

# Making Dreams Come True: Section 529 College Savings Plans

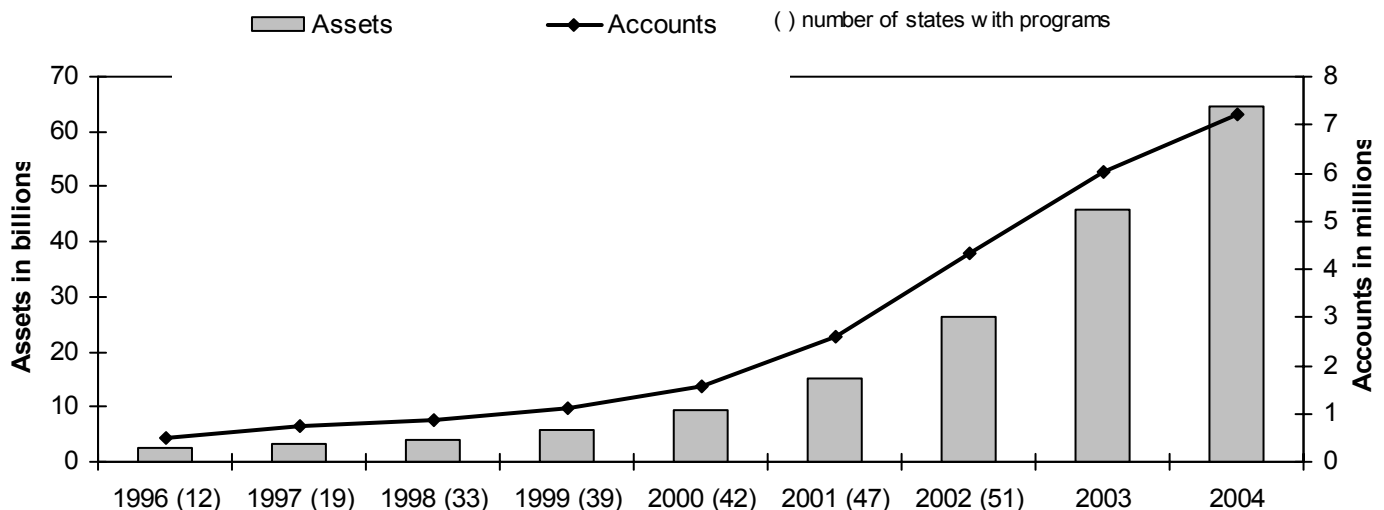
State college savings plans ("529 plans") are the most popular investment tool for families to save for college. The mission of these state-administered plans is to increase access to higher education for all families by offering a simple, safe, affordable and dedicated way to save for future college costs.

All fifty states and the District of Columbia operate 529 plans. These plans come in two forms:

- **Prepaid tuition plans** offer families the ability to purchase contracts or units of tuition and fees based on the current costs of college tuition and fees in the individual state. Most state programs provide the contributor with a guarantee that their investment will keep pace with tuition inflation until the beneficiary is ready to enroll in college. Many of these programs allow a cash value if the student attends an out-of-state school.
- **College savings plans** offer dedicated college savings investment accounts, providing families a variable rate of return with tax-deferred growth and tax-free spending. Assets in these accounts can be used nationwide, including private, vocational, and proprietary schools, not just in the state where the account was opened.

529 plans have experienced tremendous growth due to the federal tax-exempt treatment of distributions from the plans. In addition to federal tax exemption, 24 states and the District of Columbia offer state tax deductions based on annual contributions. 41 states of the 43 states that have a state income tax offer state tax-exempt withdrawals to individuals who participate in these programs.

## Growth in 529 plans nationally



## How Can Congress Continue to Help Families Save for College?

### Make tax-exempt distributions permanent.

To encourage saving for college and to ensure the certainty of vital investments in higher education, we ask Congress to pass legislation making the current federal tax treatment of Section 529 college savings programs permanent.

The tax exemption for distributions is provided by the Economic Growth and Tax Relief Reconciliation Act of 2001. This provision will sunset after December 31, 2010. The sunset of the favorable tax treatment of 529 plans has a chilling effect on the savings plans of parents with young children.

Congresswoman Melissa Hart and Congressman Earl Pomeroy have introduced H.R. 2386 to make permanent the federal tax exemption for Section 529 college savings programs.

Senators Charles Grassley and Max Baucus have introduced a companion bill in the Senate.

We urge you to join as a co-sponsor for *tax-permanency* legislation.

