HIGHER EDUCATION COORDINATING COMMISSION

# SB 1554 (2018): Report on 529 College Savings Accounts

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# EXECUTIVE SUMMARY

SB 1554 (2018) directs the HECC to study the effects of excluding funds in 529 accounts on asset tests for state financial aid programs, without having those assets counted against a family for financial aid purposes.

A student's financial need is determined from information the student provides on the Free Application for Federal Student Aid (FAFSA) or the Oregon Student Aid Application (ORSAA). The federal government determines a family's share of higher education expenses in the form of an Expected Family Contribution (EFC) that uses income, assets, household size, and other factors, to see how much a family can contribute to the cost of higher education.

This report will: explain the EFC calculation; analyze income levels of Oregonians; describe current practices to help low-income families; identify barriers; and review policies from other states.

The report will also provide policy recommendations to encourage low-income families to use 529 accounts at a higher rate in Oregon including: upgrading the Financial Aid Management Information System (FAMIS), excluding 529 accounts for specific income levels, studying the effects of SB 1554 (2018) on other assistance programs, and continuing to explore what other states are doing.

# INTRODUCTION

Passed in 2018, SB 1554 directs the Higher Education Coordinating Commission (HECC) to conduct a study of the potential effects on state and institutional financial aid programs, including administrative and financial effects, of excluding amounts in college savings accounts, otherwise known as 529 accounts, from determinations of expected family contributions to higher education expenses.[1] Currently, these accounts are included as assets within the federal financial need analysis calculation that results in the student's Expected Family Contribution (EFC), which is the basis for determining a student's eligibility for both the Federal Pell Grant and federal student loans. The HECC Office of Student Access and Completion (OSAC) also uses the EFC to determine a student's eligibility for the Oregon Opportunity Grant and uses the EFC and other data from the Free Application for Federal Student Aid (FAFSA) or Oregon Student Aid Application (ORSAA) to determine financial need for other state grants and aid programs.

The HECC must also identify policies the state of Oregon could implement to incentivize Oregon families at or below median adjusted gross income to increase rates of savings for higher education expenses. The report is due to the Legislature no later than December 1, 2018.

The Higher Education Coordinating Commission (HECC) is the single state entity responsible for ensuring pathways to higher education success for Oregonians statewide and serves as a convener of institutions and partners working across the public and private higher education arena. Thousands of students each year earn degrees, certificates, and training to build successful futures through Oregon's seven public universities, 17 public community colleges, workforce programs, private and independent colleges and universities, and private career and trade schools.[2]

The HECC Office of Student Access and Completion (OSAC), formerly known as the Oregon Student Access Commission, is responsible for: supporting student access to and application for grants and scholarships online; facilitating student financial aid review and awards processes; collecting and storing sensitive student data; maintaining records for state-funded grants and private scholarships; managing donor funds; and encouraging Oregonians to plan to pursue postsecondary education, apply for aid, and to participate in postsecondary education and workforce programs.

College affordability is of high public interest and priority at both the state and national level. Lack of access to financial aid continues to be a barrier for students across the country. The HECC is committed to improving postsecondary success to underserved populations, including students that are economically disadvantaged. College affordability is a significant equity issue to low-income students, first-generation college students and students of color. The HECC has adopted an equity lens that confirms the importance of recognizing institutional and systemic barriers and discriminatory practices that have limited access and success for many students in the Oregon education system.[3]

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[1] Oregon State Legislature, accessed 2018, https://olis.leg.state.or.us/liz/2018R1/Measures/Overview/SB1554

[2] Higher Education Coordinating Commission, accessed October 2018, https://www.oregon.gov/highered/Pages/index.aspx .

[3] "Oregon Equity Lens," Higher Education Coordinating Commission, accessed October, 2018, https://www.oregon.gov/highered/about/Documents/State-Goals/HECC-Equity-Lens-2017-reformat.pdf .

# BACKGROUND

## 529 ACCOUNTS

Authorized by section 529 of the Internal Revenue Code, "529 accounts" are tax-advantaged investment plans for families to use for future higher education expenses. The purpose of these plans is to increase the affordability of college and increase the ability of families and individuals to save for higher education. There are two types of 529 plans: Prepaid tuition plans and college savings plans.[4]

Individuals may establish tax-deferred and tax-exempt college savings plans through state-sponsored savings plans, trust or custodial accounts, or prepaid tuition accounts through qualifying educational institutions. These accounts are set up for the purpose of paying education-related expenses or tuition on behalf of a designated beneficiary. The accounts can be used for qualifying education expenses such as tuition, fees, textbooks and living expenses at higher education institutions. As a result of recent federal legislation, the accounts may also be used for tuition at elementary or secondary schools as well. Not all states offer both college savings plans and prepaid tuition accounts. Oregon only offers college savings plans.

Qualifying distributions from savings or prepaid tuition plans are excluded from taxable income. Non-qualifying distributions are subject to a federal penalty, and the earnings of the non-qualifying distribution are subject to income taxation.

Whoever purchases the 529 account is the custodian and controls the funds until they are fully withdrawn. Plans may be opened in states that offer them, although there may be extra tax incentives at the state level to open an account in the state where the custodian and beneficiary reside. Not all states allow non-residents to obtain accounts within their state.

## OREGON COLLEGE SAVINGS PLAN

The Oregon College Savings Plan is Oregon's state-sponsored 529 plan. The Oregon 529 Savings Network is administered by the Oregon State Treasury (OST) and offers two options to save: Oregonians can invest on their own through the Oregon College Savings Plan or via broker-sold mutual funds offered by MFS Investment Management.

In Oregon, the accounts may be opened by anyone – parents, family, friends, even the prospective student – who is a United States citizen or resident with a Social Security number or tax ID.

