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# Child Savings Accounts: Advancing the Field to Better Serve Traditionally Underserved Consumers

A Report on the Bureau of Consumer Financial Protection 2018 Child Savings Account Forum

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# 1. Introduction

The Bureau of Consumer Financial Protection (Bureau) was established on July 21, 2010 under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law No. 111-203 (Dodd-Frank Act).

One of the Bureau's statutory directives instructs it to implement "initiatives intended to educate and empower consumers to make better informed financial decisions."[1] The Bureau seeks to enhance the financial knowledge and skills of all Americans, from childhood to later life, so that individuals build their financial well-being. In the Bureau's Strategic Plan for FY 2018-2022, one strategy to achieve this objective is to "address needs for inclusion and financial security of servicemembers, older Americans, traditionally underserved consumers and communities, and students."[2]

The Office of Community Affairs,[3] within the Consumer Engagement and Education Division at the Bureau, provides tools and information to help traditionally underserved consumers become more financially stable and secure. One project of the Office of Community Affairs is the Child Savings Account Initiative. To advance inclusion of traditionally underserved consumers, the Bureau convened a Child Savings Account Forum in Washington, D.C. in May of 2018. Leading researchers, child savings program managers, funders and policy makers from across the country came together to identify, document, and advance promising and proven practices that can increase child savings opportunities for more low-income and low-wealth families, and that can be taken to scale. This report summarizes the key conversations, insights, principles and next steps identified by participants at the 2018 Child Savings Account Forum.

# 2. Background

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[1] 12 U.S.C. 5493(d)(1).

[2] The Bureau's Strategic Plan for FY 2018-2022 can be found on the agency's website, at www.consumerfinance.gov/about-us/budget-strategy.

[3] The Office of Community Affairs was formerly known as the Office of Financial Empowerment.

The book *Assets and the Poor* by Dr. Michael Sherraden first articulated the concept of providing special account mechanisms with corresponding public policies to encourage children and families to save for the child's future.[4] In Dr. Sherraden's view the term "assets" is broadly conceived to include financial wealth, tangible property, human capital, social capital, political participation and influence, cultural capital, and natural resources.[5] Historically, income (as a proxy for consumption) has been the standard measure of poverty in social policy.[6] Having sufficient income to pay for consumption is essential, but Dr. Sherraden concluded that income alone did not improve long-term conditions. "Development of families and communities (that is, reaching potential) occurs through [people's] asset accumulation and investment."[7]

Child savings account programs have been implemented or are in the process of being implemented in a number of states and communities around the country. These programs build on the idea that asset accumulation is important to consumers who are attempting to achieve long term financial goals. Post-secondary education is often a tangible human capital asset that leads to greater financial capability to pursue those goals. Child savings account programs, often called CSAs, are employing savings product options that include conventional savings accounts, 529 post-secondary education savings plans and other savings options.[8] These programs are also employing a variety of approaches to enrollment, incentives for participation, and supportive services to help children and families become engaged, remain engaged and to participate in saving by depositing their own funds to the dedicated savings account. However, there are several challenges that make it difficult to identify models that are scalable, accessible and

[4] Sherraden, Michael, *Assets and the Poor: A New American Welfare Policy*, 1991.

[5] Sherraden, Michael, Testimony for Hearing on "Building Assets for Low-Income Families," Subcommittee on Social Security and Family Policy, Senate Finance Committee, April 28, 2005.

[6] How the Census Bureau Measures Poverty, https://www.census.gov/topics/income-poverty/poverty/guidance/poverty-measures.html.

[7] Sherraden, Michael, Testimony for Hearing on "Building Assets for Low-Income Families," Subcommittee on Social Security and Family Policy, Senate Finance Committee, April 28, 2005.

[8] A 529 plan is a tax-advantaged savings plan designed to encourage saving for future post-secondary costs. https://www.sec.gov/reportspubs/investor publications/investorpubsintro529htm.html

usable by children and families that could most benefit from these types of saving opportunities. Among the challenges the Forum participants have identified are:

- Financial institution account opening requirements may restrict or discourage account use by children and families of economically vulnerable populations.[9]
- Proliferation of CSA designs and program models makes it difficult to identify the core "must have" features of CSA programs.[10]
- Research to date has yet to identify which features are most likely to produce specific outcomes.
- There are potential tradeoffs between accommodating individual circumstances and scaling one-size-fits-all account products or program models.
- More analysis and discussion are needed to identify what policy options or other changes could make further child savings opportunities more widely available to financially vulnerable populations.

To learn more and to further address challenges, the Bureau brought together leaders in the child savings field for the one-day forum.

[9] Government Accountability Office Report to the Chairman, Senate Finance Committee, U.S. Senate, A Small Percentage of Families Save in 529 Plans, December 2012. https://www.gao.gov/products/GAO-13-64

[10] Butrica, Barbara A., A Review of Children's Savings Accounts, Urban Institute, March, 2015, https://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000157-A-Review-of-Childrens-Savings-Accounts.pdf.

