Saving for Higher Education in the US:

Parents' Beliefs, Behaviors, and Preferences

by Jade Shipman Bevans
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EARN Research Brief

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I. INTRODUCTION

The EARN Research Institute recently surveyed 1,001 parents in the United States about saving money for their children's education after high school. The national telephone survey asked about parents' attitudes, opinions, and behaviors. The results reveal that the vast majority of US parents (87%) believe that obtaining a college degree is important for their children. Most parents (69%) state that saving for their children's higher education is a priority, yet only a little over half of parents (53%) have actually started saving for college. In addition, our research indicates that there is a need for better-designed accounts that help parents save wisely for their children's education beyond high school.

The survey sought to answer the following questions:

- What are parents' current attitudes and behaviors regarding the affordability of higher education, saving for their children's education after high school, and their children getting a college degree?
- Of parents who have savings for their children's higher education, what accounts are they utilizing and what are the limitations of those accounts?
- Of parents who do not have savings, what are the key barriers that prevent them from saving?
- What solutions do parents find appealing that would enable them to save more effectively for their children's higher education?

The EARN Research Institute has created this report to share our findings with the field and to encourage a broader conversation about the role of savings when discussing the future of higher education in America. In addition, we want to underscore that the current account options for children's college savings represent a missed opportunity, because parents who want to save for their children's education do not have an optimal account mechanism for doing so. To help ensure that savings products and programs are well-designed to suit parents' needs when it comes to saving for their children's education, this paper also highlights the account features that are appealing to parents.

This research has been funded by the Charles Stewart Mott Foundation and the Walter S. Johnson Foundation, with the goal of advancing the field of knowledge regarding effectively-designed college savings accounts.

II. METHODOLOGY

The EARN Research Institute retained Fairbank, Maslin, Maullin, Metz, and Associates (FM3), a public opinion research firm, to provide strategic guidance throughout the survey design process and to administer the survey. The survey polled 1,001 parents nationwide in June 2012. For the purposes of this research, "parents" have been defined as adults who live in the United States and are parents or legal guardians to at least one child below the age of 18. Survey respondents were called on land-lines and on mobile phones, and the survey was offered in both English and Spanish, though the vast majority of parents elected to take the survey in English.

Survey respondents represent a broad sample of demographic and economic characteristics. Parents' genders, racial and ethnic backgrounds, ages, education levels, incomes, children's ages, and geographic locations were all well-distributed, indicating that the survey is reflective of national opinions. While this was a nationwide survey that did not limit participation based on income, the data points have been analyzed both at a national level and also by income segments, so that we can better understand the extent to which preferences and behaviors differ across income categories.

The margin of error associated with the full sample is +/- 3.1%. For subsets of parents, the margin of error will be higher, and the exact margin of error depends on the prevalence of that subset relative to the full sample. The data points presented in this report may not sum to 100%, as some parents declined to answer certain questions. The exact percentages of parents who declined to answer will be presented if they are noteworthy. Unless otherwise indicated, parents were allowed to select only one answer per question.

As with any methodology, there are limitations to this research. The survey relies on parents' self-reported attitudes, behaviors, and preferences, which could be different than their actual beliefs or actions. In addition, as this is applied research, we have elected not to conduct statistical modeling on the results. Nevertheless, our findings, as presented in the sections that follow, point to a clear set of recommendations to improve the landscape of saving for higher education.

III. FINDINGS

The EARN Research Institute's survey results indicate that the vast majority of parents in the US (87%) believe that obtaining a college degree is an important opportunity for their children. Furthermore, 69% of parents state that they prioritize saving for their children's higher education. Yet there is demand for better-designed accounts that help parents save wisely for their children's education beyond high school.

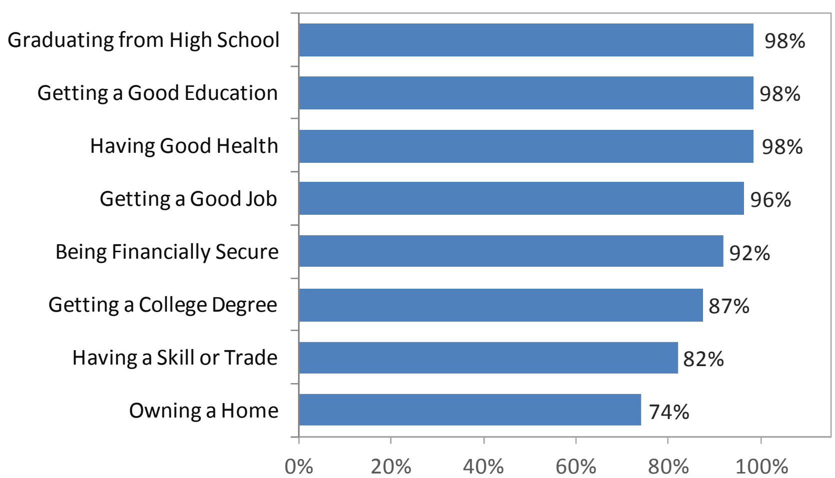
A. Current Attitudes and Behaviors of Parents

The survey evaluated current attitudes and behaviors of parents on several distinct but related subjects. We sought to determine how important the opportunity to receive a college degree is to parents, relative to other aspirations for their children. We also measured parents' levels of concern about college affordability, parents' savings rates in general and for specific purposes, and to what extent parents prioritize saving for their children's higher education relative to other goals. For parents who have saved, we sought to learn the types of accounts they are using to save, and the dollar amounts they have set aside for higher education.

Parents believe getting a college degree is an important opportunity for their children and are concerned about college affordability.

