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Researching Family Balance Sheets to Strengthen
Families and the Economy | stlouisfed.org/hfs

Why Investing In and Protecting 529 Savings Remain Important

PANEL on CDA POLICIES and COVID–19

Center for Social Development at Washington University in St. Louis
and the Missouri State Treasurer's Office

July 16, 2020

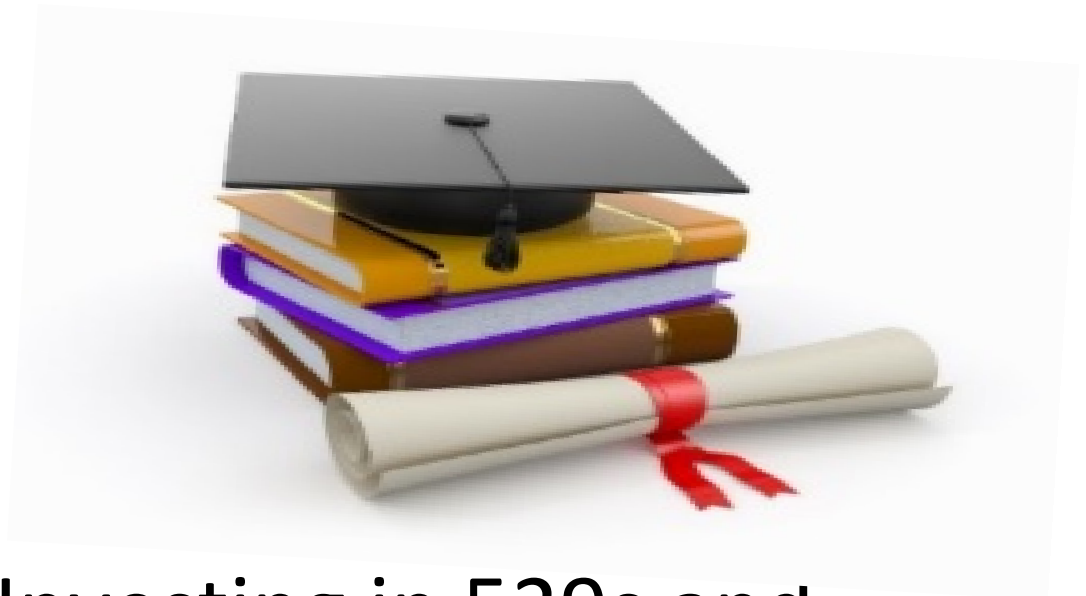
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www.stlouisfed.org/hfs

**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*



I. Why Investing in 529s and College Remain Important

In General, College Really Pays

<https://www.stlouisfed.org/household-financial-stability/events/past-events/is-college-still-worth-it>

Compared to those not completing a 4-year degree, a college degree is associated with:

- ✓ Higher income and wealth
 - College income boost or “premium”: 108%
 - College wealth boost or “premium”: 327%
- ✓ Better health
- ✓ A higher likelihood of being a homeowner
- ✓ A higher likelihood of being married or cohabitating
- ✓ A lower risk of falling behind on loan payments