# 3. Setting the Stage

Dr. Michael Sherraden provided opening remarks to articulate the thinking behind child savings accounts (also called child development accounts)[11] and explained how various practical applications may affect consumers with limited incomes. Dr. Sherraden discussed theoretical research from the Individual Development Account (IDA) field, a precursor to child savings accounts, which directly addressed the question of whether people with low incomes have the capacity to save and accumulate assets. Individual Development Accounts (IDAs) are matched savings accounts that are most commonly offered as a means for a consumer to save for homeownership, small business development or post-secondary education.[12] Findings from the American Dream Demonstration (ADD)[13] randomized control trial and subsequent research on IDAs show "that the poor can save and accumulate assets in these matched savings accounts."[14] Many child savings account programs have built on the evidence from the IDA field. Similar to IDAs, many child savings account programs provide certain financial incentives in addition to an account, to encourage enrollment and participation. Unlike IDAs however, child savings accounts that utilize the 529 account structure also provide a tax benefit in that eligible

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[11] The terms "child savings accounts" and "child development accounts" are often used interchangeably. University of Wisconsin; Public Health Institute, *Child Development Accounts*, August, 2018. http://whatworksforhealth.wisc.edu/program.php?t1=20&t2=2&t3=95&id=605.

[12]. Congressional Research Service, *Individual Development Accounts (IDAs): Background on Federal Grant Programs to Help Low-Income Families Save*, 2013. https://fas.org/sgp/crs/misc/RS22185.pdf

[13] "The Down payments on the American Dream Policy Demonstration (ADD), the first demonstration of its kind, tested the effectiveness of Individual Development Accounts (IDAs) as a tool for low-income Americans to achieve economic independence. With support from 13 community-based organizations across the country, 2,364 low-income individuals opened IDAs. CSD (The Center for Social Development at Washington University in St. Louis) designed and implemented the research plan for the multi-year demonstration. Methods included a longitudinal experiment with 10-year follow-up, account monitoring, in-depth interviews, cross-sectional surveys, case studies, and program assessments." https://csd.wustl.edu/OurWork/FinIncl/InclAssetBuild/AmerDreamDemo/Pages/default.aspx

[14] Jin Huang, *IDAs, Saving Taste, and Household Wealth; Evidence from the American Dream Demonstration*. Center for Social Development; Washington University St. Louis, 2009. https://csd.wustl.edu/Publications/Documents/WP09-27.pdf

withdrawals from the accounts are not counted as income for tax purposes.[15] Dr. Sherraden also indicated that research has shown that accounts opened by the family early in the child's life may have a number of beneficial effects beyond the accumulation of funds. For example, mothers of children with child development accounts have higher educational expectations for their children, regardless of the balance in the account.[16]

# 4. The Development of the Child Savings Field: Different Approaches with Similar Goals

Ray Boshara, director of the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis, opened the first plenary by reflecting on some key lessons learned in the asset building and child savings account field. He identified five general evolutionary phases starting in the early 1990s and continuing to the present.

- **Phase 1- IDAs for adults were the first incentivized savings vehicle to help people with lower incomes build assets. (approximately 1991 to 1998)** The original vision for IDAs, as articulated in *Assets and the Poor*, was that an account be opened at the birth for every child. ADD was conceived in this phase. Public policy subsequently created to help fund these accounts, through passage of the Assets for

[15] "Earnings are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board at an eligible education institution and tuition at elementary or secondary schools. Contributions to a 529 plan, however, are not deductible." https://www.irs.gov/newsroom/529-plans-questions-and-answers

[16] Sondra G. Beverly, Margaret M. Clancy, and Michael Sherraden, *Universal Accounts at Birth: Results from SEED for Oklahoma Kids*, Center for Social Development; Washington University St. Louis, 2016. https://csd.wustl.edu/Publications/Documents/RS16-07.pdf

Independence Act (AFIA) in 1998, was designed as an opt-in account program for low income adults to save for specific assets. [17]

- **Phase 2- Testing IDAs as a community development program for working poor (1998 through mid-2000s)** The key question that needed answering through research on ADD and AFIA IDA programs was whether the poor could save and build assets if offered the opportunity. The ADD demonstration project answered that question affirmatively. AFIA and its many offshoots did not generate a scalable model, but it did offer the opportunity to observe certain key design features to consider for future asset building programs. Phase 2 was also a period when a number of policy initiatives were considered to expand the availability of asset building opportunities.
- **Phase 3- The Saving for Education, Entrepreneurship and Down payment (SEED) initiative (Approximately 2004 through 2008).**[18] SEED was a privately funded initiative to enable researchers and non-profits to talk about the interaction of research, policy and practice in the implementation of child savings initiatives. Through SEED funding, CSA programs were piloted in 12 states, involving 1,171 children and their families, and extensive multi-method research was conducted to help inform the growing field. The policy environment also shifted to a greater focus on child savings opportunities from earlier phases which were more focused on adults.
- **Phase 4- A diversity of approaches (approximately 2008 through 2014)**. Nationally led efforts declined during this period but many local and state child savings initiatives were launched from the lessons learned through SEED and other efforts. SEED spawned innovations and programs around the country. Initially, however, implementers of these initiatives did not have an effective means of regularly sharing their experiences with each other.

