

This packet is an introduction and brief summary of information related to the strategy listed below. It is not exhaustive and is intended to be a starting point for the conversations that will take place at the Next Steps event. Your expertise and experience with this topic will help to fill in gaps and round out the conversation.

## Strategy: Increase access and support for Child Development Accounts

**Group Charge: Create an action plan for establishing a Child Development Account program that is automatic, universal, and progressive.**

### WHAT WE KNOW

#### Need In St. Louis

- In 2012, 11,949 adults 25 and older died in St. Louis, and nearly 1 in 10 of those deaths (1,111) was due to two factors: poverty (556) and low levels of education (555).<sup>1</sup>
  - 3,143 African American adults 25 and older died in St. Louis, and almost 1 in 5 of these deaths (581) was due to two factors: poverty (319), and low levels of education (262).<sup>1</sup>
  - 8,618 white adults 25 and older died in St. Louis, and 1 in 16 of these deaths (538) was due to two factors: poverty (246), and low levels of education (292).<sup>1</sup>
- The loss of life linked to poverty and not completing high school has an estimated cost of approximately \$7.8 billion.<sup>1</sup>
  - The cost of loss of life among African American is estimated at \$4.1 billion<sup>1</sup>
  - The cost of loss of life among whites is estimated at \$3.8 billion.<sup>1</sup>
- Among white residents in St. Louis, 74% have some college education or more.<sup>1</sup> Only 57% of African Americans have some college education or more.<sup>2</sup>

#### Strategy Background

##### In general

- Policies that address factors like education could have a bigger influence on health than an exclusive focus on medical care<sup>3</sup>
- Those who go to college are likely to live longer and have higher incomes<sup>1</sup>

##### About this strategy

- Child Development Accounts (CDAs) are long-term savings or investment accounts that allow families to accumulate assets, such college savings.<sup>4</sup>
  - These accounts are often opened automatically with an initial deposit and supplemented with benchmark and/or matching funds using both public and private dollars.<sup>1,5</sup>
- In addition to accumulating assets for children, CDAs impact a child's life by influencing education-related expectations, support, effort, and outcomes.<sup>6</sup>
- Research has demonstrated that savings program like CDAs can help reduce poverty and give families hope for the future.<sup>7</sup>

- CDAs will be most effective if they are established through universal and progressive policies that establish accounts for everyone but give children from low-income families additional resources.<sup>4</sup>

## Effectiveness

### Health

- A statewide, randomized experiment found that CDAs have a positive effect on children's social-emotional development, especially for disadvantaged groups, such as low-income families.<sup>8</sup>
- It also found a significant decrease in depressive symptoms for mothers of children with a CDA.<sup>9</sup>

### Education

- A statewide, randomized experiment found that mothers of children with a CDA were more likely to open a 529 account and save more money than mothers of children without a CDA.<sup>10</sup>
- This experiment found that CDAs have a positive effect on parents' expectations for their children's education.<sup>11</sup>
- Children with college savings are more likely to perceive college attendance as a realistic possibility than children without college savings.<sup>12</sup>
- Low- to moderate-income children with college savings between \$1-\$499 in their names are 3 times more likely to attend college and four times more likely graduate from college than children without savings accounts.<sup>13</sup>
- Compared with children without college savings children with savings have better academic achievement, such as higher math scores.<sup>12</sup>

## Examples

Below are two local examples of community programs implemented in St. Louis communities that are designed to achieve a variety of goals related to college savings.

### Community Programs

- In order to help more children in the Normandy School District go to college, Beyond Housing offers a \$500 MOST (Missouri Saving for Tuition) 529 college savings account, called a Promise Account, to students entering kindergarten in the district.<sup>14</sup>
- To create an asset-building culture, increase financial literacy, and decrease the number of unbanked families, the St. Louis City Treasurer's Office provides a \$50 seed deposit to kindergarten students in public or charter schools enrolled in the program. College Kids provides a match up to \$100 and additional incentives.<sup>14</sup>

We are proposing a universal CDA program for all children born in St. Louis City and St. Louis County. With the intention to increase the scale to a statewide program in the future, this program would be designed to follow the recommended practices for large-scale programs. The following examples are statewide CDA programs.

### Statewide Programs<sup>15</sup>

- The Harold Alfond College Challenge in Maine is a universal, automatic program that provides a \$500 grant for college, with a match option, to all newborns and newly-adopted babies in the state.
- Nevada College Kick Start automatically enrolls all kindergarten students in public schools and provides a \$50 initial seed deposit with a progressive match option.
- Rhode Island's CollegeBound*baby* is a universal, opt-in program that provides a \$100 initial seed to all newborns and newly-adopted babies in the state.
- CHET Baby Scholars in Connecticut is a universal, opt-in program that provides a \$100 initial seed, with a match option, to all newborns and newly-adopted babies in the state.

