

Enduring Assets

*Findings from a Study on
the Financial Lives of
Young People Transitioning
from Foster Care*

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Each year, nearly 28,000 young people transition from foster care to adulthood without being reunified with their biological parents, placed in legal guardianship, or adopted by another family.¹ Most leave foster care around age 18, although many states offer at least some continued support up to age 21.² As young people transition from foster care, they often lack the guidance and support that traditional or adoptive families provide. And they face elevated risks of homelessness, poverty, early pregnancy, incarceration, and victimization.³

Asset-building programs, which aim to promote financial security throughout young people's lives, are gaining increased attention in the United States and around the world.⁴ Although policy makers have been promoting lifelong asset development as a new strategy for social development,⁵ current policies focus primarily on specific life stages, such as retirement—for example, 401Ks, 403(b) plans, and IRAs. Few programs target asset accumulation for children and young adults, and even fewer target especially vulnerable young people such as those involved in the child welfare system.

Despite scant evidence on how asset-based programs function for young people, asset theory draws upon human development and sociological frameworks to explain how young people gain the ability to manage money and save as they transition to adult roles and responsibilities. Young people are able to grasp increasingly complex economic and financial concepts as they progress through successive biological, psychological, and cognitive stages.⁶ As children mature, they are capable of more abstract economic reasoning; and by early adolescence they develop an understanding of the concept of saving for long-term goals.⁷ Financial socialization is when children acquire and develop “values, attitudes, standards, norms, knowledge, and behaviors that contribute to [their] financial viability and well-being.”⁸ Typically, families are

1 Collins, 2001; U.S. Department of Health and Human Services, 2011.

2 Propp, Ortega, & NewHeart, 2003; Bullock, Courtney, Parker, Sinclair, & Thoburn, 2006; Peters, forthcoming.

3 Barth, 1990; Courtney et al., 2005; Courtney et al., 1998; English et al., 1994.

4 Sherraden, 1991.

5 Sherraden, 1991.

6 Berti & Bombi, 1988; Strauss, 1952.

7 Sonuga-Barke & Webley, 1993; Webley, et al., 2001; Webley, Burgoyne, Lea, & Young, 2001.

8 Schuchardt, et al., 2009, 86.

the earliest socialization agents;⁹ research suggests that parents who provide opportunities for children to learn about money increase their children’s understanding of money.¹⁰ Families provide financial socialization through allowances, parental modeling, and teaching self-control.¹¹ Social and cultural influences—such as peers, teachers, media, and culture—also affect young people’s financial socialization.¹²

Many young people perceived barriers to using traditional financial institutions.

Asset theory suggests that savings and assets have positive outcomes for children beyond those predicted by income alone.¹³ Assets (more than income) may increase young people’s orientation toward the future, stimulate development of other assets, enable focus and specialization, provide a foundation for (positive) risk taking, and increase personal efficacy.¹⁴ Some researchers have discovered an association between perceived availability of savings and a “college-bound identity,”¹⁵ and savings and expectations appear to enhance educational persistence.¹⁶ The benefits of saving appear to be highest for young people from low and moderate income backgrounds.¹⁷

Background

The Jim Casey Youth Opportunities Initiative developed the Opportunity Passport™ as a component of a broad set of strategies to improve outcomes for young people transitioning from foster care.¹⁸ In each Jim Casey Initiative site, the organization works with a local private or public agency partner to improve policies and practices, promote youth engagement, apply evaluation and research, create community partnerships, and increase opportunities. Although the Opportunity Passport™ has evolved over time and varies somewhat by site, during the period of this study participants needed to be between the ages of 14 and 24 and to have spent some time in foster care after they turned 14 years old. The Opportunity Passport™ provided each participant with training in financial literacy; and, after they completed the training, young people received two accounts: a personal bank account and an individual development account (IDA) with an initial balance of \$100. When participants withdrew money from the IDA to purchase an approved asset, the program matched it dollar-for-dollar, up to \$1000 each year. Allowable assets included education expenses, including books, computers, and required software; housing costs,