The survey asked parents to think about their children's futures and rate the importance of a series of goals. Parents' responses indicate that getting a college degree is an appealing goal, but it is not the only appealing goal. Getting a college degree is a goal that 87% of parents believe is a very important opportunity for their children. However, a slightly larger percentage of parents cite other goals as very important, including graduating from high school (98%) and getting a good education (98%). This suggests that parents are more immediately oriented toward the goal of their children finishing high school and having access to good educational opportunities in a broader sense. Other goals that are very important to a larger percentage of parents include having good health (98%), getting a good job (96%), and being financially secure (92%). Parents found other goals to be somewhat less important than a college degree, such as owning a home (74%) and having a skill or trade (82%).[1]

Figure 1: Parents Identify Many Goals as Very Important Opportunities for Their Children to Have



Source: EARN National Parent College Savings Survey, N=1,001.

[1] All of these differences are statistically significant when compared with the goal of obtaining a college degree.

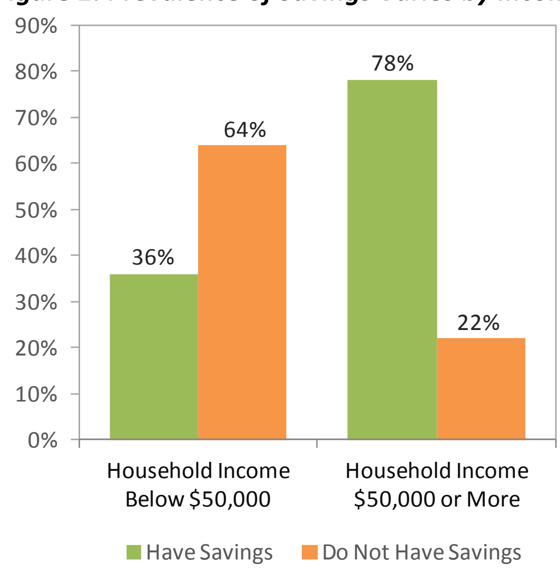
At the same time, college affordability is a key concern for parents. Of all parents surveyed, 53% are "very concerned" or "extremely concerned" that their children will not be able to afford to go to college. More than one in five parents (22%) are "somewhat concerned," while 26% are "not too concerned" or "not at all concerned." For parents in households earning $50,000 or less annually, the proportion of concerned parents is higher, with 65% of parents reporting very high levels of concern about affordability. Regardless of income, parents of color are more concerned about affordability, with 69% of Latino parents and 63% of African-American parents reporting very high levels of concern, compared with 46% of white parents.

Prevalence of savings varies by income, and parents have savings for a variety of goals.

A majority (57%) of all parents have money set aside as general savings, while approximately 42% do not have money saved at all. The prevalence of savings is related to income, and the percentage of parents with savings is much smaller for those within lower-income households. Among parents in households earning $50,000 or less per year, just 36% report that they have some money set aside as savings. In comparison, in households earning $50,000 or more per year, 78% have savings.

Of parents with savings, 87% have money set aside for emergencies or a rainy day, 83% have savings for retirement, and 75% have money saved for their children's education. It is important to note that for this question, "children's education" was defined broadly. Parents could be saving for educational expenses during their children's early years (such as private elementary or secondary schooling, tutoring, or test preparation), and/or for college expenses. Less prevalent savings goals include vacations or other special purposes (51%) and future home purchases (18%).

Figure 2: Prevalence of Savings Varies by Income Category

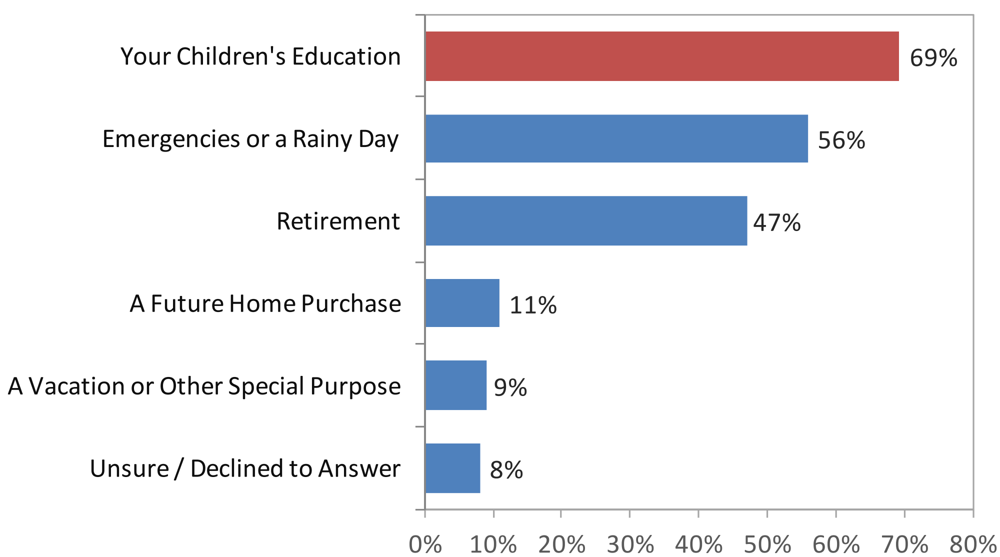


Source: EARN National Parent College Savings Survey, N=1,001.

Across all income categories, parents prioritize saving for their children's education.

