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Building Savings—and a Path—to College

Helping families in Maine build savings for their children's educational futures

People open 529 accounts because they want to set aside money for college, but many don't end up contributing as much as they'd like. By helping people see the value of these accounts, decide how much to save, and easily make regular contributions, state program administrators can help more families save for their children's future education.

Summary

In many cases, a college education provides a path to economic security. Compared to those with just a high school diploma, adults with a bachelor's degree report higher income[1] as well as greater job satisfaction and better health outcomes.[2] Yet across the United States, almost 40% of students—one million students each year—don't pursue higher education right out of high school.[3]

While there are many reasons someone may not pursue higher education, cost is the most common reason cited by people who haven't enrolled.[4] Savings accounts like 529 plans present an opportunity for families to start saving early and help set their child on a college-bound path. Nationwide, families save only about half as much as they'd like for their children's college expenses.[5] Although many families face real challenges to setting aside sufficient funds, there are other subtle, sometimes surprising barriers that can interfere with savings habits.

Highlights

- Nearly 80% of NextGen 529 account owners in Maine leave money on the table each year by underutilizing matching grants.
- Even for families who can afford to save, behavioral barriers inhibit consistent savings practices.
- Program administrators could consider a wide range of solutions—from improved communications to new technology to policy changes—to better facilitate college savings.

ideas42 partnered with the Finance Authority of Maine (FAME) to use insights from behavioral science to identify and address these barriers to savings for Maine families, where thousands of high school graduates each year do not enroll in postsecondary education.[6] We looked closely at Maine's college savings account, the NextGen 529 plan, to investigate why some NextGen 529 account owners were not contributing meaningfully to their accounts, and generated a number of design recommendations to help account owners contribute.

[1] Barrow, L., & Malamud, O. (2015). Is college a worthwhile investment?. Annu. Rev. Econ., 7(1), 519-555.

[2] Ma, J., Pender, M., & Welch, M. (2016). Education Pays 2016: The Benefits of Higher Education for Individuals and Society. Trends in Higher Education Series. College Board.

[3] https://www.bls.gov/opub/ted/2022/61-8-percent-of-recent-high-school-graduates-enrolled-in-college-in-october-2021.htm

[4] https://usprogram.gatesfoundation.org/news-and-insights/articles/gates-foundation-probes-college-enrollment-decline

[5] https://educationdata.org/college-savings-statistics

[6] https://www.maine.gov/doe/dashboard

While this project focused on Maine's 529 plan, we believe the design recommendations could be adapted to improve college savings plans across the United States.

Identifying Opportunities for Behavioral Design

Maine's Section 529 plan, called NextGen 529, follows many evidence-based best practices for saving: every child born in Maine receives $500 for college expenses, the state matches 30% of all contributions over $50 up to $1,000 per year, and FAME itself offers a number of supportive resources.

The matching grant is designed to nudge families toward a meaningful amount of college savings, and indeed contributing $1,000 annually to a NextGen 529 over 18 years results in over $8,500[7] more in college savings than contributing the same amount to an account without matching grants. However, only 22% of eligible NextGen 529 account owners maximized available matching dollars in 2021, and over half did not contribute at all.

While long-term savings is hard, most people open 529 accounts with the intention to contribute—and certainly don't want to leave free money on the table. FAME sought to uncover what else might be hindering contribution, particularly among account owners with median household incomes.[8]

Uncovering Barriers to Contribution

Together with FAME, ideas42 set out to understand why NextGen 529 account owners in Maine with a median household income might not be saving in the way they want. To do this, we mapped out the steps someone must take to contribute to their NextGen 529 account step-by-step. We reviewed communications sent to account owners. We investigated what FAME saw as pain points in the contribution process and interviewed account owners with a range of contribution habits to understand the reasons behind their decisions about whether and how to contribute. Finally, we analyzed administrative data on program-wide contribution behavior.

Through this process, we identified six behavioral barriers impeding meaningful, regular contribution by account owners. While these challenges acknowledge specifics of Maine's NextGen 529 plan, similar barriers likely exist in college savings accounts across the U.S.

- ***Immediate needs come first:*** Many account owners like the idea of contributing when they can but struggle to set money aside, particularly when budgets are tight and bills are salient. Behavioral science research teaches us that it's common to experience present bias, or to prioritize short term expenses over longer term goals like saving for college.

[7] Assumes $1,000 annual investment over 20 years with an initial contribution of $25 and an average annual return of 5.2%. Matching grant awards are assumed $300 per year over 20 years at an average return of 3.7% for 15 years and 2.0% for 5 years.

