Joe Torsella
DEMOCRAT FOR TREASURER

Keystone Savings Accounts:
Investing in Brighter Futures for *All* Pennsylvania Children

As Pennsylvania State Treasurer, Joe Torsella will work to establish automatic college/vocational training savings accounts for every child born in Pennsylvania, an initiative that can increase access to higher education, improve graduation rates, foster lifelong financial literacy and wealth-building, and help to bridge our growing income gap.

Establishing a savings account early in life has a powerful impact on a child's future. Research shows that it dramatically increases the likelihood of attending college, at a time when individuals with a bachelor's or associate's degree earn significantly more than high school graduates – by some estimates, up to a million dollars more in lifetime income.[1]

Treasurers around the country have been pioneering new approaches to lifting the financial fortunes of low and middle-income families.[2] As Pennsylvania Treasurer, Joe Torsella will build on such innovations in other states to establish Keystone Accounts for Pennsylvania: a universal and automatic savings account established for every child born in our Commonwealth, seeded with an initial modest contribution, and designated for college or vocational training. Torsella will work with partners in state government, as well as in the financial and philanthropic sectors, to create a wealth-building, college-going culture that empowers all of Pennsylvania's families.

Joe Torsella on College Savings Accounts for Every Pennsylvanian Child:

"I'm running because I think the Treasurer has a vital role to play in addressing the great challenge of our time: turning back the rising tide of inequality, rebuilding our middle class, and creating opportunity for every Pennsylvanian.

There are 150,000 kids born every year in our Commonwealth. I want every single one to grow up saving money, fully participating in the financial system, and planning for a bright future as a college or vocational school graduate."

[1] Weston, Liz. "Why College Is Still Worth It Even Though It Costs Too Much." Reuters. Oct. 5, 2015
[2] Cohen, Patricia. "Ideas to Improve Financial Lives, From the Treasurer's Office." The New York Times. Nov. 3, 2014

Saving for Schooling: More Important – and Harder– than Ever

For too many Pennsylvania parents, a college education for their children is a dream that seems out of reach. Over two-thirds of Pennsylvania families are low or moderate-income, and one-third of all Pennsylvania families are "liquid asset poor," without enough financial resources to fund just three months of living expenses at the federal poverty level.[3] While not the only factor, the presence or absence of financial resources is often key to setting expectations for post-secondary education within a family.

A college-bound future seems out of reach for many Pennsylvanians as costs and debt rise, while public funding falls. College costs have skyrocketed 82 percent over the past decade.[4] According to the Keystone Research Center, Pennsylvania "ranks 47th among states in funding for public higher education per $1,000 of personal income and 48th in funding per capita," while also having some of the highest public university tuition and fees of any state. Correspondingly, Pennsylvania now ranks third in the nation for average student loan debt with the average debt burden for a graduate being $31,000.[5]

All of these trends make saving for college, especially early in life when compounding can have the most effect, even more important. But 529 savings plans, despite their usefulness, are still underutilized -- on average just 4.5% of eligible Pennsylvania families have 529 accounts[6] -- and disproportionately benefit higher-income families.[7] And Pennsylvania's most vulnerable families, struggling just to get by, have little or no resources to set aside and are often among the "unbanked," relying on alternative – and expensive – banking systems, such as "payday lenders." For them, a successful 529 account remains a dream and not a reality.

The Pennsylvanian families who most need the bridge to a better future that education after high school can provide are the least able to save for it. So while it's important to preserve, expand and improve Pennsylvania's 529 programs,[8] it's also important to address this broader issue by developing new ways of helping *all* families to save for college.

What Research Shows

New research shows that Children's Savings Accounts (CSAs) can be game changers. These are accounts opened at birth or at an early age, typically with an initial deposit by a program partner, to which families are encouraged and incentivized to add over the course of a child's life. Early life savings leads to higher rates of college matriculation, better K-12 educational outcomes, and lifetime habits of financial literacy and competence. Most of all, CSAs introduce a sense of possibility and hope, and change family expectations around both wealth-building and college attendance.

