CPPP CENTER for PUBLIC POLICY PRIORITIES
WORKING FOR A **BETTER** TEXAS™

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Dollar for Dollar

INCENTIVES AND INNOVATIONS TO BOOST SAVINGS IN TEXAS

Introduction

Families who have the opportunity to save can prepare for their children's futures and achieve long-term stability. However, state and federal policies have not always encouraged household savings, especially for lower-income working families. For too long, earnings and income have been separated from savings and assets, with workforce, social services, and educational systems not plugged into platforms that promote savings. Despite relatively high marks for Texas in employment and housing, one of two households lacks enough savings to weather a rainy day, one of the higher levels of economic insecurity in the U.S.[1]

However, new policies and tools are emerging in Texas and across the country to bring savings back to center stage, to share the same sentence with "education" and "earnings," the other two critical mobility assets. Recent studies have shown the long-term benefits of household savings—controlled for income—on both adults and children. When coupled with skills development, budgeting, and asset preservation, savings can be a catalyst to getting ahead and protect against sliding backward.

To promote broader prosperity and opportunity, Texas must put forth a positive assets agenda that removes barriers to save, while also building a series of incentives that encourage families to save for emergencies, retirement, entrepreneurship, a down payment, or postsecondary education. This paper will not only discuss how Texas fares in promoting household savings, but also identify promising activities and innovations to inform and improve state public policy around financial education, college savings, and asset limits.

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Inside

WHY SAVINGS IS IMPORTANT

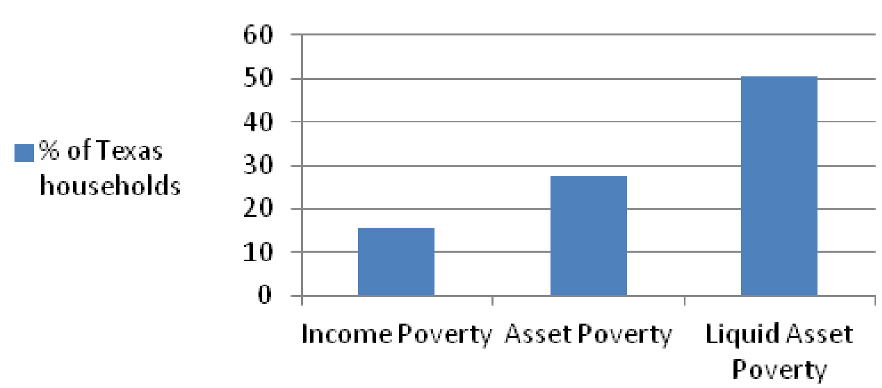
Household savings plays an important role in enabling children to rise out of poverty and have better economic success than their parents. While half of low-income children whose parents had low savings remained in the bottom income quartile as adults, less than a third of low-income children whose parents had high savings stayed there.[2] Additionally, students with designated college savings accounts are six times more likely to attend college than their counterparts who don't have accounts.[3]

Understanding the Role of Asset Poverty

Over the past decade, new measures have emerged to document household economic vulnerability. Conventional measures such as income poverty are insufficient to measure economic well-being. Self-sufficiency or family budget tools often do a better job in identifying what it really takes to meet basic needs, especially when these tools consider the local economic context. Asset poverty—although tied to the federal income poverty standard—seeks to get directly at the economic vulnerability question by examining what families own, not just what they earn. The asset poverty threshold measures the savings and asset side of the household budget to determine whether a family could still survive at the income poverty level for three months with a loss of income.

When an unexpected event occurs, families in asset poverty are about two to three times more likely to experience general deprivation than non-asset-poor families.[4,5]

Poverty Rates for Texas Households



Source: CFED 2012 Assets & Opportunity Scorecard.

General asset poverty includes all available resources with value, including both liquid (savings accounts) and more illiquid sources such as home or auto equity.[6] When looking at the "liquid asset poverty rate," i.e. general household savings, more than half of Texans are liquid asset poor.[7]

Finally, a lack of emergency savings leaves low- and moderate-income families more vulnerable to extremely high cost financial services such as payday or auto title loans. As shown by the high automobile repossession rate for Texas auto title loans, liquid asset poverty, i.e. lack of savings, can put other important assets at risk.[8]

Other Barriers to Saving

Significant policy and market-based barriers have made it more difficult for Texans to save for the future or for a rainy day. Many other statewide indicators reveal the relative difficulty that Texans have in saving for their families:

- About 12.8% of Texas households are unbanked.[9]
- About 27.2% of Texas households are underbanked, meaning they continue to use high-cost financial services).[10]
- Nearly two-thirds (63 percent) of Texas workers over age 18 do not have an employer- sponsored retirement plan.[11]
- Nearly 60% of Texans have subprime credit scores (below 660).[12]

As mainstream banking has evolved since the financial crisis, consumers are confronting new fees and requirements to either maintain or open a traditional banking account. Compounding the problem are rock-bottom interest rates for mainstream savings accounts trends that have made it harder for "small savers" just beginning to build their first nest egg. In response to these trends, new savings products and platforms have filled the void, with Annual Percentage Yield (APY) rates around five percent.[13] Emerging prepaid cards and solely web-based platforms may hold promise for reaching underserved Texans through robust savings incentives.

