

The GIFT Plan and The Arkansas Aspiring Scholars Matching Grant

Working with Arkansans for
the future of Arkansas



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Arkansas 529 Committee



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The GIFT Plan

- The Arkansas 529 GIFT Plan was first authorized in 2001
 - Named after Section 529 of the IRS tax code, 529 plans allow investment of after-tax dollars to grow tax-deferred earnings
 - If those earnings are used for qualified higher education expenses (tuition, room and board, books, etc.), the earnings are never taxed
- The 85th General Assembly (2005) passed legislation allowing Arkansas taxpayers investing in the Arkansas 529 GIFT Plan to take up to a \$5,000 tax deduction per individual for contributions to the plan

Aspiring Scholars Matching Grant Program

- Pilot program was enabled through ACT 597 of the 86th General Assembly of the Arkansas State Legislature
- Designed to give lower to moderate income citizens an incentive to invest in their children's education



How Does the Program Work?

- The Aspiring Scholars Matching Grant allows 529 GIFT Plan holders to apply for matching funds up to \$500 for account holders whose adjusted gross income equals less than \$60,000
 - A two-for-one match is available for those whose AGI is \$30,000 or less (\$2 matched for each \$1 invested, up to a maximum \$500 in matching funds)
 - A one-for-one match is available for those whose AGI is \$30,001 to \$60,000 (\$1 matched for each \$1 invested, up to a maximum \$500 in matching funds)

Aspiring Scholars Matching Grant

- The Aspiring Scholars Grant began as a pilot program, with a total of \$250,000 allocated for matching funds over a two year period ending December 31, 2008.
 - If the program continues, participants may re-apply each year and be approved for matching funds for up to five years

What About the Future?

- Due to the success of the program, it has been extended into 2009 and will likely become a permanent part of the Arkansas GIFT Plan offerings.

Growth

- For 2007 and 2008, 472 new accounts were opened by people who qualify for matching grants
- 267 of those accounts qualified for a one-to-one match
- 205 accounts qualified for a two-to-one match

Findings

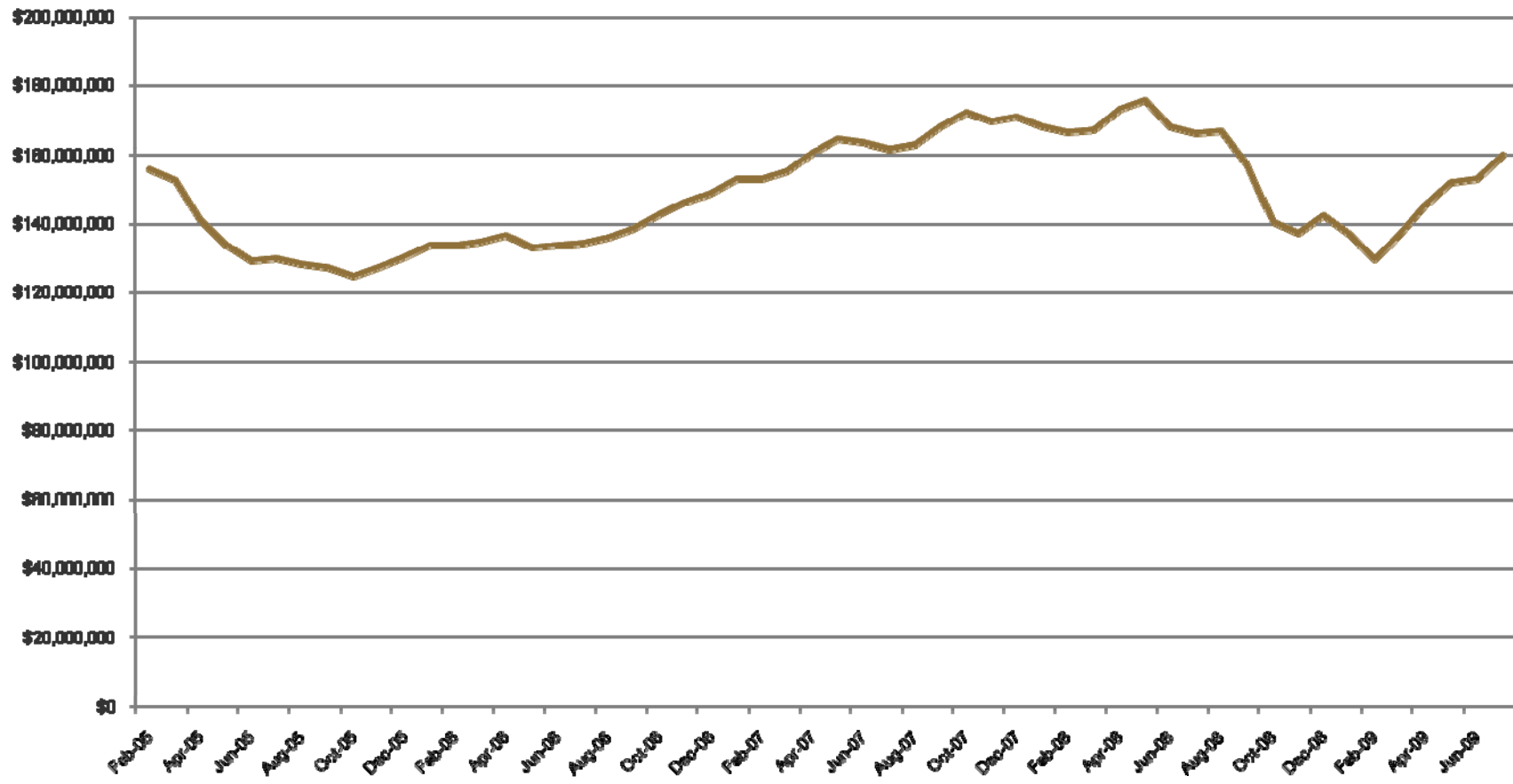
- Legislative intent was to encourage Arkansans of lower to moderate means to invest for their children's college education.
- It was learned that, when given proper incentive, people will respond
 - \$46,925.46 in matching funds were transferred for the 2007 tax year
 - \$198,585.52 in matching funds were transferred for the 2008 tax year
 - The plan could potentially fund up to \$286,000.00 for the 2009 tax year if all participants contribute the amount required for a maximum match
 - Applications in 2009 increased to 572

