

A Degree of Savings

Savings accounts dedicated to paying for college can take the sting out of increasing tuitions and help develop the habit of saving.

BY JESSICA HATHAWAY

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If current tuition rate increases continue, a child born this year will have to pay an estimated \$215,064 for a four-year degree at a public college or university. Today, those costs average \$110,408, according to SavingforCollege.com.

These increases are pushing higher education out of the reach of many Americans, especially since less than half of parents with children under age 18 have started saving for college, according to the private student-loan provider Sallie Mae.

To encourage parents—especially those with low incomes—to begin saving early, some states offer children's savings accounts. The rules and structure vary by state, but generally, they are long-term savings accounts that can be opened for a child when he or she is born. Most states also offer incentives for deposits and tax exemptions, deductions or deferrals on the earnings.

Increasing Assets

The concept of these accounts emerged in the 1990s with the asset-development movement, which held that increasing a low-income family's assets, not just its income, promotes better long-term financial stability.

At least four states offer statewide children's savings account initiatives. Some seed them with an initial deposit that varies in size from \$500 in Maine to \$50 in Nevada. Most also offer incentives for parents, relatives and, eventually, the children themselves to continue making deposits—such as matching contributions. Several programs include age-appropriate budgeting and personal financial education for both the parents and the children.

Seeding the accounts, matching deposits



and managing the assets can be costly, however, and is not the role of state government, some say.

Representative Richard Barry (R) of New Hampshire cosponsored legislation to create a pilot program in 2015. “I think of it very highly and will support it as long as it is not government-funded. I’d love to have private funding for it,” he says. About 80 percent of state-level children's savings accounts are managed by the more traditional, tax-advantaged 529 savings plan administrators. Businesses, private foundations and philanthropic organizations also provide some financial support.



Representative
Richard Barry
New Hampshire

Getting families to save for college can make a real difference. Low- and moderate-income children with college savings of as little as \$500



are three times more likely to enroll in college and four times more likely to graduate, according to research by the Corporation for Enterprise Development.

Watching Oklahoma

The verdict on the long-term effects of children's savings accounts may not be reached for a few years, but a pilot program in Oklahoma has begun to reveal clues. It has attracted national attention as the first state project to offer the accounts on a large scale.

The pilot study, which the Sooner State is conducting with significant funding from the Ford Foundation, and in partnership with the Center for Social Development at Washington University in St. Louis, is called SEED for Oklahoma Kids, or SEED OK. Between 2008 and 2011, the program

opened 529 savings accounts for a random sample of newborns from low-income families. Each account was seeded with an initial deposit of \$1,000. The program also provided parents with financial education and a \$100 incentive to open their own 529 account for their child.

The children from the study are still in elementary school, but initial assessments have found that, compared with families not in the program, parents of the children who received the seeded accounts have opened more of their own 529 accounts and have set aside more savings.

On evaluations, children with savings accounts score higher on social and emotional development, and their parents express higher expectations for their children's education and fewer mental health issues than those without an account.

A Variety of Efforts

Across the country, state-supported programs are up and running in Connecticut, Maine, Nevada and Rhode Island, according to the Federal Reserve Bank of Boston and the University of Kansas Center on Assets, Education and Inclusion.

Lawmakers in Massachusetts, Montana and Vermont have proposed legislation to start similar programs. New Hampshire is working on a pilot program, and New York is studying the feasibility of starting one. Some states offer more limited programs, while others provide additional incentives to low- and moderate-income families.

In addition to state-sponsored accounts, a growing number of programs are administered by municipalities and public-private partnerships. Privately funded children's

New England and Beyond

New England can boast of several children’s savings account initiatives, all of them motivated by the success of the Harold Alfond College Challenge in Maine. One, the Children’s Savings Account Consortium, is supported by the Federal Reserve Bank of Boston. The consortium works to increase children’s savings account programs and to share resources across the region. Its efforts have paid off. Every New England state is now considering a children’s savings account program, with each at different stages in the process.

The Alfond Challenge received national attention in 2008 when it offered every child \$500 through a savings account. Parents initially were required to enroll in the state’s 529 plan to receive the \$500 but, despite the offer of free money for college, only about 40 percent of children were enrolled. Administrators switched to a universal, opt-out enrollment system in 2014, ensuring the roughly 12,500 babies born annually in Maine get enrolled—unless their parents opt out of the offer.

Finally, the 1:1 Fund, administered by the Corporation for Enterprise Development, helps low-income families save for college while giving them “the confidence that post-secondary education is a real and attainable goal,” according to the corporation’s website. The fund helps kids save for college by matching their contributions to children’s savings accounts, dollar-for-dollar. The fund works with college savings programs in 12 states, soliciting donations, large or small, from anyone who wants to participate.

savings accounts do not need legislative approval but have found support among legislators. “The role of a legislator,” says Anthony Poore, of the Regional and Community Outreach department at the Federal Reserve Bank of Boston, “has been a fundraiser, a champion, an awareness-raiser. ... Regardless of which side of the aisle you happen to sit on, children’s savings accounts speak well.” The bank supports the accounts as part of its initiative to build a workforce prepared for the future.