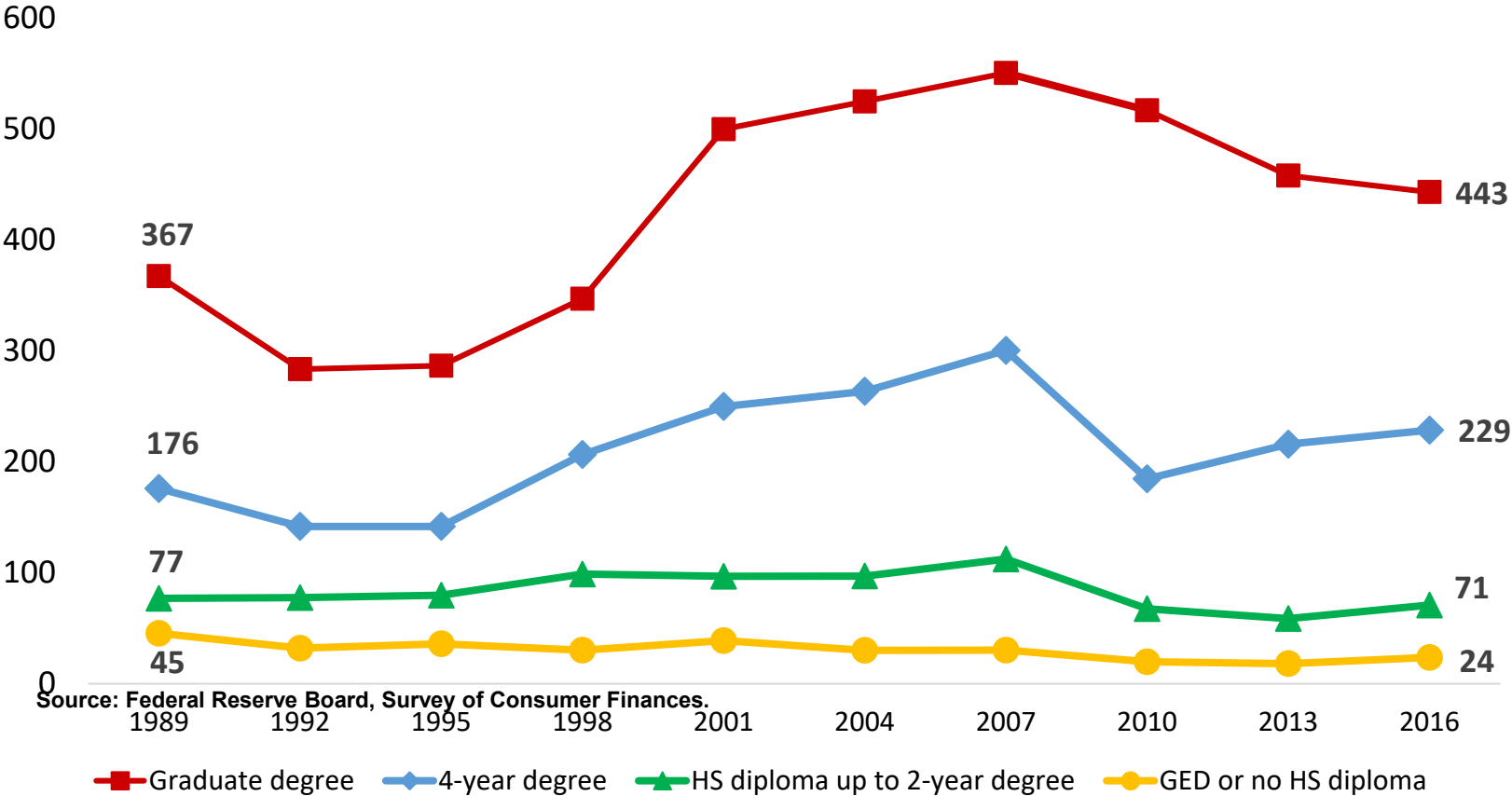


34% of families are now headed by someone with at least a 4-year degree, up from 23% since 1989

Overall, Education is Strongly Correlated with Wealth; Only Those with College Degrees or Higher Have Seen Their Wealth Grow