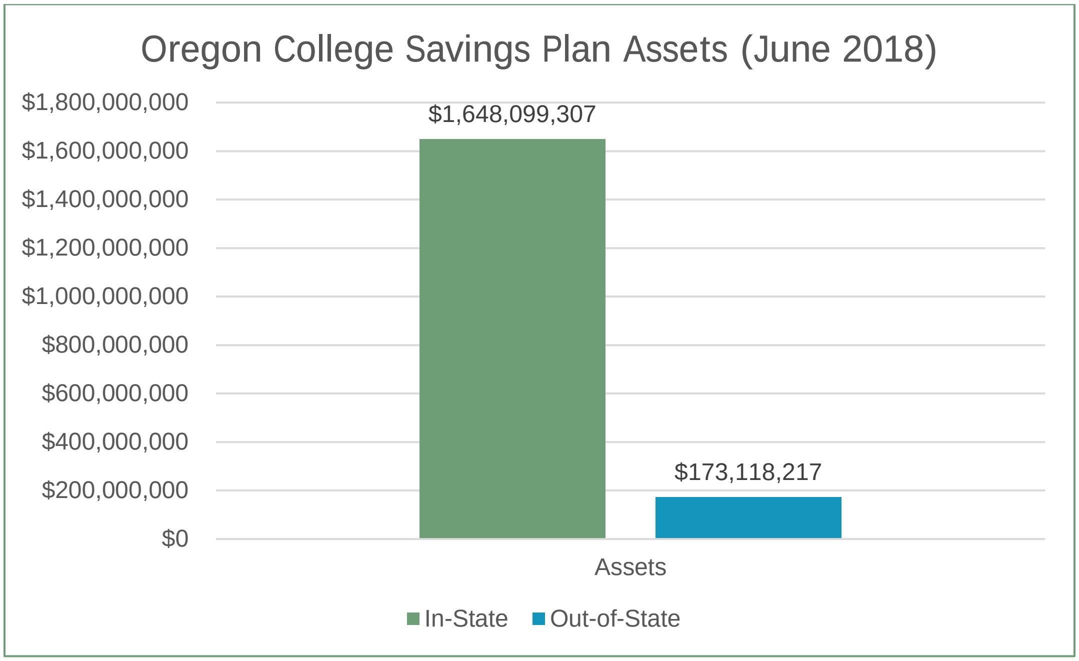
There is an annual fee of 0.25 percent of the total savings amount in order to keep the account running and an annual investment fee (ranging from 0 percent to 0.466 percent of the total savings amount) based on the investment portfolio(s) selected. The fees for each investment option are different and may be found in the

[4] "An Introduction to 529 Plans", United States Securities and Exchange Commission, accessed October, 2018, https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html

Oregon College Savings Plan Disclosure Booklet.[5] There are no other recurring fees if one chooses to manage the account online and receive statements and withdrawals electronically.

Additional tax benefits are available to Oregon residents in the form of an annual deduction on account contributions up to a certain amount, as long as the contribution is made prior to the filing of state tax returns for the year.[6]

The chart below shows the total amount in the Oregon College Savings Plan as of 2016.

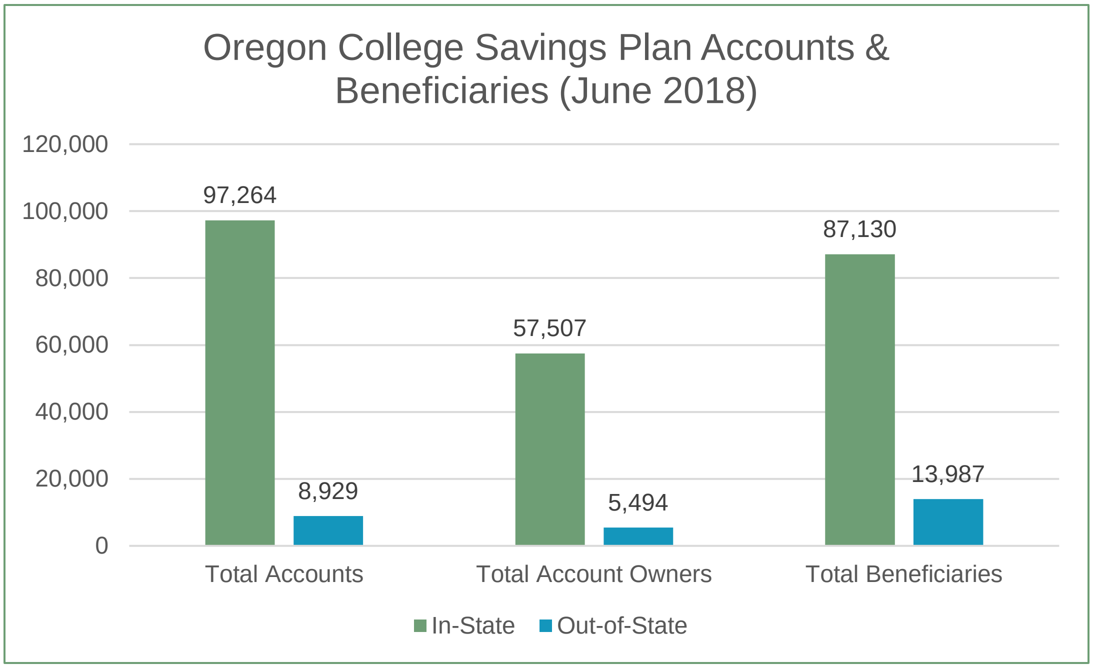



Data: Oregon College Savings Plan Assets, June 2018
Source: Oregon State Treasury

While the majority of Oregon College Savings Plan account holders are Oregon residents, it is important to note that non-residents may open Oregon College Savings Plan accounts as well. See the following chart.

[5] https://www.oregoncollegesavings.com/assets/docs/oregon-college-plan-disclosure-booklet.pdf

[6] "What is the Oregon College Savings Plan?" Oregon College Savings Plan, Accessed October, 2018, https://www.oregoncollegesavings.com/what-is-the-oregon-college-savings-plan/




Data: Oregon College Savings Plan Accounts and beneficiaries, June 2018
Source: Oregon State Treasury

Oregonians may open 529 College Savings accounts in other states. It is unknown how many Oregon residents have college savings plans from another state, as this data is not available.

