

ASSET BUILDING PROGRAM

THE CASE FOR EXTENDING FINANCIAL INCLUSION TO CHILDREN

The Role of Parents' Financial Resources and Implications for Policy Innovations

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Children are significantly more likely to maintain a relationship with financial institutions and have greater financial assets later in life when they own a savings account earlier in life. However, some children gain access to savings accounts while others do not—an inequity that tends to be based on parents' socio-economic status. This paper explores the case for extending financial inclusion to children by improving access to basic financial services. Such an approach may offer a number of economic benefits, especially among those children whose parents have limited financial resources. Policy innovations that make savings accounts widely available to children may be a valuable tool to trigger increased savings behavior that can continue into adulthood and lead to improved financial outcomes over the long-term.

Consider the following scenario: a child at age five or six makes regular trips to the bank with her parents to deposit birthday and holiday money into her savings account. She may be saving solely for the purposes of learning about banking and money management, or saving up for short-term expenses, like a new toy. By the time she reaches age eight or nine, she might think about saving for things like a computer or a school field trip—things necessary for her education but perhaps beyond her parents' budget. A few years later, maybe around ages 12 to 15, she is still saving for short-term expenses. By now, though, her saving strategies have likely become more sophisticated and in addition to her short-term expenses, she is saving for long-term expenses, like a car or college tuition. Maybe she even has

multiple savings accounts for different types of expenses—one for a new computer and another for college tuition. While she may not realize it at the time, her savings may go a long way toward meeting the expected family contribution for her college tuition. She continues saving when she is older, around ages 17 to 23 after graduating from high school and enrolling in college—both milestones on her path to financial independence. Since she has been saving for such a long time, her saving strategies have grown even more sophisticated. She may be saving toward her first home, automatically deducting money from her paycheck to put into savings, and opening a 401(k) for retirement.

This is a plausible scenario and one that is easy to imagine. However, there is a small, yet critical, moment that may be taken for granted. That is, her parents opened a savings account in her name and took her to the bank beginning when she was young, giving her a financial advantage lasting well into adulthood. In this scenario, her parents were gatekeepers to her early financial inclusion and many (if not all) of her later experiences with savings were built on earlier experiences. How might the scenario have been different had her parents not thought about or not been able to facilitate early financial inclusion?

Some children, particularly those whose parents have limited financial resources, may have difficulty accessing basic financial services without an infrastructure to make such services available.

Researchers have recently begun to acknowledge this question and ask what financial inclusion might mean for children. Specifically, researchers have asked how children come to be included in financial experiences like opening savings accounts and whether their inclusion happens as a result of parents' abilities to extend experiences to their children. Key variables in this relationship might be whether parents have access to basic financial services themselves, such as whether they have savings accounts. This might be taken to mean that some children, particularly those whose parents have limited financial resources, may have difficulty accessing basic financial services without an infrastructure to make such services available. Moreover, researchers have begun to explore whether children's early financial inclusion like owning savings accounts evolves into long-term relationships with mainstream financial institutions and leads to improved financial outcomes.

What Is Financial Inclusion and What Does It Mean for Children?

This paper builds a case for extending early financial inclusion to children by discussing how early financial inclusion might accelerate their capabilities to save and presents research findings on the current state of children's savings. The paper discusses policy innovations and recommendations for designing an infrastructure that extends financial inclusion to children. The paper defines financial inclusion and situates it within the context of institutional theory. Several theoretical perspectives¹ (institutional theory, human needs theory, financial socialization theory, and economic psychology)² help to explain when children develop the capabilities to save, how early financial inclusion might accelerate children's capabilities, and the role parents play in this process (i.e., opening a savings account at a formal bank like Bank of America or PNC Bank). The paper also presents research findings by Friedline and colleagues that inform how children experience early financial inclusion by predicting their financial outcomes, including savings accounts and

¹ These theoretical perspectives are not discussed in-depth individually, but insights from each are used to explain how financial inclusion is currently extended to children and how early financial inclusion might accelerate children's capabilities to save. Institutional theory of assets was first introduced by Michael Sherraden and suggests that institutional mechanisms like direct deposit and incentives can be leveraged to provide access to and facilitate savings. Human needs theory, articulated by Xiao and colleagues, suggests that individuals or families have different types of accounts based on a hierarchy of needs. On the one hand, basic transaction accounts facilitate day-to-day expenses and may be the most productive type of financial product for those who need regular access to savings to pay for short-term expenses. On the other hand, risky investments like stocks and bonds may be more productive for those who are able to save for long-term expenses. Financial socialization theory, such as published work by Moschis, suggests that parents model financial behaviors for their children and play an integral role in passing on financial habits. Economic psychology, such as work by Leiser and colleagues and Webley and colleagues, builds off of Piaget's stages of development and suggests that children's understanding about saving and ability to save pass through parallel stages that become integrated over time. This means that children may become better at saving as they get older because their abilities more closely match their understanding about saving.

² Ashby, Schoon, Webley (2011). Berti & Bombi (1981). Beverly, Sherraden, Cramer, Williams Shanks, Nam, & Zhan (2008). Moschis (1985). Sherraden (1991). Sonuga-Barke & Webley (1993). Xiao & Anderson (1997).

amount saved. Finally, research findings are used to describe how policies might be re-envisioned to develop infrastructure around children's savings and maximize benefits to children whose parents have few financial resources.

