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Early Program Enrollment in a Statewide Child Development Account Program

College Savings Plans (529 plans) and Child Development Accounts (CDAs) are two policy tools designed to encourage families to save for college. In Maine, a statewide CDA program has been established using the state's 529 plan platform and offering a \$500 financial incentive for postsecondary education to every newborn. This program is designed to increase access to higher education by encouraging college savings at the beginning of a child's life. Survey data from eligible parents (N=437) suggest that the \$500 incentive was attractive and financially sophisticated parents were more likely to enroll their child. We conclude that financial incentives can increase enrollment in asset-building programs but are not the ideal strategy to achieve universal enrollment.

Key words: *financial incentives, college savings plans, 529s, universal enrollment, CDAs*

College education is a primary determinant of long-term economic success and a key mechanism of social mobility (Baum & Ma, 2007; Haveman & Wolfe, 1995; Kane, 2004). In 2005, the median earnings of a full-time worker with a four-year college degree were 62% higher than those of a full-time worker with only a high school diploma (\$50,900 vs. \$31,500) (Baum & Ma, 2007). However, college attendance rates differ substantially by household income. For example, in 2009, only 39% of young adults in the bottom household income quartile had at least some college education, compared to 48%, 57%, and 66% of those in the second, third, and highest quartiles (author calculation based on the 2009 Current Population Survey).

Some disparity in college attendance and completion rates can be explained by the increase in college costs. During the last three decades, college tuition and related costs have risen more rapidly than the inflation rate, while financial aid has shifted away from need-based aid toward a greater reliance on student loans (Condon & Prince, 2008; Kane, 2004). The total cost of college attendance (including room and board) for an in-state student at a public four-year college for the 2009-2010 school year was \$15,213. This is an increase of 5.9% from the prior school year (College Board, 2009). According to the College Board, the total cost of attending a public four-year college increased at least 5% annually in the first decade of the 21st century.

Saving for postsecondary education is an important strategy for financing college. A recent survey showed that college was one of the top saving priorities for families with a child under age 18, and more than 60% of these families had saved for a child's college education (Sallie Mae, 2009). To encourage families to save for college, the federal government created College Savings Plans in 1996. These plans—often called 529 plans after the relevant section of the Internal Revenue Code—were established by state governments and offer a limited selection of funds with a variety of risk and return characteristics. 529 plans have tax benefits: Qualified distributions from 529 plans were made exempt from federal and state taxes in 2001, and a large proportion of state plans allow annual state

tax deductions for qualified contributions (Clancy, 2001; Lassar, Clancy, & McClure, 2010; U.S. Department of Treasury, 2009).

Another policy tool designed to facilitate saving for college are Child Development Accounts (CDAs). First proposed by Sherraden (1991), CDA initiatives create savings or investment accounts for children, as early as at birth. Broader in scope than 529 plans, CDAs aim to encourage lifelong saving and asset building for long-term development. Typically, savings accumulated in CDAs may be used to purchase a first home, start a small business, or finance postsecondary education. CDA programs have been implemented around the world (Chowa & Ansong, 2009; Cramer & Newville, 2009; Meyer, Masa, & Zimmerman, 2009; Nam & Han 2009). The Child Trust Fund (CTF) in the United Kingdom, for example, was a universal CDA program providing families of every infant born between 2005 and 2011 a voucher worth £250 (approximately \$375), redeemable when parents opened a CTF savings account; low-income families were eligible for another £250 in this program.

In Maine, a statewide CDA program was established by Harold Alfond, a private philanthropist. The Harold Alfond College Challenge (the Alfond Challenge) is the most comprehensive CDA program in the United States (Clancy & Lassar, 2010). It is the first statewide initiative to provide college savings incentives for infants with a long-term vision of including every child in the state. It is built upon the state's 529 college savings plan structure and offers \$500 for postsecondary education to every newborn in the state. The goal is to increase access to higher education by encouraging college savings at birth and planning for college throughout a child's life.

This study examines early enrollment in the Alfond Challenge using survey data from parents of eligible children (both enrolled and not enrolled) in the state of Maine. The following questions will be examined: (1) What socio-demographic characteristics are associated with enrollment in this statewide CDA program? (2) What socio-demographic characteristics are associated with lack of awareness of the program? And (3) what program characteristics appear to be associated with enrollment decisions of parents? Because the Alfond Challenge combines elements of CDAs with the platform of a 529 plan, findings have implications for the design of a variety of asset-building programs.

Background

529 Plans

529 plans may be used to fund qualified college expenses, such as tuition, room and board, mandatory fees, and books. The beneficiary of a 529 plan may be an adult or a child, and the funds in a 529 plan may be transferred to a new beneficiary who is a family member of the previous beneficiary. Individuals may open a 529 plan in any state, and funds may be used for expenses in other states. For example, a Kansas resident may open a 529 account in Utah, and the funds may be used to pay for tuition at a college in North Carolina. There are 529s plans in all states and the District of Columbia (U.S. Department of the Treasury, 2009). These plans typically have a single program manager (e.g., TIAA-CREF or Upromise Investments), centralized accounting, and state oversight.

