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## Aspiring Scholars Matching Grant Program: A Successful First Year

The Aspiring Scholars Matching Grant program was authorized by the Arkansas Legislature under Act 597 of 2007. The primary purpose of the program is to provide an incentive, in the form of a savings match, for low- and moderate-income families to save for their children's college education using the GIFT College Investment Plan (the Arkansas 529 college savings plan).<sup>1</sup>

The first year of Aspiring Scholars has been a resounding success. In 2008, 469 participants received an average matching grant of \$422, using a total of \$198,585 in available state matching grant funds. This brief provides an overview of the GIFT Plan and the Aspiring Scholars program, and outcomes data for the first year of Aspiring Scholars operation.

### Benefits and Requirements of GIFT Plan Accounts

The GIFT Plan is a low-cost 529 investment plan, sponsored by the state of Arkansas, specifically designed to help families save for future higher education expenses. Every state has a 529 plan, which are named after the Internal Revenue Service code number which authorizes such plans. The 529 plan accounts allow for federal tax-deferred growth as well as federal and state tax-free qualified withdrawals of savings for college expenses. Also, there is an Arkansas state tax deduction for savings in a GIFT Plan account.

An individual can deduct up to \$5,000 and a married couple can deduct up to \$10,000 from their adjusted gross income.

There is a minimum \$25 initial deposit to open an account and a minimum \$10 monthly contribution.

More information about the GIFT Plan is available at: [www.thegiftplan.com](http://www.thegiftplan.com).

### Aspiring Scholars: The Program

The Aspiring Scholars Matching Grant program is a two-year pilot program to encourage low- and moderate-income families to use the GIFT Plan. The program provides an incentive in the form of a savings match to encourage and enable more low- and moderate-income families to save for their children's future college expenses using the GIFT Plan. The savings match incentive matches the savings families are able to achieve on their own, thus making GIFT Plan participation more attractive and worthwhile as a savings tool for families with limited ability to save.

To start the program, \$250,000 in state funds were allocated for calendar years 2007 and 2008. These funds came from a surplus in the management fees collected by the state from all GIFT Plan accounts.

The maximum matching grant amount is \$500 per participant per year for up to five years (a total of \$2,500 in match money).

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<sup>1</sup> "A 529 Plan is an education savings plan operated by a state or educational institution designed to help families save for future college costs. It is named after Section 529 of the Internal Revenue Code which created these types of savings plans in 1996."  
[www.savingsforcollege.com](http://www.savingsforcollege.com)

The chart below illustrates the various match rates, which are determined by participant household income:

**Savings match rates**

Household Adjusted Gross Income	Match Rate	Household Annual Contribution for Maximum Match	Maximum Annual Matching Grant
\$0 to \$30,000	\$2 for each \$1 contributed	\$250	\$500
\$30,001 to \$60,000	\$1 for each \$1 contributed	\$500	\$500

The following are requirements to qualify for the Aspiring Scholars Matching Grant program:

- The designated beneficiary may not be older than 18 years of age when the first matching grant application is received.
- The account owner and the designated beneficiary must both be Arkansas residents.
- The account owner and the designated beneficiary must both be U.S. citizens or permanent resident aliens.
- The account owner must have a GIFT Plan account.
- The account owner must meet the household income requirements. (Income is verified through Arkansas state tax returns.)

More information about the Aspiring Scholars Matching Grant Program is available at: [www.thegiftplan.com](http://www.thegiftplan.com).

**Year One Results**

**Increasing Low-Income Family Participation**

During 2008, 471 participants enrolled in the Aspiring Scholars program. Of those, 112 participants were already enrolled in the GIFT Plan the prior year and 359 were new GIFT Plan participants enrolled in 2008. Again, to

enroll in Aspiring Scholars one has to have a GIFT Plan account.

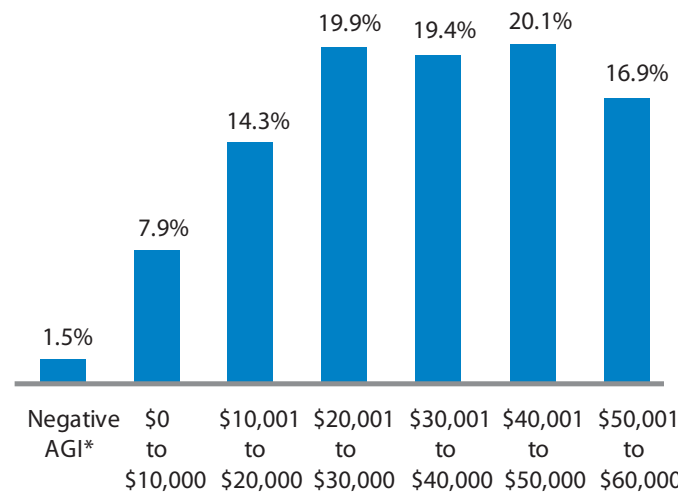
Assuming that the 112 participants who were already enrolled in the GIFT Plan the previous year represent all the GIFT Plan accounts that were eligible for Aspiring Scholars that year, there was well over a 300 percent increase in GIFT Plan participation among low- and moderate-income families in 2008 as a result of Aspiring Scholars.<sup>2</sup> The primary goal of Aspiring Scholars is to increase participation in the Gift Plan among this target population.

