THE NEXT FRONTIER IN EDUCATION

TRANSFORMING 529 SAVINGS PLANS INTO LIFELONG LEARNING EDUCATION SAVINGS ACCOUNTS

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EXECUTIVE SUMMARY

IN 2011, Arizona became the first state to create K-12 education savings accounts, currently allowing the families of 1,311 students to decide how best to use their state education funding.[1] Florida, Mississippi, Tennessee, and Nevada have subsequently enacted similar K-12 education savings account programs (ESAs). More than 5,000 children are anticipated to use education savings accounts during the 2015-16 school year.[2] ESAs give parents the opportunity to create a challenging, customized education for their children.

Policymakers should improve families' ability to save and pay for their children's education services by expanding the allowable uses of federal 529 savings accounts. These accounts already let families save their own money tax-free for educational expenses—but only postsecondary expenses.

The next step for federal policymakers is to augment 529 accounts into lifelong learning education savings accounts. The additional uses should include preschool and K-12 education expenses like tutoring and online classes, as well as post-college expenses such as job training or other educational programs. This would give families and beneficiaries greater flexibility to purchase needed services throughout their lives to succeed in elementary and secondary school or even improve skills after college.

The 529 accounts are a valuable savings vehicle for families and have earned strong bipartisan political support at both the federal and state levels. According to the Investment Company Institute, nearly 11 million 529 college savings plan accounts are open, with a total of $224 billion in assets as of 2014. More than 30 states and Washington, D.C., provide state tax advantages for those who contribute to 529 college savings plans.[3] If the allowable uses of the accounts were expanded, more people would likely use them as a savings vehicle.

To address equity concerns and ensure that disadvantaged students benefit from lifelong learning ESAs, federal policymakers could clarify it is legal to make charitable contributions to nonprofit organizations that donate pooled funds to the 529 accounts of students based on financial need. Federal policymakers could also restructure other federal programs to redirect a portion of a child's funding from a federal education program directly into that child's 529 account.[4]

Transforming 529 savings accounts into Lifelong Learning Education Savings Accounts would dramatically expand American families' ability to save and purchase high-quality educational services throughout an individual's life, which will help students succeed in their elementary, secondary, college, and post-college studies and training. Lifelong learning ESAs would enable Americans to continue learning throughout their lives to better compete in the dynamic job market.

INTRODUCTION

In advance of his 2015 State of the Union address, President Barack Obama proposed reforms to the tax code that would have ended tax benefits for funds saved in so-called 529 savings accounts, which allow interest and investment income to accrue tax-free if the funds saved are ultimately spent on postsecondary education expenses.[5]

One week after addressing the joint session of Congress, President Obama withdrew the proposal after facing strong opposition from leaders from both parties on Capitol Hill. The *New York Times* reported House Minority Leader Nancy Pelosi of California lobbied the president to drop the proposal while aboard Air Force One on an international flight.[6]

On February 25, less than a month after the president abandoned his plan, the House of Representatives voted 401 to 20 in favor of H.R. 529, bipartisan legislation that expanded the allowable uses of funds saved in 529 savings plans to include purchasing computer equipment and Internet access for use in college.[7] The legislation, which was supported by 161 House Democrats, rebuked the proposal to end the tax benefits, asserting that "the tax proposed by the President would discourage the use of 529 college savings plans, requiring families and students to take on more debt."[8]

On April 29, the Senate Finance Committee passed similar bipartisan legislation to modify the federal 529 college savings plan, further expanding the allowable uses of funds saved in 529 accounts to include computer equipment and Internet access, provided the technology and access is primarily used by the beneficiary.[9]

The strong rejection of President Obama's 2015 plan to end tax benefits for 529 accounts—and the broad bipartisan support for H.R. 529 and S. 335 to enhance 529 plans—reflects the popularity of this college savings vehicle. American families have opened a total of 12 million 529 colleges savings plans, according to the College Savings Plan Network.[10] In terms of dollars as of 2014, Americans invested $247.9 billion in 529 savings plans, or an average of approximately $20,000 per account.[11]

According to the Investment Company Institute, the overwhelming majority of these 529 plans are savings accounts. As of December 2014, Americans had invested $224 billion in 10.9 million 529 savings accounts.[12] The other 1.2 million 529 accounts are pre-paid tuition plans.

Given the support for 529 college savings plans, policymakers should further expand their allowable uses to include preschool, K-12, and post-college education expenses. These uses would afford families and individuals greater ability to acquire needed education and training services throughout their lives. This paper examines the background of education savings accounts, 529 plans, and potential options for improving 529 accounts. We also present arguments for why transforming 529 plans into Lifelong Learning Education Savings Accounts would benefit American families and students throughout their lives.

The Need to Improve Educational Opportunities for American Students

A review of the inputs and outputs of the K-12 education system in the United States underscores the need to reconsider the learning options available to students and improve educational opportunities for children of all backgrounds. According to the U.S. Department of Education, the typical public school in the United States spends approximately $12,000 per year for each child enrolled.[13] This suggests that a child who is enrolled in a public school from kindergarten through the end of high school will have as much as $150,000 spent on primary and secondary education.

Yet various national measures of student outcomes suggests that many students are not receiving a high-quality education during their K-12 years, despite the significant resources devoted to their schooling. For example, according to the National Assessment of Educational Progress (NAEP), in 2013, only 34 percent of fourth-grade students and 35 percent of eighth-grade students scored "proficient" or higher in reading.[14] According to NAEP, students achieving at a "proficient" level "demonstrate solid academic performance and competency over challenging subject matter." Only about 1 in 3 students are reaching this level in reading. Troublingly, 1 in 3 fourth-grade students and 1 in 4 eighth-grade students scored "below basic" in reading, which according to NAEP means they cannot "interpret the meaning of a word as it is used in a text."

