

PROGRAM FEATURES OF COLLEGE SAVINGS PLANS AND  
PARENTAL SAVINGS FOR CHILDREN'S EDUCATION

A Research Proposal Submitted for  
The 2014 NBER Household Finance Working Group Research Grant

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## **Program Features of College Savings Plans and Parental Savings for Children's Education**

**Abstract:** Saving has become an increasingly important strategy for families to finance their children's postsecondary education given the growing concerns about rising college costs and student loan debt. To facilitate families' efforts to save for college, the federal government created tax-advantaged College Savings Plans (often called 529 plans) in 1996. Operated by state governments, many states' 529 plans have various program features, including state income tax benefits, the requirement of the initial deposit, savings match, and so on. However, little is known about how different program features of state 529 plans are associated with parents' financial decisions to save for children's postsecondary education. The proposed study will overlay data from the 2009 and 2012 National Financial Capability Study with a data set detailing program features of 529 plans from all states to examine the impact of various program features on parents' decisions to save for their children's postsecondary education. Study findings will provide important insights into designing effective programs to promote asset accumulation for children's education.

### **Background and Specific Aims**

There is increasing concern about the rising cost of college and levels of student loan debt. Estimates from the Consumer Financial Protection Bureau (Chopra 2013) indicate that the total amount of student loan debt approaches \$1.2 trillion, and more than 7 million borrowers are in default. Despite the continued growth of college costs, nearly all parents expect their children to earn a college degree (Sallie Mae 2013; Taylor et al. 2011), as postsecondary education is a primary determinant of long-term economic success and social mobility (Baum, Ma, and Payea 2010). It is, therefore, important to understand the role public policy plays in assisting families with financially preparing for their children's postsecondary education.

Policy makers have proposed a variety of strategies to limit student debt and the vulnerability it can bring. Saving for postsecondary education, a key strategy, has come to play an increasingly important role in financing college. For example, tax-advantaged college savings plans (often called 529 plans) were created by the federal government in 1996 and are operated by state governments (Clancy 2003; US Department of the Treasury 2009). In 2011, the total assets held in 529 plans were valued at \$167 billion (US Government Accountability Office 2012). While 529 plans are one of the most frequently used saving vehicles for children's postsecondary education, only one quarter of parents who save for their children's education participate in this program specifically designed for college savings (Sallie Mae 2013).

Many states have made explicit efforts to encourage the participation of 529 plans. For example, about ten states developed financial incentives, such as an account opening incentive and savings match, to increase 529 plan participation (Lassar, Clancy, and McClure 2011). An account opening incentive is an initial deposit provided for program participants to "seed" their 529 account(s). The savings match incentive matches participants' contributions up to an established dollar or percentage cap. Other strategies include state income tax benefits, promotion of 529 plans through workplaces, and options for default investment or streamlined enrollment (Lassar, Clancy, and McClure 2011). These policy innovations show promise, but are relatively new, and their impact on participation has not yet been evaluated. To fill the

knowledge gap, this study proposes to collect information on program features among state 529 plans through different sources, and examine the associations between these features and parents' decisions to participate in 529 plans and to save for their children's postsecondary education.

## **Research Methods**

*Program Features of 529 Plans.* The study will collect information on program features of 529 plans from previous studies (e.g., Clancy 2003; Lassar, Clancy, and McClure 2011), government reports (e.g., IRS and GAO), and websites (e.g., collegesavings.org, and morningstar.com). When necessary, the PI and his graduate research assistant will contact state officials for this purpose. The main program features of state 529 plans include the following: (1) maximum amount of state income tax benefits; (2) amount of the required initial deposit; (3) amount of account-opening incentive; (4) amount of savings match; (5) costs of fund management; (6) investment options (e.g., CDs and age-based portfolio); and (7) enrollment process and marketing strategies (e.g., online enrollment and enrollment at workplaces). For example, the state of Oklahoma provides state income tax credits for OK 529 plan contributions up to \$10,000 per year (or \$20,000 for married couples filing jointly), and requires a minimum deposit of \$100 to open an OK 529-plan account. The 529 plan in Arkansas provides savings match to low income families, with an annual match cap of \$500 and a life-time cap of \$2,500.

