



LESSONS FROM

SEED

a National
Demonstration
of Child
Development
Accounts

Lessons from SEED, a National Demonstration of Child Development Accounts

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EXECUTIVE SUMMARY

In an April 2009 speech at Georgetown University, President Barack Obama said:

We cannot rebuild this economy on the same pile of sand. We must build our house upon a rock. We must lay a new foundation for growth and prosperity: a foundation that will move us from an era of borrow and spend to one where we save and invest.

Saving for Education, Entrepreneurship, and Downpayment (SEED) is a policy, practice, research, communication, and market development initiative designed to test the efficacy of and inform policy for a national system of savings and asset-building accounts for children and youth. SEED is implementing and studying inclusive saving in the form of Child Development Accounts (CDAs),¹ established as early as birth and ideally lasting across the full life course for all Americans.

SEED is demonstrating a strategy for saving and investing, with the long-term aim of fostering greater capability, security, and well-being for all American families. We believe that a system of universal savings such as the one demonstrated in SEED would shift the economy away from an overreliance on credit. The goal would be to achieve a little less debt, a little more savings. In this period of economic adjustment and transition, SEED may help to inform and achieve President Obama's call for a "new foundation for growth and prosperity" for the "save and invest" economy. In that spirit, we offer the experience, data, and insights in this report.

This summary report on SEED is based on CDA experience with over 1,171 children and their families in 12 states and communities, as well as related state and federal policy, market development, and communications. Extensive, multi-method research has been conducted as part of SEED. The research ranges from in-depth interviews with a group of youth participants in a local SEED program to a large, statewide experiment with a control group. SEED research results offer insights to inform the design of an inclusive system of CDAs.

Lessons

Key lessons from SEED experience and research include the following (not presented in order of importance):

1. **CDAs appeal broadly to Americans across political and geographic lines.** A national telephone survey (Peter D. Hart Research, 2007) suggests that no matter their political ideology or geographic location, Americans like the idea of universal CDAs. Specifically, those polled support a savings account opened at birth for every child in the nation to be used for approved purposes. They also support accounts



A student from Beyond Housing's SEED program makes a deposit into her SEED account. Students in SEED learned how to fill out deposit slips and read bank statements in financial education classes.

with an initial deposit made by the federal government that permits additional contributions and incentives for saving, and is allowed to grow tax-free. Close to seven out of every 10 respondents (69%)—and more than three-quarters of parents (78%)—articulate support for this idea (Peter D. Hart Research, 2007).

2. **Outreach and enrollment in SEED is challenging when account opening is not automatic.** All sites in SEED were able to recruit their targeted number of enrollees, although many took much longer than expected to reach their targets and had to expand their reach beyond the organizations or groups initially identified in their proposals. A small qualitative study carried out with parents who opted not to enroll their children in SEED (Williams Shanks, Johnson, & Nicoll, 2008) suggests that factors such as a general mistrust of financial institutions and government, reluctance to share financial information, and embarrassment about gaps in financial knowledge influenced their decision. It may be that more information was needed by potential enrollees at times that were more convenient and in ways that were more conducive to resolving questions and addressing fears. Cultural competence may also have been a factor, especially when there was ethnic diversity among participants and staff.

In interviews and focus groups, parents who did enroll in SEED indicated that staff members from their local programs played key roles in answering questions and easing their initial concerns about signing up for the program (Scanlon & Wittman, forthcoming; Wheeler-Brooks, 2008).

In contrast to challenges in enrollment in SEED, enrollment in SEED for Oklahoma Kids, where account opening is automatic, has proceeded smoothly. Among those who agreed to participate in the study and were randomly selected to receive an account, all except one of the 1,361 participants accepted the account (Zager, Kim, Nam,

1. Child Development Accounts are also referred to as Child Savings Accounts, Educational Savings Accounts, SEED Accounts, KidsAccounts, Lifetime Savings Accounts, Universal Savings Accounts, Individual Development Accounts in their original meaning, or other terms. Features of these proposals may differ, but, as long as they embody the core values of universality, lifelong, progressive, and asset-building, this discussion of SEED lessons is applicable.

If these averages were to be maintained from birth to age 18 with modest returns, the nest egg for college would likely exceed \$6,000—enough to cover two years of community college tuition and fees at current prices.

Clancy, & Sherraden, forthcoming).

