Madison Youth Savings Accounts Program

Executive Summary

Overview

The City of Madison, in partnership with Madison Metropolitan School District (MMSD) and the Foundation for Madison Public Schools (FMPS) - seeks to launch the Madison Youth Savings Accounts (MYSA) program. Youth Savings Accounts, also known as Children's Savings Accounts, are long-term savings or investment accounts that a community opens to help students —especially those from low-income households—save, plan and pay for education costs after high school (e.g., college or technical school). The Common Council of Madison allocated funding under which Dave Grace & Associates (DGA) was selected to conduct research, test ideas with focus groups and make recommendations on how to design and launch a youth savings program in Madison. This executive summary provides an overview of the detailed report.

> "Students from low-income families who have $500 or less saved for college are **three times more likely to attend college** and four times more likely to graduate than those whose families do not have college savings."

Research shows that even small savings for education can have a big impact on the lives of students as they can help create a college-bound identity and higher expectations for children.[1] Additionally, there is a strong link between children's expectations for school and the level of school they achieve.[2]

In the last 10 years, many states, cities and nonprofit organizations have started youth savings account programs. Ranging from small programs serving children at one school to statewide initiatives. Most of these programs focus on helping children access post-secondary education by building both their savings and their educational aspirations, especially for students from low- and moderate-income families. Youth savings accounts hold so much promise that at the end of 2016 there were 42 YSA programs serving 313,000 children in 30 U.S. states.

In Madison there are 27,000 students enrolled in MMSD grades K-12. Wisconsin's EdVest 529 College Savings Program estimates that 26% of households with children in the Madison area (inclusive of Monona and Fitchburg) have accounts and the average balance is $20,500. This compares favorably with a state average of 10% of families with school age children savings for college via Wisconsin's EdVest 529 program.

Saving for post-secondary education is most difficult for families that do not have a strong foundation of financial security. Approximately half of all MMSD students are receiving free or reduced priced meals due to their family's low income per the US Department of Agriculture's income eligibility criteria. Focus groups and interviews conducted for this project with low-income parents and high-school students in MMSD by Dave Grace & Associates (DGA) in June

[1] Assets and Education Initiative, Building Expectations, Delivering Results, Asset Based Financial Aid and the Future of higher Education, July 2013.
[2] William Elliott and Kelly Harrington, Identifying Short Term Outcome Metrics for Evaluating Whether Children's Savings Accounts Programs Are on Track (Boston, MA: The Federal Reserve Bank of Boston, 2016).

and July 2018 indicated that 58% of the families do not currently have any savings for future education expenses.[3] In addition, 33% of the students and 25% of parents we interviewed are unbanked. Lastly, only 83% of MMSD high school seniors plan on enrolling in post-secondary education (51% in a 4-yr college, 31% in 2-yr college).

Together, these findings indicate that many MMSD families are not financially secure and their post-secondary educational plans, if any, may currently be out of reach financially. The YSA program can send children the message that they have the potential for academic success regardless of where they come from and provide an avenue for reaching their goals.

Program Goals

The following three goals were identified and tested as the priority objectives for MYSA:

1. **Primary goal:** Foster a college-bound identity for children (i.e. children view themselves as someone who will attend college).
2. **Secondary goal:** Build savings for post-high school education.
3. **Secondary goal:** Connect un/under-banked families in Madison with healthy and safe financial services.

These goals were discussed with the key partners (City of Madison, MMSD, FMPS, Summit Credit Union), tested in parent and student focus groups/interviews and through an expert Advisory Committee.[4] The primary goal of fostering a college-bound identity aligns well with the MMSD vision of "Every school will be a thriving school that prepares every student to graduate ready for college, career and community". Having a crystal-clear strategic direction for MYSA is the starting point for designing the program and determining its measures for success.

Program Features

The following MYSA program features are designed to advance the program's goals:

- ***Who benefits?*** All MMSD students enrolled in K5 and in 6th grade will be eligible for automatic enrollment in MYSA program. These age groups were selected for affordability of the program and to align with key milestones in educational careers. To be eligible, a student must be enrolled in a MMSD public school or a public charter school that is an instrumentality of the MMSD. There were approximately 1,800 students in kindergarten in the 2017-18 school year and another 1,800 in 6th grade. In addition, the program will be offered to all children who reside in Madison but are districted to attend school districts other than MMSD based on district catchment areas that do not follow municipal boundaries. . Starting the program at both kindergarten and 6th grade level will provide the following benefits: a) Enrolling children at an early age helps maximize the amount of time

[3] While sample sizes for the interviews and focus groups (31 people total) are not statistically significant, these figures are similar to national and state averages.

