Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

# College Success and College Savings Plan Innovations: A Summary of Research

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The Center for Social Development (CSD) at Washington University in St. Louis has initiated a program of research using well-established longitudinal data sets to ask whether household savings are associated with later college success, including degree completion. Previously, there was almost no evidence in this area.

This research has informed CSD's extensive policy work on inclusive college savings plans. CSD studies focus on innovative 529 plan features and their application in states throughout the country, examine key findings, and point to specific federal and state policy directions to make 529s more accessible to low- and moderate-income families.

Below are summaries of CSD publications that resulted from this research and policy work. As a group, these publications demonstrate the scope of CSD's work in this area from 2009 to present, and yield important insights for policy testing and future research.

## Research on Savings and College Success

**The Age Old Question, Which Comes First? A Simultaneous Test of Children's Savings and Children's College-Bound Identity**, Elliott, Choi, Destin, & Kim (2011): research report

- This study posits a conceptual framework for how children's savings affects children's college-bound identity. Findings suggest that savings has modest effects on college-bound identity and vice versa.
- A policy implication is that asset building policies that seek to build children's college-bound identity in addition to their savings may be more effective than policies that only seek to build children's savings.

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**Staying on course: The Effects of Savings and Assets on the College Progress of Young Adults**, Elliott & Beverly (2010), forthcoming in the *American Journal of Education*; originally published at CSD as a research report and research brief

- This study, which examines the college progress of young adults, uses longitudinal data from the Panel Study of Income Dynamics (PSID) and its supplements.[1] Findings suggest that 57% of young adults are "on course" (currently attending or have graduated from college). Those with family assets and savings of their own are more likely to be on course.
- In multivariate analysis, youth school savings and parental savings for youth are strong predictors of youth's college expectations. In addition, they appear to have indirect effects on college progress, through expectations.

**The Role of Savings and Wealth in Reducing "Wilt" between Expectations and College Attendance,** Elliott & Beverly (2010), forthcoming in the *Journal of Children and Poverty*; originally published at CSD as a research report and research brief

- This study also uses PSID data. "Wilt" occurs when a young person who expects to graduate from college has not attended college by the ages of 19 to 22. Almost one-third of youth who expect to attend a four-year college experience "wilt."
- Controlling for other factors—including household income and children's academic achievement—children with savings dedicated for college education are ***four times*** more likely to attend college and avoid "wilt."
- When children have a savings account in their name, they are ***seven times*** more likely to attend college and avoid "wilt" than similar youth who do not have an account.

**Assets and Liabilities, Educational Expectations, and Children's College Degree Attainment,** Zhan & Sherraden (2009): research report; research brief

- This study, which uses data from the National Longitudinal Survey of Youth, examines household assets and liabilities and their relationships with college expectations and success.
- Controlling for family income and other characteristics, financial assets are associated with both parents' and children's expectations for college graduation. Both financial and nonfinancial assets are positively related to college completion.

[1] Analyses using longitudinal data provide temporal order (i.e., savings at time one can be associated with college success at time two), and many factors are controlled in regression models. These methods help to rule out alternative explanations, but the studies are not experimental and cannot make claims about causality.

- When financial and non-financial assets are included in regression models, income is no longer a significant predictor of college completion. In other words, it is assets and not income that is associated with college completion.

**Assets and Liabilities, Race/Ethnicity, and Children's College Education,** Zhan & Sherraden (2010): research report; research brief

- This CSD study, which builds on the preceding 2009 research study summarized above, examines the extent to which household assets and liabilities are related to disparities in children's college attendance and college graduation among White, Black, and Hispanic families. Results indicate that, after household assets are considered, a substantial portion of the Black-White gap in college attendance and college graduation disappears, and a small portion of the Hispanic-White gap in college graduation also disappears.
- Separate analyses of children from each racial/ethnic group further indicate that family income and financial assets are associated with White children's college attendance and graduation, but nonfinancial assets and unsecured debt are associated with college attendance and graduation among Black and Hispanic children.

## State 529 College Savings Plan Innovations

**Saving for college: A Policy Primer,** Clancy, Lassar, & Taake (2010): policy primer

- To help address the rapidly rising cost of higher education—an obstacle to college access and completion for many low- and moderate-income families—it is increasingly important to save for college. This report highlights key policy considerations and challenges, along with specific strategies, to make 529 college savings plans more accessible to families of all incomes.

