

THE EARLY COLLEGE PLANNING INITIATIVE
A Randomized Experiment to Increase College Savings in Massachusetts

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PROJECT SUMMARY

Higher education plays an increasingly important role in helping individuals attain social and economic success. Therefore, supporting access to higher education is a major goal of both federal and state governments, with over \$156 billion being directed to students each year through financial aid programs (College Board 2010). However, financial aid often covers only a small fraction of tuition and other college expenses and so is not sufficient for helping most families afford college. As a result, unmet financial need contributes substantially to gaps in college attendance by family income. In acknowledgement of the growing importance of family savings in the face of rapidly increasing college costs, a major focus of recent federal and state financial aid policies has been to encourage families to save for themselves. However, few parents actually use these savings plans, especially among middle- and lower-income families. While underutilized, college savings plans have the potential to provide substantial benefits to families due to the fact that investment gains are mostly tax-free and some states also offer tax deductions and/or matching funds for deposits. However, little is known about how to improve the policies to address the needs of parents and maximize their potential benefits. It is unclear whether current gaps in usage are due to lack of appeal, awareness, or other features of the savings plans.

With funding from the U.S. Department of Education and the Bill & Melinda Gates Foundation, the College Affordability Project is a research initiative designed to determine the best way to help Massachusetts families prepare for the expense of their children's college educations. The purpose of the proposed research is to implement a series of school workshops focused on the parents of 8th and 9th graders that provide information about 529 college savings plans, a simplified way to enroll, and incentives for families to invest in such accounts. These interventions will allow us to gather data showing the effects of information, simplification, and incentives on college savings behavior and educational outcomes in the long run. The project hopes to determine the types of supports that are most helpful to families as they try to prepare financially for their children's college educations. This has important implications for policy as well as the way schools and non-profits could work with families. Moreover, the project presents the opportunity to help thousands of Boston families learn more about college preparation and savings plans, and some parents will also receive support for their children's educations.

This project is the result of a partnership between the university researchers and two other organizations:

- **ACCESS**, a prominent Massachusetts college access program that works directly with the Boston Public Schools as well as a number of community organizations, such as the Boys and Girls Clubs. ACCESS has expert financial aid advisors in Boston's public, charter and parochial schools to offer intensive one-on-one guidance and advocacy to students. In 2009, ACCESS was named a Social Innovator by the Social Innovation Forum and received the Committed to Access Award by the Association of Independent Colleges and Universities of Massachusetts, and was a

2008 recipient of the Boston Foundation’s prestigious Out of the Blue Award in recognition of “exceptional leadership” in the Boston nonprofit sector.

- **Massachusetts Educational Financing Authority (MEFA)**, the non-profit, state authority that runs U.FUND, the Massachusetts 529 Plan. It lets families invest for qualified higher education expenses through professionally managed mutual funds, in partnership with Fidelity Investments.

In addition, a third organization is helping advise us design our workshops for parents:

- **Compass Working Capital** is a Boston-area nonprofit organization that promotes low-income families’ access to and investment in 529 college savings plans. Compass provides financial education and matched savings accounts to help families achieve their goals. Compass is also leading a broader advocacy effort to examine how Massachusetts’ 529 college savings plan can strengthen its outreach and marketing in low-income communities and incorporate account features that would increase participation by low-income families.

Review of the Literature: There is a long research literature demonstrating the importance of college price and financial aid in college decisions. The aid programs that are most successful are those that are well-publicized (Ikenberry and Hartle, 1998; Horn, Chen, and Chapman, 2003; American Council on Education, 2004; Grodsky and Jones, 2004) and relatively easy to understand and apply for (Dynarski, 2000 and 2002; Cornwell, Mustard, and Sridhar, 2006). This has also been found in the examinations of other social programs, such as welfare and food stamps. For example, Currie (2004) finds that the take up rates on social programs are increased when eligible participants are automatically enrolled and administrative barriers are reduced. However, much more needs to be learned about how to design college affordability policies and processes to maximize the effects they might have on students. Unfortunately, the datasets currently available do not lend themselves to such analyses, and so the only way to study the effects of information, assistance, and incentives concerning college savings plans is to conduct an intervention and collect one’s own data. That is the purpose of this project.

Statement of Hypothesis: In previous work, we have demonstrated the important role that information and assistance can have on college preparation and access. Using a random assignment research design, we offered low-income families who were getting their taxes done free additional assistance in completing and filing out the federal financial aid application (i.e. FAFSA). Streamlining the aid application process and providing additional information were shown to have large, positive effects on submission of the form as well as postsecondary enrollment and aid receipt in college (Bettinger, Long, Oreopoulos, and Sanbonmatsu, 2009). This study is an extension of that work by testing the impact of information and assistance on college savings decisions. More specifically, we will measure the potential benefits of three interventions: (1) increasing awareness of college savings options, (2) simplifying the enrollment process, and (3) providing additional incentives to encourage savings behavior. We will attempt to answer the following research questions:

- How does information about college savings options, such as 529s, affect the likelihood that families enroll in such plans and put away money for their children or themselves? Does simplifying the enrollment process encourage participation?
- How do starter incentives affect the likelihood and amount contributed by families to college savings accounts?
- Does enrollment in a college savings plan alter families’ long-run college savings behavior?
- Do investments in college savings plans affect long term outcomes such as future college enrollment, submission of the financial aid application, and aid receipt?