[4] Advisory Committee members to DGA for this consultancy are: Lucia Nunez, VP of Diversity, Inclusion and Community Engagement, Madison College; Paul Terranova, Executive Director, Lussier Community Education Center; David Krutchen, Chair of Business and Marketing Department at East High School; Richard Entenmann, Executive Director, Asset Builders of America; Muhamed Sanneh, Student Advisory Member, East High School; George Hofheimer, Chief Knowledge Officer, Filene Research Institute;

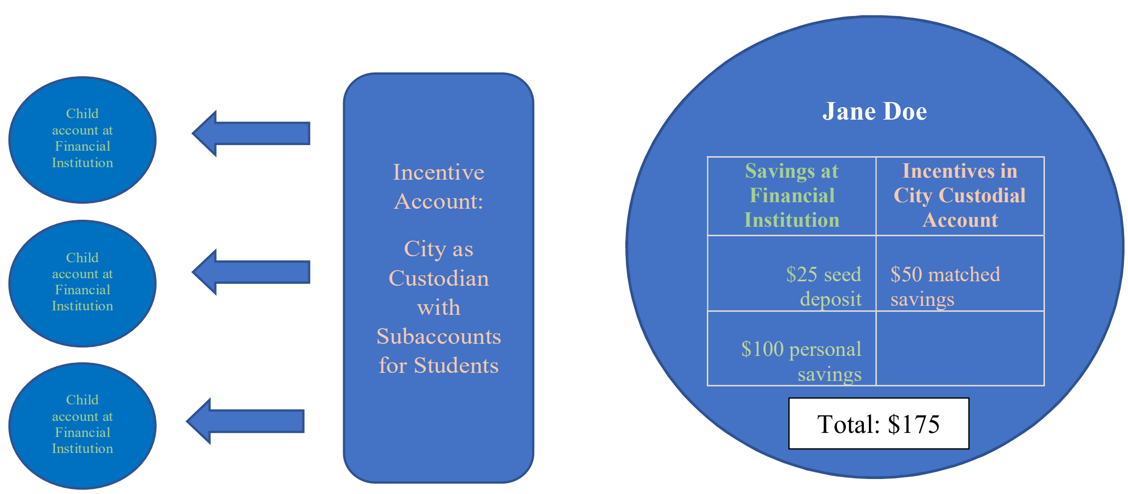
families have to save and develop a college-bound mentality; b) Enrolling the 6th graders coincides with a life stage when school programming and students start focusing on the future, and schools increase financial literacy concepts. In addition, starting with a cohort of 6th graders will enable faster results to measure the program's success than waiting 13 years for kindergarten students to graduate high school.

- ***What will be offered?*** Every student will receive an initial deposit of $25 (or $50 for children approved for free/reduced price meals) into their MYSA financial institution account. Providing the same initial deposit to all Madison children will ensure a base level of equality for all accounts, can make the program more politically feasible since all families, regardless of income, become participants and teachers can reference the program and seed deposit knowing that all kids (unless they opted out which few have in other cities) have an account. The program plans to raise funds from community partners in order to offer larger incentives for savings match contributions.

- ***How can MYSA savings be used?*** MYSA savings accounts will be held in a financial institution deposit-only account owned by the student, with his/her parent/guardian as a custodian so they have the ability to view balances and make deposits. Funds in the student's financial institution account can only be withdrawn after age 18 and then be used as the student wishes since its their savings. If there is a financial hardship in the family (e.g., eviction notice, death of student or immediate family member) or the student has moved out of the district for two consecutive years the program manager (the City) can approve a hardship withdrawal for funds at the financial institution.

  Students will also each have an "incentive account" as part of a pooled account held and managed by the City. Funds in the incentive account will only be paid out to a student for education expenses after age 18 at any college, vocational school, or accredited program for career training. If a student does not attend post-high school education, by age 28 then all the incentive funds "earned" will remain in the pooled incentive account to help other students. See Figure 1 below for a graphical depiction of the accounts.

Figure 1: Overview of Account Structure



- ***Can families contribute their own savings?***
Families are encouraged to make deposits into their child's savings account opened at the financial institution. Parents can sign-up for payroll deductions as well as involve grandparents, aunts, uncles and friends to help their child grow his/her college savings. MYSA will also involve parents, students and teachers through financial capability programing and matched-savings incentives. Contingent upon planned fundraising, savings will be matched 50% up to $100 saved in a year. Matched of 100% up to $100 will be available for students benefitting from free and reduced meals.