Asset Limits

Aside from these economic and financial barriers, state asset limits in health and nutrition programs such as Children's Health Insurance Program (CHIP) and the Supplemental Nutrition Assistance Program (SNAP) make it more difficult for Texans to save enough to escape asset poverty. The 2008 financial crisis and aftermath has shown the importance of robust household savings—across the economic spectrum. As a result of the residential mortgage meltdown and ensuing federal protections, down payments for home purchase are likely to become the norm for the national mortgage market, reinforcing the need to remove barriers to save for lower-income families.

Public programs in Texas vary in terms of the assets they will allow families to keep and accumulate while remaining eligible for public programs. Monetary asset limits range from $1,000 for the TANF program to $10,000 for the CHIP program. Vehicle asset limits range from $4,650 for a single car for TANF to $18,000 for the highest value car for CHIP. Families may be benefiting from multiple programs but find themselves subject to the asset limits associated with the strictest program for which they qualify.[14] Table 1 gives an overview of asset limits in Texas public benefit programs.

Table 1. Asset Limits in Texas Public Benefit Programs

Program	Asset Limit	Vehicle Rule	EITC Treatment
Children's Medicaid*	$2,000**	First car exempted; up to $4,650 is exempt for each additional vehicle; remainder is counted towards resource limit.	For Applicants: unspent EITC funds are counted towards the resource limit the third month following receipt. For Recipients: unspent EITC funds are counted towards the resource limit the thirteenth month following receipt.
CHIP*	$10,000***	$18,000 for highest-value car; $7,500 per additional car	
SNAP	$5,000	$15,000 of first car is exempt; up to $4,650 is exempt for each additional vehicle; remainder is counted towards $5,000 resource limit.	
TANF	$1,000	$4,650 of each vehicle is exempt; remainder is counted towards $1,000 resource limit.	

Source: Texas Works Handbook

* Children's Medicaid and CHIP asset limits will be removed January 1, 2014.
** $3,000 if elderly or disabled household
*** Only for families with income above 150% of the federal poverty level (more than $26,400/year for a family of 3). No savings limit for families earning less than 150% of the federal poverty level.

Texas has taken the first steps in recognizing the importance of saving for a specific goal by exempting specific types of savings and accounts. While certain types of savings instruments are exempt from assets tests by federal law, Texas goes beyond the federal exemptions and adds certain college savings accounts and savings bonds to the list of categorical exemptions.

Texas' patchwork approach toward liquid asset limits creates confusion for caseworkers as well as clients, sending an overall message that discourages account savings in general. Although EITC refunds are treated differently from other account resources, our policies generally encourage consumption rather than thrift and personal responsibility. In fact, this policy encourages poor financial habits.

Table 2. Texas HHSC Categorical Exemptions by Savings Tool

Savings Tool	Exemption	Source of Exemption
529 College Savings Accounts	Exempt from asset limits for all public benefit programs	Texas law
Coverdell Education Savings Accounts	Exempt from asset limits for all public benefit programs	Texas law
U.S. Savings Bonds	Exempt for all public benefit programs in first year after purchase, when customer can't redeem bond	Texas law
TANF and Assets for Independence (AFI) IDAs	Exempt if they are intended to pay for college, purchase a home, or start a business	Federal law
401ks, IRAs, and other retirement savings accounts	Most are exempt from asset limits for all public benefit programs	Federal law

Source: Texas Works Handbook

Although U.S. Savings Bonds are considered long-term savings vehicles, with many children listed as co-owners, their value begins to count immediately after the first year, although Texas has exempted other long-term college savings products such as Coverdell and 529 accounts.

As the only state with asset limits for all four public benefit programs however, Texas is an outlier.

Fortunately, proven tools exist that can connect Texans to savings products and motivate Texans to save. While a number of emerging and established platforms have facilitated savings, this paper will focus on products related to IDAs, short-term savings and college savings in Texas.

INDIVIDUAL DEVELOPMENT ACCOUNTS

Ideas into Action

The birth of individual development accounts traces back to Michael Sherraden's seminal book Assets and the Poor: a New American Welfare Policy. The book proposed creating Individual Development Accounts (IDAs), an interest-bearing, tax-free savings account meant to help low-income families save and purchase assets to get ahead.[15] Many entities accepted the challenge, including the U.S. Congress which authorized the Assets for Independence Act in 1998.[16] Through this legislation, the federal government established the Assets for Independence (AFI) program which is the largest source of financial support for IDA programs nationwide.

Through a mix of support from the public sector, philanthropy, and financial institutions, IDA programs—typically run by a nonprofit provider— have moved thousands of individuals from minimal net worth towards financial security.

The AFI program requires participants to accomplish three short-term financial goals: attend financial education classes, attend asset-specific class or trainings, and establish a consistent pattern of savings. Each dollar a participant earns and saves in an IDA account is typically matched by public and/or private funds. The three most common assets permitted by AFI IDAs include:

- first-time homeownership;
- post-secondary education or training; and
- starting a small business or entrepreneurship.

More importantly, AFI IDA account earnings and savings are categorically exempt from state-level resource limits.

