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GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

# POLICY BRIEF

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## Streamlined Enrollment and Default Investment: Innovations in Alaska's College Savings Plan

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### Introduction

Savings plans—including 401(k) retirement savings plans and college savings plans—are an excellent idea for increasing long-term saving. But if savings plans are to reach a broad population, potential participants may sometimes need a little help.

As originally conceived, savings plans are directed by participants, who make savings and investment choices for themselves. Unfortunately, many people postpone financial decisions when confronted with forms to fill out and/or multiple financial arrangements and investment choices. Inertia and indecision can impede or discourage saving for a long-term goal, and many people lack the necessary financial skills to make prudent investment choices (Benartzi & Thaler, 2007; Choi, et al., 2002).

As a result, too few eligible workers participate in 401(k)s, and those that do are sometimes not saving enough or are making poor investment decisions (Combs & Lacy, 2007). To address these concerns, Congress incorporated several 401(k) provisions in the Pension Protection Act of 2006. In late 2007, the Department of Labor (DOL) issued final regulations to provide guidance to employers who offer a “default” investment in their 401(k) plans. The DOL now identifies qualified default investments as diversified portfolios, typically life-cycle, target-date, or balanced

funds for use by 401(k) plan sponsors whose employees do not wish to choose from a selection of investment options (Default Investment Alternatives under Participant Directed Individual Account Plans, 2007).

In a similar fashion, default investments in college savings plans could play a major role in facilitating savings for post-secondary education. Created by states over two decades ago, college savings plans, oftentimes referred to as 529 plans or simply 529s, were authorized in 1996 by Internal Revenue Code 529. Contributions to state 529 plans grow tax-free for future higher education expenses—including tuition, fees, books, supplies, and equipment—at community colleges, universities, vocational schools, or other post-secondary educational institutions. 529 plans offer a variety of investment options, including equity, bond, principal preservation, and age-based or enrollment-based<sup>1</sup> funds.

The Obama Administration has focused renewed attention on 529s as part of its effort to help more families save for higher education. In a recent White House Task Force report, the administration recognizes the potential of 529 plans to reach more moderate-income households. The report offers recommendations that states might consider “to make 529 plans more attractive, effective and reliable for middle class families, and those who aspire to join the middle class through college attendance” (Department of the



Washington University in St. Louis

Treasury, 2009, p. 4).

As 529s have gained in popularity and matured over the years, states have developed a number of innovations to facilitate access to and participation in 529s (Clancy & Sherraden, 2003; Clancy, Cramer, & Parrish, 2005; Clancy, Mason, & Lo, 2008; Clancy & Miller, 2009). As an important addition to this larger body of state 529 research, this paper examines innovations in streamlined enrollment, pre-selected investment, and default investment in Alaska’s college savings plan.

## Background: Streamlined College Savings Plan Enrollment

The Alaska College Savings Act allows state residents to enroll in the University of Alaska (UA) College Savings Plan (the State’s 529)<sup>2</sup> as part of their Alaska Permanent Fund Dividend (PFD) application (Alaska Permanent Fund Corporation, n.d.). Funded by Alaska oil revenues since the 1980s, the PFD is viewed as a convenient saving source for the state’s post-secondary education savings plan (Alaska Department of Revenue, n.d., *2008 annual report*). While other states are not so fortunate to have a PFD, the Alaska example and lessons learned from their experience can potentially apply to any flow of income to households, including salaries and wages, tax refunds, and any form of rebate or payment to the public. We review the Alaska 529 plan with these larger applications in mind.

