SEED RESEARCH REPORT

IMPACT ASSESSMENT

Financial Knowledge, Attitudes, Ownership, and Practices among Families in the SEED Pre-School Demonstration and Impact Assessment

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Saving for Education, Entrepreneurship, and Downpayment (SEED) is a national policy, practice, and research initiative to test the efficacy of progressive, universal children's savings accounts. National SEED partners are CFED, the Center for Social Development, the New America Foundation, the University of Kansas School of Social Welfare, and the Initiative on Financial Security of the Aspen Institute. The Center for Social Development and the University of Kansas plan and implement SEED research with guidance from a Research Advisory Council. Funding for SEED comes from the Ford Foundation, Charles and Helen Schwab Foundation, Jim Casey Youth Opportunity Initiative, Citigroup Foundation, Ewing Marion Kauffman Foundation, Charles Stewart Mott Foundation, Richard and Rhoda Goldman Fund, MetLife Foundation, Evelyn and Walter Haas, Jr. Fund, and the Edwin Gould Foundation for Children.

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Twelve community-based organizations in the United States and Puerto Rico operate children and youth savings programs as part of SEED. The SEED initiative rests in large part on the dedication and hard work of staff at:

Beyond Housing/NHS, *St. Louis*

Boys and Girls Clubs, *Delaware*

Cherokee Nation, *Oklahoma*

Foundation Communities, *Austin, TX*

Fundacion Chana Goldstein y Samuel Levis, *San Juan, Puerto Rico*

Southern Good Faith Fund, *Arkansas*

Harlem Children's Zone, *New York*

Juma Ventures, *San Francisco*

Mile High United Way, *Denver*

OLHSA, Inc., *Pontiac, MI*

People for People, Inc., *Philadelphia*

Sargent Shriver National Center on Poverty Law, *Chicago*

The SEED pre-school demonstration and impact assessment is a quasi-experiment involving families whose children attend Head Start centers administered by the Oakland Livingston Human Service Agency (OLHSA) in Pontiac, Michigan. Lead researchers for the impact assessment are Sondra Beverly at the University of Kansas and Trina Shanks at the University of Michigan. RTI International conducted baseline telephone interviews with parents for the impact assessment. The SEED research team at RTI International is led by Ellen Marks, and includes Bryan Rhodes and Kevin Townsend.

SEED staff members at OLHSA have contributed in innumerable and invaluable ways to this study while simultaneously planning and implementing the pre-school demonstration. A large quasi-experimental study is a daunting undertaking for any community agency, and OLHSA staff members have maintained both steadfast enthusiasm and dogged determination in resolving the challenges inherent in applied research of this nature.

The SEED initiative is funded by the Ford Foundation, Charles and Helen Schwab Foundation, Jim Casey Youth Opportunity Initiative, Citigroup Foundation, Ewing Marion Kauffman Foundation, Charles Stewart Mott Foundation, Richard and Rhoda Goldman Fund, MetLife Foundation, Evelyn and Walter Haas, Jr. Fund, and the Edwin Gould Foundation for Children.

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Financial Knowledge, Attitudes, Ownership, and Practices among Families in the SEED Pre-School Demonstration and Impact Assessment

This report is one of a series of reports using baseline data from the SEED pre-school demonstration and impact assessment. It describes financial knowledge, financial attitudes, account and asset ownership, and financial practices of families that completed the baseline impact assessment survey.

Background

<u>Saving for Education, Entrepreneurship, and Downpayment (SEED)</u>

SEED is a national policy, practice, and research initiative designed to test the efficacy of a national system of progressively funded asset-building accounts for children and youth. There are currently twelve community-based organizations operating children and youth savings account programs across the United States and in Puerto Rico as part of SEED. With the help of staff members at these organizations, a team of researchers from a number of universities and firms are conducting several studies of the SEED initiative. These studies include monitoring asset accumulation in children's savings accounts, surveying parents of SEED participants, and interviewing youth who open accounts.

