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GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

## Toward Progressive 529 Plans: Key Points

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- **529s are currently regressive.** Current participants in 529 college savings plans are primarily mid-to-high-income families, and 529 plans are regressive in their current form. Tax incentives provide more benefit to people with higher incomes. Individuals with lower incomes have little or no tax liability and may have little wealth to transfer into 529s to take advantage of tax-free earnings.
- **529s can be more inclusive.** The 529 savings platform lends itself to more inclusive saving. Features of 529s—especially public oversight and outreach, centralized accounting, low deposit minimums, and matching incentives—can be building blocks for more inclusive saving for college.
- **The poor can and do save.** Although saving is not easy for low-income families, and they typically save small amounts, many are able to save more with well-designed products and incentives.
- **Savings appears to matter for educational attainment.** There is growing evidence that savings and household assets—even small amounts—are associated with positive differences in children’s lives. Savings is associated with high school performance and completion and college enrollment. The association with college completion is less clear and probably complex.
- **It is not just about the money.** Behaviorally, there is evidence that savings for college may focus attention of parents and children on post-secondary education, affecting outlook, orientation, secondary school course selection, academic performance, and discipline. Money may make post-secondary education possible, but behavioral changes could be as important as money in affecting educational attainment.
- **Savings can be part of an overall strategy.** College savings accounts fit extremely well with curriculum, counseling, and other strategies to increase educational attainment. When a young person knows that he or she has resources for college, other strategies become more salient and effective.

- **Some states are reaching out to middle and low income populations.** Many states have reached out to lower-income populations. Strategies include: matching deposits in 529 savings accounts, connecting 529s with federally-funded GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs), excluding 529 savings from state tuition grants calculations, and enrolling participants in the workplace. Some states create partnerships with public and non-profit organizations to help families learn about 529s and saving for college in venues such as school systems, public libraries, and child care centers, or via the State Department of Human Resources (e.g., mailing 529 savings plan information with every birth certificate).
- **Some states are innovating with more progressive 529 features.** Eleven states are currently offer 529 savings matches for low to middle income account owners or beneficiaries who are state residents (see final page). State match designs vary in terms of funding, eligibility, and application. For example, Michigan offers a match on deposits only within the first year of opening the account. Others, such as Louisiana and Minnesota, offer annual matches. In some cases, the match increases as household adjusted gross income decreases. While these programs are small at this time, they provide precedent and experience to inform larger policies.
- **529s can also leverage contributions from a wide range of family, private, non-profit and public sources.** In other words, 529s can serve as a “magnet,” attracting contributions from a wide range of people and institutions committed to a child’s educational success. Along these lines, 529s can also incorporate the “conditional cash transfer” concept by rewarding kids with 529 deposits who, for example, maintain a B average, have good attendance, or perform community service.
- **Expansion of progressive 529s around the country might be supported by financial institutions that manage 529 plans and aim to have more assets under management.** This enables policymakers and others to achieve progressive goals through market means. For this reason, progressive 529s also hold great potential to attract both Democrats and Republicans.
- **Because there are no age restrictions in 529s, they also provide an excellent platform for financial literacy, lifelong learning, and skills upgrading.** While not currently used or promoted in this way, major life-long learning and skills upgrading initiatives could be organized around the 529 platform.
- **Policy innovations in the states can be a precursor for large-scale federal policy.** In the American tradition of a vibrant federalism with states as “laboratories for democracy”, states are often in the lead in national policy change. In aiming for a universal savings policy, 529 R&D in the states can be a key strategy. In addition, federal policy, which created 529s and allows federal tax exemption of earnings on 529s, can support further state-level progressive innovations in 529s.

- **Current federal higher education tax benefits, including the HOPE Scholarship and Lifetime Learning Credits, by design are ill-targeted, ill-timed, unrestricted to education costs, and almost universally unavailable to students attending community colleges.** The credits operate as middle class tax relief programs, but at best have minimal impact on post-secondary education access. Expanding them, making them refundable, and coupling the credits with the 529 platform could better target federal resources and improve take-up rates. In other words, 529s offer a new and potentially better vehicle for the delivery of federal higher education subsidies.
- **529s could also provide the platform for earlier in life Pell Grants.** The Rethinking Student Aid Group, a group of prominent higher education academics, under the auspices of the College Board, recently proposed development of an account-based, federally funded savings program for students from *low-income families* analogous to the 529 college savings program. They argue that accounts capitalized with Federal Pell Grant funds at an early age will alter the way families of secondary school age students view academic preparation in high school, and thus heighten aspirations and access to post-secondary education. This is another example of how 529s could serve as a mechanism for receiving federal higher education funds targeted to low-income families.

## States with Progressive 529 Matching Grant Programs

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| <b>Arkansas</b>     | 2:1 Match for families with Adjusted Gross Income (AGI) below \$30,000;<br>1:1 match for families with income between \$30,000-\$60,000 up to \$500                     |
| <b>Colorado</b>     | 1:1 Match for low-to mid income families, up to \$500 annually  |
| <b>Kansas</b>       | Limited pilot: 1:1 match for contributions above \$100 up to \$600 for families below 200% Federal Poverty Line   |
| <b>Louisiana</b>    | 2% to 14% Match on deposits to accounts based on the Federal Adjusted Gross Income of the Account Owner and the Category of Account.                                    |
| <b>Maine</b>        | \$50 initial grant and .5:1 match up to \$200 annually for families with AGI below \$54,500. Parents of state-resident newborns may submit application for \$500 grant. |
| <b>Michigan</b>     | One time 1:3 matching grant, up to \$200, for families with AGI below \$80,000  |
| <b>Minnesota</b>    | Up to \$400 per year matching grant for low and middle income residents   |
| <b>North Dakota</b> | One time, 1:1 match up to \$300 for families earning below \$20,000 (single) or \$40,000 (joint)  |
| <b>Rhode Island</b> | 2:1 Match for families with AGI below \$65,000, up to \$500;<br>1:1 match for families with AGI below \$80,000, up to \$500   |
| <b>Texas</b>        | Matches available for families with annual household income below the state median.   |
| <b>Utah</b>         | Pilot program to match contributions 1:1 up to \$300 per year   |