CollegeSavings FOUNDATION

Perspectives on the Future of Education Financing

Moderator: Stacey Belford
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American Century Investments

Savings and Education Financing Trends

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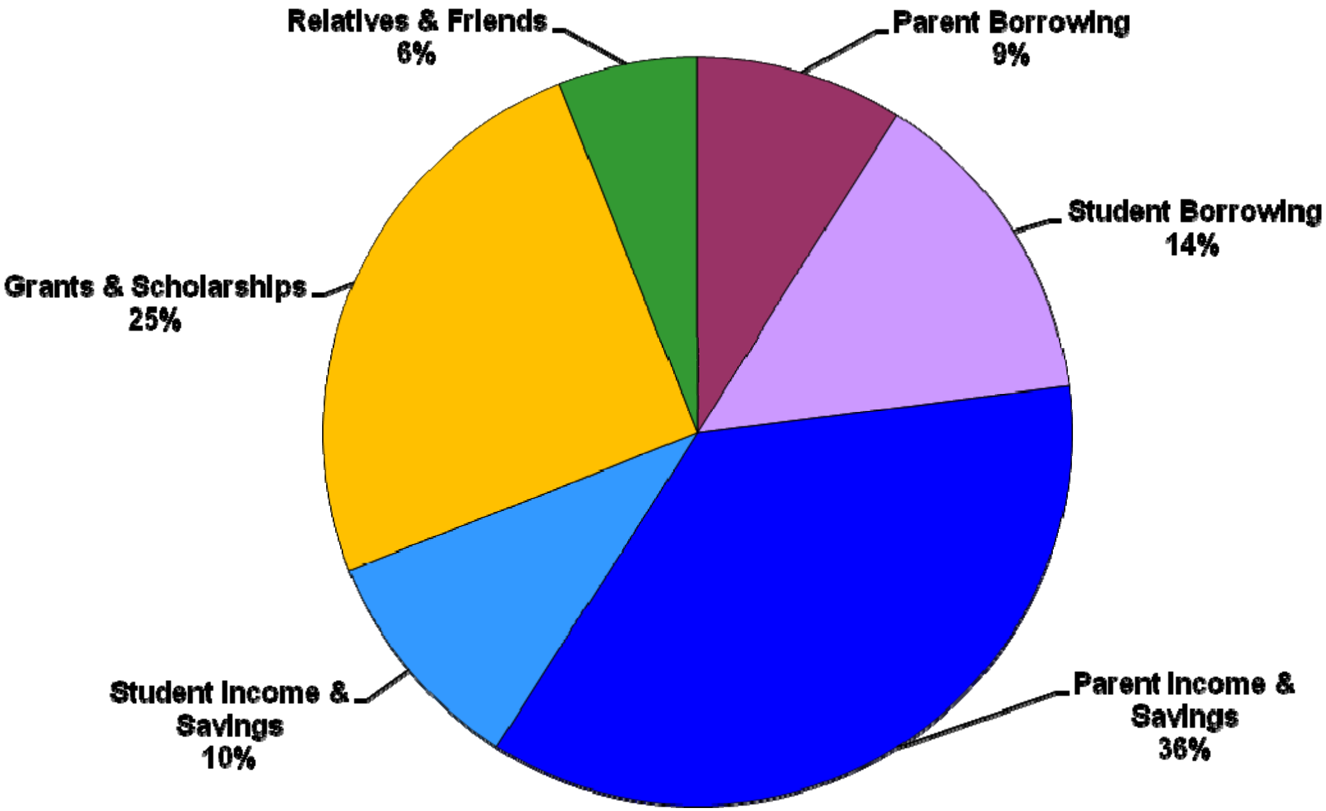
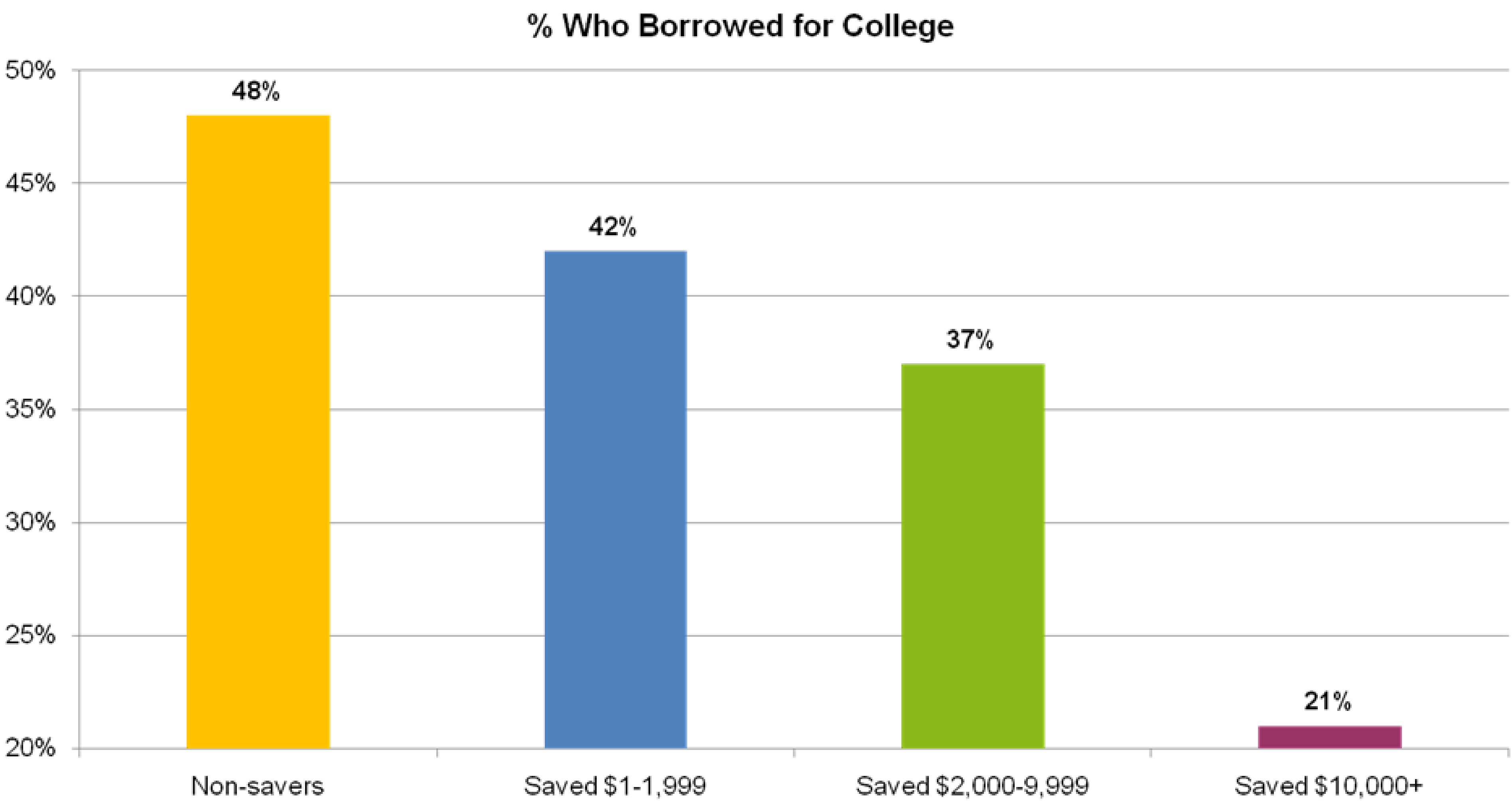
Low and Moderate Income Families: Savings and Education Financing