Under federal law, contributions to these accounts are not tax deductible, but the earnings on the account balances are excluded from income. The revenue impact for this expenditure is based on earnings on the accounts. It does not include the value of the subtraction from taxable income allowed for deposits in accounts established through the Oregon College Savings Plan.

Students and their families are able to defer and eventually avoid tax on earnings of these accounts, and therefore may accumulate savings more quickly for future higher education expenses. Tax benefits are more likely to accrue to higher income families, reflecting higher tax rates and means to save for college.[7]

Each parent can make an annual deposit of $15,000 per child into a 529 account without triggering a gift tax. A two-parent family with three children can therefore move $90,000 per year into a tax-advantaged 529 account. Grandparents, or any relative, can also make deposits up to these limits, further expanding the assets that can be shielded from taxation. Any amount above these limits would trigger a gift tax.

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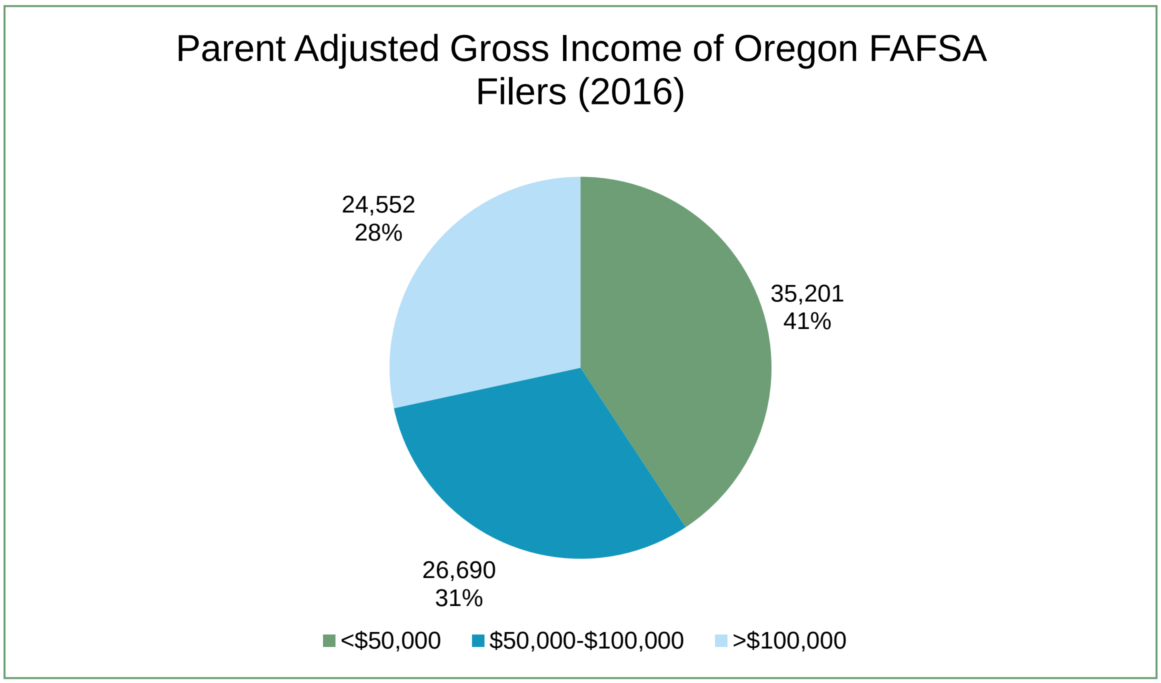
[7] Oregon Department of Revenue Research Section. *State of Oregon Tax Expenditure Report: 2017-19 Biennium.* Salem, OR: Oregon Department of Administrative Services, 2016, https://www.oregon.gov/DOR/programs/gov-research/Documents/full-tax-expenditure_2017-19.pdf

After-tax dollars put into savings and earnings are not taxed as they accrue, or at withdrawal, if the withdrawal is used for educational expenses.

## HOW STUDENTS APPLY FOR FINANCIAL AID

Data reported on the Free Application for Federal Student Aid, or FAFSA, are used to determine a student's eligibility for federal student financial aid, including federal grants, loans and work-study programs. The Federal Pell Grant is the primary federal grant for students who demonstrate an exceptional financial need. The FAFSA (or ORSAA if applicable), is also the application for the Oregon Opportunity Grant, the state of Oregon's largest grant and the only one that is need-based.

The chart below shows the number of Oregon FAFSA filers in the year 2016, filers who indicate they are Oregon residents, filed as dependents and reported their parents' income. As shown, 41 percent of FAFSA filers have income levels below $50,000.




Data: Parent Adjusted Gross Income of Oregon FAFSA Filers 2016-2017 school year
Source: Higher Education Coordinating Commission, Office of Student Access and Completion

## NEED ANALYSIS/EXPECTED FAMILY CONTRIBUTION

A financial need analysis is the combination of the student's estimated cost and the Expected Family Contribution. A need analysis provides a snapshot of the family's financial circumstances at the time of application. Financial need is generally defined as the difference between the student's total cost of attendance (for an academic year) and the student's Expected Family Contribution.

The Expected Family Contribution (EFC) is a number that determines students' eligibility for federal student aid. The US Department of Education's EFC formulas use the financial information students provide on their

Free Application for Federal Student Aid (FAFSA) to calculate the EFC. Financial aid administrators (FAAs) subtract the EFC from students' cost of attendance (COA) to determine their need for the following federal student financial assistance offered by the U.S. Department of Education (the Department):

- Federal Pell Grants
- Subsidized Stafford Loans through the William D. Ford Federal Direct Loan Program
- Federal Supplemental Educational Opportunity Grants (FSEOG)
- Federal Perkins Loans
- Federal Work-Study (FWS)[8]

All data used to calculate the EFC comes from the FAFSA. FAFSA data are self-reported, and the federal government sometimes performs inspections of data referred to as "verification." The federal government requires schools to verify at least 30 percent of the FAFSAs they receive. Last year, lower income families and families with $0 EFC seemed to be targeted at a higher rate for verification than higher income families. Some schools reported selection rates closer to 50 percent, almost all of whom were low-income students.

