



Inclusion in College Savings Plans: Participation and Saving in Maine's Matching Grant Program

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College Savings Plans

- **Authorized by federal legislation – IRC Section 529**
- **Established and maintained by states**
- **Used for post-secondary education**
- **Most require small initial contributions**




Tax Benefits


- **Earnings and qualified withdrawals are free from federal tax**
- **Most states offer tax-free growth**
- **Many offer a state tax deduction**
- **Marketed to high-wealth individuals by tax planners**




Participation in 529s


- **Estimated 8% of households (December 2003)**
- **Few states track demographics**
- **Inclusion through plan features**
 - Public sector oversight
 - Central custody and accounting
 - Limited investments
 - Viability of small accounts

 Institutional Theory of Saving	
Construct	529 Savings Plan Feature
Access	Plan availability Ease of enrollment Limited investment options
Information	State marketing Ongoing communications
Incentives	Matching grants Tax-free earnings Rebates

 Institutional Theory of Saving (cont.)	
Facilitation	Payroll deduction Automatic deposit into account
Expectations	Min automated contributions Maximum annual match limits
Restrictions	Targeted saving for education 10% earnings penalty on non-qualified withdrawals
Security	State affiliation Conservative or age-based investment options


NextGen Matching Grant Program

A program within Maine's 529 savings plan designed to increase plan participation and post-secondary education savings for low-to-middle income, state-resident families.


Initial Matching Grant

The Initial Matching Grant (IMG) provides \$200 of the \$250 required to open a NextGen account.

Eligibility:

	2002-2004	2005
Household AGI	≤ \$50,000	≤ \$52,500
Opening deposit	\$50	\$50



Annual Matching Grant

The Annual Matching Grant (AMG) provides a match on deposits made into the NextGen account.

Eligibility and Provisions:

	2002-2004	2005
Household AGI	≤ \$50,000	≤ \$52,500
Min. contribution	\$200	\$50
% of contributions	25%	50%
Max. per account	\$100	\$200



Study Data

- Account and savings data from the Finance Authority of Maine (1999-2005)
- A telephone survey of 137 randomly-selected NextGen Matching Grant participants
- Interviews with 10 participants



Research Questions

1. Who is saving in the NextGen Matching Grant Program?
2. What factors led them to open an account and save in NextGen?
3. What factors are associated with saving performance?



Who is Saving?

- 90% Caucasian
- 64% parents
- 61% married
- 61% have bachelor's degree or more
- 89% are homeowners
- 46% report AGI below \$40,000



Who is Saving? (cont.)

- **56% report that all or most of their money purchases necessities**
- **96% expect the beneficiary will receive at least a 4-year degree**
- **Almost all have positive views about education and their beneficiary's future**



Opening the Account and Saving

- **64% had not saved previously for their beneficiary's education**
- **51% heard about NextGen from more than one source**
- **31% are enrolled in the Automated Funding Service (AFS)**

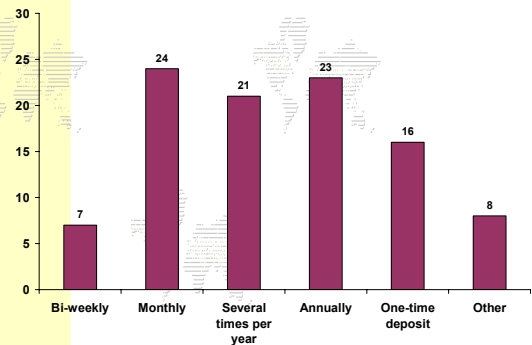


Opening the Account and Saving (cont.)

- **83% report the IMG was very or somewhat important in decision to open the account**
- **98% say the tax-free feature was very or somewhat important in enrollment and continuing to save**
- **88% indicate that account dedication to education makes saving easier**
- **80% report no saving effect of the 10% non-qualified withdrawal penalty**



Deposit Patterns





Saving Performance

- **Median annual contributions - \$500**
- **Median account value - \$2,221**
- **Neither education nor income is associated with saving performance**
- **Receipt of both IMG and AMG is positively associated with saving measures**
- **AFS use is positively linked to saving outcomes**



Future Policy Development

- **What is the ideal income, or other eligibility criteria for matching?**
- **Could online submission of matching grant applications facilitate receipt and distribution of awards?**
- **How can AFS use be expanded among plan participants?**
- **What plan features matter most?**



Challenges

- **Many states are known for low cost plans, but not all plans have low fees**
- **Inclusive features have a cost; greater federal and state subsidy is encouraged**
- **Ideally, 529 savings plans could be used for additional purposes**



Additional Research Needed

Research can inform and point to key areas for policy and program improvement.

One key area is the use of inclusive 529 plan features as a model platform for a national children's savings account policy in the United States.



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