Participation in 529 plans grew rapidly after tax benefits were expanded in 2001. It is estimated that less than 3% of households with children had opened a 529 account by 2001 (Dynarski, 2004). This number increased to 8% by 2003 (Center for Social Development, 2009) and 13% by 2007 (author calculation based on the U.S. Department of the Treasury, 2009). Based on data from a telephone survey of 1,203 respondents, Sallie Mae (2009) estimated that 20% of parents with a child under the age of 18 had a 529 account in 2009. Total assets in 529 plans increased nine-fold between 2001 and 2007 from \$14 billion to \$130 billion (U.S. Department of the Treasury, 2009).

Some propose that 529 plans provide a promising platform to facilitate college saving for low- and moderate-income youth (Clancy, Orszag, & Sherraden, 2004; Sherraden, 2009). 529 plans may have the potential to increase college readiness (in part by changing families' expectations about college education early on), improve access to college, and increase college completion rates (Newville & Huelsman, 2009). However, participation rates for low- and moderate-income families are low in part because higher-income households receive greater tax benefits from the program. Data from the Survey of Consumer Finances (SCF) show that only 0.4% of households in the bottom income quintile participated in 529 plans in 2007 compared to 26% in the top income quintile (author calculation based on the U.S. Department of the Treasury, 2009).

Many states have made explicit efforts to encourage participation among low- and moderate-income families by offering matching contributions and promoting plans through workplaces. Other policy options aimed at encouraging participation by low- and moderate-income families include streamlined enrollment, default investment options, and partnerships with established programs designed to help low-income youth succeed in college (e.g., the Gaining Early Awareness and Readiness for Undergraduate Program) (Clancy, Lassar, & Taake, 2010; Clancy & Miller, 2009). These innovations show promise but are relatively new, and their impact on participation has not yet been evaluated. The Obama Administration has announced plans to thoroughly review existing 529 plans with the goal of making these initiatives more inclusive (White House Task Force on the Middle Class, 2010).

Child Development Accounts

CDAs are a promising policy tool for promoting savings very early in life. CDA programs differ from 529 plans in purpose and features. In addition to saving for a particular developmental goal, purposes for a CDA program may include fostering a habit of saving, increasing financial literacy and financial capability, reducing poverty, and increasing equity and opportunity (New America Foundation, 2008). Universality (i.e., aiming to provide an account for every child) is an important goal of CDA programs. Some CDA programs rely heavily on staff for recruiting participants, and some offer financial incentives such as “seed money” (initial deposits) or matching grants for individual contributions.

Some CDA programs automatically enroll children unless parents opt out of participation. For example, between 2005 and 2007, 75% of parents of newborns in the United Kingdom opened a Child Trust Fund (CTF) account before the one-year deadline (Cramer, 2007). After expiration of the deadline, a CTF account was opened automatically by the government using the default account option. In a CDA policy and research experiment named SEED for Oklahoma Kids (SEED OK),

about 1,400 randomly selected parents of newborns were eligible to receive a \$1,000 deposit in a state-owned account for their infants. This account was opened automatically by the state government unless parents opted out. Only one eligible parent declined the account for religious reasons. Low- and moderate-income parents in this treatment group were eligible to receive up to \$1,000 in match money over four years for personal contributions to a separate, participant-owned account. About 15% of eligible parents opened participant-owned accounts (Nam, Kim, Clancy, Zager, & Sherraden, in press).

So far, the pattern for CDA participation is similar to the pattern for 529 plan participation: Advantaged families are more likely to enroll. In SEED OK, those who opened participant-owned accounts had, on average, greater income and assets, more education, better financial management skills, and higher education expectations for their children. Married parents and white parents were also more likely to open a participant-owned account (Zager, et al., 2011).

The Harold Alfond College Challenge Program

The Harold Alfond College Challenge has elements of CDA programs and 529 plans. Like some CDA programs, it offers an investment account to every newborn with financial subsidies for approved purposes. The Alfond Challenge is built upon Maine's 529 college savings plan (NextGen) and administered by the Finance Authority of Maine (FAME), which also administers NextGen. To receive the Alfond Challenge funds, the child must be enrolled in NextGen before his or her first birthday (Clancy & Lassar, 2010). Usually a parent enrolls the child, but anyone 18 years or older, regardless of residency, may open a NextGen account on behalf of a Maine resident child. To enroll a child, applicants typically complete a short inquiry form requesting an enrollment kit with a NextGen account application (the inquiry step) and then mail completed NextGen enrollment forms back to FAME (the enrollment step). FAME mails inquiry forms to new parents. The forms are also available online and at hospitals, doctors' offices, and libraries.

