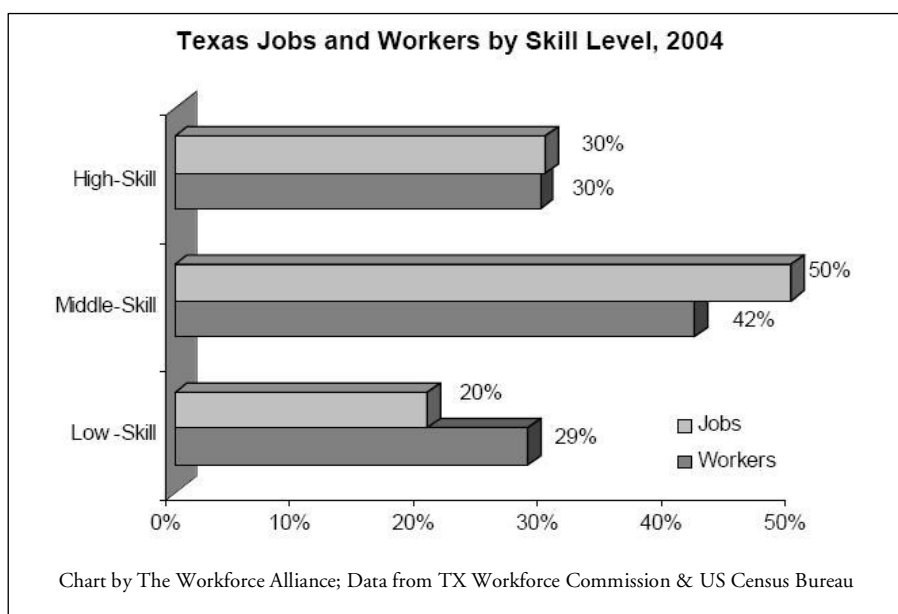


INVEST IN KIDS, INVEST IN TEXAS!

CHILDREN'S SAVINGS ACCOUNTS

Texas' Economic Future Depends on Its Workforce

- An **educated and skilled workforce** is critical to Texas' economic vitality and competitiveness.
- However, a **significant skills mismatch** threatens to stifle our economic growth: an unacceptable number of middle-skill jobs (e.g. nursing, welding) go unfilled because too few workers have acquired postsecondary skills and education.
- To make matters worse, **rising tuition coupled with limited financial aid** will keep more and more Texans from entering the middle class.
- In fact, **the gap** between higher ed costs and the aid received by Texas students is **projected to at least double between 2001 and 2008**.
- **The cost-aid gap presents a major barrier to postsecondary attainment, especially for low-income students:** nationally, financial barriers prevent about half of all college-qualified, low-income high school graduates from attending a four-year institution and keep almost one in four from attending college at all.



The Most Promising of the 3 Ways to Pay for Higher Education is Also the Most Overlooked

- **Grants & Scholarships** are very limited and cover a declining portion of higher education costs.
- **Loans** deter some students' families, drain future earnings, and have become increasingly volatile and expensive.
- **Savings**, however, have been largely overlooked as a public policy remedy to financing higher education. Fortunately, Texas can invest in its future by supporting children's savings accounts. **CSAs can create a "college-going culture," reduce the skills mismatch, and strengthen our state's economic future.**

Specifically, Texas Needs a *Matched* College Savings Account Program

- **To create a powerful savings incentive:** Texas cannot offer the primary incentive used by most states to raise CSA participation—a state income tax deduction—so we must implement strong account incentives, namely enrollment bonuses and contribution matching.
- **To draw in lower-income families:** Matching is particularly important for Texas families with modest incomes who may not otherwise feel they have enough spare income to justify opening and contributing to a savings account.
- **To boost both families and the state:** Texans' success with Individual Development Accounts proves the power of matched savings: from 2000 to 2006, Texans leveraged IDA savings of over \$3.6 million into over \$57 million in assets, including homes, small businesses, and postsecondary educations.

FREQUENTLY ASKED QUESTIONS:

What are 529 plans? How do they work?

- A 529 plan is a state-sponsored, tax-advantaged college savings vehicle. There are two distinct types:
 - Prepaid tuition plans enable accountholders to purchase tuition units at current prices for future use.
 - College savings plans are similar to retirement plans like 401(k)s or IRAs and are more commonly used.
- Typically, the owner of the 529 account is a parent, and the beneficiary is a child who is a prospective higher ed student. The account owner is **always entitled to redeem the current account balance**, less any applicable penalties on earnings.

How much are 529 plans used nationally?

- Every state offers at least one 529 plan, and financial analysts predict **529 plan assets will double in the next five years**.
- Participation is growing rapidly: **Over \$100 billion was held in these plans in 2007, up from \$2.6 billion in 2000**.