<u>SEED Pre-School Demonstration and Impact Assessment</u>

One of the research studies in SEED is a large pre-school demonstration and impact assessment. Oakland Livingston Human Service Agency (OLHSA), a large multi-service human service agency in Pontiac, Michigan, was selected as the site for this research initiative. The study involves families whose children attend Head Start centers administered by OLHSA. Primary research questions for the SEED impact assessment include:

- What are the patterns of participation in SEED at OLHSA?
- What is the impact of SEED on saving for children?
- What are the predictors of asset accumulation in SEED accounts?
- What is the impact of SEED on parents and families?
- What is the impact of SEED on children?

The research design is quasi-experimental. Fourteen Head Start centers administered by OLHSA were chosen to participate in the study. The research team created seven pairs of centers with members that were as similar as possible on organizational and demographic characteristics. One member of each pair was randomly assigned to become a treatment center, and the other member of each pair was defined as a comparison center. SEED outreach and programming occurred at the seven treatment centers. No outreach occurred at the seven comparison centers; families enrolled in these Head Start centers were not eligible to participate in SEED.

At OLHSA, the SEED package consists of a college savings account through the Michigan Education Savings Program (the state's 529 plan), financial education, and support from SEED staff. When a parent enrolls in SEED at OLHSA, the SEED initiative provides $800 to establish the child's account. Families that meet income guidelines also receive a $200 deposit from the state of Michigan. Other deposits into the account (from parents or other individuals) are matched dollar for dollar, up to a maximum match of $1,200. SEED programming, including SEED match money, will be provided through December 2008.

Methods

This report documents financial knowledge, financial attitudes, account and asset ownership, and financial practices of families that are participating in the SEED pre-school demonstration and impact assessment. The data for this research come from 790 parents (or other primary caregivers) of children who were enrolled in the 14 selected Head Start centers in fall 2004. These parents completed 45-minute telephone interviews ("baseline interviews") conducted by RTI International.[1] The sample includes 409 families from the comparison centers and 381 from treatment centers. The analysis in this report does not distinguish between these two sub-samples, however, because the aim is not to document differences between the treatment and comparison groups, nor to investigate the impact of the SEED program. Instead, the report simply provides descriptive statistics for the sample as a whole.

It is important to note that many of the responses documented here may be affected by social desirability bias, the tendency for survey respondents to give answers that are socially acceptable. All but 58 respondents completed the baseline survey *before* SEED outreach began so most had *not* received educational and promotional material about saving from SEED staff. Still, most people who live in the United States have been told in a variety of ways that certain money management practices are "good", and many may be reluctant to admit that they do not budget, save, and so forth.

Demographic and economic characteristics of the families in the sample are summarized in Table 1. Most of the parents are female. At baseline, just under half of the parents had never been married; just over one-third were currently married. Most parents are White or African-American, and most were born in the United States. About 70% of the sample had at least a high school education, including 39% with more than a high school education.[2] The median family income (for the 553 parents who reported precise amounts) was about $15,000. Most families had multiple children, and most had at least one employed adult.

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[1] Parents entered the sample in one of two ways. First, in fall 2004, all parents with children enrolled in the 14 centers were invited to participate in a research study. A total of 732 parents consented and completed interviews. After these interviews ended, SEED staff began outreach for the SEED program at the seven treatment centers. Staff at OLHSA (like staff at many SEED sites) found recruitment to be much more difficult than expected. To increase the size of the research sample and to achieve program goals, eligibility for the SEED program was extended to families enrolled in the seven treatment centers in fall 2005. A second round of baseline interviewing occurred in fall 2005; all families whose children had been in Head Start the prior year (2004-2005) and who had enrolled in the SEED program after the original round of baseline interviewing were invited to participate. A total of 58 families completed interviews in fall 2005. A total of 58 families completed interviews in fall 2005.

[2] The "more than high school" category includes those with vocational diplomas as well as those with some college credits or college degrees.