Over the past decade, innovations in IDAs have expanded funding sources to go beyond these assets to other important uses such as vehicle purchase or home repair. Additionally, IDA products have evolved to accommodate and strengthen unique populations such as high school students, aging-out foster youth, domestic violence survivors, and persons with disabilities.

IDAs Create New Wealth and Economic Development

According to the current Report to Congress, 71,191 AFI-funded IDA accounts had been opened in the United States through FY 2009. Participants had deposited approximately $66.5 million of their earned income into their IDA accounts, and more than 29,000 IDA participants completed the required financial and asset-specific education and purchased a long-term asset. The IDA participants used their own IDA savings ($34.8 million) and the IDA program matching funds ($79.3 million) to purchase assets which returned approximately $114.1 million into their local economies.

Overall, IDA participation is also connected with other positive outcomes, such as work behavior, home ownership, plans for education, and confidence and control.

MICHAEL SHERRADEN'S 8 PRINCIPLES OF SAVING CRITICAL TO ENABLING LOW-INCOME PEOPLE TO SAVE AND BUILD WEALTH

1. Access
   eligibility, default enrollment
2. Information
   financial education, feedback
3. Incentives
   savings matches, seed deposits
4. Facilitation
   direct deposit
5. Expectations
   match cap, saving targets
6. Restrictions
   pre-commitment, restrictive use
7. Security
   money safe, dependable access
8. Simplicity
   simple products, limited choices

In the face of the 2005-2009 subprime bubble and foreclosure crisis, one study finds IDA homebuyer-savers were two to three times less likely to lose their homes to foreclosure than other low-income homebuyers who purchased homes in the same communities and over the same time period. This asset-preservation effect "suggest(s) that participation in an IDA program with its related services and restrictions can improve homeownership outcomes for low-income households."[17]

Individual Development Accounts in Texas

In 1999, the Texas Legislature enacted SB 781 to create a pilot IDA to be administered by the Texas Workforce Commission (TWC). The Texas IDA Pilot Project was constrained by administrative rules that sharply limited participation to very low-income TANF clients, not the broader eligible population under 200% of the federal poverty level. With a short timeframe to purchase assets and more restrictive income guidelines, the program outcomes were subpar compared to typical IDA programs.

Although IDA bills have been introduced each session since 2005, the Legislature has yet to close the deal, although various efforts have garnered wide support, particularly in the Senate. IDAs targeting specific populations such as children in foster care or domestic violence survivors continue to hold promise because of their track record in other states.

In 2009, 21 states had state-supported IDA programs and at least 30 states had included IDAs in their state TANF plans.[18,19] Despite the lack of state funding, Texas IDA programs and partners have managed to make a big impact in helping low-income families and individuals get ahead.

The Impact of IDAs in Texas

To date, Texas IDA programs have helped 4,442 IDA participants successfully complete the program and purchase over $17.4 million in long-term assets. Specifically, IDA programs in Texas have helped 1,561 families purchase homes, 1,197 participants pay for a post-secondary education, 539 individuals develop or expand small business, and 1,143 individuals purchase vehicles.

Texas IDA initiatives have a remarkable return-on-investment in leveraging federal dollars. Every $1 of federal IDA matching funds has returned approximately $17 dollars in assets purchased into the Texas economy.[20]

Though Texas IDA programs have been successful over the years in combatting (asset) poverty, due to the lack of state or non-federal funding in Texas, other states have been able to draw down more federal funding, especially to serve households in medium-size and rural areas. The AFI program requires a 1:1 non-federal match of all AFI dollars in order to draw down the funding. This matching requirement remains the biggest impediment for Texas organizations wanting to offer IDAs.

IDA Innovations

Ongoing innovations and best practices have been effective in broadening the appeal and scope of IDAs in Texas.

FINANCIAL EMPOWERMENT [PLAINVIEW]

PLAINVIEW'S IDA PROGRAM AND FINANCIAL EMPOWERMENT CENTER

The overriding goal of Plainview's IDA program is to support economic development in the city. This effort is one of the first by a rural Texas community of this size to launch a financial stability program for its residents. The Plainview IDA is a partnership between the Crisis Center of the Plains, City of Plainview, South Plains College, Wayland Baptist University, and other stakeholders. IDA participants will save toward one of three types of asset purchases: homeownership, post-secondary education, or business ownership. In addition to the IDA program, the Financial Empowerment Center will operate a VITA site and provide benefits screening to community members using the Benefit Bank platform, a technology solution to facilitate public benefits screening and enrollment.

ASSET BUILDING INTEGRATION CHILD SUPPORT

TEXAS ATTORNEY GENERAL CHILD SUPPORT DIVISION'S URBAN FATHER ASSET BUILDING PROJECT

In 2011, the Texas Attorney General Child Support Division (CSD) created an Urban Father Asset Building Project (UFAB), a three year demonstration seeking to improve the financial stability of new and expecting low-income fathers to reduce child support orders. UFAB is a partnership between CSD, Baylor College of Medicine and Covenant Community Capital Corporation. Participating fathers are offered a "Fathers and Finances" workshop, through which they learn about the financial responsibilities of fatherhood, the Texas child support system and Covenant's money management services.

