Treasurer Frerichs
Illinois State Treasurer's Office
Capitol Building
219 State House
Springfield, Illinois 62706

CC: Jay Rowell, Deputy Treasurer
Chasse Rehwinkle, Director of Policy

January 28, 2014

Dear Treasurer Frerichs,

We would like to extend a warm welcome to you as the new Illinois State Treasurer. The Illinois Asset Building Group (IABG) is a statewide coalition committed to expanding access to the tools people need to build financially secure futures for themselves and their children. Our members include community organizations, advocates, researchers, and financial institutions across the state. We look forward to working with you to expand financial empowerment opportunities, including expanding access to college savings accounts through the Illinois Bright Start Program.

A college degree is an important asset – helping people build wealth across their lifetime. A college graduate has median weekly earnings that are 64 percent higher than those of high school graduates. Furthermore, college graduates are much more likely than high school graduates to have jobs that provide access to other wealth generating tools such as health insurance, retirement savings accounts, paid time off, and other benefits.[1]

Recent studies and pilot programs have shown that having an account in a child's name dramatically increases the likelihood that a child will attend and complete college and improves early emotional and cognitive development. When compared to low- and moderate-income (LMI) children with no savings account, an LMI child with college savings of just \$1 to \$499 is more than three times more likely to enroll in college and more than 4.5 times more likely to graduate from college than a child without an account. An LMI child with college savings of \$500 or more is about five times more likely to graduate from college than a child with no savings account.[2]

The Bright Start Program could be a powerful tool for early childhood development and workforce development in Illinois. Unfortunately, due to some of the ways the program is structured, this vital savings tool is not available to many LMI families. Demographic data from 2012 and 2013 show that low-

[1] U.S. Department of the Treasury (2012). The Economic Case for Higher Education. Retrieved from http://www.treasury.gov/connect/blog/Pages/economics-of-higher-education.aspx

[2] Elliott, William, Song, Hyuan-a., & Nam, Ilsung (2013). *Relationships Between College Savings and Enrollment, Graduation, and Student Loan Debt*. St. Louis, MO: Washington University, Center for Social Development. http://csd.wustl.edu/Publications/Documents/RB13-09.pdf

and moderate-income households of color are disproportionately not opening up accounts. Of new Bright Start Direct account holders during this two-year period (the first two years data were collected), 78% were white, 90% had a bachelor's degree or higher, and 72% had household incomes of over $100,000. Only 3% of new accounts in 2012 & 2013 were opened by low-income Illinois households.

State Treasurers across the country have begun exploring ways to increase access to their state's 529 programs in ways that lift families out of poverty and make college more accessible to all young people. Most recently, State Treasurers in Maine, Nevada, and Rhode Island rolled out programs that automatically open up 529 accounts for every child born (Maine & Rhode Island) or entering kindergarten (Nevada) in their state. These programs include an initial seed investment, matched savings incentives for low-income families, and financial education for the whole family.

We believe the Illinois State Treasurer could be a leader in improving early childhood development; increasing college savings, attendance and completion; and creating a more competitive workforce. The following are recommendations for creating a program that works for all families in our state:

1. **Default Investment Type:** While automatic enrollment at birth is ideal for Illinois' newest residents, the State Treasurer should make enrollment easier for all children by removing application barriers.

   The Bright Start program currently offers numerous investment options. Research has shown that inertia and indecision limit people's ability to save and invest.[3] One way to stop this from happening is by creating a default investment type. This option would automatically be selected for individuals when they enroll in the plan. If enrollees want to select another option, they would have the ability to do so at any time. The ideal default investment should be comprised of some type of age-based mutual fund that is invested more conservatively as the designated beneficiary gets older and closer to college age.[4] However, individuals would be free to change the default investment to another option if they so choose. Many states, including Nevada, Maine, Arkansas, Utah, and Alaska, utilize the default investment type to facilitate enrollment.

2. **Language Access:** The Illinois State Treasurer's Office should provide marketing materials, applications, and disclosures in other languages in addition to English. A review of the program's website reveals materials and information are available only in English. The website could be made much more accessible to a variety of demographic groups with the addition of an intuitive language selection interface. The forms section of the website should include marketing materials and forms in other languages as well.

