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What Can We Expect from Children's Savings Accounts?

Barbara A. Butrica

Children's savings accounts (CSAs) are being promoted to improve financial literacy, increase the number of low- to moderate-income households that are banked, and encourage saving for education, homeownership, or retirement. While the first two goals seem reasonable, the third may be somewhat optimistic. Can CSAs really amount to that much?

Mensah, Perun, and Quezada (2007) estimate that CSAs will average $4,081 at maturity (i.e., age 18) and range from $1,295 to $55,771 (see table 1). Estimates from Butrica and coauthors (2008) are significantly lower at around $2,000. Note, however, that Mensah and coauthors present account balances in nominal dollars, while Butrica and coauthors use real 2008 dollars. Estimates in the two studies are similar in nominal dollars. Specifically, for children born in 2008, the Urban Institute's DYNASIM model projects average CSA balances of $3,822, ranging from $1,399 to $63,148. These results are similar to Mensah and coauthors. DYNASIM estimates in real dollars, however, are substantially lower. The average balance is $2,325, ranging from $851 to $38,409.

The projections in nominal dollars are surprisingly similar given the differences between these studies. Both propose CSA plans that include an initial federal deposit of $500, but differ with regard to supplemental grants, annual maximum contribution limits, and account fees. And the studies assume different contribution rates and rates of return. Also, DYNASIM captures variation across individuals and over time. In contrast, Mensah and coauthors base estimates on prototypes in which a family's income position and savings behavior are determined in the child's birth year and assumed to remain constant.

These studies are based on proposed CSA programs. However, the Saving for Education, Entrepreneurship and Downpayment (SEED) programs currently operate in 11 sites across the United States and Puerto Rico and include 1,253 participants. By June 30, 2007, the average SEED account balance in nominal dollars was $1,318 and ranged from $0 to $11,522 (Mason et al. 2007).[1] Despite differences in program design and age, SEED account balances are generally consistent with the estimates in table 1.[2]

Although most CSAs will likely be modest considering inflation, such accounts could still get children, especially in low-income families, into financial instruments that demonstrate the value of saving and of compound interest.

Notes

1. Two of the programs had no initial deposit, thus the minimum account balance of $0.
2. SEED programs were between 2 and 3.75 years old as of June 30, 2007.

References

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Mason, Lisa Reyes, Margaret Clancy, Vernon Loke, Youngmi Kim, Yunju Nam, and Soda Lo. 2007. "SEED Account Monitoring Research: Participants and Savings Outcomes at June 30, 2007." St. Louis: MO: Center for Social Development.

Mensah, Lisa, Pamela Perun, and Elena Chavez Quezada. 2007. "The Case for Child Accounts." Washington, DC: Aspen Institute.

TABLE 1. Comparisons of Children's Account Balances at Maturity

Account balance	Mensah et al. (2007) (nominal $)	DYNASIM (nominal $)	DYNASIM (real 2008 $)
Minimum	1,295	1,399	851
Maximum	55,771	63,148	38,409
Average	4,081	3,822	2,325

Sources: Author's tabulations and Mensah et al. (2007).

Note: DYNASIM account balances are reported for children born in 2008 and are based on the methodology in Butrica et al. (2008).

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