



Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

Account Monitoring Research at Michigan SEED

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Account Monitoring Research at Michigan SEED

Michigan SEED (MI SEED) is a quasi-experimental test of asset building for preschool aged children. Participants are from low-to-moderate income families with young children attending Head Start Centers. This report details demographic findings and uses cash flow data to examine asset accumulation and savings for 495 children. Overall, about 31% of children had participant deposits to their MI SEED accounts. Including program incentives, the total accumulation saved in all MI SEED accounts over the course of the initiative was \$734,042. Average asset accumulation was \$1,483, and average quarterly net savings by participants was \$19.

Key words: *Child Development Account, CDA, 529, college savings, asset building*

Saving for Education, Entrepreneurship, and Downpayment (SEED) is a policy, practice, and research initiative to test the efficacy of and inform a national Child Development Account (CDA) policy in the United States. In SEED, nonprofit community organizations established subsidized, matched accounts—also known as CDAs—for low- and moderate-income children and youth. These organizations implemented a number of program designs and saving incentive structures for children of varying ages in different demographic, geographic, and organizational contexts.

SEED Account Monitoring research collected participant demographic data¹ and tracked cash flow of SEED accounts² for 1,171 children and youth in 10 SEED programs. Programs joined the SEED initiative between Fall 2003 and Spring 2005, and saving ceased at either the end of December 2007 or 2008 (Mason, et al., 2009). This brief addresses Account Monitoring research at Michigan SEED (MI SEED), where saving began in late 2004 and continued through December 31, 2008.³

Children in MI SEED attended Head Start preschool centers administered by a large, multi-service community-based agency. They represent 42% of all SEED children. SEED researchers at the University of Kansas, CSD, and the University of Michigan designed the MI SEED Preschool Demonstration and Impact Assessment as a quasi-experiment. Seven pairs of preschool centers were matched on the basis of family demographic and economic characteristics, and one preschool center in each pair was randomly assigned to the treatment (MI SEED program) condition. Children in the other seven preschool centers and their families served as the comparison group (Williams

¹ To collect demographic data, each MI SEED participant (child's caregiver) completed a written form that asked about the child's background, the participant's background, and family composition, income, assets, and public benefits receipt. All demographic data were measured at MI SEED enrollment.

² Cash flow data for this report were transferred directly to the researchers at the Center for Social Development (CSD) by the financial provider on a quarterly basis. For these data, systematic data checks were implemented to identify any problems or missing values. Questions about the data were resolved directly with the financial provider each quarter.

³ Key SEED outcomes through December 31, 2007, are reported in Mason, et al. (2009).

Shanks, et al., 2008). Account monitoring cash flow data collected for this report are being used to help analyze possible impacts of MI SEED on a variety of measures of social well-being for participants and their families (Adams, 2008; Marks, et al., forthcoming; Williams Shanks & Adams, 2009).

MI SEED Program

The Oakland Livingston Human Service Agency (OLHSA) is a Community Action Agency located in Pontiac, Michigan, with a mission of enabling “the low income, elderly, and persons with disabilities living in Oakland and Livingston Counties to become self-sufficient” (About OLHSA, 2008). Targeting families with preschoolers in its Head Start programs, OLHSA implemented the community-based MI SEED program. MI SEED uses the Michigan Education Savings Program (MESP),⁴ the state’s 529 college savings plan, as the financial instrument for asset accumulation. MI SEED participants could choose to deposit funds in stock, principal plus interest, balanced, bond, or age-based MESP investment options.^{5,6} Money in MESP accounts may be used for post-secondary education at both in-state and out-of-state eligible institutions. These institutions include public and private colleges and universities, graduate and post-graduate schools, community colleges, and certain proprietary and vocational schools.

MI SEED offered an \$800 initial deposit and up to \$1,200 in a dollar-for-dollar savings match for each child enrolled (Table 1). Including a \$200 State Matching Grant provided through MESP to all qualified Michigan residents,⁷ a total of \$2,200 in incentive funds was available. At the end of the MI SEED program on December 31, 2008, 100% of the initial deposit and 16% of match dollars available for distribution had been allocated. Overall, 55% of total available incentive funds for MI SEED participants were distributed.

