

Washington College creates a scholarship that rewards parents who save

By **Danielle Douglas-Gabriel** August 29 at 2:44 PM

Parents of Washington College students who use money from a college savings plan to pay for tuition this year may receive a portion of it back through a pilot program that the liberal arts school in Chestertown, Md., launched Monday.

The program, dubbed the Saver's Scholarship, will match up to \$2,500 a year in funds families contribute from a 529 college savings plan or educational savings account established at least three years before enrollment. Families must submit documentation, such as an account statement, as proof. The scholarship is open to all students who remain enrolled full-time through the 2016-2017 academic year. It will be credited to students' financial aid awards the following year, to allow the school to verify the use of funds from the account.

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“We recognize that not all parents have the resources to save ... but for the parents who do save, we wanted to reward that, because paying for college does involve financial planning,” Sheila C. Bair, president of Washington College, said Friday.

Families can invest through 529 plans — named for a section of the U.S. tax code — without the earnings being taxed, so long as the funds ultimately are used to pay for college expenses. The most popular plans work much like a 401(k) retirement account, with contributions invested in stocks, bonds or money market funds. Earnings are not subject to federal taxes so long as the money goes toward “qualified education” expenses, including tuition, books, fees, room and board, at any accredited school.

Still, government data show that less than 3 percent of American families make use of tax-advantaged college accounts. More families are slowly getting on board with these accounts as the cost of college has reached record highs

and states, which sponsor most 529 plans, offer income tax breaks to encourage investment.

According to the College Savings Plans Network, the total number of 529 accounts in 2015 rose 3.6 percent over the previous year, to 12.5 million. The amount of money funneled into the plans grew by \$25 billion, with more than half of all accounts receiving contributions, while assets increased by \$5.3 billion.

Wealthy families have historically made the most of college savings plans, with households earning more than \$150,000 a year accounting for nearly half of all plan participants, according to a 2012 report from the Government Accountability Office. A more recent survey conducted by Strategic Insight, a mutual fund research firm, shows a significant shift in the economic profile. The firm estimates that 70 percent of current account holders earn less than \$150,000, while an additional 10 percent have incomes below \$50,000.

Bair said it's unclear how many families are using tax-advantaged accounts to pay tuition at Washington College, but she said she hopes the new scholarship will increase awareness of the accounts and encourage more families to participate.

"We're trying to look at all facets of the student debt issue in trying to tackle it. And [the scholarship] is one of several initiatives, but it makes an important statement," Bair said.

For now, there is no cap on the number of families who can benefit from the scholarship, but Bair said she will be monitoring the budget impact.

In the year since taking the helm at Washington College, Bair, the former head of the Federal Deposit Insurance Corp., has introduced several programs to give students alternatives to borrowing. She launched George's Brigade, a scholarship that covers the college expenses of high-performing, high-need students, and kicked off a campaign to reduce the amount of money students borrow by offering grants, called Dam the Debt.

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Danielle Douglas-Gabriel covers the economics of education, writing about the financial lives of students from when they take out student debt through their experiences in the job market. Before that, she wrote about the banking industry. 🐦 Follow @DaniDougPost