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[17]The Assets for Independence Act was a federally funded grant program, first passed in 1998, to provide matching and operating funds to local non-profits that offer IDAs to adults to save for specific purposes, including homeownership, small business development, or post-secondary education."
https://fas.org/sgp/crs/misc/RS22185.pdf

[18] "Saving for Education, Entrepreneurship, and Down payment (SEED) was 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." Center for Social Development at Washington University in St. Louis, *Lessons from SEED, a National Demonstration of Child Development Accounts*, P. 1, Sept. 2010. https://csd.wustl.edu/OurWork/FinIncl/InclAssetBuild/seednational/Pages/default.aspx

- **Phase 5- Reconvening a common table (approximately 2014 to the present)**– Attempts are being made to bring researchers, policymakers and implementers together to examine the results from a diversity of local approaches – stepping back to identify the lessons and the worthwhile investments going forward - to see what works and what doesn't.

Margaret Clancy, the Policy Director & College Savings Initiative Director at the Center for Social Development, then provided a list of ten key policy design elements that her Center has identified as being important to expand child development programs to scale. These elements include:

- Universal eligibility
- Automatic enrollment
- At-birth start
- Automatic initial deposit
- Automatic progressive subsidy
- Centralized savings plan
- Investment growth potential
- Targeted investment options
- Restricted withdrawals
- Means-tested public benefits exclusions[19]

Next, representatives from four CSA programs, from Maine, Indiana, Rhode Island, and the City of San Francisco, provided insights on their specific program goals and how those goals influence the way their programs are designed. The descriptions of these programs that follow summarize the presenters' characterizations.

**San Francisco Kindergarten to College (K2C)** K2C was launched in 2011. Unless the parent or guardian of the child declines to participate,[20] accounts are automatically opened with a $50 initial deposit provided by the program for every child entering kindergarten in San

[19] Michael Sherraden, Margaret M. Clancy, and Sondra G. Beverly, *Taking Child Development Accounts to Scale: Ten Key Policy Design Elements*, Center for Social Development, Washington University in St. Louis, 2017. https://csd.wustl.edu/Publications/Documents/PB18-08.pdf

[20] This approach is commonly referred to as an "opt-out" model, where the default is inclusion and the consumer has the choice to opt out and not participate.

Francisco public schools. K2C now has thirty thousand accounts and nearly one in five families is saving. Collectively, participating families have saved approximately $3 million. K2C accounts are custodial, held at a single financial institution, with tracking of account activity managed by the City. Nearly half of all savers are children from families that qualify for free and reduced lunch. The City makes additional deposits for children in low income families.[21]

**Maine** The Alfond Scholarship Foundation started its child savings program in 2008 and for the first five years the program used an opt-in model.[22] Families were required to open one of Maine's 529 accounts before the child was one year old in order to participate. During that period the program had a 40% take up rate, which was far short of the vision for the program. In 2013 the Harold Alfond College Challenge began automatically making $500 grants in the name of every new-born child in Maine. Families that want to contribute additional funds can open up a State of Maine NextGen 529 account. By the start of 2018 the Harold Alfond College Challenge had invested $40 million for approximately 80,000 Maine children.[23]

**Rhode Island** In 2015, Rhode Island started the *CollegeBoundbaby* program and designed it to be an opt-in program at birth with an initial seed deposit of $100 provided by the state. The state estimates the take up rate to be approximately 52% and is striving to increase that rate. The state is testing different incentive amounts to determine if they make a difference in take up rates. The state has some capacity to provide more matching funds and the hope is to one day provide up to $500 initial deposits similar to Maine.[24]

**Indiana** Promise Indiana is a state-sponsored, community-driven child savings initiative that was initially launched through the Wabash County YMCA. Promise Indiana provides the infrastructure and technical support for individual Indiana communities to adopt child savings initiatives. Communities adopt the Promise Indiana model, and leverage dollars to create

[21] Presenter: Sean Kline, Director, Office of Financial Empowerment, Office of the Treasurer & Tax Collector, City and County of San Francisco.

[22] An "opt-in" model requires the consumer to take an affirmative action to sign up or enroll in some manner.

[23] Presenter: Colleen Quint, President & CEO, Alfond Scholarship Foundation, Maine.

[24] Presenter: Lisa Churchville, Director of CollegeBound Savings Programs, Office of the General Treasurer, Rhode Island.

incentives throughout the lifecycle of participation in the program. Promise Indiana uses a competitive application process to select communities that have the motivation and the resources to provide child savings opportunities for their residents.[25]

Panel participants reflected on some of the key features or approaches that they grappled with in designing and implementing their programs. It was clear that a variety of factors influenced the approaches they used. They are continuing to evaluate their program designs based on short, medium and long term goals.

The first topic they discussed was the various implications and trade-offs related to universal eligibility and automatic enrollment vs. opt-in design where consumers would have to take a specific action in order to sign up and participate - opt-in vs. opt-out.

Two of the four described programs implemented automatic enrollment and a form of universal participation. Some key observations by the presenters of these programs included:

- Automatic and universal enrollment should be the easiest process for a program manager to administer, but implementing that type of enrollment still presents challenges. For example in Maine the program uses birth records provided by the state to identify children for the program. However, the birth records only provide the most rudimentary information about the child. Program administrators need to reach out to the families to get information necessary to fully engage the family and obtain consent for the use of their information for purposes other than managing the account, such as providing statistical data to determine program effectiveness.
- In San Francisco, children have accounts opened for them when they enter kindergarten. As a result, program administrators are heavily reliant on the school district to provide them accurate enrollment information and access to the children and families so they can fully participate. Also, San Francisco relies on the school district to provide information about free and reduced lunch eligibility which triggers additional $50 deposits by the program. To the extent that this information is either inaccurate or not easily accessible, the program may have difficulty accomplishing its goal of providing additional deposits for families with lower incomes.
- When agency staff capacity is limited, automatic and universal enrollment ends up being a relatively low touch model where families may only receive occasional information on

[25] Presenter: Clint Kugler, CEO, Wabash County YMCA, Promise Indiana.

the program and periodic reports about account balances. This limited touch model works for some families but not for others. For families who may be less familiar with the program opportunity or who need further education and support in order to fully participate, a higher touch approach with more frequent engagement may be more desirable and effective.