- ***When will the program start?*** The program should begin in the 2019/2020 or 2020/2021 school year for registered kindergarten and 6th grade students and phase in over the subsequent 6 years until all students in MMSD have a Youth Savings Account.

Program Budget

The City of Madison should allocate $248,600 in the next fiscal year to kickstart the MYSA program. This represents less than 0.1% of the City's annual operating budget and would directly benefit every school-age child in Madison. The funds will cover program delivery, program promotion and 75% of the seed deposits. Per Figure 2 it is anticipated that the first three years of operation of the program will cost $1.4 million. For the City, MMSD and community partners to potentially help improve college attendance by low-income students three times and their graduation rates four time we recommend investing $370,000 to $550,000 in the initial years and increasing to $830,000 per year once all students in MMSD have accounts. This represents an excellent return on investment for the community. Prior to launching, the program coordinator should aim to secure sufficient funds to cover the first three years of expenses.

Figure 2: Three Year Program Budget

	Year 1	Year 2	Year 3	3 YEAR TOTAL
Program Delivery – Funded by City of Madison	$140,000	$143,500	$147,000	$430,500
Seed Deposits – Co-Funded by the City and Financial Institution[5]	$143,600	$143,600	$143,600	$430,800
Matched Savings – Funded by donations[6]	$86,250	$172,500	$258,750	$517,500
Total Per Year	$369,850	$459,600	$549,350	$1,378,800

[5] Assumes that financial institution will provide $35,000 per year in seed deposits to support the program and the City provides the remaining seed funding of $108,600. All funding for matched savings would come from community/corporate donations.
[6] Assumes 30% of the 3,830 students will meet the match and half of them will earn a 0.5 to 1 match and the other half will earn a 1 to 1 match. These estimates assume much higher activities rates than St. Louis and San Francisco which only see that 20% of their accounts are active. However, we anticipate that MYSA's financial institution model is much more accessible than the ones used in both of these cities.

While MMSD is forecasting a 1.2% decrease[7] in student enrollment for the next 3 years, we conservatively estimate a steady enrollment and budgeted a fixed amount of seed deposits at $143,600 per year which will be co-funded by the City of Madison and the financial institution. In addition, seed deposits will be offered to about 230 students[8] who reside in Madison but are districted to attend school districts other than MMSD. This is based on district catchment areas that do not follow municipal boundaries, for a total of $8,600 per year. MMSD also estimates that 437 (or 1.6%) of MMSD students are not Madison resident as they come from neighboring towns. The seed deposits for this small group of students may be covered by the financial institution (which will be funding about 1,400 accounts) so that no Madison taxpayer money is supporting students who are non-City residents. We also don't see a concern with the incentive fund since it will be raised from private donations, not from taxpayers.

Program Implementation

The MYSA program will be managed by the City of Madison which will work closely with partners such as the financial institution, MMSD, FMPS, the schools, etc. to implement the program. To be able to launch the program in the 2019/2020 school year the program should hire a program manager and an assistant, select a financial institution, start fundraising, develop the policies and procedures, establish partnership agreements, create or acquire a database to track the accounts and launch a website. In addition, the program should develop a detailed outreach plan on how to promote the program to families, teachers and community partners.

The following recommendations are key to the successful implementation of MYSA:

Recommendation #1: Establish an Office of Financial Empowerment to Manage the Program

The success of the MYSA program will largely depend on the ability of the City to effectively implement the program. In St. Louis, Boston and San Francisco their college savings programs are administered through their Offices of Financial Empowerment responsible for all aspects of the YSA program, including funding, coordination, outreach, and account access and data management.[9] This provides specialized staff that understand how to work with financial institutions, behavioral economics and community engagement.

Based on our interviews with the City of Madison staff and future MYSA partners we recommend that City of Madison should manage the MYSA program and serve as custodian of incentive funds as one of the cornerstone activities in a small and newly formed Office of Financial Empowerment (OFE). The OFE's overall mandate would be to strengthen the financial health and well-being Madison residents.

