



Center for Public Policy Priorities

P O L I C Y P A G E

**TEXAS TUITION
PROMISE
FUND:**

**USING COLLEGE SAVINGS TO
INCREASE COLLEGE SUCCESS**

.....
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.....

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CPPP

For 25 years, the center has been a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans.

The center pursues this mission through independent research, policy analysis and development, public education, advocacy, coalition-building, and technical assistance.

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TABLE OF CONTENTS

Introduction 4

Closing the Gaps 4

College Savings Plans in Texas 5

Texas College Savings Plan 5

Texas Tuition Promise Fund 5

A Mandate to Reach Working
Texas Families6

Save & Match Provision6

Texas Match the
Promise Foundation7

Performance of the Texas
Tuition Promise Fund7

Recommendations9

Resources 10

Endnotes 10



Introduction

The old saying, “You have to *learn to earn*,” underscores the importance of investment in higher education. Yet rising tuition, limited financial aid, and lack of savings keeps college out of reach and out of mind for many Texas families, especially low-income families.

Although the Legislature created the Texas Tuition Promise Fund explicitly to reach low-income students, an analysis of the plan’s first two years demonstrates that students who most need college savings accounts largely remain untouched.

To close the gaps, the state must align its college savings plans and master plan for higher education to seamlessly provide incentives for economically disadvantaged students to begin college savings.

Closing the Gaps

Closing the Gaps 2015, the state’s master plan for higher education, puts college access and the achievement gap front and center. Enacted in 2000, the plan seeks to address participation, success, excellence, and research in higher education. To accomplish this, the plan set several goals for 2015, including:

- Closing the gaps in participation rates by adding 630,000 more students;
- Awarding 210,000 undergraduate degrees, certificates, and other identifiable student successes from high quality programs; and
- Substantially increasing the number of nationally recognized programs or services at colleges and universities.

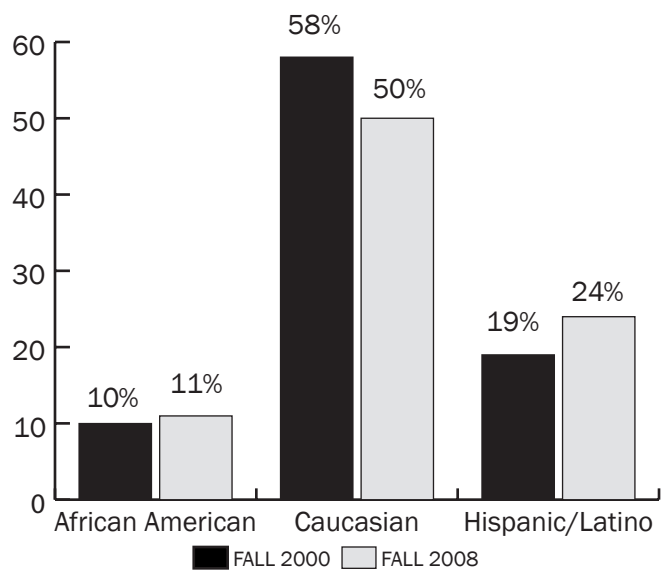
The plan also set targets for increasing participation and awarded degrees to minority students, including:

- Increasing higher education participation rates for African Americans and Hispanics to 5.7 percent each by 2015;
- Increasing the number of African Americans completing bachelor’s degrees to 24,300 by 2015; and
- Increasing the number of Hispanics completing bachelor’s degrees to 67,000 by 2015.

NOTE The Texas Higher Education Coordinating Board is currently considering an *Accelerated Plan for Closing the Gaps*, which would ramp up efforts to meet the 2015 targets.

The state must align its college savings plans and master plan for higher education to seamlessly provide incentives for economically disadvantaged students to begin college savings.

Caucasian students represent half of all students at Texas four-year public universities:



CPPP analysis of *Closing the Gaps 2015*: 2009 Progress Report.

College Saving Plans in Texas

529 college savings plans should play an integral role in helping the state achieve the goals of *Closing the Gaps 2015*. Like many states, Texas has varied experiences with 529 college savings plans. Texas currently operates two 529 Plans—the Texas College Savings Plan and the Texas Tuition Promise Fund, a pre-paid tuition plan.