# DESIGNING & IMPLEMENTING A LARGE-SCALE CDA PROGRAM

## Operational Specifications<sup>4,16,17</sup>

Program Component	Recommended Practice	Our Proposal
Establish buy-in	Public sector support, whether financial or operational, is especially important for large programs or scaling up small programs. The public sector can provide resources and infrastructure to ensure long-term sustainability; provide access to participant data through government systems which helps with automatic enrollment (e.g., birth or school records); and can encourage support from the private sector by leveraging assets and relationships.	Same as recommended practice
Engagement	Engage stakeholders and build the team, including funders, planning team, project coordinator	Same as recommended practice
Set program goals		<p>Kids with more education</p> <p>More kids achieving developmental milestones</p>
Select and enroll the target population	<p>Universal programs that are open to all children in a particular area are more politically feasible and decrease the administrative burden of verifying eligibility</p> <p>Automatic enrollment ensures all children have access to the program and saves resources that would have been used for recruitment</p>	Use birth records to automatically enroll all children born in St. Louis City and County, with the option to opt-out
Choose an account and financial partner	College savings plans offer an ideal platform for inclusive and progressive CDAs (see <b><u>Appendix A: College Savings Plans: A Platform for Inclusive and Progressive Child Development Accounts</u></b> ).	<p>Missouri Saving for Tuition (MOST) 529 College Savings Plan for opening and maintaining custodial accounts</p> <p>Parents can open 529 accounts to make their own contributions, which can be linked to the custodial account by a child's social security number. See Rhode Island for example.</p>

<p>Determine incentive structure</p>	<p>Initial deposits: amounts can range from \$50-1,000</p> <p>Progressive deposits: additional or higher deposits for low- to moderate-income participants</p> <p>Benchmark deposits: could be made as children reach certain benchmarks</p> <p>Matching deposits: could be made as a match for personal saving contributions</p>	<p>Initial \$500 deposit</p> <p>Use a progressive system for subsequent deposits, using free and reduced lunch eligibility (or some other appropriate indicator) as a proxy for poverty level</p> <p>Benchmark deposits could be tied to significant educational milestones (e.g., completion of preschool, kindergarten, third grade, middle school, high school)</p>
<p>Determine restrictions for use</p>	<p>Post-secondary education, home ownership, or business activities</p>	<p>Post-secondary education</p>
<p>Foster family and child engagement</p>	<p>Child and family engagement provides motivation, encourages account contributions, and makes the account meaningful (e.g., account statements)</p>	<p>Quarterly statements with summary balances for all contributions and age-appropriate tips and activities<sup>18</sup></p>
<p>Build financial capability</p>	<p>Financial education on topics such as creating budgets, writing checks, or reading bank statements</p>	<p>Same as recommended practice</p>
<p>Determine the account and operating costs</p>	<p>Program delivery costs can include:</p> <ul style="list-style-type: none"> <li>• Personnel</li> <li>• Consulting/contracting feeds to retain partners</li> <li>• Account fees</li> <li>• Data collection and evaluation</li> <li>• Supplies and materials</li> <li>• Marketing</li> <li>• Local travel</li> </ul>	<p>Missouri WONK developed account cost projections for CDAs in St. Louis City and St. Louis County.</p> <p>With no inflation, a program in the city could “pay for itself”<sup>1</sup> in year 28 with a conservative, moderate, or aggressive investment option. For the county, the program could pay for itself in year 28 with an aggressive investment strategy at no inflation. See <a href="#"><b><u>Appendix B: Child Development Account Projections – St. Louis County and St. Louis City</u></b></a> for additional projections with variations in inflation an investment risk<sup>19</sup> and <a href="#"><b><u>Appendix C: Child Development Accounts – Summary of Cost Estimates</u></b></a> for information on the assumptions used.<sup>20</sup></p>

<sup>1</sup> The combination of estimated rate of forfeiture due to failure to use funds for qualified postsecondary education expense and investment return would result in a surplus in an omnibus fund under these conditions. Estimated rates does not include administrative or evaluation costs.

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Secure the funds for initial and subsequent deposits

Diverse funding support can help programs offer additional deposits, lessens the cost to government agencies, and increases sustainability

Same as recommended practice

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For templates and more information, see **Appendix D: Investing in dreams: A blueprint for designing Children's Savings Account programs.**

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