

Cleveland Federal Reserve Bank's Policy Summit

Taking stock of ten years of research on
assets and children's educational outcomes:
Implications for theory, policy
and intervention

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Overview of Presentation

- Part I
 - Academic achievement
- Part II
 - College attainment
- Part III
 - Explaining indirect effects
- Part IV
 - Policy Innovations



Part I: Academic achievement

- Academic achievement
 - Researchers examining the household assets/education attainment relationship more consistently find a positive association between household assets and children's math achievement than they do between household assets and reading achievement



Household Assets: Math Achievement

- Findings vary by:
 - Type of asset,
 - Age of child, and
 - Race



Household Assets: Math Achievement, Type of Asset

- Net worth and liquid assets are consistent predictors of children's math achievement
- There is little evidence to suggest that illiquid assets are significant predictors of math achievement



Household Assets: Math Achievement, Age

- Among children younger than 6, no asset examined is significantly related to children's math achievement
- Among children aged 6 to 14, net worth and liquid assets are generally significant positive predictors of math achievement



Math Achievement: Race

- Researchers have only examined household asset effects among Black and White children, to date
- May vary across racial groups depending on the type of asset
 - Williams Shanks (2007)
 - Black, stocks/IRAs
 - White, cash accounts and debt/credit cards



Children's Savings: Math Achievement

- In the two studies that use aggregate data, children's savings has a positive, significant association with math achievement
- When including children's savings, net worth and parents' savings are not significantly associated with math achievement



Children's Savings: Math Achievement

- Elliott, Jung, and Friedline (2010) provide some insight into why household assets may not be significantly related to math achievement when children's savings are included
 - Children's basic savings fully mediates the relationship between net worth and children's math achievement
 - However, the mediating relationship is moderated by net worth. That is, as net worth increases among children with basic savings, math achievement rises more sharply



Children's Savings: Math Achievement

- By race
 - Findings suggest that children's savings is a significant predictor of White but not Black children's math achievement
 - Far fewer Black children (26%) have savings of their own than White children (40%)
 - Missing data



Part II: College Attainment

Household Assets

- Overall, researchers find that household assets have a significant independent effect on whether children attend and ultimately graduate college
- However, findings among studies that include academic achievement as a control are mixed
 - Raises the question of whether household assets have an independent effect apart from academic achievement



Household Assets: College Attainment

- Huang, Guo, Kim, and Sherraden's (2010):
 - Early liquid assets (ages 2 to 10) work through children's academic ability to influence college attendance
 - Stronger for low-income
 - Late liquid assets (ages 14 to 19) important for short-term effects (i.e., paying for college)
 - Net worth, early net worth does not work through children's academic ability
 - However, late net worth does have a direct effect on college attendance



Household Assets: College Attainment

- Liquid forms of assets have been more predictive of college attendance than illiquid forms of assets, particularly when researchers control for children's academic achievement
- However, in the case of college graduation both liquid assets and net worth appear to be equally important
 - Given this, it appears that the liquid assets may be more valuable for preparing children for college but both net worth and liquid assets may be important for determining whether children who get to college, graduate.



Children's Savings: College Attainment

- There are four studies that focus on children's savings and college attainment.
 - Aggregate Findings
 - Are more likely to be on course
 - By race
 - Both Black and White children are more likely if they have savings of their own
 - By income level
 - Low-income (below \$50,000) are more likely
 - High-income (\$50,000 or above) not significant
 - Certain
 - Far more likely if they have savings



Household Assets: College Graduation

- Six college graduation studies
 - All but one study finds that net worth and when included financial asset are significant predictors of college graduation



Part III: Explaining Indirect Effects

- In addition to direct effects (e.g., savings effects children's educational outcomes) that accompany owning savings, asset researchers hypothesize that savings also has indirect effects,
 - In fact, one of the most compelling aspects of CDAs is their potential for changing how children think and act in regards to school.



College Expectations: Explaining Indirect Effects

- 13 studies explain indirect effects using expectations
 - Linking relationship
 - Mediating relationship
- Evidence
 - Asset → college expectations (parent/child)
 - Assets have a slightly stronger relationship
 - Two causation



College-Bound Identity Theory of Indirect Effects

- A college-bound identity theory of asset effects
 - Identity-Based Motivation (IBM) theory
 - Three principal components explain the relation between assets, college-bound identity and motivation:
 - 1) Identity salience
 - 2) Congruence with group identity, and
 - 3) Interpretation of difficulty



Part IV: Policy Innovations

- Combined approach, policies that seek to build both children's savings along with children's college-bound identity
 - In addition to promoting savings, they include aspects that help make children's college-bound identity salient, congruent with children's group identity, and that help children develop strategies for overcoming difficulties
 - Expanded financial education classes
 - For example, could teach children about the cost of college, about financial aid, and the role savings can play in meeting college costs



Policy Innovations

- Three-in-one account, for short-term, intermediate, and long-term education developmental needs
 - Funds would not be purely discretionary, there would be restriction confining the use to approved educational/human development uses



Policy Innovations

- Short-term accounts
 - Non-interest yielding and it would be used for such things as buying books, clothes, paying school- and after-school-related fees, paying for lessons, paying for tutoring, SAT/ACT prep, and so forth



Policy Innovations

- Intermediate accounts
 - Low-yield interest-bearing account that could be used for such things as beginning of the year school clothes or uniforms, buying an instrument, going on a field trip or study abroad, buying a computer, and so forth



Policy Innovations

- Long-term accounts (current CDAs)
 - High-yield interest-bearing, tax sheltered account used for paying for children's postsecondary education much like the account currently proposed in the ASPIRE Act



Policy Innovations

- Savings-linked CCTs (Incentives)
 - Ability to earn monetary incentives
 - Targeted at
 - Low-income
 - Strategies for doing well in school (e.g., homework, attending class, and assignments)



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Working Paper

- The paper for this presentation can be found at:
 - Elliott, W., Destin, M, and Friedline, T. Taking stock of ten years of research on the relationship between assets and children’s educational outcomes: implications for theory, policy and intervention. Posted as Center for Social Development Working Paper 11-14, available at:
<http://csd.wustl.edu/Publications/Documents/WP11-08.pdf>



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