Table 1. MI SEED Incentive Structure

Initial Deposit	Match Limit	MESP Matching Grant	Total Incentive Funds
\$800	\$1,200	\$200	\$2,200

Monies in MI SEED are held in two separate MESP accounts. The participant-owned accounts hold the \$800 initial deposits, participant contributions, and investment gains or losses. Separate restricted match accounts owned by the State of Michigan for the benefit of the MI SEED child hold the \$200

⁴ MESP is a state-sponsored education savings plan created to help families save for college. Savings can be used for qualified educational expenses, including books, supplies, required fees, and certain room and board costs. For more information, visit <http://www.misaves.com/index.html>.

⁵ Age-based options represent a combination of funds that shift asset allocations over time based on the account beneficiary’s age.

⁶ Three investment options were available when MI SEED enrollment began: stock, principal plus interest, and managed allocation. In March 2005, when a few MI SEED accounts were open, the managed allocation option was renamed the moderate age-based option. After almost all MI SEED participants had opened accounts, other investment options became available.

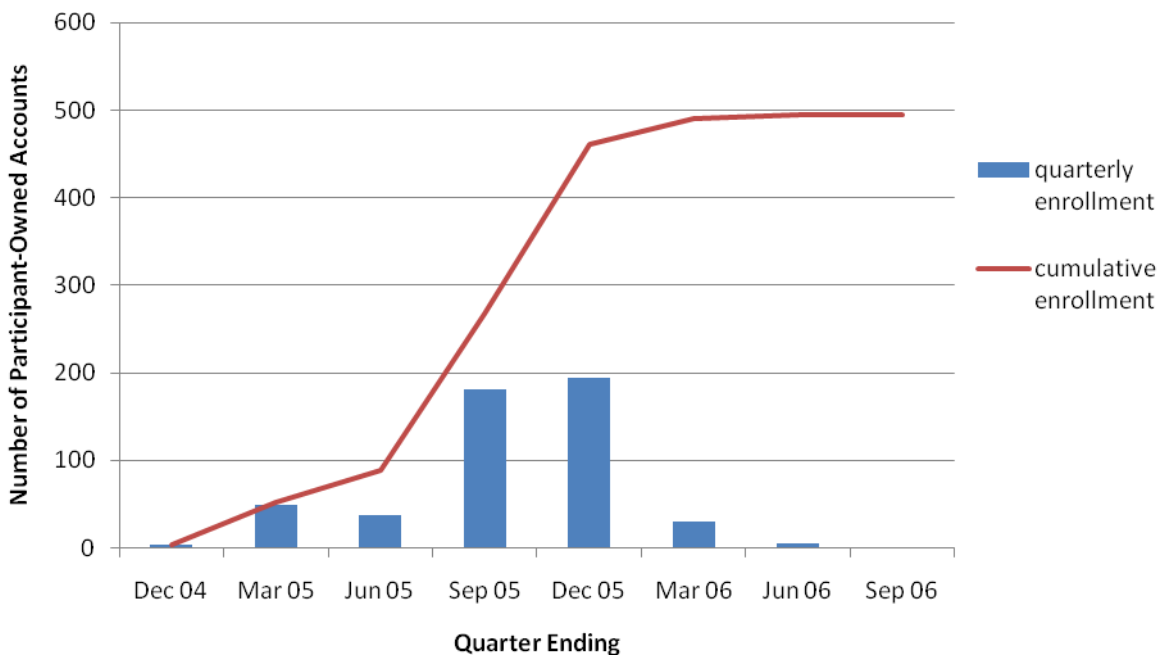
⁷ For further information about the MESP State Matching Grant visit <http://www.misaves.com/ourplan/matching.html>.

