



From Piggy Banks to Prosperity

A Guide to Implementing
Children's Savings Accounts



By Rochelle Howard, Liana Humphrey, Carl Rist,
Barbara Rosen and Leigh Tivol



About SEED

The SEED Initiative is a 10-year national policy, practice and research endeavor to develop, test, inform, and promote matched savings accounts and financial education for children and youth. SEED is led by CFED, the Center for Social Development, the Initiative on Financial Security of the Aspen Institute, the New America Foundation, the University of Kansas School of Social Welfare, state and community partners, and a growing number of national funders. Visit seed.cfed.org for more information.



About CFED

Established in 1979 as the Corporation for Enterprise Development, CFED is a nonprofit organization that expands economic opportunity by helping Americans start and grow businesses, go to college, own a home and save for their children's and their own economic futures. We identify promising ideas, test and refine them in communities to find out what works, craft policies and products to help good ideas reach scale, and develop partnerships to promote lasting change. We bring together community practice, public policy and private markets in new and effective ways to achieve greater economic impact. CFED works nationally and internationally through its offices in Washington, DC; Durham, NC; and San Francisco, CA. Visit www.cfed.org for more information.

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The opinions expressed in this guide are those of the authors and CFED, but do not necessarily represent the views of the partners in or funders of the SEED Initiative.

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We are particularly appreciative of the community partners in SEED, who are truly pioneers in this work. Their hard-earned lessons, insights, and feedback on implementing children's savings accounts make up the learning that is at the heart of this guide. These community-based organizations are:

Beyond Housing/NHS – St. Louis, MO	Juma Ventures – San Francisco, CA
Boys & Girls Clubs of Delaware – Wilmington, DE	Mile High United Way – Denver, CO
Cherokee Nation – Tahlequah, OK	People for People – Philadelphia, PA
Foundation Communities – Austin, TX	Sargent Shriver National Center on Poverty Law – Chicago, IL
Fundación Chana y Samuel Levis – San Juan, PR	Southern Good Faith Fund – Pine Bluff, AR
Harlem Children's Zone, Inc. – New York, NY	Oakland Livingston Human Service Agency (OLHSA) – Pontiac, MI (preschool demonstration and impact assessment partner)

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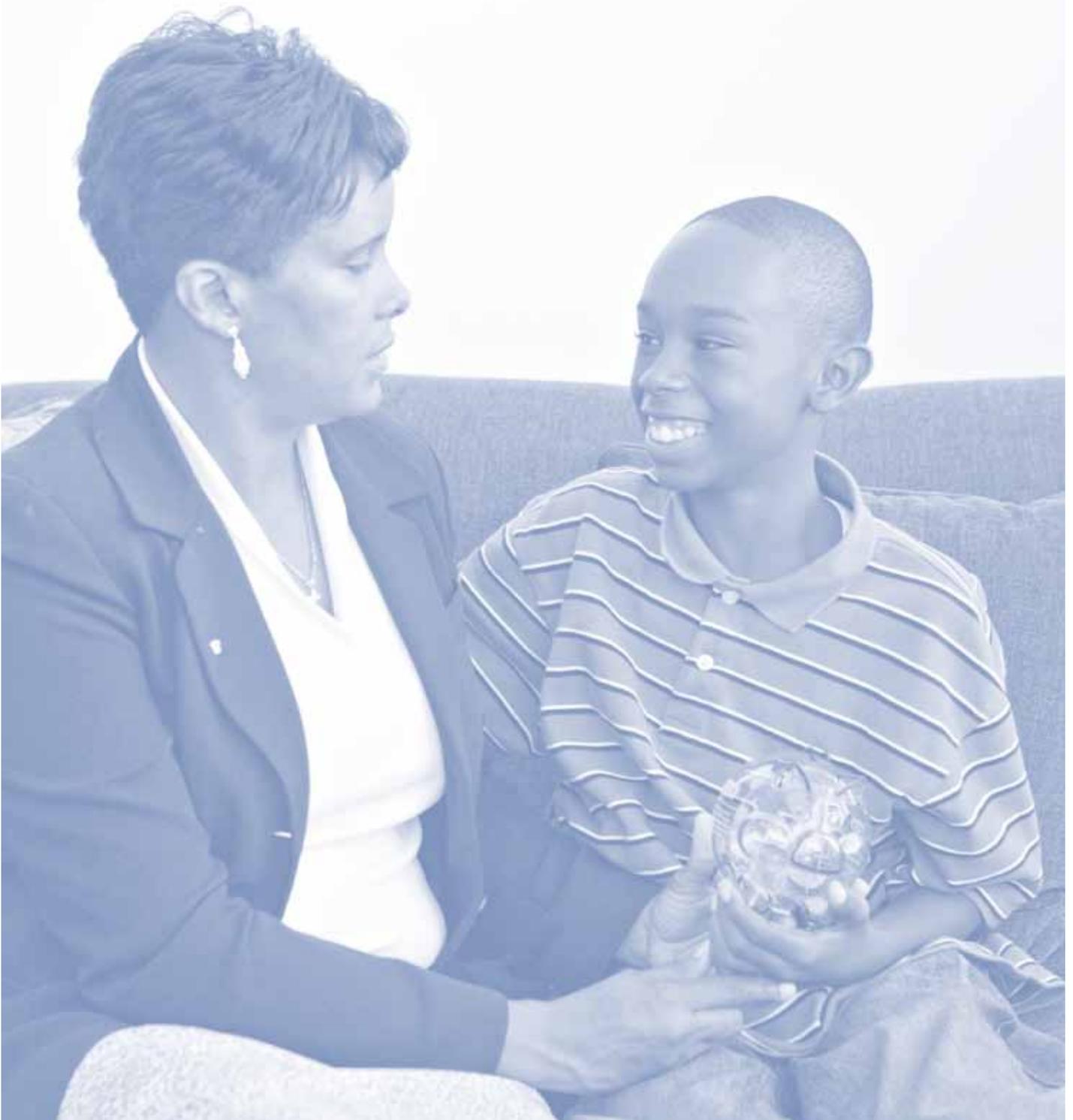
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SECTION A



Introduction



CHAPTER 1

About Children's Savings Accounts

In local communities around the country, academic institutions, state capitols and the halls of Congress, recognition is growing that building assets leads to beneficial outcomes at the individual, household, neighborhood and community level. Indeed, research and practice suggest that possessing even a few thousand dollars in assets – such as accumulated savings, higher education, a growing business or property ownership – gives people a stronger economic place to stand. Holding assets connects people to the economy, raises their expectations, and allows them to shape their futures.

The concept of asset building for low-income people was first proposed in the late 1980s, when Washington University in St. Louis professor Michael Sherraden offered a new theory of welfare based on assets and proposed a specific asset-building tool called an Individual Development Account, or IDA. His essential insights were that *assets* matter economically and socially, in ways that *income* alone does not; and that *institutional* arrangements – provided through employers, government policies, incentives, education, etc. – matter in determining who accumulates assets and who does not. IDAs were accordingly designed to increase assets and the institutional arrangements that make that asset accumulation both possible and likely, especially for those lower-income Americans who were not benefiting from existing institutional policies, programs and incentives. IDAs allow individuals and families to save income in accounts and have their savings matched by government and private sources. After a period of time during which the accountholders are trained in financial education and the savings grows, the funds in the IDA can be used for the purchase of and investment in specific assets: homes, businesses, and higher education and training.

Dr. Sherraden's groundbreaking book *Assets and the Poor: A New American Welfare Policy* (1991) outlined a universal system of IDAs, prompting interest among journalists and policymakers and sparking the development of a few IDA programs by the mid-1990s. In 1997, CFED, the Center for Social Development (CSD) at Washington University in St. Louis, and several national foundations launched a multimillion-dollar IDA demonstration project, called the American Dream Demonstration (ADD). This was followed a year later by the passage of federal legislation – the Assets for Independence Act (AFIA) – that established federal support for IDA programs. By the late 1990s, new research, advocacy, funding and policy institutions committed to progressive asset building began to appear. By 1999, large-scale IDA programs and similar asset-building tools were proposed by politicians of every stripe and at every level, including Presidents Bill Clinton and George W. Bush. Since its first budget authorization in 1999, AFIA has been funded in every session of Congress, becoming the primary public funder of savings matches for low-wage, working Americans.

Numerous studies conducted by CSD have concluded that low-income people can and will save, given the proper incentives, and that building assets can assist these individuals in alleviating poverty.¹ There are now more than 500 IDA programs and other asset-building initiatives serving more than 70,000 families in the United States.

If assets are important to adults, they are even more powerful earlier in life when aspirations, knowledge, and savings are developing. Research suggests that saving and building assets in the earliest years can promote educational attainment and create a sense of hope for the future.² What's more, anecdotal evidence suggests that, fundamentally, a lack of hope is a driving factor in many of the poor choices made by young people. With their own nest eggs, all children would be able to look toward a future in which they can invest in themselves.

With these ideas in mind, a number of nationally respected partners – CFED, CSD, The Aspen Institute's Initiative on Financial Security, New America Foundation, Research Triangle Institute, and the University of Kansas School of Social Welfare – embarked on a 10-year national policy, practice and research endeavor to develop, test, inform and promote matched savings accounts for children and youth. This endeavor, known as the SEED (Saving for Education, Entrepreneurship



and Downpayment) Initiative, launched in 2003 and seeks to set the stage for universal, progressive American policy for asset building among children, youth and families.

The SEED Initiative is a multifaceted effort that brings diverse partners together to explore and assess the potential of CSAs as a program, product and policy. The long-term goal of SEED is a new public policy to establish CSAs at birth for every child in the United States. The purpose of SEED is to help influence the design of this future public policy by carefully demonstrating CSAs in local communities and rigorously evaluating these efforts. Thus, one important component of SEED was the establishment of more than 1,400 SEED accounts at 12 community partner organizations around the country (see table on next page).³ In collaborating with these organizations, CFED and our SEED partners have been actively engaged in gathering lessons about working with a variety of age cohorts, savings incentives, types of accounts, financial education approaches and financial institutions. Although the purpose of SEED is not necessarily to replicate these community models, but rather to gather evidence for public policy development, we recognize that



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Children's Savings Accounts

Whether known as Children's Savings Accounts (CSAs, the term we use in this guide), SEED accounts, or Children's Development Accounts, CSAs are long-term asset-building accounts established for children at birth and allowed to grow over their lifetime. Accounts are typically seeded with an initial deposit of \$500 to \$1,000 and built by contributions from family, friends, and the children themselves. In addition, accounts are augmented by savings matches and other incentives. Use of the savings in CSAs is usually restricted to financing higher education, starting a small business, buying a home, or funding retirement. Accounts gain meaning as young accountholders and their families engage in age-appropriate financial education.

we have developed a tremendous body of knowledge from the SEED community partners about how best to deliver CSAs, and we hope to share that knowledge through this guide.

SEED Community Partners

Program	Location	Target Recruitment by Grade Level or Age	Number of Participants ⁴
Beyond Housing	St. Louis, MO	Kindergarten and first grade	74
Cherokee Nation	Tahlequah, OK	High school	75
Boys & Girls Clubs of Delaware	Wilmington, DE	Middle school	71
Foundation Communities	Austin, TX	Elementary school	69
Fundación Chana y Samuel Levis	San Juan, PR	Elementary school	81
Harlem Children's Zone	New York, NY	Preschool and kindergarten	75
Juma Ventures	San Francisco, CA	High school and other youth ages 14–18	81
Mile High United Way	Denver, CO	Youth ages 14–23	150 ⁵
Oakland Livingston Human Service Agency (OLHSA)	Pontiac, MI	Preschool	499
People for People	Philadelphia, PA	Middle school	75
Sargent Shriver National Center on Poverty Law (Shriver Center)	Chicago, IL	Elementary school	82
Southern Good Faith Fund	Pine Bluff, AR	Preschool	75
ALL SEED			1,407

About This Guide

CFED created this guide in response to burgeoning interest in implementing CSAs at the neighborhood, municipal, and even state level. It is intended to be a resource that captures and shares the lessons from SEED about the best and most efficient ways to deliver CSAs. This guide is designed for anyone interested in establishing CSAs, including community-based organizations, community leaders and practitioners, financial institutions, municipal or state agencies, schools, Individual Development Account (IDA) programs, and other organizations that serve children and youth.

The recommendations and lessons in this guide are based on careful examination and analysis of the experiences of SEED's community partners. This knowledge was gained through frequent site visits, regular reports from community partners, and semi-annual gatherings of SEED national and community partners, where these issues were discussed and debated in great detail. Some of the lessons and recommendations shared in this guide have been documented in reports to the SEED funders, internal memos and documents between CFED and the SEED community partners, and a series of quarterly bulletins called *Growing Knowledge from SEED*.⁶ With this publication, we have attempted to compile that vast body of knowledge into one, comprehensive reference on CSA practice.

The guide is comprised of multiple chapters that address specific aspects of delivering CSAs, and is divided into sections on Program Structure and Program Management. Each chapter introduces the subject matter and presents a series of key design issues and questions that should be considered in developing a CSA initiative. In addition, each chapter makes recommendations on these issues based on the experience of SEED and illustrated by examples from the community partners. Because our ultimate goal is the large-scale delivery of CSAs, the recommendations in this handbook are designed to inform not only practice as we know it – in the context of small, community-based organizations – but also practice as we envision it on a much broader scale. Thus the reader will note that we include, when appropriate, considerations for designing and implementing larger-scale CSA efforts. These suggestions come from the experience of the SEED preschool demonstration and impact assessment program (500 accounts) at the Oakland Livingston Human Service Agency (OLHSA) in Pontiac, MI, as well as efforts underway to deliver CSAs at scale in the private sector and at the municipal, state and federal levels. Moreover, given that we are particularly concerned about the inclusion of people living on low incomes, especially in larger-scale initiatives, we also include considerations for serving this population, which are drawn from the SEED experience.

A Few Caveats

No guide or handbook can cover all subject matter issues for every audience. Although we have designed this guide to be a fairly comprehensive resource for delivering CSAs, we recognize that the exploration of and experimentation with CSAs is a rapidly evolving field. Therefore, we want to be clear with readers about what this reference is and what it is not.

Based on imperfect account vehicles for CSAs at present. If the vision for CSAs comprises a long-term matched savings account with uses restricted to postsecondary education, home purchase, small business start-up, or retirement, then no account structure is available at present in the financial services marketplace that meets *all* of these ideal criteria. Roth IRAs come the closest (permitting retirement, as well as home purchase and postsecondary education), but cannot be used for small business start-up and require earned income (and so precludes younger children from depositing). As a result, the experience in SEED, which provides the basis for the lessons in this handbook, is premised on operating with imperfect account vehicles. Since CSAs are at their core financial instruments and require the highest level of financial integrity, management and reporting, CSA programs can be demanding for a community-based organization to run.

Not just about Youth IDAs. There are a small but growing number of Youth IDA programs across the United States that are largely an outgrowth of the IDA movement. Some of these Youth IDA programs even predate the SEED Initiative. Although Youth IDA programs share much in common with CSAs, and indeed there is much overlap between Youth IDAs and CSAs for high school youth, this guide is about more than just IDAs targeted to youth. First, this document addresses the experience with CSAs for children of all ages, from preschool through high school. Second, CSAs differ from Youth IDAs in some important ways: in addition to matching dollars for savings, CSAs typically include an initial deposit and in some cases “benchmark” incentive payments for completing program-related activities. These are not typical features of Youth IDA programs. For more information on IDA programs specifically for youth, visit CFED’s Online Resource Guide to access *Individual Development Accounts for Youth: Lessons from an Emerging Field*.

Not a toolkit. Although this guide includes recommendations and suggestions specifically for CSA initiatives, it is not a “nuts and bolts” toolkit with worksheets, templates, and step-by-step instructions. For guidance on program design at this level, we refer readers to CFED’s *IDA Program Design Handbook: A Step-by-Step Guide to Designing an IDA Program*, which

includes a CD-ROM and online access to worksheets and handouts. In addition, our Online Resource Guide provides links to documents and websites that may prove useful in program design.

Provides recommendations from an emerging field. The lessons and findings presented here are based on a small group of pioneering programs that have implemented CSAs from the ground up over the past few years. As CSA policy and practice continue to evolve, there will undoubtedly be new innovations and lessons that build on this work. Going forward, we are open to new ideas and feedback on the contents of this guide.

Chapter Endnotes

- ¹ These studies include Final Report, Savings Performance in the American Dream Demonstration, Center for Social Development, 2002; Evaluation of the American Dream Demonstration, Final Evaluation Report, ABT Associates 2004.
- ² Page-Adams, D., Scanlon, E., Beverly S., & McDonald, T. (2001). *Assets, health, and well-being: Neighborhoods, families, children, and youth*. [Research Paper # CYSAPD 01-9] St. Louis: Washington University in St. Louis Center for Social Development and The University of Kansas School of Social Welfare.
- ³ For a detailed description of SEED's 12 community partners, see <http://seed.cfed.org>.
- ⁴ Not all accountholders participated in the Account Monitoring Study, therefore these numbers differ slightly from some of the SEED research reports.
- ⁵ Mile High United Way enrolled two cohorts of 75 participants.
- ⁶ All issues of *Growing Knowledge from SEED* are available via the CFED website, <http://seed.cfed.org>.



CHAPTER 2

Getting Started

Planning a Children's Savings Account (CSA) program requires a considerable amount of research and preparation. First, the organization or unit of government considering such a program needs to determine whether it would be feasible. As with any investment, you must carefully weigh the potential risks and rewards of a CSA program before you begin. This chapter will help you work through key questions that can help determine if a CSA program is the right choice for your organization and community. If you are unable to answer the questions in this section in a clear and compelling way, it may suggest that your organization is not yet ready to implement this type of program.



KEY DESIGN ELEMENTS

In this chapter, we describe a series of design elements that are critical to think through in assessing the feasibility of implementing a CSA program. In particular, there are four key elements to address when planning to deliver CSAs:

- **Specifying Goals.** What are the goals of the CSA program? How will these program objectives be evaluated?
- **Assessing Need.** Why are CSAs needed?
- **Gauging Organizational “Fit” and Readiness.** What is the organizational reason for pursuing CSAs?
- **Identifying Partners.** Are there potential partnership opportunities?

Specifying Goals

The first step is clarifying the goals and objectives of pursuing a CSA program. This is not a simple question and deserves careful thought. Both experience and polling research in SEED suggest that CSAs are powerful asset-building tools because they can meet a variety of goals. These include, but are not limited to increasing college savings, changing financial habits and developing savings behaviors, increasing the savings rate and building lifelong assets. Clarifying the exact purpose of a particular CSA program is critical to defining and achieving programmatic success.

Goal-Setting Process

Constructive goals are the outcome of a process of discussion with, and consideration of, a number of different constituencies. Before finalizing your CSA program objectives, it is important to solicit input from the community. The overall mission of your program should reflect the needs and capacities of your potential participants and the communities in which they live.

Holding focus groups with people currently involved with your organization will help you to understand the priorities of prospective CSA program participants. Initiating conversations with community organizations will give your program an indication of what your community needs and is willing to support. For more on conducting focus groups, refer to the Online Resource Guide.

Another important step is to talk to members of your own organization and staff, as they will serve as the primary “home” for your CSA program. Involve your organization’s board of directors in this decision-making process. It is important that



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CSA Goals

Specifying goals for your CSA program will:

- Create a foundation from which to make program design decisions
- Convey the mission of your program to potential partners and funders
- Describe the purpose of your program to prospective participants
- Apply your organization's limited resources in the most focused, productive manner
- Establish a basis from which to evaluate the effectiveness of your program
- Minimize disagreements among stakeholders about your program's priorities

the program objectives you establish fit in with your overall mission and reflect the knowledge, experience and capacities of your staff and leadership.

Finally, you may want to approach potential funders, as many potential sources of financial support will be more interested in your program if its objectives match their funding guidelines. Although funding considerations should not dictate your program goals, your program will be much easier to fund if its goals share common ground with major funders' priorities.

Evaluation

Once you have defined the goals of your CSA program, it will be important to integrate a plan for evaluation into the program design. Your program should structure data and information collection points throughout the program and specifically at enrollment and upon completion of the program; these data points should be both quantitative and qualitative. A Management Information System (MIS) can be particularly helpful in tracking quantitative

data such as participant savings behaviors, outcomes and numbers of accounts (see Chapter 10, *Account Management*, for more information on MIS). In addition, pre- and post-tests or assessments of the financial education portion of the CSA program can help to evaluate financial literacy objectives. The ability to measure your program's objectives against specific and measurable data points will be essential to your ability to secure and maintain funding and partnerships. In addition, this information will help your program to assess what may or may not be working effectively.

Checklist: Questions and Considerations

- What is the mission of the sponsoring organization?
- Do CSAs fulfill this mission?
- What are your organizational objectives?
- How do CSAs meet these organizational objectives?
- What have members of the community, your organization, your staff and potential funders said about your CSA program and its goals?
- How will you integrate evaluation into the design of the program?
- Are there particular audiences, such as policymakers, foundations or community leaders, that you want to influence through the implementation of this initiative?
- What methods will you use to define programmatic "success?" What quantitative and qualitative measures will your program track?

Considerations for Larger-Scale Efforts

- Larger-scale CSA initiatives should consider developing a complex evaluation instrument that captures a range of quantitative and qualitative data, over the long term if possible. Consider contracting with a professional evaluation firm or research center to carry out this work.

Assessing Need

Once you have specified your goals, the next step is to assess the need for asset-building strategies and to determine how CSAs can meet this need in the target population. It is important to consider both quantitative and qualitative measures.

The quantitative measures will vary depending on the goals of the program. If your organizational goals are to increase high school graduation and college attendance rates, then it would make sense to research high school dropout rates and college matriculation in your community or region. If your program is more focused on increasing financial literacy and “banking” families, perhaps you would look into the state of financial education in the school district, student debt rates and the percentage of unbanked families where the program will be launched.

Qualitative measures are also important. You should pay attention to the views, ideas, and opinions of children, youth and families – especially potential accountholders – as their input is particularly valuable. Convening focus groups with members of the target population, as well as discussions with community representatives, are great ways to bring those opinions together to assess need. For more information on conducting focus groups, see the Online Resource Guide.

Checklist: Questions and Considerations

- What are the asset-building and other needs of the target population?
- What quantitative and qualitative measures will you use to assess the needs of your target population?
- How can CSAs meet these needs?
- How do your programmatic and organizational goals align with the community need?

Gauging Organizational “Fit” and Readiness

The third step is to consider whether your particular organization is well suited to pursuing a CSA program. It is important to take into account the mission of the organization and whether it includes a commitment to building assets for children or youth. In addition, the sponsoring organization or at least one key partner organization should have experience successfully operating similar initiatives in the same community and serving the same target population. An existing relationship between



QUICK TIPS

Important outcomes to evaluate in a CSA program include:

- Savings amount and frequency of deposits
- College attendance and completion
- Amount of debt (for older youth)
- Progress toward reaching goals
- Behavioral and attitudinal characteristics

the sponsoring organization and the target population is helpful in any CSA initiative, as there will already be a baseline level of trust between potential accountholders and the organization.

Having sufficient staff capacity is critical to the successful implementation of a CSA program. This means having adequate staff to satisfactorily operate all phases of the program, including recruitment, enrollment, financial education training and counseling for both accountholders and their families (where applicable), assistance in asset purchase (in the case of older youth), fundraising, administration, data and account management, and reporting (where applicable). For community-based CSA initiatives similar manner to SEED or IDA programs, it is advisable to have at least 1.25 full-time employees or their equivalent devoted to each 75-100 CSA accounts, with the program coordinator spending at least half of his or her time on the program. However, this rule does not apply to all CSA initiatives, especially for programs operating on a larger scale.



QUICK TIPS

Data on wealth indicators, especially at the substate level, are very limited. The best data at the state level on asset accumulation and asset disparities among various demographic groups, including child asset poverty, can be found in CFED's *Assets & Opportunity Scorecard* (<http://scorecard.cfed.org>).

Implementing a CSA program involves a wide variety of tasks that demand a range of skill sets, and experience from SEED suggests that a single individual may not always be well-suited to manage all of these responsibilities. The skills and interests of the program coordinator will dictate the extent to which other staff involved in the CSA initiative should have complementary skills. For example, if the program coordinator's main strength is working directly with accountholders and their parents, then another staffer may be needed to provide office support in managing information and databases, reporting to funders, managing budgets, and other administrative functions. The reverse is also true. Finally, regardless of the particular manner in which responsibilities are divided, it is a good general rule to develop a staffing plan that indicates how each function is addressed and provides some overlap and coverage for each major function.

