



## Saving for College in Maine's Matching Grant Program: Account Owner Experiences

April 2006

Center for Social Development  
George Warren Brown School of Social Work  
Washington University in St. Louis



# **Saving for College in Maine's Matching Grant Program: Account Owner Experiences**

**Lisa Reyes Mason**

**Margaret Clancy**

**Margaret Sherraden**

**Chang-Keun Han**

**April 2006**



**Center for Social Development  
George Warren Brown School of Social Work  
Washington University in St. Louis  
[gwbweb.wustl.edu/csd](http://gwbweb.wustl.edu/csd)  
(314) 935-7433**



## Table of Contents

Acknowledgements.....	i
Introduction.....	1
NextGen <sup>®</sup> and the Matching Grant Program .....	1
Methods.....	2
Interview Sample .....	3
Results.....	5
Access: “A Place to Go” .....	6
Information: “I Want This for My Son” .....	9
Incentives: “The Best Part” .....	13
Facilitation: “We Didn’t Have to Think About It” .....	15
Expectations: “At Least the Matching Funds” .....	17
Restrictions: “It’s Not Accessible” .....	17
Security: “A Pretty Safe Place for the Money to Be” .....	19
Additional Findings .....	21
Discussion and Implications .....	23
Conclusion .....	26
Tables	
Table 1 NextGen Initial and Annual Matching Grant Eligibility Criteria and Awards.....	2
Table 2 Participant Characteristics (N=10).....	4
Table 3 NextGen Account Information as of December 31, 2005.....	5
Table 4 Institutional Theory of Saving Applied to 529 Savings Plans.....	6
References.....	28
Appendices	
Appendix A Guide for Qualitative Interviews with NextGen Matching Grant Participants.....	29
Appendix B Select Individual and Account Characteristics by Participant.....	32



## **Acknowledgements**

The authors wish to thank Lumina Foundation for Education for their support. We are especially grateful to Karen Vigue and Katryn Gabrielson of the Finance Authority of Maine (FAME) for clarifying plan details, reviewing the consent form and invitation letter for account owners to participate in this study, and preparing and releasing NextGen College Investing Plan<sup>®</sup> account and savings records after participant consents were secured. Their contributions made this study possible. Thanks also to FAME staff for assisting in testing the survey instrument.

We are grateful to Richard LaRock, who completed some of the interviews. Michael Sherraden and Amanda Moore McBride made helpful comments on the report. We also thank Kathy McCabe, who prepared the tables and formatted the final report.





## Introduction

This is the second of a two-part study of low-to-moderate income families saving for post-secondary education through the NextGen College Investing Plan<sup>®</sup> (NextGen<sup>®</sup>).<sup>1</sup> NextGen is the State of Maine's 529 savings plan which provides individuals with a structured method of saving for higher education. The Matching Grant Program is an innovation within NextGen, specifically designed to help low-to-moderate income families save. This paper presents findings from interviews with 10 account owners. Account owner experiences and perceptions of NextGen offer participants' views of the program and inform future discussions of how to increase 529 savings plan participation and saving among low and moderate income families.

### NextGen and the Matching Grant Program

Like other 529 savings plans, NextGen provides individuals with a tax-advantaged way to save for higher education. Given trends in college tuition and financial aid, the accumulation of private savings for college is increasingly important for all families. Seven states, including Maine, offer a 529 savings match for state-resident families. NextGen was selected for this study because of the duration of its match program and types of incentives provided. See Clancy et al. (2006) for background on the affordability of higher education, saving for college, and inclusion in 529s.

NextGen was launched in 1999, and the Matching Grant Program was introduced in 2002. While any United States resident can open a NextGen account, the Matching Grant Program is designed for state-resident families who meet eligibility requirements, including a household adjusted gross income (AGI) threshold. Eligible families can receive two types of matching grants to supplement their NextGen savings: a \$200 Initial Matching Grant (IMG) and an Annual Matching Grant (AMG) of varying amounts. Table 1 summarizes the eligibility criteria and awards for both grants, noting that grant details changed in January 2005 to expand the program.

The IMG subsidizes \$200 of the \$250 initial deposit required to open an account, and has been available to accounts opened in 2002 or later.<sup>2</sup> The AMG is available to any eligible account, regardless of when the account was opened. The maximum AMG was previously \$100 per year, but was increased to \$200 in 2005.

---

<sup>1</sup> The first report is *Inclusion in College Savings Plans: Participation and Saving in Maine's Matching Grant Program* (Clancy et al., 2006).

<sup>2</sup> Within five years of opening the account, account owners must make total net deposits of \$250, or the IMG will be rescinded.

**Table 1: NextGen Initial and Annual Matching Grant Eligibility Criteria and Awards**

	January 2002 to December 2004	January 2005 to December 2005
<b>Initial Matching Grant</b>		
<i>Eligibility criteria</i>		
Household AGI (previous year's tax return)	\$50,000 or less	\$52,500 or less*
Minimum opening deposit	\$50	\$50
<i>Award</i>		
Amount per beneficiary	\$200	\$200
<b>Annual Matching Grant</b>		
<i>Eligibility criteria</i>		
Household AGI (previous year's tax return)	\$50,000 or less	\$52,500 or less*
Minimum contribution, previous calendar year	\$200	\$50
<i>Award</i>		
A percentage of contribution in previous calendar year	25%	50%
Maximum per beneficiary	\$100	\$200

\* To be adjusted annually based on the Consumer Price Index

## Methods

The data for this report are from interviews with 10 participants in NextGen's Matching Grant Program. An open-ended interview guide was developed to accomplish the following objectives (see Appendix A for the complete guide):

1. Discover how participants learned about and enrolled in NextGen.
2. Learn about participants' experiences and perspectives in NextGen, including perceptions of saving facilitators, saving barriers, and NextGen features that do or do not work well.
3. Understand how participants view the NextGen account in relation to their family's well-being, financial outlook, and future.

The interview participants were selected from the 137 NextGen account owners who had previously completed telephone surveys with the research team. These 137 owned NextGen accounts that were open as of December 31, 2004, and each had received at least one initial or annual matching grant.

For the interviews, the telephone survey sample of 137 was narrowed to account owners who were (1) parents of the account beneficiary (i.e., not grandparents or others); (2) had an Associate's degree or less education; and (3) reported opening the NextGen account with an enrollment kit from FAME, a financial institution, or the internet, or a method other than using

an enrollment kit provided by a financial advisor. These criteria were selected to yield interview participants who were saving for their child's college education, although they themselves had not completed a four-year college degree, and who likely enrolled in NextGen in response to public outreach and marketing efforts. Twenty account owners met the specified criteria, and 10 agreed to participate in taped interviews.<sup>3</sup> Three interviews were conducted in person and seven by telephone.

### **Interview Sample**

The interview sample consists of seven women and three men, with a mean age of 41. Six subjects are married, three divorced, and one separated. Four of the ten interviewees head single-parent households. Reports of 2004 household AGI range from less than \$20,000 to \$60,000. Educational attainment varies and includes having a high school diploma, vocational or technical training (without completion), some college, and an Associate's degree. Account beneficiaries range in age from six to 18, and almost all are Caucasian, except for the child of one non-Caucasian immigrant.

Three interview participants use NextGen's Automated Funding Service (AFS) to make automatic deposits from paychecks or checking or savings accounts into NextGen. Of the seven not using AFS, most either did not know the feature was available, have financial strain or job loss, or prefer to make an annual deposit in the account.

Six interview participants have their account in a Direct portfolio, and four in a Select portfolio.<sup>4</sup> Two participants opened their accounts prior to 2002 and were not eligible for the IMG. Of the eight who were eligible, six received the \$200 award. Regarding the AMG, seven of the ten interview participants have received at least one AMG, in varying amounts. Among these seven, three report that they no longer receive the AMG; one has income too high to qualify, one did not make the application deadline, and one did not deposit in the account during the previous calendar year.