Schools may allow up to six months for a student to complete a FAFSA verification, but students do not always understand what verification entails. It is the responsibility of the school to notify a student that they have been selected for verification. This has had a negative impact on low-income students. The National College Access Network estimates 50 percent of low-income students are selected each year for verification and 22 percent of them, or 90,000, will give up on applying for financial aid.[9]

**What zero EFC is and what it means for financial aid**

An EFC calculation is extremely complicated, but generally most students who are dependents of a parent with income less than $50,000 will not have any assets counted against them for the purposes of financial aid.

Three formulas are used to determine financial need: regular, simplified and automatic zero. There are two factors taken into consideration for each of the three formulas: dependent and independent. Independent students generally are:

- Over 24 years old
- Married or separated as of the date of the application

[8] https://ifap.ed.gov/efcformulaguide/attachments/071017EFCFormulaGuide1819.pdf

[9] https://www.insidehighered.com/news/2018/10/12/college-officials-concerned-about-high-number-low-income-students-selected-federal?utm_source=Inside+Higher+Ed&utm_campaign=40b788911d-DNU_COPY_01&utm_medium=email&utm_term=0_1fcbc04421-40b788911d-234627525&mc_cid=40b788911d&mc_eid=d3c33207dc

- Enrolled in a graduate degree program
- Serving on active duty in the United States Armed Forces or is a National Guard or Reserves enlistee called into federal active duty for purposes other than training
- Have or will have one or more children who receive more than half of their support
- Have dependent(s) (other than spouse or children) who live with them and receive more than half of their support
- Were in foster care after the age of 13
- Are homeless or at risk of being homeless

Dependent students are those who do not meet the criteria above. The calculation for dependent students uses student and parent information. The calculation for independent students with dependents other than a spouse is similar to the calculation for parents of dependent students. The calculation for independent students without dependents other than a spouse is similar to the calculation for dependent students.[10]

**Regular formula - dependent**

- Parent required to file a 2016 IRS Form 1040, or had 2016 income of $50,000 or more
- Includes consideration of income and assets

**Simplified formula – dependent**

- Parent's household member received a Federal means-tested benefit (e.g., SSI, SNAP, TANF, WIC) in 2016 or 2017 – ***or***
- Parent filed, or was eligible to file, a 2016 IRS Form 1040A or 1040EZ; or was not required to file a Federal income tax return; or is a dislocated worker – ***and***
- Parent's 2016 income was $49,999 or less
- Excludes consideration of assets

**Automatic zero formula – dependent**

- Parent's household member received a Federal means-tested benefit (e.g., SSI, SNAP, TANF, WIC) in 2016 or 2017 – ***or***

[10] This example is for the 2018-19 FAFSA. The 2016-17 FAFSA collected prior-year income and assets for the 2015 tax year. Both the 2017-18 FAFSA and the 2018-19 FAFSA collected income and assets reported for the 2016 tax year. The 2019-20 FAFSA collects income and assets for the 2017 tax year, and the sequence will continue with prior-prior year data going forward. By moving to prior-prior year tax data, the hope is that most FAFSA filers will no longer have to estimate income and assets they report of the FAFSA and can import the data directly from the Internal Revenue Service.

- Parent filed, or was eligible to file, a 2016 IRS Form 1040A or 1040EZ; or was not required to file a Federal income tax return; or is a dislocated worker – ***and***
- Parent's 2016 income was $25,000 or less
- Excludes consideration of income and assets

**Regular formula – independent with and without dependents other than a spouse**

- Student/spouse required to file a 2016 IRS Form 1040, or had 2016 income of $50,000 or more
- Includes consideration of income and assets

**Simplified formula – independent with and without dependents other than a spouse**

- Student's household member received a Federal means-tested benefit (e.g., SSI, SNAP, TANF, WIC) in 2016 or 2017 – ***or***
- Student/spouse filed, or was eligible to file, a 2016 IRS Form 1040A or 1040EZ; or was not required to file a Federal income tax return; or is a dislocated worker – ***and***
- Student's/spouse's 2016 income was $49,999 or less
- Excludes consideration of assets

**Automatic zero formula – independent with dependents other than a spouse only**

- Student's household member received a Federal means-tested benefit (e.g., SSI, SNAP, TANF, WIC) in 2016 or 2017 – ***or***
- Student/spouse filed, or was eligible to file, a 2016 IRS Form 1040A or 1040EZ; or was not required to file a Federal income tax return; or is a dislocated worker – ***and***
- Student's/spouse's 2016 income was $25,000 or less
- Excludes consideration of income and assets[11]

## HOW INCOME AND ASSETS ARE REPORTED ON THE FAFSA

Total income is the sum of taxable income (for tax filers) or income earned from work (for non-tax filers) plus untaxed income. Taxable income is the gross income of an individual or corporation, minus any allowable tax deductions. It can encompass more than just an annual salary and may include profits from stocks or real estate sales, winnings from the lottery or other gambling endeavors. These amounts are provided on a families tax return and students have the option to have these automatically loaded into their FAFSA.

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[11] https://ifap.ed.gov/efcformulaguide/attachments/071017EFCFormulaGuide1819.pdf

Assets on the FAFSA include three separate line items:

1. Cash, checking and savings account balance (combined)

2. Net worth of investments, including real estate (excludes retirement accounts and family's primary residence)

3. Net worth of businesses and investment farms (excludes small, family owned businesses and family farms)

Investments in the second category (2) include 529 college savings plans, Coverdell education savings accounts, real estate, installment and land sale contracts (including mortgages held), trust funds, mutual funds, money market funds, Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) accounts, certificates of deposit, stocks, stock options, bonds, commodities, and precious metals.

