In late 2023 and early 2024, Erika Orsulak, Co-Founder and Principal Consultant with Students First Consulting, and University of Georgia student Jacob Kriete conducted qualitative research among staff at scholarship providing organizations to understand the complexities and challenges they face in awarding scholarship dollars to scholarship recipients. They interviewed over 50 scholarship staff, in addition to interviewing students, parents, financial aid professionals, and other key stakeholders. Below are key takeaways, trends, and data points from their research.

It is the opinion of the researchers that **the need exists for a more streamlined approach to awarding scholarship dollars that reduces the burden on both scholarship providers and students**.

Key Takeaways from Awarding Research:

- Issues like displacement (when outside scholarship awards reduce other financial aid) and navigating complex financial aid systems with institutions increase scholarship staff workload due to significant effort additional to the fundamental elements of scholarship administration.
- Even if interest exists to address concerns collaboratively, both scholarship providing organizations and institutions have limited resources to do so.
- Addressing all awarding issues effectively necessitates a significant increase in staff for scholarship providers.

Frequent Challenges Associated with Current Practices:

- Scholarship providers and students spend excessive time in back-and-forth communications, discussing and negotiating displacement, awarding, and financial aid issues with institutions.
- Some scholarship providers have difficulty maintaining a single and equitable disbursement strategy, and instead develop and execute myriad, often individualized, workaround strategies.
- In addition to needing to develop their own expert-level understanding of complex financial aid systems, scholarship providers must also offer significant guidance and support to students and families.

Noteworthy Trends and Data Points:

Working with Institutions:

- Challenges exist in working with institutions to maximize gift aid to students and/or address displacement.
- Solutions sometimes involve the institution increasing Cost of Attendance (COA) or reducing loans (limited capacity for institutions).

- Some institutions actively discourage or resist collaboration in this way, depending on their specific policies and practices.
    - One former financial aid officer (now scholarship provider) shared: “From a financial aid officer perspective, you are a gatekeeper. Your first answer should be no.”
- Scholarship providers working with many institutions, including those from across the country, face particularly difficult challenges because of inconsistent practices.
    - Multiple providers noted that Ivy League and highly selective institutions have the most negative displacement policies and offer the least flexibility.

Streamlining Processes:

- Delays and issues with physical checks (lost, long wait times) necessitate exploring alternatives.
    - For some providers and recipients, this has been longer than three months.
- A shift towards ACH payments to institutions and payments directly to students is observed.
    - Not all institutions will receive electronic payments.
    - Electronic payment setup requires staff time and resources.
    - Multiple providers report that refunds from electronic payments do not always include student or award information so cause significant challenges upon return.
- Direct student payments offer a faster and more reliable solution but subject recipients to a tax burden.

Transparency and Communication:

- Inconsistent practices from institutions regarding financial aid and scholarship disbursement create confusion among scholarship providers and students and families.
- Institutions need to be transparent about their policies and award processes.

Student-Centric Approach:

- Scholarship disbursement should prioritize student needs and minimize stress.
- Students often lack understanding of financial aid processes, displacement, and loan implications.
- Direct payments and flexible options (holding funds for future years, usage for study abroad or summer classes, etc.) are student-centric options.

Resource Constraints:

- Addressing these issues often requires increased staffing and resources, posing a challenge for many providers.
    - One provider commits 10 staff weeks per year towards advocating on behalf of their organization and their recipients with recipients’ institutions.

Administrative Burden:

- Complexities in navigating financial aid systems and dealing with institutions create unnecessary burden for students.
- Students report stress and anxiety, especially at the beginning of the academic year (and terms, if awards are disbursed per term).
- Last-dollar scholarships are the most susceptible to untimely institutional financial aid packaging timing, unconfirmed information from institutions and students, and displacement.

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Students First Consulting recommends that **using 529 higher education investment accounts to award scholarships represents the best streamlined approach to awarding**. Below is a summary of the benefits derived from using this approach.

