Research Report

The Potential for Inclusion in 529 Savings Plans: Report on a Survey of States

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Center for Social Development

Washington
WASHINGTON · UNIVERSITY · IN · ST · LOUIS
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The best applications of asset building may be with children and youth. There are several reasons for this: (1) A key test of an asset-based policy is whether the next generation is better off (Oliver & Shapiro, 1995); (2) public policy should seek to give everyone an even chance in life (Haveman, 1988); (3) lessons learned early in life are often more effective, and young people have more years for saving and asset building to affect their lives (Sherraden, 1991); and (4) children and youth strategy may be the best pathway to a large and inclusive asset-building policy for the whole population (Goldberg, forthcoming).

The emphasis in studying asset-building policy at the Center for Social Development (CSD) has been on inclusion of the whole population. The initial proposal for individual development accounts (IDAs)[1] was for a lifelong, universal, progressive policy beginning at birth (Sherraden, 1991). To date, IDAs have been implemented primarily as short-term small-scale demonstration programs for low-income individuals. This has been a necessary step to show that asset-building strategies for the poor can be effective. However, CSD continues to look for opportunities to take asset-based policy "to scale."

The most desirable outcome will be a large, simple, low-cost asset building policy, that may sometimes be complemented by services at the local level (Sherraden, 2000). To get to permanency and scale, we do not necessarily have to create an entirely new policy from scratch.

College savings plans or 529s, named after the Internal Revenue Code section, are designed so individuals can make after-tax deposits for future higher education expenses (tuition, fees, books, supplies, and equipment) at colleges, universities, vocational schools, or other post-secondary educational institutions. Typically administered by state Treasury Departments, 49 states and the District of Columbia now have 529 savings plans in operation.

Though unique to each state, 529 savings plans may offer substantial tax benefits: (1) earnings on college savings plan withdrawals are free from federal income taxes;[2] (2) most plans feature state tax-free withdrawals; (3) many plans offer annual state tax deductions; and (4) high-wealth individuals can to contribute up to $55,000 per beneficiary in a single year without federal gift-tax implications.[3]

Given that tax incentives offer greater benefits to people in higher tax brackets, brokers and tax planners market intensively to high-wealth individuals. Indeed, much media attention focuses on tax benefits or state total assets and fund performance rankings. College savings plan success is often measured in numbers of accounts or total dollars invested (Jennings & Olivas, 2000).

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[1] IDAs are matched savings, to be used for home ownership, education, small business capitalization, or other development purposes.

[2] Although formerly taxed at distribution, the Economic Growth and Tax Relief Reconciliation Act of 2001 excluded college savings plan earnings from federal taxes effective in 2002. If not renewed, this federal tax provision is scheduled to terminate on December 31, 2010.

[3] Spread over a five-year period, a $55,000 contribution can exceed the maximum exemption of $11,000 per person per year if no contributions are made in the next four years. Married couples can contribute up to $110,000 per person in a single year.

Total 529 savings plan asset values and numbers of participants are growing rapidly. Tax law changes have made these plans more attractive, and significant growth is predicted for the future. At the end of 2000, total 529 savings assets were approximately $2.5 billion. By year end 2002, assets had grown to 19.2 billion and are estimated to reach $85 billion by 2006. The number of 529 savings plan accounts more than doubled during 2002, from 1.5 million to 3.7 million by year end (Dow, 2003).

Using the 2001 Survey of Consumer Finances data (collected prior to the widespread expansion of 529 savings plans), one study (Dynarski, 2003b) finds investors in 529 plans or Coverdell Education Savings Accounts have substantial savings in other vehicles and represent a relatively elite group.[4]

Who is *not* benefiting from state 529 savings plans? Lower-income earners, since they have little or no tax liability, cannot receive a tax benefit. Furthermore, low to moderate income families do not have significant wealth to transfer savings balances into 529 savings plans, which means less opportunity for tax-free accumulation. In this regard, 529 savings plans are much like 401(k) plans and IRAs; all asset accounts policies that offer tax benefits are highly regressive, i.e., those with higher incomes receive most of the financial benefits.

Can 529 savings plans be adapted to become an inclusive policy that serves the poor as well as the non-poor? This potential exists because 529 savings plans have the following characteristics: (1) accounting functions are carried out in a centralized system with a single provider; (2) there are usually only a few, simple investment options; (3) large and small value accounts are held in the same system, so that small, unprofitable accounts might be supported; and (4) there is state government control, which enables states to require inclusive features.

To be sure, 529 savings plans as they are would not be a perfect policy. For example, a large, inclusive asset-building policy would ideally be used for more than educational purposes. However, at this stage of policy development, the accumulation structure is far more important than uses of assets in the future. Uses are subject to policy change. In our view, 529 savings plans are a promising platform on which to build a future policy.