9 Moschis, 1985; Kourilsky, 1977; Rettig & Mortenson, 1986.

10 Webley & Nyhus, 2012.

11 Beutler & Dickson, 2008; Furnham, 1999; McNeal, 1987.

12 Sherraden, 1991.

13 Sherraden, 1991.

14 Oyserman & Destin, 2010; Elliott, Choi, Destin, & Kim, 2010; Elliott, Nam, & Johnson, 2011.

15 Elliott & Beverly 2011a; Elliott & Beverly 2011b; Elliott, Constance-Huggins & Song, 2011.

16 Elliott & Beverly, 2011a; Elliott, Constance-Huggins, & Song, 2011.

17 Jim Casey Youth Opportunities Initiative, 2009.

18 Jim Casey Youth Opportunities Initiative, 2009.

“I’ll push something back for a week or I’ll split it in half, like the bills that you can do that with—like electricity, for instance. You can pay just half of that and not really have a whole lot of penalties. So I’ll sacrifice when I need to and split something or push it back if I need to.”

— NICOLE, AGE 20

including apartment security deposits; vehicles; microenterprise costs; health care expenses; and investments. By not limiting assets to housing and education purchases—as many IDA or matched savings programs do—the Opportunity Passport™ includes other developmentally appropriate assets for young people age 14 to 24, a time period when families typically help adolescents purchase cars for school and work or textbooks or computers: assets that help them launch into adulthood.

Study Objective

By seeking the perspectives of young people in the Opportunity Passport™, the study had two broad goals: it aimed to gain insight into the financial lives of young people transitioning from foster care into adulthood. And it sought to understand young people’s experiences in the Opportunity Passport™ from their own perspectives.

Methodology

From the 11 Jim Casey Initiative sites in operation, researchers and Jim Casey Initiative staff identified four sites that presented mature programs that included young people from mixed ethnicities from urban and non-urban settings. In each site, researchers interviewed key staff and participants who were randomly selected from active participants. Researchers also analyzed program data for interviewees drawn from the biannual surveys completed by participants. In all, researchers interviewed eight staff members and 38 youth participants across the four sites between January and May 2011. All young people had transitioned from foster care by the time of the interviews. They were between 18 and 24 years old, averaging just over 21. Most (79 percent) were female. About half (47 percent) were black, with another 16 percent identifying as multiracial.

“I handle all my business I’m supposed to handle first. I don’t want to be late with my rent or my landlord. So I just make sure I put it aside and leave it be.”

— KIARA, AGE 23

Analysis of interview data and survey information yielded findings in six areas.

Analysis and Key Findings

- **Financial services.** Young people used a variety of traditional and nontraditional financial services. Many young people perceived barriers to using traditional financial institutions, which led them to other means of savings and financial tools. Some alternatives appeared to be sensible (like inexpensive check cashing), while others seemed ill advised (expensive rent-to-own purchases). Transactional checking accounts seemed to be of limited use for young people. Most relied heavily on cash for transactions, in part because many young people did not trust traditional financial institutions. The distrust arose from personal experiences and stories their peers shared about high fees and unanticipated penalties.
- **Financial management.** Participants identified a number of strategies for making ends meet. Some worked to set aside small amounts to cover unanticipated expenses, while others found that unexpected bills could wipe out months of accumulated savings. To deal with financial shortfalls, young people employed a number of strategies: asking for payment extensions, getting emergency grants from social service agencies, or moving in with relatives or friends. Many expressed considerable concern about accumulating debt. Most experienced difficulty with dealing with high-cost expenses, including mobile phone bills, transportation, and medical emergencies.
- **Individual factors that affected saving.** Young people varied widely in the degree to which they succeeded in saving and purchasing assets through the Opportunity Passport™. Not surprisingly, the more successful participants tended to have stable sources of income or reduced expenses. Successful

savers were more likely to avoid the financial emergencies that challenged other participants. Some took advantage of the modest windfall that arrived in the form of a tax refund, while others minimized expenses by sharing costs with friends, partners, or kin. And young people with access to inexpensive transportation—through a public transit system, a shared vehicle, or student transit discounts—not only tended to save more, but also avoided compromising their educational opportunities. Given the marginal economic lives of young people who have experienced foster care, building savings meant foregoing freedoms that many of their peers enjoyed. However, not all young people were able to exercise such forbearance consistently. For some, significant individuals in their lives affected their savings habits. For example, single mothers seemed to have a heightened sense of the importance of saving, but less means to do so.

