

Increase College Access: Make 529s Eligible for the Saver's Credit The Savings Enhancement for Education in College Act (H.R. 1351)

The Savings Enhancement for Education in College Act (H.R. 1351) would provide a federal match for 529 college savings plan contributions. Introduced by Representatives Earl Pomeroy (D-ND) and Pat Tiberi (R-OH), H.R. 1351 would extend the Saver's Credit to 529 college savings plans. In addition, the bill permanently includes computers as a verified education expense for 529 plans.

If approved as part of legislation to expand the Saver's Credit (H.R. 1961/S. 3090), H.R. 1351 would make college education more accessible for low-income taxpayers and inspire a sense of possibility for more children. The Saver's Credit is a federal tax credit that matches contributions to retirement accounts for households earning below \$55,000 a year. President Obama and several members of Congress have proposed expanding the credit to reach low-income households who are excluded since the current credit is not refundable.

According to a 2005 U.S. Census Bureau report, college graduates typically earn up to 73% more than high school graduates. Even with \$168 billion in federal assistance, the cost of education remains an obstacle for more than 70 percent of lower-income families.

- The two primary college financial savings products are 529s (administered mainly through state treasurers) and Coverdells (administered within banks and financial institutions). Both allow tax-free earnings and spending for qualified for educational purposes. Very few low-income families use these products now since the match structure does not provide much of an incentive to them.
- According to U.S. Treasury Secretary Timothy Geitner, "These plans [529s] can be an immensely effective way for Americans to save for college. They allow people to put aside money for college and enjoy investment earnings that are free of federal taxes and, in some cases, receive state tax benefits, as well. **When state tax benefits are included, a typical middle-class family can accumulate 25 percent more in 529 accounts than they can in a typical taxable savings account.**"
- Since their inception, 529s have become popular with families. More than 11 million accounts have been opened. Twelve states provide matching funds for low- and moderate-income family contributions: AR, CO, IN, KS, LA, ME, MI, MN, ND, RI, UT and VT. In Maine, children receive a 529 account at birth, with an initial deposit of \$500.
- Coverdells are also beneficial for low-income families due to their low deposit requirements. Since they are administered within financial institutions – rather than at the State Treasurer's office – accountholders can make in-person deposits instead of relying on electronic or check investments. Coverdell funds can also be used tax-free for elementary and secondary education enrollment and computer expenses are permitted. Asset building promotes educational achievement for children. **Research and practice show that people at all income**

levels can save, and that owning assets not only provides economic security, but also a transformative sense of possibility and hope for a brighter future.

- Research from CFED's Savings for Education, Entrepreneurship and Downpayment Policy and Practice Initiative found that despite significant economic and social barriers, even very low-income families found ways to save for their children's futures.
- In research with national data sets, parental wealth is positively associated with children's math and reading scores, positive social behavior, college enrollment and college graduation.
- Interviews with children indicate that they begin to formulate ideas about their futures as early as elementary school.

Recommended Actions:

- Cosponsor H.R. 1351, the Savings Enhancement for Education in College Act, introduced Representatives Pomeroy (D-ND) and Tiberi (R-OH)
- Cosponsor the Savings for American Families' Future Act of 2009 (H.R. 1961) introduced by Representative Pomeroy or S. 3090 introduced by Senator Kristen Gillibrand (D-NY)
- Support H.R. 4682, the American Saving for Personal Investment, Retirement and Education Act (ASPIRE), sponsored by Representatives Patrick Kennedy (D-RI) and Tom Petri (R-WI)
- Include contributions to Coverdells as a qualified education plan within any legislation providing college tax incentives

Resource Information:

http://cfed.org/programs/abc/childrens_savings_basics/why_childrens_savings/
http://scorecard.cfed.org/education.php?page=incentives_for_college_savings
<http://collegesavingsinitiative.org/>
http://cfed.org/policy/policy_agenda/savers_credit_expansion_one_pager.pdf

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