SCOTT MEACHAM
OKLAHOMA STATE TREASURER

December 28, 2006

Dear Governor Henry, Speaker-elect Cargill and President Pro Tem Morgan:

As Chair of the Oklahoma College Savings Task Force, created by House Concurrent Resolution 1075 of the 2nd Session of the 50th Legislature, I am pleased to submit to you the Task Force's final report.

The Task Force was created to review and make recommendations about program options to increase the number of and amount of savings in Oklahoma 529 college savings plans, especially the college savings of moderate- to low-income families. The Task Force held four meetings between September 15 and December 15, 2006. We heard from a broad range of witnesses who provided information and shared ideas about expanding participation in the Oklahoma 529 College Savings Plan.

The Task Force unanimously adopted the following recommendations:

1. The State of Oklahoma make an automatic deposit at the birth of children to start an Oklahoma 529 College Savings Plan account. In order to provide effective targeting of resources for those in greatest need, eligibility for public deposits will be limited to moderate-to-low income families.
2. The State of Oklahoma match low-income family deposits into their children's Oklahoma 529 College Savings plan up to a certain amount.
3. Oklahoma K-12 schools incorporate information about Oklahoma 529 College Savings Plans into financial literacy education curricula to encourage additional saving and improve financial responsibility. The State will also encourage integration of savings education into financial literacy programs targeting moderate- to low-income families.

We strongly believe that providing public support for 529 College Savings Plans for low- and moderate-income families can serve the vital state goals of making college more accessible and affordable, as well as generating savings habits that can allow these families to build assets and create lifelong opportunities. We hope that we will have your support and leadership in enacting the Task Force recommendations into legislation.

Enclosed you will find the Task Force's final report as well as a 1-page summary sheet prepared by the Oklahoma Kids' College Savings Campaign, a statewide coalition that has been assisting with this effort.

Respectfully,

James R. Wilbanks, Ph.D.
Chair

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LEGISLATIVE TASK FORCE RECOMMENDS PUBLIC DEPOSITS IN 529 COLLEGE SAVINGS PLANS:

Expanding Access, Building Assets, Creating Opportunities

TASK FORCE RECOMMENDATIONS

A state task force, composed of public and private stakeholders, has offered a bold proposal to address the following challenges:

- *Increasing Oklahoma's number of college graduates to make the state economically competitive, and*
- *Making college more affordable and accessible, in particular for children in low-income and moderate-income families which may have no experience and habits of saving and building assets that can help cover college costs.*

The task force recommended that "t*he State of Oklahoma make an automatic deposit at the birth of children to start an Oklahoma 529 College Savings Plan account."* In order to provide effective *targeting of resources* for those in greatest need, eligibility for public deposits will be limited to moderate-to-low income families. In addition, qualified households would be eligible for a *public match* of individual deposits to their child's 529 Savings Plan up to a defined amount. The state would also incorporate information about Oklahoma 529 College Savings Plans into financial literacy education curricula in schools and elsewhere.

TASK FORCE FINDIDNGS

- ***College attainment is positively related to state economic growth and family success;***

  Encouraging savings in 529 plans will help **increase the number of Oklahomans attending college** and make Oklahoma more attractive to businesses.

- ***The cost of college is a barrier to earning a degree for children from low-income families:***

  Savings in 529 plans will **make college more affordable**.

- ***College savings, particularly 529 college savings plans, can help families save for college and expand college choices:***

  529 Plans are an **existing and proven mechanism** for promoting savings, providing maximum flexibility.

- ***Most low-income families are not currently taking advantage of 529 college savings plans:***

  Data shows that families earning under $40,000 represent only 10% of current 529 plan account-holders in Oklahoma. Initial public deposits and public matches will make 529 Plans **accessible and beneficial to more families**.

- ***Low-income families can save for their children's college education if expected to do so and provided appropriate incentives to save:***

  Growing research shows that matched savings programs can establish savings habits that **build assets, transform expectations and change lives**.

LEGISLATION WILL BE INTRODUCED IN 2007 TO BRING ABOUT THE TASK FORCE RECOMMENDATIONS.

www.OKSEED.org

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Community Action Project of Tulsa County

Oklahoma College Savings Legislative Task Force
Report & Recommendations

*"Building Assets, Building Opportunities:
Using Public Deposits in College 529 Savings Plans
to Expand Access to Higher Education"*

Submitted to Governor Brad Henry, Speaker-designate Lance Cargill and President Pro Tem Mike Morgan

FINAL REPORT
Approved by the Task Force, December 15, 2006

In accordance with HCR 1075 of the 2nd Session of the 50th Legislature

Table of Contents

I. Executive Summary

The Oklahoma Legislature passed House Concurrent Resolution 1075 during the 2006 session to create the Oklahoma College Savings Task Force (see Appendix A for copy of resolution). The purpose of the Task Force was to study and recommend ways the State of Oklahoma could increase savings among low-income families as a means of expanding participation in higher education. The Legislature understands that college education is a key pathway out of poverty for many Oklahomans, and expanding college attainment is important to future state economic growth. Further, the Legislature understands that college savings may become crucial for overcoming the problem of rapidly rising college costs, and is concerned that children from moderate-to-low income families may increasingly find college education unaffordable.

This report contains the findings and recommendations of the Task Force. The Task Force found the following:

- College attainment is positively related to family and state economic growth and success;
- The cost of a college is a barrier to earning a degree for children from low-income families;
- College savings, particularly 529 college savings plans, can help families save for college and expand college choices;
- Most low-income families are not currently taking advantage of 529 college savings plans;
- Low-income families can save for their children's college education if expected to do so and provided appropriate incentives to save.

Based on those findings the Task Force recommends that the Legislature provide public deposits in 529 college savings plans for qualified families as a way to expand access to higher education and encourage family savings and asset development. Specifically, we recommend that:

1. The State of Oklahoma make an automatic deposit at the birth of children to start an Oklahoma 529 College Savings Plan account. In order to provide effective targeting of resources for those in greatest need, eligibility for public deposits will be limited to moderate-to-low income families.
2. The State of Oklahoma will match low-income family deposits into their children's Oklahoma 529 College Savings plan up to a certain amount.
3. Oklahoma K-12 schools will incorporate information about Oklahoma 529 College Savings Plans into financial literacy education curricula to encourage additional saving and improve financial responsibility. The State will also encourage integration of savings education into financial literacy programs targeting moderate- to low-income families.

Like the successful Homestead Act of 1862 and the G.I. Bill of Rights that helped many achieve the American Dream by building assets, these Task Force recommendations offer Oklahomans the opportunity to fulfill their potential. This report describes the rationale for the OKSEED proposal, which is designed to move a significant number of future Oklahoma families from the vicious circle of dependency to the virtuous circle of opportunity.

II. Overview of Oklahoma College Savings Task Force

Recognizing the need to build Oklahoma's assets by increasing college attainment and savings, the Oklahoma Legislature passed House Concurrent Resolution 1075 to create the Oklahoma College Savings Task Force. The Task Force was assigned the task to "review and make recommendations about program options to increase the number of and amount of savings in Oklahoma 529 college savings plans, especially the college savings of moderate- to low-income families". In particular, the Task Force was directed to study the feasibility of a program to provide direct deposit into Oklahoma 529 college savings plans for children at birth along with matching deposits for low-income families.

MEMBERSHIP

The Task Force was composed of 14 members, which included members appointed by the Governor, Senate President Pro Tem and Speaker, along with representatives of public agencies specified in HCR 1075.