Interview participant characteristics are summarized in Table 2. Appendix B provides an overview of participants based on data from the survey responses and NextGen account and savings data from the Finance Authority of Maine (FAME). See Clancy et al. (2006) for analysis and discussion of the survey. Pseudonyms are used for all interview participants when reporting findings.

The 10 interview participants are generally similar to the remaining 127 survey participants. The differences mostly reflect the criteria used for selection: parental relationship to the beneficiary, somewhat less educational attainment, and method of opening the account. In addition, the 10 participants have beneficiaries who are somewhat older than the survey participants.

---

<sup>3</sup> The 20 account owners were invited to participate by telephone. If an account owner was not reached on the first call, a phone message was left, and follow-up calls were made as needed.

<sup>4</sup> To enroll in NextGen, individuals open a Direct Series (directly through FAME, one of Maine's distribution agents such as banks, or from the web) or Select Series portfolio (through a broker, who in some cases may be affiliated with a bank). The Select Series charges investors additional expenses such as sales fees. Each Series contains its own selection of funds and fee structure.

**Table 2: Participant Characteristics (N=10)**

<b>Age (years)</b>		<b>Education</b>	
Minimum	31	High school diploma	2
Maximum	51	Voc/tech training, no diploma	2
Mean	41	Some college, no degree	2
		Associate degree	4
<b>Gender</b>		<b>Year Account Opened</b>	
Women	7	2000	1
Men	3	2001	1
		2002	3
		2003	2
		2004	3
<b>Marital Status</b>		<b>Portfolio Type</b>	
Married	6	Direct Series	6
Divorced	3	Select Series	4
Separated	1		
<b>Race/Ethnicity of Beneficiary</b>		<b>Received Initial Matching Grant</b>	
Caucasian	9	Yes	6
Other	1	No	4
<b>Age of Beneficiary (years)</b>		<b>Received at Least One Annual Matching Grant</b>	
Minimum	6	Yes	7
Maximum	18	No	3
Mean	12		
Median	12.5		
<b>2004 Adjusted Gross Income</b>		<b>AFS Use</b>	
Less than \$20,000	3	Yes	3
\$20,000-\$29,999	1	No	7
\$40,000-\$49,999	1		
\$50,000-\$59,999	5		
<b>Household Type</b>		<b>Reasons for Not Using AFS</b>	
One adult, one child	2	Did not know feature was available	2
One adult, two or more children	2	Financial strain or job loss	2
Two or more adults, one child	2	Makes one deposit per year	2
Two or more adults, two or more children	4	Does not use AFS for anything	1
		Not paid on a regular basis	1

Compared to the survey sample, the 10 interview participants have accounts that have been open slightly longer and have higher contributions, account value, and investment performance. However, interview participants have received somewhat less total number and value of matching grant awards than the overall survey sample. Table 3 compares account and savings variables between the interview participants and the survey sample of 137 from which they were selected. See Clancy et al. (2006) for variable definitions and savings analysis.

*Table 3: NextGen Account Information as of December 31, 2005*

	Interview Participants (N=10)		Survey Participants (N=137)	
	Mean	Median	Mean	Median
Age of beneficiary (in years)	12.3	12.5	9.6	9.0
Age of account (in years)	3.5	3.5	3.4	3.0
First year contributions*	\$2,369	\$562	\$1,742	\$500
Total number of matching grants	1.8	1.5	1.9	2.0
Total value of matching grants	\$270	\$200	\$288	\$300
Annual deposit frequency (1999-2005)**	78%	92%	81%	100%
Annual deposit frequency (2002-2005)**	76%	88%	81%	100%
Total contributions	\$5,371	\$2,167	\$3,430	\$1,550
Average annual contributions***	\$1,548	\$521	\$933	\$500
Total account value	\$6,647	\$2,908	\$4,371	\$2,221
Average annual account value****	\$1,926	\$703	\$1,214	\$703
Total investment earnings	\$1,006	\$530	\$818	\$281

\* Outliers in the first year contributions variable suggest that some account owners transferred lump sums from other accounts into NextGen.

\*\* Annual deposit frequency is a percentage of the number of years in which an account owner made a deposit out of the years the account was open. The second measure of this variable (2002-2005) captures annual savings activity since the launch of the Matching Grant Program.

\*\*\* Average annual contributions are the life-to-date account owner contributions to the account divided by the age of account.

\*\*\*\* Average annual account value is the total account value as of December 31, 2005 divided by the age of account. Total account value is adjusted to include withdrawals and distributions if the beneficiary is college age.

## Results

Findings from participant interviews are presented primarily within the framework of an institutional theory of saving. While most theories of saving focus on individual preferences and characteristics—such as age of the saver or self-restraint—an institutional theory of saving suggests that formal and structural determinants of saving are greater influences. At present, this theory posits seven determinants of saving: access, information, incentives, facilitation, expectations, restrictions, and security (Beverly & Sherraden, 1999; Sherraden & Barr, 2005; Sherraden, Schreiner & Beverly, 2002). Examples of each, in relation to saving in 529s, are

presented in Table 4. These examples apply broadly to 529 savings plans, not NextGen in particular.

*Table 4: Institutional Theory of Saving Applied to 529 Savings Plans*

Construct	529 Savings Plan Feature
Access	Plan availability Ease of enrollment Limited investment options
Information	State marketing Ongoing communications
Incentives	Matching grants Tax-free earnings Rebates
Facilitation	Payroll deduction Automatic deposit from checking or savings account
Expectations	Minimum automated contribution requirements Maximum annual match limits
Restrictions	Targeted saving for education 10% earnings penalty on non-qualified withdrawals
Security	State affiliation Conservative or age-based investment options

### Access: “A Place to Go”

#### *Plan availability*

The 529 savings plan provides a structure for saving. States provide information to the public about saving for college and can design 529 plan features such as minimum opening deposit requirements, matching grant provisions, and low-cost investments which affect plan access.

Half of the account owners suggested that the availability of the plan itself helps them save for college. For example, Greg was interested in “getting the best deal” for his child and said that he signed up for NextGen because the 529 savings plan was “what they came up with in D.C.” Susan had thought about saving for college, but only enrolled in a plan when NextGen reached out to her:

...I hadn’t heard anything reaching out to the public, telling us about a college fund. I always felt, “Oh, it’s in the back of my mind. I’m going to have to check it out some day,” instead of wondering where I was going to check it out or how. But that was reaching out to us. So it answered all my questions and gave me a place to go.

State design and public oversight of the plan was one factor in Tom’s decision to enroll in NextGen:

It was a few things that kind of pushed me towards NextGen. One is the mutual fund that we originally had the money in was getting hit with the fees. And I know that NextGen limits—they have more control over the investment firms, in limiting the fees that they can charge.

### *Easy enrollment and participation*

To open an account, individuals send a completed account application along with their opening deposit to NextGen. Those eligible for the \$200 IMG must provide a minimum \$50 opening contribution; all other applicants must send at least \$250.<sup>5</sup> Minimum opening deposits are waived for individuals who sign up for automated investments of at least \$50.

Half of the account owners said that NextGen was easy to sign up for. They described opening the account as “straightforward,” “simple,” and “very easy.” Betsy compared opening the NextGen account to her 401(k), and found NextGen easier to get started:

I think the NextGen account was much easier to open than opening up or transferring to a 401(k). I just opened a 401(k) at my new job, and I just think the NextGen account was much more straightforward and answered the questions...it seemed that there was less paperwork and much simpler instructions than to open up a 401(k).

Amy said it was easy to participate in NextGen:

Just that it’s out there and it’s available and it’s easy. And it’s a nice way to start; it makes it easy.

