College Promise Campaign

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Leveraging Free College and Children's Savings Accounts For A 21st Century Wealth Building Agenda

By William Elliott

College Promise programs offer a suite of increasingly popular solutions to address the college affordability issue. The majority of Promise programs are typically defined as programs that offer recent high school graduates a scholarship that pays up to 100 percent of tuition and fees at postsecondary institutions, but they vary widely. A small but growing number of Promise programs serve only adults, while others include youth and adults.

The College Promise Campaign works to address the shortfall of students attending and completing college due to the financial and student support barriers of higher education. They do this by building broad public support for accessible, affordable, quality College Promise programs that enable hardworking students to complete a college degree or certificate.

This policy brief examines another way of supporting free college through leveraging and expanding current small-dollar Children's Savings Accounts (CSAs) into a robust asset building program for the country and a way for low-income students to cover the full cost of college.

Small-Dollar College Savings Accounts

While College Promise programs typically cover the cost of tuition and fees, they often fail to consider the total cost of attendance students must bear. A few cutting-edge Promise programs, such as the Oakland Promise, are addressing this important shortcoming by incorporating, what we will call, small-dollar Children's Savings Accounts into their design. Small-dollar CSAs are incentivized savings or investment accounts established for children for the purpose of helping to finance post-secondary education. These small-dollar accounts begin with initial deposits between $5 and $1,000, and they are spreading across America. As such, they provide a tangible asset base and give students and parents experience using mainstream financial institutions.

Currently, there are approximately 54 CSA programs serving 382,000 children in 32 states. Not yet included in these figures, Pennsylvania this year adopted bipartisan legislation to provide each of the approximately 140,000 children born annually in the state a CSA with a $100 scholarship grant starting in 2019. Also, not included, California's Governor Gavin Newsom dedicated $50 million in his most recent budget for a pilot program to increase access to college savings accounts. The appeal of small-dollar CSAs, however, is not their ability to pay for postsecondary education, but the research and empirical evidence that shows they help cultivate a college-bound mentality among students and their families, improve educational outcomes, facilitate college completion, and improve post-college financial health.

However, low-income children are asked to compete on an uneven playing field against peers with entrenched, generational wealth advantages that translate into higher returns on the very college degree that is meant to equalize outcomes. This raises questions about whether free tuition and fees when children reach college age are the best solution to make education the great equalizer it is meant to be in America. That is, it is not simply about paying for college, nor is it simply about educating people to qualify for college. It is also about early on addressing these generational wealth advantages that not only affect children's early outcomes in school which ultimately determine if they are prepared to attend college, but also about their ability to financially leverage a postsecondary degree once they graduate from high school.

Similarly, while small-dollar CSAs also are a positive development in the financial aid landscape, they do not do enough in their current form to overcome the advantages of generational wealth inequality. The reality is low-income families have little money after they pay for basic needs, and thus will never save their way to equality. This has led some researchers and policy makers to be skeptical about diverting money from income-based programs such as cash assistance to CSAs. But what's required is a better understanding of what CSAs and Promise programs can be.

How to get to free in a way that empowers low-income children from birth

A new proposal for rethinking current small-dollar CSAs is one that Melinda Lewis and I have proposed called Opportunity Investment Accounts (OIAs) [1]. OIAs, unlike their small-dollar counterparts, would provide low-wealth children an initial deposit of $10,500 at birth in a dedicated account ($1,000 for wealthiest to $10,500 for the poorest). Added to the initial deposit, $5 in monthly contributions could allow even the most disadvantaged children to turn 18 with approximately $40,000.

Some in Congress have proposed legislation to provide universal OIA accounts, but with an initial deposit of $1,000 for every child born in the U.S., regardless of family income.[2] Under this legislation, starting in year two and every year after, every child at or above 500% of the federal poverty line would receive $0 and children at less than 100% of the federal poverty line would receive $2,000. Analysts estimate that by 18 the poorest children would have about $46,000 in their account.

In one form or another, both proposals rely on a significant universal but targeted wealth transfer by the federal government.

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[1] Elliott, W & Lewis, M. (2018). Making Education Work for the Poor: The Potential of Children's Savings Accounts. Oxford University Press.
[2] "Booker Announces New Bill Aimed at Combating Wealth Inequality." Cory Booker | U.S. Senator for New Jersey, 22 Oct. 2018, https://www.booker.senate.gov/?p=press_release&id=861.

Researchers from Brandeis University's Institute on Asset and Social Policy find that a similar universal targeted intervention ($7,500 for the least wealthy; $1,250 for the most wealthy) could close racial wealth gaps by as much as 28%. Moreover, in addition to reducing wealth inequality, research indicates that educational assets in childhood can increase income and assets in adulthood. This suggests that assets in childhood maybe able to go beyond paying for college to help leveling the playing field and strengthening the return on a postsecondary degree or certificate, necessary steps given the long history of generational wealth inequality in America and the imperative for action.

What Can You Do Now?

Since writing Making Education Pay for the Poor, I have begun to explore ways to move from small-dollar CSAs to Opportunity Investment Accounts that do not rely on a federal wealth transfer, something that can begin at the state or local level. Below are three proposals which together could transform CSAs from their current small-dollar form, to a potential asset building program within your state or local community. Unlike most proposals, this agenda is not dependent on finding large amounts of new money to finance it. It can be financed largely through existing spending streams.