In 2005, the Goldwater Institute proposed a new way of funding K-12 education. Instead of relying on complex school district finance formulas, federal and state lawmakers could provide funding directly to parents in the form of an education savings account.

Other indicators of the need to improve opportunities for American students are the rates for high school graduation and college readiness. National estimates of high school graduation rates show that as many as 81 percent of American high school students earned their degrees in the 2011-12 school year, a historic high.[15] Despite this improvement, too many children, including a higher rate of economically disadvantaged children, continue to drop out of high school.[16]

Even among those students who are successful in completing high school, many are not prepared for college or the workforce. For example, the ACT, the organization that administers a college readiness assessment each year, presented the results of an estimated 1.85 million high school graduates in 2014 who took the ACT exam, reporting the following percentage that achieved college readiness benchmarks for core subjects: English (64 percent), Reading (44 percent), Mathematics (43 percent), and Science (37 percent).[17] Just 26 percent—or 1 in 4—had achieved readiness in all four subjects, even though 86 percent of the test takers aspired to pursue postsecondary education.[18]

International comparisons also leave much to be desired. Twenty-six countries in the Organisation for Economic Cooperation and Development outperform our nation's 15-year-olds in math, according to an *Education Next* report issued last year.[19] Even students from families where at least one parent has a college degree are outpaced by 27 other countries. State-by-state comparisons are even starker.

The inputs and outcomes of American K-12 education suggest that despite spending significant public resources on students' elementary and secondary schooling, many students—likely a majority—leave school without having mastered the skills they need to achieve success in college or the workforce. Even among those who earn high school degrees and have the opportunity to pursue higher education, many do not succeed in college or greatly improve their level of knowledge, as discussed in greater detail below.

The status of American education has convinced many that K-12 and postsecondary schooling and finances should be reformed. One strategy that has been increasingly adopted is allowing families to have greater control over where their children go to school and how their share of public funding is used to provide the best learning experience possible.

Background on Parental Choice and Education Savings Accounts

Sixty years ago, Milton Friedman proposed the concept of school vouchers as a mechanism for empowering parents to direct how their children are educated by enabling them to use a tuition scholarship to enroll in a school of their choice. Since 1990, a growing number of states and cities, starting with Milwaukee, have implemented various forms of the school voucher concept to facilitate school choice. Other mechanisms states have developed include tuition tax credits and scholarship tax credits to encourage individuals to contribute to nonprofit organizations that award private school tuition scholarships. Today, 39 private school choice programs operate nationwide, enrolling more than 300,000 students.[20]

In 2005, the Goldwater Institute proposed a new way of funding K-12 education.[21] Instead of relying on complex school district finance formulas, federal and state lawmakers could provide funding directly to parents in the form of an education savings account.

While school vouchers and other private school scholarships allow families to choose schools for their children, education savings accounts allow families to more fully customize their child's learning experience. For example, families could use account funds to pay for a personal tutor, pay tuition for an online class, buy other supplemental educational services, or even save unspent funds for the next school year or for college expenses after the student graduates from high school.

Unfortunately, in 2009, the Arizona Supreme Court ruled that Arizona's school voucher program for special education students and foster children was unconstitutional due to a provision in the state constitution that prohibits "the appropriation of public money made in aid of any church, private or sectarian school."[22] To help students whose education was interrupted by the ruling, the Goldwater Institute and advocates of school choice revisited the idea of using education savings accounts to facilitate parental choice.[23]

That year, Arizona lawmakers enacted SB 1553, which created Empowerment Scholarship Accounts. With an account, the state deposits public funding that would have been spent on the child's public school education into a private bank account that families can use for educational products and services for their child.[24]

Arizona's Empowerment Scholarship Accounts

Arizona's "Empowerment Scholarship Accounts" were the first of their kind in the country. Families of students with special needs were eligible to complete an application with the Arizona Department of Education to receive a bank account worth 90 percent of the state funding the child would have received in the traditional school system.[25]

The department had only two months to enroll students in the accounts, which explains why fewer than 100 accounts were awarded in the program's first year. However, participation in the program has doubled every year since inception, and more than 1,300 Arizona students used an account in the 2014-15 school year.

The passage of time is only one explanation for the program's growth—the other is that Arizona lawmakers have expanded eligibility for the program to include children from D- and F-rated Arizona public schools, adopted children, Native American students, and children in active-duty military families. Incoming kindergarten students that meet any of these criteria are also eligible, along with preschool children with disabilities. Siblings of these students are also eligible. These broader categories opened the program to 1 in 5 Arizona public school students, approximately 220,000 children across the state.

The Arizona Department of Education reports that students with special needs make up the majority of account holders, but 224 children from failing schools are using an account, along with 98 adopted children, and 43 children from active-duty military families (Table 1).

Table 1—Current Participation in Arizona's Education Savings Account Program

STUDENT TYPE	NUMBER OF EDUCATION SAVINGS ACCOUNTS IN ARIZONA
SPECIAL NEEDS	802
FAILING SCHOOLS	224
ADOPTED	98
MILITARY FAMILIES	43

Source: Arizona Department of Education e-mail correspondence, March 23, 2015

Research shows that participating families are highly satisfied with accounts. A 2013 survey of accountholders found that all families reported some level of satisfaction, even those who were highly satisfied with their previous public schools.[26] Seventy-one percent of respondents were "very satisfied" with the accounts.