Covenant is giving 200 qualifying fathers in Baylor's program the opportunity to enter its Smart Savers Individual Development Account Program (IDA) to get hands-on money management and budgeting experience. This demonstration serves as the laboratory for the emerging practices and strategies for forging alliances between the State IV-D program (Child Support) and AFI grantees to engage low-income men and, more broadly, all parents in the child support program.

Recommendations for Expanding the Access and Impact of IDAs

INCREASE THE SCALABILITY OF IDA PROGRAMS THROUGH STATE PARTNERSHIP

State support for IDAs increases scalability and provides required non-federal match money in order to access AFI funds. While Texas currently does not directly support IDAs, the Housing Trust Fund Affordable Housing Match Program could be a potential source for local IDA efforts. To date, the program has awarded one local nonprofit $125,000 for its IDA program for first time home purchases.

IMPLEMENT IDAS FOR AT-RISK AND ECONOMICALLY DISADVANTAGED POPULATIONS ALREADY BEING SERVED BY THE STATE

Texas could also support IDAs by embedding the restricted matched savings products into existing public systems that serve specific populations such as foster youth. Foster youth have lower economic and educational outcomes than their peers and often experience financial trouble after they have aged out of foster care.[21] A recent survey of Texas foster youth who have "aged out" found that many individuals regretted spending their money unwisely and expressed that it was a struggle to save.[22] An IDA program could encourage foster youth to save a portion of their benefit money for assets that they could purchase once they age out of foster care, such as transportation or housing. One national program, the Jim Casey Youth Opportunities Initiative, has elevated the importance of IDA programs for foster youth, sponsoring more than 4,000 foster youth IDA accounts. Early findings suggest that foster youth IDA graduates are more likely to be employed and have affordable housing.[23]

INTERVENING TO SAVE:
TAX-TIME PLATFORMS TAKE OFF IN TEXAS

A Timely Opportunity to Save

For many working families, tax refunds represent the largest lump sum of money they receive all year. The federal Earned Income Tax Credit (EITC)—a refundable tax credit for eligible low-income households—has been widely credited with reducing (income) poverty for millions of U.S. families,[24] including several hundred thousand families and children in Texas each year. With a high proportion of low-income tax filers, Texas draws down more dollars in EITC refunds than any other state, with nearly 2.6 million Texas filers claiming $6.48 billion in tax year 2010.[25] Additionally, the Child Tax Credit and other refundable items provide other refund sources.[26]

Additionally, the IRS operates the Volunteer Income Tax Assistance (VITA) initiative, a set of community-based collaboratives to provide free tax assistance and preparation to low-income individuals and households. In 2012 (tax year 2011), Texas had more than 250 sites serving more than 114,000 clients. This past tax season, VITA sites returned more than $217 million in refunds, including more than $85 million in EITC refunds.

Over the past several years, many community VITA coalitions have expanded the financial services they offer, including FAFSA preparation, benefits screening, and bank account enrollment. Although “tax time” has always presented a suitable platform for households savings, little organized activity existed to promote savings directly. With two innovations by U.S. Treasury, including Form 8888, or the split refund tax form, and the direct purchase of U.S. Savings Bonds, tax filers could now save more easily through the tax preparation process. Without any savings incentives or marketing, fewer than a hundred Texans used Form 8888 at the VITA sites to split their refund for Tax Year 2009 (2010 tax season).[27]

Beginning with the 2011 tax season, Texas VITA sites, in partnership with state and national partners, began offering incentives to their clients to save a portion of their refund. Through these campaigns, Texas community tax centers have emerged as a primary platform to deliver savings incentives and reduce household asset poverty.

SOME BENEFITS OF U.S. SAVING BONDS FOR TAX-TIME SAVING

- Tax filers can purchase savings bonds directly through the tax return and typical VITA preparation;
- Tax filers can purchase savings bonds without a bank account; and
- Savings Bonds are categorically exempt from Texas asset tests for public income and health supports for the first year after purchase.

Making Savings Happen

This section highlights the project outcomes of the three largest projects in Texas encouraging filers to save at tax time: The OpportunityTexas Tax-Time Savings Project (TSP), United Way of Greater Houston’s Tax-Time Matched Savings Program and San Antonio’s SaveUSA.

OPPORTUNITYTEXAS TAX-TIME SAVINGS PROJECT

For the past two tax seasons, TSP has provided modest incentives to VITA clients to encourage them to save a portion of their tax refunds by purchasing at least one U.S. Savings Bond.

The number of savings tripled and the amount saved quadrupled from 2011, the first year of the project, to 2012. More importantly, 2012 TSP participants

OpportunityTexas Tax-Time Savings Project, 2011-12

Outcome	2011	2012
Number of Project VITA Filers who Saved	265	942
Number of Project VITA Filers who Saved More than $500	6	44
Total Number of Savings Bonds Purchased	N/A	1,061
Total Value of TSP incentives	$9,695	$14,240
Total TSP savings	$29,950	$143,300
Texas VITA sites participating in the project	24	51

Source: United Ways of Texas, 2011&2012; Foundation Communities, 2011&2012

PROFILE OF 2012 TSP SAVERS

Average Refund:	$2,892
Average Household Income	$20,243
Average Value of Savings Bonds Purchased	$152

Source: OpportunityTexas Tax Time Savings Project, 2012

leveraged a smaller incentive into much larger savings, increasing the overall impact of this tax-time intervention.