MESP Matching Grant and any MI SEED match dollars. Match dollars are invested in the TIAA-CREF Institutional Bond fund and may be used for the MI SEED child’s post-secondary education until age 30.⁸

Enrollment and Length of Participation

A total of 430 participants opened an account for each of the 495⁹ children in MI SEED.¹⁰ The first accounts at OLHSA were opened in the fourth quarter of 2004, but it was not until the second half of 2005 that the majority of the participants were enrolled (Figure 1). With savings for all participants continuing during MI SEED through December 31, 2008, accountholders had 14 quarters, on average, to accumulate assets in their accounts (Table 2).¹¹

Figure 1. Enrollment of MI SEED Participants, Quarterly and Cumulative



⁸ Match account funds are retained by the state if the beneficiary reaches age 30 without using them for post-secondary education.

⁹ This figure excludes four participants who opened accounts but did not consent to participating in the research.

¹⁰ Some participants had multiple children who participated in MI SEED.

¹¹ Saving in participant-owned accounts can continue beyond the offering of MI SEED savings incentives and the research.

Table 2. MI SEED Participation through December 31, 2008

N	Quarter First MI SEED Accounts Opened	Length of Participation (quarters)			MI SEED End Date
		Mean	Minimum	Maximum	
495	Dec 2004	14	11	17	Dec 2008

MI SEED Participants and Children

Slightly over half of the children in MI SEED are male, and just over half are of a minority race or ethnicity. At the time of enrollment, children's ages ranged from 3 to 6 years, with a mean and median of 4 years. In addition, almost 10% of children were reported as not having health insurance coverage.

MI SEED participants were most commonly the mother of the child (86%), followed by the father (9%). Approximately half had only a high school diploma or lower level of education. About 48% reported being single, while another 13% reported that they were divorced or separated. Almost one in five participants reported being unemployed, while another 28% were retired, disabled, or homemakers. In all, around 30% reported being neither married nor employed.

Table 3. Child and Participant Characteristics at Enrollment¹²

Child Characteristics (N=495)	%	Participant Characteristics (N=490) ^{13,14}	%
Gender		Relationship to child	
Female	49	Mother	86
Male	51	Father	9
Race/ethnicity		Grandparent or other relative	4
Non-Hispanic White	46	Foster parent or other unrelated guardian	1
Non-Hispanic Black	33	Highest level of education	
Latino or Hispanic	10	Did not complete high school	20
Native American	1	High school diploma or GED	30
Asian	1	Some college	30
Mixed/Bi-racial	7	Completed 2-year college degree	11
Missing	2	Completed 4-year college degree	5
Age (years)		Attended graduate school	4
3 to 4	63	Marital status	
5 to 6	37	Single	48
Nationality		Married	39
U.S. citizen	100	Divorced or separated	13
Birthplace		Employment status	
U.S. born	99	Full-time or more	36
Health insurance		Part-time (up to 35 hours/week)	14
Yes	90	In school or job training	4
No	9	Unemployed	18
Missing	1	Homemaker, retiree, or disabled	28
		Marital/employment status	
		Married and working	19
		Married and not working	20
		Not married but working	31
		Neither married nor working	30

¹² In Tables 3 and 4, the percentage of missing cases is reported when the value is 1% or more. Percentages may not sum to 100% due to rounding.

¹³ In Tables 3 and 4, participants (and their corresponding households) whose relationship to the MI SEED child is *foster parent* or *other unrelated guardian* (1% of all participants) are excluded, since information about these participants does not represent the child's long-term living situation and is thus not comparable to data for other participants.

¹⁴ Since data were collected at the child (account beneficiary) level, participants and households with multiple children in MI SEED are counted multiple times—once per child—in these descriptives.

At the time of enrollment, almost 80% of children came from families that had incomes below 150% of the federal poverty guidelines. More than half of the MI SEED children's families were on food stamps, while 34% reported prior receipt of AFDC/TANF, and 12% currently received TANF. Around 7 in 10 participants did not have life insurance and 3 of 5 did not own their place of residence. In addition, 33% were unbanked, with neither a checking nor a savings account.