Table 1. Characteristics of the SEED Impact Assessment Baseline Sample (N=790)

Parent Characteristics		Family Characteristics	
Female	92.0%	Number of Children	
Marital Status		One child	20.8%
Never married	47.0%	Two children	37.0%
Currently married	34.9%	Three children	24.8%
Previously married	18.1%	Four or more children	17.5%
Race		Employed	78.2%
White	46.4%		
African-American	43.4%		
Other	10.2%		
Hispanic	12.1%		
U.S. native	87.2%		
Education			
Less than high school education	29.2%		
High school diploma or GED	31.5%		
More than high school education	39.3%		

Notes: The sample was drawn from families with children enrolled in Head Start programs in the Pontiac, Michigan area in fall 2004. Due to missing data, actual sample size varies from 742 (race) to 790.

Findings

Financial Knowledge

The baseline SEED survey included six questions designed to assess the financial knowledge of parents (Table 2). On a positive note, 75% of parents correctly identified annual percentage rate as the most important feature of a credit card contract for families that don't pay the balance in full each month. However, more than 40% *incorrectly* responded that banks usually contact customers who are about to overdraw their checking accounts (or responded "don't know"). Parents were even more likely to incorrectly answer specific questions about the state's 529 plan, about rates of return, and about compound interest.

Table 2. Financial Knowledge Among SEED Families (N=789)

Survey Question	Percent Correct
If you are comparing offers from credit cards and don't expect to pay the bill in full every month, the Annual Percentage Rate or APR is the most important thing to look at. (**true**, false)	74.7%
A bank will usually call to warn you if you write a check that would overdraw your account. (true, **false**)	58.7%
People who deposit money in the Michigan Education Savings Program can get a tax break on their Michigan state income tax. (**true**, false)	41.1%
Which of the following is most likely to make the most money over the next 18 years? (savings account, checking account, savings bond, **stocks**)	38.5%
With an account that has compound interest, you earn interest on the principal and the interest. (**true**, false)	35.5%
About how much is a year's tuition for a full-time student at a local community college?	7.1%

Notes: For the first five questions, correct answers are in bold. See footnote 3 for a description of scoring for the sixth question. Refusals and "don't know's" were defined as incorrect responses.

Only 7% of parents could roughly estimate the cost of a year's tuition at a local community college.[3] Almost 52% answered "don't know." The vast majority of those who gave a dollar value *overestimated* the cost of tuition. For example, after "don't know", the most common answer was $10,000, about $8,500 too high.

Financial Attitudes

The SEED survey included several questions assessing financial attitudes. First, parents were asked about their time horizons for money management (Table 3). Over two-fifths of parents said they usually thought about the current month. Another 36% said that they usually thought about the next few months. Longer time horizons were much less common.

Table 3. Money-Management Time Horizons f SEED Families (N=788)

When it comes to money management, do you usually think about….	Percent
The current month	41.1%
The next few months	36.4%
The next year	7.7%
The next few years	4.1%
The next five to ten years	3.2%
Longer than ten years	4.4%
Don't know	3.1%

Parents were also asked what they would do with an "extra" $200 (Table 4). There was quite a bit of variation in the responses. The most common response was "save most", and the second most common was "spend most." About two-thirds said they would save either most or all. In response to yes/no questions (Table 5), about 90% of parents said that it was important for children, and for their families, to have savings accounts. Three-quarters said that they trusted banks. About 70% said they were hesitant to spend money they had saved.

[3] The survey question was worded as follows: "About how much is a year's tuition for a full-time student at a local community college?" SEED staff are confident that most parents thought about Oakland Community College (OCC) when hearing this question. OCC is the largest community college in Michigan and is located in Oakland County, the home of all 14 Head Start centers participating in the SEED impact assessment. During the 2006-2007 academic year, an Oakland County resident taking 12 credit hours at OCC for each of two semesters would pay just over $1,360 in tuition. An Oakland County resident taking 15 credit hours at OCC for each of two semesters would pay just over $1,700. We coded estimates that we believe are "in the ballpark"—that is, estimates between $700 and $2,500 (inclusive)—as correct.

