College Savings

Issue Brief

Higher Education: Savings and Opportunity

Postsecondary education and training is now more important than ever for individual success and societal progress. Investments in higher education provide significant returns in employment levels, financial earnings, tax revenues, health, upward mobility, and overall well-being.[1] Current projections indicate that demand for educated workers in Nebraska is projected to outpace current rates of educational attainment. There are significant barriers to pursuing higher education, leaving behind a surplus of untapped potential in our state's youth.

A postsecondary degree has become essential for obtaining quality employment, but the cost of higher education, and the consumer share of this cost, has skyrocketed. This has resulted in a significant increase in student debt and put higher education out of reach for many. Economic circumstances have some of the most pervasive impact on college readiness and success. Studies have found a strong relationship between a family's economic circumstances and school achievement, physical and emotional well-being, college planning, behavioral health, and academic expectations.

In recent years a variety of interventions have been explored across the country. These approaches have sought to bridge the gap between college aspirations and expectations for low-income students and to address the issue of affordability in higher education. This issue brief explores increasing college savings as a promising model for encouraging more lower income students to pursue higher education and helping to ensure that Nebraska has a workforce that meets our future needs.

1. Baum, Kathy, Jennifer Ma, and Kathleen Payea. "Education Pays 2013: The Benefits of Higher Education for Individuals and Society." College Board 2013. http://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report.pdf (accessed October 7, 2013), 5-6.

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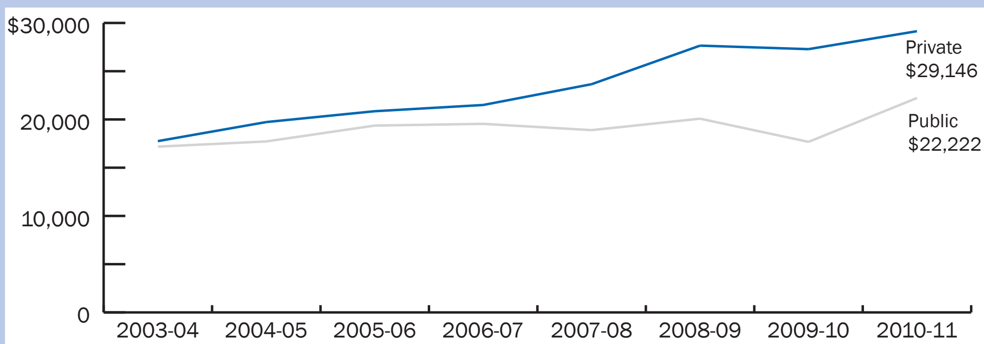
A Growing Economy Stifled by Divestment in Higher Education

Nationwide trends forecast a shortage in educated workers for the coming years. By 2020, it is projected that 71% of jobs in Nebraska will require some postsecondary education.[2] However, at current educational attainment rates, over 27,090 positions will remain unfilled by the same year.[3] Without a focused effort on preparing Nebraska's youth to meet projected workforce needs, industries with the fastest job growth rates—such as natural resource extraction and scientific services—will be forced to find other means of meeting demand.

In addition to projected workforce shortages, college affordability is a growing concern. The average tuition and fees at a public four-year institution in Nebraska increased by 16% in the last five years.[4] During the same five-year period, state spending on higher education per student decreased by just about the same amount, nearly 17%.[5] As state spending on higher education decreases, an increased share of the cost falls on students and families. After taking a sharp hit from the recession in 2008, the student share of public higher education costs is at an all-time high in Nebraska; conversely, the state appropriations share is at an all-time low while total enrollment has seen consistent growth (Figure 2).[6] These new patterns in higher education have resulted in the ballooning of student loan debt. Approximately 63% of students in Nebraska graduate with some student debt, with an average debt burden of over $24,000 (Figure 1).[7]

Fig. 1. Nebraska Student Debt (2003-04 to 2010-11)



Source: The Institute for College Access & Success, College InSight, http://www.college-insight.org.