Furthermore, families used the accounts for multiple educational purposes, as intended. Teachers union leaders had denounced the accounts as nothing more than a school voucher program.[27] Yet Freidman Foundation research found that more than one-third of account holders used their children's accounts for multiple education services, including education therapies and personal tutors.[28]

Florida's Personal Learning Scholarship Accounts

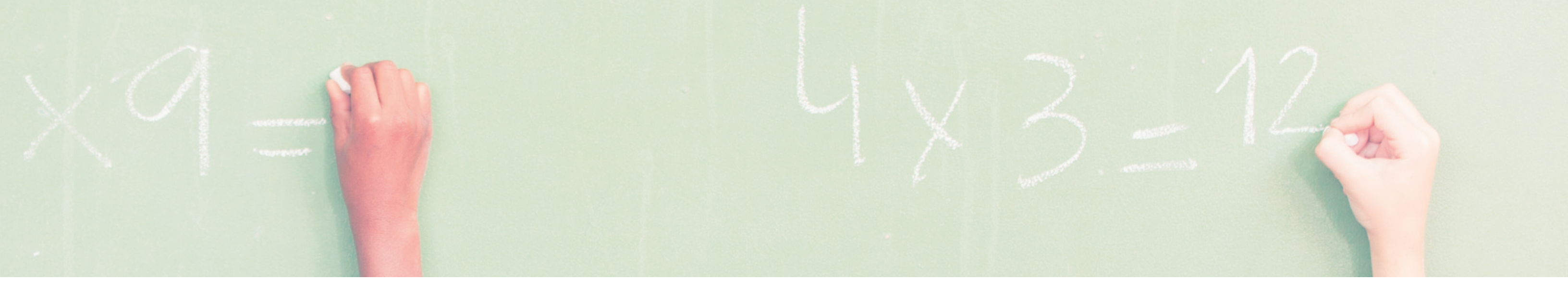
Florida became the second state to enact education savings accounts in 2014 (called Personal Learning Scholarship Accounts, or PLSAs).[29] Under the law, children with specific diagnoses of special needs are eligible. Eligible students include children with autism, cerebral palsy, Down syndrome, Prader-Willi syndrome, Williams syndrome and Spina bifida.

Lawmakers called on the state's corporate tax credit scholarship organizations—including one of the nation's oldest and largest scholarship organizations, Step Up for Students—to operate the accounts. In Arizona, the state department of education is responsible for implementing education savings accounts.

Step Up awards scholarships under the state's private school scholarship system in addition to administering the PLSAs. Step Up has a long history of helping parents find educational opportunities for families, and the organization was a natural fit to run the new program.

Education Savings Accounts Withstand State Legal Challenges

To date, teachers unions and other education associations have filed and lost two lawsuits against education savings accounts. The Arizona Education Association and the Arizona State School Board Association filed the first lawsuit to stop Empowerment Scholarship Accounts shortly after Gov. Jan Brewer signed the accounts into law. The union claimed the accounts were no different than vouchers, which the state Supreme Court had ruled unconstitutional in 2009 due to the Blaine Amendment



language in the state constitution.[31] The Goldwater Institute and the Institute for Justice joined Arizona State Superintendent John Huppenthal in defending ESAs in Niehaus v. Huppenthal.[32]

In 2012, a Maricopa County Superior Court judge ruled that the Empowerment Scholarship Account program was constitutional, and in 2013, the Arizona Court of Appeals upheld that ruling. In a unanimous decision, Judge Jon W. Thompson wrote for the court, "The specified object of the ESA is the beneficiary families, not private or sectarian schools. Parents can use the funds deposited in the empowerment account to customize an education that meets their children's unique educational needs."[33] In February 2014, the Arizona Supreme Court refused to consider the case, allowing the appeals court ruling to stand, and ensuring that children could continue using the accounts.

Florida's ESA program also faced a legal challenge. The Florida Education Association filed a lawsuit against Personal Learning Scholarship Accounts in 2014 in Fasse v. Scott.[34] The union based their charges on Florida's single subject rule, which states that lawmakers can only file bills that deal with one subject at a time. The court dismissed the case on standing, which means the challengers were not in a position to sue.[35] In January 2015, the union said it would not appeal.[36]

In 2015, nearly a dozen state legislatures considered education savings account legislation. Mississippi and Tennessee lawmakers enacted education savings account laws for children with special needs.[37] Nevada enacted a near universal education savings account program, which will be eligible to all public school students. Lawmakers in Montana, Virginia, Oklahoma, Utah, Iowa, Illinois, and Missouri considered legislation.

529 COLLEGE SAVINGS PLANS — A POTENTIAL VEHICLE TO CREATE LIFELONG LEARNING ACCOUNTS

Under federal law, families receive tax benefits when they save for their children's college education using so-called Qualified Tuition Plans. According to the Internal Revenue Service, "states may establish and maintain programs that allow you to either prepare or contribute to an account for paying a student's qualified education expenses at a postsecondary institution."[38] These plans are often referred to as 529 plans.[39]

This federal option offers families two ways of saving for higher education expenses for their children. A family could contribute to a 529 college savings plan to prepay tuition at a participating college or university. Families can also contribute to a general 529 savings account that can be used for qualified higher education expenses at any postsecondary institution. While families' after-tax dollars fund the accounts, the interest or income that is earned in the account from funds saved or invested accrues tax-free so long as the funds are spent on qualifying postsecondary education expenses at an eligible educational institution.[40] As discussed below, many states offer tax deductions or credits to encourage families to participate in these state-managed higher education savings programs.

Use of 529 Education Savings Accounts

Many American families take advantage of the opportunity to save for students' future college expenses using 529 education savings plans. According to the College Savings Plan Network, the amount of assets saved in 529 college savings plans grew to $247.9 billion in 2014.[41] Altogether, there are 12.1 million active 529 plans.[42] From 2013 to present, the number of plans grew by approximately

500,000 participants,[43] an increase of 4.3 percent.[44] The average account size was nearly $20,000.[45] Over the past 14 years, the growth in 529 savings plan participation has been steady. According to the Government Accountability Office, the number of college savings plans accounts grew from 1.3 million in 2001 to 9.9 million in 2011.[46]

The Investment Company Institute reports that, as of December 2014, there were 10.9 million active 529 savings account with assets totaling $224 billion. There were 1.2 million 529 pre-paid tuition plans with $24 billion in assets.

