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The SEED for Oklahoma Kids Experiment: Initial Account Opening and Savings

By Robert Zager, Youngmi Kim, Yunju Nam, Margaret Clancy, & Michael Sherraden

The SEED for Oklahoma Kids experiment (SEED OK) is a large-scale study of universal Child Development Accounts (CDAs) with randomly-selected newborn children in the state. SEED OK aims to investigate the policy innovation of giving every child an account at birth and test whether participation has an impact on family attitudes and behaviors, saving for the child, and child development outcomes. Participants in SEED OK were randomly assigned to a treatment group or a control group.

CDAs are accounts for children that provide a structured opportunity to save and accumulate assets (Mason, Nam, Clancy, Kim, & Loke, 2010; Sherraden, 1991). These accounts may offer lifetime accumulation potential and positive psychological and behavioral effects, and have bipartisan political appeal (Sherraden & Stevens, 2010).

The SEED OK initiative targets every child, while particularly benefiting children from low- and moderate-income families. SEED OK automatically opened 529 Oklahoma College Savings Plan (OCSP) accounts with $1,000 for the children of all treatment participants and also provided information and monetary incentives for those participants to open and save in their own OCSP account.

Automatic account opening is essential because just having an account (regardless of savings levels) may lead to positive outcomes. SEED Michigan impact assessment participants expressed ownership of "our savings" even when the deposits had been made by others. There is also evidence that Individual Development Account owners are pleased to "own" their savings even if they have not deposited all or any of the money (Sherraden & McBride, 2010).

Savings and assets, in addition to their role as material resources, may affect outlook, expectations, and behavior, especially related to educational achievement. Evidence suggests that household assets, especially financial assets, have a positive association with children's educational attainment, including college education and completion (Conley, 1999; Elliott & Beverly, 2010a, 2010b; Keister, 2000; Nam & Huang, 2008; Williams Shanks & Destin, 2009; Zhan, 2006; Zhan & Sherraden, 2003, 2009, 2010).

Research Methods

Data come from 2007 birth records, Oklahoma College Savings Plan (OCSP)[1] account and savings records, and a baseline survey. Birth records provided by the Oklahoma State Department of Health contain some

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demographic characteristics of children and their parents. Quarterly OCSP savings data were delivered from January 1, 2008, through June 30, 2009, for all accounts owned for SEED OK children.

Baseline survey data were collected by RTI International (RTI) through telephone interviews with the mothers of sampled children.[2] The 2,704 mothers who completed the telephone interview are the study "participants." Overall, SEED OK participants are predominantly non-Hispanic Whites, but also include African-Americans, American Indians, and Hispanics (33% combined).[3] A little over half of participants (57%) have no more education than a high school diploma or GED. Average annual household income is about $40,089, but the median is lower ($25,500). Participants will be periodically assessed as the children grow up, with two more interview waves planned.

Following the baseline survey, participants were randomly assigned to treatment (n=1,358) and control (n=1,346) groups. The treatment and control groups do not systematically differ, at least for observed characteristics, except in terms of their access to the SEED OK treatment (Kim & Nam, 2009). This study estimates overall SEED OK impacts by comparing account opening rates and deposit amounts between the treatment and control groups.[4]

The SEED OK "Treatment"

The SEED OK intervention consists of incentives that encourage treatment participants to open and deposit into OCSP accounts (Table 1). All treatment participants: 1) received a $1,000 "seed" deposit in a state-owned OCSP account automatically opened for their child; 2) are encouraged to open their own OCSP account (with the opportunity for a time-limited $100 account opening incentive)[5]; and 3) are offered a match to savings in their OCSP account, if income eligible. Control participants do not receive these incentives.

This study covers savings in three different types of OCSP accounts. A single 529 account structure would be desirable. However, as an artifact of the SEED OK experiment and the existing state policy structure, multiple accounts are used. State-owned accounts contain the seed deposit and any savings matches for the SEED OK child. A participant-owned account may be opened by members of the treatment or control group. Family members—such as fathers, aunts, uncles, and grandparents—or friends may also open OCSP accounts, known as

Table 1: SEED OK Accounts and Incentives

Account Type	Treatment	Control
State-owned	Account opened automatically for child with $1,000 deposit.	No account for child.
Participant-owned	Account opening by participant encouraged.	Account may be opened by control participant.
	Time-limited $100 account opening incentive offered.	No information or incentives offered.
	Savings into own account is matched, if income eligible.	No savings match.
Other private	Family member, friend, etc. can open account for child.	Family member, friend, etc. can open account for child.
	No incentive from SEED OK.	No incentive from SEED OK.