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[7] Enrollment History and Projections Report

[8] Assumes a total of 1,500 students (or 115 students per grade) by adding 747 students who attend Middleton schools but have a Madison address (according to this article), 449 Madison students who are homeschooled, and 304 students who live in Madison but attend other neighboring schools. This is the best available data for students who may be eligible to participate in the program. We requested data from the school districts in Middleton, Verona, Monona and McFarland regarding the number of Madison students enrolled in their schools as well as their residents enrolled in MMSD and heard back from one district who was able to provide the data requested. Middleton-Cross Plains Area School District reported that in K5 - 6th grades there are 437 students (56 in K5 and 75 in 6th grade) who have a Madison addresses, and another 25 open enrolled students who are Middleton residents attending MMSD. Additional work needs to be done to develop and maintain attendance information from neighboring school districts. We don't believe that this estimate would materially affect the overall budget.

[9] Growing student debt problems, the move from pensions to self-funded retirement and the low-level of assets for families of color compared to others areas that a newly created Office of Financial Empowerment.

As the MYSA program coordinator, the OFE would develop program policies and procedures, manage and safeguard savings incentives, serve as the account custodian for the incentive funds, select the financial institution, fundraise for the program, and measure/evaluate the program.

Recommendation #2: Utilize Savings Accounts at a Financial Institution to Engage Families

It is crucial that the features of the MYSA account meet the needs of participants, is designed to accommodate all families including those who are low-income, un/underbanked or undocumented and that the back-end structure meets the program administrator's management requirements. Based on our extensive research and interviews of financial institutions and Wisconsin's EdVest, program we recommend that savings accounts at a local financial institution be established. The existing financial institution infrastructure within branches in most high schools, the Boys and Girls Club and the willingness of a financial institution to contribute funds to this program is unique in comparison to other YSA programs in the country and should be leveraged.

Our analysis indicates that MYSA participants will be better served with accounts at a local financial institution that they directly own and can access than via a pooled 529 account where there are not physical presence of branches in the neighborhood and schools and where multiple deposit options including in cash are not easily accepted.[10]

MYSA's primary goal of instilling a college-bound identity in students is easier to achieve with the help of a financial institution that has physical branches. For example, the City of St. Louis' College Kids Children's Savings Account Program organizes regular family savings nights – a chance for participating students and their families to come into the credit union and bring their deposits.

Anecdotal evidence from focus groups and discussions with teachers in MMSD shows that only about two-thirds of high school students have a bank account. Opening a MYSA account at a financial institution is not only a chance to bring the kids into the financial mainstream, but also their families that may be un/underbanked, which is a secondary goal of this program. The program would engage families through a two-generation approach which can be a particularly effective way to move families out of poverty.

Although Summit Credit Union has been involved in discussions on the MYSA program and may have strong offerings, we recommend the City conduct a competitive bidding process for the host financial institution for the MYSA and issue a request for proposals.

Recommendation #3: Launch MYSA During the 2019/2020 School Year Enrollment

The City of Madison should allocate a program manager and a part-time program assistant to begin working with the partners, developing a RFP to select the financial institution., The City should also work with MMSD to add an new questions to its enrollment process related to MYSA and develop procedures to operate the program.

Before the program launches the program manager and the financial institution must work together to ensure there are no unintended consequences that will negatively affect undocumented children

[10] The full report provides additional pros, cons and rationale for why Madison should utilize a local financial institution for its MYSA program.

and their families. If MYSA program requires a tax identification number for the family to open and account, the undocumented children and children of undocumented parents will not be able to participate in the program and save for post-secondary education.

Recommendation #4: Secure $1.4 Million for the first 3 Years of Operations and Engage Families

Raising funds from diverse sources to support the program, particularly to be able to offer the seed deposits and additional matched savings incentives will decrease the cost to City of Madison and will create a more sustainable funding model. The OFE should undertake fundraising activities for the MYSA program with assistance from the Foundation for Madison Public Schools which should serve as the fiscal agent to receive incentive funds for the program. We recommend that Madison's community foundations be engaged early on to help build a sense of ownership with the program.

Engaging children and their families in the MYSA program is crucial to achieving its primary goal of instilling a college-bound identity for children as well as growing account contributions. Building capacity through financial capability opportunities and aligning them with the MMSD curriculum will ultimately lead to reaching the program goals. The program coordinator should work with schools and community resources to create opportunities that will be implemented to build student and family capacity. The initial focus will be on the kindergarten and 6th grade outreach required to have families understand the MYSA program including matched-savings incentives.

Conclusion

The MYSA program is designed to build a college-bound identity in MMSD students and a framework for where and how to save money to make that identity a reality. The clear guidelines included here and within the full report position the City of Madison to implement this program in the 2019/2020 or 2020/2021 school year. This program represents a significant return on investment and aligns well with the strategic direction of the school district and with the City's visions of ensuring that all citizens have the opportunity to thrive.