Investments in the third category (3) include current net worth reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or farm was used as collateral.

Assets that are NOT reported on the FAFSA are:

- Possessions: such as a personal vehicle, furniture, etc.

- A family's principal place of residence: even if it is part of a small business

- A family farm: including equipment, livestock, etc. (if it is part of the principal place of residence for the applicant and family and the applicant participates in the farming operation)

- Family-owned and controlled small business (which include farms) that have 100 or fewer full time equivalent employees. Family owned means more than 50 percent of the business is owned by persons who are directly related or related by marriage.

There are allowances included in the EFC calculation, in some cases for both the parent and the dependent student: state and other tax allowance, social security tax, income protection allowance, business/farm net worth adjustments, income, education savings and asset protection allowance. Asset protection allowance amounts come from a table that uses the age of the older parent, adjusted for one and two parent households. Assets are increasingly protected as the age of the parent increases.[12]

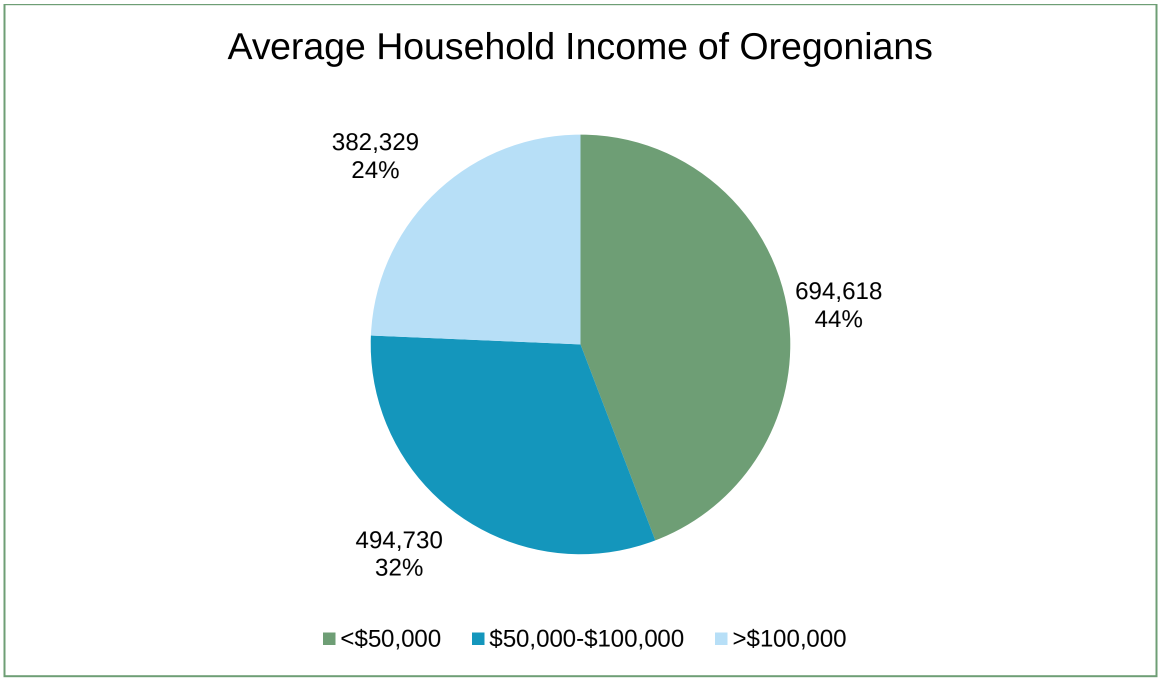
[12] The EFC full formula with allowances may be found here https://ifap.ed.gov/efcformulaguide/attachments/071017EFCFormulaGuide1819.pdf

# STATEWIDE CHARACTERSITICS

## OREGON INCOME LEVELS

According to the U.S. census, Oregon's median household income in 2016 was $57,532.[13]

This is relatively close to the low-income threshold for FAFSA filers who do not need to report assets for the purposes of financial aid (less than $50,000 income level). As shown below, in 2016, 44 percent of Oregon households report less than $50,000 income levels.




Data: American Community Survey, 1 year estimates 2016
Source: Oregon Office of Economic Analysis

## OREGON 529 TAX CREDIT

In Oregon, a subtraction is allowed from individual taxable income for contributions made to Oregon College Savings Plan accounts for higher education. The maximum allowable subtraction amount for 2016 was $4,620 on a joint return or $2,310 on all other returns and is annually adjusted for inflation. Before 2008, the subtraction amount was limited to $1,000 for married filing separate returns or $2,000 for all other filers.

The proceeds of these accounts are meant to be used to pay higher education related expenses for a designated beneficiary. Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary or limits specified by the Oregon 529 Savings Board. Contributions over the annual limit may be carried forward for up to four years. Beginning with tax year 2012, taxpayers may make direct deposit contributions of personal income tax refunds into accounts.