After enrollment, the \$500 Alfond Challenge grant is placed in an age-based fund that automatically changes the investment mix as the child ages. This grant and its earnings may be used only for qualified expenses at eligible in-state and out-of-state colleges, community colleges, and vocational schools. Account holders may, but are not required to, make contributions to the account. Contributions made by the account holder are deposited in an investment that is separate from the \$500 grant. Six investment options are available, and applicants who do not select an option when they open the NextGen account are automatically invested in an age-based fund. Account holders may withdraw their personal contributions at any time for purposes other than higher education. The earnings portion of the withdrawal is subject to federal and state income tax and a 10% federal penalty.

The Alfond Challenge was implemented in two phases. In the pilot year of 2008, only children born in two hospitals affiliated with Maine General Medical Center were eligible. FAME worked closely with the OB/GYN practices and hospital staff encouraging mothers to enroll in the Alfond program and offering assistance with applications. Physicians provided program information and inquiry forms to pregnant women. Hospital staff followed up, offering help completing the

application form via phone call or during a home visit. The program was implemented statewide in 2009, but the “hands on” recruitment could not be sustained at scale (Clancy & Lassar, 2010).

Methods

Data Source and Sample

This study uses survey data collected by Pan Atlantic SMS Group (PASMS) and FAME in August 2009 (Pan Atlantic SMS Group, 2009). A survey of parents whose children were eligible for the Alford Challenge was part of an effort by the program to develop effective promotional and communication strategies to encourage participation. Survey questions covered household characteristics and the parent’s perception of and experiences in the program. An estimated 7,700 families were eligible for the program when the survey sample was created in mid-July, 2010. Of these, 762 (10%) had enrolled in the program, 3,500 (45%) had inquired about the program but had not yet enrolled, and the remaining 3,438 (45%) had neither enrolled nor inquired. Although children, not parents, are enrolled in the program, we refer to these three groups as the enrolled, the inquired, and the never-inquired. These terms correspond to the two-step enrollment process of the Alford Challenge. The goal was to interview 200 parents in each of these three groups.

PASMS randomly selected members of the enrolled group from a complete list of enrolled families provided by FAME. Of 236 attempted telephone interviews, 209 were completed, yielding a response rate of 89%. PASMS and FAME attempted to collect data from the inquired group through an online survey. Those who had inquired about but had not yet enrolled in the Alford Challenge and provided FAME with an e-mail address ($n=2,224$) were invited to participate in the survey. Of these, 128 completed the survey questionnaire. To supplement the inquired sample and collect data from the never-inquired, PASMS conducted additional telephone interviews with parents randomly sampled from a list of about 5,500 babies born throughout Maine between January and July, 2009, and about 1,200 babies born at Maine General Medical Center in 2008. Two hundred interviews were completed with parents who had never inquired about the program and another 96 interviews with parents who had inquired. A total of 136 people refused to participate in the survey. As such, the sample consisted of 633 parents: 209 who were enrolled, 224 who had inquired, and 200 who had never inquired.

Parents of children eligible for the Alford Challenge in the 2008 pilot phase (i.e., children born in 2008 at Maine General Medical Center) also were included in this sample but excluded from this study ($n=150$, 24%) because they were likely to have received greater outreach and greater assistance from program staff during the enrollment process compared to parents of children born in 2009 when the program was implemented statewide. In addition, 46 parents (7%) whose children had missing age values were excluded from the sample because their birth years were not clear. The final sample, therefore, consists of 437 parents whose children were eligible for the Alford Challenge after statewide implementation. It includes 63 enrolled, 199 inquired, and 175 never-inquired.

Variables

Dependent variable. The dependent variable is program enrollment status at the time of the interview. This variable has four mutually exclusive categories: enrolled, inquired, aware, and unaware. The last two categories are subgroups of the never-inquired group; this distinction is useful because parents who were aware of the program may differ in a variety of ways from those who were not.

Independent variables. In order to examine the possible determinants of application status, three groups of independent variables are modeled—child characteristics, characteristics of the parent interviewed, and household assets. Child characteristics are age (in months) and whether the child has siblings. Parent characteristics include age (younger than 26, 26-30, 31-35, or 36 and older), gender, marital status (married, single, or living with partner), education (high school degree or less, some college, two-year degree, four-year degree, or some graduate education or above), household income (less than \$30,000, \$30,000- \$49,999, \$50,000-\$74,999, or \$75,000 and above), and the perceived importance of college for the child (very important or otherwise). Household assets are measured with a set of dichotomous variables indicating whether household members own a home (1=yes, 0=no) and have a checking or savings account (1=yes, 0=no), a retirement savings account (1=yes, 0=no), stocks or bonds (1=yes, 0=no), and a financial advisor (1=yes, 0=no).

