Center for Social Development
GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

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# Frequently Asked Questions About the Features of Child Development Accounts in Israel

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In November 2015, Israel enacted legislation to directly create and fund a Child Development Account (CDA) program for the state. Beginning in 2017, every baby born to an insured Israeli resident will receive an account in his or her name.

The following answers are based on recommendations for how a CDA program should be implemented in Israel. The recommendations come from the Center for Social Development at Washington University in St. Louis.

## What Are Child Development Accounts?

According to researchers at the Center for Social Development, "Child Development Accounts (CDAs) are savings or investment accounts for long-term developmental purposes."[1] The accounts are usually opened in the name of children at their birth and include an initial deposit provided from philanthropic dollars or other sources of reserved funds. In many cases, a governmental entity will match subsequent deposits made into the accounts by family and friends. The child beneficiary may access the funds at age 18 to make a down payment or repairs on a home, obtain technical training, start a business, or pay college tuition. In addition to providing financial benefits, CDAs also foster positive social, emotional, and educational outcomes for account holders and their families (see below).

## Why Does Israel Need CDAs?

At 20%, Israel's poverty rate continues to be higher than that of any other country in the Organization for Economic Cooperation and Development, and Israel is among the top five for growing income inequality.[2] One out of every four Israeli children regularly experiences hunger, and just under two thirds of families in Israel are forced to skip needed medical treatments or medications in order to pay their bills.[3] Although various efforts are under way to alleviate poverty in the short term, Israel has a need for policies that help families build wealth, increase financial security, and improve income. In addition to providing families with a long-term method for acquiring wealth, CDAs help to prepare children for the financial realities of adulthood. The accounts provide an early financial head start for children.

## Where Will the Funds for this Program Come From?

The CDA program in Israel will build on the existing infrastructure of the state's child allowance. Israel offers a monthly child allowance to offset some of the expenses of raising children. Under the new law, a portion of the monthly child allowance, 50 shekels, will be diverted into the CDA until the child reaches adulthood, though families may opt out. Because the accounts are to be structured as investment vehicles, the savings in them will accrue interest, though rates will likely remain low.

## Who Will Be Eligible to Receive an Account?

A CDA will be available to every child born to an insured resident of Israel on or after January 1, 2017, regardless of family income, race, ethnicity, or any other characteristic. The accounts will be *universal*, in that they will be available to all children born to insured residents after that date, and *automatic*, in that each of these children will receive one at birth; no action will be required of parents, but they may choose to opt out.

## Why Is It Important That My Child Have an Account in His or Her Name, and Why Can't the Funds Just Go Into Our Family Account?

A recent study shows that an account in a child's name is positively correlated with the child's subsequent financial outcomes; having entered the financial mainstream as children, individuals continue to engage with financial products and institutions as they grow.[4] The goals of CDAs are to provide the benefits of early asset accumulation to all children, to create a financial foundation for them, and ultimately to improve the economic mobility of each child. The positive effects of CDAs may include increased parental expectations concerning the educational achievement of their children, improvements in the mental health of parents, and enhancements in the socioemotional development of children.[5] If they had savings accounts when they were children, young adults are two times more likely to own checking accounts, two times more likely to own credit cards, three times more likely to own certificates of deposit, and four times more likely to own stocks.[6] This pattern holds true regardless of the income of the young adult's family.[7]

## Why Is It Important That We Save These Funds for the Future Instead of Using Them for Current Needs?

To provide a better future for generations, families need to earn income and to build wealth, which can be amassed by accumulating assets. Low- and middle-income families that lack assets live from paycheck to paycheck.[8] Assets empower families to invest in homes, businesses, and education, thereby enabling increased wealth and long-term financial security. Wealth can be passed on to children and future generations. By helping children to begin accumulating assets at a young age (e.g., starting to save in a CDA from the point of child's birth), CDAs maximize the period of time over which savings grow and interest accrues. The accounts also serve as a reminder to invest money in the child's future as he or she continues to grow.[9] Financially stable households are the most likely to be upwardly mobile, as assets often provide protection from financial shocks and allow the parents to give children opportunities to build their own assets.[10] Income and spending allowances fill short-term needs, but assets and wealth can provide families with economic security and financial capability over a lifetime. Their effects can be especially pronounced when one begins to accumulate them at the earliest opportunity.