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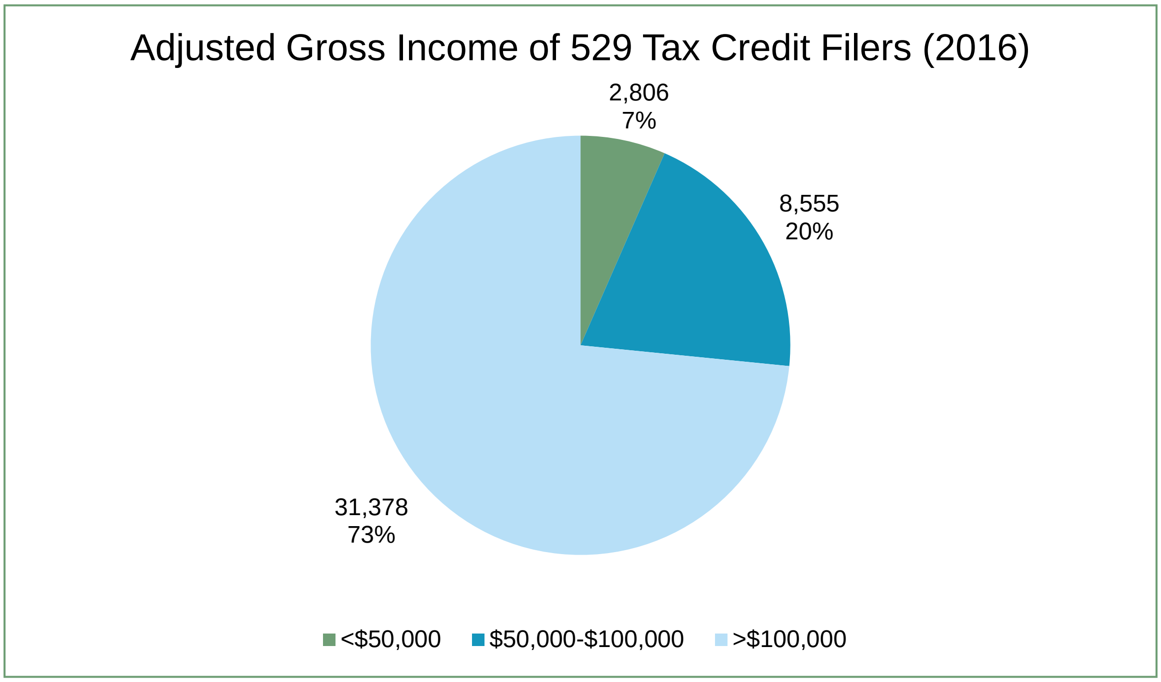
[13] https://www.census.gov/quickfacts/fact/table/or/INC110216

This tax expenditure is a fiscally effective method of achieving its purpose, which is to increase the ability of families and individuals to save for higher education. The program facilitates spreading the cost of higher education over a longer payment period that may extend prior to the student's enrollment. This expenditure contributes to higher education access and affordability by providing an additional funding mechanism for Oregonians of all income levels.[14]

The Oregon State Treasurer's office, the administrator of the Oregon College Savings Plan, does not collect income levels of 529 account holders. The HECC was able to extrapolate data about the number of Oregonians who file a tax credit for 529 accounts within the state. As shown below, in 2016, 73 percent of Oregonians who filed for a tax credit for a 529 account had income levels in excess of $100,000.




Data: Adjusted Gross Income of Oregon 529 Account Tax Credit Filers, 2016
Source: Oregon State Treasury

## OREGON POLICY INTERVENTIONS TO ENCOURAGE COLLEGE SAVINGS

The Oregon State Treasury (OST) developed the following programs to help low-income families start saving for college.

BabyGrad: developed to help families start saving for their children at a young age. The OST automatically adds $25 to an account if opened for a child under 12 months of age in Oregon. The OST has hospital partnerships to help promote the program and sends letters to families of newborns each quarter.

[14] https://www.oregon.gov/DOR/programs/gov-research/Documents/full-tax-expenditure_2017-19.pdf

Be College Ready: helps educate families about saving for college at an early age. Part of the program is a sweepstakes held throughout the school year where 100 Oregon families can receive $100 for their child's Oregon College Savings Plan account. The OST works with school districts across the state, but especially in rural areas to set up presentations and trainings.

These programs are open for all income levels, but according to David Bell, Deputy Director of the Oregon Savings Network, "the driving factor was to help give a head start for low income/at-risk/rural families."[15]

The OST also works with partners to distribute materials and hold presentations. Some of these partners include: the Boy & Girls Club, Virginia Garcia and Head Start. The OST is also piloting a new program with two school districts in Oregon: a promotion to help kindergarteners open an Oregon College Savings Plan account. In addition, they partner with Financial Beginnings to offer free financial literacy programs to youth and adults throughout Oregon.

## OREGON'S ONLY NEED-BASED GRANT

The HECC's Office of Student Access and Completion (OSAC) is responsible for administering state financial aid, such as the Oregon Opportunity Grant. Established in 1971 as the Oregon Need Grant, the Oregon Opportunity Grant (OOG) is the only need-based grant that exists in the state of Oregon, and as such, has a very specific calculation to determine eligibility. As the largest state-funded grant program, the OOG is extremely crucial for low-income students' access to post-secondary education.

Over the years, the program has seen many changes in the way OOG awards are calculated. In the late 1990s and 2000s, student eligibility was based upon the student's Adjusted Gross Income (AGI) and other untaxed income. From 2001-02 to 2007-08, only students whose AGIs were less than or equal to a percentage of median family income, adjusted for number in household and dependency status, were eligible. Starting in 2008-09, award eligibility was based on the Shared Responsibility Model (SRM), which used a formula that considered a combination of financial contributions from the student share; the student's family share, otherwise known as the Expected Family Contribution (EFC); and the federal government share (Pell Grant award and/or estimated federal American Opportunity tax credit).

The most recent change in award calculations went into effect on 2016-17. New legislation in 2015 (HB 2407) required OOG awards to be prioritized to serve the highest-need students first. Eligibility is now based on students' federally calculated EFC instead of AGI, so the highest-need students receive grants first, until funds are exhausted. The legislation also required a guaranteed second year for eligible continuing students.

At the federal level, adjustments in the way financial aid is calculated could transform in the next few years as policy about changing the Federal Pell Grant system has been a topic of the new administration. Calculations for financial aid are becoming more complicated. Students have dependents, medical bills, jobs, etc. Affordability formulas are constantly changing.

Millions of students submit FAFSAs to the US Department of Education's Central Processing System (CPS). Many students update their FAFSA during the year, and these changes can affect their grant/scholarship eligibility or award amounts. Changes that students make to their FAFSA data during the year can also cause a

[15] email from david.bell@state.or.us, October 5, 2018

grant to be revoked, either temporarily or permanently, depending upon what has changed, and OSAC staff must reconcile student records when disbursement data and authorized award amounts do not align.

