

Improving Access to Higher Education by Promoting Savings

Executive summary

In spring 2009, a summit on saving for college and 529 college savings plans brought together representatives from financial services, state government, financial aid, and higher education. The dialogue that was inspired by the event (hosted in partnership with the College Savings Plans Network (CSPN) and key industry experts) led participants to collaborate on this white paper, which discusses the challenges and opportunities around improving families' ability to save for college.

These insights come as a renewed emphasis on education is highlighted by the Obama administration, which has drawn parallels between the country's commitment to higher learning and its ability to eventually regain its leadership position on the world stage. However, there remains a wide gap between this stated need for education and the general public's ability to afford it.

529 college savings plans can be instrumental in making college more accessible, yet they remain underused and misunderstood by the vast majority of Americans. It falls to the full spectrum of players—the financial community, our primary school systems, higher learning institutions, and state and federal governments—to address this lack of awareness and inspire more widespread 529 plan participation.

This paper outlines current challenges and offers recommended actions, including:

- Creating a federally-funded campaign of Public Service Announcements, serving as a low-cost, high-impact initiative to significantly boost awareness and adoption of 529 plans
- Providing an incentive for employers to offer 529 plans as part of benefits packages by passing legislation to allow non-taxable employer matching contributions
- Removing 529 savings from the Free Application for Federal Student Aid (FAFSA), thereby eliminating the perception that families are penalized for investing in the plans

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Improving Access to Higher Education by Promoting Savings

Private and public sectors share responsibility for promoting financial literacy and providing solutions to increase savings opportunities

In 2008, the United States entered a period of examination and reinvention that will persist for years to come as the world grapples with a significant global recession. With this recalibration of the markets comes a continuous stream of data and prescriptions for a range of economic issues; never before have Americans of all income levels been privy to such a barrage of financial information.

This environment presents an important opportunity to foster a sense of shared urgency around a crucial issue: making higher education more accessible and affordable. 529 college savings plans are growing in acceptance as the savings tool of choice, yet significant misperceptions and barriers remain that stifle their use as the pre-eminent savings vehicle for higher education. Easing financial access to college demands more widespread, basic education about 529 plans and, eventually, improvements to the ways in which they can be used to respond to the challenges at hand.

In spite of the recession, tuition costs continue to rise and present a seemingly insurmountable barrier to higher education, especially for low- to middle-income families. In addition, the nation is faced with an unemployment rate of 9.4% and rising as of May 2009.¹ That is a troubling statistic on its own, but it is even more striking when coupled with an annual upward climb in tuition. According to the College Board, the average cost of attending a four-year public university was \$6,585 in 2008, a 6.4% increase from 2007; for private institutions, those costs rose 5.9% to \$25,143.²

Given this set of circumstances, the call for change cannot be directed at potential students alone. Nearly every segment of American society has a role in improving access to higher education, including the families of prospective students, the states in which they live and work, the financial community, financial aid professionals, and the education system designed to support their development.

Education begins at home

American families—especially low- to middle-income households—historically struggle to make higher education a part of their lives. The gap between low- and high-income college attendance is wide. A range of statistical evidence points to this trend; for example, 80.7 percent of high-income students receiving a high school diploma move straight to college, compared with about 50.9 percent of low-income high school graduates (data through 2006).³

In addition, even moderate- and higher-income families are increasingly struggling to raise sufficient funds to pay for college. These groups have relied on loans to finance college expenses; when government loans are not sufficient, they have increasingly turned to private loans. The current credit crisis is reshaping that landscape, and families who have not saved for college may no longer be able to finance expenses using that traditional borrowing approach.

Both in the near- and the long-term, a carefully calibrated combination of savings, student loans, and scholarship funds will be crucial for students. For low- to middle-income families, the savings arm of that equation cannot be overlooked. Federal tax deductions for 529 plans could be the incentive that motivates their participation in savings and, therefore, in higher education.