A total of \$241,740 in state matching grant funds were dispersed to 469 Aspiring Scholars participants in both retroactive 2007 grants and 2008 grants. In 2008, \$198,585 was awarded for matching grants, and \$43,155 was awarded in 2007 for eligible participants already enrolled in the GIFT Plan that year. Only 2 of the 471 individual enrolled in Aspiring Scholars dropped out of the program.

There was a wide range of household incomes among Aspiring Scholars account owners, which demonstrates that families of different income levels were able to benefit from this program.

**Income distribution of Aspiring Scholars accounts**

*Percent of accounts in household adjusted gross income range*



\*Negative adjusted gross income is a result of an adjusted gross deficit reported on a tax return.

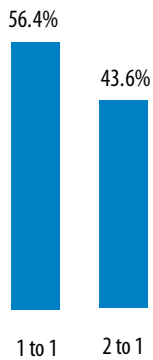
Source: Analysis of data provided by the Arkansas State Treasurer's Office.

<sup>2</sup> The GIFT Plan does not collect data on account-owner income unless the account is part of the Aspiring Scholars program. Therefore, data is not available on the eligibility of accounts that made contributions in 2007 that did not apply for Aspiring Scholars.

There were as many participants with household incomes of \$20,001 to \$30,000 as there were participants with household incomes between \$30,001 to \$40,000 and \$40,001 to \$50,000. Nearly the same numbers of participants were enrolled in Aspiring Scholars with household incomes between \$10,001 and \$20,000 and \$50,001 and \$60,000.

Again, account owners who had household incomes below \$30,000 were eligible for \$2 in match funding for every \$1 saved. Account owners with household incomes between \$30,001 and \$60,000 were eligible for \$1 in match funding for every \$1 saved.

**Match eligibility for Aspiring Scholar accounts, 2008**



Source: Analysis of data provided by the Arkansas State Treasurer's Office.

Fifty-six percent of accounts received a 1-to-1 match rate, while 44 percent of accounts received the 2-to-1 match rate.

Families that had a GIFT Plan account and made savings contributions during 2007 were eligible for retroactive matching grants. There were 112 accounts open during 2007 that met the requirements for Aspiring Scholars.

For those accounts that qualified for 2007 retroactive matching grants, 34 percent

received the 2-to-1 match rate and 66 percent received the 1-to-1 match rate.

Thus from 2007 to 2008, there was a 10 percent increase (34 percent to 44 percent) in the proportion of accounts that qualified for the 2-to-1 match rate. Accountholders at this match rate are the lowest-income accountholders participating in Aspiring Scholars.

**Savings Rate of Low-Income Families**

In addition to increasing participation in the GIFT Plan among lower-income households, another key objective of the Aspiring Scholars program is to increase the savings rate of these households. On this measure, the outcomes are less pronounced but still encouraging.

Almost all (99 percent) Aspiring Scholars participants saved something in their GIFT Plan accounts while only six participants saved nothing during 2008, therefore receiving no matching grant.

Comparing the savings rates of Aspiring Scholars awardees for 2007, before savings match incentives had been announced, and the savings rate of awardees in 2008, after the incentives had been announced, provides one way to measure this outcome.

As the charts below indicate, 87 percent of awardees who were eligible for the 2-to-1 match for 2007 reached the \$250 maximum level of savings required to receive the full \$500 matching grant. A smaller percentage (78 percent) of awardees for 2008 reached the same level of savings. However, the average savings amount for these awardees remained steady between 2007 and 2008. The average savings rate for 2007 awardees was \$230, and for 2008 awardees it was \$226. Even though the percent of awardees making the maximum savings contribution required to receive the full \$500 matching grant decreased, the percentage of awardees making contributions between 50 and 99 percent of the maximum savings contribution required increased.

Although the average savings rate did not increase, it is important to consider that there were almost three times as many awardees in 2008. To maintain a similar savings rate among that many more participants is very encouraging.