Starting in 1991,<sup>3</sup> residents were given the opportunity to allocate 50% of their PFD to the UA College Savings Plan, by checking a box on their PFD application and then submitting a lengthy enrollment form mailed to them following this

decision to save. Under these conditions, the majority of residents who checked the box did not complete a UA College Savings Plan account agreement. Consequently, millions of dollars that had been designated for the UA College Savings Plan were not in fact invested in individual accounts. UA Plan employees attempted to secure the completed enrollment forms by sending additional forms, followed by reminder postcards, but response to these additional measures was limited.<sup>4</sup>

To remedy this problem, Alaska overhauled the UA College Savings Plan enrollment process via the PFD application and developed a number of innovations to simplify enrollment. Most importantly, Alaska eliminated the requirement that PFD applicants complete a separate application to enroll in the UA College Savings Plan. This streamlined process started in 1997. As a result, Alaska residents can now open a UA College Savings Plan account simply by checking a box on the PFD application (Appendix A) with no requirement to complete a lengthy form.

Alaska residents may still open a UA College Savings Plan account through a more typical 529 enrollment process separate from the annual PFD application. Unlike the simple check-off box option on the PFD application, the separate eight-page UA College Savings Plan enrollment form is more complicated and resembles the typical multi-step process of most state 529 plans.<sup>5</sup>

Enrollment steps in a typical 529 plan are as follows: (1) contact state 529 plan representative for an enrollment kit or secure an online application; (2) select an account type; (3) enter information about the account holder; (4) complete information about the beneficiary; (5) enter information on successor; (6) select an investment

**Table 1. Enrollment Steps to Open a University of Alaska College Savings Plan Account**

Typical Multi-Step Enrollment	Permanent Fund Dividend (PFD) Streamlined Enrollment
» Call, or write to access enrollment kit (or apply online)	» Check box on PFD application
» Select account type	» Sign or use eSignature on PFD application
» Complete information on account holder	» Mail or submit online PFD application
» Enter information on beneficiary	
» Complete information on successor	
» Select investment option(s)	
» Choose initial contribution method	
» Sign and agree to terms & conditions	
» Mail application or submit online	

option(s); (7) select contribution method; (8) sign and agree to terms and conditions; and finally, (9) mail or submit online the completed application. Table 1 compares Alaska’s typical 529 enrollment procedure with the current streamlined enrollment via the PFD application, which requires far fewer steps.

Alaska residents receive information about the UA College Savings Plan with their annual PFD application.<sup>6</sup> Once they enroll via the PFD application, residents receive a notice confirming

their decision to deposit half of their PFD payment into the UA College Savings Plan and defining the terms. Residents also receive confirmation when their PFD funds are invested in their UA College Savings Plan accounts.

Table 2 provides more details on the actions, choices, and information required of enrollees under the typical multi-step enrollment process and contrasts these with automatic determinations made by the UA plan on behalf of the PFD applicant using the streamlined process.

**Table 2. Comparison of Typical Multi-Step 529 Enrollment with Streamlined Permanent Fund Dividend (PFD) Enrollment**

Enrollment Features	Typical 529 Enrollment: Information Required	Streamlined 529 Enrollment with the PFD: Automatic Determinations*
Account Type	Individual, custodial, UGMA/UTMA-funded, or trust account (or other entity)	Individual, custodial
Account Holder	Adult (age 18 or older), minor (custodial), (UGMA/UTMA-funded account), trust, or corporation or other entity	PFD applicant
Account Holder Information	Name, Social Security number, birth date citizenship, street, mailing addresses	PFD applicant
Beneficiary Information	Name, Social Security number, birth date, citizenship, address	PFD applicant
Custodian Information	Name, Social Security number, birth date, citizenship, address, and phone numbers <i>(Required in specific cases)</i>	If the applicant is a minor, the PFD sponsor is set up as the custodian.**
Successor Information	Name, Social Security number, birth date, citizenship (optional)	
Investment	Investment options: *** » Enrollment-Based Portfolios » Total Equity Market Index » Equity » Fixed Income » Balanced » Money Market » ACT Portfolio	ACT Portfolio
Initial Contribution Method	Check or money order; direct rollover from another 529 account; indirect rollover from Coverdell education savings account, qualified US savings bonds, or another 529 plan within the last month; payroll deduction or automatic withdrawal	50% of PFD payment

\* The UA College Savings Plan makes these automatic determinations on behalf of the PFD applicant.