PERSPECTIVE

Based on empirical work on IDAs at CSD, an emerging institutional savings perspective suggests that factors other than individual income level and preferences may influence saving performance. “Asset accumulations are primarily the result of institutionalized mechanisms involving explicit connections, rules, incentives, and subsidies” (Sherraden, 1991, p. 116). From this perspective, small savings by low-income people might be explained in part by limited institutional saving opportunities (Sherraden, Schreiner & Beverly, 2003).

Beverly and Sherraden (1999) identify four institutional constructs that may affect saving performance: (1) access, (2) information, (3) incentives, and (4) facilitation. In 529 savings plans, federal legislation authorizes states to set up programs, providing access for potential

[4] Dynarski notes that these “early adapters” may differ systematically from those who may join education savings programs in the future.

participants. States typically select a professional money manager, such as TIAA-CREF or Fidelity Investments to act as program manager and to provide a centralized accounting system offering a choice of investment options. There is variation in the degree to which a state or its program manager markets the plan and provides information to potential participants. These differences are based on negotiations between the two parties and the state's level of interest in reaching a broad base of state-resident participants. Incentives generally come in the form of the above-mentioned tax benefits, but some states offer financial incentives to encourage participation by low to moderate income state residents. Facilitation of initial plan participation and subsequent deposits occurs through features such as low minimum deposit requirements, on-line enrollment, electronic funds transfer, and payroll deduction options.

SURVEY

A survey (see Appendix A) was designed to gather information about who is being served in 529 savings plans; to identify inclusive 529 savings plan features; and to determine state perceptions of possibilities for inclusion. By inclusion we mean bringing in the whole population, especially people of low income. This report highlights state innovations for inclusion, such as those states currently matching 529 savings plan deposits with public funds based on income or linking IDAs to their plans.

CSD staff developed and pre-tested the survey instrument prior to distribution. The survey was sent to each State Treasurer or plan representative identified through his or her participation in the College Savings Plan Network (CSPN), an affiliate to the National Association of State Treasurers (NAST). CSPN membership includes officials and senior staff in the executive, legislative, and administrative branches of state government with responsibilities in the college savings area. Surveys were mailed in December 2002, and responses were collected through April 2003. Respondents completed the survey online, or via paper form returned by mail or by fax. The overall survey response rate was 80 percent (41 of 51),[5] though each respondent did not complete every question. When necessary, telephone interviews were conducted to clarify responses.

RESULTS

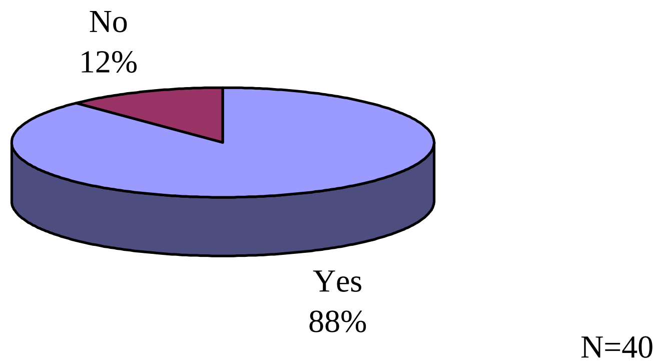
Who is Being Served?

Demographics and outreach

A majority (88%) of states report an attempt to market their 529 savings plans broadly to participants of all incomes (Figure 1), but most states lack data to determine coverage by age,

[5] The state of Washington responded to the survey based on the Saving for Education Tomorrow (SET) plan expected to be in operation this year.

Figure 1. Provide specific outreach to enroll participants of all income levels[6]



race and ethnicity, or income. Responses from 41 surveys reveal that:

- 17% track income in some manner (of these, half collected data for fewer than 50% of their state-resident participants)
- 10% track race or ethnicity of the account owner
- 51% track participation by zip code
- 5% track participation by educational attainment of the account owner

Zip code tracking permits a basic measure of determining how broadly participation stretches across the state, yet many respondents indicated in telephone interviews that they have not used this information to evaluate their current plan performance nor to inform future changes. Even where figures are available, the relative newness and growth of 529 savings plans created legal and administrative demands prohibiting managers from "working the demographic data into the marketing plan."

Ten percent of states expect to collect income data in the future. Some respondents declared their intentions to collect demographic data after the plan is better established. One commented: "As the program matures there will be more interest in lower income families," although this effort may be challenging due to a "lack of research or strategies."

Two states, Wisconsin and Louisiana, report income data relative to state median family income. Twenty-five percent of Wisconsin's EdVest in-state participants are at or below 100% of the state median family income; fifteen percent are at or below 80%; and six percent are at or below 50%. Louisiana[7] reports that forty-four percent of state participants are at or below 100% of the state median family income; thirty-five percent are at or below 80%; and twenty-one percent are at or below 50%. Similar information from all states would be useful in determining if 529 program goals of promoting saving for higher education are reflected in the results.

[6] Total responses for each question are indicated with "N=".

[7] Currently, Louisiana has a relatively small number of accounts.