If this pattern of increasing student debt continues, the implications for the future Nebraska's economy are significant. The seemingly insurmountable "sticker price" of a college education is often enough for a family with little experience in financial aid to rule out college altogether. And as students take on more debt to pay for education, their high debt burdens have a ripple effect on the economy. Many of today's graduates delay making large purchases—like buying a home or a new car—because of crippling student debt.[8]

2. Carnevale, Anthony P., 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. http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/Recovery2020.SR.Web.pdf (accessed September 30, 2013), 3.

3. Ibid., 64.

4. College Board Advocacy and Policy Center. "Figure 7: In-State Tuition and Fees by State and Sector, 2012-13 and 5-year Percent Change." In Trends in College Pricing 2013. The College Board, October 23, 2013. http://trends.collegeboard.org/college-pricing/figures-tables/in-state-tuition-fees-state-2013-14-and-5-year-percent-age-changes (accessed October 23, 2013).

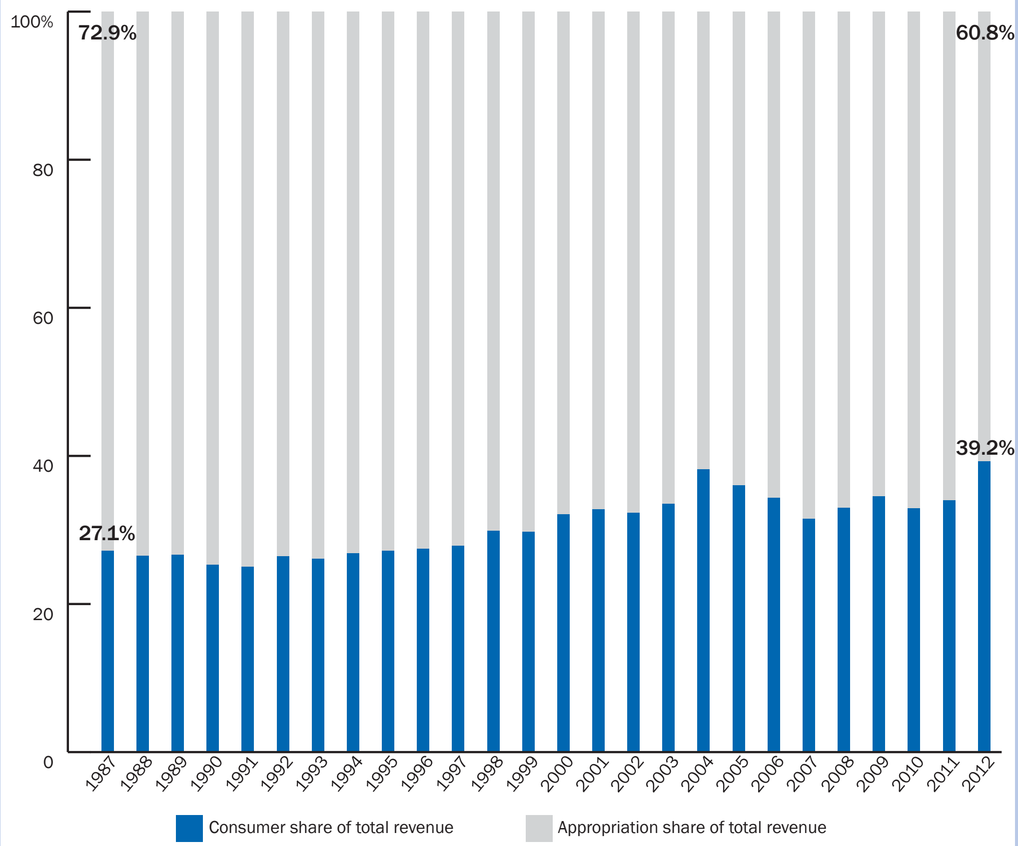
5. Oliff, Phil, Vincent Palacios, Ingrid Johnson, and Michael Leachman. "Recent Deep State Higher Education Cuts May Harm Students and the Economy for Years to Come." Center for Budget and Policy Priorities, March 19, 2013. http://www.cbpp.org/files/3-19-13sfp.pdf (accessed August 29, 2013), 4.

