

## CREATING A FINANCIAL STAKE IN COLLEGE: REPORT II OF IV

# DOES STRUCTURAL INEQUALITY BEGIN WITH A BANK ACCOUNT?

WILLIAM ELLIOTT III

JANUARY 2012

“Creating a Financial Stake in College” is a four-part series of reports that focuses on the relationship between children’s savings and improving college success. This series examines: (1) why policymakers should care about savings, (2) the relationship between inequality and bank account ownership, (3) the connections between savings and college attendance, and (4) recommendations to refine children’s savings account proposals. This series of reports presents evidence from a set of empirical studies conducted by Elliott and colleagues on children’s savings research, with an emphasis on low-income children, relevant to large-scale policy proposals. One such proposal, The ASPIRE Act, would encourage savings by opening an account for every newborn child, seeding the account with an initial deposit and progressively matching contributions, and designating accumulated resources to support post-secondary education or other targeted uses such as homeownership or retirement. Collectively, these reports build on the compelling observation that children with savings in their name are given a stake in their future. As such, they are more inclined to take control over their educational experience and feel more empowered to attend college and persist through graduation.

Report II presents evidence that structural inequalities have created an unequal playing field for low-income families and their children to build assets. Children in families with higher incomes and greater assets are more likely to have relationships with banks and access to other institutional structures that support savings (Beverly & Sherraden, 1999; Sherraden, 1991). Because children’s savings is an important predictor of children’s educational outcomes (e.g., Elliott, 2011; Elliott & Beverly, 2011a, b), inequity in institutionalized opportunities to save and accumulate wealth among children may weaken the effectiveness of the

education institution to act as the “great equalizer” in society. Thus, children’s savings accounts must be carefully structured to address these inequities for children from low-income families. An institutional theory of savings perspective is helpful to identify the types of structures and mechanisms that promote savings, some of which may be particularly relevant to an examination of how children learn to interact with their finances.

---

## Children's Savings through an Institutional Lens

Economic socialization theory emphasizes the role that the family plays in helping influence children's attitudes and behaviors toward saving. This theory builds on the commonly held belief that family is one of the key institutions in which children's development takes place (e.g., Bronfenbrenner, 1979). According to economic socialization theory, children and adolescents learn financial practices through observing and modeling their parent's behaviors (e.g., Moschis, 1987) as well as through education, and they develop skills and strategies through parental guidance and self-reflection (Webley, 2005). For children, saving is almost always connected to a larger social unit or family and involves negotiating with parents (Sonuga-Barke & Webley, 1993; Webley, Levine, & Lewis, 1991). Even when they open their own accounts, children are often supported by parents or other family members. Moreover, many children must rely on some form of allowance from their parents as their main source of income. From this perspective, the story of why some children may have savings of their own that can be used for school and others do not is one of the successes or failures of parents as economic socializers.

---

The act of saving is not purely an individual act determined solely by human capital or even social background, but it also requires access to the capabilities financial institutions provide.

---

Conversely, the institutional theory of saving emphasizes the institutional determinants of saving and asset accumulation and the important role that financial institutions play in shaping children's saving attitudes and behaviors. This theory is more concerned with the attitudes and behaviors of low socioeconomic status (SES) populations than it is with high SES families and their

children (Sherraden & Barr, 2005). Up until now, it has been used primarily to explain saving among adults. According to institutional theorists, institutions provide the context within which all human interaction takes place (e.g., Nee & Ingram, 1998). Sen (1999) states, "Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function" (Sen, 1999, p. 142). Sherraden (1991) provides a broad definition of institutions used in this report, "formal and informal socioeconomic relationships, rules, and incentives, including the organization of capitalist enterprises and voluntary associations, and all the laws, procedures, and agents of the state that affect organizations and households" (p. 124).

## Structural Failure: Why Low Socioeconomic Status Children Fail to Save

An institutional theory of saving builds on the premise that acquisition of financial knowledge and resources are strongly influenced by structural failures related to social class and race. In describing the American economic environment, Mark Rank (2004) states "the game itself is structured in a way that ultimately produces economic losers" (p. 65). Institutional theory posits that structural failures make it difficult for low SES families to provide their children with the connections within and between financial institutions they need to be able to save and accumulate assets. Within the framework presented here, a family's SES is based on income, education, occupation, wealth, and connections to financial institutions. A key component of institutional theory is that the act of saving is not purely an individual act determined solely by human capital or even social background, but it also requires access to the capabilities financial institutions provide (Sherraden, 1991).

An important way that people connect to financial institutions in a capitalistic society like the United States is

---

by owning assets (Sherraden, 1991). Sherraden (1991) describes this process of assets begetting assets:

Owning financial assets, for most people, is an educational process. People pay attention to the investment, manage it, make some successful decisions, make some mistakes, seek out information, and throughout this process, gain a greater financial knowledge and sophistication. With this experience, people are likely to display greater interest, greater effort, and greater success in additional financial endeavors. This added effort, on the average, leads to increased income and accumulation of assets. (p. 156)

Assuming this is true, structural failings put low SES children at a competitive disadvantage with high SES children. In this way, financial institutions, which are intended to promote saving and asset accumulation at the individual level, create opportunities for saving and asset accumulation at the societal level.

In sum, institutional theory suggests that low SES families who generally do not own assets because of structural failings, are less likely to have connections to financial institutions that are designed to help them save and accumulate assets. Lack of assets and connections to financial institutions place low SES children in a disadvantaged position from the outset in comparison to their high SES counterparts, who are more likely to save and accumulate assets.

## Extent of Income and Wealth Inequality at the Household Level

The extent of income and wealth inequality in the United States is far-reaching, favoring a small percentage of households at the upper end and leaving a majority vulnerable at the lower end. These inequalities appear to be on the rise and are especially evident along lines of class and race (DeNavas-Walt, Proctor, & Smith, 2010; Frank, 2009; Mishel, Bernstein, & Shierholz, 2009). For instance,

since 1979 there has been roughly a two percent decrease in the share of income received by the lowest 20 percent of households, while the top 20 percent of households enjoyed a four percent increase (Mishel, et al. 2009). Following the recent economic recession in 2009, the lowest 20 percent of households experienced an additional decrease of roughly six percent compared with a 1 percent increase enjoyed by the top 20 percent of households (DeNavas-Walt, et al. 2010). About 13 percent of low-income households with children have a 50-50 chance of experiencing a drop in income during any given year, and 60 percent of those households do not recoup their losses within that year (Acs & Nichols, 2010). Income inequality in the United States is also apparent by race. Median income among white households has risen over the last several decades, while black and Latino households have experienced periods of decline (Mishel, et al., 2009). The median income of white households in 2009 was \$30,941 compared with \$18,135 for black and \$15,063 for Latino households, or about 59 percent and 49 percent the median income received by white households (DeNavas-Walt, et al. 2010).

