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BREAKING THE CYCLE

Boston Launches Child Savings Accounts

CSAs Offer Seed Money For College Education, Opportunities For Financial Literacy

By [Laura Alix](#) | Banker & Tradesman Staff | Apr 9, 2017

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Bankers and policymakers concerned about college attendance, financial literacy and reaching the unbanked are turning their sights to child savings accounts as a tool to give low-income kids a better shot at college.

Although the precise details can vary from program to program, a child savings account (CSA) is essentially a savings account established with an initial seed deposit for children early in life, often around kindergarten. The intent is to help that child's family save for postsecondary education expenses and avoid debt that disproportionately burdens lower-income earners.

Boston is just one city to launch its own CSA program, although Trinh Nguyen, director of the office of workforce development and the office of financial empowerment, said that Boston prefers to think of its CSA as a tool rather than a program. After soliciting feedback from principals, teachers and families, the city partnered with InvestCloud to create a platform that allowed parents to link the CSA to their current bank account. Nguyen said that seeking the input of those

families they wanted to reach was key.

"We wanted something organic and in partnership with the families we want to serve, so bringing them into the initial design was important. Our job is to make it easier for them," Nguyen said. "Our CSA allows to initially get involved and not get intimidated by the system, and over time you can link this to your 529 plan. It's not a tool to stand alone. It's to initially engage and inform parents and teachers and principals and then get them a jumpstart by providing them with that platform."

The evidence in favor of CSAs is compelling, too: Low-income children with up to \$500 in a savings account are three times more likely to enroll in college and four times more likely to graduate, according to research out of the University of Kansas in 2013.

"It's not just about the amount of money that one is able to save. These are people of modest means who are going to save modest amounts. ... It's not just about the size of the nut. It's about all the other aspects that CSAs have demonstrated positive impacts on," said Anthony S. Poore, deputy director of regional and community outreach at the Federal Reserve Bank of Boston.

Poore oversees the New England CSA Consortium, where he's seen the results from municipalities all over the region that are engaged in their own CSA efforts. Nationwide, there are currently 42 CSA programs, serving a little more than 313,000 children across 29 states, he said.

Poore has identified what he sees as several best practices for a successful CSA program, including a universal and opt-out enrollment strategy and a match rate pegged to some kind of benchmark.

"There is a tremendous amount of momentum in this sector right now, and frankly New England and the Boston Fed are right at the nexus of innovation and discovery," Poore said.

No Overnight Cure

While child savings accounts might be a newer phenomenon, community financial institutions taking on financial literacy efforts in their communities is not. The FDIC recently wrapped up a two-year pilot study of youth savings programs at 21 banks across the country. Reading Cooperative Bank was among them.

Among the findings Reading Cooperative shared with the FDIC was that if you paired a teenager's bank account with a mobile app, attrition rates disappeared, said President and CEO Julieann Thurlow.

In addition to two high school branches staffed by students enrolled in a basic banking course, Reading Cooperative also recently launched a financial literacy program at Lawrence High School. The course covers things like budgeting, building credit, buying a car and insurance and financing college. One of the hopes is that those students will bring some of those lessons back to their families and that Reading Cooperative can start to build some trust between the bank and the community.

"Creating good bank customers is the goal, by having educated consumers. Hopefully they'll then choose Reading Cooperative, but if not, we've actually positioned somebody to be a good consumer of bank products," Thurlow said.

Challenges abound in promoting CSA programs – not least among them, the need for both funding and patience. State and local governments are understandably wary of putting **THE WARREN GROUP** in charge. But it's not only the cost of the program, but also the need for both an original idea and the ability to market it properly. The cost of such education-related accounts banked did not arise overnight and won't be solved overnight, either.

"I think as more people get encouraged by what they see, the long-term goal will be realized, but it's going to take time," Poore said. "At the end of the day we need to figure out how we can engage these families in authentic ways. Otherwise they're going to have a bunch of small dollar accounts sitting on a bank's balance sheet."

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