Average % of Total Cost Paid from Source Group



Why Savings Matter



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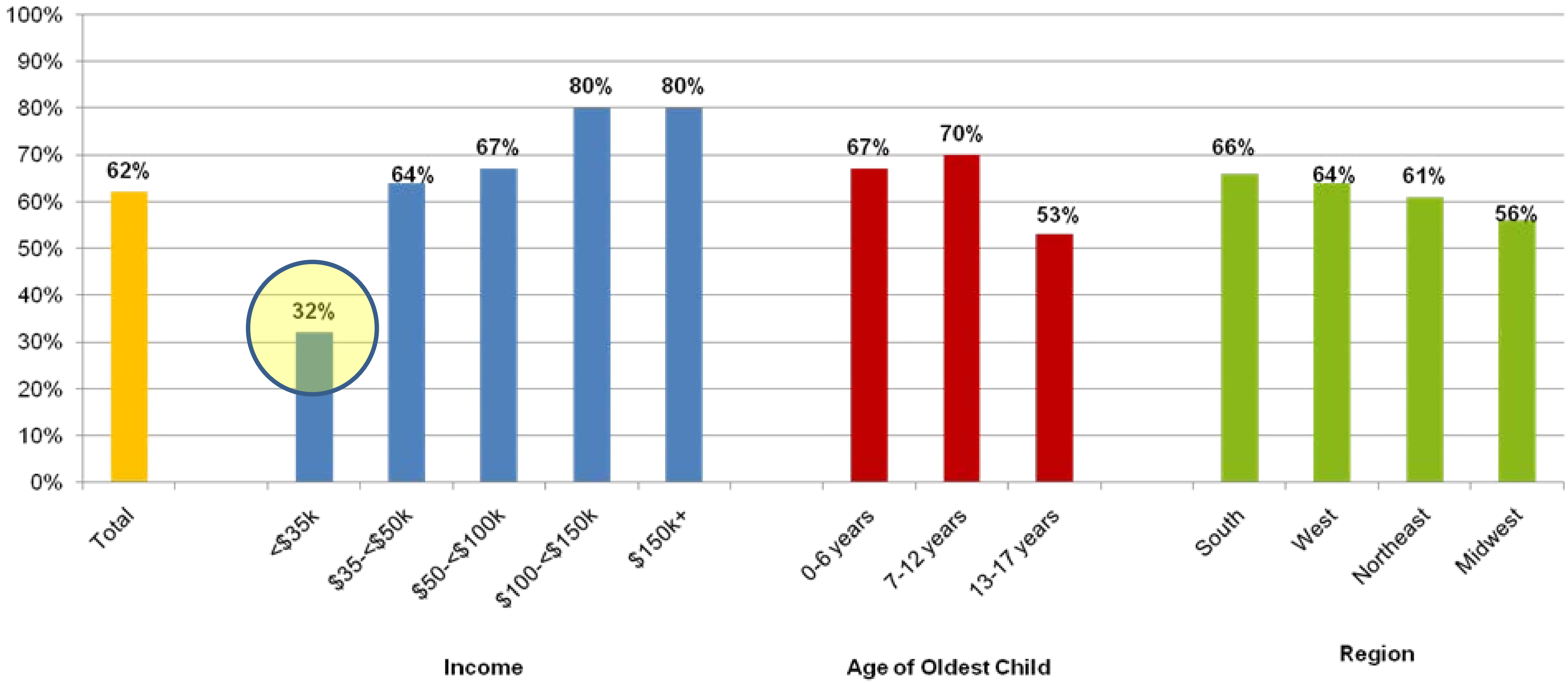
Who is Saving?

