Innovations for Financial Inclusion:
Large Vision, Smaller Steps

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Pioneering Work and Impacts of Community Development Credit Unions
Talking about Poverty and Inequality vs. Innovations for Effective Action
Fundamental Role of Social Innovation in Human Progress
Toward Innovation in Financial Inclusion: Context and Concept
Financialization of Everyday Life

• Financial transactions are a growing necessity in everyday life.

• Consequences of financial exclusion are often severe.

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Over 20% of low-income households in the U.S. are unbanked. Disproportionately:

- Minorities
- Unmarried heads of households
- The young
- People with less formal education
- Those with few financial assets

25% of Americans say that they could not access $2,000 within 30 days in an emergency.

(Lusardi, Schneider, & Tufano, 2011)
People are Active Financial Managers

They often know where every penny goes, and try to set aside small savings for emergencies.

But financial vulnerability takes a toll:

- Use of inferior financial services is expensive
- Problem debt leads to strain and loss of resources
- Strain contributes to psychological and health issues
A Concept of Financial Capability

Based on capability theory (Sen, 1999; Nussbaum, 2000).

Combines ability to act with opportunity to act.

People need both to participate fully in finance, and build secure and hopeful lives (Sherraden, 2013).
Framework for Financial Capability (Theory Matters)

Opportunity to Act
Financial inclusion

Ability to Act
Financial knowledge and skills

Financial Well-Being
Sufficient income, assets, spending, credit, and protection
How improve and measure opportunity to act?

People have opportunity to act when financial products and services are:

• Accessible
• Affordable
• Appropriate
• Financially attractive
• Easy to use
• Flexible
• Secure and reliable

(Sherraden, Collins, Birkenmaier, forthcoming)
Financial action results not just from individual choices and behavior, but also from how institutions shape and constrain opportunities and options.

“Everybody has a dream . . . [but] the system makes it very, very, very, difficult. . . for lower-income people to achieve what they’ve set out to do. . . ” (research participant)
Project Example
Partners in Financial Capability: Educating Social Workers
Social work is the only profession regularly in contact with millions of vulnerable households. Regardless of other issues, money is almost always a problem.

During first part of 20th Century, social workers incorporated financial capability into professional practice: budgeting, consumption, credit, and so on.

During the 21st Century, social work can and should rebuild this capacity for basic financial practice.
Selected as one of the 12 Grand Challenges for Social Work (national social work initiative).

In order to achieve financial stability and security, people must be financially capable and able to accumulate assets.
Aim: Increase financial capability in millions of low-income and vulnerable households.

Strategy: Develop, test, and implement a financial curriculum for training social workers and other human service professionals.

Key Partnerships: Historically Black Colleges and Universities, Tribal Colleges and Universities, and Hispanic-Serving Institutions.
Research questions. What are the effects of a curriculum in FCAB on students, faculty, and administrators (e.g., are there changes in knowledge, attitudes, capacities?).

Assessment. In-depth interviews with faculty and administrators, pre-and-posttest surveys, assessments of professional practice.
CSD with FCAB Partner: Elizabeth City State University, Elizabeth City, NC
CSD with FCAB Partner: Salish Kootenai College, Pablo, MT
• 32 modules
• Flexible structure (infused into existing course or standalone course)
• Module components: Overview, PowerPoints, quizzes and answers, homework and projects, case vignettes
• Fits accreditation standards for Social Work
• Textbook forthcoming (OUP, March 2018)
Project Example
Child Development Accounts: Research and Policy Innovation
Asset Building Policy is Often Regressive

In U.S., over $500 billion spent annually in tax expenditures for asset holding in homes, investments, retirement accounts.

Over 90% of this goes to households with incomes in the top 50%, with most to the top 10%.

This is a major and regressive social policy, little discussed.

Why not asset building for the whole population?
Vision of Inclusive Asset-Based Policy

Policy concept is:
• Universal (everyone in)
• Progressive (greater subsidies for the poor)
• Lifelong (beginning as early as birth)

Key design features:
• For social development (education, homes, enterprise, security)
• Automatic and easily delivered (like water to homes, or self-driving cars)

(Sherraden, 1991, 2014)
CDAs as Beginning of a Fully Inclusive and Lifelong Policy

CDAs can lay the groundwork for a universal, progressive, and lifelong asset building policy.

This has been the vision since writing *Assets and the Poor* (1991).

The primary goal is not to improve the saving behavior of the poor, but to use policy to enable everyone to build assets.
SEED for Oklahoma Kids: Experimental Research

Research Design and Early Results
SEED OK is a large-scale policy test of automatic and progressive CDAs, the first universal CDA model in the United States.

SEED OK is a Test in a Full Population

• SEED OK is a test in a full population, without selection—uncommon in social research.

• Not a test of individual behaviors. Much of saving and asset accumulation is structured, e.g., “automatic” 401(k) plans. Why not inclusive structures for everyone?