Connecting adults with basic financial services may lead to continued relationships with mainstream financial services and improved financial outcomes in the long-term.

A broad framework of financial inclusion has gained recognition in recent years. Financial inclusion refers to the availability of mainstream and basic financial services like savings accounts to all who are able to use them, with emphasis on expanding services and education to adults who have typically been underserved.³ Financial inclusion and education are key components of financial capability⁴, an approach that refers to the combination of information about and access to basic financial services. The Federal Deposit Insurance Corporation (FDIC), for instance, established an Advisory Committee on Economic Inclusion (Come-IN) in 2006 followed by the Alliance for Economic Inclusion (AEI), which aims to expand “basic retail financial services for underserved populations, including savings accounts...targeted financial education programs...and other asset-building programs.”⁵ The U.S. Department of the Treasury’s interest in financial inclusion calls for “expanding the financial tools and education available to every American to help ensure that families are more secure for their financial futures.”⁶ Implicit in these efforts is the idea that the earlier adults are able to make

these connections, the better off they may be. In other words, connecting adults with basic financial services may lead to continued relationships with mainstream financial services and improved financial outcomes in the long-term.⁷

This framework of financial inclusion is an extension of institutional theory that views unequal access to basic financial services as a structural failing.⁸ In other words, structural failings may explain why financial inclusion is extended to some and not others. Mark Rank discusses how this theoretical perspective can be useful for explaining inequality in his book *One Nation, Underprivileged*. Using poverty as an example of inequality, he presents two possible explanations stating that “On one hand, we can identify who is more likely to experience poverty...On the other hand, we can ascertain why poverty occurs in the first place by looking at the structural failings...”⁹ The first points to demographic characteristics to explain poverty while the latter points to lack of infrastructure in a broader societal context, such as trends in the economy. He uses a game of musical chairs to illustrate this point. In a game of musical chairs with ten players and eight chairs, two players are always left standing when the music stops. If we focus on structural failings to explain why two players are left standing, our attention turns to the game's design.¹⁰

A real-life example of this and one also presented by Rank is full employment in capitalist economies, also known as structural unemployment.¹¹ Structural unemployment is the acceptable rate of unemployment given a stable rate of inflation.¹² The Organisation for Economic Co-operation and Development (OCED) estimates that structural

⁷ Grinstein-Weiss, Yeo, Despard, Zhan, & Casalotti (2010). Han, Grinstein-Weiss, & Sherraden (2009). Loibl, Grinstein-Weiss, Zhan & Red (2010). Sherraden (1991).

⁸ Elliott (2012a). Sherraden (1991).

⁹ Rank (2005). pg. 75.

¹⁰ Rank (2005).

¹¹ Rank (2005).

¹² OCED calculates structural unemployment by determining the non-accelerating inflation rate of unemployment (NAIRU), which is the unemployment rate under conditions of consistent, stable inflation.

³ YouthSave Initiative (2010).

⁴ Johnson & Sherraden (2007).

⁵ See for example FDIC’s Alliance for Economic Inclusion (AEI).

⁶ See for more information U.S. Department of the Treasury, Resource Center on Financial Education and Financial Access.

unemployment for the United States is around 5%, meaning that at any given time 5% of people in the U.S. can expect to be unemployed.¹³ Put a different way, full employment in the U.S. is when 20 players are working and one player is left standing when the music stops because there are only enough chairs (i.e., jobs) for 95% of people at one time. An institutional theory framework can help articulate the role that structures, or a lack of structures, play in making mainstream and basic financial services available to children.

One of the best ways to develop long-term relationships with mainstream financial institutions might be to make services like basic savings accounts widely available at an early age. Policy innovations that aim to correct the structural failings that produce inequalities in children's savings can target children directly for financial inclusion.

Mounting evidence suggests that extending financial inclusion to children may be important for improving their long-term educational and financial outcomes. For instance, children have better educational outcomes when they have their own savings accounts—apart from their parents' savings—compared to children who do not have savings accounts, even after taking into consideration factors like parents' financial resources and children's achievement scores.¹⁴ It is noteworthy that in this research,

children's savings is distinct from parents' financial resources. Children's savings accounts are accounts in their own names that they interact with and make decisions about, whereas parents' financial resources—even parents who have accounts like 529 plans or Roth IRAs for their children—are separate resources managed and controlled by parents. In addition, children's savings is held in local banks, meaning that parents most likely need to facilitate the process of opening these accounts. If parents do not do this, children are at a disadvantage. Like the relationship between children's savings and educational outcomes, there may be similar long-term effects on financial outcomes when children have savings accounts early in life. After all, one of the best ways to develop long-term relationships with mainstream financial institutions might be to make services like basic savings accounts widely available at an early age. Policy innovations that aim to correct the structural failings that produce inequalities in children's savings can target children directly for financial inclusion.

Financial Inclusion May Accelerate Children's Capabilities to Save

It might be surprising to learn that children, even as young as ages five and six, recognize saving as a socially desirable behavior and by age 12, they have the capabilities to use the bank to save their money.¹⁵ For example, interview studies of children ranging from age five to 11 find that about one-third of the youngest group endorses savings as socially desirable, with the percentage increasing to roughly two thirds amongst the oldest age group.¹⁶ Whereas children prior to age 12 endorse saving and attempt to use the bank to save, children closer to and older than 12 see banks as a way to regulate and invest their money and have the capabilities to consistently use the bank to save.¹⁷ There is wide consensus about this developmental process in

Elliott & Beverly (2011b).