SAVING FOR TOMORROW EASIER IF INCENTIVE ADDRESSES BASIC NEEDS

One key difference in the approach in 2012 was the type of incentive offered. In 2011, the primary incentive was another $50 Savings Bond, while TSP shifted to a $25 grocery/supermarket stored value card for the 2012 tax season. Apparently, filers were much more likely to save a portion of their refund for a year if they were able to address basic needs like groceries with the supermarket stored value card. Recent research has also found that an immediate savings incentive can have an effect two to three times greater on motivating an individual to start saving than a delayed incentive.[28]

Overall, 12 Texas communities participated in our Tax-time Savings Project — Austin, Brownsville, Corpus Christi, Dallas, Fort Worth, Longview, Lubbock, Midland, Port Arthur, San Antonio, Temple, and Wichita Falls. In part as a result of TSP, Texas led the country in overall tax-time savings bond purchases with 4,052 bonds sold in 2012, with 10 percent of all tax-time savings bonds sold nationally and a 29 percent increase from the 2011 figures.[29]

“SAVE USA” ACCOUNTS IN HOUSTON AND SAN ANTONIO

A few regional VITA collaboratives are taking a different approach by encouraging filers to save a portion of their refund in a savings account opened at the VITA site. San Antonio emerged as the only Texas coalition—and one of four nationally—to participate in a national demonstration project called Save USA.

Adapted from a pilot effort in New York City, Save USA – operated by VITA sites in New York, N.Y., Newark N.J., San Antonio, TX and Tulsa, OK - offers a delayed 50 percent match (up to $500) for filers that save a portion of their refund into a savings account and maintain that balance for about 12 months.[30]

Eligible filers must meet basic requirements to receive the match.

Initial Eligibility	Matching Requirements
• Must have Adjusted Gross Income (AGI) of $50,000 or less with children or AGI of $20,000 or less without children • Must have a minimum refund of $200 and save at least $200 of refund into a SaveUSA account opened at the VITA site	• To receive a delayed 50 percent match (up to $500), accountholders must leave their initial deposit untouched over the year period • Accountholders can make withdrawals and deposits and still receive the match if they maintain their initial deposit amount

Over the past two tax seasons, Save USA has demonstrated that low-income Americans can save effectively with about three of every four participants keeping their savings intact and qualifying for the match the following year.[31]

SAVEUSA [SAN ANTONIO]

SAVEUSA IN SAN ANTONIO

In San Antonio, participating VITA sites have partnered with two financial institutions to open and manage accounts for filers who save. As with the OpportunityTexas savings bond effort, interest, participation, and savings grew substantially in the second year of the effort.

Summary Results from Save USA in San Antonio, 2011-2012

Tax Season	2011	2012
Funded SaveUSA Accounts	436	635
Average Initial Savings	$574	$555
Full Year Savers	76%	Not yet available
Average Total Savings	$937	Not yet available
Repeat Savers	n/a	36%

Source: Save USA Program Implementation: Insights from the Field, 2012; United Way of San Antonio, 2012.

UNITED WAY
[HOUSTON]

UNITED WAY OF GREATER HOUSTON'S TAX TIME MATCHED SAVINGS PROGRAM

Inspired by and with technical support from SaveUSA, United Way of Greater Houston, in collaboration with Neighborhood Centers, launched its own Tax Time Matched Savings Program during the 2012 tax season at two Houston community tax centers. Promise Credit Union became the program's financial institution partner. Their matched savings program, modeled after SaveUSA, has the following guidelines:

- $100 initial refund savings requirement
- $250 maximum match amount
- Match eligibility – Account holders are eligible to receive match if balance falls below initial refund deposit amount

Summary Results of Houston's Tax Time Matched Savings Program

2012 Outcomes

Opened Accounts	226
Average Initial Savings	$417
Total Aggregate Savings	$94,249

Source: United Way of Greater Houston, Neighborhood Centers, 2012.

Building upon their lessons learned and those from SaveUSA, United Way of Greater Houston plans to expand to all 15 Neighborhood Centers VITA sites in 2013, while incorporating the following best practices:

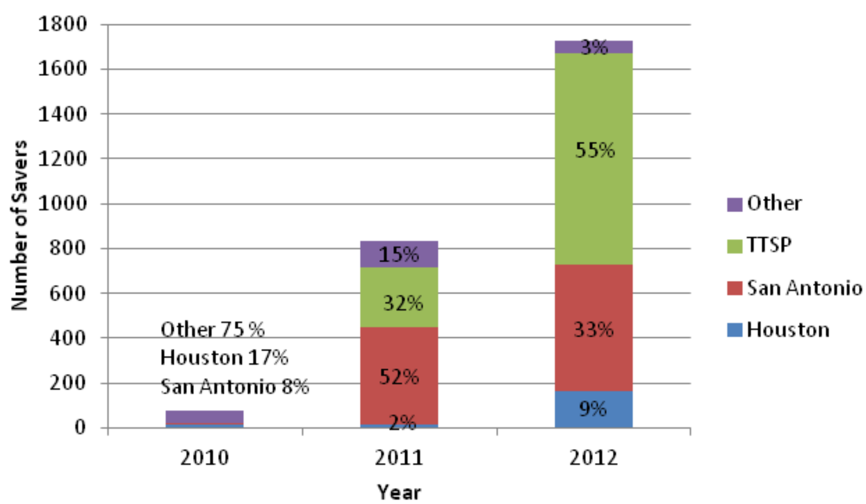
- Employ Asset Specialists to promote accounts to clients in the waiting areas of the tax centers during peak hours;
- Increase training and provide talking points to volunteers to help them better promote the accounts to clients.[32]