Staff turnover is an inevitable occurrence in any organization. Therefore, the sponsoring organization should develop and maintain a staff transition plan in the event of the loss or transfer of key staff. Doing so will ensure continuity of accountholder and program services. Based on the experience of SEED community partners, roughly 5-10% of an executive director's time should be dedicated to educating board members, staff, and funders; setting up partnerships; and designing the initiative. Again, this is appropriate for community-based programs similar to those in SEED but may not be adequate for other types of CSA initiatives.

Checklist: Questions and Considerations

- Is the sponsoring organization or government agency unique in offering asset-building services in the community to be served? Does it have a track record in the area of asset-building?
- Do the sponsors or their partners have experience and competencies in financial service delivery and innovation?
- What is the level of trust between the sponsoring organization or government agency and the members of the target population?
- Does the executive director or a senior program staff person have the time to develop this program?

- Is there existing staff capacity with the skills and experience to implement a CSA program, or is there a commitment to hire such staff?
- Is there sufficient staff capacity to manage accounts and data for all accountholders? See Chapter 10 on *Account Management* for more information on this subject.

Considerations for Larger-Scale Efforts

- Does the sponsoring organization represent or have connections to a larger potential delivery system (for example, schools, after-school programs, youth-serving organizations, etc.) that can be used to reach accountholders?
- Does the sponsoring organization have the ability to initiate and manage a scalable matched savings program and an interest in doing so?

Identifying Partners

The fourth step is identifying potential partners. Strong partners can bring a wealth of resources to your CSA program. They can assist and provide advice on account management, funding, recruitment, financial education, case management, public relations and publicity. As you begin to brainstorm about what types of partnerships to seek, it may be helpful to consider some of the resources that these partners could offer to your program. This will vary depending on the size and capacity of your organization.¹ Partners can bring the following to your CSA program:

Expertise

Partners bring knowledge and tools that your organization may not have. **Your program (and partners) will need to master a broad range of skills, from teaching financial education classes to managing the accounts themselves.** Even a large and well-staffed organization or government body may not be able to handle all aspects of the CSA program without assistance. Partners can supplement existing resources and provide the expertise that your organization may lack.

Efficiency

Although some of the tasks for which your CSA program may seek to enlist partners could be handled by the program itself, efficient operations assign responsibilities to the most experienced and qualified parties. Your program could write its own financial education program and hire and train instructors to teach the courses, but you may find it more efficient to use an existing financial education curriculum or even an entirely external financial education service.

Financial Support

CSA programs are resource intensive. For some organizations it is unrealistic to support the entire operating or savings match cost without outside assistance. Not only can partners provide direct financial contributions, they can also contribute in-kind services (such as facilitating financial education workshops), offsetting the overall cost of your program. For more on *Fundraising and Budgeting*, see Chapter 11.

Credibility

To a certain extent, your CSA program will be judged by the company you keep. Prospective participants and funders will be impressed by seeing that other organizations or government agencies are willing to support and attach their name

to your program. Reputable partners will broaden the circle of people who feel a personal connection to your program, which in turn can make people feel more comfortable being involved with or supporting your initiative. By the same token, partners with poor reputations can damage your program's credibility.

Manageability

Depending on the size of the organization or government agency implementing the CSA program, running the program without assistance can be an unwieldy task. Your program should strive to involve the whole community in the process of program development and implementation.

When partnering with other organizations in the delivery of CSAs, CFED recommends that the sponsoring organization develop a written agreement between all members of any partnership or collaborative. Such an agreement, often referred to as a *Memorandum of Understanding* (MOU), should specify the goals, roles, responsibilities and relationship of each member of the partnership or collaborative.

Finally, look for organizations with a similar mission. Prospective partners will be more interested in your partnership invitation if they have something in common with your organization. If your CSA program will serve a particular population, for example, seek partners that target this same population as customers or clients.

Checklist: Questions and Considerations

- Who are some potential partners for your CSA program?
- How can these partners help manage and run your CSA program?
- What is the reputation of the partners you are considering?
- What specific services are they qualified to provide (e.g., financial education or financial services)?
- With respect to financial services, will the financial institution provide just the CSA account, or will they also offer related services (that is, accounting for, tracking and reporting on matching funds)? For more on these questions, refer to Chapter 5 on *Financial Institutions*.
- With respect to financial education, will you design and deliver a standalone financial education component, or will you partner with existing systems, such as schools, financial institutions, or after-school programs that already provide this service? For more on these questions, refer to Chapter 8 on *Financial Education*.

Considerations for Larger-Scale Efforts

- Charitable foundations can be an excellent source of seed capital in initiating a large-scale CSA effort. However, delivering CSAs on a larger scale over an extended period of time will likely require a significant source of public funding, such as existing sources of local, state or federal matching funds (in state matched 529 plans, state- or federally-funded IDAs, or the federal Saver's Credit).² You may also consider working with local or state agencies that have flexible funding that can be used toward a CSA program.

Chapter Endnotes

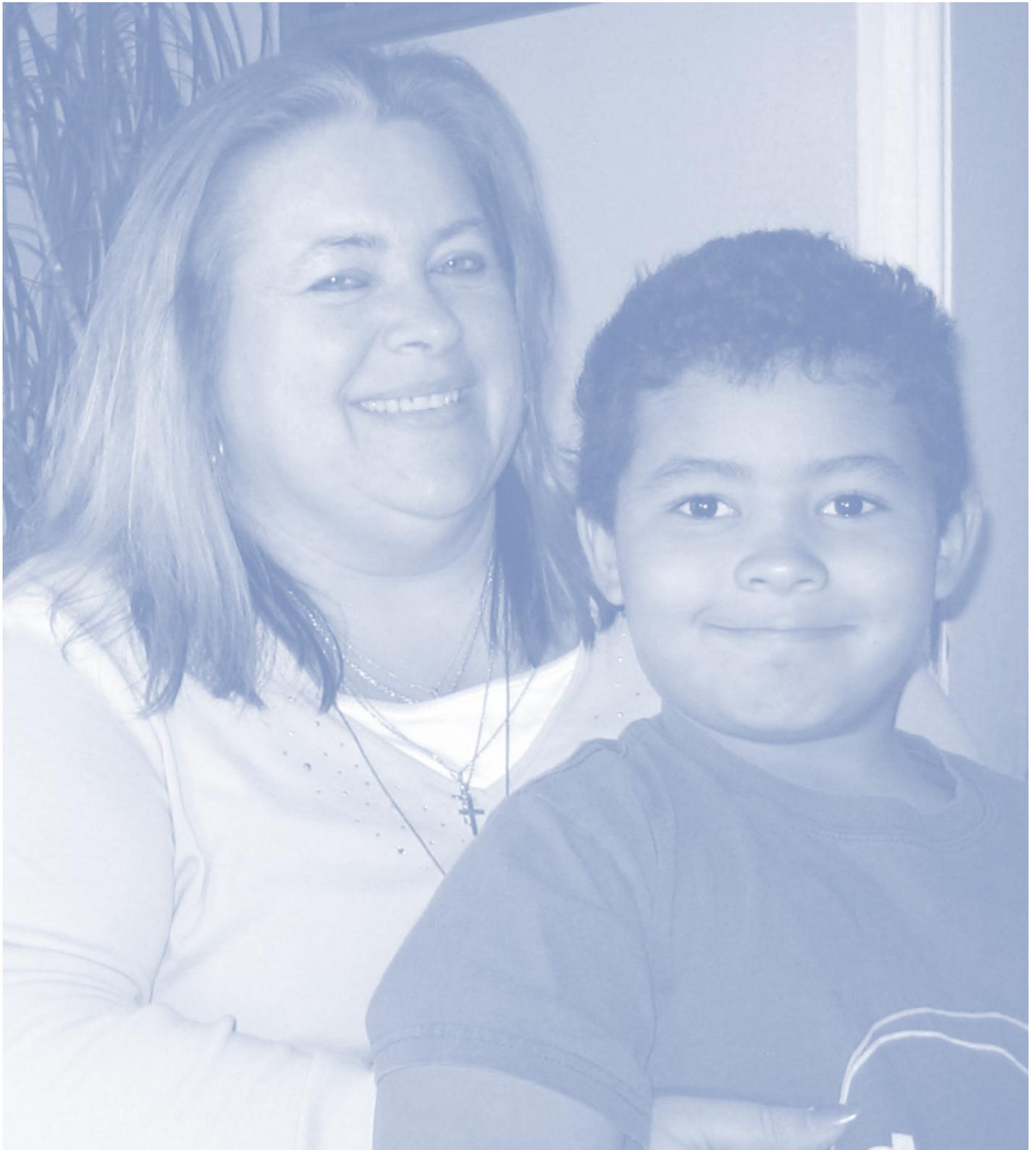
¹ For more on partnerships, see *IDA Program Design Handbook: A Step-by-Step Guide to Designing an IDA Program*. It is available through CFED's Online Resource Guide at http://cfed.org/programs/idas/program_design/.

² For more on the Saver's Credit, visit CFED's website at www.cfed.org.

SECTION B

Program Structure





CHAPTER 3

Target Population and Recruitment

Selecting your target population and designing an effective recruitment strategy are key early steps in a successful children's savings account program. Interviews with SEED participants have shown that a broad mix of recruitment methods, along with emphasis on trust and personal contact, are needed to get participants to enroll.^{1,2} The importance of a well-thought-out targeting and recruitment strategy cannot be overstated. Sites that designed and implemented effective recruitment plans were able to greatly reduce the amount of time and effort spent on getting the program up and running.

The pace of recruitment varied considerably across the SEED community partners. One community partner filled all 75 slots in three months; another took almost two years. At several SEED programs, staff found recruitment to be much more difficult than expected, and this experience spanned age and demographic profiles of participants. At the Oakland Livingston Human Service Agency in Pontiac, Michigan, three characteristics were correlated with lower enrollment: Hispanic ethnicity, families with less-educated caregivers, and caregivers who do not own their own homes.³



KEY DESIGN ELEMENTS

It is important for a CSA program to consider the following when designing a recruitment strategy:

- **Target Population.** Who is the target population for the CSA program?
- **Partnerships.** Which partnerships fit the target population and recruitment plan?
- **Messages.** What messages are you sending during recruitment?
- **Communication Methods.** What are the most effective methods to communicate these messages?
- **Enrollment Process.** How can the enrollment process affect recruitment?

Target Population

Knowing your target participants is the first step to designing an effective recruitment strategy. Will the program target a select subset of children, or will the program strive for “universal” coverage in a particular area? What are the characteristics of the target group?

The most common recruitment strategy among SEED partners was a “targeted” approach that involved a clearly defined and limited pool of participants. It also relied heavily on existing relationships between the participants and the SEED organization, or a referring partner. One or more criteria were used to define this target population, including participation in a particular program, such as an after-school program, attendance at a certain school or family income level. Although these criteria often limited the number of families eligible for the program, the pool of potential participants was always larger than the number of available accounts. Families were enrolled on a first-come, first-served basis, and many eligible families never signed up for the program.

Beyond Housing in St. Louis attempted to model “universal” coverage by enrolling every child in grades K-I at the Delmar-Harvard Elementary School. The school is in a diverse neighborhood and draws a mix of students from different income levels, including the children of professors at a local university and children of single working parents. Although SEED staff were unable to achieve 100% enrollment (four out of the 78 eligible families refused to participate), we have still learned valuable lessons about how to provide universal coverage within a geographic area from this approach.

The SEED experience indicates that whenever participants must “opt in” to a program, some percentage of people will not enroll no matter how intensive the outreach efforts. Research on 401(k) retirement savings plans supports the idea of an opt-out design for higher participation rates.⁴ In the absence of an automatic enrollment process and where universal participation is the goal, a disproportionate amount of energy will probably be spent on recruiting the “laggards” who represent a small minority of the overall target population.

Recruitment is likely to be easier when the target participants reflect the mission and scope of the CSA-implementing organization and its partners. For instance, if the CSA target population is foster youth, the involved organizations should have specific networks, resources and a positive history working with foster youth. In some SEED programs, the target population was selected first and then the appropriate partners were identified and recruited, but in others, the target population was defined by the organizations interested in CSAs and had the relevant expertise and experience working with the communities.

Checklist: Questions and Considerations

- Do the target participants reflect the mission and scope of the CSA-implementing organization and its partners?
- Is your program aiming for universal coverage? If so, is an automatic enrollment process in place? Recruitment will be swifter and easier with automatic enrollment.

Partnerships

As mentioned earlier, selecting partnerships that match the target population and recruitment plan is critical to the success of a CSA program. One of the key factors that influenced enrollment in SEED programs was the degree of trust already established between the sponsoring organizations and the target population. Many families who were eligible for SEED were wary of financial scams and distrustful of the banking system.⁵ In some cases, they were also reluctant to provide personal or financial information. Given these barriers, it is critical to determine which organizations are viewed as trustworthy, credible, and committed to working with your target participants, as this can make a significant difference in the uptake and success of a CSA program.

The commitment of partner organizations is more fundamental to recruitment success than the length of the relationship with the partners. For example, several SEED community partners, including the Sargent Shriver National Center on Poverty Law, demonstrated that newly formed collaborations with committed partners can prove highly effective in reaching target populations. It is also important to be wary of the converse: newly formed partnerships with organizations lacking a solid commitment can consume a tremendous amount of staff time and energy with little result.

When multiple organizations are involved in a recruitment effort, ensuring a consistent message to potential participants is critical. As part of the planning process, CSA programs should discuss who will be conducting outreach, how and what

messages will be used. Outreach staff should be well-versed in the program and able to answer any questions that potential participants might have, so training is essential.

Partners should know what is expected of them in terms of how many participants they are expected to recruit and by when. This may involve signing Memoranda of Understanding (MOUs) with each partner to outline their roles and responsibilities. The recruitment process is not always easy, so additional milestones can be created to measure progress towards these goals, including the number of attempts made to recruit each participant. Attaching an incentive or reward to achieving recruitment goals may help motivate some partners.

Checklist: Questions and Considerations

- Are the partner organizations trusted in the community?
- How committed are the partners to the CSA program, its goals and anticipated outcomes?
- How will you ensure coordination among partners?
- Are the expectations of partners clear?
- Have you considered drafting a MOU to outline the roles and responsibilities among partners?

Messages

How you describe your program during recruitment can make a significant difference in overcoming potential barriers to participation. For example, advertising a CSA program as an opportunity to get “free money” might arouse feelings of suspicion and mistrust. On the other hand, framing the program as an opportunity to receive greater “return on investment” for educational, business or homeownership costs might encourage feelings of ownership and choice among participants. Generally, SEED community partners learned that positive messages that appealed to the parents’ desires to create more hopeful futures for their children were more effective than those that described the mechanics of the account.

Two key barriers to participation at community partner sites where education was the savings goals were that some parents expressed the belief their children would never go to college and others were convinced that their children would receive full scholarships. Messages that talk describe the full range of educational opportunities available to young people, including trade and technical schools, as well as the true costs of college and limited availability of grants and scholarships, might alter the perceptions of some parents.

Research at one site indicates that the initial deposit provided a strong incentive for participants to join.⁶ Therefore, program messages may want to highlight this aspect of the program. In addition, some young parents, who were unclear about their own long-term goals, found it difficult to think about and plan for their children’s distant future. This barrier might be addressed by messages that effectively convey that participants don’t need to “have it all figured out” to begin building their assets.

Checklist: Questions and Considerations

- What are the key messages that appeal to your target population?
- How will recruitment materials answer frequently asked questions and dispel common myths?



IN FOCUS

Messages that Resonate with the General Public

In March and April 2007, Peter D. Hart Research Associates conducted a national survey for the SEED program on issues related to children's savings accounts. A representative national sample of 801 registered voters was surveyed, as well as a sample of 433 voters who were parents of children younger than age 11 or prospective parents. In addition, six focus groups with voters and opinion leaders were conducted prior to the survey.

The survey revealed the following public perceptions and preconceived ideas about CSAs. These should be taken into account as you design your recruitment plan.

- Education and job training are seen as the most important use of the accounts (far more so than retirement and home purchase).
- Using concrete examples of what an account could pay for is more effective than simply stating dollar amounts (for instance, "an account that could cover three years of tuition" versus "\$20,000").
- Messages of CSAs providing "opportunity" and "hope" resonate better with people than messages focused on savings.
- Messages should point toward "cultivating independence" and fight perceptions that CSAs are a "government handout."
- The financial education component of CSA programs is seen as helpful, but not the "central story."

Considerations for Low-Income Populations

- Saving is not easy, especially for low- and moderate-income families. Research has shown that individuals in this group may not have learned about saving as children, are overwhelmed with managing their day-to-day finances, are wary of planning too far in the future, and may be under pressure to share their limited resources with others.⁷
- These barriers to saving and the realities of living paycheck-to-paycheck should be addressed in outreach and marketing efforts to low-income populations. One important message might be that savings can be incremental. For instance, a message saying "save up to \$1,000 in funds to be matched for college expenses" might have one effect on potential participants, while a more incremental message to "build your child's college fund with less than \$20 a week" could have a very different effect.
- Program messages should be as clear and up-front as possible about how savings can affect eligibility for means-tested public benefit programs. In SEED, several families receiving such benefits were concerned about losing them if they accrued assets above the set limit. Fortunately, a number of savings vehicles are now available that allow participants to save and protect eligibility. A good recruitment effort will address these issues as clearly as possible without confusing participants. For more information on this subject, see Chapter 7 on *Asset Limits*.

Communication Methods

In addition to having the right messages for your target audience, appropriate communication methods are also key for successful recruitment. Understanding your target audience is essential for choosing the right marketing strategies and outreach channels to reach participants. For instance, choosing to send e-mails and enroll participants online for a target group where half of the families do not have Internet access would undermine even the most well-designed program.

The 12 SEED community partners used a wide variety of communication strategies. Specific tactics included group meetings, one-on-one approaches, media and publicity, word-of-mouth and written communications. In general, having a variety of recruitment tactics was important and "hitting" targets multiple times was required. Because families are constantly bombarded with information and marketing materials from a variety of sources, it often took a while to get their attention.

However, some strategies were more effective than others. Having a trusted individual speak in support of a program often made a big difference in recruitment. Traditional leaders (school principals, teachers, and ministers) were persuasive in some SEED programs, but word-of-mouth referrals from neighbors and friends were even more effective. A practitioner at the Southern Good Faith Fund noted, "As people enroll in our programs and find them to be a positive experience, they share this experience with friends, neighbors, etc. and the trust begins to build."

Checklist: Questions and Considerations

- Are your communication methods appropriate for your target audience?
- Who are the opinion leaders for your target population?
How will you utilize them to spread the word about and build trust in your CSA program?
- What marketing materials will you develop for outreach and recruitment?

Enrollment Process

Decisions regarding the enrollment process can also have an important impact on the success of a recruitment plan. The more "hoops" participants have to jump through (filling out applications, opening accounts, making deposits), the less likely they are to enroll in the program. OLHSA initially required parents to send in paperwork and \$25 of their own money to open their accounts before they could receive the initial deposit of \$800. Once OLHSA removed the \$25 requirement and began opening accounts with the initial deposit, the rate of enrollment increased dramatically.

Another way to reduce the administrative burden to families and on recruiters is to enroll families at the same time that they sign up for other programs. For parents of young children, the best time for enrollment appeared to be at the beginning of the school year when they registered their children for other programs. Conversely, older youth who signed themselves up seemed to have more time over the summer.

Most research on behavioral economics suggests that it is best to limit the number of options that participants have to choose from, such as the kind of account, investment options, etc. The more options people have, the more likely they are to feel overwhelmed with the decision-making process and not act at all.



QUICK TIPS

- Make written materials bright and eye-catching.
- Catch people where they live, work and play.
- Use culturally appropriate venues and traditions to engage people in their context, such as Native American feasts.
- Test and refine your materials beforehand.
- Try to anticipate frequently asked questions.
- Offer incentives for people to sign up participants.
- Use giveaways.



Mile High United Way, Denver, CO

Mile High United Way formed a partnership, known as Bridging the Gap, with Jim Casey Youth Opportunities Initiative (JCYOI) and SEED to offer 150 accounts to youth aging out of the foster care system in Denver. SEED provided \$1,000 in benchmark incentives per participant and some operational funding. JCYOI provided match incentive funds and the resources to provide additional financial, educational, and vocational activities to help the youth achieve self-sufficiency, through an “Opportunity Passport” program.

Mile High United Way is the first United Way in America's history and has a strong track record of providing asset-building opportunities to families in the Denver metro area. Mile High's Youth IDA program has been in existence since 2002; however, Bridging the Gap was the first time that this organization had worked with the foster care population. This target group was selected because of JCYOI's particular interest in helping youth leaving foster care.

The organization engaged in an extensive planning process to identify and recruit partners with expertise in the foster care system and relationships with prospective participants. These included the local county Departments of Social Services, a homeless shelter, and others. By the time the program began, these partners had already identified enough eligible youth to fill the available slots and even placed some on a waiting list. As a result, the whole enrollment process, which included attendance at a financial education workshop, took less than two months, which was the fastest of any SEED site.

Mile High United Way produced very few recruitment materials. Potential participants heard about the program from their caseworkers, who explained how it worked and why they should apply. They were then referred to staff at Bridging the Gap, who scheduled them for a financial education class that was held at Young Americans Bank. At the end of the class, participants walked across the hallway and opened their SEED accounts.



Checklist: Questions and Considerations

- How will you reduce procedural barriers to enrollment?
- What is the best time of year to enroll your target population? Are there other enrollment events and activities that can complement your efforts?
- What decisions will participants have to make during the enrollment process?

Chapter Endnotes

- ¹ Scanlon, E., & Adams, D. (2005). *In-depth interviews with SEED youth: Profiles of participants in the pilot study*. St. Louis: Center for Social Development at Washington University in St. Louis.
- ² Sherraden, M.S., Johnson, L., Elliott, W., III, Porterfield, S., & Rainford, W. (2007). School-based children's saving accounts for college: The I Can Save program. *Children and Youth Services Review*, 29, 294-312.
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- ⁴ Gale, W. G., Iwry, J. M., & Orszag, P. R. (2005). *The automatic 401(k): A simple way to strengthen retirement saving*. Washington, DC: The Retirement Security Project.
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- ⁶ Ibid.
- ⁷ D2D Fund. *Study One: Money and savings*. Available at http://www.d2dfund.org/our_work/understanding_mind_saver/zmet_research/study_one



CHAPTER 4

Account Vehicles

Central to any CSA initiative is a financial product or account – preferably one that is simple, can be made available to all children, restricts withdrawals to an asset-building use, and has the potential for deposits to grow significantly during children’s pre-adult years.

One of the challenges of launching a CSA program is that there is no “perfect,” pre-existing account vehicle that is specifically designed for CSAs. Instead, programs must choose from among the existing options. Many of these can work well with CSA programs, but some have significant limitations and important ramifications for programs and participants. It is essential, therefore, to understand all of the options before making a decision as to which type of account your program will offer.



KEY DESIGN ELEMENTS

When choosing the type of account that will be used, you will need to weigh a number of factors to determine which account vehicle(s) are best suited for your program and participants. Important questions to ask include:

- **Account Options.** What types of accounts are available to choose from?
- **Account Ownership.** Who will own the account? This has numerous implications, described later.
- **Flexibility of Uses.** What are the CSA program’s allowable asset uses? The account vehicles should permit withdrawals for all of these allowable uses.
- **Financial Aid Considerations.** How will the account vehicle and ownership affect the need-based financial aid that a student may receive?
- **Tax Advantages and Other Benefits.** Does the account vehicle include any tax advantages (or other benefits) for participants and their families?
- **Potential for Meaningful Earnings.** How much interest does the account have the potential to earn?
- **Ease of Use.** What is required to make transactions? How easy is it to make deposits into the account?
- **Safeguarding Savings.** Does the account have safeguards to discourage withdrawals for non-asset uses?

Account Options

Organizations interested in launching CSA programs may consider using several existing financial instruments for these accounts. Although none of these accounts meet all of the ideal design criteria for children’s savings accounts, several are promising and share many key features.

Generally, there are three kinds of accounts that work especially well as children’s savings accounts – 529 College Savings Plans, Coverdell Education Savings Accounts (ESAs) and IRAs. These accounts are highlighted because they: 1) are long-term savings and investment products, 2) provide some form of tax-preferred accumulation, 3) are widely available and 4) offer limited uses similar to those most commonly proposed for children’s savings accounts.¹

529 College Savings Accounts. So named for the relevant section of the tax code and also known as Qualified Tuition Plans, 529s are state-sponsored education savings plans that offer tax-sheltered savings for educational expenses only. Each state offers its own plan through a designated financial institution; most states' plans are available to residents of any state, and plan details vary widely (for more information, see www.savingforcollege.com).