Outreach activities vary by state. The most often-mentioned methods to communicate are through television, radio, and print advertisements. Efforts to reach wide segments of state residents include inserting 529 plan information with mailings for birth certificate and motor vehicle registration, and distributing information via school systems, libraries, and day care centers.

Expansive marketing of 529 savings plans is conducted through community-based activities such as PTA meetings, sporting events, cultural activities, and state and community fairs. Other outreach activities include distribution of materials to Head Start and federal GEAR-UP (Gaining Early Awareness and Readiness for Undergraduate Programs) participants. The mission of GEAR-UP is to increase the number of low-income students who are prepared to enter and succeed in post-secondary education.

One state official commented that the state "works hard to reach the non-investment public." In order to reach a diverse population, some states create Spanish-language brochures and/or offer a translating service for non-English speaking callers to the enrollment phone line.

Given that the marketing of 529 savings plan tax benefits may be directed toward high-wealth populations, additional financial information and educational materials targeted for low to moderate income families may be a key to participation by those families.

State-residents versus out-of-state residents

Most, but not all, 529 savings plans are available to in-state and out-of-state residents. Survey results indicate that participation rates of state residents range between 2.5% (Rhode Island) and 100% (Louisiana). The average is 60% and the median is 75%.

State-resident participation varies for several reasons. On one hand, individuals may choose to participate in their own state plan due to the attractiveness of the plan in terms of tax benefits to state residents, investment options, expenses, etc. On the other hand, some states' plan designs intentionally focus on broker sales on a national basis (this explains the large out-of-state resident participation in Rhode Island). More than half (56%) of states completing this survey report that at least one of their savings plans is sold through a broker.

Plan fees

Aaron and Cox (2003) note that some state 529 savings plans operate frugally and efficiently while others charge large fees. Two respondents stated that there is tension between the state's interest in serving all residents and the 529 savings plan vendor's need for profitability. The challenge is that accounts with small balances cost vendors the same amount as those with large account balances. One of the primary benefits to low and moderate income investors participating in a state-sponsored plan may be that the large accounts can offset expenses for the smaller ones, allowing for lower total fees. A central provider hired through the state can smooth costs across all participants and may negotiate a competitive fee structure.

TIAA-CREF, known for its industry-low expense ratios, is the program manager in twelve states. Vanguard, another low-cost provider, administers plans in three states. Others states also offer low-cost plans. In addition, there is precedent for fee rebates: Maine reimburses annual maintenance costs and administrative fees to state-resident accounts, and Rhode Island reimburses account maintenance fees to Matching Grant Program (low to moderate income) participants.

Plan expense information is disclosed by each state and analysis is available through numerous financial publications and websites. For each plan, Savingforcollege.com provides two ratings—to assist both residents and non-resident potential investors—ranging from one (least attractive) to five (most attractive). *Money Magazine* annually recommends plans as appropriate for "state residents buying direct" or for "residents and national shoppers" and issues warnings for plans with high fees (Wang, 2003).

Inclusive Plan Features

Facilitation of enrollment and deposits

Minimum deposit requirements. State minimum deposit requirements may either impede or encourage participation by low to moderate income families. Survey responses indicate that the minimum investment requirement varies greatly—between $5 and $1,000—with a mean of $181 and median $25. The monthly minimum deposit for participants in an automatic contribution option is between $10 and $50, with a mean of $30 and median of $25.

Most mutual funds impose much higher minimum deposit requirements. Low deposit requirements in 529 savings plans may be the only feasible diversified investment product available to some households. This may be particularly true for low to moderate income families.

Online enrollment. Twenty-eight states (68%) indicate that they offer on-line enrollment. Participants may have the ability to view account balances on-line, to call a toll-free telephone number for assistance, and to enroll on-line by submitting an initial contribution directly from a bank account.

Electronic funds transfer and payroll deduction. All 529 savings plans offer payroll deduction and electronic funds transfer options to facilitate contributions. Twenty-five states enumerated specifics. For those states, between 2% and 65% of total participants contribute via automatic contributions, with a mean of 35% and median of 33%.

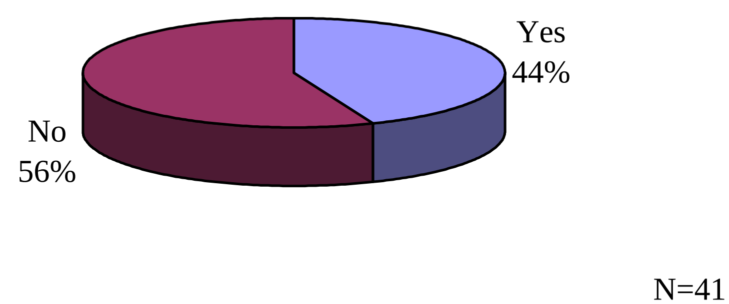
Creditor protection. Forty-four percent of state savings plans provide specific protection from the claims of creditors. Such protection generally exempts accounts from attachment, execution, and seizure for the satisfaction of debts. Creditor protection is sometimes extended to accounts owned by state residents participating in 529 savings plans of other states.

