

Highlights of [GAO-13-64](#), a report to the Chairman, Committee on Finance, U.S. Senate

Why GAO Did This Study

Paying for college is becoming more challenging, partly because of rising tuition rates. A college savings plan can be an option to help meet these costs. To encourage families to save for college, earnings from 529 plans—named after section 529 of the Internal Revenue Code—grow tax-deferred and are exempt from federal income tax when they are used for qualified higher education expenses. In fiscal year 2011, the Department of the Treasury estimated these plans represented \$1.6 billion in forgone federal revenue. Managed by states, over one hundred 529 plan options were available to families nationwide as of July 2012. The number of 529 plan accounts and the amount invested in them has grown during the past decade. GAO was asked to describe (1) the percentage and characteristics of families enrolling in 529 plans, (2) plan features and other factors that affect participation in 529 plans, and (3) the extent to which savings in 529 plans affect financial aid awards. GAO analyzed government data, including the SCF. This survey's 529 plan data are combined with Coverdells, so the SCF estimates used in the report include both 529 and Coverdell data. GAO also analyzed National Postsecondary Student Aid Study data; conducted interviews with federal and state officials, industry and academic experts, and state and institutional higher education officials; reviewed 529 plan and Department of Education documents; conducted a literature review; and reviewed relevant federal laws, regulations, and guidance.

What GAO Recommends

GAO is not making any recommendations in this report.

View [GAO-13-64](#). For more information, contact Michelle Sager, (202) 512-6806, sagem@gao.gov

HIGHER EDUCATION

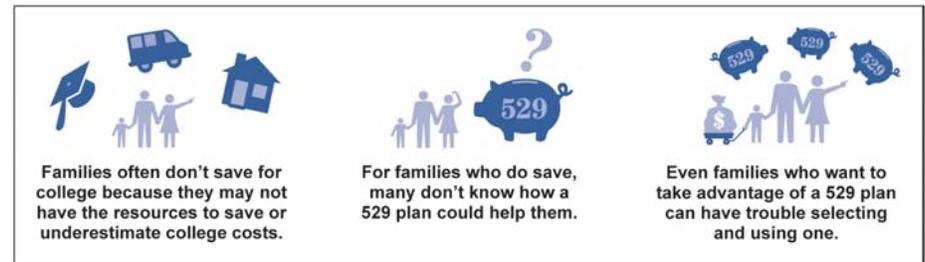
A Small Percentage of Families Save in 529 Plans

What GAO Found

A small percentage of U.S. families saved in 529 plans in 2010, and those who did tended to be wealthier than others. According to the Survey of Consumer Finances (SCF), less than 3 percent of families saved in a 529 plan or Coverdell Education Savings Account (Coverdell)—a similar but less often used college savings vehicle also included in the SCF. While the economic downturn may have reduced income available for education savings, even among those families who considered saving for education a priority, fewer than 1 in 10 had a 529 plan (or Coverdell). Families with these accounts had about 25 times the median financial assets of those without. They also had about 3 times the median income and the percentage who had college degrees was about twice as high as for families without 529 plans (or Coverdells).

States offer consumers a variety of 529 plan features that, along with several other factors, can affect participation. Some of the most important features families consider when choosing a 529 plan are tax benefits, fees, and investment options, according to experts and state officials GAO interviewed. These features can vary across the state plans. For example, in July 2012, total annual asset-based fees ranged from 0 to 2.78 percent depending on the type of plan. 529 plan officials and experts GAO interviewed said participation is also affected by families' ability to save, their awareness of 529 plans as a savings option, and the difficulty in choosing a plan given the amount of variation between plans (see fig. 1). Selected states, however, have taken steps to address these barriers. For example, to address families' ability to save, particularly for low-income families, some states have adopted plans that include less risky investments, have low minimum contributions, and match families' contributions.

Factors that Affect 529 Plan Participation



Source: GAO analysis based on reports and interviews with 529 plan officials and experts.

Savings in 529 plans affect financial aid similarly to a family's other assets. For federal aid, a family's assets affect how much it is expected to contribute to the cost of college. If the amount of those assets exceeds a certain threshold, then a percentage is expected to be used for college costs. For example, for students who are dependent on their parents, the percentage of parental assets, including savings in 529 plans, that the family may be expected to contribute ranges from 2.64 to 5.64 percent. Many states and selected institutions also treat 529 plan savings the same as other family assets. However, a few states provide them with special treatment, such as exempting those funds from their financial aid calculation.