Coverdell Education Savings Accounts. Formerly known as education IRAs, Coverdell ESAs are tax-sheltered accounts established under the Uniform Transfers to Minors Act (UTMA), with the child as beneficiary and the bank or financial institution as custodian. An adult, generally a parent or guardian, is designated as a "responsible individual" in charge of making decisions about the account. Any individual whose adjusted gross income is less than \$110,000 (\$220,000 for joint filers) can contribute to a Coverdell ESA, and total deposits are limited to \$2,000 per year for each beneficiary.² Contributions can be made only for children younger than age 18, and the balance in the account must be spent or rolled over to another eligible beneficiary by the time the beneficiary reaches age 30 (for more information, see IRS Publication 970, "Tax Benefits for Education").

Traditional and Roth Individual Retirement Accounts. IRAs are tax-sheltered savings instruments that are designed to provide retirement income, but allow for early withdrawals for education, home purchase and other purposes. The difference between traditional and Roth IRAs is primarily in the tax treatment of deposits, earnings and withdrawals. In traditional IRAs, contributions are deducted from income in the year of contribution (depending on income and employer retirement plan). Earnings grow tax-free while in the account; however, the earnings are taxed at withdrawal. In a Roth IRA, contributions are not tax-deductible, but the earnings grow tax-free and are not taxed at withdrawal (for more information on IRAs or Roth IRAs, see IRS Publication 970, "Individual Retirement Accounts"). Neither traditional nor Roth IRAs are appropriate for young children, because they require that all deposits come from the account holder's own earned income. They can work well, though, with older youth who are of age to work.

Two other account options are: 1) standard UGMA/UTMA investment accounts that can be opened through many financial providers (including banks and investment companies) and 2) regular statement savings accounts. However, neither of these options has any restrictions on the eligible uses of the funds, unless otherwise controlled by a custodian, such as a nonprofit organization. This is a critical consideration for organizations considering a CSA program. Custodianship and oversight of children's accounts is a significant and potentially long-term undertaking, and should not be entered into without thorough consideration.

Savings products such as Certificates of Deposit (CDs) or savings bonds, which are "purchased" with a lump sum, are not considered appropriate options for a CSA, since they usually do not allow participants to make additional deposits over time.

It is worth noting that in the future, there may be possibilities for new types of account structures. Several proposals currently moving through Congress could create new savings vehicles for children or refine existing vehicles to make them appropriate for young savers.

Checklist: Questions and Considerations

- How important is it to your CSA program to ensure that accounts are restricted for certain asset-specific uses? Does an account vehicle exist that automatically enforces such restrictions?
- Does your account vehicle allow account holders to make ongoing deposits?
- Does your account vehicle provide market-based returns? See "Potential for Meaningful Earnings."
- Is your account at "arm's length" from account holders? See "Safeguarding Savings."

Account Ownership

It is important to distinguish between the legal registration of accounts (that is, "ownership") and the financial products offered as accounts (for example, savings accounts, CDs, IRAs, 529 accounts, etc.). The ownership of CSAs has a number of important implications, and for each of the financial product options described earlier, a variety of ownership options are possible.

Note: In this discussion of ownership, the focus is on the account containing the participant's own savings, not the match funds. In most cases, match funds are held separately (often in a pooled account owned by the sponsoring organization) and are allocated to individual participants as they are earned, using a software package. In most CSA initiatives, accountholders cannot access any match funds until they are ready to make an asset purchase. At that time, a payment will be made directly to the vendor (for instance, the educational institution that the accountholder will be attending); the payment includes both the participant's savings and the match funds.

There are three primary forms of account registration for CSAs: custodial (child-owned) accounts, parent- or organization-owned accounts, and dual-signature accounts. All three forms of account registration reflect the fact that children younger than age 18 are often not permitted to own a savings account without an adult parent, guardian, or other entity also listed on the account in some manner (rules vary by state and even by financial institution).

Custodial (Child-Owned) Accounts. In the case of a custodial account, the custodian manages the property for the benefit of the minor and is permitted all legal rights to the account, except ownership. Custodianship of the account may be held by an adult family member of the accountholder (such as a parent) or by the CSA-sponsoring entity. This latter option is the most frequently seen structure in many matched savings programs, including most of the community partners participating in SEED. This means that the child or youth participant owns the account, but the sponsoring organization is empowered



IN FOCUS

UGMA/UTMA

Uniform Gift to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) rules have been adopted by all states as a legal registration for financial products. The primary purpose is to provide a convenient way to make gifts of money and securities to minors, without establishing a more cumbersome trust. In an account established under UGMA/UTMA, assets are placed under the control of a person who is not the beneficial owner. This custodian manages the property for the benefit of the minor and is permitted all legal rights to the account, except ownership. UGMA/UTMA rules are not uniform across states. For detailed questions about UGMA/UTMA ownership in your state, you should consult a tax advisor.

to make decisions regarding the account as long as those decisions are for the benefit of the child. It also means that no withdrawals can be made from the child's account – even by the parent – without the organization's permission.

Parent- or Organization-Owned Accounts. Another option is to open an account with the parent or sponsoring organization as the legal owner, but with the child listed as the “named beneficiary.” This means that the funds in the account can only be used for the benefit of the child.

Dual-Signature Accounts. Less commonly used, but also an option, are dual-signature accounts. In the case of a minor, this involves establishing an account owned by the minor (using the minor's Social Security number), with two adults (typically a parent and the CSA sponsoring organization) authorized as signatories. These two adults must sign off on any withdrawals. For practical purposes, this structure only works for savings accounts and certificates of deposit (CDs) because an account owned by a minor holding any kind of securities (for example, stocks and bonds, mutual funds, etc.) would require an UGMA/UTMA structure.

Overall, 529 accounts and standard savings accounts offer the most flexible ownership options because they can be established as parent-owned, owned by an entity, such as the CSA sponsoring organization, or as custodial accounts owned by the child. ESAs, in comparison, are the least flexible and are designed to be custodial accounts only (that is, UGMA/UTMAs). IRAs fall in the middle – they may be owned by minors, but parental ownership is also an option in a roundabout way because a parent may use funds in an IRA for nonretirement uses (first-time home purchase, postsecondary education) for a relative.

One benefit of having a parent or guardian as the owner or custodian of an account is the potential to instill a greater sense of ownership and empowerment in young savers and their families. However, it is the experience of SEED (and many adult IDA programs) that many families actively prefer to have the sponsoring organization be the owner or custodian of the account so that the funds are not readily accessible. Having this control in place gives savers and their families the knowledge that their savings are off limits and cannot be raided in the event of an emergency. It may also protect families from losing public benefits (see Chapter 7, *Asset Limits*, for more details).

For organizations considering becoming the account owner or custodian on behalf of families, it is important to be aware of the accompanying fiduciary responsibilities. Seeking guidance from key advisors – including your organization's finance team, auditors, and legal counsel – is strongly recommended before making this decision.

Checklist: Questions and Considerations

- Is there concern that families may seek to withdraw funds from the CSA for non-asset purposes?
- If your organization is considering becoming the account owner or custodian of the accounts, do you have the capacity to manage accounts, maintain the necessary record-keeping, and make any needed transactions or other changes to the accounts over time, particularly if you plan to open large numbers of accounts or serve young children who will be saving in the account for many years to come?

Considerations for Low-Income Populations

- When designing a CSA program for low-income populations, it is extremely important to be aware of the potential impact that a savings account can have on asset limits in public benefit programs. Many programs like TANF and Medicaid limit eligibility to those with few or no assets. If a family has assets over the limit, it must “spend down”

savings to receive public assistance. The ownership of an account is crucial in determining whether it will be counted in the “asset test” for public benefit programs. These rules vary from state to state, but usually center around who actually receives the benefit and whether the recipient of the benefit has access to the funds in the account. It is important to structure the ownership registration of CSAs so that they offer the maximum protection to families who currently receive public benefits or who may be likely to apply for benefits in the future. See Chapter 7 on *Asset Limits* for more details.

- Similarly, the account ownership can affect how much financial aid a child receives when applying to college, depending on the type of account and whether it is owned by the parent or the child. See “Financial Aid Considerations,” below, for more details on how various types of accounts can affect need-based student aid.

Flexibility of Uses

The traditional approved uses for funds in an IDA or CSA are postsecondary education or job training, homeownership and small business; of these, the most popular use by far has been for education and job training. However, some CSA programs also allow young savers to use their funds for other purposes, including car purchase, extracurricular activities such as arts or sports, or retirement.

Many potential account vehicles have restrictions on how the funds in the account may be used. For instance, 529 accounts can only be used for postsecondary education, so might not be a good fit for accountholders who plan to use their savings to buy a home or start a business. Therefore, it is important that the account vehicle (or vehicles) you choose jibe with the approved uses for savings in your CSA program. This may mean that you choose to offer participants more than one type of account when they enroll in the program. However, this can be complicated, and for this reason is not necessarily recommended.

If education is the only eligible use for a CSA in your program, then ESAs and 529s are both good options for accountholders and their families. Both offer the potential for similar investment returns and receive equal treatment in the calculation of federal, need-based financial aid eligibility (see more below under “Financial Aid Considerations”).³ One minor difference is that ESAs are slightly more flexible than 529s in that precollege education is an allowable use in ESAs.⁴ It is also worth noting that, at present, the penalty for using either a 529 or ESA for non-education expenses is not substantial. Unauthorized withdrawals are subject to income tax plus a 10% penalty on the earnings in the account (not on the principal). It is only when an account has been held for a longer period of time and has accumulated substantial earnings that the 10% penalty on earnings becomes more costly.

If a broader range of uses is desired, IRAs are an important option because education, homeownership, and retirement are all eligible uses. However, IRAs currently require that deposits into the account come from earned income. Therefore, unless your accountholders are old enough to have verifiable earned income, these are not an option.

If your program plans to allow entrepreneurship, car purchase, or any additional uses, investment accounts and standard savings accounts are the best options as they do not include any restrictions on eligible uses. However, they will almost certainly require additional oversight to ensure that withdrawals are being made for one of the approved purposes.

Checklist: Questions and Considerations

- What kinds of allowed asset purchases does your program intend to offer?

- Does the funding for your program dictate that accounts must be used for a particular purpose?
- Are your accountholders old enough to have earned income?
- If you choose an unrestricted account (such as an investment account or standard savings account), who will oversee the withdrawals to ensure that they are being made for an approved purpose? This is particularly important to consider if you will be managing large numbers of accounts.

Financial Aid Considerations⁵

With the cost of higher education increasing at a rate faster than inflation and the cost of college at a four-year public university reaching 71% of a low-income family's total income,⁶ it is likely that most accountholders will require need-based financial aid to pay for college, even with the assistance of a CSA. Eligibility for need-based aid, whether federal, state, or institutional, is usually determined based on a variety of factors, including the assets of both the student and the household. Given that education is one of the most obvious uses for CSAs, understanding the impact of these accounts on financial aid eligibility is a critical issue to consider when evaluating account options.

In calculating financial aid, there is an Expected Family Contribution (EFC) – the amount that students and families are assumed to contribute. The EFC is based on the student's dependency status and the family's size, income, expenses, number of family members enrolled in college or trade school, and assets. When a prospective student applies either for federal financial aid or for institutional grants through an institution's financial aid office, the information is fed into a formula that calculates the applicant's EFC. The gap between the price of attending the institution and the EFC will be the financial aid granted. Depending on the type of account in which the funds are held, a CSA may be counted in the determination of a student's financial need. The only exception is very low-income students who qualify to use the "simplified EFC formula," which excludes all assets from consideration.

Financial Aid Implications for Different Account Vehicles

- **Individual Retirement Accounts (IRAs):** Among the types of accounts considered in this chapter, IRAs receive the most advantageous treatment from a financial aid perspective. All retirement assets, including IRAs, are excluded from the calculation of a family's available resources in the formulas used to determine federal, need-based financial aid (although withdrawals are counted as income in the year in which they are made). However, because of the current requirement that contributions to IRAs come from earned income, their usefulness for children's savings accounts is limited to older youth.
- **529 College Savings Accounts:** Up to 5.64% of the assets held in a 529 college savings account will be counted toward the family's expected contribution to college expenses.
- **Coverdell Education Savings Accounts (ESAs):** Assets held in ESAs are also included in the calculation of a family's available resources when determining financial aid. ESAs receive the same treatment as 529 accounts, making them subject to the 5.64% assessment.⁷ Although they offer no significant earnings advantages over 529 accounts, ESAs offer a slightly more flexible range of investments and slightly more flexible use (given that precollege education is an eligible use). These accounts may be as attractive as 529s as an option for children's savings accounts, especially for lower-income families, who are unlikely to exceed the \$2,000 cap on annual contributions.⁸

Checklist: Questions and Considerations

- Is postsecondary education among your CSA program's approved asset uses? If so, you need to factor financial aid into your decision-making when choosing an account vehicle.
- How will the type of account you choose affect whether (and to what extent participants' savings are counted as part of their Expected Family Contribution when financial aid is calculated?
- Are your accountholders old enough to have earned income? If so, IRAs offer the best option for ensuring that the CSA will not count against their financial aid eligibility.

Tax Advantages and Other Benefits

The tax treatment of 529s, ESAs and Roth IRAs are fairly similar. For each, contributions are made after taxes. Earnings and after-tax dollars put into savings are not taxed as they accrue or at withdrawal, if spent for allowed uses. On the other hand, contributions to a traditional IRA can be deducted from income in the year of contribution (depending on income and employer retirement plan), and earnings are tax-sheltered while in the account. However, the proceeds from traditional IRAs are taxed at withdrawal.

From a state tax perspective, 529s are slightly preferable because some states also allow participants to deduct contributions to 529s from state taxable income. The value of all tax code preferences rises with income, so for most low-income accountholders and their families, the overall tax benefits of any of these accounts will probably be modest, especially in the short term. In addition, some states offer a match or tax credit on deposits made to 529 accounts, especially for low-income families.⁹ This is an important benefit.

Checklist: Questions and Considerations

- Does your state offer a match or tax credit on 529 savings plan accounts? Visit <http://scorecard.cfed.org> to find out.
- See Chapter 6 on *Savings Incentives* for more on the taxability of CSAs and incentives.

Potential for Meaningful Earnings

One of the important goals of CSAs is for children's savings to benefit from compound interest and grow over time. A low-interest account, therefore, is not a desirable option when choosing a savings vehicle. CSAs should earn – or have the potential to earn – a more substantial rate of interest.

Although they are easy to open and easy to understand, one major downside of basic savings accounts as CSA vehicles is the lack of a substantial return. Other market-based investments offer the opportunity for more meaningful earnings. Of course, investments in the market involve some risk and may not perform well every year (and families should be prepared for this eventuality), but over the long term, these types of accounts generally perform significantly better than a traditional savings account.

ESAs, 529s and IRAs provide fairly similar opportunities for long-term asset growth. With each account, the accountholder or custodian must make choices about underlying investments (for example, stocks, bonds, mutual funds). When considering the underlying investments, the basic rules of investing apply: prices and returns vary, and investments are not insured.



Maine Provides Match for 529 College Savings Plan

Maine began a matching program for the state's 529 College Savings Plan, the NextGen College Investing Plan, in 2002. At the time, Maine residents with incomes at or below \$54,500 could open a NextGen account with a minimum deposit of \$50 and receive a one-time \$200 initial deposit from the state. These families also received a 50% match of additional contributions up to \$200.

After several years of operation, Maine assessed its enrollment by income and discovered that lower-income families were participating at a lower rate. The state concluded that the minimum initial deposit of \$50 was a barrier to participation. In 2006, the state began offering one-time \$50 vouchers to all newborns in the state and launched a marketing campaign to encourage families to sign up. Also in 2006, the Lifelong Learning Account program was introduced to encourage employers to match workers' deposits into NextGen accounts. In 2007, Maine added a \$250 state tax deduction for contributing families who have incomes at or below \$100,000 single/\$200,000 married.

In December 2007, the Harold Alfond Foundation announced the Alfond College Challenge, which provides a \$500 grant to be invested in a NextGen account for all Maine newborns. The first phase of the initiative began on January 1, 2008, in two cities in Maine and was taken statewide a year later. Over 5,000 Maine newborns had received the grant by July 2010.

Data from Maine reveal that incentives were important in accountholders' decisions both to open an account (initial deposit) and to continue saving in the account (annual match of contributions to the account).¹⁰ Furthermore, these accounts represent new savings: two-thirds of account owners had not saved in any way for the beneficiaries' college education prior to enrolling in the 529 plan.¹¹

In the 2009-2010 fiscal year, Maine suspended the state matching grant initiative due to budgetary constraints. Advocates will continue to monitor the situation closely with the goal of reinstating funding as the fiscal climate improves.

Generally, 529 plans offer a more limited set of investment options than ESAs and IRAs offer. More options are not always preferable; the limited number of investment choices in most 529 plans can be helpful in cases where participants may be overwhelmed by numerous investment options. For this reason, if you opt to offer an investment account such as a 529, ESA, or IRA, the financial education provided to the accountholders and their parents should include specific information on making investment choices.

It is also important to note that any earnings can be significantly reduced if the account has high fees. Most of the account types discussed here include fees, which can vary widely from one type of account to another. Fees may be charged for enrollment, account maintenance and asset management. Fees vary from state to state (for 529s) and from vendor to vendor (for ESAs and IRAs), making it very difficult to generalize across account types. Some observers have raised

questions about excessively high fees in the 529 market.¹² Careful attention should be paid to fees when choosing an account type as a platform for children's savings. An excellent resource for comparing fees among 529 accounts is www.savingforcollege.com.

Checklist: Questions and Considerations

- What rate of interest does the account vehicle pay?
- What kinds of investment options are available? Is there a principal protection option for accountholders who are less comfortable with risk? Will investment-specific education be made available to accountholders so that they can choose an investment option?
- Does the account charge fees? If so, how much? Will they significantly reduce any earnings or savings in the account? Can you negotiate a waiver or reduction in fees?

Ease of Use

If it is easy to make deposits, families are more likely to save. As with many other aspects of choosing an account vehicle, there is no right or wrong answer when it comes to determining which account will be easiest for your participants to use. However, there are some important trade-offs to consider:

Generally, deposits are made in one of three ways: by going to a bank, via direct deposit or automatic transfer of funds, or by mail. Making deposits at a bank is straightforward, and some families (though not all) are familiar with that process. Making the trip to the bank can be a fun and important part of financial education for children and their families and can be particularly valuable for those who have not owned a bank account or had a banking relationship in the past.

Investment accounts – though they have many important benefits – cannot generally be accessed by making deposits at local bank branches. The financial providers of these investment products often do not have bricks-and-mortar storefronts in local communities. Instead, deposits must be transferred electronically or mailed. However, some families are unable or unwilling to make online or wire deposits, and mailing deposits can be unwieldy and slow. In addition, these investment products usually have a minimum deposit requirement (often in the \$15 to \$25 range), which can be a barrier for very low-income families who may only have a dollar or two at a time to deposit.



IN FOCUS

Direct Deposit

Certain account features can help promote higher levels of savings. Studies have shown that the use of direct deposit can be a predictor of savings success (with one major caveat: participants who only have experience with direct deposit may lack knowledge about how to make deposits any other way). Some participants avoid signing up for direct deposit out of concern that they lack adequate income or because they find that their deposits are interrupted by income fluctuations or seasonal work (often the case with youth). Program staff should encourage and educate participants about all the possible methods for making deposits in the CSA, and help savers determine whether direct deposit is right for them.

Ultimately, you may have to balance the options and decide which is more important for your CSA program: giving your accountholders access to the many benefits of investment products, or having a bricks-and-mortar bank where they can make deposits of any size and make transactions in person.

Checklist: Questions and Considerations

- Which is more important to your participants – a higher return on investment and more choices, or the ability to make small deposits and in-person transactions?
- Do the majority of your accountholders and their families have the ability to set up electronic deposits?

Safeguarding Savings

Creating a sense that the savings in a CSA is special and cannot (or should not) be withdrawn for any reason other than the intended use can help families avoid withdrawing the funds for other purposes. There are several ways in which the choice of account vehicle (and account ownership) can help safeguard a child's savings.

Restricted use. An account with restrictions on the types of withdrawals that can be made without penalty (such as a 529 or an IRA) can provide a helpful psychological boost to families. Knowing that the funds in the account are especially designated for their child's college education, for instance, can make parents less likely to raid the account in the event of an emergency.

Custodianship. If your organization is serving as the account owner or custodian on behalf of a minor accountholder, all withdrawals for any use will have to be approved by CSA program staff.

Physical location of the account. For investment accounts without a bricks-and-mortar presence, there are a number of steps required before a saver can withdraw funds. An accountholder or parent cannot just walk into the local bank and withdraw money from an investment account such as a 529 or IRA; rather, they must submit a payment request to the financial provider and wait until the withdrawal is processed.

All of these elements can provide a “cooling-off” period before a withdrawal can be made – a slight delay that makes the asset harder to access and may dissuade accountholders from making a withdrawal for something other than an asset purchase.

Checklist: Questions and Considerations

- What structures can your program put in place to help protect a child's savings from being withdrawn for a non-asset purpose?
- In what other ways can your program encourage families to think of the account as “special” and not to be used for everyday expenses or emergencies?

Chapter Endnotes

- ¹ In addition, contributions to IRAs may be eligible for the federal Saver's Credit. For more information about the Saver's Credit, including efforts to expand the credit to include 529s and Coverdells, visit www.cfed.org.
- ² Unless action is taken by Congress, the \$2,000 annual contribution limit will expire at the end of 2010 and will drop to \$500 annually. At press time, the future of this provision was still unclear.
- ³ Stroup, S. (2004). *Summary: Treatment of Coverdell accounts and 529 tuition plans. Information for financial aid professionals library*. Retrieved July 7, 2010, from <http://ifap.ed.gov/dpccletters/GEN0402.html>.
- ⁴ However, this provision is set to expire at the end of 2010 unless Congress acts to renew or extend it.
- ⁵ Much of this section is drawn from CFED's working paper: Rist, C., Brooks, J., & Keeley, K. (2006). *Children's savings accounts and financial aid: An examination of the consequences of children's savings account ownership on financial aid eligibility*. Washington, DC: CFED.
- ⁶ College Entrance Examination Board. (2003). *Trends in college pricing*. Washington, DC: College Board. Retrieved August 7, 2008 from www.collegeboard.com/prod_downloads/press/cost03/cb_trends_pricing_2003.pdf.
- ⁷ Stroup, S. (2004). *Summary: Treatment of Coverdell accounts and 529 tuition plans. Information for financial aid professionals library*. Retrieved July 7, 2010, from <http://ifap.ed.gov/dpccletters/GEN0402.html>.
- ⁸ Unless action is taken by Congress, the \$2,000 annual contribution limit on Coverdell ESAs will expire at the end of 2010 and will drop to \$500 annually. At press time, the future of this provision was still unclear.
- ⁹ For details, see the "College Savings Incentives" policy in CFED's *2009-2010 Assets & Opportunity Scorecard*: http://scorecard.cfed.org/education.php?page=incentives_for_college_savings
- ¹⁰ Clancy, M., Han, C., Mason, L.R., & Sherraden, M. (2006). *Inclusion in college savings plans: Participation and saving in Maine's matching grant program*. St. Louis: Center for Social Development, Washington University in St. Louis.
- ¹¹ Ibid.
- ¹² Kerber, R. (2006, February 14). Complaints mounting over college savings accounts: Tighter controls on plans proposed. *Boston Globe*. Retrieved August 7, 2008 from www.boston.com/business/personalfinance/articles/2006/02/14/complaints_mounting_over_college_savings_accounts/.
- ¹³ In the 2009-2010 fiscal year, Michigan suspended the state matching grant initiative due to budgetary constraints. Advocates will continue to monitor the situation closely with the goal of reinstating funding as the fiscal climate improves.