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[3] Huelsman, Mark Margaret Clancy. (2009) Low-Cost State Innovations to Help Families Save for College. New America Foundation and the Center for Social Development.http://csd.wustl.edu/Publications/Documents/Low-CostStatePolicyOptions_09-64.pdf
[4] Newville, Dave. The Potential of Inclusive 529 College Savings Plans. New America Foundation. May 10, 2010. http://www.newamerica.net/sites/newamerica.net/files/policydocs/The_Potential_of_Inclusive_529s.pdf

3. **No Minimum Deposit:** Illinois' Bright Start Direct Sold Plans currently have a minimum initial contribution of $25 and a minimum subsequent contribution of $15 (although the minimum can be lowered for employer-sponsored plans). For lower-income families, especially families on a fixed income, being able to deposit smaller amounts could make it easier for them to open college savings accounts and automatically contribute as part of their monthly budget. States with no minimum deposit include Colorado, Nebraska, South Carolina, and Utah.

4. **Easy Deposit Options**: Easy mechanisms for making deposits into college savings accounts is a key feature that helps low-income families, who may not have regular access to electronic banking, save for college. Unfortunately, the current Bright Start Program does not provide many options for depositing funds. Parents can make contributions through electronic bank transfers, electronic gift deposits from friends and family, or through a check that is mailed to the investment firm.

   Many state 529 programs are experimenting with alternative deposit options, including: partnering with banks that have brick and mortar locations to accept deposits; accepting cash deposits at schools; working with a no-fee prepaid cards that connect to 529 accounts; and, offering Certificates of Deposit at local financial institutions that can be rolled over into a 529 account. The Illinois Bright Start Program should explore alternative deposit options that meet the banking needs of low-income families.

5. **Tax-Time Savings:** Creating a default investment type will also allow the State to provide enrollment opportunities at times when families are thinking about their finances, such as tax time. With an expanded refundable state Earned Income Tax Credit in Illinois, low-income families should be engaged at tax-time to save a portion of their refund in a 529 college savings account. The Illinois Income Tax Form should include an opportunity for direct deposit of a parent's (or other relative's) tax refund into a child's (or relative's) 529 college savings account. Furthermore, the State Treasurer should work with the Illinois Department of Revenue to allow families to open up a 529 college savings account through the tax form. At the very least, Illinois should have a split refund form (like the federal tax form 8888) to allow for partial investment of a refund into a savings account.

6. **Incentivized Savings via Child Support System:** In the United States, one in four children is connected to the child support system. The Illinois State Treasurer should partner with Illinois Child Support Services to help parents pay down child support payments while helping families save for college. The Kansas Department of Children and Families recently launched a program that will encourage parents who owe child support to pay into 529 savings accounts for their children. For every dollar put into an account, the state will reduce the parent's arrears to the state by two dollars. Accounts created through the program will be in the state's name so that neither parent can withdraw funds from it. But the money can be used by the beneficiary child at any college or postsecondary technical school accredited to receive financial aid.

7. **State Financial Aid:** Under federal and state financial aid rules, families who save for college can be penalized by receiving reduced financial aid packages. Although asset protection allowances typically cover up to $45,000 in assets, the knowledge that savings could potentially hurt their chances of receiving aid, combined with the complexity of the current asset rules, has led many low- and moderate-income families to perceive college savings as a barrier to receiving aid.[5]

   Investments made by families into 529 accounts and their subsequent earnings should be exempt from the need-based financial aid calculation for universities or institutions of higher education that receive Illinois state funding. This would effectively eliminate both real and perceived barriers for low- and moderate-income families and encourage them to start saving for their children's futures.[6]

8. **Targeted Match Program:** The Illinois State Treasurer's Office should create a matched-savings component to the 529 college savings program for lower-income families. Matched savings incentives encourage savings by providing a financial match relative to the amount an individual saves. For every dollar deposited into the account, a third party deposits additional dollars into the account. The match ratio varies across programs, though often it occurs between a 1:1 and a 5:1 ratio. The third party providing the match can limit how many additional dollars will be matched, either in total or per year. Arkansas, Colorado, Kansas, Louisiana, Maine, Minnesota, Missouri, Nevada, North Dakota, Utah, and West Virginia have matched savings as part of their 529 program.

9. **Automatic Enrollment:** A 529 Bright Start Account should be opened automatically at birth or when the child enters kindergarten for every child in Illinois. Account opening can be tied to existing systems that interact with parents and their child, such as hospitals, birth certificate record-keeping systems, or schools. Each account should include an initial seed. Cities, counties, and states have used different funding sources – both public and private – to pay for this seed deposit. We would be happy to discuss different funding options.