Likewise, household wealth has followed a similar trend. The top 20 percent of households, for instance, enjoyed an 11 percent increase in the share of the net worth distribution between 2001 and 2004 compared with the lowest 20 percent of households who experienced a decrease of almost an equal percentage (Mishel, et al. 2009). To put this in dollar terms, the top 20 percent of households received almost \$20 million of the net worth in 2004 while the bottom 20 percent of households were *in debt* about \$11,000 (Mishel, et al. 2009). Wealth inequality also exists along racial lines. A report released by the Institute on Assets and Social Policy in 2010 found that the gap in net worth between whites and blacks quadrupled over the last decade (Shapiro, Meschede, & Sullivan, 2010). According to their report, white households held up to \$100,000 in median net worth in 2007 compared with black families who held up to \$7,000, or about 7 percent of the net worth held by white households (Shapiro, et al. 2010). A more

---

recent report by the Pew Foundation echoes these findings, specifically that whites held up to \$113,148 in median net worth in 2009 compared with \$6,325 held by Latinos and \$5,677 held by blacks, or six percent and five percent, respectively, of the net worth held by whites (Kochhar, Fry, & Taylor, 2011). While all households experienced a decline in net worth during the recent economic recession, black and Latino households experienced substantial declines of 53 percent and 66 percent between 2005 and 2009 compared with a 16 percent decline in net worth held by white households (Kochhar, et al. 2011).

## Structural Underpinnings of Household Wealth Inequality

Structural underpinnings of household wealth inequality include factors as diverse as the U.S. tax code, access to credit, appreciation of home values, and intergenerational transfer of wealth (for a more detailed account than is provided in this paper, see Conley, 1999; Lui, Robles, Leondar-Wright, Brewer, & Adamson, 2006; Oliver & Shapiro, 2006; Shapiro, 2004; Sherraden, 1991; Williams Shanks, 2005). Regarding the tax code, for example, the poorest Americans continue to see their real incomes drop while at the same time their federal tax rate continues to rise; in contrast, the richest Americans continue to see their income rise and their tax rate fall, if they pay taxes at all (Sherraden, 1991). The housing market underpins household wealth inequality between whites and blacks through (1) more limited access to credit to purchase a home for blacks, (2) higher prices of credit and interest rates for blacks, and (3) lower appreciation of home values among homes owned by blacks (Shapiro, 2004). Intergenerational transfer of wealth (Kotlikoff & Summers, 1981), the Homestead Act (Williams Shanks, 2005), and a host of other instances of government action or inaction (Lui et al. 2006) have also contributed to wealth inequality in America.

Given this well-documented history of structural inequality in America, it is important to determine whether or not low SES families are in an unfavorable position from an

institutional perspective to provide effective economic socialization to their children. The next section proposes a framework that may help assess how structural failings affect SES families' capacity to effectively economically socialize their children.

---

Structural underpinnings of household wealth inequality include factors as diverse as the U.S. tax code, access to credit, appreciation of home values, and intergenerational transfer of wealth.

---

## Framework for Assessing the Family as an Effective Economic Socializer

Researchers have identified a number of institutional features that influence people's behavior regarding saving and asset accumulation. Collectively, these characteristics "construct" the framework for understanding how institutions shape financial outcomes, and thus can be used to assess whether institutions have the capacity to provide children with the types of rules (i.e., institutional structure) required for promoting saving and asset accumulation. The constructs are: (1) access, (2) information, (3) incentives, (4) facilitation, (5) expectations, (6) restrictions, and (7) security (Sherraden and Barr, 2005).

The family is a type of social institution; in fact, under the current economic paradigm, families are seen as the primary institution for socializing children into the adult economy (e.g., Moschis, 1987). Families of different income and wealth levels may influence the ability of families to effectively socialize their children in positive financial practices.

Below is a short description of the seven institutional constructs and how each potentially impacts the capacity of low SES families to save and accumulate assets.

---

## Access

Access refers to children’s ability to connect with a formal banking institution. Research on children’s saving suggests that the current banking paradigm has failed to provide low SES children with the same access to federally insured accounts that higher-income children enjoy. For example, Kim, LaTailade, & Kim (2011) use data from the Panel Study of Income Dynamics (PSID) and its Child Development Supplement (CDS) to test whether access to savings among children 12 to 18 is associated with family economic resources. They find that the more net worth a family has the more likely children are to have savings of their own—that is, assets beget assets. Further, the less economic strain a family reports, the more likely children are to have savings of their own. They also find that a father’s education and race are predictors of having a savings account. In the only study found that uses a sample of low-income children (household income below \$50,000), Friedline (in press) finds that whether or not parents have savings for their child (age 12 to 15) is predictive of whether the child has savings of her own. However, low-income children are far less likely to have savings of their own (38 percent) when compared to higher income (household income of \$50,000 or above) children (69 percent). Moreover, she finds that low-income children are far less likely to have parents that have saved for them (56 percent) than higher-income parents (80 percent). While Ashby, Schoon, and Webley (in press) find, in a British sample, that family income does not have a direct relationship to children’s savings, they do find an indirect relationship through parenting style. Higher family income is associated with parents that act authoritatively, which in turn, is associated with having savings as a child. Overall, these findings provide some evidence for the proposition that low SES families lack the institutional structure to provide children with the same access to the formal banking system that higher-income children enjoy.

## Information

Information refers to knowledge about policies, services, or products, as well as knowledge that may contribute to

successful performance. Families are considered to be children’s main source of information on financial issues (e.g., Moschis, 1987). However, research shows low SES families have less financial knowledge (Loibl, Grinstein-Weiss, Zhan, & Red Bird, 2010; Zhan, Anderson, & Scott, 2006) and fewer discussions about family financial matters (Bowman, 2011; Sherraden & McBride, 2010) than middle- and upper-income families.

