Savings Deposits, Incentive Structure, and Management Information Systems: Implications for Research on a Children and Youth Savings Account Policy Demonstration

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INTRODUCTION

For program administration and for policy purposes, savings data are fundamental to the Children and Youth Savings Account Policy Demonstration (CYSAPD). Whether or not the researchers also need the data, programs must track how much each participant has saved and how much is to be disbursed in matching funds.

Of particular relevance for the administration and evaluation of the American Dream Demonstration (ADD) of Individual Development Accounts (IDAs) was the development of MIS IDA, a management information system designed by the Center for Social Development. Yet, for CYSAPD, a tracking system other than MIS IDA may be the best choice. ADD suggests that programs sometimes have difficulty tracking savings data, and another system may (1) be easier for programs to run (because they will be responsible for less tracking); (2) show how a program could be run by institutions capable of running a national policy. This paper contrasts the differences between ADD and the proposal for CYSAPD regarding savings deposits, incentive structure, and management information systems.

SAVINGS DEPOSITS

ADD assumes that most deposits in IDAs come from the adult participants themselves. In CYSAPD, a much larger share of deposits—especially for children—are likely to come from someone other than the child or youth, for example parents, grandparents, or third parties such as 501(c)(3) organizations.

The third-party distinction matters because the participant does not control the presence or access of such contributions. Just as in ADD, some programs had higher match rates than others simply because they were more successful in raising funds.

In ADD, third-party contributions are used to match the savings of participants. Match dollars are always kept separate from the participant deposits. In effect, the participant has two accounts. The participant establishes one account, and—using MIS IDA—the sponsoring organization tracks separately third-party match dollars (held in a single account) for each participant. The sponsoring organization provides match dollars to the approved vendor at the time of asset purchase.

In CYSAPD, as in ADD, the research focuses on the savings behavior of the participant and his/her family, independent of whatever third parties happen to do. Thus, to optimize the lessons learned for CYSAPD policy and research, contributions related to the participant (the child or youth, parents, or grandparents) must be tracked separately from third party contributions. Schreiner (2001) describes several measures of financial savings in CYSAPD.
INCENTIVE STRUCTURE

An essential topic for CYSAPD is the incentive structure. It has been suggested that an alternative to the incentive used in ADD may be more useful for CYSAPD participants and also provide a better fit for to-scale policy implementation. In CYSAPD, there are two possible third-party incentive structures: *match and additive*.

The *match* incentive is demonstrated in ADD. For example, for every $x dollars the participant saves, a match of $y multiplied by $x is contributed. The match rate may vary among programs in ADD, but the typical rate is 2:1.

ADD’s incentive structure matches the balance of the participant’s account within any given statement period (as opposed to matching the deposits in a given period). In addition, there are calculations to limit matching based on time caps and dollar maximums.

An *additive* incentive is a fixed dollar amount that may or may not be related to saving. For example, an achievement-based additive incentive may be tied to graduation from high school, a specific grade-point average, or honor-roll attainment. On the other hand, the additive incentive may be savings-based. For example, a participant may receive a third-party fixed contribution for enrolling in CYSAPD via an automatic deposit program. By electing to automatically deposit contributions, the participant has made a financial commitment to monthly saving. Research indicates that a participant is less likely to drop out of an IDA program if savings are deposited automatically (Grinstein-Weiss *et al*., 2001; Schreiner *et al*., 2001). Another example of an additive incentive may be the receipt of a third-party contribution based on net savings during a given year (ie. if the participant’s end of year balance is $x or greater, then $y is deposited).

For CYSAPD, sponsoring organizations may either design their programs to provide match or additive incentives for the benefit of the participant. However, the simplest, and therefore recommended incentive is additive. CYSAPD programs may be more likely to use additive incentives for the following reasons: (1) youth have little money of their own to deposit, and an additive incentive may not be dependent on such contributions; (2) school-based performance may be emphasized, tying contributions to achievements; (3) match calculations are not necessary, simplifying the account management; thus, additive incentives may be easier to operate on a national scale.

MANAGEMENT INFORMATION SYSTEMS

Fundamental to the success of CYSAPD is the selection and use of a simple and effective standardized management system. The choice of a system will be dictated by program and monitoring design, which is in turn dictated by research and policy goals.
One possible goal for CYSAPD is to pilot a program that can go to scale. From this perspective, program design should be compatible with current systems that can support nationwide participation, such as 401(k) plans. Current possibilities for to-scale systems include a system in development, Doorways to Dreams (D2D), or a college savings-plan system.

**D2D OnLine IDA.** Developed by the Harvard Business School in partnership with D2D Fund and SunGard, D2D is a prototype modified 401k system designed to handle account management for IDAs (Johnson *et al.*, 2001). However, D2D is still in the design phase and it is questionable whether it will be available and tested for CYSAPD sites across the country by the start of this demonstration. At this time, it does not appear that D2D is a viable option for CYSAPD.

Thus, the CYSAPD management information system options are:

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<th>Option</th>
<th>College saving-plan accounting</th>
<th>MIS IDA</th>
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<tr>
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**College savings-plan accounting systems.** A college savings plan is an investment plan operated by a state designed to help families save for future post-secondary education costs. A professional money manager, such as TIAA-CREF or Fidelity Investments, typically provides a centralized accounting system for each state’s program. Clancy (2001) discusses college savings plans in detail and presents the implications for CYSAPD.

If the focus of CYSAPD is on parents saving for a child’s education, and for teens interested in saving for post-secondary education, then college saving plans are recommended as the saving vehicle (Option 1). In this case, a separate system—such as MIS IDA—will not be required of the sponsoring organizations for tracking savings data (Clancy, 2001); however, a companion system will be necessary to collect demographic characteristics. An additive incentive structure may be best suited for college savings plans.

Option 1 supports saving only for post-secondary education. A second option is to use both college savings plans and a system that can accommodate other approved saving uses, such as MIS IDA. It may be impractical for a single site to operate two separate systems; therefore, the experimental sites could use college savings plans and all other sites could use either MIS IDA or college savings plans to track savings information in CYSAPD.

**MIS IDA.** While MIS IDA provides flexibility for tracking a variety of intended uses, the system is not capable of demonstrating scale (Johnson *et al.*, 2001). Furthermore, the use of MIS IDA by CYSAPD may depend on the saving incentive structure selected. The current MIS IDA accounting function is a match, not an additive, incentive structure.
MIS IDA may be revised to accommodate an additive incentive structure, and will also require revisions to track participant characteristics tailored to CYSAPD (Clancy, Johnson & Schreiner, 2001).¹

**SUMMARY**

How will savings data be collected and what will be the incentive structure for CYSAPD? The response to this question may influence the amount of effort organizations spend collecting data, and may also impact the selection of the appropriate monitoring system. Two systems options are proposed. The recommended model for scale is college savings plans; the system is currently available nationwide and account management is handled by the college savings plan money manager. Discussion regarding demonstration goals, incentive structures, and approved uses of accounts will determine the selection of an appropriate system for CYSAPD.

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¹ A modified version of MIS IDA may be used to only collect demographic information at all sites.
REFERENCES