State Tax Benefits for 529 College Savings Plan Contributions

One reason for the growth in the participation of 529 College Savings Plans is that many states offer tax deductions or credits to make it easier for people to make contributions into these accounts to save for students' future college expenses.

Table 2—State Income Tax Deductions (or Credits) for 529 College Savings Plan Contributions, According to the FinAid.org

*** The below tax benefits are deductions unless otherwise stated in the table.

STATE	529 DEDUCTION
Alabama	$5,000 per parent ($10,000 joint)
Alaska	No state income tax
Arizona	$2,000 single or head of household/$4,000 joint (any state plan)
Arkansas	$5,000 per parent ($10,000 joint)
California	--
Colorado	Full amount of contribution
Connecticut	$5,000 per parent ($10,000 joint), 5 year carryforward on excess contributions
Delaware	--
Florida	No state income tax
Georgia	$2,000 per beneficiary
Hawaii	--
Idaho	$4,000 single/$8,000 joint
Illinois	$10,000 single/$20,000 joint per beneficiary
Indiana	20% tax credit on contributions up to $5,000 ($1,000 maximum credit)
Iowa	$3,163 single/$6,326 joint per account
Kansas	$3,000 single/$6,000 joint per beneficiary (any state plan), above the line exclusion from income
Kentucky	--
Louisiana	$2,400 single/$4,800 joint per beneficiary, above the line exclusion from income, unlimited carry-forward of unused deduction into subsequent years
Maine	$250 per beneficiary
Maryland	$2,500 per account per beneficiary, 10 year carry-forward
Massachusetts	--

Michigan	$5,000 single/$10,000 joint, above the line exclusion from income
Minnesota	--
Mississippi	$10,000 single/$20,000 joint, above the line exclusion from income
Missouri	$8,000 single/$16,000 joint, above the line exclusion from income
Montana	$3,000 single/$6,000 joint, above the line exclusion from income
Nebraska	$10,000 per tax return ($5,000 if filing separate), above the line exclusion from income
Nevada	No state income tax
New Hampshire	--
New Jersey	--
New Mexico	Full amount of contribution, above the line exclusion from income
New York	$5,000 single/$10,000 joint, above the line exclusion from income
North Carolina	$2,500 single/$5,000 joint, above the line exclusion from income
North Dakota	$5,000 single/$10,000 joint
Ohio	$2,000 per beneficiary per contributor or married couple, above the line exclusion from income, unlimited carry-forward of excess contributions
Oklahoma	$10,000 single/$20,000 joint per beneficiary, above the line exclusion from income, five-year carry-forward of excess contributions
Oregon	$2,265 single/$4,530 joint (i.e., $2,265 per contributor) per year, above the line exclusion from income, four-year carry-forward of excess contributions
Pennsylvania	$14,000 per contributor/$28,000 joint per beneficiary (any state plan)
Rhode Island	$500 single/$1,000 joint, above the line exclusion from income, unlimited carry-forward of excess contributions
South Carolina	Full amount of contribution, above the line exclusion from income
South Dakota	No state income tax
Tennessee	--
Texas	No state income tax
Utah	5% tax credit on contributions of up to $1,900 single/$3,800 joint per beneficiary (credit of $95 single/$190 joint)
Vermont	10% tax credit on up to $2,500 in contributions per beneficiary (up to $250 tax credit per taxpayer per beneficiary)
Virginia	$4,000 per account per year (no limit age 70 and older), above the line exclusion from income, unlimited carry-forward of excess contributions
Washington, D.C.	$4,000 single/$8,000 joint, above the line exclusion from income
Washington	No state income tax
West Virginia	Full amount of contribution up to extent of income, above the line exclusion from income, five-year carry-forward of excess contributions
Wisconsin	$3,000 per dependent beneficiary, self or grandchild, above the line exclusion from income
Wyoming	No state income tax

Source: FinAid.org, at: http://www.finaid.org/savings/state529deductions.phtml

Who Uses 529 Plans?

Not surprisingly, families with higher family earnings and disposable income have greater ability to save and, therefore, are more likely to take advantage of federal and state benefits for higher education savings. The Government Accountability Office studied participation in 529 college savings plans in 2013 and reported that families with the plans had about 25 times the median financial assets of families that did not have active 529 accounts, and about three times the median income. Family members holding 529 accounts were also about twice as likely to have a college degree. Altogether, GAO found that only 3 percent of families saved in a 529 account or a Coverdell education savings account, which is a similar tax-free savings account for education expenses.[48]

Other surveys have shown that more middle- and upper-middle-class families are taking advantage of 529 savings accounts. A survey by Strategic Insight, an investment research company, reported that 70 percent of families with 529 plans earned less than $150,000 per year.[49]

The demographics of current 529 college savings plan account holders should inform policymakers looking to expand 529 account participation. Expanding the allowable uses of 529 college savings accounts would provide a meaningful benefit to the families of the nearly 11 million account holders, and many more who may contribute to a 529 college savings plan if its allowable uses were broadened. However, since most low-income families do not have sufficient disposable income to devote funds to savings, expanding the allowable uses of 529 savings accounts would not likely provide immediate benefits to disadvantaged children. Therefore, federal or state policymakers wishing to address equity concerns and ensure that low-income students will also benefit from Lifelong Learning Education Savings Accounts will need to examine other reforms to enable contributions into these accounts, such as by allowing tax advantages for charitable contributions into students' 529 accounts or by allowing families to redirect a portion of government funding for education services into 529 accounts. This issue is discussed in greater detail below.

