



Child Development Accounts and the SEED for Oklahoma Kids Experiment: Evidence and Impacts

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SHORT CONFERENCE DESCRIPTION:

The goal of the *Financial Independence* policy conference held on September 16 and 17, 2024 in Washington, D.C. was to bring together experts from the asset and income fields to share theory, evidence, and best practices as part of an effort to work toward development of a new social contract capable of ending poverty. It was divided into four sessions. Sessions one and two focused on Children's Savings Accounts and Baby Bonds as promising asset building policy proposals for solving the wealth inequality aspect of poverty. The third session focused on Unconditional Cash Transfers, the Child Tax Credit, and Child Allowances as promising income policy proposals for solving the income inequality aspect of poverty. Because poverty has both an income and asset component, the final session discussed why a core component of a new social contract meant to end poverty must include the combining of these strategies. This policy brief is part of the Children's Saving Accounts' session.

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Child Development Accounts as a Cornerstone of Universal, Progressive, and Lifelong Asset-Building Policies

The concept of universal and lifelong asset building for all children was introduced in *Assets and the Poor* (Sherraden, 1991). This groundbreaking work proposed Child Development Accounts (CDAs) as a centerpiece for inclusive, progressive, and lifelong asset building beginning at birth. Designed to provide all children and families a structured opportunity to accumulate assets over time, especially families with vulnerable backgrounds and people of color, CDAs are investment or savings accounts that offer financial access, subsidies, and incentives for building wealth.

In addition to family contributions, funds in CDAs increase through deposits from public, nonprofit, or private sources, as well as investment earnings. Public and private subsidies and incentives can include opening deposits, contributions at milestones in a child's life, savings matches, tax benefits, and other flows. CDAs were originally conceived to provide access to wealth-building opportunities for various purposes such as education, health, entrepreneurship, homeownership, and other development goals—allowing individuals to invest in themselves. Most CDA policies in the United States currently designate the accumulated resources for post-secondary education. CDA policies and programs have been implemented in various states, cities, communities, and school systems; about seven million U.S. children now have assets in CDAs.

The SEED for Oklahoma Kids Policy Experiment: Testing the CDA Policy Concept

Currently, in its seventeenth year (2007–2024), following a representative cohort of Oklahoma children, SEED for Oklahoma Kids (SEED OK) is a large-scale test of a statewide CDA policy, with a probability sample randomly drawn from infants born in 2007. The policy experiment aimed to achieve three key objectives: (1) to test a scalable and sustainable CDA policy model, incorporating essential design features; (2) to assess both the financial and social-development impacts of CDAs on children and families from diverse racial/ethnic backgrounds; and (3) to utilize the evidence gathered to inform future policy development.

The study randomly selected 7,328 children; the primary caregivers (mainly mothers) of 2,704 of those children agreed to participate, and child-parent dyads were randomly assigned into the treatment (n = 1,358) or control group (n = 1,346). SEED OK over-sampled populations of color: African Americans were 17% of the sample, American Indians were 19%, and Hispanics were 17%. SEED OK mothers completed three waves of surveys: the first ran from fall 2007 through spring 2008, the second in 2011, and the third in 2020.

SEED OK’s design (see Figure 1) is built on a set of core policy features—for example, universal eligibility, automat-

ic enrollment, and at-birth start (see the brief by Michael Sherraden et al. in this collection)—and on the centralized account structure of Oklahoma’s 529 college savings plan. Investment earnings in 529 plan accounts are not subject to federal or state taxes if withdrawn for qualified expenses at post-secondary institutions. In addition, many states, including Oklahoma, offer income tax deductions for contributions to such plans. The Oklahoma Treasurer’s office automatically opened a state-owned account within the Oklahoma 529 plan (OK 529) for each treatment child and deposited \$1,000 into each account.