Jenna expressed how important it is for enrollment to be an easy process:

If [people] say, “Oh, if I only have to call this number, and there isn’t going to be somebody trying to sell me everything under the sun. They’re just going to send me the forms.” And they can see that somehow and understand that, “We’re college-friendly, user-friendly. You call us; we’ll send you just what you need.” They get the paperwork and fill it out. They know that there’ll be a tax advantage. Hopefully they’ll be eligible for some type of matching grant. That might, usually, encourages some people. And as long as the paperwork is easy and not too complicated...they can send it right in.

Nora liked the “convenience” of opening the account at her workplace, a bank where she could talk to someone in person about the account. Linda also opened her account at a bank. She had

---

<sup>5</sup> NextGen’s \$250 minimum opening deposit is much higher than the initial 529 savings investment required by the majority of states (Clancy et al., 2006).

learned about NextGen from both a television advertisement and information at her local bank that made it easy to enroll:

There was literature at the bank that I do business with....And then I spoke briefly with a representative at the bank, but there wasn't a lot of questions, because, again, the literature itself was pretty self-explanatory.

Jenna liked that NextGen gave her an easy way to open an account, without having to consult a financial advisor or sort through a myriad of funds:

The only reason I did was because when I saw it on TV, that's like the commercial that brought it to my attention that I need to invest in college, and instead of looking all over the place and trying to find a fund through somebody, it was actually easier because this one I could do on my own...instead of having to go through an advisor.

Amy said that now that she is enrolled, saving in NextGen is "much easier than starting over" and "easier than getting the broker to find a better idea."

Three account owners commented on how easy it is to participate in the Matching Grant Program by completing and returning some simple paperwork to FAME. As Greg said, the matching grant application was a "pretty simple, one page form."

#### **Susan**

Susan is married and has one 17 year old son. She is 47 years old and has some college education. She opened a NextGen account for her son in 2002. Although she had thought on and off about saving for college, hearing about NextGen is what prompted her to take action and start a college fund. To enroll, she called NextGen's toll-free phone number for information and was directed to a local bank. She said she received excellent service at the bank, and liked that it was so easy to get started with NextGen. From the beginning, Susan was most attracted to the matching grant. Although she has not been able to save as much as she had hoped, she saves what she can—always aiming to at least save enough to receive an Annual Matching Grant. When Susan talks about NextGen with others, she said that she tells them, "The earlier you start, the better. I wish we would have started earlier..."

#### *Limited investment options*

Similar to an employer overseeing a 401(k) plan, states oversee the 529 savings plan by choosing a private investment company (or companies) to manage a select group of mutual funds with a range of risk and return characteristics. For example, there are nine investment options in the NextGen Client Direct Series: two age-based portfolios, five equity and fixed income portfolios with multiple underlying funds, one equity index fund, and one guaranteed interest portfolio with a minimum rate of return.



Findings on participant preference for limited investment options are mixed. Cole preferred to have “a wide range of mutual funds that you could...personally invest in yourself.” Greg criticized the plan for its limits on choice when he said, “you get to invest in Merrill Lynch and nothing else.” He continued that NextGen is “more of a ‘take it or leave it’ type thing.”

However, three account owners said that NextGen’s limited investment selection helped them or would help others participate in the plan. Although Greg personally prefers to have more investment choices, he believes that most people know little about investing and would prefer to avoid complicated financial decisions:

And for people who don’t want to—and this is most people—who don’t have a great deal of understanding of investments or want to deal with much to do with money and anything financial, which seems to be most people, then it seems relatively simple. They really don’t have to, like I said, make decisions. People don’t like making decisions.

Tom believes that people who do not “understand finances that well” would sign up if they knew about the age-based investment option that balances risks and expected returns of the fund as the beneficiary ages and approaches college.

### **Information: “I Want This for My Son”**

NextGen communicates with prospective and current account owners before, during, and after enrollment in the plan. The information provided is intended to help families decide whether to enroll in NextGen and influence future saving.

#### *NextGen marketing*

NextGen is advertised via television, radio, print media, brochures at banks, workplace posters, school presentations, special events and seminars, financial advisors and the FAME website.

The advertising images can cause prospective account owners to think about their own children’s futures. For Linda, the specific image of “little boys” in one NextGen advertisement made her think, “I want this for my son.”

Many account owners reported hearing about NextGen from more than one source, and enrolled only after hearing repeated messages about NextGen. Jenna heard about the program several times before signing up:

We kept hearing...kind of a little on TV, and then I think there were some newspaper ads...and [the information] was consistent. So after a while, eventually, we thought, “This might actually be a good thing.”

However, she also commented that the television advertisements were particularly effective:

...I kept seeing the ads on TV, and it was enticing. Even if I hadn't had my husband, [a financial advisor], I think I finally would have just made the move myself. Definitely it helps when you see something—on TV for me—that really explains things well in the short, few seconds that they have.

Greg also said he became interested in NextGen because he was hearing about it from multiple sources:

I think when they started [NextGen] they were doing a lot of news, press release. So it was getting talked up from news stories—print, television. And so I thought being in this situation, it'd be worth looking into it.

Cole said that 529 savings plans were new when he enrolled in NextGen, and “there was a lot of talk about them.” He continued, “That was just basically the thing to do at the time.”

Like one other account owner, Susan said that she was satisfied with what she had heard about NextGen and, as a result, did not explore other 529 savings plans:

...NextGen is the one that I'd heard about that I was able to easily sign up for, and I didn't really investigate other plans. I heard about [NextGen], I liked the way it sounded, so I just went straight ahead, right with that one. And I hadn't even looked around otherwise.

### **Jenna**

Jenna and her husband have three boys. After learning about NextGen on television and from the newspaper, and discussing it with her husband, Jenna opened accounts for her children. She really liked that the Initial Matching Grant gave her “instant gratification” that she was building savings for college. Jenna is full of ideas for how NextGen can reach out to parents. She suggested that NextGen “play on our souls...play on our heart” about the need to start saving for the future. Another message that she came up with was, “It's not too late, even if you haven't started yet. Don't feel bad. It's not too late. You can do something now. Call 1-800...” Unfortunately, Jenna struggles to save because she feels that she must make equal deposits in each of her children's accounts, and her family does not have a lot of extra cash. Nonetheless, she often tells other parents about the plan, spreading information about NextGen in everyday conversation.

Word-of-mouth appears to encourage enrollment in NextGen and reinforce other marketing messages. For example, although Betsy had seen television advertisements for NextGen, she took the step to enroll because of her brother's encouragement:

I remember seeing ads on TV about [NextGen], but I never really looked into it too much until [my brother] brought it to my attention a little bit more, because I just wasn't so sure about it until I knew it was something he was already doing. So I knew it must have been a pretty worthwhile thing to check into.

### *Plan details*

Some account owners had specific questions about the plan before submitting enrollment paperwork. Nora was glad that her bank colleague at work helped her complete the paperwork and answered her questions:

He went over every part of it. I mean, he explained everything at the time. So I remember I left his office feeling very comfortable about it. But like I said, when I first signed up, I don't remember what all he told me the benefits and stuff were. But...he was pretty much the reason I decided to go ahead and do it, 'cause he made me aware of all the aspects of [the plan].

Having complete information is important for individuals to take the step of opening the account. Jenna said that NextGen should communicate to people that it is easy to get started and should ensure that people's questions are answered, otherwise they may not enroll:

[NextGen should say], "This is an easy process. You'll be able to fill out the forms. No problems." Let people know that it's actually not as hard as they might think. Because...any lack of information leaves people kind of leery. We don't understand something, and we don't have somebody to ask, and we're not sure—then we might not do it.

Tom commented that, when he asked the plan manager some questions, he was disappointed that the firm did not explain that he could choose between the Select (through brokers, in some cases brokers affiliated with banks) or Direct (through FAME or through distribution agents on behalf of FAME) Series:

...the financial firm...never presented that there was two ways that I could direct my money. It was only because I had done a little bit of homework and called [FAME] and NextGen and got some information from them, which I realized there was two ways to invest in [NextGen]...and I wasn't convinced that [the firm] would have provided that information...so that kind of lost some of my trust there...They didn't say, "We can do this or you could do this."

