

# Family Assets and Child Outcomes: Evidence and Directions

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For poor families, the possession of assets—savings accounts, homes, and the like—has the potential not only to relieve some of the stress of living in poverty but also to make a better future seem like a real possibility. If children in families that own certain assets fare better than children in families without them, then helping poor families build those assets would be an effective strategy for two-generation programs.

Indeed, write Michal Grinstein-Weiss, Trina Williams Shanks, and Sondra Beverly, plenty of evidence shows that assets are connected to positive outcomes for poor children. For example, young people who have any college savings at all, even a very small amount, are more likely to go to college; children in households with assets score higher on standardized achievement tests; and children of homeowners experience fewer behavioral problems. But this evidence comes from longitudinal data sets and is therefore correlational.

Looking for causal relationships, the authors examine the results of experimental programs that opened various types of savings accounts for poor people and matched their contributions. Several of these trials included a control group that did not receive a savings account, making it possible to attribute any positive outcomes directly to the savings accounts rather than to their owners' personal characteristics. These programs dispelled the myth that poor people can't save; participants were generally able to accumulate savings. It's too early to tell, however, whether assets and asset-building programs have long-term effects on children's wellbeing, though one experiment found positive impacts on disadvantaged children's social-emotional development at age four. The most promising programs share several features: they are opened early in life; they are opened automatically, with no action required from the recipients; and they come with an initial deposit.

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Over the past 20 years, scholars have noted that assets have benefits beyond those associated with income and that U.S. asset policies disproportionately benefit economically secure families. Several initiatives have emerged to enable low-income families to accumulate assets. In this article, we consider two questions: whether family assets improve children's well-being, and, if they do, whether asset-building programs increase saving and assets, leading to improvements in the wellbeing of children from low-income families.

Evidence strongly suggests that children who grow up in families with assets are better off than children who grow up in families without them. But we need more research to determine how much of this pattern is due to asset holding and how much is due to family and other characteristics that typically accompany asset holding. Evidence also indicates that asset-building programs can increase family assets and psycho-social outcomes, though we need to learn more about the extent and nature of these impacts and the pathways through which they work. The evidence discussed below shows that the greatest potential benefits to low-income children come from programs with automatic, universal features—for example, programs that automatically open an account for a child when he or she is born and provide automatic deposits.

### **Assets as Financial Resources**

A central premise of asset-building research has been that poverty and wellbeing are not determined solely by income.<sup>1</sup> Many families spend much of their income on short-term consumption, but assets are different. They function as both a stock of resources for the future and a safety net. Assets can finance

investments that are difficult to make with income alone—for example, in education, a home, or a small business.

### **Measuring Assets**

Assets come in different forms and can be measured in many ways. Researchers sometimes examine asset ownership alone (that is, whether a family holds a particular asset). But if the data allow, they consider the value of assets. To measure the value of total assets, researchers combine the value of financial assets (for example, stocks, pensions, and funds in bank accounts) with the value of tangible, nonfinancial assets (for example, homes, businesses, and vehicles). Net worth, an assessment of both assets and liabilities, is typically measured as the value of assets minus debts. To capture immediately available resources, some examine narrower measures of *liquid* assets—that is, measures of assets that can be quickly converted to cash. In this article, we consider a variety of assets but focus on special savings accounts and the funds they hold.

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### **Distribution of Assets**

In the United States, the distribution of assets is highly skewed by income and race. In 2010, the median net worth was more than \$286,000 for households in the highest fifth of the income distribution and less than \$6,200 for households in the lowest fifth.<sup>2</sup> In

2009, the typical African American household had just \$5,677 in net worth and the typical Hispanic household had \$6,325 while the typical white household had \$113,149.<sup>3</sup>

Recognizing the value of assets for families and society, state and federal governments have created policies that promote asset building. The federal government spends more than \$500 billion per year on such policies, but they are extremely regressive (for example, the home-mortgage interest deduction and 401(k) retirement plans primarily help people who have enough assets and income to benefit from reducing their tax liability).<sup>4</sup> In 2009, the bottom 60 percent of taxpayers received only 4 percent of the federal budget for asset-building programs.<sup>5</sup> Some programs have emerged in response to growing wealth inequality and policies that disproportionately benefit the economically secure. These programs seek to help low- and moderate-income (LMI) families build assets. These programs are intended to complement, not replace, programs that boost income. They are grounded in theories about the effects of assets, and also in a political economic view of fairness in public policy—if we use public resources to support asset building, these expenditures should include the whole population.

### **Pathways: How Assets May Help Parents Help Children**

As other articles in this issue demonstrate, human development is a complex process influenced by many factors. The cumulative effect of these factors is more influential than the effect of any single one, even persistent income poverty or asset poverty.<sup>6</sup> However, the effects of assets and asset poverty may be understudied and underestimated. We suggest four pathways by which assets may affect children's wellbeing.

