BRIEF

College Savings Strategies

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Background

For students, parents and families budgeting for a postsecondary education, rising costs continue to present major challenges for affordability. In the 2022-23 school year, listed yearly tuition and fees at public four-year institutions was $10,940 and $3,860 at two-year institutions. Additional expenses such as room and board, cost an average of between $9,610-$12,310 per year. While many students qualify for financial aid packages, the average net price of attending a four-year institution including all expenses is nearly $20,000 a year. Students planning to pursue a postsecondary degree or credential in future decades should also expect these costs to rise. Between 2010 and 2020, tuition and fees rose 10% at public universities and 19% at private, non-profit universities.

As students and families face these rising costs, strategies that support saving for college are one approach that can help learners pursue a degree while avoiding burdensome student loan debt. While savers have a variety of options, state-run 529 plans are a primary vehicle for families to save for postsecondary education.

Tax-advantaged 529 savings plans can be used for future education costs. The first type of 529 plan is a prepaid tuition plan, which allows an account holder to purchase credit hours at an in-state university or college at current prices for a beneficiary to use later. These plans generally have residency requirements and are not always guaranteed if the beneficiary decides to attend a different postsecondary institution. Prepaid tuition plans are currently offered in 11 states. The second, and more common, 529 plan is education savings plans, which let an account holder open a tax-advantaged investment account that can be used for qualified education expenses including tuition, fees and room and board. Distributions can be used at any eligible higher education institution as well as up to $10,000 per year at secondary schools.

Nearly 16 million Americans have a 529 account as of 2021. The use of 529 plans has grown dramatically in recent years with over $480 billion in combined assets at the end of 2021, a 191% increase in assets from a decade earlier. Oregon saw record contributions to its state-run 529 plan in 2021. Research from Washington University found that students with 529 accounts, even accounts with balances of less than $500, are more than three times more likely to enroll in college and more than four and half times more likely to graduate from college than students with no savings account.

State Policy Action

STATE 529 INCENTIVES

Tax Incentives

The features of 529 plans vary by state, but many states offer financial incentives to encourage the use of 529s to save for college. At least 37 states and D.C. offer a tax deduction or credit for contributions to an eligible 529 plan. Additionally, seven of these states offer "tax parity" which allows tax benefits for contribution to out-of-state 529 plans. At least three states — New Mexico, South Carolina, and West Virginia— allow a tax deduction for the full contribution amount to a 529 plan. A 2017 analysis from the Brookings Institution found that 24 states spent $265 million per year on tax incentives for 529 plans.

Several states have passed legislation addressing tax deductions for 529 contributions in recent years. In 2021, Colorado passed HB 1311 which eliminated the full contribution deduction and created a cap of $20,000 per year for single filers ($30,000 for joint returns). In 2022, Delaware passed HB 145, which created a new deduction of up to $1,000 ($2,000 for joint returns) for 529 accounts where the account holder has a federal income under $100,000 per year ($200,000 for joint returns). Indiana also passed HB 1045 which increases the annual tax credit for 529 plan contributions from $1,000 to $1,500.

Initial Deposit (Seed) Programs & Contribution Matching

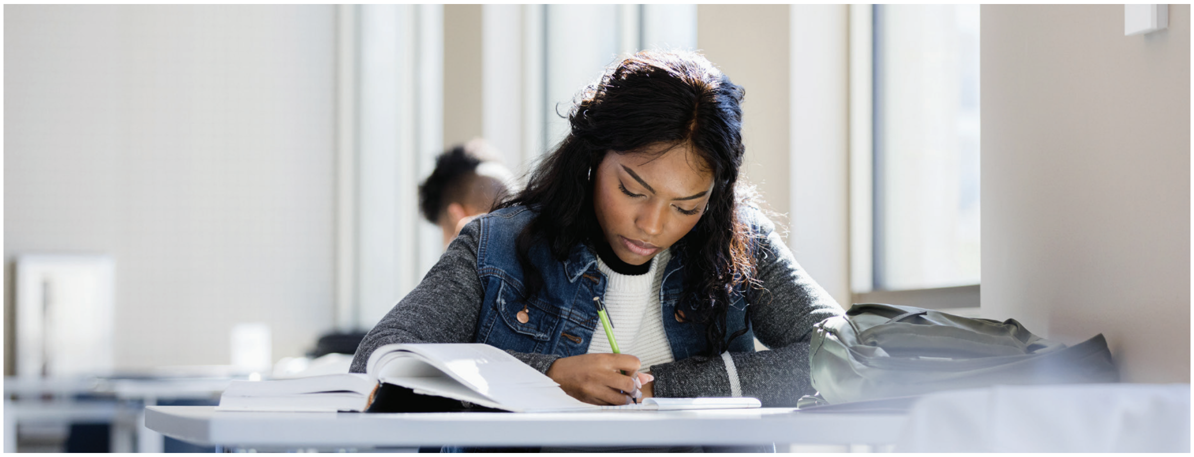
In recent years, several states have begun offering incentives for parents to open 529 savings accounts earlier in their child's life. Research from the National Bureau of Economic Research found that providing an initial deposit along with informational assistance creates a positive effect on saving behavior and postsecondary outcomes. Since 2015, at least 14 states have created programs to provide initial grant deposits to parents who open 529 accounts.

California – CalKIDS Program—Will provide all children born in California with up to $100 in initial contributions at birth. Created by AB 2821, which passed in 2022, the program will also provide a $500 contribution for currently enrolled low-income students in grades 1-12 and incoming low-income first grade students. Students who identify as foster youth or homeless may be eligible for an additional $1,000 contribution.