Growing Questions about the Effectiveness and Value of Student Subsidies for Higher Education

529 college savings plans were specifically designed to encourage families to save for their children's postsecondary education expenses. Encouraging greater access to and participation in higher education has been a goal of federal policymakers for decades. The federal government provides a wide range of indirect and direct subsidies for higher education, including grants, subsidized student loans, and tax benefits for college and loan costs.[50] According to the College Board's 2014 report on *Trends in Student Aid*, the federal government spends $48 billion on federal grants for postsecondary students (including $30 billion in Pell Grants) and $96 billion in federal loans.[51] The College Board reports that total federal student aid increase was $164 billion in 2013-14, an increase of 76 percent in just 10 years.[52]

But growing evidence raises questions about the effectiveness of the strategy of increasing federal subsidies for college to expand college access, as well as the educational benefit of programs aimed to encourage young adults to participate in postsecondary education:

Increasing Subsidies for College Have Corresponded with Increasing Costs: The rise in cost of college tuition and expenses has led many economists and education analysts to point out that increasing aid for students through grants, subsidized loans, and other benefits has occurred during a period when college tuition and expenses costs have increased dramatically.[53] For example, the College

Board documented long-term trends in its 2014 report on Trends in College Pricing: "The inflation-adjusted average published price for in-state students at public four-year universities is 42 percent higher than it was 10 years ago and more than twice as high as it was 20 years ago. In the private nonprofit four-year sector, the increases were 24 percent over 10 years and 66 percent over 20 years."[54]

Outcome Measures Raise Questions about the Effectiveness and Value of Postsecondary Education: There are also growing questions about the effectiveness of colleges and universities in providing significant value to the majority of students to prepare them to succeed in life and the workforce. In *Academically Adrift: Limited Learning on College Campuses*, Richard Arum and Josipa Roksa detail evidence that raises questions about the value of college. For example, a survey of students over four years of college found that 45 percent of students did not demonstrate any significant improvement during the first two years, and 36 percent also did not show significant improvement after four years.[55]

Education expert Kevin Carey of the New America Foundation presented other alarming evidence of poor learning on college campuses in his 2015 book *The End of College*. For example, Carey referenced a 2005 U.S. Department of Education report on adult literacy revealed that "a majority of college graduates couldn't do things like compare and contrast the viewpoints in two newspaper editorials" and that "fourteen percent of college graduates scored at only 'basic' levels of literacy."[56] Carey also described a National Bureau of Economic Research study showing the hours a typical college student spent in class and studying declined from 40 hours per week in 1960 to 27 hours in 2003, even though the percentage of students earning As on class grades nearly tripled during that time.[57] Statistics also show that a majority of college students are not graduating within four years: fewer than 40 percent of students graduate within four years and fewer than two-thirds graduate within six years, according to Carey.[58]

The poor outcomes and low levels of learning for many students who attended or even graduated from college are particularly alarming given the debt that many students incur to enroll in college or earn their degrees. According to the Pew Research Center, the typical college graduate with a bachelor's degree who borrowed funds to attend college left school with roughly $27,000 in debt.[59] The amount of college student loan debt held collectively across the nation ($1.1 trillion) now exceeds both the amount owed to credit cards ($669 billion) and auto loans ($905 billion), according to the Federal Reserve Bank of Dallas.[60]

A QUESTION FOR POLICYMAKERS AND THE PUBLIC: ARE THE COLLEGE YEARS THE BEST TIME TO MAXIMIZE FEDERAL SUBSIDIES FOR STUDENT LEARNING?

Given the recent trends in higher education—including increasing costs, poor learning outcomes, and increasing student loan debt—policymakers and the public should question the current national strategy of spending significant federal resources on college grants, loans, and other subsidies to encourage young adults to enroll in postsecondary education.

The experience of many college students and recent college graduates, including questionable learning outcomes and high levels of debt, may rightly lead aspiring college students to ask if the cost

to attend college is worth it, particularly as many recent graduates struggle to find good paying jobs. For example, in 2014, the New York Federal Reserve Bank studied whether recent college graduates are finding jobs that match their skill level. The New York Fed reported that the underemployment rate—that is, the percentage of college graduates working in jobs that do not require a college degree or higher—was 44 percent among recent college graduates as of 2012.[61] This is an uptick compared to historical norms and since 2001.[62] However, the economists writing for the Fed found that roughly 1 in 3 college graduates is working in a job that does not require a college degree, a trend that has remained consistent since the early 1990s.[63] While many jobs that do not require college degrees pay well, the economists found that 20 percent of recent college graduates were in low-wage jobs that paid an average of below $25,000 per year.[64]

Another factor that may affect public viewpoints about spending and subsidies to encourage college attendance is the ongoing proliferation of low-cost opportunities for students to learn, including through online or digital courses, in a manner that is similar to how college students have traditionally learned. Analysts and observers have predicted that the rise of low-cost, online learning programs has the potential to dramatically reduce the costs and other barriers to entry of receiving college instruction.

Many families might benefit from having greater flexibility to decide how education funds are spent earlier in a child's life to ensure they succeed during their K-12 years.

Some colleges and universities, including elite institutions like Massachusetts Institute of Technology and Stanford University, are placing course instruction online where they can be taken for free or for minimal charge, even allowing students to earn credits and demonstrate their mastery of the subject matter to future employers. The combination of free or low-cost instructional material online and new credentialing systems to allow students to demonstrate their progress and achievements has the potential to create a new way for learners to signal to future employers their value, displacing or creating an alternative to the traditional, costly college degree.

