FROM 529s TO CSAs: A PROGRESSIVE VISION FOR ASSET-BASED EDUCATIONAL ACHIEVEMENT[1]

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THE AMERICAN DREAM AND THE ROLE OF EDUCATION

American ideals can accommodate even considerable inequality in outcomes, as long as people have reason to believe that their hard work is likely to pay off as much as another's. The problem caused by the growing wealth divide in the United States, then, is not the existence of these gaps, but the perception—and reality—of very unequal chances for better outcomes. What makes today's economic arrangements so troubling to so many is the fact that those who lack sufficient wealth to work the education system, financial institutions, and labor market to their advantage are forced to compensate with extraordinary effort—and still fail to succeed at levels commensurate with their struggles.

While the American economy positions higher education as the primary path to upward mobility for low-income children, education today serves as much to amplify inequity as to counteract it. Low-income children are disadvantaged throughout the pipeline, attending lower-quality public schools, lacking the enrichment wealthy parents purchase, and denied access to the social networks that broker opportunities. Those who make it to the point of college enrollment may 'mismatch' by choosing an institution based on its perceived affordability rather than their abilities or interests.[2] Once they select a school, they face an inequitable financial aid landscape, where erosions in public funding drive cost burdens onto the shoulders of students and families, while shifts from need-based to merit aid disproportionately reward those already advantaged. When the education system operates so as to skew in the favor of those who approach it with assets, the impact of disparities in opportunities and capacity for education savings becomes a question of urgent policy importance.

CSAs ENHANCE EDUCATIONAL OUTCOMES, FACILITATE EQUITY, CATALYZE OPPORTUNITY

CSAs are instruments for asset accumulation and cultivation of college-saver identities (i.e., expect to attend college and have a strategy to pay for it). While program designs vary, as progressive, universal, long-term vehicles for asset building, CSAs provide children with an initial 'seed' deposit, offer some financial information, and incorporate savings matches or other incentives to add public or philanthropic funds to families' contributions. Originally conceived as serving broad asset purposes, as implemented today, CSAs are designed specifically to help children and families prepare for college financing from an early age. This focus on higher education stems in part from growing concerns about the rising cost of college and increasing incidence of

[1] This is the first brief in a two part series exploring the rationale for utilizing the state system of 529 college savings accounts as platform for offering Children's Savings Accounts and examining Promise Indiana as one potential model for doing so. For a full discussion of these topics, please reference *Transforming 529s into Children's Savings Accounts (CSAs): The Promise Indiana Model*, which can be accessed at https://aedi.ku.edu/publication/report/transforming-529s-childrens-savings-accounts-csas-promise-indiana-model.

[2] Dillon, E. W. and Smith, J. A. (2013). *The determinants of mismatch between students and colleges*. NBER Working Paper (No. w19286).

student debt, as well as from emerging evidence about the potential for assets to cultivate improved educational outcomes[3] and, then, greater prospects for economic mobility[4]. Children's Savings Accounts (CSAs) can change the relative bargaining power of low-income children in their interactions with their educational systems by:

- Changing role expectations about who attends college, which colleges one is most suited to attend, and for whom savings can be a way to pay for college
- Providing a tangible and substantial asset transfer, to equip children with an asset foundation
- Transforming education systems, including financial aid policies, into progressive tools for realizing equitable educational outcomes, as in repurposing Pell Grants to seed children's savings accounts
- Cultivating college-saver identities by making the goal of college immediate and urgent (salience), helping children to see higher education as something 'people like them' do (group congruence), and giving children real strategies with which to confront the inevitable obstacles in their path (normalization of difficulty)
- Improving academic achievement and college preparation, by building on positive expectations and increasing engagement in school, so that children approach higher education equipped to compete successfully

MOVING FROM REGRESSIVE TO PROGRESSIVE

State-sponsored 529 college savings plans are administered by states through contractual agreements with private financial institutions. Endowed with considerable tax advantages at the state and federal levels, 529s disproportionately benefit higher-income families who are both most able to divert income into these investments and demonstrate sufficient tax liabilities to access these incentives.[5]

Evidence, however, suggests that low-income families, on average, save a higher proportion of their incomes compared to higher-income earners.[6] Although the higher "cost" of saving to these families due to the steeper contrast between their earnings and daily needs demonstrates a considerable commitment to this goal, their unequal starting point is difficult to overcome. In contrast to the advantages enjoyed by their higher-income peers, lower-income families cannot rely on financial institutions, including 529s, to respond to their savings effort in the same way. [7] Changing these distributional consequences requires an institutional structure that rewards even small amounts of savings because for low-income families, these small savings may represent considerable effort.