Limits on safeguards include features such as "no protection for monies contributed to a 529 savings account within one year of a bankruptcy petition" and "being in default of child support for 30 days."

Scholarships. Twenty-two percent of states provide scholarships through their 529 savings plan. Many of these are designed as creative outreach efforts. One respondent said, "The program provides scholarships in the form of grants linked to marketing efforts, such as coloring contests, etc." Another noted, "We have made deposits for contest winners in essay and coloring contests (grade school award); we provide moneys for agriculture students; we have committed an amount to go to the United Negro College Fund in a scholarship this year." Another said, "One nominated student of the month receives a one-time deposit of $750 in the parent's name with the child as beneficiary." One state combines both scholarship and need by awarding "one hundred $10,000 4-year scholarships ($2,500) per year, to students with lowest the EFC[8] and highest SAT scores."

501(c)3 registration. Seventy-six percent of states allow accounts to be registered in the name of a 501(c)3 organization. In other words, the plans allow for non-profit registration in addition to individual account registration. This opens the door for a wide range of inclusive participation. Typical comments included: "Businesses or non-profits can open accounts as scholarships."

Figure 2. Exclude 529 savings plan assets from calculations of state financial aid



529 savings and college aid

Many states (44%) exclude the value of 529 savings plan accounts from calculations for state financial aid (Figure 2).

Federal financial aid tests exclude all assets from consideration if (1) the family is not required to file an IRS Form 1040 (i.e. meets the requirements of 1040A or 1040 EZ) and (2) income is less than $50,000 (U.S. Department of Education, 2003). Since assets for these families are not

[8] Defined by federal law, the EFC, or expected family contribution, is a measure of how much the student and his or her family can be expected to contribute to the cost of a student's education.

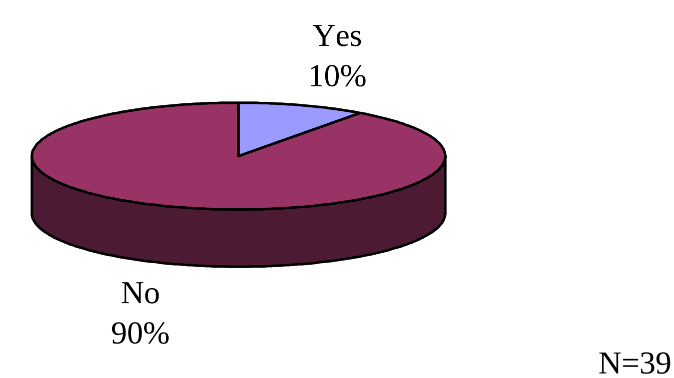
included in the aid calculation, 529 saving does not affect the amount of financial aid (Ma & Fore, 2002). Financial planners (e.g., Hurley, 2002a) believe 529 savings plans may be the preferred type of investment for families meeting these qualifications.[9]

For other families not meeting these qualifications, home equity and retirement assets are not counted for federal financial aid, but 529 savings accounts are included, and assessed at a rate of 5.6% if the account owner is the parent and not the child. For these families, 529 savings can affect federal financial aid. Dynarski (2003a) warns of negative implications for federal financial aid from 529 savings and calls for greater attention to the interaction between the income tax code and the financial aid system.

It is possible that, when more families with low incomes have savings in 529 plans, there will be increased political pressure to change counter-productive aid policies. For example, the federal guidelines eliminating assets in federal financial aid tests might be extended to all taxpayers under $50,000. This would be only a small policy step from the current regulations. If this were to occur, then savings in any form would not count against college aid for any family at this income level.

Another approach would be to provide more uniform treatment of assets in federal financial aid calculations, by pooling cash accounts, education savings accounts, retirement accounts, and home equity, and reduce the assessment rate below its current maximum of 5.64% (Dynarski 2003a). This would put 529s and other savings on the same footing as home equity and retirement accounts, thus reducing asset-shifting distortions.

Figure 3. Link with federal GEAR-UP program



Ten percent of respondents attempt to link their 529 savings plan with the federal GEAR-UP program (Figure 3). A survey respondent commented, "One of the state principals, Higher Education Services Corporation, is linked with GEAR-UP, and we try to partner for

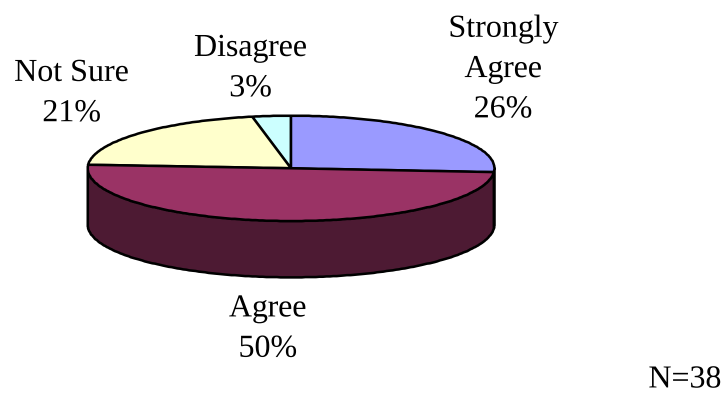
[9] If a family invested in mutual funds or other securities (outside of the 529 savings plan) and then sold shares, they would automatically be disqualified from using the 1040A or 1040EZ.

presentations, where possible." Others noted that funds from GEAR-UP are invested in the 529 savings plan until distribution.