6. State Higher Education Executive Officers. "State Higher Education Finance FY12: All States Wavechart." State Higher Education Executive Officers Association, 2013. http://sheeo.org/sites/default/files/publications/All%20States%20Wavechart%202012%20REV20130322.pdf (accessed October 7, 2013), 28.

7. Reed, Matthew and Debbie Cochrane. "Student Debt and the Class of 2011." Institute for College Access and Success, October 2012. http://projectonstudentdebt.org/files/pub/classof2011.pdf (accessed September 30, 2013), 6.

8. Brown, Meta and Sydnee Caldwell. "Young Student Loan Borrowers Retreat from Housing and Auto Markets."

Fig. 2. Higher Education Cost Burdens in Nebraska, 1987-2012.



Source: State Higher Education Executive Officers. "State Higher Education Finance FY12: All States Wavechart."

Inequity in Access: An Untapped Resource

A college education is one of the most effective promoters of economic mobility. In Nebraska, those who have a bachelor's degree can expect to make on average 60% more annually than those with only a high school diploma.[9] But the high cost of a college education is becoming increasingly inaccessible to students who most need it. A variety of mutually reinforcing barriers continue to prevent generations of Nebraska's youth from realizing their full potential through higher education. These barriers include upfront costs, a lack of information, inadequate college counseling, a lack of accelerated secondary coursework, the absence of a college-going environment, and home instability.[10]

The tightening of state funding for higher education comes at a cost to the poorest students and families. In order to generate revenue to cover the budget gaps left by the slowing of state funding, many institutions across the country have shifted aid dollars typically allocated to the neediest students to merit-based aid directed at students who are more financially capable of bearing the cost a college education.[11] In Nebraska, the average percentage of Pell Grant recipients at four-year public colleges has declined

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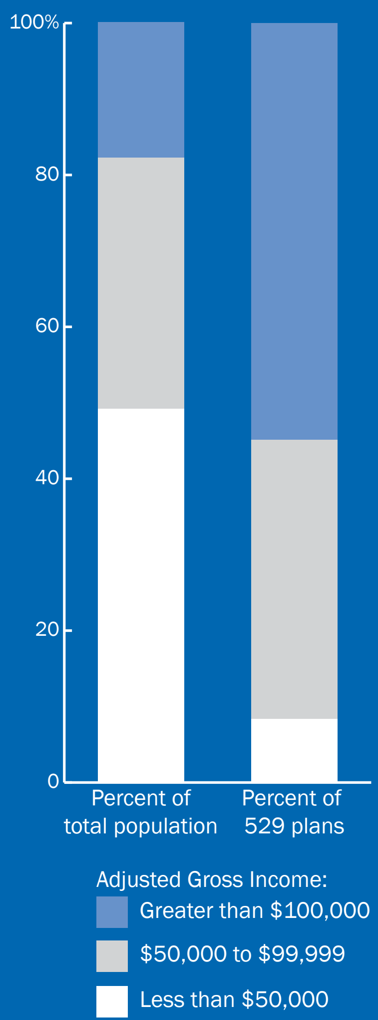
Federal Reserve Bank of New York, April 17, 2013. http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html (accessed October 7, 2013).

9. 2007-2011 5-year American Community Survey estimates, Table B20004.

10. Pew Charitable Trusts. "Pursuing the American Dream: Economic Mobility Across Generations." Pew Charitable Trusts Economic Mobility Project, July 2012. http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf (accessed September 18, 2013)

11. Wang, Marian. "Public Colleges' Quest for Revenue and Prestige Squeezes Needy Students." The Chronicle of Higher Education, September 11, 2013.; Burd, Stephen. "Undermining Pell: How Colleges Compete for Wealthy Students and Leave the Low-Income Behind." New America Foundation, May 2013.