Real Median Family Net Worth, By Education

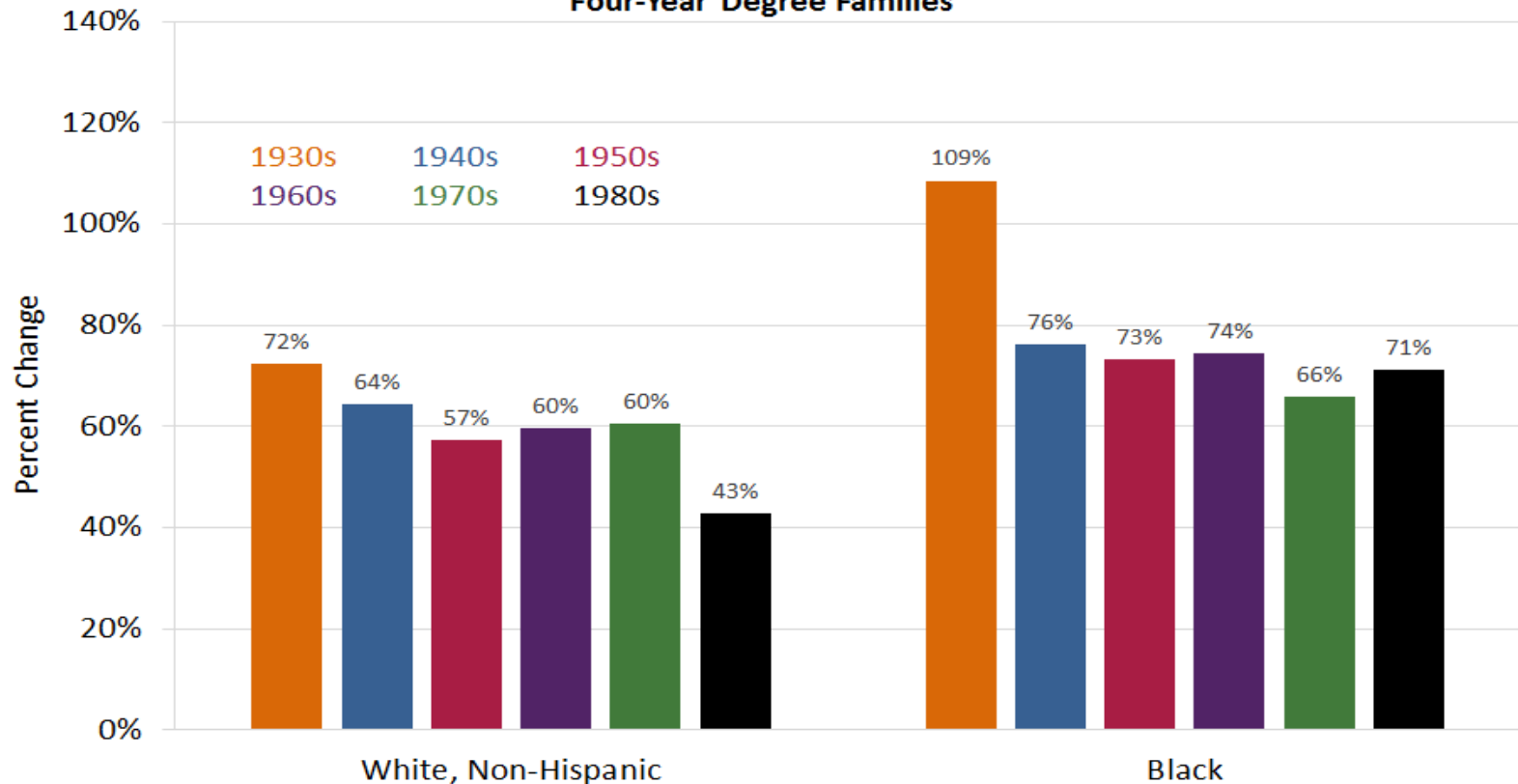
Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

The Income Premium for Completing College Has Been Steady Across Birth Cohorts and Races