Possibilities for Greater Inclusion

In order to assess perceptions of plan features related to inclusion, survey respondents were asked to select responses of "strongly agree", "agree", "disagree", "strongly disagree", or "not sure" to a list of statements. These results are illustrated and discussed below.

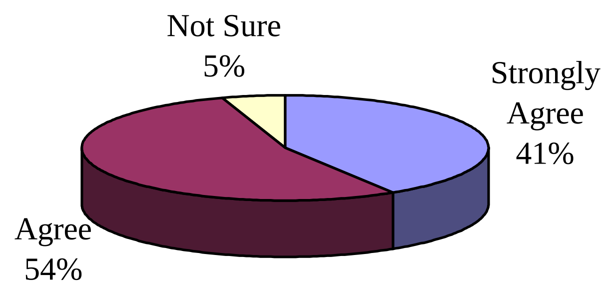
Figure 4. Community-based partnerships are desirable



Seventy-six percent of respondents agree or strongly agree that partnerships with community-based organizations provide opportunities to reach low to moderate income participants (Figure 4).

One respondent noted that a state plan representative coordinates program information with civic and non-profit organizations. Another said, "We have shown good efforts in reaching the audience; however, we continue to look for opportunities to target and increase the actual participation of these potential account owners."

Figure 5. Workplace enrollment is desirable

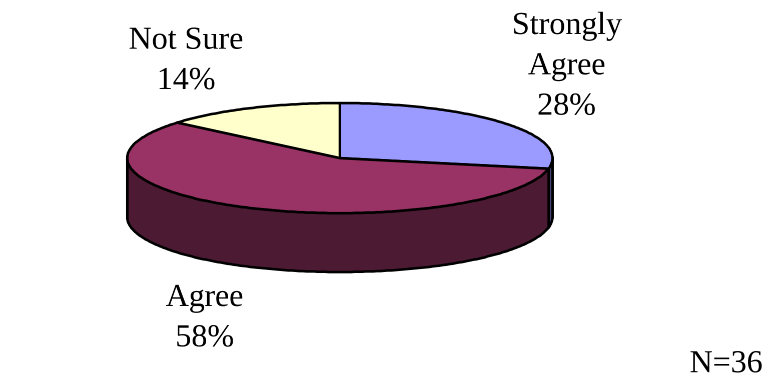


Ninety-five percent of respondents agree or strongly agree that efforts to introduce 529 savings plans in the workplace provide opportunities to reach participants of all incomes (Figure 5). Some states report that their initial effort was to introduce the plan to state and local government employees, and then they expanded to other employers. One respondent mentioned that the “biggest payoff” has been work through employers, where people can contribute small, regular amounts through payroll deduction.

A 2002 survey of benefits executives from 605 companies with at least 50 employees indicated that 14% currently offer—or plan to offer in the next 18 months—529 savings plans as an employee benefit (MetLife, 2002). Private or public employers hold meetings, explain the program, and facilitate employee participation through payroll deduction (Burzawa, 2000). Often the program manager will conduct educational seminars at no charge to employees as part of their marketing efforts.

A survey conducted by ADP (Hurley, 2002b) found that 43% of employees would participate if offered the payroll deduction option, but 95% said their employer was not currently offering this benefit. A company may be reluctant to offer employees 529 savings plan participation because it simply is not a priority, or there may be an unwillingness to endorse one plan over another if employees reside in more than one state.

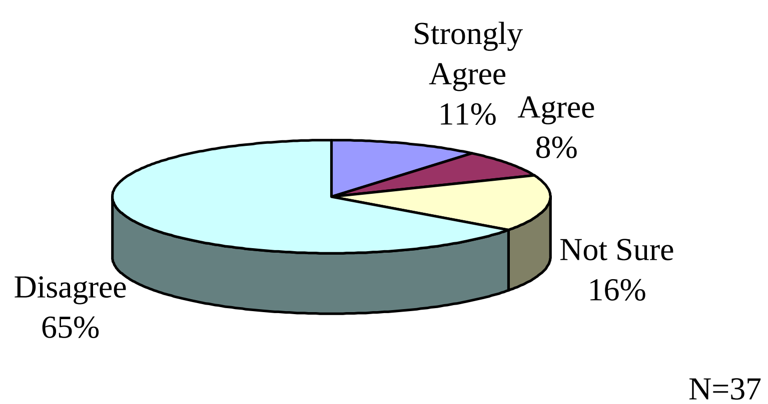
Figure 6. Should include more low-income savers



Eighty-six percent of respondents agree or strongly agree that plans should include more low-income participants (Figure 6). This suggests that there may be potential to expand 529 savings to those with lower incomes. As one respondent commented "The board is very interested in this and will take action when program is better established."