Dr. James Wilbanks, Task Force Chair, State Treasurer's Office
Bryce Fair, Task Force Vice-Chair, Oklahoma State Regents for Higher Education
Representative Randy Terrill (House appointee)
Sandy Garrett, State Superintendent of Public Instruction
Kerry Alexander, TIAA-CREF
Amy Polonchek, Oklahoma Department of Commerce
Phil Berkenbile, Oklahoma Department of Career and Technology Education,
Howard Hendrick, Oklahoma Department of Human Services
Dr. Sue Lynn Sasser, Oklahoma Council on Economic Education (Senate appointee)
Dr. Joanna Mann, Langston University (Governor's appointee)
Steven Dow, Community Action Project of Tulsa County (Senate appointee)
Randy Beutler, Southwestern State University (Governor's appointee)
John Parrish, Oklahoma Baptist University (Governor's appointee)
Dr. Keith Ballard, Oklahoma State School Board Association (Senate appointee)

Two House appointments from the banking, finance and investment industry went unfilled.

MEETINGS

In keeping with the schedule set out in HCR 1075, the Task Force convened four meetings from September to December 2006. The meetings covered the following areas:

1ST MEETING, SEPTEMBER 15

- The Task Force selected James Wilbanks (Treasurer's Office) as Chair and Bryce Fair (Oklahoma State Regents for Higher Education) as Vice-Chair;
- Kerry Alexander, Administrator of Oklahoma's 529 College Savings Plan on behalf of TIAA-CREF, provided an overview presentation on the state's current 529 plan, including the plan's main features and existing outreach efforts.

2ND MEETING, OCTOBER 6, 2006

- Kerry Alexander of TIAA-CREF spoke briefly about the Oklahoma 529 College Savings Program. He indicated that the program does no specific outreach targeted at lower-income families but that he gives presentations and distributes materials to a broad range of companies and organizations.

- Bryce Fair, Associate Vice-Chancellor of the Oklahoma Regents for Higher Education gave a comprehensive overview of existing financial assistance programs, showing how college costs have been rising more rapidly than financial assistance programs, especially federal Pell Grants. As a result, student loans and student debt have been growing. Oklahoma's Promise (OHLAP) is the one program that has been growing and keeping pace with rising tuition costs.
- David Reisdorph, representing the Oklahoma Kids College Savings Campaign, discussed the challenges facing low-income families in attaining the education and building the assets that will enable them to transcend the gap from poverty to opportunity. Mr. Reisdorph made the case for enhanced public efforts to encourage and help low- and moderate-income families save for college
- James Wilbanks of the Treasurer's Officer presented information from the Oklahoma Tax Commission examining participation in the Oklahoma 529 College Savings Program by income range for 2002. The data showed meager participation in 529 College Savings plans among families earning less than $50,000 per year.

3RD MEETING, NOVEMBER 17TH

- Bob Friedman, Founder and Board Chair of CFED, provided an overview of the research proving the effectiveness of matched savings programs in helping moderate-to-low income families save and build assets. Mr. Friedman pointed to children's savings initiatives as the next stage in the asset development movement, and praised Oklahoma for the leadership and vision we are showing in addressing this issue;
- David John, Senior Fellow at the Heritage Foundation in Washington, joined by telephone to share his support for the idea of a public match for children's college savings account. From a conservative, pro-free enterprise perspective, Mr. John identified matched savings programs as a mechanism to help families create wealth and ultimately lessen the dependence on public funding of higher education;
- Dena Squires, a high-school student participating in a SEED demonstration project operated by the Cherokee Nation, spoke of how a matched savings program has expanded opportunities for her to attend college and changed her financial habits. Ms. Squires was joined by Miranda Witte and by a program coordinator, Shay Smith;
- The Task Force also discussed the recommendations that it would like to produce, which form the basis for this report

4TH MEETING, DECEMBER 15TH

- The Task Force discussed a draft version of the report and recommendations, and after adopting revisions, voted unanimously to approve the report.

This report is the result of the Task Force's work. Section III discusses the relationship between family and state economic success and college attainment. It highlights the need for more Oklahoma children to attend and complete college. Section IV shows how the cost of college is a barrier to higher education for low-income children. Section V discusses why college savings, particularly 529 college savings plans, can help low-income families afford college for their children, and why simply asking parents to save is not enough to cause significant saving. Section VI presents the Task Force's recommendations for increasing low-income family college savings so that more Oklahoma children attain college degrees.

III. College Attainment & Oklahoma's Future

Oklahomans can point to many achievements and virtues that make our state vital and vibrant. However, Oklahoma falls short of most other states when it comes to generating high quality jobs that provide for family economic self-sufficiency and allow families to build assets for future success. Many Oklahomans fall below their potential because they do not have the skills and finances necessary to succeed. In short, too many Oklahomans are poor in the tangible assets such as savings and the intangible assets such as a college degree that make the American Dream possible.

Fortunately, recent research suggests that Oklahoma might help more citizens achieve their potential and move to economic self-sufficiency by helping them build assets, in particular savings and college education. A leading researcher on assets and poverty, Michael Sherraden of Washington University in St. Louis, finds, "For the vast majority of households, the pathway out of poverty is not through consumption, but through saving and accumulation."[1] Building and holding assets transforms families. When people build and hold assets they gain job and life skills, increase financial responsibility, provide more for their children, and become more connected to their community. Sherraden notes, "When people begin to accumulate assets their thinking and behavior changes as well."[2]

Vicious & Virtuous Circles

One way to understand how assets, especially a college education, play a role in Oklahoma's future, is to consider virtuous and vicious circles. In economics, a "virtuous circle" is a system that builds increasing returns, whereas a "vicious circle" does the opposite. In Figure 1, the cycles of opportunity and dependency exemplify vicious and virtuous circles. A lack of education, skills, a good job, health and financial assets keeps people in a vicious circle of decreasing returns. This is the case for too many Oklahomans where a vicious circle of dependency wraps them up in cycles of economic insufficiency, dependence on social safety net programs, and untapped potential that spirals from one generation to the next.

College education is a classic example of a virtuous circle. A college education reinforces personal effort because it takes hard work and perseverance, and builds knowledge and skills that lead to better and higher-paying employment. As a result, college graduates enjoy a longer life expectancy, better health, and higher social status.[3] If the pathway to college includes saving, then the bridge from the cycle of dependency to opportunity is further strengthened. Parents who save for their children's college education set the expectation that their children will attend college. College attainment is high when parents establish strong expectations. Further, parents who save encourage their children to become savers who build financial assets over their lifetimes. In the process, parents who are saving are reinforcing their personal financial responsibility so that they are more likely to live in the cycle of opportunity.

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[1] Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (Armonk, NY:M.E. Sharpe, 1991).

[2] Op. cit., Sherraden 1991.

[3] Adriane Williams & Watson Scott Swail, *Is More Better? The Impact of Postsecondary Education on the Economic and Social Well-Being of American Society,* Educational Policy Institute, May 2005.