Table 2: Savings Match for SEED OK Treatment Participants

Participant's Adjusted Gross Income (AGI)	Match Rate	With Yearly Deposits of:	Participant's Savings Is Matched:
Below $29,000	$1.00:$1.00	$25 to $250+	$25 to $250
$29,000 to $43,499	$0.50:$1.00	$25 to $250+	$12.50 to $125
$43,500 or more	Not eligible		

other private accounts, for the benefit of a child in the treatment or control group (Table 1).

The savings match, available from 2008 through 2011, is limited to $250 per year for treatment participants with a federal Adjusted Gross Income (AGI) below $29,000 (1:1 match) and to $125 per year for those with an AGI from $29,000 to $43,999 (0.5:1 match) (Table 2).[6]

To summarize, consider the fictional example of a child, William, born in Oklahoma in 2007, drawn in the SEED OK sample, and then randomly assigned to the treatment group. The state opened an OCSP account with a $1,000 deposit for William in early 2008. His mother, Marla, can open a participant-owned account for William and save in the OCSP for him. Marla's deposits would go into the participant-owned account. If she is income-eligible, a savings match would be deposited into the state-owned account for William. Finally, if William's grandmother, uncle, or a friend wishes to open an OCSP account for him, their accounts would be considered other private accounts, and would not be eligible for savings matches.

Findings and Discussion

SEED OK treatment impacts, in the form of account opening, deposits, and saving, are examined for each type of SEED OK account and for all accounts conceptually combined.

Impacts of SEED OK on OCSP Account Opening

» Among those who agreed to participate in the study and were assigned to the treatment group, automatic account opening was successful. Only one out of 1,361 treatment participants declined the initial state-owned account.

» About 16% of treatment participants (parents or guardians) opened their own OCSP 529 account (a participant-owned account), compared to 1% of controls.

» Few treatment or control participants had other private accounts opened for their children by grandparents, family members other than the participant, or friends.

» Participant-owned account openers are more likely than non-openers to be non-Hispanic White, have more education, own assets, or use direct deposit.

» Treatment participants' account opening rates were significantly higher than controls' regardless of race and Hispanic origin, gender, age, education level, marital status, household size, number of children in the household, income level, and asset and liability conditions. This pattern also held regardless of welfare receipt and poverty status.

By far the most important result in SEED OK is the 100% success of automatic account opening for treatment participants (one out of 1,361 declined the account). This demonstrates that near universal enrollment is possible, if it is automatic. In contrast, treatment participants opened their own OCSP accounts at a much lower rate, likely because they must complete a four-page application form that requires information and the selection of an investment option. Automatic account opening of a single integrated account for both private and incentive deposits would produce higher opening rates and be easier for participants to understand.

SEED OK had some success in prompting participants to open their own OCSP accounts. Treatment participants with various demographic and socioeconomic characteristics opened private accounts (especially participant-owned accounts).

Treatment group members were 18 times more likely than control group members to open participant-owned accounts. It is likely that incentives (a $100 account opening incentive deposit and the possibility of matches) and information motivated treatment participants to open accounts who would not have done so in the absence of SEED OK. The rate of account opening by other family members or friends did not differ significantly between the treatment and control groups, as expected, since SEED OK did not provide information or incentives to non-participants.

Impacts of SEED OK on Deposits and Savings

» Total SEED OK deposits were a little over $1.4 million for treatment participants and under $0.1 million for control participants. The difference is due largely to the initial $1,000 "seed" deposit for treatment participants.

» The average total deposit amount in all types of accounts is $1,080 for treatment participants and $40 for controls.

» Deposit amounts beyond the initial deposit were modest. However, for private accounts owned by participants (parents or guardians), treatment participants deposited an average of $47, versus $13 for controls.

» Just under 7% of SEED OK participants made private deposits into their OCSP account for their child. The comparable rate in the control group was 1%.

Average deposit amounts are significantly higher in the treatment group than the control group for every type of account, except for other private accounts. The average total deposit amount to all types of treatment accounts consists largely of SEED OK incentives.

The impacts of SEED OK on account opening and savings are statistically significant, but the proportion of participants opening accounts and the amounts of savings are modest. In a negative light, these could be interpreted as very small effects, perhaps not worth the trouble of setting up a new policy. In a positive light, the SEED OK demonstration provides clear evidence on the efficacy of automatic account opening and on seeding college savings for people who might otherwise not begin saving for college.