¹⁵ Jahoda (1983). Moschis (1985). Ng (1983). Sherraden, Johnson, Guo, & Elliott (2010). Ward, Wackman & Wartella (1977). Webley, & Plaisier (1998).

¹⁶ Ward, Wackman & Wartella (1977).

¹⁷ Otto, Schots, Westerman & Webley (2006). Sonuga-Barke & Webley (1993). Webley & Nyhus (2006). Webley & Plaisier (1998).

¹³ Turner, Boone, Giorno, Meacci, Rae, & Richardson (2001). The OCED also estimates that structural unemployment in the U.S. is relatively sensitive to economic fluctuations and that the recent economic crisis might increase the structural unemployment rate by over 2%. This would mean the current structural unemployment rate in the U.S. is around 7%, or 2% higher than it was ten year ago. For more information, see Guichard & Rusticelli (2010).

¹⁴ Elliott, Jung & Friedline (2010). Elliott & Beverly (2011a).

research, suggesting children are ready for financial inclusion at the latest by age 12.

One way to extend financial inclusion is through policy innovations that make children's savings accounts widely available and supported by an infrastructure to support their savings.

This should not be taken to mean that children prior to age 12 are not ready to engage with issues of personal finance.¹⁸ Children may be able to consistently use the bank to save if they have opportunities for early financial inclusion, perhaps accelerating their capabilities to save. For example, children are already making notable gains in their capabilities to save around ages eight and nine and some research suggests that children move through the developmental process more quickly when they have early experiences with money management.¹⁹ Early opportunities make use of an important time in children's developmental processes by influencing them when their capabilities to save are most malleable.²⁰ If given early opportunities to interact with basic financial services in a structured and inclusive way, it appears that children can use the bank as a saving strategy sooner.

Despite being capable of saving at an early age, children depend largely on their parents for financial inclusion.²¹ Parents can facilitate opportunities for financial inclusion like opening savings accounts in children's names or teaching them the importance of saving. Along with these

interactive experiences, children may observe parents depositing money into savings accounts or applying for a loan. The lessons learned from these experiences most likely stay with children throughout their lifetimes²², meaning children's early financial inclusion matters for their long-term financial outcomes.

Yet parents may not have the ability to capitalize on children's capabilities by extending financial inclusion in concert with their developmental process, or parents may miss important milestones in the developmental process completely by extending financial inclusion too late. This may be in part because parents have unequal access to basic financial services themselves. In other words, children experience financial inclusion unequally based on the types of financial resources their parents own, extending an advantage to children whose parents have more financial resources. For example, research finds that parents own different types of assets based on their income, meaning that children whose parents have high incomes may be exposed to a wider variety of financial resources, and thus opportunities for financial inclusion, compared to children whose parents have lower incomes.²³ Based on this, many children do not have opportunities for financial inclusion until young adulthood and for some children, financial inclusion lags years behind their capabilities.

One way to extend financial inclusion is through policy innovations that make children's savings accounts widely available and supported by an infrastructure to support their savings. This means that savings would be available to children at an early age and that they would have additional means to save other than through their parents. These points may be especially important for children whose parents have limited financial resources. In other words, a structured savings program may provide children with early financial inclusion that accelerates their capabilities to save and reduces an advantage typically afforded to children

¹⁸ For an example, see Elliott, Sherraden, Johnson & Guo (2010).

¹⁹ Berti & Bombi (1981). Berti & Bombi (1988). Berti & Monaci (1998). Jahoda (1983). Leiser, Sevón & Lévy (1990). Leiser & Zaltsman (1990). Lunt & Furnham (1996). Ng (1983, 1985). Webley, Burgoyne, Lea & Young (2001).

²⁰ Pathak, Holmes & Zimmerman (2011).

²¹ Ashby, Schoon, Webley (2011). John (1999). Moschis (1985). Shim, Barber, Card, Xiao & Serido (2010). Williams Shanks, Kim, Loke & Destin (2010).

²² Grinstein-Weiss, Spader, Yeo, Taylor & Freeze (2011). Shim, Xiao, Barber & Lyons (2009).

²³ Elliott (2012a). Xiao (1995). Xiao (1997).

whose parents have more financial resources—things that otherwise occur inconsistently or not at all.

Research on Children's Financial Inclusion

Research has begun to focus on savings accounts as a vehicle for children's financial inclusion. This growing body of work is notable in several respects. First, findings can tell us whether children have savings accounts and whether policy innovations proposed to extend savings accounts to children would be beneficial (i.e., whether or not all children already have savings accounts based on descriptive results). Second, it may be that children's savings is another manifestation of parents' financial resources and parents have an advantaged ability to extend financial inclusion to their children when they have greater financial resources themselves (i.e., whether children's savings is predicted by parents' financial resources). This means that some children have savings and others do not, and inequalities in children's savings are based on how parents are able to introduce financial inclusion. Third, findings can inform existing knowledge about whether financial inclusion is successful and whether children are a viable point for financial inclusion (i.e., whether children continue to save later in life and have more saved when they have savings accounts five years earlier).