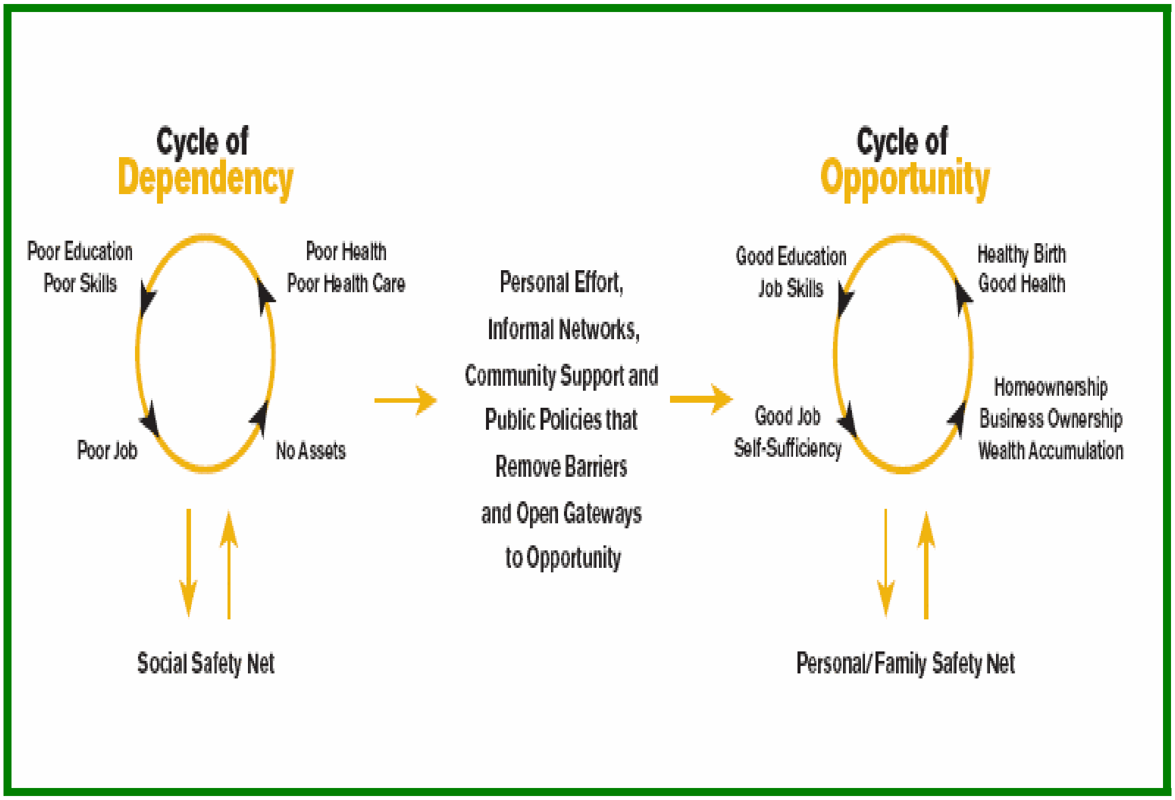

Figure 1--Vicious and Virtuous Circles

Why Higher Education Is Good for All of Oklahoma

The benefits of higher education extend well beyond the individual. Table 1 highlights the importance of higher college attainment for Oklahoma by providing a comparison among state-level college attainment, economic output as measured by per capita gross state product (GSP), and poverty. The data show that higher college attainment rates are strongly correlated with lower poverty and increased per capita GSP. Unfortunately, compared with the other states Oklahoma is 41st in the percentage of adults with a 4-year degree (22.2%). For Oklahoma, low college attainment means, in part, that the state ranks 11th among the 50 states for the percent of individuals in poverty and 46th in per capita GSP.

Conclusion

Low college attainment means too many Oklahoma families remain in a cycle of dependency. It blunts Oklahoma's competitive edge in the national and world economy. It keeps our GSP in the bottom 10 in the nation. Oklahoma's Economic Development Generating Excellence (EDGE) initiative is held in check because not enough Oklahomans have a college degree. Low college attainment particularly limits the ability to start and attract high growth businesses, the type of businesses that will make the state prosperous.

Unfortunately, low college attainment will continue unless Oklahoma does more to help families, especially low-income families, remove financial barriers to college. The next section describes how the high cost of a college education stands in the way of college attainment.

Table 1—Comparison of State College Attainment, Per Capita Gross State Product, & Poverty									
State	**College Attainment State Rank**	**% Adults 25+ Yrs. with 4-Year Degree, 2004**	**Per Capita Gross State Product, 2005**	**Poverty Rate, 2004**	**State**	**College Attainment State Rank**	**% Adults 25+ Yrs. with 4-Year Degree, 2004**	**Per Capita Gross State Product, 2005**	**Poverty Rate, 2004**
MA	1	37.4%	$46,883	9.2%	FL	26	25.4%	$33,494	12.2%
MD	2	34.8%	$38,602	8.8%	WY	27	24.8%	$40,556	10.3%
CT	3	34.6%	$49,300	7.6%	AZ	28	24.7%	$33,299	14.2%
CO	4	33.7%	$41,293	11.1%	PA	29	24.7%	$34,620	11.7%
NJ	5	33.3%	$44,219	8.5%	MI	30	24.6%	$33,856	12.3%
VA	6	32.7%	$41,505	9.5%	NC	31	24.6%	$35,517	15.2%
NH	7	32.1%	$38,685	7.6%	SC	32	24.6%	$29,222	15.7%
VT	8	32.0%	$33,870	9.0%	MO	33	24.3%	$33,143	11.8%
WA	9	31.3%	$38,055	13.1%	WI	34	24.1%	$35,130	10.7%
NY	10	30.5%	$45,032	14.2%	ND	35	24.0%	$32,794	12.1%
MN	11	29.7%	$40,900	8.3%	IA	36	23.9%	$34,232	9.9%
CA	12	29.4%	$40,713	13.3%	ID	37	23.8%	$30,466	14.5%
HI	13	29.1%	$36,705	10.6%	NM	38	23.6%	$31,044	19.3%
IL	14	29.1%	$39,132	11.9%	OH	39	23.3%	$34,449	12.5%
KS	15	28.3%	$33,769	10.5%	SD	40	23.2%	$35,660	11.0%
DE	16	28.1%	$56,448	9.9%	**OK**	**41**	**22.2%**	**$28,409**	**15.3%**
RI	17	28.1%	$35,825	12.8%	TN	42	22.2%	$34,058	14.5%
UT	18	28.0%	$32,058	10.9%	AL	43	21.9%	$29,008	16.1%
OR	19	27.7%	$37,522	14.1%	IN	44	21.5%	$34,135	10.8%
MT	20	27.5%	$27,232	14.2%	LA	45	21.5%	$29,923	19.4%
AK	21	27.2%	$45,020	8.2%	NV	46	19.3%	$39,997	12.6%
NE	22	26.6%	$35,130	11.0%	KY	47	19.0%	$29,840	17.4%
ME	23	26.1%	$30,073	12.3%	MS	48	18.9%	$23,851	21.6%
GA	24	25.6%	$36,092	14.8%	AR	49	18.1%	$27,677	17.9%
TX	25	25.6%	$36,987	16.6%	WV	50	16.3%	$25,154	17.9%
					U.S.		**27.2%**	**$37,275**	**13.1%**

Sources: U.S. Census 2004 American Community Survey and U.S. Bureau of Economic Analysis

IV. The Cost of College & College Attainment

College costs are a barrier to higher education, and college affordability is not improving. Rising tuition costs have significantly outpaced inflation. Oklahoma's public higher education institutions increased tuition rates for FY 2006 by an average 7.4% and for FY 2007 by 5.1%. By comparison, overall U.S. inflation averaged 3.4% in 2005 and is averaging 3.7% in 2006 (U.S. Bureau of Labor Statistics, Consumer Price Index data). Figure 2 shows how much tuition and fees have increased for a typical one-year undergraduate, full-time student course load (30 hours) at Oklahoma's public colleges and universities from 1997 to 2007. While the Consumer Price Index increased 26% from 1997 to 2007, the cost of tuition and fees at Oklahoma's comprehensive universities increased by 75%. One might conclude from the chart that Oklahoma is doing poorly controlling tuition, but Oklahoma is one of the best values in college education. The Educational Policy Institute ranks Oklahoma the 2nd most affordable state in which to get a 4-year college degree.[4]