- 3. Families of all income levels have saved and built assets for children and youth in SEED.** Despite high levels of poverty and limited financial knowledge, a substantial percentage of SEED participants made deposits to their accounts. Participants saved an average of \$30 per quarter over the course of the program. At the end of almost three years, the average total accumulation, including incentives, for SEED participants was \$1,500 (Mason, Nam, Clancy, Loke, & Kim, 2009). While levels of saving may seem modest, the average accumulation of \$1,500 is sufficient to cover 60% of one year's tuition at a community college. If these averages were to be maintained from birth to age 18 with modest returns, the nest egg for college would likely exceed \$6,000—enough to cover two years of community college tuition and fees at current prices.
- 4. Families have used innovative strategies to save in SEED.** A cross-sectional survey with 165 parents in SEED programs serving pre-school, elementary, and middle school students suggests that parents use innovative strategies to “find” and “make” new money for deposits into their children's accounts. The findings suggest a pattern of attempting to make sacrifices and implement creative strategies to deposit money into children's savings accounts in the face of serious financial resource limitations.
- 5. Saving is not easy, especially for lower-income families.** While the overall data suggest positive savings for the account holders in SEED, saving is by no means easy for these participants. Economic barriers to asset accumulation were prevalent among families participating in SEED. Almost half of SEED participants were from families with

income below the federal poverty line, 10% from families that receive Temporary Assistance for Needy Families, and 41% from families that receive Food Stamps (Mason et al., 2009). At some sites, economic barriers were more severe. It appears that low-income families find it difficult to save because of a variety of factors, including no slack in the household budget, high costs of food and energy, multiple children, short-term needs, predatory lenders and excessive borrowing, complicated financial products, and inaccessible financial institutions (Scanlon, Wheeler-Brooks, & Adams, 2006; Wheeler-Brooks, 2008; Williams Shanks, Johnson, & Nicoll, 2008). These patterns suggest that, without institutional supports, people may find it difficult to save. Moreover, without a progressive match structure, universal CDAs could potentially increase wealth inequality, because the rich would save more.

- 6. SEED program and account features, or “institutional” characteristics, explain much about saving performance.** SEED account design and program arrangements—“institutional” features—appear to facilitate saving for participants, especially those with very low incomes. Findings from 14 focus groups with 76 parents from SEED programs serving pre-school through middle-school children suggest that account features that made money less immediately accessible—such as direct deposit and withdrawal restrictions—facilitated saving. While some parents were unaware or skeptical of electronic banking mechanisms, a number of SEED parents used direct deposit successfully to save in their children's accounts (Wheeler-Brooks, 2008). Looking at account incentives, research suggests that the initial deposit and other financial incentives may increase total SEED accumulation, while a higher saving match limit may increase savings (Mason et al., 2009).
- 7. In addition to financial savings, CDAs may have positive attitudinal, behavioral, and social effects.** Suggestive findings from research at community-based SEED sites suggest the potential of CDAs to generate positive effects beyond the savings account itself. In-depth interviews with 27 parents at two SEED sites found perceived impacts on well-being. These included perceived positive effects on: (1) self-esteem, (2) self-efficacy, (3) hope for the future, (4) future orientation, (5) sense of security, (6) fiscal prudence, and (7) interaction with children about finances and college. Parents also believed that they observed positive effects on their children including: (1) fiscal prudence, (2) future orientation, and (3) self-esteem. A qualitative study with teens at one SEED site found similar perceived positive effects on (1) self-esteem (2) future orientation (3) sense of



Rick Williams, a member of the SEED Policy Council and SEED Advisory Board, joins a Foundation Communities staffer and two students celebrating their graduation from Foundation Communities' SEED program.

security (4) financial knowledge, and (5) fiscal prudence (Scanlon & Adams, 2009). The Michigan impact assessment showed that SEED had a significant, positive effect on the importance parents attach to a college education (Marks, Rhodes, Engelhardt, Scheffler, & Wallace, 2009).

8. Community-based organizations play positive roles in implementing CDAs. Strong relationships with community-based agencies and personal relationships with agency staff were important in overcoming misgivings about participation in SEED, and played a key role in motivating program participation and assisting participants in making account deposits (Marks, Rhodes, Wheeler-Brooks, & Adams, 2009). Even with centralized providers and automatic enrollment, public education and community outreach and programming will continue to be desirable to increase CDA understanding, participation, and performance. Community-based organizations may represent the best opportunity for culturally sensitive and tailored interventions. In these ways, community-based organizations may be beneficial for recruitment and continued participation in a universal CDA program (Marks, Rhodes, Wheeler-Brooks, et al., 2009).

9. Full participation in financial education is challenging. Even with a range of incentives to encourage participation, none of the community partners was able to achieve full participation in their financial education programs. In any effort to offer CDAs on a large scale, providing financial education at school would be the most promising way to promote access. The initial experience of the SEED community partners shows promise in integrating financial education into an existing curriculum at school

10. There is potential for a national CDA policy that is universal, lifelong, progressive, and asset-oriented. A national system of CDAs structured as investment accounts is an opportunity to create an appropriate automatic investment structure that will mitigate market risk and serve as a means to deliver financial education on a meaningful scale. Prior to and ever since the launch of SEED, CDAs at birth have attracted bipartisan support, beginning with the KIDsave proposal of the early 2000s, the ASPIRE Act of 2004 (and beyond), the Baby Bonds and Young Savers Accounts of 2006, and continuing with the PLUS Accounts, 401Kids, and other proposals from the US Congress over the last several years (Cramer, forthcoming) (See Appendix 6). In fact, few multi-billion dollar ideas in recent memory have brought Democrats and Republicans together as well as CDAs, suggesting potential for enactment in the future.

