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Session 3C Paper 1: Asset Building for Education: Financial Outcomes in a Child Development Account Experiment in the United States

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Extended Abstract: Child Development Accounts (CDAs) are a foothold on a policy of universal and lifelong asset building that includes all children as early as birth. CDAs are theorized to positively affect child development, specifically preparation for postsecondary education. This study reports on a CDA experiment with a random sample of newborns in a full state population in the United States. It uses a College Savings (529) Plan as a policy platform. Previously published research on the experiment has found that the CDA policy generates positive financial outcomes. This paper updates financial outcomes on asset-building accounts and balances 12 years into the experiment in 2019.

Using administrative data from the 529 college plan in 2019 (N = 2,704), we examine the following financial outcomes: (a) whether the child is a beneficiary of 529 account (Yes/No), (b) the total balance across all 529 accounts for which the child is the beneficiary ($), (c) whether the child is the beneficiary of an 529 account opened by a parent (Yes/No), and (d) the balance across all parent-owned 529 accounts for the child ($). Total asset accumulation is of primary interest. The independent variable is the CDA policy treatment status (1=Treatment and 0=Control). Based on successful randomization, we apply weighted bivariate analyses to examine different financial outcomes by treatment status.

The CDA has a very large impact on overall 529 account holding. Altogether, 99.9% of treatment children have a 529 account, versus 4.5% of control children. The mean balance across all 529 accounts for treatment children ($3,243) is 3.4 times that for control children ($952). After 12 years, the mean earnings in all 529 accounts for treatment children ($1,286) is 3.7 times that for control children ($349). These treatment–control differences are statistically significant at the .001 level. Moreover, CDA impacts on account holding and total asset accumulation are larger for disadvantaged groups (low income, low education, and racial minority groups). Treatment children (17.3%) are 5.2 times more likely than control children (3.3%) to be the beneficiary of a parent-owned account ($p < .001$). The mean balance is higher in the parent-owned accounts for treatment children than in those for control children, but this difference is not statistically significant at the .10 level.

As a policy model, the CDA in SEED OK has demonstrated that it is possible to use birth records to automatically include every child at birth, to use a transformed state 529 plan as the financial platform, and to provide more funding to disadvantaged children. The findings support our hypotheses regarding total 529 account holding and balances. As expected, the CDA continues to have a large impact on overall 529 account holding. The CDA also has a large

impact on 529 balances, and the gap between treatment and control children has increased over time. Persistence of these desired financial outcomes can be expected to increase educational affordability and eventual educational attainment.