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GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

# RESEARCH BRIEF

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## Direct Effects of Assets and Savings on the College Progress of Black Young Adults

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The 2009 Status on Minorities in Higher Education report indicates that the Black college enrollment rate from 1988 to 2006 showed a modest increase from 22% to 33% (Ryu, 2009), but White children experienced the highest rate of enrollment in higher education over this period (31% to 45%) (Ryu, 2009). Therefore, a sizeable gap (12%) between White children and Black children remains. Even larger disparities exist in regard to graduation from a four-year college. For example, in 2006, 33% of White children attained a bachelor's degree compared to only 17% of Black children—a gap of 16% (Ryu, 2009).

Given existing disparities in college attendance and completion and the growing role that education is playing in gaining employment and economic mobility, policymakers are increasingly looking for ways to create greater college access and higher college completion rates for more of America's youth. A well-recognized barrier to college access and completion is high college costs. This may be particularly true for Black children. For example, Immerwahr (2004) finds that 57% of American adults say that many qualified high school graduates are unable to attend college due to cost. An overwhelming 76% of Black adults in Immerwahr's (2004) study believe lack of financial resources limits

college access. Further, in a study investigating Black high school students' perceptions of barriers to attending college, Black high school students identify financial concerns as a key barrier to attending college in addition to psychological barriers (Freeman, 1997). The perception that college is for those who have money may have real consequences for how Black children, who are disproportionately poor, invest effort and ability.<sup>1</sup> Research suggests that low expectations for financing college lead to fewer Black children taking qualifying exams (such as the SAT or ACT) to attend college and ultimately enrolling in college (see e.g., Perna, 2000).

Child Development Accounts (CDAs) have been proposed as a potentially novel and promising alternative mechanism to debt accumulation for financing college (Boshara, 2003; Goldberg & Cohen, 2000; Sherraden, 1991). An example of a CDA policy in America is the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act. ASPIRE would create "KIDS Accounts," or a savings account for every newborn, with an initial \$500 deposit, along with opportunities for financial education.<sup>2</sup> Other examples of youth asset-building policies in America are Young Saver's Accounts, 401Kids, Baby Bonds, and Plus Accounts.<sup>3</sup> At the state

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level, College Savings (529) Plans are becoming more inclusive and are a promising platform for CDAs (Lassar, Clancy, & McClure, 2010). However, conducting advance tests of CDAs is desirable.

This study examines whether savings and assets promote college progress for black youth. College progress indicates whether youth are “on course”—that is, whether they were currently enrolled in or had graduated from a two-year or four-year college. Those who are not currently enrolled and do not have college degrees are described as off course.

This study builds on previous research in several important ways. First, we use longitudinal data to examine whether savings and assets promote college progress. By using longitudinal data we are able to provide some evidence of time precedence (i.e., assets and savings come prior to college progress), an important step toward establishing causation. Second, although much is known about the factors that affect college attendance, it is only recently that researchers have begun to examine variations in college attendance by race (Freeman, 1997; Hurtado, Inkelas, Briggs, & Rhee, 1997; Perna, 2000). This study helps to further our understanding of racial differences by using separate samples of Black and White young adults. Independent samples of Black and White young adults can enable researchers to draw inferences that may be lost in aggregate data (for example, that savings are related to one group’s college progress but not the other’s). Third, in addition to different forms of household assets (i.e., parents’ savings and net worth), this study also includes adolescents’ school savings. There is a growing body of evidence that suggests adolescents’ savings may be a particularly powerful form of assets (see e.g., Elliott & Beverly, 2010). Finally, this study includes academic achievement as a control. Findings from other studies suggest that academic achievement may account for some of the effect of net worth on college progress (see e.g., Jez, 2008).

## Hypotheses

Researchers have identified a number of factors, including social capital (Porfeli, Wang, Audette, McColl, & Algozzine, 2009), cultural capital (Lareau, 2003), economic capital (Coleman, 1988), and human capital (Paulsen, 2001) as key predictors of college attendance. The different types of capital are believed to augment young people’s use of effort and ability, allowing them to accomplish more than they would be able to otherwise. From this perspective, if there are two young people with

similar capacities for effort and ability but one of them has capital at their disposal, the young person with capital will be able to achieve a higher level of functioning (i.e., success) in school than the young person without capital.

