Baby Talk: Children’s Savings Accounts Mark New Frontier in Paying for College

by Anthony Poore and Colleen Quint
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There is a growing national conversation about the role of Children’s Savings Accounts (CSAs) in building assets and creating opportunities for the next generation of students—and New England is right in the middle of it. In many respects, New England is leading the way.

Through the support of the Federal Reserve Bank of Boston’s Regional & Community Outreach Department and the experience of Maine’s Harold Alfond College Challenge, there is palpable energy and momentum on this issue.

What is it about CSAs that is drawing such attention? CSAs are long-term asset-building accounts established for children, as early as birth, which then grow over the child’s lifetime and are used to finance qualified higher education, including community colleges and trade schools. There are two different product models: a deposit-only savings account offered by traditional lenders and the most widely adopted model, a 529 tax-advantaged investing plan offered by most states for qualified postsecondary-education expenses. Interest is mounting in emerging examples where either of these models are combined with seed deposits and savings matches or other incentives to encourage positive savings behaviors.

Both the practical and aspirational benefits of CSAs have the potential to significantly boost college-going, particularly for lower-income individuals. Real money in real accounts means families have greater confidence that they can find a way to make education after high school an option for their children. And that confidence can add new energy to the dinner-table conversations about the importance of what children are doing in school now and how education can open doors for them in the future. A recent study completed by the [Assets & Education Initiative](http://aedi.ku.edu/) at the University of Kansas found that college savings—even savings of less than $500—increase college entry for low- and moderate-income students. Low- and moderate-income students with savings are [three times more likely to enroll](http://www2.leg.state.vt.us/CommitteeDocs/2014/Vermont%20Child%20Poverty%20Council/Universal%20Children%60s%20Savings%20Account/W~Anthony%20Poore~Today%C2%A6%20Two%20Paths%20to%20Higher%20Ed~7-1-2014.pdf)in college and four times more likely to graduate from college than students with no savings.

In 2008, Maine’s Harold Alfond College Challenge made a commitment to invest $500 for college for every Maine resident newborn whose parents chose to open a 529 NextGen college investing account (Maine’s 529 plan) by the baby’s first birthday. In the first five years of the program, nearly 23,000 children benefited from the grant, as about 45% signed on to the opt-in model.

This past spring, the Alfond Scholarship Foundation, which manages the College Challenge, announced its first-in-the-nation approach to automatically invest the $500 Alfond Grant at birth for all babies born as Maine residents, dropping the requirement that parents open their own account. By the end of October, the program had invested over $20 million on behalf of more than 40,000 Maine children since the inception of the program—and it expects to add an estimated $6 million more for an additional 12,000 Maine babies each year.

The excitement about Maine’s program has prompted not only conversation but action in the other New England states.

Following a national conference last spring on CSAs sponsored by the Corporation for Enterprise Development ([CFED](http://cfed.org/)) and after some initial success by the states, the Federal Reserve Bank of Boston convened representatives from the New England states to assess interest in working collaboratively to advance their state’s CSA initiatives and develop regional strategies.

The idea is to leverage the region’s unique identity, take advantage of the inherent competitive nature of the New England states (“if they do it, so can we”), and build on Maine’s experience.

The New England Children’s Savings Account Consortium includes representatives from Maine’s Alfond Scholarship Foundation, New Hampshire’s Legislature (specifically, the state’s Education Committee chair), New Hampshire’s Affordable Housing Education & Development (AHEAD) Program, Rhode Island’s State Treasurer’s Office, the Rhode Island Higher Education Assistance Authority, Connecticut’s State Treasurer’s Office and the Governor’s Office, Vermont’s Office of Economic Opportunity and Vermont’s Capstone Community Action.

The New England Consortium reinforces the interest of the Boston Fed in promoting economic opportunities for New England families and creates a venue for the states to serve as a resource for one another.

The Consortium began its conversation by level-setting the understanding of CSAs and their potential role in asset-building and educational and economic opportunities, especially for low-income families. New England’s changing demographic composition and the technical skills required by many of today’s employers have helped to create a sense of urgency for this work.

The Consortium has identified champions in each state and provided half-day consulting sessions regarding Maine’s experience. The sessions focus on practical and policy considerations in CSA program design, with discussion of the unique opportunities and challenges in each state. These sessions also explore opportunities for public-private partnerships in both conceptualization and operationalization of programs.

So what’s happening in each of the New England states now?

* **Maine.** The Alfond Scholarship Foundation made changes to its CSA program in March, making Maine the first state to make college savings for newborns universal and automatic. Families get information about the program through the College Challenge website [www.500ForBaby.org](http://www.500forbaby.org/).
* **New Hampshire.** State Rep. and House Education Committee Chair Mary Gile sponsored and worked to pass [NH HB 1146](http://www.gencourt.state.nh.us/legislation/2014/HB1146.html). This act establishes a committee to study the feasibility of creating, structuring, managing, marketing and funding a program that helps children in kindergarten to college (or career readiness) and features a universal college-savings account to promote individual financial literacy among low- and moderate-income families. A report is due on the governor’s desk Nov. 1.
* **Vermont.** State Rep. and Poverty Council Chair Jill Krowinski is considering the introduction of a CSA bill next legislative session with support from the Vermont Office of Economic Opportunity. A statewide convening on CSAs and their potential impact took place at the Vermont Statehouse in late October
* **Connecticut.** Gov. Dannel Malloy recently established the [CHET Baby Scholars Fund](https://www.aboutchet.com/), which will deposit $100 into a Connecticut Higher Education Trust (CHET) account for children born or adopted on or after Jan. 1, 2014. A second deposit of $150 will be made if family and friends add at least $150 to the child’s enrolled CHET account within four years.
* **Rhode Island.** State Treasurer Gina Raimondo has actively pursued a broad universal CSA agenda and plans to launch the first phase of Rhode Island’s CSA Initiative Jan. 1, 2015. Every baby born or adopted as a Rhode Island resident on or after July 1, 2010 will be eligible to receive a one-time $100 contribution to a [CollegeBound Baby](http://www.alliancebernstein.com/ri/home.aspx?nid=11691&sid=46)fund account.
* **Massachusetts**. The Boston Fed has received inquiries by municipal governments and state legislators interested in learning more about the model.

What’s next on the horizon? Clearly, the Consortium will continue to support the New England states as they consider opportunities to make CSAs available at scale to serve the highest number of children possible in the most efficient way. This is especially important in an era of declining state resources. In addition, the Boston Fed hopes to work with William Elliott III, an associate professor at KU’s School of Social Welfare and founder of its [Assets & Education Initiative](http://aedi.ku.edu/), to help states think about outcome and impact measures New England states can use to monitor their progress on intermediate objectives and long-term goals, to analyze the potential as well as limitations of state CSA policies, as well as conduct other long-term research and assess New England states’ capacity-building efforts.

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