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Overview of College Savings Accounts

PRESENTED TO:

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On Education Finance
Hon. Kevin McCarty, Chair

LEGISLATIVE ANALYST'S OFFICE

College Savings Accounts in the National Context

Federal Law Authorizes College Savings Accounts That Have Tax Benefits

- Enacted in 1996, Section 529 of the Internal Revenue Code allows states to administer college savings accounts (“529 plans”) that provide certain tax advantages.
- Parents (or other relatives and friends) may open 529 plans and make contributions on behalf of a student. Funds invested in the account tend to grow over time.
- Earnings from 529 plans are not taxable if the student uses the funds for qualifying education expenses. Qualifying expenses include tuition and fees, books and supplies, and room and board.

ScholarShare Is California’s 529 Plan

- California launched ScholarShare in 1999. The ScholarShare Investment Board (within the State Treasurer’s Office) administers the program.
- The minimum deposit to open an account is $25.
- As of June 2018, there were about 310,000 open ScholarShare accounts, with an average balance of about $28,000.

ScholarShare Offers Incentives to Open Accounts

- ScholarShare periodically offers incentives to open accounts and make contributions.
- Through December 2019, ScholarShare is offering matching grants of up to $225 to parents with a household income of $75,000 or less who open a new account for a child who is 14 years old or younger.

Recent Efforts to Expand College Savings Accounts in California

Some Local Entities Have Been Exploring Ways to Expand Participation

- Since 2011, San Francisco has automatically opened a college savings account for every kindergartner in the school district. The city makes an initial deposit of $50 and offers additional incentives for families to contribute funds.
- Several other local entities have since launched similar initiatives, but they vary somewhat in their eligibility requirements, enrollment processes, and matching incentives.

State Created "Every Kid Counts" to Support Local College Savings Initiatives

- In 2017-18, the Legislature created the Every Kid Counts College Savings Program and provided $3 million one-time General Fund for it.
- To qualify for funding, local entities need to be operating or developing a college savings initiative focused on low-income families with young children (kindergarten to sixth grade).

Every Kid Counts Grantees Recently Announced

- Nine entities applied for grants, totaling $2.9 million. Grantees consist of four nonprofit organizations, three local governments, one school district, and one public-private partnership.
- Grants range in size from $100,000 to $927,000. Funds must be expended by June 30, 2021. Funds may be used for saving incentives, outreach, evaluation, and administration.
- All grantees are required to participate in an evaluation intended to assess program outcomes and identify best practices.