

# SEED Accounts

- Barbara Rosen, Corporation for Enterprise Development

What difference would it make if every child in America grew up knowing that she or he had a nest egg to go to college, buy a home, or start a business? What benefits would accrue to individuals, families, and society as a whole?

Like seeds, savings grow. And with them grow confidence, competence, connections, and capital—the elements of development. Like seeds, what starts small and unprepossessing gradually becomes significant and profound.

SEED accounts are long-term savings and investment accounts that are allowed to grow over the course of a lifetime. SEED stands for **Saving for Education, Entrepreneurship, and Downpayment**: a ten-year endeavor to develop, test, inform, and promote matched savings accounts and financial education for children and youth.

SEED partners have established more than 1,400 accounts nationwide and are engaging different age cohorts, savings incentives, financial education approaches, and financial institutions. Seeded with an initial deposit of up to \$1,000 and built by deposits from family, friends, and accountholders themselves, SEED savings are matched 1:1 and restricted for the primary purposes of financing post-secondary education, starting a small business, or buying a home.

## Dena Jo Squyres

*SEED has unleashed an entrepreneurial spirit in Dena and her fellow accountholders, who worked together to start an after-school business selling noisemakers and foam hands at athletic games. They have sold more than \$3,000 in inventory and started to turn a profit, which they will invest in their SEED accounts.*

*Dena will be starting college a year early this fall to pursue her pre-medical degree. "I wasn't sure if it was possible to pay for college on my own and I had almost given up hope," she admits. "However, now, thanks to the SEED program, I am well on my way to saving for college."*

*The Cherokee Nation offers SEED accounts to 75 American Indian students at Sequoyah High School in Tahlequah, Oklahoma.*



## Madeline Spring

Seven-year-old “Maddie” has already started writing the business plan for the animal shelter she hopes to open one day. Maddie and 73 other second and third graders at Delmar Harvard Elementary School in St. Louis, Missouri received an initial deposit of \$500 and can earn a dollar-for-dollar match and savings incentives up to \$2000.

The elementary school has a unique approach to delivering financial education in a public school setting. SEED accountholders participate in weekly financial education classes during school hours and attend an after-school club to discuss the importance of saving. To further reinforce the habit of saving, kids receive \$1 each week for attending the after-school club and make monthly trips to the bank to make deposits.



## Consider the Following

- More than a third of the 4 million American children born each year—and more than half of minority children—are born into families with negligible savings to weather emergencies or invest in their futures. Yet, 3 out of 4 poor American children live in families where someone works full or part time.
- An investment of \$1,000 for 18 years at a 6 percent rate of return yields nearly \$3,000. Add \$100 per year and the sum jumps to more than \$5,000. Contribute \$50 per month to the base and the total reaches more than \$22,000.
- People with bachelor's degrees earn over 80 percent more, on average, than those with only high school diplomas. The typical costs of attending a 2-year public college are below \$2,000 per year; 4-year public college expenses are estimated to be just under \$4,000 annually. Yet, 2 in 5 American children will never complete a single year of college.
- For the typical American household, home equity represents 30 percent of their net worth, far outreaching any other investment. While the average first-time homebuyer makes a down payment of less than \$19,000, a typical homeowner has a net worth of more than \$130,000 while a typical renter has only about \$4,000.

Dena Jo Squyers and some fellow SEED accountholders from her school.



## Darlene Braboy

*Losing her father at the age of four, Darlene Braboy grew up in a single-parent household in public housing in the Oakland-Bronzeville area of Chicago. "My mother did a tremendous job in raising seven children," she says. "Although we lived as a low-income family, we didn't seem poor. I remember my mother budgeting and saving not only to get the things that were needed, but also for some of the things we wanted."*

*In 2003, Ms. Braboy opened a SEED Account for her fourth-grade daughter, Darnecia. In May 2006, she participated in a policy briefing sponsored by the Shriver Center and the Federal Reserve Bank of Chicago. She spoke about how participa-*

tion in the SEED program helped her focus on future goals for herself and her children and save more regularly. She, her husband, and their two children currently live in public housing, but plan to own their own home someday.

More than just a savings product, nationwide implementation of SEED accounts would move the United States closer to progressive and inclusive public policy in support of a universal savings and asset-building system for all Americans. SEED accounts can increase the savings rate, ensure a greater level of investment in children, improve the economic and social prospects for each succeeding generation, and increase the economic and social welfare of the nation as a whole. In no small sense, SEED accounts are an investment in the future of the economy.

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## **SEED Accounts: The Vision**

Any SEED account policy should be:

### **Inclusive.**

Accounts should be established at birth for every child in America.

### **Seeded with an initial deposit.**

Every newborn should receive a modest but significant start-in-life deposit.

### **Designed to build lifelong assets.**

Savings should be held until at least age 18 and should be used for only higher education/training, small business development, home purchase, or retirement.

### **Matched progressively.**

Voluntary additional contributions from any public or private source (e.g. family, friends, relatives, community organizations, and parents' employers) should be incented by a public match that increases in value for lower-income families.

### **Simple.**

Parameters of the account should be kept as simple as possible to enable low-cost, high-scale delivery (e.g. simple match rates, tax incentives, deposit structure, integration into tax forms).

### **Private-market oriented.**

Accounts should be held primarily in private financial institutions that provide limited investment options.

### **Designed to build financial aspirations, knowledge, and skills.**

Age-appropriate financial education should be delivered by a variety of sources (e.g. financial institutions, nonprofit organizations, youth development organizations, schools, and families).

### **Non-discriminatory to families on welfare.**

Eligibility for means-tested programs should not be affected by savings in SEED accounts.