



Testimony before the House Finance Committee

Wednesday, February 2, 2006

Good morning, Chairmen Leh and Levdansky and honorable members of the committee. My name is Kevin Frederick and I am Counsel for State Farm Insurance Companies®. Today, I am here on behalf of State Farm® and the College Savings Foundation.¹

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 support and appreciation for Representatives Flick and Turzai's sponsorship of House Bills 529 and 2096.

Saving for college is critical to helping many people reach their full personal and professional potential. Indeed, financing a child's college education can often be the primary economic goal of a family. According to the College Board, for the 2004-2005 academic year, the average annual total cost of attending a 4-year public college or university increased 7.8% to \$11,354. For a private school, the costs have increased 5.6% to \$27,516.² Other sources peg the costs even higher.

Assuming such costs increase by 5% a year, the projected cost of college in 15 years will be more than \$100,000 for a 4-year public college and more than \$200,000 for a 4-year private college. This rate of increase is comparable for Pennsylvania. Peterson's estimates that the current cost for tuition, room & board, books and expenses for Penn

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

² The College Board, Trends in College Pricing, at 3 (2004).

State to be nearly \$17,000. Peterson's also estimates the 4-year total costs in 15 years for Penn State will be \$152,000;³ daunting figures for any but the wealthiest Pennsylvanians.

Kiplinger, Savingforcollege.com, and a number of other entities consider 529 plans to be the best place to invest college savings. A major reason 529 plans are so attractive is that they allow individuals to make after-tax contributions, have earnings grow tax-free, and take tax-favored withdrawals for qualified higher education expenses. Currently, earnings and qualified distributions from plans are generally tax-free at both the federal and state levels.

Although Pennsylvania does exempt qualified distributions from its 529 Tuition Account Program from state income taxes, it is one of only a few states that impose a state-income tax on qualified distributions from a plan other than the Pennsylvania Tuition Account Program and limits the favorable state tax treatment to its Tuition Account Program.

Pennsylvania tax policy effectively, not only directs residents to the in-state plan, but also penalizes Pennsylvania residents that choose to invest in another 529 plan by taxing qualified distributions from those plans.

The CSF strongly supports House Bills 529 and 2096 because they make 529 plans an even more attractive savings option for Pennsylvania residents. These bills will level the playing field among state plans by offering Pennsylvanians the tax deduction for contributions and tax-free treatment of distributions when they participate in any 529 college savings plan.

There are several reasons why we ask for your support of House Bills 529 and 2096.

First, House Bills 529 and 2096 give families choice and greater control over how best to save for college. Pennsylvania families will no longer feel compelled to select only the

³ Estimates for Penn State costs were obtained from Peterson's through the Pennsylvania Tuition Plan Website.

in-state plan because only that plan offers state tax incentives. Instead, Pennsylvania residents will have the freedom to choose based on a wide range of criteria, such as investment objectives and risk level, manager reputation, expenses, and sales loads.

Second, House Bills 529 and 2096 also encourage 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 Pennsylvania residents.

Third, House Bills 529 and 2096 are consistent with the original objectives of section 529 of the Internal Revenue Code. Section 529 promotes flexibility and choice and facilitates sound financial planning by not requiring an investor to choose his or her own state's 529 plan and by making the favorable federal tax treatment available to any contributor and beneficiary without regard to the state sponsorship of the plan. 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.

Finally, House Bills 529 and 2096 will encourage greater participation in 529 plans and would advance the state's public policy goal to encourage college savings by its residents. The College Savings Board, which represents more than 4,700 institutions of higher learning in the United States, reports that the gap in earnings between those with a high school diploma and those with a bachelor's degree or higher exceeds \$1 million over the course of a lifetime.⁴ Not only is there a gap in earnings, but according to an "Education Pays" report from the College Board, college graduates experience lower levels of unemployment and are less likely to depend on social safety-net programs.⁵ Consequently, it is more important than ever to encourage Pennsylvania residents to save for their children's higher education.

⁴ The College Board, *Education Pays: The Benefits of Higher Education for Individuals and Society*, at 11 (2004).

⁵ *Id.* at 7.

Thank you for allowing me to appear before this committee and I would be happy to answer any questions you might have, now or at any other time. Thank you.