Analytic Strategy

We first examine univariate statistics to describe the overall sample and summarize subgroups by program enrollment status. Next, we use multinomial logit models (MNLMs) to identify variables associated with program enrollment status and awareness of the program, when all other variables in the model are controlled for. Listwise deletion is used in multivariate analysis, resulting in the sample size of 398. Finally, we examine survey data related to parent perceptions of the Alford Challenge to identify program characteristics that seem to be associated with enrollment. To improve the generalizability of the study results to all families with eligible children in 2009 a sample weight variable is used in analyses.

Several strategies are used to test the robustness of the multivariate findings. The MNLM is retested on a sample including parents of children born in 2008 and 2009. Second, the model is retested using an ordinal logit regression. Third, because unaware cases may be qualitatively different from other survey respondents due to low socioeconomic status or lack of access to resources, a Heckman two-step regression model is estimated. The first step models the probability of being aware of the program, and the second step models the probability of enrollment given awareness. Results of robustness tests are consistent with those reported below.

Results

Descriptive Statistics

The first column of Table 1 shows characteristics of the overall study sample. On average, children are nearly five months old, and 64% have siblings. Over half of parents are 30 years old or younger, which is skewed slightly toward young age compared to the entire Maine population (author calculation based on the 2009 Current Population Survey). About 84% of survey respondents are female. Almost 80% are married at the time of the interview, 26% higher than the general Maine

population aged 22-45. The largest categories for parent's education level are high school degree or less (26%) and four-year college degree (31%); parents' educational attainment in the sample is higher than in the general Maine population aged 22-45. More than half of respondents (59%) have annual household incomes of \$50,000 or more (including 30% with incomes of \$75,000 or more), but a sizeable minority (22%) have incomes below \$30,000. The household income distribution is similar to that of the Maine population aged 22-45. Most parents (80%) consider college education very important for their children. Most households (93%) have checking or savings accounts, and 73% of households own a home. The percentage of households with retirement accounts, stocks/bonds, or financial advisors were 68%, 43%, and 30% respectively.

The remaining columns in Table 1 present sample characteristics by enrollment status. Parents who were unaware of the program appear to be less "advantaged" than others. They are more likely to fall into the lowest education (58%) and income (44%) categories and are less likely to be married (64%), own homes (55%), and have retirement accounts (45%), stocks/bonds (18%), or financial advisors (19%). Also, these parents are somewhat less likely to view college as very important for their children (75%).

Parents of enrolled children appear to be more advantaged than other parents. They are more likely to be in the highest income category (39%) and have retirement accounts (81%), stocks/bonds (65%), or financial advisors (48%). Parents of enrolled children also are more likely to view college as very important for their children (90%). However, on other household asset variables, parents who had inquired about the program but had not yet enrolled appear equally as advantaged as parents of enrolled children. Children enrolled in the program are on average slightly older than other children and are less likely to have siblings (41%).

Table 1. Weighted characteristics of the sample, by application status

Variables	Full Sample (N=437)	Application Status			
		Enrolled (n=63)	Inquired (n=199)	Aware (n=115)	Unaware (n=60)
Child Characteristics					
Age in months (mean [standard deviation])	4.7 [2.3]	6.4 [1.4]	4.3 [2.6]	4.6 [2.0]	4.7 [2.0]
Has sibling	64	41	60	71	75
Parent Characteristics					
Age					
Under 26	22	26	20	18	33
26-30	31	37	31	31	27
31-35	28	19	28	35	22
36 and older	19	18	21	16	18
Female	84	62	89	85	82
Marital Status					
Married	80	82	84	81	64
Living with partner	13	13	11	12	21
Single	7	5	5	7	16
Education					
High school degree or less	26	10	17	29	58
Some college	15	13	15	17	15
Two-year degree	9	10	12	5	7
Four-year degree	31	51	27	39	15
Some graduate education or above	18	17	28	10	5
Household income					
Less than \$30,000	22	12	17	22	44
\$30,000-\$49,999	19	18	19	15	26
\$50,000-\$74,999	29	32	30	31	19
\$75,000 and above	30	39	33	32	11
Perceives college as very important for child	80	90	80	78	75
Household Assets					
Checking or savings account	93	95	97	90	88
Homeownership	73	79	78	73	55
Retirement account	68	81	76	63	45
Stocks/Bonds	43	65	45	43	18
Financial advisor	30	48	31	27	19

Source: Survey data collected by Pan Atlantic SMS Group and FAME in August 2009 from parents whose children were eligible for the Harold Alfond College Challenge when the program was implemented statewide.

Note: Data are weighted to make results more generalizable to families of all children eligible at the time the sample was created.

