CSF
CollegeSavings
FOUNDATION

June 23, 2005

Representative Neil Abercrombie
U.S. House of Representatives
Washington, DC 20515

RE: REQUEST TO CO-SPONSOR 529 PLAN PERMANENCE LEGISLATION (H.R. 2386)

Dear Representative Abercrombie:

I am writing on behalf of the College Savings Foundation ("CSF") to request that you co-sponsor H.R. 2386, a bipartisan bill introduced by Representatives Melissa Hart (R-PA) and Earl Pomeroy (D-ND) to make permanent the tax-free nature of qualifying withdrawals from 529 college savings plans. A companion bill, S. 1112, has been introduced in the Senate by Senators Charles Grassley (R-IA) and Max Baucus (D-MT).

CSF is a not-for-profit organization with the mission of helping American families achieve their education savings goals. CSF's members include investment managers, governmental bodies, law firms, accounting and consulting firms, and non-profit agencies that participate in the sponsorship or administration of 529 college savings plans. A primary focus of CSF is to build public awareness of and provide public policy support for 529 plans.

A College Education Today Is More Expensive Than Ever Before

A family today can expect to spend on average $11,354 for just one year at a public college or university or $27,516 for just one year at a private institution; that's $45,000 for a 4-year public education or $112,000 for a 4-year private education (College Board, *Trends in College Pricing*, 2004). The same family in 15 years can expect to spend more than $100,000 for a 4-year public college and over $240,000 for a 4-year private college (College Savings Foundation, 2005).

Saving for college is made even more difficult by the fact that increases in the cost of attending college continue to outpace the growth of American families' earnings and savings. Over the past decade alone, college tuition and fees increased by 51 percent at 4-year public institutions and by 36 percent at 4-year private institutions. During the same period, median family income increased by only 9 percent. As a result, the percentage of family income required to pay the cost of higher education has increased significantly (The Investment Company Institute, *A Guide to Understanding 529 Plans*, 2005).

Millions of American Families Rely on 529 Plans to Save for College

Faced with these steadily increasing college costs, millions of American families have turned to 529 plans to help save for college. A 529 plan is a state-sponsored college savings plan that helps families save for future college costs. The "savings power" of a 529 plan is derived from its various tax-favored aspects. Under federal income tax rules, individuals can make after-tax contributions into 529 plans, have earnings grow tax-free, and withdraw amounts tax-free if used for a beneficiary's qualified higher education expenses. Under current law, however, qualifying withdrawals from 529 plans are only tax-free through 2010. After 2010, the savings power of these programs will be substantially diminished when such withdrawals become taxable at the tax rate of the child or other beneficiary.

Section 529 also governs prepaid tuition programs under which a family may "purchase" future tuition at the state's eligible colleges or universities. All 50 states and the District of Columbia have at least one prepaid tuition program or college savings plan. As of the end of 2004, American families have established over 7 million accounts for their children and have contributed over $64 billion to these accounts (College Savings Plan Network, *Program Statistics*, 2004).

THE POLICY ADVANTAGES OF ENCOURAGING 529 SAVINGS PLANS

Congress should enact legislation making permanent the tax-free treatment for qualifying withdrawals from 529 plans because of the many benefits that result for both families and society as a whole through the use of these plans.

- The "savings power" of a 529 plan encourages families to take responsibility for financing their children's education and lessens the burden on government and university loan and grant programs.

- 529 plans allow American families to save in advance for higher education costs rather than paying after the fact through years of burdensome debt or choosing to forego a college education altogether.

- Use of 529 plans facilitates college attendance, which yields significant benefits for both individuals and society. Recent findings by the College Board indicate that college graduates have significantly higher earnings (approximately 62% more per year than high school graduates). Further, college graduates experience lower levels of unemployment and are less likely to depend on social safety-net programs. In addition, college graduates are more likely to participate in civic activities, including voting and volunteer work, and have lower incarceration rates. (College Board, *Education Pays*, 2004.)

CONGRESSIONAL ACTION NEEDED TO MAKE COLLEGE SAVINGS INCENTIVES PERMANENT

The uncertainty about the future tax treatment of 529 plan withdrawals can be difficult to understand and leaves families with young children unsure of what the tax features of 529 plans will be when their children are ready to attend college. The result can be a reluctance to set aside savings for college.

There is broad support among Americans for the passage of H.R. 2386. In fact, a recent survey indicates that for those individuals with a position on the issue, nearly 90% support making the tax-free nature of 529 plan withdrawals permanent (American Century Investments, *Caravan Survey*, 2004). CSF urges Members of Congress to co-sponsor H.R. 2386 and work for its prompt enactment. To sign on as a co-sponsor, contact Bill Rys in Representative Hart's office (5-2565) or Diane Oakley in Representative Pomeroy's office (5-2611). If you have any questions or for more information on 529 college savings plans, please contact Jamey Delaplane at (202) 347-2230.

Regards,

David Pearlman
Chairman
College Savings Foundation

Kevin McMullen
Chairman, Government Affairs Committee
College Savings Foundation