A large initial deposit is proposed by the CDA policy concept, and this \$1,000 seed deposit—the maximum possible with the funding available for the experiment and an amount comparable with that in several wealth-building policy proposals—serves as both an example and a test of a large initial deposit for the CDA concept. Funds in these SEED OK accounts are invested in the age-based option with a mix of stock, bond, and capital-preservation funds. Withdrawals will be sent directly to post-secondary educational institutions. Assets in these CDAs are not counted against asset limits of means-tested programs, such as the Supplemental Nutrition Assistance Program.

THE SEED OK TREATMENT INTERVENTION

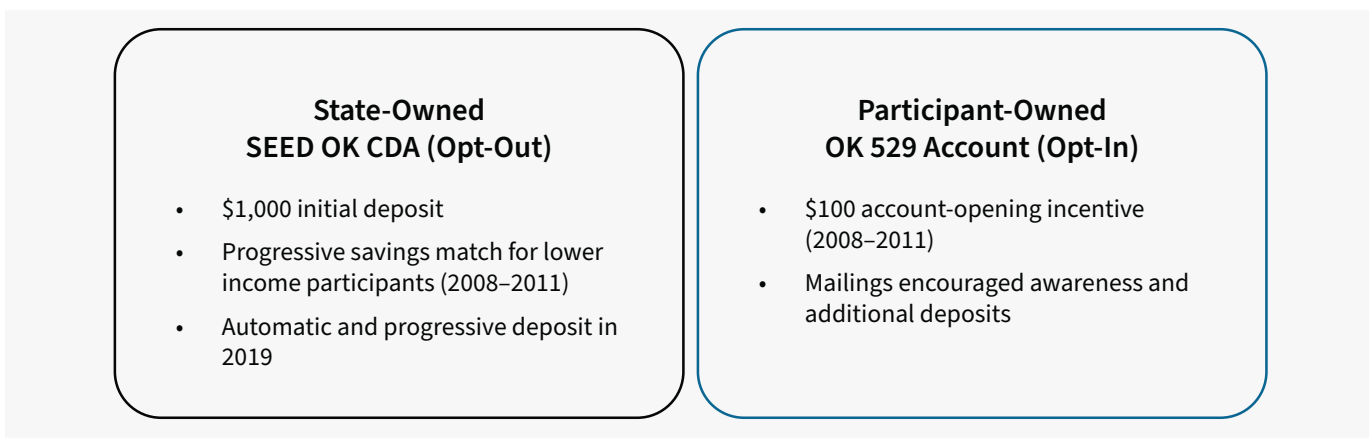


FIGURE 1

In addition to the state-owned accounts, SEED OK offered three financial incentives to encourage the mothers of treatment children to open their own OK 529 accounts and save. First, the experiment offered a \$100 initial deposit for an OK 529 account opened by a treatment family before a given date. Parents with their own OK 529 accounts may choose an investment option that is more or less aggressive than the state’s selection, benefit from the state tax deduction, and withdraw personal savings for financial reasons.

Second, the experiment provided savings matches for 4 years (2008–2011) to low- and moderate-income treatment families that made deposits in parent-owned OK 529 accounts. The State used public-assistance program records and the participants’ state tax-return data to assess match eligibility, automatically depositing savings matches into the state-

owned accounts. Third, SEED OK randomly assigned half of the treatment children (n = 678) to receive an automatic deposit in early 2019. All 678 treatment children received \$200, and disadvantaged children received an additional \$400. This deposit assesses the fidelity and effectiveness of the CDA mechanism in facilitating automatic, continuous, and progressive cash transfers for wealth building throughout childhood and adulthood.

Account statements were sent to treatment families in each calendar quarter between 2008 and 2019 and each calendar year thereafter. In the early years of the policy experiment, SEED OK also mailed other program communications (e.g., letters and postcards), two books to read with children, and a T-shirt with the caption “Future College Graduate.”