Table 4. Planned Use of "Extra" Money Among SEED Families (N=789)

Suppose you had some extra money, say $200. What would you probably do with that money?	Percent
Spend all	10.8%
Spend most	22.3%
Save most	45.3%
Save all	19.3%
Don't know	2.4%

Table 5. Saving-Related Attitudes Among SEED Families

Survey Question	N	Yes	No
It is important for a child to have a savings account while growing up.	787	90.2%	9.8%
It is important for my family to have a savings account.	789	89.0%	11.0%
I trust banks.	783	74.8%	25.2%
Are you hesitant to spend money that you have saved?	779	70.3%	29.7%

Finally, to assess precautionary saving motives, parents were asked the following question: "About how much do you think you should have saved for emergencies and other unexpected things that come up?" Thirteen people responded that no savings were needed, and 83 people said they didn't know. The most common response (given by 146 parents) was $1,000. The median amount was $1,000, and the mean was $2,353 (SD = $3,677).

Account and Asset Ownership

A number of questions on the SEED survey allow us to document ownership of specific accounts and assets (Table 6). Most of these questions explicitly ask about ownership by parents or spouses/partners, if applicable. Just over half of families had savings accounts, and slightly more had checking accounts. Almost three-fourths had either a savings account or a checking account.

About 27% of parents said they owned their own homes. These 214 home owners were asked to estimate the market value of their homes. For the 173 people who answered this question, the median home value was $100,000, and the mean was just under $103,000 (SD = $73,651). Almost 75% of home owners said there was a mortgage on their home.

Ownership rates for investment products were quite low. About 18% had retirement accounts, such as Individual Retirement Accounts and 401(k)s. About 5% or 6% owned certificates of deposit, stocks or mutual funds, and bonds. Ownership rates for vehicles and computers were much higher. About 88% of families owned at least one vehicle, and 43% owned multiple vehicles. Just over 62% of families owned a computer.

Table 6. Account and Asset Ownership Among SEED Families

	N	**Percent Owning Account/Asset**
Savings account	786	54.3%
Checking account	785	57.6%
Savings or checking account	787	72.8%
Home	789	27.1%
Retirement account (excluding pension plans)	782	17.9%
Certificate of deposit	776	6.4%
Stocks or mutual fund	782	5.1%
Bond	783	6.0%
Vehicle	787	87.8%
Computer	790	62.4%

The SEED survey also asked a number of questions related to current levels of savings (Table 7). Almost half of parents (47%) said that they or their spouse or partner currently had some money saved.[4] Those who reported having some savings (N = 367) were asked how much they had in savings. For the 298 who answered this question, the median amount was $700.[5] For the full sample of parents (including those without savings), the median level of current savings was $0.

[4] Respondents were prompted to consider money at home and money being held by others, as well as money in formal saving products.
[5] Mean values for current savings levels are presented in Table 7. Means are not discussed in the text because all three distributions have large positive skews. (For example, for “any savings”, 28 parents reported savings of $10,000 or more, including 6 who reported savings of $50,000 or more.) When a distribution is highly skewed, the median is more representative of the sample than the mean.

Table 7. Savings Currently Held by SEED Families

		Amounts for Those With Savings			Amounts for Full Sample		
	Percent with Savings	N	Median	Mean (SD)	N	Median	Mean (SD)
Any savings	46.9% [a]	298	$700	$4,514 ($13,899)	714	$0	$1,884 ($9,243)
Savings for child	50.0% [b]	359	$300	$969 ($2,725)	718	$2	$484 ($1,986)
Savings for child's education	21.3% [b]	158	$900	$1,749 ($3,188)	741	$0	$373 ($1,634)

Note: SD = standard deviation.

[a] The SEED survey asked parents whether or not they currently had any money saved. A total of 783 people answered this question, and 367 (47%) responded affirmatively. A follow-up question asked *those with savings* how much money they currently had saved, and we computed the median and mean for the 298 people who reported positive amounts. To compute the median and mean amounts for the *full sample*, we assigned a value of $0 to the 416 people who said that they were not currently saving.

[b] For "savings for child" and "savings for child's education", the survey did not ask whether or not parents currently had any money saved for these purposes, but whether or not they had *ever* saved for these purposes. A follow-up question asked those who had ever saved for these purposes how much money they currently had saved. We computed the median and mean for the people who reported positive amounts. To compute the median and mean amounts for the *full sample*, we assigned a value of $0 to the people who said that they had never saved for these purposes.