What are some major benefits of 529 college savings accounts?

- **Federal Tax Benefits:** Earnings grow tax-deferred, and withdrawals for qualified educational expenses are tax-exempt.
- **College-Going Culture:** Preliminary research indicates that college savings accounts instill inevitability about postsecondary attendance that helps students navigate the K-12 educational system.
- **Community Piggy Bank:** 529 plans allow an unlimited number of account contributors for the same beneficiary.
- **Low-Stress Saving:** Compared to other college savings vehicles, 529 plans have relatively high contribution limits and low impact on need-based financial aid eligibility.
- **Spending Flexibility:** 529 funds can be used for a wide range of educational expenses and at any U.S.-accredited educational institution offering credit toward a recognized postsecondary credential, including technical or trade courses.
- **Beneficiary Flexibility:** The beneficiary of a 529 plan can be changed among family members.

What are the Texas 529 plans?

- The Texas College Savings Plan is our direct-sold college savings plan.
- The Texas Tuition Promise Fund (TX Tomorrow Fund II) will open in September as our new prepaid tuition plan.
 - Special TTF II feature: **The Save & Match program** is intended to increase participation by lower-income families and help meet the educational attainment targets established in *Closing the Gaps*.

Who runs our 529 plans?

- The Prepaid Higher Education Tuition Board, an arm of the Texas Comptroller's office, is responsible for the plans.
- OppenheimerFunds, Inc. (OFI) administers both plans.

Do other states match college savings?

- Yes, 11 other states also currently operate a matching funds program for qualified families as part of their 529 plans: Arkansas, Colorado, Kansas, Louisiana, Maine, Michigan, Minnesota, N. Dakota, Oklahoma, Rhode Island, & Utah.
- Sources of matching funds include private donations, state appropriations, and redirected plan fees.
- States also considering matched children's savings accounts: California, Hawaii, Mississippi, & Missouri.

How much could a Texas family save for higher education?

- Small contributions add up to a lot over time, especially when amplified by an enrollment incentive and matching:

Growth of a Child's Savings Account by Age 18

Amount of Contributions	Started at High School (Age 14)	Started in 3rd Grade (Age 8)	Started at Birth (Age 0)
Low-Income Matched Moderate Contributions (\$10/month, plus a 1:1 match)	\$1,286	\$3,801	\$9,587
Low-Income Matched Aggressive Contributions (\$20/month, plus a 1:1 match)	\$2,367	\$7,277	\$18,576
Middle-Income Contributions (\$100/month)	\$5,611	\$17,708	\$45,540
<i>Assumes an initial individual deposit of \$50, a government enrollment incentive of \$100, and an 8% annual rate of return.</i>			

What are some children's savings account options to consider?

- **Multi-Purpose vs. Higher Ed Only:** Texas could pursue 529-based or multi-purpose children's savings accounts:
 - 529-based CSAs can be used only for higher education expenses, albeit a wide range of them.
 - Multi-purpose (non-529) CSAs could be used for a variety of worthy goals, such as starting a business or buying a home, as well as for higher education. Mississippi considered establishing such a system this year.
- **Universality:** A program of universal CSAs, wherein the state opens an account for every child at birth, would probably be **more expensive, but could also be more politically robust once established** (similar to Medicare and Social Security).
 - Universal 529 CSAs would require a change in state law but would build on an existing savings platform.
 - Universal non-529 CSAs would call for a new savings vehicle and system roll-out but could be multi-purpose.

KEY STATS:

- Over half (52%) of all Texas children live in households with annual incomes under \$50K. For kids 4 and under, that number rises to 57%.
- 90% of the *fastest* growing jobs require some post-secondary education.
- The gap between higher ed costs and aid received by Texas students grew by 71% in 2001-2006, from \$2.31B (in 2006 dollars) to \$3.95B, *not* including higher ed costs of those who received *no* need-based aid at all.
- Financial barriers prevent 48% of qualified, low-income H.S. graduates from attending a 4-year college and 22% from attending college at all.
- The annual public costs to Texas associated with just one year's class of high school dropouts is \$377M, or about \$3,168 per dropout.
- Only 22,000 students are currently enrolled in the Texas College Savings Plan, with ~\$230M in assets (Virginia CSP = \$28B in over 3M accounts).
- Over \$100B was held in 529 plans in 2007, up from \$2.6B in 2000.

RESOURCES:

- Texas Tomorrow Funds:
<http://www.texastomorrowfunds.org/>
- Texas College Savings Plan:
<https://www.texascollegesavings.com/>
- National CFED SEED Initiative:
<http://www.cfed.org/focus.m?siteid=288&id=288>

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