Research by Friedline and colleagues²⁴ at the University of Pittsburgh begin to answer these questions by making use of nationally representative, longitudinal data from the Panel Study of Income Dynamics (PSID) and its Child Development (CDS) and Transition to Adulthood (TA) Supplements. This panel study and its supplements cover a broad range of developmental outcomes across the domains of psychological well-being, cognitive development, achievement, motivation, and education, making it ideal for these inquiries. Children's savings can be predicted at different time points all while controlling for things like parents' income and assets. Like previous research,

children's savings represents accounts at local banks in their own names, separate from that of their parents. Friedline and colleagues examine children's savings in four studies²⁵, and taken together there are four key findings.

A structured savings program may provide children with early financial inclusion that accelerates their capabilities to save and reduces an advantage typically afforded to children whose parents have more financial resources—things that otherwise occur inconsistently or not at all.

First, children demonstrate some sophistication in their ability to save. For example, they begin to save for multiple purposes between ages 12 and 15. For instance, 56% of all children ages 12 to 15 have basic savings accounts and 54%

²⁵ Taken together, these studies examine children's savings ranging from ages 12 to 23, shedding light on children's savings from the time when their capabilities to save are developing through early young adulthood. In the first study, Friedline and colleagues predict children's basic and college savings for a sample of 744 children at ages 12 to 15 in 2007. The second study follows by disaggregating the sample from the first study by household income, into separate samples of children from low-to-moderate income (LMI; N = 333) and high income (HI; N = 411) households. In these first two studies, parents' savings for their child is the variable of interest and is measured at baseline in 2002. In the third study, Friedline and colleagues predict children's basic savings for a sample of 1,003 children at ages 17 to 23 in 2007. The fourth study follows by disaggregating the sample from the third study by race, into separate samples of White (N = 534) and Black (N = 469) children. In the latter two studies, an early measure of children's basic savings is measured at baseline in 2002, along with measures of parents' savings and net worth. This is to help determine whether children's early savings predicts their later savings while controlling for parents' financial resources. All of the four studies use propensity score analysis, which sorts the data in an attempt to replicate random assignment. However, the reader should be aware that propensity score analysis is not the same as random assignment. However, these rigorous methodologies should lessen some concerns about bias.

²⁴ Friedline (2012). Friedline & Elliott (2011). Friedline, Elliott & Nam (2011a). Friedline, Elliott & Nam (2011b).

have college savings in aggregate.²⁶ This suggests that children are able to save for both short- and long-term expenses. Yet their sophistication may be more about parents' financial resources than about their capabilities to save, as about 76% of children from high-income households have college savings compared to 35% of those from low-income households. Sixty-seven percent of children have college savings when their parents have savings on their behalf compared to 37% whose parents do not have savings for them.

Second, children's financial inclusion (i.e., having savings accounts as well as the amount of money saved) is based in part on parents' financial resources. Descriptive data suggests that there are large gaps in who has savings accounts and how much they have saved that are based on parents' financial resources, like homeownership, net worth, and savings. Upwards of 78% of children from high-income households have savings compared with 35% of children from low-income households. Children have a median amount of \$500 saved between ages 17 to 23. Yet children from low-income households have only \$70 saved compared to \$1,150 saved by children from high-income households. Children whose parents do not have savings on their behalf have only \$500 saved compared to \$1,060 saved by children whose parents do have savings on their behalf.

There is also statistical evidence for a relationship between parents' financial resources and children's savings. Between ages 12 to 15, children are two to three times more likely to have savings of their own (including basic and college savings) when their parents have savings on their behalf.²⁷ In other words, children are more likely to have savings of their own when their parents have savings that is specifically designated for their child, such as by having savings in accounts like a mutual fund, 529 College Savings Plan, or Roth-IRA in which their child is the intended beneficiary. This means that parents' financial resources

play a key role in how they decide or whether they are able to extend financial inclusion to their children.

Children are about two times more likely to accumulate savings above \$500 when their parents have savings on their behalf compared to those whose parents do not have savings for them.

Third and perhaps most importantly, children are likely to continue saving later in life—over and above their parents' financial resources—if given savings accounts when they are young. That is, when children have savings accounts early in life, they continue to have savings accounts later in life, perhaps developing relationships with mainstream financial institutions and continuing to access basic financial services. Research finds that children are one-and-a-half to three times more likely to have savings accounts between ages 17 and 23 when they have savings accounts five years earlier, even when considering factors like parents' income and assets.²⁸

Fourth, parents' financial resources impact the amount of savings children are able to accumulate, even when taking into consideration children's early financial inclusion.²⁹ Research finds that every \$1,000 increase in net worth results in about a one-and-a-half increase in the likelihood of accumulating savings above the median of \$500 between ages 17 and 23. Children are about two times more likely to accumulate savings above \$500 when their parents have savings on their behalf compared to those whose parents do not have savings for them. This means that even when children have savings accounts of their own at an early age, they still rely on their parents' financial resources to accumulate savings over time. Children from low-income

²⁶ Friedline (2012). Friedline, Elliott & Nam (2011b).

²⁷ Friedline (2012). Friedline, Elliott & Nam (2011b).

²⁸ Friedline & Elliott (2011). Friedline, Elliott & Nam (2011a).