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[3] Aldeman, C. "Why 529 College Savings Plans Favor the Fortunate." Education Sector. 2011. Retrieved from http://educationpolicy.air.org/sites/default/files/publications/529_Savings_Plan_CYCT_RELEASE.pdf
[4] Id.
[5] Morrill, M. "Pennsylvania is Number 3! In Average Student Loan Debt. Daily Kos. December 2013. Retrieved from http://www.dailykos.com/story/2013/12/6/1260697/-Pennsylvania-is-Number-3-In-Average-Student-Loan-Debt
[6] Id.
[7] See chart, 2014-20155 Annual Report on Pennsylvania 529 Programs. Retrieved at http://www.pa529.com/lib/pdf/Current-PA529-Annual-Report.pdf. "While families in every county have accounts, the level of coverage varies considerably. Not surprisingly, generally counties with higher average household income have a higher percentage of children with accounts." Accessed February 23, 2016
[8] See, "Pennsylvania 529 College Savings Plan," Savingforcollege. Retrieved from http://www.savingforcollege.com/529_plan_details/index.php?state_id=39&page=plans_by_state

For example, research conducted by the Center for Social Development at Washington University in St. Louis found that children with a college savings account are up to seven times more likely to attend college than those without an account.[9] Additionally, according to the Center for Financial Security at the University of Wisconsin-Madison, early schooling experiences increased financial literacy later in life, improving the ability to manage money and save for retirement.[10]

Similarly, a study conducted by the University of Kansas School of Social Welfare found that children's college savings accounts sent a strong message to children: "You are a college saver. You are college-bound." The study also concluded "even small accounts, in many cases inadequate to even buy books for a semester, increase perseverance and improve academic preparation."[11]

The Corporation for Enterprise Development (CFED) found that:

- Children provided a savings account at birth score better on socio-economic development indicators than their counterparts who did not receive a savings account;
- Families with children who are provided a seeded, matched savings account at birth save significantly more for college than families of children who did not receive these accounts;
- After receiving five hours of classroom-based financial education, students demonstrated greater knowledge of financial concepts, and these knowledge gains persisted one year later, with attitudes towards saving and financial institutions also improving; and
- Children enrolled in a matched savings program and receiving financial education scored significantly higher on financial literacy tests than children who received the education alone, without a savings account.[12]

CFED's study found that the benefits do not largely depend on how much money is in the children's accounts; it's simply the fact that children learn that college is something to save for that makes such a large impact. Researchers find that financial resources have their strongest effect on children's educational outcomes early on in the child's life, not at the point of college entry.[13] Indeed, evidence suggests that automatic enrollment is likely to be a key factor in determining whether or not savings plans will help to reduce financial inequalities.

[9] "The Role of Savings and Wealth in Reducing Wilt between Expectations and College Attendance," Center for Social Development, George Warrane Brown School of Social work, 2010. Retrieved from http://csd.wustl.edu/Publications/Documents/RB10-04.pdf

[10] Lusardi, A. "Household Saving Behavior: The Role of Financial Literacy, Information, and Financial Education Programs." Dartmouth College. 2008. Retrieved from http://www.dartmouth.edu/~alusardi/Papers/Literacy_Information_Education.pdf.

[11] Assets and Education Initiative. (2013). Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education. In W. Elliott (Ed.), Biannual report on the assets and education field. Lawrence, KS: Assets and Education Initiative (AEDI).

[12] Id.; see also Huang, J. "Effects of child development accounts on early social-emotional development: an experimental test." National Institutes of Health. (study based on Oklahoma's statewide Child Development Accounts (CDAs) program).

[13] See Assets and Education Initiative. (2013). Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education. In W. Elliott (Ed.), Biannual report on the assets and education field. Lawrence, KS: Assets and Education Initiative (AEDI).

Innovation Around the Nation

Informed by this research, several states have created Children Savings Account programs aimed at increasing both financial literacy and educational outcomes. Nevada, Maine, and most recently, Rhode Island are at the forefront with universal automatic deposit programs, none using taxpayer funding. Other states have also worked to make 529 accounts more accessible for low income families.