**College Savings Plan Accounts at Birth: Maine's Statewide Program,** Clancy & Lassar (2010): policy brief

- The Harold Alfond College Challenge offers $500 to every child in the state enrolled in Maine's NextGen college savings plan within one year from birth. As the first US example of a statewide Child Development Account, the Alfond Challenge is a laboratory to study and learn from Maine's experience. This CSD policy brief provides an overview of the Alfond Challenge, examines administrative and enrollment challenges, and offers recommendations and federal and state policy directions.

**Toward More Inclusive College Savings Plans: Sample State Legislation,** Lassar, Clancy, & McClure (2010): policy report; policy brief

- A number of states have created inclusive 529 policy strategies to make college savings plans more accessible and easier to use for families at all income levels. These strategies include: facilitating enrollment and contributions, removing saving disincentives, increasing saving incentives, and strengthening tax benefits. In this report, we examine these inclusive state policy strategies, describes their application through legislative and administrative means, and points to specific examples.

**Saving and Educational Attainment: The Potential of College Savings Plans to Increase Educational Success,** Sherraden (2009) research & policy brief

- Improved College Savings (529) Plans are part of the Obama Administration's broader focus on postsecondary education access and degree completion. This brief contains a literature review of the effects of savings and assets on outlook and life chances. The brief also examines the potential of savings to influence educational attainment and college completion.

**Streamlined Enrollment and Default Investment: Innovations in Alaska's College Savings Plan,** Clancy, Lassar, & Miller (2009): policy brief

- As college savings plans have gained in popularity and matured over the years, states have developed a number of innovations to facilitate access to and participation in 529s. This paper examines innovations in streamlined enrollment, pre-selected investment, and default investment in Alaska's college savings plan. These 529 innovations—intended to facilitate greater participation, especially amongst low- and middle-income families—could play a more important role in other states to encourage savings for postsecondary education.

**A Promising Platform for College Saving,** Sherraden (2009): perspective

- As part of President Obama's larger agenda to create a "save and invest" economy, a review of College Savings (529) Plans is underway to expand their use by middle- and low-income families. In this College Savings Initiative perspective, Sherraden examines the challenges and potential of 529s.

**Creative Partnerships Between GEAR UP and State College Savings Plans: Experience and Policy Potential,** Clancy & Miller (2009): policy brief

- This brief provides examples of how GEAR UP and state College Savings Plans are working together to provide information and resources to low-income and at-risk students. To illustrate experience and potential, the Center for Social Development documents and assesses four existing partnerships between College Savings Plans and GEAR UP. State-level experiences to date suggest several policy implications.

**Low-cost State Innovations to Help Families Save for College,** Huelsman & Clancy, (2009): policy brief

- While 529 plans are defined in the federal tax code, individual states have considerable latitude to innovate and make their plans more inclusive. Some states have undertaken large-scale initiatives, such as matching contributions or establishing accounts at birth. Other states have been exploring a number of smaller, lower-cost innovations to remove disincentives and increase savings. States are often the testing ground for future federal policies, and several of these initiatives could also be enacted at the federal level.

**College Savings Plans: Investment Options, Safety, and Policy Implications,** Clancy & Jovanovich (2009): policy brief

- With recent stock market decline, balances in many college savings (529) plans have also declined. Investment options such as money market funds or FDIC-insured CDs are gaining attention, and questions are being raised about the safety of 529 savings plan investments. This brief provides information on 529 savings plan investment options, safety, and policy implications.

**Five Low-cost Ideas to Help Families Save for College,** Newville & Clancy (2009): policy brief

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

**Toward Progressive 529 Plans: Key points,** Clancy, Sherraden, Huelsman, Newville, & Boshara, R. (2009): policy brief

- Key talking points on 529 plans, their potential, current flaws, and how inclusive and progressive features might remedy them.

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All materials referenced in this document are available at http://collegesavingsinitiative.org/content/policy-research-publications and http://csd.wustl.edu/AssetBuilding/Pages/529Pubs.aspx.

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