This reality is not only a function of finance, but also a function of aspiration. When armed with knowledge and tools such as 529 plans, these families are more likely and able to view higher education as an attainable goal. A report by the College Savings Initiative notes: “With their own personal college fund—for which they get regular statements—it is argued that low-income students will be more likely to take, and take seriously, necessary courses in high school knowing that they have money saved for college. They will be more likely to begin the college application process and in turn be funneled into the financial aid application process.”⁴

As more families save, it will become clear that while the cost of college is high, saving little by little can make a difference. Regular contributions to a 529 plan could yield gains over time; a \$50 monthly contribution (assuming a 7% rate of return) for 18 years yields \$21,662. Going even further, a research paper produced by

¹ Bureau of Labor Statistics, <http://www.bls.gov/news.release/empisit.nr0.htm>

² The College Board, 2008-09 College Prices, <http://www.collegeboard.com/parents/csearch/know-the-options/21385.html>

³ *National Center for Education Statistics*, Transition to College, 1972-2006, <http://nces.ed.gov/programs/coe/2008/section3/table.asp?tableID=902>

⁴ *The Basics of Progressive 529s*, David Newville, Ray Boshara, New America Foundation, Margaret Clancy, Project Director, Center for Social Development; Michael Sherraden, Director, Center for Social Development, New America Foundation, February 2009⁵ U.S. Department of Education.

Washington University's Center for Social Development monitored the progress of families with SEED (Savings for Education, Entrepreneurship, and Downpayment) accounts, concluding that:

The \$1,518 that each SEED participant has on average as an investment for the future is not a trivial amount. It would cover over 60% of tuition and fees for one year at a typical community college in 2008-2009 (College Board, 2008). While a mean net quarterly savings of \$30 might be considered modest, it indicates that some families can and will save in Child Development Account programs such as the one studied. About 57% of participants had positive net contributions of their own funds. For these participants, average net contributions were \$43 per quarter.⁵

Encouraged by the belief that a post-secondary education is within reach, prospective students can also benefit from industry tools and the support of extended family and friends. Rewards programs focused on saving for college, often associated with credit cards or major retailers, are gaining popularity and help keep account owners engaged. Gifting to 529 plans is also becoming more common, with several tools now available to bring much of the process online in an easy, secure environment.

Employer participation increases savings and awareness

The journey toward college might begin at home, but it will have to be supported in the workplace. Employers already have good reason to promote education among their workforce, as it is widely accepted that a well-trained, well-educated staff is a linchpin of success across all industries.

There is positive activity on this front; evidence from the Ohio Tuition Trust Authority shows steady growth in the number of employers offering payroll deduction. This helps to motivate parents to save, but also provides an option for employer training; most 529 plans can be used for adult higher education and can therefore be applied to qualified training programs. As of March 2009, nearly 700 Ohio employers offered the state's CollegeAdvantage 529 plan to their employees through payroll deduction. This has drawn approximately 2,500 employees to the savings plan, with monthly contributions totaling an estimated \$500,000 through payroll deduction.⁶

A number of hurdles remain before a wider spectrum of employers will be willing and able to give their employees access to 529 plans. The process through which the plans are designated must be configured for corporate use. For example, the ability to establish an account with no set beneficiary would allow companies to offer the

vehicle to employees as needed, especially for training or work-related education. On the administrative side, the adoption process is time-consuming and can be especially challenging for large companies with locations in multiple states.

Easing the burden on human resources and benefits departments will help acceptance in the back office, but legislation is necessary to get broader buy-in from the boardroom to the assembly line. As law currently dictates, there is no benefit to matching contributions and as such, the incentives to employers or employees are limited. Legislation has been introduced in the past to allow non-taxable employer matching contributions to 529 plans; this kind of measure will be key to greater adoption by employers and, in the end, employees and their families.

Trust and the financial sector

Many individuals are questioning the safety and wisdom of investing in the financial markets at all. As prior gains were dragged down by a reeling economy, the image of the full spectrum of mutual funds was damaged by the perception that these vehicles—including those used by 529 plans—are ill-suited to meet investors' needs in the current environment. At the same time, the financial community is struggling with a demand for greater transparency to satisfy both public opinion and emerging regulatory demands. An industry-wide emphasis on education about fund options would help improve trust and credibility among consumers on a number of levels.

Despite negative or static fund performance across the board, low market values have presented the opportunity to reap greater rewards by increasing regular contributions. That message, however, is not reaching account owners with authority; recent statistics from the Financial Research Corporation show that sales from the automatic funding of 529 plans bounced from 38 percent in Q308 to 31 percent in Q408 and back to 39 percent in Q109 as markets showed signs of strength.⁷ It is safe to conclude that this erratic behavior is directly tied to consumer confidence in the financial markets, as well as pressures on many families due to employment status and credit availability.