Fig. 3. Nebraska 529 plan participation by adjusted gross income (2012)



Source: Nebraska Department of Revenue. "Nebraska College Savings Program (529), 2011."; U.S. Census Bureau. "DP03: Selected Economic Characteristics – Nebraska." 2012 American Community Survey 1-Year Estimates.

by 8% in four years and at the same time, the average net price paid out-of-pocket by students with a household income of $30,000 or less increased by nearly 23%.[12] From a broader perspective, an admissions process that favors wealthier students whose tuition dollars are capable of easing growing budget gaps at both public and private institutions only perpetuate the underrepresentation of low-income students at more selective institutions that are typically better equipped to produce higher-earning and more highly sought-after graduates.[13]

Furthermore, the rising costs of raising a child account for a significantly greater share of total income among low-income families than they do for middle- and high-income families.[14] As a result, the more immediate demands of raising a child, such as finding low-cost childcare or balancing food and school supply costs can eclipse long-term goals like saving for college. Low-income students are consistently the most frequent student loan borrowers, and struggle with debt burdens that are growing at a faster rate than their higher-income peers.[15]

College Savings and Nebraska

The growing cost of higher education and workforce shortage issues have led many states and cities to look for solutions. One avenue has been exploring the potential of educational savings. Interventions to encourage college savings and planning most commonly exist in the form of 529 savings plans, named for the section of the Internal Revenue Code that allows for tax advantages by using this as a vehicle for educational savings. These plans began in states and eventually became a federal prepaid tuition or savings tax-exempt plan that allow families to purchase shares in state-established trusts that are invested in mutual funds.[16] The money in the plan can be used for tuition and other related educational expenses. The state of Nebraska currently offers four types of 529 savings plans.[17]

Although 529 plans have been designed to offer families a relatively secure way to invest into postsecondary education, for the most part they are highly underutilized by low-income families. Nationally, fewer than 3% of families participate in 529 plans, and the median income of participating families was over $142,000.[18] Overall, information on 529 participants is scarce, and thus many states have not been able to thoroughly evaluate the program for improvements. The state of Texas, which recently began data collection on 529 plan enrollees found that of nearly 160,000 contracts purchased from 1996 to 2003, approximately 58% of enrollees were White and nearly 90% of families using the plan had some form of postsecondary education or training. Only 5% of enrollees reported a family income under $50,000.[19]

While families in Nebraska with an adjusted gross income below $50,000 make up nearly half of the state's population, they only accounted for 6.8% of those who made 529 filings in 2011. Meanwhile, Nebraskans reporting an income of over $100,000 make up less

12. Figures calculated from the Integrated Postsecondary Education Data System (IPEDS) data collected by the U.S. Department of Education National Center for Education Statistics at http://nces.ed.gov/ipeds/datacenter. Method adapted from Burd, "Undermining Pell: How Colleges Compete for Wealthy Students and Leave the Low-Income Behind."

13. Carnevale, Anthony P. and Jeff Strohl. "Separate & Unequal: How Higher Education Reinforces the Intergenerational Reproduction of White Racial Privilege." Georgetown University, Center on Education and the Workforce, July 2013.; National Student Clearinghouse Research Center. "High School Benchmarks Report: National College Progression Rates." National Student Clearinghouse, Fall 2013.

14. Lino, Mark. "Expenditures on Children by Families, 2012." U.S. Department of Agriculture, Center for Nutrition Policy and Promotion Publication No. 1528-2012, August 2013.

15. U.S. Department of Education. "Trends in Debt for Bachelor's Degree Recipients a Year After Graduation: 1994, 2001, and 2009." Institute of Education Sciences National Center for Education Statistics, December 2012.