- Lowest income families less likely to save at all



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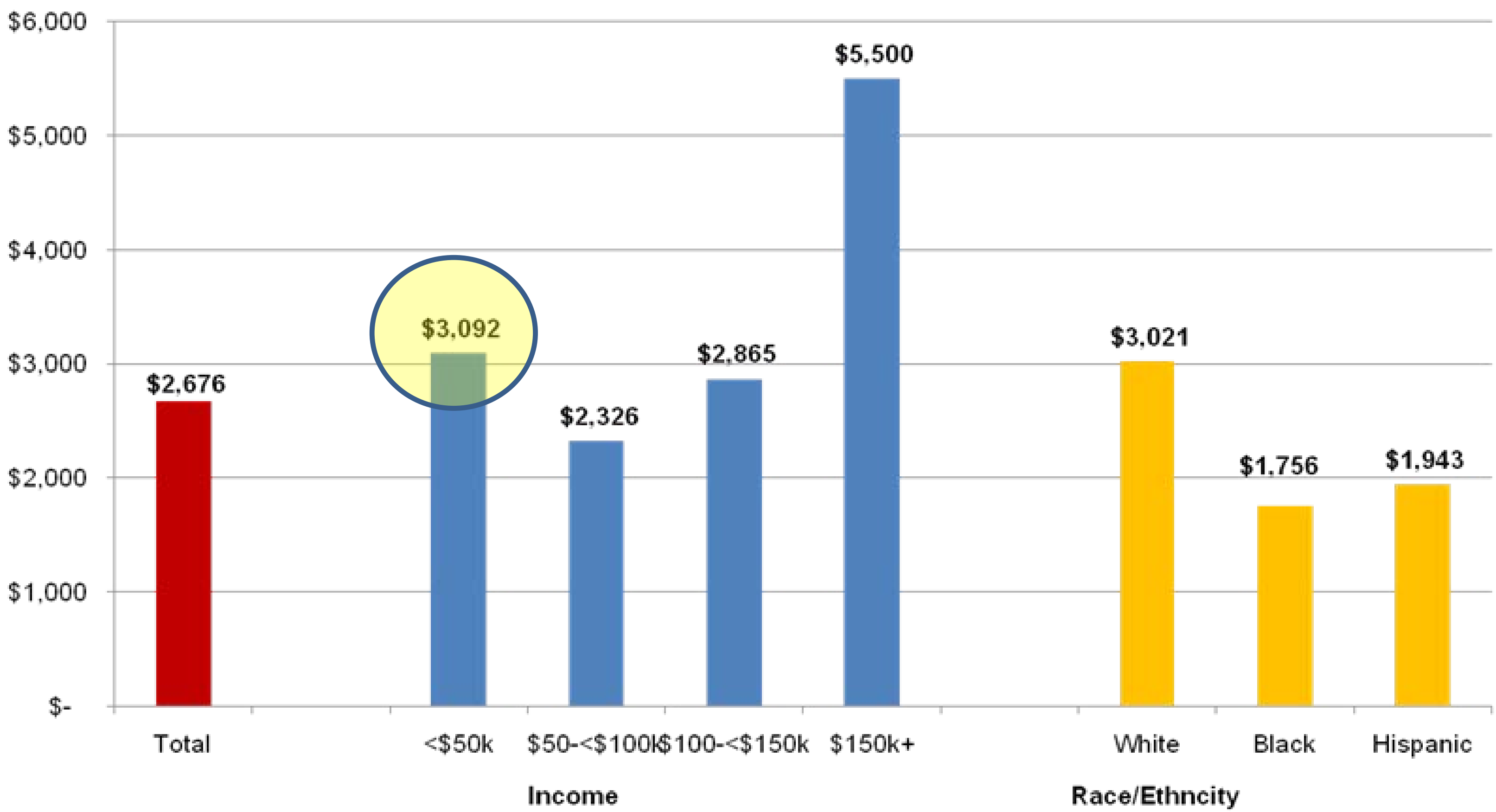
Mean Annual Savings