Type of Account Vehicle	Pros	Cons
529 College Savings Accounts	<ul style="list-style-type: none"> ■ Contributions to 529s are deductible from state income tax in some states ■ Some states provide additional match or credits to supplement savings in 529s ■ Provide federal tax benefit ■ Less likely to be counted in asset tests ■ Allow opportunity for significant interest earnings over time ■ Penalties and “lag time” for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> ■ Only allowable use is postsecondary education or job training ■ Deposits must be made by mail or electronically; no “bricks-and-mortar” bank ■ Minimum deposit requirements may apply ■ Accountholders and families must make investment decisions; may require additional financial education
Coverdell Education Savings Accounts	<ul style="list-style-type: none"> ■ Provide federal tax benefit ■ Less likely to be counted in asset tests ■ Allow opportunity for significant interest earnings over time ■ Penalties and “lag time” for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> ■ Only allowable use is education (secondary, postsecondary, or job training) ■ Deposits limited to \$2,000 per year ■ Accountholders and families must make investment decisions; may require additional financial education
Individual Retirement Accounts (IRAs)	<ul style="list-style-type: none"> ■ Most flexibility in eligible uses, including postsecondary education, homeownership and retirement ■ Receive the most advantageous treatment from a financial aid perspective ■ Provide federal tax benefit ■ Less likely to be counted in asset tests ■ Allow opportunity for significant interest earnings over time ■ Penalties and “lag time” for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> ■ Deposits to IRAs must be made from income earned by the account owner. Therefore, IRAs are not appropriate for children too young to work, or for older children who do not have a job ■ Accountholders and families must make investment decisions; may require additional financial education
Investment Accounts (UGMA/UTMA)	<ul style="list-style-type: none"> ■ Allow for unlimited flexibility of uses ■ Allow opportunity for significant interest earnings over time ■ “Lag time” for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> ■ No federal or state tax benefits ■ More likely to be counted in asset tests ■ Deposits must usually be made by mail or electronically; no “bricks and mortar” bank ■ Minimum deposit requirements may apply ■ Accountholders and families must make investment decisions; may require additional financial education
Regular Savings Accounts	<ul style="list-style-type: none"> ■ Allow for unlimited flexibility of uses ■ Participants have easy access to “bricks-and-mortar” banks ■ Familiar product that is easy to understand 	<ul style="list-style-type: none"> ■ Significantly lower earning potential than other account options ■ More likely to be counted in asset tests ■ No federal or state tax benefits ■ No “lag time,” so non-asset withdrawals are easier to make ■ More challenging to manage in large-scale programs



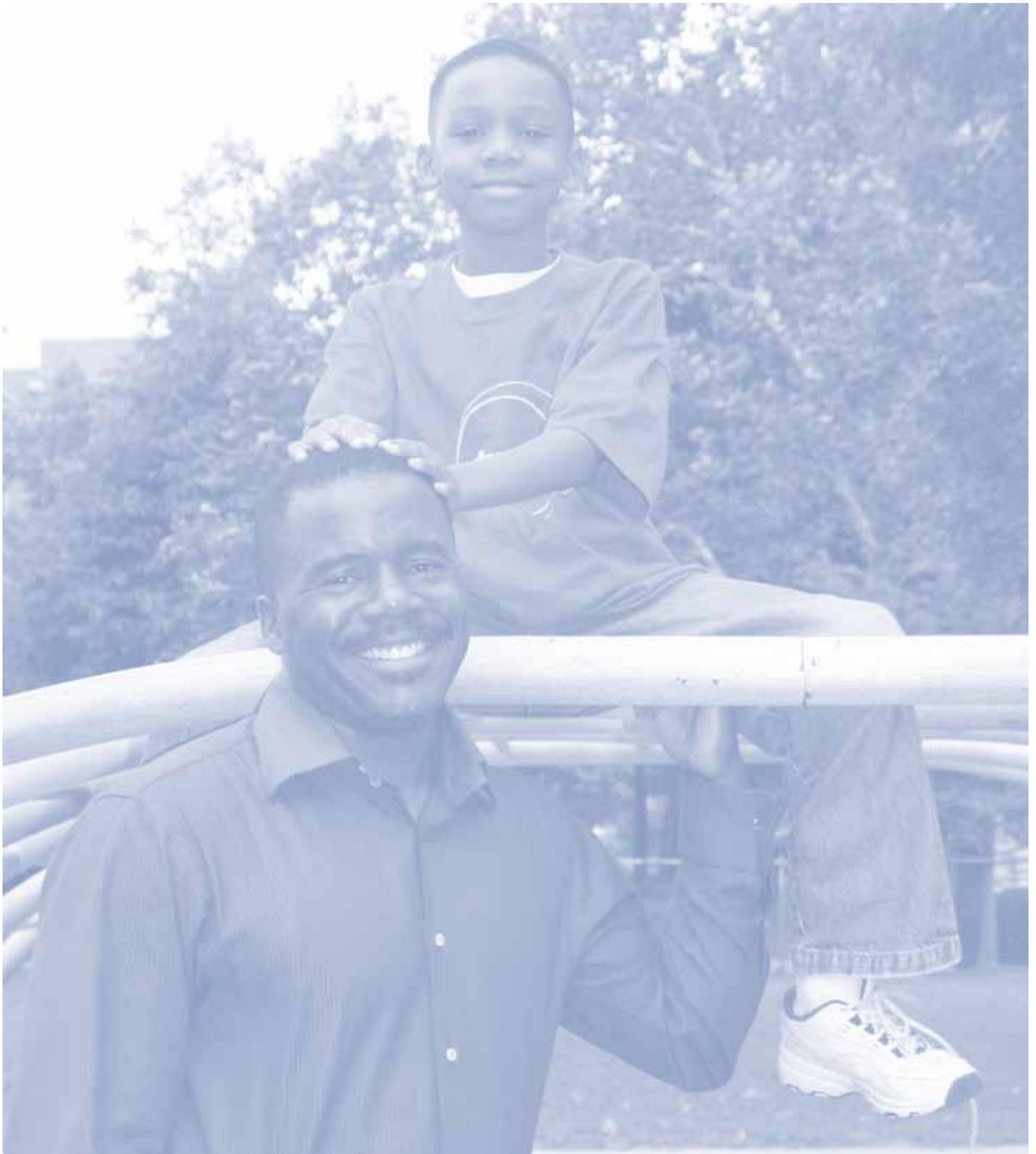
Oakland Livingston Human Service Agency, Pontiac, MI

The 12 community partners in the SEED Initiative tested various models for delivery of children's savings accounts and financial education. The Oakland Livingston Human Service Agency (OLHSA) opened SEED accounts for 500 children enrolled in the federal Head Start program throughout Oakland County, MI. In partnership with the Michigan Department of Treasury, OLHSA chose 529 college savings accounts as the account to be used by all its SEED participants. These accounts were offered through the Michigan Education Savings Program (MESP) and managed by TIAA-CREF. Each accountholder received an initial deposit of \$800 and the state contributed another \$200 as part of a match program for lower-income families.¹³



OLHSA chose to use MESP accounts because of the additional match funding provided by the state, the variety of investment options that were available to accountholders, and the many account management and reporting capabilities that MESP offered. The MESP account structure and operational tracking system provided direct deposit capability, quarterly account statements, online access to account status, online application and registration, separate tracking of match funds, and even a match recapture for non-eligible use of funds. The separate tracking of match funds ensured that SEED funds would be used appropriately over the long term, even after accountholders were no longer an active part of SEED. In addition, using the 529 account platform allowed OLHSA staff to focus their time on participant services and support rather than managing the back-office functions of the accounts. This was particularly important given the large number of accounts in OLHSA's program.

OLHSA has played a key role in SEED, testing the potential of using 529s as a large-scale delivery system for children's savings accounts. This has been the largest, most rigorous, quasi-experimental test of the efficacy of children's savings accounts delivered at larger scale with assistance from a community-based organization. Both Head Start children with SEED accounts and similar Head Start children without accounts have participated in several studies over the duration of the program. The information gleaned from the OLHSA SEED program have provided critical information about 529s and the pros and cons of using this type of account as a children's savings account platform.



CHAPTER 5

Financial Institutions



f all the partnerships your CSA program must forge, none is more central to your program's success than its cooperation with a financial institution. Financial institutions are critical to the success of any CSA program as they provide the accounts for all of the savers in the program. The experiences of the financial institution partners in the SEED initiative are useful in generating lessons on how to structure matched savings accounts for children and youth. In addition, the experiences highlight special considerations for any organization interested in a partnership with a financial institution that would hold and manage the accounts.



KEY DESIGN ELEMENTS

An organization interested in starting a CSA program should consider the following before working with a financial institution:

- **Financial Institution Type.** With what types of financial institutions should a CSA program aim to partner?
- **Identifying Prospective Partners.** What attributes does a strong financial institution partner possess?
- **Recruiting Partners.** How can a CSA program recruit a strong financial institution partner?
- **Determining Roles.** What role will the financial institution play in account management?

Financial Institution Type

As you begin to explore potential partnerships, you will need to consider what type of financial institution would make an ideal program partner.

Community Development Financial Institutions (CDFIs) are unique entities established to provide credit, financial services and other services to underserved markets or populations. To qualify as a CDFI, an institution must have a primary mission of economic development, serve a specific target market, be a financial entity, provide development services, remain accountable to its community, and be a nongovernmental entity.¹

Credit unions are nonprofit, cooperative financial institutions owned and operated by their members. Credit unions provide their members with opportunities to save and borrow money at reasonable rates and are often established with the mission of serving a certain group of people in a community.² Because of their mission-driven philosophy, credit unions can sometimes be perceived as more inviting or welcoming to families who are new to the banking system.

Commercial banks are for-profit financial institutions that provide financial services to consumers, such as making loans or acting as the depository of funds.³ Often, commercial banks offer a broader range of products to consumers than credit unions.

A state-sponsored **529 College Savings Plan** is an education savings account designed to help families save for future costs of postsecondary schooling for their children. This account can only be used for education-related expenses. Each state offers a 529 plan in which you can work with a 529 program or investment manager, or through a financial advisor.⁴ Fidelity

Investments, TIAA-CREF, Upromise and the Vanguard Group are examples of 529 program investment managers in the marketplace.

When considering potential partners, keep in mind that consumers' firsthand experiences with a financial institution are likely to be strong indicators of success with a CSA program. You should also consider your target population and their familiarity with one type of financial institution or another, along with accessibility of locations to make deposits.

Checklist: Questions and Considerations

- Which financial institution type best suits your program? See below for more information.
- Which account vehicle and financial products will accountholders use?
- Do you need your financial institution partner to help fund your program?
- Will the participants need direct access to their accounts, such as through online banking?

Identifying Prospective Partners

Because financial institution partners are such an important part of a CSA program, you need to consider the characteristics you are looking for in a partner before you approach banks, credit unions or CDFIs. You should decide which features would make a prospective partner a good resource for your participants and would ease the burden of administering your program. The following are a few points to think about when identifying partners:

- **Service Fees.** Be sure to negotiate service fees before opening accounts and to include this information in a Memorandum of Understanding. Some financial institutions may grant waivers for minimum balances and monthly fees.
- **Preferred Interest Rate.** Look for a financial institution partner willing to pay a preferred rate of interest on the balance in a CSA. See Chapter 4 for a discussion of account earnings.
- **Pre-Existing Relationships.** It is helpful to have a relationship with the financial institution before your CSA program is launched. It is also beneficial to work with a financial provider with experience in asset-building programs.

Checklist: Questions and Considerations

- Will the financial institution assess service fees? Is it possible to have the fees waived?
- What is the potential for meaningful earnings on the CSA? Is the financial institution partner willing to offer a preferred rate of interest?
- Do you have a relationship established with a financial institution for other services?

Recruiting Partners

CSA partnerships can be beneficial to both programs and financial institutions. In SEED, the motivations of the financial institution partners for offering and servicing SEED accounts varied. Financial institutions may become involved to hold participant deposits and match funds, meet requirements of the federal Community Reinvestment Act (CRA), create a loyal customer base, reach new customers and market segments, gain positive publicity in the community, or open up opportunities to cross-sell other products (student loans, for example). Begin the search for financial institution partners by reflecting on how the partner may benefit from a relationship with your CSA program. If you are able to see your CSA program through the eyes of a financial institution, you will have greater success in securing a partnership.

Checklist: Questions and Considerations

- What terms and conditions will you document in a Memorandum of Understanding between the sponsoring organization and financial institution?
- What will be your pitch to prospective financial institution partners?

Determining Roles

A CSA sponsoring organization must work closely with the financial institution responsible for holding the accounts to identify account management roles for each partner. The financial institution should be responsible for setting up accounts, establishing a master account to hold matching funds in the name of the sponsoring organization, tracking account activity such as deposits and withdrawals, and mailing statements to accountholders and/or program staff. The financial institution could also be responsible for managing back-office functions related to tracking, calculating and reporting match funds for accountholders, although in SEED this role was performed by the community partner. See Chapter 10 on *Account Management* for more details.

Checklist: Questions and Considerations

- What services will the financial institution provide with respect to account management?
- Who will be responsible for managing match funds and other incentives?



ON LOCATION

Juma Ventures, San Francisco, CA

Juma Ventures, a youth-serving organization with considerable experience in matched savings accounts for youth, used Citi's escrow account for SEED participants. Juma held a master account with multiple subaccounts, all owned by Juma "for the benefit of" the youth (meaning that the funds could only be used for the youth's direct benefit). Participants were required to submit either a Social Security or Taxpayer Identification number for tax purposes, but the accounts were protected from asset limits for public benefit programs. Juma's staff opened accounts online and created an "account card" to give to participants to make future deposits. Because youth were not the owners of the accounts, they could not make any withdrawals without the permission of Juma. However, they could make deposits at any retail Citi location or opt for electronic transfer from their payroll check. Online access enabled staff to view account activity in real time, which greatly enhanced the program.



Financial Institutions Participating in the SEED Initiative

SEED Partner	Financial Institution	Description	Type of Account
Beyond Housing	Commerce Bank	Regional bank serving Kansas, Missouri and Illinois	Savings
Boys & Girls Clubs of Delaware	Artisans Bank	Full-service community bank with locations throughout Delaware	Savings
Cherokee Nation	Bank of Oklahoma (BOK)	Subsidiary of BOK Financial Corporation; regional bank serving the Southwest	Savings
Foundation Communities	Compass Bank	Regional bank serving Alabama, Arizona, Colorado, Florida, New Mexico and Texas	Savings
Fundación Chana y Samuel Levis	Doral Bank	Puerto Rican bank with offices in New York	Savings
Harlem Children's Zone	Carver Bank	Historic African American-owned bank serving Harlem, New York	Savings
Juma Ventures	Citibank	Multinational financial services corporation	Escrow/Business
Mile High United Way	Young Americans Bank	Denver bank that exclusively serves children and youth up to 22 years of age	Savings
Oakland Livingston Human Service Agency	TIAA-CREF	Nonprofit financial services corporation; holds Michigan 529 accounts	529 College Savings
People for People, Inc.	People for People Credit Union	Credit union serving North Central Philadelphia, PA	Savings
Sargent Shriver National Center on Poverty Law	JPMorgan Chase	Multinational financial services corporation	529 College Savings
Southern Good Faith Fund	Southern Bancorp National	Community bank, part of Southern Bancorp (operates in Mississippi and Arkansas)	Savings

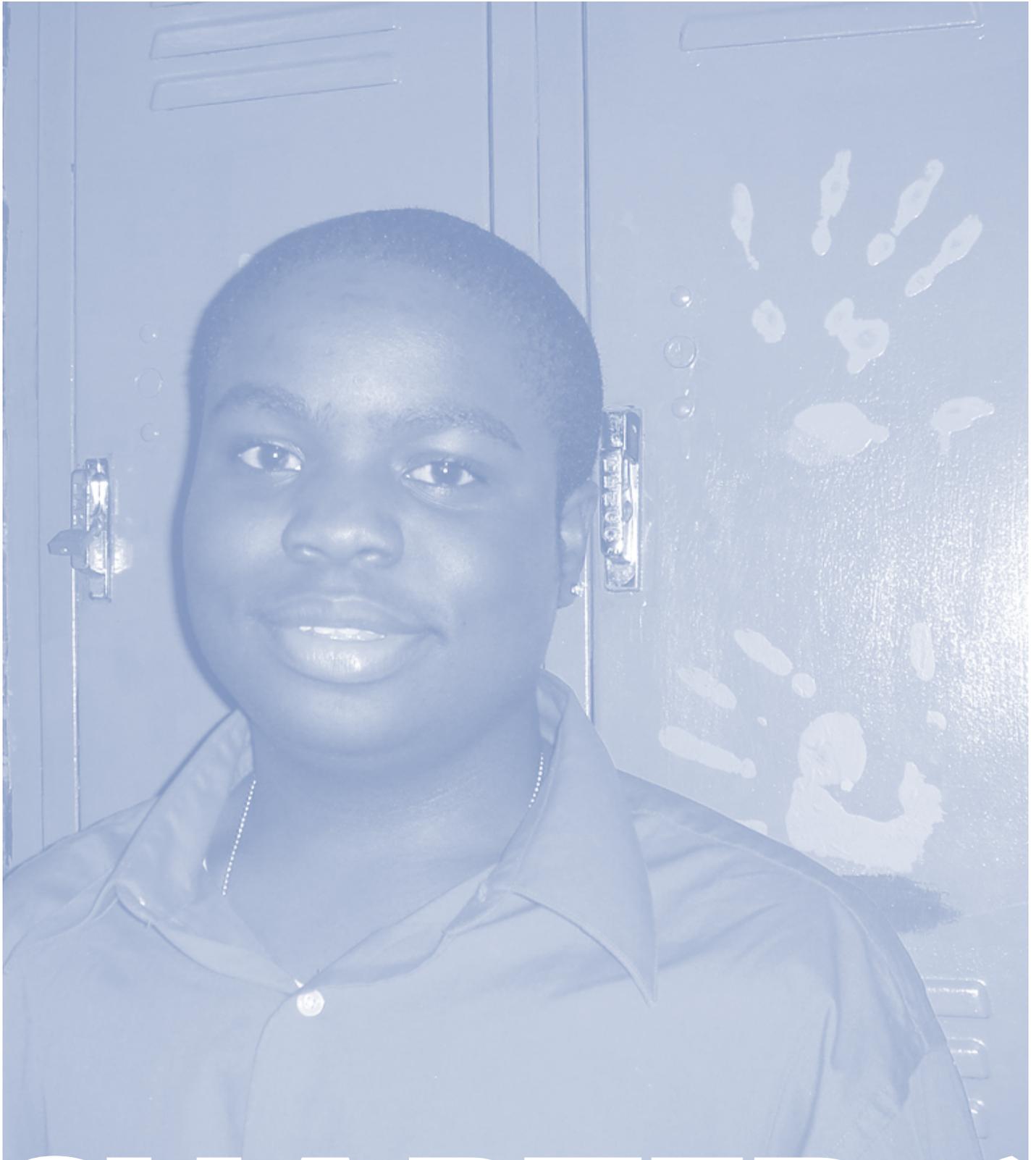
Chapter Endnotes

¹ "CDFI certification." Community Development Financial Institution Fund. Retrieved August 1, 2008, from http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9.

² See *IDA Program Design Handbook* for more on this subject.

³ Ibid.

⁴ For more information, visit www.savingforcollege.com.



CHAPTER 6

Savings Incentives

Savings incentives are a central component of any CSA program. The basic assumption is that greater incentives will yield greater savings and lead to other desirable outcomes. Several other savings programs provide financial rewards to participants, including:

- Employer match on 401(k) contributions
- Tax deductions, credits, or matches for contributions to IRAs and 529 college savings plans
- Mortgage interest tax deduction

Michael Sherraden, of the Center for Social Development at Washington University in St. Louis, points out that “individuals who have opportunities to participate in these asset accumulation programs are not simply ‘saving’ money due to their ‘propensities to save.’ Rather, they are accepting a good offer.”¹¹ Giving that extra “nudge” by providing financial incentives can often make the difference in whether people choose to participate in a CSA program and how much they save once enrolled.

Savings incentives are also a way of supplementing participant contributions, particularly for those families who have less income. By offering progressive incentives, programs will encourage lower-income families to make more deposits and their total savings will reach a meaningful level more quickly. Incentives can also be a source of deposits during particularly lean periods, keeping families motivated and ensuring they don't lose hope when they miss one month or several.



KEY DESIGN ELEMENTS

When selecting the optimal and most practical package of savings incentives that will be provided to participants, it is important to consider the amount of each incentive, the cost to the program, and the delivery system for the incentive. There are three main types of incentives to consider when designing a CSA program:

- **Initial Deposit.** Will an initial deposit be offered? If so, in what amount?
- **Benchmark Incentives.** Will benchmark incentives be used to reward certain achievements and behaviors?
- **Match Incentives.** How will you use matching funds to incentivize savings?

Initial Deposit

An initial deposit made by a third party upon account opening is one form of incentive. Having an initial amount in an account is reassuring to participants and allows them to start thinking differently about their future. They can begin to imagine that going to college, owning a home or starting a business might actually be possible.

It also serves a number of important practical purposes. First, many financial products, such as savings or investment accounts, require a minimum balance. Providing an initial deposit equal to or greater than the minimum balance removes this barrier to participation. A related issue is that some financial institutions may be reluctant to offer certain types of accounts if they are going to hold a small amount of funds and are therefore unprofitable. Again, an initial deposit ensures that the account balance immediately reaches a minimum level. Finally, in the absence of any other contributions to the account, an initial deposit ensures a degree of adequacy of funds at the end of the savings period to be used toward an

asset goal. This can be especially powerful if the account is opened at birth and interest on the initial deposit compounds over an 18-year period.

Only two community partners in the SEED Initiative opted not to provide an initial deposit. Both were working with high school-age and older youth who had the potential for employment and would therefore be able to make more significant deposits of their own funds into the account. These partners felt that higher levels of match and benchmark incentives would provide greater motivation to save. On a philosophical level, they also objected to the idea of getting something for nothing and preferred that participants “earn” their savings incentives.

In almost all SEED programs, the initial deposit was made automatically on behalf of the family, providing the initial funds with which to open the account. As a marketing strategy, a paper certificate was sometimes issued to eligible families with information on how to redeem it by opening an account.

Checklist: Questions and Considerations

- What is the right amount for the initial deposit? Consider the economic status and age of the accountholders and the potential for the initial deposit to grow over time.
- How will the initial deposit be made?
- Can the initial deposit be withdrawn before the participant is ready to use the savings toward an asset purchase?

Benchmark Incentives

Benchmark incentives are financial rewards that accountholders and their families can earn for participating in certain activities, reaching qualifying milestones or achieving certain outcomes or “benchmarks.” For example, a parent might earn \$100 for participating in financial education, a child might receive \$25 on his or her birthday, or a youth might be paid \$100 for graduating from high school. The benchmark incentives vary depending on the accountholders’ age and their earning and savings potential. Eleven of the community partners in the SEED Initiative used benchmark incentives in their programs, with the total benchmarks available ranging from \$250 to \$1,000.

Similar matched savings programs, such as IDAs, typically require families to participate in certain activities (for example, financial education) or achieve particular outcomes (such as completing a budget) to earn their match funds and remain in the program. In the absence of such requirements, benchmark incentives can be used as an enticement to help accountholders and their families participate in program activities and reach certain milestones.

In addition, offering benchmark incentives in a CSA program can provide accountholders and families with short-term motivation and rewards during their long-term savings process. Children and their families who are asked to commit to 18 years of saving (assuming that they start at birth) will see very few immediate rewards for their savings behavior other than the accumulation of their own deposits and match funds in the account. Benchmark incentives, particularly if distributed to participants as cash, act as short-term rewards for the sacrifices families make to save regularly.

Checklist: Questions and Considerations

- What will be the qualifying events, milestones and activities for benchmark incentives?
- How will these be documented?
- What system will be used to track benchmarks?
- How will the incentives be distributed to participants?

Considerations for Larger-Scale Efforts

- As implemented in the SEED Initiative, benchmark incentives would not be well suited to larger-scale efforts. Most benchmarks require some kind of documentation to show that the participant has earned the reward. Managing this documentation can be costly to administer at scale. The amounts are generally small and must be processed individually or in small batches. Since OLHSA was managing 500 accounts in SEED, they decided not to offer benchmark incentives, mainly due to the potential cost and administrative burden to the organization.

Match Incentives

These are so named because they “match” participant deposits in the account. The rate can vary (for example, 1:1 or 2:1) and there is typically a cap on the contributions that are matched, either per year or over the lifetime of the program.

Offering a match can encourage people to save by setting a savings goal: the cap on the amount matched sets a target that

accountholders will try to meet.² A perceived loss can often be a more powerful incentive than a potential gain, so avoiding losing a potential match can be a very powerful incentive to sacrifice present consumption in favor of saving.³

The match can accrue virtually until a participant is ready to use the funds, be deposited in a separate account belonging to the participant, or be commingled with the participant's deposits. Depending on the Management Information System (MIS) being used, there are important implications for program and account management in choosing one of these methods. (See Chapter 10, *Account Management*, for more on this topic.)

