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Staying on Course: The Effects of Savings and Assets on the College Progress of Young Adults

By William Elliott and Sondra Beverly

College graduation is increasingly seen as a necessary step toward achieving the American Dream. However, large disparities exist in graduation rates. In this study, we examine the effects of assets on the college progress of young adults and test whether youth's educational expectations mediate the relationships between assets and college progress. Young adults who are currently enrolled in or who have graduated from a two-year or four-year college are defined as "on course" for achieving the American Dream via the education path. Those who are not currently enrolled and who do not have college degrees are defined as off course.

Hypotheses: Savings Matter

We hypothesize that household net worth, parental savings, and youth savings are positively related to college progress. We also hypothesize that youth's educational expectations mediate the relationships between assets and college progress. These hypotheses are based on the assumption that assets may have two effects on educational outcomes. One effect is direct and mainly financial. In the short run, savings may increase ability to solve school-related problems such as buying books or a computer or paying school-related fees. In the long run, savings may help families finance college.

Another effect of assets on educational outcomes is indirect and mainly attitudinal. If youth believe they will have the financial resources to pay for future schooling, they may have higher college expectations (Elliot, 2008). In turn, higher expectations may lead to increased academic efforts and achievement (Cook, et al., 1996; Marjoribanks, 1984; Mau, 1995; Mau & Bikos, 2000; Mickelson, 1990). This attitudinal effect of having savings could be as important as or more important than the money itself in affecting the transition from high school to college.

Finally, we hypothesize that youth savings is more strongly associated with college progress than are the other assets. The bulk of research on assets and youth educational outcomes has focused on household assets (e.g., Conley, 2001; Jez, 2008; Nam & Huang, 2009). However, when both youth savings and household assets have been included in the same model, youth savings has been more closely related to youth educational outcomes (Elliott, 2008; Elliott & Beverly, 2010; Elliott, Jung, & Friedline, 2010).

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Washington University in St.Louis

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 sample includes Black and White young adults who were not in high school in 2007. Our final weighted sample of 1,003 youth includes 795 Whites and 208 Blacks.[1] Youth age, measured in 2007, ranges from 17 to 23 (mean = 20, SD = 1.6).

College progress is measured in 2007. Independent variables are 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. Parent savings for youth 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 youth 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. College expectations is a dichotomous variable indicating whether youth expected to graduate from a four-year college.

We use descriptive statistics to estimate the percentage of young adults who are "on course." We then estimate a series of logistic regression models to examine the independent effects of savings and asset variables on college progress. These models control for household head's education, head's marital status, family income, household size, youth race, youth gender, and youth academic achievement. Next, we use the Baron and Kenny (1986) method and bootstrapping (Bollen & Stine, 1992) to test whether youth's college expectations mediate the relationships between assets and college progress.

Findings

An estimated 57% of young adults are "on course" for achieving the American Dream via the education path. Young adults who have lived in high-income households 82%), Whites (64%), females (62%), young adults with above-average achievement (78%), and young adults who have lived in the most educated households (84%) are more likely to be on course. Also, young adults who have expected to graduate from college (71%) are more likely to be on course.

Assets appear to matter. About 69% of young adults who have lived in high net worth households as youth are on course, compared to 41% of young adults who have lived in modest net worth households, and 35% of young adults who have lived in negative net worth households. About 68% of young adults who have lived with parents who had savings for them are on course. In comparison, only 47% of young adults who have lived with parents who did not have savings for them are on course. Finally, 75% of young adults who have had some of their own savings designated for school are on course, compared to 45% of young adults without school savings.

Consistent with our first hypothesis, in multivariate analyses, both net worth and youth school savings are strong positive predictors of college progress soon after high school. Contrary to the first hypothesis, parental savings is not a significant predictor of college progress. Parental savings and youth school savings are positively associated with youth's college expectations when controlling for demographic and academic achievement variables. Net worth is not significantly related to college expectations. The consistent results for youth school savings and the mixed results for household assets (net worth and parental savings) provide some support for our hypothesis that youth school savings may have especially powerful effects on young adult's college progress.

Evidence for mediation is mixed. Consistent with our hypothesis, both the Baron and Kenny (1986) test and bootstrapping suggest that youth's college expectations partially mediate the relationship between youth school savings and college progress. Contrary to our hypothesis, there is no evidence that the relationship between net worth and college progress works partly through college expectations, because net worth is not significantly related to expectations.

The results for parental savings are more complex. According to Baron and Kenny (1986), expectations cannot mediate the relationship between parental savings and college progress because the "total effect" of parental savings on college progress is not significant. More recently, however, researchers have suggested that indirect effects—more broadly defined than "mediation"—may occur when there is no total effect (e.g., Mathieu and Taylor, 2006; Preacher and Hayes, 2004). Bootstrapping results

suggest that parental savings does have an indirect effect on college progress, through expectations. In other words, expectations appear to act as a "linking mechanism" (Mathieu & Taylor, 2006, p. 1039): parental savings is linked to college progress because parental savings is associated with expectations, and expectations are associated with college progress.

It should also be noted that—controlling for many other variables—gender, academic achievement, head's education, and youth's college expectations are significantly related to college progress, while race and family income are not related to college progress.

Discussion

The American Dream can be thought of as the opportunity for all Americans to achieve economic mobility through the exercise of effort and ability. In today's highly competitive global economy, many view college graduation as a necessary step toward achieving the Dream. However, with the rising cost of a college education, many families cannot finance college on current income alone. They must rely on accumulated assets (especially savings) and/or take out education loans that may be difficult to repay. Thus, programs that help parents and youth accumulate savings may help families finance college.

Multivariate findings from this study provide evidence that savings and assets are indeed associated with young adults staying on course. All assets in this study appear to play some role in young adults' college progress soon after high school. Youth school savings has a direct statistical effect on college progress, as well as an indirect effect, through youth's college expectations. Net worth has a direct effect only. While parental savings for youth does not have a direct effect on college progress, bootstrapping results indicate that it has an indirect effect on college progress, through expectations.

In sum, this study adds to a growing body of research indicating that savings and asset holding may improve educational outcomes for young people, and that educational expectations can be an important mechanism for transmitting the positive effects of asset holding. The potential for savings and assets to have direct and/or indirect effects on educational outcomes may make asset-building programs an effective strategy for staying "on course" toward college graduation.

Endnotes

1. Because the PSID initially oversampled low-income families, both the descriptive and multivariate analyses are weighted.

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Authors

William Elliott, III, Faculty Associate
Assistant Professor, University of Pittsburgh
wie1@pitt.edu

Sondra Beverly, Senior Scholar
csd@wustl.edu

Contact Us

Margaret Clancy, College Savings Initiative Director
mclancy@wustl.edu
(314) 935-8178

Center for Social Development
George Warren Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu

CENTER FOR SOCIAL DEVELOPMENT
George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899