   Automatic enrollment ensures that all children have a basic tool for building savings. Additionally, increasing the number of Illinois families saving for post-secondary education and training will increase college attainment and, therefore, generate a more competitive workforce, stronger communities, and a thriving state economy. Nevada automatically enrolls all kindergarteners in its 529 program, while Maine and Rhode Island automatically open up 529 accounts at birth.

[5] Newville, David, The Potential of inclusive 529 College Savings Plans, New America Foundation May 2010. http://www.newamerica.net/sites/newamerica.net/files/policydocs/The_Potential_of_Inclusive_529s.pdf
[6] Lassar, Terry. Margaret Clancy, & Sarah McClure. (2010) Toward More Inclusive College Savings Plans. http://csd.wustl.edu/Publications/Documents/PB10-03.pdf

We believe that a robust college savings program and universal children's savings account program are possible in Illinois. All of the universal college savings account programs, mentioned above, operate on the premise that they encourage both parents and their children to make college graduation a real goal. Research shows that having a college savings account in a child's name increases the likelihood of that child enrolling in and completing college, even when the amount deposited is as small as one dollar.[7]

We are more than happy to provide clarification or additional information on these recommendations. We have also included some short policy briefs that highlight the success of Universal Children's Savings Account programs across the country.

As a next step, we would love to meet with you and your staff to discuss these recommendations in more detail. Please contact Lucy Mullany, Senior Project Manager for Financial Empowerment Policy at Heartland Alliance and IABG Coordinator at 312-498-8614 or via email at lmullany@heartlandalliance.org to set up a time that's convenient for you.

Thank you for your time and we look forward to further conversations.

Sincerely,

Lucy Mullany
Senior Project Manager, Financial Empowerment Policy
Heartland Alliance
Illinois Asset Building Group

The following IABG Partners sign on in support of these recommendations:

Antolin & Associates Consulting LLC

Brighton Park Neighborhood Council (BPNC)

Center for Economic Progress

Center for Changing Lives

Citizen Action - Illinois

Champaign County Regional Planning Commission

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[7] Elliott, William, (2013). *Small-Dollar Children's Savings Accounts and College Outcomes*. St. Louis, MO: Washington University, Center for Social Development. http://csd.wustl.edu/Publications/Documents/WP13-05.pdf

Chicago Appleseed Fund for Justice

Chicago Coalition for the Homeless

Champaign-Urbana Area Project

Chinese American Service League (CASL)

Community Organizing and Family Issues (COFI)

Community Plus Federal Credit Union

Community Reinvestment Organizing Project of the Monroe Foundation

Community Renewal Society

DeKalb County Community Action Department

The Dayton Wedgewood Neighborhood Incorporated

East St. Louis Business Development Chamber of Commerce

Economic Awareness Council

E.L. Warren Ministries

Enlace Chicago

Habitat for Humanity of Champaign County

Heartland Alliance for Human Needs & Human Rights

Holsten Human Capital Development

Illinois Asset Building Group

Illinois Coalition Against Domestic Violence

Ladder Up

Lakeside Community Development Corporation

Lessie Bates Davis Neighborhood House

Martin Luther King Junior Community Services

Mercy Housing Lakefront

METEC Housing Counseling Resource Center

Metro East Communities for Empowerment

NAACP IL State Conference

North Lawndale Employment Network (NLEN)

North Side Community Federal Credit Union

Northwest Side Housing Center (NWSHC)

The Ounce of Prevention Fund

Parents Organized to Win, Educate and Renew- Policy Action Council

Partners In Community Building, Inc.

Phoenix Crisis Center

Project Irene

Safer Foundation

Sargent Shriver National Center on Poverty Law

Southwest Organizing Project

St. Stephen African Methodist Episcopal Church

Sustainable Englewood

Tutor/Mentor Institute, LLC

Urban Corps Recycling

United Way of Champaign County

United Way of Illinois

United Way of Metropolitan Chicago

Universal Housing Solutions, CDC

Woodlawn Resource Center

Woodstock Institute

World Relief Dupage/Aurora

Wright Benefit Strategies, Inc.

Young Illinois Saves

Young Invincibles

YWCA of Metropolitan Chicago