\*\* The PFD sponsor is typically the child’s natural or legally adoptive parent or adult relative.

\*\*\* The UA College Savings Plan offers three different investment approaches: Enrollment-Based Portfolios (eight different investment choices based on the year that the beneficiary is expected to start college); Static Portfolios (Total Equity Market Index, Equity, Fixed-Income, Balanced, and Money Market); and the ACT Portfolio.

## Innovative Features to Simplify Enrollment and Investment Selection

Alaska's streamlined 529 enrollment via the PFD application includes a number of features that simplify the process of opening a UA College Savings Plan account.

### Check box enrollment with automatic determinations

Once the box is checked on the PFD, the applicant is determined to be the account holder and is automatically named the beneficiary. Under typical enrollment, the account holder is required to name a beneficiary and provide personal information (Table 2). PFD enrollees are allowed to subsequently change the beneficiary to a different individual other than the account holder. Account holders have 90 days to apply for a refund of the entire contribution, or make changes to the automatic determinations such as their account registration or investment selection (The University of Alaska College Savings Plan, n.d.).

### Shared information across state agencies

Enrollment via the PFD application is also simplified by the practice of sharing information across state agencies. By signing the PFD, applicants allow the release of certain information. The PFD application states: "I authorize the Alaska Department of Revenue to obtain confidential information necessary to verify my eligibility. I authorize the release of confidential records necessary to verify my eligibility from any public agency including the Social Security Administration; Internal Revenue Service; Alaska Department of Health and Social Services, Division of Public Assistance and Office of Children's Services" (Appendix A). Thus, personal information, such as name, Social Security number, and address are secured through the PFD Division of the Alaska Department of Revenue, per enabling legislation that allows this information sharing.

### Implied consent to terms and conditions

Under streamlined enrollment via the PFD application, a resident's signature on the application effectively serves as consent to the "terms and conditions" of the UA College Savings

Plan, eliminating the need to sign a separate account agreement. The PFD application refers to the statement in the UA College Savings Plan PFD application booklet that states: "I understand that I am applying for an Account under the Plan and consent and agree to all the terms and conditions of the Plan Disclosure Document, the Declaration of Trust for the Education Trust of Alaska, and the UA College Savings Plan, which are all expressly incorporated by reference herein. I acknowledge and agree that the referenced documents will govern all aspects of my participation in the Plan" (See Appendix B for complete terms and conditions).

### Pre-selected investment

Alaska's pre-selected investment is another practice that simplifies enrollment for the new account holder. Enrollees in the UA College Savings Plan via the PFD application do not have to select any particular investment. Contributions made with PFD funds are directed into a single investment instrument called the ACT Portfolio, a balanced portfolio consisting of approximately 40% stocks and 60% fixed-income investments.<sup>7</sup> The return on a contribution to the ACT Portfolio is guaranteed to keep pace with tuition increases at the University of Alaska, when used for tuition at UA, but can be used at any eligible school.

### Default investment

Alaska residents who open a 529 plan via the typical, multi-step enrollment process through the UA College Savings Plan are presented with the investment choices identified in Table 2. Applicants may select one option or a combination of investment options. Or, applicants may choose not to select an investment, in which case their contributions are defaulted into an enrollment-based portfolio (Appendix C). The enrollment-based portfolio contains a mix of stocks, bonds, and money market funds allocated according to when the beneficiary is expected to enter college. Default investments in 529s could greatly simplify the enrollment process in much the same way that they function in 401(k) plans.

A distinct benefit of both the pre-selected investment and default investment is that there is no need to select from a potentially confusing array of investment choices, typical of other 529 college savings plans. UA College Savings Plan enrollees may be less apt to get confused, sidetracked, and possibly delay or terminate the plan enrollment process altogether.