Other best practices identified by TSP and SaveUSA to boost tax-time savings promotion participation include a multifaceted marketing campaign to filers both before they arrive at the VITA site by integrating information about the promotion into VITA site marketing materials and at the VITA site by marketing the promotion to every VITA filer though a flyer handed to them when they arrive at the site.[33,34]

SAVINGS AT VITA SITES GAINING STEAM

As the opportunity to save becomes more widespread at community tax centers, Texans are taking to the habit. The following graph shows the growth from 2010—before organized tax-time projects—to 2012 in the number of Texas filers saving a portion of their refund.

Texas Tax-Time Efforts Increase Saving



Source: IRS Form 8888, 2010-2012; United Ways of Texas 2011, 2012; Foundation Communities 2011, 2012.

With two large regional efforts and a statewide platform for promoting tax-time savings, Texas is making strides in leveraging the tax-time moment to increase household savings and financial stability and reduce asset poverty. In addition, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 exempted tax refunds from being considered in asset tests for public benefits for one year after receipt. Unfortunately, this provision will expire at the end of 2012, underlining the need for the 2013 Texas Legislature to reform resource limits for public benefits so as not to discourage or depress tax-time savings.[35]

Despite the popularity of purchasing savings bonds at tax time, the future of this policy is at stake, as the U.S. Department of the Treasury has not guaranteed this opportunity beyond the 2013 tax season.

COLLEGE SAVINGS:
HOW TEXAS CAN INCREASE ACCOUNTHOLDING FOR POSTSECONDARY EDUCATION

The rapidly increasing cost of college has highlighted the importance of college savings accounts and financial preparation for postsecondary education. The average cost of college tuition and room and board at a four-year public university has nearly tripled (184 percent increase) since the 2000-2001 academic year.[36]

Beginning in the mid 1990s, changes in the federal tax code enabled states to create tax-exempt 529 Savings Plans, Coverdell Education Savings Accounts (which have withdrawal rules similar to those for Roth IRAs) and other tax exemptions for withdrawals from traditional retirement plans for post-secondary education. Participation in 529 savings plans is not restricted by income and has become a popular choice of families for college savings. As of June 2012, there are nearly 11 million 529 accounts nationwide with over $179 billion invested.[37]

Incentives for Texas 529 Plans

Texas is one of 12 states with enabling legislation to provide incentives or matching grants connected with its 529 college savings plan.[38] Nearly all states oversee at least one 529 college savings plan, and Texas currently administers two college savings plans with active enrollment: The Texas College Savings Plan, a traditional investment product and the Texas Tuition Promise Fund (TTPF), a prepaid plan to purchase tuition units at current prices.

The 2007 Texas Legislature passed House Bill 3900 creating the state's new prepaid plan with the Save & Match provision, authorizing the Texas Prepaid Higher Education Tuition Board—the state's 529 governance body—to match the deposits of Texas families below the state median income and to align with the higher education goals outlined in Closing the Gaps. HB 3900 also required that the new prepaid plan includes "a specific [marketing] strategy to promote enrollment . . . by persons likely to qualify for federal earned income tax credits."[39]

By 2008, the Comptroller, the state office entrusted with the overseeing both active plans, created a 501(c)3 "program entity"—the Texas Match the Promise Foundation—to solicit and accept monies and make matching awards for Texas 529 savers. The 2011 Texas Legislature expanded Texas Save & Match to establish the infrastructure for public and private dollars to be used for college savings matching grants while exempting both 529 plans from asset testing for state financial aid and public benefits.[40]

Although the Legislature has yet to appropriate funding for the Save & Match, the Foundation has pulled together enough private funding sources to roll out the inaugural round of Match the Promise Scholarships in September 2012.

The Texas Save & Match platform creates new opportunities for public-private partnerships to increase accountholding for low and moderate-income Texans. These alliances can connect academic preparation with financial capability and

A COMPETITIVE INCENTIVE FOR TEXAS 529 ACCOUNTS

Scholarships from the Match the Promise Foundation will serve about 150 students in grades 6-9 in households earning under $75,000 annually. These scholarships are based partly on financial need and partly on academic achievement. Scholarship recipients who save up to $500 in one year in their TTPF account will be eligible to a 1:1 (restricted) match on their deposits.[41]

decrease student loan dependence. Through a mix of administrative, legislative, and nonprofit actions, the Texas 529 "plumbing" includes:

- No penalties for 529 savings, either for state public benefits or financial aid;
- Demographic and regional data on enrollees to track outcomes of various interventions such as marketing and incentives;
- Direct route for regional philanthropy and scholarship organizations to support college savings and success;
- Ability to leverage public and private dollars to deliver restricted matching funds directly to the college when tuition is needed; and
- Scalable platform to reach any Texas community interested in rewarding Texas students and families who save for college.