## Incentives

Incentives are financial rates of return, as well as nonfinancial “pay offs” for participation. Research shows that low SES families are more likely to use alternative forms of banking such as check cashing institutions or payday loans instead of formal banks (Barr, 2004; Rhine, Greene, & Toussaint-Comeau, 2006). With respect to rates of return, these types of financial institutions can actually be characterized as punitive. For example, Barr (2004) estimates that the average loan from a payday lending establishment is \$300, but the average fee for a single, two-week loan of \$300 is about \$54.

## Facilitation

Facilitation refers to any form of assistance in saving. In the case of children, an important aspect of facilitation is whether or not they have parents who encourage them to open a bank account. Children who have parents who encourage them to use a bank account save more than others (Webley & Nyhus, 2006). Descriptive data tell us, however, that low-income children (38 percent) are far less likely to have a savings account than higher-income children (69 percent) (Friedline, in press). In addition to encouraging children to save in a bank account, families also facilitate saving by providing children with an allowance (Furnham, 1999). For example, Furnham (1999) finds that children who receive an allowance are more likely to save. However, findings are mixed on whether children living in higher-income families are more likely to receive an allowance than those living in lower-income families. Mortimer, Dennehy, Lee, and Finch (1994) find that income is associated with whether children receive an

---

allowance or not in the first place. In contrast, in a sample of high-ability children, Miller and Yung (1990) find no evidence of differences in receipt of allowance by income but they do find evidence to suggest that children living with mothers with higher levels of education were more likely to receive an allowance than those living with mothers with less education. Overall, findings seem to suggest that low SES children may be less likely to receive an allowance in comparison to higher-income children.

### Expectations

Expectations are embodied in institutional features such as saving targets and social pressure from staff and peers. A large body of social-psychological research confirms that people tend to try to do what others expect them to do. However, low SES families are more likely to distrust the formal banking system (Barr & Blank, 2009; Retsinas & Belsky, 2005), and tend to pass these perceptions and practices onto their children (Grinstein-Weiss, Spader, Yeo, Taylor, & Freeze, 2010; John, 1999; Moschis, 1985; Shim, Barber, Card, Xiao, & Serido, 2010).

### Restrictions

Restrictions are ways that institutions limit access and use of savings. According to Sherraden and Barr (2005), two main types of restrictions are constraints on access and constraints on use. Thus, a key way that people restrict access to their savings is by saving at a formal banking institution (Sherraden & Barr, 2005). If low SES children are less likely to be banked, it is reasonable to conclude that they also are less likely to benefit from the restrictions banks provide. Being unbanked, can be particularly harmful to low SES families and children because research shows that they are more likely to have their savings drawn down by family and friendship networks if the money is saved somewhere in the house, for example (Chiteji & Hamilton, 2002).

### Security

Security refers to having a safe place to put money. Low SES families are far less likely to connect their children to a

federally insured bank than children from higher SES families. Federally insured banks provide people with safety of deposits in member banks currently up to \$250,000. Having money in a bank also is a protection from theft and natural disasters such as fire or flooding. Savings at home may not be protected from such threats.

Existing evidence suggests that low SES children start off at a disadvantage regarding their family's institutional capacity as economic socializers, in comparison to their high SES counterparts. This situation all but assures that low SES families will be more likely to fail at socializing their children as savers and that low SES children will be more likely to fail to open accounts and accumulate assets.

## Does Structural Inequality Begin with a Bank Account?<sup>1</sup>

Accordingly to the Panel Study of Income Dynamics, 67 percent of all children in the US in 2002 had a bank account (see Table 1, Column 1). However, when other characteristics such as race and gender, head's marital status, and class are examined, large disparities become apparent. White, female children who live in households where the head is married, has a four-year degree or more, a high-income, and high net worth are far more likely to be banked than their peers. Other findings include:

- 83 percent of high-income and 38 percent of low-income children are banked, a gap of 45 percent.
- 74 percent of white and 35 percent of black children are banked, a gap of 39 percent.
- 78 percent of children who live in high-net-worth households and 43 percent of children living in negative-net-worth households are banked, a gap of 35 percent.

Among children ages 13 to 17, 50 percent have college savings (see Table 1, Column 2), which is measured according to whether or not children have designated a portion of their savings for school purposes like college.

---

<sup>1</sup> The data reported in this and the next section is original data generated for the purposes of this report.



**Table 1:** Percent of children ages 13 – 17 in 2002 with traditional and school savings, percent of young adults ages 18 – 22 in 2007 with traditional savings and the percent of young adults who have traditional savings in 2007 with traditional savings as children in 2002 by race, gender, marital status, and class ( $N=729$ )

Covariates	Percent Children with Bank Account in 2002 ( $n=485$ )	Percent Children School Savers in 2002 ( $n=361$ )	Young Adult Traditional Savers in 2007		
			Percent Over all ( $n=614$ )	Percent with Bank Account in 2002 & 2007 ( $n=449$ )	Percent with Bank Account Only in 2007 ( $n=165$ )
White	74	55	90	94	78
Black	35	28	59	74	52
Female	70	53	86	92	72
Male	63	46	83	93	65
Married	73	54	90	95	77
Not Married	47	38	67	81	55
Head has four-year degree or more	81	58	96	98	84
Head has some College	75	54	91	93	82
Head has high school degree or less	53	42	74	87	60
High income	83	64	95	96	91
Moderate income	74	52	90	94	80
Low income	38	31	63	79	54
High net worth	78	60	92	95	84
Moderate net worth	47	31	69	85	55
Negative net worth	43	29	69	83	58
<b>Full sample</b>	67	50	84	93	68

**Source:** Weighted data from the Panel Study of Income Dynamics (PSID) and its supplements, the 2002 Child Development Supplement (CDS) and the 2007 Transition into Adulthood (TA) supplement. Data are imputed using multiple imputations. The same children are followed through young adulthood.

**Note:** Table results are rounded to the nearest percent. For more information on data and methods see Appendix A.

Not surprisingly, fewer children have college savings (50 percent) than simply have a bank account with no college savings (67 percent). Similar to findings on just having an account, findings suggest the largest college savings gaps exist by class and race. For example:

- 64 percent of high-income and 31 percent of low-income children have college savings, a gap of 33 percent.
- 60 percent of children who live in high-net-worth households and 29 percent of children living in

negative-net-worth households have college savings, a gap of 31 percent.

- 55 percent of white and 28 percent of black children have college savings, a gap of 27 percent.