*Participation in 529 Plans and Savings for Education.* Few surveys include the information on families' participation in 529 plans. This study will use the data from the 2009 and 2012 National Financial Capability Study (NFCS) to assess whether parents participate in 529 plans and whether parents set aside money for children's education. The NFCS collects data from more than 25,000 American adults and data are weighted to be representative of Census distributions according to American Community Survey. The study will limit the samples to families with children aged 0-18. The 2009 NFCS asks whether parents are "setting aside any money for children's college education" and whether parents use a 529 plan to save for college. However, the 2012 NFCS only collects information on whether parents are "setting aside any money for children's college education". Based on these survey items, the study will create two dichotomous outcomes: 529-plan participation (1 = Yes and 0 = No) and savings for college (1 = Yes and 0 = No).

*Data Analysis.* Since both outcome measures (i.e., participation in 529 plans and having savings for education) are dichotomous, the study will use the probit regression to examine the relationships between parents' decisions of program participations and saving for children's education. Analyses control for extensive demographical and socioeconomic characteristics included in the NFCS.

## **Dissemination**

Findings of this study will be submitted to a peer-reviewed journal and presented at national conferences such as the annual conference of Society for Social Work and Research and Association for Public Policy Analysis & Management. Study findings will also be shared with local nonprofit organizations and agencies providing financial education and financial services.

## References

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- US Department of the Treasury. (2009). *An Analysis of Section 529 College Savings and Prepaid Tuition Plans: A Report Prepared by the Department of Treasury for the White House Task Force on Middle Class Working Families*. Washington, DC: US Department of the Treasury. <http://www.treasury.gov/resource-center/economic-policy/Documents/09092009TreasuryReportSection529.pdf>.
- US Government Accountability Office. (2012). *Higher Education: A Small Percentage of Families Save in 529 Plans*. Report GAO-13-64. Washington, DC: Washington, DC: US Government Accountability Office. <http://www.gao.gov/assets/660/650759.pdf>.

### Project Budget

Budget Items	Amount
Graduate Research Assistant (800 hours): \$12 per hour × 20 hours per week × 40 weeks	\$9,600
Conference Presentations	\$4,000
Consultant Services	\$2,240
<b>Total Amount</b>	<b>\$15,840</b>

#### Budget Justification:

1. Funding for one graduate research assistant is requested. The graduate assistant will work on tasks related to the proposed project for eight months, including data collection, literature search, literature review, and data analysis. The main task of the graduate research assistant is to collect data on program features of state 529 college savings plans.
2. A total of \$4,000 is requested for two conference presentations (\$2,000 for each). The PI plans to present the study results at the 2015 NBER Household Finance Working Group meeting, the 2015 Annual Conference of Society for Social Work Research, or the 2014 Conference of the Association for Public Policy Analysis and Administration.
3. A total of \$2,240 (\$70/hour\*32 hours) is requested for consultation on state 529 plans. In order to collect information on state 529 plans, the PI will receive consultation services from experts on this topic at Center for Social Development, Washington University, at [www.collegesavings.org](http://www.collegesavings.org), and state officials.
4. The PI will spend 10% of his efforts on the proposed study during the project period (\$11,232). Since this grant only supports non-salary costs, the PI's efforts are not included in the budget table above, and are shared by Saint Louis University.

## CURRICULUM VITAE

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### EDUCATION

- 2006-2011 Ph.D. in Social Work, Washington University George Warren Brown School of Social Work
- 2003-2005 Master of Social Work, Washington University George Warren Brown School of Social Work
- 1993-1997 Bachelor in Social Work, China Youth University for Political Sciences, Beijing, China

### CURRENT POSITION

- 08/2011- Assistant Professor, Saint Louis University, School of Social Work, College for Public Health and Social Justice.

### PREVIOUS POSITIONS

- 08/2006-08/2011 Research Associate (part-time), Center for Social Development, Washington University in St. Louis
- 01/2006-07/2006 Teacher Assistant (full-time), Educational Program, Judevine Center for Autism, St. Louis
- 07/1997- 07/2001 Social Worker (full-time), Shenzhen Association for People with Disabilities (SAPD), Shenzhen, China