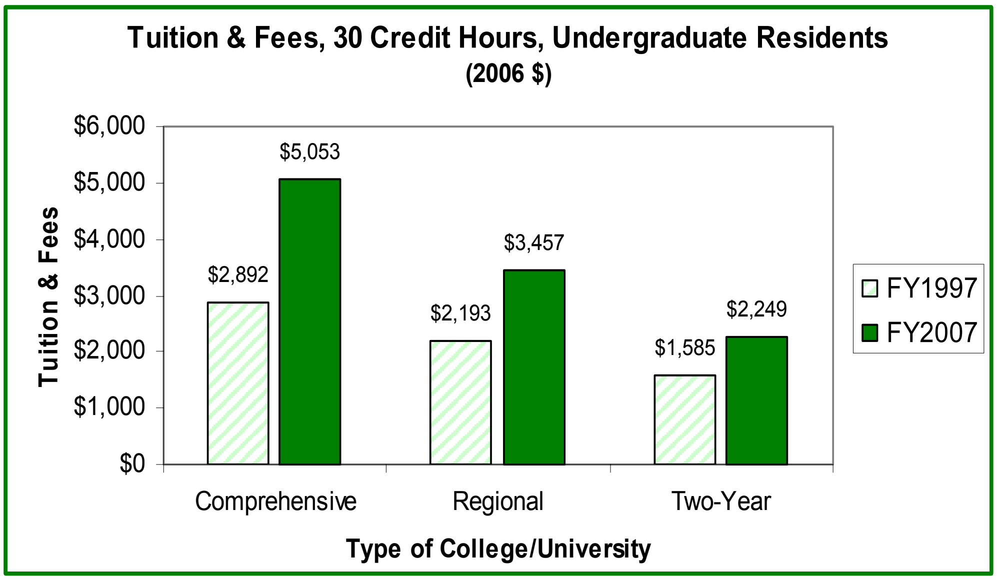

Figure 2--Change in Tuition & Fees at Oklahoma Colleges

Even though Oklahoma's public colleges and universities are among the most affordable in the nation, the Oklahoma State Regents for Higher Education identifies affordability as a major barrier to college attainment.[5] Low incomes, savings and other assets mean low to moderate-income families are dependent on college financial aid and loans to send their children to college. Oklahoma household net worth, which might serve as a financial reservoir to pay for college, ranks 45th ($39,400 in 2004) in the nation. Savings, of any type, that might pay for college is relatively low in Oklahoma. The investment firm, A.G. Edwards ranks Oklahoma 47th out of the 50 states in its 2005 "Nest Egg Index," which measures the strength of household savings. Oklahoma suffers from a vicious circle where low incomes limit college attainment and low college attainment keeps incomes low.

For those without income or savings-based family financial support that do attend college, many find it difficult to stay in school and fail to complete their studies. Unfortunately,

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[4] Kim Steele and Alex Usher, *Beyond the 49th Parallel: The Affordability of Public University Education*, Educational Policy Institute, March 2006.

[5] *Brain Gain 2010: Building Oklahoma Through Intellectual Power*, Oklahoma State Regents for Higher Education, 1999.

Pell grant funding, the primary source of federal government college financial aid to solve this problem, has not grown at nearly the same pace of college costs. Therefore, students must increasingly rely on student loans to pay for college. In 2005, the average Oklahoma graduate's student loan debt at public and private 4 year colleges was $17,063.[6] Figure 3 shows reliance on student loans is climbing rapidly.

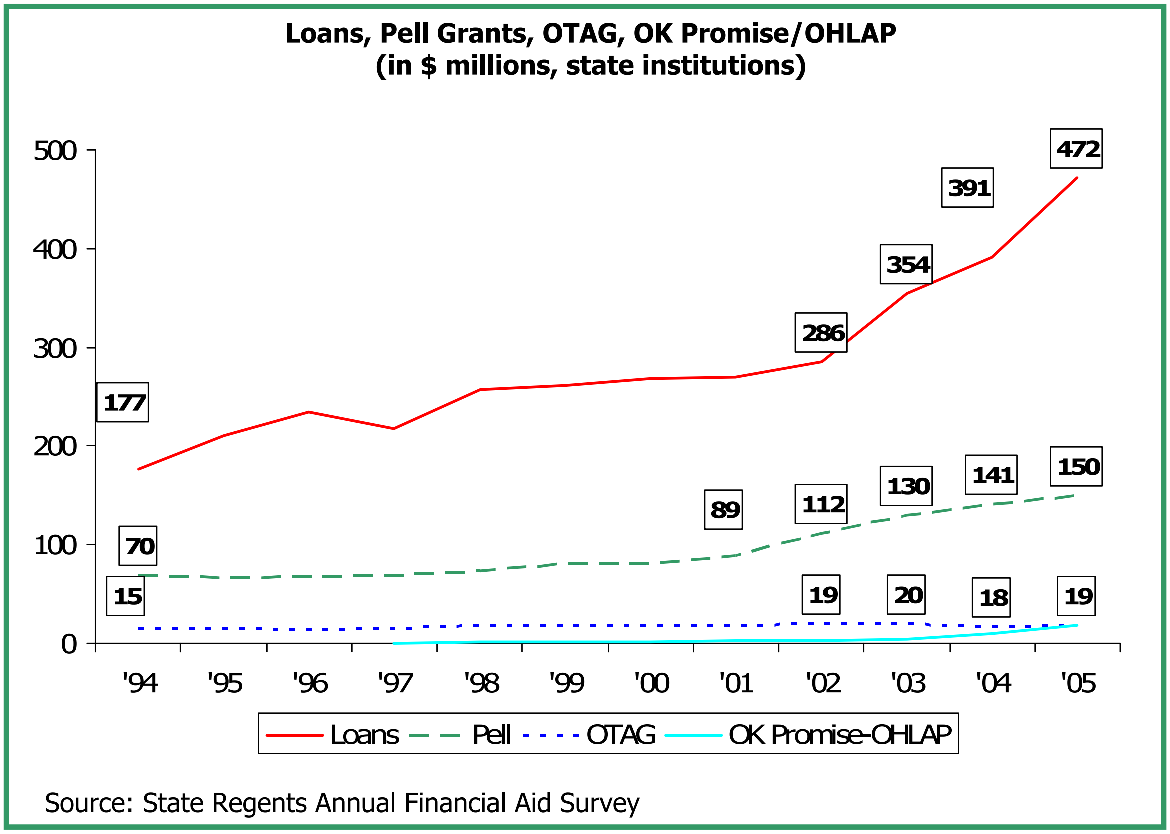

Figure 3 Needs Based Student Financial Aid 1994-2005

Low-income students are hit hardest by rising college costs and depend the most on student loans to pay for college. Figure 4 shows that nearly 50% of low-income students use federal student loans. However, this graph also shows that as college costs have grown, middle to upper-income students are relying more on federal student loans to pay for college. In 2004, the percentage of middle-income students using student loans matched that of low-income students.

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[6] *Student Debt and the Class of 2005:Average Debt by State, Sector, and School*, The Project on Student Debt, Pew Trusts, August 2006.