Among the types of capital, this study focuses specifically on economic capital. While education research has given considerable attention to income (e.g., Axinn, Duncan, & Thornton, 1997), assets have largely been overlooked as a type of economic capital. This may be because income and assets have traditionally been viewed as one concept (Sherraden, 1991). According to Sherraden (1991), assets represent an accumulated stock of resources kept through time, whereas income is a flow of resources used for current consumption. There is a growing body of evidence that supports the contention that assets and income are distinct concepts (e.g., Lerman & Mikesell, 1988; Sherraden, 1991). For example, Lerman and Mikesell (1988) find that when income stemming from net worth (i.e., total household wealth minus debts) is removed from total income, the correlation between income and net worth is .26. In addition, researchers find that asset inequality is more skewed than income inequality in America (Mishel, Bernstein, & Allegretto, 2006-2007; Sherraden, 1991). For example, according to Mishel, Bernstein, and Allegretto (2006-2007), the top 10% of Americans received less than half (42.5%) of all reported income in 2004. In contrast, the top 10% of Americans in 2004 held 71.2% of all assets (Mishel et al., 2006-2007). Further, wealth is very unequally distributed by race. Median net worth for Black households in 2004 was \$11,800; for White households, it was \$118,300. Moreover, 29.4% of Black households in 2004 had negative net worth, compared to only 13.0% of White households (Mishel et al., 2006-2007).<sup>4</sup>

Although evidence is mixed, the majority of evidence suggests that assets may help promote college attendance and graduation (e.g., Elliott & Beverly, 2010; Zhan & Sherraden, 2010). Based on this evidence, we ask whether net worth, parents’ savings, and adolescents’ savings have a significant association with Black children being on course. Adolescents’ school savings in the Child Development Supplement (CDS) of the PSID is the portion of money in a traditional savings account (e.g., an interest-bearing savings account at Bank of America) that adolescents mentally designate for school. Adolescents can easily withdraw money from these accounts and use that money without penalty. It is important to point out that the liquid nature of

adolescents' school savings in the CDS distinguishes it from other more popular educational accounts such as Coverdell Education Savings Accounts, Uniform Gifts to Minors Act (UGMAs), 529 College Savings plans run by states, Roth Individual Retirement Arrangements (IRAs), or CDAs.<sup>5</sup> These increasingly popular educational accounts offer their owners protection from taxation. In order not to be taxed, however, savings in these accounts typically cannot be withdrawn without penalty until children reach college age, and savings must be spent on college-related expenses. As a result, these accounts can more aptly be defined as being non-liquid in nature.

In addition, we ask whether there may be additional benefits to adolescents having school savings in their own name in contrast to having it in the name of a parent as is the case in popular school savings accounts. Evidence in behavioral economics suggests people use mental and physical accounting techniques to think about different pots of money in ways that affect when and how they use the money (e.g., Lea, Tarpy, & Webley, 1987; Thaler, 1985; Winnett & Lewis, 1995). In other words, money is not entirely fungible, with different accounts holding different purposes and meanings. These meanings may affect how people deposit money into accounts and how they use the money (Winnett & Lewis, 1995). Families, especially those with children, may have numerous household accounts that are designated for certain purposes and are subject to negotiation within the family (Winnett & Lewis, 1995). Some examples of these different accounts are Christmas accounts, vacation accounts, home repair accounts, school expense accounts for such things as clothing and books, college tuition accounts, new home purchase accounts, and so on. Further, parents are typically designated as the primary decision makers over these family accounts and thus maintain primary power over how they are used.

There are three main hypotheses in this study: (1) White young adults are more likely to be on course than Black young adults; (2) liquid assets (i.e., parents' savings for their children and adolescents' school savings) are more likely to promote being on course among young adults than net worth when controlling for academic achievement regardless of race, and (3) Black young adults who have school savings as adolescents are more likely to be on course than those living in higher net worth households or who have parents who have savings for them as adolescents.