When asked about their top two savings priorities, 69% of parents across all income levels report that saving for their child's education is either their first or second priority. This is striking because, in general, the survey findings indicate that parents' other priorities for saving tend to differ with income. For example, of higher-income parents, a larger proportion prioritizes saving for retirement, whereas a greater proportion of lower-income parents prioritizes saving for emergencies. Yet, regardless of whether parents are earning more than $50,000 per year or less, they consistently prioritize saving for education. That is to say, approximately 69% of all parents across income groups place saving for education as one of their top two priorities. This shows that saving for their children's education has a high degree of universal appeal for parents across income groups, which is not the case for other savings goals. The attractiveness of this goal also held steady across varying levels of parents' educational attainment. For the full sample of parents, the second most common savings priority is saving for emergencies or a rainy day (56%), with retirement savings as the third most common priority (47%).[2]

Figure 3: Parents Prioritize Saving for Their Children's Education More Than Other Goals



Source: EARN National Parent College Savings Survey, N=1,001.
Note: Responses for this question sum to 200%, since parents were asked about both their 1st and 2nd priorities for saving.

Of all parents, a narrow majority is saving for their children's education after high school.

When it comes to saving for their children's education beyond high school, 53% of parents have started saving. Consistent with the findings for savings in general, the prevalence of savings for higher education is connected

[2] The responses for this question sum to 200%, since parents were asked about both their 1st and 2nd priorities for saving.

to income: 40% of parents in households with incomes of $50,000 or below have started saving for college, compared with 67% of parents in households that earn more than $50,000. Still, even within households with higher incomes, one-third of parents are not saving for their children's education.

Across all income categories, parents with two or three children have the highest prevalence of college savings (55%), in comparison to parents of one child (51%) or four or more children (48%).[3] Regardless of income, fewer Latino parents have savings for college (42%), when compared with African-Americans (51%) and whites (57%). The prevalence of college savings is also related to the parents' levels of educational attainment: approximately 35% of parents with a high school education or less have begun to save, compared with 47% of parents who attended some college but did not receive a degree, and 68% of parents who have college degrees. These data points suggest that, if a child's parents are either lower-income or did not go to college, the child will be at a disadvantage when it comes to having savings for higher education.

Among parents who are saving for their children's education after high school, most parents have moderate amounts saved. Nearly half of all parents (46%) have between $1,001 and $10,000 saved. Some 17% of parents have saved more than $20,000 for their children's higher education.[4] In households with incomes of $50,000 or less per year that have begun to save, 57% have saved $5,000 or less for their children's education, but a substantial 34% report having more than $5,000 set aside as savings. This indicates that some families, though they may have lower incomes, are able to reach larger savings goals.

Figure 4: Dollar Values Saved by Parents for Their Children's Higher Education

Source: EARN National Parent College Savings Survey, N=531 (Parents saving for higher education).

[3] Due to margin of error, the differences between parents of one child and the other categories may not be statistically significant.

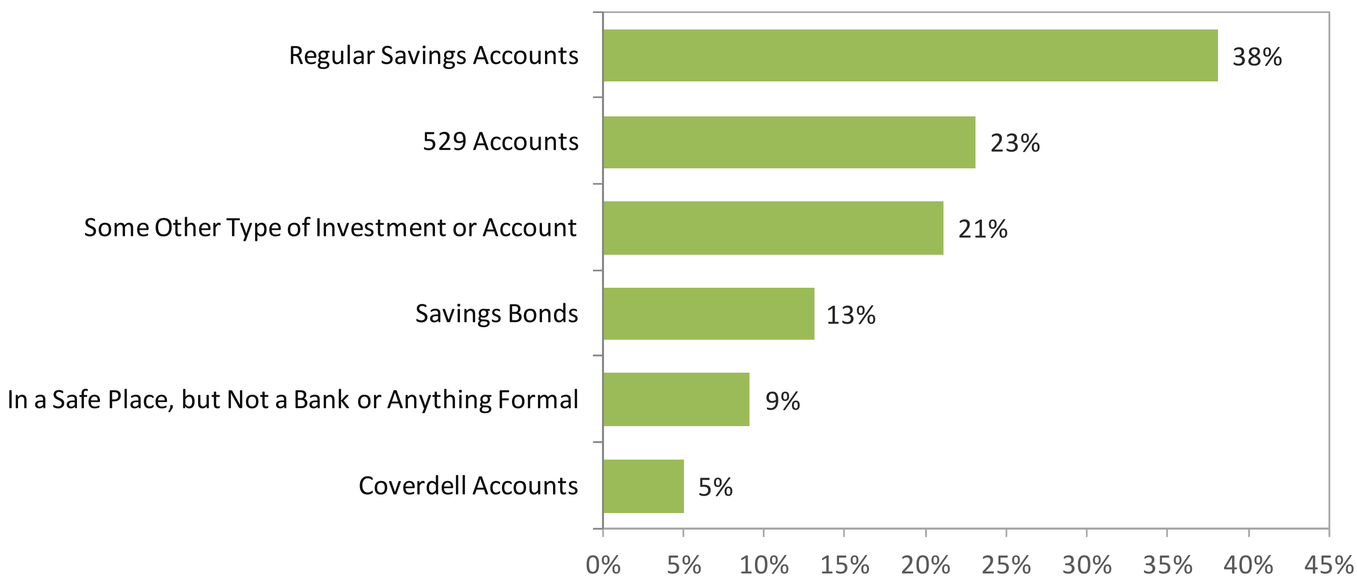
[4] It is worth noting that 12% of survey respondents declined to answer this question, in contrast with the rest of the survey, in which parents generally responded openly. The parents who declined to state were evenly distributed across income categories.

Parents use a wide variety of accounts to save.

Of all parents, 89% report that their households use checking or savings accounts, including 79% of households earning $50,000 or less per year. Just 20% of parents report using non-bank financial services in the past 12 months, such as non-bank money orders, check-cashing services, payday lenders, or pawn shops. The use of such services is more prevalent as income decreases.[5] However, in general, these data points indicate that most parents in the US are familiar with and are utilizing mainstream financial products.

