

I'm opposed to HB 4541 because it unnecessarily increases the maximum contribution for the Michigan Education Savings Program to \$500,000. Every tax deduction must be made up somewhere else.

In a December 2012 report, the United States Government Accountability Office – using data from the 2010 Survey of Consumer Finances – found that the median amount in 529 plans or (Coverdells) was about \$14,700. Rep. Forlini's proposed legislation would allow tax deductible contributions 34 times the average. Let's look at who benefits the most from these educational tax exemptions.

The median income of families with 529 plans or Coverdell accounts was about \$142,400. The median income of families without these tax deductible plans was \$45,000. Families without these plans have about \$15,400 in financial assets – the median financial assets of families with these plans have about \$413,500. That's over 26 times as much.

As you can see, the benefits mostly accrue to the top ten percent. It isn't clear that the current limit of \$235,000 is too low to help most Michigan families save for college. It is clear who is reaping the benefits and who is paying for them. Why Michigan taxpayers have to cover the deductions for people with a half million dollars in a savings account is beyond my understanding.

Source: [www.gao.gov/assets/660/650759.pdf](http://www.gao.gov/assets/660/650759.pdf)

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**GAO**

Report to the Chairman, Committee on  
Finance, U.S. Senate

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# HIGHER EDUCATION

## A Small Percentage of Families Save in 529 Plans



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asks for information not included on the FAFSA, such as home equity and medical expenses, as well as more detail about information that is included on the FAFSA. The institutions may then use an individualized institutional methodology to determine the student's EFC for institutional financial aid.<sup>32</sup>

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## Few Families Have 529 Plans and Those Who Do Tend to Be Wealthier

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### A Small Percentage of Families Have 529 Plans

According to the 2010 Survey of Consumer Finances (SCF), less than 3 percent of U.S. families had 529 plans<sup>33</sup> or Coverdells, a similar but less often used education savings account.<sup>34</sup> Even among families who acknowledged upcoming education expenses, 529 plans were not widely used. Of the approximately 25 percent of families who said they expected major education expenses in 5-10 years, about 7 percent of them had 529 plans or Coverdells. Similarly, of the approximately 18 percent of families who reported saving for education was a priority, only about 9 percent had 529 plans or Coverdells. 529 plans are also less commonly

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<sup>32</sup> Institutional methodology is a College Board formula developed by financial aid professionals, in consultation with economists, to measure a family's ability to pay for college. A basic principle of institutional methodology is the idea that a family's capacity to pay is a function of income and assets.

<sup>33</sup> The SCF asks about survey respondents and members of their households (sometimes referred to as primary economic units), which we refer to as families. About 88 percent of families with 529 plans or Coverdells had children 25 years of age or younger living with them. Among the approximately 39 percent of all families that had children under 25 living with them, only about 6 percent had 529 plans or Coverdells.

<sup>34</sup> The SCF combines responses for 529 plans and Coverdells. Because officials from the Federal Reserve, the federal agency that sponsors the SCF, said respondents did not necessarily distinguish between Coverdells and 529 plans, we did not separate the two account types. However, the officials indicated that a larger share of SCF respondents reported having 529 plans than Coverdells. Further, using SOI data, we estimate that in 2010 approximately 85 percent of tax filers who took a distribution from either a 529 plan or a Coverdell reported distributions from a 529 plan while 14 percent reported distributions from a Coverdell and 1 percent reported distributions from both.

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used than other savings vehicles among those saving for college.<sup>35</sup> For example, a 2010 Sallie Mae survey found that most parents saved for college in general savings accounts or certificates of deposit and, of those who did invest, more used general investment vehicles than 529 plans.<sup>36</sup> Based on our analysis of SCF data, the median amount in 529 plan or Coverdell accounts was about \$14,700.<sup>37</sup>

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### Families with 529 Plans Generally Have More Wealth and Education than Those without 529 Plans

Families with 529 plans or Coverdells typically had much more wealth than families without these accounts, according to our analysis of SCF data. Based on our analysis of the 2010 SCF, we estimate that the median financial asset<sup>38</sup> value for families with 529 plans or Coverdells was about \$413,500, which is about twenty-five times the median financial asset value for families without 529 plans or Coverdells (about \$15,400).<sup>39</sup> For example, families with 529 plans or Coverdells had more retirement assets than other families. Of families with 529 plans or

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<sup>35</sup> There are other vehicles with tax benefits that can be used for education savings. Such vehicles include Coverdells, funds under the Uniform Gift to Minors Act and Uniform Transfer to Minors Act, individual retirement accounts, and savings bonds.