Innovations

CHILD SUPPORT FOR COLLEGE

Saving for their children's education is a top financial goal of custodial parents in Texas' child support system.[42] In response, RAISE Texas, the Texas Attorney General – Child Support Division (CSD) and three regional financial coaching entities have partnered to create Child Support for College (CS4C), an initiative to encourage custodial parents to save for their children's college education. When CSD collects lump sum child support payments from non-custodial parents through its enforcement processes, custodial parents receive large, unexpected payments. The CS4C initiative leverages the lump sum payment to encourage savings and link parents to financial coaching services.

Parents receiving a payment can meet with a financial coach to help them maximize the payment and save a portion of it for their child's future educational expenses. To promote savings, parents who choose to open and save in a Texas 529 college savings account are eligible for a series of matching incentives. CS4C is supported by Citi and will run through December 2012.

Despite the existence of incentives for these two 529 college savings initiatives, federal and state policy barriers continue to make it harder to enroll lower-income students at large scale.

A Closer Look at the Texas Tuition Promise Fund

Without any matching dollars delivered to date, the Texas Tuition Promise Fund has followed the pattern of most other states with an extremely wide accountholding gap between higher and lower-income families.[43] In other states, robust matching programs have been successful in narrowing those disparities.[44]

TRENDS FROM ENROLLEES IN TEXAS TUITION PROMISE FUND

Since the Texas Tuition Promise Fund opened for new enrollees in 2008, more than 30,000 pre-paid tuition plans had been opened through March 2012.[45] However, the TTPF has seen enrollment decline steadily over the four-year period. According to an administrative rule adopted in 2008, the plan manager is required to collect accountholder data for several demographic indicators, including race and ethnicity, household income, and highest educational level of the purchaser—typically a parent.[46]

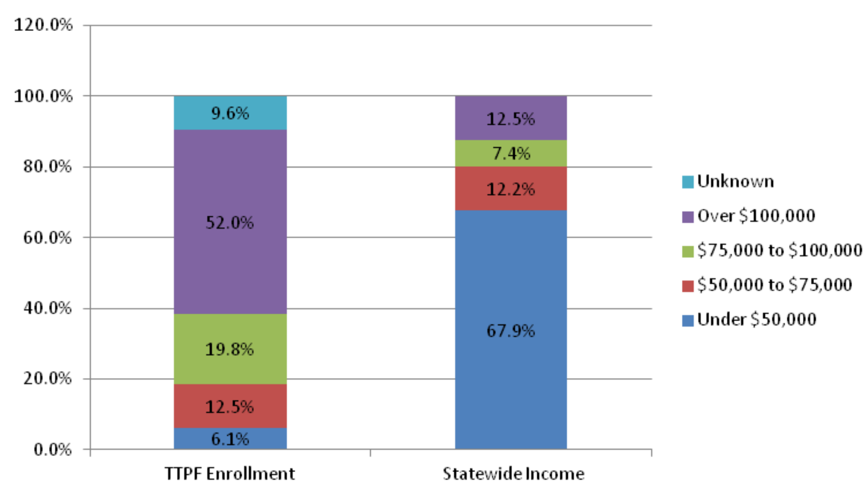
While enrollment for all demographic groups fell from the 2010-11 enrollment period, new accountholding fell more sharply for households under $75,000, as well as for African American and Hispanic purchasers.

HOUSEHOLD INCOME AND TTPF ACCOUNTHOLDING

Household income emerged as a major determinant of TTPF enrollment, as higher-income households (over $100,000) are about four times more likely to enroll in the Texas Tuition Promise Fund than households under $100,000. Although the Texas household median income is $49,932, only six percent of all enrollees have household incomes below $50,000.[47]

The following chart shows the lopsided enrollment patterns by income level:

TTPF Enrollee Income Levels Compared to Statewide Income Levels



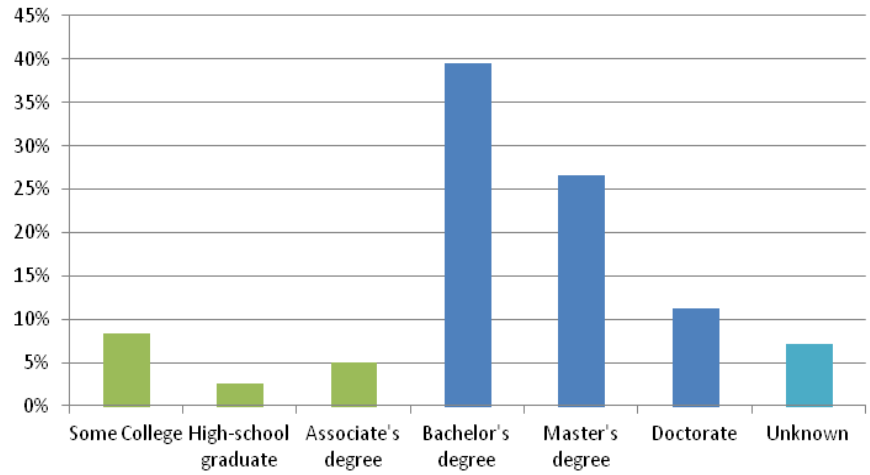
Source: IRS, Statistics of Income Division, Individual Master File System, December 2011; CPPP Analysis of TTPF Data, August 2012.