#### **Pathway 1: Assets May Provide a Cushion**

Assets, especially liquid assets, commonly lessen the impact of hardship or distress. Without a cushion to protect a family, a financial crisis may trigger a series of negative events. For example, if a vehicle breaks down and the family can't afford to fix it, lack of transportation may lead to job loss. Families may create a vicious cycle of debt by using expensive financial services (for example, payday loans and subprime credit cards) to solve short-run crises.<sup>7</sup> Financial crises can also make it difficult for families to pay rent, forcing them to move and to experience real stress in the process. Moving children to new neighborhoods and schools is disruptive and potentially harmful. Moreover, even a minor crisis can trigger substantial reductions in a family's standard of living. These experiences may undermine children's wellbeing, either directly or by reducing the quality of parent-child interaction. Children in families with assets are much more likely to be protected from the most severe consequences of financial crisis.<sup>8</sup>

#### **Pathway 2: Assets May Reduce Parental Stress**

Even families that have not encountered a financial crisis may experience economic pressure.<sup>9</sup> Parents may worry, for example, about not having enough to pay bills and meet their children's basic needs. Parents try but sometimes fail to minimize the effects of stress; children may bear the brunt. Stress can increase marital conflict, decrease marital warmth, and reduce parental nurturing. For children, these conditions can lead to poor cognitive development, poor social interactions, poor health, and poor academic performance.<sup>10</sup> As Ross Thompson writes in this issue of *Future of Children*, high levels

of daily stress can disrupt a child's brain architecture and hamper development. We theorize that assets offer a sense of security and limit the effects of parental stress, thereby increasing the likelihood that household interactions will be positive.

Housing is also relevant. Some families can afford to purchase homes in safe neighborhoods with good schools and municipal services. Owning or renting in neighborhoods with high crime rates, inadequate schools, and poor services likely exposes families to stress.<sup>11</sup>

### **Pathway 3: Assets May Help Parents Invest in Children**

The first two pathways highlight the value of contingency savings and the economic security that assets can provide, but assets also let families invest in children; parents' wealth influences children's educational and occupational opportunities.<sup>12</sup> For example, low-income families with a small stock of assets may be able to pay for a summer camp that is out of other families' reach. Families with greater wealth can make greater investments in their children. Those able to purchase homes in "good" neighborhoods can give children access to good schools and other desirable resources that often have large, lasting effects on mobility and life chances.<sup>13</sup>

### **Pathway 4: Assets May Change Attitudes and Expectations**

Michael Sherraden has hypothesized that assets change attitudes, creating an orientation toward the future and increasing personal efficacy (attitudes can also influence the accumulation of assets).<sup>14</sup> As Marcia Shobe and Deborah Page-Adams write, assets may "provide people with otherwise unattainable opportunities to hope, plan, and

dream about the future for themselves and their children."<sup>15</sup> The opportunity to envision the future may be especially powerful for low-income families forced by resource constraints to focus on day-to-day living. Envisioning, working toward, and achieving a goal may increase hope and future orientation, producing other changes in attitudes and behaviors.<sup>16</sup> Also, the basic financial knowledge and skills associated with owning simple accounts and assets may affect financial attitudes (for example, about banks and budgeting) as well as expectations about the financial future.

Empirical work supports Sherraden's hypothesis that assets increase personal efficacy and future orientation (and vice versa).<sup>17</sup> Research has shown that parents with assets have higher expectations for their children's education than do parents without assets.<sup>18</sup> We theorize that parents who are hopeful and thoughtful about the future interact with children and others differently than do parents with other outlooks. For example, parents who have higher expectations for their children's education are probably more likely to support children's academic development, talk more about higher education, and engage more with teachers and schools.

### **Evidence from National Data Sets**

National data sets began to collect reliable data on assets in the early 1980s, but these data provide only correlational evidence; relationships should not be interpreted as causal.<sup>19</sup> Elsewhere in this article, we summarize evidence from experiments that test causality.

### **Wealth and Children's Outcomes**

Early studies found that income from investments and assets better predicts children's test scores and years of education than does

income from other sources.<sup>20</sup> Dalton Conley tested the hypothesis that most racial disparities in children's outcomes are actually class differences, defined primarily by wealth. Using data from the Panel Study of Income Dynamics (PSID), he found that parents' net worth predicts a young adult's net worth and that parents' education is the strongest predictor of how far their children will go in school. The value of equity in the parents' primary residence, the net value of their businesses, and the value of their liquid assets are also strong predictors of whether their children will go to college.<sup>21</sup>

Later studies confirm that household assets are associated with children's academic performance and educational outcomes. Data from the PSID show that parents' net worth is positively associated with applied problem (math) scores for children aged 3–12.<sup>22</sup> Data from the National Longitudinal Survey of Youth show a similar relationship between household assets and math achievement scores.<sup>23</sup> Verbal achievement scores are better among children in households with assets than among those in households with no assets.<sup>24</sup> Building on his earlier work, Conley found that family net worth is significantly associated with the total number of years children spend in school; a doubling of assets is associated with an 8.3 percentage-point increase in a child's chances of going to college. If the child enrolls in college, a doubling of family assets increases the chance that he or she will graduate by 5.6 percentage points.<sup>25</sup> Other studies have shown similar results.

A few studies suggest that household wealth plays a role in health and socioemotional outcomes. One of the authors of this article, Trina Williams Shanks, used the PSID Child Development Supplement to examine how

assets affect behaviors measured with the Behavior Problem Index.<sup>26</sup> She found that the number of behavior problems declines as family net worth grows but that it increases with increases in families' credit-card and other unsecured debt. Other researchers have found that parental saving for a child's college expenses before the child's first birthday is positively associated with his or her self-esteem at age 23.<sup>27</sup>

### Homeownership and Children's Outcomes

Some researchers have specifically considered how family homeownership affects children. Family homeownership is positively associated with children's academic performance and chances of graduating from high school, and it is negatively associated with the chances of teenage and out-of-wedlock child-bearing.<sup>28</sup> Children of homeowners are less likely than children of renters to experience emotional and behavioral problems, including depression.<sup>29</sup> But some have noted that the duration of homeownership (or residential stability), not whether parents own or rent, is likely the more relevant predictor of behavioral problems.<sup>30</sup>

Some have questioned the benefits of homeownership, noting that few studies recognized potential risks such as neighborhood selection, difficulty in meeting mortgage payments, and mortgage default.<sup>31</sup> Others have argued that homeownership studies may be biased by unobserved differences between homeowners and renters, such as personality traits that help people successfully navigate the mortgage process.<sup>32</sup>

The effects of homeownership seem to differ by race and ethnicity. One study found that homeownership is positively associated

with academic outcomes for low-income white children and reading comprehension scores for low-income Hispanic children but that neither association holds for African American children.<sup>33</sup> These findings suggest that researchers should routinely consider who benefits most from homeownership and under what circumstances.