**Percentage of awardees reaching the maximum level of savings with a 2-to-1 match**

Year	Match Rate	Percent of Contribution Toward the Maximum Match	Percent of Accounts
2007	\$2 for each \$1 contributed	0%	0%
		1 to 49%	13.2%
		50 to 99%	0%
		100%	86.8%
2008	\$2 for each \$1 contributed	0%	0.5%
		1 to 49%	7.3%
		50 to 99%	14.5%
		100%	77.7%

Source: Analysis of data provided by the Arkansas State Treasurer's Office.

The percentage of awardees at the 1-to-1 match rate reaching the maximum level of savings required to receive a full \$500 matching grant increased between 2007 and 2008.

Of 2007 awardees, approximately 62 percent of accounts eligible for a 1-to-1 match reached the \$500 maximum savings necessary to receive the full \$500 matching grant. Among 2008 awardees, 66 percent achieved the same level of savings. As with the savers receiving the 2-to-1 match rate, the average savings for participants receiving the 1-to-1 match rate also held steady. The average savings rate for 2007 awardees was \$398, and for 2008 awardees it was \$400.

**Percentage of awardees reaching the maximum level of savings with a 1-to-1 match**

Year	Match Rate	Percent of Contribution Toward the Maximum Match	Percent of Accounts
2007	\$1 for each \$1 contributed	0%	0%
		1 to 49%	17.6%
		50 to 99%	20.3%
		100%	62.1%
2008	\$1 for each \$1 contributed	0%	1.9%
		1 to 49%	20.2%
		50 to 99%	11.5%
		100%	66.4%

Source: Analysis of data provided by the Arkansas State Treasurer's Office.

Another way to measure the impact on the savings rates of Aspiring Scholars participating households is to examine the savings rate of only the 112 households awarded Aspiring Scholars matching grants for 2007 and 2008. These households were not aware of the matching grant in 2007, so this comparison provides a clearer look at how the introduction of the matching grant changed their savings behavior. When measured this way, the impact on the savings rate of Aspiring Scholars participants is more pronounced.

**Savings rate of Aspiring Scholars participants**

Match Rate	Savings Difference Between 2007 and 2008	Percent of Accounts
\$2 for each \$1 contributed	Increase	10.5%
	Decrease	5.3%
	Same	84.2%
\$1 for each \$1 contributed	Increase	29.7%
	Decrease	12.2%
	Same	58.1%

Source: Analysis of data provided by the Arkansas State Treasurer's Office.

The majority of account holders either maintained or increased their savings rate between 2007 and 2008. Around 10 percent of awardees receiving the 2-to-1 match rate had an increase in the amount they saved (with an average increase of \$133) from 2007 to 2008 while over 84 percent maintained the same savings level.

Almost 30 percent of awardees receiving the 1-to-1 match increased their savings rate (with an average increase of \$235) from 2007 to 2008. At the same time, 58 percent of awardees receiving this match rate maintained the same level of savings from one year to the next.

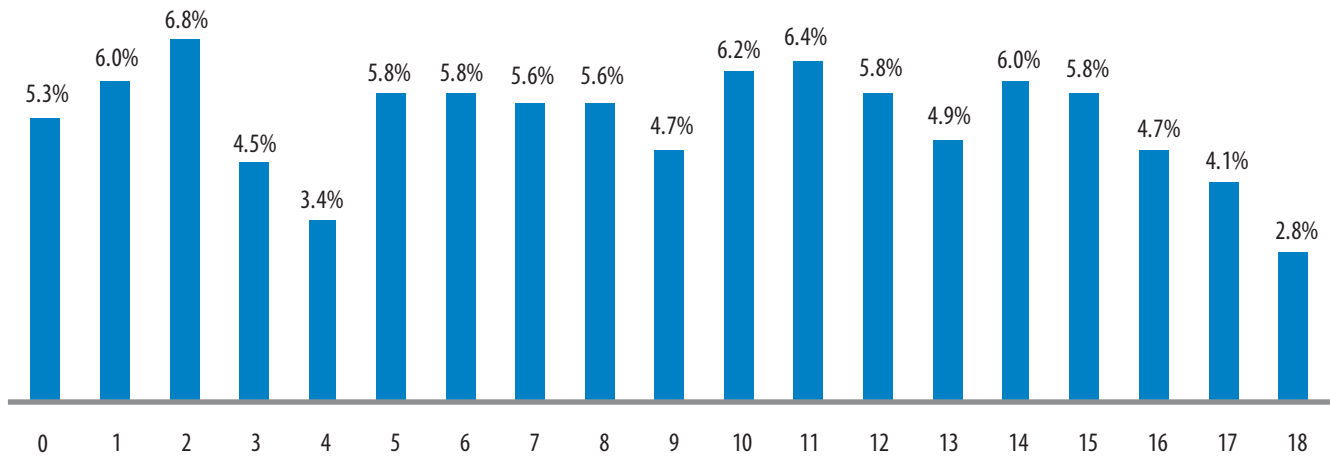
**Potential College Savings**

Families with children of all ages have been able to make use of the Aspiring Scholars Matching Grant Program.