## Methods

Data for this research come from the Panel Study of Income Dynamics (PSID) and its supplements, the Child Development Supplement (CDS) and the Transition into Adulthood (TA) supplement. The aggregate sample of young adults is split into a White sample (N=534) and a Black (N=469) sample. The aggregate sample, the White sample, and the Black sample are similar in mean age. Young adults range in age from 16 to 19 in 2002, and 17 to 23 in 2007. Ages overlap because young adults start and leave school at different times.

College progress was measured in 2007. Independent variables were measured in 2002 or earlier. *Net worth* is a continuous variable that sums separate values for a business, checking or savings accounts, real estate, stocks, and other assets, and subtracts out credit card and other debt. It does not include home equity. *Parents' savings for adolescents* indicates whether heads of household had any money set aside for youth in a bank account that was separate from other types of savings. The *adolescents' school savings* variable divides youth into two categories: (1) those who had a savings or bank account in their name and designated a portion of the savings in the account for future school, and (2) those with no account and those who had an account but did not designate a portion of the savings for school.

We use descriptive statistics to estimate the percentage of young adults on course for both Black and White adolescents. We then estimate a series of logistic regression models to examine the independent effects of asset variables on college progress for separate samples of Black young adults and White young adults. These models control for household head's education, household size, family income, adolescents' academic achievement, adolescents' current or prior receipt of special education services, adolescents' self-efficacy, adolescents' self-concept, adolescents' race, and adolescents' age in 2002.

## Main Findings

Aggregate data indicate that there is a 28% gap in college progress between White and Black young adults. The largest gap is in regards to whether heads have a four-year degree or more. The Black-White gap is 50% for young adults who live with heads who have a four-year degree or more. The smallest gap (8%) is between White and Black young adults who live in modest net worth households as

adolescents.

With respect to economic factors, the gap (26%) between White and Black young adults who live with parents who do not have savings for them is statistically significant. The Black-White college progress gap of 29% among young adults who live with parents who have high net worth is statistically significant. In addition, the gap (28%) between White and Black young adults who have school savings of their own is also statistically significant.

Consistent with our first hypothesis, overall, White young adults are more likely to be on course than Black young adults. Results are mixed in regards to our second hypothesis. Adolescents' school savings, a liquid asset, is significantly related to both White and Black young adults' college progress, and net worth is not. However, parents' savings for their child is not significantly related to college progress among White or Black young adults. Consistent with our third hypothesis, only adolescents' school savings is statistically significant in the aggregate, White, and Black samples.

## Implications

In this study we find some evidence to support the contention that liquid assets, particularly in the form of adolescents' school savings, are more likely to promote being on course among Black young adults than net worth when controlling for academic achievement. This suggests that, although CDAs have been developed to solve the short-term problem of financing college, a better design might allow youth to access a portion of their savings on a more regular basis to help resolve long-term problems associated with attending college (for e.g., buying books or a computer or paying fees related to school activities). Adding a liquid component to CDA policies also addresses the fact that Black young adults face multiple risk factors. In addition to direct effects (helping to pay for day-to-day expenses), liquid assets in a Black adolescent's name may help to build a sense of perceived control.

Further, existing education research identifies parents' socioeconomic status (i.e., family income and parents' education level) as one of the most important predictors of young adults' college progress. However, up until now, this research has largely ignored adolescents' school savings. A reason for this may be because few data sets include adolescents' savings variables along with data on adolescents' educational outcomes. The PSID and its

supplements, while imperfect, provide one of the few opportunities to investigate this relationship. In this study, controlling for academic achievement among other factors, we find that adolescents' school savings has a significant association with Black and White young adults' college progress. Therefore, we suggest policies like the ASPIRE Act that promote adolescents' school savings may be an effective way to increase college attendance and graduation rates among Black young adults.

## Endnotes

1. For example, using U.S. Census data, Mischel, Bernstein, and Shierholz (2009) find that 24.5% of Black households compared to only 10.5% of White household lived in poverty in 2007.
2. At this writing, the ASPIRE Act remains on the Congressional agenda ([http://www.newamerica.net/publications/policy/aspire\\_act\\_bill\\_summary](http://www.newamerica.net/publications/policy/aspire_act_bill_summary)).
3. For more information on these policies, see Loke and Sherraden (2009).
4. Net worth here includes home equity.
5. An example of a proposed CDA policy is the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act.

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