Among the 53% of parents who are already saving for their children's higher education, parents use a wide variety of mechanisms to save. A regular savings account is the most common savings vehicle, with 38% of college-saving parents reporting their use for higher education specifically. Also popular are 529 accounts (23%) and savings bonds (13%). Some 9% of parents say they put their savings "in a safe place, but not a bank or anything formal" and 5% of parents use Coverdell accounts.[6]

Figure 5: Among Parents Saving for Higher Education, Regular Savings Accounts Are the Most Popular Vehicle



Source: EARN National Parent College Savings Survey, N=531 (Parents saving for higher education).
Note: Parents were allowed to select multiple options if they are saving in more than one place.

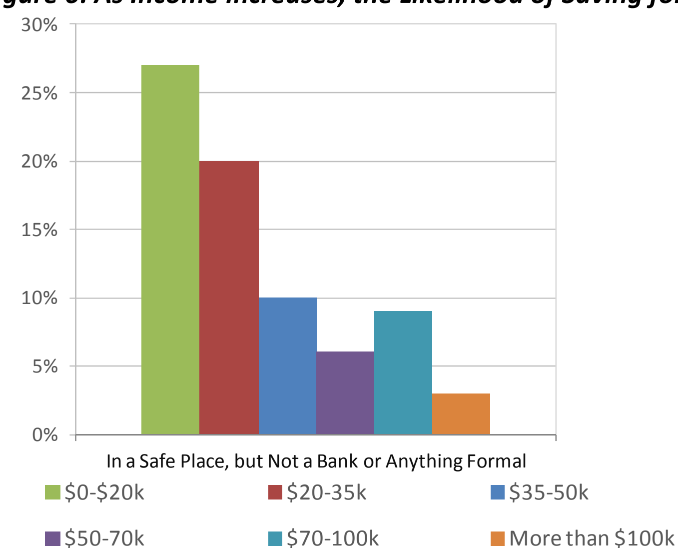
[5] Nearly half (48%) of all households earning less than $20,000 per year had used such services, and the prevalence steadily decreases across income categories, reaching 10% of households earning more than $70,000 annually. For this question, 12% declined to answer, and these respondents were spread fairly evenly across income categories.

[6] For this question, parents were able to select multiple answers, since some parents save in multiple places. Consequently, the numbers add to more than 100%.

In addition, 21% of parents state that they use some other type of account or investment to save for higher education. These parents were given the opportunity to specify the type of account or investment they are using. Other common places to save, listed from most to least commonly reported, include mutual funds, stocks, IRAs, state-run college savings programs, certificates of deposit, veterans' benefits programs, money market accounts, 401(k) accounts, property investments, and trust funds. This broad range shows that parents are saving in a wide variety of places and within accounts that have a variety of features.

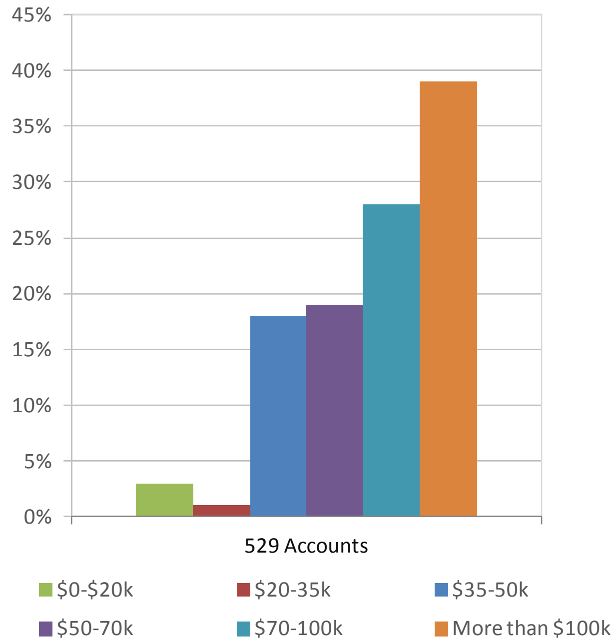
There is a relationship between income and where parents put their savings. College-saving parents from households with $20,000 or less in annual income tend to save informally for their children's education: "in a safe place, but not a bank or anything formal" (27%). They also report using savings accounts for college (26%). Of college-saving parents in households earning $20,001 to $50,000 per year, nearly half use regular savings accounts. This percentage dips slightly as income rises, but stays strong at 44% of parents in households earning $50,001 to $70,000, 29% of parents in households earning $70,001 to $100,000, and 36% for parents in households earning more than $100,000. For college-saving parents in households earning $35,001 to $70,000 annually, nearly 20% use 529 accounts, and the percentage increases as income increases, reaching nearly 40% among parents in households earning more than $100,000 a year. Parents with lower incomes do not participate in 529 accounts as often, which could be due limited outreach to low- and moderate-income parents, or due to the 529 accounts' features. Although usage of 529 accounts increases with income, regular savings accounts are still used very frequently for children's education across all income levels. Strikingly, even among parents in the highest income category, more than one-third save for their children's education in regular savings accounts.