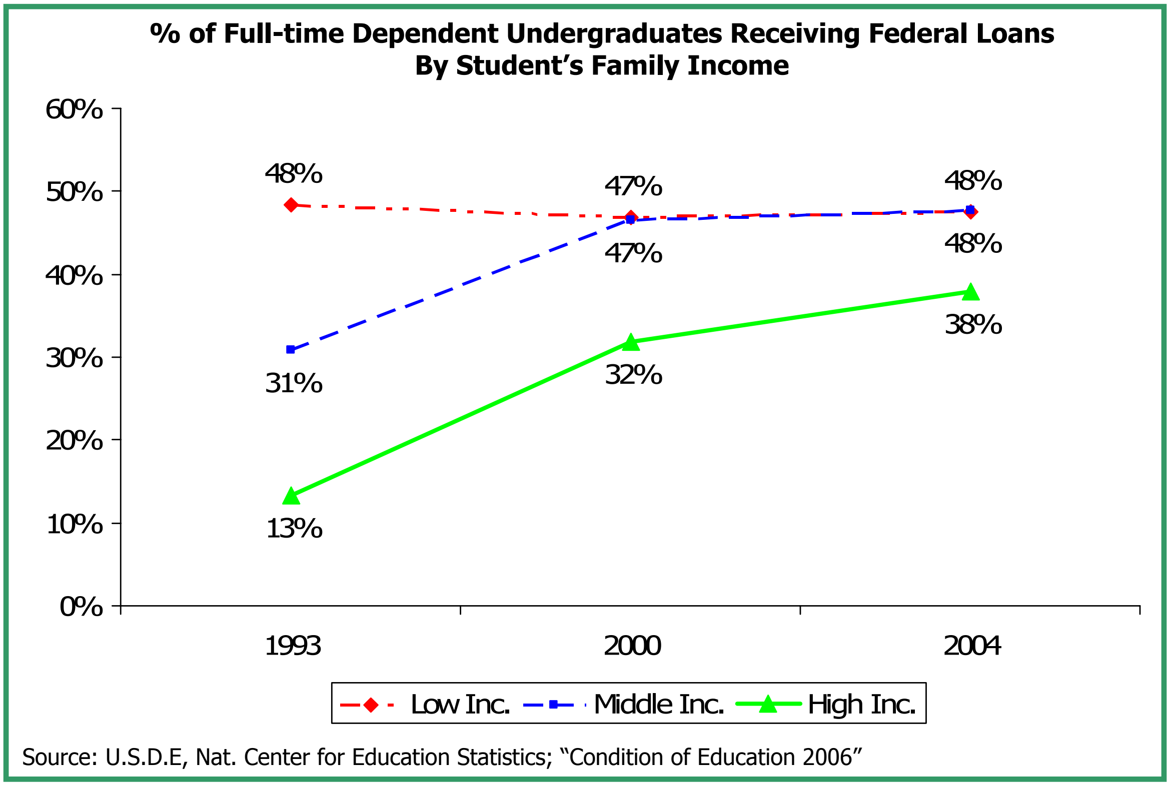


Figure 4 Percent of Full-Time Dependent Undergraduates Receiving Federal Loans

As a result of rapidly rising college costs, the difference between primary need-based college financial aid and the direct costs of Oklahoma's public colleges and universities is large and growing. Table 2 details the differences. At Oklahoma's research universities - University of Oklahoma and Oklahoma State University - the difference between available aid and direct costs exceeds $4,000 per year. Students without family financial support, college savings or scholarships turn to student loans to make up the difference. Low-income students are the most likely to fit that profile and depend on student loans.

Table 2—2006-07 Average Undergraduate College Costs
Full-time Enrollment (30 semester hours)
Oklahoma Public Colleges and Universities

Costs & Aid	Research University	Regional University	Two-Year Colleges
Direct Costs			
Tuition	$3,134	$2,574	$1, 659
Mandatory Fees	$1,919	$883	$590
Academic Service Fees	$554	$118	$64
Books & Supplies	$1,005	$848	$1,044
Room & Board	$5,741	$3,852	$4,213
Total Direct Cost	$12,353	$8,275	$7,570
Primary Need-Based Aid			
Federal Pell Grant ($400 to $4,050)	$4,050	$4,050	$4,050
OK Promise (OHLAP, pays actual tuition)	$3,134	$2,574	$1,659
OK Tuition Aid Grant (OTAG, max. $1,000)	$1,000	$1,000	$1,000
Total Primary Need-Based Aid	$8,184	$7,624	$6,709
Difference between direct cost & aid	($4,169)	($651)	($861)

Oklahoma made a significant investment to improve the affordability of higher education, by creating the Oklahoma Higher Learning Access Program, OHLAP (a.k.a. Oklahoma's Promise). Oklahoma's Promise - OHLAP pays tuition costs for qualifying students who attend Oklahoma's public higher education institutions, as well as partial tuition costs for students attending private institutions. To qualify, students from families with annual incomes of less than \$50,000 enroll in the program during the 8^{th} to 10^{th} grades and must meet certain grade, conduct and curriculum standards.

Unfortunately this investment falls short for many Oklahoma children, particularly those from low-income families, since Oklahoma's Promise - OHLAP covers only the cost of tuition but not other college expenses, such as fees, books, room and board and equipment. As Table 2 demonstrates, tuition represents only about a quarter of the cost of attending college. Student loans, employment, and family contributions are needed to afford the other non-tuition costs, and for many Oklahoma families that is not enough to make college accessible.

Conclusion

College affordability keeps Oklahoma children from attaining a college education. Oklahoma's low-income families, even with the investment from Oklahoma's Promise - OHLAP, do not have the income or savings to help their children attend and complete college. What is needed is a way to help families pay for college. In the next section, the Oklahoma College Savings Task Force recommends a policy that will ensure more low income families save for their children's college education so that the cost of college will not stand in the way of college attainment.

V. College Savings & Saving Behavior

College savings is a partial solution to the college affordability problem because it provides students more financial resources that reduce reliance on financial aid. When college savings start early, particularly at birth, the time value of money means even families that can deposit only small amounts will have a significant college savings account by the time their children are bound for college. For example, starting with a $200 initial deposit and $25 monthly deposits for 18 years will yield over $10, 000 at an average 6.5% annual rate of return.

Moreover, college savings:

- Give low-income families security in knowing that their children can attend college, even if future financial aid declines.
- Expand college choices because low-income families will not have to accept the college that offers the best financial aid package.
- Increase financial responsibility and encourage additional saving for other purposes.
- Encourage parents and children to wisely shop for the best higher education value and put pressure on colleges to offer good values, because they are spending their hard-earned dollars. Over the long-run this effect may encourage public colleges and universities to improve education productivity, thereby moderating higher education inflation.

Most importantly, parents that save for the children's college education set an expectation that their children will attend college. If more Oklahoma low-income parents begin saving for their children's college education, then more Oklahoma children will attain a college degree.

Why Focus on 529 College Savings Plans?

Families may save for college in many ways, but 529 college savings plans offer advantages for states to encourage families to save for college. The plans are called 529 college savings plans because 529 is the section number of the Internal Revenue Service code that authorizes individuals to make after-tax deposits into state-sponsored savings plans for post-secondary education and withdraw the principal and earnings tax-free to pay for college expenses. In Oklahoma, the 529 College Savings Plan is administered by TIAA-CREF. The advantages that 529 college savings plans have to encourage families to save for college include the following:

- Accounting is centralized by the state to provide for better protection and accountability for account holders. This also means the state can establish accounts for residents.
- Investment options are limited, making participation simple.
- All accounts are held in the same plan so that administrative costs and fees can be shared between large and small accounts. This means the cost of establishing accounts can be minimized because large accounts can subsidize small accounts.
- States control their 529 college savings plans and can build in features that increase participation and inclusiveness.
- Oklahoma residents can claim a state income tax deduction of up to $10,000 per year for an individual or $20,000 for a family for contributions to the Oklahoma 529 College Savings Plan. Contributions to 529 plans administered by other states are not tax-deductible for Oklahoma residents.
- In determining federal financial aid eligibility, assets in 529 plan accounts owned by the student's parents are treated much more favorably than assets owned directly by the

student. For some lower-income families, such assets may not be considered at all in determining eligibility for federal financial aid.

