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Reducing the College Progress Gap between Low-to-Moderate-Income and High-Income Young Adults: Assets as an Understudied Form of Economic Capital

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Given the expected shortfall of educated workers, the importance of education for economic mobility, and disparities in college attendance and completion rates associated with income status, there is a growing need to understand the factors that promote college progress, particularly among low-to-moderate-income young adults. 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 being key predictors of college attendance generally. However, little is known about the relative impact of these factors on young adults from low-to-moderate-income (LMI) households. This study seeks to expand on previous research by examining the role that capital plays in predicting college progress among a sample of young adults from LMI households. Further, while income has been given considerable attention (e.g., Axinn, Duncan, & Thornton, 1997; Brooks-Gunn & Duncan, 1997), assets are often excluded as a key variable in operationalizing economic capital in the literature on college attendance and graduation. In this study we include assets (net worth, parents' savings, and adolescents' savings) as a separate measure of economic capital.

Hypotheses

The different types of capital—economic, cultural, social, and human—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. Accordingly, we hypothesize that having assets reduces the college progress gap between HI (household income of \$50,000 or above) young adults and LMI (household income below \$50,000) young adults.

Studies examining the role of economic capital have largely ignored assets and savings as a type of economic capital in regards to college attendance and completion. This may be because income and assets have traditionally been viewed by economists as one concept (Sherraden, 1991). However, 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.

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There is a growing body of evidence that supports the contention that assets and income are distinct concepts (e.g., Lerman & Mikesell, 1988; Oliver & Shapiro, 2006; Sherraden, 1991). For example, Lerman and Mikesell (1988) find that when income stemming from net worth (i.e., total household assets 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, 2007; Oliver & Shapiro, 2006; Sherraden, 1991). For example, according to Mischel, Bernstein, and Allegretto (2007), the top ten percent of Americans received less than half (42.5%) of all reported income in 2004. In contrast, the top ten percent of Americans in 2004 held 71.2% of assets (Mishel et al., 2007). The recognition in recent years of income and assets as separate concepts, combined with evidence that asset accumulation is highly skewed, has led to increased interest by researchers and policymakers in examining the role that assets may play in assisting youth—in particular, LMI young adults—to progress toward college graduation. Further, while evidence thus far is mixed, there is reason to believe that assets are positively related to young adults' college attendance and progress toward completion. Therefore, we hypothesize that net worth, parents' savings, and adolescents' savings are associated with young adults being on course among HI and LMI young adults.

We also hypothesize that adolescents' savings is more closely associated with young adults' college progress than either net worth or parents' savings for adolescents among HI and LMI young adults. This hypothesis is based on evidence from behavioral economics, which 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; Xiao & Anderson, 1997). 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. However, not all money is held in household accounts. Some evidence suggests that young people are given latitude over their own money to spend and save as they see fit (Meeks, 1998). This latitude may result in an increased sense of perceived control, which is one of the most robust predictors of student resilience and academic success (Skinner, Wellborn, & Connell, 1990).

In sum, we propose the following three hypotheses: (1) having assets reduces the college progress gap between HI young adults and LMI young adults; (2) net worth, parents' savings, and adolescents' savings are associated with young adults being on course among HI and LMI young adults; and (3) adolescents' savings is more closely associated with young adults college progress than either net worth or parental savings among HI and LMI young adults.

Methods

Data for this research come from the Panel Study of Income Dynamics (PSID) and its supplements, the Child Development Supplement and the Transition into Adulthood supplement. The final weighted LMI sample consists of 495 young adults. In the LMI sample, young adults' ages ranged from 12 to 19 (mean = 16; SD 1.6) in 2002, and young adults' ages ranged from 17 to 23 (mean = 20, SD = 1.6) by 2007. Household size ranged from 2 to 11 (mean = 3.99, SD = 1.3).

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

LMI and HI 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 LMI young adults and HI young adults. These models control for parents' perception of college as expensive, household head's education, parents' college expectations for their adolescent children, parents' involvement, adolescents' academic achievement, adolescents' college expectations for their peers, adolescents' college expectations for themselves, adolescents' race, and adolescents' age in 2002.

Findings

Taken as a whole, young adults from HI households (72%) are more likely to be on course than LMI young adults (35%) whether or not they possess capital. Among HI White young adults, 76% are on course compared to 35% of LMI White young adults. In the case of young adults from households where the head has a four-year degree or more, 89% of HI young adults compared to 49% of LMI young adults are on track. In the case of parent school involvement, an equal percentage of LMI and HI young adults are on course whether parents have average or above average involvement (29%) or whether they have below average involvement (34%).

With respect to assets and savings, among young adults with parents who have savings for them, 77% of HI young adults are on course in comparison to 39% of LMI young adults. Among young adults whose parents have high net worth, 75% of HI young adults and 39% of LMI young adults are on course. Among young adults with school savings as adolescents, 83% of HI young adults are on course compared to 46% of LMI young adults.

With respect to the second research question, controlling for other factors, both net worth and adolescents' school savings are positive, strong, and significant predictors of college progress soon after high school in the sample. However, we did not expect findings to vary by income level. Net worth is significant in the HI sample, and adolescents' savings is significant in the LMI sample. Further, parents' savings is not a significant predictor of college progress in either the HI or LMI samples.

In response to our third research question, which states that adolescents' school savings is more closely related to young adults' college progress than household assets, results are mixed. In the case of young adults in the LMI sample, adolescents'

school savings appears to be more important than household assets. However, in the case of young adults in HI households, household assets appear to matter more than adolescents' school savings.

It should also be noted that—controlling for many other variables—among LMI young adults, household size, parents' college expectations, and academic achievement are significantly related to college progress. Moreover, among HI young adults, age in 2002 and head's education is significantly related to college progress.

Implications

Child Development Accounts (CDAs) have been proposed as a way to help students finance college (Boshara, 2003; Goldberg & Cohen, 2000; Sherraden, 1991). In their simplest form, CDAs are incentivized savings accounts that can be used for long-term investments, such as education, home and business ownership, and retirement. An example of a CDA policy 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.¹ Youth living in households with incomes below the national median would be eligible for an additional contribution of up to \$500 at birth and a savings incentive of \$500 per year in matching funds for amounts saved in accounts. When accountholders turn 18, they would be permitted to make tax-free withdrawals for costs associated with post-secondary education, first-time home purchase, and retirement security. Other examples of youth asset-building policies are the Young Saver's Accounts, 401Kids, Baby Bonds, and Plus Accounts.² At the state level, College Savings (529) Plans are becoming more inclusive and are a promising platform for CDAs (Lassar, Clancy, & McClure, 2010).

Findings suggest that a threshold may exist where family income is sufficiently high that having savings of one's own no longer is perceived by the adolescent as important to financing college. That is, there may be an income point where it is no longer reasonable for adolescents to doubt the ability of their families to finance college. Once this point is reached, having school savings may have little additional benefit. This suggests that providing CDAs to HI young adults may not be the best use of funds. Existing policies that help build family net worth may benefit HI young adults more than a CDA policy would. Examples of these policies are

the home mortgage tax deduction, 401(k) plans, and IRAs. These policies often do not benefit low-income families (Sherraden, 1991). This suggests that progressive CDAs (where everyone is given an account but only LMI children receive initial deposits or matches, for example) or CDAs for LMI children only may be most effective.

Endnotes

1. At this writing, the ASPIRE Act remains on the Congressional agenda (http://www.assetbuilding.org/resources/the_aspire_act_of_2004_kids_accounts_s_2751_hr_4939).
2. For more information on these policies, see Loke and Sherraden (2009).

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