• Results can inform a lifelong asset building policy that includes the full population.

(Sherraden, 1991, 2014)
SEED OK Research Design

- First universal model of CDAs in the United States
- Integrated into an existing policy (sustainable structure)
- Begun in 2007, with random sample of newborns
- Oversamples of African Americans, Latinos, and American Indians
- Random assignment to treatment group (n=1,358) and control group (n=1,346)
- Rigorous study design to test causal impacts
Policy Platform: “Repurpose” College Saving (529) Plans

- 529 Plans are currently serving mostly the wealthy, and benefits are highly regressive.

- We are not endorsing this policy. **We are changing it.**

- The 529 policy structure lends itself to inclusion of the full population, with efficiency and sustainability.

- The “policy test” in SEED OK is to test an inclusive and progressive CDA model using a 529 platform.

  (Sherraden & Clancy, 2005)
Building CDAs on a centralized 529 savings plan facilitates:

- Automatic account opening
- Subsidies and incentives
- Efficiencies of scale, low costs
- Inclusion of small- and large-balance accounts
- Investment options and investment returns

(Clancy, Orszag & Sherraden, 2004)
CDA Account Holding and Total Assets in SEED OK (2015)

<table>
<thead>
<tr>
<th></th>
<th>Treatment n=1358</th>
<th>Control n=1346</th>
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<tbody>
<tr>
<td>Percentage with any OK 529 account**</td>
<td>99.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Average $ across all OK 529 accounts**</td>
<td>$1,851</td>
<td>$323</td>
</tr>
<tr>
<td>Earnings in 529 accounts**</td>
<td>$569</td>
<td>$109</td>
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</tbody>
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Saving Outcomes among Advantaged and Disadvantaged Children

- The CDA—by design—virtually eliminates differences by socioeconomic status in ownership of 529 accounts and assets.

- Automatic features of the CDA have greater positive effects among disadvantaged children.

(Beverly et al., CYSR 2015; Nam et al., JPAM 2013; Wikoff et al., Social Science Research 2015)
Impacts beyond Money: CDAs Also Lead to Positive Non-Financial Outcomes

Theoretical underpinnings of asset-based policy include non-financial outcomes.

For the SEED OK experiment, hypotheses include greater future orientation of parents (and later children), and improved child development.

(Sherraden, 1991; Sherraden and Clancy, 2005)
Impact of SEED OK CDA on Maternal Depressive Symptoms

- The CDA reduces maternal depressive symptoms.
- This pattern holds in multivariate analysis and for several disadvantaged subgroups.
- The effect size is similar to the effect of Early Head Start.

(Huang, Sherraden & Purnell, *Social Science & Medicine* 2014)
Impact of SEED OK CDA on Child Social-Emotional Development

- Disadvantaged children have better social-emotional development.
- The CDA improves disadvantaged early social-emotional development *regardless of whether parents have saved*.
- The effect of the SEED OK CDA is similar in size (.20 to .25) to at least one estimate of the effect of the Head Start program on early social-emotional development.

How Do CDAs Affect Children and Parents? What is the Role of Saving Behavior?

One hypothetical model

SEED OK CDAs → Saving Behaviors

- Expectation
- Parenting
- Mental Health
- Child Behavior
Evidence: Positive Effects Are Not the Result of Saving Behavior

Hypothetical model is not supported
Evidence: CDA Intervention leads to both Saving and Non-Financial Outcomes

Supported model:

- SEED OK CDAs/Assets
  - Saving Behavior/Savings
  - Non-financial Outcomes
Without universal participation (full inclusion), those left out will be disproportionately the most disadvantaged children.

Universal participation requires a policy system to bring everyone in.

(Beverly, Kim, Sherraden, Nam, & Clancy, *Children and Youth Services Review, 2015*)
Lesson: Full Inclusion Requires Automatic Opening of Accounts

Full and meaningful inclusion is not possible without automatic account opening and initial deposits.

Lesson: Early Funding of CDAs

If CDAs are funded early with a sizable deposit, children may accumulate meaningful levels of assets over time, even if families do not contribute.

(Clancy, Beverly, Huang, & Sherraden, *Social Service Review*, forthcoming)
A savings match has only limited potential to incentivize saving among those who most need asset accumulation.

(Clancy, Beverly, Huang, & Sherraden, Social Service Review, forthcoming)
Lesson: Wealth Accumulation

In SEED OK, 1/3 of asset accumulation is due to investment growth.

The $1,000 initial deposit increased by 50% in 9 years (despite the financial crisis of 2008-09).

(Clancy, Beverly, Huang, & Sherraden, Social Service Review, forthcoming)
Lesson: CDAs Not All About Saving Behavior

Savings behavior matters, but asset building initiatives that rely on individual behavior will strongly favor advantaged children.

