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The effects of a dedicated education savings account on children's college graduation

Jaehyun Nam[a,*], David Ansong[b]

[a] Columbia University School of Social Work, 1255 Amsterdam Avenue, Room 722 E, New York, NY 10027, United States
[b] University of North Carolina at Chapel Hill, 325 Pittsboro St, Chapel Hill, NC 27516, United States

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ABSTRACT

Emerging research in the asset-building field suggests economic resources in general are associated with positive educational outcomes. However, there is little empirical evidence specifically concerning the effects of parents holding a dedicated education savings account on their children's attainment of associate's and bachelor's degrees. There is a need for more replication studies to help confirm that the emerging evidence is accurate and applicable with different populations and under different situations. This study helps fill this research gap by using data from the National Longitudinal Survey of Youth 97. Data are analyzed using propensity score adjusted regression techniques. Results show if parents create a savings account earmarked for their children's education, the children are more likely to attain college degrees. These findings suggest that current asset-based policies and programs that encourage low- and moderate-income parents to create and hold education savings accounts can also serve as a policy strategy to help improve higher educational attainment of children from lower income households.

1. Introduction

Education is regarded not only as a key mechanism of long-term economic success but also as an important pathway to social mobility that provides children with improved chances for success as adults (Becker, 1993). Education is also viewed as a pathway out of poverty because education empowers children of the poor to be self-reliant; in turn, such self-reliance opens avenues to the possibility of increasing income, accumulating assets, and achieving financial security over their lifetimes (Becker, 1993; Jacob, Ludwig, & University of Wisconsin-Madison, 2008). Because a person's level of education is generally related to his or her income level and social status, the higher the level of education individuals attain, the lower their likelihood of living in poverty (Becker, 1993). Therefore, financial investment in the educational development of children is an essential strategy in overcoming poverty and promoting social mobility. This study examines the ways in which parents' financial investments in dedicated education savings accounts can advance their children's educational aspirations and successful completion of college education at the associate and bachelor degree levels.

The connection between education and wealth or economic well-being is akin to the "chicken and egg" conundrum in that educational attainment fosters better economic life and economic resources enable people to afford education, especially at the college level where tuition and related expenses can be prohibitive for many lower income households. Emerging research on the relationship of finances to educational attainment has pointed to significant associations between financial resources and educational outcomes, including school attendance (Elliott & Beverly, 2011a;

* Corresponding author. Tel.: +1 314 915 4242.
E-mail addresses: jn2462@columbia.edu (J. Nam), ansong@email.unc.edu (D. Ansong).

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Zhan & Sherraden, 2011), graduation (Zhan & Sherraden, 2003, 2011), grades and test scores (Elliott, Kim, Jung, & Zhan, 2010; Loke & Sacco, 2011; Zhan, 2006; Zhan & Sherraden, 2003), grade completion and grade progression (Elliott & Beverley, 2011a), children's educational expectations (Ansong, Chowa, & Sherraden, 2015), and parents' educational expectations of their children (Kim, 2010). The most obvious way that financial resources can improve educational development is by facilitating access to high quality educational services and resources (e.g., textbooks and school supplies), thereby creating an educational advantage (Loke, 2009).

The inability of many college-age students to afford a college education is cause for worry. The high cost of a college education, limited options for financing college costs, and other college-affordability challenges eventually contribute to disparities in educational achievement. In the last few decades, the gap in academic achievement has widened sharply between children in lower-income and higher-income families (Rank, 2004; Reardon, 2011), providing one example of the educational advantage created by access to economic resources. Similarly, emerging empirical evidence on the connection between wealth and educational achievement shows a strong association between a household's economic well-being and positive indicators of children's educational development, such as academic performance and school readiness (Ansong, 2013; Engle & Black, 2008; Jacob & Ludwig, 2008; Ladd, 2012).

In the wake of increasing empirical evidence suggesting connections between financial resources and a range of educational outcomes, intervention researchers interested in the economics of education have begun developing and testing interventions to promote accumulation of economic resources with the aim of improving children's educational development (Chowa et al., 2012; Sherraden & Clancy, 2008). One direction of such research has focused on asset-building programs, such as individual development accounts (IDAs) or child development accounts (CDAs) that are designed to support the efforts of low-income households in overcoming barriers that hinder their ability to save and maintain assets to ensure financial security and future well-being (Grinstein-Weiss et al., 2013; Sherraden, 1991).

Thus far, results from asset-building research have shown trends in the direction of a positive relationship between financial savings and improved educational outcomes. The hypothesized connection between assets and educational outcomes has been supported by many studies. For example, McBride, Lombe, and Beverly (2003) reported participants in IDA programs were more likely to plan for their children's education after creating the IDA savings account. Other studies on holding assets have reported that household assets—independent from the influence of income—had positive effects on children's educational outcomes (Conley, 2001; Zhan, 2006; Zhan & Sherraden, 2003). Further, savings earmarked for education have positive effects on children's educational development and outcomes, such as academic achievement and post-secondary education enrollment (Elliott, Destin, & Friedline, 2011; Grinstein-Weiss et al., 2013). Grinstein-Weiss et al. (2013) collected long-term data on participants in a randomized IDA experiment to examine the influence of savings from IDAs on educational outcomes such as enrollment, degree completion, and education level attained. Her research team found that savings created with the help of the IDA program were statistically significant and associated with increased enrollment in post-secondary education. Notwithstanding this emerging body of evidence that suggests a connection exists between assets and educational outcomes, research to date that has narrowly focused on the effect of parental savings on child educational outcomes has revealed mixed results. For example, Elliott, Constance-Huggins, and Song (2012) found no evidence to suggest that parents' savings for their children was an important predictor of children's college progress. Other studies have found mixed results in the relationship between parental savings and children's college outcomes (Charles, Roscigno, & Torres, 2007; Elliott & Beverly, 2011b). However, these mixed results and the totality of the evidence to date seems to indicate that the type of savings account matters when trying to understand the effects of financial resources on educational outcomes.

Much is unknown about the nature of these relationships partly because savings accounts, like educational outcomes, come in diverse forms. The effects of a dedicated education savings account on a child's educational aspirations might differ from those of a conventional savings account that could be used for other purposes. Even within a dedicated savings account, educational results might depend on whether the account is initiated and/or managed by the children, parent, family members, and/or government institutions. For instance, evidence has shown savings from asset-based programs play an important role in supporting low-income households, providing incentives to encourage the parents to invest in assets for their future and for their children's education (Grinstein-Weiss et al., 2013; Sherraden, 1991). However, we do not know with the same level of certainty whether a parent-initiated savings account for their children has similar impacts on children's educational outcomes.

Other research gaps exist around the relationship between assets and educational outcomes. With a few exceptions (Charles et al., 2007), studies with aims similar to those of the present study's examination of the connections between parents' savings and college educational outcomes have mostly focused on certain minority groups. For instance, Cheatham and Elliott (2013) studied the relationship between parental savings and children's enrollment in post-secondary training and 4-year college enrollment; however, the study was limited to a sample of students with disabilities. A similar study by Song and Elliott (2011) focused on only Hispanic immigrant students. These and similar studies do little to clarify whether a relationship between parental savings and child educational level exists among the general population. In part, the mixed results reported from studies of parental savings and college outcomes might be explained by the studies' focus on specific subgroups within the population. Although there is enormous value in discovering these relationships for various minority groups, it is equally important to have a global picture of the true nature of the relationship between parents' savings and college outcomes. To this end, this study seeks to examine the effects of parents' savings accounts on children's completion of 2-year associate's degree and a 4-year bachelor's degree. We hypothesize