Socio-demographic Characteristics Associated with Program Enrollment

The first MNLM is used to identify variables associated with program enrollment (Table 2). The enrolled category is the reference group in the first panel of Table 2, and a positive regression coefficient indicates a *lower* probability of enrollment. Overall, the results of multivariate analysis are consistent with the descriptive data. Children's age is positively related to enrollment. Children without siblings are more likely to be enrolled in the program as well. To further examine the effect of these characteristics, we examine the predicted probability of enrollment by age and presence of siblings. We define a typical child in the sample using the median values of control variables: a typical case is a child whose interviewed parent is 26-30 years old and married, has a two-year college degree, considers college education very important for the child, has a household income between \$50,000 and \$74,999, and owns a home, checking or savings account, and retirement account but does not have other investments or a financial advisor. For a typical child with siblings, the predicted probability of enrollment is 0.2% at age one month, and 9.4% at eight months (the age of the oldest child in the sample). The predicted probability for a typical child without siblings is twice as large ranging from 0.4% at one month to 19.0% at eight months.

Gender, education, and age of parent are sometimes significantly related to enrollment when other covariates are controlled for. The predicted probability of enrollment is 2.3% for a typical child of a female respondent and 6.2% for a typical child of a male respondent. A change in education level of the interviewed parent from a two-year college degree to a four-year college degree increases the predicted probability of enrollment for a typical child from 2.3% to 6.9%. A change in the parent's age from the category of "26 to 30" to the category of "under 26" increases the predicted probability from 1.7% to 2.3%. Household income, marital status, and perceived importance of college for the child are not significantly related to application status.

Among household assets, homes, bank accounts, and retirement accounts are not significantly related to enrollment. However, having stocks/bonds and having a financial advisor are sometimes positively related to enrollment. If the parent of a typical child has a financial advisor or stocks/bonds, the probability of enrollment is 35%, nine to ten percentage points higher than that for a typical child whose parents do not have these assets.

Socio-demographic Characteristics Associated with Lack of Awareness of the Program

For parents who are aware of the program, the decision to enroll a child in the Alford Challenge is an individual one. A policy concern, however, is that some parents may not have the opportunity to participate because they are not aware of the program. It is important to understand what factors may be related to lack of awareness. To answer this question, a second MNLM uses unaware parents as the reference group for the dependent variable. The results are summarized in the second panel of Table 2. Positive coefficients indicate a lower probability of unawareness or, equivalently, a *greater probability of awareness*. The second panel does not show regression coefficients for the enrolled versus the unaware; these coefficients are the same as those in the last column of Panel 1, but with opposite signs.

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Table 2. Multinomial logit results predicting application status in the Harold Alfond College Challenge

Variables	Panel 1						Panel 2			
	Inquired vs. Enrolled		Aware vs. Enrolled		Unaware vs. Enrolled		Inquired vs. Unaware		Aware vs. Unaware	
	b	SE	b	SE	b	SE	b	SE	b	SE
<i>Child Characteristics</i>										
Age in months	-.52***	.08	-.46***	.08	-.48***	.09	-.04	.07	.02	.07
Has siblings	.71 ψ	.38	1.12**	.39	1.50**	.50	-.80*	.41	-.39	.42
<i>Parent Characteristics</i>										
Age (ref: Under 26)										
26-30	.36	.58	.57	.62	.10	.69	.26	.52	.47	.58
31-35	1.15 ψ	.73	2.02**	.77	1.83*	.87	-.69	.65	.19	.67
36 and older	1.22 ψ	.66	1.24 ψ	.72	1.72*	.85	-.50	.63	-.48	.71
Female	1.81***	.43	1.13*	.46	.48	.59	1.32*	.55	.65	.57
Marital status (ref: Married)										
Single	-.92	1.04	-.63	1.02	.13	1.07	-1.04	.71	-.76	.68
Living with partner	-.80	.59	-.93	.60	-.39	.75	-.41	.59	-.54	.60
Education (ref: High school or less)										
Some college	-.16	.72	-.62	.75	-1.39 ψ	.77	1.23**	.48	.78	.53
Two-year degree	-.04	.94	-1.64 ψ	.99	-2.12 ψ	1.14	2.08**	.78	.47	.84
Four-year degree	-.78	.71	-1.48*	.72	-2.54**	.81	1.77**	.57	1.06 ψ	.60
Some graduate education or above	.43	.83	-1.69 ψ	.89	-2.13 ψ	1.15	2.56**	.93	.44	.95
Household income (ref: < \$30,000)										
\$30,000-\$49,999	.21	.83	.41	.88	.30	.88	-.10	.51	.11	.59
\$50,000-\$74,999	.24	.88	1.16	.94	.17	.98	.07	.64	.99	.71
\$75,000 and above	.07	.86	1.26	.92	.08	1.02	-.01	.79	1.18	.85
College is very important for child	-.91	.63	-.59	.64	-.85	.73	-.06	.45	.26	.50
<i>Household Assets</i>										
Checking or savings account	.49	1.06	-.63	1.09	.73	1.18	-.24	.85	-1.37 ψ	.76
Homeownership	-.22	.68	-.07	.75	-.03	.79	-.18	.51	-.04	.60
Retirement account	.11	.51	-.86	.57	-.70	.62	.81	.50	-.16	.55
Stocks/Bonds	-.89 ψ	.49	-.85 ψ	.51	-1.88**	.60	.99*	.45	1.03*	.46
Financial advisor	-.70 ψ	.38	-.87*	.40	-.63	.52	-.07	.45	-.24	.48