Households with incomes under $50,000 are significantly less likely to be TTPF accountholders than higher-income households in Texas.

IMPACT OF EDUCATIONAL ATTAINMENT ON ENROLLMENT

Educational attainment also seems to be a significant determinant of TTPF enrollment. More than three quarters of accountholders had a bachelor's degree or a higher level of education attainment, with less than three percent of accountholders having only received a high school diploma. As such, very few TTPF students are coming from first-generation college students.

Educational Attainment of TTPF Accountholders



Source: CPPP Analysis of Texas Tuition Promise Fund Data, 2008-12, Texas Comptroller of Public Accounts/Texas Prepaid Higher Education Tuition Board.

Hispanic and African Americans purchasers are severely under-enrolled given their makeup of the overall Texas population. Overall, African Americans and Hispanics make up over 48 percent of the Texas population and 61% of children (under 18), but just over 18 percent of the TTPF accountholders.[48]

Additionally, TTPF has attracted very few African American and Hispanic purchasers below $50,000. However, African Americans and Hispanic accountholders below $50,000 were two to three times more likely to be TTPF enrollees than white accountholders below $50,000.

Average Share of Total TTPF Enrollment by Ethnicity and Income Level, 2008-12

Ethnicity	Income Level					
	Under 50K	50K-75K	75K-100K	Over 100K	Unreported	Total
White	3.0%	7.0%	11.5%	32.3%	1.5%	55.3%
Black	0.8%	0.9%	0.9%	1.6%	0.2%	4.3%
Hispanic/Latino	1.7%	2.2%	3.2%	7.1%	0.2%	14.4%
Native American	0.0%	0.1%	0.0%	0.2%	0.0%	0.3%
Other	0.3%	0.5%	0.7%	1.8%	0.2%	3.5%
Asian American	0.5%	1.3%	2.7%	8.4%	0.6%	13.6%
Unreported	0.1%	0.2%	0.2%	0.8%	7.3%	8.5%

Source: CPPP Analysis of Texas Tuition Promise Fund Data, 2008-12, Texas Comptroller of Public Accounts/Texas Prepaid Higher Education Tuition Board.

ENROLLMENT BARRIERS FOR 529 COLLEGE SAVINGS IN TEXAS

As the household incomes of the Texas student population continue to trend downward, it will be imperative for Texas to ensure adequate enrollment for students in households below $50,000, especially as student loan borrowing and default rates continue to rise. TTPF enrollment data analysis reveals important findings that could inform and improve accountholding opportunities for lower-income households. As such, we see emerging patterns regarding how Texas families hear about the prepaid plan and how they pay for the plan, including:

- “Word of Mouth”, i.e. “family, friend or colleague”, accounted for 40 percent of referral sources during the 2011-12 enrollment period, a pattern consistent across demographic groups;
- TTPF organized promotional and educational presentations account for a small fraction of new enrollments relative to number of individuals reached;
- Referrals from professional financial advisers account for a small share (4 percent); and[49]
- As the student loan burden accelerates and Texas communities build “one-stop” opportunity centers and collaboratives across the state, the demand for college savings account enrollment will continue to rise.[50]

Especially for low-income working families, the desire to save for their children’s education does not square up with the follow-up action. In a survey conducted by the Texas Office of the Attorney General Child Support Division (OAG-CSD), 81.5 percent of custodial parents and 61.5 percent of non-custodial parents reported interest in saving for their children’s education through a shared education savings account.[51] In fact, saving for their children’s future education expenses was rated as the most important financial goal for custodial parents.[52]

Texas should seize the opportunity to remove or modify 529 enrollment barriers that depress enrollment and minimize savings. We have identified numerous policy and programmatic levers to increase college savings accountholding for families struggling to finance postsecondary education, especially for those households below $75,000.

Recommendations for Expanding Enrollment in College Savings Plans

In attempting to expand the base of college savers, increase financial capability, and reduce student loan dependence, many states are taking innovative steps to increase accessibility to their 529 platforms.[53]

In order to remove barriers and increase accountholding, we have identified several programmatic, administrative, and legislative solutions to close the college savings gap, including:

- Developing relationships with financial institutions to develop an FDIC-insured product;
- Identify ways to streamline enrollment process and to create a “default” option for either 529 plan;
- Investing public and philanthropic dollars to create thousands of matching scholarships for Texas students;

- Ensure that 529 plan balances are exempt from asset testing for state financial aid programs, as mandated by state law;
- Enabling certified financial coaches to provide enrollment assistance, with a continued bright line between “advice” and “assistance;” and
- Establishing goals for low-income participation in TTPF and the Texas College Savings Plan.

Other states, particularly Oklahoma, have removed these barriers in establishing SEED OK, a multi-year demonstration to test the impact of default or automatic enrollment upon 529 accountholding.[54]

To create a savings and college-going culture, Texas should identify and remove these barriers in order to provide a pathway for interested families to save for postsecondary education.

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