In general, the number of children or beneficiaries was evenly distributed across ages. Children who were age two at the time of application had the highest percentage rate of enrollment during the first year at 6.8 percent. Eighteen-year-old beneficiaries had the lowest percentage rate of enrollment at 2.8 percent.

**The majority of account holders either maintained or increased their savings rate between 2007 and 2008.**

**Percentage of beneficiaries at age of enrollment**



Source: Analysis of data provided by the Arkansas State Treasurer’s Office.

Assuming that a family receives all five years of eligible Aspiring Scholars matching grants at the \$500 annual maximum grant amount, and earns a five percent annual rate of investment return, the potential value of their savings and the matching grant funds at the end of the five years would be approximately \$5,586, assuming a 1-to-1 match rate. Under the same assumptions, a family receiving the 2-to-1 match rate would have a potential end value of approximately \$4,190.

If the same family continued to save \$250 per year in their Gift Plan account for another fourteen years (until their child was 18 or college age), their Gift Plan account would grow to approximately \$13,200. This assumes the family enrolled their child in Aspiring Scholars as a newborn. If a family receiving the maximum 1-to-1 match rate continued to save \$500 per year for an additional fourteen years, their Gift Plan account would grow to approximately \$20,857.

Most of these total savings scenarios would more than cover the cost of earning an associate’s degree at a two-year college in Arkansas. The average annual cost of tuition and fees at a public two-year college in Arkansas is \$2,428. The average annual cost of tuition and fees at a public four-year college is \$10,823.<sup>3</sup>

**Other Outcomes**

The first year of the Aspiring Scholars Matching Grant program increased the number of low- and moderate-income families saving money in the GIFT Plan, but it also impacted overall enrollment in the GIFT Plan. The GIFT Plan saw a 14 percent increase in accounts during 2008, which was the first year that Aspiring Scholars was marketed. The marketing for Aspiring Scholars was intended to market the GIFT Plan as well. There were 2,057 new GIFT Plan accountholders in 2008, 359 of whom enrolled in Aspiring Scholars.

**Future Challenges**

The primary challenge for the Aspiring Scholars program, which was allocated \$250,000 for a two-year pilot, is continued funding.

The program is funded by revenue from the fees collected to manage the GIFT Plan. Although this revenue gets renewed every year, if enrollment in Aspiring Scholars continues at a pace even close to the initial enrollment, this revenue source cannot sustain the program.

<sup>3</sup> Tuition and fee data from the Arkansas Department of Higher Education available at: <http://www.adhe.edu/SiteCollectionDocuments/Institutional%20Finance%20Division/Tuition%20and%20fees/Sch18-12007-08TuitionFees.pdf>

Depending on the pace of new enrollment, this could happen within a few years. If this happens, an alternative funding source will need to be identified to maintain the program. State policymakers and supporters should begin thinking about and preparing for this potential challenge now that the pilot program has proved successful.

## Conclusion

The first year of the Aspiring Scholars Matching Grant Program was very successful. The program achieved its primary goal of encouraging more low- to moderate-income families to save for their children's college education through the GIFT Plan, Arkansas's 529 college savings plan. The program brought in over 359 new low- and moderate-income GIFT Plan accountholders. These accountholders were from a wide range of household incomes, including very low incomes, proving that the program can reach and provide an effective incentive to save even for those households with the least ability to save. In one year, Aspiring Scholars has had an impact by providing college savings for hundreds of Arkansas children from low- and moderate-income families.

The Aspiring Scholars program also impacted participants' savings rates, which was another key objective of the program. The 112 participants who received matching grant awards in both 2007 and 2008, saved more (10% to 30%) in 2008 when they were aware of the matching grant incentive. When the average savings rates for all 2007 awardees and all 2008 awardees were compared, they were virtually unchanged. Even though the average savings rates did not change significantly among all 2007 and all 2008 grant awardees, there were over three times more awardees in 2008. Maintaining a similar rate of savings among that many more awardees is a very encouraging outcome.

Aspiring Scholars has proved to be a very successful pilot program. State policymakers now need to make the commitment to fund this program permanently, honoring the five-year commitment the state has made to participating families and providing a similar opportunity for more families who are willing to do their part to save for their children's college education. Aspiring Scholars is one more important tool in the state's tool chest for increasing the number of college graduates in Arkansas, and as such the program should be continued permanently.


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