

Beginning at Birth: Closing the Savings Gap for Texas Children

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Over One-Third of Texas Households are “Asset-Poor”

- ✓ Asset Poverty= lacks enough cash reserves (banking accounts, stock, bonds equity in retirements savings, homes or businesses) to live at the poverty line for three months when their income has been disrupted.

Ethnicity	Income Poverty	Asset Poverty
Anglo	7.9%	23.7%
Afr.-Am.	21.3%	52.1%
Hispanic	23%	47.4%
Tx Totals	13.7%	33.6%

The Virtuous Circle: How College Savings Improve College Readiness

With a college savings account, children can grow up expecting to get a higher education and their parents support by saving.

1. Early investment with **public deposits** to jumpstart 529 college savings.

2. Foster **savings habit** with tax incentives and **matching deposits**.

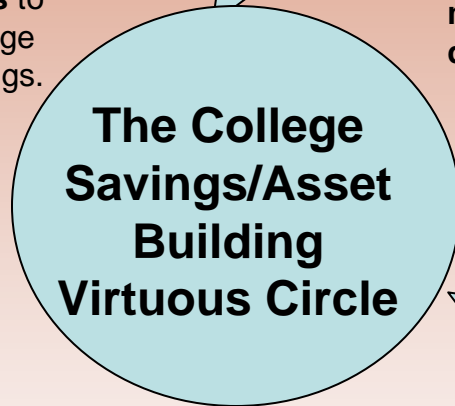
Saving increases **responsibility, ownership,** and community involvement.

3. Engrain **financial literacy** by building K-12 lessons around children's college savings.

Financial savvy helps young adults act responsibly and avoid costly financial mistakes that get in the way of **degree completion, homeownership, and better jobs.**

4. College savings makes higher education **more affordable** and widens college choices so that **more children attend and complete college.**

More college attainment leads to **higher earnings** that supports more **investment.**



More states are adopting match provisions to encourage college savings

- **Arkansas Act 597 (March 2007):**
 - Became 8th state to establish matching grants for 529 college savings accounts.
 - Authorizes the creation of the Aspiring Scholars Matching Grant Program, a pilot program to match low-income families' deposits into 529 accounts.
- **Illinois HB 1862 (March 2007):**
 - Creates a Children's Savings Account Task Force to review and make recommendations about children's savings account program options;
 - Establishes goal of increasing the levels of financial literacy and savings in the state and increasing the number of children in Illinois who own assets and who attend post-secondary education or training.
- **Oklahoma College Savings Task Force (Dec. 2006):**
 - recommended the development of a matched savings program for the Oklahoma 529 College Savings plan.
 - Spawned SEED for Oklahoma Kids, a multi-year demonstration project involving 3,000 parents to test policy concept of giving every child an account at birth. For more information, see:
 - <http://www.okseed.org/>
 - <http://gwbweb.wustl.edu/csd/SEED/Summary.pdf>

College Savings (529) Accounts: Best Practices

- Louisiana (Sliding Scale): matches deposits made by all state residents
 - Match rate = 14% (less than \$30k/yr)
 - Match rate = 2% (over \$100k/yr)
- Michigan (Targeted & Time-limited):
 - Match available only during first year of child's life
 - Eligible families = less than \$80k/yr
- Maine NextGen FirstStep
 - One-time \$50 “seed” deposit (before 1st birthday)
 - Followed by tiers of one-time matching grants and annual matching grants

529 College Plans: The National Landscape

- 529 College Savings Plans
 - Exempt from asset tests for public benefits
 - Investment returns and distributions are tax-free
 - Favorable treatment by financial aid formula
- Four major categories (state-sponsored)
 - **Broker Sold** College Savings (38)
 - **Direct Sold** College Savings (59)
 - **Prepaid Contract** (14)
 - **Prepaid Unit/Guaranteed Savings** (5)
- Account fees and return on investment vary widely
- <http://www.savingforcollege.com>

Texas Save & Match

Texas Tomorrow Fund II

- **Marketing Mandates**
 - Collaboration w/ HHSC, THECB, TWC
 - Focus on EITC population, outreach
 - Alignment with “Closing the Gaps”
- **Potential Sources of Match:**
 - Private/Employer contributions
 - Texas Legislature
 - Program/administrative fees
- **Beneficiary Target Population**
 - Below state median family income (\$57,511—4-person household)
 - “Closing the Gaps” population
 - Other beneficiaries, as established by Board rule

Recommendations

Texas Tomorrow Fund II

- ✓ Aggressively engage employer participation in Texas Save & Match
- ✓ Leverage funding (\$) for Texas Save & Match
- ✓ Ensure multiple access points for enrollment

529 College Savings Plan

- ✓ Establish a matching provision for eligible households and set aside matching funds (\$);
- ✓ Establish enrollment targets, by income group;
- ✓ Explore feasibility of an initial, or seed, matching grant to boost enrollment

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