The explosive growth in free, online college classes (MOOCs) demonstrates that students can study at high-quality institutions no matter where they happen to live.[65] Harvard's free online courses now enroll some 900,000 students around the world.[66] In 2012, Coursera, another free online course provider, enrolled 1 million students across 196 countries.[67] Students of all ages want access to educational content that will help them in school and beyond.

The $76,000 (or $170,000) Question: According to the College Board, the annual cost of attending a four-year, in-state public university is approximately $19,000 per year (including tuition, fees, and room and board), or roughly $76,000 over four years.[68] (Readers wishing to conduct this thought experiment using a private college as an example can change this analysis to the $170,000 question, as the annual cost of attending a private college is $42,419.)

Look at the following options for spending $76,000 on a person's education, and consider which would be preferable:

> **OPTION A — Enrolling in a public university at age 18, spending four years, and $76,000 before (hopefully) graduating at age 22.**
>
> **OPTION B — Not spending all of the $76,000 — or potentially not incurring the potential estimated $30,000 in debt — during the four to six years following high school graduation, and instead reserving some or all of these funds for "lifelong learning" if it is useful in the future.**

Option A has been the default choice of the majority of high-achieving students who graduate from high school and seek to continue their education. But in the years ahead, it is reasonable to expect that more students may consider Option B as a smarter choice, particularly if low-cost and high-quality learning options continue to become more readily available.

For many college graduates, including the one-third who are underemployed and not working in jobs that require a college degree, if given the opportunity to revisit their decision to attend college, some or many might amend their choices, since deferring some of the funds spent on college, or not borrowing funds to attend college, could have provided them with additional flexibility to pursue future learning or training programs that might have helped them improve their marketability in the labor market. This type of lifelong learning and mid-career training would be particularly beneficial to the many workers who have seen their jobs or professions overtaken by competition or technological innovations.

To further expand the thought experiment, consider offering these students, or more important, their parents, a third choice:

> **OPTION C — The ability to control how those $76,000 dollars that would be spent on a young adult's college education throughout their lives, from preschool and K-12 schooling through college and job-training programs.**

Many families might benefit from having greater flexibility to decide how education funds are spent earlier in a child's life to ensure they succeed during their K-12 years. For example, paying for school tuition or tutoring in middle or high school may be useful for families to ensure that a child stays on track to graduate high school and be prepared for college. Others may wish to have the opportunity to enrich a child's particular interest or area where she excels during the K-12 years to improve her chances of attending the college of her choice. Even if families and students still choose to spend funds for college in the traditional manner, or Option A, they would be better off and no worse off had they been given greater flexibility to use those funds before and after college.

The Importance of Lifelong Learning

With the advance of technology, the valuable skills needed for individuals to succeed in the workforce are constantly changing. According to the U.S. Department of Labor, the list of the top-20 fastest-growing professions in the U.S. includes technical fields such as "computer and mathematical occupations" and technical health care jobs (Table 3).

Table 3: Fastest Growing Occupations, 2012 and Projected 2022

Table 1.1 Employment by major occupational group, 2012 and projected 2022 (Numbers in thousands)

2012 NATIONAL EMPLOYMENT MATRIX TITLE AND CODE	EMPLOYMENT		CHANGE 2012-22 PERCENT	MEDIAN ANNUAL WAGE, 2012[1]
	2012	2022		
Total, All Occupations	145,355.8	160,983.7	10.8	$34,750
Management Occupations	8,861.5	9,498.0	7.2	$93,910
Business and Financial Operations Occupations	7,167.6	8,065.7	12.5	$62,500
Computer and Mathematical Occupations	3,814.7	4,500.5	18.0	$76,270
Architecture and Engineering Occupations	2,474.5	2,654.0	7.3	$73,540
Life, Physical, and Social Science Occupations	1,249.1	1,374.8	10.1	$60,100
Community and Social Service Occupations	2,374.7	2,783.4	17.2	$40,400
Legal Occupations	1,247.0	1,379.9	10.7	$75,270
Education, Training, and Library Occupations	9,115.9	10,131.7	11.1	$46,020
Arts, Design, Entertainment, Sports, and Media Occupations	2,570.9	2,751.6	7.0	$43,930
Healthcare Practitioners and Technical Occupations	8,049.7	9,782.6	21.5	$60,200
Healthcare Support Occupations	4,110.2	5,266.0	28.1	$25,550
Protective Service Occupations	3,325.3	3,588.3	7.9	$36,620
Food Preparation and Serving Related Occupations	11,780.1	12,882.0	9.4	$18,930
Building and Grounds Cleaning and Maintenance Occupations	5,522.3	6,213.3	12.5	$22,690
Personal Care and Service Occupations	5,375.6	6,498.5	20.9	$20,840
Sales and Related Occupations	15,105.0	16,200.5	7.3	$25,120
Office and Administrative Support Occupations	22,470.1	24,004.1	6.8	$31,510
Farming, Fishing, and Forestry Occupations	947.2	915.0	-3.4	$19,370
Construction and Extraction Occupations	6,092.2	7,394.1	21.4	$40,120
Installation, Maintenance, and Repair Occupations	5,514.8	6,046.0	9.6	$41,020
Production Occupations	8,941.9	9,017.5	0.8	$30,920
Transportation and Material Moving Occupations	9,245.7	10,036.4	8.6	$28,960

Footnotes: (1) Data are from the Occupational Employment Statistics program, U.S. Department of Labor, U.S. Bureau of Labor Statistics. *Source: Employment Projections program, U.S. Department of Labor, U.S. Bureau of Labor Statistics*