The other two programs represented by members on the panel described their opt-in models. Some key observations by these representatives about their programs include:

- Promise Indiana has considered an opt-out model. There are elements of the universal and automatic approach they would like to implement but they don't currently have the administrative infrastructure. As a result, the Promise Indiana program is working hard to simplify the enrollment process and make it as user-friendly as possible. As the Indiana program has evolved it has worked with the Common Cents Lab at Duke University[26] on ways to implement behavioral nudges to make the first action an "easy yes" for consumers, and to encourage enrollment including using pre-commitments to save.
- The Rhode Island decision to create an opt-in model was developed through a collaboration with the Rhode Island Department of Health. The opt-in process was made relatively easy by the Department of Health by providing a box on the birth certificate form that parents could check in order to participate. When people sign up for the program, the state gets their consent to use their information for research purposes which is helpful for understanding how and whether residents are participating in the program. However, because Rhode Island has only a 55% participation rate in the best months, at the time of the convening, program managers were discussing with the Department of Health about whether it would be possible to shift to an opt-out model.

The second set of issues the panel discussed was how they defined scale, what the biggest challenges were to achieving scale, and how they overcame those challenges. Here is what presenters shared.

[26] The Common Cents Lab at Duke University describes itself as an entity that performs research to identify solutions that aim to increase the financial well-being for low-to moderate-income people living in the United States. https://advanced-hindsight.com/commoncents-lab/

- Promise Indiana defines scale in terms of the number of individual communities that develop their own child savings program. The role that Promise Indiana plays is to help communities mobilize to connect with resources necessary to provide child savings opportunities. There are a number of fixed program elements that are consistent throughout all Indiana-based child savings programs, but there are some flexible elements to reflect specific community needs and populations. Promise Indiana provides a roadmap and the tools communities need to be able to walk through the journey to readiness.
- The state of Maine, with its approach of opening an account for every child at birth, and K2C in San Francisco with its approach of opening an account for every kindergartner, have clearer paths to scale for enrollment. Many other child savings programs speak highly of the Maine model because the program had a visionary founder and still has a very generous private family foundation to continue funding the initial deposits. Each year there are approximately 12,000 babies born in Maine[27] and it is difficult to reach all of these families. Partnerships are extremely important, which is why the Alfond Foundation indicated that it engages organizations and programs where families are already likely to be connected, such as with Head Start, 4H Clubs, Boys and Girls Club, and Raising Readers, Maine. Each year approximately 4,500 children are enrolled in kindergarten in San Francisco[28]. This is why K2C is embedded in the City's Office of Financial Empowerment and works closely with San Francisco Public Schools, financial institutions, and an active non-profit support network to engage families.

Another key question the panel addressed was how to balance the interests of increasing scale to reach more families with child savings opportunities while at the same time providing additional services and information to a growing number of participants. Presenters noted that most child savings programs have limited staff available to provide additional services, or to simply maintain regular contact with participants. Often the people who are in need of more frequent contact and content are the people with limited resources who could most benefit from additional services. The other challenge described by the panelists was that child savings programs are by definition long term relationships, and the

[27] http://www.maine.gov/dhhs/mecdc/public-health-systems/data-research/data/documents/pdf/births2008_2017.pdf

[28] http://web.sfusd.edu/Services/research_public/rpa_student_enrollment/School%20Site%20List%20and%20Summary_CBEDS%202015_Ver20_(10-10-15).pdf

ultimate payoff of the child participating in post-secondary education may be 12 to 18 years in the future. Panelists had some of the following observations about these questions:

- One of the deeper challenges is building relationships and trust with families who may not have previously been saving for their children's future education to encourage them to take advantage of the child saving opportunity now available to them.
- With the current resources available, it's extremely difficult and may not be practical to maintain a "high touch" program at a universal scale where all children in a community or a state are participating.
- One challenge for emerging programs is to find the right balance of breadth and depth so that they can best deliver on the program promise to the most consumers. Some programs using universal enrollment are considering ways to triage participants to determine which ones need more regular contact in order to remain engaged while identifying others that may be fully invested and need less attention.
- Another challenge is to determine how to measure progress and success. Benchmarking is important to determine what expectations a program should set for enrollment, participation and savings rates.
- One of the most common means of engagement is through providing financial education resources. Some programs attempt to offer financial education content for parents, and as they grow, to the children who will be the beneficiaries of the child savings program.
- The Alfond Foundation is focused on diversifying their communications to participants so that they can share information about important child development issues such as reading to a child and paying attention to key health and developmental measures.
- Some programs are experimenting with use of technology to maintain more consistent contact with participants to help them plan their saving contributions, and to advise them of key information related to the child savings program.