16. U.S. Government Accountability Office. "Higher Education: A Small Percentage of Families Save in 529 Plans." GAO Report to the Chairman, Committee on Finance, U.S. Senate, December 2012.

17. Savings Plans Network. "Nebraska." http://www.collegesavings.org/viewState.aspx?state=NE

18. U.S. Government Accountability Office, "Higher Education: A Small Percentage of Families Save in 529 Plans."

19.Texas Comptroller. "Texas Prepaid Higher Education Tuition Program: Annual Report 2012." Texas Tomorrow Funds, Publication 96-481, February 2013, 9.

than 18% of the population, but constitute nearly 45% of all 529 plan participants (Figure 3).[20] The disparities in existing state 529 programs are apparent and underscore the importance of ensuring that college savings is an accessible option for all families.

Integrating Research into Policy

The main incentive for 529 savings—tax-free growth on disposable income—is irrelevant for many low-income families, who are typically already less experienced in navigating preferential tax policies.[21] Nebraska recently increased the amount of contribution to a 529 that is tax deductible from $2,500 to $5,000 for a person filing taxes separately and to $10,000 for a joint filing. This change essentially increased what the state is "spending" (in lost revenue) to encourage savings for higher education but in a way that is only likely to help those with significant amounts of disposable income.

Research has shown that savings is largely passive in nature, as opposed to more active spending decisions such as those made on food or shelter. In this light, the willingness to save is distinct from savings behaviors that are often delayed by indecisiveness or more pressing concerns.[22] This is particularly relevant to low-income families who are often more consumed by daily financial pressures.

Aspirations and Expectations for College

Recent studies on the relationship between college savings and attendance focus on the distinction between the desire to pursue a higher education and actual expectations for realizing those goals. For low-income students, important college decisions—like habitual classroom participation or visiting a college counselor—are made against the backdrop of financial hardships.[23] Research suggests that postsecondary goals are relatively constant across incomes, but simply knowing that college is a real and financial possibility makes a significant difference in other behaviors that eventually lead to actual college enrollment. Therefore, even accessibility programs targeted at high school seniors may be too late, where the effect of a lifetime of socioeconomic constraints have already left low-income students behind their classmates in college readiness.

Various studies have found that savings has a positive effect on college enrollment and success, even after controlling for academic achievement, parental involvement, and family income. This effect is particularly strong for low- to middle-income students, for whom a savings account offers an element of financial control over their postsecondary outcomes.[24] One such study found that students enrolled in a college savings account were six times more likely to attend college than peers with similar aspirations who were not enrolled in an account.[25] A college savings program targeted to younger children and accessible to lower income families offers one of the simplest and most cost-effective means of ensuring that any child in Nebraska that aspires to seek higher education feels that their goals are within reach.

