

Two Suggestions to Help Improve Access to Higher Education: A call for increased financial literacy in K-12 and employer support of 529 plans

Executive summary

March 1, 2010

In September 2009, representatives from financial services, state and federal government, financial aid, and higher education convened for the year's second Summit on Saving for Higher Education. The focus was informed by the Spring Summit's conclusions that a more collaborative effort is necessary to truly support the ambitions of prospective students at all income levels (this discussion was captured by the previously released paper, "Improving Access to Higher Education by Promoting Savings").

The Fall Summit's spirited dialogue is captured in this paper. Special emphasis is given to the consortium's consensus that the general public must be armed with the knowledge and tools to save for higher education by enlisting the aid of two of the most powerful influences in everyday life: the K-12 educational system and employers across the nation.

This discussion paper investigates a two-pronged approach, and concludes that:

- The federal government, higher education, the financial aid community, the financial services industry, and others should cooperatively endorse/support a national K-12 financial literacy approach that includes an emphasis on saving for higher education.
- A similar collaborative effort should be coordinated to encourage employers to lead the way to savings by incorporating 529 plans into benefits packages.

Authors:

James Canup

529 Counsel, PLC
jcanup@529counsel.com

Liz Robinson

Upromise Investments, Inc.
lrobinson@upromise.com

Contributors:

**Center for Social Development,
Washington University in St Louis**
Margaret Clancy

College Parents of America
Jim Boyle

College Savings Foundation

College Savings Plans Network
Joan Marshall; also representing
College Savings Plans of Maryland

Drexel University
Melissa Englund

Georgetown University
Patricia McWade

Great Disclosure, LLC
Mary Anne Busse

Indiana Office of the Treasurer
Treasurer Richard Mourdock

**National Association of Independent
Colleges and Universities**
Frank Balz

**National Association of Student Financial
Aid Administrators**
Jennifer Martin

New America Foundation
Jackie Williams and Mark Huelsman

Northern Virginia Community College
Joan Zanders

**Rhode Island Higher Education
Assistance Authority**
Peter Kerwin

Sallie Mae
Scott Buchanan

Upromise®
David Rochon

Upromise Investments, Inc.
Jeff Howkins

Virginia College Savings Plan
Cynthia Comer

Two Suggestions to Help Improve Access to Higher Education: A call for increased financial literacy in K-12 and employer support of 529 plans

The widening gap between the cost of higher education and the ability of prospective students to meet that cost has become one of the nation's most pressing challenges. Lower- and middle-income families in particular are looking for a solution that will guide them toward attaining a post-secondary degree. Meanwhile, the U.S. has consistently been losing ground to competing nations that nurture highly educated workforces and are better prepared to contribute to a global economy driven by technology and multinational trade. For the country to regain its competitive edge, there must be a renewed approach to college savings, loans, federal, state, and institutional scholarships and grants, effective work-study programs, and affordability—and in some cases, a reimagining of higher education itself.

Recently, a consortium of experts from the college savings industry, financial aid community, state and federal government, and higher education groups met to map out the difficulties faced by families as they struggle to save for post-secondary education. The resulting consensus was that the general public must be armed with the knowledge and tools to save for higher education by enlisting the aid of two of the most powerful influences in everyday life: the K-12 educational system and employers across the nation.

This two-pronged approach requires that:

The federal government, higher education, the financial aid community, the 529 community (including state sponsors and financial partners), and others should cooperatively endorse/support a national K-12 financial literacy approach that includes an emphasis on saving for higher education.

A similar collaborative effort should be coordinated to encourage employers to lead the way to savings by incorporating 529 plans into benefits packages.