Regardless of homeownership's effects on children's outcomes, helping adult children buy their first home is a common way for parents to transfer wealth to the next generation. This intergenerational transmission significantly influences whether families transition to homeownership.<sup>34</sup> Four percent of first-time home buyers finance all of their down payment with funds from relatives, and 20 percent receive some such help. Among buyers who receive family help, such gifts account for 50 percent of the average down payment.<sup>35</sup>

### College Savings and Children's Outcomes

Some data sets allow researchers to distinguish overall household wealth from money set aside in a child's name for future schooling. Money set aside in this way raises children's and parents' college expectations and helps affirm a college-bound identity (meaning that children see college as a possibility). Such savings link current activities to a future goal, making college seem relevant and important, and perhaps improving persistence in school.<sup>36</sup>

Analyzing PSID data, researchers found that 81 percent of adolescents with college savings expect to graduate from college but that only 39 percent of those without college savings expect this.<sup>37</sup> Parents' and young people's college savings during the children's teenage years predict whether, as young adults, the

children will attend and finish college; this relationship seems to work via educational expectations.<sup>38</sup> College savings and educational expectations appear to work in tandem. By itself, neither appears to have any effect on whether a child will attend college. Yet adolescents who have both college savings and high expectations are significantly more likely than others to attend college.<sup>39</sup> Furthermore, college savings and expectations may work in a virtuous circle: the presence of one may increase the other over time.<sup>40</sup>

The size of young people's college savings does not necessarily make a difference. One researcher controlled for the amount of savings in an account, finding that adolescents with any college savings at all are more likely to go to college than are those without such savings. Adolescents with between \$1 and \$499 in such savings were significantly more likely to graduate. Because college savings under \$500 cannot substantially defray the cost of a degree, the researcher concluded that the effects of college savings are likely psychological.<sup>41</sup>

### Evidence from Short-Term Asset-Building Programs

The findings from national data sets suggest a plausible link between assets—wealth, homeownership, and college savings—and children's outcomes, but these studies cannot prove causality. Studies summarized below provide stronger evidence by comparing participants in an asset-building program with nonparticipants. Because some of these groups were formed by randomly assigning people to one group or the other, the groups are similar, and comparisons let researchers estimate what would have happened without a program.

## Individual Development Accounts

Individual Development Accounts (IDAs) were the central feature of the first asset-building program offered to low-income individuals in the United States. Developed in response to asset-building policies that favor high-income households, the original proposal saw IDAs as universal, progressive, lifelong savings plans that would begin as early as birth. However, they have been implemented in the United States as short-term savings programs for low-income adults and youth.<sup>42</sup> These programs aim to help participants accumulate assets as a way to increase long-term wellbeing and financial self-sufficiency.<sup>43</sup> Participants are encouraged to save money in IDAs, and they receive matching funds when they withdraw savings to purchase a home, pay for college or job training, or invest in a microenterprise. The programs usually require participants to attend financial-education classes. Also, IDA case managers steer participants to other support programs that can help them clear debts, build or repair credit, and claim tax credits (for example, the Earned Income Tax Credit). Matching rates vary, but they are typically one to one or two to one (that is, \$1 or \$2 of matching funds for every \$1 saved); the funds come from federal or foundation grants.

Over the past two decades, the popularity of IDAs has grown rapidly here and abroad. In 1998, Congress established the Assets for Independence Program (AFI). From 1999 through 2010, the Department of Health and Human Services awarded approximately \$190 million in grants to fund more than 68,000 IDAs.<sup>44</sup>

*American Dream Demonstration.* The American Dream Demonstration (ADD) was the first large-scale test of IDAs in the

United States. Between 1998 and 2002, more than 2,000 LMI individuals participated in 14 privately funded local IDA programs. The demonstration used a variety of research methods, including a random-assignment experiment with more than 1,100 people at the IDA program in Tulsa, Oklahoma.

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Members of the experiment's control group were not eligible to participate in the IDA program at the Tulsa ADD site during the four years of the study but could receive homeownership counseling and referrals to other agencies. The treatment group could receive an IDA, financial education, and case management. Treatment participants who opened IDAs earned matches for their deposits: two to one for home purchases and one to one for home repairs, small business investment, postsecondary education, or retirement savings. Account holders could make unmatched withdrawals at any time. Over the program's three years, participants who saved enough to earn the maximum match could accumulate \$6,750 (plus interest) for a home purchase or \$4,500 (plus interest) for the other qualified uses.