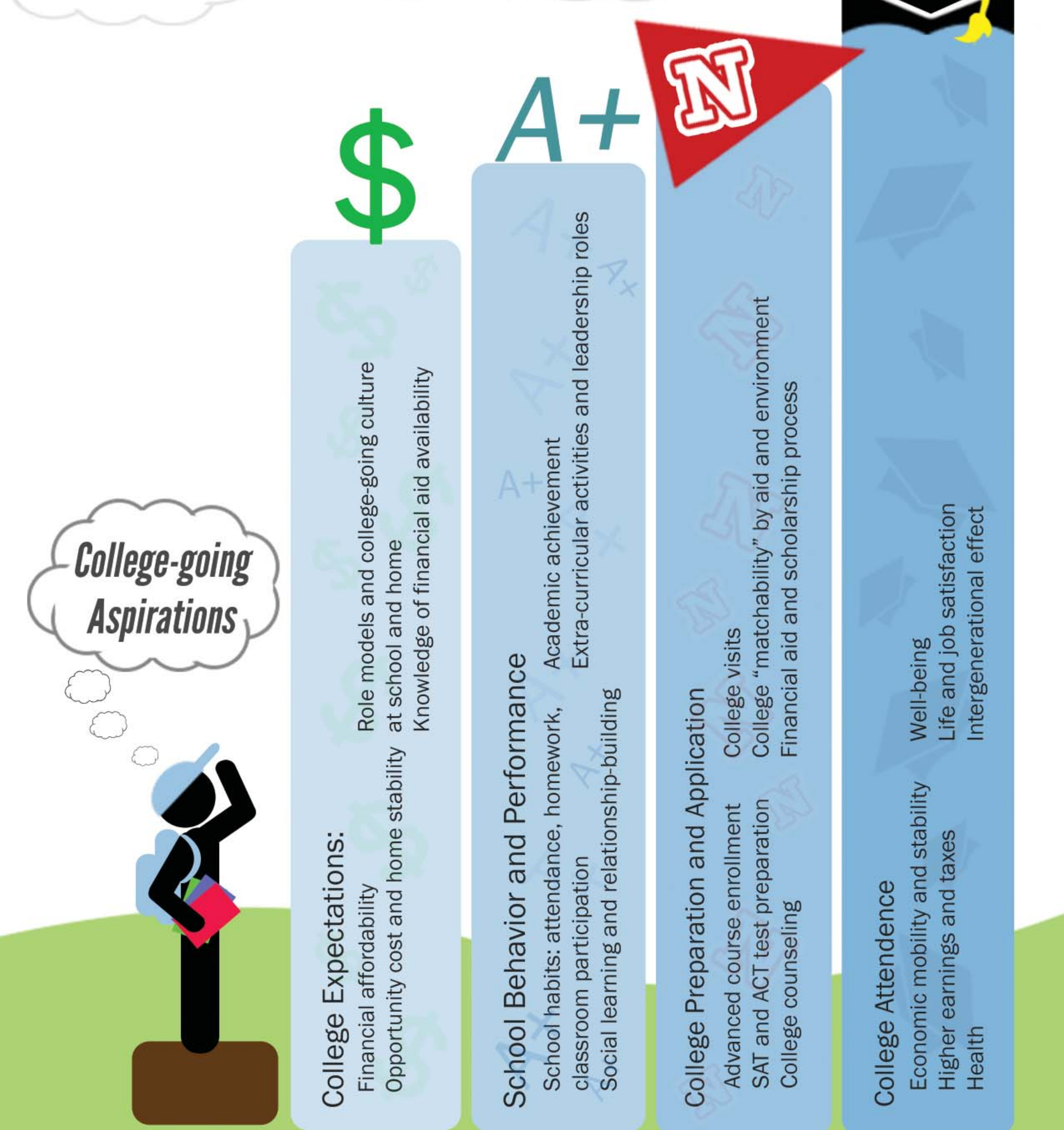
20. Nebraska Department of Revenue. "Nebraska College Savings Program (529), 2011."; U.S. Census Bureau. "DP03: Selected Economic Characteristics – Nebraska." 2012 American Community Survey 1-Year Estimates.
21. Black, Rachel and Mark Huelsman. "Overcoming Obstacles to College Attendance and Degree Completion: Toward a Pro-College Savings Agenda." New America Foundation Asset Building Program, March 2012.
22. Mullainathan, Sendhil. "Better Choices to Reduce Poverty," in Understanding Poverty, ed. Abhijit Vinayak Banerjee et al. (Oxford Scholarship Online, September 2006), 380-383.
23. Hoxby, Caroline M. and Christopher Avery. "The Missing 'One-Offs': The Hidden Supply of High-Achieving Low Income Students." National Bureau of Economic Research Working Paper No. 18586, December 2012.; Mani, Anandi, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. "Poverty Impedes Cognitive Function." Science 341(976):2013. DOI: 10.1126/science.1238041.; Elliot, William, Eune Hee Choi, Mesmin Destin, and Kevin H.Kim. "The Age Old Question, Which Comes First? A Simultaneous Test of Children's Savings and College-bound Identity." Children and Youth Services Review 33(7):2007, 1101-1111.; Shanks, Trina R. and Christine Robinson. "Assets, Economic Opportunity, and Toxic Stress." Washington University in St. Louis Center for Social Development Working Paper No. 12-22, 2012.; Coley, Richard J. and Bruce Baker. "Poverty and Education: Finding the Way Forward." Educational Testing Service Center for Research on Human Capital and Education, July 2013.
24. Elliott, William. "Why Policymakers Should Care about Children's Savings." Washington University in St. Louis Center for Social Development, January 2012.
25. Elliott, William and Sondra Beverly. "The Role of Savings and Wealth in Reducing "Wilt" between Expectations and College Attendance." Journal of Children and Poverty 17(2):2011, 165-185.