²⁹ Friedline & Elliott (2011). Friedline, Elliott & Nam (2011a).

households, for instance, may have savings accounts early in life but may not experience the same benefits as their high-income counterparts because they have relatively little money to save.

If the ASPIRE Act is to adequately address these questions and remedy the structural failings that produce inequalities in children's savings, future versions of the proposal should consider how an infrastructure can be designed to extend financial inclusion to all children.

As the evidence stands, it is insufficient to depend solely on parents for children's financial inclusion. Parents have different abilities to extend financial inclusion to their children, and children whose parents have more financial resources have a clear advantage. In other words, like the game of musical chairs, there are more children than there are savings accounts and children who gain access to accounts have an advantage that is based not on personal characteristics like skill, but on the distribution of parents' financial resources. As a result, parents' savings for their children is a significant predictor of whether or not children have their own savings early in life, meaning that some children have opportunities for financial inclusion and others do not, and this is largely dependent on parents' resources. Once children have their own savings, it is their own financial inclusion that predicts their later savings—no longer their parents' financial resources. However, parents' financial resources still predict the amount of savings children are able to accumulate. The existing research reflects how children's early financial inclusion is linked to their financial outcomes later in life, highlighting the relevance of policy innovations to promote savings and extend basic financial services to children at an early age.

Policy Innovations for Children's Financial Inclusion

Recognizing the potentially transformative role of extending early financial inclusion to children, some have proposed providing savings accounts to all children at birth. One legislative proposal, The America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act, would establish savings accounts in the name of every newborn child that would be redeemable at age 18 and used for the purposes of education, home ownership, and retirement.

First introduced in 2004 with wide bipartisan support, the ASPIRE Act proposes establishing tax-free accounts in children's own names that would be redeemable at age 18 and used for the express purposes of education, home ownership, and retirement. Since 2004, the ASPIRE Act has been regularly introduced into Congress, including the most recent versions introduced in 2010 as H.R. 4682 and S.3577. Noteworthy features of these accounts, which remained consistent across all proposed versions of the legislation, include universal availability, automatic enrollment, progressive contributions, and restrictions. Accounts would be opened automatically at birth with an initial \$500 deposit to all newborns with a valid social security number. Initially, parents serve as the custodians of these accounts. Children whose parents earn low incomes would benefit from progressive contributions, including a higher initial deposit and annual matched contributions. In exchange for restricting access and limiting withdrawals for pre-approved purposes, money in the savings accounts would not count against children when decisions are made regarding college financial aid.³⁰ Accounts would be managed in a similar manner as the Thrift Savings Plan, where an independent government agency of presidentially-appointed staff is responsible for the management of retirement savings and investment plans for all federal employees.

³⁰ Without such protection, savings in children's own names would be taxed at a flat rate of 20%, creating a substantial disincentive to saving.

Notably, the ASPIRE Act would pair savings with financial education so children would have opportunities to take what they are learning and put that knowledge into practice with real life experiences by having savings accounts. Savings accounts paralleled by education that teaches how to make deposits, interact with bank personnel, and decide between financial products may best fit their needs. Financial education or financial inclusion alone may be insufficient; however, pairing the two would likely produce the best long-term results. As such, the ASPIRE Act has great potential to extend financial inclusion to children.

Expanding on the ASPIRE Act to Extend Financial Inclusion to Children

Despite the advantages to the ASPIRE Act, a number of questions remain unanswered. If accounts are opened at birth with parents as custodians, when do children begin to interact with and take ownership over their accounts? Where will children get the money to save? Does the account structure as proposed meet children's needs, or would an account structure with more flexibility be better? How will children make deposits or interact with financial institutions? Where will children get financial education? These questions call attention to the need to develop a supportive infrastructure alongside policy innovations to support children's savings and make their savings endeavors successful.³¹ In other words, it is vital that the policy development process includes a consideration of design elements that are able to meaningfully extend financial inclusion to children, giving them opportunities to save apart from relying on their parents.

If the ASPIRE Act is to adequately address these questions and remedy the structural failings that produce inequalities in children's savings, future versions of the proposal should consider how an infrastructure can be designed to extend financial inclusion to all children. Here, infrastructure refers to the external, tangible structures, such as the accessibility of banks for children's deposits and withdrawals, as well as the internal, intangible structures,

such as the consensus or belief that saving (and, more broadly, financial inclusion) is a necessary part of children's development.³² Infrastructure to support children's savings would accelerate their capabilities to save by giving them practical experiences to consistently use the bank to save. Passage of the ASPIRE Act would be a start toward developing this infrastructure because it would open a savings account for every newborn. However, as other international children's savings programs have discovered, additional policies are required to encourage savings³³, particularly for those from low-income backgrounds. In order to make their savings endeavors successful, this policy effort should be responsive to children's needs. Addressing the questions identified above will be needed to ensure that the policy infrastructure is designed to maximize engagement and make the entire effort a success.

When Do Children Take Ownership Over Their Accounts?

The research on the relationship between children's savings and their financial outcomes uses savings accounts with which children maintain some level of interaction and control. As we have seen, when children have savings of their own they are significantly more likely to continue saving, apart from any savings that parents maintain for them. This suggests that children should take ownership over their accounts in order to experience the related benefits.