Texas College Savings Plan

Before 2007, Texas' 529 college savings plan—formerly known as Tomorrow's College Investment Plan—was one of the nation's poorest performing plans, with high fees and low financial returns. As a result of this lackluster performance, the Texas Comptroller, chair of the Texas Prepaid Higher Education Tuition Board (Board), changed fund managers and launched an initiative to revamp Texas' 529 college savings approach. In November 2007, the Comptroller signed a contract with Oppenheimer Funds Inc. (OFI) to administer the newly entitled Texas College Savings Plan. Recognizing the need for increased college participation, OFI and the Comptroller included mechanisms in the contract that provide incentives for plan enrollment. In addition to a statewide marketing plan to boost enrollment, the contract includes a provision that requires Oppenheimer to “establish a scholarship fund from fees paid to Contractor by plan participants” once total plan assets reach \$500 million. Because demographic data on plan enrollees or beneficiaries is not publicly available, the performance of the Texas College Savings Plan in reaching targeted groups has not yet been evaluated.⁷

Texas Tuition Promise Fund

In 2007, the Legislature enacted House Bill (HB) 3900, which established the Texas Tuition Promise Fund (TTPF). The law allows enrollees to purchase tuition units at current prices in three price tiers. The previous plan, the Texas Guaranteed Tuition Plan (also known as the Texas Tomorrow Fund) ran from 1996-2003 and enabled more than 150,000 account holders to pre-purchase all or a portion of undergraduate tuition at then-current rates. The plan closed to new enrollees in 2003, largely due to tuition deregulation, which made it actuarially unsound.

What If Every Student in Texas Had a College Savings Account?

Research demonstrates that college graduates have higher lifetime incomes and receive other additional social and non-economic benefits. For low-income students in particular, a college education is key to economic mobility. Yet despite the numerous benefits that a college degree confers, nearly half of all students do not enroll in college and less than a quarter graduate.¹ Low-income students are even less likely to enroll or complete a degree.²

Combating Academic “Wilt”

Numerous studies have demonstrated that college access and completion are highly associated with household savings, even more so than academic achievement.^{3,4} College savings can have a significant effect on the college attendance of disadvantaged youth, making them less likely to experience the “wilting effect,” in which college aspirations are not reached.⁵ Children in households with college savings are four times more likely to attend college and not experience “wilt” than those without savings. More significantly, children with college savings accounts in their names are seven times more likely to attend college and not experience wilt than those without any savings.⁶

A Mandate to Reach Working Texas Families

HB 3900 also requires the Board to coordinate outreach and marketing efforts with the Health & Human Services Commission (HHSC), the Texas Workforce Commission (TWC), and the Texas Higher Education Coordinating Board (THECB) with the specific intent of supporting the goals of *Closing the Gaps 2015* and promoting enrollment among persons likely to qualify for the earned income tax credit.⁸ The provision requires the Board ensure the program promotes:

- Participation goals and targets of the most recent revision of *Closing the Gaps*; and
- Enrollment among persons likely to qualify for federal earned income tax credits.

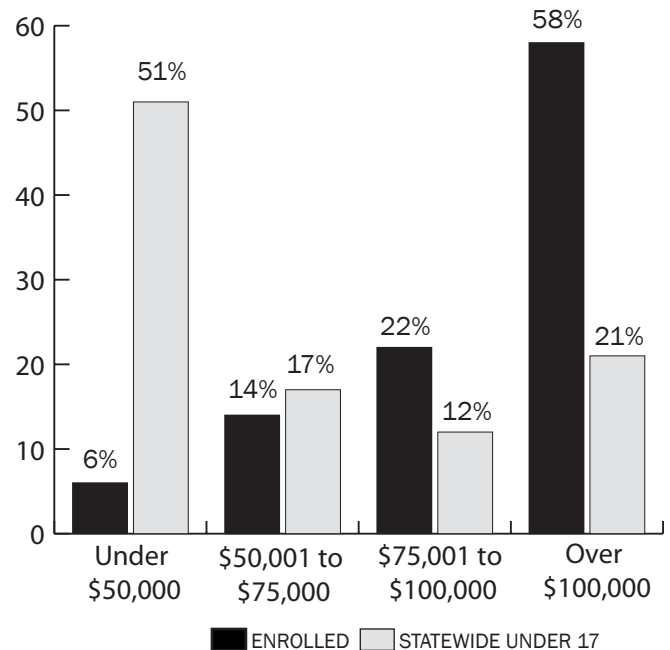
Save & Match Provision

HB 3900 also creates the Texas Save & Match Program to increase lower-income families' participation in the prepaid tuition plan. Texas is the first state to include a matching program for its prepaid tuition plan. Among other features, the Save & Match provision requires the Board to develop a tuition unit matching program. The Save & Match provision:

- Targets beneficiaries who live in households, earning below the state's median family income;
- Encourages enrollment from students to help promote participation goals and targets of *Closing the Gaps*; and
- Allows a variety of funding sources, including individual contributions, donations, legislatively-appropriated funds, and federal funding.

Children in families saving for college are four times more likely to attend college, and children with college savings accounts in their names are seven times more likely to attend college than children without any savings.

Texans earning less than \$50,000 per year are eight times less likely to open a TTPF account than those making more than \$75,000 per year:



CPPP analysis of Texas Tuition Promise Fund Weekly Product Update, March 9, 2009; Texas Tuition Promise Fund Monthly Report, March 31, 2010; Current Population Survey 2009.


Note Percentages represent the population of account holders who responded to questions.

Texas Match the Promise Foundation

The Texas Match the Promise Foundation, created in 2009, solicits and receives matching funds for qualified Texas Tuition Promise Fund account holders, as mandated in Save & Match. This state-sponsored 501(c)(3) is the primary vehicle for private donations, as well as public monies.

NOTE Data on the holdings of the fund is not yet available for evaluation.

Matching programs show promise in increasing savings of low-income individuals. Several states—including Michigan, Louisiana, and Maine, among others—have experienced significant success with similar matching grant programs for their college savings accounts.⁹ Arkansas, for example, created the Aspiring Scholars Matching Grant Program in 2007 with the primary purpose of providing a savings match for low-income families. The two-year pilot program allocated \$250,000 in state funds for two-for-one matching grants of up to \$500 per individual enrolled in the state’s GIFT College Savings Plan (529 plan). In the first year of the plan, 99 percent of participants saved at least something in their GIFT Plan account, and 87 percent saved enough to receive the full \$500 match. The wide distribution of household incomes among savers (43 percent had household incomes of less than \$30,000) demonstrated that families of different backgrounds could benefit from a matched savings program.¹⁰

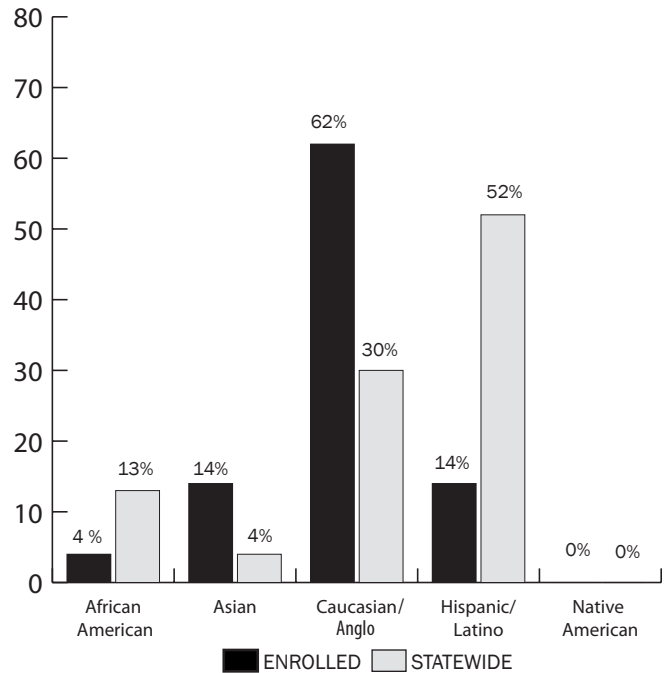
 For more information, go to the Aspiring Scholars Matching Grant Program.