(Beverly, Kim, Sherraden, Nam, & Clancy, Children and Youth Services Review, 2015)
Child Development Accounts: Policy Implications and Progress
Universal enrollment in CDAs

Combined with asset effects

Have the potential to reduce educational and economic inequality in early childhood.
Policy Impacts of SEED OK Research: Local, State and National Policy Influence

“I HAVE A DREAM” FOUNDATION

PROMISE INDIANA
CDAs at Birth: Harold Alfond College Challenge Opt-In Strategy 2008-2013

- Every Maine resident child was eligible to receive a $500 grant in a Next Gen 529 if parents opened an account in the child’s first year.

- Begun statewide in 2009, the program enrollment rate for 2008-2013 was approximately 40%.

- Families who enrolled infants were more financially better off than those who did not enroll.

(Huang, Beverly, Clancy, Lassar & Sherraden, 2011)
Maine Opt-Out Strategy in 2014

- $500 grant *automatically deposited* into omnibus 529 account for 100% of resident newborns.
- Quarterly summaries, including 529 balances and age-appropriate tips and activities, sent to all parents.
- Information about opening and saving in NextGen 529 account sent to all parents when child is about one.
- Parents view college savings balances—family contributions and College Challenge grant—on *one* quarterly NextGen 529 statement.

(Clancy & Sherraden 2014)

**Participation Rate**
- Opt-in: 2008–2013: 40%
- Opt-out: 2014 and beyond: 100%

**Average Annual Investment**
- Opt-in: 2008–2013: $\$\$\$$
- Opt-out: 2014 and beyond: $\$\$\$\$\$\$\$\$\$\$\$

**Average Annual Enrollment**
- Opt-in: 2008–2013: 5,000
- Opt-out: 2014 and beyond: 12,500

1 baby = 1,000 children

[Diagram showing participation rates and enrollment numbers]
New CDA Policies in the States

• All children born to Connecticut families are eligible for a $100 deposit into the state 529 plan.

• Parents may enroll children in Rhode Island’s CollegeBoundBaby program by checking a box on the Office of Vital Records Birth Work Sheet.

• Nevada automatically establishes a 529 college savings account with $50 for all public school kindergarten students.
Testifying in Rhode Island for CDAs
CDAs Adopted in St. Louis City and Proposed in Ferguson, MO

FORWARD through FERGUSON
A PATH TOWARD RACIAL EQUITY
CDA as Beginning of Large Financial and Social Innovation: Asset Building for All

The CDA social innovation is underway:

• Defined and demonstrated
• Doable and effective
• Efficient and sustainable
• Positive changes among participants
• Broad political support

... Continue to scale up, aim for national CDA
Full inclusion also paves the way for more equitable use of public funds (direct or tax expenditures).

Ensuring that *all children* have savings is important because modest savings have financial and nonfinancial benefits for children and families.

(Clancy, Beverly & Sherraden, CSD Fact Sheet, 2016)
Other examples of Child Development Accounts: A Beginning for Lifelong Accounts

- Singapore’s Baby Bonus and CDAs
- United Kingdom’s Child Trust Fund, 2005-10
- Korea’s Child Development Accounts
- CDAs began in Israel in January 2017
Asset-based Policy Meetings Inform International Learning and Partnerships
YouthSave Project: Asset Building in Developing Countries

- In Colombia, Ghana, Kenya, and Nepal
- Testing savings accounts, asset building, and youth development for low-income youth
- With Save the Children and other partners
- Multi-method, long-term research, with in-country research partners
Children in YouthSave in Ghana
If evidence remains positive, the guiding vision is, some day, an account for every child on the planet. . .

To set the stage for lifelong asset building and financial capability.

During 21\textsuperscript{st} century, social policies will become more global. . .CDAs could be among the first.
Native American participant in the American Dream Demonstration, with house purchased with her IDA funds.
Keys to Large-Scale Innovation in Asset Building Policy

• See all defined contribution policies as a single policy system.

• Note who is included and who is not. Bring everyone in.

• Use public resources to build assets for the whole population.
Big Lesson: Test for Impacts, Including Non-Financial Outcomes.

To inform asset building policy, research on impacts is fundamental.

Non-financial outcomes can be as important as financial impacts.
Thinking about a
Future of Inclusive Finance
What is the Potential for Financial Inclusion in the 21st Century?

What does/will the Information Age make possible in finance? Can finance become ubiquitous?

Can finance become like a utility, centralized and provided to all? (like delivery of water or electricity).

Can finance become a “right” with basic protections (like the right to education)?

Can finance become a “public good” provided to everyone with no fee (like streets and parks)?
Important innovations in the 21st Century may be social (e.g., How can people get along together? How can everyone be included?)

Albert Einstein famously said, “Imagination is superior to knowledge.”

NFCDCU has led the nation in financial inclusion. There is no better organization to imagine and lead the future of this work.
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