Similar patterns of inequality are seen in young adult's savings (see Table 1, Column 3). High percentages (84 percent) of young adults are banked in 2007. Almost all white, female, young adults who live in households where the head is married, has four-years or more of college, and live in high-income or high-net-worth households as

---

children are banked as young adults. The extremely high account ownership rate may be explained, at least in part, by the fact that this study includes young adults with either a checking or savings account. The inclusion of checking accounts at a time when young adults are becoming less reliant on parents may help explain why so many young adults have an account in the aggregate data. Additional findings include:

- 95 percent of high-income and 63 percent of low-income young adults are banked, a gap of 32 percent.
- 90 percent of white and 59 percent of black young adults are banked, a gap of 31 percent.
- 92 percent of young adults who live in high-net-worth households and 69 percent of young adults who live in negative net worth households are banked, a gap of 23 percent.<sup>2</sup>

If young adults have an account as children, they are more likely to have an account and have more saved as an adult, when compared to children who do not (see Table 1, Column 4). If children have savings at an early age, they are more likely to have savings as young adults.<sup>3</sup> In the aggregate sample, 93 percent of children with savings also have savings as young adults. In contrast, 68 percent of young adults who had no savings as children have savings as young adults. There is a 25 percentage point difference between the two groups.

While gaps in savings remain by race, gender, marital status, and class, descriptive findings suggest that all children are much more likely to be banked as adults in 2007 if they had savings as children in 2002. For example, although only 35 percent of black children between the ages of 13-17 had savings in 2002, 74 percent of this group continues to have savings as young adults. Similarly, only 52 percent of black children who were not banked as

---

<sup>2</sup> Marital status also has a 23 percent college savings gap.

<sup>3</sup> It should be noted, because data are not collected annually, we cannot rule out that a child who is 13 in 2002 did not obtain savings at age 14 – 17, for example. Therefore, it might be that some children, who had savings in 2007 but not in 2002, had it at some other point during their childhood.

children have savings as young adults. In the case of marital status, head's education, household income, and net worth, all children are more likely to have savings as young adults if they had savings as children.

A 2011 study using multivariate analysis finds that children who had savings are statistically more likely to have savings as young adults after controlling for such things as race, income, wealth, future orientation, and household size (Friedline, Elliott, & Nam, 2011). Ashby et al. (2011) find similar results.

## Perpetuating Wealth Inequality: The Case of Savings Amount in Young Adulthood

In addition to examining who saves among children and young adults, this report provides data on the amount of savings young adults have in traditional accounts (see Table 2).<sup>4</sup> While ownership may help change children's attitudes and behaviors about college, it is also important that children are able to finance college. Research on the amount children have saved in a regular bank account, therefore, is also important for determining whether other types of accounts such as CSAs are needed.

On average, the aggregate data indicate that young adults have about \$2,466 saved (see Table 2, Column 1). While not enough to pay for college, it could go a long way in helping children pay for such things as books, school fees, clothes, social events, field trips, software, tutoring, or even a computer. These are all important resources for children achieving positive educational outcomes. For example, it is no longer sufficient for a student to turn in a hand written

---

<sup>4</sup> Since there is a high amount of missing (roughly 50 percent) on the savings amount variables among children 13 – 17, savings amounts are not reported for children. According to Little and Rubin (2002), a rule of thumb for about how many data can be missing and still obtain accurate results from multiple imputations is approximately 20 percent. To give the reader an idea of the amount children had in savings, average basic savings without imputing was \$1,436.10 in the aggregate sample, and for college savings it was \$388.22. However, due to missing data, generalizability is questionable and findings are not reported.



paper without citations. Computers and the internet have almost become basic survival needs for a student in the 21<sup>st</sup> century—nearly as important to their success as food, shelter, and clothing. Finland has made fast internet access a legal right (Ahmed, 2009), an extreme example that may become more common. From this perspective, providing all children with the same opportunity to use computers and the internet are essential to creating a level playing field.

Lack of savings for such items can create an unfair educational disadvantage.

**Table 2:** Mean amount of traditional savings among young adults ages 18–22 in 2007, and the mean amount of traditional savings in 2007 among young adults with and without traditional savings as children in 2002 by race, gender, marital status, and class ( $N=729$ )

Covariates	Mean Dollar Amount of Traditional Savings among Young Adults in 2007		
	Overall ( $n=614$ )	With Traditional Savings in 2002 & 2007 ( $n=449$ )	With Traditional Saving Only in 2007 ( $n=165$ )
White	2,661	2,716	2,508
Black	1,666	1,404	1,805
Female	2,043	3,024	1,729
Male	2,891	2,181	2,662
Married	2,669	2,686	2,624
Not Married	1,865	2,095	1,664
Head has four-year degree or more	2,569	2,731	1,844
Head has some college	2,770	2,571	3,397
Head has high school degree or less	2,244	2,452	2,007
High income	3,443	3,386	3,756
Moderate income	2,200	2,220	2,141
Low income	1,931	1,979	1,903
High net worth	2,780	2,767	2,834
Moderate net worth	2,139	2,168	2,115
Negative net worth	1,597	1,738	1,490
Full sample	2,466	2,581	2,237

**Source:** Weighted data from the Panel Study of Income Dynamics (PSID) and its supplements, the 2002 Child Development Supplement (CDS) and the 2007 Transition into Adulthood (TA) supplement. Data are imputed using multiple imputations. The same children are followed through young adulthood.

**Note:** For more information on data and methods, see Appendix A.

---

Young adults' savings amounts display familiar patterns of inequality when disaggregated by race, marital status, and class but not by gender and head's education. Some highlights are:

- Young adults from high-income households have about one and three quarters more saved than low-income young adults (\$3,443 vs. \$1,931, respectively).
- Young adults from high-net-worth households have about one and three quarters more saved than young adults from negative-net-worth households (\$2,780 vs. \$1,597, respectively).
- White young adults have about one and half times more saved than black young adults (\$2,661 vs. \$1,666, respectively).

Overall, the descriptive data present a mixed picture for the proposition that owning savings as a child leads to more savings as a young adult (see columns 2 & 3). For example, black young adults who had savings as children have fewer saving than black young adults who did not have savings as children. In contrast, with the exception of black young adults, traditionally disadvantaged groups—specifically, young adults who are female, who live in households where the head is single, who live in households where the head has a high school degree or less, who live in low-income households, and young adults who live in negative net worth households as children—save more if they had savings as a child. Further, in the aggregate data, young adults who had traditional savings as children save slightly more on average (\$2,581) than if they did not have savings as children (\$2,237).

