Universal CSAs in Illinois: Addressing the racial wealth gap

by Lucy Mullany

The Financial Empowerment Policy Project at Heartland Alliance advocates for policies that close the racial wealth gap, expand access to the tools families need to build long-term financial security, and protect consumers from predatory financial products. The Project also coordinates the Illinois Asset Building Group (IABG), a state-wide coalition with the complementary objectives of addressing the expanding racial wealth gap and high levels of asset poverty by building awareness, promoting best practices, and advocating for policy changes that support a permanent path toward economic stability for families in Illinois.

In Angela Glover Blackwell's essay in *What It's Worth*,[1] she talks about her childhood and how she was fortunate to have access to community assets that provide "ladders for success." While these assets created a pathway to financial security that included college for many in her community, she acknowledges that similar "communities of opportunity" are not the reality for many families of color.

In Illinois, there are significant disparities in opportunity between majority white communities and communities of color. According to the 2016 Illinois Poverty Report,[2] poverty rates are two to three times higher for Illinoisans of color. Black children in Illinois are nearly four times more likely to live below the poverty line than white children. When we look beyond income to wealth, we see even more disparity. While about 16 percent of white households are asset poor, almost half of all black households and 40 percent of all Hispanic households live in asset poverty.[3] Families experiencing asset poverty don't have enough emergency savings to meet an unexpected expense or long-term savings to build financial security. Without assets and the financial footing that comes with them, financially vulnerable families and communities are missing rungs in the crucial "ladders for success" that Blackwell writes about.

But what if every child began accumulating assets at birth? What if low-income families were provided with a larger seed deposit and match savings incentives that provide a ladder for success via a Children's Savings Account (CSA)? A universal CSA program has the potential to provide such a ladder out of poverty and towards long-term financial security – especially in communities of color.

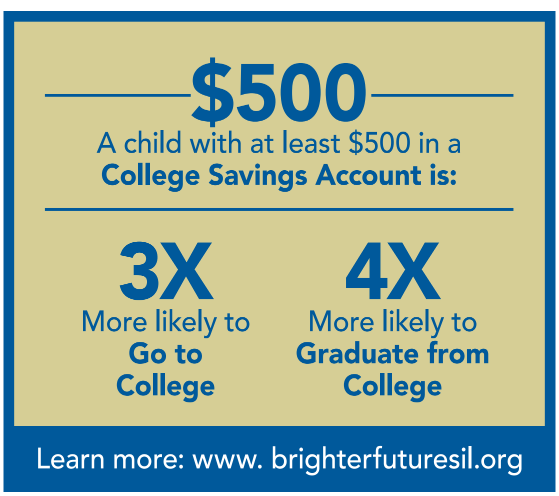
Evidence shows that a child who knows someone is saving for their future is more likely to believe in themselves and their dreams. The Center for Social Development is conducting a rigorous test of CSAs through the SEED for Oklahoma Kids Program. Their research found that a modest amount of college savings improves low-income children's early social-emotional development, increases a mother's expectations for her child's future education, and reduces maternal depressive symptoms.[4] In fact, even just a small amount of savings can have a significant impact. Low- and moderate-income children with $500 or less in savings were three times more likely to enroll in college than children with no savings, and more than four times more likely to graduate from college[5] (see Figure 1).

Heartland Alliance believes that CSAs should be a key tool to help families succeed and address racial inequity. To this end, Heartland Alliance, through its Financial Empowerment Policy Unit and as the leader of the Illinois Asset Building Group (IABG), is working to advance a universal CSA program[6] in Illinois. The initiative includes workshops for parents around the state. During these workshops, we ask parents what their hopes and dreams are for their children. The answer is always the same: parents want their children to have a better – less stressful – life than they've had. They want to see their children happy and financially and emotionally stable. Many parents see college as the pathway out of poverty for their children.

A college degree is an important asset that will help people build wealth across their lifetime though higher wages. A college graduate has median weekly earnings that are 64 percent higher than those of high school graduates. Furthermore, college graduates are much more likely than high school graduates to have jobs that provide access to other wealth generating tools such as health insurance, retirement savings accounts, paid time off, and other benefits.[7]

While a number of CSA programs exist around the country at the school, city, or county level, a handful of states have launched or are launching statewide CSA programs that give all families the support they need to save for their child's future. In the last few years, state treasurers across the country have begun exploring ways to increase access to their state's 529 programs as a means to lift families out of poverty and make college more accessible to all young people. Most recently, Nevada, Maine, Rhode Island, Vermont, New Hampshire, Massachusetts, Connecticut, and Indiana have initiated statewide or pilot programs that aim to expand enrollment in 529 college savings programs. These states are automatically opening 529 accounts at birth or at the time of enrollment in kindergarten. Not all CSAs are structured as 529 accounts, but for statewide coverage, they are the vehicle most commonly used. (Some local CSAs are structured as traditional bank accounts.)

Figure 1. College savings account impact



Source: Illinois Asset Building Group.

These programs include an initial seed investment, matched savings incentives for low-income families, and financial education for the whole family.[8]

Heartland Alliance, through the Illinois Asset Building Group, is watching these programs closely to determine what could work in Illinois, and what structure would have the biggest impact on closing racial gaps in both educational attainment and wealth building.

Notes

1. Blackwell, Angela Glover, "Race, Place, and Financial Security: Building Equitable Communities of Opportunity," available at http://www.strongfinancialfuture.org/experts/angela-glover-blackwell.
2. Social Impact Research Center, 2016, "Racism's Toll: Report on Illinois Poverty," February, available at http://www.ilpovertyreport.org/sites/default/files/uploads/PR16_Report.pdf.
3. Assets and Opportunity Scorecard, available at http://scorecard.assetsandopportunity.org/latest/state/il.
4. Huang, J., M. Sherraden, Y. Kim, and M. Clancy, 2014, "Effects of child development accounts on early social-emotional development: An experimental test," *JAMA Pediatrics*, 168(3), pp. 265-271.
5. Assets and Education Initiative, 2013, "Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education."
6. Brighter Futures for Illinois Children, available at http://www.brighterfuturesil.com.
7. Eberly, Jan, and Carmel Martin, 2012, "The Economic Case for Higher Education," Treasury Notes, U.S. Department of the Treasury, blog, December 13, available at http://www.treasury.gov/connect/blog/Pages/economics-of-higher-education.aspx.
8. Some examples include: Through Maine's Harold Alfond College Challenge, every child born in the state receives a $500 seed deposit and low-income families have access to match savings funds. (See https://www.500forbaby.org.) Nevada's College Kick Start Program opens a 529 college savings account for every public school kindergartner in the state. Each account is seeded with $50 and low-income families have the opportunity to take advantage of a match savings incentive. See http://collegekickstart.nv.gov.) Connecticut's Baby Scholars Program deposits $100 into a Connecticut Higher Education Trust (CHET) 529 account for all Connecticut children whose parents open an account within the child's first year. (See https://www.aboutchet.com/buzz/baby.shtml.) Rhode Island's CollegeBoundbaby Program asks parents to check a box on their child's birth certificate form to receive an automatic $100 initial deposit into a 529 college savings account. Low-income parents can then participate in a match savings program. (See https://www.collegeboundsaver.com/cbb.html.)

Biography

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