Figure 6: As Income Increases, the Likelihood of Saving for College Informally Decreases



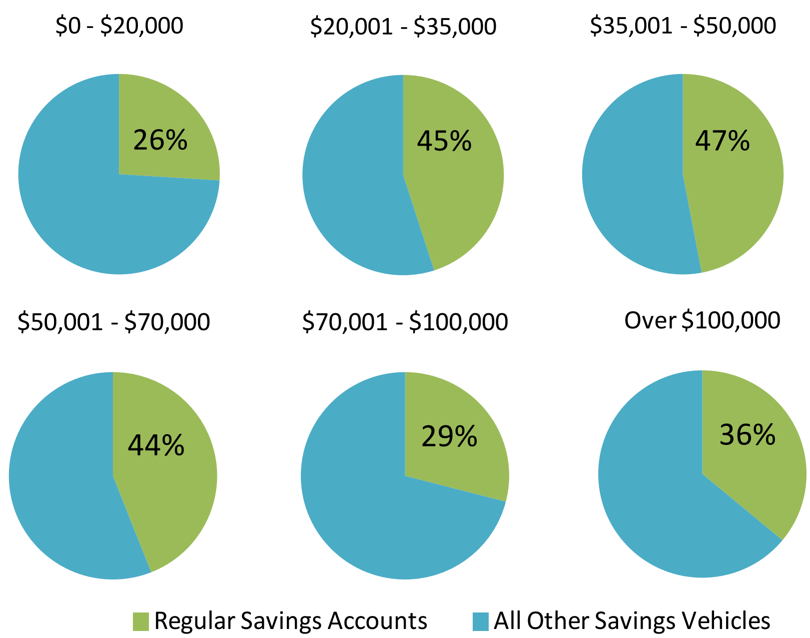
Source: EARN National Parent College Savings Survey, N=531 (Parents saving for higher education).
Note: Percentages represent the number of parents in each income category who save using this particular savings vehicle relative to the total number of parents in that income category, not the percentage of parents saving in this vehicle broken down by income category.

Figure 7: As Income Increases, the Likelihood of Saving for College in a 529 Account Increases



Source: EARN National Parent College Savings Survey, N=531 (Parents saving for higher education).
Note: Percentages represent the number of parents in each income category who save using this particular savings vehicle relative to the total number of parents in that income category, not the percentage of parents saving in this vehicle broken down by income category.

Figure 8: Across All Income Categories, Regular Savings Accounts Are Popular for Higher Education Savings



Source: EARN National Parent College Savings Survey, N=531 (Parents saving for higher education).

Many parents do not have money left over after covering basic expenses.

Related to the conclusions above, another interesting finding is that many parents struggle to live within their means. Approximately 36% of parents surveyed either do not have enough money to cover their basic expenses or just barely cover expenses every month.[7] Of all parents, 21% report having one or more unemployed members of their households. Parents who say they have money left over for extras comprise 62% of survey respondents.[8] When broken down by income, 17% of families earning more than $50,000 per year do not have money left over for extras, compared with 57% of families earning $50,000 or less. Thus, lower-income parents have a harder time covering basic expenses and often do not have money left over for extra spending or saving. Yet even among higher-income households, a significant proportion of families struggle to keep their expenses within their means, which may affect their ability to save.

B. Barriers to Parents' Savings for Their Children's College Education

Although parents believe higher education is very important, they face obstacles when striving to save for their children's college education expenses. Our survey discovered two main barriers. First, parents who are not currently saving report that they face competing financial priorities and a lack of financial resources. Second, all parents confront an additional hurdle: there is no type of account that currently addresses parents' specific needs and preferences when saving for their children's higher education.

Parents who do not save for their children's higher education report a wide variety of hurdles that keep them from saving, most often reporting competing priorities and a lack of financial resources.

Though parents overwhelmingly want to save for their children's higher education, just 53% have actually started to save. The EARN Research Institute sought to uncover why the remaining 46% of parents currently are not saving for their children's higher education. Among non-saving parents, the survey tested a variety of possible hurdles to saving. For each potential hurdle, parents were asked if it is a major factor, a minor factor, or not a factor in preventing them from saving for their children's education beyond high school.

Of parents who do not have savings, the most common reasons that parents have not started to save are "limited financial resources" and "other financial priorities." The former is a major or minor factor preventing saving for 91% of parents, while the latter is a major or minor factor preventing saving for 87% of parents.

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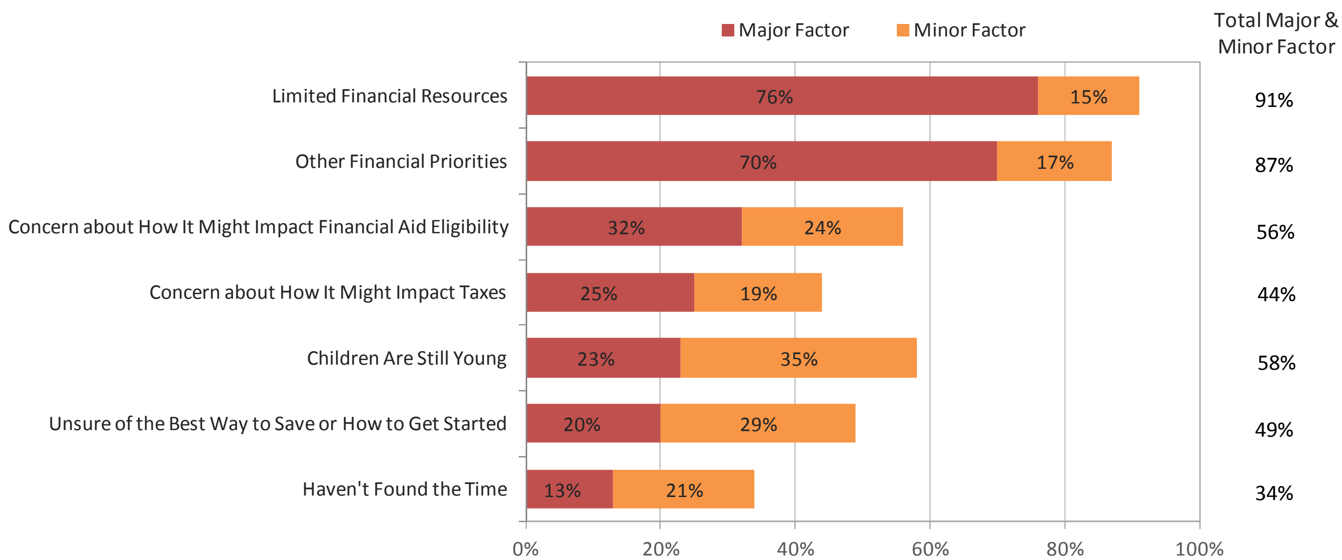
[7] Parents who cannot cover basic expenses account for 13% of all parents, and those who just barely cover expenses every month amount to 23% of all parents surveyed.