## Leveling the Playing Field: How can Children's Savings Programs Help?

Although the descriptive evidence that low SES children are far less likely to have a savings account in the first place along with the finding that children's savings is associated with young adulthood savings provide some rationale for an institutional approach to children's saving, additional reasons exist as well. First, there is evidence of structural failure and that low SES families are more likely to have low capacity for being good economic socializers. Second, there

is the fact that previous models that primarily use an economic socialization approach are weak predictors of young adult savings.<sup>2</sup> For example, Ashby, Schoon, and Webley (in press) find that their economic socialization model is a weak predictor of young adult savings (McKelvey & Zavoina pseudo-R<sup>2</sup> equals 13 percent of savings in adulthood in the aggregate sample and 21 percent of savings in the sample of people who live alone). While pseudo R<sup>2</sup>'s cannot be compared across different datasets, they do suggest that, in a particular study, a model is either a good predictor of the outcome or not. Friedline, Elliott, and Nam (2011), find that their model is a relatively weak predictor of young adult savings (McFadden's pseudo-R<sup>2</sup> equals 17 percent or 21 percent depending upon the type of propensity score analysis used). Similarly, Friedline's and Elliott's (2011) model is also a weak predictor of savings (McFadden's pseudo-R<sup>2</sup> equals 14 percent among white young adult savings and 26 percent among blacks).

Based on this evidence, there is solid ground for suggesting that low SES children may require support from federal institutions to save and build assets. Such support is not so unusual. In fact, asset theorists contend that just about all saving and asset accumulation is made possible by institutions (Sherraden, 1991). Much of this institutional support comes through tax incentives directed increasingly at middle- and upper-income households for the purpose of helping them save and accumulate assets (Howard, 1997; Sherraden, 1991). Common examples that almost exclusively benefit middle- and upper-income households are tax exclusions for employer-sponsored pension contributions and earnings (e.g., 401k plans), and the home mortgage deduction. Low SES families are far more likely to work at jobs that do not offer 401k plans (Mishel et al., 2009), and they are far less likely to own their home in the first place (Rank & Hirschl, 2010). Given this, Sherraden and Barr (2005) aptly suggest that “until everyone has the same institutional opportunities and public subsidies for asset accumulation, it is not possible to know whether their reactions to institutional structures would be different from others” (pp. 4-5).

---

When discussing institutions within the applied social science context, Sherraden and Barr (2005) state that they can be thought of as “interventions, designed to alter behaviors and outcomes for individuals” (p. 8). From this perspective, children’s savings programs are a type of institution developed for the purpose of assisting low SES children to save and accumulate assets. Child Savings Accounts (CSAs) have been proposed as a potentially novel and promising institution meant to promote children savings and asset accumulation (Boshara, 2003; Goldberg & Cohen, 2000; Sherraden, 1991). An example of a CSA policy is the America Saving for Personal Investment, Retirement, and Education Act (ASPIRE). ASPIRE has a number of features that may help augment low SES families’ capacity to function as an effective economic socializer. Below, the institutional framework introduced earlier in this report illustrates how the ASPIRE Act, as currently constructed can potentially augment low SES families’ capacity to function effectively as economic socializers:

*Access* – “KIDS Accounts,” or a savings account for every newborn, would be created, ensuring universal access.

*Information* – Opportunities for financial education would be provided to all children.

*Incentives* – All children would be provided with an initial \$500 deposit. Moreover, children living in households with incomes below the national median would be eligible for an additional contribution of up to \$500 at birth and a savings

incentive of \$500 per year in matching funds for amounts saved in accounts. Lastly, children would be able to make tax-free withdrawals.

*Facilitation* – Accounts would be opened automatically for all children born in the US when their social security card is issued. Further, the initial deposit and match would be automatically deposited in the children’s account.

*Expectations* – Adopting a national children savings program like proposed in the ASPIRE Act would send the message to all children that Americans save for things like post-secondary education, home ownership, and retirement.

*Restrictions* – Access to funds in the account would be restricted by age and by use. Children could not make a withdrawal from the account until they turned 18, and they would be restricted to use savings for (1) post-secondary education, (2) first-time home purchase, or (3) retirement security.

*Security* – The accounts would be federally insured.

As proposed, a national savings program would provide children with an account, initial deposit, and match savings. If it is true that assets beget assets, a national savings program may be an important first step to reverse structural inequality in regards to saving and asset accumulation among low SES children.

---

*William Elliott III is an Assistant Professor at the University of Kansas School of Social Work. Additionally, he is a Faculty Associate with the Center for Social Development (CSD) at Washington University's Brown School and a Senior Research Fellow with the Asset Building Program at the New America Foundation. Elliott received his PhD and M.S.W from Washington University in St. Louis.*

**Author's Note**

This publication is part of the College Savings Initiative, a research and policy design collaboration between the Center for Social Development at Washington University (CSD) in St. Louis and the New America Foundation in Washington, D.C. I would like to thank CSD at Washington University's Brown School for all of its support in helping to develop this research over the last several years. I would like to give a special thanks to Michael Sherraden, Margaret Sherraden, Margaret Clancy, Lissa Johnson, Julia Stevens, Terry Lassar, and Carrie Freeman at CSD. I would also like to thank Reid Cramer, Justin King, Terri Friedline, and Mark Huelsman at the New America Foundation for all of their support in bringing this series of reports together. Lastly, I would like to thank Deb Adams at the University of Kansas for her extensive comments. Without all of their support this series of reports would not be possible.