*Do IDA Programs Increase Saving and Wealth?*<sup>9</sup> Because IDA programs support short-term saving for particular purchases, most studies of the ADD examine assets purchased by participants. But data on saving in IDAs can also be revealing. Many assume

that the poor cannot save, but ADD data show that they can and do save in IDAs. The average ADD participant deposited \$16.60 (after withdrawals) per month, saved about 42 cents for every dollar eligible for a match, and deposited money in the IDA about every other month. From the start of the demonstration until its end (December 31, 2001), participants saved an average of \$32.44 each month and, with an average match rate of about two to one, accumulated an average of \$1,609 in IDAs.<sup>45</sup>

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Patterns of saving in IDAs can be explained mostly by program characteristics, such as the monthly cap on the amount eligible for matching funds, the availability of direct deposit, and financial education, and not by the individual's characteristics.<sup>46</sup> It is important to note that all IDA holders in the ADD chose to sign up for the program and so probably saved more than typical low-income people would have.

Three studies examined the Tulsa IDA program's effect on wealth, which they measured as net worth (assets minus debts), not just savings in IDAs. Findings were mixed: One study found that IDAs do not increase wealth.<sup>47</sup> The other two adjusted for outliers (cases with unusual asset and liability values) and found the opposite.<sup>48</sup> Research on net worth is commonly subject to errors in participants' reports on assets and liabilities. These errors make it difficult to detect changes in net worth.<sup>49</sup>

Two more studies examined how IDAs affect various aspects of household wealth. One evaluated the Canadian *Learn\$ave* demonstration, the largest IDA experiment to date, which randomly assigned nearly 5,000 people to treatment or control groups. Though it had no significant effect on net worth and total savings, *Learn\$ave* affected the overall composition of participants' financial assets. Treatment participants had higher average bank account balances and lower retirement savings than did control-group members. It seems that treatment participants saved more at the beginning and then later drew on those savings to invest in education or a small business, and that may have led to the lower retirement savings among treatment participants. In addition, treatment participants were more likely to set financial goals and make household budgets.<sup>50</sup> Another study analyzed data to compare Assets for Independence IDA participants with a control group drawn from the 2001 Survey of Income and Program Participation, comprising people who shared similar demographic characteristics. It found that the AFI IDA program did not affect savings, home equity, or consumer debt.<sup>51</sup>

In sum, the evidence suggests that short-term IDA programs do not increase overall savings or wealth, with the caveat that survey data from these studies may be flawed. However, because IDA programs aim to support short-term saving for specific purchases, we would not expect IDAs to produce large increases in savings or wealth. It is worth noting that, despite their low incomes, ADD IDA participants saved about \$200 per year in IDAs. It's also noteworthy that an IDA program increases financial goal-setting, ongoing saving, and budgeting.



*Do IDA Programs Increase Asset Purchases?* Evidence suggests that they do. Data show that *Learn\$ave* increased enrollment in training and education programs.<sup>52</sup> The AFI study indicates that rates of homeownership, business ownership, and enrollment in postsecondary education are higher for treatment participants than for a comparison group.<sup>53</sup> Also, evidence identifies differences between IDA home buyers and other low-income home buyers: the former receive loans with more favorable terms and more often make loan payments on time.<sup>54</sup>

Evaluations of ADD indicate that, by the Tulsa IDA program's end, homeownership increased among people who rented when the program began.<sup>55</sup> The increase was 7–11 percentage points larger among those in the treatment group than among counterparts in the control group.

Ten years after random assignment, and six years after the ADD IDA program ended, study participants at the Tulsa site completed follow-up surveys. Over the decade, homeownership increased for both the treatment and control groups. Growth continued into the housing crisis that began with the Great Recession in 2007, but the control group caught up, and the difference in homeownership rates was no longer statistically significant. In addition, researchers observed effects for certain subgroups. The program increased both rates and duration of homeownership among participants whose annual income at the start of the program exceeded the median for the sample (\$15,384). However, other subgroup analyses identified no differences, so this could be a random result. Some participants were homeowners when the program began, and the value of treatment members' homes rose

more than that of control members' homes. Treatment participants were less likely to forgo needed repairs and provided significantly lower estimates of the cost of unmade repairs, indicating that some of their IDA savings went into home repair, which was an allowed use.<sup>56</sup>

ADD also had a noteworthy effect on the education of adults in the treatment group. In the 10 years from the program's inception to the follow-up survey, rates of enrollment in any educational program were higher for adults in the treatment group than for counterparts in the control group, even though only 7.6 percent of treatment participants reported using an IDA for education.<sup>57</sup> Treatment participation did not affect level of education or degree completion. But among those who reported a high-school education or less when they entered the program, ADD increased the likelihood of gaining some college. In addition, the positive impact on several education outcomes (likelihood of enrollment, acquisition of a degree or certificate, increase in educational level) was larger for males than for females. Given the declining educational attainment of low-income males and the growing attainment gap between low-income males and low-income females, this is an important finding.

*Do IDA Programs Affect Parents and Children?* In in-depth interviews, ADD participants reported generally positive effects.<sup>58</sup> They said that having an IDA increased their feelings of short- and long-term security, self-confidence, and hope for the future, as well as their ability to set and achieve goals and their sense of responsibility. They also reported heightened civic attitudes (for example, acting altruistically, engaging in the community, and helping

others) and reduced levels of stress. Over 40 percent of IDA participants with children reported feeling reassured that their savings would help to pay for their children's education, improve their children's living environment, or generally provide for their children's future. Others said that participation helped them to teach their children good money-management habits and how to save. Some couples reported that they argued less because both agreed on savings goals. The choice between providing for children's current needs and saving for their future weighed heavily on parents, especially those in very poor families. Evidence suggests that families put children's basic needs first and focus on saving only after children's needs are met.<sup>59</sup>

Overall, participants have positive feelings about their IDAs. Setting and achieving financial goals can be powerful experiences. Building assets can help people see themselves differently and may lead others to view them with respect. Short-term evidence shows that participants indeed save money and purchase assets, particularly homes. But long-term follow-up evidence, collected several years after the IDA program ended, is not as favorable regarding homeownership. IDAs were proposed not as short-term savings projects, but rather as lifelong accounts. If LMI families had lifelong accounts instead of short-term ones, the effects on education, homeownership, child wellbeing, and other outcomes might be different.