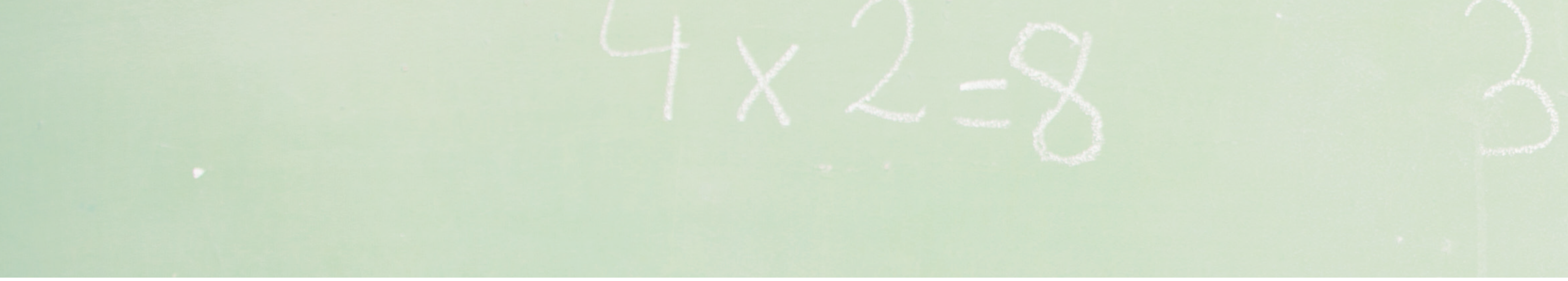
The number of health care support jobs is projected to increase by 28 percent over the next seven years, while the number of health care technical support professionals is expected to increase by 21.5 percent. Jobs involving computers and mathematics are expected to increase by 18 percent. These positions require at least a college degree, if not post-graduate work.

State-level evidence also indicates the need for workers with specific skill sets. The Arizona Department of Economic Security projects a 31 percent increase in health care technical professions by 2020, and a 19 percent increase in the number of jobs related to computers and mathematics.[69] The Colorado Department of Labor and Employment projects that the fastest-growing employment areas through 2022 are the math- and science-intensive fields of Health Care and Professional, Scientific, and Technical Services.[70]

In order to be prepared for these positions, individuals will need to have specific training in addition to and after college. The steady advance of technology readily presents us with new devices for professional and personal use.[71] Skilled professionals have no choice but to keep up if they are to learn the skills needed to compete in the job market. Expanding the uses of 529 savings plans to allow students to acquire needed instruction and training before and after college would be a significant resource for workers in the 21st century.

Competing for high-skilled and technical jobs is just one reason many individuals will likely need to continue to learn new skills throughout their adult lives. Just as technical jobs are a growing share of the labor market, many traditional careers and jobs that have offered good-paying wages are facing new competition, making some jobs much more scarce. News reports abound with predictions of jobs nearing extinction. For example, *Forbes* reported the top "endangered" jobs of 2014 included mail carrier, meter reader, newspaper reporter, travel agent, drill press operator, and flight attendant.[72] While creative destruction is a necessary and important aspect of the market economy, policymakers should consider the challenges of affected workers when designing education and training policies.

Changing jobs has become a common aspect of American life over the past half century. The U.S. Bureau of Labor Statistics reports that among adults born in the latter years of the baby boom (1957 through 1964), the average worker held approximately 12 jobs between ages 18 and 48, with half of those changes occurring before the age of 24.[73] The ability to gain new skills throughout a person's working life will allow workers to improve their position in the labor market and take advantage of job opportunities to improve their earnings, happiness, or security.



A FIRST-STEP TOWARD ENABLING PERSONALIZED LIFELONG LEARNING: EXPANDING THE ALLOWABLE USES OF 529 SAVINGS ACCOUNTS

Federal policymakers should expand the allowable uses of 529 college savings accounts to including preschool, K-12, and a wider range of post-college or job-training expenses.[74] This reform would offer savers the following benefits:

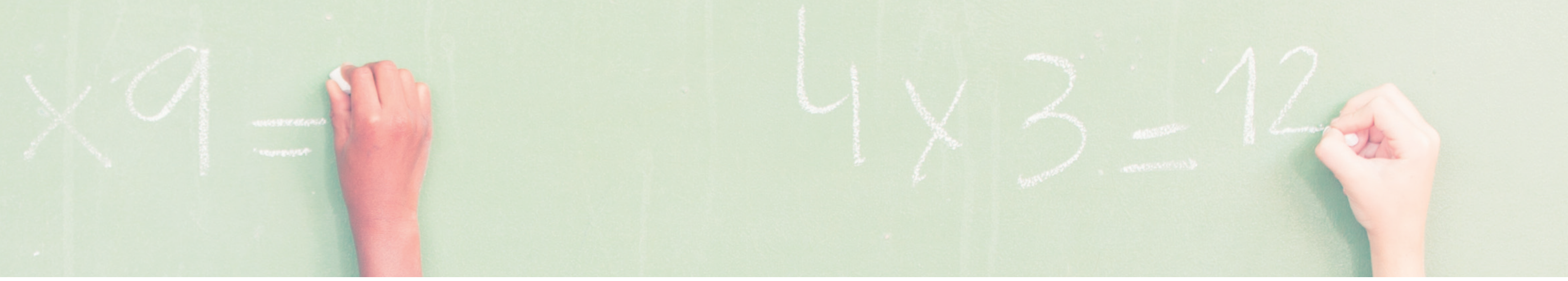
- **Greater flexibility and autonomy over how funds saved in 529 accounts are used:** Expanding the allowable uses of funds saved in 529 education savings accounts would give families the choice to decide when funds are best used to benefit the student's learning opportunities.

- **The ability to ensure students receive a high-quality preschool, elementary, and secondary education:** One reason that many students do not go on to attend college is they do not succeed during the K-12 school years, such as not completing coursework to graduate or not earning the requisite credits to enroll in college. Moreover, even many college students are required to enroll in remedial instruction upon attending college to make up for areas where they failed to learn basic skills during high school. The flexibility to use 529 account funds to purchase high-quality preschool services, tutoring, school tuition, or to engage in enrichment activities would allow families to make sure that their children attain elementary and secondary education that prepares them for college or the workforce.