Existing research suggests that children may be ready to interact with their savings accounts as early as ages five and six. This age range is consistent with their capabilities—around the age when they recognize the value of saving and before they become more successful at using the bank to save. At this age, children may be able to make deposits, learn about savings products, and practice saving for short-term expenses. These capabilities may even be accelerated when financial inclusion occurs early, such as by early teaching and deposit opportunities available through

³² Elliott, Nam & Johnson (2011).

³³ Deshpande & Zimmerman (2010).

preschools or kindergarten classrooms. Children may then be capable of making deposits and withdrawals, saving for both short- and long-term expenses like basic and college savings, and knowing account balances by the ages of 10 to 12. This is consistent with the age at which children successfully use the bank as a saving strategy to regulate their money.

As it stands, the ASPIRE Act would establish universal savings accounts opened at birth in children's names. It is logical for parents to be the primary custodians of these accounts beginning at birth through children's early years, as they have both the financial resources to open accounts and access to banks. Legislation should consider when children can begin to interact with these accounts and eventually manage and control their savings. Without providing some guidelines for this transition, the ASPIRE Act may unintentionally establish another form of parents' savings for their children. The transition of control over savings accounts from parents to their children, as well as early opportunities to interact with savings accounts, could be embedded into existing infrastructure like public schools or financial institutions.

While parents will certainly still play an important role in facilitating these opportunities, embedding them into infrastructure would provide some measure of validity and consistency. Without embedding ownership into an infrastructure, children from low-income backgrounds may not have interactions with their savings accounts that are comparable to children from high-income backgrounds. This would undermine the goal of the ASPIRE Act to extend financial inclusion, potentially recreating the same structural failings that produce inequalities in children's savings in the first place.

Where Will Children Get Money to Save?

As research has shown, children depend on their parents' financial resources to accumulate savings and children whose parents have limited financial resources accumulate less. In other words, children whose parents have few

financial resources may also have limited opportunities to interact with, and therefore have less control over, their savings accounts through making deposits and accumulating savings. If children are to have early opportunities to interact with their savings accounts, they need to have money in order to make contributions. Currently, authorized sources for contributions include cash, direct deposits from paychecks, and tax refunds. Two of these sources, direct deposits and tax refunds, are geared toward parents and it is not until much later in life that children can contribute to their accounts in these ways, such as after they are old enough to enter the workforce. This leaves cash as the main source of young children's contributions and there is need to ensure that children have access to money to save, particularly for children whose parents have few financial resources.

On their own, children have limited means to acquire money³⁴ and parents with few financial resources cannot be expected to supply children with money to save in the same ways as parents with abundant financial resources. Yet children, especially prior to entering the workforce, still need access to money if they are to make use of their savings accounts and maximize their opportunities for financial inclusion. There are two related ideas that may be productive for this discussion. The first is conditional cash transfers (CCTs) often used in international anti-poverty settings.³⁵ Conditional cash transfers are cash rewards to parents and families with limited financial means and are meant to encourage certain behaviors. Parents might receive cash rewards for behaviors ranging from their children's regular school attendance or honor roll grades to financial education classes. Instead of providing cash awards to parents and families for children's behaviors, CCTs could be adapted from the way they are traditionally delivered and deposited directly into children's savings accounts. A strategy such as this might be productive to help children maximize their savings if given opportunities to receive rewards directly. Moreover, CCTs can be

³⁴ Johnson & Sherraden (2007).

³⁵ Zimmerman & Holmes (2011).

delivered electronically, making it simple to link them to children's savings accounts. Incentives may also be an effective strategy. Roland Fryer explores the role of incentives in his randomized-controlled experiments in urban elementary schools across the U.S.³⁶ In Fryer's study, roughly 13,000 children received incentives—some paid via direct deposits into bank accounts—for educational outcomes like reading books and completing classroom assignments. The results of incentives on educational outcomes are not dramatic³⁷, but there are some positive effects.³⁸ According to Fryer, incentives are worthy of future exploration for improving outcomes given their cost-effectiveness relative to their positive effects.³⁹ Importantly, and to the point of financial inclusion, incentives can give children the means to accumulate money apart from their parents' financial resources. In this way, children would have access to money to make contributions and interact with their savings accounts.

Would a Flexible Account Structure Be Better?

Evidence suggests that children allocate their money for short- and long-term expenses in sophisticated ways, such as by having basic and college savings accounts. Additionally, children's savings accounts as used in research are more representative of transaction accounts in local banks, meaning that they are more liquid in nature and easily accessible.⁴⁰ These features may be especially important to children whose parents have few financial

resources because, in addition to saving for long-term expenses, they may need to pay for short-term expenses for things like school books, uniforms, or even fees for college qualifying exams like the SATs or ACTs. Access to savings to pay for these expenses would not be possible under current provisions, yet it is very likely that children whose parents have few financial resources struggle to afford such things or forego them entirely. A flexible account structure that incorporates opportunities for different expenses might allow children who are at a financial disadvantage to afford short-term expenses that are necessary for educational successes.

Incentives can give children the means to accumulate money apart from their parents' financial resources. In this way, children would have access to money to make contributions and interact with their savings accounts.

Moreover, a flexible account structure may serve the purpose of giving children opportunities to interact with their savings accounts. Here, children may be able to practice using their savings accounts by saving small amounts of money for short-term expenses and making withdrawals when needed. In this way, children could have some level of control over their savings accounts, gradually transitioning control from parents to their children until children reach age 18.