The final question the panel addressed was the concern that for some families with limited capacity to save in child savings accounts, the amount of savings they may accumulate will not meaningfully reduce the amount they need in order to enter and complete higher education. Some solutions the panelists suggested include:

- Promise Indiana is working to provide early application and approval for scholarships to post-secondary institutions in 10th or 11th grade so that the family has some certainty about available resources prior to deciding whether to take out loans or look for other funds to augment available savings in order to pay for their education.

- Promise Indiana also suggested that people who live in subsidized housing and have access to additional incentivized savings vehicles such as the HUD Family Self Sufficiency Program (FSS)[29] could use a portion of the accumulated FSS funds to help pay for the child's education.
- K2C utilizes conventional custodial savings accounts for its entry product into the child savings program but is considering a hybrid model that allows participants to "graduate" to a custodial 529 account that has greater potential earning power than a simple interest bank savings account.

In summary, the panel session with presenters from Maine, Rhode Island, Indiana and San Francisco provided significant insights into the various challenges that child savings programs are grappling with and the innovations they are implementing or considering to address those challenges with a desire to increase participation by consumers with lower incomes and low wealth.

# 5. Digging in: Small Group Discussions

The first afternoon session of the convening involved small group discussions on four key topics to strengthen individual programs and the child savings field: consumer engagement and partnerships; funding solutions; use of incentives to encourage participation; and developing standard metrics for measuring the effects of child savings programs. Following is a brief summary of the key points from each discussion.

[29] FSS is a program that enables HUD-assisted families to increase their earned income and reduce their dependency on welfare assistance and rental subsidies. https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/fss#b

## 5.1 Consumer engagement and partnerships

According to attendees, maintaining long term and productive relationships with participants requires multiple strategies. Some of the practices suggested in this small group discussion include:

- Provide enhanced monthly account statements with more information about balances, account activity, and projections for future balances based on deposits and earnings. Augment statements with "financial tips of the month" to provide pertinent financial education.
- Use direct mail, social media and/or text and email to communicate educational information and to notify parents and children of program related events and services.
- Partner with local health care providers to offer services and information to parents such as Lamaze classes for expecting parents, and providing information on key factors in early childhood development.
- Engage local financial institutions to offer field trips and orientations to banking and to provide financial education and account services, especially for children and families who may not have previously had banking relationships.
- Offer financial tips and other information related to the child savings program or individual goals via email and online communication platforms so that programs can track "click through" rates and the topical interests of participants.
- Create member portals and an expanded suite of information and tools on program websites to offer a comprehensive resource for participants.
- Engage local businesses as partners and provide benefits to participants. This may include options such as additional deposits into CSAs through rewards programs based on customer loyalty or sweepstakes or contests where consumers can "win" and the prize(s) include additional CSA deposits.[30]

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[30] For example, Promise Indiana is currently engaged in a pilot project with a major grocery chain. The grocery stores provide incentive cards and families get 5% discounts on whatever they spend at the stores over 6 months, which is deposited into a CSA.

- Engage community foundations or local funders to provide early scholarships to students that are participating in a CSA. These could be small dollar commitments that provide additional encouragement at an early age.[31] This approach is predicated on the theory that if students and families receive a scholarship commitment early in their school career they will be more motivated and also better prepared financially for post-secondary education expenses.
- Partner with local employers who will ultimately benefit from a better educated workforce to encourage them to provide savings incentives and financial capability services for children and families. Employers could offer employees who are participants the option to make direct deposits of a portion of their paycheck into their child's CSA.

## 5.2 Promising funding strategies

Scaling CSA programs requires a variety of funding types and sources. While the Bureau does not get involved in the policy decisions made by federal, state, local or private entities regarding funding child savings programs, the participants at the convening identified program funding as a key topic for the child savings field. This report would be incomplete without reporting on that conversation. A 2018 survey scan of the CSA field by Prosperity Now[32] indicated that half of the 48 programs for which funding information is available rely on multiple types of funding to pay for general operating expenses and to fund incentives. The most common type of funding received by CSA programs is from grants made by the philanthropic community (69% of programs), including local community foundations. Although several CSA programs are operated at the state or municipal level, public funding for CSA programs is currently limited. Ten percent of programs receive state funding and 17% receive city or county funding. Thirty-five percent of CSA programs receive corporate or business funding, and 46% receive donations

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[31] Promise Indiana is currently working with a community foundation to offer small dollar scholarship commitments to 4th through 7th graders whose families are participating in CSAs. Scholarships are linked to CSA identified activities, such as student performance in school and parent engagement in school based activities.

[32] Prosperity Now, *The Movement Takes Off: The State of the Children's Savings Field, 2017*. https://prosperitynow.org/resources/movement-takes-state-childrens-savings-field-2017

from individuals.[33] Some of the key ideas offered by the meeting participants to expand and diversify funding for CSAs include:

- Explore approaches under which the Community Reinvestment Act could provide incentives to financial institutions that offer funding or other supports to CSA programs through the CRA Investment Test.[34]
- Leverage donations and transaction fees from credit card spending similar to the Community Link Foundation model.[35]
- Partner with higher education institutions to leverage institutional dollars to pre-fund CSA programs. One platform for this type of institutional commitment is RaiseMe[36] which currently has 250 participating colleges and institutions of higher learning.
- Engage housing and community development authorities to divert a portion of interest they receive on loans to developers to CSA programs specifically for children that are

[33] For more information on funding of CSA programs go to the Prosperity Now State of the Field at https://prosperitynow.org/resources/movement-takes-state-childrens-savings-field-2017