Benefits of Using 529s to Disburse Scholarships

- Every scholarship dollar reaches its intended recipient.
- Negative scholarship displacement is eliminated, maximizing both the impact of the scholarship award and the institution's offered financial aid package.
- Scholarship providers better fulfill the true spirit of donor intent, with greater resources contributed to programs instead of administrative expenses, and awards not acting as, in effect, grants to colleges or universities.
- Scholarship provider staff experience greatly increased efficiency, eliminating the off-mission, wasteful tasks of navigating and triaging complicated, inconsistent, unclear institutional policies and procedures.
- Scholarship provider staff no longer deal with the time-consuming, burdensome tasks of lost payments to institutions, confusing returned funds, or re-selecting alternate scholars.
- Instead, scholarship provider staff free up valuable time and resources previously committed to these administrative burdens, focusing their energy on what truly matters: providing increased direct support services to scholars.
- Instead of remaining subject to institutional policies and actions, scholars are empowered to manage their own funds, using them based on their own individual needs, fostering a greater sense of ownership and partnership.

Benefits (continued):

- Scholarships shift from a net negative for scholars to net-positive resources they can use towards their educational goals.
- Scholars' mindsets transition from immediate affordability fixes to building financial assets that can secure their paths to higher education attainment.
- In general, scholarships can exceed total Cost of Attendance caps, which is especially important for scholars in high cost-of-living regions.
- This is also relevant to the growing number of scholars receiving tuition discounting or waivers, such as those attending free-tuition institutions. This allows them to take advantage of both innovative tuition models and outside scholarships.
- If the scholarship provider chooses, scholars have increased flexibility in how they use the scholarship: It can cover expenses such as required student or family contributions to institutions (e.g., required SAI contribution), or student loan repayment of up to $10,000.
- Scholars can focus their energies on their educational endeavors, instead of being expected to develop expert-level knowledge about complicated financial aid policy. Their families are spared this burden as well.
- Scholars receive funding almost immediately, instead of waiting weeks or months because of institutional timelines, eliminating stress from not having enough to cover costs, or, even worse, taking out emergency loans.
- Scholarships are transformed from potential taxable income to tax-advantaged resources. Every dollar awarded through a 529 plan can be used tax-free for qualified educational expenses.

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Students First Consulting recommends that **using 529 higher education investment accounts to award scholarships represents the best streamlined approach to awarding**. Below are Frequently Asked Questions about 529s.

What is a 529 plan?
A 529 plan is a tax-advantaged savings plan designed to encourage saving for education costs.

Are there different types of 529 plans?
Yes. There are two types of plans: *education savings plans* and *prepaid tuition plans*. Note: We're referring to education savings plans when we discuss 529s in these documents.

Can anyone open a 529?
Yes, anyone can open a 529 for a beneficiary.

Can organizations open 529s?
Yes, third-party entities who are not related to a student, including an organization, can open 529s.

How are 529s typically used?
529s are primarily used by parents and families to save for their child's higher education costs.

How do 529s function?
Contributions are made to a 529, and withdrawals are made for qualified education expenses.

Why do people use 529s?
Most simply, they are used to save, invest, and accumulate financial resources for education. Also, there are numerous benefits to using 529s. First, contributions to 529s grow on a tax-deferred basis, and withdrawals for qualified education expenses are federal tax-free. Some states offer tax deductions or credits for contributions to 529s. Additionally, 529s are investments that may grow over time, so the principal may benefit from growth.

Who operates 529s?

Most 529 plans are operated by states. Each state has its own 529 plan, and they vary in terms of investment options, fees, and tax benefits.

How are 529s sold?
529s can be *direct-sold*, which means sold directly by the state and purchased online or through the state's treasury department. They can also be *advisor-sold*, which means sold through financial advisors, such as registered investment advisors or broker-dealers.

Are all 529s the same?
No. While they share the same basic purpose of saving for education, there are significant differences. Each state operates its own plan, there are different investment options, varied fees, and different tax advantages. All should be considered when choosing a 529 plan provider (as should other organizational and program priorities for scholarship providers).

Do I need to use my state's 529 plan?
No. While many states offer tax incentives for using their 529s, it's not mandatory. You can choose a 529 from any state, regardless of where you live or where a student plans to or does attend school.

Are 529s portable?
Yes. You can open a 529 in one state and use the funds to pay for qualified education expenses at a school in any state.