Parents were asked whether they had ever saved money specifically for the child enrolled in Head Start. Those who answered affirmatively were asked how much they *currently* had saved for their child. The median value of current savings for the 50% with savings was $300; the median value for the full sample was $2.

Parents who said they had ever saved specifically for the Head Start child were asked whether they had ever saved specifically for their child's education. Those who responded affirmatively were asked how much they currently had saved for their child's education. The median value of current savings for the 21% with savings was $900; the median value for the full sample was $0.

Financial Practices

Table 8 summarizes findings related to financial practices. Almost two-thirds of parents said they often kept track of their spending, and another 20% said they sometimes did. About 43% of families said they often set financial goals. About 37% said they often stuck to their financial plans. Over one-fourth of families said they rarely set financial goals, and a similar percentage said they rarely stuck to their financial plans.

Only 36% of parents said they had a written budget or spending plan. Two-thirds of parents said they tried to save a regular amount each month. Those who reported trying to save regularly (N = 517) were asked how much they tried to save each month. For the 459 people who answered this question, the median monthly saving goal was $100, and the mean was $166 (SD = $201). Across all respondents (including the 263 who said they did *not* try to save a regular amount each month), the median monthly saving goal was $50, and the mean was $106 (SD = $179). Only 16% of parents (or spouses/partners, if applicable) had money directly deposited into a savings account.[6]

[6] The 656 families that did not use direct deposit included 359 (55%) that did not have savings accounts.

Table 8. Money-Management Behaviors Among SEED Families

Survey Question	N	Often True	Sometimes True	Rarely True
I keep track of my spending.	781	65.3%	20.1%	14.6%
My family sets financial goals for our future.	773	42.7%	30.1%	27.2%
My family sticks to the financial plans we set for ourselves.	777	36.7%	37.8%	25.5%
		Yes		**No**
Do you have a written budget or spending plan?	782	35.5%		64.5%
Do you try to save a regular amount each month?	780	66.3%		33.7%
Do you (or your spouse/partner) have money from a paycheck or government program directly deposited into a savings account?	783	16.2%		83.8%
		In One Place		**In More Than One Place**
Suppose you were saving for two different goals, like saving for an emergency and saving to buy a home. Would you probably put all your savings in one place, or would you put your savings in more than one place?	778	46.7%		53.3%

Discussion and Conclusions

The findings reported here may provide useful information to staff in community-based organizations that are planning children's savings account programs or offering supportive services to low-income families with children's savings accounts. In the future, knowledge of these baseline characteristics may help SEED stakeholders interpret findings related to outcomes of the SEED initiative. As noted above, most of the responses documented here might be affected by social desirability bias. As a result, findings may overestimate current savings levels and overestimate the prevalence of "desired" financial attitudes and practices. It is not possible to rigorously assess the severity of this bias. However, the fact that 40% of parents reported a money-management time horizon of one month and almost two-thirds said they did not have a written budget suggests that many families were willing to admit that they did not follow recommended financial practices.

Some conclusions that seem to flow from findings in this report are as follows:

1. Without additional information, many SEED families may conclude that community college is not an option for their children.

At the time of the baseline survey, only 7% of parents could roughly estimate the cost of a year's tuition at a local community college. The vast majority of those who gave a dollar value *overestimated* the cost of tuition. This lack of knowledge seems to suggest that families have little connection to community colleges. For example, they may not have relatives or close friends who have attended community college, they may not be exposed to advertising or other formal sources of information about tuition, and they may not have taken any action to educate themselves about costs. (The latter would not be surprising for parents of very young children.)

The fact that most overestimated tuition costs may mean that many parents believe they will not be able to afford to send their children to community college. As a result, parents may not encourage their children to consider college or to take advantage of college-related opportunities. For example, parents may ignore outreach by their children's guidance counselors, choose not to explore options for financial aid, and/or choose not to participate in SEED programs or contribute to SEED accounts.