- Since 2013, **Nevada's College Kick Start Program** has provided public school kindergarten children with a 529 plan that provides an initial deposit of $50.[14] "It's not going to be $20,000," then-State Treasurer Kate Marshall said last year. "But what it is going to be is a way to start the conversation with that family, to tell that child that they're college bound, and to help people think about and get in that door."[15] So far, the program has allocated 66,500 grants with the annual compound interest expected to average 12 percent for a total of about $220 in 13 years when a student enters college.[16] Kick Start's $1.8 million annual budget is paid through fees the state's four private 529 plans pay the state treasurer's office.

- Since January 2015, every baby born in **Rhode Island** automatically receives a $100 deposit into a college savings account. This plan applies retroactively to any child born after July 1, 2010. As in other states, taxpayers are not on the hook: the money comes from the manager of Rhode Island's 529 fund. The state's current contract with Ascensus-Invesco requires it to set aside $100 apiece, in separate accounts, for Rhode Island's newborns, which number around 10,000 per year.[17]

- In **Maine**, children born since 2013 receive a $500 Alfond Grant for future education expenses.[18] The grant is deposited into their Maine 529 account if they have one, or is invested by the Alfond Scholarship Foundation until children are ready to use it.[19]

- **Tennessee's TNStars College Savings 529 Program** is administered by the Tennessee Treasury Department.[20] With no state residency requirements and a minimum opening contribution of only $25 (as of 2015), the direct-sold program is fairly easy to start. For state residents, the program is offering to add $100 to accounts where a balance is rolled over from a different college savings account. Some matching incentives are also a part of the package. For instance, one current offer is a $100 match for an initial deposit of $100 or more. For investors willing to sign up for automatic contributions from their bank account each month, the 529 plan will add $50 to the account.[21]

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[14] "State Treasurer Kate Marshall Announces Kick Start Program." KOLO8 News Show. Retrieved from http://www.kolotv.com/home/headlines/State-Treasurer-Kate-Marshall-Announces-Kick-Start-Program-229071691.html
[15] Mercer, M. "Children's Savings Accounts Help States Create 'College-Going Culture." The Pew Charitable Trusts. 2015. Retrieved from http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/4/06/childrens-savings-account-help-states-create-college-going-culture
[16] Mercer, supra note 8.
[17] "R.I. chooses new manager for CollegeBoundfund." Providence Journal. November 2015. Retrieved from http://www.providencejournal.com/article/20151118/NEWS/151119243
[18] Mercer, supra note 8.
[19] Between 2008 and 2013, parents had to open a Maine 529 plan before their child's first birthday to be eligible for the Alfond Grant. Now, children automatically receive the grant at birth.
[20] "TNStars College Savings 529 Program is a smart move for BEST Prepaid Plan holders!" State of Tennessee, Department of Treasury. Retrieved from http://tnstars.com/incentives
[21] Id.

- In **Texas**, the Attorney General's Child Support Division piloted a program that encouraged using 529 CSAs specifically for children in the child support system.[22] The program—Child Support for College, which ended in 2015 -- targeted custodial parents who received lump sum child support payments to deposit at least a portion of that payment into a Texas 529 college savings plan of their choice. The program also encouraged noncustodial parents to make separate contributions to the 529 plan. The results indicated that two-thirds of participants opened a CSA.[23]

- Likewise, the **Kansas child support program**, in partnership with the state treasurer, has a program to help low-income noncustodial parents save for their children's college education by reducing their child support debt when deposits are made into the Kansas 529 college savings accounts.[24] Noncustodial parents who participate and make qualifying deposits into a Kansas 529 college savings account will receive forgiveness of their state-owed child support debt on a 2:1 ratio for every dollar deposited.[25]

These programs have been adopted in red states and blue ones. While they differ in some particulars, what they share is a common understanding of the evidence that child-centered savings models empower families and create educational opportunity.

[22] "Child Support for College (CS4C)." RAISE Texas. Retrieved from http://raisetexas.org/childsupportforcollegeinitiative/
[23] Id.
[24] "Child Support Services." Kansas Department for Children and Families. Retrieved from http://www.dcf.ks.gov/services/CSS/Pages/default.aspx
[25] Id.