Change in Expected Income Four-Year Degree Families



SOURCES: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

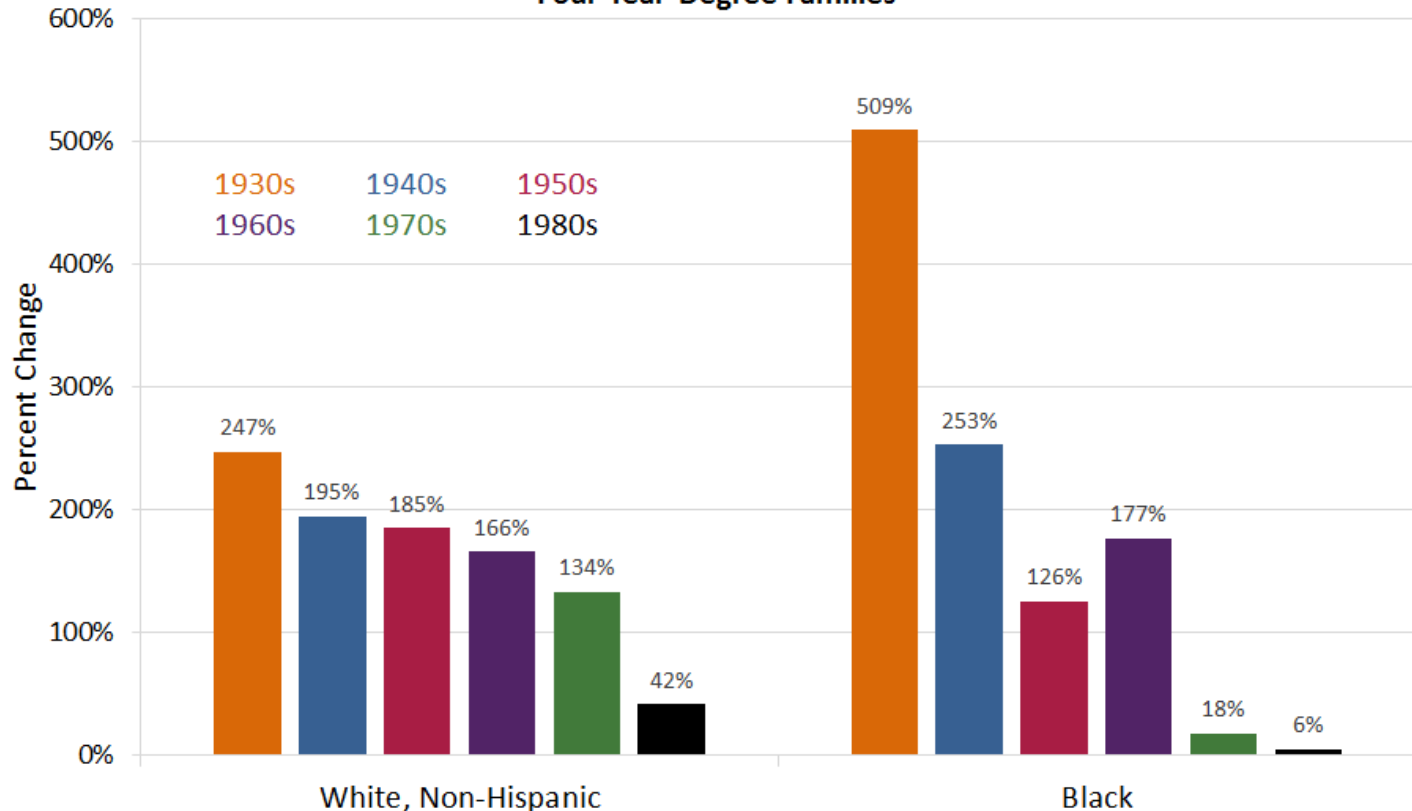
NOTE: Percent change is relative to nongrad families of the same race born in the same decade.

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However, the Wealth Premium for Completing College Has Generally Declined Across both Generations and Races

Change in Expected Wealth

Four-Year Degree Families



SOURCES: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

NOTE: Percent change is relative to nongrad families of the same race born in the same decade.

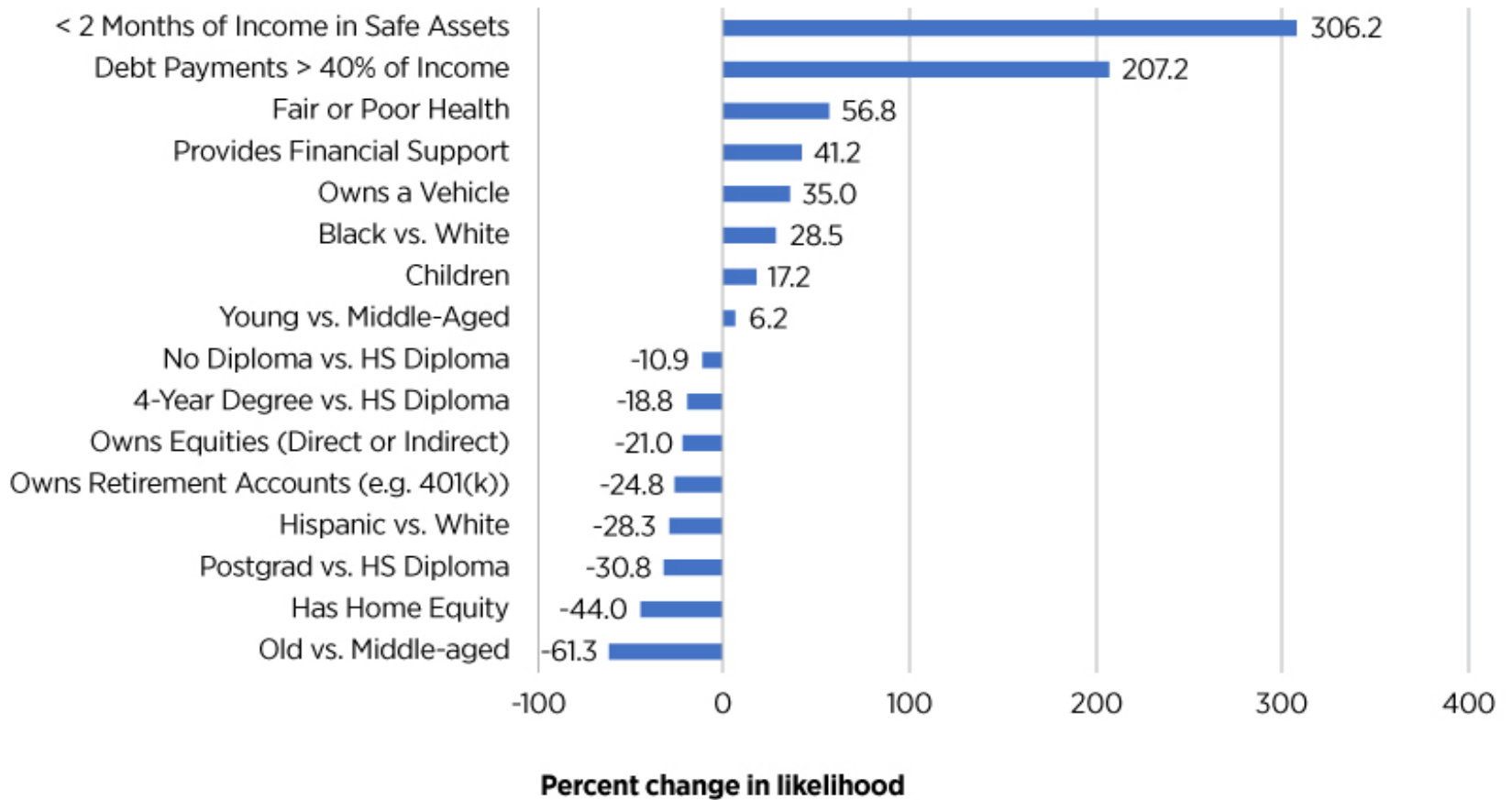
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II. Promoting Emergency Savings to Protect and Encourage 529 Savings