Differences in the Details

In 2008, Maine launched the nation’s first statewide universal children’s savings account program and offered all parents a \$500 grant to start saving for their infants’ college education. Today, the state has the nation’s most generous program, with the money deposited automatically into an account created for every newborn. The Harold Alfond Foundation, a private philanthropy, funds the grants.

Nevada’s College Kick Start Program, administered by the state treasurer’s office, opens a 529 account with \$50 for every public school child entering kindergarten. Instead of taxpayers’ money, the program uses a portion of the fees paid by financial institutions managing the funds to seed every account. Nearly 90,000 children in Nevada now have an account.

As part of its children’s savings account initiative, Rhode Island offers a \$100 “CollegeBoundbaby” grant to parents who open a state-sponsored 529 account for a child within the baby’s first year of life or adoption. There are no income restrictions, so the \$100 grant is available to any child in the state. The investment firm AllianceBernstein manages the state’s 529 accounts and funds the \$100 seed grants.

Connecticut lawmakers created the

Higher Education Trust Baby Scholars program in 2014, using money from a defunct scholarship fund established in the treasurer’s office and contributions from taxpayers who choose to divert some of their tax refund to the program. It’s open to any child born or adopted in the state. Parents have a year to enroll their children and receive the initial \$100 grant. If an additional \$150 is deposited into the account by the time the children are 4 years old, they receive a matching grant.

Representative Mary Stuart Gile (D) of New Hampshire became interested in the accounts after reading an article that described San Francisco’s Kindergarten to College, or K2C, program. The city opens a Citibank account seeded with \$50 from city and county funds



Representative Mary Stuart Gile New Hampshire

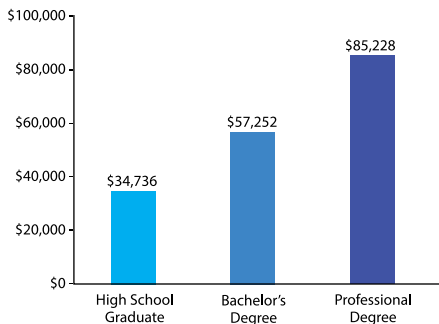
for every child entering kindergarten in the San Francisco Unified School District. Children eligible for free or reduced lunch receive an extra \$50 in their accounts. Incentives encourage participants to save even more.

Visiting the program in San Francisco was enough to convince Giles to bring the idea home to New Hampshire. “It’s working there,” she says, “the parents are really saving.” Giles sponsored legislation in 2014 to conduct a similar pilot program just to “get the ball rolling.”

Vermont passed legislation last year to establish a savings program and is currently raising money from the private sector to fund the accounts. Subaru of New England, the first major donor, gave \$25,000 to the effort.

Indiana’s Wabash County Promise program has partnered with the Wabash County YMCA, the county school district, local businesses, organizations, churches and individuals to open 529 accounts. When children register for school, they receive an account with \$25 from Parkview Health. Anyone who contributes to a child’s account is offered a 20 percent state income tax credit for the amount, up to \$1,000. The program has expanded into another seven counties in Indiana.

Average Annual Earnings by Highest Degree Earned



Source: Sallie Mae, *How America Saves for College*, 2015



Hopeful Results

It's too soon to measure the effectiveness of these programs. "Legislatures don't have 18 years to see if, in fact, a policy works," says Poore, of the Boston Fed. "But what we can do is start building in interim measures" that will give a sense of the program's effectiveness after a few years.

Assessments by researchers from the Center for Social Development have found that kids with a savings account:

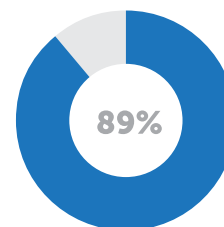
- Perform better academically, particu-

larly in math and reading.

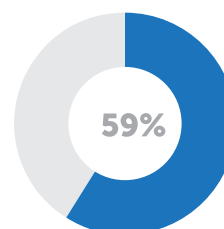
- Are seven times more likely to enroll in college and complete a degree.
- Are less likely to accrue financial debt from higher education.
- Have a better understanding of money matters, improving their long-term financial stability.

It's unknown how many kids will go on to college simply because they had a children's savings account. But with the cost of college increasing twice as fast as the infla-

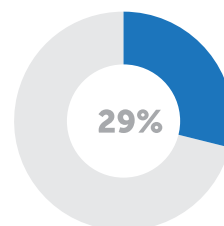
Percent of parents who believe college is an investment in their children's future.



Percent of parents who doubt they will be able to save enough for college.



Percent of parents who feel overwhelmed about saving for college.



Source: Sallie Mae, *How America Saves for College*, 2015

tion rate, it's never too early to start saving and building the assets needed for a degree. If a savings account encourages parents and children to develop a lifelong habit of saving, that can't hurt either.

Are children's savings accounts the final answer to rising tuition rates? No, but they may help keep the dream of attending college alive for low- and moderate-income students. Who knows, maybe one of those kids will get a fine education and figure out how to make higher education a little more affordable. ☺