



Building Social Capital One Dollar at a Time

Sporting a Scooby Dooby Doo sweatshirt, three-year-old Evan* walked into the classroom next to his mother, Debbie, while his twin sister Veronica followed, her pigtails sticking out behind her. The twins sat down quietly at the table while their mother set a slice of pizza before each of them.

As the twins ate, Debbie explained in a soft voice that she entered SEED to begin saving for her children's future. Between the twins and her thirteen-year-old daughter, she saw a heavy financial load when contemplating their college education. This program would provide her not only a down payment for the children's schooling but also further incentive to continue saving for their future.

Tonight, while Evan, Veronica, and other children listened to a story, their parents would learn how to read financial statements, and then together each parent and child would create a calendar outlining their goals for future deposits.

*not their real names

In his 1971 work *Blaming the Victim*, William Ryan pointed out that poverty, simply, is a lack of money. Today many of the people living in poverty, and especially the working poor, have no means or concept about how to build savings and consequently no wealth to transfer to subsequent generations.

In 1962 Michael Harrington wrote a book entitled *The Other America*, in which he noted that the poor were faced not only with a simple lack of money, but also with a lack of power—having little to no access to the political and social capital that comes with a certain financial standard of living, including business networks, political parties, and even the opportunity to vote.

The accumulation and transfer of wealth has long been seen as one determinant of the rich getting richer and the poor getting left behind. If one is unable to accumulate or transfer assets, the cycle of poverty is transferred to the next generation. Unfortunately, even with the success of some social programs, increases in

educational and employment opportunities, and tax relief, not much has changed in the years since Harrington and Ryan documented their observations.

One aspect that has changed is the approach to investigating and remedying the disparities between those with wealth and resultant social capital and those without. Trina Williams Shanks, assistant professor of social work, is currently leading the way in poverty disparities research as a co-investigator for a program entitled Saving for Education, Entrepreneurship, and Downpayment (SEED), “a 10-year national policy, practice, and research endeavor to develop, test, inform, and promote . . . financial education for children and youth” (CFED 2005).

On a basic level, SEED provides educational savings accounts—an initial contribution and matching funds—for participating children. Subsequent investments by parents or other means are typically matched at a 1:1 or 1:2 rate for a period of four years. The resulting monies, including interest earned, are then available for the child's educational needs.

The SEED program's theory is that by planting the seed of financial investment for a child's future, the outcome will yield benefits for the whole family, including greater involvement in the child's educational outcomes, a fundamental example about the importance of saving and financial goals, and the tangible result of savings enhanced by compound interest.

As Dr. Shanks testified during her invited testimony to the Senate Finance Committee Subcommittee on Social Security and Family Policy (April 2005), negative consequences for children living in familial poverty have been well-documented. Shanks sites two seminal works when discussing the concept of asset building: School of Social Work joint doctoral program graduate Michael Sherraden's 1991 study *Assets and the Poor*, and Oliver and Shapiro's 1995 *Black Wealth/White Wealth: A New Perspective on Racial Inequality*. While offering concrete ideas for tackling the issues of wealth disparities, the works also prompted Shanks to consider additional questions: What positive consequences will the accumulation of

familial wealth have for children? Will assets level the playing field for children, even if factors such as parental education, home environment, and the effects of a neighborhood remain constant? How will changes in assets affect outcomes?

Shanks frames her fundamental research questions in this context: How does household wealth impact the behavior and education of young children, and do racial disparities decline as wealth among races reaches an equilibrium? By examining a cross-section of families in different financial situations utilizing the established model of matched savings accounts, Shanks and her peer researchers in SEED hope to provide concrete answers for both Congress and society at large.

History

The concept of providing savings accounts and matching funds to combat poverty is not new.

Because most forms of income subsidies had the effect of allowing people to merely maintain survival at poverty level on a day-to-day basis, researchers began asking what would happen if funds were utilized instead to help build savings and further asset development. From this question came one possible answer: Individual Development Accounts, or IDAs.

Developed for adult volunteers, IDAs serve as a means for asset accumulation, economic education, and an investment into the participants' futures. IDA participants typically have incomes of less than twice the poverty level. Similar to SEED, initial contributions are matched, with resulting funds available for a house down payment, business investment, or education or job training.

Research on IDAs has proven them to be an effective tool to encourage and provide opportunities for people to invest in themselves. From a few initial locations, IDAs have become part of a larger umbrella program. According to George Warren Brown School of Social Work's (GWB-SSW) Center for Social Development (n.d.), as of January 2003:



John Emley

Head Start children listen to a story as their parents learn about savings accounts.