Research Design: We plan to use a randomized experiment design. First, we will invite all of the parents of 8th or 9th graders in a school to attend an informational workshop focused on how families can prepare for college both academically and financially. We will explain to parents who attend that this is an initiative focusing on helping families learn more about postsecondary options and how to prepare for higher education. We are also interested in learning more about whether and how parents decide to save for college and so there is a research component. After collecting consent from the parents (described below), we will randomly assign families to one of four groups. One-fourth will be placed into the control group, which will participate in the informational workshop about the importance of higher education and how to prepare academically and financially. The rest will be placed into one of three treatment groups:

(1) Simplifying the Enrollment Process for the Massachusetts College Savings Plan (U.FUND)

For these individuals, we will provide the same general information as the control group. In addition, we will offer a simplified and streamlined way of enrolling in the Massachusetts 529 Plan (U.FUND) on-site. This first treatment focuses solely on information and complexity barriers and will allow us to test the effects of simplification and assistance. If found to be an effective way of increasing family participation, this is an intervention that could be replicated for the entire state in future years.

(2) Simplifying the Enrollment Process and Providing the Initial Enrollment Funds

The second treatment group will be identical to the first except that we will also contribute the initial balance necessary to open a Massachusetts 529 Plan (\$50). This treatment is similar to recent proposals by many states to provide monetary incentives in the hope of encouraging participation in college savings plans. This small startup incentive may make opening an account more attractive, and for families that decide to participate, we will investigate whether having a college savings account encourages additional investments in the future.

(3) Providing Incentives for Individuals to Start Automatic Contributions

Like the second treatment group, the third group will also receive the informational workshop, a simplified enrollment process, and the initial \$50 deposit needed to open the account. In addition, if a parent decides to sign up for automatic monthly contributions, which can be as small as \$15, then they will receive an additional \$100 deposit into the account. Research suggests that individuals often prefer automatic contributions when given the option and continue to contribute regularly once enrolled (Beshears, Choi, Laibson, Madrian 2006). The family will have up to 30 days after the event to set up the automatic contribution and qualify for the extra incentive.

All accounts opened will have their funds invested in the FDIC-insured option so there is no risk to losing the money.

Data Analysis: This study will evaluate whether the interventions affect take-up of a college savings plan, subsequent savings behavior (frequency and amount), and eventual college enrollment and aid receipt. We will track most of these outcomes by logging interactions with families at the events and doing data matches with Massachusetts Educational Financing Authority (MEFA), the state authority that runs the Massachusetts 529 College Savings plan. For several years after the initial event, we will get college account information from MEFA and Fidelity Investments, the company that manages and invests the funds. In the longer term, we will investigate college outcomes such as enrollment with data from the National Student Clearinghouse.

Protection of Human Rights: This project has been reviewed by the Harvard University Human Subjects Board and received IRB approval for implementation in several Ohio school districts. We are currently renewing our application with the only change being the move of the project to Massachusetts. Prior to participation in the research, we will explain the nature of the research and review a statement of informed consent with all parents. Only parents who sign the informed consent form will be able to participate.

Impact of Results: Supporting access to higher education is a major goal of the district as well as non-profits and the government, but puzzles remain about why current policies have not been more effective and how to encourage families to prepare for college financially. Many families do not know about savings options, aid programs, and college costs, and few families, particularly low- and moderate-income families, use college savings plans. This project will provide concrete examples of ways to increase the usage of savings plans. Based on the results, we will be able to determine what types of supports are most helpful to families relative to their costs. For example:

- Is information alone enough to help families participate or should schools and other organizations provide direct assistance with the savings plan application?
- How much more effective are monetary incentives in terms of encouraging initial participation? Do they also encourage saving in the future?
- Do families who contribute a small amount monthly save more and realize better educational outcomes than other families?

While determining the answers to these questions, we will also be helping thousands of Boston families learn more about college savings plans, and some parents will also receive financial support for their children's educations. As such, this project is part of many efforts within Boston to help families prepare and enter college. More broadly, this project aims to inform policymakers on whether complexity and low-visibility are major deterrents in the use of 529 Savings Plans, particularly among lower-income families. We will also collect important new survey data on families' level of awareness about college costs and savings plans and how they are going about saving for college, if at all.

Conclusion: In summary, our project will examine the effects of a program that attempts to increase awareness about college savings options, simplify the process of opening an account, encourage take-up saving by contributing to the initial balance, and encourage continued savings through automatic monthly contributions. Our analysis will answer key questions about barriers impeding college savings, the efficacy of current savings devices, policies that may improve college savings, and the effects of college savings on college outcomes. Our study meets rigorous scientific standards by using a randomized field experiment and outcomes will be tracked in a non-invasive way that will protect parent and student privacy.