## PUBLICATIONS

### Peer-reviewed Journal Articles

1. **Huang, J.**, Birkenmaier, J., & Kim, Y. (*Accepted*). Job loss and unmet health care needs in the economic recession: different associations by family income. *American Journal of Public Health*.
2. **Huang, J.**, Sherraden, M, & Purnell, J. (2014). Impacts of Child Development Accounts on maternal depression: Evidence from a randomized statewide policy experiment. *Social Science & Medicine*, 112, 30-38.  
<http://www.sciencedirect.com/science/article/pii/S0277953614002548>.
3. **Huang, J.**, Nam, Y., & Lee, E. (2014). Financial capability and economic hardship among low-income older Asian immigrants. *Journal of Family and Economic Issues*. Online First. [http://link.springer.com/article/10.1007/s10834-014-9398-z?sa\\_campaign=email/event/articleAuthor/onlineFirst](http://link.springer.com/article/10.1007/s10834-014-9398-z?sa_campaign=email/event/articleAuthor/onlineFirst).
4. **Huang, J.**, Peters, K.E., Vaughn, M.G., & Witko, C. (2014). Breastfeeding and Trajectories of Children's Cognitive Development. *Developmental Science*, 17(3). 452-461.

5. Deng, S., **Huang, J.**, Jin, M., & Sherraden, M. (2014). Household assets, school enrollment and parental aspirations for children's education in rural China: Does gender matter? *International Journal of Social Welfare*, 23(2), 185-194.
6. **Huang, J.**, Sherraden, M., Kim, Y., & Clancy, M. (2014). An experimental test of Child Development Accounts on early social-emotional development. *JAMA Pediatrics*, 168(3), 25-271.
7. Peters, K.E., **Huang, J.**, Vaughn, M.G., & Witko, C. (2013). Does breastfeeding contribute to the racial gap in reading and math test scores? *Annals of Epidemiology*, 23(10), 646-651.
8. **Huang, J.**, Deng, S., Jin, M., Guo, B., Zou, L., & Sherraden, M. (2013). Asset poverty in urban China: A study using the 2002 Chinese Household Income Project. *Journal of Social Policy*, 42(4), 763-781.
9. **Huang, J.** (2013). Asset poverty and happiness in urban China. *China Journal of Social Work*, 6(2), 163-176.
10. Deng, S., Sherraden, M., **Huang, J.**, & Jin, M. (2013). Asset opportunity for the poor: An asset-based policy agenda toward inclusive growth in China. *China Journal of Social Work*, 6(1), 40-51. (the paper receives the 2013 Keswick Foundation Best Article Award)
11. **Huang, J.**, Beverly, S., Clancy, M., Lassar, T., & Sherraden, M. (2013). Early program enrollment in a statewide Child Development Account program. *Journal of Policy Practice*, 12(1), 62-81.
12. **Huang, J.**, Nam, Y., & Sherraden, M.S. (2013). Financial Knowledge and child development account policy: A test of financial capability. *Journal of Consumer Affairs*, 47(1), 1-26.
13. **Huang, J.** (2013). Intergenerational transmission of educational attainment. *Economics of Education Review*, 33(April), 112-123.
14. **Huang, J.**, Porterfield, S., Jonson-Reid, M., & Drake, B. (2012). AFDC/TANF exits and re-entries for families raising children with educational disabilities. *Children and Youth Services Review*, 34(9), 1756-1761.
15. **Huang, J.**, Nam, Y., & Wikoff, N. (2012). Household assets and food stamp program participation among eligible low-income households. *Journal of Poverty*, 16(2), 171-193.
16. **Huang, J.** (2012). Work disability, mortgage default, and life satisfaction in the economic downturn: Evidence from a national study. *Journal of Disability Policy Studies*, 22(4), 237-246.
17. Nam, Y., & **Huang, J.** (2011). Change roles of parental economic resources in children's educational attainment. *Social Work Research*, 35(4), 203-213.
18. **Huang, J.** (2010). Effects of individual development accounts (IDAs) on household wealth and saving taste. *Research on Social Work Practice*, 20(6), 582-590.
19. **Huang, J.**, Oshima, K., Kim, Y., (2010). Does food insecurity affect parental characteristics and child behavior? Testing mediation effects. *Social Service Review*, 84(3), 381-401.
20. Oshima, K., **Huang, J.**, Jonson-Reid, M., & Drake, B. (2010). Children with disabilities in poor households: Association with juvenile and adult offending. *Social Work Research* 24(2), 102-113.
21. Lombe, M., **Huang, J.**, Putnam, M., & Cooney, K. (2010) Exploring saving performance in an IDA for people with disabilities: Some preliminary findings. *Social Work Research* 24(2), 83-93.