[8] This includes parents who say they have a little left over for other things (35% of all parents) and parents who report that they have money left over for extras (27% of all parents).

The survey also asked about other reasons, which are less common but still prevalent, including the following: "concern about how saving might impact financial aid" (56%); "concern about how saving might affect taxes" (44%); and "uncertainty about how to save" (49%). These hurdles indicate that some parents do not save because of a lack of information. In addition, 58% of parents say the fact that their children are still young is a factor, while 34% say they haven't found the time to save.

Figure 9: The Most Commonly Cited Reasons for Not Saving Include Limited Resources and Other Priorities



Source: EARN National Parent College Savings Survey, N=470 (Parents not saving for higher education).

In addition to the specific hurdles tested above, the survey also gave parents the opportunity to identify another concern of their choosing that prevents them from saving. This component of the survey increases the likelihood that the survey instrument is capturing all of the major concerns that parents have about saving. When parents were asked whether they were prevented from saving by some other concern that was not previously mentioned, 18% of parents said there were other factors. When asked to specify those other factors, the vast majority of parents' statements were extrapolations of concerns that had already been discussed. For example, parents spoke about high medical expenses and schooling costs, which are similar thematically to "limited financial resources" and "other financial priorities." These findings indicate that while there are various hurdles that prevent parents from saving, the two largest hurdles pertain to the availability and distribution of household financial resources.

Parents express clear preferences about account features when saving for their children's education, and mainstream accounts do not currently suit parents' needs and preferences.

The EARN Research Institute sought to learn which account features are appealing or unappealing to parents when saving for their children's higher education. We asked these questions to guide the development of accounts that are optimally designed to encourage higher education savings. With 66% of parents currently saving for their children's higher education using regular savings accounts, 529 accounts, or Coverdell accounts, we were most interested in the features that are commonly available within these three savings vehicles.[9] The major features of these accounts are detailed below.

Regular savings accounts typically include the following features:

- Low risk and low rate of return:
  - Deposits into the accounts are guaranteed not to lose value.
  - Accounts offer very low interest rates, typically well below the rate of inflation.[10]
- Highly accessible:
  - There are low or no minimum account balances.
  - Deposits can be made in person or online.
  - Parents of multiple children have the flexibility to save money for all of their children in one account, or they can set up an individual account for each child if they wish.
- Flexible withdrawals:
  - Money deposited into the account can be withdrawn for any purpose.

On the other hand, tax-advantaged savings vehicles such as 529 and Coverdell accounts share a different set of common features. The precise terms of these accounts differ across states and by provider, and may change over time. At present, common features of these accounts often include:

- Higher risk and unknown rate of return:
  - These are investment accounts, meaning that amounts invested can gain or lose value, depending on the parents' investment choices and how those investments perform in the

[9] Many of the same features in these accounts are also available in Children's Savings Accounts (CSAs), which are innovative accounts that are designed to help families save for their children's futures. CSAs are not as widely available or utilized in the mainstream marketplace in comparison to savings, 529, and Coverdell accounts.

[10] According to the Federal Deposit Insurance Corporation, as of October 1, 2012, savings accounts nationwide earn an average rate of 0.08. More information can be found at: http://www.fdic.gov/regulations/resources/rates/index.html

marketplace. Thus, parents' rates of return are unknown at the time of deposit, but can be higher or lower than the rate of inflation, depending on investment choices.[11]
    - Earnings accumulate tax-free, and approved withdrawals are also not taxed, which contributes to the overall rate of return for the accounts.

- Less accessible:
    - Many accounts require minimum account balances, often as high as $2,000.
    - The accounts typically only allow enrollment and deposits to be completed online.
    - Parents with multiple children must create one account for each child and cannot save for all of their children in one account.
- Restricted withdrawals:
    - For 529 accounts, withdrawals are restricted, and money deposited can only be used on certain expenditures that are related to higher education.
    - Coverdell accounts also have withdrawal restrictions, but allowable uses include costs associated with primary and secondary education, as well as college expenses.

The survey asked all parents whether certain account features would increase or decrease the likelihood that they would put savings into an account with such a feature. To ensure that the survey was of reasonable length and to prevent bias, we used a split sample approach when measuring the appeal of these features.[12] As described below, parents expressed clear preferences about account features across three main themes: 1) risk and rate of return; 2) accessibility; and 3) use of funds.

1. *Risk and Rate of Return*

In general, parents prefer low-risk accounts. The feature that parents found most attractive of all features tested is "deposits are guaranteed not to lose value," with 79% of parents saying they are more likely to use an account if it has this feature. This includes 59% of all parents who say they are "much more likely" to use an account with this feature, indicating that it is highly popular among parents.[13] The converse was also true: "deposits will be

[11] The EARN Research Institute sought to find studies showing the average rate of return for current 529 plans; however, such research was not readily available.