On a separate note, Tom later said that the most important part of the plan for people to know is their ability to change the account beneficiary. He continued:

Basically, the way I understand it, I...open up the account, but my son and daughter would be the beneficiary. [But] if my wife wanted to go to school and my son wanted to be a race car driver—you never know—and if he didn't use his, then it could transfer to [my wife].

Indeed, two account owners spoke about how they had asked FAME whether they could change the beneficiary from one child to another, if the first child does not pursue higher education, and were told that they could.

### *Ongoing communications*

NextGen sends newsletters, matching grant reminders and applications, and account statements to account owners by mail. These communications often serve as reminders to continue saving in the account or to apply for matching grants. For example, Susan said, “I got something in the mail from them [this week] that reminded me about the matching grant coming up and to look for the paperwork.” Although Cole’s income was initially too high to apply for the match, the matching grant paperwork that he received in a subsequent year showed him that he was eligible:

I think they send those [matching grant] forms to me yearly, and on that year I was unemployed for a period of months and going to school myself. Then I realized I was under the income threshold, so I applied for it.

Two account owners said that the account statements help them see their savings grow. Linda expanded on this comment, saying that her statement further encouraged her to save:

[NextGen is] in contact with you so often. They’re sending you the information, and you can actually see—it makes you feel good that you’ve got this much money in. And then you start calculating, “Well, if I keep doing this, then I’ll have that much more.” So...as you see it grow, it makes you want to contribute more.

Some account owners, however, said that the readability of the account statements could be improved. In addition, two specifically said that they would like to see a comparison of their life-to-date contributions versus the current account balance, and three said that they would like to see projections of the future value of their current savings. Account owners said that such information on their statements could help influence how much they save in the account.

## **Incentives: “The Best Part”**

### *Matching grants*

The Matching Grant Program, launched in 2002, provides a one-time \$200 IMG to subsidize the required \$250 opening deposit and a varying AMG each year to eligible accounts. From 2002-2004, the maximum AMG was \$100 per year. In 2005, the maximum increased to \$200.

All account owners spoke positively about the matching grants. Six account owners said that the matching grants were an attractive or even the most important feature when opening the NextGen account. For some, like Susan, the matching grant was “a big draw” and what led her to “go to the bank and inquire about it.”

The availability of the \$200 IMG not only led Jenna to open a NextGen account, but helped her feel like she was making savings progress:

[The IMG] was actually the major thing, because at that point I wasn't sure if I could open anything up....So that was the biggest factor, knowing that I had the matching grant and knowing that when I saw my first statement for the kids, “Wow. I actually have some money in there, instead of my little bitty amount.” That was the biggest thing.

Tom commented that the matching grant provided him with security against possible investment loss, which may be a particular concern for individuals with less savings:

Certainly the matching grant was a big carrot, because the way I figured, even if when it's invested, it didn't perform well, you still had the matching grants.

### *Tax-free earnings*

In 529 savings plans, individuals make after-tax deposits, but the earnings portion of withdrawals for higher education are free from federal and state income tax.<sup>6</sup> In addition, many states provide a state income tax deduction for 529 contributions. Unless extended by Congress, the provisions relating to federal tax-free withdrawals will expire after December 31, 2010, and the earnings portions of qualified withdrawals would be taxed at the designated beneficiary's tax rate.

Four account owners specifically mentioned the attractiveness of NextGen's tax advantages. Greg said that these advantages are “the best part” of the plan. Jenna discussed the importance of Congress renewing the federal income tax-free provisions before they expire:

So when I read that [Congress must renew the provision] I thought, “Oh, I hope they do!”...I don't know that process, so it's kind of scary thinking that we'll get to that point and then they'll say, “Yeah, okay. We've changed our minds.”

---

<sup>6</sup> For out-of-state plan participation, several states impose taxes on qualified withdrawals, and a few states tax earnings.

### Account owners spoke highly of the matching grants

“The fact that the State of Maine will match—it’s a matching...children’s college fund—was a big influence for me.” (Nora)

“Well, for me, the matching grant [is the best part.]” (Greg)

“There was a poster [at the bank] when my child was quite young. It caught my eye because it was a matching thing.” (Amy)

“I saw this commercial...this lady was pregnant and people giving her some gifts, and she opened this gift. It was a matching grant. So I keep on looking at that. I wanted to know more information.” (Miriam)

“And then the next part was the fact that Maine would have a matching fund, so that when we put money in, up to a certain point, they would also put some money in. Those were the two things that stood out the most for me.” (Jenna)

“The matching money surprised me. Again, I hadn’t heard of an organization actually giving you money just for saving. I thought it was a fantastic idea.” (Susan)

“I thought it was wonderful. It added to the kettle.” (Linda)

“...the fact that the State gives a matching amount of money...is the best thing that people would want to know—that their money is going to turn around and earn more money...” (Nora)

“The best part is the matching funds every year.” (Susan)

“It was almost like instant gratification. I’d put some money in, and then we’d have some matching money going in, and I’d see like a real balance.” (Jenna)

“If you’re under a certain threshold, that [matching grant] really increases the potential for [your account] to grow.” (Cole)

“...right now, I think the matching grant is probably one of the best parts...” (Tom)

“...if they were going to think they were going to do it on their own, it’s very unlikely that someone’s going to be able to save money for your child’s education on your own. You just say you’re going to do it, but you never do it. And then I had told them that they should check into this fund, because my brother was doing it, and I got the kids started in it, and then when I got the matching grant on it, I said, “You know, basically they’re giving you money and...the interest you get on it is great. So at least look into it and check it out.” (Betsy)

## *Rebates*

Some 529 savings plans are linked directly to credit card or 529 reward purchase programs. Through these programs, a percentage of an account owner's everyday expenses (purchased with a 529 rewards credit card or through a preferred vendor network) is deposited directly into the 529 plan account. Although NextGen is not directly linked with a reward or rebate program, account owners can still benefit from these incentives by requesting that their rebate savings be sent to them as a check, which they can choose to deposit in their NextGen account.

One account owner spoke about rebates. Susan benefits from these rebates and uses the savings for her NextGen account:

So I get [a percentage of my money] back from our daily spending, which goes to that [rebate] account online, and I can link it to a 529 plan directly with the online site. But I chose not to. I chose to put all my monies in the NextGen account. But whenever I withdraw monies from that account, I have them send me a check and put it in [my son's NextGen] account, instead of opening up a different one that I didn't have as much confidence in. Plus, there were yearly charges. There's no yearly charges with NextGen.

## **Facilitation: “We Didn't Have to Think About It”**

### *Automated Funding Service*

NextGen's Automated Funding Service (AFS) enables account owners to make automatic, regular deposits of funds from paychecks or other accounts into the NextGen account. The minimum automated contribution requirement is at least \$50 per month, and the exact amount deposited depends on whether the account owner selects a biweekly, monthly, quarterly, semiannual, or annual automated deposit cycle.

Account owners who used AFS found the service “easy,” a “mindless” good thing, and as something that “appealed” to them. When asked what helped her to save in NextGen, Susan attributed her ability to save directly to AFS:

The direct, monthly, taking the—I can't find a word for it—how they took money out of our checking account every month. We didn't have to think about it. I just knew that a certain date the money was going to come out.

Cole also attributed his saving to AFS use:

[What has] kept me on track? The fact that...I'd actually have to make a call to get [AFS] to stop, and it's automatic. Everything's automatic to keep on doing it. It comes out of my savings account every month. So it's not a big hassle for me.