Colorado – First Step Program—Provides all children born or adopted in the state with a $100 contribution at birth and a $1,000 match for the first five years an eligible account remains open. This program was created by HB 1280, passed in 2019. The state also offers the CollegeInvest Matching Grant Program, which matches up to $500 in contributions for eligible families. Eligibility for the matching grant is subject to income limitations and claiming an eligible beneficiary.

Connecticut – CHET Baby Scholars Program—Launched in 2021, this program provides a $100 one-time contribution for 529 plans opened by a child's first birthday or within the first year of the adoption of a child. Created as an initiative of the Connecticut State Treasurer's Office.

Illinois – Bright Start 529 Plan—Will provide all children born in Illinois with a $50 starting deposit as part of the Higher Education Savings Program. This program was originally created as part of HB 2237 (2019) and was expanded by SB 3991 in 2022.



Maine – Several 529 matching programs, including a $100 initial match after making a $25 deposit, an additional $100 deposit after six automatic contributions, and 30% NextStep matching grant up to $300 per year with eligible contributions. Additionally, the Alfond Grant Program was expanded in 2013 with funding from the Alfond Scholarship Foundation, this program provides all babies born in Maine with a $500 deposit that can be used for eligible higher education expenses.

Massachusetts – BabySteps Savings Plan—Launched in 2020 with the support of the Hildreth Stewart Charitable Foundation and a state matching program, this program provides a $50 deposit into a child's MEFA U.Fund 529 account for all Massachusetts residents. According to data from the state treasurer, just 11.9% of families with babies born in 2021, opened a 529 account.

Nebraska – Meadowlark Program—Provides children born in Nebraska with a deposit of $50 upon enrollment in a NEST 529 Education Savings Plan. Meadowlark funds may only be used to attend eligible education institutions in Nebraska. Created by LB 610 in 2019.

Nevada – College Kickstart Program—Provides a deposit of $50 for all public-school kindergarten students. Funded through grants, private sponsorships and program management fees; no taxpayer dollars are used.

North Dakota – New Baby Match Program—Provides up to $200 match deposit for newborns in the state. The state also offers an additional matching program in kindergarten.

Oregon – Baby Grad Program—Provides a $25 contribution for children born in the state who have an account opened before their first birthday.

Pennsylvania – Keystone Scholars Program—Provides every child who is a resident at the time of birth or adoption with a $100 deposit for the PA 529 program. This program is funded by surplus earnings from 529 savings plans, not taxpayer funds. The state also offers the Bright Futures Booster, an additional one-time $50 deposit for all babies born to mothers enrolled in WIC. The Keystone Scholars program was expanded in 2018 with the passage of HB 1929, which allowed all children born in the state to automatically receive the $100 deposit unless a parent opts-out of the program. As of 2021, more than 350,000 Keystone Scholar deposits have been created, but just 10.6% of eligible families have registered their account to claim and link the Keystone Scholar funding to their 529 account.

Rhode Island – CollegeBound Starter Program—Launched in 2015, this program provides a $100 starter bonus for each baby born to or adopted by a Rhode Island family that opens a CollegeBound Saver (529) account within one year of the child's birth or adoption.

Tennessee – TIPS Program—Provides a 4-to-1 match up to $500 per year and $1,500 lifetime for a child born and living in the state. Income limits apply, operated by the Tennessee Department of the Treasury.

West Virginia – Bright Babies Program—Provides a $100 contribution to children in their first year who are state residents and have a college savings account opened on their behalf.

Additionally, at least seven states offer matching funds for additional contributions made by parents after a child is born. The structure, funding and length of these matching programs vary by state. For example, Colorado offers up to five years of $1,000 per year in matching funds for low- to middle- income families, while Kansas offers match up to $600 of contributions per year.

Earn to Learn

Other states are exploring new strategies to boost college savings and help families save for postsecondary education. Earn to Learn, a nonprofit group has established a matched savings program scholarship in Arizona. Postsecondary students participating in the Earn to Learn program commit to saving $500 per academic year into an eligible college savings account. Students then receive an 8-1 match (up to $4,500 per year) supported by institutional funds, federal and state government funding, and philanthropic partners. Students can use these scholarship funds to pay for tuition and other related costs at eligible colleges and universities in Arizona.

Students must be eligible for at least $1 of the Federal Pell Grant, qualify for in-state tuition and enroll in a certificate or degree program at an eligible in-state institution. The program also provides financial training courses, as well as college and workforce readiness support while students are enrolled. In 2022, Earn to Learn announced a partnership with the Arizona State Treasurer's Office that will allow up to 450 Earn to Learn students to use the AZ529 Education Savings Plan for the Earn to Learn account.

Earn to Learn has provided more than 6,400 scholarship opportunities in Arizona. Among students who have participated in the program so far, 63% are first generation students and 72% pursue STEM degree programs. Earn to Learn scholars are twice as likely to complete a postsecondary degree or credential and the program has first year retention rate of nearly 80%. Earn to Learn also has an established scholarship program in Florida, with a similar program design and up to $4,000 per year for tuition and related costs at Florida colleges and universities. Earn to Learn is also exploring a multi-state pilot program in up to 20 states to provide 25,000 scholarships to low to moderate income students.

ADDITIONAL RESOURCES

- State-Sponsored Child Investment Accounts: Helping Parents Save for College, Helping Students Avoid Loan Debt, Rockefeller Institute, December 2021
- 529 Plan Data, College Savings Plan Network, June 2022
- Some States Open College Savings Accounts for Every Newborn, Pew Stateline, November 2022

Please note: Links to outside organizations and websites are for informational purposes only.

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