- Funds in the account may be used at any eligible higher educational institution in the nation and many abroad. Savings may be applied toward tuition as well as related expenses such as books, supplies, required fees and certain room and board costs.

Savings Behavior

Gaining the benefits of widespread college savings will take more than exhortations to save for college or financial education. As Bob Friedman, founder and Board President of CFED, explained to the Task Force, recent research with Individual Development Accounts (IDAs) and retirement savings is finding that people often need expectations and tangible incentives as a jumpstart to save. For some, that jumpstart is a built-in feature of their lives because they come from families that operate in the virtuous circle of opportunity where parents save, pass on wealth to their children, and often have income that exceeds daily living expenses. Unfortunately, for too many Oklahomans the vicious circle of dependency prevails where savings are low or nonexistent, where debt exceeds assets, and where income falls short of daily living expenses. Without a jumpstart these Oklahomans are unlikely to save.

The low-level of savings by low-income families is evident from the data on participation rates in the Oklahoma 529 College Savings Plan (Figure 5). The Task Force received information derived from 2002 tax records compiled by the Oklahoma Tax Commission showing that families earning $18,000 or less account for only 1.3% of Oklahoma 529 College Savings Plans. Families earning $40,000 or less (slightly above median family income) represent only 9.5% of the college savings plans. However, families earning $80,000 or more account for about 60% of all Oklahoma 529 College Savings Plan account. These high income families benefit from the generous tax deductions Oklahoma offers on Oklahoma 529 College Savings Plans deposits. By contrast, low-income households may have little or no taxable income to deduct and are likely to be in a lower tax bracket. Therefore, the value of the state tax preference is considerably less for lower-income households.

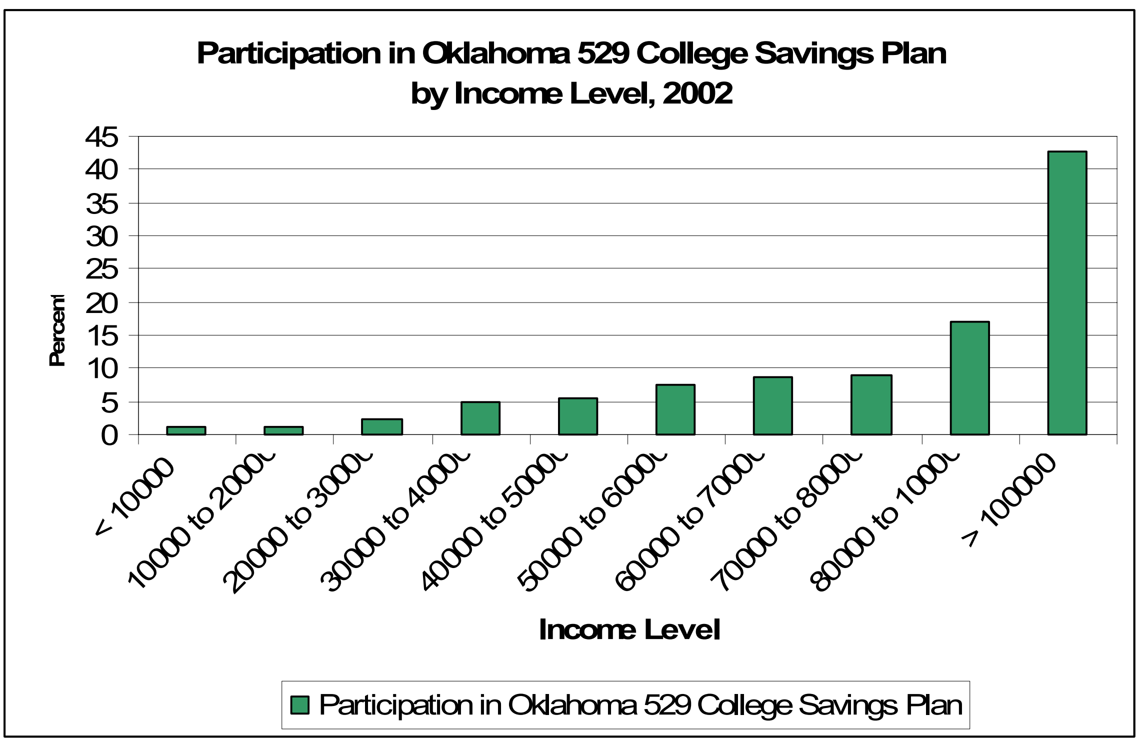


Figure 5 Oklahoma 529 College Savings Plan Participation by Income Level, 2002

The low level of savings among moderate-to-low income families is not a permanent condition. As indicated, expectations and tangible incentives can generate savings behavior. These expectations and incentives include the following:

- Automatic savings accounts; when savings accounts are automatically established people save.
- Initial deposits that give low-income families an asset to build on;
- Matching contributions that encourage low-income families to save regularly so that savings becomes habitual.

The Task Force heard directly of one example of the impact that a matched college savings program can have in developing savings habits and creating an expectation of college attendance and in testimony from a participant in the Cherokee Nation SEED pilot project. This project has provided a direct contribution and matched savings opportunities for high school students in Tahlequah. Dena Squires, a high school senior participating in the project, spoke of how the pilot project has expanded opportunities for her to attend college and changed her financial habits.

Small investments in the form of initial and matching deposits are often enough to put a non-saving family on the path of life-time saving behavior.

How Other States Are Encouraging College Savings

Most U.S. states encourage college savings, particularly 529 college savings plan savings. They realize the potential for more residents to afford college if they have college savings. However, for most states, encouragement takes the form of low-cost entry (low initial deposit and/or low monthly deposit commitments in lieu of a starting deposit) into their state sponsored 529 college savings plan. For many states, opening a 529 college savings plan takes only a $25 initial deposit. Oklahoma requires $100 for an initial deposit or a $15/monthly payroll deduction deposit commitment to open an Oklahoma College Savings Plan. Nebraska requires no initial or even monthly deposit commitments to open an account.

States also use extensive outreach efforts to recruit 529 savers, encourage employers to offer workplace enrollment, scholarship programs to 529 savers, and state financial aid exclusions of 529 savings in financial aid formulas to encourage 529 college savings. Some states go even further and they serve as examples for Oklahoma to consider. They offer savings matches to families that open and save in 529 college savings plans. These states include the following:

- Louisiana—matches deposits made by all state residents using a sliding scale based on annual gross income of the account owner. Match rates are as high as 14% for families with gross income below $29,999, and only 2% for families with gross incomes over $100,000.
- Maine—families earning $50,000 or less can open a 529 account for $50 and receive a $200 state matching grant. Further, if families deposit a minimum of $200 per year, they are eligible for a 25% matching deposit, up to a maximum of $100 per year.
- Michigan—matches up to $200, $1 for every $3 deposited into a 529 college savings plan. The matches are available only during the first year of a child's life. Families with incomes of $80,000 or less are eligible.
- Minnesota—matches up to 15% of contributions to a 529 college savings plan for families with annual gross incomes of $50,000 or less, and matches 5% of contributions for families earning between $50,000 and $80,000. To receive matches, at least $200 must be deposited for the calendar year.
- Oregon and Pennsylvania—allow state low-income individual development account (IDA) participants to roll over IDA savings into a 529 college savings plan.