In SEED, all community partners used a match rate of 1:1; however, the total match funds available to each participant varied considerably, from a high of \$3,000 to a low of \$750. Because there was no way to distinguish between participant deposits and deposits of benchmark incentives in the account, either of these would earn a match incentive and be counted toward the overall match limit.



QUICK TIPS

- Link the qualifying activities and events to the goals of your program, perhaps by encouraging and rewarding certain savings habits, such as signing up for direct deposit or directing a portion of a tax refund into the CSA.
- If you plan to offer benchmarks in the form of cash, accept the fact that you may not see these or comparable amounts deposited in the account. Several of the SEED community partners who initially offered a cash option switched to automatically depositing benchmarks because the deposit rate was so low.
- Minimize the amount of paperwork that participants have to complete to claim benchmarks. Otherwise many eligible benchmark payments will not be paid. For example, use school attendance records rather than having attendees complete a form.
- Remind families about the availability of benchmark incentives as a source of deposits, particularly when they are experiencing financial stress. Most people can afford an hour or two to attend a workshop even when they can't afford to make a deposit.
- Don't make any one benchmark too small, or the cost of administering the incentive may exceed the actual monetary value.

Tax Considerations

When considering the taxability of various savings incentives, remember a basic rule of money and taxes: unless the law in your state says otherwise, assume that every dollar should be taxed once. There are some precedents with IDAs for treating the match incentive as a “gift” and therefore not taxable to the participant.⁵ However, any such rulings do not automatically apply to CSAs. **Until a definitive ruling has been secured for your program, CFED advises that accountholders treat all savings incentives (and interest thereon) as taxable.** It is better, in our view, to pay some taxes when none may have been necessary than to pay none and later learn that such funds were taxable, which may involve not only the back taxes, but also interest, penalties and potential damage to an accountholder’s ability to secure credit and other financial services.

Checklist: Questions and Considerations

- What is the match rate and cap? Is there just one rate or different rates for different income groups or asset purchases?
- How will the match accrue? Virtually, in a separate account or in the same account?
- Under what conditions can the match be forfeited?



ON LOCATION

Harlem Children’s Zone, New York, NY

Founded in 1970, the Harlem Children’s Zone (HCZ) is dedicated to supporting and promoting the well-being and healthy development of children in some of New York City’s most devastated neighborhoods. SEED accounts were offered to children in HCZ’s Harlem Gems Universal Pre-Kindergarten program. Each accountholder received an initial deposit of \$500, up to \$750 in benchmark incentives, and a dollar-for-dollar match up to \$1,500.

Financial incentives are central to HCZ’s approach to working with families in the 60-block area in central Harlem known as “The Zone.” All of the children and

families HCZ works with, including those who are not in the SEED program, can earn cash rewards for perfect attendance in an activity, completing surveys, punctuality, and good grades. In SEED, benchmark incentives could be earned for attending financial education workshops and parent meetings.

Geoffrey Canada, HCZ’s CEO, sees providing cash incentives as a cost-effective way of achieving the long-term outcomes and promoting positive behaviors in the children HCZ serves. “If I know that those kids are going to fill our penitentiaries, that we’re going to be spending in New York City \$45,000 and \$50,000 a year on a child for 20 years, I mean, [giving the child] \$20? Doesn’t bother me one bit,” he says.⁷



Benchmark Incentives in the SEED Initiative

SEED Partner	Number of Benchmarks	Total Value of Benchmarks	Low/High Value	Examples of Qualifying Events	Deposit Requirements
Beyond Housing	5	\$250	\$1/\$25	Attending after-school club or parent workshops, maintaining good grades	Mandatory
Boys & Girls Clubs of Delaware	4	\$325	\$10 each	Volunteering at Club (parents or children), participating in educational programs	Half paid in cash; half deposited
Cherokee Nation	16	\$250	\$12.50 each	Achieving academic goals, participating in educational workshops and entrepreneurial activities	Mandatory
Foundation Communities	13	\$500	\$10/\$100	Participating in financial education, achieving academic and extra-curricular goals	Initially optional; subsequently changed to mandatory
Fundación Chana y Samuel Levis	9	\$500	\$5/\$112.50	Achieving academic goals, completing financial education, celebrating a birthday	Mandatory
Harlem Children's Zone	5	\$750	\$25/\$50	Attending meetings and workshops, grade promotion, child's birthday	Mandatory
Juma Ventures	3	\$500	\$25/\$300	Completing financial education, graduating from high school	Mandatory
Mile High United Way	26	\$1,000	\$5/\$100	Participating in program activities, reaching various life goals	Half paid in cash; half deposited
Oakland Livingston Human Service Agency	0	\$0	N/A	N/A	N/A
People for People, Inc.	5	\$300	\$5/\$20	Completing financial education, participating in program activities and fundraisers	Mandatory
Sargent Shriver National Center on Poverty Law	5	\$875	\$25/\$100	Participating in program activities, completing financial goals	Optional; default option changed from cash to automatic deposit
Southern Good Faith Fund	2	\$250	\$25/\$100	Saving Earned Income Tax Credit refunds, making deposits in piggy banks, attending asset goal financial education	Mandatory

SEED Savings Incentives

Program	SEED Initial Deposit	Benchmark Incentives	Match Limit	Total Incentive Funds ⁶
Beyond Housing	\$500	\$375	\$1,250	\$2,125
Boys & Girls Clubs of Delaware	\$375	\$325	\$1,300	\$2,000
Cherokee Nation	\$1,000	\$250	\$750	\$2,000
Foundation Communities	\$500	\$500	\$1,000	\$2,000
Fundación Chana y Samuel Levis	\$250	\$500	\$1,700	\$2,450
Harlem Children's Zone	\$500	\$750	\$1,250	\$2,500
Juma Ventures	\$0	\$500	\$1,500	\$2,000
Mile High United Way	\$0	\$1,000	\$3,000	\$4,000
OLHSA	\$800	\$0	\$1,400	\$2,200
People for People, Inc.	\$500	\$300	\$1,200	\$2,020
Sargent Shriver Center	\$1,000	\$875	\$1,000	\$2,875
Southern Good Faith Fund	\$1,000	\$250	\$1,000	\$2,250

Chapter Endnotes

¹ Sherraden, M. (2007). *Asset building: Theoretical background and research questions*. St. Louis, MO: Center for Social Development at Washington University in St. Louis.

² Schreiner, M., & Sherraden, M. (2006). *Can the poor save? Saving and asset building in Individual Development Accounts*. Piscataway, NJ: Transaction.

³ For more information on behavioral economics, see Mullainathan and Thaler's *Behavioral Economics*, available at http://papers.ssrn.com/paper.cfm?abstract_id=245828.

⁵ See <http://www.irs.gov/pub/irs-irbs/irb99-44.pdf>.

⁶ Each SEED partner was allocated \$2,000 in incentives per participant, to be divided between an initial deposit, benchmarks and match incentives. Some partners supplemented this amount with incentives from other funding sources.

⁷ Bradley, E. (2006, May 14). *60 Minutes*. New York: Columbian Broadcasting System.



CHAPTER 7

Asset Limits

Personal savings and assets are precisely the kind of resources that allow families to move off – and stay off – public benefit programs. Yet many such programs – like cash welfare, Medicaid, Supplemental Security Income and the Supplemental Nutrition Assistance Program (SNAP, previously known as the Food Stamp Program) – limit eligibility to those with few or no assets. If a family owns assets over the state or federal government limit, it must “spend down” longer-term savings to receive what is often short-term public assistance. Similarly, if families already receiving benefits begin to save, they may lose the benefits they currently have. Although these asset limits were intended to ensure that public benefits are targeted to the neediest households, they create a major disincentive for children and families to save.¹

If your CSA program will include low-income families, you need to be knowledgeable about asset limit rules and the ways that you can prevent families receiving public benefits from being penalized for participating in your program.

Asset Limits in Public Assistance Programs

In recent years, public assistance programs have shown greater recognition of the importance of asset building – but in many cases, asset limit rules still restrict the ability of low-income families to save for their children.

For some public benefit programs, such as Temporary Assistance for Needy Families (TANF), Medicaid, and the State Children’s Health Insurance Program (SCHIP), states set the asset limit and even have the flexibility to eliminate asset tests entirely. Thus, for some programs it is entirely up to the state whether to impose asset limits. If the state chooses to limit ownership of assets, it has discretion over how high to set the limit and what counts as an asset.

For other programs, notably Supplemental Security Income (SSI) and SNAP, the federal government sets the asset limits and what counts toward determining asset eligibility. However, with SNAP states have the option of extending categorical eligibility to households participating in a program, receiving a service or authorized to receive a service funded by TANF block grant or maintenance-of-effort (MOE) funds. Doing so has the effect of eliminating the asset test. If extending categorical eligibility is not possible, an option to partially address the limit would be to align a state’s Food Stamp rules with TANF or family Medicaid rules, subject to certain exceptions.²

In 2008, assets advocates won an important federal victory with passage of the 2007 Farm Bill, which helped reduce savings disincentives for families receiving SNAP. Asset limits had been frozen since 1986 at \$2,000 (\$3,000 for elderly or disabled households). The Farm Bill made two valuable changes. First, it indexed SNAP asset limits to inflation in future years (if it had been indexed in 1986, it would be more than \$6,000 today). Second, it exempted tax-preferred retirement accounts (such as IRAs) and education accounts (such as 529 College Savings Accounts) from the asset limit for SNAP.

States and tribal governments have varying rules regarding asset limits, so it will be important to understand the rules that apply to your accountholders before opening any accounts in your CSA program. To learn about your state’s rules, you can contact the state agencies that administer each benefit program. You may also want to refer to CFED’s *Assets & Opportunity Scorecard*, which includes state-by-state information on asset limits. (See <http://scorecard.cfed.org> for details.)

Asset Limit Challenges for CSA Programs

Asset limits are problematic for any asset-building effort – and CSAs are no exception. Through the research and practice activities in SEED, several issues specific to CSAs have emerged. For instance, there is little consistency in the treatment of children’s savings by public assistance programs. Because CSAs are a new kind of account, most state laws and public benefit programs do not have precedents as to how to treat the accounts. CSA providers must navigate a patchwork of asset policies with regard to dollar amounts, types of accounts, sources of deposits and savings goals. In addition, almost all asset limit exemptions carry some kind of restrictions regarding how the asset must be used (for example, for education) or what amount is exempted. The complexity of these policies not only discourages families from saving, but also increases the workload for state caseworkers and results in significant administrative costs for the state.

Asset limits can discourage children from saving what they earn. Most states exclude children’s earnings from income limits for public benefit programs, if the child is a student. However, once those earnings are placed in a CSA, they may begin to count against asset limits. Even though the earnings are not counting against the family from an income perspective, they are still treated as an asset to the family if they are not spent in the month in which they are earned. These policies can have the counterproductive effect of encouraging youth to spend their earnings immediately, rather than aim for self-sufficiency by planning for future needs, such as college education.

Young children face the steepest barriers. Those states that exempt CSAs from asset tests often require that all deposits come from the children’s own earnings. This type of policy limits savings opportunities to older children who are able to work, thus excluding those who could benefit most from starting young and allowing savings to grow over time.

Finally, families receiving public benefits have few options for saving towards their children’s future. Depending on the state, some types of asset protections are available for certain types of savings accounts, such as IDAs, restricted bank accounts, college savings plans and trusts (accounts that are considered “inaccessible” to the family for everyday use). However, each type of account has its own set of restrictions (for instance, the source or use of funds may be limited) and the protections for low-income families who are saving in these accounts vary widely across states.

Addressing the Challenges of Asset Limits

There are two main ways to address asset limits in CSA programs: through public policy and through program design.

The former is the most desirable, but also the most challenging – changing the state and federal policies that restrict asset ownership is a formidable task. The second option can be less daunting, but is still complicated.

If your organization has experience in lobbying or advocacy at the state level, you might consider pursuing a public policy solution to the asset limit issue. Seeking a public policy solution to asset limits can be complicated – it usually involves a well-planned campaign – but it provides a permanent “fix” that can have an important positive impact on low-income families across your state.

There are a number of ways to approach such a strategy. Your state could:

- Exempt CSAs altogether;
- Exempt certain types of existing savings accounts (such as retirement accounts or education savings accounts) from asset limits if you intend to use these types of accounts as a CSA platform; or
- Increase asset limits and index them to inflation, so that a CSA is less likely to put a family over the limit.^{3,4}

Your organization, or a coalition of advocates, could seek an administrative solution by approaching the state agencies that operate public benefit programs, and/or work with your state representatives and senators to pass legislation to solve the problem.

For extensive information on how to work with your state to protect public benefits while encouraging savings, see CFED's *Assets & Opportunity Scorecard* Resource Guide on asset limits, available at <http://scorecard.cfed.org>, and the Sargent Shriver National Center on Poverty Law's *Reforming State Rules on Asset Limits: How to Remove Barriers to Saving and Asset Accumulation in Public Benefit Programs*, available at www.povertylaw.org/advocacy/publications/rand-2007.pdf.

If a public policy solution is not possible or desirable, you can mitigate the disincentives to save caused by asset limits on the programmatic level by carefully selecting the type and structure of the accounts your CSA program offers to savers.



KEY DESIGN ELEMENTS

Because the rules for asset limits are very specific to each state and to each public benefit program, it is essential that you contact the state agencies that oversee the main public benefit programs in your state (SNAP, TANF and Medicaid) to gather information on these rules and to learn how the design of a CSA might affect your accountholders' public benefits.

There are three key factors that often arise when determining whether an asset counts toward the limit. These will be important to consider when choosing an account “platform” and designing your program's account structure:

- **Account Ownership.** Who will own the account?
- **Account Access.** Who has access to the funds in the account?
- **Exclusions from Asset Tests.** Are there any types of accounts that are not counted in asset tests in your state?

Account Ownership and Access

The ownership of an account is crucial in determining whether it will be counted in the asset test for public benefit programs. These rules vary from state to state (and program to program), but usually relate to who actually receives the benefit. It is important to structure the ownership of CSAs so that they offer the maximum protection to families who currently receive public benefits or those who may be likely to apply for benefits in the future (see Chapter 4, *Account Vehicles*, for more details). For instance, if the family would lose benefits if the child or the parent owned the CSA, you might consider a structure in which your organization owns the account with the child as the named beneficiary (meaning that the funds in the account could only be spent for the benefit of the child).

In some cases, if the funds in an account are not accessible to a person or family receiving assistance, then those funds are not counted against the family's public benefit eligibility. Therefore, one of the most effective ways to prevent CSAs from affecting a family's eligibility is to hold the funds in an account that is inaccessible to the family until it is time to make an approved withdrawal.⁵

Limiting access to the funds can sometimes be achieved through the account ownership structure that you choose. In addition, certain types of accounts – such as Education Savings Accounts (ESAs) and 529 College Savings Accounts – can provide additional protection against access to the funds. **ESAs, by design, are custodial accounts, and the custodian must be a bank or an entity approved by the IRS; 529s may be established as custodial accounts with a community organization as the custodian (it is important to note, however, that this arrangement would oblige the organization to a long-term commitment to the accountholder).** Individual Retirement Accounts (IRAs) are less attractive in this regard because they may be owned only by a parent or minor and are therefore accessible – and countable – for the purposes of determining eligibility for public benefits.

Exclusions from Asset Tests

As described earlier, some states exempt certain types of accounts from asset tests (such as retirement accounts or education savings accounts). Using one of these accounts as your program’s savings “platform” is an easy way to avoid the asset limit issue altogether. Contact the state agencies that oversee the main public benefit programs in your state (SNAP, TANF and Medicaid) to find out which types of accounts (if any) are exempt from asset tests, or see CFED’s *Assets & Opportunity Scorecard* Resource Guide on asset limits at <http://scorecard.cfed.org>.

For additional discussion of which types of accounts may be best suited for your program’s participants, including a detailed explanation of account ownership options, see Chapter 4, *Account Vehicles*.



ON LOCATION

Sargent Shriver National Center on Poverty Law, Chicago, IL

During the SEED Initiative, the Sargent Shriver National Center on Poverty Law in Chicago opened 529 College Savings Accounts for 75 children between the ages of four and 12. Because Illinois did not have an exemption for CSAs or 529s and the state’s IDA exemption applied only to accounts built with earned income, the accounts were structured with the nonprofit organization (the Shriver Center) as the owner of the account and the child as the beneficiary to ensure that families of SEED participants would not lose public benefits by saving. In addition, due to the efforts of the Shriver Center and others, Illinois exempted retirement accounts as countable assets in the TANF, General Assistance (GA), and SNAP programs in 2005. Advocates in Illinois are still working to eliminate asset limits altogether in TANF and GA cash assistance programs.

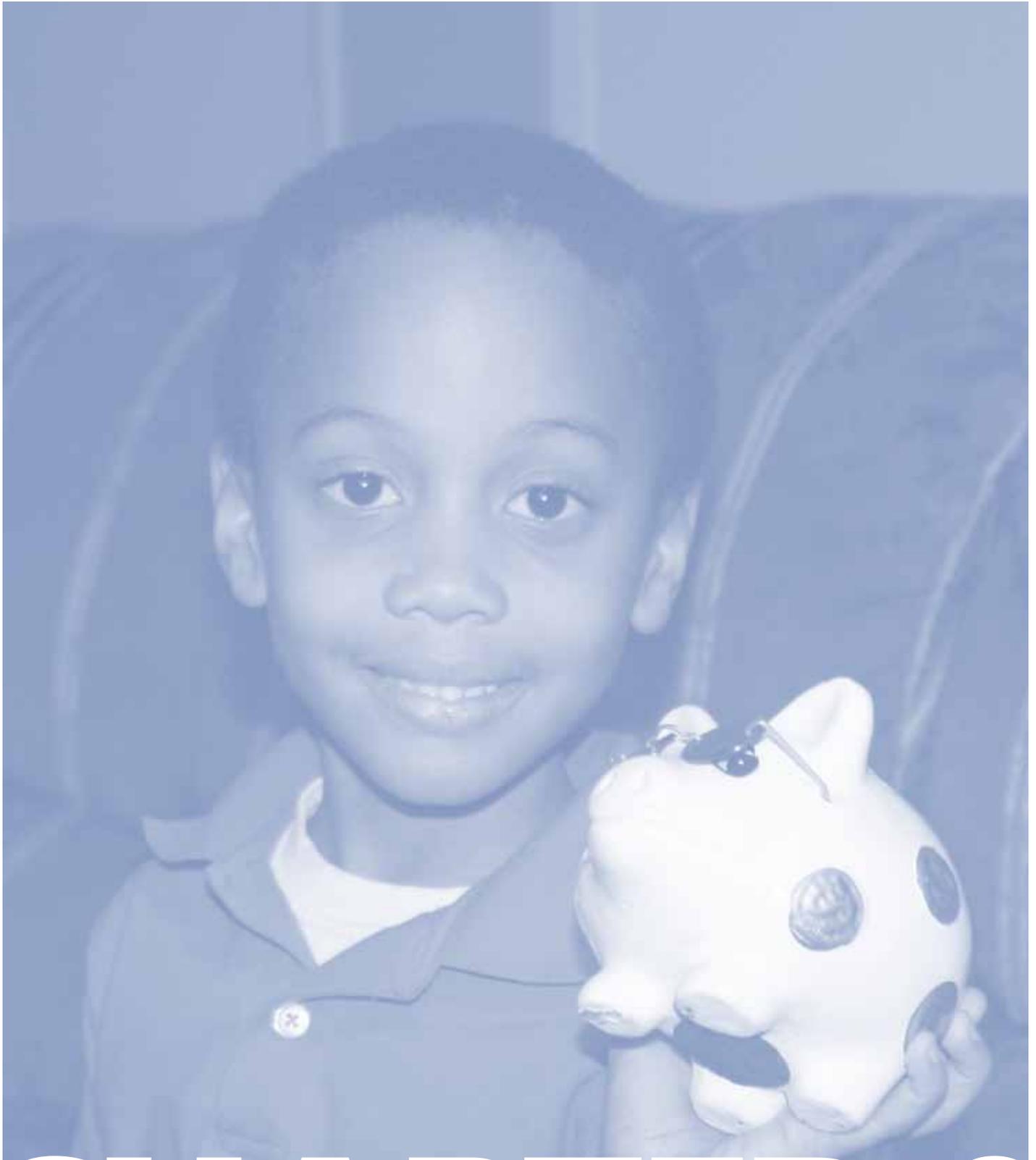


Asset Rules in Public Assistance Programs

Program	Funding and Administration	Limits Set By	Typical Limits	Comments
Supplemental Nutrition Assistance Program (SNAP)	Federally funded, state administered	Federal government sets most rules; states have some flexibility	\$2,000–3,000, indexed to inflation	Tax-preferred retirement and education savings accounts exempted; many states exempt other assets not counted in their other public assistance programs.
Medicaid	Funded jointly by federal and state government; administered by state	State	\$1,000–\$6,000	Almost half of states have eliminated asset limits for families, and most do the same for children.
State Children’s Health Insurance Program (SCHIP)	Federal funding, states have option of designing separate program or expanding Medicaid	State	None	Only Oregon and Texas have asset limits in separate SCHIP program.
Supplemental Security Income (SSI)	Federally funded and administered	Federal government	\$2,000–3,000	Some states provide a supplemental SSI benefit, which is often subject to federal rules.
Temporary Assistance for Needy Families (TANF)	Funded jointly by federal and state government; administered by state	State	\$2,000–3,000	Louisiana, Maryland, Ohio and Virginia have eliminated TANF asset tests.

Chapter Endnotes

- ¹ Chen, H., & Lerman, R.I. (2005). *Do asset limits in social programs affect the accumulation of wealth?* Washington, DC: Urban Institute. Retrieved June 23, 2010 from www.urban.org/publications/311223.html.
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- ³ Parrish, L. (2005). *To save, or not to save? Reforming asset limits in public assistance programs to encourage low-income Americans to save and build assets*. Washington, DC: New America Foundation. Retrieved August 7, 2008 from www.newamerica.net/files/to%20save%20or%20not%20to%20save.pdf.
- ⁴ Center for Social Development at Washington University in St. Louis & CFED. (2004). *IDAs and public assistance asset limits: What states can do to remove penalties for saving*. St. Louis, MO, Washington, DC: Center for Social Development and CFED. Retrieved August 3, 2010 from http://scorecard.cfed.org/downloads/pdfs/resource_guides/rg_AssetLimits.pdf.
- ⁵ For more information on this topic, see: Brooks, J., & Rist, C. (2006). Removing barriers to saving: Lessons on asset limits for children’s savings accounts. *Growing Knowledge from SEED*. Washington, DC: CFED.



CHAPTER 8

Financial Education

The National Endowment for Financial Education defines financial education as training designed to help families acquire the information and skills necessary to take control of their personal finances. Recent theoretical work argues that financial education training alone is an insufficient goal for young people and that a more appropriate goal is *financial capability* – a concept that builds on the writing of Amartya Sen and Martha Nussbaum. Financial capability results when individuals develop financial knowledge *and* have access to mainstream financial services.¹ Recent research shows that having both financial education and accounts leads to consumers seeking more financial acumen and desiring greater assets. A holistic approach of combining the use of account ownership with financial education has been especially beneficial for low-income consumers.²

IDA and CSA programs combine two powerful opportunities for families: a chance to save and a chance to learn. In particular, CSA programs can benefit younger children, who are more likely to develop strong, lifelong savings habits if they receive quality financial literacy instruction that helps them understand the importance of saving from an early age. Waiting to start financial education until the teen years produces changes of lesser magnitude than teaching children in earlier grades.³ There is nothing about the subject matter, per se, that makes personal finance inappropriate for study by children in the early grades, but it is critical that teachers use age-appropriate strategies and materials to teach young students.

Financial education is important in CSA programs not only because of the practical knowledge that children, youth, and parents learn, but also because it can encourage participants to set their sights on long-term asset goals such as college, homeownership, or small business development from a young age. Interviews with children in the SEED Initiative show that children begin to formulate ideas about their future – including college attendance – as early as elementary school.⁴ And because children cannot provide significant deposits until they can earn income, parents need to be involved in financial education as well. In this way, CSA programs help members of the entire family increase their financial literacy and become involved in the asset-building process.