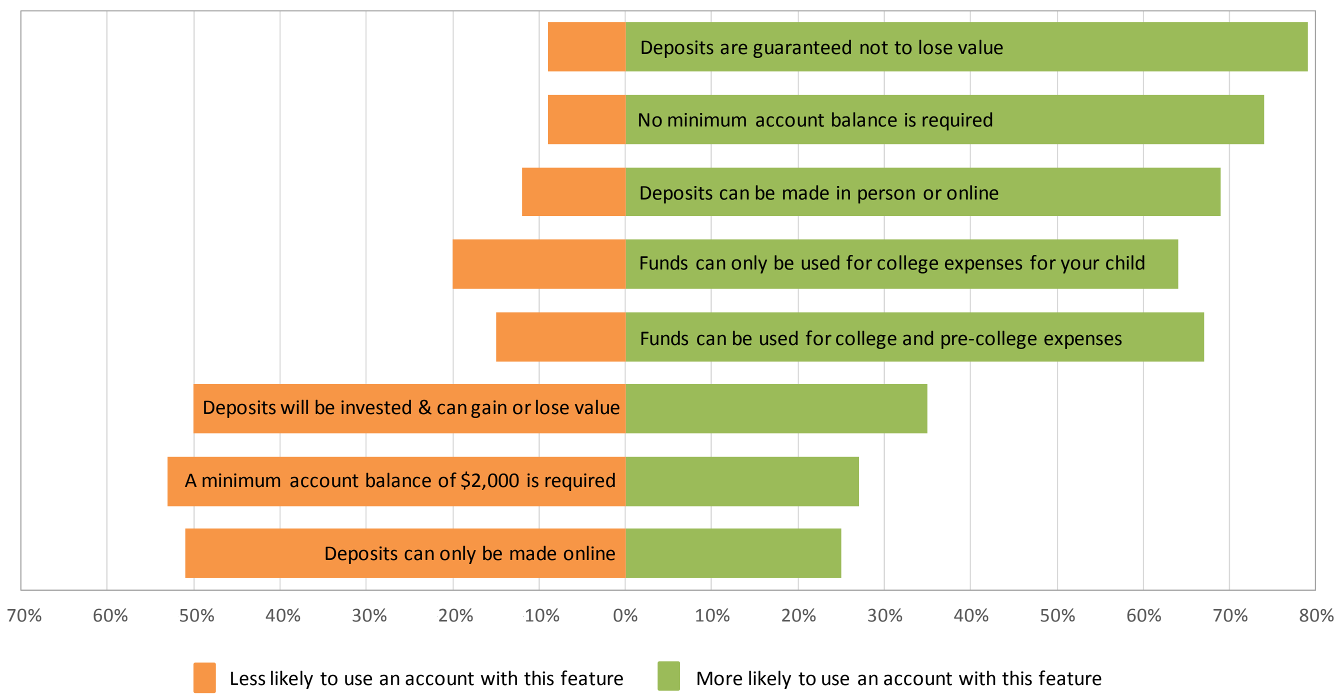
[12] A split sample methodology means that half of all parents surveyed were asked about the appeal of several withdrawal restrictions, while the other half of parents were asked about different and distinct withdrawal restrictions. To minimize the potential for bias, parents were not asked about similar or related account features, and instead were asked about features that are thematically distinct from one another. Please note that the margin of error for these questions is +/- 4.4%.

[13] For these data points, it should be noted that parents had the option of saying whether an account feature would make them more likely or less likely to use an account with such a feature, but they could also say that it would not make a difference. Thus, if 79% of parents say they are more likely to use an account where their deposits are guaranteed not to lose value, it does not mean that the remaining 21% of parents are less likely, since some parents are neutral about the availability of such a feature.

invested and can increase or decline in value" is among the least attractive features. Approximately 50% of parents would be less likely to use an account if deposits can gain or lose in value. Interestingly, there are no statistically significant differences for these measures for families earning more or less than $50,000 annually, and no clear trends appear across income categories, indicating that these preferences hold regardless of household income.

This research indicates that the risk associated with 529 and Coverdell accounts is too high for many parents. The popularity of regular savings accounts is thus no surprise, as savings accounts are very low-risk and are generally insured by the government against losses. However, the interest rates earned on these accounts are so low that they do not keep pace with inflation. This is another type of risk that is likely to harm parents' efforts to save for their children's education after high school. Since parents might not withdraw the dollars they have saved for many years, families are likely to find that their money is less valuable when their child goes to college than it was when they made the deposits. This risk is particularly immediate for parents who have already begun to save, as their dollars could be losing value relative to inflation with each passing year.

Figure 10: Parents Show Clear Preferences for Account Features



Source: EARN National Parent College Savings Survey, N=1,001.

2. *Accessibility*

Parents prefer flexible account features that offer a high degree of accessibility when it comes to balance minimums and deposit methods. Of all features tested, the second most attractive is "no minimum account balance is required." Nearly three-quarters of all parents (74%) said they would be more likely to use an account with this feature. Of all parents, 54% say they are "much more likely," indicating this feature is very popular. Similarly, 53% of parents say that a required minimum account balance of $2,000 would make them less likely to use an account.

Parents with multiple children express diverse preferences about how they approach saving for their children, specifically regarding the number of accounts into which they save. For parents who have more than one child, 51% prefer to save in individual accounts for each child, while 34% prefer one account in which they can save for all of their children.[14] A parent who prefers to save in an individual account for each child and who uses accounts with minimum account balances would then need to meet the minimum balance for each account. Across income categories, there is no statistically significant difference in preference for individual or combined savings.

In addition, 69% of parents would be more likely to use an account that provides the option of making deposits in person or online, while 51% of parents would be less likely to use an account in which "deposits can only be made online." For these measures, it is worth noting that parent preferences hold fairly steady across incomes. There are no noteworthy differences between households earning more or less than $50,000 per year.

Key features often found with 529 and Coverdell accounts – for example, minimum account balances and online-only deposits – are not well-suited to a majority of parents. However, regular savings accounts have the flexible features regarding accessibility that a majority of parents prefer. For parents with multiple children, individual 529 and Coverdell accounts work well for a slight majority of parents, while regular savings accounts can be utilized by parents with multiple children who wish to save in combined or individual accounts.