On a positive note, lack of knowledge about tuition is something that can be corrected. SEED staff can actively work to educate families about the cost of a community-college education. For example, when SEED materials show how deposits and interest in SEED accounts can accumulate over time, asset accumulation might be compared to the cost of tuition at a particular local community college. When working one-on-one with parents, SEED staff might help parents develop a deposit plan that would allow them to accumulate enough in their SEED accounts to finance two years of community-college tuition. If financial aid is likely to be available for many SEED families, this assistance might be factored in.

2. Most SEED parents are only modestly integrated into the financial mainstream.

Some of the evidence regarding financial integration is positive. Almost three-fourths of families had either a savings account or a checking account, and a similar proportion said they trusted banks. More than a quarter were home owners. On the other hand, very few had "investment-oriented" financial products, such as retirement accounts, stocks, bonds, or even certificates of deposit. Low ownership rates for investment products probably reflects limited resources: Some low-income families may manage to set aside emergency savings in basic bank accounts, but they may not have additional resources to invest in less liquid vehicles. Low-income families may also be uncomfortable with products requiring a fair degree of financial sophistication.

Both of these phenomena might suggest that SEED families will have difficulty and/or reservations about saving in SEED accounts, especially if accounts are viewed as illiquid, complex, or risky. Through financial education, SEED staff can work to overcome reservations about SEED accounts, by educating families about the benefits of investing and about the Michigan Education Savings Program in particular. It will be harder for SEED staff to address the economic barriers that make it difficult for low-income families to save and invest.[7]

3. Most SEED parents aspire to save and have assets.

When parents were asked how much they should have saved for emergencies, the vast majority of responses implied that parents aspired to have precautionary savings. When asked what they would do with an "extra" $200, about two-thirds of parents said they would save either most or all. Two-thirds said they tried to save a regular amount each month. About 70% said they were hesitant to spend money they had saved.[8] And, about 90% of parents said that it was important for children, and for their families, to have savings accounts. Although it is impossible to know the extent of social desirability bias, these responses suggest that most SEED parents value saving and asset-holding.

4. Actual financial practices and outcomes for SEED families fall short of recommended practices and parents' own desired outcomes.

Conventional financial wisdom encourages families to set financial goals, to have a written spending plan, to keep track of actual spending, and to have a strategy for regular saving. The evidence regarding families' adherence to these recommendations is mixed. Most families said they sometimes or often kept track of their spending. However, less than half of families said they often set financial goals, and less than half said they had a written budget. Less than one-fifth had money directly deposited into a savings account.

Conventional financial wisdom also encourages families to think about short-term, medium-term, and long-term financial needs. However, the majority of SEED families said they considered the current month or the next few months when thinking about money management. This finding—and the fact that few families own "investment" products—suggest that many parents in this study are not currently preparing for medium- and long-term financial needs (e.g., saving for children's education and saving for retirement).

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[7] Economic barriers to asset accumulation for SEED families are discussed in detail in S. G. Beverly & J. Barton. (2006). *Barriers to Asset Accumulation for Families in the SEED Pre-School Demonstration and Impact Assessment* (SEED Research Report). Lawrence, KS: University of Kansas School of Social Welfare.

[8] Some or all of the remaining 30% may also value saving and asset-holding. Many people save for short-term goals (e.g., to finance particular goods and services or to maintain consumption during financial crises). It is not obvious that people "should" be hesitant to spend their savings to meet these short-term goals.

There are also reasons to be concerned about short-term financial needs. Although the vast majority of families seem to value saving, less than half (47%) reported having any current savings. The median amount of savings—*even for those with savings*—was only $700, $300 less than the median and modal precautionary savings amount desired by parents, and less than a family would need to cover one month of household expenses. There is a clear savings shortfall, even for short-term financial needs.

The third and fourth conclusions together may have implications for SEED financial education and case management. If most SEED parents aspire to save, there may be relatively little need for "motivational" efforts. At the same time, SEED staff might encourage and help parents to set specific and realistic financial goals. Given the time-limited nature of the SEED initiative, it seems especially important to help parents set goals for making SEED deposits and earning SEED matches. In addition, parents may benefit from receiving concrete information, guidance, and support about finding resources that can be saved rather than spent and about choosing appropriate vehicles for short-term, medium-term, and long-term financial goals.