Successful savers were more likely to avoid the financial emergencies that challenged other participants.

- **Program features that affected saving.** Many young people emphasized that the Opportunity Passport™ helped them save and purchase assets that would otherwise have been out of reach. A few suggested that the initial financial literacy training

provided helpful information. Some young people, especially those who lacked the support of kin or partners, said that program or agency staff helped them save by setting goals or offering encouragement. Others suggested that fellow participants provided an important source of social support. Most believed the simplicity of the 1:1 savings match encouraged savings. Barriers to easy withdrawals from an individual's IDA were helpful for some participants, as the policy ensured that participants would not make impulsive withdrawals. Other young people said they resented not being able to readily withdraw their own savings; the resentment inhibited deposits. However, some of those individuals successfully saved cash over time, and made lump-sum deposits in their IDAs when they were ready to purchase assets.

- **Learning from mistakes.** For the young people who participated in the program, it is possible to view a poor record of savings as a success: participants had the opportunity to make mistakes and learn from them. Unlike their peers who lived in stable families, participants in the Opportunity Passport™ were less likely to have received allowances, have had their own bank accounts, or received informal financial literacy training from caring adults. For these young people, the program provided some of the socialization that others generally receive earlier in childhood. To the extent that they were unable to save or purchase assets, these experienced “failures” may have helped build a foundation for future success.

- **Effects arising out of successful savings.** For the more successful savers, the Opportunity Passport™ provided an enhanced sense of independence, a key for successfully transitioning to adulthood. For many, the possessions obtained through the program were the first major purchases they could claim as their own. Successful participation also seemed to enhance future orientation. For some young parents, Opportunity Passport™ enhanced a growing sense of responsibility. For a few young people, it provided safety and sustenance. And some respondents believed the benefits of the Opportunity Passport™ would extend beyond their generation.

Most participants believed the simplicity of the 1:1 savings match encouraged savings.

Discussion

This study suggests that it is possible for young people transitioning from foster care to save. The young people in this study believe saving is important and recognize the chance that the Opportunity Passport™ offers to smooth—if not accelerate—a successful transition to adulthood. They engage in a wide range of strategies to improve their financial decisions, and they find surpluses to save. They often reconnect with family members and share costs with

peers and partners in an effort to live economically and build savings. They yearn to be independent, successful, and contributing members of society. They hold out the expectation that they will have savings and pay their own way in the world.

Nonetheless, they undertake saving with great difficulty. Few enter adulthood from foster care with the preparation needed to make increasingly complex financial decisions. Without the education and training that might prepare them for higher income jobs with good benefits, they also lack access to financial services and asset-building mechanisms that accompany such jobs. Few, if any, transition from the child welfare system with a financial cushion that might mitigate youthful mistakes and inevitable emergencies that often lead to debt.

With many financial challenges and tasks ahead, young people transitioning from foster care to adulthood need a substantial period of support to build stable and hopeful financial lives. Policy and programs need to ensure that young people transitioning from foster care gain financial knowledge and skills to manage their financial lives, allow them to experiment with support and learn from their mistakes, and build savings that allow them to invest in their future.

“Some people just spend money, just don’t care: tattoos, piercings, clothes, a \$150 pair of shoes. I feel like I’m smarter with the money. I don’t want to go broke again; that’s my lesson.”

— ASHLEY, AGE 19

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About the Jim Casey Youth Opportunities Initiative

The mission of the Jim Casey Youth Opportunities Initiative is to ensure that young people—primarily those between ages 14 and 25—make successful transitions from foster care to adulthood. We do this by working nationally, in states, and locally to improve policies and practices, promote youth engagement, apply evaluation and research, and create community partnerships. Our work creates opportunities for young people to achieve positive outcomes in permanence, education, employment, housing, health, financial capability, and social capital.



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