## CHALLENGES IN REMOVING 529 ASSETS FROM EFC CALCULATIONS

Anyone with an EFC of $5,486 or lower is eligible for a Federal Pell Grant, and that could translate to adjusted growth incomes (AGIs) of $60,000 or even up to $100,000, depending upon the number of dependents in the household and the number in college. Of the assets owned by a dependent student, of their parent (i.e. 529 accounts), some of that dollar amount falls under the asset protection allowance and would not be counted in the EFC calculation. For parents and students who save more than the allowance, only a maximum of 5.64 percent of the assets are counted. This number becomes a variable when total assets are taken into consideration because age affects the value of the asset protection cap. If 529 accounts were subtracted from the EFC at the state level, it would be possible for a high-income student with a large 529 account to qualify for need-based aid if the entire corpus of the student's and/or parent's 529 accounts are subtracted out of the EFC calculations. This effect occurs at the cut lines for program eligibility, bringing students above the eligibility limit into the program and potentially booting others out of the program. This would adversely affect low-income students.

In its analysis of the SB 1554, the HECC determined that it would need to reprogram parts of its Financial Aid Management Information System (FAMIS) in order to remove any 529 funds from the FAFSA (or ORSAA if applicable) data used by the US Department of Education to calculate a student's EFC. The state would need a mechanism to verify a student's 529 asset, as well as the parents', if applicable. This would likely occur through a data-sharing agreement with the OST. If the account were held in another state, OSAC would need to establish data sharing agreements with multiple treasurers' offices throughout the country. OSAC would then have to conduct a hybrid calculation of the student's revised EFC, and use that hybrid EFC to determine a student's eligibility for state-funded financial aid programs. The HECC would also need a way to import or upload the recalculated EFC into its FAMIS in order to recalculate each student's eligibility for state grants.

## WHAT OTHER STATES ARE DOING

Many states claim to exclude 529 accounts from financial aid calculations. They include: Arizona, Georgia, Indiana, Iowa, Kentucky, Michigan, Mississippi, Nebraska, New Jersey, New Mexico, New York, Pennsylvania, Rhode Island, Texas, Virginia, Washington, West Virginia, and Wisconsin.[16]

It is reasonable to assume that with as many states listed as excluding 529 accounts from their financial aid calculation, there is a mechanism that exists to allow for a recalculation of an EFC.

The HECC staff used resources at the State Higher Education Executive Officers (SHEEO), the Education Commission of the States (ECS) and National Association of State Student Grant and Aid Programs (NASSGAP) to send inquiries throughout the country and ask the following questions:

1. Does your state exclude 529 accounts as an asset for the purpose of financial aid calculations?

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[16] http://plans.collegesavings.org/planComparisonResults.aspx?resultsId=818826

2. How does your state calculate Expected Family Contribution (EFC) with 529 accounts excluded? Is there a particular software used?

3. Has excluding 529 accounts as an asset for the purpose of financial aid calculations led to low income households utilization of the accounts? Do you have data to support this?

This inquiry drew no results, so the HECC staff began reaching out to states individually.

Washington – while listed as a state that does not use the college savings account as an asset for the purposes of financial aid, does not include any assets for their need-based grant – just income levels. So even though listed as a state that "excludes" a 529 account for the purpose of financial aid, they are merely administering their need-based grant on income levels alone, which is misleading.

North Carolina – does not exclude assets for the purpose of financial aid, but does recalculate EFC. They calculate a state EFC that does not include student earnings and combines student and parent assets. Follow up questions about how this is accomplished (e.g. what software is used) were unanswered.

Some states have enacted legislation for tax credits for 529 accounts.

Hawaii – On January 22, 2018, Hawaii referred HB1881 to the higher education and finance committees. The bill would establish a tax credit for 529 contributions.

Maryland – On January 30, 2018, Maryland's General Assembly will have a hearing on HB0131, which would increase income tax credit on 529 contributions from $2,500 to $5,000 for married couples earning less than $225,000 and individuals earning less than $150,000 per year.

Wisconsin – On October 11, Wisconsin State Legislature reported Senate Bill 75 out to committee. The bill would provide a corporate tax credit for making a contribution into an employee's 529 plan.

On January 24, 2018, Wisconsin Assembly Bill 108 and Senate Bill 75 were referred to committee on Rules. The bills would provide an employer with a tax credit on contributions to 529s up to 25 percent of maximum allowed by an individual.[17]

In late 2017, the National Association of Student Financial Aid Administrators (NASFAA) received a grant to convene a group tasked with developing policy solutions to identify issues preventing students from enrolling in, paying for, and graduating from college. The Higher Education Committee of 50 (also known as "Forward 50") is a group composed of college presidents; enrollment managers; members of governing boards; students; and leaders from admissions, financial aid, bursars' offices, and other sectors of postsecondary institutions. Forward 50 was charged with providing recommendations for members of Congress on specific, pre-identified policy areas related to access, affordability, accountability and transparency.

One of the recommendations of this group, Recommendation 8, was to exclude 529 savings plans from the FAFSA needs analysis calculation (Federal Methodology) to encourage parents to save for their children's education without worrying that these savings will raise their student's EFC. Their rationale was that 529 plans provide a convenient way to save for college. These plans offer the advantage of saving over time, with the option of low, flexible contribution levels, while benefiting from tax-free growth. Currently, the Federal

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[17] "Strategic Insight's 529 College Savings Quarterly Update, 4Q 2017"

Methodology need analysis calculation includes the value of 529 plans, thus increasing the EFC and ultimately discouraging use of these plans. Encouraging saving resources over time, as opposed to borrowing money and paying interest, is good public policy and will reduce the total cost of higher education.[18]

