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Creative Partnerships between GEAR UP and State College Savings Plans: Experience and Policy Potential

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In a recent survey of parents who believe their child is likely to further his or her education after completing high school, 62% are currently saving for this purpose. Among families earning below $35,000, 32% are saving for post-secondary education (Sallie Mae, 2009). These percentages are noteworthy in that saving is a common strategy for post-secondary education, even for low- and moderate-income families. However, the percentages are lower than desirable, because savings can play important roles in college access and achievement. Financially, savings can provide a margin that prevents dropping out. In addition, there is evidence of positive psychological and behavioral effects of savings on educational achievement (Destin & Oyserman, 2009; Elliott, 2008; Zhan, 2006; Zhan & Sherraden, 2003).

As part of a set of proposed recommendations for reforming federal student aid, the College Board suggests using federal resources to create accounts for young low-income children, using Federal Pell Grant eligibility guidelines. The purpose of the proposed accounts is to reserve funds for post-secondary education well in advance of the typical financial aid application period (College Board, 2008). One possibility for implementing this recommendation is to open College Savings Plan accounts in the State's name for the benefit of eligible students.

In certain states, federal and state funds have already been set aside for future post-secondary education for some low-income students. These accounts are the result of partnerships between state College Savings Plans and Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP). Such partnerships may be a promising model for establishing accounts for post-secondary education for low-income children.

This policy brief provides an overview of GEAR UP and College Savings Plans. To illustrate experience and potential, we document and assess four existing partnerships between College Savings Plans and GEAR UP.

GEAR UP

GEAR UP was established in the Higher Education Amendments of 1998 "to significantly increase the number of low-income students who are prepared to enter and succeed in post-secondary education." The primary objectives (ED, 2009) are:

- To improve success in the classroom and future readiness to pursue education after high school;
- To increase the number of students who complete high school and seek additional education;
- To increase students' and their parents' or guardians' knowledge of how to access education after high school graduation (readiness, selection, and funding).

GEAR UP serves low-income youth, primarily identified

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by targeting schools with a large percentage of students who are eligible for free and reduced-price school meals. Many programs begin with a cohort of all youth in a particular middle-school class[1] and provide GEAR UP services to the students until their high school graduation.[2] In the fiscal year 2008 grant cycle, this college prep program provided funding for 738,968 participants (ED, 2009).

GEAR UP grants have two possible leadership structures: state government or partnership.[3] Regardless of the structure, each program must typically provide a dollar for dollar match for the multi-year federal grant. From GEAR UP's inception through 2008, a total of $2.7 billion had been invested by the federal government, and GEAR UP grants had been awarded in 48 states.[4] In March, President Obama's approval of the omnibus appropriations raised the GEAR UP allocation by approximately $10 million to $313 million for fiscal year 2009 (ED, 2009).

Some GEAR UP grants offer scholarships,[5] which vary in terms of timing of the awards, eligibility, and distribution. In addition to making college more accessible financially, GEAR UP scholarships earmarked for the student in advance of post-secondary education sometimes reward excellent middle-school students, incentivize parent involvement, or encourage student participation in the program. States view these scholarships as both a financial incentive and a motivator for parents and students to prepare for high school and college.

College Savings Plans

College Savings Plans (or 529 plans, named after the Internal Revenue Code section) are designed so that individuals can make after-tax deposits for future higher education expenses—including tuition, fees, books, supplies, and equipment—at community colleges, universities, vocational schools, or other post-secondary educational institutions. Organizations may also open and own 529 plan accounts on behalf of a specific beneficiary or group of beneficiaries.[6] Typically administered by State Treasury Departments, 49 states and the District of Columbia operate or offer 529 college savings plans.[7] State 529 plans offer a variety of saving and investment options, including equity, bond, principal preservation, and age-based funds (age based funds are a mix of investments that adjusts according to the prospective student's age).

To date, College Savings Plans have been underutilized among low-income families. Most of these families do not benefit from the favorable 529 tax policy because they do not owe taxes (Clancy et al., 2009; Clancy & Sherraden, 2003). A survey of state 529 plan administrators, however, finds that many states attempt to reach low- and moderate-income populations by adopting strategies that make the policy beneficial for families of varying income levels. These strategies include: matching deposits in 529 savings accounts, connecting 529s with federally-funded GEAR UP, excluding 529 savings from state tuition grants calculations, offering low minimum deposit requirements, and enrolling participants in the workplace (Clancy & Sherraden, 2003). The structure and prevalence of 529 plans provide opportunities for expansion of existing accounts and the creation of new partnerships.

GEAR UP and College Savings Plan Partnerships

GEAR UP and College Savings Plans are partnering in innovative ways to provide post-secondary financial resources and information to low-to-moderate income, at-risk students. In each state the structure is different. Collaboration ranges from establishing College Savings Plan accounts for the benefit of GEAR UP students to conducting seminars with students and families on the benefits of saving for college. In cases where 529 accounts are created for the benefit of GEAR UP students, resources originate from the state and/or federal GEAR UP funds. The accounts earn interest until withdrawn after the student has graduated from high school (or the equivalent), and the funds must be used for post-secondary education.