Source: Survey data collected by Pan Atlantic SMS Group and FAME in August 2009 from parents whose children were eligible for the Harold Alfond College Challenge when the program was implemented statewide (N=398). *** p<.001, ** p<.01, * p<.05, ψ p<.10

Overall, the independent variables distinguishing the unaware from the aware, inquired, and enrolled are whether the child has siblings, parent's education, and parent's ownership of stocks/bonds. Controlling for other variables in the model, parents of children with siblings, parents with a high school degree or less, and parents without stocks/bonds are less likely to be aware of the program. Child's age, parent's age, and parent's gender are occasionally significant. Marital status, household income, and the other household assets are insignificant. This differs from the descriptive findings, where aware parents appeared to be more advantaged than unaware parents in terms of income and most assets.

Program Characteristics Associated with Enrollment Decisions

Survey data on parent perceptions suggest that the program's focus on saving *for college* and the financial incentive are attractive and important program features. Parents of enrolled children (n=63) were asked to name three reasons they "signed up for the \$500 grant." PASMS coded responses into 22 categories. The most common category chosen was "free money" (named by 46% of respondents). The next most common categories cited were related to college, including "get college savings started" (37%), "will help pay for college" (21%), and "want child to go to college" (19%). With all college-related categories combined, 67% of parents named a reason related to children's future college education.

Survey data also suggest that the enrollment process may have deterred some from enrolling. Those who were familiar with the program but had not enrolled a child (n=314) were asked to give reasons for not enrolling. PASMS coded responses into ten categories. The most common response category was "haven't had a chance/too busy" (61%). We assume that the enrollment process is to blame for a small portion of these responses. However, small percentages of parents responded in the following categories: "process is too difficult" or "packet is too big" (4%), "need to have some questions answered" (3%), "need more education on investments" (2%), and "don't understand how to complete form" (2%). Another 7% said they had not enrolled due to the lack of materials or information, such as an enrollment kit or child's Social Security number. These problems likely were addressed after parents received enrollment materials or obtained Social Security numbers for their children.

There is some evidence that the enrollment process also was difficult for a few parents who did enroll. Parents who personally filled out the NextGen application (n=54) were asked how easy or difficult it was to complete the application form. While most said "very easy" (67%) or "somewhat easy" (17%), small percentages said "neutral" (7%), "somewhat difficult" (6%), and "very difficult" (2%). Parents who did not think the application was "very easy" (n=17) were asked "what (if anything) made the application difficult to complete?" Eight parents (47%) named a difficulty related to investment selection, such as "I don't understand investing," "couldn't decide on an investment," or "too many investments to make a choice." In addition, two parents (11%) said they did not understand the language or terminology on the application, which may have been associated with investment selection as well. Eight (15%) of parents who personally completed the application said that they needed help filling out the form.

Discussion

Enrollment and Socio-demographic Characteristics

Findings suggest that some demographic characteristics are related to enrollment. Children's age is positively associated with program enrollment. This result makes sense as it may take several months for new parents to find time to submit an application. At the same time, parents may become more motivated to enroll their children as the cut-off date draws near.

Children without siblings (i.e., "first" children) also are more likely to be enrolled. There are several possible explanations for this. Parents with more than one child may be busier with child care and less able to make time for program application. In fact, 70% of parents with more than one child gave reasons for not enrolling that were coded as "haven't had a chance/too busy," compared to 56% of parents with only one child. Also, parents with multiple children may have fewer financial resources and worry about inequities created by enrolling a younger child in the Alford Challenge. This theory is supported by in-depth interviews of parents in the SEED OK experiment. Some parents with multiple children in SEED OK have expressed concern about the fairness of having savings for one child and not another (Gray, Wagner, Clancy, Sherraden, & Miller-Cribbs, forthcoming).

Children whose parents have more education, own stocks/bonds, or have a financial advisor are more likely to be enrolled. We believe that these three characteristics—education, having other investments, and having a financial advisor—may be indicators of financial sophistication. It is likely that financially sophisticated parents better understand the program rules, benefits, and application process and feel more comfortable enrolling a child. In contrast, parents who are less financially sophisticated may not understand the tax benefits of 529 plans, be intimidated by the application form, and lack the confidence to select an investment.

