

BUILDING ASSETS FOR WASHINGTON STATE'S FUTURE

June 2018

Child savings accounts promote lifelong savings and advance economic opportunities for kids and families.

Overview

In an inclusive economy, everyone – including the youngest among us – would have the means to have a lifetime of economic security. Yet this is not the case for many children and families in Washington state. Financial security and stability remain out of reach for many families, especially for families of color. Thirty percent of all households and fifty percent of households headed by people of color do not have enough savings to cover basic expenses for three months in the event of a sudden job loss, medical emergency, or another financial crisis¹ – let alone enough resources to save for their own future and the future of their kids.

Washington's elected leaders have the unique opportunity to ensure prosperity for kids by creating a statewide child savings account (CSA) program. CSAs are long-term savings accounts established for children early on in life that build until they reach adulthood, and offer incentives that can help accumulate savings along the way. CSA programs structured to advance equity can set kids up for lifelong economic success, particularly for kids of color in families who may face additional barriers to economic opportunity.

Our state's well-being is inextricably tied to the health and prosperity of Washington's kids and families. Policymakers who pursue the creation of programs like CSAs can help our state thrive into the future and invest in the collective economic prosperity of Washington state.

About *Progress in Washington 2018*

This is the second publication in the Budget & Policy Center's *Progress in Washington 2018* series. This series examines ways our state can reach the goal of an inclusive Washington state economy with shared prosperity for everyone.

The first publication in the series, [“Building an Inclusive Economy.”](#) provided a framework for understanding how to advance opportunity for all Washingtonians. It emphasized the need for our state's leaders to address the fact that people with low incomes and many people of color continue to be excluded from economic progress and opportunity.

CSAs can help address wealth inequality

Washington’s economy is growing and our state is poised for great economic progress. However, to achieve true progress, prosperity must be shared by all Washingtonians. We are nearing a time when people of color will make up the majority of the state’s population – a trend that is already reflected in the demographics of our young people.² Yet as a result of persistent and historically racist policies, institutions, and structures, many families of color and their kids are starting off on uneven footing – facing multiple and intersecting barriers to meaningful opportunities that prevent them from thriving throughout their lifetimes. For example, families of color in Washington have lower rates of homeownership, spend a greater share of their income on rent, and are less likely to have emergency savings.³ As a result, many families of color are less likely to have resources to save and invest for their future.

NOTE ABOUT DATA:

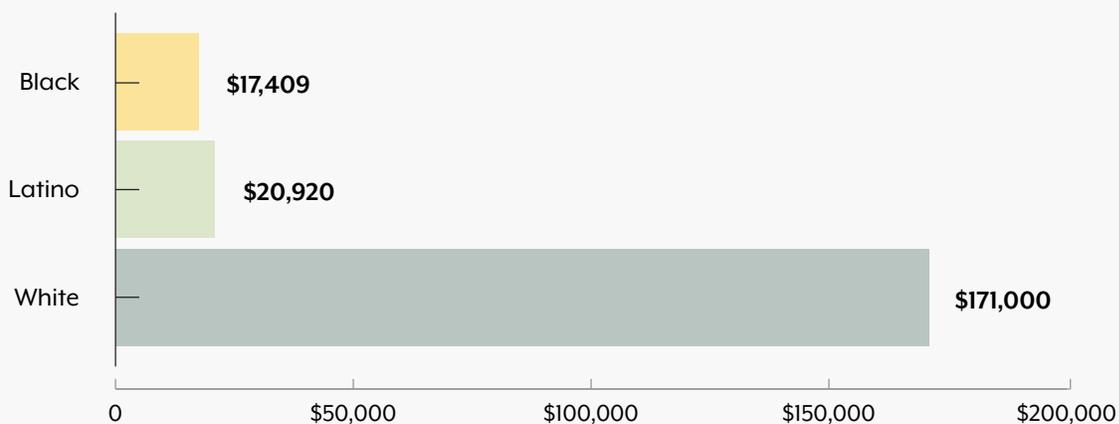
Wherever possible, data are disaggregated to provide a preliminary understanding of disparities by race, ethnicity, gender, and nativity. Data are not always available for all races and ethnicities. Data about gender are also rarely available for non-binary and gender-nonconforming people. As a result, without additional context, the statistics throughout this report tell a limited story about the populations being represented – and, in some cases, the numbers don’t reflect people’s lived experiences. We encourage readers of this report to engage with the communities represented in the data to develop a more accurate and meaningful understanding than the numbers allow.

Without assets and savings, families are more vulnerable in the face of financial insecurity or an emergency. Having assets enables people to

Figure 1

Because of structural and institutional racism, wealth inequality persists

Median family wealth by race and ethnicity, United States, 2016



Source: Karen Smith, Urban Institute's tabulations from the Current Population Survey, 1963–2017.