22. **Huang, J.**, Guo, B., Kim, Y., & Sherraden, M. (2010). Parental income, assets, borrowing constraints and children's post-secondary education. *Children and Youth Services Review*, 32(4), 585-594.
23. **Huang, J.**, Guo, B., & Kim, Y. (2010). Food insecurity and disability: Do Economic Resources Matter? *Social Science Research*, 39, 111-124.
24. Nam, Y., & **Huang, J.** (2009). Equal opportunity for all? Parental economic resources and children's educational achievement. *Children and Youth Services Review*, 31(6), 625-634.
25. **Huang, J.**, Guo, B., & Bricout, J. (2009). From concentration to dispersion: The shift of policy approach to disability employment in China. *Journal of Disability Policy Studies*, 20(1), 46-54.
26. Lombe, M., Putnam, M., & **Huang, J.** (2008). Exploring effects of institutional characteristics on saving outcome: The case of Cash and Counseling program. *Journal of Policy Practice*, 7(4), 260-279.
27. Guo, B., **Huang, J.**, Sherraden, M., & Zou, L. (2008). Dual incentives and dual asset building: Policy implication of the Hutubi Rural Social Security Loan Programme in China. *Journal of Social Policy*, 37(3), 453-470.
28. Guo, B., **Huang, J.**, Zou, L & Sherraden, M. (2008). Asset-based policy in rural China: An innovation in the retirement social insurance program. *China Journal of Social Work (English)*, 1(1), 63-76.
29. Guo, B., Pickard, J. & **Huang, J.** (2007). A cultural perspective on health outcomes of caregiving grandparents in China. *Journal of Intergenerational Relationships*, 5(4), 25-40.
30. **Huang, J.** & Guo, B. (2005). Building social capital: A study of online disability community. *Disability Study Quarterly (Online Journal)*, 25(2).
31. Guo, B., Bricout, J. & **Huang, J.** (2005). A common open space or a digital divide? A social model perspective on the online disability community in China. *Disability and Society*, 20(1), 49-66.
32. Guo, B., & **Huang, J.** (2005). Marital and sexual satisfaction in Chinese families: Exploring the moderating effects. *Journal of Sex and Marital Therapy*, 31(1), 21-29.

### Book Chapters

1. **Huang, J.** & Greenfield, J. (*accepted*). Asset development of older adults: A capability approach. In N. Morrow-Howell & M. Sherraden (Eds.), *Financial Capability across the Life Course: A Focus on Vulnerable Population*. NY: Oxford University Press.
2. Nam, Y., **Huang, J.**, & Sherraden, M. (2008). Asset definitions. In S. McKernan & M. Sherraden (Eds.), *Asset Building and Low-Income Families (pp.1-32)*. Washington DC: The Urban Institute Press.



## GRANTS

1. Center for Social Development, Washington University in St. Louis and Ford Foundation  
Project: Subcontract of the SEED for Oklahoma Kids Experiment (Child Development Accounts)

Funded: 09/2011-08/2015 (total costs: \$70,000).

Role: Principal Investigator

2. Chiang Ching-Kuo Foundation for International Scholarly Exchange

Project: Happiness and Economic Inequality in Urban China from the Perspective of Asset Poverty.

Funded: 09/2012-08/2013 (total costs: \$15,195).

Role: Principal Investigator

3. Presidents Research Fund, Saint Louis University

Project: Food Insufficiency, Income Volatility, and Asset Holding in Middle-Income Households: A Comparison Before and After Economic Recession, 2005-2010

Funded: 09/2012-08/2013 (total costs: \$20,000)

Role: Principal Investigator

4. Faculty Research Leave Program, Saint Louis University

Project: Household Material Hardship and Financial Assets in an Economic Recession

Funded: Spring Semester 2013 (total costs: \$15,704)

Role: Principal Investigator

5. The Institute for Research on Poverty (IRP) RIDGE Center for National Food and Nutrition Assistance Research

Project: Seasonal difference in program participation and the NSLP impacts on food insufficiency and food insecurity

Funded: 07/01/2013 -12/31/2014 (total costs: \$38,361)

Role: Principal Investigator