[34] "The Community Reinvestment Act (CRA) is a law intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound banking operations." The CRA Investment Test ranks financial institutions based on three criteria: 1) The dollar amount of qualified community development investments; 2) Innovativeness and complexity of qualified investments; and 3) Responsiveness of qualified investments to credit and community development needs. Federal Deposit Insurance Corporation (FDIC). https://www.fdic.gov/regulations/resources/director/presentations/cra.pdf

[35]The Community Link Foundation engages with issuing banks to offer a CLF branded credit card. Consumers (donors) who use the CLF card commit to a 1 to 3% top up to their purchase which is directed to the charity or cause of their choice. Banks offer a small percentage of interchange fees and participating vendors and retailers offer small percentages of the purchase price which is directed to the charity or cause of the donor's choice. For more information see http://www.communitylinkfoundation.org/how-it-works.php

[36] "RaiseMe is a social enterprise focused on expanding access to higher education, especially among low income and first generation students. Rather than waiting until the end of high school to earn scholarships, which is often too late to impact a student's college ambitions or choices, RaiseMe enables students to earn scholarships throughout high school, starting as early as 9th grade, for doing many things that best prepare them to succeed, whether that's getting good grades, volunteering in the community or joining in extracurricular activities." For more information see https://www.raise.me/#

residents of public housing funded through loans. This would replicate the model used in one of the local Promise Indiana programs, which began in 2018.[37]

- Use social impact bonds (SIBs)[38] as a funding mechanism for CSAs based on the potential return on investment and community impact of increasing educational attainment. Some early research has been done in Utah and Illinois on the return on investment of SIBs on early childhood development.[39] This may need more substantive evidence of the long term beneficial effects on CSAs.
- Utilize a portion of fees paid by providers to states for “broker-sold” 529 plans[40] to provide seed deposits for 529 college savings plans similar to the model being used by the Nevada College Kick Start Program.[41]
- Notify consumers with lower incomes who have dependents between ages 5 and 19 of their children’s probable Pell Grant eligibility under prevailing program rules.[42] This

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[37] The Indiana Housing & Community Development Authority defers existing annual interest payments on IHCDA Development Fund loans to CollegeChoice 529 accounts held by eligible residents of the affordable housing properties or a sponsored cohort of 21st Century Scholar students located in the community of the developer’s property. https://www.in.gov/myihcda/devfund.htm

[38] Social Impact Bonds (SIBs) are a financial instrument that governments can use to finance social projects. All SIB agreements have two important elements in common: accountability and up-front financing. All SIBs hold investors accountable for the success of the project and incentivized them to find successful programs. SIBs also provide service providers with up-front capital and thus help non-profits overcome the financing problems that so often stifle progress in the social sector. Princeton University, Public Policy and International Affairs Program, *Social Impact Bonds; a New Tool for Social Financing*, 2014. https://wws.princeton.edu/sites/default/files/content/Social%20Impact%20Bonds%202014%20Final%20Report.pdf

[39] Brookings Institution, Identifying Education Outcomes for Social Impact Bonds for Early Childhood, 2015. https://www.brookings.edu/blog/education-plus-development/2015/02/13/identifying-education-outcomes-for-social-impact-bonds-for-early-childhood/

[40] 529 plans can be opened directly through the plan manager or through a financial advisor. Broker sold 529 plans are sold through registered investment advisors (RIA) as well as broker-dealers. RIAs typically charge a flat fee based on a percentage of assets for their services, and broker-dealers earn a commission on certain products they sell. https://www.savingforcollege.com/articles/529-plans-direct-or-advisor-sold

[41] The Nevada College Kick Start Program is using a portion of program manager fees, to invest $50 in an omnibus college savings account on behalf of each child when they enter kindergarten. http://collegekickstart.nv.gov/about/Program_Information/

[42] Pell Grants come from the U.S. Department of Education and are distributed by participating colleges and vocational schools. They are a needs-based grant for students from low-income families. They do not have to be repaid as long as the student meets program requirements and is enrolled in college for the duration of the grant period. https://www.debt.org/students/pell-grants/

could provide greater certainty about the costs and potential aid available to attend college.[43]

## 5.3 Use of incentives to encourage participation

According to the recent field scan and based on input from program representatives at the convening, CSA programs are experimenting with a variety of different incentive structures. Some programs are better able to test the efficacy of these structures than others. Incentives are generally offered to encourage CSA program participants to participate in various ways, most prominently: 1) account enrollment; 2) frequent engagement with the account; 3) regular saving; and 4) performance in school by the child. Some of the key observations the small group identified regarding incentives include:

- There is a need for more rigorous research within programs to learn what incentives work and which are practical for programs and their participants.
- Programs need to collaborate on evaluation of incentives to determine best practices and effective strategies for implementing them.
- Both financial and non-financial incentives may be useful. Financial incentives may produce mixed results as some research into incentives such as savings caps or suggested amounts for savings indicate that people who could save more will only save up to the suggested amount.[44]
- There are diverse opinions among programs about whether the incentives they have implemented are having the desired effect. The process of implementing incentives needs to be better understood by program staff and by participants. This may mean that an approach such as Human Centered Design (HCD) would be useful in making sure that

[43] The Lumina Foundation for Education and the Spencer Foundation, *Fulfilling the Commitment; Recommendation for Rethinking Federal Student Aid; The Report from the Rethinking Student Aid Study Group*, 2008. http://media.collegeboard.com/digitalServices/pdf/advocacy/homeorg/rethinking-student-aid-fulfilling-commitment-recommendations.pdf

[44] Choi, James J., Laibson, Madrian and Metrick, *Saving For Retirement on the Path of Least Resistance*, 2004. https://sites.hks.harvard.edu/fs/bmadria/Documents/Madrian%20Papers/Saving%20for%20Retirement%20on%20the%20Path%20of%20Least%20Resistance.pdf

the incentives have the intended result. HCD is a design and management framework that develops solutions to problems by accounting for the perspective of the actual user in all steps of the problem-solving process.

