



Testing an asset-building approach for young people: Early access to savings predicts later savings

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ABSTRACT

A major hypothesis of asset-building is that early access to savings accounts leads to continued and improved educational and economic outcomes over time. This study asks whether or not young adults (ages 18–22) in 2007, particularly among lower income households, are significantly more likely to own savings accounts and to accumulate more savings when they have access to savings accounts at banking institutions as adolescents (ages 13–17) in 2002. We investigate this question using longitudinal data (low-to-moderate income sample [LMI; $N = 530$]; low-income sample [LI; $N = 354$]) from the Panel Study of Income Dynamics and its supplements. Results from propensity score weighting and bivariate probit estimates support this hypothesis. Asset-building policies that extend early access to savings accounts may improve savings outcomes for young people from lower income households, which hopefully affords them with the economic resources needed to lead productive and satisfying lives.

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1. Introduction

Consider the following scenario: a young person makes regular trips to the bank with her parents to deposit birthday and holiday money into her own savings account. By the time she reaches high school around ages 13–17, she may be saving for long-term expenses like a car. She continues saving during her transition to adulthood around ages 18–22. Since she has been saving for a long time, her saving strategies have grown sophisticated and her economic well-being is secure. She may be paying for college, saving toward her first home, investing in stocks, and making automatic deposits from her paycheck into savings. This is a plausible scenario and one that is easy to

imagine. Notably, her parents in this scenario opened a savings account in her name during her childhood, transmitting an advantage lasting into her young adult years and beyond. Given that economic well-being in adulthood is derived in part from household resources available during childhood (e.g., Blanden, Buscha, Sturgis, & Urwin, 2012; Lino, 2011; Mauldin, Mimura, & Lino, 2001), innovations may be needed that address these inequalities early in young people's lives. How might the scenario been different had her parents not had the resources to invest in and facilitate her savings during childhood?

Asset-building has been proposed as an innovative strategy for helping young people and households—particularly those with lower incomes—accumulate assets to be used for investments in their futures (Sherraden, 1991; Sherraden & Barr, 2005). According to Sherraden (1991), a main premise of asset-building is that access to institutions (e.g., like opening a savings account at a banking institution) may lead to asset accumulation, such as maintaining account ownership and accumulating more

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money. In turn, asset accumulation may improve account holders' ability to pay for needed expenses, like college costs or the down payment for a home. There is some research supportive of this (e.g., Bettinger, 2004; Charles, Roscigno, & Torres, 2007; Hanushek, Leung, & Yilmaz, 2004; Kim, 2007). While asset-building began with adults' and households' asset accumulation in mind (Schreiner & Sherraden, 2007), more recently it has been extended to young people (e.g., Elliott, 2012a; Elliott, Destin, & Friedline, 2011; Mason, Nam, Clancy, Kim, & Loke, 2010). That is, young people may also benefit from asset-building and, like adults, they may be able to maintain ownership over savings accounts (or other types of assets) and ultimately accumulate more savings (Loke & Sherraden, 2009). In this way, assets may help balance the scales of opportunity and provide young people from lower income households with a better chance to climb the economic ladder.

In recent years, policy and research endeavors have emerged that focus on asset-building for young people as a way to improve outcomes over time. For instance, the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act has been proposed into Congress since 2004, legislation that if passed would automatically open savings accounts for all newborn young people in the U.S. with progressive features (e.g., match contributions) based on income eligibility (Cramer & Newville, 2009). Accounts are proposed to be seeded with an initial deposit of \$500. The Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), a discretionary grant program managed by the U.S. Department of Education to increase the number of lower income young people enrolled in postsecondary education, recently announced savings accounts as funding a priority in the grant application process.³ Research-tested innovations in Oklahoma (Saving for Education, Entrepreneurship, and Down-payment [SEED] OK experiment; Nam, Kim, Clancy, Zager, & Sherraden, 2011), Maine (Harold Alfond College Challenge Program; Huang, Beverly, Clancy, Lassar, & Sherraden, 2011), and California (San Francisco's Kindergarten to College [K2C] Program⁴) provide savings accounts to young people, all with the intent to encourage human capital development or to improve economic stability with lower income young people in mind.

This paper studies young people's savings to inform research on asset-building for improving young people's economic well-being and emerging policy innovations that propose to implement this strategy. The purpose of this paper is threefold: (1) to review research on young people's savings, a particular type of asset proposed as a strategy for improving economic outcomes; (2) to present a conceptual framework that offers some explanation regarding young people's saving behaviors; and (3) to test whether early access to asset-building may lead to

continued and improved savings outcomes for young people from lower income households by analyzing whether young adults' (ages 18–22) later savings outcomes are predicted by access to savings accounts as adolescents (ages 13–17).

2. Research on young people's savings

Despite widespread interest in asset-building for young people, especially with regards to savings, research is limited. There are approximately 30 separate studies on young people's savings. These studies were conducted between 1969 and 2012; however, the majority (17 out of 30, or 57%) have been produced in the last six years. Just under half of these studies (12 out of 30, or 40%) were conducted with asset-building in mind. Most of this research is concerned with how young people are socialized into the economic world rather than examining saving as an asset-building strategy. Little research investigates savings for young people from lower income households. Taken together, research offers two explanations for how young people come to have savings accounts and their savings amounts: individual level explanations like personal characteristics (e.g., young people's age and future expectations; parents' warmth and involvement) and institutional level explanations like household income and assets.⁵

On the one hand, research points to individual level explanations like young people's and parents' personal characteristics to explain savings (e.g., Friedline & Elliott, 2011; Friedline, Elliott, & Nam, 2011; Furnham, 1999; Pritchard, Myers, & Cassidy, 1989; Webley & Nyhus, 2006). Furnham (1999) analyzes questionnaire data from 250 British young people using a series of two-way ANOVAs and ordinary least squares (OLS) regressions, finding that older young people and males (compared young and female young people) were more likely to have accounts. Pritchard et al. (1989) examine savings for 1619 employed high school seniors using Pearson's correlations and Somer's *d*, finding that young people's personal characteristics like being a hard worker, having an internal locus of control, and having future expectations for plans beyond high school significantly relate to savings.

On the other hand, research suggests institutional level explanations like income and assets contribute to how young people come to have savings accounts and accumulate savings (e.g., Elliott, Rifenburg, Webley, Friedline, & Nam, 2012; Friedline, 2012; Friedline et al., 2011; Mason et al., 2010; Warnarr & Van Praag, 1997). Friedline (2012) analyzes separate samples of young people ages 12–15 from the PSID/CDS from high-income (HI; $N = 411$) and low-to-moderate income households (LMI; $N = 333$) with multiple imputation, propensity score analysis, and logistic regression. She finds that young people from LMI and HI households are more likely to have savings accounts

³ For more information, visit the U.S. Department of Education's website: <http://www.ed.gov/news/press-releases/new-gear-grants-awarded-help-more-275000-middle-schoolers-get-pathway-success-co>.

⁴ For more information, visit the K2C Program's website: <http://www.k2csf.org/>.

⁵ Notably, "institutional level explanations" here refer more to structural forces in society that shape the distributions of income and assets. These explanations do not refer to formal institutional mechanisms as identified by the institutional model of saving (Sherraden, 1991).

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