Table 4. Household Characteristics at the Child Level at Enrollment

Household Characteristics (N=490)	%	Household Characteristics	%
Family type		Life insurance for participant	
1+ adults, 0 children ¹⁵	1	Yes	28
1 adult, 1 child	7	No	70
1 adult, 2 children	10	Missing	2
1 adult, 3+ children	14	Owns vehicle	
2+ adults, 1 child	12	Yes	81
2+ adults, 2 children	23	No	18
2+ adults, 3+ children	32	Missing	1
Multiple children in MI SEED	25	Owns home	
Income/poverty		Yes	39
0-49	27	No	60
50-99	30	Missing	1
100-149	22	Owns rental property or land	
150-200	6	Yes	5
200+	8	No	95
Missing	7	Missing	1
Prior AFDC/TANF receipt		Owns business	
Yes	34	Yes	7
No	63	No	92
Missing	3	Missing	1
TANF receipt		Owns stocks, bonds, 401(k)s, or other investments	
Yes	12	Yes	18
No	85	No	80
Missing	3	Missing	2
SSI/SSDI receipt		Banking status	
Yes	12	Checking or savings account	30
No	87	Checking and savings account	36
Missing	1	Neither checking nor savings account	33
Food Stamps receipt		Missing	1
Yes	53		
No	46		

¹⁵ In these households, the child does not reside with the participant.

Savings Outcomes

As of December 31, 2008, MI SEED *total accumulation* was \$734,042 in the participant-owned accounts and state-owned match accounts combined (Table 5). In addition to the initial MI SEED deposit, which all 495 participant-owned accounts received, participants made gross deposits of \$129,380. The total participant-owned account balance of \$528,847 also includes investment gains or losses¹⁶ and MI SEED initial deposits. This figure is net of non-qualified withdrawals.¹⁷

Matches on participant savings totaled \$81,083 as of December 31, 2008. The state-owned account balance of \$205,195 includes savings matches earned and accrued, the MESP matching grants, and investment gains or losses. No withdrawals were made from the state-owned account.¹⁸

Table 5. Total MI SEED Accumulation through December 31, 2008 (N=495)

Participant-owned Account

Gross Participant Deposits ¹⁹	\$129,379.72	
Earnings	\$25,906.95	
Non-qualified Withdrawals	(\$22,440.15)	
Total Net Deposits by Participants		\$132,846.52
MI SEED Initial Deposits		\$396,000.00
Total Balance		\$528,846.52

State-owned Account

Match Deposits	\$81,083.14	
Match Accruals at 12/31/08	\$6,715.10	
MESP Matching Grants ²⁰	\$96,400.00	
Earnings	\$20,996.88	
Match Withdrawals	(\$0.00)	
Total Balance		\$205,195.12

Total MI SEED Accumulation **\$734,041.64**

¹⁶ MESP investment performance varies by fund. Average annual returns for the three-year period from 2006 to 2008 ranged from -8.68% for the stock fund, to -3.20% for the moderate aged-based fund, to 3.72% for the principal plus interest fund. The MESP matching grant bond fund annual performance for the same period was 4.26%.

¹⁷ Participants can withdraw funds from this account for purposes other than postsecondary education. The earnings portion of such non-qualified withdrawals is subject to a 10% penalty, as dictated by section 529 of the Internal Revenue Code.

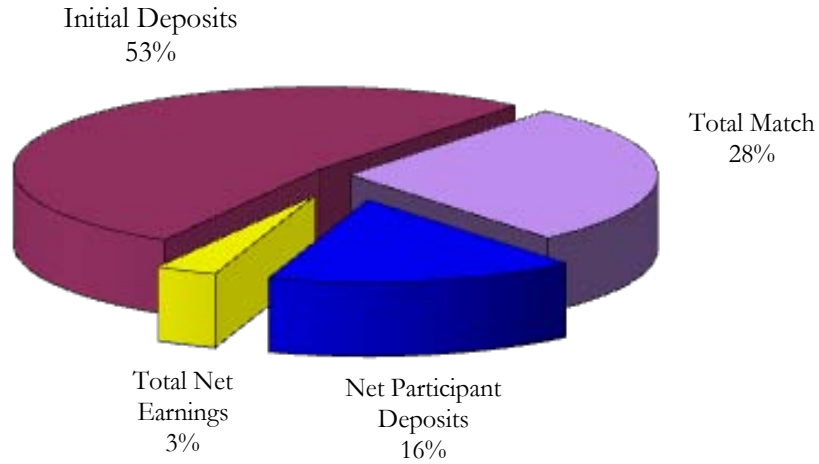
¹⁸ Only the state has the ability to approve deposits to or withdrawals from the state-owned account.