NOTE ABOUT THE INTERSECTION OF RACE, INCOME, AND ASSETS:

It's important to note that while not all low-income communities are communities of color, and not all people of color have low incomes or are asset-poor, there is an overlap that cannot be ignored. Communities of color represent a disproportionate share of those living in households with low incomes and in aggregate they have less wealth. This is in large part because of intentional and unintentional policies and practices such as redlining, employment discrimination, and limited access to credit that have advanced structural and institutionalized racism.

invest in their own future and the future of their families – sending a child off to college, buying a home, or saving for retirement.

In the United States, deep racial disparities in wealth accumulation have created significant obstacles to opportunity. Without policy change, it will take centuries for communities of color to match the wealth of white families.⁴ In 2016, white families in the United States had ten times the median wealth of Black families and eight times the median wealth of Latinx families (Figure 1).⁵ If current trends continue, the Institute for Policy Studies estimates that it will take 228 years for the average Black family and 84 years for the average Latinx family to accumulate a rate of wealth that is comparable to what their white counterparts hold today.⁶ CSAs - if designed to target families with the lowest levels of wealth - have the potential to move the needle on wealth inequality.⁷

We have the opportunity to advance economic security

Child savings accounts are a powerful asset-building tool to address a broad range of barriers

and challenges. They help to build a culture of savings, enhance financial literacy among kids and families, and help kids and families build wealth.

There are 42 CSA programs nationwide that serve over 300,000 kids across 30 states.⁸ Here in Washington state, the Tacoma Housing Authority in partnership with Tacoma Public Schools started a CSA program in New Salishan – the region's most racially and ethnically diverse neighborhood – so that children and families have an opportunity to start saving.⁹ There are also statewide models in Maine, Rhode Island, Connecticut, and Nevada. While program design and administration differ across these states, they all aspire to ensure kids are able to thrive throughout their lives.

For a CSA program to achieve broad positive outcomes, it must address some key goals:¹⁰

- **Short- and long-term economic security:** It is important to set kids up so that, throughout their lives, they are never in a situation in which they are one crisis away from falling into poverty.
- **Health and mental health:** Children should have financial resources to access health and mental health services necessary to live a full and supported life.
- **Educational achievement:** They should have access to educational opportunities from early learning through post-secondary education, or through other training opportunities they choose to pursue after high school.
- **Building lifelong assets:** Increasing children's financial and educational investments helps to reduce financial insecurity, and as a result also eases harmful stress and trauma.¹¹ This can narrow gaps in opportunity, income, and wealth, setting kids up for success when they reach adulthood.

CSAs should be designed to advance equity and prosperity for kids

Whether the account starts at birth, kindergarten, or middle school, CSAs can have a big impact on a child's life. Research shows that low- and moderate-income children with college savings are significantly more likely to go to college and graduate than those with no college savings.¹² But the benefits of CSAs are not just limited to children's post-secondary education opportunities. These accounts demonstrate the potential for parents and caregivers, together with children, to create a shared culture around savings.¹³

Washington's elected leaders have the opportunity to give kids a strong financial foundation by developing a statewide CSA program. There may be legal, technical, or administrative challenges to establishing a CSA program that reaches the needs of every child, but now is the time for big thinkers to come together and strategize about what that could look like in our state. These are some key program elements of CSAs to maximize benefits for children and advance equity in our state¹⁴:

- **Enrollment is automatic:**¹⁵ Every child in the state should be enrolled. Not forcing parents to apply ensures that parents and guardians who face barriers to navigating systems are not penalized and children are still benefitting from an account.
- **State makes an initial deposit:**¹⁶ Small grants that are automatically deposited into the savings accounts would kick off the account and would grow with the child over a long period of time. Without initial deposits, only the most advantaged children would be able to accumulate meaningful levels of assets overtime.
- **Incentives are provided:**¹⁷ Incentives provide meaningful ways for children and families to build account balances and accrue savings more quickly. These incentives are particularly important to low- and moderate-income CSA participants, who experience the greatest barriers to saving. Some examples of incentives include:
 - » **Progressive incentives** offer higher or additional incentives to children in low- and moderate-income families. For example, some CSA programs offer children who qualify for free or reduced lunch a higher grant amount.

Spotlight: Nevada College Kick Start Program

The Nevada College Kick Start Program was launched in fall 2013 by the State Treasurer's Office as a small pilot program. It has since grown into a statewide program with more than 170,000 program participants.¹ As soon as kindergarteners register with the Nevada public school system, they are automatically given a child savings account with an initial \$50 deposit. Once participants graduate from high school, they will be able to draw down the funds to pay for post-secondary education-related expenses, and will not have to worry about starting off in the red. But the benefit extends beyond funding higher education – CSAs help children and families nurture a culture of savings and hone financial literacy skills that will continue to benefit them.