KEY DESIGN ELEMENTS

There are five key questions that a CSA program should address when planning a financial education curriculum and strategy:

- **Audience.** Who is the audience for the financial education?
- **Curriculum.** What kind of financial education curriculum should be used?
- **Asset-Specific Education.** What types of asset-specific education are needed?
- **Delivery.** How (and by whom) should financial education be delivered?
- **Incentives and Requirements.** Should participation be mandatory? Should families receive incentives for participating?

Audience

Understanding the primary audience for financial education in children's savings programs is critical: **is the program targeting children, children and parents, or just parents?** Although CSA accounts are designed to encourage children and youth to save, logic and experience suggest that parents play a critical role in both their children's attitudes toward money and the actual savings in the account. Research shows that direct parental teaching on financial knowledge reduces the likelihood of youth engagement in risky financial behavior.⁵

Based on this knowledge, most of the community partners in SEED offered financial education to both children and parents in their programs. Two partners serving high school-aged youth, Juma Ventures and Mile High United Way, provided financial education to their accountholders only, not to parents. Partners with younger accountholders, on the other hand, tended to focus their financial education on parents rather than children. Depending on the goals of the program and the age of participants, financial education for parents may be as or more important than it is for children.

For programs working with younger children, it may be effective to provide financial education to both parents and children at the same time. **Two SEED community partners worked with very young children (age five and younger) and organized financial education workshops and events for the whole family, providing activities in which both children and parents could participate together.** Although this type of financial education may include less content for adults, it represents an enjoyable opportunity for the whole family to get acquainted with the program and learn about savings together. It also allows families to socialize and get to know each other and resolves the issue of child care for parents (especially for those who have more than one child).

Once you have determined your program's main audience(s) for financial education, consider the needs and characteristics of these target populations. Age will clearly play a key role in determining the level of curriculum and delivery method. If you are working with children within a wide age range, it may make sense to split participants up into separate classes based on age to better tailor the curriculum. Within a specific age range, lessons should be relevant and developmentally appropriate for students. **Among any age group, it is critical to assess participants' literacy and quantitative skills, learning disabilities, and language barriers.** In addition, curricula should be written by and for educators with an emphasis on active learning and multiple intelligence models.⁶ With parents and older youth in particular, take into account participants' level and sources of income when selecting a curriculum, as many published money management books and guides assume that readers have a fairly comfortable level of income for meeting basic needs and are not as relevant for families receiving public assistance.

Checklist: Questions and Considerations

- What are the ages and characteristics of the CSA target population, and how do those characteristics affect the financial education component?
- Are there any participants with learning disabilities or language barriers?

Financial Education Curricula

Most financial education curricula cover basic subjects, such as creating a budget and making financial decisions, finding ways to save and invest, managing credit wisely, understanding banking services, buying insurance, paying taxes, and assessing careers and income. Teachers should strive to make financial education relevant to children and youth by relating the

curriculum directly to today's complex financial environment. For example, rather than just teaching about piggybanks and counting, teachers should strive to illuminate the relationship between work and money and how money relates to ATM machines, investments, credit cards, buying goods, paying bills, monthly statements, retirement and savings, budgeting, taxes and deficits.⁷

One common thread that emerges from the experience in SEED is that no single curriculum can meet all of the varying learning needs of children and youth in CSA programs. It is important to evaluate the needs of your participants and create or select a financial education curriculum that is appropriate for them. Fortunately there are many existing curricula from which to choose. It may be helpful to reference content standards established by the Jump\$tart Coalition and U.S. Treasury Department to better evaluate curriculum choices for participants. Visit www.jumpstart.org/national-standards to learn more.

SEED community partners used a variety of curricula in their programs. Some programs adopted third-party curricula in their entirety. Three community partners used Financial Fitness for Life (developed by the National Council on Economic Education) to educate their youth, and one also used it for adults. Two partners used Your Money & Your Life (developed by the University of Illinois Cooperative Extension) for their adult participants. Other community partners combined elements from third-party curricula with internally developed materials, or used an entirely internal curriculum. In the end, the curriculum that your program decides to use will be determined by the characteristics of your target population, the goals of your CSA program, and the expertise among staff at your organization (or partner organization) to tailor existing curriculum to fit these specific needs.

Whatever curriculum your program decides to deliver, make financial literacy lessons age-appropriate, interactive, relevant and enjoyable for participants. Ensure sufficient time for snacks, socializing, interactive field trips and activities. For older children and youth, incorporate problem-solving and technology-based activities to increase financial capability. Strive to help participants enjoy learning about financial education and make it relevant to their lives. You don't want financial education class to feel too much like school!

Checklist: Questions and Considerations

- What is the right curriculum for your target population? See the CFED Online Resource Guide for a variety of curriculum options.
- What topics should participants learn about?
- How much depth is required for each topic?
- What personal financial management skills should participants have when they finish the program?
- What measures will you use to determine whether participants learned these skills?



QUICK TIPS

- Teach and reinforce the “miracle” of compound interest – small savings along the way add up to big payoffs in the future!
- Use relevant examples to highlight key concepts such as saving, borrowing, earning, and charity. Younger children, for instance, may relate to examples of borrowing library books, sharing with others and earning allowance from chores.

Asset-Specific Education

Once you decide upon the account vehicle and allowable uses for participant funds, develop an asset-specific component for your financial education curriculum.

Depending on the asset purchase options and the age of the accountholders, this could mean focusing on how 529s work and what they can be used for; providing homeownership training, or providing guidance on entrepreneurship and microenterprise to participants.

With younger children who are many years from making an asset purchase, more emphasis can be placed on what CSA funds are for; linking this to what the children “wants to be when they grow up.” If education is the main savings goal (as is true for many CSA programs), consider providing examples of different career options, and emphasize the importance of education and training in realizing accountholders’ dreams. Research has shown that the financial education that parents and children receive as part of a CSA program can help families understand the true cost of college which in turn, can empower families to save more.⁸

Sponsoring organizations running CSA programs that already offer homeownership counseling or self-sufficiency training may have a staff member who is well qualified to offer training on these topics for participants who are closer to the age of making an asset purchase. If not, organizations should look to other resources in the community. Some potential resources for both financial education trainers and asset-specific curriculum materials are local financial institutions, state housing finance agencies, affordable housing consortiums, boards of realtors, city governments, community colleges or other nonprofit organizations. Many financial institutions have developed money management and homeownership materials as part of affordable lending programs; community colleges often offer courses for adults or youth on budgeting, money management, purchasing a home or building a business. Organizations that specialize in homeownership counseling or entrepreneurship training are ideal partners for any additional training that relates to participants’ selected asset goals. If participants opened an investment account such as



IN FOCUS

Entrepreneurship Education

Entrepreneurship education conveys important skills related to math, planning, budgeting, marketing, and saving. In addition, essential skills related to creativity, teamwork, perseverance, critical thinking and initiative are also obtained. Entrepreneurship education can encourage independent thinking that helps all students, even those not planning on using their funds toward business development, make valuable and concrete connections to the changing world. This type of education moves beyond accounting and marketing to offer important lessons about the value of failure, ethical decisions, networking and negotiating.

Entrepreneurship education teaches through hands-on experiences and encourages youth by:

- Providing the skills necessary for youth to start their own businesses
- Enhancing youths’ business skills for future career opportunities
- Encouraging youth to pursue higher education

Rural Entrepreneurship through Action Learning (REAL) is a curriculum based on experiential learning. Students engage in age-appropriate activities to learn the basics of business planning, from marketing to financials to creative problem solving. It trains students to examine their communities to find unmet needs. One of the most promising REAL products for linking youth savings with entrepreneurship is the School-Based Enterprise for Youth Workshop. This workshop is an experiential training for teachers planning to start, or already working with, school-based enterprises (SBEs). Teachers focus on how to set up and operate SBEs that are economically sustainable and provide entrepreneurial learning experiences for students. For more information on REAL, visit www.ncreal.org.

a 529 or Roth IRA, your program should have a contact at the provider who can help explain account features and answer questions. For more on asset-specific training, see the *IDA Program Design Handbook*.

Checklist: Questions and Considerations

- What account vehicle are participants using?
- What are the asset purchase options for your program and what asset purchase goals have participants set for themselves?
- How close are participants to actually making an asset purchase?
- Will your program have the expertise to provide asset-specific education in-house, or will you bring in speakers and/or refer participants to partner or community organizations?

Delivery of Financial Education

Financial education in the United States is currently being delivered primarily through a network of community-based providers, such as community action agencies, Cooperative Extension offices, churches and other nonprofits. This was also the case in SEED; however, two important innovations were tested by SEED community partners – delivering financial education in the classroom and online.

School-Based Delivery

Providing financial education at school is one obvious way to solve the challenge of full participation in financial education, and the initial experiences at several SEED community partners show promise in the potential of integrating financial education into the existing curriculum, even for the youngest of children. This experience is still

relatively new, and the numerous demands facing public schools, especially the requirements of the No Child Left Behind Act, make implementing this strategy an uphill struggle in some cases. A 2007 national survey of K-12 financial literacy found that after the challenge of finding time, the second ranking obstacle for teachers in providing financial education is the lack of specific academic standards mandating financial literacy. Among teachers not teaching financial education in their classrooms, a lack of standards – not a lack of time – was the number-one reason cited. K-12 teachers in general showed a strong consensus that they would teach more, or at least as much, on the subject of financial education if academic standards on this subject were in place.⁹

Many states have already mandated specific guidelines for incorporating personal finance programming into educational curricula in schools: Personal finance is included to some extent in the educational standards of 44 states, and 34 of these states require those standards to be implemented. Only 13 states require students to take a personal finance course as a high school graduation requirement, and nine states require the testing of student knowledge in the area of personal



QUICK TIPS

- Remember to begin talking about college and other allowable uses with accountholders from the start: Instilling this goal in participants' minds from an early age can help raise expectations and savings for the future.
- Emphasize the importance of college and provide families with accurate information on the cost of attending college – many families actually overestimate college costs and assume it will not be affordable. (For more information on the actual costs of college, refer to the Online Resource Guide).
- Plan field trips to local colleges and bring in guest speakers who can speak to the importance of education or training in their particular field.

finance. Certain states or school districts may already teach financial education in the classroom or may be interested in integrating this type of content into existing curricula or classes. For more information on specific state requirements, see the National Council on Economic Education's (NCEE) *Survey of the States: Economics and Personal Finance Education in Our Nation's Schools*. The 2009 report is available at www.councilforeconed.org/about/survey2009/CEE_2009_Survey.pdf.

Online Delivery

SEED community partner Juma Ventures experimented with online financial education. Instead of attending classes, the high school-aged accountholders worked through 34 MoneySKILL modules at their own pace, and staff reviewed the students' lessons and quizzes online. Juma helped make this delivery mechanism work by providing an onsite computer lab. The self-paced aspect of this approach allows students to move through the lessons at a rate appropriate for their needs, instead of forcing a whole classroom of students to move at the same pace. However, Juma staff members discovered that they needed to organize a few face-to-face workshops for their SEED accountholders to augment the online training. Initial research indicates that the SEED savers at Juma gained financial knowledge from participating in these workshops and online training, although the youth did not particularly enjoy the financial education component of SEED.¹⁰

Other Considerations for Delivery

Because parents have many other demands competing for their time and attention and may not be as easily reached by programs designed primarily to serve children or youth, gaining their involvement in financial education can be challenging. Even if parents appreciate the importance of the education, their attendance at classes may be sporadic. Offering classes that complement parents' schedules and identifying a natural "access point" (that is, at school or a community center) are essential. For more on adult-specific financial education delivery, refer to the *IDA Program Design Handbook*.

The person who teaches financial education must be properly trained and prepared to deliver the financial education curriculum to participants. Teachers of financial education may struggle with their own personal finances; therefore, teacher training should not only include instruction on how to teach the subject, but also provide financial education to the teachers themselves so that they feel comfortable with the content. Financial education trainers should have experience teaching using age-appropriate strategies and curricula.

For more on financial education instruction for youth and adult IDA programs, see the publications *IDAs for Youth* and *IDA Program Handbook*, respectively.

Checklist: Questions and Considerations

- Is there a natural point of access to participants and parents, such as school?
- How will you reduce barriers to participation through child-care services, "whole family" financial education, transportation assistance, and/or provision of snacks/meals?
- Will classes for children and youth be taught during the school day or after school?

If school-based, consider the following questions:

- Will all students at the school receive financial education, or just those kids participating in the CSA program?
- Will teachers be trained to deliver the curriculum or will an outside instructor teach financial education? If the teachers will be trained, who will lead the training, and how often will this person be available (for new teachers, turnover, etc.)?
- Is there an opportunity to align this curriculum with the financial education requirements mandated by the state (if applicable), or within an existing math or economics requirement?
- Who at the school will need to grant approval for the financial education plan?
- How frequently will you provide financial education classes and on what kind of schedule (weekends, evenings, lunch periods, etc.)?
- How will you train instructors in financial education and asset-building theory?

Considerations for Larger-Scale Initiatives

- Due to the logistical challenges and expense of providing financial education classes in the community, large-scale CSA efforts should consider providing financial education through the school system by aligning with financial education requirements mandated by the state (if applicable) or within an existing math, language arts, economics or social studies requirements.

Incentives and Requirements

A fundamental question in CSA programs is how to encourage accountholders and their parents to participate fully – and whether to make financial education a requirement to open an account, remain in the program or make an asset purchase.

Adult IDA programs typically require accountholders to complete financial education as a condition for receiving matching dollars. However, most of the community partners in SEED did not require financial education (eight of the 12), and employed a broad range of strategies to encourage children, youth and parents to participate in the classes.

Nearly all SEED community partners used some form of incentive to encourage parents or young accountholders to attend or complete financial education classes. Incentives for participation took the form of cash payments made to participants (or to their parents, in the case of younger children). Community partners encouraged accountholders and families to deposit these in the participant's SEED account; in some cases, this deposit was required by the local SEED program. The amounts of the incentives could be substantial (for example, up to \$250 at the Boys & Girls Clubs of Delaware for parents participating in financial education) or minimal (only \$1 per after-school club meeting attended by elementary school students at Beyond Housing in St. Louis). Most of the SEED community partners believe the incentives helped to substantially increase attendance, especially among adults. However, none of the partners saw such rewards result in anything close to full participation. Moreover, some partners, such as the Southern Good Faith Fund in Arkansas (SGFF), reported significant adult participation in financial education without incentives or requirements. For more on the use of savings incentives, see Chapter 6.

In comparison, four of the 12 SEED community partners made at least a portion of their financial education services mandatory. At Fundación Chana y Samuel Lewis in Puerto Rico, SEED participants had to attend the first class before they

were able to open accounts. Mile High United Way required potential accountholders to complete financial education before opening an account. At Cherokee Nation and Juma Ventures, which serve high school-aged youth, participants could not make a matched withdrawal until financial education was complete.

Checklist: Questions and Considerations

- Will you include requirements for financial education to participate in the program?
- Will financial education be a prerequisite or a requirement to make an asset purchase?
- If financial education is required to make an asset purchase, what will happen to accounts of participants who are unable or unwilling to complete this requirement?
- How important is it that all participants remain in the program (regardless of their level of participation?) See Chapter 9 on *Outreach, Participation and Retention*.
- Will you provide incentives (financial or otherwise) to encourage attendance and participation in financial education?
- Do you have the budget to provide incentives in addition to an initial deposit and match?
- Will you make financial incentive deposits automatic, or let participants decide whether to save these incentives?
- How much will you reward, and for what milestones/accomplishments related to financial education?



QUICK TIPS

- Keep in mind that incentives for participation in financial education can be difficult and costly to administer (see Chapter 6 on *Savings Incentives*).

Chapter Endnotes

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Beyond Housing, St. Louis, MO

Beyond Housing, a community-based organization in St. Louis, recruited 74 students at the Delmar-Harvard Elementary School to participate in a SEED program called “I Can Save.” These accountholders were in kindergarten and first grade at the time of enrollment in 2004. Over the course of the SEED program, Beyond Housing used the Financial Fitness for Life curriculum to teach participants about saving, financial institutions, and college. Beyond Housing’s experience highlights some of the difficulties and advantages of delivering financial education through a school setting to students in a CSA program.



The initial program design for Beyond Housing was to enroll the entire kindergarten class at Delmar Harvard Elementary and train the teachers to deliver financial education in the classroom. The program was voluntary in nature, so it was difficult to achieve 100% enrollment. As a result, recruitment efforts were extended into another grade to achieve full enrollment. The in-class delivery of financial education worked well during the first year, although teachers had to make lessons applicable to all students, given that some non-SEED participants were in these classes. Delivery of financial education during the second year of SEED, however, proved more challenging. Many of the teachers in the subsequent grades had not “bought in” to the program and were resistant to adding material to their long list of curricular requirements. This problem was compounded by turnover at the school among the teachers and staff who had provided financial education during the first year of the program.

As a result of these changes, the SEED program coordinator began teaching financial education during a weekly after-school club geared toward SEED participants. Every month during the club meetings participants and their parents had the opportunity to make a field trip to the local Commerce Bank branch to make deposits. Although this delivery method was more targeted, it reached far fewer participants, especially as the children became involved in additional sports teams and school activities. As a result, in the spring of 2005 the SEED coordinator formed an agreement with the principal and teachers that allowed her to teach financial education in the classrooms with SEED participants on a weekly basis. This strategy worked well throughout the remainder of the program, as it gave teachers a break and provided valuable information about college and savings to both SEED and non-SEED students in the grades covered. The monthly “bank day” trips also continued and became a popular and valuable component of the “I Can Save” program, as they involved both children and parents in the saving process.

Financial Education Delivered by the SEED Community Partners

Community Partner	Participant Curriculum	Parent Curriculum	Participant Frequency	Parent Frequency	Age at Enrollment
Beyond Housing	Financial Fitness for Life	Partner's own curriculum	30-minute class once per week, one-hour after-school club once per week	Occasional	5-6
Boys & Girls Clubs of Delaware	Delaware Money School and Financial Fitness for Life	Finding Pathways to Prosperity	90-minute class once per week for six weeks	Twice per year	11-14
Cherokee Nation	Building Native Communities, Financial Fitness for Life, and My Decisions (online)	Building Native Communities and Financial Fitness for Life	90-minute class once per month	Once per week for six weeks	14-18
Foundation Communities	Partner's own curriculum (includes elements of Hands On Banking and Practical Money Skills)	Partner's IDA curriculum (tailored for SEED)	One hour per month during school year, summer day camp	Occasional (10 hours total)	6-12
Fundación Chana y Samuel Lewis	Partner's own Spanish-language curriculum	Partner's own Spanish-language curriculum	12 classes over one semester	12 class hours, 2-3 hours of individual budgeting training	6-8
Harlem Children's Zone	Kids Can Save	Credit Where Credit Is Due	Quarterly	Quarterly	4-6
Juma Ventures	MoneySKILL (online)	N/A	Self-paced	N/A	14-18
Mile High United Way	Young Americans Bank, modified to include elements of Jim Casey Youth Opportunities Initiative curriculum	N/A	Two six-hour classes at program start	N/A	14-21
Oakland Livingston Human Services Agency	Partner's own curriculum	Partner's own curriculum and Your Money & Your Life	90 minute parent-child workshops twice per year	90 minute parent-child workshops twice per year	3-4
People for People, Inc.	Partner's own entrepreneurship curriculum, including elements of the REAL curriculum	Bank of America curriculum	One class per week during the school year	Quarterly	10-12
Sargent Shriver National Center on Poverty Law	Financial Fitness for Life and Money Savvy Generation (both modified)	All My Money, Pathways to Prosperity and Your Money & Your Life	15 classes over 8 weeks	Four classes per year	5-10
Southern Good Faith Fund	Partner's own curriculum	Partner's IDA curriculum	30-minute parent-child workshops twice per year	30-minute parent-child workshops twice per year and two hour meetings 3-4 times per month	4-6

SECTION C



Program Management



CHAPTER 9

Outreach, Participation and Retention

Because saving can be difficult, CSA programs must maximize participant success by facilitating participation, relationship building, knowledge sharing, peer support and the savings process. The “institutional” theory of savings says that savings occurs because of factors that increase savers’ information about accounts, provide access to accounts, or facilitate the act of depositing money. Numerous studies have found that various aspects of program design promote higher levels of savings, including staff relationships, matched deposits, financial incentives, direct deposit systems, peer group meetings, savings targets and financial education.¹



KEY DESIGN ELEMENTS

The program features described here can help participants save and support them in developing lasting skills, relationships, and networks as they work toward their goals. Many of these approaches can also help your program minimize participant attrition or departure rates. However, keep in mind that even the best-designed and best-executed CSA programs will not achieve 100% participation among participants, and that it is not critical for programs to use all of the program features described in this chapter to be successful.

- **Regular Contact with Participants.** What strategies are effective in establishing consistent contact with participants and families?
- **Clear Program Requirements and Expectations.** What are the requirements and expectations for CSA participants, and will their participation be terminated if requirements are not met?
- **Peer Support.** Will peer and mentor support groups be created?
- **Earned-Income Opportunities.** Will your program create opportunities for participants to earn money to deposit in their accounts?

Regular Contact with Participants

Regular contact with your program’s participants can combat feelings of isolation and discouragement and remind them about program activities and savings goals. This communication can include newsletters, timely monthly account statements, letters that provide reminders and encouragement, and occasional “check-in” phone calls. Programs that closely monitor their participants’ savings activity will be able to spot participants who are missing deposits and can then plan follow-up such as phone calls or even home visits.

A quality Management Information System (MIS) makes this monitoring process much easier and can help your program designate participants as high, medium, or low savers to design an outreach strategy (see Chapter 10, *Account Management*, for more information on MIS options). This “triage” approach can be especially useful when program resources are scarce and your program needs to direct outreach activities to those participants who may benefit most. For example, at the Oakland Livingston Human Service Agency in Pontiac, Michigan, SEED program coordinators developed a savings protocol to identify participants as “red, yellow or green” savers, to identify which families they needed to spend more time with

encouraging savings. For some SEED community partners, focusing outreach to the “yellow” or “medium” savers (those who had only saved a small amount and were not saving consistently) was more effective than spending time with just the “red” savers (those who had not saved at all), who were more difficult to engage. For your program, it may be a combination of outreach to red, yellow, and green savers (as resources permit).

It can be frustrating to see participants falter. Remember, however, that participants are saving for themselves (or their child) and not for the sake of your program. They may be reluctant to seek assistance or support, even when they feel overwhelmed or discouraged. Program staff members should emphasize that they are available to offer assistance and back up that promise with visible policies and practices. Staff might schedule regular meeting times with participants or hold “office hours” during which accountholders or parents can stop by to talk.

Checklist: Questions and Considerations

- How will your program maintain consistent communication with participants?
- Does your program have a quality MIS to track participant savings and strategize follow-up communications? See Chapter 10 for more on MIS options.

Clear Program Requirements and Expectations

Clear policies and procedures remove uncertainty from the savings process. Participants need to know what is expected of them in terms of making monthly deposits, limiting or excluding emergency withdrawals, attending financial education training, and participating in peer support groups. At the same time, participants who sense they may be faltering should understand that your program is interested in, and committed to, helping them succeed.

Any CSA program should have comprehensive, written policies and procedures that state the rules of the program and how such rules are administered. One of the key considerations, mentioned earlier, will be whether to require participants to meet certain savings targets or participation minimums to remain in the program. In the SEED Initiative, some community partners required participants to complete financial education to enroll in the program or to make an asset purchase, but none of the SEED partners replaced participants who did not participate. That is, once they were enrolled, they could not be terminated from the program. This policy gave those families who were unable to make consistent deposits or took longer to engage a chance to remain in the program, but also presented challenges with those families who lost all contact with the program or did not make deposits into their accounts, despite all programmatic efforts. See the Online Resource Guide for tips on locating participants who have lost contact with your program.