However, even the small deposits of low-income families can realize significant asset accumulation and educational outcome effects, when facilitated and augmented within a CSA. And CSAs can alter more than just the prospects of individual students and the savings performance of their families. They can also change how the institution of the 529 is experienced. By providing positive experiences with 529s, removing enrollment barriers by using automatic, opt-out enrollment or streamlining the enrollment process, leveraging families' deposits with incentives and other progressive features, and engaging families early in a child's life in order to build a college-saver identity, CSAs can transform 529s from regressive instruments primarily serving the

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[3] AEDI (2013). Building expectations, delivering results: Asset-based financial aid and the future of higher education. In *Biannual report on the assets and education field*. Lawrence, KS: Assets and Education Initiative (AEDI).

[4] Greenstone, M., Looney, A., Patashni., J., & Yu, M. "Thirteen Economic Facts about Social Mobility and the Role of Education." *The Brookings Institution* (Washington, DC) 2013.

[5] General Accounting Office. (2012). A Small Percentage of Families Save in 529 Plans.

[6] Sallie Mae. (2013). *How America pays for college 2013*. Newark, DE: Sallie Mae.

[7] Woo, B., Rademacher, I., and Meier, J. (2014). Upside Down: The $400 Billion Federal Asset-Building Budget. Washington, DC: CFED.

interests of those who would have likely completed college anyway, into vehicles for improving the chances of disadvantaged children.

THE PROMISE INDIANA MODEL

Promise Indiana uses the state-sponsored 529 plan, CollegeChoice, as the instrument for the CSA intervention, but this account infrastructure is only the starting point. Onto this framework Promise Indiana layers components explicitly designed to improve children's educational outcomes, particularly for those low-income or otherwise disadvantaged. Together, these features transform the 529 platform into a potent tool for educational equity and economic opportunity.

- *Promise Indiana changes how families experience the 529:* Facilitating enrollment in a college savings account as part of the school registration process ensures that families have assistance navigating the revised, much simplified form, and also increases families' perception of the account as appropriate for them and supportive of their children's goals.
- *Promise Indiana changes how parents see their savings:* By providing the $25 initial deposit, recruiting community champions to contribute to children's accounts, and matching family savings, Promise Indiana helps families to see the potential in small deposits and helps these contributions grow into more sizable holdings.
- *Promise Indiana changes how children see themselves:* Introducing college and career exploration into the elementary school, connecting children to champions who support their educational success, and cultivating college-going cultures in local communities helps children imagine a future for themselves that includes higher education.
- *Promise Indiana changes how children see school:* The expectations children develop for their own future educations can change current academic behavior; when college is on the horizon, children need to prepare for it, and this projected likely future can trigger greater engagement and achievement today.

POLICY TO MAKE—AND KEEP—PROMISES FOR EVERY AMERICAN CHILD

The most promising implications of what is happening in Indiana with children's savings and the cultivation of college-saver identities may be the lessons that Indiana's experiments offer to the rest of the nation, where other communities confront similar challenges in educational achievement and economic opportunity. While one of Promise Indiana's lessons is about the importance of local champions and supportive contexts, state and federal policy can facilitate similar transformations of 529 plans into powerfully progressive forces for greater educational attainment.

A policy agenda to harness 529's full potential as a CSA infrastructure would include financial regulations to encourage 529 features consistent with CSA purposes, including small initial deposits, retail transactions, easy user interface, and streamlined application and disclosure procedures; public funding for progressive incentives, including seed deposits and savings matches, to reduce the fundraising burden, particularly for economically-distressed communities; and financial aid that aligns with CSAs' aim of a college-going culture, including early notification of awards and reinvestment in need-based aid.

Layering Promise Indiana's approach to 529-based CSAs would not detract from the community's ownership of the intervention, but, rather, ease replication and multiply local efforts. That federal/state/local, public/private partnership offers tremendous potential to place these 'promises' within reach of every child in every community. By leveraging available infrastructure and sparking the visionary leadership seen in Indiana and elsewhere, 529s can undergird Children's Savings Accounts at scale, refiguring the distributive consequences of institutions to help children succeed.