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Center for Social Development
GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

The College Savings Initiative

Five Low-Cost Ideas to Help Families Save for College

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The Potential of 529 College Savings Plans

At a time when low-income students are underrepresented in higher education and the cost of attendance is becoming increasingly unaffordable, 529s have the potential to address issues of college readiness, access and completion. College savings can help make higher education more affordable, and have the potential to change aspirations and behaviors of both students and their parents. Research from the asset building field has shown that even a relatively small amount of savings can have positive impacts on behavior and achievement.

Although there has been growth in awareness and participation in 529s since they were created by Congress in 2001, most families currently saving in 529s tend to be middle or high income. The accounts are currently structured so they provide benefits to people with higher incomes in the form of tax incentives. Lower income families receive little or no tax benefits from contributing to 529s, which reduces their incentive to participate.

Improvements to the 529 platform could increase the number of low and moderate income families saving in 529s and make it easier for these families to build assets for education. These reforms include large initiatives, such as coordinating existing higher education tax credits and financial aid with 529s, as well as small initiatives to increase savings. Below are several low-cost, simple reforms for 529s at the federal level. These would be important first steps for enabling more low- and moderate-income students to complete higher education.

Simple, Effective and Low-Cost Federal Policy Options for 529s

- *Asset Limits*

Issue: Many federal assistance programs for low-income individuals currently have limits on the amount of assets individual's can hold. This can deter families from saving for college.

Policy Option: As part of the 2008 Farm Bill, Congress exempted 529 assets from eligibility for the Food Stamp program. Congress should build on this effort and streamline programs by also exempting 529s from the asset tests in TANF, Medicaid, SCHIP and other public assistance programs.

- *Default Investments*

Issue: Research shows that inertia and indecision limit people's ability to save and invest.

One way to help families save in 529s is to provide a default investment for each direct-sold 529 savings plan.

Policy Option: Provide rules that allow states to offer an appropriate default investment option when a participant does not give instructions for the investment of his or her 529 savings plan account. Require that all states have an appropriate default investment.

- *FDIC Insured or Capital Preservation Investment Options*
Issue: In the wake of the current financial crisis many families have lost significant percentages of their 529 assets. Several states already offer FDIC insured or capital preservation investment options for the 529 plans, but families in every state should have this option available to them.
Policy Option: Require that all states offer at least one safe capital preservation investment option.
- *Incentive Fund*
Issue: Many of the best innovations for increasing the participation of low-income families in 529s have come from the state level.
Policy Option: An incentive fund for states could encourage the creation of additional innovations for getting low and moderate income students into 529s. These innovations could include matching funds, improved marketing and outreach, opening 529s on state income tax forms and more. The fund could be as small as several million dollars and access to funding could be dependent on increasing participation by low-income families by a certain percentage in a given state. Varying levels of money could be made available for varying levels of participation. Funds could also be used to encourage innovative public private partnerships that serve to leverage private funding for progressive 529 features.
- *Use of Funds for Required Test Expenses*
Issue: Currently funds in 529s can be used to pay for classes at accredited post-secondary educational institutions. Use of funds for examination or test expenses such as the GED, SAT and ACT may provide greater utility for low-income students.
Policy Option: Allow 529 funds to be used to pay for certain required examination expenses.

The College Saving Initiative

The College Savings Initiative was launched in 2009 as a joint venture of the Asset Building and Education Policy Programs of the New America Foundation and the Center for Social Development (CSD) at Washington University in St. Louis. The Initiative is centered on developing and advancing progressive 529 college savings plans at the state and federal levels. It seeks to achieve this through study and promotion of existing progressive state-based 529 plans; modernization of existing federal college aid programs, including federal income tax-based aid programs; policy research and design; communications; and policymaker education. Ultimately, the Initiative aims to increase post-secondary education access and completion rates among lower-income, disadvantaged students through innovative public policy and other reforms to 529 college savings plans.

For background information on 529 college savings plans or the College Savings Initiative please go to www.newamerica.net/programs/college_savings

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