Performance of the Texas Tuition Promise Fund

The strong link that research has shown between assets and college enrollment and success has led many states to think critically about the roles of their 529 college savings plans in helping to increase college access and success for low-income students. This increased awareness manifested itself in Texas through a legislative mandate that links the state’s prepaid tuition plan to its higher education plan. The mandates clearly show the Texas Legislature’s intention that the TTPF actively and aggressively support the mission of *Closing the Gaps* by providing a

more

A relatively small percentage of African American, Asian, and Hispanic beneficiaries have college savings accounts compared to Caucasian/Anglo:



CPPP analysis of Texas Tuition Promise Fund Weekly Product Update, March 9, 2009; Texas Tuition Promise Fund Monthly Report, March 31, 2010; Current Population Survey 2009.

Note Percentages represent the population of account holders who responded to questions.

critical savings mechanism for low-income Texans to access higher education. Furthermore, the Legislature intended that the outreach effort be collaborative and involve multiple state partners to maximize plan enrollment of targeted populations.

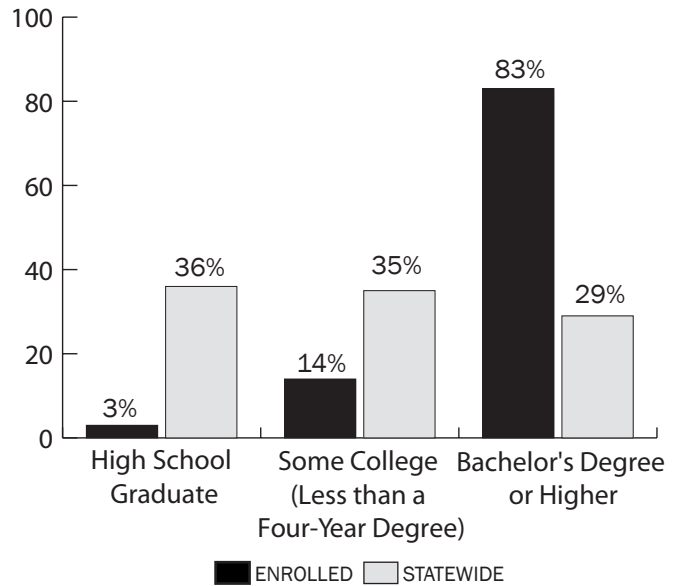
An analysis of demographic data provided by the plan manager demonstrates the TTPF is not meeting the legislatively mandated goal of supporting *Closing the Gaps*. As the data suggests, the demographic makeup of the plan is far from that of Texas' public schools. Of all current account holders, more than three quarters have a bachelor's degree or higher. In contrast, less than one-third of all Texans have a bachelor's degree or higher. Overall, Texans are twelve times more likely to open a TTPF account if they have a bachelor's degree.

More than 70 percent of account holders have household incomes of \$75,000 or more, while only 6 percent of account holders have incomes under \$50,000. Yet, more than 50 percent of the entire population earns less than \$50,000. Texans earning less than \$50,000 per year are eight times less likely to open a TTPF account than those making \$75,000 and up.

Despite representing more than 50 percent of the state population under 17, Hispanic students are four times less likely to have TTPF accounts in their names than Caucasian students.

In comparison with the previous plan, the Texas Tomorrow Fund (TTF), TTPF account holders are much less diverse in income and education. TTF account holders are relatively evenly distributed across the income spectrum, while TTPF account holders are highly concentrated in upper-income brackets.

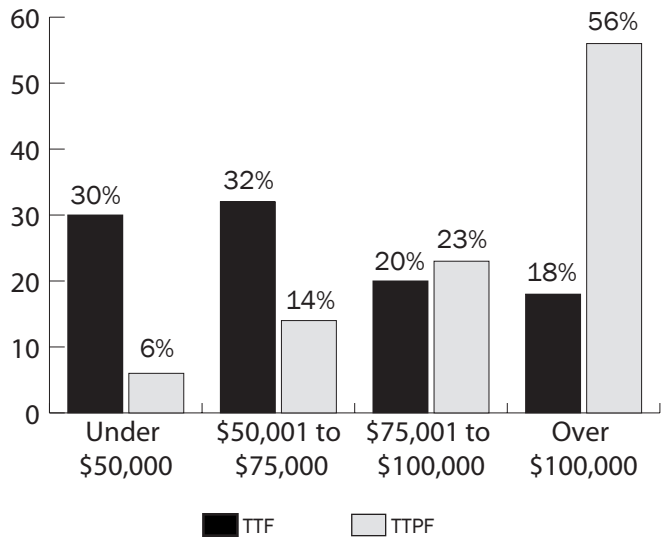
Texans are twelve times more likely to open a TTPF account if they have a bachelor's degree:



CPPP analysis of Texas Tuition Promise Fund Weekly Product Update, March 9, 2009; Texas Tuition Promise Fund Monthly Report, March 31, 2010; Current Population Survey 2009.