- Rhode Island—families with incomes below 200 percent of the poverty level can receive 2 to 1 matching contributions up to $500 per year based on family size and income. Families between 201 and 300 percent poverty level can receive a 1 to 1 matching deposit up to $500 per year. Matches are limited to children under age 10 and only for a total of 5 years.
- Vermont—through their individual development account (IDA) program allows 529 accounts to serve as IDA accounts and provides savings matches.

Rhode Island and Maine fund their matching contributions with user fees generated from their state 529 college savings plans. The other states fund matching contributions from general state revenues.

Conclusion

529 college savings plans can be an important tool for states to increase college savings, as well as general savings levels. While many states have innovated with their 529 college savings plans to increase low-income family savings, Oklahoma has primarily relied on marketing to encourage low-income families to save. Marketing alone, though, is unlikely to encourage low-income families to save for college because savings behavior requires strong expectations and real incentives to start. Upper income families typically set those expectations for their children and give them a start on savings, as well as receive a generous Oklahoma state tax deduction for contributions into Oklahoma 529 College Savings Plans. Oklahoma can follow the examples of states such as Maine that are offering strong expectations and meaningful incentives to low-income families to save for their children's future.

VI. Task Force Recommendations

The Oklahoma College Savings Task Force has developed state policy recommendations based on lessons learned from asset building research and the need for low-income families to save for their children's college education. The recommendations are based on an understanding of the following:

- College attainment is positively related to family and state economic growth and success;
- The cost of a college is a barrier to earning a degree for children from low-income families;
- College savings, particularly 529 college savings plans, can help families save for college and expand college choices;
- Most low-income families are not currently taking advantage of 529 college savings plans;
- Low-income families can save for their children's college education if expected to do so and provided appropriate incentives to save.

The Task Force's ultimate goal is for more low-income children to attain a college degree. This will move more Oklahomans from a cycle of dependency to a cycle of opportunity. As a result of more low-income families saving for college the Task Force expects more children will attain a college degree so that they do the following:

- Earn more;
- Achieve economic self-sufficiency;
- Experience a higher quality-of-life;
- Have greater stake in the community and its future.

Ultimately, more children with college degrees mean Oklahoma will better fulfill its economic potential and prosper into the future.

The Task Force recommends the following:

1. The State of Oklahoma will make an automatic deposit at the birth of children to start an Oklahoma 529 College Savings Plan account. In order to provide effective targeting of resources for those in greatest need, eligibility for public deposits will be available to moderate-to-low income families.
2. The State of Oklahoma will match low-income family deposits into their children's Oklahoma 529 College Savings plan up to a certain amount.
3. Oklahoma K-12 schools will incorporate information about Oklahoma 529 College Savings Plans into financial literacy education curricula to encourage additional saving and improve financial responsibility. The State will also encourage integration into financial literacy programs targeting moderate- to low-income families.

PROGRAM DESIGN

The Task Force opts to limits its recommendations to these basic principles of a public deposit program targeting moderate-to-low income families who face the greatest obstacles to attending college and accumulating assets. We recognize that enacting and implementing this program will require a wide range of specific program design questions, including determining the eligibility levels for the initial public deposit and continuing public match as well as the amount of the public deposit and match. While the Task Force chooses to leave these decisions to the Legislature, we have also developed some estimates of the fiscal impact of our proposal based on a range of options regarding eligibility and public contribution amounts.

The fiscal impact of the program will be made up of four components:

1) The initial public deposit;
2) The public matching deposit;
3) Administrative costs;
4) Financial education and other wrap-around services.

Appendix B provides fiscal impact estimates based on several scenarios:

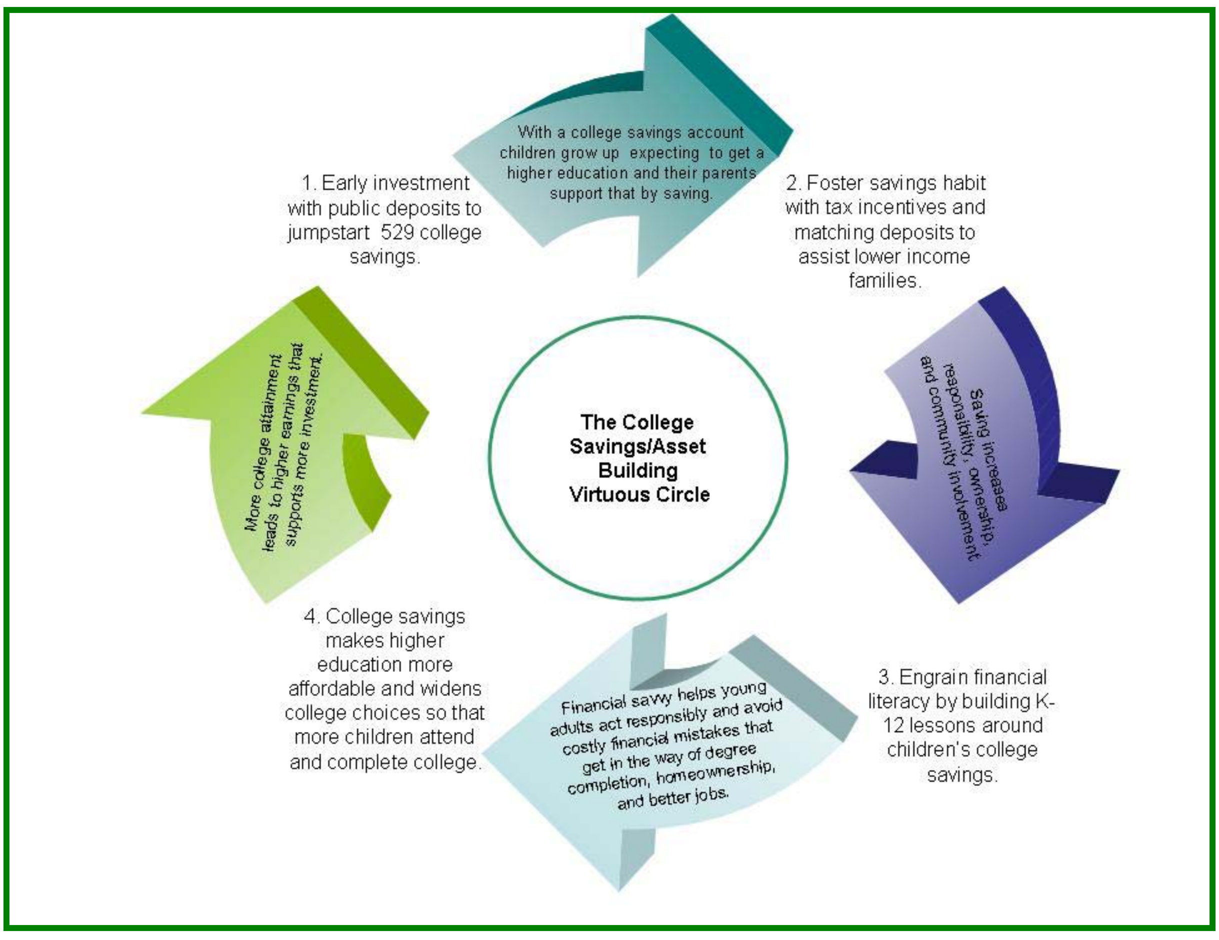
- **Initial Deposit**: We estimate the cost of annual cost of initial public deposits to range from
    - $6.5 million per year for a $200 initial deposit to families making up to the state median household income ($37,063 in 2004), to
    - $23.0 million per year for a $500 initial deposit to families making up to $75,000 per year;
- **Matching Deposits**: We calculated fiscal impact based on the assumption that match participants will be eligible for a maximum lifetime public match of $500. As the participant pool grows over time with the addition of each new age cohort (up to 18 years), the amount of matching deposits will increase annually. We estimate that the cost of matching deposits could range from
    - $600k per year if match eligibility is set at $30,000 and participants contribute 25% of their lifetime matchable contribution ($125), to
    - $2.1 million per year if match eligibility is set at $50,000 and participants contribute 50% of their lifetime matchable contribution ($250).
- **Administrative costs**: We do not estimate the administrative costs associated with running this program. The Task Force recognizes that the relatively small account sizes will impose higher average administrative costs. We assume that public deposits will be made in a pooled, state account allocated to each family based on its initial deposit and qualifying matching deposits. These funds will be accessible only for approved college education expenses. Family deposits will be made into private Oklahoma 529 College Savings Plan accounts and can be used as specified by federal law.
- **Financial education costs**: We do not estimate the scope or cost of financial education and literacy programs and services that could be made available to program participants.