Performance

- Although it has been a rough 18 months or so in the stock market and many investment plans have taken a beating, the Arkansas GIFT Plan has fared moderately well. Like all investment plans, there have been losses, but we are seeing encouraging signs of a robust recovery in the GIFT Plan.

The GIFT Plan Asset Growth 07.31.09

\$160,211,387
+12.4% YTD

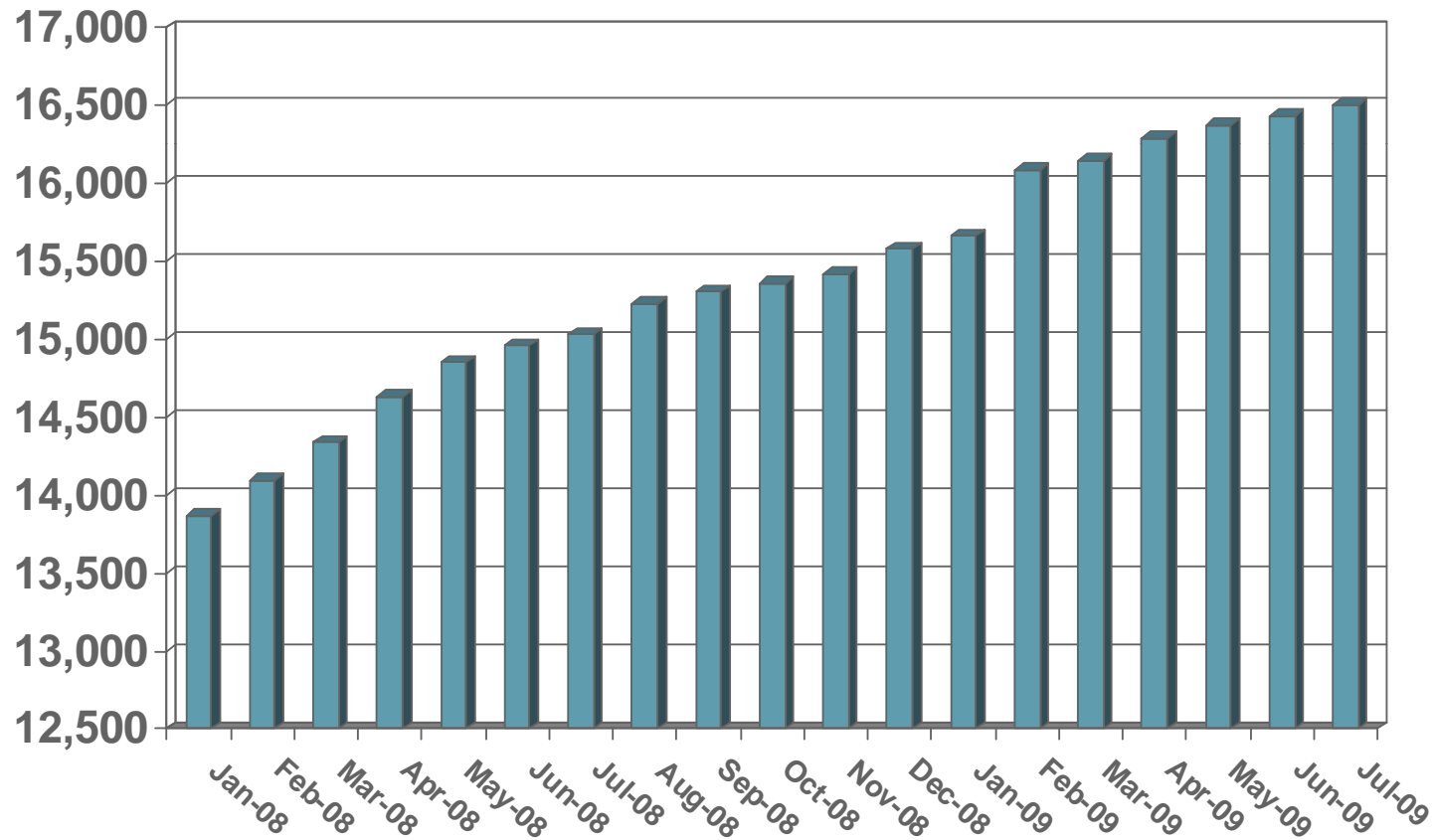


Performance

- Throughout this period of economic uncertainty, the Arkansas GIFT Plan has continued to add new accounts, demonstrating that citizens have confidence the underlying foundation of the GIFT Plan is sound
- Many people new to investing have taken advantage of the Aspiring Scholars Matching Grant as an incentive to begin investing toward their childrens' education

Account Growth

16,417 Funded Accts
YTD Growth: 924 (+5.9%)



Grass-roots Marketing

- Much of the success has been through grass-roots marketing efforts coupled with a PR campaign placing the emphasis on conservative budgeting.
- The Arkansas GIFT Plan has been grown through grass-roots efforts and plain speaking to hard-working people whose money is safeguarded through conservative investing strategies designed to protect principal during the current downturn and to produce growth in a more stable economy.

Grass-roots Marketing State Fair Mural (Markers)



Arkansas 529 Plans

- Arkansas currently has two 529 Plans; The direct-sold GIFT Plan and the iShares Advisor Sold Plan, which is marketed in Arkansas as an option for higher level investors. But for those in the lower income brackets, direct-sold, age-based plans are considered to be the best, lowest-cost option, provided they are properly set up and maintained.

Arkansas 529 Plans

“In the two years right before college, a good age-based 529 plan should be invested largely in shorter-term bond funds, money-market funds and insured certificates of deposit. ***The direct-sold plans that do this right include the “moderate” or “conservative” portfolios in Arkansas, Colorado, Idaho, New York, Nevada and North Dakota***, [Joseph] Hurley (529 analyst) says. They are administered by UPromise or Vanguard Group, both known for their low-cost approach.”

Jane Bryant Quinn-Bloomberg Financial Columnist June 16, 2009

Conclusion

- In conclusion, the Aspiring Scholars Matching Grant was born out of a desire on the part of the state to assist lower to moderate income citizens in achieving the American Dream for their children. The short history of the program indicates that with the proper incentives in place, people will invest for the future of their children.