



Eduardo Ochoa  
Assistant Secretary  
Office of Postsecondary Education  
U.S. Department of Education  
1990 K Street NW., Room 7007  
Washington, DC 2006-8513

June 29, 2012

Re: Federal Register Document Number 2012-13232  
Comments on Department of Education Proposed Priorities for GEAR UP: College Savings Account Research Demonstration Project

Dear Assistance Secretary Ochoa,

Thank you for the opportunity to submit comments in response to the Department of Education's public notice on the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) – College Savings Account Research Demonstration Project.

The Illinois Asset Building Group (IABG) works to increase access to tools that help families and their children become financially secure. Access to college education is a key tool for creating financially secure lives. Over the past five years, IABG has worked to increase access to college savings programs and products. Through this work we led efforts to create the Illinois Children's Savings Account Task Force which published recommendations for establishing universal children's savings accounts in Illinois. Since the release of these recommendations in 2010, IABG has worked to implement this program and improve access to the State's 529 college savings program. The Department's proposed GEAR UP College Savings Account Research Demonstration Project is an important step toward increased financial stability for working families and their children.

After reviewing the Department of Education's proposal, we recommend the following:

## **1. Program Eligibility**

Eligibility should be expanded to include GEAR UP Partnership Grantees. As the proposal is currently written, there are only 13 eligible State GEAR UP Grantees. Given the requirements of identifying a product, enrolling a large number of students, identifying a financial partner, and other requirements – the number of states that will be able to participate may quickly diminish. Rather, this opportunity should be opened to GEAR UP Partnership grantees. Some of the Partnership grantees meet the other eligibility requirements including using the cohort approach to select participants, working in multiple GEAR UP high schools, serving at least 50 GEAR UP participants who will be in the 9<sup>th</sup> grade during the 2013-2014 academic year, experience participating in rigorous evaluations, strong partnerships with

financial counselors, and existing partnerships with financial institutions and/or State Treasury Departments.

Chicago GEAR UP, a Partnership grantee, is an example of a potentially strong partner in the demonstration project. During the 2013-2014 they will be providing services in 24 high schools and 64 elementary and middle schools across the city. They currently partnerships with state and city agencies, community-based partners, and financial coaches.

## **2. Savings Vehicle**

The Department of Education should encourage states to utilize the 529 college savings plan as the savings vehicle for students. 529 accounts encourage college savings through their tax incentives. They also uniquely secure and protect such funds so that they are used for college and post-secondary education and training. Funds may be used for any accredited post-secondary school nationwide. Withdrawals are limited to qualified education and training related expenses -- tuition, fees, books, and required supplies and equipment as designated by an “eligible educational institution.” In recent years, state policymakers and 529 administrators have also worked to expand access to 529 plans and increase the participation of lower-income families through outreach, advertising, and targeted incentives such as reducing the minimum deposit or eliminating fees.

The Department should also recommend that a default, conservative, investment type be selected for states that choose to use the 529 college savings fund. This default investment type should employ a balanced, age-based investment strategy that becomes more conservative as the child approaches the age of enrollment in college or other post-secondary education. As the proposal is currently written, accounts will be open for students in the 9<sup>th</sup> grade, giving the account only 4 years to mature. Thus, the investment strategy should remain fairly conservative for the life of the account.

## **3. Student Eligibility**

Given that many GEAR UP programs work with middle school students (grades 7 & 8) in addition to high school students; we recommend that, when possible, GEAR UP programs enroll cohorts in the 7<sup>th</sup> grade. Selecting students in the 7<sup>th</sup> grade will still ensure that data is collected from participants that matriculate and enroll in college by the conclusion of the project in 2020. In most cases, GEAR UP middle schools feed into GEAR UP high schools. Adjusting the target age of the participants will also allow, additional time for saving and investing. In cases where the 529 account is utilized, accounts will have greater potential to grow over time.