Impacts on Asset Building and Financial Inclusion

SEED OK research suggests that the CDA policy intervention generated positive financial outcomes with respect to account holding and accumulated assets. It achieved near universal account holding (100%) by automatically opening state-owned CDAs very soon after the birth of the beneficiaries. The impact of automatic opening was considerable; in

its absence, very few children would have had an account. For example, as of December 31, 2021, less than 5% of the control group had an OK 529 account (see Figure 2). Very large and statistically significant treatment–control differences in the percentages of participants holding any OK 529 account were also found in disadvantaged subsamples.

FINANCIAL OUTCOMES: ALL OK529 ASSETS AT AGE 14

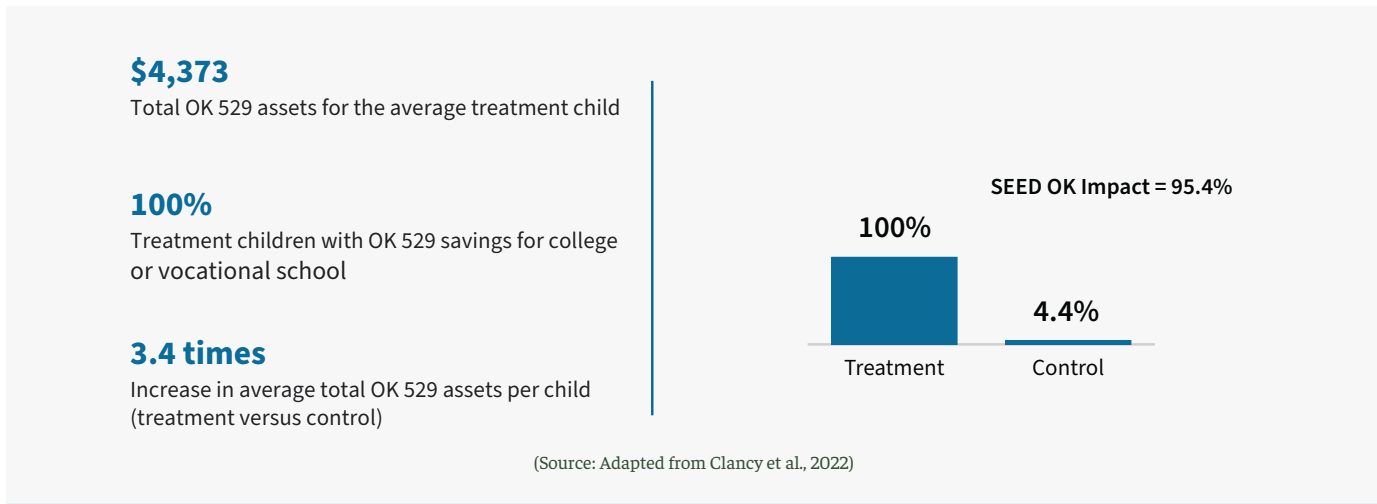


FIGURE 2

Additionally, the findings indicate that the CDA in SEED OK had a substantial, positive impact on the value of total 529 assets for higher education and a more modest effect on the value of personal savings held in participant-owned OK 529 accounts. As of December 31, 2021, the mean balance across all OK 529 accounts for treatment children (\$4,373) was 3.4 times that of accounts for control children. The mean earnings in all OK 529 accounts for treatment children were 3.7

times those in accounts for control children. The initial \$1,000 deposit grew to \$2,300 (see Figure 3). Nearly 20% of treatment children’s parents opened an OK 529 account, indicating that the intervention increased the overall OK 529 account opening by parents by approximately 4.8 times. Among those in the treatment group who made deposits into their parent-owned accounts, the average balance was about \$14,000.