Fig. 4. The cost of college (4-year public college) (2012-2013)

Tuition and Fees	$7,315.00
On-campus room and board	$7,257.17
Books and supplies	$1,091.33
Total	**$15,663.50**

Sources: College Board Advocacy and Policy Center. "Figure 7: In-State Tuition and Fees by State and Sector, 2012-13 and 5-year Percent Change." In Trends in College Pricing 2013. The College Board, October 23, 2013. http://trends.collegeboard.org/college-pricing/figures-tables/in-state-tuition-fees-state-2013-14-and-5-year-percentage-changes; U.S. Department of Education National Center for Education Statistics. "Integrated Postsecondary Data System (IPEDS)." http://nces.ed.gov/ipeds/datacenter

The Path From College Aspirations to Graduation



Higher Education Savings Models

A range of innovative models for higher education savings are being explored across the country. Through legislative, private and administrative initiatives, cost-effective and early interventions in educational savings have sought to equip students as early as possible with the confidence that pursuing higher education is a realistic goal.

While some models seek to address the current crisis of student loan debt, an ideal approach should be cost-efficient, sustainable, and encouraging of other college-going behaviors. One type of college savings initiative promotes a long-term commitment to savings by automatically enrolling children in college savings plans upon birth. Many states augment this initiative by offering matching programs or seed funding, which guarantee a certain amount of public investment into savings accounts.[26] Examples of savings programs include:

1) **SEED for Oklahoma Kids (SEED OK)** launched a privately-funded exploratory program in 2007, offering 1,358 randomly-selected newborns $1,000 in a state-owned 529 account, the option to open a privately-owned account, and matched participant-owned contributions on a sliding scale for families with an adjusted gross income under $43,500. The longitudinal study also includes 1,346 newborns without a savings account in a control group. The study has provided rigorous research-based evidence on the importance of automatic enrollment, centralization, strategic communication, and targeted savings incentives for policymakers to consider when shaping college savings programs and policies. The experiment is ongoing and its participants have just entered elementary school, but early findings lend strong support to the importance of automatic enrollment. Participant families held an average of $1,040 more in educational assets than similar families in the control group.[27]
2) **Kansas Investments Developing Scholars (KIDS)** program was initiated in 2006 and provides matching deposits of up to $600 per child each year for households below 200% of the federal poverty level that are enrolled in a 529 plan. The matching contribution is intended to introduce greater equity to the 529 structure by mirroring the preexisting state subsidies in the tax code for high-earning enrollees who are able to enjoy tax-free growth of major contributions. The KIDS program has provided strong evidence that even small dollar amounts of savings have marked outcomes in college enrollment and success for low-income students.[28]
3) **Kindergarten to College (K2C)** implemented by the City of San Francisco "seeded" a deposit of $50 from general public funds to each child enrolled in public Kindergarten in the city beginning in 2011, providing an additional $50 for students eligible for free or reduced lunch. Additional incentives, including a $100 match and a $100 incentive for regular contributions, encourage families to continue growing the "seed" with the help of private investors.[29]

The value of inventive college savings approaches is clear: encouraging savings early on requires minimal initial investments and a centralized system, but offers extremely high monetary and social returns. The powerful nature of programs like K2C was expressed by one San Francisco parent as having "changed the dialogue in our house. We always intended for our girls to go to college, but it used to be on the back burner and now

A college savings program targeted to younger children and accessible to lower income families offers one of the simplest and most cost-effective means of ensuring that any child in Nebraska that aspires to seek higher education feels that their goals are within reach.