In a survey of 401 randomly-selected adults throughout the state of Maine, income was not associated with residents' intention to provide for the future college education of a child (Galubickaite & Mildner, 2003). A study of the saving performance of 2,364 IDA participants found that, controlling for other factors, income was not associated with net deposits or program drop-out. Those with very low incomes saved as successfully as other IDA participants (Schreiner, Clancy, & Sherraden, 2002).

Figure 7. Plan rules discourage participation by low and moderate income families



About two-thirds of survey respondents (65%) disagree that plan rules and regulations discourage participation by low and moderate income people (Figure 7). However, 19% agree and an additional 16% are unsure.

In response to the questions about low income savers and plan rules, one respondent declared: "Section 529 Plans are not necessarily appropriate for all families, whether they have low, moderate, or high income." Another respondent stated: "We believe our outreach, advertising, low-cost, tax-deduction, etc., affords low-moderate income people access to our program. As with any financial products, tax complexity, etc. may discourage some participation."

State Innovations for Inclusion[10]

Match for low to moderate income savers

Currently, five states offer a savings match within their 529 savings plans. Match rates, match caps, and other match features vary by state. For example, some states offer matches only in the first year of participation, and others impose an age requirement for match eligibility. Savings matches based on income may represent a growing trend, as Rhode Island and Maine have recently added this feature to their plans.

States fund the savings match through (1) appropriations or (2) revenue from administrative fees and broker commissions. Below is a summary of 529 savings plan matching provisions in five states.

Rhode Island. Beginning in 2003, Rhode Island's 529 savings plan, *CollegeBoundfund*, matches contributions up to $500 per year based on family size and income. A 2:1 match ($1,000 maximum per account) is offered to state-resident families with an adjusted gross income (AGI) at or below 200% of the poverty level. Families with an AGI between 201% and 300% of the poverty line are eligible for a 1:1 match ($500 maximum per account). To be eligible for a match, the 529 savings plan account must be opened when the child is 10 years of age or younger. Matches occur annually for up to five years.[11]

Maine. In order to qualify for a match in the *NextGen College Investing Plan*, the AGI of state-resident families must be $50,000 or less. Any new account with an initial contribution of at least $50 may apply to receive a *NextGen Initial Matching Grant* of $200. In addition, any existing account receiving contributions of at least $200 may apply to receive a *NextGen Annual Matching Grant* of 25% of all amounts contributed, up to an annual maximum grant of $100 for any one beneficiary.[12]

Michigan. The *Michigan Education Savings Plan* provides a matching grant of $1 for each $3 contributed by state residents to their 529 savings plan. The lifetime maximum state match is

[10] This section borrows from Clancy (2003).

[11] Rhode Island CollegeBoundfund http://riheaa.org/saving/fiveten/

[12] Maine NextGen College Investing Plan http://www.famemaine.com/html/education/matchinggrant.html

$200, available during the first year of enrollment only, if the beneficiary is six years old or younger. To be eligible for the match, the beneficiary must reside in a household with a family income of $80,000 or less.[13]

Minnesota. The *Minnesota College Savings Plan* provides an annual matching grant to eligible state-resident families contributing at least $200 to the 529 savings plan during a calendar year. Maximum matching grants are $300 per year. The match rate is linked to (AGI). Families with a federal AGI of $50,000 or less may receive a matching grant of up to 15% of their contributions during the year, and families earning between $50,000 and $80,000 may receive up to 5% of their contributions. Account owners must apply for the grant no later than December 31 of each year.[14]

Louisiana. The *Louisiana Student Tuition Assistance & Revenue Trust (START)* 529 savings plan matches a portion of deposits made by all state residents, with the match rate dependent on the AGI of the account owner. The savings match rate ranges from a high of 14% of contributions for those families with an AGI up to $29,999 to a low of 2% for incomes of $100,000 and above.[15]

Links to 529 savings plans through IDAs

Other states are providing links to 529 savings plans through IDAs. For example, using the 529 savings plan account as the IDA savings vehicle, Vermont offers a savings match to low-income 529 savings plan participants.

Oregon and Pennsylvania allow IDA participants to roll over participant savings and match funds into the 529 savings plan, offering more investment choices and long-term accounting after the IDA program ceases. Pursuant to state legislation, an education saver may transfer the entire IDA balance into the *Oregon 529 College Savings Network* and Pennsylvania's *Tuition Account Program (TAP).* In Pennsylvania, the matching funds are earmarked within *TAP* to prohibit unauthorized withdrawals of the savings match.[16]

A less-formal partnership is found in Illinois. The *Bright Start College Savings Program* manager presents information to IDA participants regarding opening a 529 account. Many other state Treasury and Health and Human Services officials express interest in linking 529 savings plans and IDAs in the future.