Three account owners would like to enroll in AFS, but stated that the \$50 minimum monthly contribution was too high for them to participate. Each of these account owners has more than one child and multiple NextGen accounts. Betsy said that she is unable to enroll in AFS “because

there's just not enough money there." She has three children and three NextGen accounts, and said that she cannot make AFS contributions for "the one and not for the other" and that it "adds up too much." The other two account owners gave similar explanations for why they are unable—but would like—to enroll in AFS.

Two of the three account owners recommended lowering the \$50 minimum requirement. Miriam has three NextGen accounts and suggested lowering the minimum to \$5 per month. Jenna said that she would "jump right into it" and "immediately start saving" if the minimum was \$10 per month. She also emphasized her belief that using AFS is harder for people who have more than one child, like herself:

Most people that I know just don't have the money, and they have lots of kids. When they have one child, I think it's a little easier. But when they have multiple kids—that's like our little life dream—they just cannot invest a lot. They can't invest at all. It's impossible, because they have to be fair all the way around and make certain each child gets money, and they can't. They just cannot do it. And as long as the paperwork and everything stays easy for them, they will make the attempt. But...most people just are not going to invest unless it's something that just comes right out of their checking. And if [the minimum requirement is] too high, they just can't do it.

#### **Cole**

Cole is married and has two children. He is 41 years old and completed some post-secondary vocational/technical training. He opened accounts for his children because he had been hearing a lot about 529s, wanted to start saving for his children's future, and was interested in the plan's tax advantages. Cole saves regularly through NextGen's Automated Funding Service. However, he is disappointed with his account performance and said that "it just never generated any great tax savings...That didn't meet my expectations." Nonetheless, Cole plans to continue saving in NextGen because he has "made that commitment." He continued, "If I see something that's much better, I may put money into that as well...but I probably will continue [with NextGen]. I'm not contributing a lot of money into it monthly. It's just barely noticeable."

#### *Deposit slips*

NextGen started mailing deposit slips (i.e., contribution coupons) to account owners in 2003, designed to be returned by mail with a contribution check. A supply of six or more NextGen deposit slips are mailed to all account owners twice per year—once in the first quarter and again in the third quarter. Beginning in 2004, deposit slips were also included with enrollment materials distributed to potential account owners. In other state 529 savings plans, deposit slips are mailed more frequently along with the account owner's quarterly statement and with contribution confirmation statements.

Two account owners indicated that they never received deposit slips, but that these would have helped them to save. Greg said that NextGen "didn't make it real easy to stick money in" since



he never received deposit slips. Miriam said that deposit slips would have helped remind her to save in the account, especially when she had money available:

So maybe [when you get the slip] you have the money that time and tomorrow you don't have the money. But if you get the slip you say, "Oh, they have gotten the slip here and it's easy to just make a check and send it to them."

### **Expectations: "At Least the Matching Funds"**

#### *Annual Matching Grant*

To qualify for an Annual Matching Grant, account owners must make a minimum contribution to the account during the calendar year prior to their matching grant application. From the launch of the Matching Grant Program until January 2005, the minimum contribution required was \$200, and the maximum grant award was \$100 (25% of a \$400 contribution). In January 2005, the minimum contribution was lowered to \$50, and the maximum grant award was increased to \$200 (50% of a \$400 contribution).

Half of the account owners stated that they save in order to receive a matching grant. As a result, the deposits that they must make, in order to receive the minimum and maximum matching grant, become savings expectations for some families. For example, Susan said, "If I know it's going to be a tough year, I try to put at least the matching funds in there...you know, what's going to qualify me for matching funds." Similarly, the maximum match limit inspires Betsy to save more:

But the idea of the more that's in there, the more your match will be, makes me want to try to put more into it, 'cause you know, you want to get the benefit that you can from it. So the more you put in each year, the possibility is having a higher amount matched. It keeps me thinking in the back of my mind that I need to put in some more.

Although Greg was discouraged by his NextGen account's poor investment performance, he continued to save in order to receive the Annual Matching Grant:

You know, [the matching grant] works...in terms of making sure you invest at the minimum. I guess that...when I realized that you had to invest the minimum [to get the matching grant]...you know, because of the poor performance of NextGen—at least for several years where I'd lost money, and I wasn't sure that was such a great place to be putting money in—given that, if I put \$500 in, I was going to get at least \$100 added to it, it was an incentive to put at least \$500 in.

### **Restrictions: "It's Not Accessible"**

NextGen accounts are dedicated to the future higher education expenses of a beneficiary. Although account owners can make withdrawals from the account at any time, funds are less accessible because account owners must complete and submit a Withdrawal Request Form to

NextGen before funds are released. In addition, the earnings portion of withdrawals not for higher education is assessed a 10% penalty and subject to state and federal income tax.

### *Inaccessible savings*

Two account owners perceive and like that their NextGen savings are inaccessible. Linda commented:

I like the NextGen account. [It] seemed the safest way to put money away for [my child], and it wasn't accessible by anyone. You know, you can't take the money out. It's not accessible.

Betsy expressed similar sentiments, and linked the inaccessibility of the account to her ability to save:

Well, it's helped me save for my kids' future. It's just given me a way to put money aside and not be able to get a hold of it and worry about it.

#### **Linda**

Linda is 36 years old. She is a single parent and has a 17 year old son. In her own words, she was not "well-versed in stock markets and investments" and found it "helpful" that NextGen was "handled through Merrill Lynch." She opened her son's account in 2002 by cashing in savings bonds that her son had received as gifts over the years. Linda also made biweekly, automatic deposits through NextGen's Automated Funding Service. As a result, Linda has saved enough to pay for two years of her son's college education. She is extremely proud of what she has achieved and said that saving was "an accomplishment on my behalf, and hopefully getting the two years under his belt will be the accomplishment on his behalf." Linda viewed her NextGen savings as inaccessible and liked that she was not able to easily make withdrawals. She recommended the plan to some of her female colleagues, as a way to put money aside so their husbands cannot "just take it out and go buy a lawnmower."

### *Account dedicated to child's future education*

The account owner can change the account beneficiary at any time. However, the new beneficiary must be a qualifying family member of the current beneficiary, as defined in NextGen program materials. When enrolling in NextGen, three account owners had questions and concerns about whether savings in the account would be lost if their beneficiary decided not to pursue college. Two wanted to know if the funds could be used for another child instead. For example, Jenna said:

One of the things that made me hesitate was, I had heard some information about like, if one child doesn't use the money, I thought that you would lose it. So I thought we were going to lose our money...But...I think it might have been my husband later that said, "No, no, no. If you put the money in and your child doesn't use it to go to college, it goes

to the next child.” That’s the way he explained it to me, anyway. So I felt better when he said that. I thought it was just going to kind of vanish out of thin air.

Two account owners discussed how the dedication of the account to higher education is one of the positive features of NextGen. Betsy described this as helpful to ensuring that the savings are used for the purpose she intended:

This way I knew the money was going to be used for education, and that’s pretty much what I wanted it to be used for. And that way it wouldn’t be taken out and used for other petty things. I just felt that education was the top priority to put it into.

One account owner viewed the account’s dedication to higher education as a potential negative feature, if his children do not pursue college and he is “stuck paying a lot of penalties...trying to get [his] money back.”

#### *Matching grant requirements*

Eligible account owners save in the account, and then apply for the Annual Matching Grant in the following calendar year. To maximize his matching grant awards, Tom clarified with FAME the matching grant application timeline, so that he could decide when to deposit some monetary gifts into his children’s accounts:

...I got the [Annual Matching Grant] applications by calling the Finance Authority of Maine, because I had questions on the matching grant and what timeframe it ran. Was it when I opened the account? Was it a year from that? ‘Cause basically it was an annual matching grant. Or was it from January to December?...We had some money given to the children, and we put it in a savings account, and [FAME] gave me advice. I think it was one of those, “You wait ‘til after such and such a date, and then you can put your money in, and then it would qualify for the ’05 matching grant.”