[8] This scope was selected to complement a parallel research effort to address behavioral barriers to filing the FAFSA, recognizing that long-term savings is a meaningful tool for college affordability for many middle-income families in Maine but that filing the FAFSA is a more impactful and more accessible behavior for low-income families.

- ***External factors drive savings:*** When deciding how much to contribute, few people calculate how their long-term goals translate into short-term action steps. Instead, behavioral science suggests that people will anchor their contribution rates to salient defaults, such as the NextStep Matching Grant's $1,000 per year goal. As such, account owners who are not aware of the matching grant may not set any contribution goal at all, for want of concrete direction.
- ***Risky consequences:*** Account owners may worry about the potential negative consequences to their financial liquidity and aid eligibility. While the advantages of the NextGen 529 plan—particularly with its matching grant program—may outweigh these risks, behavioral research predicts that some account owners who are risk averse may prefer to avoid the perceived risk by either limiting their NextGen 529 contributions or using other savings vehicles instead.
- ***Forget to follow through:*** People often wait until the end of the year to contribute, since this allows them to have a better sense of other expenses first. But behavioral science research has shown that procrastination creates the opportunity for people to forget to contribute altogether, leading people to miss out on that year's NextStep Matching Grant.
- ***Process hassles:*** Account owners who want to save may be derailed by the complexities of making contributions and getting answers to their questions. Behavioral science research teaches us that even seemingly small hassles (such as mailing a form or connecting a bank account) can derail individuals from taking action. These hassles disproportionately impede people who have the fewest resources to manage them.
- ***Missing social support:*** While many people save for postsecondary education through joint efforts, account owners may underestimate how common this is. Behavioral science teaches us that social norms can heavily influence behavior, but contributing isn't publicly visible, and social norms against discussing finances can prevent people from otherwise sharing this information with peers and choosing to save.

Design Recommendations to Drive Contribution

With these challenges in mind, ideas42 and FAME set out to generate a variety of design solutions. Our aim was to help more NextGen 529 account owners think intentionally about how much and how often they'd like to contribute, and to help them follow through with those intentions.

We ultimately provided over 40 design ideas that span four distinct goals:

- ***Raising awareness:*** Recommendations in this first category focus on how program administrators can connect with account owners to ensure that their NextGen 529 account is top of mind, at a moment when they're in a position to make a contribution. For example, sending **monthly contribution reminders** to account owners can help increase their intention to save, relative to other salient bills and financial priorities. Research also shows how repeating actions more frequently helps build habits, as opposed to doing something only once a year.

- ***Building intention:*** Some people may be thinking about their accounts but still decide not to add funds, and our next set of design ideas aimed to help NextGen 529 account owners feel that contributing to their accounts is worth it. For example, an **intermediary savings account** with fewer barriers to contribution and no withdrawal restrictions could help people build savings habits without compromising short-term financial liquidity. Account owners would be able to contribute to and withdraw from the intermediary account directly throughout the year, and then the balance would automatically transfer to their NextGen 529 account at the year's end.
- ***Shaping goals:*** Sometimes, account owners know they want to contribute but aren't sure exactly how much. When faced with this decision, people might choose too low an amount or simply not choose at all. Our third set of design recommendations focused on how to prompt account owners to increase their target contributions, with a minimum goal of maximizing the NextStep Matching Grant. For example, an online **comparison tool** could make it easy for people to see how their contribution patterns compare to other families with similar monthly incomes and expenses and to encourage people to set up automatic contributions more in line with their goals.
- ***Facilitating contribution:*** Finally, we generated design recommendations to help ensure that NextGen 529 account owners who want to make a contribution are able to do so without getting stuck or discouraged. For example, partnering with a credit card to let people **round up purchases** and automatically deposit the extra funds into a NextGen 529 account would make it easy for people to save without any extra steps. Or employer partnerships could facilitate **payroll deductions** that are automatically linked to 529 accounts with employer support, just like retirement savings programs. These ideas are promising because they integrate savings into people's daily habits and remove the need for people to think about their accounts and make decisions beyond the initial set-up.

Takeaway

Many families who want to save for their children's college expenses may find it difficult to follow through with this intention. Of course, there are real structural barriers: banking access is inequitable and far from universal, and many families simply don't have the financial slack to save. But program administrators can still be thoughtful and creative about supporting account owners, especially those who already know they want to save for their children's future education.

In Maine, that might look like leveraging moments of financial slack, or using the NextStep Matching Grant program to recommend savings goals, or building a sense of community around contribution habits. Behaviorally informed approaches like these can help more families not just in Maine but across the U.S. save for college and build college-going mindsets in the process. We look forward to seeing some of these solutions implemented and evaluated to better learn what works, and to help even more families secure their children's future through saving for higher education.