3. *Use of Funds*

The research indicates that a substantial majority of parents is comfortable having withdrawal restrictions on their deposits. We tested two similar features in the split sample. One tested feature is "deposits can only be withdrawn and used for expenses related to your child's college education." The other tested feature includes these same college expenses, but also allows for withdrawals for educational enrichment before college to prepare children to be more competitive as college applicants. Regardless of how these features are structured, parents find withdrawal restrictions appealing. Approximately 64% of parents in one split sample group say they are more likely to use an account where deposits can only be used for college expenses. In the other split-sample group, 67% of parents are more likely to use an account where deposits can only be used for college

[14] Approximately 13% of parents of multiple children say that they have no preference about saving in separate individual accounts for each child or in one account for all of their children.

expenses or for educational enrichment before college. Given the margin of error, there is no statistically significant difference between the attractiveness of these two features, showing clearly that parents are comfortable with restrictions either way.

Parents across income categories express very similar preferences, although parents earning $50,000 per year or less are slightly more likely to prefer either definition of withdrawal restrictions that we posed within the survey. However, the real difference is estimated at just 1-2% between higher-income and lower-income parents, which is a minimal degree of difference.

Thus, the withdrawal restrictions offered by currently available investment-type accounts, such as 529 and Coverdell accounts, are appealing to parents. Regular savings accounts do not offer these types of withdrawal restrictions.

IV. LOOKING AHEAD: DESIGNING ACCOUNTS OPTIMALLY FOR HIGHER EDUCATION

The survey results indicate that current mainstream accounts for college savings, including 529, Coverdell, and regular savings accounts, are not meeting the needs and preferences of parents across three key areas: risk and rate of return; accessibility; and use of funds. While regular savings accounts and tax-advantaged accounts each provide *some* of the features parents seek when they want to save for their children's higher education, these accounts do not simultaneously provide *all* of the features that parents find appealing. Parents who wish to save must choose among accounts that are not truly optimal for their needs.

Taken together, parents' strong interest in saving for their children's education and their clear account preferences provide a path forward. The EARN Research Institute's survey results point to a set of improvements that would increase parents' ability to save effectively for their children's higher education.

The survey indicates that the ideal account would be low-risk and protected against losses. It would have withdrawal restrictions to ensure that the funds are used for children's education. The ideal account also would be very accessible, with no or low minimum balance requirements, and would be flexible enough to allow parents to save for all their children in one account, or for each of their children in individual accounts, depending on preference. Ideally, at least in the short term, the account should include the option of making deposits in person or online.[15]

This brings us to an important question: how could accounts for college savings provide a higher rate of return than regular savings accounts, without requiring parents to accept higher levels of risk? We believe that one answer is the use of withdrawal restrictions. Parents are comfortable with them, and financial institutions may be willing to offer a higher rate of return – one that would ideally keep pace with inflation at a minimum –

[15] If consumer comfort with online banking increases in the coming years, this may be less of a concern.

because withdrawal restrictions make it likely that the funds will remain within the accounts for longer periods of time. Since parents may begin to save while their children are quite young, in many instances, parents' deposits will stay with the financial institution for many years.[16]

Yet increasing the rate of return on parents' deposits may not be sufficient to overcome the barriers to saving that parents are facing. Although a vast majority of parents want to save for college, nearly half are unable to do so because they are struggling with competing financial priorities and limited financial resources. Based on this research and EARN's decade of experience providing matched savings accounts, we recommend incentives as an important element of the ideal account to encourage parents to save. Well-designed incentives could effectively encourage parents across all income categories to establish a savings habit for this important goal.

There are many possible ways to bring this concept of savings incentives to the marketplace. The government could provide matching funds and/or tax incentives for these accounts, viewing them as an investment in our nation's collective future. Employers could provide savings matches as an employee benefit, which could be structured similarly to the matches that some employers provide for 401(k) accounts. Private foundations and other charitable groups could seek out matched savings programs for this important purpose.

All in all, the results of the EARN Research Institute's study paint a picture of today's missed opportunities coupled with tremendous future potential – for parents who want to save for their children's futures, for children who otherwise might not be able to afford college or who might end up with educational debt that their post-college incomes cannot support, and also for financial institutions that are not currently meeting this market's needs.

Creating accounts with these improved features would help make higher education a reality for millions of families like those in this survey. These families come from all corners of the country, from all income groups, and from diverse racial, ethnic, and educational backgrounds. The benefits would go far beyond the impacts on the parents and children themselves, because a well-educated population is a key component of ensuring that our nation's workforce can meet the competitive demands of the global economy. By bringing these recommendations from the research sphere into the financial mainstream, we can offer all parents a true solution to save for higher education for the next generation.

[16] Some parents may need to withdraw their funds early in the event of an emergency. Withdrawal rules should be made available to parents in advance, and emergency withdrawals should be made possible with minimal penalties.

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ABOUT EARN

EARN, the nation's leading provider of microsavings, is an award-winning California non-profit that gives low-income workers the power to create economic prosperity for generations to come. Since 2001, EARN has helped tens of thousands of low-wage families through innovative financial products including matched savings accounts, checking accounts for the unbanked, and financial coaching. EARN's powerful combination of lasting assets and financial know-how enables families to build wealth and achieve life-changing goals such as saving for college, purchasing first homes, or starting small businesses.

The EARN Research Institute evaluates the impact of EARN's work and publishes original data, sharing lessons learned and best practices. EARN uses this unique grounding in rigorous research and direct service experience to transform the financial services landscape and to champion effective public policies. EARN's ultimate vision is that millions of well-informed, low-income families will achieve financial success through proven strategies, fair public policy, and their own hard work.

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