## Automation and online capability

Alaska uses a number of progressive technology features to automate and simplify both the annual PFD application and the UA College Savings Plan enrollment and ongoing administration. These technology features include:

- » Online PFD application with the ability to check application status
- » Online access to UA College Savings Plan accounts with ability to make changes online (e.g., change of address or phone number)
- » Customer service via email for PFD Division and UA College Savings Plan
- » Contribution to UA College Savings Plan via automatic deduction from checking account
- » eSignature online option allows 529 enrollees to “sign” electronically. Once an individual sets up their myAlaska account, they can complete their PFD application online.<sup>8</sup>
- » Electronic data sharing between the State Department of Revenue and the UA College Savings Plan
- » Electronic wiring of contributions from the State Department of Revenue and the UA College Savings Plan

The innovative features that simplify the 529 UA College Savings Plan enrollment and investment selection are listed in Table 3 below.

**Table 3. Innovations to Simplify 529 Enrollment, Investment, and Administration**

Innovative Features
» Check-box enrollment with automatic determinations
» Shared information across state agencies
» Implied consent to terms and conditions
» Pre-selected investment
» Default investment
» Automation and online capability

## Participation in Streamlined Enrollment

Since the check box feature was introduced in 1991 and other streamlined features were added over the years, 19,198 Alaskan residents have chosen to contribute half of their dividend to college savings through their PFD application. Streamlined 529 enrollment has helped enable Alaska residents to deposit over \$64 million dollars into the UA College Savings Plan.<sup>9</sup>

Overall, Alaska 529 customers are more educated, wealthier participants compared to the average Alaska state resident.<sup>10</sup> Approximately 45% of participants in the UA College Savings Plan have not completed college, and about 62% of adult state residents are not college graduates. About 56% of all UA Plan participants earn a household income of \$75,000 or more, whereas 42% of Alaska residents are in that same income category. About 18% of plan participants earn \$34,000 or less, compared to about 26% of state residents (Merkle, 2009). As with most college savings plans, participants are primarily middle-to-high-income families, perhaps because the tax benefits of 529s provide larger incentives to those with higher incomes (Clancy, et al., 2009; Department of the Treasury, 2009).

## Conclusions & Policy Directions

At this time, only a few states such as Alaska and Utah<sup>11</sup> offer a default investment to all 529 plan participants in their states. Default investment and other streamlined plan features could play a far more important role in facilitating and encouraging savings for post-secondary education. Innovations could include:

- **Default investments with federal clarification.** Federal and state governments can play a critical role in expanding college savings by making it easier to enroll in and participate in 529 savings plans. But some 529 innovations may require federal clarification to avoid potential complications. For example, states do not provide investment advice and may be reluctant to select an investment default because of liability concerns. If the federal government were to issue guidelines on 529 default investments, much the same way the Department of Labor issued regulations regarding default investments within 401(k) plans, more states might be emboldened to create 529 default investments.

- **Opportunity to save.** The check-off option on the PFD application invites Alaska residents to take advantage of this opportunity to save for college or another post-secondary educational institution. In this way, the annual PFD application, as well as the actual process of enrolling and/or contributing to the UA College Savings Plan, perhaps makes the goal of higher education more real and attainable. Some state tax forms allow contributions to existing 529 accounts, but individuals cannot enroll in a 529 plan via state tax forms. Streamlining 529 enrollment by allowing individuals to open 529 plan accounts on their state tax forms could increase plan participation (Huelsman & Clancy, 2009). Or, states might consider applying this streamlined approach to other cash flows, including rebates or other payments to the public.

- **Affordable contribution levels.** For 529s to reach out to a large, diverse group, it is important to provide an opportunity to open the plan with a low minimum deposit requirement (Clancy, Orszag, & Sherraden, 2004). Nationwide, the median lump-sum minimum initial required contribution for college savings plans is \$25 (Clancy & Sherraden, 2008). Utah and Nebraska require no minimum initial contribution. The minimum deposit to open a UA College Savings Plan account is \$250.