If your program decides to establish minimum participation requirements, these guidelines must be clearly communicated to all participants before enrollment and implemented consistently. For example, if your program requires that participants save a certain amount each month, make sure that all youth and parents understand this requirement understand this



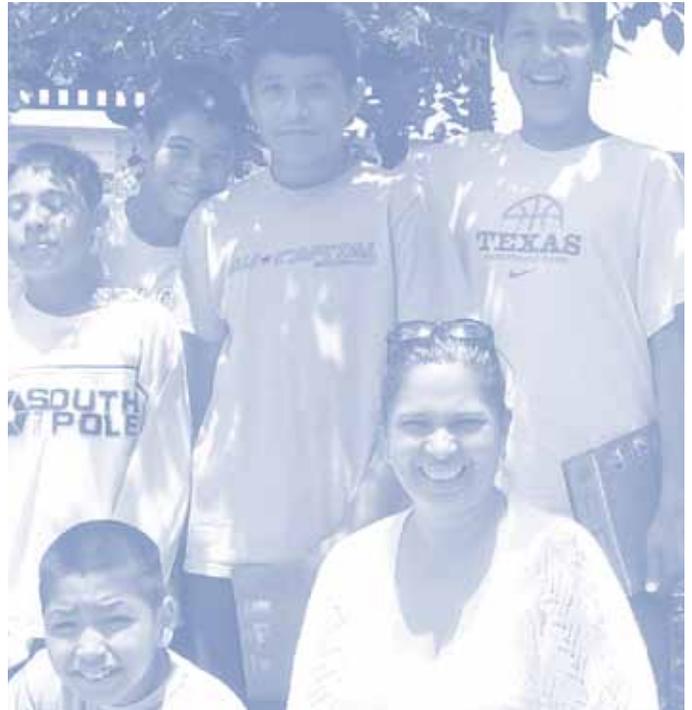
QUICK TIPS

- Monthly newsletters or postcards can be a great way to remind participants of key program dates and provide savings tips and advice. If you work with young children, provide a few stories or activities and address the newsletter to the children – they will be excited to get mail and can have a parent read it with them.

requirement and acknowledge it in writing. Some programs in SEED sent out quarterly letters that encouraged participants to save and calculated the amount they needed to save per month until the end of the program to earn the full savings match. Consider also at what point a participant's failure to meet your program's expectations should result in some type of action. How many months of deposits can a person miss? What consequences will result from a missed deposit? Although your program should not necessarily be focused on participant failure, families deserve to have a clear understanding of what is expected.

Because CSA programs exist to serve and help these families, termination should be a rare occurrence and a last-resort option.

Before replacing any participant, make sure that your program staff has had a face-to-face meeting to determine the cause of the participant's low savings or lack of participation. Perhaps he or she needs a slight reprieve from saving or from participating in regular meetings to get back on track. Some programs offer "leaves of absence" for this reason. Program staff might offer to work closely with a faltering participant for a period of months, designing a budget together and monitoring his or her spending.



Policies and procedures for a CSA program should include but not be limited to:

- How potential accountholders can enroll in the program
- Eligibility guidelines for accountholders
- Processes for making deposits, including deposit method, location, frequency, minimum, etc. For instance: Will your program encourage or require the use of direct deposit? Will you accept deposits on behalf of participants who cannot get to the bank?
- Targeted monthly savings goals and explanation of the match cap
- Process for earning benchmark incentives, if applicable
- Sanctions for violating program rules
- Process for termination from the program, if any
- Financial education participation for accountholders
- Approval of emergency withdrawals, if applicable
- Policies for managing match funds

Checklist: Questions and Considerations

- What policies will you have regarding participation, deposits, withdrawals and other program elements? For more on these topics, see Chapter 10 on *Account Management*.
- How will these policies be communicated to participants?

Peer Support

CSA participants can be one of the most effective sources of support for one another. Peer support groups can:

- Offer participants support from other people who understand through firsthand experience the challenges of long-term saving.
- Provide a mechanism for participants to meet regularly, refocus on their savings goals, and reflect on their progress and setbacks.
- Help participants develop strong personal ties with other savers and become invested in one another's success.
- Be a valuable forum for resource sharing and joint problem solving.
- Instill in participants a feeling of accountability to one another.
- Help ensure all participants receive adequate support despite limited staff resources.

Fostering successful peer support groups is not an easy undertaking. The following suggestions can help your program build strong peer groups:

Use Financial Education Classes as a Foundation for Peer Groups

CSA programs have a perfect opportunity to foster peer support groups built into their basic program design: financial education class. Interactive, discussion-oriented workshops can help participants get to know one another and feel invested in each other's success. Ideally, these groups would be moderate in size (seven to 12 people) to encourage participants to form an identity as a group. If your program cannot present financial education in small groups, incorporate exercises in your program that draw together the same subgroups of participants. Finally, consider building workshop exercises that introduce the idea of peer accountability and support. Ask group members to offer each other positive feedback on important accomplishments, like writing a spending plan or making deposits.

In the SEED Initiative, parents of accountholders at the Harlem Children's Zone formed a "Parent Investment Committee" that met to discuss and learn more about investment options and to plan fundraising activities for their children's accounts. These parents developed a strong support network through regular meetings and events.

Plan for Peer Group Formation

Strong peer groups are built on close interpersonal connections between group members. Building relationships of this type takes time. The earlier your program introduces the idea of peer group formation, the earlier your participants will be motivated to get to know their fellow savers. For participant peer groups to function well, certain logistical issues must be addressed. A prospective peer group must decide where they will meet, how often, for how long and with what agenda. Often these logistical details can make or break a fledgling peer group. Be prepared to help participants around stumbling blocks. If participants cannot decide where to meet, for example, you may be able to draw on community connections or program partners to provide a meeting space. Make sure someone is chosen, at least initially, to take responsibility for the group and report back to your program staff.

Provide Opportunities for Leadership

Another way to engage participants and provide leadership opportunities is to form a leadership board for the CSA program, which would have decision-making and advising functions. Leadership boards are often composed of a program's

most involved participants so that they can offer recommendations for improvements or plan program activities. For example, Mile High United Way, which worked with foster youth, organized a Youth Leadership Board that provided an opportunity for program participants to take on leadership roles and act as key partners in the work of the local partner and community, while forming a strong peer network.

Pair Participants with Peer Mentors

Another effective strategy for creating peer support systems is to have successful participants serve as peer mentors and work with other participants to identify short- and long-term goals and complete program requirements. Your program may consider providing a financial incentive for mentors who choose to participate in this type of activity.

Plan Celebratory Program Events

Celebrate milestones and reinforce short-term accomplishments as doing so maintains participant motivation. Hold a holiday get-together or a summer picnic to recognize active participants. Have some of your most successful savers speak at events and discuss the savings strategies they have used. Not only are these events fun, but they also create a sense of community among participants and a boost of motivation for those who may need it.

Checklist: Questions and Considerations

- Does your organization have a staff member who can help form and guide a peer support group or leadership board?
- Does your organization have the capacity to plan semi-annual or quarterly events for program participants?
Remember that these events do not have to be elaborate. An informal (and inexpensive) gathering that recognizes savers and brings people together can be very effective.

Earned-Income Opportunities

In CSA programs, helping participants earn additional income to deposit into their accounts can be an effective strategy for maintaining participant involvement and increasing net savings. CSAs and entrepreneurship are strategies that share common goals and methodologies. They both support the accumulation of human and financial assets, and incorporate financial education and activities to help participants make sound financial decisions.

Fundraising or entrepreneurship activities can often come out of the work of peer groups or leadership boards, as described earlier. For instance, parents and/or children can hold bake sales or similar fundraisers for the program so that a portion of the proceeds can go toward participant accounts. Middle- or high school-aged participants are ideal candidates for entrepreneurship or earned-income activities and will have greater success in CSA programs that include or are linked to these opportunities. SEED programs at People for People and Cherokee Nation both successfully used entrepreneurship strategies with young accountholders.

In addition, find opportunities to link youth participants with employment or profit-generating opportunities whenever possible – perhaps through a summer employment program, another existing youth employment organization, or a partner organization that offers employment opportunities. Consider involving entrepreneurs or community business leaders who serve on your board of directors or are otherwise affiliated with your organization. Juma Ventures, for example, developed a business leadership model in which the organization employs high-school participants to work at the San Francisco Giants

Stadium to earn wages from which they can make deposits into their CSAs. The youth work at ice cream and coffee stands during baseball season, and gain experience in peer training and even supervisory and management opportunities.

For more on entrepreneurship and savings strategies for youth, see CFED's white paper *Linking Youth Savings and Entrepreneurship*, online at: <http://seed.cfed.org>.

Checklist: Questions and Considerations

- What opportunities can you create for participants to earn additional income to supplement contributions to their CSAs?
- If you are considering entrepreneurship as an earned-income opportunity, who has the necessary skills and experience to train and lead participants in this activity?
- Are there local entrepreneurs who can make presentations about their businesses, serve as course instructors, act as mentors, provide placements in their businesses, or provide financial contributions?
- Are there parents (especially in the case of younger participants) who would be willing to help with earned-income activities?

Considerations for Low-Income Populations

- Families living on low incomes often juggle multiple financial demands to save: housing, health care, food and transportation. Often, assistance in one or more of these areas can make savings in a CSA program more feasible for participants. Consequently, CSA programs serving low-income populations should strive to link their services with other community supports and networks whenever possible. Consider partnerships with the private sector, faith-based and community-based organizations, child welfare, workforce development agencies, local governments, and high schools and universities.
- For example, during tax season, let your participants know about free tax preparation opportunities (such as Volunteer Income Tax Assistance [VITA] sites) that are available to those with low and moderate incomes and encourage participants to deposit a portion of their tax return into their CSA account. You could also provide assistance to students who are applying for federal student aid for college. This can be a powerful opportunity to discuss how participants can use funds from their CSAs in conjunction with financial aid awards to cover educational costs.
- Also, you may consider creating a separate fund for the program that can be accessed in emergency circumstances when participants would otherwise need to take money out of their CSA account. For example, at Mile High United Way, a special emergency fund allowed SEED participants who would otherwise have needed to withdraw CSA funds to access up to \$500 to cover emergency expenses such as rent, medical services, car repair, or child care supplies. Requests for emergency funds were granted on a limited basis and were approved by a peer board.

Considerations for Larger-Scale Efforts

- Many of the program supports and “hand-holding” activities described in this chapter are more difficult to implement on a larger scale. Depending on how many CSAs are being delivered through your program and over what geographic area, activities such as home visits, peer support groups or fundraisers may or may not be viable. It is important to consider the scale of your program when deciding which strategies to pursue.

Chapter Endnotes

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ON LOCATION

Southern Good Faith Fund, Arkansas

Southern Good Faith Fund (SGFF) is a 501(c)(3) nonprofit affiliate of the Southern Bancorp. Since 1988, it has worked to increase the incomes and assets of low-income and low-skilled residents of rural Arkansas and Mississippi. This region is one of the poorest in the United States and grapples with high unemployment and low wages. These challenges, combined with low education levels, mean that many residents are either unemployed or in dead-end jobs. SGFF is working to change this cycle and give people the skills, training and support they need to make better lives for themselves. The organization offers unique and innovative programs that blend asset development, small business development, workforce development, and public policy activities.



As a SEED community partner, SGFF worked with a range of local partners in Phillips County, Arkansas to deliver SEED accounts to preschool students. To provide holistic support services to families, SGFF partnered with early childhood programs, the local public school system, faith- and community-based organizations, and financial institutions. Given the location, persistent poverty provides a challenging test of the efficacy of children's savings accounts. Southern Good Faith Fund developed an innovative model for family financial education, through which parents and children participated together in activities to learn the importance of saving. To further reinforce the habit of saving, children visited the bank (where the SEED coordinator worked) to make deposits into their accounts. SGFF advertised program features and events through a quarterly newsletter, which was geared toward children. The program coordinator would address the newsletter to the accountholders, who were often excited to receive their own mail; many parents would read the newsletter with their child. Newsletters included articles and games related to financial literacy, and reminders about events and savings opportunities. For example, the program provided piggy banks to all the children, and then included a reminder in the newsletter that participants could earn a \$25 match for bringing their piggy bank savings to the bank. SGFF also offered parents up to a \$50 match on deposits made with Earned Income Tax Credit refunds.



CHAPTER 10

Account Management

At the heart of any CSA program is the account, which must be properly managed from the moment participants sign up. Accurate and effective account management is important for maintaining the trust and confidence of accountholders, proper tracking of savings incentives, ensuring the integrity of the program and providing targeted support and encouragement to families.

The two main areas of account management for CSA programs are 1) tracking, recording and reporting account activity and 2) tracking, calculating and distributing savings incentives. Typically, a financial institution will track account activity as part of servicing an account. It will issue regular, periodic statements to accountholders that outline beginning and ending balances, deposits and withdrawals, interest earnings or investment gains/losses, plus any penalties or fees, if applicable. Statements may be either paper or electronic, and in the case of passbook savings accounts, are entered directly into a passbook when an accountholder visits a branch.

In an ideal world, because financial institutions already have sophisticated systems to manage account activity, they would also manage the *savings incentives* in a CSA program. However, it is difficult to find a financial institution willing to accept the responsibility of accounting for, tracking, and reporting on savings incentives, which can be labor-intensive and expensive to administer. During the planning phase of SEED, researchers assessed the advantages and disadvantages of various existing financial products, such as 529 college savings accounts, individual retirement accounts, trust accounts, and their associated Management Information Systems (MIS). The findings revealed that no existing structure or MIS currently available through financial institutions could sufficiently meet the needs of a CSA program.



KEY DESIGN ELEMENTS

Important account management design elements include:

Ensuring Access to Data. How will the accounts be set up so that participant account data are accessible to the program managers?

Management Information System. Which system will allow for the most effective management of accounts?

Tracking Account Activity. How will account activity be monitored and tracked, including deposits, withdrawals, interest, and gains or losses on investments?

Managing Savings Incentives. How will savings incentives (such as the initial deposit, matching funds and other incentives) be safeguarded? How will limits on the amount of incentives a participant can earn during the life of the program be enforced?

Reporting. How often will accountholders and other stakeholders receive reports regarding accounts, and what information will these reports include?

Preventing Fraud. What safeguards and policies need to be put in place to prevent fraudulent activity or mismanagement of funds?

Ensuring Access to Data

Your program needs to determine how it will gain ongoing access to information about the accounts, such as monthly deposit activity. If parents or participants need to provide consent to share information about their account, it should be obtained at enrollment. In SEED, most community partners received access to the accounts by establishing the community partner organization as the account custodian, with the child or youth listed as the account owner (see Chapter 4 for more information). If the sponsoring organization is not one of the legal owners of the account, you will need to obtain authorization to access information about the account. For example, obtaining “interested third party” status on the account will allow your program to receive a copy of each account statement; however, you will not be able to control participants’ access to funds in the account (as you would if your organization were the custodian), and you may have limited access to other account information.

Assuming that you have full access to the accounts, you will need to work with the financial institution to identify the best system for transferring account data to your MIS (see below for more information) every month or quarter. The format of the data transfer will depend on the capabilities of the financial institution as well as the requirements of your MIS. To reduce the need for manual data entry, it is highly desirable to set up an electronic data-sharing arrangement with the financial institution, rather than manually entering paper statements into your MIS.



Checklist: Questions and Considerations

- What information do you need to access, and how will you obtain it?
- Does the ownership structure you selected allow access to necessary data?

Management Information System

In a CSA program, a Management Information System (MIS) or similar software package can help with several important functions, including general program administration, tracking participation in program activities and capturing participants’ demographic and savings data. Although each of these functions can provide useful information about a CSA program and its participants, a MIS is essential for account management and match calculation. A good MIS will allow your program to determine participant progress at any given time, draw down match funds expeditiously, intervene with participants who may have challenges, and report to funders and participants in a timely manner. The MIS also can be a valuable learning



IN FOCUS

Management Information System

A quality Management Information System (MIS) and its proper use will facilitate effective account (and program) management. A good MIS will track data in a CSA program such as:

- Number of participants and accounts
- Participant demographics
- Distribution of asset goals
- Total savings goals
- Total savings to date
- Completion of training requirements
- The amount of match funds that can be drawn down
- The amount of obligated and un-obligated match funds
- Individual patterns of savings behavior; e.g., amounts being saved, regularity of deposits
- Asset purchases
- Total value of assets purchased
- Amount and sources of community funds (loans) leveraged by asset purchases
- Premature or unmatched withdrawals
- Exits without completion of savings
- The amount of money freed up by participant exits from the program²

tool for practitioners, policymakers, foundations and other interested parties. It is critical to build the MIS into your CSA program from the start in order to ensure that you collect information in a standardized manner and that you budget for the cost of the MIS and related software and staff training.

In the SEED Initiative, community partners opened individual accounts for each accountholder's own deposits, and the financial institution partner tracked, recorded and reported on activity in each of these accounts. Community partners received monthly or quarterly account data from the financial institution, which they entered into the "MIS IDA for SEED" database, a slightly modified version of the pre-existing software package known as MIS IDA (see sidebar for more information).

Effective Use of MIS

A staff person must have the appropriate skills to manage the software, including the ability to enter data promptly, analyze data and draw conclusions about savings patterns and communicate findings to program staff. Processes should be in place to ensure that whoever is responsible for data entry receives that data in a consistent and timely manner, ideally via an electronic data transfer (EDT) from your bank. Forging a good relationship with the financial institution and working with their programming staff to understand their internal systems is key.

Uses for the Data

There are many uses for the data produced by the MIS, including:³

- **Information for Program Staff.** The data help program staff identify savings levels of individual participants and where the program is overall at any point in time. This knowledge enables staff members to determine where they need to place their priorities, what interventions may be needed and what activities to anticipate in the near future. It also facilitates contact with participants in response to various factors identified in the data.

- **Analysis for Agency Managers and Finance Staff.** The data should provide quick analysis of the status of the program and possible areas of concern for managers who are not directly involved in the day-to-day implementation of the program but have supervisory responsibilities for the program staff and/or the sponsoring organization. Also, the data will assist finance staff with overseeing match funds and other incentives.
- **Reports to Funders.** The MIS should be capable of generating reports that inform funders of the progress of the program. Fundraising and reporting to funding sources are vital activities. The MIS should track each funding partner organization by name, organization type and amount of contributions provided. It should also record what type of asset use (college education, homeownership or business startup) each funding source allows and provide a method to link each funding partner to a specific participant based on the participant's intended asset use and program-specified match rate.
- **Advocacy, Fundraising and Public Relations.** When viewed in the aggregate, the data show not only the impact that the program is having on CSA participants, but also the larger community impact, including the purchases of assets and potentially, the generation of lending activities by community financial institutions. These data provide critical documentation that is important to the education of policymakers, at local, state and national levels who may be considering legislation or funding related to IDA/CSA programs.⁵

MIS Packages with Potential for CSAs

In addition to MIS IDA, which is no longer commercially available, we are aware of several other providers of MIS in the marketplace with software programs that support IDAs management and could be customized for a CSA program. Visit the Online Resource Guide for more information about these Management Information Systems, as well as organizations that can provide technical assistance, consulting services, and training to your program and staff.



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Management Information System for IDAs – “MIS IDA”

In 1997, the Center for Social Development (CSD) at Washington University in St. Louis developed and designed MIS IDA as a program management and research database for the American Dream Demonstration (ADD). Due to demand from the field at that time, this Microsoft Access-based software became the first information system for managing adult Individual Development Account (IDA) programs. MIS IDA was not intended for a universal, large-scale approach to financial accounting.⁴ Therefore, in 2001, CSD led a feasibility study with members of the asset-building field to assess MIS IDA's future in the growing IDA market. At that time, CSD acknowledged that MIS IDA was useful for reporting ADD data and in providing management to hundreds of IDA programs but recommended that resources be focused on Web-based systems that could support IDAs moving to scale. CSD also reported that it would not lead future software development efforts because this work is not a core organizational mission.⁵ However, for the purposes of the SEED Initiative, CSD adapted MIS IDA to track participant characteristics tailored for children and youth.

Tracking Account Activity

Your program will need to have a system in place to monitor all account transactions, including deposits, withdrawals, interest earnings and any fees assessed to the account. Investment accounts such as 529 college savings accounts or Individual Retirement Accounts (IRAs) may be subject to performance gains and losses, affecting the account balance and, depending on the calculation method, the amount of match funds accrued by participants.

You may also need to manage withdrawals – either “unqualified” withdrawals made on an emergency basis prior to completion of the savings period or “qualified” ones made to acquire an asset once the participant is of age. When developing policies and procedures for withdrawals, it is important to consider the account vehicle and legal ownership of the account, as families may be penalized for an unqualified or early withdrawal. Other important considerations include:

- Will the accountholder need to save for a certain period of time or make a minimum number of deposits before your organization grants the withdrawal, whether qualified or unqualified?
- What type of documentation, if any, should accountholders be required to provide for a withdrawal to be approved?
- For emergency withdrawals, will the accountholder be required to replace the funds within a certain time period?
- For asset purchases, is it possible to make several smaller withdrawals, or will the accountholder need to make one large withdrawal?
- What paperwork will be necessary to confirm the asset purchase?
- How will the funds be distributed to the participant? In the case of a qualified withdrawal, will accountholders receive a check made payable to the vendor to make their asset purchase, or will you mail the check or otherwise distribute payment directly to the vendor? Who will be responsible for processing the payment – your organization or the financial institution?

During the SEED Initiative, the majority of community partners allowed emergency withdrawals of the participant’s own savings only (no incentive funds could be withdrawn), based on a limited set of circumstances, and encouraged parents or youth to replace the funds within a set period of time. Emergency withdrawals were approved in situations in which families were struggling to avoid eviction, pay for necessary medical expenses or meet other urgent basic needs.

Checklist: Questions and Considerations

- How will you monitor accountholders’ transactions?
- What policies on withdrawals are dictated by the account? What penalties exist for unqualified withdrawals?
- What additional policies and procedures will you develop regarding withdrawals?
- What supporting documentation will you need to approve qualified withdrawals?

Managing Savings Incentives

Account incentives can include an initial deposit, matching funds, and benchmark incentives. Depending on your program guidelines, the account vehicle and the requirements of your MIS, incentives can be held virtually until a participant is ready to use the funds, held in separate individual accounts, or commingled with participant savings. (For more on *Savings Incentives*, see Chapter 6.)

The *initial deposit* is typically placed in the participants’ account at the beginning of the program; your program will need to determine whether participants will receive their initial deposit if they withdraw early from the program. Also, you should



determine how your MIS will treat the initial deposit. For instance, if you place the initial deposit into participants' account, your MIS may treat it as a regular deposit and attempt to match it, which may not be your intent. This was the case in SEED; thus, community partners deposited only *half* of the initial deposit into the participant's account, allowed MIS IDA to treat the deposit as matchable and raised the match cap in MIS IDA by the amount of half of the initial deposit. For instance, if the initial deposit was to be \$500 and the cap on matching funds for the participant's own savings was \$1,000 (for a total of \$1,500 in incentives), the SEED community partner deposited \$250 into the participant's account. MIS IDA matched the \$250, thus bringing the participant's incentives to \$500; and the community partner raised the match limit in MIS IDA to \$1,250, so that the accountholder could still have the opportunity to save another \$1,000 of his or her own funds. The total incentive funds were still \$1,500: \$250 in initial deposit in the participant's own account, \$250 in match on that deposit, and \$1,000 of match funds on the participant's own savings.

Match funds can be managed in several ways, as described earlier, by accruing virtually in a pooled account, accruing in a separate account belonging to the participant, or being commingled with the participants' own deposits. It is essential that your program's MIS have the capability to calculate match earned by accountholders in whichever method you choose to hold the match funds. The MIS must be able to calculate the amount of match earned by accountholders during each statement period and for the duration of their participation in the program, show how much they are still eligible to have matched, and calculate your organization's cumulative match obligation for all accountholders once they reach their savings goal. Your CSA program must have an adequate amount of reserves available to ensure that accountholders receive their match, when eligible.

Benchmark incentives can be very challenging to track, particularly if you have a large program or if you are offering a large number of benchmark incentives. You will need to closely monitor which participants earned incentives for which activities or achievements, and when. You will also need to track when each benchmark incentive was actually paid out to accountholders. In SEED, community partners tracked the benchmark incentives earned by their accountholders in a

spreadsheet because MIS IDA did not have the capability of tracking benchmarks. This proved unwieldy and time consuming, especially given that the spreadsheets were not linked to MIS IDA. We are unaware of any off-the-shelf software that would track benchmark incentives more easily. If the MIS you choose is customizable, you may be able to add a module or other customizations to help track benchmark incentives earned by your accountholders.

Finally, monitoring and enforcing caps for match funds, benchmark incentives, and any other incentives is essential to ensure that accountholders are not overpaid. It is critical for a CSA program to monitor accountholders' progress and to inform families when they are close to reaching their savings goal. Of course, families can continue to save beyond the match cap, but their additional savings should not be matched unless you secure additional funding to do so and communicate this change to participants.

