

## SCHOLARLY RESEARCH ON CHILDREN'S SAVINGS ACCOUNTS

**Empirical evidence** gathered over the last several years documents the potential of Children's Savings Accounts (CSAs) to expand educational and economic opportunity for low- and moderate-income families. While much of the research on CSAs is based on regression analyses of panel data, randomized controlled trials (RCTs) have also found positive impacts from CSAs and financial education targeted to young children. This Fact File serves as an annotated bibliography of peer-reviewed research on CSAs as it relates to three topics: early child development and financial capability, college expectations, and college enrollment and graduation.

### **FACT:** Children's savings improve early child development and future financial capability

CSAs have the potential to impact child development and financial capability throughout the lifecycle. Several rigorous RCTs show that starting kids with financial education and savings early in life can have positive impacts on their socio-emotional development and improve their financial capability. Because these RCTs focus on children, we will not know their long-term financial and educational impacts for years, but panel data analysis shows that adults who had savings as children have improved financial literacy, a greater diversification of savings, and a higher level of savings overall.

### NUMBERS TO KNOW:

Children with **\$500 or less** saved for college are **3 times** more likely to enroll and **4 times** more likely to graduate

Source: Assets and Education Initiative (2013)



**Finding #1:** Children provided a CSA at birth score better on socio-emotional development indicators than their counterparts who did not receive a CSA. These positive effects occur regardless of the amount or frequency of deposits made by parents into the child's account.<sup>1</sup>



**Finding #2:** Families with children who are provided a seeded, matched savings account at birth save significantly more for college than families of children who did not receive these accounts.<sup>2</sup>



**Finding #3:** After receiving five hours of classroom-based financial education, students demonstrated greater knowledge of financial concepts, and these knowledge gains persisted one year later. Attitudes towards saving and financial institutions also improved.<sup>3</sup>

**Finding #4:** Children enrolled in a matched savings program and receiving financial education scored significantly higher on financial literacy tests than children who received the education alone, without a savings account.<sup>4</sup>

**Finding #5:** Compared to children without savings, children with savings accumulated a significantly greater level of savings as adults.<sup>5 6</sup> These young adults were also more likely to develop diverse types of savings and investments, such as stock investments and retirement savings.<sup>7</sup>

### **FACT:** Children with college savings have greater college expectations

One of the first steps towards preparing a child for college is ensuring that she aspires to go to college. Simply put, children who start planning early to go to college are more likely to enroll in college. Many CSA programs actively

push children to plan for education beyond high school, whether a two-year, four-year, or trade school degree. The research in this area finds that children develop ideas about their higher education plans early on; that college savings help children think of themselves as college-bound; and that CSAs help children build a financial plan around paying for college.

**Finding #1:** Children formulate ideas about their futures, including college attendance, as early as elementary school.<sup>8 9</sup>

**Finding #2:** Having an account designated for college helps children build positive expectations about college.<sup>10 11</sup>

**Finding #3:** CSAs promote the importance of higher education and make the future feel more proximate for children.<sup>12</sup>

**Finding #4:** Children aged 12-18 with a savings account for college had higher math scores and were twice as likely to expect to go to college than their counterparts without a college savings account.<sup>13</sup>

**Finding #5:** Fourth-graders with a CSA were three times as likely to mention savings as an important element in financing college.<sup>14</sup>

**Finding #6:** Financial assets such as CSAs are strongly connected to parents' expectations for their children. The difference between parental expectations in white households and households of color is attributable to disparities in financial assets.<sup>5</sup>

## **FACT:** Children with college savings do better academically

Much of the research on children's savings focuses on academic performance and higher education outcomes. The research shows that families are often unaware of the level of financial aid available to students, and the fear of college unaffordability significantly deters college enrollment. Children with savings have better math and reading scores, higher rates of college enrollment and graduation, and less college-related debt. While the size of these effects differs by study and methodology, the effects tend to be positive and statistically significant.<sup>16</sup>

**Finding #1:** Children in low-wealth families with school savings have higher math scores than those without school savings.<sup>17 18</sup>

**Finding #2:** Low college enrollment by youth from low-income families is partly due to uncertainty about college affordability.<sup>19</sup>