Conclusion

The Task Force recommendations focus on building assets because assets are the critical difference between economic success and failure. Some cash in the bank, home equity, and retirement savings provide economic stability and open opportunities that characterize the American Dream. More important are the intangible assets that set the stage for achieving the American Dream. These intangible assets include highly marketable job skills that today typically mean completion of college or other post-secondary education, strong work ethics, financial responsibility, and supportive family and friends. Perhaps the most important intangible asset is a savings habit, a drive to build and hold assets. Figure 6 shows how the Task Force's recommendations will build on the college education virtuous circle by jumpstarting and engraining savings behavior.

The Task Force recommendations seek to build tangible assets, college savings, and the intangible assets of a college degree and the savings habit. This combination of assets will help move more Oklahomans from the vicious circle of dependency to the virtuous circle of opportunity. As a result, Oklahoma will become more productive and prosperous.

Figure 6 College Savings/Asset Building Virtuous Circle



APPENDIX 1: HCR 1075

STATE OF OKLAHOMA

2nd Session of the 50th Legislature (2006)

HOUSE CONCURRENT RESOLUTION 1075

By: Terrill of the House

and

Lawler of the Senate

AS INTRODUCED

A Concurrent Resolution creating the Oklahoma College Savings Task Force; stating purpose and duties of the Task Force; providing for membership; requiring appointments by certain date; requiring certain meetings; providing for termination of Task Force activities; requiring the Task Force to confer and collaborate with certain organizations; providing for staff and assistance; providing for travel reimbursement; requiring reports by a certain date; and directing distribution.

WHEREAS, access to a college education is limited by college savings and findings show that the rising cost of a college education decreases access; and

WHEREAS, an increased college attainment level will make Oklahoma more economically competitive and prosperous as a state and college attainment can be a pathway out of poverty for many Oklahomans; and

WHEREAS, it is expected that increasing the number of Oklahoma families that save for a college education for their children will increase the number of children expected to complete a college education; and

WHEREAS, in addition, saving for a college education can improve family financial responsibility, and encourage broader saving for homeownership, entrepreneurship and retirement; and

WHEREAS, the state of Oklahoma should explore all options for increasing the number of citizens saving for a college education.

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF THE 2ND SESSION OF THE 50TH OKLAHOMA LEGISLATURE, THE SENATE CONCURRING THEREIN:

THAT a task force is hereby created, to be named the Oklahoma College Savings Task Force, the purpose of which shall be to review and make recommendations about program options to increase the number of and amount of savings in Oklahoma 529 college savings plans, especially the college savings of moderate- to low-income families. The Task Force shall also study issues relating to the creation and use of initial public deposits and matching deposit programs, including, but not limited to, the feasibility of establishing a program to provide direct deposit into Oklahoma 529 college savings plans for children born after 2007 in Oklahoma and a program to provide matching deposits into Oklahoma 529 college savings plans for low-income families.

THAT the Task Force shall be composed of sixteen (16) members as follows:

1. Two members representing higher education institutions that are members of The Oklahoma State System of Higher Education or technology center schools to be appointed by the Governor;

2. One member representing private colleges or postsecondary schools located in Oklahoma to be appointed by the Governor;

3. Two members representing the banking, finance and investment industry to be appointed by the Speaker of the House of Representatives;

4. One member representing community or economic development groups to be appointed by the President Pro Tempore of the Senate;

5. One member representing financial literacy organizations to be appointed by the President Pro Tempore of the Senate;

6. The State Treasurer or designee;

7. The Program Manager Administrator for the Oklahoma College Savings Plan or designee;

8. The Chancellor of the Oklahoma State Regents for Higher Education or designee;

9. The State Director of the Oklahoma Department of Career and Technology Education or designee;

10. The State Superintendent of Public Instruction or designee;

11. The Director of the Department of Human Services or designee;

12. The Executive Director of the Oklahoma Department of Commerce or designee;

13. One member at-large, to be appointed by the Speaker of the House of Representatives; and

14. One member at-large, to be appointed by the President Pro Tempore of the Senate.

THAT the appointments to the Task Force shall be made no later than August 1, 2006.

THAT the Task Force shall hold regular, public meetings and fact-finding hearings, and other public forums, at times and places as deemed necessary by the Task Force. The first meeting of the Task Force shall be called by the Governor and held no later than September 15, 2006. The activities of the Task Force shall conclude no later than December 31, 2006. The Task Force shall confer and collaborate with relevant state and national organizations with expertise in asset building, financial literacy and independence, and college savings and finance.

THAT staff support for the Task Force shall be provided by the staff of the Senate and the House of Representatives. Upon request of the Task Force, any state agency shall provide assistance to the Task Force.

THAT the members of the Task Force shall receive no compensation for serving on the Task Force but may receive travel reimbursement for their necessary travel expenses incurred in the performance of their duties from their respective agency or appointing authority in accordance with the provisions of the State Travel Reimbursement Act.

THAT the Task Force shall make a written report of its findings and recommendations, as well as make any additional reports deemed necessary and appropriate, by December 31, 2006.

All reports issued by the Task Force shall be presented to the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives.

THAT copies of this resolution be distributed to the Governor, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the State Treasurer, the Program Manager Administrator for the Oklahoma College Savings Plan, the Chancellor of the Oklahoma State Regents for Higher Education, the State Director of the Oklahoma Department of Career and Technology Education, the State Superintendent of Public Instruction, the Director of the Department of Human Services, and the Executive Director of the Oklahoma Department of Commerce.

50-2-10219 KB 05/16/06

APPENDIX 2: Fiscal Impact Scenarios

Oklahoma College Savings Task Force
Public Match Deposit Proposal
Cost Scenarios (in $millions)

1. Initial Deposit

ELIGIBILITY

DEPOSIT	Median Household Income ($37,063)	$50,000	$75,000
$200	$ 6.5	$ 8.3	$ 9.2
$250	$ 8.1	$ 10.4	$ 11.5
$500	$ 16.2	$ 20.8	$ 23.0

These figures represent the annual cost of making initial public deposits of selected amounts for all children born in Oklahoma with family income up to selected levels. The annual cost over time will tend to increase if eligiblity is pegged to median income or decrease if set as a fixed amount

2. MATCH

ELIGIBILITY

Participation Rate	$30,000	$50,000
25%	$0.6	$1.0
50%	$1.2	$2.1

1) Maximum lifetime state match of $500
2) Participation rate means total family contributions as a percent of maximum available public match (50% = $250; 25% = $125) for all participants
3) Cost represents first-year cost and annual cost increase. For subsequent year, multiply cost times year of the program