college helps to reduce wealth inequality and make education the great equalizer Americans need it to be, asset-building policy will require substantial public investment, leverage of state policy infrastructure, and scaling commensurate with the scope of the challenge. This demands significant policy commitment that nonetheless appears relatively feasible in the context of the $158.3 billion spent on financial aid in the 2015-2016 school year (College Board, 2016). The U.S. can afford to deploy these resources for wealth accumulation rather than debt accrual. Given the stark differences in outcomes possible through asset building rather than student borrowing, it is the status quo that seems unacceptably costly.

Policy Considerations

- CSA accounts should be provided for every child at birth.
- The state provision of larger early assets ($10,500 initial deposit) in CSAs is needed to better address college affordability and improve the return on a degree for disadvantaged students.
- CSAs can be strengthened with reward card programs that transform spending into saving by providing a rebate on all purchased goods (e.g., groceries) from particular vendors. Reward card programs do not require that participants have good credit or a social security number.
- A P-Card program can help provide city and state governments with new resources to once again invest in educating their citizenry by providing matches and incentives.
- Early-award grants and scholarships can serve as one source for funding CSAs.

ADDENDUM

EXAMPLES OF CHILDREN'S SAVINGS ACCOUNTS

Origin/Target Population	Account Vehicle	Incentives & Features	Funding and Administrator
Harold Alfond College Challenge			
Started in 2008 in Maine as a pilot with two hospitals; went statewide in 2009 From 2009-2013, HACC was provided to all families who opened a NextGen account for their child by the child's first birthday. Starting in 2014, the HACC shifted to opt-out enrollment, with the $500 initial seed now provided automatically to all children born Maine residents. If parents want to save their own funds, they must open their own NextGen account, which can then be linked with the account holding the $500 initial deposit.	Maine's 529 state college savings plan, NextGen, offered by Bank of America's Merrill Lynch	$500 initial deposit (the Alfond Grant) into NextGen 529 college savings plan The HACC is also complemented by the NextStep match, which, since 2015, has provided a 50% match on 529 contributions with a cap of $300 total match per calendar year (accounts with direct deposit are eligible for an additional one-time $100 match) Quarterly statements and parent materials re: college, child development, financial management (by mail and online) Payroll deductions, available through a growing number of employers Partnerships with Head Start programs in four counties to expand reach, build trust, and encourage raised aspirations	The Alfond Grant is provided by the Harold Alfond Foundation to the nonprofit Alfond Scholarship Foundation. Automatic enrollment in the Harold Alfond College Challenge is administered by the Finance Authority of Maine
Promise Indiana			
Started in September 2013 in Wabash County, Indiana Now operating in 18 Indiana communities (opt-in enrollment)	Indiana's state 529 college savings plan, CollegeChoice	Facilitated enrollment in CollegeChoice, particularly through kindergarten enrollment $25 initial seed deposit Matched savings (range from $50 to $100/year, in different implementing communities) Champion deposits from local philanthropies, employers, and private donors College and career discovery activities for all children in participating Promise Indiana schools, starting in kindergarten "Walk into my future" visits to college campuses	Some public dollars, mostly through local community economic development; Promise Indiana grants, mostly funded by philanthropies and individual donors Managed by Wabash County YMCA's Promise Indiana initiative
SEED OK			
Started in 2007 in Oklahoma as a randomized experiment Primary caregivers (mostly mothers) of infants born in Oklahoma	Oklahoma 529 College Savings Plan (OK 529)	Automatically opened with an initial deposit of $1,000 Optional individual OK 529 account $100 account-opening incentive Savings match for low- and moderate-income families Educational materials	OK 529 managed by TIAA-CREF Oklahoma Treasurer's Office Accounts owned by the state of Oklahoma

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