

United States Senate
WASHINGTON, DC 20510

May 2, 2006

The Honorable Charles Grassley
Chairman
Senate Committee on Finance
209 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Max Baucus
Ranking Member
Senate Committee on Finance
209 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley and Ranking Member Baucus:

We are writing to encourage you to include bipartisan legislation making permanent the tax-free treatment of qualified withdrawals from state-sponsored 529 college savings plans (S. 1112) in the pension reform conference agreement.

As you are aware, the current tax-free treatment for 529 plan withdrawals sunsets in 2010. This tax-free treatment, enacted by Congress as part of the 2001 tax act, has encouraged millions of additional American families to open 529 accounts and begin to save in advance for the ever-increasing cost of higher education. The result is less debt burden on parents and students and less reliance on government and university grant programs, which are already stretched thin. Yet uncertainty and confusion as to whether this tax-free treatment will be made permanent contributed to the first ever decrease in new 529 plan contributions year over year (2005 vs. 2004). Families with children do not know whether withdrawals will be tax-free when their children reach college age and are understandably beginning to hesitate in saving in advance through 529 plans. This uncertainty is surely the wrong signal to send to American families.

The pending pension bill seeks to protect and advance the financial security of American families. For families with children, saving for college and saving for retirement are the two most important financial goals and they are inextricably linked. For example, many parents take withdrawals from their 401(k) plans and IRAs to finance college for their children, even though such withdrawals are taxable and shortchange the parents' ultimate retirement income. Ensuring that 529 plans are a secure and tax-favored way to save for college can reduce this understandable but unfortunate leakage from the retirement system. Studies also reveal that

saving in 529 plans teaches parents to be more disciplined in reaching other financial goals, such as saving for retirement. Thus, assisting families in financing college will also assist them in achieving a secure retirement.

In a pension bill designed to secure the financial future of American families and provide them with new tools to save, we can think of no better addition than a resolution of the tax uncertainty faced by our nation's dominant college savings vehicle.

Thank you for your continued leadership on this issue. We respectfully request your support throughout the House-Senate Conference.

Sincerely,

Mike Cryo

Jim DeMint

Jim Talent

Elizabeth Dole

Chris Shivers

Tommy Thompson

Jeff Sessions

Blanche L. Lincoln

John F. Kerry

Barack Obama

Eric Boag

Barack Obama

Byron Dorgan