- ▶ Thirty states have included IDAs in their Temporary Assistance for Needy Families (TANF) plans.
- ▶ Thirty-four states, Washington, D.C., and Puerto Rico have passed some form of IDA legislation.
- ▶ Only six states have no known IDA activity.

Many Players, One Goal

The SEED program was conceptualized based in part upon the existing support data for IDAs. From IDA research, SEED partners put forth a very basic question: If saving is good, would starting to save at a younger age be better?

Convened as a team of associates, SEED partners include the Corporation for Enterprise Development (CFED), a nonprofit organization based in Washington D.C.; the Center for Social Development at GWB-SSW at Washington University in St. Louis (directed by Michael Sherraden); the Initiative on Financial Security of the Aspen Institute; the New America Foundation; and the University of Kansas School of Social Welfare. As leaders in the IDA movement, both CFED and the Center for Social Development were integral in the policy and legislation component of the program.

Funding for SEED comes from the generous support of many foundations. Shanks' work and SEED in general are supported by the Ford Foundation. Additional support comes from the Charles and Helen Schwab Foundation, the Edwin Gould Foundation for Children, the Evelyn and Walter Haas, Jr. Fund, the Ewing Marion Kauffman Foundation, the Richard and Rhoda Goldman Fund, the Jim Casey Youth Opportunities Initiative, the Charles Stewart Mott Foundation, the W.K. Kellogg Foundation, the MetLife Foundation, and the Citigroup Foundation.

Joining with the program partners and funders, community, policy, and educational entities throughout the United States participate in the design and administration of the savings accounts and in the dissemination of information, recruitment, and enrollment of participants.

Truly a Michigan Difference

Along with a unique partner, Shanks acts as co-investigator for the impact portion of SEED. Identified as the preschool demonstration and impact assessment

partner, Oakland Livingston Human Services Agency (OLHSA), located in Pontiac, Michigan, serves as the central location at which Shanks works with SEED staff, parents, and Head Start students. Shanks conducts survey research with a specific population of families at what is termed an experimental site, tracking 500 Head Start families who have SEED accounts, as well as a similar population in a control group who do not participate in the accounts.

Specific guidelines were established for the site's recruitment of participating Head Start families. Families with a three- or four-year-old child in the OLHSA Head Start Program were invited to enroll. According to Shanks, almost all participants' household incomes are below



Trina Williams Shanks, fourth from the left, with SEED staff in Pontiac, Michigan.

poverty level. Participating families were provided a Michigan 529 Educational Savings Plan, administered by the Michigan State Treasurer's Office: an initial contribution of \$800 from funding sources, and a \$200 match from the State of Michigan, with any additions to the fund to be matched 1:1 over a four-year period.

The initial \$1,000 total was invested through TIAA-CREF, a traditional education savings plan resource. Upon enrollment, children's parents or guardians were given a choice between investing the funds in a stock program or a guaranteed yield option. Both accrue interest tax-free for

the life of the account. While participants can shift their preference over the life of the program, most select the guaranteed yield option. The funds are not considered to be passbook savings, and there is a penalty of 10 percent for withdrawal or use for purposes other than education.

Shanks' research commenced in 2004. That fall, survey questionnaires were presented to both the savings and control groups. A follow-up questionnaire will be given in 2008. Besides tracking demographics, Shanks' research will examine numerous factors, both concrete and abstract, that may or may not affect the ability of a household to accumulate and transfer wealth, particularly in relation to a child's education, and also seeks to analyze any indicators that may predict savings. It cannot be ruled out that those who participate are predisposed to saving, a potentially important factor for consideration.

In addition to Shanks' work with Head Start children, other researchers are establishing accounts for cohorts at the elementary, middle school, and high school levels. Investigators hope to follow these children over time in order to compare the outcomes of investing at different ages, note what parents can and will do over time with educational options for their child, and potentially examine school engagement, behavioral problems, or other factors related to parent-child engagement.

A major aspect of Shank's investigation involves expectations. What are parents' expectations for their child's academic success? Are these expectations affected by the quality of the parent-child relationship, parental involvement, household stress (economic or other stressors), home ownership, income levels and/or stability, employment, or mental health issues? How do expectations change? Do expectations link to other social indicators or services, and if so, how? These are but a few of the crucial questions posed in

relation to how families plan for their child's future.