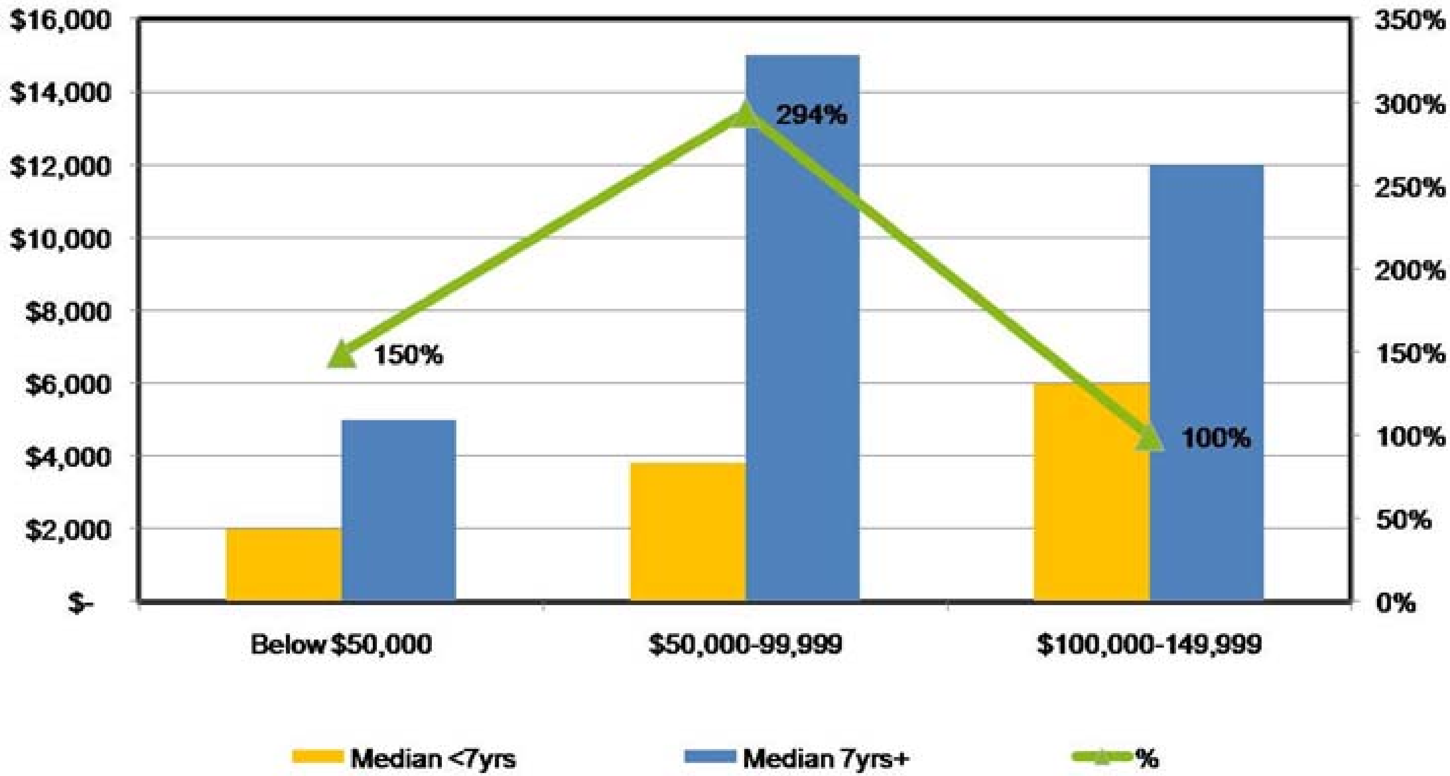
- Lower income savers outsave middle income families annually



Annual Percent of Income Saved vs. percent Needed to Meet Goal

- College savers of low and modest incomes save more as a percentage of income than families with higher incomes.

Amount Saved Over Time, by Income



Questions

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Perspectives on the Future of Education Financing

Eliminating Disincentives/ Creating Effective Incentives and Strategies For Low and Moderate Income Families

Jackie Williams

Director, College Savings Initiative

New America Foundation

- The rate of penetration of 529 accounts is lower than the industry anticipated it would be at this time.

- While 529s are gaining acceptance, significant barriers and misperceptions exist that impede the growth of these plans.

- Tuition costs continue to increase and economically vulnerable American families who haven't saved will find achieving a college education even more challenging.

- Similar affordability concerns led states to create 529 plans and have contributed to program innovations that have expanded participation.

- Moreover, there is a perception by some members of the public and the media that 529 plans are unacceptable or ill-suited to meet investors' needs in the current environment. Members of the Administration have expressed support for 529 plans but feel more can be done to foster participation, particularly among middle class families.

- There is significant potential for 529 plans to reach a broader population.

- I want to focus my remarks on how more low and moderate income (LMI) families can be encouraged to save in these plans. They arguably can benefit most from early financial preparation for college.

- According to Sallie Mae’s 2009 study “How America Saves for College,” families with annual household incomes below $50K who save for college, save 7.5% of their annual incomes (or around $3,092) which is double the percentage saved by every other income group.

- Having financial resources for college is important but perhaps more important is how savings can influence student outlook and achievement.
- Emerging research is beginning to show a link between savings and a family’s belief that higher education is attainable.
- According to a recent research study by the Center for Social Development at Washington University in St. Louis, students with dedicated savings accounts are about seven times more likely to attend college than students in similar circumstances who do not have savings accounts.

- How can more moderate income families be encouraged to open college savings accounts?

- Which incentives or strategies can support the goal of broader access and participation?

- What barriers can be eliminated to foster savings behaviors?

Creating Incentives and Fostering Innovation

- The Obama Administration, in its FY2011 Budget, has proposed a seven year $3.5 billion dollar fund (the College Access and Completion Fund) to support state initiatives that help more LMI students attend and complete college.