Currently, the accounts in the ASPIRE Act are designed to be illiquid, restricting access to savings for usage for specific purposes and until after age 18. This means that the accounts do not have the flexibility to allow for both short- and long-term savings. Given research findings based on liquid and easily accessible savings, legislation should consider structuring savings accounts using a three-in-one

³⁶ Fryer (forthcoming).

³⁷ For another example on incentives, see Bettinger (2010).

³⁸ However, children's educational outcomes may be strengthened if paired with savings. Fryer's original study did not leverage bank accounts in a way that helped students connect short-term incentives with long-term educational or financial goals. Yet such a pairing might help students make connections between how their incentives can be used to accomplish short- and long-term educational goals, resulting in improved outcomes. If incentives are paired with savings accounts, children may have an infrastructure that supports their capabilities to save.

³⁹ This idea is related to work by Destin and Oyserman, who find that children invest more effort into current homework and extra credit assignments when they believe financing college is possible. See for example, Destin & Oyserman (2010) and Destin & Oyserman (2009).

⁴⁰ Elliott, Destin & Friedline (2011).

design, similar to the design used for Singapore's BabyBonus, Edusave, and Post-Secondary Education accounts.⁴¹ Singapore introduced their first savings account program—Edusave—in 1993 for short-term educational expenses for children ages six to 16. Any leftover savings in Edusave accounts are rolled into Post-Secondary Education accounts, the equivalent of savings accounts as proposed in the ASPIRE Act. More recently, Singapore introduced BabyBonus accounts in which parents save with match contributions for children for up to six years, with any remaining funds rolling into Edusave accounts.

The idea that people use different accounts to simultaneously save for short- and long-term expenses is long supported by theory⁴² and research.⁴³ Perhaps just as important, such an account structure is feasible and already in existence in current U.S. financial institutions. PNC Bank, for instance, introduced their Virtual Wallet account in 2008⁴⁴, which links together three separate accounts for different purposes and places them in one central location. These include a spending account for everyday expenses, a reserve account for short-term savings, and a growth account for long-term savings.⁴⁵ A recent review paper articulates just how the redesign of children's savings policies might work.⁴⁶ Savings accounts in the ASPIRE Act could be redesigned to include an Education Expense Account (EEA), an Education Development Account (EDA), and an Education Growth Account (EGA). These tax-free accounts could be used simultaneously for the purposes of short-term, intermediate, and long-term education related expenses, respectively. A flexible account structure like this

is representative of the types of savings accounts children are already using, potentially expanding upon their capabilities to save for different purposes during the ages when their capabilities are most malleable and giving them very practical experiences with using different types of savings products.

How Will Children Access Financial Institutions?

Parents serve as gatekeepers to children's financial inclusion and must facilitate children's access to their savings accounts at financial institutions. Yet children whose parents have more financial resources may be included in these experiences more often, lending them an advantage over children of parents with few financial means. If savings accounts like those in the ASPIRE Act are to be successful, legislation must take into consideration how children access their savings accounts and provide avenues for children's access apart from their parents. This may be especially important to children from low-income backgrounds, as their parents may have limited ability to facilitate financial inclusion. One of the ways that legislation might consider extending children's access is through an infrastructure designed to facilitate children's financial inclusion. In this way, parents may still play a role in children's access but will no longer be the sole gatekeepers to their financial inclusion.

Making infrastructure available to children may be complicated, especially for children in communities already lacking basic infrastructure like grocery stores and transportation, let alone bank branches and ATMs. Given this, it may be necessary to bring the banks to children, rather than expecting children to get to the banks. In-school banking is one way to bring infrastructure to children and serve their needs. In-school banking began as early as the late 1800s, such as through the School Savings Banking in New York Public Schools.⁴⁷ After disappearing or at least becoming scarce over the last few decades, in-school banking is making a comeback, led in part by the Credit

⁴¹ Loke & Sherraden (2009).

⁴² Maslow (1948). Webley & Plaisier (1998).

⁴³ Xiao & Noring (1994). Xiao & Anderson (1997).

⁴⁴ For more information, see PNC Bank's Virtual Wallet.

⁴⁵ It should be noted that an account structure such as the one exemplified in PNC's Virtual Wallet accounts are distinct from the design of Singapore's savings programs because the Virtual Wallet accounts are linked and within one system. Singapore's savings programs are designed as a series of complimentary programs – intended to be related to one another, but not directly linked together. Linking accounts within one system may streamline their design and facilitate their management, both desirable features from a logistical standpoint.

⁴⁶ Elliott, Destin & Friedline (2011).

⁴⁷ Cruce (2001).

Union National Association (CUNA). According to CUNA, there are over 200 in-school branches affiliated with credit unions across the country.