Bringing formal financial education to K-12

Studies indicate that the importance of higher education is well understood among young adults. In a survey conducted by TD Ameritrade¹, more than 80 percent of teens reported that they consider education to be essential to future success, and 62 percent of teens ages 14 through 19 responded that they save

their own money for college. A Sallie Mae-Gallup study² from the same timeframe showed that the vast majority of families who save (59 percent) use regular savings, money market accounts, or CDs, followed by 41 percent who use stocks or bonds. However, only 33 percent of savers surveyed use 529 college savings plans. These reports indicate that even though families know the importance of saving for college to achieve their goals, they do not necessarily know the most effective ways to do it. Familiarity with money markets and traditional savings vehicles become the default investment selection despite the universal availability of more relevant options.

It is nearly impossible for low-income families to save enough to cover the costs of college; nevertheless, it is imperative that all parents and students, regardless of income, understand the power of financial knowledge. This will also help them to break down myths about paying for college (e.g., recognize that there is an abundance of financial aid available through the federal government and the schools themselves).

Over the past several years and spanning two administrations, the White House has made it clear that this issue will be confronted with the implementation of financial literacy programs. In January 2008, President Bush created the first President's Advisory Council on Financial Literacy, with the basic mandate of improving education among all Americans.

That task is easier said than done. As noted in a recent *BusinessWeek* article, "Encouraging more responsible attitudes and conduct around the handling of money in young adults has become a bigger challenge in recent years amid the proliferation of credit cards and declining experience with purchases using hard currency."³ With credit as the main economic driver, the next generation will need the knowledge and discipline to avoid the temptation to overborrow.

¹ "Fewer Financial Responsibilities Today Create More Savers among Teens," TD Ameritrade, August 2009.

² "How America Saves for College, Sallie Mae's National Study of College Students and Parents," conducted by Gallup, September 2009. <http://www.salliemae.com/howamericasaves>

³ "Boosting Kids' Financial IQ," David Bogoslaw, *BusinessWeek*, July 22, 2009.

The Obama administration has put an emphasis on opening doors for lower- and middle-income families, especially with regard to higher education. In addition to improving the amount of federal student aid available, most notably the increase in Pell Grants, the Task Force for the Middle Class led a Treasury inquiry into 529 savings plans — tax-advantaged investment vehicles designed to help families save for higher education. The Treasury concluded that 529 plans are indeed a valuable tool, and suggested modifications to further enhance their structure. Many of the families who need direction are not aware of the true cost of higher education, let alone how 529 plans can be used as one of the best ways to approach financial aid. These families need guidance on how much they should save, what they should be prepared to borrow, and where higher education can lead their children's (or their own) careers. Additionally, financial literacy is an area that has received significant attention over the past year. The need to provide better guidance regarding saving for the next level of education, investing, and related consequences is fast becoming a priority.

According to a 2009 national survey by the Jump\$tart Coalition for Personal Financial Literacy⁴, only 48.3 percent of high school students demonstrated an understanding of basic financial issues — the lowest score ever registered. The study showed that the average literacy score peaked at 57.3 percent in 1997, but has been on a consistent decline since 2006. The fact that college students fared better in the survey provides little comfort. As Jump\$tart notes, “the good news is that American college graduates are close to being financially literate and probably will be so with more life experience. The bad news is that just 25 percent of our young adults are graduating from college and this number appears to have stabilized. This means that 75 percent of young American adults are likely to lack the skills needed to make beneficial financial decisions.”

This may present a bleak picture, but it is one that has inspired debate and a call to action among educators and lawmakers alike. Experience dictates that reaching children and their families at an early age is paramount to getting the message across, and it is in this area that efforts should be directed.

Change and awareness begin with grassroots efforts, but direction from Capitol Hill can provide even greater momentum. Supporting efforts from federal and state levels indicate that this is an issue that will be tested in the near future. For example, HR 3730, the Financial Education for Teachers and Students Act⁵, was introduced in October 2009, and calls for the creation of grants to finance the integration of financial literacy materials into the public school curriculum, as well as additional training for teachers.