For those Alaska residents that enroll in the UA College Savings plan via the PFD, the dividend represents their initial plan contribution (half of the 2009 dividend was \$652.50). But for many Alaskan residents, especially lower-income families, the dividend is a critical household budget item. Allocating half of their PFD to college savings may seem impossible. Therefore, to make the UA College Savings Plan more inclusive, it may be useful to lower the PFD required percentage, or offer tiered deposit options, for example, 25% and 50%. If the deposit percentage were lowered across the board, more Alaska families might participate in the UA College Savings Plan via the PFD application.

- **Bundling innovations.** Enrollment in the UA College Savings Plan via the PFD application shows the potential synergistic benefits that come from bundling a number of 529 innovations to facilitate access and streamline enrollment. States could explore such innovations as immediate sign-up by checking off the box and automatic investment in a pre-selected fund to facilitate saving. Automatic enrollment in 401(k) retirement plans

boosts participation and has been found to be particularly effective in increasing the enrollment of low-income and minority workers. Research is needed to determine whether specific streamlined enrollment features and other innovations of the UA College Savings Plan increase 529 plan participation for low- and middle-income families.

- **Creative partnerships.** Although the oil dividend is unique to Alaska, opportunities exist for bundling 529 plans with other flows of funds to promote participation in college savings plans. For example, some states including California, Louisiana, and Virginia have formed partnerships with state Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) to establish 529 savings plans accounts for post-secondary education for thousands of students from lower-income families (Clancy & Miller, 2009). States may discover similar opportunities to gain leverage with 529s through other financial mechanisms.

- **Child Development Accounts.** Universal Child Development Accounts (CDAs) automatically opened at birth and targeted specifically to savings for post-secondary education are another approach to increase participation in state college savings plans. For example, SEED for Oklahoma Kids (SEED OK), a large-scale study of universal CDAs, examines the impacts of automatically opening state-owned 529 savings plan accounts for 1,360 randomly-selected babies born in the state. Oklahoma College Savings Plan (OCSP) accounts are seeded with an initial \$1,000 deposit. Matching grants are available to low- and moderate-income households that open and save in their own OCSP accounts (Sherraden & Clancy, 2008).

The Maine-based Harold Alfond Scholarship Foundation offers \$500 to all Maine newborns to open 529 accounts. Enrollment in the 529 Maine NextGen plan is not automatic. Maine parents have up to a year to complete an application and enroll their infants in the college savings plan. This program is fully examined in a forthcoming policy paper (Lassar & Clancy).

The 529 innovations examined in this paper—streamlined enrollment features, pre-selected investment, and default investment—are intended to increase access to 529s and create opportunities for more individuals, especially low- and middle-income families to save for college. Emerging evidence suggests that savings and household

assets—even small amounts—are associated with positive differences in children’s lives (Sherraden, 2009). Financial assets are positively associated with college completion, and with the educational expectations of parents and children (Zhan & Sherraden, 2009). Thus, savings may play an important role in post-secondary education success. Policy improvements to 529 plans can ensure that states reach those who need college savings the most.

## Endnotes

1. As the beneficiary approaches college enrollment, the investment mix adjusts over time and becomes increasingly conservative.
2. View information about the UA College Savings Plan at <http://www.uacollegesavings.com/public/ua529>.
3. The UA College Savings Plan was operating before Congress authorized 529 college savings plans with federal tax advantages for post-secondary education savings.
4. During the years that the UA College Savings Plan account enrollment form was required to be completed, staff estimate that approximately 40% of those PFD applicants who checked the box to save part of their PFD returned the 529 plan account agreement. In other words, more than half who checked the box to save in the 529 plan did not end up doing so under these conditions.
5. View the UA College Savings Plan account agreement at <http://www.troweprice.com/gcFiles/pdf/uaOpenAnAccForm.pdf?t=lgy>.
6. The 2008 UA College Savings Plan PFD booklet can be found at <http://www.pfd.state.ak.us/forms/2008Forms/2008CollegeSavingsPlanBooklet.pdf>.
7. The ACT portfolio has no annual account or program management fees.
8. Alaska residents can also complete their UA College Savings Plan account enrollment online.
9. Unfortunately, demographic data available at this time does not separate those participants that enrolled in Alaska’s UA College Savings Plan via their PFD applications from all other 529 plan participants.
10. An in-depth profile of Alaska 529 customers as of 2008 was indexed to the Alaskan resident population to provide insights regarding economic profile, behaviors, and demographic characteristics.
11. If an applicant to the Utah Educational Savings Plan does not select an investment, the funds are automatically invested in the FDIC-insured Savings option.

