ISSUE BRIEF

BUILDING THE FINANCIAL BRIDGE TO COLLEGE:
Increasing the College Savings of Low-Income Californians

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OVERVIEW

To put college within reach for more Californians, California should match the amounts that lower-income Californians deposit into the state's Scholarshare 529 college savings program. Other states offer similar matches and California could do so for between $7.5 to $15 million a year.

Scholarshare -- Strengthen It to Help Lower Income Families Participate
State-run college savings plans such as Scholarshare have many potential benefits that can help low- and moderate-income families save for college:

- **Works for families and individuals** -- California's Scholarshare 529 college saving plan helps families save for their children's college education, and allows adults to open an account for personal educational use. The funds in the account grow tax-free and can be used for tuition, fees, and other expenses.
- **Inexpensive** -- Scholarshare allows an account to be opened with as little as $25 and there is no enrollment fee. Annual account fees are minimal compared to other savings vehicles.
- **Simple** -- Accountholders choose from just five simple investment options, including two age-based funds, two portfolio options, and a guaranteed return option.

However, the most attractive feature of 529 plans—the tax benefits—do not benefit low-income families because their income tax liabilities are often too low to take advantage of these tax incentives!

Increasing Access to Education for Low-Income Californians
California has the opportunity to make 529 accounts more attractive to low- and moderate-income families by providing a match for savings they put towards a college education.

California could opt to provide a 1-to-1 savings match up to $500 annually for families earning 200% or less of the federal poverty rate. This would deliver a tangible benefit for working families that cannot fully take advantage of the tax incentives given through 529 college savings plans and allow funds to only be allocated to those making an effort to save. Given some underlying assumptions, this initiative could cost between $7.5 million and $15 million annually.

An alternative to this approach would be to offer tax credits to employers who would provide matches to employees' 529 college savings plans, as was proposed in Oklahoma's state legislature in 2005.

These college savings funds will be hope in concrete form for families. Children are more likely to go to college if they know there is a growing designated pot of funds to help them do so.

Other States Provide Similar Matches
Currently, seven states offer matches to eligible state-resident families who save in 529s. Most of these programs tie eligibility to income or otherwise offer a progressive match that provides more benefit for lower-income

families. Generally, states set up a parallel account for the matching funds in the beneficiary's name and invest these funds in a more conservative or guaranteed-return fund. Once the beneficiary is ready to use the savings for qualified expenses, the state then distributes the matching funds directly to the selected educational institution.

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