On a state level, New Jersey broke new ground with a pilot program that will introduce a one-semester personal finance course requirement for incoming high school freshmen. The six districts across the state selected to participate will be awarded a grant and provided with sample materials by the Department of Education⁶. Massachusetts is also laying a foundation for a coordinated effort. As the *Boston Globe* reports, “The importance of instructing students on money management has been recognized statewide. . . . The Massachusetts Office of Consumer Affairs and Business Regulation launched HiFi, the High School Financial Literacy Initiative, in spring 2005, to help educators teaching financial literacy. Since then, more than 850 teachers and 65 community organizations have taken part in the office's seminars.”⁷

Isolated state and local efforts are valuable, but the long-term solution lies in a consistent and comprehensive education curriculum. On a national level, the challenge lies in creating a shared understanding or set of recommended resources that will send the right messages to a range of audiences across the country. There are several distinct programs already working toward this goal, including:

Jump\$tart National Standards

Highly visible in its pursuit of better financial education, Jump\$tart established a program and related materials for use in a K-12 environment. According to the organization's website, its coursework is intended to “complement state and local educational goals and standards. In states where personal finance is not yet part of the state's K–12 educational objectives, the National Standards in K–12 Personal Finance Education can help convince policymakers to include personal finance in future state standards and student achievement tests and guide their creation.”

Council for Economic Education (CEE)

The CEE is focused on creating high-quality finance and economic education programs for K-12 students. The wide variety of program materials includes information specifically tailored for young students that “helps students apply economics and decision-making skills to the real world of earning and spending an income, savings, using credit, investing, and managing money.”

⁴ “The Financial Literacy of Young American Adults,” Lewis Mandell, Ph.D., University of Washington and the Aspen Institute for Jump\$tart Coalition for Personal Financial Literacy, May 2009.

⁵ <http://www.govtrack.us/congress/bill.xpd?bill=h111-3730>

⁶ “NJ makes financial literacy a graduation requirement,” Megan DeMarco, *Philadelphia Inquirer*, July 1, 2009.

⁷ “Schools push new personal finance curriculum,” Rachel Lebeaux, *The Boston Globe*, August 20, 2009.

Junior Achievement Finance Parks

As part of its worldwide partnership with the business community, educators, and volunteers, Junior Achievement has created 14 “Finance Parks” in cities around the U.S. The Parks are the culmination of a program designed to introduce elementary, middle, and high school students to economic concepts, and to test them in a challenging and entertaining role-playing environment.

Money Smart Week⁸

The Federal Reserve Bank of Chicago hosts free events that bring personal finance and money management to attendees at central locations in Illinois, Iowa, Indiana, Michigan, and Wisconsin. While a limited engagement, the events help further the concept of spreading financial awareness. For example, a financial literacy award is given to an Indiana K-12 teacher who promotes financial literacy among young local residents.

These are just a few of many organizations with programs devoted to increasing financial literacy. The convergence of federal support and grassroots efforts from these and other players could be directed to produce a national change for K-12 financial literacy with an emphasis on saving for higher education. Such an achievement would signal a significant commitment to the country’s next generation.

Employer involvement: it’s all in the delivery

Understanding finance is one crucial pillar; enabling investors through common access to savings vehicles is another. The most logical and potentially effective solution is to offer 529 savings plans through employer benefit packages, an approach that has made saving for retirement through dedicated contributions a common practice.

529 plans are the most relevant option because of their targeted nature. Administered by state governments, the plans feature tax benefits that encourage, but do not require, investment in home-state plans. As the investments grow they are federal tax deferred; withdrawals made for qualified higher education expenses are tax exempt.

However, 529 plans are quite literally emerging from their infancy. The Sallie Mae-Gallup survey found that “529 college savings plans are gaining popularity, particularly among families with younger children. Parents with children under age seven were twice as likely to turn to 529 plans (43%) as parents of teens (20%). Over half of parents not currently using a 529 college savings plan said that they are not at all familiar with 529 plans.”⁹

Incorporating 529 plan availability into employee benefits packages likely would have a significant impact on these findings; awareness would rise, as would habitual savings. According to the survey, parents cited employer matching as the top motivator (66%) that would encourage them to save for college.

