



Making Education Work for the Poor: The Potential of Children's Savings Accounts

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Introduction: Education, a Path to the American Dream

In its simplest form, the ideal of the American Dream is the belief that success should be determined by one's effort, not one's starting point in life. This is the promise on which most Americans base their hopes for their own futures, and it is the calculus that is supposed to govern our institutions. Specifically, in the modern U.S. economy, the path to prosperity is understood to hinge on the products of a particular institution: the education system. The connection between educational attainment and well-being—including financial well-being—is deeply entrenched in the concept of the American Dream. Americans believe—and children are told—that individuals should have an equitable chance to climb the economic ladder through exertion of their innate talents. While certainly there are few ways for children to exit poverty *without* educational attainment,ⁱ there is mounting evidence that leaving poverty through education is far from guaranteed.

There is a more than 30 percent gap in college graduation rates by family income.ⁱⁱ Additionally, those high school students from low-income families who manage to enroll in college, after winding through underperforming schools ill equipped to prepare them for success, often find themselves in the lower tiers of the stratified American higher education system. There, they realize outcomes that lag behind those of their wealthier peers.ⁱⁱⁱ

Even when low-income students push through the accumulating layers of disadvantage to graduate from elite universities that position them well for the labor market, they usually do so saddled with debt.^{iv} And it does not end there—this debt continues to grow once students leave college. Of high-balance borrowers, 22 percent have student loan balances higher in 2014 than they did in 2009, even without ever falling into severe delinquency or default.^v As college grows increasingly expensive, and costs shift from public responsibility to the shoulders of students and parents,^{vi} wealth matters more than it used to for determining who can leverage education for a future payoff.^{vii} For too many graduates, the price of educational attainment is diversion of their incomes to debt repayment, and they struggle to ever accumulate an asset base on par with privileged graduates.^{viii} If education is to be the great equalizer in society, we must find a way to strengthen the returns on a degree for all children, particularly those with low incomes and students of color.

- College graduates from poor families earn 91 percent more over their careers than high school graduates from the same income group, but *college graduates from wealthy families earn 162 percent more* over their careers than people from the same background with just a high school diploma.^{ix}
- Black students who graduate with a bachelor's degree are five times more likely to default on their student loans than white graduates.^x
- Black college graduates (with a median \$52,147 income and a median \$32,780 net worth) receive less benefit from having obtained a postsecondary degree than their white counterparts (median income \$94,351 and median net worth \$359,928).^{xi}
- Among families headed by someone with a college degree, the typical white household has \$180,500 in wealth, while the typical black household has \$23,400.^{xii}
- Black families whose head has earned a *college degree* have 33 percent less wealth than white families headed by a high school dropout.^{xiii}

Toward a New Paradigm: Building Wealth and Strengthening the Return on a Degree

Only by addressing wealth inequality itself can education be an escape route from poverty, rather than merely a way for the privileged to ensure that their children stay on top.^{xiv} While salvaging the American Dream does not likely require closing the wealth gap entirely, ensuring that education can be a true ladder of equitable opportunity requires reducing wealth disparities that start at birth. That, of course, will require a wealth transfer. Children's savings accounts (CSAs)^{xv} are innovative solutions that engage government, philanthropy, and communities to help all families, including and especially those with low incomes, accumulate assets for their children's education.^{xvi} In their ideal form, CSAs seed accounts with

initial deposits, automatically enroll children, progressively match families' contributions, and reward families for taking actions that support educational attainment.^{xvii} At the end of 2016, there were nearly 313,000 children with a CSA in 42 programs in 29 states.^{xviii} CSAs have also shown promise at influencing children's outcomes along what can be referred to as the opportunity pipeline, thereby improving their chances of success within and their outcomes from the education system. Further, research suggests that cultivating a college saver identity creates expectations that students will go to college and makes them more likely to craft a plan to do so and to persist.^{xix} Several studies have demonstrated the positive effects of CSAs and asset accumulation early in childhood, including specifically for children who are economically disadvantaged.^{xx}