## **4. Account Administration**

We recommend that the Department take the following steps to lessen the program’s administrative burden and address existing savings barriers for families:

- **Combine Accounts:** The Department should require that the federal seed and match funds be combined with the student’s contribution, rather than separated. We recommend that the Department look at the Assets for Independence (AFI) program. AFI employs software that tracks and accrues saving matches virtually, while keeping the funds in a pooled account. At the time of the qualified withdrawal, enrollment in post-secondary education, the amount is withdrawn and

paid directly to the educational institution. This will cut the number of accounts opened in half, reducing administrative burden.

- **Designate Account Ownership:** We applaud the Department for addressing the issue of Social Security Numbers (SSN) and taxpayer identification numbers (ITIN). We recommend that SSNs and ITINs are not collected from parents and/or students by GEAR UP. SSNs & ITINs will not be needed if the accounts are not held by the student, parent, or family member. Rather the owner of the account should be the Department or the respective State Treasurer's office. Moving direct ownership of the account outside of the family will also resolve issues around asset limits. Many families receiving public assistance such as Temporary Aid to Needy Families, Supplemental Nutrition Assistance Program, Medicaid, and Supplemental Social Security Income are subject to asset tests. Funds accumulated in a 529 account, held by a separate entity, would not be considered assets owned by the family.

## 5. Match Savings at Tax Time

While we would like to see a larger initial deposit, we support a seed of at least \$200 for each account. However, we do recommend that the Department reconsider the match savings incentives. Matched savings incentives encourage savings by providing a financial match relative to the amount that is contributed to the account. Research shows that incentives increase participation across demographics. In addition to the \$10 a month match savings incentives, we recommend that the Department provide an additional incentive during the tax season.

Most participating low-income families will qualify for the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). This influx of income for families during the tax season provides a unique opportunity to encourage savings. Previous savings initiatives at Volunteer Income Tax Assistance (VITA) sites and AARP Tax sites have been successful in increasing the savings rate of families during that time of the year. We recommend that the Department consider providing an additional match of \$100 for families that deposit a portion of their tax refund into the 529 account at tax time.

## 6. Disclosure

We recommend that the Department reconsider their interpretation of the Family Education Rights & Privacy Act (FERPA). According to FERPA, schools can disclose students' records, without consent, to the following parties or under the following conditions<sup>1</sup>:

1. School officials with legitimate educational interest;
2. Other schools to which a student is transferring;
3. Specified officials for audit or evaluation purposes;
4. Appropriate parties in connection with financial aid to a student;
5. Organizations conducting certain studies for or on behalf of the school;
6. Accrediting organizations;
7. To comply with a judicial order or lawfully issued subpoena;
8. Appropriate officials in cases of health and safety emergencies; and

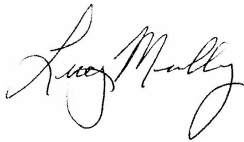
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<sup>1</sup> <http://www2.ed.gov/policy/gen/guid/fpco/ferpa/index.html>

9. State and local authorities, within a juvenile justice system, pursuant to specific state law. We believe GEAR UP may fall under the exemptions of “organizations conducting certain studies for or on behalf of the school” and/or “appropriate parties in connection with financial aid to a student.”

College savings accounts provide a number of positive impacts – they are a means to increase savings and post-secondary attainment, to alleviate long-term poverty and to grow the nation’s economy. Beyond their financial benefits, college savings accounts also promote positive aspirations, increase financial literacy and create a college-bound identity. We applaud the Department of Education for creation of this demonstration project and appreciate the opportunity to provide feedback. If you have additional questions, please contact Lucy Mullany, IABG Coordinator, at [lmullany@heartlandalliance.org](mailto:lmullany@heartlandalliance.org) or 312-870-4939.

Sincerely,



Lucy Mullany  
Coordinator, Illinois Asset Building Group  
Senior Policy Associate, Heartland Alliance

**The following organizations provided input on these comments and serve on IABG’s Children’s Savings Account Working Group:**

Elev8 Chicago  
Heartland Alliance for Human Needs & Human Rights  
Illinois Maternal and Child Health Coalition  
Sargent Shriver National Center on Poverty Law  
Woodstock Institute

CC: James Davis, Department of Education