**Finding #3:** Most students do not know what amount of financial aid they qualify for until after they have been admitted to college. This timing is often too late to be of value to low-income students as they make their enrollment decisions.<sup>20</sup>

**Finding #4:** Even small college savings can have a big effect on college enrollment and graduation.<sup>21</sup> Low- and moderate-income children with \$500 or less in savings were three times more likely to enroll in college than children with no savings, and four times more likely to graduate.<sup>22</sup>

**Finding #5:** Young adults who had their own account designated for college were two times more likely to be "on course" to complete college (i.e., progressing toward graduation) than those who did not.<sup>23 24</sup>

**Finding #6:** CSAs reduce "wilt," the gap between the expectation of attending college after high school and actual college enrollment. Among high school students who expect to attend college, those with a college savings account are four times more likely to attend than those without an account.<sup>25</sup>

**Finding #7:** Children whose parents had saved for their college expenses were less likely to take out high-dollar loans for their college education, putting the children at a lower risk of dropping out of college or accumulating burdensome debt.<sup>26 27</sup>

## Resources

### CSAs, Child Development, and Future Financial Capability

1. Huang et al., *Effects of Child Development Accounts on early social-emotional development: An experimental test*, 2014
2. Mason et al., *Do Child Development Accounts Promote Account Holding, Saving, and Asset Accumulation for Children's Future?*, 2011
3. Wiedrich et al., *Financial Education & Account Access Among Elementary Students*, 2014
4. Center for Financial Security, *Youth Financial Inclusion: Complementing Financial Education with Account Access*, 2012
5. Friedline and Song, *Accumulating Assets, Debts in Young Adulthood*, 2013
6. Friedline et al., *Testing an Asset-Building Approach for Young People*, 2012
7. Friedline et al., *Toward Healthy Balance Sheets: The Role of a Savings Account for Young Adults' Asset Diversification and Accumulation*, 2014

### CSAs and College Expectations

8. Sherraden et al., *Financial Capability in Children: Effects of Participation in a School-Based Financial Education and Savings Program*, 2009
9. Elliott, *We Save, We Go to College*, 2012
10. Elliott et al., *The Age Old Question, Which Comes First? A Simultaneous Test of Children's Savings and Children's College-Bound Identity*, 2011
11. Destin, *Integrating Resource-Based and Person-Based Approaches to Understanding Wealth Effects on School Achievement*, 2012
12. Oyserman, *Not Just Any Path: Implications of Identity-Based Motivation for School Outcome Disparities*, 2012
13. Elliott, *At-Risk Children's college aspirations and expectations: The potential role of children's savings accounts*, 2008
14. Elliott et al., *Young children's perceptions of college and saving: Potential role of Child Development Accounts*, 2009
15. Kim et al., *Parental educational expectations by race and Hispanic origin: Evidence from the SEED OK experiment*, 2012

### CSAs and Academic Success

16. Elliott et al., *Taking Stock of Ten Years of Research on the Relationship between Assets and Children's Educational Outcomes*, 2011
17. Elliott et al., *Raising math scores among children in low-wealth households: Potential Benefit of Children's School Savings*, 2011
18. Elliott et al., *Math Achievement and Children's Savings: Implications for Child Development Accounts*, 2010
19. Goldrick-Rab et al., *Why Financial Aid Matters (or Does Not) for College Success: Toward a New Interdisciplinary Perspective*, 2009
20. Heller, *Early Commitment of Financial Aid Eligibility*, 2006
21. Elliott, *Small-Dollar Children's Savings Accounts and College Outcomes*, 2013
22. Assets and Education Initiative, *Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education*, 2013
23. Elliott & Beverly, *Staying on Course: The Effects of Savings and Assets on the College Progress of Young Adults*, 2010
24. Elliott et al., *Improving College Progress among Low- to Moderate-Income (LMI) Young Adults: The Role of Assets*, 2013
25. Elliott & Beverly, *The Role of Savings and Wealth in Reducing Wilt between Expectations and College Attendance*, 2010
26. Elliott & Nam, *Reducing student loan debt through parents' college savings*, 2013
27. Elliott et al., *Protecting Students from Student Loan Debt: Can Parent's College Savings Help (forthcoming)*, 2014

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