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## Appendix B: Terms and Conditions for UA College Savings Plan PFD Applicants

**Terms and Conditions:** I understand that I will be sent an Account Agreement and a Plan Disclosure Document after filing my PFD application. In the event I do not complete an Account Agreement, I agree that my completed Alaska Permanent Dividend Fund Application, indicating my positive election to deposit 50% of my PFD into the UA College Savings Plan, and the confirmation notice will constitute an Account Agreement, and my contribution will be invested in the ACT Portfolio. I understand that I am applying for an Account under the Plan and consent and agree to all the terms and conditions of the Plan Disclosure Document, the Declaration of Trust for the Education Trust of Alaska, and the UA College Savings Plan, which are all expressly incorporated by reference herein. I acknowledge and agree that the referenced document will govern all aspects of my participation in the Plan. I understand that I may obtain copies of all documents referenced above by calling a customer service representative at 800-478-0003. I further acknowledge this Agreement shall be construed, governed, and interpreted in accordance with the laws of the State of Alaska.

Source: Alaska Permanent Fund Dividend 2009 Application Booklet provided to authors by the UA College Savings Plan.

# Appendix C: Default Investment Option on UA College Savings Plan Enrollment Form

## STEP 6 Choose Your Portfolio(s)

The Plan offers three different investment approaches. Select from Portfolio options A, B, or C, or select a combination. If you do not select a Portfolio, an Enrollment-Based Portfolio will be chosen for you based on the Beneficiary's age and expected college entry date.

- The minimum initial contribution is \$250 per Portfolio/Account unless you invest at least \$50 per Portfolio through regular monthly payments (Automatic Asset Builder or payroll deductions), the Alaska PFD program, or a Direct Rollover.

### A Enrollment-Based Portfolios

Assets are invested in a mix of stocks, bonds, and money market funds allocated according to when the Beneficiary is expected to enter college. As the Beneficiary approaches college enrollment, the investment will move to an increasingly conservative allocation.

<input type="checkbox"/> Portfolio for College	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2012	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2015	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2018	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2021	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2024	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2027	\$	<input type="text"/>	
<input type="checkbox"/> Portfolio 2030	\$	<input type="text"/>	

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### B Static Portfolios

The allocations of these Portfolios remain fixed within a specific range.

<input type="checkbox"/> Total Equity Market Index (Stock index fund)	\$	<input type="text"/>	
<input type="checkbox"/> Equity (Primarily stock funds)	\$	<input type="text"/>	
<input type="checkbox"/> Fixed-Income (Primarily bond funds)	\$	<input type="text"/>	
<input type="checkbox"/> Balanced (Approximately 60% stock funds and 40% fixed-income funds)	\$	<input type="text"/>	
<input type="checkbox"/> Money Market	\$	<input type="text"/>	

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### C ACT Portfolio

The return on a contribution to the ACT Portfolio is guaranteed to keep pace with tuition increases at the University of Alaska under certain conditions but can be used at any eligible school.

<input type="checkbox"/> ACT Portfolio (Approximately 40% stock funds and 60% fixed-income funds)	\$	<input type="text"/>	
<b>TOTAL INVESTMENT</b>	\$	<input type="text" value="0.00"/>	

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- TOTAL INVESTMENT**  
Add up amounts in A, B, and C.

Source: UA College Savings Plan account agreement. Retrieved from <http://www.troweprice.com/gcFiles/pdf/uaOpenAnAccForm.pdf?t=lgy>

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