---

## References

- Acs, G., & Nichols, A. (2010). *America insecure: Changes in the economic security of American families*. Washington, DC: The Urban Institute.
- Aizcorbe, A. M., Kennickell, A. B., & Moore, K. B. (2003). Recent changes in U.S. family finances: Evidence from the 1998 and 2001 survey of consumer finance. *Federal Reserve Bulletin*, 89(1), 1-32.
- Ashby, J. S., Schoon, I., & Webley, P. (2011). Save now save later? Linkages between saving behaviour in adolescence and adulthood. *European Psychologist*, 16(3), 227-237.
- Ahmed, S. (2011, October 15). Fast internet access becomes a legal right in Finland. Retrieved August 28, 2011, from [http://articles.cnn.com/2009-10-15/tech/finland.internet.rights\\_1\\_internet-access-fast-internet-megabit?\\_s=PM:TECH](http://articles.cnn.com/2009-10-15/tech/finland.internet.rights_1_internet-access-fast-internet-megabit?_s=PM:TECH)
- Beverly, S. G., & Sherraden, M. (1999). Institutional determinants of saving: Implications for low-income households and public policy. *Journal of Socio-Economics*, 28(4), 457-473.
- Barr, M. (2004). *Banking the poor: Policies to bring low-income Americans into the financial mainstream*. Washington, DC: Brookings Institution.
- Barr, M., & Blank, R. (2009). *Insufficient funds: Savings, assets, credit and banking among low-income households*. New York, NY: Russell Sage Foundation.
- Belk, R. W. (1988). Possessions and the extended self. *The Journal of Consumer Research*, 15(2), 139-168.
- Beverly, S., & Sherraden, M. (1999). Institutional determinants of saving: Implications for low-income households and public policy. *The Journal of Socio-Economics*, 28(4), 457-473.
- Beverly, S., Sherraden, M., Cramer, R., Williams Shanks, T., Nam, Y., & Zhan, M. (2008). Determinants of asset holdings. In S.-M. McKernan & M. Sherraden (Eds.), *Asset building and low-income families* (pp. 89-152). Washington, DC: Urban Institute Press.
- Blank, R. M., & Barr, M. S. (Eds.). (2009). *Insufficient funds: Savings, assets, credit and banking among low-income households*. New York, NY: Russell Sage Foundation.
- Blau, D. M. (1999). The effect of income on child development. *The Review of Economics and Statistics*, 81(2), 261-276.
- Boshara, R. (2003). Federal policy and asset building. *Social Development Issues*, 25(1&2), 130-141.
- Bowman, S. (2011). Multigenerational interactions in black middle class wealth and asset decision making. *Journal of Family and Economic Issues*, 32(1), 15-26.
- Bronfenbrenner, U. (1979). *The ecology of human development: Experiments by nature and design*. Cambridge, MA: Harvard University Press.
- Bucks, B. K., Kennickell, A. B., & Moore, K. B. (2000). Recent changes in U.S. family finances: Results from the survey of consumer finances. *Federal Reserve Bulletin*, 86(1), 1-29.
- Cayton, M. K. (2007). The commodification of wisdom. *The Chronicle Review*, 53(45), B1-B16.
- Chiteji, N., & Hamilton, D. (2002). Family connections and the black-white wealth gap among middle-class families. *The Review of Black Political Economy*, 30(1), 9-28.
- Conley, D. (1999). *Being black, living in the red*. Berkeley, CA: University of California Press.
- DeNavas-Walt, C., Proctor, B. D., & Smith, J. C. (2010). *Income, poverty and health insurance coverage in the United States: 2009 (P60-238)*. Washington, DC: U.S. Census Bureau.
- Duncan, G. J., & Morgan, J. N. (1981). Sense of efficacy and subsequent change in earnings—A replication. *The Journal of Human Resources*, 16(4), 649-657.
- Elliott, W. (2011). Why policy makers should care about children's savings. *Creating a financial stake*

- 
- in college research and policy reports*. Washington, DC: New America Foundation; St. Louis, MO: Washington University, Center for Social Development.
- Elliott, W., & Beverly, S. (2011a). Staying on course: The effects of assets and savings on the college progress of young adults *American Journal of Education*, 117(3), 343-374. Previously posted as Center for Social Development Working Paper 10-12, available at <http://csd.wustl.edu/Publications/Documents/WP10-12.pdf>
- Elliott, W., & Beverly, S. (2011b). The role of savings and wealth in reducing “wilt” between expectations and college attendance. *Journal of Children and Poverty*, 17(2), 165-185. Previously posted as Center for Social Development Working Paper 10-01, available at <http://csd.wustl.edu/Publications/Documents/WP10-01.pdf>
- Elliott, W., Destin, M., & Friedline, T. (2011). Taking stock of ten years of research on the relationship between assets and children’s educational outcomes: implications for theory, policy and intervention *Children & Children Services Review*. doi: 10.1016/j.childchildren.2011.08.001 Previously posted as Center for Social Development Working Paper 11-08, available at <http://csd.wustl.edu/Publications/Documents/WP11-08.pdf>
- Frank, M. W. (2009). Inequality and growth in the United States: Evidence from a new state-level of income inequality measures. *Economic Inquiry*, 47(1), 55-68.
- Friedline, T. (in press). The role of parents’ savings for transferring educational and financial advantage: Opportunities for children’s financial inclusion. *Children and Youth Services Review*.
- Friedline, T., & Elliott, W. (2011). Predicting savings for white and black young adults: An early look at racial disparities in savings and the potential role of childrens' development accounts. *Journal of Race and Social Problems*, 3(2), 99-118.
- Friedline, T., Elliott, W., & Nam, I. (2011). Predicting savings in young adulthood. *Journal of the Society for Social Work and Research*, 2(1), 1-22.
- Furnham, A. (1999). The saving and spending habits of young people. *Journal of Economic Psychology*, 20, 677-697.
- Goldberg, F. T. J., & Cohen, J. B. (2000). *The universal piggy bank: Designing and implementing a system of savings accounts for children* (CSD Policy Report 00-30). St. Louis, MO: Washington University, Center of Social Development. Retrieved December 1, 2011, from <http://csd.wustl.edu/Publications/Documents/60.TheUniversalPiggyBank.pdf>
- Goukova, E. (2001). The 2002 PSID child development supplement (CDS-II) weights. Retrieved March 22, 2008, from <http://psidonline.isr.umich.edu/CDS/questionnaires/cdsiiweights.pdf>
- Grinstein-Weiss, M., Spader, M., Yeo, Y. H., Taylor, A., & Freeze, E. B. (2010). Parental transfer of financial knowledge and later credit outcomes among low and moderate homeowners. *Children and Youth Services Review*, 33, 78-85.
- Howard, C. (1997). *The hidden welfare state: tax expenditures and social policy in the United States*. Princeton, NJ: Princeton University Press.
- John, D. R. (1999). Consumer socialization of children: A retrospective look at twenty-five years of research. *The Journal of Consumer Research*, 26(3), 183-213.
- Kim, J., LaTaillade, J., & Kim, H. (2011). Family processes and adolescents’ financial behaviors. *Journal of Family and Economic Issues*, 32, 532-544
- Kochhar, R., Fry, R., & Taylor, P. (2011). *Twenty-to-one: Wealth gaps rise to record highs between whites, blacks, and Hispanics*. Washington, DC: Pew Research Center.
- Kotlikoff, L. J., & Summers, L. H. (1981). The role of intergenerational transfers in aggregate capital accumulation. *Journal of Political Economy*, 89(4), 706-732.
- Little, R. J. A., & Rubin, D. B. (2002). *Statistical analysis with missing data* (2nd ed.). New York, NY: John Wiley & Sons.
- Loibl, C., Grinstein-Weiss, M., Zhan, M., & Red Bird, B. (2010). More than a penny saved: Long-term changes in behavior among savings program participants. *The Journal of Consumer Affairs*, 44(1), 98-126.
-