### **Evidence on LMI Homeownership: Community Advantage Program**

Begun in 1998, the Community Advantage Program (CAP) was a policy demonstration project designed to make homeownership possible for LMI households. It has provided

evidence of LMI homeownership's effects on a host of outcomes. The project has helped more than 46,000 LMI households buy homes by underwriting 30-year fixed-rate mortgages for borrowers who otherwise would have received a subprime mortgage or been unable to purchase a home. Borrowers put little or nothing down and received near-prime interest rates. To qualify for a CAP loan, applicants met stringent eligibility criteria.<sup>60</sup> Most homeownership research focuses on middle- and higher-income households; CAP provides one of the first opportunities to study how homeownership affects LMI households.<sup>61</sup>

The Center for Community Capital evaluated CAP, interviewing 3,700 CAP homeowners in 1998, shortly after they purchased homes. The center began follow-up interviews in 2003 and has conducted them annually since. To identify the effects of homeownership and to examine the transition from renting to ownership, the center has also interviewed a comparison group of nearly 1,500 renters who met CAP income guidelines and lived in the same neighborhoods as CAP homeowners. However, the center did not randomly assign participants to a treatment or comparison group, and important differences probably remain between the groups. The CAP evaluation offers the best available data on the impact of LMI homeownership programs.

*Did CAP Increase Assets?* Evidence showed that CAP homeowners made substantial financial gains and generally fared well even during the housing crisis. By the fourth quarter of 2012, the median annual increase in the price of CAP homes was 1 percent and the median annual return on equity was 22 percent. Since receiving loans, CAP homeowners have seen a median increase in equity of about \$18,000.<sup>62</sup> Also, most kept up with their mortgage payments: rates of

delinquency and default were 10–20 percentage points lower than the rates for subprime loans in the same period.<sup>63</sup> One of the authors of this article, Michal Grinstein-Weiss, working with a group of colleagues, compared CAP homeowners and renters; she found that, between 2005 and 2008, CAP homeowners saw greater increases in net worth and assets.<sup>64</sup> Other researchers extended the analysis to compare the 2010 net worth of owners and renters who were in the same income categories in 2005.<sup>65</sup> In each income group, homeowners had a significantly higher net worth after five years. The results were the same when the two groups were divided into categories by their 2005 wealth rather than by their 2005 income, suggesting that the housing investment protected the wealth of CAP homeowners through the financial crisis better than renting protected the wealth of renters.

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#### *Did CAP Affect Parents and Children?*

Three studies examined differences between CAP homeowners and renters in parents' behaviors and children's outcomes. The

results are mixed. One found that LMI homeownership is not associated with parental attitudes and behaviors, but another identified several beneficial effects, including a greater likelihood that parents would read to their children and that children would participate in organized activities.<sup>66</sup> The third study indicated that homeownership's effects on child behavior increase with urban density.<sup>67</sup> Together, these findings suggest that homeownership has limited effects on parents' behaviors but some effect on children's behaviors, particularly when the home is in an urban area.

Additional evidence from CAP suggests that LMI homeownership is associated with individual- and community-level benefits. Therefore, homeownership may indirectly affect children. For example, CAP homeowners had greater access to social capital than did renters; the homeowners belonged to more neighborhood groups and were connected to more people who could help in a time of need.<sup>68</sup> Also, CAP homeowners were less likely to experience mental-health problems and to live in neighborhoods where crime was seen as a problem.<sup>69</sup>

In summary, early findings from CAP do not provide strong evidence that the parenting behaviors of CAP homeowners are better than those of counterparts who rent. Nor is there strong evidence that CAP participation leads to better outcomes for children.

#### **Evidence from Child Development Account Programs**

Child Development Account (CDA) programs are designed to support long-term—even lifelong—asset building. Like IDAs, CDAs are special savings or investment accounts for developmental purposes, such as the

purchase of supplemental childhood education, postsecondary education, a home, or a business. However, CDAs differ from IDAs in important ways.

Proposals for CDAs envision special accounts that are opened early, automatically, and with a sizable initial deposit. For example, CDAs could be opened automatically at birth for every child born in the United States and could receive an initial deposit of \$500–\$1,000. Also, a CDA is meant to be a lifelong development tool that is held and used for multiple purposes. Like IDAs, CDAs are designed to be progressive: the greatest incentives go to the most disadvantaged. Some CDA programs offer low-income people initial seed deposits, matches on deposits, and deposits at certain milestones, such as when the child enters kindergarten or graduates from high school.<sup>70</sup>

Most CDA programs so far focus on saving for postsecondary education, and many make use of existing state 529 college-savings plans (that is, special tax-favored investment accounts for higher education). CDAs may influence education-related attitudes and behaviors of both parents and children. These attitudes and behaviors may in turn influence educational outcomes, including postsecondary education and training.