11. Savings plan structures, such as the federal Thrift Savings Plan or State College Savings (529) Plans, are potential platforms on which to build universal and progressive systems of CDAs. The Thrift Savings Plan has features that would be desirable in a CDA,



A student from Southern Good Faith Fund's SEED program proudly displays the bank where he keeps his allowance between trips to the credit union.

including a limited number of investments, low fees, and government administration with management by a private firm. However, while no savings policy or product is perfect, College Savings (529) Plans, available in all states, may come closer to fulfilling the features of an ideal CDA. State 529 plans have a wide range of positive features that lend themselves to inclusion and cost containment. These include community outreach, low initial deposits, low minimum deposits, centralized accounting and data, simple investment options, low-cost investment options, and streamlined consumer education. Plan structures can also operate with support from community-based organizations. Four of the five state policy innovation projects in SEED have used the state 529 plan, and the state-wide experiment in Oklahoma, known as "SEED OK," also uses the state 529 plan. Drawbacks to state 529 plans are that they officially allow savings to be used only for higher education (penalties for alternate use are small) and have not been adjusted to the needs and interests of low-income savers. Like IRAs and 401(k)s, 529 plans are regressive; however, some states have taken steps to make 529 plans more progressive (Clancy, Orszag, & Sherraden, 2004; Clancy & Sherraden, 2003).

Conclusions

Turning to conclusions, one of the strongest arguments for children's savings accounts is their potential to chart a path over time toward economic security. But this is not expected to happen quickly. Asset building is a long-term process. It takes time for potential positive psychological, behavioral, and educational effects associated with account ownership to take hold. This means that strategies to support such outcomes will have to be in place over the long term.

Purpose and presentation. While CDAs might be usefully promoted as a potential solution to inequality, asset poverty,

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low household and national savings, lack of opportunity, college affordability, and financial capability, and while CDAs may in fact address each of these issues to some extent, CDAs should be viewed foremost in simple terms as saving and investing for future economic security and development.

Inclusion in CDAs. As in all optional savings policies, optional enrollment in SEED is challenging. This pattern has something in common with enrollment in 401(k) plans in workplaces, where it is challenging to get participation, and more so with lower-income workers. Automatic enrollment would be a constructive response to this problem (Gale, Iwry, John, & Walker, 2009).

Saving and opportunity. Most families did save and accumulate assets in SEED, including the poorest families. The projected savings over 18 years would represent genuine opportunity. Moreover, a growing body of research suggests that, controlling for many other factors, savings are positively associated with educational aspirations and achievement, including post-secondary degree completion (Elliott & Beverly, 2010; Zhan & Sherraden, 2009, 2010).

Striving to save. Saving is challenging for many low-income families, and yet poor people do save. Impoverished people have dreams like everyone else—they want to do better, and especially they want their children to do better. Recognizing the challenges of saving in low-income households, it is vital that CDA policies are progressive, and that they are informed by empirical evidence regarding what makes saving successful.

More than individual endeavor. SEED research demonstrates that savings outcomes are explained by more than just individual characteristics. Instead, institutional features overall are more predictive of savings outcomes than individual characteristics. As this body of empirical research on institutional features and savings outcomes continues to grow, it can inform design of CDAs to maximize effectiveness.

CDAs in community. SEED has demonstrated the importance of community-based agencies in recruitment, support, and financial education. Even with an efficient and centralized CDA policy structure, community context will matter a great deal in the meaning and success of CDAs “on the ground.”

Building a lasting CDA platform. Any large-scale effort to create children’s accounts requires design of an institutional framework that provides broad access, low costs, regulation of investment practices, and a uniform set of rules to ensure

equal protection. As the current financial and economic crisis illustrates, management of accounts and stewardship of deposited financial resources is a particularly important task. A national system of CDAs is an opportunity to create an automatic investment structure that will limit financial service risk, and provide sound choices for long-term investments.

Looking Forward

SEED offers many valuable lessons, but cannot by itself create a universal and progressive system of CDAs. Considerable effort has already gone into studying and designing CDAs, and more will be required. Fortunately, SEED is not alone in bearing this responsibility. Today, there is a growing array of CDA policy innovations in the states, new federal proposals, research on saving and saving policies, research on effects of asset building, and CDA policy examples from other countries. In this array, SEED plays a major role in modeling and informing a universal and progressive CDA for the United States.

As the United States emerges from financial and economic crisis, there is widespread recognition that the financial operations of households (as well as many businesses and governments) must rely less on credit and spending, and more on saving and building wealth. CDAs are well positioned to contribute positively to this fundamental transition.

Reflecting on SEED overall, it does not require very much imagination to see a universal system of CDAs—leading to lifelong savings accounts—as a cornerstone for more prudent, competent, stable, and productive financial lives for American families.