- 
- Lui, M., Robles, B., Leondar-Wright, B., Brewer, R., & Adamson, R. (2006). *The color of wealth: The story behind the U.S. racial wealth divide*. New York, NY: The Free Press.
- Mayer, S. (1997). *What money can't buy: family income and children's life chances*. Cambridge: Harvard University Press.
- Miller, J., & Yung, S. (1990). The role of allowances in adolescent socialization. *Youth & Society*, 22(2), 137-159.
- Mishel, L., Bernstein, J., & Shierholz, H. (2009). *The state of working America 2008/2009*. Ithaca, NY: H.R. Press.
- Mortimer, J., Dennehy, K., Lee, C., & Finch, M. (1994). Economic socialisation in the American family: The prevalence, distribution and consequences of allowance arrangements. *Family Relations*, 43, 23-29.
- Moschis, G. P. (1985). The role of family communication in consumer socialization of children and adolescents. *Journal of Consumer Research*, 11(4), 898-913.
- Moschis, G. P. (1987). *A life-cycle perspective* (2nd ed.). Lexington, KY: Lexington Books.
- Nam, Y., & Huang, J. (2009). Equal opportunity for all? Parental economic resources and children's educational achievement. *Children and Children Services Review*, 31(6), 625-634. Previously posted as Center for Social Development Working Paper 08-02, available at <http://csd.wustl.edu/Publications/Documents/WP08-02.pdf>
- Nee, V., & Ingram, P. (1998). Embeddedness and beyond: Institutions, exchange, and social structure. In M. C. Brinton & V. Nee (Eds.), *The New Institutionalism in Sociology* (pp. 19-45). New York, NY: Russell Sage Foundation.
- Oliver, M. L., & Shapiro, T. M. (2006). *Black wealth/white wealth : A new perspective on racial inequality* (tenth-anniversary ed.). New York: Routledge.
- Rank, M. (2004). *One nation, underprivileged: How American poverty affects us all*. New York: Oxford University Press.
- Rank, M. R., & Hirschl, T. A. (2010). Homeownership across the American life course: Estimating the racial divide. *Race and Social Problems*, 2, 125-136.
- Rhine, S. L., Greene, W. H., & Toussaint-Comeau, M. (2006). The importance of check-cashing businesses to the unbanked: Racial/ethnic differences. *The Review of Economics and Statistics*, 88(1), 146-157.
- Rubin, D. B. (1976). Inference and missing data. *Biometrika*, 63(3), 581-592.
- Saunders, J. A., Morrow-Howell, N., Spitznagel, E., Doré, P., Proctor, E. K., & Pescarino, R. (2006). Imputing missing data: A comparison of methods for social work researchers. *Social Work Research*, 30(1), 19-31.
- Schafer, J. L., & Graham, J. W. (2002). Missing data: Our view of the state of the art. *Psychological Methods*, 7, 147-177.
- Sen, A. (1999). *Development as freedom*. New York: Anchor Books.
- Shapiro, T. M. (2004). *The hidden cost of being African American: How wealth perpetuates inequalities*. New York, NY: Oxford University Press.
- Shapiro, T., Meschede, T., & Sullivan, L. (2010). *The racial wealth gap increases fourfold*. Boston, MA: Institute on Assets and Social Policy.
- Sherraden, M. (1991). *Assets and the poor: A new American welfare policy*. Armonk, NY: M.E. Sharpe.
- Sherraden, M., & Barr, M. (2005). Institutions and inclusion in saving policy. In N. P. Retsinas & E. S. Belsky (Eds.), *Building assets, building wealth: Creating wealth in low-income communities* (pp. 286-315). Washington DC: Brookings Press.
- Sherraden, M. S., & McBride, A. M. (2010). *Striving to save: Creating policies for financial security of low-income families*. Ann Arbor, MI: University of Michigan Press.
- Sherraden, M., Schreiner, M., & Beverly, S. (2003). Income, institutions, and saving performance in individual development accounts. *Economic Development Quarterly*, 17(1), 95-112.
- Shim, S., Barber, B. L., Card, N. A., Xiao, J. J., & Serido, J. (2010). Financial socialization of first-year college students: The roles of parents, work, and education. *Journal of Youth & Adolescence*, 39, 1457-1470.
-

- 
- Sonuga-Barke, E. J. S., & Webley, P. (1993). *Children's saving: A study in development of economic behavior*. Hillsdale, NJ: Lawrence Erlbaum.
- Webley, P. (2005). Children's understanding of economics. In M. Barrett & E. Buchanan-Barrow (Eds.), *Children's understanding of society* (pp.43-67). Hove: East Sussex: Psychology Press.
- Webley, P., Levine, M., & Lewis, A. (1991). A study in economic psychology: Children's saving in a play economy. *Human Relations, 44*(2), 127-146.
- Webley, P., & Nyhus, E. (2006). Parents' influence on children's future orientation and saving. *Journal of Economic Psychology, 27*, 140-164.
- Webley, P., & Young, B. M. (2006). Forward. *Journal of Economic Psychology, 27*, 1-5.
- Williams Shanks, T. (2005). The Homestead Act: A major asset-building policy in American history. In M. Sherraden (Ed.), *Inclusion in the American dream* (pp. 20-41). New York, NY: Oxford University Press.
- Zhan, M., Anderson, S. G., & Scott, J. (2006). Financial knowledge of the low-income population: Effects of a financial education program. *Journal of Sociology and Social Welfare, 33*(1), 53-74.