¹⁹ Five children had accounts open prior to MI SEED; these accounts became the MI SEED account once enrollment began. The participant deposits reported in this line exclude \$12,160 deposited in these accounts prior to enrollment in MI SEED.

²⁰ A \$200 matching grant from MESP was deposited for 482 of the 495 children during MI SEED. One participant received the MESP matching grant prior to enrollment and twelve were ineligible.

Breaking down total accumulation by deposit source, initial deposits accounted for about half of total accumulation, while match deposits made up just over a quarter of the total (Figure 2). Net contributions by participants totaled 16% of all accumulation, and net earnings²¹ represented 3% of the total.

Figure 2. Total MI SEED Accumulation as of December 31, 2008, by Deposit Source²²



Participant deposits to each MI SEED participant-owned account ranged from \$3 to \$18,000 for those accounts with deposits. After adjusting for participants who subsequently withdrew all of their contributions, a net total of \$120,033 was deposited for 152 children (31% of accounts). Among participants who made net deposits beyond the initial deposit, the mean amount contributed was \$790 per child (Table 6).

Table 6. Deposits into Participant-owned Accounts through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Participant deposits	152	\$790	\$212	\$3	\$18,000

²¹ Earnings are net of fees. Total annual fees of 0.45% are charged to every MESP fund except the Principal Plus Interest Option, for which there are no annual fees.

²² The percentages listed for Initial Deposits, Total Net Earnings, and Net Participant Deposits in Figure 2 are net of total non-qualified withdrawals.

Non-qualified withdrawals are made for purposes other than postsecondary education expenses from the participant-owned account. The sources of non-qualified withdrawals were the participant's contributions, net earnings, and/or the initial deposit, depending on the amount withdrawn. Under 4% of participant-owned accounts (18 of 495) had non-qualified withdrawals totaling \$22,440 by December 31, 2008. Among those who had non-qualified withdrawals, the mean amount withdrawn was \$1,247 (Table 7).

Table 7. Non-qualified Withdrawals from Participant-owned Accounts through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Non-qualified withdrawals	18	\$1,247	\$894	\$200	\$5,944

Earnings, comprising both investment gains and losses, amounted to \$25,907 in MI SEED participant-owned accounts as of December 31, 2008. On average, each account had \$52 in earnings (Table 8). This is substantially lower than at the end of 2007, when the accounts had a total of \$63,599 in earnings, mean earnings being \$128 per child.²³ The 2008 year-end figures include 101 accounts that incurred investment losses averaging \$170 per child. For these accounts, the losses ranged from \$5 to \$3,586. In comparison, none of the accounts had investment losses as of the end of 2007.²⁴

Table 8. Participant-owned Account Earnings through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Earnings	495	\$52	\$99	-\$3,586	\$653

²³ The drop in earnings can be attributed to the adverse investment environment beginning in 2008.

²⁴ MI SEED took place from late 2004 through 2008, a portion of which was a recession period with declining investment values.

Average quarterly net savings (AQNS) to the participant-owned account is defined as deposits plus earnings, and less non-qualified withdrawals and the initial \$800 deposit, per quarter of participation in MI SEED.²⁵ The formula is:

$$\text{AQNS} = \frac{\text{deposits} + \text{earnings} - \text{non-qualified withdrawals} - \text{initial deposit}}{\text{quarters of MI SEED participation}}$$

Thus, AQNS takes into account the length of time that an account was open. Negative values are due to a participant withdrawing some or all of the initial deposit, or from investment losses. As of the end of 2008, MI SEED participants had, on average, saved \$19 per account each quarter (Table 9), compared to a mean of \$29 the year before. Higher non-qualified withdrawals and lower or negative earnings contributed to the drop in AQNS from the figure through December 31, 2007.