At present, at least four states are setting aside funds in their College Savings Plans for GEAR-UP students.[8] These states are California, Virginia, Louisiana, and Iowa. Table 1 summarizes these states' investments in their College Savings (529) Plan and GEAR UP accounts.

Table 1: State Partnerships in GEAR UP and College Savings Plans

State College Savings (529) Plans	Account Ownership	First Year Accounts Opened	Account Investments	Life-to-date Total Funds Invested	Life-to-date Total Number of Accounts	Individual Account Awards	Award Determination
California: ScholarShare College Savings Plan	California Student Aid Commission	1999	Money market portfolio	$9,804,000	4,902	$2,000	Selected by school personnel at California GEAR UP middle schools
Virginia: Virginia College Savings Plan	State	2001	Piedmont portfolio, which is invested entirely in the stable value fund	$11,200,000	A single, omnibus account set aside for approximately 500 students	N/A	Eligible students can receive funds during the four years they are in college based on and in addition to the Pell Grant
Louisiana: START Saving Program	Louisiana FYSTEMIC (Louisiana's GEAR UP Collaborative)	2003	Louisiana principal protection	$3,280,438	Approximately 3,000	$250, $500, and $1,000 annually for up to 7 years	Based on the number of points students earn
Iowa: College Savings Iowa (529) Plan	College Savings Iowa	Anticipate late 2009	Selected by the parent from the plan's investment options	$10,000 anticipated	Ten anticipated	$1,000	Awarded by lottery after the GEAR UP parent completes a brief survey

California

Beginning in 1999, California GEAR UP and the California Student Aid Commission have partnered to provide Education Trust Awards to low-income middle school students. Awards are initially valued at $2,000, placed in a state-owned ScholarShare College Savings Plan account,[9] with the GEAR UP student named as beneficiary. Approximately $9.8 million has been deposited in accounts to date.

Students who receive the awards are selected by school personnel at California GEAR UP middle schools. In the 2007-2008 school year, California GEAR UP established 288 new Education Trust Awards. Since 1999, GEAR UP has provided 4,902 total Education Trust Awards to GEAR UP students.

As of 2007, 1,258 GEAR UP students had already started using the funds for postsecondary education. The three most popular institutions that scholarship recipients attend are California Community Colleges, California State University, and the University of California. It is noteworthy that California Community Colleges are first on the list, suggesting that the GEAR UP and College Savings Plan partnership is helping students to leverage their scholarship funds while they pursue affordable post-secondary education. California Community Colleges are located in almost every community in the state. Thus, from an economic standpoint, community colleges are both the most accessible and affordable option for many California students (Zeny Agullana, personal communication, June 19, 2009; California GEAR UP, 2009).

Virginia

In May 2001, GEAR UP scholarship funds were invested in the Virginia College Savings Plan[10] for a 2000-2006 cohort of GEAR UP students.[11] One master account was established to earmark funds for approximately 500 scholarships. To access the Virginia College Savings Plan funds, GEAR UP participants began applying for scholarships when they were high school seniors. GEAR UP participants in this cohort have begun receiving their scholarships. The maximum amount paid per student to post-secondary institutions has increased from $4,050 for the 2006-2007 academic year to $6,000 for 2009-2010. The actual scholarship amounts are in addition to the students' Pell Grant awards at the date of application. To date, over $11 million has been either reserved for or paid out to GEAR UP scholarships for Virginia students.

Continuing to develop this partnership, a more recent GEAR UP grant in Virginia provides scholarship funds for a 2006-2012 cohort. The total funding and number of scholarships for this second cohort have yet to be determined (Lee Andes, personal communication, May 21, 2009; SCHEV, 2009).

Louisiana

In 2003, Louisiana initiated Rewards for Success (RFS) scholarships for GEAR UP students beginning in sixth and seventh grades. RFS scholarships of $250, $500, or $1,000 are deposited annually in Louisiana's 529, commonly known as the START Saving Program.[12] The accounts are owned by the GEAR UP collaborative, with the student named as the beneficiary. Accounts can be used for a number of post-secondary expenses outlined in section 529. In addition, RFS scholarships supplement any funds a student receives from the Tuition Opportunity Program for Students (TOPS), a scholarship for Louisiana State educational institutions, and Federal Pell Grants. The total GEAR UP investment in START accounts has been about $3.3 million.

Louisiana is one of eleven states offering 529 savings matches for account owners or beneficiaries who are state residents (Clancy, Mason, & Lo, 2008). START accounts receive an earning enhancement—or match on deposits—with the level of the match depending on the account beneficiary's adjusted gross income. Since RFS scholarships are deposited into START accounts, these funds earn interest as well as a 2% or 14% match.[13]

A point system is used to determine the amount deposited in the START accounts of GEAR UP students. Points are based on attendance, parent involvement, student involvement, scholastic achievement, and participation in free or reduced cost lunch (Carol Fulco, personal communication, June 19, 2009; LA GEAR UP, n.d; LA GEAR UP, 2009; Louisiana Tuition Trust Authority, 2007).

