Understanding Children’s Savings Accounts

LaTanya Brown-Robertson, Ph.D.
Howard University Center on Race and Wealth & Associate Professor of Economics at Bowie State University

Charlotte Otabor, M.A., Ph.D. Candidate
Howard University Center on Race and Wealth

August 2, 2014
Topics to Be Discussed

- American Saving Habits
- What are Children’s Savings Accounts (CSAs)
- The Impact of CSAs
- Examples of CSAs
- Barriers that Have Constrained CSAs
- Overcoming Barriers to Create Successful CSAs
US Personal Savings in Relation to Disposable Income

Source: U.S. Department of Commerce: Bureau of Economic Analysis

2014 research.stlouisfed.org
Changes in Consumer Net Worth 2001 - 2010

Source: Federal Reserve Board Survey of Consumer Finance
Family Savings Patterns

Savings Pattern for Families making **less than** $20,500:
- 30% in 2001
- 34% in 2004
- 34% in 2007
- 32% in 2010

Savings Pattern for Families making **between** $20,500 to $39,000:
- 53% in 2001
- 43% in 2004
- 45% in 2007
- 43% in 2010

*Source: Federal Reserve Board Survey of Consumer Finance*
Importance of Savings

- Unexpected events
  - Job Loss
  - Vehicle Repair
  - Health Issues
- Expected Events
  - Retirement
  - Education
  - Home Purchase
  - Business Start-up
  - Special Events (e.g., wedding, vacation, holiday, etc.)
Investment in Education – Lifetime Earnings by Educational Attainment

- Less than High School: $973,000
- High School Diploma: $1,304,000
- Some College/No Degree: $1,547,000
- Associate's degree: $1,727,000
- Bachelor's degree: $2,268,000
- Master's degree: $2,671,000
- Doctoral degree: $3,252,000
- Professional degree: $3,648,000
Are *Children Savings Accounts* a pathway to greater economic mobility/security for the next generation?
What are Children Savings Accounts (CSAs)?

- CSAs are long-term asset-building accounts.
- Accounts are seeded with an initial deposit and built by contributions from family, friends and the children themselves.
- Accounts can be augmented by savings matches and/or other incentives.
- CSAs gain meaning as young accountholders and their families engage in age-appropriate financial education.
- At age 18, the savings in CSAs are used for an asset-building purpose – typically financing higher education.

Source: http://cfed.org/programs/csa/about/
Impact of Children’s Savings Accounts

- Children’s savings improve early child development and future financial capability
- CSAs create and prepare children for their economic future
- Children with college savings have greater college expectations
- Children with college savings do better academically
Examples of CSAs

CSAs can be divided into 2 product models

- **529 College Savings Plans**
  - Harold Alfond College program
  - The START Saving program
- **A deposit-only savings account**
  - SEED Oklahoma
  - K2C Model (Kindergarten to College Program in San Francisco California)
  - GEAR UP Saving Account Program

**International CSAs**

- The U.K. Child Trust Fund (CTF)
School-Based Banks & CSAs

- Banks
- School Administrators
- Non-Profits

= Children Savings Accounts

- Financial Education
- Mini Banks
- Banking Centers
- Student Tellers
Barriers that Constrain Successful CSA Programs

- **Families – Financial Situation**
  - Limited Income
  - Low Frequency of Savings
  - High Debt Payments

- **Banks**
  - Myth- Lack of Demand for Savings
  - Costs of Services

- **Government**
  - Lack of Constituent and Interest Group Support

- **School Districts**
  - Absence of Incentives for Administrators
Overcoming Barriers – Creating a Successful CSA

Families

- Promote Opportunities to Save
  - Meet People Where They Are
- Increase Parental Involvement
  - Institute/Require a Parental and Student Commitment Letter
  - Distribute CSA Information to Parents through School Administrators
  - Provide Parent and Child Financial Education and Planning Workshops
Overcoming Barriers – Creating a Successful CSA

- Banks
  - Justify Account Fees
  - Provide Flexibility in Account Features
  - Ease Withdrawal Restrictions
  - View CSA as a Long-Term Investment
  - Provide only Effective Bank Features
  - Increase Families’ Access to Credit Reports
Suggested Account Changes to Incentivize Low to Moderate Income Individuals to Save

Source: Barr, 2009 – New America Foundation
Overcoming Barriers – Creating a Successful CSA

- **Schools**
  - Provide Age Appropriate Financial Education
  - Distribute Promotional Information through School Administrators
  - Adopt Financial Education as a Learning Outcome

- **Other Suggestions for CSAs**
  - Provide Automatic Enrollment in CSA accounts
  - Guarantee an Average Return
    - Provide Confidence that the CSA Money will be Safe
  - Create and Use Motivational Promotional Slogans
Proposal –
Retail Agent Banking

Income

Consume  Save
Conclusion

- Research has shown that CSAs offer a viable solution to greater economic mobility for the next generation.
- We have numerous examples of CSAs in the US and abroad.
- CSAs can work if stakeholders collaborate and work together for the interest of the children.
- Banks should view CSAs as a long-term investment.
- Low-Income families want to save. We just have to meet them where they are.
LaTanya N. Brown-Robertson, Ph.D.
lnbrown@bowiestate.edu
lnbrown.econ@gmail.com

Charlotte Otabor, M.A.
edefran2@hotmail.com
http://www.coas.howard.edu/centeronraceandwealth/