What can 529s be used for?
Money in 529s can be used for what are called *qualified education expenses*. This includes tuition, fees, room and board, books, computers, and other expenses at eligible colleges, universities, and vocational schools. Some 529s can be used for expenses such as study abroad, student loan repayment, and a student or family's Estimated Family Contribution.

Can a 529 be used for multiple beneficiaries?
Yes, many 529s allow you to change the beneficiary, often to a sibling or another family member.

Which types of educational endeavors can a student use a 529 to pay?
Yes, 529s can be used to pay for qualified education expenses at graduate and professional schools. Some can be used to pay for apprenticeship programs or other professional development. They can also be used to pay for K-12 tuition.

How do 529s affect financial aid?
It depends. If a parent owns the 529 plan, a portion of the plan's value is considered a parental asset and can reduce financial aid eligibility. If a third party, such as a grandparent, other relative, or an organization owns the plan, it has less, and sometimes no, impact on financial aid.

How can scholarship providers use 529s to award scholarships?
Organizations such as scholarship providers can deposit the scholarship funds directly into the recipient's 529. They can do this if they own or establish the recipient's 529, or they can deposit it directly into an existing 529 established, for example, by the recipient's parents.

Can scholarship funds be directly deposited into a 529 plan?
Yes, most 529s allow for direct deposits.

What controls exist on what students use funds for?
It depends. If there is an account owner that is not the beneficiary, such as a scholarship provider, they can control what funds are used for and how they are disbursed. If the beneficiary is also the account owner, they determine what funds are used for and how they are disbursed.

What happens to the money in a 529 if the beneficiary doesn't go to college?
It depends. If there is an account owner that is not the beneficiary, such as a scholarship provider, they can control what happens if the beneficiary doesn’t use the funding. In this case, they can choose to refund the money to the organization. They can also choose to allow the beneficiary to retain the funding for later or alternate use.

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Students First Consulting recommends that **using 529 higher education investment accounts to award scholarships represents the best streamlined approach to awarding**. Below are key activities and an example workplan/timeline a provider may use to employ this approach.

Key Activities in Disbursing through 529s:

- The scholarship provider selects the best-fit recipient scholars, based on organizational or programmatic criteria.
- The scholarship provider establishes and funds its master *omnibus 529 account*, depositing total award funding.
- The scholarship provider and/or the 529 plan provider works with recipient scholar beneficiaries to establish their 529 individual *beneficiary* accounts (or link existing 529 accounts).
- The scholarship provider transfers award funds from the *omnibus* account to *beneficiary* scholar accounts.
- The scholarship provider and/or the 529 plan provider educates scholars on using awarded funds, providing user-friendly instructions via the platform and scholar-centric communication channels. These include accessing funds (potentially via virtual cards or payments), understanding qualified expenses, and navigating the technology.
- Scholars use and monitor usage of their funds for qualified educational expenses such as tuition, fees, books, room, board, and technology.
- The scholarship provider (and donors, with authorization) accesses real-time reporting on how funds have been used.

This cycle repeats based on the organization's award schedule, the scholar's educational program length, and/or other variables.

Example Timeline

This is only an example. Responsible parties, activities, and timing will depend upon multiple variables, including the scholarship providing organization's goals and priorities.

Who	What	When
Scholarship providing organization	Selects scholars	Spring (annually)
Scholarship providing organization	Select 529 plan provider	July/August (one-time)
Scholarship providing organization	Establish omnibus account	July/August (one-time)
Scholarship providing organization	Deposit total award amount into omnibus account	June/August (annually)
Scholarship providing organization	Support scholars in establishing (or linking) beneficiary 529 accounts	June/August (annually, for new scholars)
Scholarship providing organization	Transfer scholarship award funds from the omnibus account to recipient accounts	July/August (annually), or on scholarship providing organization's disbursement schedule
Scholarship providing organization, 529 Plan Provider, and Scholars	Use and monitor usage of funds for qualified educational expenses	Ongoing
Scholarship providing organization & 529 Plan Provider	Support scholars in accessing awarded funds	Ongoing
529 Plan Provider	Provide report to scholarship providing organization on fund usage	Real-time/ongoing, or on set schedule, depending on plan provider