Iowa

The partnership between GEAR UP and Iowa's 529 plan is in its early stages. In 2009, the Iowa College Aid Commission, which administers the GEAR UP grant, partnered with the Iowa State Treasurer's Office to inform GEAR UP participants and their families about the College Savings Iowa (529) Plan.[14] In the fall of 2009, College Savings Iowa and GEAR UP intend to provide an informational brochure to parents either at GEAR UP seminars or at parent/teacher conferences. The brochure will include a brief parent survey. Parents who complete the survey will be entered in a lottery to receive $1,000 for their child.[15,16] The funds will be invested in the College Savings Iowa Plan for the benefit of the GEAR UP student. Parents can choose the investment from the list of College Savings Iowa options.

College Savings Iowa also anticipates making presentations to GEAR UP students and their families focusing on saving for college. At this writing, the partnership is planning the frequency, content, and format of presentations (Karen Austin, personal communication, June 10, 2009).

Summary of Partnerships and Policy Potential

This brief provides examples of how GEAR UP and state College Savings Plans are working together to provide information and resources to low-income and at-risk students. These innovations in the states reflect the strengths of the US federalist system of government, with states taking significant leadership in exploring policy options and becoming "laboratories for democracy." Very often in the history of US social policy, successful innovations in the states have influenced federal policy going forward.

In this regard, the state GEAR UP and College Savings Plan partnerships with the longest tenure have allocated millions of dollars into 529 plan accounts, and thousands of students have benefited. Thus, the existing partnerships are significant in scope, and may influence similar policy discussions in other states. We would not want to exaggerate the current innovations, but they are not trivial; they are in a period of testing to see what works; and the future potential is much greater.

State-level experiences to date suggest several policy implications. First and most obviously, there is potential to expand the scope of current partnerships based on evidence of success, if resources were available to do so. Second, other states could learn from the GEAR UP and College Savings Plan partnerships that exist, and create their own versions. In order to do this, the College Savings Plans Network[17] and other associations across the states could be used as information and policy design venues. Third, these innovative examples of states earmarking funds in their 529 College Savings Plans for GEAR UP students is an important precedent for making 529 plans more inclusive, less regressive, and more equitable for low-to-moderate income, at-risk students.

At the end of the day, this third policy implication is potentially the most consequential. The original congressional intent for 529 plans was to create savings opportunities and expand post-secondary educational access to children in low- and moderate-income families. Quite unfortunately, this intent is far from realized. In their current application, College Savings Plans are underutilized by low-income families, and the highly regressive public subsidies (via tax benefits) benefit well-off families. In this context, the GEAR UP and College Savings Plan partnerships are an example of the creative use of public policy to achieve greater inclusion in savings for post-secondary education.

With this policy potential in mind, the College Savings Initiative[18] will continue to document and assess College Savings Plan partnerships, highlighting creative solutions for post-secondary educational enrollment and completion. Results will be shared among state College Savings Plan administrators and providers, with larger implications for federal policy. One possible federal policy outcome, as inclusive state 529 plan innovations are documented, is that the federal government might decide to make public benefits more fairly available to the whole population.

Endnotes

1. GEAR UP programs must begin no later than grade 7.
2. A different GEAR UP strategy selects priority students only.
3. A partnership can include educational institutions collaborating with a variety of nonprofit and for profit organizations.
4. This total represents both state and partnership grants.
5. GEAR UP grants awarded directly to states are required to provide scholarships to students. Scholarships are an optional feature of partnership grants (ED, 2009).
6. Sometimes called entity accounts, this ownership structure is less common. Since the account ownership is not in the student's name or his or her family's name, assets do not count against financial aid or receipt of public benefits.
7. Tennessee no longer operates its own state plan, but has contracted with the Georgia Higher Education Savings Plan to provide the Path2College 529 College Savings Plan to Tennessee citizens. The State of Washington operates a pre-paid tuition 529 plan only.
8. In all of these examples, GEAR UP recipients and their families are not required to deposit their own funds in a 529 plan, but they may open their own account and do so.
9. ScholarShare is administered by the California State Treasurer's Office.
10. The Virginia College Savings Plan is part of the state government. The board consists of government leaders and citizens selected by the Governor.
11. The 2000-2006 cohort represents students beginning GEAR UP in 2000 and graduating high school in 2006.
12. START is administered by the Louisiana Office of Student Financial Assistance, under the direction of the Louisiana Tuition Trust Authority (LATTA). LATTA is a public body composed of representatives from all of the state's education governing boards, and includes the State Treasurer and one member from each house of the Louisiana Legislature.
13. Awardees who qualify for free lunch or whose families have incomes below $30,000 per year are eligible to receive the maximum rate of 14%. Students who receive RFS awards but do not qualify under the free lunch or family income guidelines receive earning enhancement credits of 2%.
14. The Iowa State Treasurer's Office administers College Savings Iowa.
15. College Savings Iowa accounts for GEAR UP students are funded by the plan's marketing budget.
16. Two winners will be chosen each year for five years.
17. The College Savings Plans Network is an affiliate of the National Association of State Treasurers.
18. The College Savings Initiative is a collaboration between the New America Foundation in Washington, DC and the Center for Social Development at Washington University's Brown School.

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