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Another idea that may prove productive for extending infrastructure and bringing banks to children is mobile banking⁴⁸ via computers and cell phones. Such opportunities for mobile banking are rapidly expanding in the developing world, and in some cases communities have sidestepped the traditional physical infrastructure like bank branches and ATMs and moved directly to mobile banking.⁴⁹ Mobile banking may be a cost effective means for managing deposits and withdrawals as well as easily accessible to children. Children may experience fewer barriers to saving via mobile banking than they would if they needed to go to bank branches because they would not

⁴⁸ Mobile banking via cell phone applications refers to the ability to make deposits and withdrawals into bank accounts from local stores, whereby account information is verified through cell phone applications. For instance, a child may go to a store with their cell phone in hand and tell the cashier that they would like to make a deposit into their savings account. Through a series of text messages via the cell phone, the cashier is able to authorize the account information, receive the child's cash, and credit their savings account. In addition, text messaging could be used to send alerts when account balances are low, or even reminders about goals for which children are saving. For more information on mobile banking, see for example Boyd & Jacob (2007). For more information on sending reminders of savings goals, see for example Karlan, McConnell, Mullainathan, Zinman (2010).

⁴⁹ Zimmerman & Holmes (2011).

need to rely on their parents for transportation. They may also gain access to mobile banking through the use of computers at school. Ideas to facilitate access such as these would give children agency and some level of control by more easily facilitating opportunities to interact with their savings accounts.⁵⁰

Where Will Children Get Financial Education?

Policy innovations may be most productive when they pair financial inclusion with financial education, helping children to develop knowledge alongside real life practice. Together, the pair can be used to accelerate children's capabilities to save. Just like infrastructure is needed to support children's savings, infrastructure is needed to provide financial education. A typical go-to solution is to infuse financial education into the existing education system, an approach that has been used in children's savings programs⁵¹ and encouraged by the U.S. Department of Education. The federal support for financial education in school is mounting, as evidenced by a recently announced partnership between the Department of Education, FDIC, and National Credit Union Administration (NCUA).⁵² The Excellence in Economic Education Program⁵³, a federally-funded program to promote and teach financial literacy in kindergarten through high school, is one example that could be expanded upon to develop such an infrastructure.

A somewhat less popular but potentially more powerful option is standardized, national curriculum for financial education. Standardizing curriculum would mean that

⁵⁰ Parents' support, encouragement, and guidance are not contradictory to children's agency, yet children are agents, and it should be recognized that they are capable of saving. While children may be able to make deposits on their own, they may need guidance about things like compound interest and minimum balances as well as protection from things like credit and predatory lending services. Research finds that children may save more when they have greater social capital, such as support from an important adult. See for example, Ssewamala, Karimli, Han & Ismayilova (2010).

⁵¹ Sherraden, Johnson, Guo & Elliott (2010).

⁵² U.S. Department of Education.

⁵³ U.S. Department of Education.

children would receive financial education universally, the same way in which they receive savings accounts. In another example, the Kindergarten to College Program⁵⁴ provides every kindergartener in San Francisco public schools with a savings account. The savings accounts are provided by Citibank, who also provides financial education.⁵⁵ In this example, financial institutions are responsible for helping children develop knowledge about their savings accounts and other basic financial services. Another way to develop infrastructure around financial education may be for policy innovations to consider built-in mandates to financial institutions to provide financial education to children.

Early financial inclusion may lay the groundwork for improved financial outcomes throughout the life-course, potentially leading to long-term relationships with mainstream financial institutions and improved financial outcomes.

These considerations to ensure children's financial education have sizable implications for public schools and financial institutions. For instance, schools—and more specifically, teachers—are often charged with figuring out how to incorporate new curriculum requirements into their classrooms along with existing requirements. These requirements can sometimes be made with rather little regard for how to best support teachers to accomplish such tasks. Teachers might make use of existing curriculum without needing to develop their own, but this would still

require teachers to infuse a new curriculum into an already crowded schedule. Although, as advocates of the Kindergarten to College Program have been heard to say, “When every child has a savings account, every teacher has a teaching tool,” perhaps making the integration of financial education less onerous. Similar objections could be made with regards to requirements on financial institutions to provide financial education. However, if financial education is as important as it seems to be, then finding answers to these questions is not just important but also necessary and healthy discussions on how to provide financial education are warranted.

Conclusion

This paper makes an evidence-based case for extending financial inclusion to children. Research shows that children can be introduced to basic financial services like savings accounts early in life rather than waiting until young adult years. Children may be successful at saving when financial inclusion happens early and they are given the infrastructure to save.

Unfortunately, children's financial inclusion occurs unequally and is based on parents' financial resources. Children whose parents have limited financial means, such as those from low-income backgrounds, are thus at a disadvantage. Research suggests that efforts to extend financial inclusion directly to children will most likely have success, even apart from efforts targeted at parents. Early financial inclusion may lay the groundwork for improved financial outcomes throughout the life-course, potentially leading to long-term relationships with mainstream financial institutions and improved financial outcomes. Given this, efforts to extend financial inclusion to children are warranted.

This paper reaffirms the importance of financial inclusion and why policy innovations such as the ASPIRE Act are essential to this process. Many valid questions remain about how children's financial inclusion will work, such as “Where will children get the money to save?” “How will

⁵⁴San Francisco's Kindergarten to College Program.

⁵⁵ While Citibank is charged with providing financial education to children in the Kindergarten to College Program, it is not yet clear whether children receive financial education or among those that do, whether there are gaps in financial education along class lines. In other words, it is not clear whether this mandate to provide financial education translates into infrastructure developed around children's savings.

they make deposits?” or “Who will provide the financial education?” Researchers and policy makers alike should welcome dialogue around such questions that can help

move us toward better answers and opportunities for children’s financial inclusion.

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