Data on parents' perceptions of the program provide some support for this interpretation. Parents with at least a four-year degree are more likely than parents with a high school degree or less to describe the application process as "very easy" (76% vs. 33%). Parents with at least a four-year degree are less likely than parents with a high school degree or less to need help completing the application (10% vs. 30%). Parents with a financial advisor are more likely than those without to report that the application process was "very easy" (85% vs. 52%). And parents with stocks/bonds are less likely than those without to need help completing the application (6% vs. 30%).

Our conclusion that financial sophistication matters is consistent with a concern raised by Clancy and Lassar (2010) about the Alford Challenge, which is that the application process may be confusing and even intimidating to potential applicants. For example, the Alford Challenge requires the same application form used to open a traditional 529 account in Maine, which states that NextGen applicants "must make an initial contribution of at least \$250." If potential Alford Challenge applicants mistakenly believe that they must make an initial contribution, they may choose not to participate. Applicants with less education and financial sophistication may be deterred by the contradictory information.

Second, the current application form contains a number of detailed questions related to asset holdings and investment behavior that are not asked in typical 529 application forms used across the country (Clancy & Lassar, 2010). For example, one section of the application form asks applicants to describe their “trading” experience and frequency and experiences with other investment products. These questions may intimidate potential applicants, especially those with less financial sophistication.

Finally, the Alford Challenge has a default investment. Applicants who do not make an investment choice are automatically invested in an age-based portfolio. However, this important information is mentioned within the lengthy application instructions rather than on the application form near the question about investment selection. The default investment would probably appeal most to individuals with less financial sophistication, so the lack of clear information about this option may discourage participation by this group.

Unlike previous research on 529 plans (Dynarski, 2004; Sallie Mae, 2009; Zhu, 2006), this study finds that household income is not associated with enrollment in the Alford Challenge when other variables in the model are controlled. The \$500 incentive may be particularly attractive to low- and moderate-income households and may encourage participation across the income distribution. Also, unlike most 529 plans, the Alford Challenge publicizes program information through hospitals and doctors’ offices, which may be an effective outreach method for low- and moderate-income households.

Awareness and Socio-demographic Characteristics

The independent variables distinguishing the unaware from the aware are consistent with those distinguishing the enrolled from those who had not yet enrolled. The fact that more educated parents and parents with stocks/bonds are more likely than other parents to be aware of the program provides some additional evidence that awareness of and interest in the program may be related to parent’s financial sophistication. Different from results in Table 1, marital status, household income, and other household assets are insignificant in the second panel of Table 2. It is possible that some of the independent variables, as indicators of socioeconomic characteristics, are highly correlated. For instance, more than 70% of single parents in the unaware category have household income less than \$30,000, and 96% of parents with income less than \$30,000 do not have a financial advisor.

Enrollment and Program Characteristics

Unlike most CDA demonstrations, universal enrollment is not an intended goal of the Alford Challenge, and children are not automatically enrolled in the program. In the absence of automatic enrollment, we believe that initial incentives (“seed money”) and the enrollment process have affected enrollment. As noted above, there is evidence to support these propositions. First, the most common reason for enrolling a child cited by parents is “free money,” which suggests that the financial incentive has encouraged enrollment in the Alford Challenge. This is consistent with research by Nam et al. (in press) who find that the SEED OK financial incentives increased enrollment in a 529 plan by about 14 percentage points. Second, although most parents of enrolled

children said the application form was very easy or somewhat easy to complete, parents' most common reason for not enrolling their children is "haven't had a chance/too busy," suggesting that a lengthy application process may discourage enrollment. Without automatic enrollment, parents have to make time and effort to enroll. Also, small percentages of not-enrolled parents name reasons related to the application process, particularly investment selection, to explain why they have not enrolled.

In addition to the two program characteristics suggested by our analysis of survey data, statistics on Alford Challenge enrollment rates available in another report (Clancy & Lassar, 2010) provides evidence that a third program characteristic—recruitment efforts—may have substantially impacted enrollment. The enrollment rate is defined as the ratio between all enrolled children and all eligible children at the end of the enrollment period. As of January 2010, the Alford Challenge enrollment rate for children born in 2008—during the pilot year when the program provided intense hands-on outreach—was 53%. However, the enrollment rate for children born in January 2009—after statewide implementation when intense outreach could not be sustained at scale—was 39% (Clancy & Lassar, 2010). The fact that Alford Challenge enrollment decreased after statewide implementation suggests that the hands-on outreach efforts used during the pilot phase encouraged enrollment.