- Attention needs to be paid to the regional, demographic and contextual differences which influence how well incentives work at the local level in determining which incentives to use and how they are implemented.
- A research clearinghouse would be useful for programs to access when determining which incentives to use, how to manage them and how to communicate them to program participants.
- More research needs to be done on the effects of incentives some programs have implemented to address various issues, including: using progressive incentive structures to provide greater equity; providing top ups[45] to increase accumulation in accounts; and using small and more frequent incentives to better engage children and youth in the account.
- Additional research needs to be done on both timing and the right amount of various incentives so that the intended behavior is supported without significant distortions.
- Some programs are becoming concerned that financial incentives may distort the natural motivation some people may already have to participate.

## 5.4 Developing standard metrics for measuring the effects of child savings programs

An idea that has been frequently discussed among CSA programs is creating standard metrics that all CSA programs collect so that more useful information would be available, and to give programs benchmarks with which to compare themselves. During this small group session, participants brainstormed what these potential standard metrics could be and how they could be implemented.

[45] A "top up" is commonly defined as adding money to an account in order to keep it at a constant or acceptable level. Some CSA programs provide "top ups" to children of families with lower incomes in order to help them build their balances even though they may be less able to make regular deposits.

- There was general agreement that most programs gathered common output metrics such as number of program participants, account information such as savings rates and accumulation (including both participant and program deposits), participant demographics, and the take up of incentives.
- Some of the more challenging data to track and to analyze are associated with intermediate outcomes such as postsecondary educational aspirations and expectations of children and parents; academic achievement through measurement tools such as 3rd grade reading tests, grades, attendance, and behavior; and college readiness milestones such as taking and scoring well on standardized tests and filling out the FAFSA.[46]
- There was general agreement that some of the long-term outcomes by which they would like to measure program effectiveness include high school graduation; postsecondary enrollment and graduation or having solid career plans; economic mobility; financial status of participants as adults; and the amount of student debt. Having standard indicators would help programs calculate a long-term return on investment. It was acknowledged that most programs have not been in existence long enough to have participants achieve any of these outcomes.
- There were a number of questions raised about the means and capacity of programs to gather certain data. Depending on the relationship they have with the institution(s) holding accounts such as 529 plans or depository institutions, certain administrative data may be difficult to acquire.
- Permissions from participants are necessary in order to acquire certain personally identifiable data such as demographics.
- Acquiring data on various educational performance factors can also be difficult because of the need for data sharing agreements with educational institutions, limitations placed on institutions by FERPA rules[47], and also because of their limited capacity to provide data in a timely manner.
- Surveys to gauge attitudes and behaviors of CSA program participants are often extremely expensive and beyond the capacity of many programs to collect.

[46] Free Application for Federal Student Aid (FAFSA) is a standard application which most students planning for post-secondary education are encouraged to complete. https://fafsa.ed.gov/

[47] Family Educational Rights and Privacy Act (FERPA) (20 U.S.C. § 1232g; 34 CFR Part 99) is a Federal law that protects the privacy of student education records. The law applies to all schools that receive funds under an applicable program of the U.S. Department of Education. https://www2.ed.gov/policy/gen/guid/fpco/ferpa/index.html?

- There was agreement that programs should collaborate to develop standard metrics with the understanding that each program may select or add a subset of metrics based on program goals and types of assets available to participants.
- In the interest of best managing available measurement resources, programs need to be mindful of the difference between monitoring and evaluation. Standard metrics should be for monitoring, but evaluating research on impacts is best left to individual program evaluators.
- There was consensus that in addition to quantitative metrics, there is still a need to collect stories of children and families about their experiences, challenges and successes.
- Finally, the group discussed how programs could track standard metrics across the field. The group expressed consensus that the following steps by participants in the field would strengthen child savings programs.
    1. Collect information from programs on: Program goals; Metrics they currently track; How they track those metrics; key elements of their program models, such as opt-in/opt-out, incentives, account type, etc.
    2. Develop typologies of CSA programs, which would be a combination of their program goals and program models and sort them based on data collected in step 1. The typologies are important, because they could be used to create different sets of "standard" metrics for programs to collect based on their typology.
    3. Identify common metrics tracked across programs that could form a basis for CSA network-wide standard metrics and then break down common metrics collected by program typology identified in step 2.
    4. Determine a set of standard metrics for field (including subsets of metrics based on typology) using information identified in previous steps, and get feedback from key stakeholders on potential standard metrics
    5. Implement/start collecting standard metrics and provide guidance on tracking these metrics, including best practices for/most efficient ways to collect data.

