Policy Matters Ohio

TESTIMONY
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Senate Bill 5 won't fix Ohio's college affordability problem

Policy Matters testifies before Senate Finance Committee

Good afternoon, Chairman Oelslager, Vice Chair Manning, Ranking Member Skindell and members of the Committee. My name is Victoria Jackson and I am a State Policy Fellow with Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more vibrant, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to submit testimony. I am writing to the Committee to express our opposition to Senate Bill 5, which would increase the tax deduction for contributions to CollegeAdvantage 529 plans, tax advantaged saving and investment vehicles used to pay for college expenses, from $2,000 to $10,000.

Senate Bill 5 misdiagnoses the college affordability problem. College is unaffordable first and foremost because of inadequate state funding to public colleges and universities. Ohio needs greater investment in public college and universities to enable more Ohioans to attend college.

Ohio's median income is $51,075. A quarter of Ohio households have incomes less than $25,000 per year. Saving just $2,000 a year for college would be a struggle for these families.[1] Saving $10,000 a year for college would be impossible for lower income families and difficult for most Ohio families. Increasing the allowable tax deduction to $10,000 is an incentive largely for the affluent. A better solution to the state's affordability crisis is to fund our public institutions appropriately to reduce college costs, so middle- and low-income families can afford college without going into deep debt.

College saving should be encouraged, but individual solutions to a structural problem will leave many college hopefuls behind. For low- and middle- income families, it is nearly impossible to save your way to being able to afford college.

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[1] U.S. Census Bureau, 2015 American Community Survey 1-year estimates, Table S1901, Income in the past 12 months, available at https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_1YR_S1901&prodType=table, accessed April 18, 2017.

Ohio is ranked 45th in college affordability.[2] For academic year 2016-17, students paid an average tuition of $9,745 at main campuses, $5,787 at branch campuses and $4,224 at community colleges. The average cost of room and board at main campuses is $10,470.[3] The Institute for Research on Higher Education found on average the lowest income families would spend 81 percent of their income for one year of the net price (tuition, fees, room and board minus financial aid) of a public university and 38 percent of income for community college. For families making $48,000 to $75,000, 31 percent and 15 percent of annual income is needed to pay for public university and community college, respectively. Families with incomes above $110,000 would need 12 percent of income for public university and 6 percent for community college -- those are still hefty sums.[4] More tax deductions are not the best way to help families afford college.

Ohio can choose to make higher education affordable by investing in our colleges to reduce costs to students, or Ohio can lose money through tax deductions and increase tax breaks for the wealthy. The existing $2,000 tax deduction for CollegeAdvantage costs the state an estimated $12.1 million in fiscal year 2016 and $12.9 million in 2017. At the current level, the state expects to forgo $13.8 million in revenue from this deduction in 2018 and $14.8 million in 2019.[5] Increasing the deduction on contributions to $10,000 would cost the state even more even though most participants cannot contribute that amount. To put those numbers in context, for the upcoming state budget beginning July 1, the Inter-University Council of Ohio, an association of public universities, is requesting a 10 percent annual increase, or less than $10 million per year, in Ohio College Opportunity Grant (OCOG) funding.[6] OCOG is the state's only need-based grant for low-income students, and it is only available to Ohio residents who attend college in Ohio. OCOG funding is essential because it can make the difference between whether a low-income student attends college or not. For wealthy students, increasing the tax deduction is not likely to increase their college-going rate. The state has a goal of 65 percent college attainment by 2025. Currently, only 43.2 percent of working-age adults has a postsecondary certificate or degree.[7] OCOG funding is a better approach than increasing tax deductions for achieving that goal.

A small number of Ohioans benefit from the tax deduction. In 2014, 103,158 claimed deductions for 529 plans. Most of the tax benefits of 529 plans go to higher-income families who are better able to pay for college than low-income

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[2]Institute for Research on Higher Education (IRHE). (2016). College Affordability Diagnosis: Ohio. Philadelphia, PA: Institute for Research on Higher Education, Graduate School of Education, University of Pennsylvania. http://www2.gse.upenn.edu/irhe/affordability-diagnosis
[3]Ohio Department of Higher Education (ODHE). "Fall 2016 Survey of Student Charges: For Academic Year 2016 – 2017," October 31, 2016. https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/data/statistical-profiles/FY17_Tuition_and_Fees_Survey_FINAL_0.pdf
[4]IRHE. (2016). College Affordability Diagnosis: Ohio. Philadelphia, PA: Institute for Research on Higher Education, Graduate School of Education, University of Pennsylvania. http://www2.gse.upenn.edu/irhe/affordability-diagnosis
[5] Tax Expenditure Report the State of Ohio Executive Budget Fiscal Years 2018-2019." Ohio Department of Taxation, November 25, 2016. http://budget.ohio.gov/doc/budget/FY18-19_Tax_Expenditure_Report.pdf
[6] McCray, Vanessa. "Public Universities Seek Additional Aid from State." The Blade, December 19, 2016. http://www.toledoblade.com/Education/2016/12/19/Ohio-Universities-seek-tuition-boost.html
[7] ODHE. "The Case for Ohio Attainment Goal 2025." Ohio Department of Higher Education, https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/attainment/attainment-framing-paper_FINALb_050416.pdf

families. As mentioned, the median household income in Ohio is about $51,000. Based on 2014 income tax data, taxpayers with federal adjusted gross incomes of $100,000 to $150,000 took the most deductions. A national study on 529 plan tax incentives found the greatest beneficiaries are wealthy families in the highest tax bracket.[8] Ohio taxpayers with $200,000 of income or higher were 3.7 percent of all tax returns in 2014 but took 27 percent of CollegeAdvantage tax deductions.[9] As an incentive for college savings, tax deductions for 529 plans are poorly targeted to reach families with the greatest need.

We ask that you oppose Senate Bill 5 because it is not the most effective way to make college more affordable. Ohio families would be better served by greater state investment in public colleges to bring down tuition, room and board.[10] In particular, state need-based aid for low-income students should be increased.[11]

Thank you for the opportunity to submit testimony.

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Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.

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[8] Dynarski, Susan M. "Who Benefits from the Education Saving Incentives? Income, Educational Expectations, and the Value of the 529 and Coverdell." Working Paper. National Bureau of Economic Research, May 2004. doi:10.3386/w10470.

[9] "Table Y-1: Summary of Ohio Individual Income Tax Returns, Tax Year 2014." Ohio Department of Taxation, May 27, 2016. http://www.tax.ohio.gov/tax_analysis/tax_data_series/individual_income/publications_tds_individual/Y1TY14.aspx
$200,000 is federal adjusted gross income

[10] Jackson, Victoria. "Budget Bite: Public Higher Education." Policy Matters Ohio, March 8, 2017. http://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/budget-policy/budget-bite-public-higher-education

[11] Halbert, Hannah. "Budget Bite: Affordable College." Policy Matters Ohio, March 1, 2017. http://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/budget-policy/budget-bite-affordable-college