Table 9. Average Quarterly Net Savings through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Average quarterly net savings	495	\$19	\$7	-\$67	\$1,201

In essence, AQNS is composed of a participant's own net contributions (i.e., deposits other than the initial deposit) plus net earnings. If net earnings are removed from AQNS, only the participant's net contributions remain. This amount is called *average quarterly net contributions* (AQNC). Negative values are due to a participant withdrawing some or all of the initial deposit. As of December 31, 2008, the mean AQNC was \$16 (Table 10). This is marginally lower (about \$1) than the mean AQNC the year before. AQNC ranged from -\$67 to \$1,500 for each account. The formula for AQNC is:

$$\text{AQNC} = \frac{\text{deposits} - \text{non-qualified withdrawals} - \text{initial deposit}}{\text{quarters of MI SEED participation}}$$

Table 10. Average Quarterly Net Contributions through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Average quarterly net contributions	495	\$16	\$0	-\$67	\$1,500

²⁵ The created savings outcome variables AQNS and AQNC are based on the participant-owned accounts only.

As mentioned earlier, MI SEED uses the Michigan Education Savings Program (MESP), the State's 529 college savings plan. Participant deposits and match dollars are held in separate MESP accounts. As at the end of 2008, the total value of matches in the state-owned match accounts was \$205,195. This includes the \$200 MESP Matching Grants, matches on eligible contributions, and interest earned. On average, each account accumulated \$415 in match dollars, with a range of \$0 to \$1,607 (Table 11). Twelve children did not receive the \$200 MESP Matching Grant because they were ineligible.²⁶

Table 11. State-owned Account Balances through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Total match dollars per child	495	\$415	\$229	\$0	\$1,607

Overall, MI SEED children had \$734,042 in *total accumulation* in their accounts as of December 31, 2008. Total accumulation is defined as the sum of net contributions, net earnings, initial deposits, and total match dollars in both the participant-owned and state-owned MESP accounts. On average, each child has \$1,483 accumulated in their accounts, with accumulations ranging from \$227 to \$16,724 (Table 12). Key MI SEED savings outcomes are summarized in Table 13.

Table 12. Total MI SEED Accumulation per Child through December 31, 2008

Savings Outcome	N	Mean	Median	Minimum	Maximum
Total accumulation per child	495	\$1,483	\$1,131	\$227	\$16,724

²⁶ Reasons for State Matching Grant ineligibility include the following: the grant was applied for after the first year the beneficiary was enrolled in MESP; the participant's adjusted gross income was over \$80,000; the beneficiary was older than 6 years; or the beneficiary was not a resident of Michigan when the account was opened.

Table 13. Summary of MI SEED Savings Outcomes through December 31, 2008

Savings Outcome	Mean	Median	Minimum	Maximum
Total accumulation per child	\$1,483	\$1,131	\$227	\$16,724
Average quarterly net contributions (AQNC)	\$16	\$0	-\$67	\$1,500
Average quarterly net savings (AQNS)	\$19	\$7	-\$67	\$1,201

Overall, about 31% of children had participant deposits to their MI SEED accounts. Including program incentives, the total accumulation saved in all MI SEED accounts over the course of the initiative was \$734,042. Less than 4% of participant-owned accounts had non-qualified withdrawals. Subtracting these non-qualified withdrawals from participant deposits, the average quarterly net contribution (AQNC) is almost \$16 per child. When earnings (or losses) are included, the average quarterly net savings (AQNS) is slightly higher, over \$19 per child. As of December 31, 2008, MI SEED participant-owned and state-owned match accounts had an average combined balance of \$1,483.

As noted earlier, this report details demographic findings and uses cash flow data to examine asset accumulation and savings for 495 children in MI SEED. The account and savings outcomes data from this Account Monitoring report are being used by a team of researchers. Future reports will examine possible factors influencing asset building in MI SEED.

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