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529s: A Compelling Voluntary Benefit

Introduction

Over the past few years, the benefits landscape has undergone a dramatic transformation as companies have responded to the evolving needs of their workforce during the COVID-19 pandemic.

Many employers have rapidly adopted flexible work, added caregiving and expanded mental health benefits, and provided their workforces with enhanced access to telemedicine.

The quick addition of benefits like these are all evidence of a growing culture of caring – an effort by forward-thinking companies to augment how they support their most important asset, their people, especially during challenging times. And with good reason: Plenty of evidence suggests that investments in benefits can boost morale and deepen employee satisfaction and loyalty. For example, a 2016 report by the Society for Human Resources Management (SHRM) found that 60 percent of surveyed employees said benefits were "a very important contributor to job satisfaction."[1]

In today's economy, building an authentic culture of caring is more important than ever. Even as many employees continue to deal with stresses at home that can impact their work, a growing number of people are rethinking and switching careers, changing industries,[2] or choosing to leave the workforce altogether — a trend that has been coined "The Great Resignation."[3]

Strategically enhancing benefit options can help companies optimally position themselves as attractive employers and retain today's employees who are increasingly favoring companies that care for and do right by their people.

For benefits administrators looking beyond COVID-19, the next employee wellness frontier is education support. According to a recent SHRM survey,[4] "education benefits are ripe for expansion, as employers see real advantages in talent acquisition and retention by being early adopters of these relatively rare but popular offerings."

Within this category, a low-cost, easy-to-implement voluntary benefit option is the 529 education savings plan. While only 7% of employers offer a 529 plan, 49% of workers say they are interested in it as a benefit.[5]

For employees, these plans can be essential. As with a 401(k), regular, even small contributions made to a tax-deferred 529 savings account can potentially add up significantly over time, offering a tremendous opportunity to build funds to meet the skyrocketing cost of education — whether a family member chooses to attend a university or pursues vocational training.

Here is a closer look at 529 savings plans as a voluntary benefit — how they can deliver value to employees and their families, how they work, and how to roll them out successfully.

The Case for 529s as a Voluntary Benefit

For decades, many American families have been struggling to figure out how to cover the ever-increasing cost of education, which has been rising at twice the rate of inflation.[6]

The cost of education in the United States continues to climb dramatically. The "all-in" cost for a year at a private college is currently $54,880, while a student at a public college can expect to pay $26,820 per year; textbook costs have risen more than 800 percent since 1978.[7]

Grant aid typically only covers a fraction of these costs, and in most cases the majority of "aid" comes in the form of loans. As a result, many students and their families face a financial crunch. Parents find themselves financially stretched and stressed, while in many cases students walk away from college saddled with heavy debt loads that can take decades to pay off.[8]

There are more than 43 million student borrowers, owing an average debt of $39,351.[9] According to the Federal Reserve Bank of St. Louis, current student debt totals more than $1.75 trillion, a record high.[10]

"All in" Costs:

$54,880
at private colleges

$26,820
at public colleges (in-state)

$43,280
at public colleges (out-of-state)

Average Grant Aid:

$7,330
at public colleges

$21,660
at private schools

Textbooks:

up **812%** since 1978

Current Student Loan Debt:

$1.75 trillion,
a record high since 1978

Sources: College Board "Trends in College Pricing" 2020, Student Loans Owned and Securitized, Federal Reserve Bank of St. Louis

In a tightening labor market, offering a well-thought-out suite of core and voluntary benefits can help set an employer apart from their competition.[11]

According to a 2021 survey[12], voluntary benefits play a vital role in attracting and retaining employees. Another study, by SHRM/Morgan Stanley[13], found that education benefits — such 529 plans — are perks that Americans looking for work value highly: 25 percent considered these one of the most important employer-sponsored financial wellness benefits for their financial needs and goals, compared to 18 percent of Americans already with a company.

Implementing a 529 plan as a voluntary benefit is a way for employers to ease the financial stress of saving for educational expenses. These plans are especially attractive as a benefits option because they are typically a no- or low-cost offering, and easy to implement. Most of the administrative work is undertaken by a plan administrator. Employers are generally only responsible for communicating benefit details to their workforce and taking steps to ensure the benefit is understood and adopted–the 529 plan does the rest.

Once a 529 savings plan option is rolled out, employees can enroll, choose from a menu of investment options, and contribute via regular payroll direct deposits into their 529 plan account(s). The money in the 529 plan grows tax deferred, compounding over time, and qualified withdrawals are tax-free.[14] Saving on your own can be hard, given that people are juggling expenses and other commitments: Programs like 529 plans give employees an easy and structured way to save for education.

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How to Make 529s a Success

While adding a 529 plan to a company's benefits portfolio is a straightforward process, employer involvement is crucial to drive a successful rollout.

As with any new benefit offering, the program will require nurturing. The rollout strategy should ideally include education, workshops, and tactics that help spread the word via internal communications channels. The plan administrator can assist a firm's human resources department in planning the rollout by supporting financial literacy and on-going education initiatives, as well as hosting informational sessions and providing enrollment support.

Ongoing support from employers is crucial. Running seasonal campaigns, for example, can help tie the benefits of a 529 plan to specific themes, from "back to school" in September to "year-end financial and tax planning" in November and December. Employers can also help publicize a 529 benefit by making direct contributions as a form of employee recognition or incentivize participation through a customized matching program.