To overcome this hesitation and vault to the next stage of trust and participation, the financial community will need to re-examine its efforts to educate individual investors. Any stakeholder that

⁵ *SEED Account Monitoring Research*, Lisa Reyes Mason, Yunju Nam, Margaret Clancy, Vernon Loke, & Youngmi Kim, March 2009, Washington University CSD, p. 4 <http://csd.wustl.edu/Publications/Documents/RP09-05.pdf>

⁶ Ohio Tuition Trust Authority

⁷ *529 Plan Quarterly Update [Q408-Q109]*, Bridget Bearden, Financial Research Corporation (FRC)

is speaking to consumers about the benefits and risks of investing for college needs to be well-armed to deliver a full and accurate picture of 529 plans. That includes program managers, investment managers, financial advisors, and state and federal government offices. Indeed, a federally-funded campaign of Public Service Announcements about saving for college would be a low-cost, high-impact initiative to significantly boost awareness and adoption.

Leading from the classroom

To successfully influence early investments in higher education, teaching about savings and financial aid should be rolled back to elementary school. It may seem a long time until college for parents with young children, but therein lies the problem: today's families are often too overwhelmed by immediate priorities to plan ahead.

Elementary school systems can help by welcoming programs and speakers that expand financial literacy and educate families about the need to save well before high school is upon them. This is already taking place in some states through "partnerships with public and non-profit organizations to help families learn about 529s and saving for college in venues such as school systems, public libraries, and child care centers, or via the State Department of Human Resources (e.g., mailing 529 savings plan information with every birth certificate) (Ferguson, 2004)."⁸ This kind of grassroots activity lends important community support. The more families are reminded that their college-savings goals are possible, the greater the likelihood they will take the necessary steps to achieve them.

As children approach college age, universities themselves can shoulder some of the responsibility. A wide range of enhancements are warranted in the financial aid space, from the vehicles provided to the application process itself. As the College Board notes in a 2008 report, "The number of separate programs providing subsidies to students through grants, loans of various types, tax credits and deductions, and other approaches... has increased dramatically in recent years. A simpler system will remove barriers to receiving federal aid and make the system more transparent, facilitating the provision of early eligibility information to students and families."⁹

As financial aid is addressed at a federal level, higher education institutions can help clarify misperceptions about eligibility and the application process. Through alumni networks, outreach programs, and one-on-one admissions meetings, questions and concerns about paying for higher education can be directly addressed. In addition, training and education for financial aid administrators will help to close the knowledge gap as families seek information.

Steps can also be taken as part of the ongoing process to simplify the FAFSA form. The paperwork is widely accepted as too complex, and as changes are made, the opportunity exists to remove 529 savings

from the form. By taking these specific funds out of consideration as parental assets, families would have even more incentive to invest in 529 plans since they would not perceive that there is a penalty for investing in them.

Collaborating for change

The United States is on the brink of significant change, and education is the key to unlocking future value on an individual and collective basis. Increasing accessibility to and attendance at higher learning institutions—whether technical schools, community colleges, or four-year institutions—will require concerted efforts from private and public sectors alike.

Families must try to piece together the best ways to save and pay for college while reducing the amount they need to borrow. They will only gain ground, however, if they receive better information about and access to 529 plans, financial aid, and the way in which all sources of savings and aid interact.

The current administration has hinted at legislative changes that will address some of these issues; legislative work must be done to invigorate and expand the reach of 529 plans with greater flexibility and opportunity. As policy reform emerges, however, the obligation to make 529 plans the centerpiece of improving access to higher education falls to those who have the most to gain—and in this case, that means virtually everyone. A new sense of urgency and common purpose from the government, the financial sector, and the educational system can inspire action that will filter to prospective students at an earlier stage of preparation. With carefully considered government support of 529 plans, a focused education effort, and putting the right resources at families' fingertips, families at all income levels can aspire to higher education by saving early and often through 529 plans to make their goals a reality.

⁸ *The Basics of Progressive 529s*, David Newville, Ray Boshara, New America Foundation, Margaret Clancy, Project Director, Center for Social Development; Michael Sherraden, Director, Center for Social Development, New America Foundation, February 2009

⁹ *Fulfilling the Commitment: Recommendations for Reforming Federal Financial Aid*, The Rethinking Student Aid Study Group sponsored by the Spencer Foundation and the Lumina Foundation for Education, September 2008, p.9