[18] https://www.forward-50.org/uploads/Forward50_Draft_Recommendations.pdf

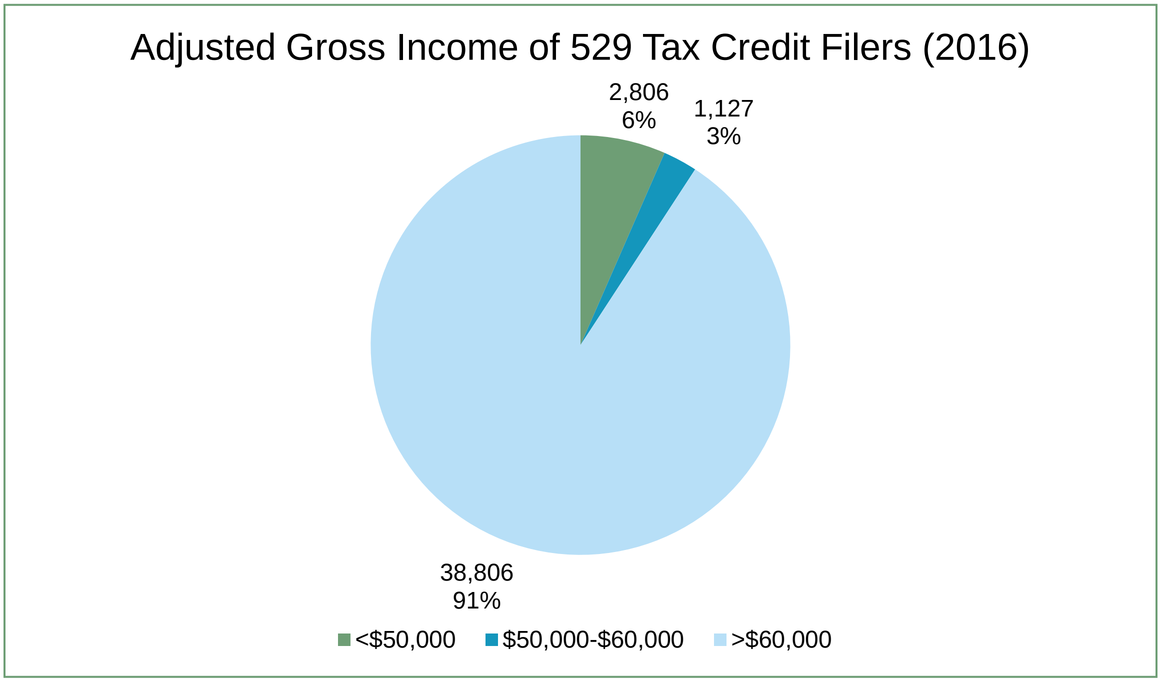
# CONCLUSIONS AND POLICY RECOMMENDATIONS

Most Oregon public universities utilize federal methodologies when calculating financial aid, as does the state of Oregon's need-based grant, the Oregon Opportunity Grant. Reed College and Lewis and Clark College, in addition to the FAFSA, use the College Scholarship Service (CSS), an application distributed by the College Board in the United States allowing college students to apply for financial aid. This program is used by about 400 schools in the country, and the EFC calculation may be customized. Students pay a fee ($25 for the first school and $16 for each additional school) to use the CSS profile. The HECC could further study the software capabilities of CSS.

Currently, the FAFSA or ORSAA is the only application used to apply for the Oregon Opportunity Grant, and is also among the required applicant materials for the Oregon Promise Grant, other state-funded grant programs, and many private scholarships that HECC administers on behalf of donors. The asset amount in a 529 plan cannot be derived from a student's FAFSA or ORSAA data. The field on the FAFSA or ORSAA in which a student reports investments of the student and spouse, if applicable, or of the student and parents, if applicable, is a combined total of the net worth of all investments held by the student/spouse/parents. Parent assets are collected separately from the assets of the student. If the student is independent, then the assets of the student and spouse, if applicable, are combined. There is no breakout of the underlying types or amounts of investments; 529 accounts are part of an overall investment line item. If the State of Oregon were to remove it from its financial aid calculations, it would need to first determine the self-reported number for the account, then match this data with the OST. For accounts not in Oregon, verification would need to be performed with other state treasury departments. This could be an inadvertent barrier to an already overly complicated process. Of the students selected for FAFSA verification, the majority are low-income, and of those selected many stop the financial aid process all together. Adding another type of verification to the FAFSA or ORSAA process would negatively impact low-income students.

The HECC is in the process of attempting to modernize its Financial Aid Management Information System (FAMIS). In the process of modernization, the HECC should consider a mechanism for recalculating an EFC.

While the provisions of SB 1554 (2018) called for a study of policies that could encourage low-and-middle-income families to utilize 529 accounts, we must first recognize that the number of families that would fall into this category is very low. This report also found that low-income families – families below the $50,000 income level – do not have their assets counted against them for the purposes of financial aid at the federal or state level (for the need-based grant, OOG).




Data: Adjusted Gross Income of Oregon 529 Account Tax Credit Filers, 2016
Source: Oregon State Treasury

Omitting 529 funds from financial aid calculations for all students may result in students from higher-income families qualifying for need-based aid programs that are intended to serve high-need, low-income students and their families.

The HECC could explore options for excluding 529 accounts for households within a specific income range that is above $50,000, perhaps capped at $60,000. This would still require the HECC to obtain software to recalculate EFCs and an upgraded FAMIS to house the new amounts.

The HECC should track the effects SB 1554 (2018) has on low-income families. Beginning January 1, 2019, any amount in an account established for higher education expenses will be disregarded for the purpose of determining an individual's eligibility to receive any assistance or benefit authorized by law. The HECC should partner with the Department of Human Services (DHS) to view data of recipients of the Oregon Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), housing assistance programs, etc. to see if the exclusion of 529 accounts has an effect on these assistance programs.

The HECC could also research ideas to incentivize low-income families to save for college through money matching formulas funded by the state. One idea is to change the current tax deduction to an income-capped tax credit.

The HECC should continue to reach out to other states and collect information from its initial inquiry. It should also continue to explore what software options exist that have EFC recalculation capabilities.

HIGHER EDUCATION COORDINATING COMMISSION