---

## Appendix A: Methods

**Data.** This study uses longitudinal data from the Panel Study of Income Dynamics (PSID) and its supplements, the Child Development Supplement (CDS) and the Transition into Adulthood supplement (TA). The PSID is a nationally representative longitudinal survey of US individuals and families that began in 1968. The PSID collects data on such items as employment, income and assets. The CDS was administered to 3,563 PSID respondents in 1997 to collect a wide range of data on parents and their children, aged birth to 12 years. Questions covered a broad range of developmental outcomes across the domains of health, psychological well-being, social relationships, cognitive development, achievement, motivation, and education. Follow-up surveys were administered in 2002 and 2007. The TA supplement, administered in 2005 and 2007, measures outcomes for young adults who participated in earlier waves of the CDS and were no longer in high school.

The three data sets are linked using PSID, CDS, and TA map files containing family and personal ID numbers. The linked data sets provide a rich opportunity for analyses in which data collected at one point in time can be used to predict outcomes at a later point in time and stable background characteristics can be used as covariates. Because the PSID initially oversampled low-income families descriptive analyses are weighted using the last observed weight variable as recommended by the PSID manual (Gouskova, 2001).

**Savings variables.** Four measures of children's savings are used in this study: children's traditional savings in 2002, children's college savings 2002, young adult's traditional savings in 2007, and young adult's traditional savings amount 2007.

*Children's traditional savings 2002:* Children ages 13 to 17 are asked whether or not they have a savings or bank account in their name. This is a dichotomous variable with response options including, yes and no. Data for this variable is available from the 2002 CDS.

*Children's college savings 2002:* If children (ages 13 to 17) have a traditional savings account, they are asked if any of the money in these accounts is designated specifically for school purposes, like paying for college. This is a dichotomous variable with response options including, yes and no. Data for this variable is available from the 2002 CDS.

*Young adult's traditional savings 2007:* Children ages 18 to 22 are asked whether or not they have a checking or savings account in their name. This is a dichotomous variable with response options including, yes and no. Data for this variable is available from the 2007 CDS.

*Young adult's traditional savings amount 2007:* In the 2007 TA, savings amount is a continuous variable ranging from \$.01 to \$9,999,996.

**Race, gender, marital status, class and wealth variables.** There are six control variables: children's race, gender, head's marital status, education level, and household income and household net worth.

Children's race, a dichotomous variable (*black/white*), is available from the 1997 wave of the CDS. Children's gender is also a categorical variable (*male/female*), which is available from the 2002 wave of the CDS. Head's marital status (*married/not married*) is available from the 2001 wave of the PSID.

---

Head's education level is a continuous variable ranging from 1 to 16 and is available from the 2003 wave of the PSID. Each number represents a year of completed schooling. For example, a head of household who has 12 years of education is considered to have graduated from high school. Head's education is changed into a categorical variable, dividing heads into three groups: those with a high school degree or less, those with some college, and those with a four-year degree or more.

Household income is calculated by averaging family income for 1993, 1997 and 2002. Income averaged over multiple years provides the best estimate of permanent income (Blau, 1999; Mayer, 1997). Next household income is changed into a variable with three groups: low-income (<\$33,377), modest-income (\$33,377 to \$84, 015), and high-income (\$84,016 or more).<sup>5</sup> Income is inflated to 2007 price levels using the Consumer Price Index (CPI).

Net worth in the PSID is a continuous variable that sums separate household values for a business, checking or savings accounts, real estate, stocks, and other assets, and subtracts out credit card and other debt. In this analysis, net worth does not include home equity. Net worth is averaged for 1994, 1999, and 2001. It is then changed into a variable with the following three categories: negative net worth (< \$0), modest net worth (\$0~\$10,000), and high net worth (>\$10,000).<sup>6</sup> Net worth was inflated to 2007 price levels using the Consumer Price Index (CPI).

***Analysis plan.*** In the first stage of the analysis, missing data are replaced using multiple imputations. Missing data might result in limitations regarding generalizability of the findings and model comparisons as well as reduced power (Rubin, 1976). Multiple imputation has been recognized as a preferred method for estimating and completing missing data (Little & Rubin, 2002). This method assumes that missing data occur randomly. To accurately complete missing data, multiple imputations use information from the observed variables as well as the missing data. The Markov Chain Monte Carlo method is performed to create five completed, or imputed, datasets with no missing data (Saunders, Morrow-Howell, Spitznagel, Doré, Proctor, and Pescarino, 2006; Schafer & Graham, 2002). In the second stage of the analysis, the results are then pooled across the five imputed datasets to reduce bias in the estimations of parametric statistics (Saunders et al. 2006). In the third and final stage, basic frequencies and means are estimated.

---

<sup>5</sup> Category amounts are based on those used in the US Census Bureau's Current Population Report Income in the United States: 2002 (De Navas-Walt, Cleveland, & Webster, 2002). De-Navas-Walt et al. (2002) used five income categories; we recoded into three categories to increase the sample size within each group.

<sup>6</sup> These categories are used in work done by Nam and Huang (2009).

---

## Creating a Financial Stake in College, Report II

**Recommended citation:** Elliott, W. (2012). Does structural inequality begin with a bank account? (Creating a Financial Stake in College, Report II). Washington, DC: New America Foundation; St. Louis, MO: Washington University, Center for Social Development.

Other reports in the Creating a Financial Stake in College series:

Report I: *Why policy makers should care about children's savings.*

Report III: *We save, we go to college.*

Report IV: *Ideas for refining children's savings account proposals.*



© 2012 New America Foundation and Center for Social Development

This report carries a Creative Commons license.

For the full legal code of this Creative Commons license, please visit [www.creativecommons.org](http://www.creativecommons.org). If you have any questions about citing or reusing New America or Center for Social Development content, please contact us at [www.newamerica.net](http://www.newamerica.net) or [www.csd.wustl.edu](http://www.csd.wustl.edu).

MAIN OFFICE  
1899 L Street, NW  
Suite 400  
Washington, DC 20036  
Phone 202 986 2700  
Fax 202 986 3696

CALIFORNIA OFFICE  
921 11<sup>th</sup> Street  
Suite 901  
Sacramento, CA 95814  
Phone 916 448 5189



[WWW.NEWAMERICA.NET](http://WWW.NEWAMERICA.NET)