¹ Nevada College Kick Start FAQ, 2018, <https://bit.ly/2JyXuQa>.

- » **Savings matches** are often made on a dollar-for-dollar basis, up to a certain dollar amount.
- » **Benchmark incentives** are extra contributions that low- and moderate-income children and their families can earn for reaching milestones such as completing a financial literacy training.

- **CSAs are exempt from eligibility determinations for state public benefits:**¹⁸ To build meaningful savings, families cannot face disincentives to building assets. Asset limits on public assistance programs (like food assistance and Temporary Assistance for Needy Families) unnecessarily restrict the amount of savings a family can have while still qualifying for benefits.
- **Every child is eligible:**¹⁹ Every child in the state should be able to participate so that they have the chance to build financial assets early on in life. Including all children means children and families that may face additional obstacles to building savings are intentionally included in the program.

Let's take steps to create economic progress for children and families

Ensuring all children in Washington state have the tools to build financial security and stability is essential to setting kids up to thrive. A CSA program designed to advance equity will have long-lasting implications for leveling the playing field, especially for many children of color. State elected leaders have an opportunity to do something bold and powerful in our state. They should follow the lead of other states that have implemented CSAs, look into what it will take to implement a CSA in Washington, and then get down to the business of creating such a program. The future of our children and our state economy will be better for it. ■

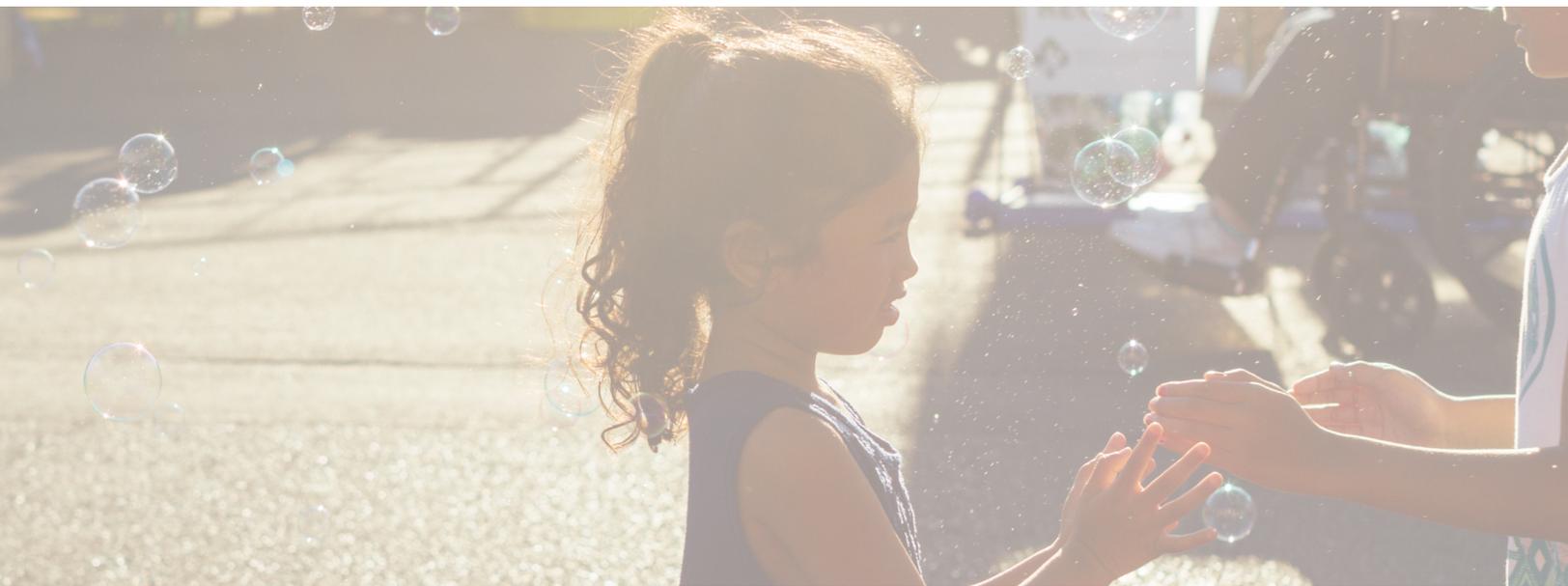


Image source: Kids & Bubbles, Washington State Fair by Adam Cohn via Flickr/CC BY-NC-ND 2.0

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Endnotes

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