Families Lacking at Least 2 Months of Cash / Liquid Savings Are Most Vulnerable to an Income Shock

Ricketts & Boshara, 2020 <https://www.stlouisfed.org/publications/in-the-balance/2020/families-most-vulnerable-to-income-shock>



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How Emergency Savings Promote Financial Stability and Protect Longer-Term Savings



- ❖ Between 30 and 40 cents “leak” out of 401(k)s and similar retirement accounts for every \$1 saved (Beshears et al., 2017)
- ❖ *Pre-pandemic*, just over 1 in 3 Americans faced with a \$400 unanticipated expense would either have to borrow or sell something or would be completely unable to cover it. That number spikes to more than half of Americans if they lost their jobs or had hours significantly reduced because of the pandemic. (Federal Reserve, Survey of Household Economics and Decisionmaking, 2020)
- ❖ Even while carrying high-interest debt, keeping a cash buffer is important: it greatly reduces the risk that a family will miss a payment for rent, mortgage or a recurring bill; will be unable to afford enough food; or will be forced to skip needed medical care within the next six months (Gallagher and Sabat, 2017)
- ❖ Liquid savings is the single variable most highly correlated with financial well-being (CFPB, 2017)

Recommendations



Improve Wealth Premiums

- ✓ Ease existing student loan burdens
- ✓ Reduce the cost of college to reduce reliance on student loans going forward
- ✓ Finance college with more savings and grants, and less with student loans; view investments in 529s as a catalyst or magnet for additional equity investments in college.



Promote Emergency Savings

- ✓ Leverage Tax Refunds
 - Refund to Savings (Washington University)
 - Cities for Financial Empowerment Fund
 - Rainy Day EITC (Prosperity Now)
- ✓ Make Saving Fun
 - SaveYourRefund (Commonwealth)
- ✓ Use Fin-Tech & Digital Savings Tools
 - Even, Digit, Shift, Acorns, Qapital
 - SaverLife (EARN)
- ✓ Promote Employer Solutions
 - “Side-car” savings in 401(k)s (Laibson et al., 2014)
 - Employee financial wellness programs (Washington University)
 - Stabilize work schedules, promote predictability (U.S. Financial Diaries, 2016)
- ✓ Expand Financial Coaching
 - Financial Clinic, NYC
 - \$tand By Me (State of Delaware)
 - National Council of La Raza / UnidosUS