#### **Security: “A Pretty Safe Place for the Money to Be”**

##### *Confidence in plan administration and management*

NextGen is administered by the Finance Authority of Maine (FAME). The State Treasurer provides financial oversight of NextGen, and the plan manager is Merrill Lynch. Some account owners derived a sense of security from NextGen’s affiliation with the State. For example, Betsy believed that her savings would be safe in NextGen because it was administered by FAME:

I just figured it was done by the Finance Authority of Maine...it couldn’t be, you know, it couldn’t be a joke. Some of these ones you invest your money in, it just seems you wonder if anything’s going to happen with it—if it’s really going to go where it’s supposed to go.

She also conveyed that this sense of security was very important to her when opening the account:

...as far as just the savings and the return you get on it. I felt it was a pretty safe place for the money to be. That was pretty much my priority at the time when I opened [the account].

Tom found FAME's oversight of the plan manager to be a relief:

I think having the Finance Authority of Maine kind of overseeing the financial firms it's invested in is comforting, because I don't have the expertise to do that, and I have limited energy too.

In addition, Tom had previously invested in other mutual funds with Merrill Lynch, lost money, and seen his investments "eaten up in fees." As a result, the matching grants through NextGen provided him with the additional security that he needed to open an account, since they would help offset any potential investment loss the account might experience.

Jenna was also concerned about saving in NextGen, as she had never invested in a college fund. She was concerned about losing her money, but was reassured when she received her first account statement, which made her feel that "it's not as scary" to save this way and that she would not "lose all [of her family's] money in the first month."

Linda liked having online access to her account because she could verify that her automated deposits were being made. When asked what features about NextGen appealed to her, she responded:

...one of them...was [the] direct withdrawal from my checking account...and also the fact that you could access the account online to see, to make sure your deposits were going in—that they would let you know where your money was going, and you would get quarterly reports.

#### *Perception that investments are secure*

Two account owners expressed their perception that their savings are safer in NextGen than other investment alternatives. Linda believes that Merrill Lynch will be more careful with NextGen funds because they are for higher education:

I mean, if I tried to go out and invest it on my own, I'm sure I would make a mess. So having the money going into an account that's truly set aside for college education, the investment firm isn't going to be overly risky on investing.

Susan invested in the age-based fund, which she liked because her investments automatically shift to more conservative as the beneficiary ages and approaches college:

Because it was more aggressive when he was younger, and now as he's getting closer to college, it was more of a safe—they're going more for a less aggressive and more safe funds, more safe investments.

## **Additional Findings**

### *Savings goals*

Personal savings goals—such as saving a specific amount for a child's future—can motivate an account owner to continue saving. Five account owners said that their goal was to save enough in NextGen to pay for the first year of college. Most, like Tom, did not specify an exact savings amount:

It would be nice if we could pay for one year, but that [amount will] depend on what college they choose...it would be nice to at least do that.

Betsy believed that having savings for one year of college would help her child attend school and be motivated for the remaining three years:

My goal was that it would be nice to at least get them through their first year of school. I mean, I have a long way to go and I don't know if that will happen, but at least I figured if they had their first year under their belt, they would make an effort to continue the other three years, because now they've gotten that far and they'd want to continue.

Many account owners spoke about their savings goal as a broad hope for the account. For example, Susan wanted to save whatever she could in her NextGen account:

Well, I was hoping to save as much as I possibly could. I believe at the beginning—we don't have a lot of extra cash, we live week to week, we're not real affluent people—so I wanted to do as much as I possibly could, and, unfortunately, I haven't been able to reach the goal as much as I wanted to. But I did have high hopes to put as much in as I could.

Although unable to reach her original goal, Susan revised her expectations:

But next year I'm looking towards, hopefully, doing as much if not more, and just doing the best we can. I'd like to see the NextGen account, at least, maybe be able to cover his books and maybe a laptop, something like that, for college.

Many account owners hoped that even having a small amount in the account would make a difference for their children's future, like Betsy:

Well, I was hoping to set aside enough money for when my kids graduated from high school, that they would have at least something to move on to further their education,

whether it was a small amount—I was hoping it would be a decent amount anyway—but even if it was a small amount, that it would be something that they would have to go forward with their education.

She later continued:

I'm making progress, maybe not as quickly as I would like to or as much as I'd like to. But I'm getting there. At least I'm still contributing, so I'm still making progress.

For Cole, having funds in NextGen would let his children know that “there is at least some money there to go toward” higher education. As Tom said, any amount in his NextGen account provides funds for college that he would not have otherwise:

Well, I guess because of the cost of college, whatever money we can accumulate in this account...it's not going to pay for my child's full college education, but it's another little piece of the puzzle. Let's say [there's] \$10,000.00 in there. It's \$10,000.00 that we didn't have before.

### *Hopes for children*

Three account owners spoke about what they hoped would happen for their children in the future, as a result of knowing that funds are saved in NextGen. Nora would like for finances to not interfere with her daughter going to college:

I hope that when she knows that she's gonna have something to help her with that goal, that it won't feel so overwhelming for her to decide to go to college, for financial reasons.

Cole expressed similar thoughts when he said, “I think it would help my children to...choose colleges...knowing that there is at least some money there to go toward that.” He later said, “And it's much more likely that they will further their education because you have [the NextGen savings].”

Miriam talks about her NextGen savings with her children, with the hope that they will work even harder in school as a result:

...I try to say to my kids, “[NextGen] is what I'm doing for you. Why don't you do for me now? I'm doing for you saving. I'm a single mother raising kids. I need the money. But I'm struggling to show you guys I can do this...[So] why don't you work hard, go to college?...You can do it.”...So my pressure to the kids is, “I'm saving for college. You just bring the A's. Don't worry about where the money is coming from. When [it's] time for college, we'll work it out.”

### *Perceived effects on children*

Two account owners reported that they have already observed changes in their children as a result of having savings in NextGen. Susan said that her son developed more of a future orientation when he learned that she was saving regularly for his college expenses:

I thought it was very important for him to know that we had a college account opened for him and that college wasn't a question of "if" he was going to go—but just "when." And it did have that effect. I feel that once he heard that he had a college fund and we were contributing regularly to it, that it helped him think towards his future more.

She later said that her son has also worked harder to improve his grades as a result of her saving:

...we're not actually too well-off and knowing that we were saving for his college, again, made him think of his future and know that there were going to be funds there...I think it's helped him try harder in school, because he knows he has the goal to have good grades, so that he can get into the college of his choice.

Linda said her son sees the NextGen paperwork and is relieved to know that funds are set aside for his future:

I've asked him right along, "If anything, just give yourself two years of college." Some kids are all, "I'm going to college." Some, as they get closer, wimp out. But now having this account and having him actually see the paperwork with the dollar amounts in it, it's kind of a comfort for him. He knows that the money's there, and he doesn't have to worry about it, and he knows that it's going to go to waste if it's not used.

In contrast to other account owners, Greg said that having NextGen savings had no effect on his daughter's decision to go to college. She excelled in school and was already planning to attend college:

...[NextGen] would have made no difference in her decision to go to school. I mean, we're committed to sending her to college one way or another. You know, she was a very good student....I'm not going to not send her to college.

### **Discussion and Implications**

This report presents findings from interviews with 10 NextGen account owners who had previously participated in a telephone survey (for the first part of this two-part study). Although all 10 participants met the interview study criteria, they differ in some key ways. Household income in the 10 households ranges from less than \$20,000 to \$60,000. Four account owners head single-parent households; the others have at least two adults in the home. Beneficiaries are from 6 to 18 years old. Educational attainment varies from a high school diploma to an Associate's degree. In addition, some account owners seem to have more financial knowledge and awareness than others, as revealed through comments on prior investments and

understanding of NextGen investment options. Despite these differences, common themes emerge from the interviews.