## Section 529 Plans: Helping Families Save for College

Section 529 plans have encouraged record numbers of families to begin saving for their children's future higher education costs. Nationally, these state-operated programs have been designed to serve all families – every state program offers one or more direct-sold investment option that does not require the services of a financial intermediary, and does not charge a sale load or commission.

However, for families to plan for their college savings needs, they must be able to rely on predictable rules – rules that apply now and that will continue through the time their children attend college. The future sunset of 529 plans' tax treatment has a chilling effect on the long-term savings strategies of working families, undermining the purpose of these programs and jeopardizing families' ability to prepare for higher education expenses.

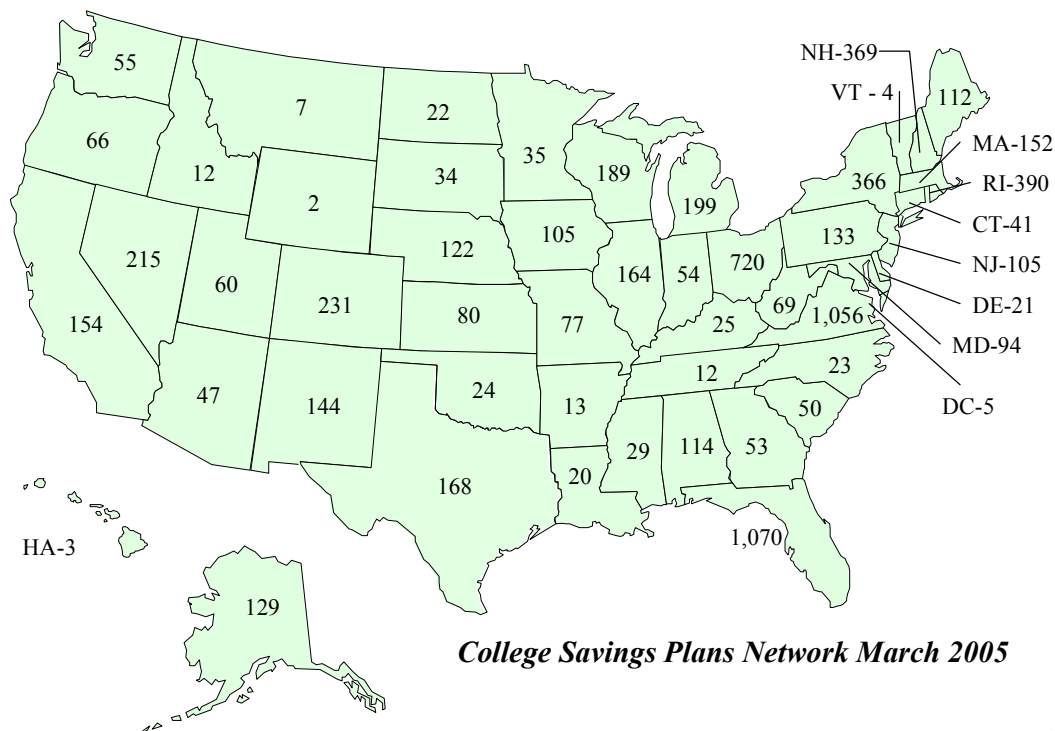
Some of the reasons families have embraced 529 plans include:

- A college education is the best investment a parent can make for a child. Over a lifetime, the gap in earning potential between a high school diploma and a B.A. (or higher) is more than \$1,000,000<sup>1</sup>.
- During the 2004-2005 school year, average college costs at a four-year public school rose 10.5%<sup>1</sup> over the previous school year. For the same period, average costs at a four-year private school rose 6%<sup>1</sup>. With education inflation rates far outpacing consumer inflation, it is more important than ever for families to plan and save over a long term for the expense of a college education.
- In the 2003-2004 school year, 56%<sup>1</sup> of higher education financial aid was in the form of loans. By helping parents prepare for higher education costs, 529 plans provide a tool to avoid burdening our children with a debt load that detracts from their quality of life for many years after their education goals are achieved.
- One of the benefits of saving in a 529 savings plan is the wealth of options available to families. In fact, the typical family will find that the program in their state may offer several investment options, one of which should fit their education savings goals.

Interest and participation in 529 plans has increased dramatically since December 1999 when \$1.1 billion was invested in more than 200,000 accounts nationwide. Today, more than 8 million children are beneficiaries of 529 plan accounts, with more than \$67 billion dedicated to their future higher education costs.

<sup>1</sup> College Board

**Number of 529 accounts by state (in thousands)**



*College Savings Plans Network March 2005*



For more information, contact the National Association of State Treasurers at (859) 244-8175, or visit [www.collegesavings.org](http://www.collegesavings.org).