With William Elliott and Michael Sherraden, one of the authors of this article, Sondra Beverly, has suggested several pathways through which CDAs might shape education-related attitudes, behaviors, and achievements. First, a CDA might make parents and children feel that college is important and expected. Second, it might make them feel that planning and saving for college are important. Third, a CDA might give parents and children a place to deposit money

when they are motivated and able to save for college. Fourth, CDAs might increase the financial capability of parents and children. If some or all of these pathways exist, CDAs might encourage parents and children to view the children as college bound.<sup>71</sup>

This issue of *Future of Children* emphasizes two-generation programs, and all of the pathways we propose for CDAs influence youth directly and indirectly through their parents. Moreover, the pathways do not operate solely through accumulation of assets. Owning a college-savings account sets the stage for future asset accumulation. And, as we have seen, some research suggests that simply having an account may affect educational outcomes, regardless of how much money is in it. Nor do the pathways operate solely through individual behavior: positive impacts may occur even if accounts are opened and assets are deposited automatically, as long as parents and children know that the accounts and assets exist.<sup>72</sup> As children age, parents might use a CDA to model goal-setting, budgeting, and saving for their children, in preparation for the time when the children take ownership of the account.<sup>73</sup> Two large-scale CDA demonstrations in the United States have provided important evidence: the Saving for Education, Entrepreneurship, and Downpayment (SEED) national initiative and SEED for Oklahoma Kids (SEED OK).

### The SEED National Initiative

The SEED national initiative was a multi-method test of asset-building accounts implemented for youth through 12 community-based organizations. The initiative gave SEED sites flexibility in designing programs and targeted groups of youth who were diverse in terms of age, race, ethnicity, and region.<sup>74</sup>

One SEED site in the Detroit area was selected for a large study called Michigan SEED (MI SEED). The site included 14 Head Start centers. Researchers identified the demographic characteristics of families in each center and matched centers with similar characteristics to create seven matched pairs. They randomly assigned one center in each pair to the treatment group and the other to the comparison group. Parents of children enrolled in the treatment centers were encouraged to open a CDA—specifically, a Michigan 529 college-savings account (SEED account). Because SEED provided an \$800 initial deposit, the child’s account was eligible for a \$200 match from the state. In addition, the SEED program provided a one-to-one match, up to \$1,200, for personal deposits into the account. If the family saved up to the \$1,200 match cap, the account would hold \$3,400 at the end of the four-year program. Treatment-group parents were also offered financial education sessions and case management. Families in the comparison group received no information on 529 accounts, were not eligible for the initial deposit or the savings match, and were offered no financial education or case management. Data on MI SEED come from quarterly account information, a 2004 baseline survey with parents, and a 2008 follow-up with them. Because they were enrolled in Head Start programs, we know that most MI SEED families had low incomes.<sup>75</sup>

### **SEED OK**

SEED OK differs from the SEED national initiative in important ways. In SEED OK, CDAs were opened for newborns and were opened automatically unless parents opted out. In addition, households invited to participate in the study were selected from the

population of households with newborns in Oklahoma, and individuals, not Head Start centers, were randomly assigned to the treatment or the control group.<sup>76</sup>

In collaboration with SEED OK, the state treasurer’s office opened an Oklahoma 529 College Savings Plan account for every child in the treatment group. SEED OK deposited \$1,000 into each account. These special Oklahoma 529 accounts—the SEED OK accounts—hold all deposits from SEED OK and are owned by the state of Oklahoma; withdrawals may be used only for the named beneficiary’s postsecondary education. Promotional materials and a time-limited \$100 incentive encouraged treatment-group parents to open and save in a separate Oklahoma 529 account for their infant’s college expenses. In addition, SEED OK offered LMI families a one-to-one or one-half-to-one savings match on personal deposits into the account (up to a maximum match of \$250 per year). Parents in the control group received no information from SEED OK about Oklahoma 529 accounts, were not eligible for the special SEED OK account or initial deposit, and were offered no SEED OK financial incentive. However, they could open their own Oklahoma 529 account, as can any U.S. citizen. Data on SEED OK come from account records, birth certificates, two survey waves, and in-depth interviews with a subsample of participants. More than two-thirds of SEED OK participants had household income below twice the federal poverty level.<sup>77</sup>

### **Do CDA Programs Increase Account Holding?**

It is relevant to ask whether CDA programs affect account holding because, as we have seen, owning a college-savings account

may shape the education-related attitudes and behaviors of parents and children—perhaps even if accounts are opened automatically. In both MI SEED and SEED OK, treatment-group families were more likely than comparison families to have 529 accounts. By about 15 months after SEED OK began, 99.9 percent of the treatment-group children had a state-owned SEED OK account in their name (one mother opted out, citing religious reasons), compared to none of the control-group children. In addition, 16 percent of treatment participants and 1 percent of control participants had opened their own Oklahoma 529 accounts for their child.<sup>78</sup>

Economically secure parents are more likely than disadvantaged ones to open their own 529 accounts. By about 30 months after SEED OK began, high-income treatment parents (incomes at or above 400 percent of the federal poverty guideline) were 4.5 times as likely as their low-income counterparts (incomes below 200 percent of poverty) to have opened an Oklahoma 529 account for their child. The difference was even greater among control-group parents, who were not eligible for SEED OK incentives.<sup>79</sup> In MI SEED, all families had low incomes, and case managers had to meet one-on-one with parents to encourage them to open accounts. Acceptance was slow, despite the fact that opening an account triggered a \$1,000 deposit.<sup>80</sup>

As we note above, opening accounts automatically increases account holding. Automatic opening also eliminates variation in access to accounts by socioeconomic status. Although these observations may seem obvious, they have important ramifications: a CDA program with automatic account opening brings the potential benefits of CDAs to all families,

and it does so without the expense of outreach and account-opening incentives.

