



Testimony before the Senate Committee on Finance

Tuesday April 11, 2006

Good afternoon. My name is Peter Mazareas. Today, I am here on behalf of the College Savings Foundation of which I am a member of the Executive Committee and the Treasurer¹. I am also AllianceBernstein's 529 Consultant and advise them on national issues and trends facing the 529 industry. The CSF is 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. It is a pleasure to be here today to express the CSF's strong support for SB 2716.

In early nineties I was directly involved in preparing 529 Legislation and lobbying Congress for its passage. At the time there were only 7 states with prepaid tuition programs and we – the College Savings Plan Network – asked Congress to provide favorable tax treatment to each state's program. Congress in its wisdom decided it was not in the public's interest to use tax policy to create 50 state monopolies and restrict citizens to their particular state's college savings program. So they took action and passed Section 529 which provided federal and state tax benefits to any citizen attending any accredited school in the country regardless of which state 529 program they saved in. Congress's goal was to encourage savings by providing maximum choice, flexibility and competition in the 529 marketplace by insuring there was tax equity and fairness for all citizens.

Unfortunately in the late nineties, some states with weaker 529 programs that couldn't compete in the national marketplace began passing restrictive legislation denying their citizens tax benefits if they invested in out of state programs. Other states followed and today many states, including Rhode Island, steer their residents to the in-state 529 plan by offering special tax incentives. Others are even more punitive and tax earnings and withdrawals on out of state programs. This trend clearly undermines the intent of Congress by denying choice and flexibility to families. This has created confusion and complexity for 529 investors, financial advisors and regulators and has clearly limited the number of families investing in 529 plans. As a result over the past 2 years across the country –on a state by state basis- there is a groundswell of citizens, consumer financial reporters and legislators opposing their state's 529 restrictive tax policies and filing amendments to provide equal tax treatment for all 529 programs.

The CSF strongly supports SB 2716 because it makes 529 plans an even more attractive savings option for Rhode Island residents. There are several reasons why it is important to support SB 2716.

First, SB 2716 gives families choice and greater control over how best to save for college. Rhode Island families will no longer feel compelled to select only the in-state plan because it offers special tax incentives. Rhode Island tax policy effectively not only directs residents to the in-state plan, but also penalizes residents that invest in another 529 plan by denying the deduction. For example, if two neighbors living on School Street in Warwick both invest in a 529 plan - one in RI's CollegeBoundfund and the other in either Maine or Massachusetts – one family will receive a deduction and the other will be penalized. Magnify that outcome by thousands of RI neighbors and families who invest or will invest in an out of state 529 and surely it could potentially raise questions about tax fairness for Rhode Island residents.

If the same neighbors lived in Massachusetts, Maine and approximately 25 other states both would receive the same tax treatment and therefore they could select a program based on performance, fees, suitability and other criteria that meet their needs and not be compelled because of restrictive tax policy.

Second, SB 2716 also encourages competition among plans. Increased competition will force 529 plans to compete for business based on factors such as plan performance, customer service, and competitive fees. This should result in even better 529 products for Rhode Island residents.

Third, SB 2716 is consistent with the original objectives of section 529 of the Internal Revenue Code. Under section 529, the fundamental financial and investment decision of choosing among the various states' 529 plans remains with the individual. Proprietary state tax advantages are inconsistent with plan portability.

Fourth, SB 2716 would encourage greater participation in 529 plans and would advance the state's public policy goal to encourage college savings by its residents.

Finally, the State of Rhode Island through the CollegeBoundfund has already had a profound impact on the 529 marketplace and is recognized as the preeminent leader in the Industry. I would encourage you to continue that leadership by passing SB2716. CSF thanks and applauds both the Committee for holding a hearing on this legislation and Treasurer Tavares for providing leadership on tax equity nationally and in Rhode Island.

Thank you for allowing me to appear before this committee. If you have any questions, please let me know.

¹ The College Savings Foundation (CSF) serves the education savings industry as a central repository of information and an expert resource for representatives of state and federal government, institutions of higher education and other related organizations and associations. A primary focus of CSF is building public awareness of and providing public policy support for 529 plans – an increasingly vital college savings vehicle. CSF's members include firms that offer 529 college savings programs and/or participate in those programs as investment managers; associate members include law firms, accounting and consulting firms, governmental bodies and non-profit agencies and individuals who support CSF and its mission. www.collegesavingsfoundation.org