<sup>36</sup> Information is reported for parents of children younger than 18 who believed their child is likely to attend college and who were saving for this purpose. The survey also found that nearly a quarter of these parents saved for college in retirement savings accounts such as a 401(k) or individual retirement account. Sallie Mae, *How America Saves for College: Sallie Mae's National Study of Parents with Children under 18 Conducted by Gallup* (Reston, VA: 2010).

<sup>37</sup> We are 95 percent confident that the median amount in these accounts was between \$9,300 and \$20,100. Because Coverdells had annual contribution limits of \$2,000 in 2010, this estimate may underestimate the median amount in 529 plans. However, other data sources have similar findings specific to amounts saved in 529 plan accounts. For instance, in 2011 the College Savings Plan Network reported that the average amount in 529 savings plans was \$15,492 in 2010. Unless otherwise noted, all SCF percentage estimates have 95 percent confidence intervals within 5 percentage points of the estimate itself.

<sup>38</sup> Financial assets include, among other things, resources in 529 plans, checking and savings accounts, stocks, bonds, and retirement accounts. See appendix I for more detail.

<sup>39</sup> We are 95 percent confident that the median financial asset value for families with 529 plans or Coverdells was between \$247,400 and \$579,600. For families without 529 plans or Coverdells, the 95 percent confidence interval is between \$13,700 and \$17,100.

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Coverdells, about 94 percent had retirement assets,<sup>40</sup> such as those in 401(k) accounts or traditional pensions.<sup>41</sup> In contrast, approximately 49 percent of families without 529 plans or Coverdells had these retirement assets. Further, the median value of retirement assets was much greater for those with 529 plans or Coverdells. Specifically, the median value in retirement accounts was about \$213,600 for families with 529 plans or Coverdells, while the median value for families without 529 plans or Coverdells was about \$40,300.<sup>42</sup> A larger share of families with 529 plans or Coverdells (27 percent) also believed they will have more than enough retirement income from pensions and Social Security to maintain current living standards than the share of families without 529 plans or Coverdells (16 percent), which may put them in a better position to save for college.<sup>43</sup>

Further, the median income of families with 529 plans or Coverdells was about three times the median income of families without these accounts.<sup>44</sup> Specifically, families with 529 plans or Coverdells had median incomes of about \$142,400 per year compared to \$45,100 for other families.<sup>45</sup> Moreover, we estimate that 47 percent of families with 529 plans or Coverdells had incomes over \$150,000, compared to 8 percent for

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<sup>40</sup> For our purposes, retirement assets include those in defined contribution plans (e.g. retirement savings plans such as a 401(k)), individual retirement accounts, and defined benefit plans from which the participant has the option to borrow or withdraw for both the SCF respondent and his/her spouse.

<sup>41</sup> We use the term 'traditional pensions' to refer to defined benefit plans.

<sup>42</sup> We are 95 percent confident that the amount of retirement assets for families with 529 plans or Coverdell accounts was between \$149,700 and \$277,500, while the amount for families without these accounts was between \$37,400 and \$43,200.

<sup>43</sup> We are 95 percent confident that the percentage of families with 529 plans or Coverdell accounts who believed they will have more than enough retirement income was between 19.9 and 33.9 percent. For families without 529 plans or Coverdells, the 95 percent confidence interval was between 15.1 and 16.9 percent.

<sup>44</sup> In 2012, we reported similar findings using data from the 2007 SCF. GAO-12-560.

<sup>45</sup> Because Coverdell contributors must generally have had a modified adjusted gross income of less than \$110,000 per year (\$220,000 in the case of a joint return) in 2010, this estimate may underestimate the median income of families with 529 plans. We are 95 percent confident that the median income for families with 529 plans or Coverdells was between \$125,400 and \$159,400.