## Do CDAs Provide Benefits Other Than Financial Support?

As mentioned above, research shows that the benefits of possessing a CDA aren't just financial; social and emotional benefits are documented as well. A recent study found that levels of social-emotional skills at age 4 were significantly higher among low-income children who received CDAs than among counterparts who did not receive the accounts.[11] Moreover, low-income children with savings accounts perform better in school,[12] have better mental health,[13] and are more civically engaged.[14] The evidence suggests that accounts, including CDAs, give parents hope for their children's future. Such hope is then reflected in parents' educational expectations for their children and in other benefits like declines in the number of symptoms of maternal depression, particularly among disadvantaged mothers.[15] Often, CDAs are accompanied by financial education, which provides parents and children additional preparation to successfully manage their finances.

## What If the Money Is Not Withdrawn?

Remaining account funds could be rolled over into a retirement account or other savings vehicle.

## Will Families Actually Save in These Accounts?

Low- and middle-income families face many barriers to saving. Among these are outstanding debts, use of alternative and costly financial services, and the routine challenge of covering expenses.[16] However, studies over several decades have found that these families can and do save if given the right opportunities and institutional supports.[17] For example, the YouthSave project, which is currently leading savings account demonstrations in Colombia, Ghana, Kenya, and Nepal, has highlighted the importance of saving at an early age and saving as a family-wide endeavor. Since 2012, youth in these four countries have already saved over $1.8 million collectively.[18] Important findings from YouthSave indicate that youth open and use savings accounts if financial institutions make them safe and affordable; evidence from the project also shows that youth save significantly more if parents are active cosignatories on accounts.[19]

Over the past decade, researchers have identified constructs that determine families' ability to save:[20]

» access to savings accounts and other financial products, regardless of family income, with saving institutions are nearby;

» information on savings vehicles;

» incentives, both financial (e.g., subsidies and interest) and nonfinancial (e.g., new peer relationships, social status, and learning opportunities);

» expectations, both implicit (e.g., an automatic percentage of the paycheck sent to savings via direct deposit) and explicit (e.g., by friends and family that the family will save);

» restrictions that ensure funds are used for designated purposes to help families build wealth; and,

» secure, ensuring that savings are reserved for allowable uses and protected from losses due to macroeconomic events.

The CDAs outlined in the new law are designed to incorporate many of these constructs so that the accounts will help families build wealth in a stable, research-tested manner.

## What Other Countries Have CDAs?

Throughout the world, CDAs are becoming a growing part of asset-building policies. Examples of current CDA programs include Singapore's Baby Bonus and CDAs, South Korea's CDAs, and several CDA policies in Canada.[21] Much of the research on CDAs has been performed in the United States, where several states, including Maine and Nevada, now possess CDA policies.[22] As mentioned, other savings demonstrations, such as the YouthSave work in Colombia, Nepal, Ghana, and Kenya, also show that youth and low-income families can and will save successfully.[23]

## End Notes

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2. Organization for Economic Cooperation and Development (2015a, 2015b).
3. Latet Organization (2014).
4. Friedline (2014).
5. Beverly, Clancy, and Sherraden (2015).
6. Assets and Education Initiative (2014).
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8. Boshara (2003).
9. Zhan and Grinstein-Weiss (2007).
10. Pew Charitable Trusts (2013).
11. Huang, Sherraden, Kim, and Clancy (2014).
12. Assets and Education Initiative (2013); Elliott (2009); Williams Shanks, Kim, Loke, and Destin (2010); Zhan and Grinstein-Weiss (2007); Zhan and Sherraden (2003).
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14. Sherraden and McBride (2010).
15. Huang et al. (2014).
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18. Johnson et al. (2015).
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