26. Lassar, Terry, Margaret Clancy, and Sarah McClure. "Toward More Inclusive College Savings Plans: Sample State Legislation." Washington University in St. Louis Center for Social Development Working Paper 10-02, 2010.

27. Nam, Yunju, Youngmi Kim, Margaret Clancy, Robert Zager, and Michael Sherraden. "Do Child Development Accounts Promote Account Holding, Saving, and Asset Accumulation for Children's Future? Evidence from a Statewide Randomized Experiment." Washington University in St. Louis Center for Social Development Working Paper No. 11-33, 2011.

28. Elliot, William. "Kansas' Experiment in Encouraging College Savings." New America Foundation, January 16, 2013.

29. Phillips, Leigh and Anne Stuhldreher. "Kindergarten to College (K2C): A First-in-the-Nation Incentive to Set All Kindergarteners on the Path to College." New America Foundation, September 2011.

it's front and center. It sends a message to the next generation. We have to do this together."[30]

Yet another important aspect of new approaches has been removing savings disincentives. For many low-income families, the already-challenging task of asset building can be amplified through the asset tests in public assistance programs. This can encourage the practice of "spending down," where families do not save because having financial assets can bar them from access to Supplemental Nutrition Assistance Program (SNAP) or child care subsidies.[31] In Nebraska, the SNAP program excludes non-liquid assets like educational savings but other public programs do not. The challenge of asset building among low-income families is significant, but evidence from other states proves that it is not unsolvable.

Policy Recommendations

Data Collection: The first steps in addressing the affordability of higher education in Nebraska is to work towards more complete knowledge about savings trends. Demographic data collection on the enrollees and purchasers of 529 savings plans can better inform policymakers on where public resources can be most effectively targeted in order to invest in an educated workforce for the future of the state economy.

Remove Barriers to Savings in Public Programs: Currently, assets held in a 529 savings plan are exempt from state financial aid packages and public assistance eligibility tests with the exception of Aid to Dependent Children (ADC), Child Care Subsidy Program, and the Low Income Home Emergency Assistance Program (LIHEAP). Removal of 529 savings from the remaining public programs would prevent low-income families from facing the zero-sum choice between long-term and immediate well-being when considering college savings.

Promote Matched Savings Accounts: Policymakers and private funders should build on innovative models from around the country that match or seed savings, especially for lower income families. This can increase both aspirations for higher education and provide a means of paying for some portion of expenses.

Conclusion

In order to fill the demand for educated workers in the growing economy, Nebraska can invest in a generation of educated youth and prepare for future workforce needs by pursing strategies to make higher education more accessible, especially for lower income families. Educational savings is one area where research has shown we can impact both individual aspirations and resources available for higher education. By targeting higher education savings incentives towards families that need it the most, we can increase the likelihood that individuals will succeed and prepare the labor market for the future demands of the state economy.

When weighed against the consequences of a major skills gap in the labor market, taking the first steps to overcome savings barriers that leave many low-income students behind in the increasingly difficult path to higher education is crucial. All Nebraskans stand to reap countless benefits that have been shown to come with higher education, including higher earnings, tax payments, social mobility, greater participation in pension plans and health insurance, lower poverty levels, increased health, and greater civic participation.[32]

30. Williams, Kale. "Duncan lauds S.F.'s Kindergarten to College." San Francisco Chronicle, June 22, 2013.

31. Lassar et al., "Toward More Inclusive College Savings Plans: Sample State Legislation," 10-12.

32. Baum et al., "Education Pays 2013: The Benefits of Higher Education for Individuals and Society."

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