In SEED, community partners used MIS IDA to track match funds separately from the savings deposits families made. Match funds were held in a single pooled account, and accrued "virtually" to each accountholder; matching funds were only transferred to the accountholder at the time of a matched withdrawal (asset purchase) or at the end of the demonstration. MIS IDA tracked the virtual match and allowed SEED community partners to generate monthly or quarterly statements showing accountholders the amount of match funds they had accrued; benchmark incentives were tracked separately. Program coordinators also used MIS IDA for a variety of other account management functions, including generating reports and data on participation levels and savings rates, enabling staff to target communications efforts and support services to particular individuals and groups.

Checklist: Questions and Considerations

- What type of account will your program set up for savings incentives: individual accounts, a virtual account, or commingled with participant savings?
- Will participants receive their initial deposit if they withdraw early from the program?
- If your program offers benchmark incentives, how will they be managed?
- Does your program have adequate reserves to ensure that all participants can receive a match at the end of the program? Does your MIS have the capacity to calculate these estimates?

Reporting to Accountholders

Accountholders should receive monthly or quarterly statements from the financial institution holding their accounts. In addition, each participant should receive periodic statements regarding the savings incentives that she or he has earned and what additional incentives are available. In SEED, community partners were required to send families either monthly or quarterly savings incentive statements in addition to the regular bank statements. Sending accountholders regular bank and incentive statements encourages consistent savings, informs them of the amount of match earned to date, and reminds them to make deposits. Your MIS should be able to facilitate regular reporting to accountholders.

Checklist: Questions and Considerations

- What is the frequency of statements to accountholders, both for the account and savings incentives: Monthly? Quarterly?
- Who will distribute the statements to families: your program, the financial institution or both parties?
- Will families have access to view their account activity online?

Preventing Fraud

As with any program in which large amounts of money are being managed on a daily basis, it is important to have safeguards in place to prevent any possibility of mismanagement or loss of funds. This is particularly important in a CSA program, where maintaining the trust of families and upholding your organization's fiduciary responsibilities is central to the program's success. Your program should, at a minimum:

- Develop written policies and procedures for all financial controls. See sidebar on *Performance Standards* for more information.
- Preclude any one person handling all aspects of a financial transaction. At least two people should be involved in account management.
- Identify at least two staff members as signers on the accounts to approve withdrawals. Typically, the executive director, president or finance manager approve withdrawals.
- Request and keep on file copies of all cancelled checks from your financial institution.
- Hold an unqualified, less-than-12-month-old, "no loss" audit finding from an independent, certified public accountant.

Checklist: Considerations and Questions

- What policies and procedures will be enforced to maintain adequate financial controls for the accounts?
- Who will have access to participant or match funds? Will you have more than one person act as the signers on either account?
- Who will be responsible for verifying that data entered into the MIS matches bank statements?



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Performance Standards

As part of SEED, CFED developed a list of performance standards based on IDA Partner Certification Standards that were created for the IDA field, and were adapted to the aims and understandings of SEED. The SEED performance standards laid out a set of minimum standards for managing SEED accounts, such as the turnaround time for issuing statements once a reporting period has ended and the enforcement of match limits and other caps on savings incentives. CFED strongly recommends that any organization engaged in account management develop and adopt similar standards before starting a CSA program. Of course, the appropriate standards may vary depending on the size and scope of your program.⁷ To access the SEED Performance Standards, visit the Online Resource Guide.

Chapter Endnotes

¹ Clancy, M. & Stuhldreher, A. (2003, January). *Memo on SEED Account Structure and MIS Recommendations*. St. Louis, MO: The Center for Social Development, Washington University.

² Much of this MIS information comes from the publication *Refugee IDA Programs: Insights from the Field*. ISED. October 2007.

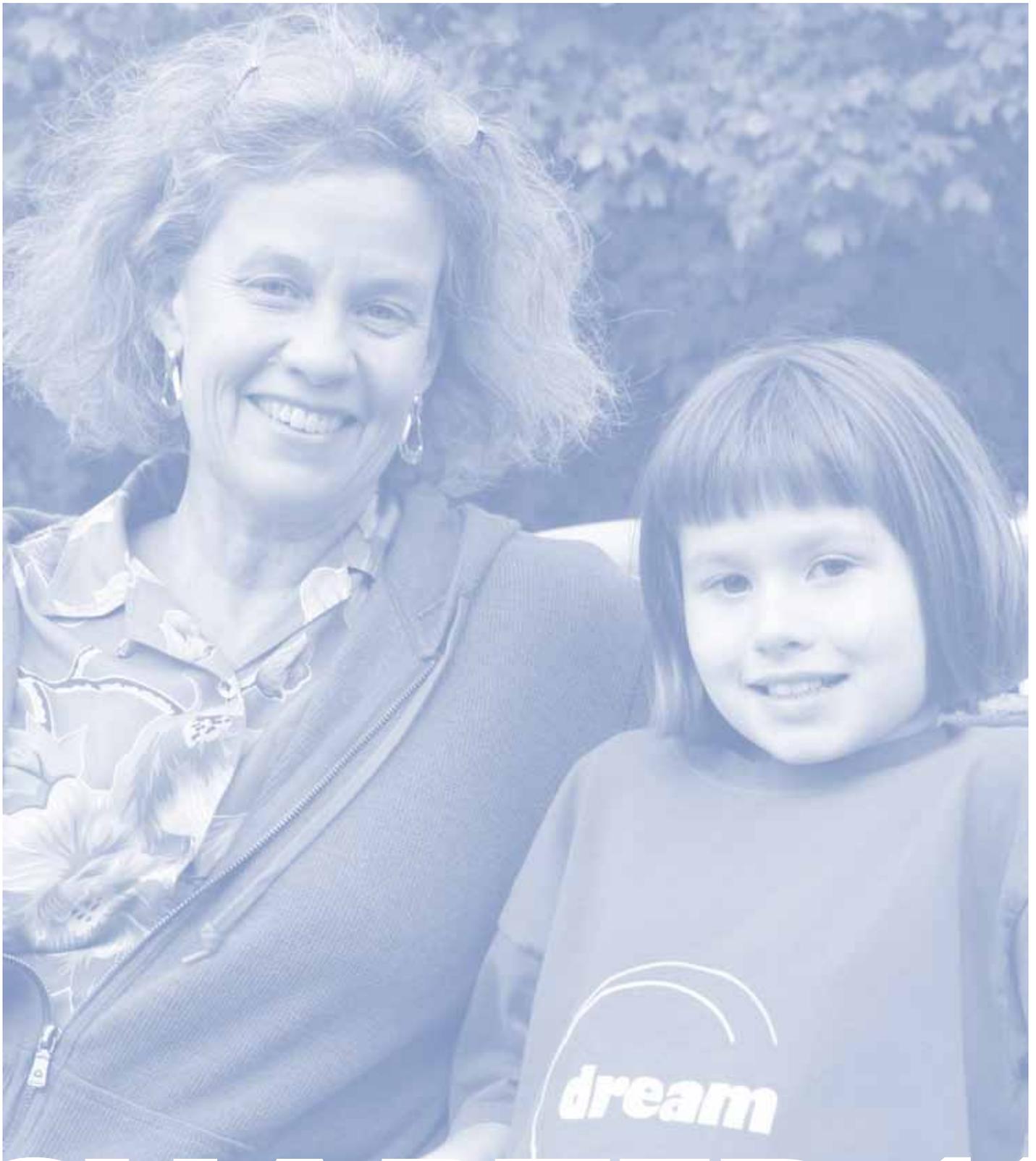
³ Clancy, Johnson, and Schreiner. *Savings Deposits, Incentive Structures, and Management Information Systems: Implications for Research on a Children and Youth Savings Account Policy Demonstration*. Prepared by the Center for Social Development, September 2001.

⁴ Johnson, L., et al. (2001). *Management information system for individual development accounts: A feasibility study (CSD Report)*. St. Louis: Washington University, Center for Social Development.

⁵ *Refugee IDA Programs: Insights from the Field*. ISED. October 2007. Online. www.ised.us/doc/Insights%20from%20the%20Field%20FINAL.pdf.

⁶ Ibid.

⁷ See the SEED Performance Standards, May 2006.



CHAPTER 11

Fundraising and Budgeting

No CSA program can exist without the resources to make it happen and a budget to make sure those resources are spent wisely. Yet fundraising and budgeting for a CSA program or initiative depends on many variables: the number of accounts offered, the staffing configuration of the sponsoring organization or unit of government, the interest and knowledge of funders, the amount of training and upfront design work needed to start operations, the complexity of the CSA design, the amount of policy advocacy necessary or desirable, overall compensation levels in your particular community, and the level of program evaluation desired or required. Many of these topics have been covered in other chapters. Once you've made some key decisions about the overall scope and design of the program, you should begin to consider both fundraising and budgeting for your CSA initiative.



KEY DESIGN ELEMENTS

Even well-designed CSA programs will be unsuccessful if they lack sound management. Fundraising and budgeting can play critical roles in the operational success of your CSA program:

- **Fundraising.** How will you secure sustainable funding to support your CSA program, including both match and operations?
- **Budgeting.** How will CSA program funds be budgeted?

Fundraising

One of the most critical steps in launching a CSA initiative is securing a commitment of resources from those willing and able to fund such an effort. Groups and individuals who may be likely to fund a CSA initiative include:

- State and local governments
- Charitable foundations
- Banks and other financial institutions
- Private employers
- Individual donors
- Faith-based and religious institutions

One clear advantage in raising funds for a CSA initiative is that because CSAs can meet a variety of objectives, funders with a variety of interests may be attracted to your program. This includes funders with an interest in children's issues, supporting access to higher education, financial education, promoting financial security and economic mobility, and more. In addition, CSAs may be gaining visibility, but they are not yet a universally recognized strategy or tool in the eyes of most funders. Therefore, raising funds for a CSA initiative may require that you engage in more funder education than usual. Show potential funders why your CSA program is worth supporting by developing some solid selling points. Consider why potential funders would be motivated to contribute to your CSA program by pointing out what it has to offer and what makes it most attractive and exciting. CSA programs are not simply charitable causes; organizations and communities stand to benefit tremendously from the immediate and long-term implications of asset building for children.

Funding Sources

In addition to making your CSA program's own mission and objectives clear, it is important to have a thorough understanding of any funding source you approach. The better you know your audience, the better you can tailor your message and anticipate questions, concerns, and objections. Well-tailored appeals help your program appear knowledgeable about funders and convey to potential supporters that they are important to you. When possible, familiarize yourself with the following information about a potential funder:

- General interest or mission
- Funding history
- Giving capacity
- Specific interests and funding priorities
- Likely concerns
- Connections to your organization or government agency

Match and Operating Funds

Fundraising for CSA programs involves two separate, but related, components: raising funds to match participants' savings and raising operating funds for the administrative costs of running your program. Lack of either type of funding will not bode well for your program. Without adequate matching funds, your program may have difficulty enrolling participants and helping them to accumulate sufficient funds; without sufficient operating funds, participants will be shortchanged on other program elements, such as financial education, case management and account management. Funders often like to see their charitable investment go into costs that they see as directly benefiting individuals or families, such as funding account incentives or financial education classes. Often, raising funds for operating costs can be more difficult. Be sure that your fundraising efforts include securing adequate sources of operating funds.

Public Funding Opportunities

Another way to fund your CSA initiative – in addition to approaching the groups mentioned earlier – is to tap into existing streams of money that fund CSA-like activities, such as public dollars at the state-level that provide matches for 529 accounts or IDAs, as well as private funds that support college scholarships. For more information on states that have specific funds for IDA programs or for matched 529 plans, see the Online Resource Guide.

At present there are no federal funds specifically targeted toward CSA programs, although IDA programs for youth may be able to use Assets for Independence Act (AFIA) federal funds for accountholders who will turn 18 and make an asset purchase within a few years of enrolling in the program.

IDA programs targeted specifically to foster youth may be able to take advantage of existing federal funding for the Chafee Foster Care Independence Program (CFCIP), which supports “independent” living skills for foster youth aging out of the system. Among other things, CFCIP makes vouchers for postsecondary education and training available to youth who have aged out of foster care.¹ These Education and Training Vouchers (ETVs) can provide up to \$5,000 per year. ETVs can supplement a foster youth's savings for college or training or might free up these funds for alternative asset purchases, such as buying a home or starting a business. In addition, the Chafee program allows states flexibility in defining the population in need and in determining the design and delivery of state independent living programs. Chafee funds can be used for a wide

variety of services, including helping foster youth to prepare for postsecondary education and providing training in financial skills. Some states (such as Michigan and Iowa) have recognized this opportunity and are already funding matched savings programs for foster youth with Chafee funds. For more information on Chafee funding and matched savings accounts, see CFED's April 2007 working paper, *Federal Chafee Funds and State Matched Savings Programs for Foster Youth*, available at http://www.cfed.org/knowledge_center/publications/savings_financial_security/federal_chafee_funds_and_state_matched_savings_programs_for_foster_youth_a_seed_working_paper/index.html.

Depending on the account vehicle selected, your accountholders may be able to receive matching funds through the federal Saver's Credit, which provides a tax credit for deposits made to retirement accounts.²

You may also consider seeking state-level public funding sources for your program. State agencies may have flexible funding that can be used to help fund your CSA initiative. Consider agencies and departments that handle health and human services, education, child services, workforce development and others depending on the focus of your program.

Making the Pitch

Not only are there a variety of potential funders, there are also a variety of techniques to raise funds for your program. Tailor your approach for each prospective funder, based on that funder's interests, capabilities and constraints. Regardless of which approach you employ, it will be to your advantage to make sure that every appeal is made by someone who is genuinely knowledgeable about CSAs, asset building, and your particular program. This will enhance the credibility, accuracy, and persuasiveness of your appeal in both obvious and more subtle ways. Often, a team (for example, a staff person and a board member, or a program person and an executive) will be effective. Possible fundraising techniques include in-person appeals, written proposals, special events, informational meetings and introductions, and direct mail.³ Remember that effective fundraising takes expertise. If your organization does not have fundraising capacity, consider engaging the services of trained volunteers, consultants, board members and other qualified resource development professionals.

Finally, remember that a good management strategy will include the development of a plan to meet fundraising targets. The plan should include research and identification of likely funding prospects, clear assignments and timeline, and identification of resources to carry out the plan. Funders want to know that your organization has the capability to effectively carry out the program you propose. Because CSA programs are long-term by nature, your fundraising plan should reflect this reality and identify funding sources and strategies that will be stable and available over the life of the program.

Checklist: Questions and Considerations

- Which funders are most likely to be interested in funding your CSA initiative?
- What sources of funds exist already to support similar initiatives at the state and federal level?
- What should your program know about a potential funder before soliciting support?
- What level of funding might interested funders be able to provide?
- How might the interest(s) of various funders influence the design of your CSA initiative?
- What means can your program use to approach potential funding sources?

Considerations for Larger-Scale Efforts

Although smaller-scale CSA programs may be funded solely by foundations and other private sources of funds, most larger-scale efforts will likely need to secure a source of significant public dollars, especially to continue operations over

the long term. Consider contacting state-level agencies to determine whether there are sources of flexible funding that could be directed toward a CSA initiative. Also, consider tapping into existing federal and state funding sources for IDAs, matched 529 plans and foster youth.

Considerations for Low-Income Populations

Charitable foundations will be particularly interested in CSA initiatives that support low-income children and families. Existing streams of public dollars that are targeted to low-income households, such as TANF and Community Development Block Grant (CDBG) funds, are worth exploring for CSA initiatives, but be aware of eligibility requirements that may make these funds cumbersome to work with.

Budgeting

Developing a sound budget for your CSA program or initiative is critical from both a fundraising and a management perspective. Potential funders will want to know the total cost of your CSA initiative and how the costs break down into various line items. Once you've begun operations, an accurate budget is one of the most useful management tools to help the initiative to operate successfully and ensure that it can be sustained in the long run.

Savings Incentives

The major variable in the cost of a CSA program or initiative is the nature of the account and match design – the number of accounts planned, the amount to be matched, the match rate, and the number of years that accounts will be eligible for matches. For more on this topic, see Chapter 6 on *Savings Incentives*.

In addition, several other variables must be established or estimated before you can create the budget: the number of participants your program will enroll, the length of time each participant is expected to save, the dates different



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CSA Selling Points

CSAs are remarkable in the breadth and range of their appeal. You can highlight several attractive features of your program to virtually any potential funder. Different appeals will strike a chord with different funders. The following list of CSA selling points can help you start thinking about what might make your CSA program attractive and exciting to potential funders.

CSA programs:

- Promote long-term economic mobility and independence
- Are innovative
- Enjoy bipartisan support
- Build on the proven success of IDAs, microenterprise and homeownership programs
- Build financial knowledge and skills for children and adults
- Can help participants realize their goals of postsecondary education, stable employment, homeownership and business development
- Provide hope for the future to people at a young age
- Deliver measurable outcomes
- Are not handouts to poor people
- For more CSA selling points based on recent research from the SEED Initiative, refer to the publication “Why Children’s Development Accounts” and the August 2008 edition of *Growing Knowledge from SEED*, available in the Online Resource Guide.

groups of participants will begin saving, and the percentage of participants expected to leave your program before qualifying to receive match funds. In other words, not only should you quantify *how much* match funding your program will require, but also *when* your participants will earn match funds. CSA programs should maintain adequate reserves for possible account matches.

Operating Funds

In addition to savings incentives, other key expenses that will need to be incorporated into the budget include staff costs, consulting fees to retain key partners (such as providers of financial education training), occupancy, supplies and materials, utilities and services, travel, technology and other expenses. Another consideration of the operating budget is when the expenses are likely to occur in the life of your program. Some costs, such as salaries and occupancy, are likely to be fairly consistent or rise slightly over time. Other expenses may be concentrated at the beginning of your program.

The sponsoring organization should have at least one year's operating funds banked or committed in writing. Such funds should be adequate to sustain all services associated with running a quality CSA program. In-kind contributions, including volunteer services, may count toward meeting this goal.

A healthy allowance for start-up costs should be built in to the budget. Given that most of the first year will be devoted to setting up the program, approximately 50-75% of your time and expenditures will likely be spent on program development, and only about 25-50% on accountholder services. In subsequent years, you should expect that the percentage devoted to direct services will increase to at least 50% of the budget, even while the cost of servicing each accountholder drops. Another significant start-up cost is for fundraising, whether by staff, volunteers, consultants, or some combination.

As you consider an operating budget, bear in mind that most funders will respond more favorably to CSA programs whose matching funds budget exceeds its operating budget. Be mindful of the relative size of an operating budget, often perceived as simply "overhead," and a matching funds budget, easily recognizable as money that will directly benefit CSA participants. For example, programs should differentiate between operating funds and funds for programmatic services, such as financial education, as these services directly benefit accountholders in the program as well. Finally, ensure that your budget includes a contingency plan in the event that funder commitments do not materialize or are lower than expected.

For more on how to create a program budget, reference the IDA Program Design Handbook, available in the Online Resource Guide.

Checklist: Questions and Considerations

- How many staff will be involved in your CSA program?
- What are the start-up costs?
- What will the savings incentives look like?
- What will be your budget for operating funds?

Chapter Endnotes

¹ See www.nrcys.ou.edu/yd/programs/chafee.html.

² For more information about the Saver's Credit, including efforts to expand the credit to include 529s and Coverdells, visit www.cfed.org.

³ Refer to *IDA Program Design Handbook* for more information.

Glossary

Below are some key terms you will find in this guide:

account incentives: See “savings incentives.”

account vehicle: The account vehicle, or structure of the CSA, refers to what the account itself will look like. There are many options for the account vehicle, including simple savings accounts, 529s, IRAs and others.

asset limit: An asset limit is a restriction placed on the amount of countable assets an individual or household may own or have available in order to be eligible for and receive public assistance.

asset poverty: When a family is not able to support itself at the poverty line for three months through available savings and saleable assets in the event of the loss of a job or regular earned income.

assets: For the purpose of CSA and IDA programs, assets are usually defined as postsecondary education and training, business start-up or expansion, home purchase or substantial home improvement or retirement savings. Some CSAs allow purchase of cars, computers, first and last month’s rent, and other uses.

benchmark incentives: Incentives paid on the achievement of some established benchmark, which may range from an age or birthday to completion of financial education or high school.

CSA: Children’s Savings Account – also referred to as Children’s Development Accounts (CDAs) or SEED Accounts – are matched long-term savings and investment accounts established at birth and allowed to grow over the course of a lifetime. Seeded with an initial deposit of up to \$1,000 and built by deposits from family, friends and accountholders themselves, as well as augmented by other public and private sources, savings are restricted for the primary purposes of financing education or job training, starting a small business, or buying a home. Also referred to as KIDS accounts and Baby Bonds in U.S. policy proposals.

CFED: The Corporation for Enterprise Development, established in 1979, is a national nonprofit that expands economic opportunity. CFED coordinated the SEED Initiative by raising funds, recruiting and managing community partners, providing technical assistance, sponsoring learning conferences, managing finances, developing and advocating policies, and promoting public education by disseminating research and practice experiences.

children: Though many definitions exist, for the purposes of this guide, children are young people age 13 or younger.

community partner: Twelve community partners participated in the SEED Initiative and ran CSA programs in their communities. Most community partners were community based organizations with existing relationships with local children and families.

Coverdell education savings accounts: Formerly known as education IRAs, Coverdell ESAs are tax-sheltered accounts established under the Uniform Transfers to Minors Act (UTMA), with the child as beneficiary and the bank or financial institution as custodian. An adult, generally a parent or guardian, is designated as a “responsible individual” in charge of making decisions about the account. There is a limit on the amount that an individual can contribute for any one

designated beneficiary and a limit on the amount that can be contributed each year. Contributions can be made only for children younger than age 18, and the balance in the account must be spent or rolled over to another eligible beneficiary by the time the beneficiary reaches age 30.

EFC: The Expected Family Contribution is the amount that students and families are assumed to contribute to tuition when receiving financial aid. The EFC is based on a number of factors, including family size, income, expenses and assets and is calculated by the financial aid office with an EFC formula.

financial institution: A financial institution is a bank, thrift or credit union.

529 college savings account: 529 accounts (so named after the relevant section of the tax code, and also known as Qualified Tuition Plans) are state-sponsored education savings plans that offer tax-sheltered savings for educational expenses only.

IDA: An Individual Development Account is a matched savings account consisting of two parallel accounts: a personal account into which an individual deposits his or her own savings and a match account into which third parties make deposits to match the deposits and interest earned in the personal account. An IDA is restricted to investment in high-return, productive assets such as first-time home purchase, postsecondary or career-enhancing education and training, and small business capital. IDAs are the most common current form of matched savings program.

initial deposits: Also known as “seed deposits,” these are lump sum endowments usually deposited to start accounts and spark interest, used most widely with children’s accounts.

match: Also known as “savings match,” this is the practice of offering an amount equal to or a multiple of the savings deposited by accountholders. It is the most widely used, and arguably the most effective, incentive in inducing savings.

match caps: The maximum amount of accountholder savings that will be matched through an IDA or CSA program. Match caps may be set on an annual or lifetime basis.

match rate: The ratio of match to savings at which deposits are matched. IDA program match rates are generally 1:1 or more, and have gone as high as 9:1; the match in the SEED Demonstration was 1:1, but the account included an initial deposit and benchmark incentives. Research on IDAs has shown that higher match rates – at least rates higher than 2:1 or 3:1 – keep accountholders from becoming inactive, but do not increase savings levels.

MIS: A Management Information System (MIS) is a software package that tracks and manages data on different aspects of a CSA program including account activity, match calculations and other incentives, and participation in program activities. There are several options for such software packages.

savings incentives: Also known as “account incentives.” In SEED, three different kinds of savings incentives were used: initial deposits, savings matches and benchmark deposits.

savings matches: See “match.”

SEED account: See “CSAs.”

SEED Initiative: The Saving for Education, Entrepreneurship and Downpayment (SEED) Initiative is a multiyear national initiative to develop, test and impel matched savings accounts and financial education for children and youth. The initiative seeks to set the stage for universal, progressive American policy for asset building by bringing together national and community partners to design, administer and document specific aspects of children’s savings programs. SEED began full operation in 2003.

SEED program coordinator: In the SEED Initiative, there was a program coordinator at each community site. This person managed all SEED activities at the site and acted as a liaison between the SEED families and CFED.

target population: The target population of a CSA is the group of participants with whom the CSA program plans to work. This is important to consider when determining marketing, account vehicle, and other design elements of a CSA program.

traditional and Roth IRAs: Individual Retirement Accounts are tax-sheltered savings instruments that are designed to provide retirement income, but allow for early withdrawals for education, home purchase and other purposes.

youth: Though many definitions exist, for the purposes of this guide, youth are young people ages 14-22.



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