



Center for Social Development

GEORGE WARREN BROWN
SCHOOL OF SOCIAL WORK

 Washington University in St. Louis

Creating and Testing Social Policy: Evidence from SEED for Oklahoma Kids College Savings Research

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Child Development Accounts





Child Development Accounts (CDAs)

- Child Development Accounts are saving and asset building accounts, initiated by public policy.
- Ideally, CDAs are lifelong (begin at birth), universal (available to all), and progressive (greater subsidies for the poorest children).

(for policy concept, see Sherraden, 1991)



Asset Building for Development Often via Education

- CDA policies are focused on asset building for child development, education, lifelong well-being.
- Saving behavior matters for CDAs, but this is not the primary focus.
- Psychological and behavioral effects may include hope, control, future orientation, effort (e.g., Elliott & Beverly, 2011).
- By design, CDA policies can be very paternalistic, with automatic enrollment, restrictions on access until a certain age, and restrictions on use.



Savings: A Critical Financing Tool

- Saving for postsecondary education is part of a larger, comprehensive program.
- This includes awards, loans, scholarships, work study, and savings.
- College savings complement counseling, course selection, and other strategies to increase educational attainment.



Can Low-income Families Save for Education and Other Goals?

- Studies in the US and abroad show that low-income families typically save small amounts, and many are able to save more with well designed products and incentives.
- Emerging body of evidence indicates that savings and household assets—even small amounts—are associated with positive differences in children's lives.

Destin & Oyserman (2008); Schreiner & Sherraden (2007); Sherraden (2009)



529 College Savings Plans: Potential for Inclusion

- Eleven states provide matching contributions for low-to-moderate income families.
- Three states (ME, ND, & RI) have created early enrollment incentives for newborns.
- Most 529 college savings plans require small initial contributions (median is \$25).

(for 529 policy assessment, see Clancy et al., 2004, 2006, 2011)



Maine's CDAs at Birth: Harold Alfond College Challenge

- Every Maine resident child is eligible to receive the \$500 grant.
- The child must be enrolled in Maine's NextGen 529 plan within one year from birth.
- Begun statewide in 2009, the first group's program enrollment rate is approximately 39%.
- Funded by philanthropist Harold Alfond.
- Active engagement more important than universal enrollment.

Clancy & Lassar (2010)



Maine's Statewide CDA

- Children without siblings (i.e., “first children”) more likely to be enrolled.
- Analysis suggests that likely indicators of financial sophistication—owning other investments, having a financial advisor, and especially parent’s education—may be related to early enrollment.
- When controlling for other variables, income is not associated with early enrollment.

Huang , Beverly, Clancy, Lassar , & Sherraden (2011)



GEAR UP and Savings

- In June, 2012, The Department of Education (DOE) announced the College Savings Account Demonstration project, which will initially include \$8.7 million to support the demonstration.
- DOE seeks to determine the effectiveness of pairing federally-supported college savings accounts with the Gaining Early Awareness and Readiness Program (GEAR UP) activities as part of an overall college access and success strategy.



SEED for Oklahoma Kids (SEED OK)

Research Design and Early Results





A Policy Test of CDAs: SEED for Oklahoma Kids (SEED OK)

- Policy and research initiative designed to test the idea of universal and progressive accounts, lifelong asset building
- SEED research is multi-method: Experiment, Account Monitoring, and In-depth Interviews
- Oklahoma selected for the SEED OK experiment through a competitive process



SEED OK Research Design

- An experiment with random sample of newborns from a statewide population
- Oversamples of African Americans, Latinos, and American Indians
- Random assignment to treatment group (n=1,358) and control group (n=1,346)
- Integrated into an existing policy structure—the Oklahoma College Savings Plan, or OK 529



Oklahoma College Savings Plan (OK 529)

- State-sponsored 529 savings program
- Tax deduction and tax-free growth of earnings
- Can be used for post-secondary education at:
 - Colleges and universities
 - Graduate and post-graduate schools
 - Community colleges
 - Certain proprietary and vocational schools



SEED OK 529 Savings Plan Account

- Auto-enrollment in state-owned OK 529 with \$1,000 initial deposit for treatment group newborns
- Time-limited \$100 incentive to open an OK 529 account
- Savings match for income-eligible treatments on their deposits of up to \$250 per year for 4 years (2008 – 2011)
- State-owned account can be used for post-secondary education until child reaches age 30



Overall Account Opening and Savings Impacts

- State-owned account: close to 100% success of automatic account opening with \$1,000 deposit for treatment participants (one out of 1,361 declined account)
- 16.4% of participants opened their own account
- Impacts of SEED OK on account opening and on deposit and saving amounts are statistically significant for the state-owned and participant-owned accounts

Nam et al. (2012)



SEED OK In-depth Interviews

- In-depth interviews with select SEED OK participants from Fall 2009 through Spring 2010
- 60 mothers (40 treatments and 20 controls)
- 2 to 3 years after the birth of sampled children
- Because minorities were intentionally oversampled, only 42% of children in the interview study are non-Hispanic White

Gray, Clancy, Sherraden, Wagner, & Miller-Cribbs (forthcoming)



Mothers' Perspectives on SEED OK

- Mothers were “excited” and felt “blessed”
- Money is for college—that they “can’t touch”
- Some mothers believe that the account will create opportunities that they did not have
- Account appears to give a hope and perhaps even confidence in their child’s future
- Several believe that the account offers them “a sense of security—a little bit of relief”
- Program materials and quarterly 529 statements prompt them to think about saving



Perspectives on SEED OK

- Five of the 40 treatment mother opened their own account for their child
- Many mothers say they do not have money to save (they are “living paycheck to paycheck”).
- Several treatment respondents say that they did not understand the incentives or “really did not read” the materials
- A few mothers have concerns about the fairness an account for one child but not other children



Discussion of Interview Findings

- By providing an initial deposit and regular account statements, mothers report that the SEED OK 529 conveys that *someone outside the family* expects their children to go to college
- Mothers say that the SEED OK account makes them feel more optimistic about their children going to college.
- Based on prior research, this may, in turn, help children see themselves as college bound and help them to avoid personal barriers



Discussion of Interview Findings

Mothers report that the automatically-opened account:

- reduces negative attitudes about financial institutions
- increases knowledge of some financial products and services
- increases their expectations for their child's education
- increases their motivation to save
- helps them feel more secure about their child's future



Discussion of Interview Findings (cont.)

- Mothers offered several reasons for why they did not open or deposit into a separate financially-incentivized college savings account for their child:
 - competing needs for money
 - did not understand process
 - desire to save for other children



Recommendations for CDAs

- Adopt a single, automatically-opened account structure at birth (or very early in the child's life) such that a child's account holds public incentives, deposits from family and friends, and earnings.
- Keep design simple—incentives must be very easy to communicate
- Include additional, benchmarks particularly for low-income youth tied to academic milestones or activities that contribute to college preparation



Summary and Conclusions: Toward an Inclusive CDA Policy?

College savings accounts could:

- shift financial aid strategy from extreme reliance on student loans
- build positive expectations about higher education and increase college readiness and completion



Summary and Conclusions: Child Development and Well-Being

The long-term test will be whether CDAs eventually yield positive impacts on:

- parental attitudes and behaviors
- child development in early years
- child expectations for education
- child educational performance
- child health and other measures of well-being



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