[13] Michigan Education Savings Plan http://www.misaves.com/overview.html#tax

[14] Minnesota College Savings Plan http://www.mheso.state.mn.us/mPg.cfm?PageID=110

[15] Louisiana Student Tuition Assistance & Revenue Trust (START) http://www.osfa.state.la.us/START.htm

[16] Clancy (2003) provides examples of state legislation connecting IDAs and college savings plans.

ASSESSMENT

529 savings plans offer advantages and challenges for asset building by people of low to moderate incomes.

Advantages

- There is potential to reach all families. Every state provides a 529 savings plan or has one in development. Most states express interest and some degree of commitment to making 529 plans more inclusive.

- Access is not an issue for saving in 529s. A majority of plans require very low minimum contributions. In many states, accounts may be opened with a $25 check, money order, electronic funds transfer, or with as little as $10 through an automatic plan deposit. In contrast, high minimum investment requirements may prohibit low-income families from choosing mutual funds as the investment vehicle for IRAs.

- Large and small value accounts are held in the same system, so that the smallest unprofitable accounts can be supported by the largest profitable accounts.

- In 529 plans, there is simplicity of selection, with typically a few investment options emphasizing a range of risk and reward (usually a guaranteed-return account, age-based or balanced funds, and an equity fund). This structure differs from the overwhelming process of choosing among an unlimited number of IRA providers and investment vehicles. While some may view the limited fund options as a constraint, this feature requires less selection effort on the part of the investor, comparable to a 401(k) plan.

- The state has the ability to introduce progressivity. Rhode Island and Maine, for example, allocate user fees from national accountholders in 529s to fund a savings match for low to moderate income state-resident families. Three other states, Michigan, Minnesota and Louisiana, provide a savings match through state appropriations.

- The centralized financial structure creates possibilities for match calculations and thus the expansion of this feature in the future. In 529 savings plans, one financial manager typically holds all plan accounts, creating a centralized accounting system. Unlike the decentralized structure of IRAs, the 529 savings structure offers states the ability to match contributions in the future.

- In the 529 system, the state is in a position to negotiate among competing providers for a competitive fee structure. This negotiating position is much stronger than that of individuals in the market.

- Expenses vary by state, and some states are known for low-cost plans. High-cost plans exist, but are not always undesirable. States with higher fees, such as Maine and Rhode Island, use revenue from administrative fees to fund matches and provide fee rebates to low and moderate state resident account holders. However, low-cost plans will be critical to inclusive policy development in the future.

- Electronic participation is often encouraged in 529 savings plans. Workers can contribute every pay period using payroll deduction or automatic transfers. Workplace offerings of 529 savings plans creates the potential for broad participation by families of all incomes.

- Public control of the policy and selection of the 529 provider enables states to exercise public will and require inclusive features. In addition to matching 529 savings deposits, some states have reached out to lower income populations by excluding 529 savings plan assets from state tuition grants calculations, enrolling participants in the workplace, linking with IDAs, reducing fees, and taking other inclusive measures. Results from this study indicate that inclusion is a priority for some states.

- Moreover, state 529 savings plan officials indicate that they may take additional inclusive steps in the future.

Challenges

- As long as high cost 529 savings plans exist, they should be avoided by low income families. One option for low income households (who may not qualify for a tax benefit anyway) is to invest in a low cost 529 savings plan in another state.

- Assets accumulated in 529 savings plans may affect financial aid. Current federal financial aid tests exclude assets for families with incomes of $50,000 or less who are eligible to file IRS Forms 1040A or 1040EZ. We recommend that the federal guidelines excluding assets might be extended to all taxpayers under $50,000. This would not be a major policy change, and would eliminate negative effects on financial aid for all low-income families.

- Ideally, 529 savings plans could be used for more than educational purposes. Additional possible uses in the future might include homeownership, business start-up, and retirement. From this perspective, 529 savings plans would be transformed into a lifelong asset-based policy that serves different purposes along the life course. This was the original proposal for IDAs (Sherraden, 1991). Of course the current 529 structure is a long way from this, but because of many positive features documented in this study, 529 savings plans may be a good place to begin.

FUTURE POLICY DEVELOPMENT

Some states have reached out to lower income populations, matching 529 savings accounts, and taking other inclusive measures. What is the potential of such measures? Are they just token or symbolic efforts? How might inclusive features in 529 savings plans develop in the future?

529 savings plans are in the early stages of implementation at both the federal and state levels. Financial aid details have yet to be worked out, and final regulations have not yet been issued. These early, formative conditions make 529 savings plans open to influence and policy development. Additional features to promote inclusion are possible.

Recognizing the inclusive and progressive potential, 529 savings plans have been recommended for a children's savings account initiative (Clancy, 2001).[17] This initiative and other policy strategies can move 529 savings plans toward greater inclusion of the whole population.