- The House passed the Student Aid and Fiscal Responsibility Act, H.R. 3221, last year, which would create a five-year, $3B Access and Completion Fund. The Senate will take up the bill in 2010.

- Language in the bill describing the use of these funds is largely undefined-creating opportunities for innovative strategies that can impact college attendance and completion.

Creating Incentives and Fostering Innovation

- 529 stakeholders should weigh in to support creation of the College Access and Completion Fund. Once a bill passes, 529 plan sponsors should seek access to these funds as a source for matching dollars to open and build student accounts.

- San Francisco will become the first city in the country to establish accounts and make initial deposits for every kindergartner entering public school. Their Kindergarten to College Initiative will utilize public funds.

Removing Barriers to Participation

- To qualify for public assistance such as TANF, Medicaid and SSI, families must demonstrate that they are both income and asset poor.

- Though eligibility requirements vary from state to state, dedicated college savings can negatively affect a family's ability to receive public assistance.

- The Obama administration has proposed a national "asset floor" of $10,000 allowing states and programs to create asset tests above $10,000 when determining eligibility for benefits. The Federal Government and the states should exempt 529s and college savings from asset tests for public assistance.

Removing Barriers to Participation

- When completing the FAFSA form, families are asked to include 529 savings. While owning a 529 account is rarely a significant factor in determining financial aid eligibility, its potential impact poses a significant psychological barrier for families.
- 529 savings information should be eliminated from the FAFSA form. In addition, 529 funds should be excluded from determining eligibility for need-based financial aid at the state and federal level.

Removing Barriers to Participation

- Families that save for post secondary education should not be penalized with a reduction or loss of public benefits. Families who withdraw monies from 529 accounts for non-qualified uses already face tax penalties.

- Similarly, the perception that owning a 529 could impact financial aid is a major deterrent for many families to open and save in these accounts.

A Role for Employers

- The full growth potential of 529s can only be realized if these plans become fully ‘institutionalized’ in their acceptance and use. This requires a distribution model similar to that of 401Ks.

- Incentives that support employee enrollment and participation in these plans could include a number of strategies.

A Role for Employers

Employer Strategies

- Add 529s to employee benefits packages
- Make 529s broadly available through payroll deduction and facilitate financial education in the workplace
- Provide financial or tax incentives for employer contributions to employee-owned 529 accounts
- Use 529 accounts for tuition reimbursement for degree completion and worker retraining
- Provide financial or tax incentives for employer contributions to 529 scholarship accounts

A Role for Employers

- In 2009, the state of Illinois passed a bill providing tax credits to employers who match contributions to 529 plans. The use of this deduction could demonstrate whether similar provisions enacted in other states would successfully encourage employer involvement.

- At the federal level, H.R. 2500 was introduced in 2009. The bill would allow employers to make nontaxable matching contributions to employee 529 accounts. This measure will bear watching to see if it is enacted.

- To steal a phrase from Joe Hurley, 529s really are the “Best Way to Save for College”. But the real value of these plans is opening up their use to the broadest possible cross section of American families. That will require eliminating barriers and creating effective incentives that foster innovation and participation, and ultimately result in greater college access and completion.

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Adult Education: Savings and Education Financing

