

Teaching Youths to Invest in Themselves: *Savings requirements, matched funds and education build financial foundation for adulthood.*

By: Rose Gutfeld

The Extra Mile: Foster youth Halston Green (right) is in the financial savings and education program at the Mile High United Way in Denver. Here, Green and Barclay Jones, vice president of the United Way chapter, prepare to meet with state legislators as part of this year's "Take a Foster Youth to Work Day."

It's not easy to teach teenagers to save money or to be savvy about financial matters. This can be especially true for low-income youth, whose families often have little history of savings and typically do not benefit much from such perks as tax-favored retirement accounts and home mortgage deductions.

A growing movement is working to address this challenge through programs that encourage low-income youth and their families to save money and build wealth. The young people in these programs typically get basic financial literacy training and varying degrees of financial assistance in saving money for long-term goals.

Perhaps the most prominent of these efforts is the Savings for Education, Entrepreneurship and Downpayment Initiative (SEED), which is under way at nonprofit organizations across the country. SEED youth get matched savings accounts; withdrawals are matched when the money is used for college expenses or another allowed purpose. Participants also are required or encouraged to attend classes on such topics as balancing checkbooks and managing credit card accounts.

Besides the obvious benefits to the families, the 10-year initiative aims to demonstrate that poor people can save, and to make the case for offering children's savings accounts and financial education on a broad scale. Pending federal legislation would offer matched savings accounts for every newborn child.

Proponents say the results so far are promising. "Some qualitative data suggest that the youth are becoming more prudent and forward-thinking about how they spend their money," said Professor Ed Scanlon of the University of Kansas School of Social Welfare. "Kids spoke a lot about impulse buying and distinguishing between wants and needs."

The program also helps people develop saving as a habit so they build up assets over the long term, said Reid Cramer, research director of the asset-building program at the New America Foundation in Washington.

The initiative, which began in 2003, is run by the Corporation for Enterprise Development (CFED) in Washington, the Center for Social Development at Washington University in St. Louis, the Initiative on Financial Security of the Aspen Institute, the New America Foundation and the University of Kansas School of Social Welfare. Funders include the Ford Foundation, Charles and Helen Schwab Foundation and Jim Casey Youth Opportunities Initiative.

SEED accounts are versions of Individual Development Accounts, which have been offered for years through a variety of federal, state and nonprofit initiatives. Some of the nonprofits participating in SEED also offer IDAs for adults and youths outside of the program.

Most youths participating in SEED programs receive initial deposits of up to \$1,000 in interest-bearing IDAs. The teens and their families add funds to these accounts from their own savings. The youths can earn money for the accounts by achieving so-called benchmark incentives, such as participating in community service or completing financial literacy training. Withdrawals are matched if they are used to pay for education or training, start a small business, buy a home or finance retirement. Funds also can be rolled over into Roth IRAs or 529 college savings plans.

SEED participants range in age from pre-school to 23. Five of the 12 SEED sites are still operating, but will shut down by the end of this year as the pilot draws to a close. The next five years of the SEED initiative will be spent analyzing data and writing reports. (At least two of the youth programs will continue under different sponsorship.)

At a recent conference at the Corporation for Enterprise Development, and in subsequent conversations, representatives of organizations offering youth savings accounts discussed some of the lessons they've learned:

- It may take persuading to get some families to participate. According to the corporation, some families were afraid of tying up scarce funds or worried about financial scams. Some figured that their children would not attend college or would get full scholarships based on financial need, meaning there was little reason for additional savings. Others worried that increasing their savings would lead to a reduction in government income support payments. Not surprisingly, advocates say that teenagers were more likely to stay engaged with ongoing encouragement from parents, teachers and mentors.
- To make asset-building goals seem less abstract, it is important to allow flexible and short-term uses for matched funds, such as transportation or child-care that help participants attend class. On the other hand, savings are often slowed by teenagers using the money for such "essential" items as cell phones and prom outfits.

- There is no consensus about the best way to deliver financial training, although conference attendees agreed that the training must not be dry and must be tailored to the audience. Scanlon said that while SEED participants perceived that their financial knowledge had increased, “I was seldom able to get them to tell me what they learned. ... It seemed more about creating motivation and a social connection.”
- Direct deposit is helpful in making sure the money teenagers earn lands in their savings accounts. Debit cards can be hard for participants to manage.

The following four programs, three of which are in SEED, use various approaches to offer matched savings accounts and financial education to different populations of teenagers.

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