Biannual Report on the Asset and Education Field

Building Expectations, Delivering Results:
Asset-Based Financial Aid and the Future of Higher Education

Chapter 6 (Brief 3): Children’s Savings Accounts and a 21st Century Financial Aid System

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CHILDREN’S SAVINGS ACCOUNTS AND A 21ST CENTURY FINANCIAL AID SYSTEM

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Successfully advancing CSA policy will require analyzing the political context so that proposals can take advantage of windows of opportunity, framing CSAs as congruent with prevailing values, and crafting CSAs such that they are positioned as effective solutions to important policy problems.\(^1\) To this end, research documenting the concerning effects of the overreliance of student debt as a mechanism through which to finance college, as well as the potential of asset-based approaches to potentially reduce high-dollar debt and improve educational outcomes, is perhaps one of the most significant developments towards national CSA policy.\(^2\) CSAs can be clearly understood to have potential to solve one of our most pressing problems: how to bring college affordability to enough prepared students to increase educational attainment without compromising future economic security—for the nation or for individual students. This framing of CSAs has practical fiscal implications, too; if asset-based approaches to financing higher education are seen as ways to reduce dependence on debt-heavy ones, then the ‘net cost’ might be understood to be smaller, particularly in light of the potentially negative long-term financial effects of outstanding student loans.\(^3\)

Better return on investment: CSAs and educational outcomes

- Given the current fiscal climate, finding ways to get the most out of money spent on college loans, scholarships, and grants is one way to reframe the 21st Century discussion about how to finance college, and asset building may be a way to maximize benefits of going to college.
  - **Increasing the value of college:** As college debt skyrockets and it takes longer to pay it off, adults may receive less of a financial return on their educational investment. Having assets may help reduce the debt burden on students and their families, and thus increase the value of a college education.
  - **Increasing school engagement:** If having savings helps children engage in school at an early age, it might allow them to take better advantage of the education they receive and position them for greater college achievement. Given the relationship between engagement and academic attainment, the prospect of impacting

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\(^3\) Elliott, W., and Nam, I. (2013). *Is student debt jeopardizing the long-term financial health of U.S. households?* Paper presented at the Restoring household financial stability after the great recession: Why household balance sheets matter, St. Louis, MO.
children’s orientation towards their education for relatively small initial investments is worthy of greater attention.

- **Improving financial well-being**: If having savings as a child is associated with higher rates of saving throughout adulthood, children may be more likely as adults to maximize the financial benefit of having a college degree.

### Building a better financial aid system

The U.S. needs a 21st Century strategy for making college more accessible and also beginning to reverse the cycle of poverty. Increasingly, however, higher education is seen as an individual pursuit with benefits accruing narrowly to students, rather than broadly for economic prosperity and competitiveness. Against this backdrop, CSAs, which have the potential to improve educational and economic outcomes for disadvantaged children through deliberate investments, but within an ideological framework that aligns with an emphasis on individual responsibility, represent real political prospect for progress. Part of CSAs’ political and fiscal viability in the current context comes from their congruence with American values of hard work in school and saving and their ability to be largely financed by using money already committed to education.

- **529 Plans**: While 529 plans are asset-based, key policy changes are needed to make them effective potential vehicles for CSA policy. First, to complement the generous tax advantages 529s offer to upper-income taxpayers, lower-income households would need a widely available match. More technical changes, including national administration, low initial deposit requirements, and automatic enrollment, would likely help to increase participation among the low-income households currently underrepresented in 529s.

- **Pell Grants and ‘early commitment’**: One of the

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potential avenues for improving the outcome effects of existing financial aid spending is to change the timing, such that students’ attitudes and expectations are shaped by awareness that they will have financial assistance to help pay for college. Specifically, there are policy conversations regarding reimagining Pell Grants as an early commitment program.\textsuperscript{6} Children and their families could simply receive notice while children are still in school that they will be eligible for a Pell Grant when they reach college age, thus helping to bring college and college financing into families’ future planning. Or, as recommended by the College Board, savings accounts for children could supplement the Pell Grant program, with annual deposits of 5 to 10\% of the amount of the Pell Grant award for which children would be eligible. This more recent recommendation could help families and children build significant assets for college; additionally, since it is money already allocated for educating the poor, it just provides a way to maximize this investment. Opening the accounts even earlier than suggested by the College Board may leverage families’ own contributions and start children on a path to academic attainment earlier in their careers. Similar approaches could be explored in other means-tested financial aid programs, as well, especially as evidence suggests few drawbacks to this manipulation of the timing of financial assistance.

- **Means-tested and merit aid and asset consideration:** Current financial aid policies often have the effect of punishing family savings, particularly when assets are held in children’s own names. This may be sending a counterproductive message, especially to low-income households whose savings come at considerable sacrifice, and particularly given emerging evidence about the academic engagement and attitudinal effects of children controlling their own college savings. The U.S. could inch towards an asset-building financial aid policy by disregarding children’s college asset holdings within CSA programs and, ultimately, in other savings vehicles, as well.

- **Student loans:** Borrowing will clearly continue to be part of the financial aid package contemplated by most American college students; it is difficult to imagine a scenario in which children and families would be able to quickly accumulate enough assets to entirely finance a college degree. However, evidence about the effects of high-dollar debt on academic attainment, completion, and post-graduation financial well-being suggests that policy should address high levels of debt, in particular, looking to ways to use assets to complement borrowing. Related to this, state and federal policy should address the rising cost of college, including both the impact of high debt and the potential deterrent of high sticker shock. Public higher education, in particular, is an investment in our collective economic and strategic futures, and budgets should reflect this.

Chapter 6 – Brief 3


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The mission of the **Assets and Education Initiative (AEDI)** is to create and study innovations related to assets and economic well-being. The specific focus is on the relationship between children’s savings and the educational outcomes of low-income and minority children as a way to achieve the American Dream. AEDI, a division of the KU School of Social Welfare, builds the field’s capacity to conduct rigorous research and advocates for the economic well-being of low-income and minority children. For more, visit [http://aedi.ku.edu/](http://aedi.ku.edu/).

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