Employer offerings could also draw attention to the versatility of 529 plans. While most commonly used for traditional college expenses, withdrawals can also be applied to institutions such as vocational schools, community colleges, graduate programs, including medical and law school, and a number of retraining certificate programs. Employers can therefore encourage retraining and “upskilling” of the workforce by providing platforms for automated contributions and, where appropriate, matching contributions.

While there are certainly distinct differences between 529 plans and retirement vehicles, the model for 401(k) retirement plans demonstrates the power of employer involvement. 401(k) plans were established in 1978 as an employee benefit and featured attractive tax incentives. They became, as noted by the Employee Benefit Research Institute (EBRI), “the fastest growing type of retirement plan in the United States.” EBRI data¹⁰ shows that by 1990, just 12 years after inception, there were 19.5 million 401(k) participants and \$384.85 billion assets under management. Nearing the 20-year mark in 1996, those figures stood at 30.8 million participants and \$1.06 trillion in assets. In its 2006 report, EBRI noted that 67.1 percent of workers participating in a retirement plan had a 401(k)-type plan—double the number in 1988.

Saving for higher education is not as universal a priority as retirement, yet the disparity between the growth of the two investment vehicles is noteworthy. In 2008, at the 12-year mark for Section 529 plans, there were approximately \$100 billion in assets under management, according to the College Savings Foundation.¹¹ There are several factors that account for slower growth, including the limitations of state-by-state management and historical disputes. Even so, a topline assessment of the 401(k) model suggests that while 529s have shown gains, substantial growth will likely be dependent on employers becoming active in promoting widespread adoption.

⁸ <http://www.moneysmartweek.org>

⁹ “How America Saves for College, Sallie Mae’s National Study of College Students and Parents,” conducted by Gallup, September 2009. <http://www.salliemae.com/howamericasaves>

¹⁰ Facts from EBRI, February 2005.

¹¹ “529 assets show resiliency in 3Q 2008,” Press Release, College Savings Foundation.

Employer involvement in 529 plans is gaining some traction. Dow Jones reports that “Many [companies] are helping employees save more systematically with payroll deductions to their 529 college savings accounts. A small but growing number of businesses are contributing directly to workers’ 529 accounts in the same way as they have matched 401(k) contributions. The trend is expected to increase significantly, especially after the recession ends.”¹²

Illinois took the first giant leap in this direction in 2009 by offering a tax credit to employers who provide matching contributions to 529 plans. The move was well-received, but time will tell if the practice carries to other states.

Ideas for federal legislation will also be presented in an attempt to move the conversation forward. Initial priorities may include excluding employer matching contributions from employee tax liability, excluding 529 plan savings from consideration in determining federal financial aid eligibility, and also excluding 529 plan savings assets from consideration when determining eligibility for federal assistance programs that benefit very low-income families.

Individual achievement, collective improvement

By all accounts, the U.S. stands at the beginning of a long road to recovery. National unemployment remains above 10 percent, while the GDP has just turned to positive growth after six straight fiscal quarters of flat or negative momentum. Meanwhile, the cost of attendance at traditional colleges and universities continues to climb as the credit system struggles to regain its balance.

It will take time for the U.S. to recapture its status as a true economic powerhouse; part of that rebuilding will depend upon the skills and education of its workforce. To that end, it is the obligation of today’s government and business leaders to provide the tools that tomorrow’s students need. A cooperative effort must be initiated to arm prospective students and their families with the knowledge of financial aid possibilities and a pathway to saving for higher education. By leveraging the strength and universal presence of K-12 systems and employer channels, in partnership with federal and institutional aid, the country as a whole will be better prepared to tackle the challenges of a global marketplace.

¹² “Getting Personal: Businesses Give 529 Savers a Boost,” Jilian Mincer, *Dow Jones Newswires*, September 23, 2009.