- **Allowing savers to be more discerning customers when purchasing higher education services for their students:** Having more choices for how funds saved in 529 accounts are used, either before or after college, would incentivize families and student beneficiaries to economize their spending on postsecondary education since funds could be used in future years for further instruction, including job training.

- **Giving beneficiaries of savings accounts the opportunity to engage in lifelong learning, including a wider range of job training programs:** Many young adults, including recent college graduates, may face changes in the job market during their working lives, requiring them to seek additional skills to remain competitive. Allowing 529 accounts to be used beyond postsecondary education, including on job training or other educational programs that are not eligible for federal financial aid, would benefit lifelong learners, equipping them to respond to rapid changes in the job market.

- **Allowing families to transfer "lifelong learning" benefits to their children:** Since 529 college savings accounts can be rolled over or transferred to additional beneficiaries, including a spouse, children, or a spouse's children, expanding the allowable uses of 529 savings accounts provides greater flexibility for families to make education choices benefiting parents, children, and future children.



Expanding 529 Savings Accounts and the Implications for Federalism: Under federal law, state governments can decide whether to offer 529 savings plans.[75] Expanding the allowable uses of 529 savings accounts would immediately benefit plan participants in more than 30 states and Washington, D.C., which already offer state income tax benefits for contributions made to 529 accounts.

States not wishing to offer their citizens an opportunity to save for lifelong learning expenses would remain free to revise their policies governing tax benefits for contributions made into 529 savings accounts or to end the program altogether. Thus, this federal reform empowers rather than inhibits states.

State Oversight of Expenditures Made from 529 Accounts: Since they already oversee 529 college savings accounts, state governments can implement safeguards to ensure that funds saved in these accounts comply with federal guidelines for qualifying educational expenses. To be sure, expanding the allowable uses of 529 accounts to include preschool, K-12, and post-college education and job-training expenses would add some complexity to state oversight efforts. But account administrators can adopt safeguards and lessons from states like Arizona that are currently managing state-funded K-12 education savings accounts.

Addressing Equity Concerns: Policymakers should address potential equity concerns related to 529 savings accounts. Current beneficiaries of 529 college savings accounts tend to come from families with higher incomes and assets than families that do not maintain 529 college savings plans for their children. There is a range of complementary reform options to ensure many more children benefit from lifelong learning accounts, such as the following options:

- **Federal policymakers could clarify that individuals can make tax-deductible donations to nonprofit organizations that pool funds to award grants to students' Lifelong Learning ESAs:** Under federal law, individuals can receive a federal tax deduction for contributions to nonprofit organizations for educational purposes, including funding educational services for students. By that logic, individuals could receive the same charitable tax deduction if they made a donation to a nonprofit 501(c)(3) organization that pools funds and awards need-based grants or scholarships to students' 529 accounts. Many 501(c)(3) organizations—including colleges and universities, private schools, religious institutions, and scholarship organizations— pool tax deductible donations and then award need-based education grants, scholarships, or financial aid.[76] Congress or the Internal Revenue Service could amend the law or existing rules to clarify that donations to nonprofits that raise funds for general contributions to students' Lifelong Learning ESAs are eligible for tax deductions.

- **Federal policymakers could allow students to opt out of certain federal education programs, depositing those funds into a state-managed 529 savings account:** To provide students from low-income families access to more funds for their 529 savings accounts, the federal government could allow students to opt out of certain federal education programs, such as Head Start or other federal early childhood education programs, and instead deposit those

funds into an education savings account.[77] The federal government could also permit federal education funds for states and local governments to be deposited into 529 education savings accounts for eligible student groups.[78]

- **States can create state-funded lifelong learning ESAs:** States should create state-level education savings account programs, depositing funds that students can use for preschool, K-12, and postsecondary education, and lifelong learning. Arizona, Florida, Mississippi, Nevada, and Tennessee already have K-12 education savings account programs that could serve as a model.

What Congress Should Do

First, Congress should enact legislation to reform and expand the allowable uses of 529 college savings accounts to include preschool, K-12 expenses (including tuition, tutoring, instructional programs, homeschooling instructional materials, academic enrichment programs, online classes, and the cost of taking exams such as the ACT, SAT, GRE, and CLEP exams), as well as other postsecondary education and job-training programs.

Second, Congress should consider and enact other reforms to give more families, including those from non-affluent socioeconomic backgrounds, the ability to save in 529 lifelong learning accounts. These reforms could include clarifying that contributions made to nonprofit groups that collect and raise funds for students' lifelong learning accounts should be tax deductible to encourage philanthropic contributions. Congress could also reform other federal education programs, such as Head Start, the Elementary and Secondary Education Act, the Individuals with Disabilities Education Act, to allow students to receive funds in 529 accounts for lifelong learning if they forgo participation in these federal education programs.

What State Governments Should Do

State governments should enact programs that allow students to opt out of state services, such as public schools or preschool, and instead have their share of education funding deposited into a state-managed lifelong learning education savings accounts. Arizona's pioneering program for education savings accounts can serve as a model for encouraging lifelong learning, since it already allows funds to be saved for use at the postsecondary education level.

Conclusion

Transforming 529 savings accounts into Lifelong Learning Education Savings Accounts would dramatically expand American families' ability to save for and purchase high-quality educational services throughout an individual's life, which will help students succeed in their elementary, secondary, college, and post-college studies and training. Individuals can continue learning throughout their lives to compete in the dynamic and ever-changing job market to improve their opportunities and ability to pursue happiness. ●