Children who own savings accounts early in life are potential future investors. They grow up connected to the financial mainstream and may diversify their asset portfolios and accumulate more assets in young adulthood. Maintaining connections with mainstream banks and diversifying and accumulating assets are indicators of their financial security as young adults. Their savings accounts and assets help to comprise a strong financial foundation that likely sets them on a path for financial security from which they can benefit well across their life course. This brief presents findings of the relationship between savings accounts in childhood and maintaining relationships with mainstream banks, diversifying asset portfolios, and accumulating assets in young adulthood.¹

Children who have savings accounts may be more likely to maintain connections with mainstream banks as young adults, no matter whether they grow up in higher- or lower-income households.² This suggests that all children may be able to gain access into and retain their connections with mainstream financial products and services as they get older if given the opportunity to do so.

- Anywhere between 36 and 65 percent of children have savings accounts. Children from lower-income households have savings accounts less often, suggesting they are disproportionately excluded from gaining access to the financial mainstream and developing connections with mainstream banks.
  - Children living in lower-income households are at a disadvantage with 36 percent having savings accounts, whereas 65 percent of their peers from higher-income households have savings accounts.
- Anywhere between 31 to 90 percent of young adults have savings accounts, with those from lower-income households at a disadvantage.
  - Thirty-one to 56 percent of lower-income young adults have savings accounts compared to 80 to 90 percent of higher-income young adults.
- Once children have savings accounts, they are two to almost four times more likely to have savings accounts as young adults—even among those from lower-income households. All children may be able to benefit from gaining access to and retaining connections with mainstream banks via savings account ownership.

¹ This issue brief uses research that considers samples of children under age 18 and samples of young adults between ages 18 to 40.
² Friedline (2012); Friedline & Elliott (2013); Friedline, Elliott, & Chowa (2013); Friedline, Elliott, & Nam (2011); Friedline, Despard, & Chowa (in press)
Relatively few young adults acquire savings accounts who did not already have them as children, suggesting childhood and early young adulthood may be ideal times to promote savings account ownership. Powerful triggers like automatic or “opt-out” enrollment into savings accounts may promote young adults’ ownership of these financial products.

- When looking at savings account ownership and acquisition over a four-year period for young adults from lower-income households, 43 percent consistently own and 52 percent consistently do own a savings account. This means that in four years’ time, young adults who already have access to the financial mainstream and connections with mainstream banks via savings accounts keep their access and connections. Young adults without access or connections—more often those from lower-income households—remain excluded.

- Young adults are more likely to own savings accounts when they are younger and less likely to acquire accounts as they got older, suggesting early young adulthood may be an important time to promote account ownership.

- Few young adults acquire (3 percent) or close (2 percent) accounts over a four-year period, suggesting that if they don’t already have savings accounts by the time they reach age 18, they are not as likely to open accounts going forward.

- This provides some evidence that young adults’ financial behavior with regard to savings accounts may be “sticky” and guided by inertia. Powerful triggers like automatic enrollment may be needed to help young adults open savings accounts. Otherwise, young adults may remain disconnected from the financial mainstream with limited opportunities to diversify their asset portfolios and accumulate liquid assets.

Children who own savings accounts may be more likely to diversify their asset portfolios as young adults by opening checking, stock, or retirement accounts. In fact, savings accounts may be a gateway to young adults’ asset portfolio diversification because savings accounts are almost always opened before or the same time as other financial products. Young adults’ diverse portfolios may suggest financial security since diversification is considered a strategy for mitigating financial risk.

- Aside from savings accounts, the most commonly owned assets by young adults are checking accounts (13 to 24 percent), credit cards (51 percent), retirement accounts (7 to 24 percent), and vehicles (54 percent).

- Smaller percentages of young adults own stocks (4 to 15 percent), bonds (6 percent), certificates of deposit (3 to 5 percent), money market accounts (2 to 5 percent), and homes (8 percent).

- Consistently, the overwhelming majority of young adults own savings accounts at or before the acquisition of all financial products including checking, CD, money market, savings bond, stock, and retirement accounts.

- Young adults are two times more likely to own checking accounts, two times more likely to own credit cards, three times more likely to own certificates of deposit, and four times more likely to own stocks when they have savings accounts as children.

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3 Friedline, Johnson, & Hughes (2014)
4 Friedline & Elliott (2013); Friedline, Despard, & Chowa (in press); Friedline, Johnson, & Hughes (2014)
5 Carasso & McKernan (2007)
• Young adults own significantly more types of assets when they have savings accounts as children. On average, young adults own two to three different types of assets—most commonly combinations between savings, checking, and retirement accounts.

Children who have savings accounts may accumulate significantly more assets as young adults. These assets help to comprise a strong financial foundation that they can build upon. Young adults with a strong financial foundation may be more financially secure and have more to invest as they progress throughout the life course.

- Young adults accumulate medians of $1,000 in savings accounts, $4,600 in total assets, $965 in debt excluding student loans, and $4,000 in net worth excluding student loans.
  - When student loans are included, young adults accumulate medians of $1,000 in debt and $300 in net worth.
- Descriptively, children with savings accounts accumulate more savings, liquid assets, debt, and net worth as young adults compared to those children without savings accounts.
  - Once they become young adults, children who have savings accounts accumulate medians of $1,900 in savings and $5,025 in total assets greater than their counterparts who do not have savings accounts as children.
  - Young adults who have savings accounts as children accumulate medians of $818 more in debt (excluding student loans) and $4,538 in net worth (excluding student loans) greater than their counterparts without savings accounts as children.
- Savings accounts contribute $49.68 and stocks contribute $329.50 to young adults’ accumulated liquid assets. The relationships of these financial products to liquid assets diminish as young adults grow older, presumably as they diversify their portfolios with financial products like stock and retirement accounts.
- The combination of stock and retirement accounts contribute the most to young adults’ liquid asset accumulation—$5,283.05. The effects of these financial products on their liquid asset accumulation increase as young adults earn more income, suggesting they can leverage their income and a diverse portfolio to accumulate liquid assets.
- A retirement account alone is especially responsive to income in contributing to liquid assets. At the 75th income quintile, a retirement account contributes $3,945 to liquid assets—more than at any other income quintile and substantially more than any single financial product.

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6 Friedline, Johnson, & Hughes (2014); Friedline & Song (2013)
References


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About Us

The mission of the Assets and Education Initiative is to create and study innovations related to assets and economic well-being with a focus 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. For more information, please visit [http://www.aedi.ku.edu/](http://www.aedi.ku.edu/).

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