Given the small sample size and study criteria, we cannot generalize findings to all account owners in the NextGen Matching Grant Program or other low-to-moderate income families. However, the interviews provide account owner perspectives on starting to save in a 529 savings plan, what attracted them to NextGen, what their saving experiences have been, and how they think owning the account has affected them and their account beneficiary.

## **Opening the Account**

Availability of the NextGen Matching Grant Program provides an opportunity for study participants to save for their children's higher education. Half of the account owners discussed how easy it was to enroll in NextGen.<sup>7</sup> Ease of enrollment may be a key factor in extending the reach of 529 savings plans among low-to-moderate income families.

Participant comments suggest that limited investment options may be related to enrollment. Although two account owners would personally prefer more investment and plan manager choice, one of them—along with two other account owners—indicated that limited investment selection may help participation because individuals can avoid complicated or risky decisions. Research on retirement savings also suggests that limited investment options can have positive effects on investment decisions (Agnew & Szykman, 2004).

Participants learned about NextGen from a variety of sources, and said they often heard multiple messages before opening an account. For example, one account owner heard about NextGen several times on television and from the newspaper, which made her think, “This might actually be a good thing.” For another account owner, the television advertisements were particularly effective and “enticing.”

Four individuals have an account in the Select Series portfolio, and three of the four people heard about the plan through FAME outreach. Attracted by NextGen marketing, these participants then opened accounts through financial advisors affiliated with local banking institutions. Six individuals have accounts in Direct Series portfolios, which are available from FAME, distribution agents such as banks, or the web. Distribution of NextGen through banks is somewhat unique among states offering 529 savings plans and might be further explored for its advantages and disadvantages for low-to-moderate income families.

Based on participant comments about why they opened NextGen accounts, marketing may be particularly effective for individuals who have articulated goals for the beneficiary's future education, such as participants in this study. These goals may be an important factor in the decision to open a 529. One account owner suggested that people need to already “have in their minds...furthering [their child's] education” in order to respond to marketing messages. There seems to be potential for NextGen to reach parents who do not necessarily anticipate that their children will pursue higher education. The accumulation of assets in a 529 savings plan may

---

<sup>7</sup> Among the other five account owners, one described the process as somewhat difficult. This may be due to a language barrier for this participant, as English is not her first language.



positively impact parental goals as well as children's plans for the future, just as savings and asset accumulation have a relationship with goals and educational outcomes in other research (Zhan & Sherraden, 2003).

### **NextGen Matching Grant Program Features**

Several program features appear to help participants save in NextGen. Over half of account owners said the matching grants were important in their decision to enroll,<sup>8</sup> and all made positive comments about these incentives. For example, some described matching grants as “the best part” of the plan; another said the grants “really increase the potential for [your account] to grow.”

Among this group of account owners, the matching grants have affected account owner saving in different ways. The grants attracted them to NextGen, helped them feel like they were making savings progress, or kept them saving when they otherwise might have stopped (e.g., due to financial strain or temporary dissatisfaction with plan performance). In addition, the match limit (\$200 in 2005) created a savings expectation for some account owners, who viewed the limit in terms of how much they must save to receive the maximum award.

Tax-free earnings are another incentive discussed favorably by account owners. Four people mentioned the attractiveness of NextGen's tax advantages, and one specifically noted that she hopes the U.S. Congress will renew the provision that earnings and withdrawals are exempt from federal income tax (set to expire December 31, 2010). Although 529 savings plans provide greater incentives to individuals with higher income and tax liability, this finding suggests that some low-to-moderate income families may be interested in these incentives as well. This may be related to the intensity of 529 savings plan marketing or the financial sophistication of the interview participants.

NextGen's Automated Funding Service (AFS) seemed to facilitate savings for the three account owners who use this feature. However, other participant comments revealed that they found the AFS minimum contribution requirements too high. Three account owners, who have more than one child and account, said they could not use the service because they would need to contribute at least \$50 per account each month. This suggests that NextGen may want to consider reducing the minimum AFS requirement. While NextGen's monthly minimum for automated deposits is \$50, the majority of other 529 savings plans have minimum requirements of \$15 to \$25 (Clancy et al., 2006; Clancy, Orszag & Sherraden, 2004).

Another issue for families with more than one child is how many accounts to open. These account owners have two options. They can open a single NextGen account and change the beneficiary as each child uses the savings for college, or they can open one NextGen account per child. Four account owners said they are saving for multiple children through NextGen and opened one account per child. One participant with two children said that he realized after opening the accounts that he could have opened just one that “served the same purpose as two.” States may want to explore special communication efforts and ways to facilitate saving for low-to-moderate income families who want to save equitably for multiple children.

---

<sup>8</sup> Of the remaining five people, two opened their accounts prior to the Matching Grant Program launch.

Three account owners liked the restrictions placed on NextGen savings. These participants seemed to appreciate that they could not easily withdraw funds and the savings were set aside specifically for education. This suggests that dedicated education saving is appealing to this group, and may indicate that using this in marketing strategies is effective.

Four account owners said that NextGen's affiliation with the State of Maine gave them confidence in the plan. Two of the four people specifically mentioned feeling assured about fees or investment options. The sense of security may counter the initial skepticism that some participants feel in matched savings programs run by community-based organizations, such as Individual Development Accounts (Sherraden et al., 2005). This finding suggests that states may have greater ability to attract and enroll participants because of the confidence that account owners may place in the state. In addition, since some account owners may trust that the state 529 savings plan offers funds and fees that are in the account owners' best interest, states may acknowledge this trust by ensuring that low-cost investment options are available to state residents.

### **Family Well-Being and Outlook**

Some account owners had personal savings goals; others expressed general hopes for saving in the account. Half said that they were aiming to save enough for their child's first year of college. It is unclear if these participants had an exact amount in mind. A common theme is that savings—in any amount—would be progress toward the child's future.

Although it may be too early to observe effects of NextGen on children, hopes and perceived effects were expressed by half of account owners. Three spoke about their hopes that their children will work harder in school or have an easier time deciding to pursue college. Two others described changes that they have observed in their children, including more orientation toward the future, increased effort in school, and “comfort” in knowing NextGen savings are set aside on their behalf.

### **Conclusion**

The 10 interviews shed light on the account owner experience in the NextGen Matching Grant Program. Although findings cannot be generalized, they help inform our understanding of 529 saving among account owners with low-to-moderate incomes. In addition, findings provide possible interpretations and areas of inquiry for state 529 administration, policy, and research.

The findings suggest that the NextGen account was easy to open, and the promise of matching grants convinced many interviewees to open an account and helped them to save. In addition, participants discussed hearing multiple messages before enrolling, the allure of tax-free earnings, automated deposits, and a sense of security derived from NextGen's affiliation with the State of Maine. Emphasis on these program features—by state 529 sponsors and policymakers—may expand the reach of 529 savings plans to more low-to-moderate income families.

This study also suggests that low-to-moderate income families perceive important benefits from and will save in 529 savings plans such as NextGen and its Matching Grant Program.

Reauthorization of the federal income tax-free provision for 529s could expand features that appear to be particularly relevant to this population, for example, by providing fiscal support for matching grant programs and requiring the availability of low-cost investment options for state-resident families (see also Clancy & Parrish, 2006).

Finally, future in-depth research with 529 savings plan participants can further illuminate who is saving, what factors help them save, and how they and their beneficiaries are affected by saving in 529 savings plans. Comparisons of participants in matching grant programs with other 529 account owners, and comparisons of 529 account owners with non-owners could yield additional insight into the 529 saving experience of families of all income levels, and how to better reach low-to-moderate income families in particular.

