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January 26, 2018

To: Chairman Smith and Members of the Revenue Committee

From: Julia Tse, Policy Coordinator for Economic Stability and Health

**RE: Opposition to LB 804 - Include elementary and secondary schools in the Nebraska educational savings plan trust and change tax benefits**

Dear Chairman Smith and Members of the Revenue Committee,

Children are Nebraska's greatest resource, and we all have an interest in ensuring that all children have the opportunity to reach their full potential in adulthood. A college education is one of the most effective promoters of economic mobility, but remains out of reach for many low-income Nebraska children. Voices for Children in Nebraska opposes LB 804 because it diverts state resources away from college savings without addressing the very serious issues of inequity in access to 529 plans for low-income children.

A key solution to the workforce challenges that Nebraska is currently facing is to look to young students who face significant barriers to a college education. It is estimated that by 2020, 71% of jobs in Nebraska will require some postsecondary education.<sup>i</sup> Skyrocketing college tuition costs have put the greatest pressure on low-income children—today, the average tuition and fees for a public 4-year institution in our state is \$8,270 per year.<sup>ii</sup> For many Nebraska children, the odds of attending and completing college are often stacked against them from birth. Financial hardships, upfront costs and sticker shock, lack of information and appropriate counseling, access to accelerated coursework, and the guiding hand of parents who have experience with college all work against many children.

Research shows that one of the best interventions for college-going behavior are those that incentivize educational savings early.<sup>iii</sup> For many low-income students, such programs can help bridge the gap between a child's educational goals and what they and their family believe to be a real financial possibility.

Although 529 plans have been designed to offer families a secure way to invest into postsecondary education, they remain highly underutilized by low-income families. Nationally, fewer than 3% of families participate in 529 plans, and the median income of participating families was \$142,000.<sup>iv</sup> Here in Nebraska, though lower-income families represented nearly 60% of tax filers, they received just 3% of the total 529 adjustments filed in 2015. Families with an AGI of less than \$30,000 only received \$2,384 in 529 adjustments on average, while filers with an AGI over \$500,000 reaped an average of \$8,108 in 529 benefits.<sup>v</sup>

We are concerned that LB 804 would divert our limited state resources away from the originally intended goals of postsecondary savings to private K-12 institutions, instead of wisely working to improve the existing 529 plan to become more accessible for families who need it the most. A number of other states have sought to strengthen 529 program design, many with private partnerships, by offering matching or seed funds to low-income or at-risk children.<sup>vi</sup> For these reasons, we would recommend that any substantial changes to existing state-sponsored educational savings look to ensure that all children have access to and benefit from the program. We respectfully urge the committee to not advance the bill.

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<sup>i</sup> Anthony P. Carnevale, Nicole Smith, and Jeff Strohl, "Recovery: Job Growth and Education Requirements Through 2020 State Report," Georgetown University, Center on Education and the Workforce, June 2013, available at: [https://cew-7632.kxcdn.com/wp-content/uploads/StateProjections\\_6.1.15\\_agc\\_v2.pdf](https://cew-7632.kxcdn.com/wp-content/uploads/StateProjections_6.1.15_agc_v2.pdf), 3.

<sup>ii</sup> "Figure 6: Average 2017-18 Tuition and Fees at Public Four-Year Institutions by State and Five-Year Percentage Change in Inflation-Adjusted In-State Tuition and Fees," Trends in College Pricing, The College Board, <https://trends.collegeboard.org/college-pricing/figures-tables/2017-18-state-tuition-and-fees-public-four-year-institutions-state-and-five-year-percentage>.

<sup>iii</sup> Voices for Children in Nebraska, "Higher Education: Savings and Opportunity," December 2013, available at: <http://voicesforchildren.com/wp-content/uploads/2016/06/College-Savings-issue-brief-FINAL.pdf>, 5.

<sup>iv</sup> U.S. Government Accountability Office, "Higher Education: A Small Percentage of Families Save in 529 Plans," GAO Report to the Chairman of the U.S. Senate Committee on Finance, December 12, available at: <https://www.gao.gov/assets/660/650759.pdf>.

<sup>v</sup> See Appendix 1. We use the term "lower-income" here to roughly apply to families with an AGI under the state median household income of \$54,384.