In the larger picture of the SEED program, the monies provided stand as an investment in positive expectations, with additional training or college education emerging as true opportunities, where once they may not have been a possibility. The factors that can make these opportunities a reality—including participation in the SEED accounts—or change a child's path entirely can provide crucial information about the role of wealth building and benefits for the entire family.

Costs and Benefits— Not Always About Money

At first blush, participation in both IDAs and SEED appears to be an incredible foundation for building wealth. Why would people not take advantage of this offering? The SEED-recruiting partners found several stumbling blocks when recruiting participating families. Some were reluctant to provide the personal and/or financial data required for participation. Others were afraid that this was just too good to be true or were wary of a potential scam. Still others were mistrustful of all banking/financial institutions, regardless of the legitimacy of SEED itself.

Logistics were also a barrier for many, some reporting that they lacked adequate additional funds to contribute, some concerned about contributing to a restricted account and ending up short in an emergency, and others who could not see a plan for their child's future when today's issues were foremost on their minds. Families who were receiving other forms of public assistance were concerned that accepting SEED funds might negatively affect their ability to receive other benefits.

Recruitment partners overcame many of these issues. After overhearing that a bank holding SEED accounts had been robbed on numerous occasions, program personnel noted that the trustworthiness and credibility of the institutions holding accounts played a crucial

role in participation. Some programs required that parents send in an initial contribution before receiving their \$800 deposit. Removing this condition resulted in an increased enrollment (CFED 2005).

A New Way of Thinking

Many of the SEED recruitment partners indicated that often the issues they saw boiled down to trust: whether parents mistrust formal institutions, the program, account holders, the opportunity SEED funds could provide for their child, or even their ability to have goals for themselves and their children. The issue of trust is a good example of Harrington's claim that with poverty comes the lack of social power. If people are not familiar with how to save or utilize savings vehicles, how financial systems work, or how assets represent more than being able to pay bills on a day-to-day basis, they lose power, perhaps faith, and certainly trust in how SEED and other programs could work for them.

Shanks hopes that SEED accounts and research will form a foundation of good financial habits in children and their families, teaching them how to save, take advantage of compound interest, and plan for financial emergencies, as well as providing hope for the future and expanding the range of possible options for the focal child and the family unit. "If they can save and make college education a reality, what else might be possible?" she asks. "Working together to reach a goal and knowing there will be support when attempting positive aspirations will hopefully motivate other positive risks."

The Future of Children's Savings Accounts

The future of children's savings accounts is now. In addition to the widespread support of the SEED program throughout the United States, those with the power to shape public policy have taken note and taken action.

Shanks' testimony to the Senate Finance Committee was followed one

week later by the re-introduction of the bipartisan America Saving for Personal Investment, Retirement, and Education Act (the ASPIRE Act of 2005). More recently, Senator Max Baucus, ranking member on the Senate Finance Committee, introduced the concept of Young Saver's Accounts, a ROTH IRA vehicle for children and their families to save for education, a home, or retirement (New America 2006).

Children's savings accounts are also spurring action in other countries around the globe. Great Britain has been a leading nation through their Child Trust Fund (CTF) program. In April 2005 the CTF began to provide each child born in Great Britain beginning in September 2002 with a voucher for £250, or approximately \$450 US, with which to start a savings account (Aspen 2004). More information on this and the American initiatives may be found on the Web sites listed at the end of this article.

Seeds Sown, Dreams Within Reach

It is clear that SEED has been built upon the empirical evidence that savings accounts are an effective tool in assisting low income and impoverished people to attain assets that provide security and subsequently inspire hope. With governments around the world taking note and creating policy centered on this vital initiative, Dr. Shanks, her colleagues in funding foundations, participating universities, and community organizations are quite literally planting the seeds of positive change in our society.

The implications of Shanks' work are far-reaching. In January of this year, the United States Commerce Department reported that savings for all Americans were at a dismal level, with a low unseen since the days of the Great Depression (Crutsinger 2006). Americans have found themselves in the position to learn the benefits of creating a stockpile of financial security. Lessons and answers from SEED

research have the potential not only to transform the educational aspirations and opportunities of low income children, but also to shape and inform the way all Americans invest in themselves, their children, and the future.

—Melissa Wiersema is special projects coordinator for the School of Social Work.

For More Information

www.ssw.umich.edu/faculty/profile-trwilli.html

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www.cfed.org/focus.m?parentid=31&siteid=288&id=288

gwbweb.wustl.edu/csd/SEED/SEED.htm

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