THE INITIAL DEPOSIT AND INVESTMENT RETURNS ARE ESSENTIAL FOR GROWTH

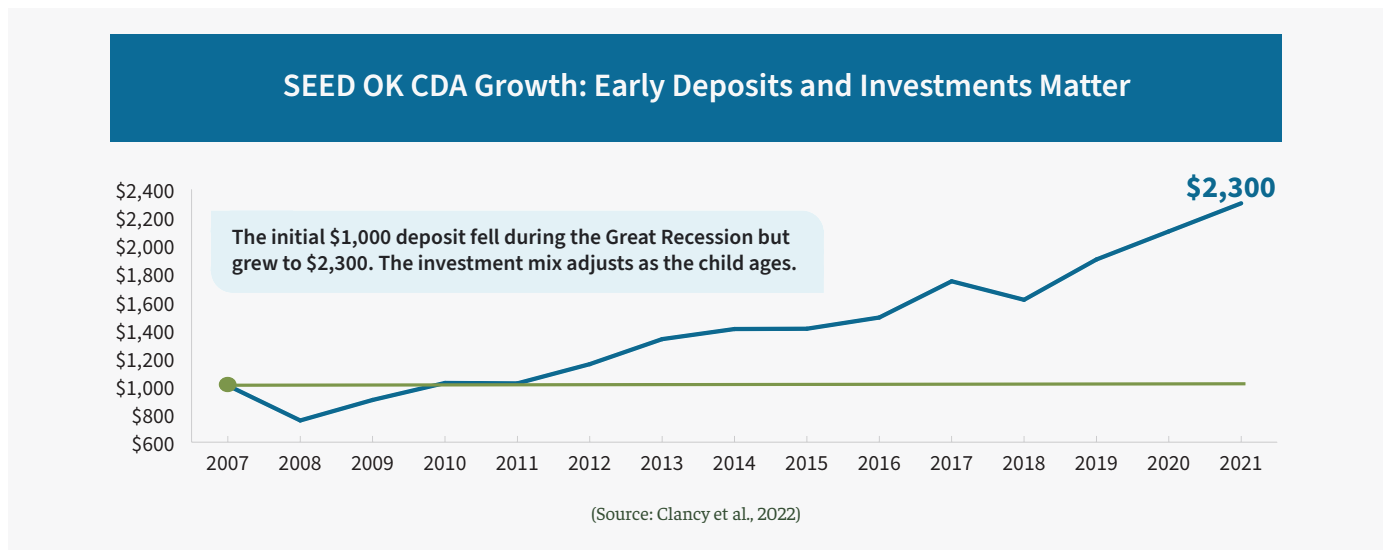


FIGURE 3

The control group exhibited a significantly lower proportion of non-White children with Oklahoma 529 accounts compared to the general population (see Figure 4). In contrast, the treatment group mirrored the demographic distribution of the overall population. Prior to the implementation of CDAs, asset building was disproportionately concentrated among White children and those from higher socioeconomic backgrounds.

These findings demonstrate that restructuring the 529 savings accounts can be an effective strategy for CDAs to achieve universal inclusion, efficiency, and scalability. By re-

purposing the existing 529 account structure into CDAs incorporating features such as universal eligibility, automatic account creation, and automatic deposits, the SEED OK program successfully enrolled approximately 36,000 low-income Oklahoma children born in 2007. Without CDAs, only around 500 low-income Oklahoma children born in 2007 would have held college assets in Oklahoma 529 accounts.

Using the SEED OK data, we found that a CDA design following the original proposal in *Assets and the Poor* can reduce median racial wealth disparities by 40% at age 18.

Impacts on Social Development Outcomes of Children and Families

The CDA in SEED OK affected more than asset accumulation. Findings indicate effects on social development outcomes of children and families. SEED OK’s Wave 2 research suggests that, when children were at age 4, the CDA helped treatment parents sustain high expectations concerning their children’s education, reduced the intensity of maternal depressive symptoms, reduced punitive parenting practices, and improved children’s early social-emotional development.