# 6. Next steps in advancing the availability and strength of child savings programs

To close out the day, all attendees reconvened to summarize the key findings, observations and next steps. Attendees were eager to identify some important areas where the Bureau could act to strengthen the field. Some of the most promising areas of Bureau involvement included:

- Continuing the Bureau's Offices of Community Affairs and Financial Education focus on traditionally under-served communities to provide financial capability and education services as well as other related programmatic priorities. Bureau activities identified as consistent with the CSA field objectives were Your Money Your Goals, Tax Time Savings, Money as You Grow, and activities aimed at building financial capability for youth enrolled in CSA programs.
- Continuing Your Money Your Goals outreach and training, including budgeting tools and custom booklets on debt management, and building credit and savings. These activities were specifically called out as relevant resources for parents of children in CSA programs. Several program staff observed that many parents from lower income households have a challenge making regular contributions to their child's CSA due to inconsistent cash flow and overall money management challenges.
- The Bureau's Tax Time Savings initiative could also be used as a vehicle to encourage collaboration between CSA programs and Volunteer Income Tax Assistance (VITA) providers to cross-promote saving a portion of refunds directly into a CSA. The Bureau could also enlighten VITA providers about CSA programs to unleash the potential for encouraging EITC recipients to use a portion of their refund to contribute to their CSA. Contributing tax refunds to CSAs is currently being encouraged by New York and other states. The Bureau could collaborate with states that have CSA programs to expand this type of initiative.
- The Bureau could also collaborate with other leaders in the field to facilitate meetings of key players in the CSA field including researchers, program operators, financial institutions, educational institutions and funders.

Attendees also came up with several ideas where the Bureau could contribute to the field by collaborating with other government agencies and research institutions.

- There was significant interest in the Bureau being involved with developing a collaborative research clearinghouse so that programs could more easily access information on program metrics and best practices. It was suggested that the clearinghouse would also serve to reduce duplication of research efforts by individual programs and to help programs identify the highest priority metrics. It was also suggested that a central clearinghouse could help to facilitate multi-program evaluations to increase the sample size to enhance the validity of the findings.

- Several attendees identified a need for a playbook or other resource on the most effective strategies for engaging consumers taking into account a variety of factors such as different populations, cultural norms, and economic and demographic factors that could influence their participation in a child savings program.
- Linking the EITC and tax refund to the potential for making contributions to a CSA was suggested as a possible area for collaboration between the Bureau and the IRS, especially in regards to the IRS and the Bureau's work with VITA providers, but also with commercial tax preparation firms.
- It was suggested that the Bureau could collaborate with other federal regulators to provide more clarity and guidance to states that implement 529 plans, and specifically to help identify barriers and limitations in the 529 platform that inhibit or restrict participation by consumers with lower incomes or wealth.

Finally the attendees brainstormed a number of ideas that would help strengthen and expand the child savings field and assist in engaging more children and families with low incomes and low wealth. While these ideas are somewhat beyond the scope of the Bureau's current effort, reporting them here for entities interested in CSAs gives a fuller picture of the barriers and solutions described at the Forum.

- Two barriers that attendees identified as significant in limiting participation in 529s by lower income consumers are that many 529 plans do not offer a default investment option, and that there are often voluminous disclosures that people are required to read and acknowledge in order to enroll. CSA program providers have observed that for people who are not comfortable or conversant in making decisions about investment options, the lack of appropriate default options that might depend on individual family goals and circumstances tends to be intimidating and reduces interest in participating. Several programs that offer 529 products observed that the disclosures they are required to use could be streamlined and could still provide the necessary information to allow consumers to make an adequately informed decision.
- State programs attendees observed that having more guidance about flexibility in rules from the federal regulators that oversee 529s (the Securities Exchange Commission and Municipal Securities Rulemaking Board) would help them adapt their programs to better meet the needs of their state residents.

- Several program participants observed that participation in CSA contributions could be encouraged if CSAs were exempt from higher education aid calculations, so that accumulation in a CSA would not reduce the amount of aid for which a student could be eligible.
- It was suggested that more state 529 plans could copy Utah's my529 plan which offers a state tax credit of five percent (5%) of maximum allowed contributions to a 529 plan.[48] This could provide an additional incentive to greater participation.

# 7. Conclusion

The Bureau's May 2018 Child Savings Account Forum provided a valuable opportunity to bring together researchers, policy makers and program managers to contribute to the future of the field, seeking to make child savings accounts available to more families across the U.S. The Forum participants identified key barriers and opportunities for growth of child savings programs with a special focus on ways to better engage consumers with lower incomes and low wealth. The Forum identified key relationships between program design features and program outcomes, and potential strategies to enhance research and to consolidate findings and best practices to make information and programs more accessible. As child savings programs develop across the country, the Bureau plans to continue to work with others to support their efforts. These programs can ultimately help consumers to reach their financial goals and improve their lives. There were two key beliefs that were shared by all in attendance. First, that savings supports the establishment of hope in that offering children and families the chance to save for the child's future can contribute to increased financial well-being. And second, that strengthening children and families leads to stronger and more prosperous communities.

[48] Tax credits provide a dollar-for dollar reduction of your income tax liability. This means that a $1,000 tax credit saves you $1,000 in taxes. On the other hand, tax deductions lower your taxable income and they are equal to the percentage of your marginal tax bracket. https://www.irs.com/articles/tax-credits-vs-tax-deductions