## References

- Agnew, J. & Szykman, L. R. (2004). *Asset allocation and information overload: the influence of information display, asset choice and investment experience* (Working Paper 2004-15). Boston: Boston College, Center for Retirement Research.
- Beverly, S. G. & Sherraden, M. (1999). Institutional determinants of saving: implications for low-income households and public policy. *Journal of Socio-Economics* 28, 457-473.
- Clancy, M., Han, C. K., Mason, L. R. & Sherraden, M. (2006). *Inclusion in college savings plans: participation and saving in Maine's Matching Grant Program* (CSD Research Report 06-03). St. Louis, MO: Center for Social Development.  
<http://gwbweb.wustl.edu/csd/Publications/2006/RP06-03.pdf>
- Clancy, M., Orszag, P. & Sherraden, M. (2004). *College savings plans: a platform for inclusive saving policy?* St. Louis, MO: Washington University, Center for Social Development.  
<http://gwbweb.wustl.edu/csd/Publications/2004/Perspective-529andInclusion.pdf>
- Clancy, M. & Parrish, L. (2006). *Improving the effectiveness of 529 college savings plans*. Washington, DC: New America Foundation.  
[http://www.assetbuilding.org/AssetBuilding/Download\\_Docs/Doc\\_File\\_1443\\_1.pdf](http://www.assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_1443_1.pdf)
- Sherraden, M. & Barr, M.S. (2005). Institutions and inclusion in saving policy. In N. Retsinas & E. Belsky, eds., *Building Assets, Building Credit: Creating Wealth in Low-Income Communities*. Washington: Brookings Institution Press.
- Sherraden, M., McBride, A. M., Johnson, E., Hanson, S., Ssewamala, F. M. & Shanks, T. R. (2005). *Saving in low-income households: evidence from interviews with participants in the American Dream Demonstration*. St. Louis, MO: Washington University, Center for Social Development.  
<http://gwbweb.wustl.edu/csd/Publications/2005/IDIPResearchReport2005.pdf>
- Sherraden, M., Schreiner, M. & Beverly, S. (2003). Income, institutions, and saving performance in individual development accounts. *Economic Development Quarterly*, 17(1), 95-112.
- Zhan, M. & Sherraden, M. (2003). Assets, expectations, and children's educational achievement in female-headed households. *Social Service Review*, 77(2), 191-211.

## Appendix A

### Guide for Qualitative Interviews with NextGen Matching Grant Participants

#### Introduction – Off Tape

##### Personal Introductions

- Build rapport
- Explanation of interview
- How the interview will be used
- Length of interview

##### Consent Form

- Confidentiality explanation
- Fee arrangement
- Request that you be allowed to tape the interview, and explain why
- If approved, turn on tape recorder and state the date before continuing

##### Questions and Process

- Encourage respondent to ask questions about the interviewer, the project, or anything else
- Reinforce respondent's control of the interview. Reiterate that they can stop the tape recorder or interview at any time
- Encourage respondents to tell their own story(s).

#### Interview Questions

##### Information Source

1. Can you tell me how you learned about the NextGen 529 plan? What sort of information do you remember seeing, hearing or getting? Do you recall anything else? (In brochures? In flyers? On a website?)

##### *Probe/Explore:*

- What piqued your interest? What about the (tv commercial, flyer, newspaper article, etc.) stood out in your mind?
- Explore content of the information
- Did you talk with anyone about NextGen before you opened the account? If so, who? What did they say?

##### Decision to open / Opening the account

2. In the end, what do you think convinced you to open an account? In other words, what got you to send in the application and make that first deposit?

*Probe/Explore:*

- Were there particular features that appealed to you? Why did they appeal to you? Anything else?
  - Did you hesitate before you signed up? [If yes] Can you tell me what you were thinking? Why you hesitated?
3. Can you describe to me how you actually signed up? What did you do? Where you got the materials? Who you talked to?

*Probe/Explore:*

- Were there any difficulties? Was it easy?
- Can you tell me about applying for the matching grant? How did you get the forms? Was it easy or hard? How so?

**Goals**

4. Thinking back to when you opened the account, can you talk about your goals: What were you hoping to get out of your NextGen account?

*Probe/Explore:*

- Did you think that this plan would make a difference in [beneficiary] continuing her/his education? Why or why not?
  - What does (beneficiary) think about having a NextGen account?
  - Has the plan changed (beneficiary's) education plans in any way?
5. Before joining NextGen, had you ever contributed to a 401k, IRA, mutual fund, or made any other financial investments? [PAUSE] **If yes:** How does NextGen compare to your other investments? In what ways is NextGen better? In what ways is NextGen not as good? [Note: Possible ways include ease of opening, information/communication, customer service, costs/fees.]

*Probe/Explore:*

- Let me put it another way, why did you choose NextGen and not something else? [Note: Other education savings products.]

**Plan Features / Operations**

6. How long have you had a NextGen account? Has anyone asked you about the NextGen plan? Skip next question if no one has asked: What did you tell them?

Let's say that one of your friends or a relative might be interested in NextGen. How would you describe the plan to them? What do you think are the most important things about the plan?

*Probe/Explore:*

- What things do you think could be helpful – or not helpful – to them? Have they been helpful or unhelpful to you?
- What have you learned about NextGen that you might not have known when you first opened the account?
- Do you recommend the plan to other people? Why or why not? **If they have never had the opportunity to recommend the plan:** Would you recommend the plan to friends or family? Why or why not?

## **Saving Strategies**

7. When you began, how much did you hope to save in the NextGen account?

*Probe/Explore:*

- **If no saving goal, then skip.** Have you been able to save that much? More? Less?
- What has helped you to save? What has kept you from saving? In other words, you said that you have been able/haven't been able to save as much as you wanted. What are the things that have helped/prevented you to/from saving that much?
- What do you think might help you to be able to save more? Is there anything that you, others, or the plan could do to help you save?
- Do you plan to continue to save in the NextGen 529 plan? [PAUSE] Why or why not?

## **Outcomes**

8. Let's think about where you are now compared to what you hoped you'd get out of this plan. Do you feel like you have reached your goals or are making progress? In what ways yes? In what ways no? [*Note: Reflect back on the individual's goals as stated earlier, especially child's intention to attend school beyond high school. Is the participant meeting them?*]

*Probe/Explore:*

- Is the plan going the way you expected it would?
  - **If yes:** How has the plan met your expectations?
  - **If no:** How has the plan not met your expectations? What sorts of things have gotten in the way of the plan meeting your expectations?

**Appendix B**  
**Select Individual and Account Characteristics by Participant**

<b>Pseudonym</b>	<b>Household Type</b>	<b>Age of Beneficiary</b>	<b>Educational Attainment</b>	<b>Household Income</b>	<b>Year Account Opened</b>	<b>Portfolio Type</b>	<b>AFS Use</b>
Betsy	One adult, three children	6	Vocational/technical program after high school (no diploma)	Less than \$20,000	2001	Direct	No
Nora	Two adults, two children	9	High school diploma	Less than \$20,000	2003	Select	No
Miriam	One adult, two children	13	High school diploma	Less than \$20,000	2004	Direct	No
Amy	One adult, one child	16	Associate degree	\$20,000 to \$29,999	2003	Select	Yes
Tom	Two adults, two children	9	Associate degree	\$40,000 to \$49,999	2004	Direct	No
Cole	Two adults, two children	6	Vocational/technical program after high school (no diploma)	\$50,000 to \$59,999	2002	Direct	Yes
Jenna	Two adults, three children	12	Associate degree	\$50,000 to \$59,999	2004	Direct	No
Linda	One adult, one child	17	Associate degree	\$50,000 to \$59,999	2002	Select	Yes
Susan	Two adults, one child	17	Some college (no degree)	\$50,000 to \$59,999	2002	Select	No
Greg	Three adults	18	Some college (no degree)	\$50,000 to \$59,999	2000	Direct	No







Center for Social Development  
George Warren Brown School of Social Work  
Washington University in St. Louis  
<http://gwbweb.wustl.edu/csd/>