ACCOUNT AND ASSET HOLDING BY RACE, INCOME, AND EDUCATION

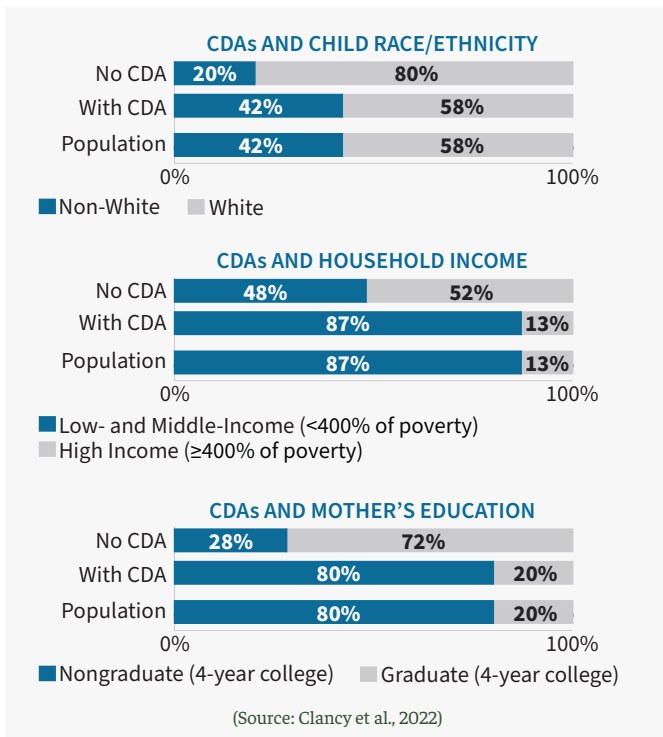


FIGURE 4

Overall, the effect sizes of the CDA on these social development outcomes were similar to those of other early childhood interventions such as Early Head Start and Head Start (around 0.10). Some of the magnitudes of effect sizes were larger for the disadvantaged subsample than for the full sample. This suggests that the universal and automatic CDA

had greater effects on some social development outcomes for disadvantaged families. In this regard, CDAs have the potential to reduce some child-development disparities caused by social inequality. Collectively, these outcomes indicate a pattern of meaningful social development improvements causally attributable to the CDA. These positive effects were documented before the CDA funds were used for education. Thus, asset holding itself made the difference.

Similar findings were confirmed in the Wave 3 research. When children were age 14, the CDA supported treatment parents in maintaining high expectations about their children’s education, assisted them with better college preparation, encouraged parent-child educational interactions and parental educational engagement, improved children’s educational efforts and performance, and reduced children’s behavioral problems.

Findings from extended qualitative interviews conducted with 40 SEED OK treatment mothers supported and enriched these quantitative findings. One theme from the interviews was the sentiment that the CDA made mothers feel optimistic about their children’s future. For example, a treatment mother facing great financial pressure stated that the CDA made her feel “a whole lot better” and caused her to “have some hope” for her child. Another mother said the CDA “give[s] me something to look forward to—to know that it would help.” For some, the CDA represented a partnership with the State in securing their child’s future. The research also indicated that CDAs were more meaningful to mothers with low income and low education than to their more advantaged counterparts.

The findings on the impacts of the CDA in SEED OK provide rigorous evidence to support previous research on asset-building opportunities and child development in program and observational studies. SEED OK findings also indicate that asset holding has a unique, positive impact on child and family development, an impact that is distinct from that of income (see Figure 5). As framed in the theme for this conference, both assets and income are essential for supporting the financial capability and financial independence beneficial to individual development.