Policy Implications

Because the Alford Challenge is the nation's first statewide Child Development Account program and uses the NextGen 529 plan as the savings platform, lessons learned may have implications for a variety of asset-building programs. First, although there is reason to believe that the financial incentive appealed to lower-income families, a \$500 incentive is not sufficient to achieve universal enrollment, and enrollment in the Alford Challenge has been far from universal. If near-universal enrollment is a policy goal for an asset-building program (Sherraden, 1991; Sherraden & Clancy, 2005), automatic enrollment (with an opt-out option) is likely to be the ideal strategy. For example, nearly 100% of the treatment group in SEED OK accepted the automatically-opened state-owned 529 accounts (Nam et al., in press). Automatic enrollment would greatly reduce every difference in enrollment observed here, including differences by education, asset ownership, and presence of siblings.

Second, in the absence of automatic enrollment, evidence from the Alford Challenge suggests that the enrollment process for a 529 plan, CDA, or other asset-building program must be simple to encourage participation, especially to be inclusive of low- and moderate-income families. About 60% of those who were familiar with the program but had not enrolled reported that they were "too busy" to enroll their children in the program. The two-step (inquiry and enrollment) application process is complicated and includes a number of detailed questions not asked in typical 529 application forms. Clancy and Lassar (2010) give specific recommendations for improving the Alford enrollment process. They also offer broad recommendations for asset-building programs in general; suggestions include very simple enrollment forms and a clear default investment option (see also Clancy, Lassar, & Miller, 2009; Currie, 2004; Lassar, Clancy, & McClure, 2010). These recommendations are consistent with evidence reported here. Financial incentives such as the \$500 Alford grant also are likely to be necessary to encourage enrollment if enrollment is not automatic.

It is important to remember that the findings in this study relate to enrollment not contributions to 529 plans or CDAs. Even if enrollment is substantially streamlined or made automatic, high-income, financially sophisticated, or otherwise-advantaged households may contribute more and so receive greater tax benefits. This challenge cannot be met by automatic enrollment, or streamlined enrollment with a default investment option. Existing research on Individual Development Accounts and CDAs suggests that matching individual contributions to asset-building programs (e.g., depositing one or two dollars for every dollar saved by an individual) and setting a match cap (i.e., a maximum level of savings eligible for matches) may encourage low- and moderate-income households to save (Guo, Sherraden, & Johnson, 2009; Mason, et al., 2009; Schreiner & Sherraden, 2007). At the same time, low- and moderate-income families may rarely save enough on their own to finance a college education. If we as a society want young adults from diverse backgrounds, not just socioeconomically advantaged young adults to have the opportunity to go to college, some subsidies may be necessary (Beverly, in press).

Finally, results from multivariate analyses suggest that program design should take into account socio-demographic characteristics related to enrollment decisions. In particular, this study suggests that lack of financial sophistication could be a barrier to enrollment in asset-building programs. In addition to simplifying the enrollment process, it may be helpful to provide additional financial education and support for less financially sophisticated individuals. This might include well-designed educational materials or targeted public service announcements. Also, existing financial education initiatives may consider providing information on specific asset-building programs (e.g., program benefits, enrollment instructions, and so forth) to increase knowledge and awareness of such programs.

Limitations

Several limitations should be noted. First, the sample of parents of 2009 children is relatively small, especially for the enrolled group. Second, at the time of the survey, those children who were not enrolled were still eligible for the program because they were less than 12 months old. It is likely that some portion of these children will have been enrolled before their eligibility expired. Therefore, the enrollment rates reported here for 2009 children probably underestimate the true enrollment rate. Our findings regarding the relationships between demographic characteristics and application status also may be biased. The effect of child's age may be overestimated because no child can be enrolled in the program after his or her first birthday, and the child's age is unlikely to be an important predictor after that. However, it is difficult to speculate about the direction of potential bias for other demographic characteristics.

Third, at the time of the survey, the Alford Challenge was a new program. As Maine residents become more familiar with the program, the relationship between demographic characteristics and enrollment may change. Also, if the program evolves—to address identified concerns with the application process, for example—the relationships between demographic characteristics and enrollment may change further. The findings in this study relate to early enrollment.

Finally, we cannot directly examine the impact of program characteristics on enrollment because all parents of eligible children face the same set of program characteristics. In particular, the study cannot rigorously evaluate the effects of the \$500 grant or the somewhat cumbersome application process on enrollment. Descriptive findings about parent perceptions of the program provide some insight, but the samples for these findings are small.

Conclusion

As the country's first statewide CDA program and one of the first to build upon a state 529 plan, the Harold Alfond College Challenge provides an important laboratory to learn about asset-building programs. Along with other studies on 529 plans, Child Development Accounts, and Individual Development Accounts, this study of early enrollment in the Alfond Challenge suggests that design characteristics matter; that is, "the devil is in the details." If near-universal enrollment is a policy goal, automatic enrollment (with an opt-out option) is very likely the ideal design. In the absence of automatic enrollment, active recruitment, streamlined enrollment (including a default investment option), and financial incentives are likely to be necessary to encourage enrollment, especially by low- and moderate-income households.

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