Note Percentages represent the population of account holders who responded to questions.

TTF account holders are relatively evenly distributed across the income spectrum, while TTPF account holders are highly concentrated in upper income brackets:



CPPP analysis of Texas Tuition Monthly Report, March 31, 2010; 1997 Annual Report on the Texas Tomorrow Fund.

Note Percentages represent the population of account holders who responded to questions.

Recommendations

Given that the performance of the Texas Tuition Promise Fund in its first two years has not met the goals of *Closing the Gaps*, the state should improve plan participation by developing a comprehensive, interagency college savings policy. The state has the opportunity to align college savings accounts and the Texas Higher Education Plan by strengthening coordination between Texas' 529 plans and the Texas Prepaid Higher Education Tuition Board in the currently-being-considered *Accelerated Plan for Closing the Gaps*. Other strategies to increase enrollment and college savings among targeted populations include:

- Pursue public-private partnership to raise funds for the Texas Save & Match:
 - o Sources of funding include the College Access Challenge Grant Program and Temporary Assistance for Needy Families (TANF) Emergency Funds; and
 - o Private individuals and foundations engaged in economic opportunity and increased postsecondary access and completion.
- Developing an “early financial aid” program targeting high-performing 7th and 8th grade students.
- Creating an interagency task-force or committee to explore incentives for college savings:
 - o Three states—Illinois, Kentucky, and Oklahoma—have taken this incremental step toward a comprehensive policy.
- Strengthening state statutes to improve outreach and marketing to targeted populations.
- Increasing transparency through public access to relevant information on plan performance and demographic data of account holders, including the Texas College Savings Plan.

The “D” List

The CFED 2009-2010 Assets and Opportunity Scorecard gave Texas a “D” for poor performance in several indicator areas, including higher education. CFED cited the lack of a comprehensive college savings plan as a factor in their rating.



For more information, go to CFED's Assets and Opportunity Scorecard.

Resources

Texas

- Texas Tomorrow Funds
- Texas College Savings Plan
- Texas Comptroller of Public Accounts
- RAISE Texas

National

- CFED SEED Initiative
- Center for Social Development
- New America Foundation

Endnotes

- 1 Texas: Alliance of States.” Complete College America. <http://www.completecollege.org/docs/Texas.pdf>
- 2 Haskins, Ron, Harry Holzer, and Robert Lerman. “Promoting Economic Mobility by Increasing Postsecondary Education.” The Pew Charitable Trust. http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/PEW_EM_Haskins_percent207.pdf
- 3 Sherraden, Michael and Min Zhan. “Assets and Liabilities, Educational Expectations, and Children’s College Degree Attainment,” The Center for Social Development, Washington University, St. Louis. 2009
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- 5 Beverly, Sondra and William Elliott III. “The Role of Savings and Wealth in Reducing ‘Wilt’ between Expectations and College Attendance,” The Center for Social Development, Washington University, St. Louis. 2010
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- 7 “College Savings Accounts 101.” The Center for Public Policy Priorities. <http://www.cppp.org/files/2/collegesavings325.pdf>
- 8 An Act Relating to the Texas Tomorrow Fund II Prepaid Tuition Unit Undergraduate Education Program, HB 3900, 80th Texas Legislature, <http://www.legis.state.tx.us/tlodocs/80R/billtext/pdf/HB03900F.pdf>
- 9 “Resource Guide: College Savings Incentives.” 2009-2010 Assets and Opportunity Scorecard. Center for Enterprise Development. http://scorecard.cfed.org/downloads/pdfs/resource_guides/rg_CollegeSavingsIncentives.pdf
- 10 “Aspiring Scholars Matching Grant Program: A Successful First Year,” Southern Good Faith Fund, 2009 http://www.southernfff.org/_pdf/pub_pp/pp_v33_9_09.pdf

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