Policy Implications

Broadly, research suggests that costs, in time to fill out forms and to learn about a program, may deter some people from using desirable policies and programs, and that these costs may be higher for low-income individuals (Currie, 2004). More specifically, Michigan SEED impact assessment treatment participants had to fill out the Michigan Education Savings 529 Plan and SEED program forms to receive an $800 initial deposit, and 62% did so, many with considerable one-on-one attention (Williams Shanks, Johnson, & Nicoll, 2008). Turning to a state-wide example in Maine, eligible children must be enrolled in the NextGen 529 College Savings Plan within one year from birth to receive $500 from the Harold Alfond College Challenge (Clancy & Lassar, 2010). The early overall program enrollment rate is 21% among all eligible children, and analysis suggests that financially sophisticated parents may better understand the program rules and benefits and navigate the application process with greater ease (Huang & Beverly, forthcoming).

Similarly, participation in 401(k) plans is much higher when enrollment is automatic than when employees must choose to enroll (Madrian & Shea, 2001). For instance, Madrian and Shea find that, for workers earning less than $20,000, 401(k) enrollment jumps from 13% to 80% when enrollment becomes the default option. The 100% initial enrollment in SEED OK demonstrates that near universal enrollment is possible, if it is automatic.

A second point is that having an account may be about more than the money. Controlling for many other factors, including savings amounts, the presence of any savings account in a child's name is strongly associated with later fulfilling expectations to attend college. In other words, just the account itself, regardless of savings amounts, is associated with educational achievement (Elliott & Beverly, 2010a).

Thus, there is reason to be somewhat hopeful about the early results in SEED OK. The initial impacts are clear and essentially positive. The experiment has a solid methodological foundation, and we will be able to determine whether SEED OK contributes to later increases in savings and the level of asset accumulation, parents' aspirations, home environment and parenting practices, and child development.

The second wave of SEED OK survey data will likely be collected in 2011, with a third wave in 2014. With good fortune, researchers will follow the SEED OK children for many years to come, perhaps even all the way through the college and young adult years.

Endnotes

1. The OCSP is a state-sponsored 529 education savings program created to help families save for in-state and out-of-state eligible educational institutions, including public and private colleges and universities, graduate and post-graduate schools, community colleges, and certain proprietary and vocational schools.
2. In very rare circumstances, someone other than the mother or mother figure completed the interview. For these cases, the father, grandparents, older siblings, or other caregivers were interviewed (Marks, Rhodes, & Scheffler, 2008). Mothers were told that they had a 50-50 chance of receiving an OCSP account with $1,000 for their child if they agreed to participate in the SEED OK research study. They were also asked to provide their child's Social Security Number (SSN), which may have been a barrier to participation for some.
3. African Americans, American Indians, and Hispanics were oversampled to ensure sufficient statistical power for separate analyses for each group. We weighted the data with sample weights developed by RTI to adjust for the oversampling and also to adjust for non-participation bias, where SEED OK study participants

may not be identical to those who declined.

4. We use statistical tests that compare proportions of account openers (chi-square) and means of deposit amounts (t-test).
5. A $100 minimum initial contribution is normally required to open a new OCSP account, but to remove any financial barriers to account opening, SEED OK offered this contribution as a time-limited incentive.
6. Savings match eligibility is determined primarily by treatment participants' federal AGI, which is retrieved by the Oklahoma Tax Commission after a one-time return of a form granting permission. If the Tax Commission does not have record of a participant's tax return, eligibility is determined when the Oklahoma Department of Human Services verifies if the SEED OK participant received certain Department of Human Services benefits during the given year. Treatment participants receiving the Supplementary Nutrition Assistance Program (SNAP, formerly known as Food Stamps), Medicaid, or Temporary Assistance for Needy Families (TANF) benefits are eligible for the 1:1 match.

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Authors

Robert Zager, Senior Project Manager
zager@wustl.edu

Youngmi Kim, Post-Doctoral Research Associate
ykim@gwbmail.wustl.edu

Yunju Nam, Faculty Associate
yunjunam@buffalo.edu

Margaret Clancy, Policy Director
mclancy@wustl.edu

Michael Sherraden, Director
sherrad@wustl.edu

Contact Us

Margaret Clancy
mclancy@wustl.edu
(314) 935-8178

Center for Social Development
George Warren Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu

Washington University in St. Louis
George Warren Brown School of Social Work

CENTER FOR SOCIAL DEVELOPMENT
George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899