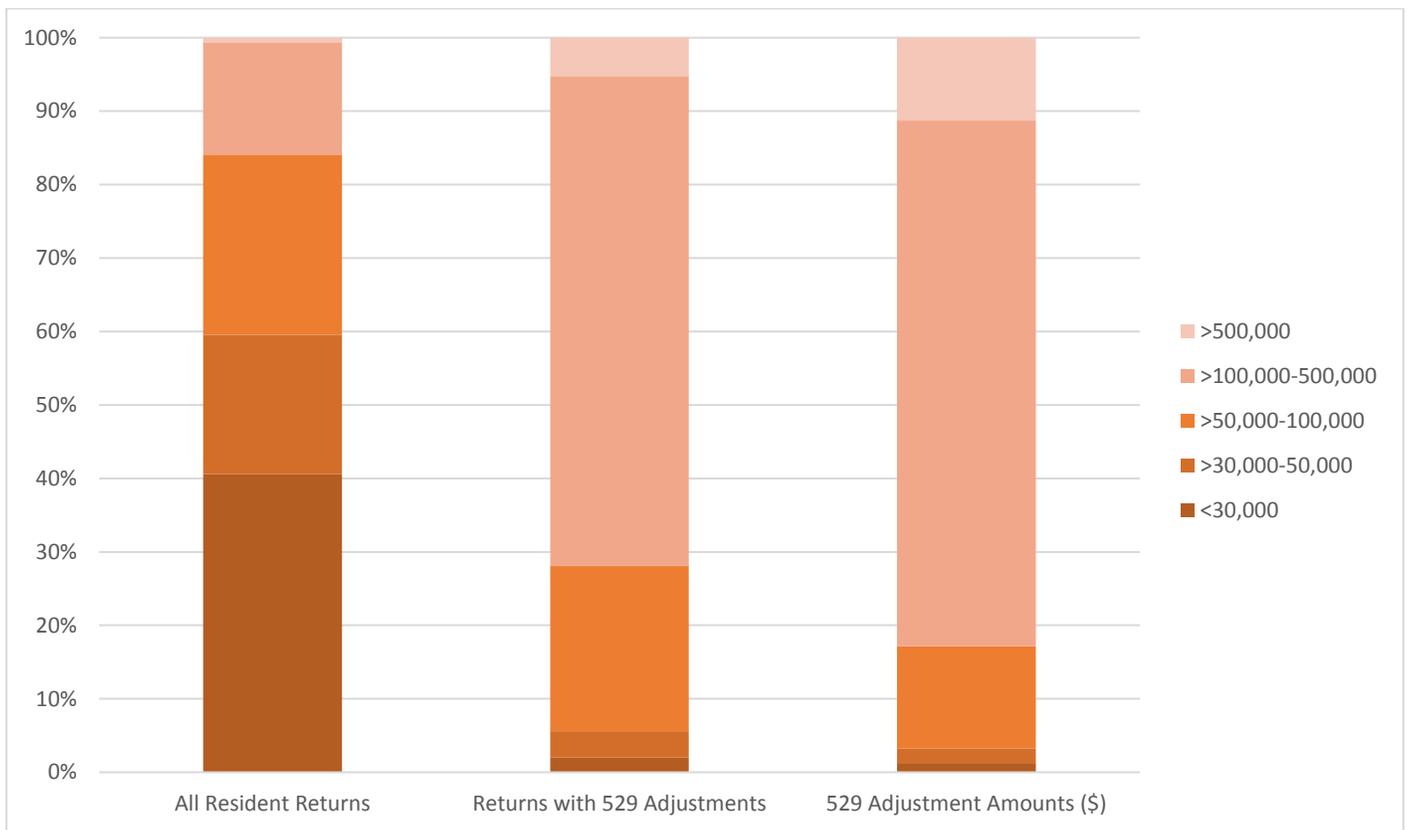
<sup>vi</sup> Voices for Children in Nebraska, "Higher Education: Savings and Opportunity," 7.

**Appendix 1: Utilization of 529 Adjustments in Nebraska**

**Table 1. Nebraska Individual Income Tax Data for Resident Returns by AGI for Tax Year 2015**

FAGI	All Resident Returns Filed		Returns with College Savings 529 Adjustments				Mean Benefit per Filer (\$)
			Adjustments Filed		Adjustment Amount		
	Number	%	Number	%	Amount (\$)	%	
<30,000	346,850	40.6%	320	2.0%	763,000	1.3%	2,384
>30,000-50,000	161,780	18.9%	570	3.6%	1,177,000	2.0%	2,065
>50,000-100,000	209,680	24.5%	3,580	22.5%	8,307,000	13.9%	2,320
>100,000-500,000	130,340	15.3%	10,610	66.7%	42,764,000	71.6%	4,031
>500,000	5,470	0.6%	830	5.2%	6,730,000	11.3%	8,108
<b>Total</b>	<b>854,120</b>		<b>15,910</b>		<b>59,741,000</b>		

**Figure 1. Low-Income Nebraska Families Represented 40% of Tax Filers in 2015, But Only Saw 1% of 529 Benefits**



Source: Voices for Children in Nebraska analysis of “Table F2: Resident Returns Credits and Adjustments,” Nebraska Department of Revenue, Nebraska Statistics of Income 2015, April 2017, available for download at: [http://revenue.nebraska.gov/research/statistics\\_of\\_income/stat\\_2015/excel/Table\\_F2\\_2015.xls](http://revenue.nebraska.gov/research/statistics_of_income/stat_2015/excel/Table_F2_2015.xls).