



February 16, 2006

The Honorable Kay Ivey  
State Treasurer  
Office of the State Treasurer  
State Capitol, 600 Dexter Avenue, Suite S-101  
Montgomery, AL 36130

**Re: Extend Tax-Free Treatment to All 529 Plans**

Dear Ms. Ivey:

On behalf of the College Savings Foundation (“CSF”)<sup>1</sup>, Investment Company Institute (“ICI”)<sup>2</sup>, and Securities Industry Association<sup>3</sup> (“SIA”), we are writing to congratulate you on final passage of HB 62, which would make earnings on the investments of contributions to the Alabama Higher Education 529 Fund free from state income tax to the extent they remain with the Alabama program or are withdrawn to pay for the designated beneficiary’s qualified higher education expenses. As stated in our earlier letters, we support this legislation, but would prefer to see the new law expanded to allow all residents of Alabama who participate in 529 plans to receive its tax benefits. However, we understand that this type of amendment was not possible this session, and we would like to meet with you after the completion of this year’s session to discuss this matter further.

As you know, 529 plans are considered an attractive way for families to save for college. A major benefit of these plans to Alabama residents is the federal tax treatment. Section 529 of the Internal Revenue Code allows residents to make after-tax contributions to 529 plans, have earnings grow federal income tax free, and take tax-favored withdrawals for qualified higher education expenses. By amending HB 62 as we are advocating, Alabama would achieve full conformity with the federal income tax laws governing 529 plans.

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<sup>1</sup> A not-for-profit organization with the mission of helping American families achieve their education savings goals by working with public policy makers, media representatives and financial services industry executives in support of education savings programs.

<sup>2</sup> The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,935 open-end investment companies ("mutual funds"), 559 closed-end investment companies, and six sponsors of unit investment trusts. Its mutual fund members have assets of about \$6.382 trillion, accounting for approximately 95 percent of total industry assets, and 90.2 million individual shareholders.

<sup>3</sup> The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. SIA’s primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated \$236.7 billion in domestic revenue and an estimated \$340 billion in global revenues. (More information about SIA is available at: [www.sia.com](http://www.sia.com).)

We applaud your interest in encouraging savings for college. The attractive federal tax characteristics of 529 plans combined with the state income tax free treatment of qualified withdrawals from any 529 plan will result in broader use of 529 plans and an overall increase in education savings. We look forward to working with you on this important issue.

In the meantime, if you have any questions or need additional information, please contact Kevin McMullen at (202) 223-2631, Lisa Robinson at (202) 326-5835, or Nancy Donohoe Lancia at (212) 618-0533.

Regards,

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Chair, Government Affairs Committee  
College Savings Foundation

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Associate Counsel  
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V.P. and Director, State Government Affairs  
Securities Industry Association