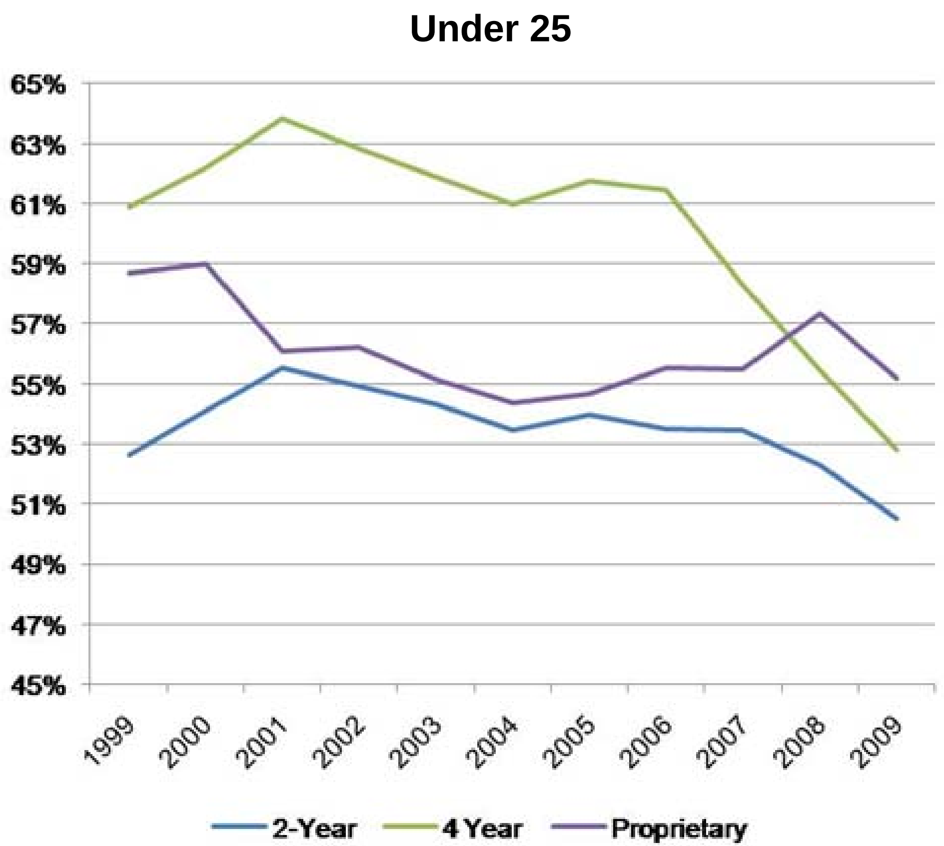
Adults in Higher Education

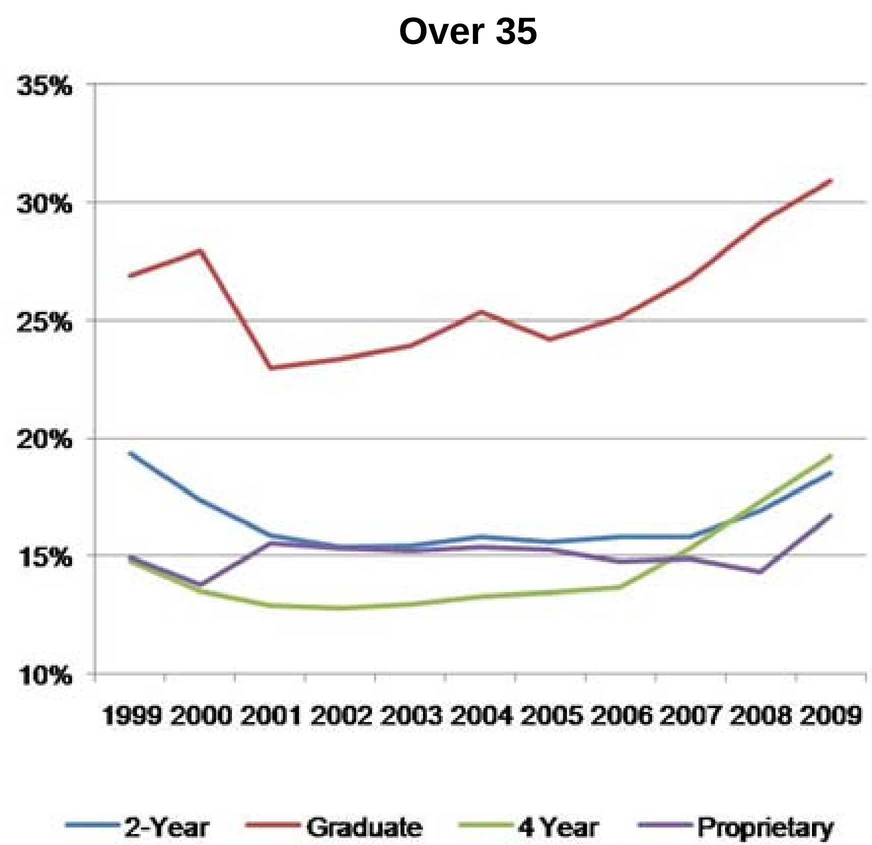
38%

529 Savings with Adult Beneficiaries

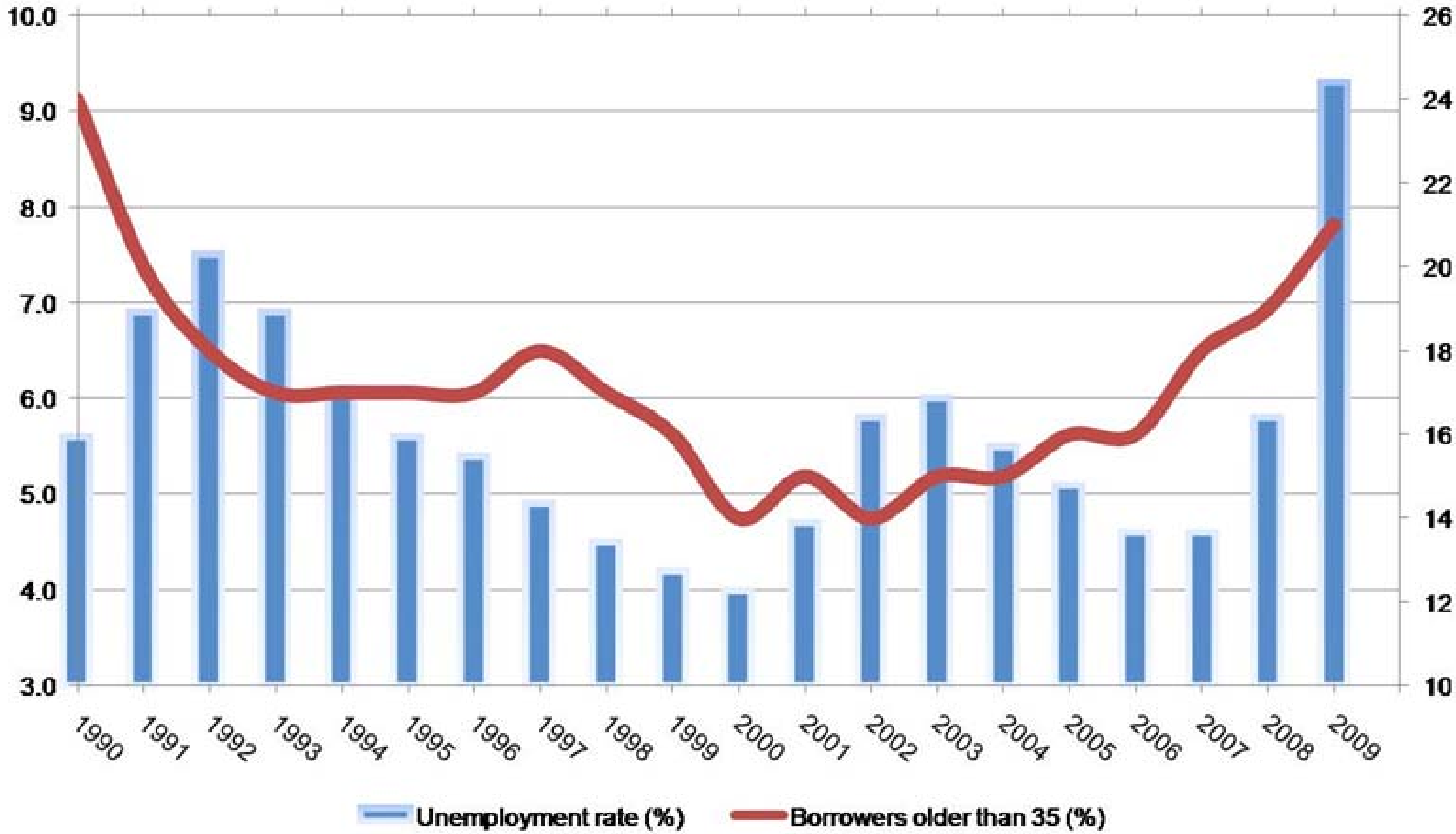
3%

Trends in Financing: Age Mix





The Economy and Adult Education Financing



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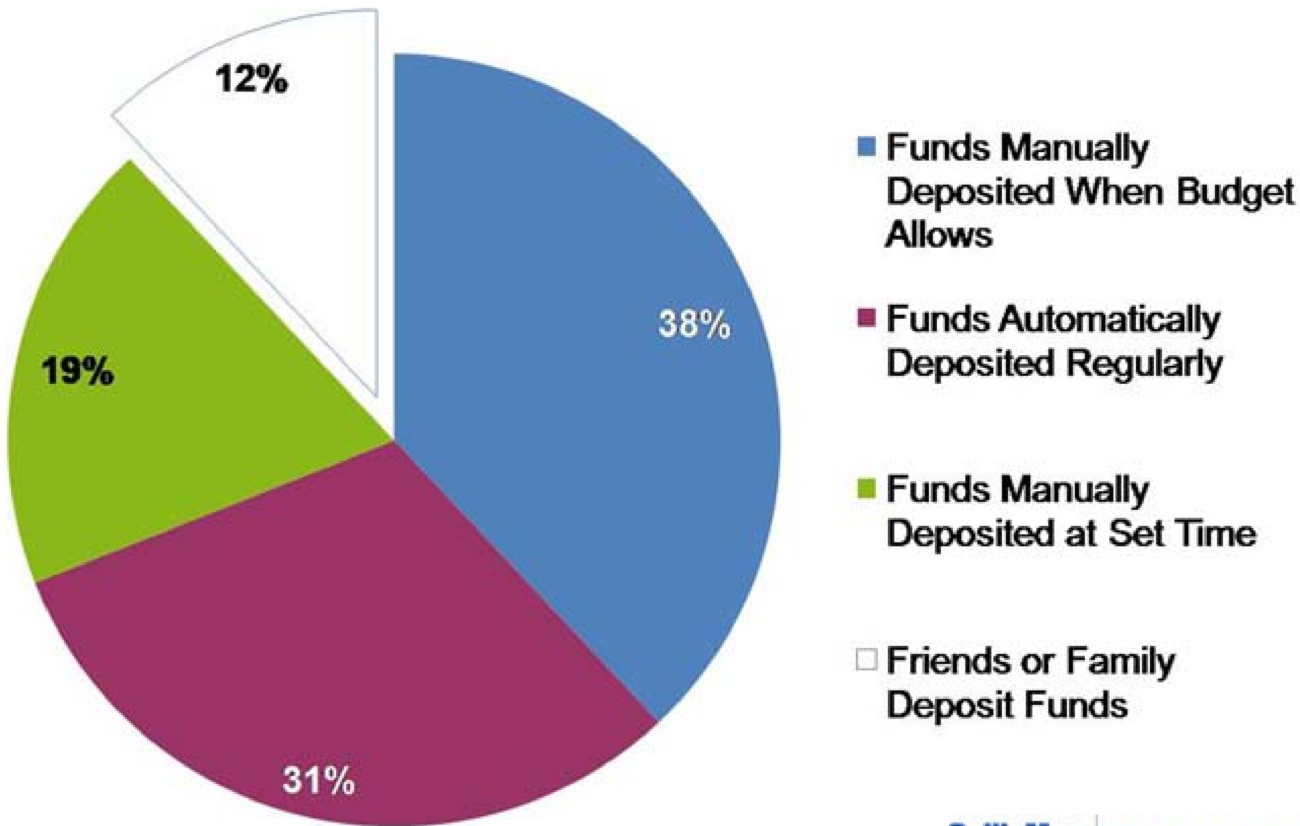
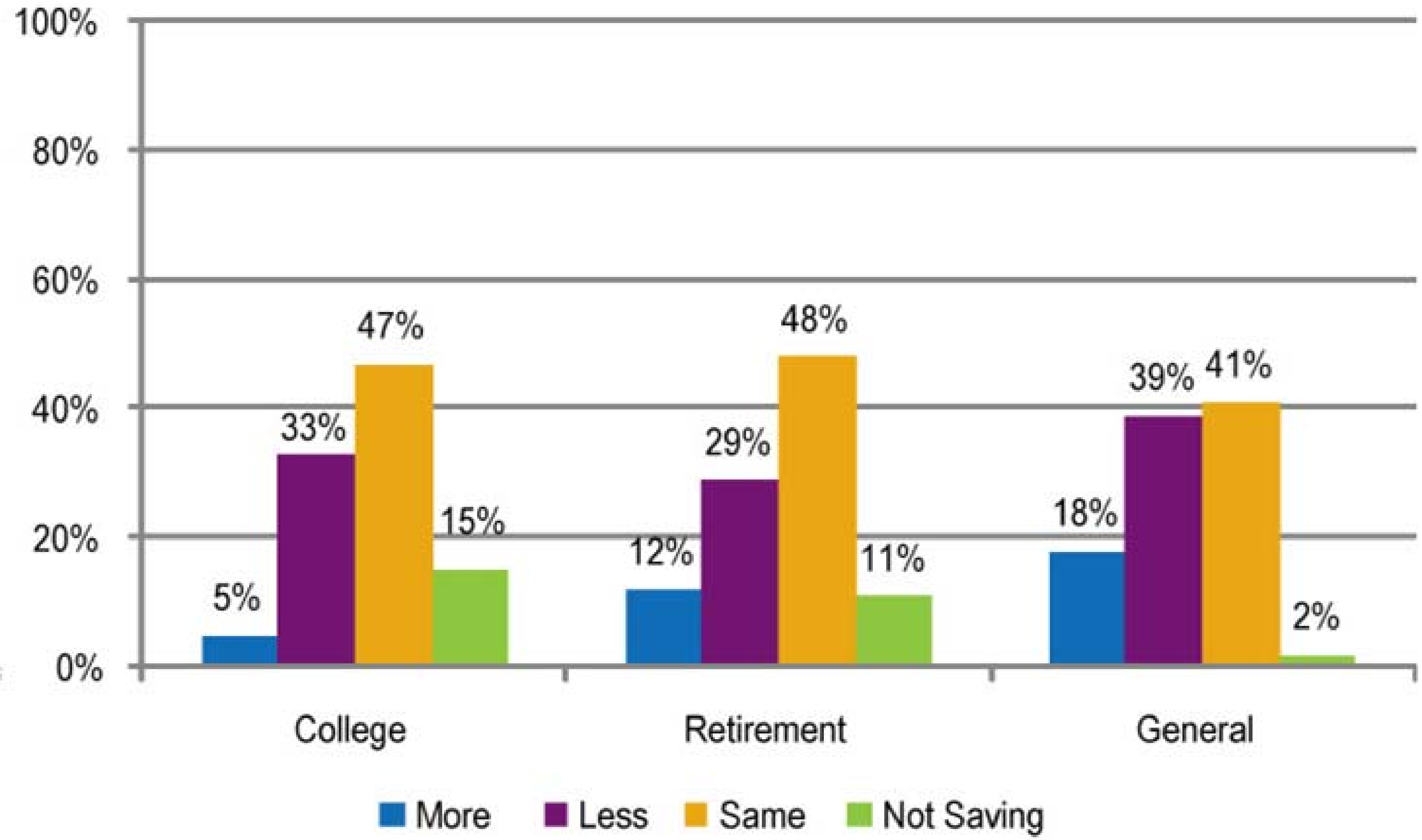
College Savings Contribution Method

- Half of college savers are habitual savers while half are variable savers.
- Successful savers are more likely to be habitual savers.