### **Do CDA Programs Increase Savings and Asset Accumulation?**

What do we know about how CDA programs affect accumulation of assets? Largely because of the sizable initial deposits, CDAs have a large impact on the early accumulation of assets for college. For example, about four years after MI SEED began, the average total in SEED accounts was \$1,483 and the median was \$1,131.<sup>81</sup> (Because we lack data on the comparison group's Michigan 529 accounts, we cannot assess how MI SEED affected college assets.) In SEED OK, about 30 months after the program began, 99.9 percent of treatment children had some Oklahoma 529 assets, compared to only 2.1 percent of control children. Treatment children had much more: \$1,130 versus \$76, on average. For children in the treatment group, the automatic initial deposit eliminated much of the variation by socioeconomic status in the assets accumulated.<sup>82</sup>

The fact that these patterns were planned does not make them less meaningful. Account ownership and asset accumulation are primary goals of CDA programs. CDAs are envisioned as universal and progressive tools with automatic features and incentives. Thus, early results from MI SEED and SEED OK include outcomes directly related to automatic account opening, initial deposits, and savings matches. People do not have to take action themselves for an outcome to be meaningful.<sup>83</sup>

Do CDAs increase personal saving (that is, saving by individuals, excluding deposits from MI SEED or SEED OK)?<sup>9</sup> The evidence is incomplete. First, data on

parents' saving often includes information only on saving in Michigan or Oklahoma 529 accounts; findings on personal saving and CDA programs' role may be skewed if parents saved elsewhere. We believe that parents who saved were quite likely to do so in 529 accounts because of the incentives (for example, tax breaks in both states and savings matches for LMI treatment-group families), but we have no data to support this. Second, information is only sometimes available on saving by people other than parents (for example, 529 contributions by grandparents and other relatives). Third, we have information only about very early saving for college, because children in the programs were younger than 10. Personal saving behavior—and the impact of CDA programs—may change as children age and college grows closer.

Still, evidence from MI SEED and SEED OK suggests that personal saving for young children's future college expenses was modest. Over the four years when parents could receive the MI SEED savings match, 31 percent of SEED accounts received personal deposits. Across all 495 MI SEED accounts, the average net contribution per quarter ranged from -\$67 to \$1,500 (a negative value indicates that participants withdrew some of the initial deposit). The mean quarterly contribution was \$16.<sup>84</sup> This information on savings comes from the Michigan 529 plan and is likely accurate but is available only for SEED treatment-group accounts.

A second source of information—parents' survey responses—is probably much less accurate, but the information is available for both the treatment and comparison groups. Responses indicated the amount of savings set aside by parents and others: over four years, the MI SEED program increased by

\$484 (on average) the savings that parents set aside for their child's education but decreased by \$188 the savings that others set aside for the child's education. The average amount set aside for children in the treatment group by all sources was not significantly different than that for children in the comparison group.<sup>85</sup> Thus it is not clear that MI SEED increased the amount of personal savings for children's future college expenses.

In SEED OK, about 30 months after the program began (SEED OK children were younger than four), treatment participants were four times as likely as control-group members (8.5 percent versus 2.1 percent) to have personal savings in their own OK 529 account—a pattern that held across socioeconomic subgroups. However, treatment participants' average personal 529 savings (\$109) were modest and just slightly larger than control members' average (\$76).<sup>86</sup>

In our view, modest savings levels are to be expected, even in the treatment groups. Many parents had low incomes, and children's college education probably seemed a distant goal. We note that only 18 MI SEED account holders (3.6 percent of the total) withdrew any of the \$800 initial deposit, despite the economic downturn, and that 48 MI SEED account holders (9.7 percent) saved \$1,200—enough to earn the maximum match.<sup>87</sup> Also, as we note above, the most important early impacts to examine in SEED OK are that 529 accounts exist and assets are held for treatment children several years later. As Sherraden wrote, "From the outset, the guiding vision and purpose of SEED OK has been to test the impacts of a universal and progressive CDA policy structure. Individual saving behavior alone can never result in universal and progressive

asset accumulation—no one would believe this is remotely possible. Therefore, SEED OK, as a policy demonstration, does not focus on individual savings behavior alone, or even primarily.”<sup>88</sup>

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*Well-designed asset-building programs and policies can encourage a wide variety of families to save, with some positive effects.*

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### Do CDA Programs Affect Parents and Children?

We will not be able to assess how CDAs affect postsecondary education and training for many years. However, researchers continue to analyze the effects of CDAs on parents’ and children’s attitudes and behaviors related to education.

Early evidence from MI SEED is mixed. Four years after MI SEED began (when children were six to eight years old), parents who had opened CDAs were more likely than parents in the comparison group to view college as important. But the groups reported similar levels of parental stress, neither felt more capable of managing their parenting responsibilities, and neither was more likely to provide children with stimulating activities and materials.<sup>89</sup>

Early evidence from SEED OK suggests that the CDA with automatic account opening and initial deposit improved children’s social-emotional development. When children were about four years old, those in the treatment group had better scores

than those in the control group, and the CDAs’ impact was greater for disadvantaged children.<sup>90</sup> The effect of the CDA is similar in size to at least one estimate of the effect of the Head Start program on early social-emotional development.<sup>91</sup> Additional analyses of SEED OK’s impacts are under way at this writing.