Given that 529 plans are generally sponsored by individual states, multi-state employers may shy away from adopting a 529 plan, fearing complexity. But some plan administrators can offer 529 plans in multiple states, and there are online resources to help give "out of state" employees the flexibility to find and choose from multiple plans.

What is a 529 plan?

Named after Section 529 of the Internal Revenue Code, these tax-deferred education savings programs are designed to help people meet the rising cost of education.

Who can benefit from a 529 plan?

529 plans are not just intended for traditional college-bound students. They can help pay for K-12 tuition, technical and vocational school programs, apprenticeship programs, graduate school, and more. 529 plans can even be used to repay up to $10,000 of the beneficiary's student loans.

Helping Employees Close the Education Savings Gap

Consistent contributions made to a tax-deferred account, even small ones, can potentially add up over time. While employees know that is true for 401(k) accounts, it can also be true for 529 plans.

By introducing a 529 plan as a voluntary benefit, employers can help empower their workforce to take control of one of life's bigger financial challenges, funding education, while simultaneously adding a new feature to their recruitment toolkit. That step, in turn, can help attract and retain top talent at a time when demonstrating a culture of caring matters most.

Are 529 plans complicated?

Flexible and simple to maintain, these plans are generally sponsored by individual states and can have federal and state tax advantages.

How does the money in a 529 plan grow?

529 plans grow tax deferred, meaning that the money grows until withdrawals begin.

What expenses does a 529 plan help cover?

529 plans can be used to cover qualified education expenses like tuition, fees, some room and board costs, books, and select equipment purchases.

[1] Employee Job Satisfaction and Engagement, Society for Human Resources Management

[2] The number of U.S. workers quitting their jobs in September was the highest on record, New York Times

[3] 6 Strategies to Boost Retention Through the Great Resignation, Harvard Business Review

[4] 2020 Employee Benefits, Society for Human Resources Management.

[5] 2019 Guardian Workplace Benefits Study, 6th Annual: College Debt in America

[6] "College Tuition Is Rising at Twice the Inflation Rate—While Students Learn At Home," Forbes, August 31, 2020.

[7] College Board "Trends in College Pricing" 2020

[8] This is the average age when people finally pay off their student loans for good, CNBC.

[9] Student Loan Debt Statistics, Education Data Initiative, November 2021.

[10] Student Loans Owned and Securitized, Federal Reserve Bank of St. Louis.

[11] Using Voluntary Benefits to Support Workforce Strategy, SHRM, February 2019.

[12] Corestream, September 2021. "The 2021 State of Voluntary Benefits"

[13] "Unlocking the Full Potential of Financial Wellness Benefits," Society for Human Resource Management/Morgan Stanley.

[14] Earnings on nonqualified withdrawals are subject to federal income tax and may be subject to a 10 percent federal tax penalty, as well as state and local income taxes. The availability of tax and other benefits may be contingent on meeting other requirements.

For more information about 529 plans managed or administered by Ascensus call **1.877.529.2980** or **click here.**

Please Note: Before you invest, consider whether your or the beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program. You should consult your financial, tax, or other advisor to learn more about how state-based benefits (or any limitations) would apply to your specific circumstances. You also may wish to contact directly your home state's 529 college savings plan(s), or any other 529 plan, to learn more about those plans' features, benefits, and limitations. Keep in mind that state-based benefits should be one of many appropriately weighted factors to be considered when making an investment decision.

Investment objectives, risks, charges, expenses, and other important information are included in a 529 plan's offering statement; read and consider it carefully before investing.

When you invest in a 529 plan you are purchasing municipal securities whose value will vary with market conditions. Investment returns are not guaranteed, and you could lose money by investing in a 529 plan. Account owners assume all investment risks as well as responsibility for any federal and state tax consequences.

About Ascensus

We believe financial independence provides freedom and choices that enable people to pursue their full potential and live their best lives. That's why we're helping more than 13 million people save for what matters—retirement, education, and healthcare.

Ascensus offers tailored solutions that meet the needs of financial institutions, state governments, financial advisors, employers, and individuals. Our technology, market insights, and business knowledge enhance the growth and success of our partners, their clients, and savers. Ascensus is the largest independent recordkeeping services provider, retirement plan third-party administrator, and government savings facilitator in the United States.

Expertise and industry leadership

$412.4+ billion
assets under administration[7]

Nation's largest
independent recordkeeper[8]

Winner
of Adviser Choice Award for Recordkeeping[9]

NQR
Ascensus Client Service Processing Teams received a National Quality Review 5-star rating for service quality in the last 23 quarters[12]

WEX Partner Excellence Award
for outstanding business achievements in Health & Benefits space[13]

13+ million
savers served[7]

The most "Best in Class" awards
for plan segments up to $50 million, medaling in every possible category[10]

529 Plan Recordkeeper
#1 in assets under management as ranked by ISS Market Intelligence[11]

6+ million
529 education savings accounts across 25 states + DC[7]

40+
years of experience

[7] As of 9/30/2021.

[8] Cerulli Associates, The Cerulli Report: U.S. Retirement Markets 2019, March 2020.

[9] PLANADVISER, 2019 Retirement Plan Adviser Survey, October 2019.

[10] PLANSPONSOR, 2020 Defined Contribution (DC) Survey, January 2021.

[11] Institutional Shareholder Services (ISS). 529 College Savings Quarterly Data Update: Q3 2021. November 2021.

[12] National Quality Review. Quarterly Quality Rating. September 2021.

[13] WEX Inc. SPARK 2019: Partner Excellence Award Winners. June 2020.

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