Effects of Economy on Savings Decisions



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Knowledge Gap About 529 Plans

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Familiarity with 529 College Savings Plans Among Non-users	N	%5s (Very Familiar)	%4s	%3s	%2s	%1s (Not At All Familiar)	Never Heard Of/ Don't Know
Total	895	5%	7%	16%	16%	51%	5%
Savers	525	5%	8%	17%	20%	45%	5%
Non-Savers	370	4%	7%	14%	11%	58%	6%
Income							
<$35k	161	4%	2%	7%	3%	75%	9%
$35-$50k	128	5%	7%	11%	18%	54%	5%
$50-$100k	372	3%	8%	20%	17%	48%	4%
$100-$150k	122	4%	13%	24%	28%	29%	2%
$150k+	85	20%	17%	22%	22%	19%	0%
Age of Child							
0-6 years	215	4%	11%	20%	18%	43%	4%
7-12 years	274	5%	7%	17%	16%	51%	4%
13-17 years	406	5%	5%	12%	14%	57%	7%
Race/Ethnicity							
White	624	4%	8%	18%	16%	49%	5%
Black	124	7%	10%	11%	13%	57%	2%
Hispanic	93	7%	6%	11%	11%	61%	4%

Base: Parents of children with some likelihood to attend a form of higher education who are not currently using a 529 college savings plan.

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Questions

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