Other evidence concerning SEED OK comes from in-depth interviews with mothers in the treatment group (when children were two to three years old) and does not result from comparing mothers in the treatment group with counterparts in the control group. These interviews suggest that the SEED OK account and initial deposit made some treatment-group mothers more hopeful about their children’s future and perhaps more motivated to support their children’s education.<sup>92</sup> Yet mothers could identify many barriers that might prevent children from completing college (for example, having babies, falling in love, and being adversely influenced by peers). Also, although many expressed confidence that they would “find a way” to put their children through school, the mothers did not seem well informed about how to finance college.<sup>93</sup>

Clearly, it is too soon to draw firm conclusions about the effects of CDAs on parents and children. Early evidence gives some indication that CDAs affect parents’ attitudes and behaviors in ways that could improve their children’s social-emotional development and perhaps later educational outcomes, especially when CDAs are opened automatically and have automatic initial deposits. As time passes, CDA programs may affect attitudes and behaviors differently. Fortunately, SEED OK is a well-designed and well-implemented experiment, with the potential to track children’s



development and academic progress into their early school years and beyond.

### **Summary of Evidence**

At the beginning of this article, we posed two key questions: Do family assets improve child wellbeing? And can asset-building programs increase saving and assets, leading to improvements in the wellbeing of children from low-income families?

In this review, we present evidence that children in families with assets have better outcomes than those in families without assets. In particular, family assets are associated with positive educational outcomes, including academic achievement, postsecondary enrollment, and college graduation. As some studies suggest, assets may also be positively associated with children's behavior and health. Research continues to explore these relationships. Although most of the studies use longitudinal data (that is, they measure assets at one point in time and outcomes at a later date) and so are more rigorous than cross-sectional studies (which measure assets and outcomes at a single point), this evidence is correlational and cannot demonstrate causality. People who have savings and assets probably differ from people who lack them, and it can be difficult to distinguish the effects of assets from the effects of other unobserved variables that are associated with assets. In other words, it is plausible that family assets improve wellbeing, but evidence from national data sets does not settle the matter conclusively.

Evidence from policy demonstrations—especially experiments in which people are randomly assigned to treatment and control groups—can provide clearer evidence about the effects of assets and

asset-building programs. The American Dream Demonstration IDA program appears to have increased homeownership among initial renters by the time the three-year program ended. Within six years of its end, the program had positive effects on outcomes tied to two of IDAs' five allowable uses: baseline homeowners saw improvements in the value of their homes, and educational attainment improved among males. In addition, among households whose income was above the median but still low, the program may have increased the rate and long-term duration of homeownership.

Overall, short-term IDA programs appear to have had some lasting effects on asset investments by some subgroups, yet some of the positive results, such as homeownership rate and duration, ceased to be statistically significant several years after the programs ended. We do not know what would have happened if an IDA program lasted longer. However, research on IDA programs shows that low-income people can save in IDAs if a support structure and subsidies are in place. Research also suggests that program features like ease of use (for example, automatic features) and expectations (for example, savings targets, such as match caps) have combined effects that together are more strongly associated with savings performance than are individual participants' characteristics. In general, there is reason to believe that well-designed asset-building programs and policies can encourage a wide variety of families to save, with at least some positive effects.<sup>94</sup>

Our conclusions about LMI homeownership programs must be tentative, because the only large demonstration, CAP, did not randomly assign participants to treatment and control groups. Instead, the CAP treatment group consists of people who purchased homes

with the program's support, and researchers created a comparison group from renters with similar characteristics (for example, they had similar incomes and lived in the same neighborhoods). Early findings offer no strong evidence that CAP participation or purchasing a home led to improvements in parenting behavior or children's outcomes. But they do suggest that CAP homeowners have greater access to social capital than do CAP renters and tend to have better mental health. In addition, CAP homeowners saw greater increases in their net worth between 2005 and 2008.

Research on CDAs is in its infancy, and these are intrinsically long-term accounts. We will not be able to assess how CDAs affect postsecondary education and training for many years. In the meantime, research can examine how CDAs affect parents' and children's attitudes and behaviors. One study shows that a universal and automatic CDA with an initial deposit improved children's early social-emotional development. And, in in-depth interviews, some parents reported that CDAs make them more hopeful about their children's future and more motivated to support their education.

Evidence from CDAs also shows that better-off families fare better than disadvantaged ones if savings outcomes depend on individual behavior. That is, families with social and economic advantages, including high levels of income, education, and financial sophistication, are more likely than less-privileged counterparts to participate in asset-building programs and take advantage

of saving incentives. However, the evidence also suggests that policies and institutional supports—features like those in universal and progressive CDAs—can offset socioeconomic advantage.

Thus, if we want to increase the number of low-income families that have accounts and accumulate assets, we cannot simply encourage them to open accounts and save—we need automatic account opening and automatic subsidies. Evidence from SEED OK demonstrates that a universal CDA program with such features is feasible, at low administrative costs, by building on an existing college savings plan, and that it can include the entire population.

## Conclusions

Overall, there is reason to believe that children who grow up in families with assets are better off than those who grow up in otherwise similar families without them. There is also reason to expect that asset-building programs increase family assets and improve children's outcomes. Long-term asset-building programs—especially early, universal, and progressive programs—seem most likely to improve the wellbeing of low-income children. It is also possible that subsidized asset holding has positive impacts in itself, regardless of personal saving. Survey and qualitative evidence supports the link between asset holding and children's wellbeing, and recent experimental evidence affirms positive effects on social-emotional development for the most disadvantaged children. In the coming years, we can expect the SEED OK experiment to provide additional evidence.

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