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Insuring that Families Plan and Save for College

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By James Belvin

It is becoming increasingly obvious with each passing year that the most important issue facing higher education is affordability. While quality faculty, excellent libraries, and other facilities are critically important, it is also clear that if students and their families cannot find a way to support the costs of their education, they will not be able to take advantage of these opportunities. Because the future of our society is inextricably linked to the education of our children, solving this affordability problem is key. What follows is a proposal for solving this problem and some background on its development.

Historically, the federal government, educational institutions, and even families have agreed that the primary responsibility for supporting the child's costs of education resides with the family. The federal government and educational institutions, both public and private, have attempted to help families support those educational costs that were beyond their reasonable reach, but the primary responsibility has remained with the family. Although government and institutional support will continue to be available, increasing competition for scarce resources will only serve to exacerbate the affordability problem. As public policymakers struggle with the role of government support for higher education and the need for a more fiscally conservative future, a new paradigm is needed.

Parents respond positively to the concept of early planning. They leave seminars excited about their plans to start "now" to prepare for their children's educations. Unfortunately, this excitement, this resolve to "start now" often dissipates rather quickly when faced with the daily pressure of running a family and coping with unexpected medical bills and the like. Although it is unintended, the immediacy of today almost always wins out over the promise of tomorrow.

Given the fact that many families have both the ability and the desire to save for their children's educational expenses and yet few actually develop a regular and systematic program for doing so, something is clearly wrong. While it is true that vehicles such as 401K and other "savings" plans are available now, these plans have not achieved widespread use. After many years of talking with families that wanted to save, it became clear that the problem was the availability of accessible, almost painless, savings plans that could easily become a part of the family's financial structure. Families need a plan that becomes a part of the very fabric of their finances and allows them to handle educational savings in the same way that they handle retirement, health care, etc. In thinking about the way most families handle these critical needs, it quickly becomes apparent that the answer is jobs. The obvious common denominator is employment—those with jobs generally have benefit packages that provide these kinds of programs. It thus seems reasonable

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to link the "affordability" issue to employment and to convince employers to support and even encourage their employees' efforts to prepare for their children's higher education expenses.

All of the above said, the following is a list of possible solutions which corporations should consider:

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1. **A company-sponsored contributory account.** This would work something like a retirement program. Companies would offer an educational savings plan through which they would agree to match the contribution of employees. While a dollar-for-dollar match would be ideal, companies could match at any level. (Special tax treatment would be required.)
2. **Educational Savings Plans.** Companies could set up educational savings plans in which a contribution would be deducted from each check prior to taxation. The contributions would then be held in an educational fund available only to support educational costs. This approach would be similar to the "flex" plans now being offered for health care purposes. (Special tax treatment would be required.)
3. **Payroll Deduction Plans.** Companies could simply offer a payroll deduction plan. This would work much like a Christmas Club Account. The amount deducted would be deposited in an interest-bearing account. Neither the deduction nor the interest would be tax-free (unless we get lucky).
4. **Educational Annuity Programs.** Companies could agree to contribute to educational annuity plans. Available after employees become "vested," these programs would not require but would allow employee contributions. Investments could be in certificates, perhaps even EE Savings Bonds.
5. **Companies could subsidize student loans** for children of employees. Stafford Student Loans could, for example, be paid down from the current interest rate of 6.5% to say, 4%.
6. **Companies could actually offer parent or student loans** that would be paid back to the company treasury through payroll deductions.
7. **Companies could establish information centers** that could offer parents information on colleges and financial aid programs.
8. **Companies could sponsor financial aid presentations** through which local aid personnel could counsel parents on paying for college. These presentations could, of course, be expanded to include admissions information.

Some of these ideas depend upon or would certainly be enhanced by federal approval and the granting of special tax treatment. The real issue, however, is corporate involvement. The social consciousness value of such an approach is important but of equal value to corporations is that these "benefits" serve both as rewards and lures that could help to attract and hold quality employees. In fact, one can easily argue that supporting educational savings efforts is the ultimate result of personnel efforts that begin with corporate child care facilities. The eight program options listed above are just a starting point. Further discussions will both refine and expand the possibilities.

Once corporations get behind this approach, the next step will be to approach Congress for special tax legislation. The fact that this approach will ultimately reduce demand for federal financial aid resources, or at the very least, reduce the growth in this demand, means that Congress should be willing to forego the revenue necessary to provide tax incentives that will make this program attractive. ✦