TO: Oregon House Committee on Early Childhood and Family Supports

FROM: Rebecca M. Loya

Date: April 4, 2017

Re: Testimony in support of HB 3314

My name is Rebecca Loya, and I am a Senior Research Associate at the Institute on Assets and Social Policy at Brandeis University. I am here today to share research findings on Children's Savings Accounts in support of HB 3314 and the Oregon Bright Futures Plan.

Children's Savings Accounts (CSAs) are programs that provide savings or investment accounts and financial incentives to children for the specific purpose of funding postsecondary education or other asset-building [1]. Research suggests that the value of CSAs goes well beyond what the family's saved dollars can afford. Having savings for postsecondary education is associated with higher educational expectations, improved cognitive development, better academic performance, and a greater likelihood of attending and completing college. These benefits are especially powerful for children from low- and moderate-income families.

Benefits of CSAs

Educational expectations and developmental benefits
CSAs begin making a difference in children's lives at a very young age. Infants with family incomes under 200% of the federal poverty line who receive CSAs have greater social-emotional development at age 4 than those without CSAs [2, 3]. The accounts also appear to reduce rates of depressive symptoms among mothers [4]. Parents whose children have CSAs also have higher academic expectations for their children starting in their infancy compared to those without CSAs [5]. The same is true for children: those with CSAs have higher educational expectations for themselves [6-9]. These effects matter because parents' and children's educational expectations are important predictors of young people's later academic achievement [10]. In other words, kids who do not think of college as an option are much less likely to end up in college. One way that CSAs can shift kids' trajectories is by encouraging children and parents to think of postsecondary education as a real possibility.

College access and academic success
Children with CSAs show measurable gains in academic performance. Having savings for postsecondary education is associated with higher math and reading scores [7, 11, 12] and a higher likelihood of enrolling in and completing college [13-16]. For instance, simply having a dedicated college savings account is associated with a 4.6-point increase in math scores [7]. Additionally, children with even small amounts of educational savings (up to $500) are more than two and a half times more likely to enroll in and graduate from college [14]. These effects are even more marked among children from low- and moderate-income families, who are three times more likely to attend college and four times more likely to graduate from college if they have modest amounts of savings than those without savings [15, 16].

Equity and inclusion
Current college savings platforms, such as 529 plans and Coverdell accounts, disproportionately benefit those with greater wealth, which in turn exacerbates inequalities from one generation to the next [18,

19]. In recent years, a growing number of states have created CSAs that offer incentives for low- and moderate income families to save in 529 accounts, such as matching grants [17, 20, 21]. However, these incentives are not enough to address the substantial barriers many low- and moderate-income families face to opening 529 accounts, including complex application processes, initial deposit requirements, minimum monthly deposits, and fees [18, 22-24]. Despite growing outreach to low-income families, the median income of families with 529s or Coverdells remains about three times that of families without these accounts [18]. This illustrates the critical point that, despite their overall promise, CSAs can actually *exacerbate* economic inequalities if they fail to incorporate features that facilitate meaningful access for lower-income families [25].

How can CSAs be made accessible to lower-income families? The research is clear on this point: The most effective way to achieve widespread participation in CSAs is to automatically enroll *all* children in the catchment area, which is known as a universal, opt-out approach [26-29]. Maine's CSA, the Harold Alfond College Challenge (HACC), is a valuable case study on the effect of automation. From 2009 to 2012, HACC offered $500 to parents of all newborns in the state, but enrollment was not automatic. Only about 40% of parents enrolled their newborns. Parents with higher income, higher education, and other investments were more likely to participate in the CSA [30, 31]. In 2013, HACC switched to an opt-out model, and participation rates jumped from 40% to an estimated 100% [31]. This automation also eliminated the inequalities in account ownership [30, 31], an effect which has been observed elsewhere [32].

In addition to automation, other features that help CSAs to meaningfully include *all* families are: offering a match (e.g., for every dollar a family deposits, the program also deposits a dollar) and other incentives [29]; partnering with community organizations for outreach [25, 33, 34]; utilizing account structures that are familiar to families at local financial institutions; and accepting deposits in a variety of formats, including person and in cash [33, 35]. Inclusive CSAs also offer an opportunity for financial literacy education for the whole family [36], and CSAs improve parents' access to regulated financial institutions and to credit as well [37, 38].

CSAs are a powerful tool to improve educational outcomes for children, and they are particularly powerful for children from low- and moderate-income families. With benefits spanning the lifetime from cradle to retirement, the Oregon Bright Futures Plan is a promising approach for Oregon's children.

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