This survey began as a means to collect data, but evolved into a tool to begin a dialogue about inclusion in 529 savings plans. One state plan representative said that the survey prompted him to consider more inclusive possibilities. Others noted that they are considering a match to savings in the future. Many expressed interest in the survey results. Though some states may be more committed than others, the discussion of inclusive features of 529 savings plans is just beginning.

The basic structure of 529 savings plans offers considerable potential for inclusion. Indeed, we can imagine a completely universal and progressive child savings account policy implemented via the 529 savings plan structure. While current 529 savings plans are a long way from this, the survey results reported here suggest that hopeful steps are being taken.

Because this inclusive potential does not exist in 401(k) plans, IRAs, or other asset-based policies, efforts to develop 529 savings plans toward greater inclusion should continue.

[17] SEED, or Saving for Education, Entrepreneurship, and Downpayment, is a six-year national initiative to develop and test matched savings accounts and financial education for children and youth. The Corporation for Enterprise Development is implementing SEED. The Center for Social Development at Washington University and the School of Social Welfare at the University of Kansas are designing the research.

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APPENDIX A

College Savings Plan Survey

You may complete this survey online at
http://gwbweb.wustl.edu/csd/college_savings_survey.html

Regarding your state College Savings Plan ONLY
If your state has more than one ***savings plan***, please complete one survey for each plan.

1. State ☐
2. Name of Plan ☐

Number of Savings Plan Participants

3. Approximate number of open accounts. ☐
4. Of these open accounts, how many are owned by state residents? ☐

Demographic Information

		Yes	No	N/A
5.	Does your state track the income levels of plan participants?	☐	☐	☐
6a.	If not, do you expect to collect this information in the future?	☐	☐	☐

6b. If yes, income data are available for:
☐ More than 50% of in-state residents ☐ Less than 50% of in-state residents

	If yes:	N/A
7.	Of in-state resident participants, what percentage are at or below 100% of the state median family income? ☐ %	☐
8.	Of in-state resident participants, what percentage are at or below 80% of the state median family income? ☐ %	☐
9.	Of in-state resident participants, what percentage are at or below 50% of the state median family income? ☐ %	☐

		Yes	No	N/A
10.	Does your state track participation by zip code?	☐	☐	☐
11.	Does your state track participation by race or ethnicity of account owner?	☐	☐	☐
12.	Does your state track participation by educational attainment of account owner?	☐	☐	☐
13.	Are you willing to share aggregate demographic information with the Center for Social Development?	☐	☐	☐

Administrative Information

		Yes	No	N/A
14.	Can accounts be registered in the name of a 501(c)3 organization?	☐	☐	☐
15.	Does your plan have a minimum investment amount?	☐	☐	☐
16.	If yes, the amount is $ ______ and/or $ ______ per month?			☐

		Yes	No	N/A
17.	Does your plan offer on-line enrollment?	☐	☐	☐
18.	Does your plan accept contributions through payroll deduction or electronic funds transfer?	☐	☐	☐
19.	If yes, what is the percentage of participants who contribute via automatic contributions? ______ %			☐

		Yes	No	N/A
20.	Is your college savings plan sold through brokers?	☐	☐	☐
21.	Is your plan sold **exclusively** through brokers?	☐	☐	☐
22.	If yes, the broker commission is: ______ % load and/or ______ % on-going trailer			☐

Inclusive Plan Features

Check the box for any inclusive plan features (Please include details if item is checked)

23. Provide specific outreach to enroll participants of all income levels — Yes ☐ No ☐
    If yes, provide details

24. Provide specific protection from the claims of creditors — Yes ☐ No ☐
    If yes, provide details

25. Exclude college savings plan assets from state tuition grant calculations — Yes ☐ No ☐
    If yes, provide details

26. Link college savings plans with Individual Development Accounts (IDAs) — Yes ☐ No ☐
    If yes, provide details

27. Provide scholarships — Yes ☐ No ☐
    If yes, provide details

28. Link with federal GEAR-UP program — Yes ☐ No ☐

If yes, provide details

29. Match deposits with public funds based on income — Yes ☐ No ☐

If yes, provide details

30. Other, please specify: ____ — Yes ☐ No ☐

If yes, provide details

General Information

		Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
31.	College savings plans should include more low-income participants.	☐	☐	☐	☐	☐
32.	The many plan rules and regulations discourage participation by low-moderate income people.	☐	☐	☐	☐	☐
33.	The effort to introduce 529 plans into the workplace is an opportunity to reach participants of all income levels.	☐	☐	☐	☐	☐
34.	Partnership with non-profit community-based organizations provides opportunities to reach low-moderate income participants.	☐	☐	☐	☐	☐

35. Please add any general comments

36. Name

37. Title

38. Phone number

39. Date

Thank you very much for completing this survey. If possible, please return it by January 31, 2003.

If you prefer, you may complete this survey online at http://gwbweb.wustl.edu/csd/college_savings_survey.html

Or, mail or fax this survey to:

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