

## University of Michigan Technical Assistance Brief Children's Savings Accounts

### Purpose:

To highlight the potential of children's savings accounts to combat long-term economic disadvantage within Good Neighborhoods communities and to identify possible models and approaches. Such accounts have several goals:

- To encourage savings behavior early in life. This will allow families to take advantage of compound interest and connect more people to the larger economic system.
- To provide a hands-on opportunity to increase the financial understanding of both children and their adult caregivers.
- To create a mechanism that builds tangible economic resources for children living within the Good Neighborhoods communities that can expand the range of options available to each as they transition to adulthood.

### Background:

Although child poverty within the Good Neighborhoods initiative (GNI) communities is high, asset poverty is likely even higher. In the United States as a whole, about one-fifth of households has zero or negative net worth, and these percentages are even higher among people of color. And although over the last three decades there have been large asset-based policies and an increase in individualized accounts with tax benefits (i.e., 401(k)s, 403(b)s, various forms of Individual Retirement Accounts—IRAs), these typically do not benefit poor children and households.

One way to address long-term issues of poverty and its consequences for young people is the creation of children's savings accounts. Children's savings accounts (CSAs) are investment accounts set up especially to help children build financial assets early in life, regardless of the economic situation of their parents. A typical program would have at least three components: an initial endowment, a specific type of account structure, and rules regarding access. In some set-ups the initial endowment is as little as \$25 or just enough to open an account, while others make "seed" deposits of hundreds of dollars. Some CSAs propose a simple passbook savings account, while others encourage equity accounts or utilize existing state college savings programs. Some CSAs allow young people to use the accumulated funds for whatever they want after a certain age, while others specify certain restrictions or rely on the penalties associated with particular account structures to discourage non-approved uses. In addition to these common components, many programs also offer a match for additional deposits, benchmark incentives, and age-appropriate financial education classes.

Much of the research on CSAs has been aimed at influencing federal policy, and many supporters of children's savings accounts hope to see a federal program of child accounts introduced where every child is included and there can be uniform laws and broad-based participation. In fact, policy proposals have already been drafted and discussed both in

Congress and multiple state legislatures. However, much of the promise of CSAs will rely on how well such systems are understood and implemented at the local level. That will be the emphasis of the remainder of this brief.

Best Practice Approaches:

I. Existing Models

A. Child Trust Fund in the United Kingdom

Tony Blair's Labour government initiated the Child Trust Fund, launched in 2005. With this program, the parents of every baby born in Great Britain receive a voucher for at least £250 (~\$500) to open an account on their child's behalf. Additional contributions are permitted up to £1200 a year. These accounts belong to the child, and upon turning age 18, the individual can use the assets for any purpose. Already, schools and financial providers are developing financial literacy materials to assist children and families as they grow up with these accounts.

B. SEED demonstration

The Saving for Education, Entrepreneurship, and Downpayment (SEED) initiative is a demonstration and research partnership created to test and inform a universal child development account policy. It was launched in 2004 at 12 community sites throughout the United States. These represent preschool sites (including Head Start centers in Michigan and Harlem Children's Zone centers in New York City), elementary school sites, a middle school site, a site that focuses on youth transitioning from foster care, and an employment site that works with high school students. Although each program has established its own rules and protocol, they offer participants an initial deposit along with a match incentive for additional savings.

C. The Kalamazoo Promise

Although not a children's savings account in the technical sense, this model has also generated interest. Its stated purpose is "to provide each Kalamazoo Public Schools graduate with the opportunity to attend post-secondary education with up to a 100% tuition scholarship." Thus, every child that resides in the district and graduates from a Kalamazoo public high school is eligible for four years of scholarship assistance within the state of Michigan.

II. If attempting to create a child savings account program within the Good Neighborhoods initiative, there are several possible approaches. These could be tested as pilot projects or perhaps launched on a larger scale if additional funds can be raised.

A. ***Establish a simple account option available to all eligible GNI youth.***

This might entail offering an initial deposit to encourage families to establish an account in their child(ren)'s name. There would be clear guidelines about what the funds could be used for at what age. Once such an account is opened, there are many ways to encourage additional savings: (a) offering financial education or tax preparation assistance that encourages regular and/or automatic deposits, (b) offering matching deposits as incentives, or (c) offering additional deposits as

certain milestones are met (i.e., school attendance, health check-ups, grade promotion, or graduation).

1. ***Launch a focused strategy to reach a particular population or purpose.***

Accounts could be established as a targeted outreach to pregnant moms to encourage them to participate in pre-natal and early childhood programs. Accounts could be established as part of a college preparatory program where young people in elementary or middle school could be guided through tasks that encourage academic preparation and excellence with the understanding that monies are being put aside to help them afford post-secondary education. Accounts could be established for young people in the child welfare system to encourage them to stay in school and to help provide an economic and social support system as they transition to new living situations or age out of the foster care system. Accounts could be established as part of a job training or employment preparation program to assist young people in managing whatever money they earn.

2. ***Create partnerships with specific community-based organizations.***

Nonprofit organizations within the Good Neighborhoods communities could submit proposals for how to engage a specific number of young people (i.e., 50-100 accounts). Each account could be given a set amount of funds (say \$1000), which the organizations would have discretion about how to distribute and create incentives relevant to their population and mission.

Resources:

*The Case for Child Accounts* (The Aspen Institute Initiative on Financial Security, 2007) located at

[http://www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/IFS\\_CaseforChildAccounts.pdf](http://www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/IFS_CaseforChildAccounts.pdf)

More information on the Child Trust Fund and savings for children generally in the United Kingdom can be found in:

Kempson, E., Atkinson, A., & Collard, S. (2006). "Saving for children: A baseline survey at the inception of the Child Trust Fund." University of Bristol: Personal Finance Research Centre, accessed at

[http://www.pfrc.bris.ac.uk/publications/pensions\\_savings/Reports/Saving%20for%20children\\_Exec%20summary.pdf](http://www.pfrc.bris.ac.uk/publications/pensions_savings/Reports/Saving%20for%20children_Exec%20summary.pdf)

More information on the Saving for Education, Entrepreneurship, and Downpayment (SEED) initiative can be found at the following sites:

<http://gwbweb.wustl.edu/csd/SEED/SEED.htm>

<http://www.cfed.org/focus.m?parentid=31&siteid=288&id=288>

Kalamazoo Promise, retrieved September 20, 2007 from

<https://www.kalamazoopromise.com>