ASSETS, INCOME, AND CHILD DEVELOPMENT: UNIFIED POLICIES FOR CASH TRANSFERS

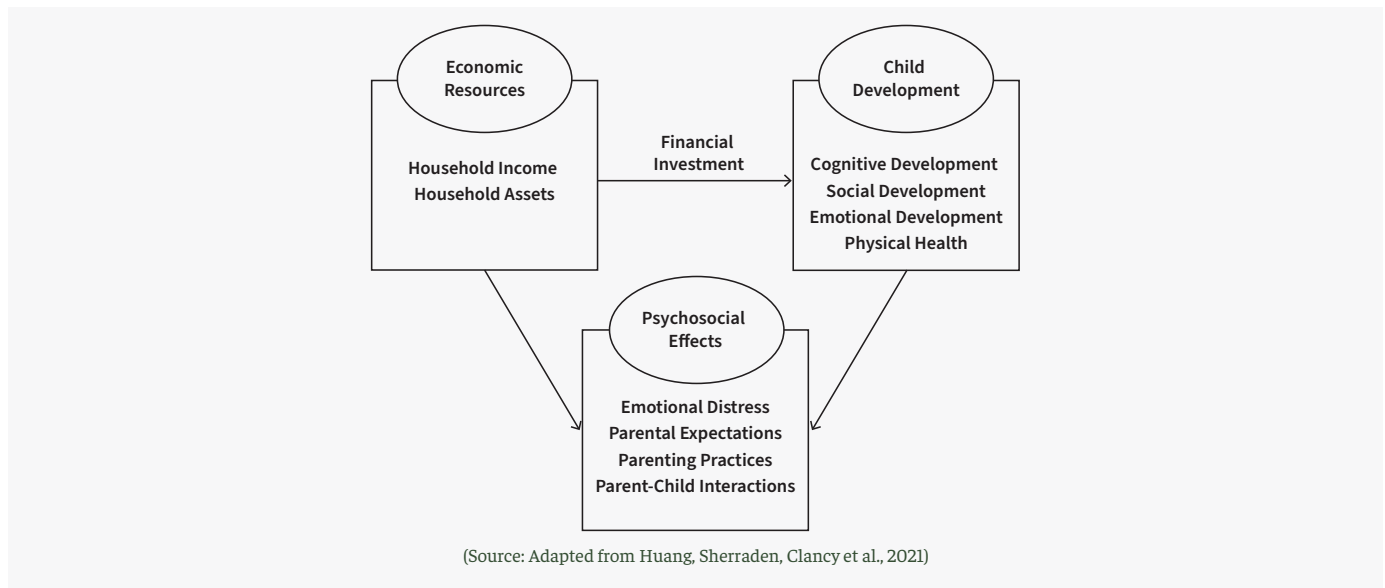


FIGURE 5

Policy Implications of the SEED OK Experiment

SEED OK has not only generated evidence of positive impacts on individual participants and families but has also confirmed that the policy design can be effective and sustainable. Informed by findings from SEED OK, seven states have adopted variations of this model, and the majority of these statewide CDAs are universal and automatic. These innovations illustrate potential policy pathways for asset building to reduce racial and wealth inequality and improve individual development. Also informed by SEED OK and the CDA research, the Federal 401Kids Act has been proposed to establish a nationwide CDA policy for all children under the age of 18 (see the policy brief by Ray Boshara in this collection).

Federal asset-building policy requires an efficient, effective, scalable, and sustainable account structure, which is fundamental for ensuring that the policy will reach all eligible beneficiaries, manage funds successfully, accumulate assets, and distribute those assets properly. The policy structure and delivery mechanisms matter. This long-running CDA experiment tested 10 design elements for a universal, progressive, and potentially lifelong CDA policy. Its results suggest a scal-

able, stable, efficient policy based on a centralized account structure. Moreover, SEED OK research indicates that the CDA impacts are primarily due to an inclusive policy platform rather than individual saving behaviors.

Policymakers and researchers have reached a broad consensus on the principles and design features for Federal wealth-building policies: (1) start building beneficiaries' assets in infancy, (2) ensure inclusion and reduce wealth inequities, (3) make investments of substantial monetary value, (4) attend to structure, scale, and transparency, (5) prioritize ease of access and use, and (6) support vertical connections.

These six principles and their corresponding design features are informed and reinforced by extensive research and policies on asset building for children, particularly by the SEED OK policy experiment. A key takeaway from SEED OK—relevant to asset-building and income-transfer policies—is that a well-structured policy framework centered around a centralized savings-plan structure is essential for scalable and sustainable policies. Such a structure could serve as a common policy platform for various wealth and cash-transfer programs.

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