SMALL ACCOUNTS, BIG POTENTIAL
JANUARY 16, 2013 (BRIEF)

The really good news?

Even designating savings for school with next to no money can have a positive effect on low and moderate-income children enrolling in college. This suggests that simply providing children with an account might have a positive effect on whether they enroll in college. Further, findings suggest that having even a small amount of savings designated for school ($1 to $499) can have a positive effect on low- and moderate-income children persisting in college through graduation.

Savings dedicated for college may turn children into college-bound students

- A child who has designated school savings from $1 to $499 is over four and half times more likely to graduate from college than a child with no savings account.¹
- Assets matter for college enrollment and graduation. Forty-five percent of low- or moderate-income children with no account, 49 percent of children with only basic savings not designated for school, 71 percent with savings designated for school of less than $1 saved, 65 percent with savings designated for school from $1 to $499, and 72 percent of children with savings designated for school of $500 or more enroll in college.²
- Five percent of children with no account, eight percent of children with only basic savings not designated for school, 13 percent who have savings designated for school but less than $1 saved, 25 percent who have savings designated for school from $1 to $499, and 33 percent of children who have savings designated for school of $500 or more graduate from college.
- Having savings dedicated for education also improves students’ academic preparation, feeding a cycle of higher educational expectations. This means that assets increase students’ likelihood of college success through both direct and indirect—through improving academic achievement—effects.³

Even at amounts insufficient to finance college, savings change attitudes

- As policymakers consider options for increasing college attainment and easing the strain of rising college costs, especially for lower-income families, there is some skepticism about whether small accounts—affordable even when extended to large numbers of students—can make a meaningful difference. New research suggests that small dollar

accounts can have a positive effect on children’s educational outcomes, particularly low-income children and minorities, who face greater odds to complete college.

- Having school savings with $1 or less increases the odds that a child enrolls in college. Obviously, these small amounts of money do not make a huge difference in students’ actual college financing. What they may change is whether or not a student begins to see him/herself, mentally, as a person who goes to college. Just opening an account for college may turn higher education into an important, not an impossible, goal, with a clear strategy for how to overcome the barrier of high costs. Saving is seen as a way that people like me pay for college, which may make all the difference.

- Importantly, having savings dedicated for college during one’s high school career also appears to increase engagement and academic achievement, resulting in children better academically prepared for the rigors of college.

- College expectations and savings are mutually-reinforcing, in a cycle that can significantly increase a student’s higher educational prospects. Children who expect to graduate college prior to leaving high school (high-expectation children) and who have designated school savings of $500 or more are about two times more likely to graduate college than high-expectation children with no account.

Providing education savings accounts for low-income children can dramatically increase college enrollment and completion

- Children with $1 to $499 of savings are more likely to graduate college than children with no savings.
- A low- or moderate-income child who has school savings from $1 to $499 prior to reaching college age is over three times more likely to enroll in college than a low- or moderate-income child with no savings account.
- Having even a small amount of savings designated for school ($1 to $499) can have a positive effect on low- and moderate-income children persisting in college through graduation.
- While having an account with any level of savings designated for school increases the likelihood that low-income children enroll in college, savings designated for school of more than $1 appears to be necessary to increase college completion rates, suggesting that assets increase college attainment both through changing attitudes and through providing the resources necessary to remove barriers to persistence. Part of the effect of school savings on persistence might have to do with children having savings on hand to pay for college expenses.

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Low-income students may need education accounts to promote a college identity more than higher-income students

- The evidence suggests that positive effects for low- and moderate-income children may appear more strongly than for high-income children. There appears to be a point at which household income is high enough that children’s savings makes no real difference in educational outcomes, but, for low- and moderate-income children, having even small amounts (i.e., $1 to $499) of savings designated for school improves the odds of graduation. This is significant, because research suggests that inequality in college persistence explains a substantial share of the inequality in educational attainment.10
- While a high-income child who has savings designated for school of $500 or more is 52 percent more likely to graduate from college than a high-income child with no savings account, a low-and moderate-income child who has savings designated for school of $500 or more is about five times more likely to graduate from college than a low- or moderate-income child with no savings account.

Not all assets are created equally; accounts designated for college and held in the student’s own name have the greatest effects

- ‘Having a stake in college’, with designated accounts in the student’s own name, has a positive effect on black children’s college progress.
- School savings is more likely than basic savings (not designated for college) to positively affect college enrollment.
- To be most effective, savings initiatives need to help students develop ‘mental accounting’ that supports educational attainment—specifically, the designation of accounts for education purposes, at least in their minds.

Education savings accounts may help address disparities in college attainment, taking the U.S. toward its goal of producing additional college graduates

- Since the 1980s, the U.S. has failed to produce college graduates at a fast enough pace to keep up with demand for skilled workers.11 By 2018, 63 percent of all jobs will require at least some college. We face a shortfall of 300,000 college graduates per year through 2018.12 The best strategy for filling this gap is to increase college attainment among students whose graduation rates lag behind their peers.
- Having savings designated for school with less than $1 saved makes a black student about 3 times more likely to enroll in college, compared to children with no account. Black children with savings designated for school and $1 to $499 saved are over 5.5 times more likely to enroll in college and about four times more likely to graduate than children with no accounts.13

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• Data suggest that the degree to which a college-saver identity is a strong predictor of college enrollment likely depends on whether children perceive that college costs are a barrier to enrollment. Because black children on average are more likely to see college costs as a barrier to attending college than white children,

14  black children may have more to gain from designating savings for college though both appear to benefit.

• By reducing ‘wilt’— the number of students with expectations that they will attend college who do not make it to enrollment, or to college completion—policies that help build children’s assets might help reduce educational inequality by giving black and low-income children a boost.

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About Us

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/.

Contact Information

William Elliott III
Assistant Professor, University of Kansas
Director, Assets and Education Initiative
Twente Hall
1545 Lilac Lane, Rm 309
Lawrence, KS 66045-3129
aedi@ku.edu
(785) 864-2283