- Infants randomly assigned to receive a CSA demonstrated significantly *higher social-emotional skills at age four* than their counterparts without CSAs.^{xxi}
- Ownership of a CSA mitigates about 50 percent of the negative association between material hardship and children's social and emotional development.^{xxii}
- Early children's assets, such as those transmitted through CSAs, *increase parents' expectations* for their children's educational attainment.
- Children with dedicated school savings had significantly *higher reading and math scores* than their peers who lacked education-designated savings,^{xxiii} had *greater expectations for college*, and were more likely to enroll in and graduate from college.^{xxiv}

CSAs show promise to make substantial inroads toward creating a fairer path out of poverty. Though CSAs cannot change all the underlying conditions that challenge children and families, they may disrupt the processes by which these factors affect how well positioned children are to move successfully through the opportunity pipeline. Asset effects have the ability to alter how people see themselves and their futures. Further, evidence suggests that CSAs are a gateway to higher earnings, a more diversified asset portfolio, and more wealth accumulation as a college graduate.^{xxv} In part by pivoting away from loans, CSAs might help to counter student debt's corrosive effects on the returns on a degree.^{xxvi}

Children's savings accounts have demonstrated tremendous potential to improve children's lives, equip them for achievement, and close gaps. At the same time, making the opportunity pipeline equitable requires that all children have the propulsion of wealth, yet CSAs, as currently designed, may not shrink wealth gaps enough to place the American Dream within reach. Policy should build on the CSA evidence base to move toward opportunity investment accounts (OIA). OIA would provide an asset-building account for every child, automatically, at birth. Low-wealth children would receive an initial deposit of \$10,500, with incremental reductions that take the deposit down to \$1,000 for the highest-wealth families. Families would be required to make some modest contribution. In total, the funds in an OIA would allow even the most disadvantaged children to turn 18 with approximately \$40,000 in savings. Researchers find that such a universal, progressive children's asset-building intervention could *close the Latino-white wealth gap by 28 percent and the black-white wealth gap by 23 percent.*^{xxvii}

Paying for a Wealth Transfer

Financing OIA at this level would cost an estimated \$42 billion per year, less than the subsidies involved in income-driven repayment plans (\$74 billion in fiscal year 2017) and less than total expenditures in other forms of financial aid.^{xxviii} Several financing options exist:

- *Repurposing financial aid:* The College Board has recommended putting a portion of Pell Grant funds into savings accounts as early as fifth grade.^{xxix}
- *Taxes:* Tax expenditures could be repurposed for equitable investments in real opportunity.
- *Funds from company or government purchasing card spending:* Cities are also converting their spending into saving by negotiating rebates of up to 7 percent on purchases made with city purchasing cards. In Long Beach, California, this approach is estimated to raise \$15 million annually. The money is placed into a general education fund for city residents.^{xxx}

Conclusion

CSA experimentation has built a strong evidence base on which OIAs can stand. There can be little doubt that endowing families with assets from which to finance children's future education makes a difference—in how parents engage with their children and with institutions, in how children come to see themselves, and in how communities and educators come to see children. This is technically an easy fix, requiring only the political will to make the American education system's actual performance match the aspirations we have for it—as an equalizer in society, a ticket out of poverty, and a truly fair chance at the American Dream.

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ⁱⁱ Alanna Bjorklund-Young, *Family Income and the College Completion Gap* (Baltimore, MD: Institute for Education Policy, Johns Hopkins School of Education, 2016), <http://edpolicy.education.jhu.edu/family-income-and-the-college-completion-gap/>.

ⁱⁱⁱ Jorge Klor de Alva, and Mark Schneider, *Rich Schools, Poor Students: Tapping Large University Endowments to Improve Student Outcomes* (San Francisco, CA: Nexus Research and Policy Center, 2015), http://nexusresearch.org/wp-content/uploads/2015/06/Rich_Schools_Poor_Students.pdf; Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan, *Mobility Report Cards: The Role of Colleges in Intergenerational Mobility* (Stanford, CA: Stanford Center on Poverty and Inequality, 2017), http://www.equality-of-opportunity.org/papers/coll_mrc_paper.pdf.