Joe Torsella's Plan – Keystone College Savings Accounts

As State Treasurer, Joe Torsella will work with stakeholders in government, the financial sector and the philanthropic and non-profit sector to implement CSAs for Pennsylvania. As Nevada, Maine and Rhode Island have demonstrated, CSAs need not rely on public funding, and there are several different options for structuring the program. Keystone Accounts could be phased in, as in Nevada, by first piloting the project -- for example, for all new kindergarten students in the most impoverished urban and rural communities -- before expanding to include all kindergarteners statewide. Initial funding could be secured from philanthropic sources, from the financial industry, or by an entrepreneurial approach, such as Nevada's fees on out-of-state 529 accounts. Keystone Accounts could be set up as new 529 accounts, or held in a Master Account with the Commonwealth as the account owner.

In deciding on these and other implementation details, Pennsylvania will have the ability to learn from the best practices of other jurisdictions, as well as the considerable research on how to make CSAs most effectives. That research and the experience of other states suggest the following principles should guide Pennsylvania's program:

- *Universal, Automatic Account Establishment and Initial Deposit*. A Universal Automatic Account given to all children helps families from all income levels. Researchers find that financial resources have their strongest effect on children's educational outcomes early on in the child's life, not at the point of college entry.[26]

- *Starting at Birth to Maximize Growth*. Accounts should start at birth. Through outreach by the Treasurer's office, parents and children will be encouraged to save money over the child's lifetime, to help pay for college. The establishment of CSAs at the birth of the child is the gold standard because it gives the funds the longest amount of time to grow under the effect of compound interest.

- *Restrictions on Use*. The accounts grow over time until the account holder comes of age, to be used only for post-secondary education purposes, including vocational training. The distribution of the funds will be sent directly to the education provider.

- *Progressive Deposit Structure.* The ultimate goal is to provide additional automatic deposits for children from low income households. For example, low income families may qualify for higher initial deposits or bonus deposits for milestone achievements like enrolling in kindergarten or early childhood education.

- *Efficiency and Accessibility Allows for Hands-on Help.* While continuing to promote and educate about Pennsylvania's 529 college savings plans, the Pennsylvania State Treasurer's office will create a comprehensive, coordinated campaign promoting this new umbrella plan. By simplifying the process of enrollment, the Treasurer's office can work with families, businesses and communities to provide a long-term comprehensive college savings strategy.

- *Prudent Administration.* Any program should develop systems to properly credit private contributions from different sources (e.g., parents, grandparents, friends, and employers)

[26] Assets and Education Initiative. (2013). Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education. In W. Elliott (Ed.), Biannual report on the assets and education field. Lawrence, KS: Assets and Education Initiative (AEDI).

and matches or subsidies (if they exist) to each child's account; to provide periodic financial statements to households that show the balance in each child's account to date and break out the share from private contributions, matches and subsidies, and investment earnings; and to determine whether account withdrawals are allowable based on child's age and purpose.

A Commonsense Idea for a Stronger Commonwealth

If we want Pennsylvania to compete and win in the twenty-first century economy, now is the time to act. According to a study by Complete College America (Pennsylvania), by 2020, 60 percent of jobs will require a career certificate or college degree.[27] But as of 2011, only 43 percent of Pennsylvania adults hold an associate degree or higher.[28]

Joe Torsella's Keystone Accounts is an achievable, commonsense, and common-ground idea that can change lives – and change our Commonwealth. Establishing Keystone Accounts has the potential to help many more Pennsylvanians go to and graduate college or other post-secondary training. They would improve educational outcomes and help develop lifelong habits of saving and financial literacy. Most importantly, Keystone accounts would give every Pennsylvania child a sense of possibility, high expectations, and hope.

[27] Pennsylvania 2011. "For a strong economy, the skills gap must be closed." Complete College America. Retrieved from http://www.completecollege.org/docs/Pennsylvania.pdf

[28] Id.