Rewards Cards

In these programs, every time someone in the family makes a purchase using their rewards card, regardless of how they pay for it—even food stamps—the family receives a rebate of 1% to 5% that goes directly into their child's CSA. Unlike other asset building programs for the poor, like EITC tax time saving, that rely on low-income families tapping into their limited resources for survival, the rewards card program transforms spending into saving.

These programs are currently being tested in randomized control trials in three CSA programs in the Midwest. A first question of interest for these studies is whether providing households access to a rewards card engaged additional families in saving (either by making individual contributions or by using their rewards cards at Kroger to earn returns on their dollars spent). This study finds strong evidence of greater saving activity (spender or saver status) among CSAs within households assigned to the treatment group. During the first three months, only 9.16% of CSAs in control households (no rewards cards) had savings activity, in contrast to 31.27% of CSAs in the treatment households via rewards spending or individual contributions—a greater than three-fold increase in savings activity among CSAs in the treatment group. Importantly, these effects are strongest among low-income families.

In addition, this study examined whether providing access to rewards cards increased the total dollars saved (via contribution or by rewards for dollars spent at the store) during the first three months. It tested impacts assuming five different rewards return rates (1%, 2%, 3%, 4% and 5%) on dollars spent at the grocery store.

Findings indicate that providing rewards significantly increased total dollars saved among CSAs in treatment households, with effect sizes varying from 0.07 to 0.19 for rewards rates ranging from 1-5% respectively. Families have the potential of accumulating up to $600 annually in their accounts from this program. That's important not only for the assets it helps build but also for giving families the opportunity to contribute financially to their child's future which may be important in itself.

P-Cards

Another way to transform small dollar CSAs being explored is through the implementation of a p-card (purchasing card) program.[3] The proposed model under investigation in a city in the west provides the city with a credit line of $250 million per quarter. The program provides governments as well as employers the opportunity to receive back 1.5% of the 2.4% interchange fee—the transaction fees that are already paid to the card-issuing bank—that accompanies each purchase the city makes using the credit card. Therefore, it adds nothing to the cost of the purchase. This 1.5% goes into a general fund to finance the CSA program. It is estimated to gross up to $15 million annually, which is restricted currently to certain purchases by the city and could be expanded.

Promise Programs, Early Award Scholarships

Another way to help transform small dollar CSAs, but also Promise programs, is by awarding scholarships early. Awarding scholarships early is different from early commitment scholarships. In early award programs, scholarships dollars are put into the CSA on the behalf of the child prior to the children reaching college age. In contrast, early commitment scholarships notify children prior to reaching 18 about the amount of money they will receive when they enroll in a postsecondary institution to help pay for college (i.e., a "promise" of money). An example of a proposal for an early award scholarship program is the College Board's proposal to supplement the Pell Grant program by opening savings accounts for children as early as age 11 or 12 and making annual deposits into the child's CSA of 5% to 10% of the amount of the Pell Grant award for which they would be eligible. However, billions of dollars are provided every year in educational scholarships. What if all or some portion of those funds were placed in children's accounts much earlier? Some foundations are beginning to implement this new way of thinking about scholarship dollars. Putting these scholarship funds into kids' accounts early compounds interest and gives them bargaining power that was once only reserved for wealthy children. In Making Education Work for the Poor we describe why early award scholarships may be critically important to augmenting education's ability to act as an equalizer in society.

[3] Community Link Foundation. (n.d.). Retrieved from communitylinkfoundation.org/

Making Higher Education Within Reach

Taken together College Promise and Children Savings Accounts are innovative financing initiatives that promote both a college-going culture and an asset building agenda for the 21st century. When paired with a College Promise program --which cover tuition and fees-- CSAs can remove the additional financial barriers to higher education by covering costs associated with college enrollment and completion. This is especially important given the high numbers of college drop-outs due to financial barriers. But beyond the financing of college, CSAs build assets for low-income families to help solve our nation's broader generational wealth inequities: children from higher wealth families are more likely to enroll in and complete postsecondary credentials than low-wealth children and benefit from higher on the very college degree that is meant to equalize outcomes. From this author's perspective, small-dollar CSAs and Promise programs are important steps in removing the financial barriers to college. But these initiatives can be better leveraged into solving broad, entrenched, and generational wealth advantages that diminish the ability of education to serve as an equalizer in society.

Find out more about the College Promise movement by visiting collegepromise.org/join

About the Author

Professor William Elliott is a leading researcher in the fields of college savings accounts, college debt, and wealth inequality. Shaped by his personal roots in poverty, in a small steel mill city in Pennsylvania, he challenges individual beliefs and cultural values that surround funding for college, student debt, inequality, systemic patterns of poverty, and educational justice.

Some of the college savings account programs he is currently conducting research on are the Oakland Promise in California, Prosperity Kids in New Mexico, K2C in San Francisco, Promise Indiana, and the Harold Alfond College challenge in Maine.

He's published in journals such as Economics and Education Review, Journal of Poverty, Race and Social Problems, Educational Policy, and his most recent book is, "Making Education Work for the Poor: The Potential of Children's Savings Accounts". His research adds fuel to debates about how to imagine ways of financing college other than by student debt. He believes that there are real possibilities and his research bears this out. He asks if college education can truly be the great equalizer it is meant to be when wealth inequality remains the defining feature of America. He calls for the next great wealth transfer in America. The seemingly naive premise behind his research is there are better, more effective, and more just ways of financing college and delivering on the promise of the American dream. He suggests people must just be shown once again that more is possible.