^{iv} Mark Huelsman, *The Debt Divide: The Racial and Class Bias behind the "New Normal" of Student Borrowing* (New York: Demos, 2015), [http://www.demos.org/sites/default/files/publications/Mark-Debt%20divide%20Final%20\(SF\).pdf](http://www.demos.org/sites/default/files/publications/Mark-Debt%20divide%20Final%20(SF).pdf).

^v Meta Brown, Andrew Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw, "Looking at Student Loan Defaults through a Larger Window," *Liberty Street Economics*, Federal Reserve Bank of New York, February 19, 2015, http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.VpVJ_EStGmKz.

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^{vii} Fabian Pfeffer, *Growing Wealth Gaps in Education* (Ann Arbor, MI: National Poverty Center, 2016), <http://npc.umich.edu/publications/u/2016-06-npc-working-paper.pdf>.

^{viii} Brad Hershbein, "A College Degree Is Worth Less If You Are Raised Poor," Social Mobility Memos, The Brookings Institution, February 19, 2016, <https://www.brookings.edu/blog/social-mobility-memos/2016/02/19/a-college-degree-is-worth-less-if-you-are-raised-poor/>.

^{ix} Ibid.

^x Judith Scott-Clayton, "The Looming Student Loan Default Crisis Is Worse Than We Thought," Evidence Speaks Reports 2, no. 34 (Washington, DC: Brookings, 2018), <https://www.brookings.edu/wp-content/uploads/2018/01/scott-clayton-report.pdf>.

^{xi} William R. Emmons and Bryan J. Noeth, "Education and Wealth," in *The Demographics of Wealth: How Age, Education and Race Separate Thrivers from Strugglers in Today's Economy* (St. Louis, MO: Federal Reserve Bank, 2015), <https://www.stlouisfed.org/~media/Files/PDFs/HFS/essays/HFS-Essay-2-2015-Education-and-Wealth.pdf>. Note that all references to four-year college graduates in this article include people who have advanced degrees.

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^{xiii} Ibid.

^{xiv} Ellen Brantlinger, *Dividing Classes: How the Middle Class Negotiates and Rationalizes School Advantage* (New York: Routledge-Falmer, 2003).

^{xv} William Elliott III and Melinda Lewis, "Children's Development Accounts (Children's Savings Accounts)," in *The Encyclopedia of Social Work* (New York: National Association of Social Workers and Oxford University Press, 2014), <http://socialwork.oxfordre.com/view/10.1093/acrefore/9780199975839.001.0001/acrefore-9780199975839-e-871>.

^{xvi} Shira Markoff and Dominique Debigny, *Investing in Dreams: A Blueprint for Designing Children's Savings Account Programs* (Washington, DC: Prosperity Now, 2015).

^{xvii} Reid Cramer and David Newville, *Children's Savings Accounts: The Case for Creating a Lifelong Savings Platform at Birth as a Foundation for a "Save-and-Invest" Economy* (Washington, DC: New America Foundation, 2009).

^{xviii} "Find a Children's Savings Program," Prosperity Now, <https://prosperitynow.org/map/childrens-savings>.

^{xix} William Elliott, "Small-Dollar Children's Savings Accounts and Children's College Outcomes," *Children and Youth Services Review* 35, no. 3 (2013): 572–585, doi:10.1016/j.childyouth.2012.12.015.

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^{xxiii} William Elliott, "Children's College Aspirations and Expectations: The Potential Role of College Development Accounts (CDAs)," *Children and Youth Services Review* 31, no. 2 (2009): 274–283.

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^{xxx} "Consumer Rewards Card," Community Link Foundation, <http://communitylinkfoundation.org/>.