CSPN

College Savings Plans Network

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before the

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I. Introduction

Chairman Neal, Ranking Member English, and Members of the Subcommittee, my name is Dan Ebersole and I am the Director of the Georgia Office of Treasury and Fiscal Services, which is responsible for the receipt, investment, accounting and disbursement of state general, trust and custodial funds and certain federal funds. My office also administers the *Path 2 College 529 Plan*, Georgia's 529 college savings plan, which currently has over 600 million dollars in assets under management.

I am also the Chair of the College Savings Plans Network or CSPN. CSPN is an affiliate of the National Association of State Treasurers and has represented the interests of state-operated Section 529 college savings and prepaid tuition plans since 1991. The primary mission of the Network is to encourage families to save for college and help make higher education an affordable reality for all. To accomplish this mission, CSPN is the leading national advocate for strengthening and enhancing college savings plans and we welcome the opportunity to work with Congress as you strive to make higher education and Section 529 programs even more accessible to all American families.

II. Background on Section 529 Plans

In the early 90s, States were concerned about the rising costs of college and the increasing debt burden on families. As a result, Michigan, along with several other States, began creating prepaid tuition and savings trust plans to help families cope with spiraling tuition costs and encourage planning and saving for higher education. These efforts, in conjunction with the support of Congress, have worked -- the plans provide families at all income levels a tax-advantaged, disciplined, effective way to save for college expenses. In 1996, there was uncertainty over the federal tax treatment of these new and innovative programs. The States asked Congress to step in and confirm that, as state instrumentalities, these college savings plans would not be taxed by the federal government. Thus, Section 529 of the Internal Revenue Code was born, and the States' college savings plans became known as Section 529 plans.

Two basic types of Section 529 plans exist—prepaid tuition plans and savings plans. Prepaid tuition plans are similar to a defined benefit pension plan, where the family purchases a defined amount of tuition — either years or credits. Savings trusts are more analogous to defined contribution plans in which families can save in a variety of investment vehicles with many options, including equity and fixed income mutual funds, actively managed accounts, money market and stable value funds. Plans also offer investment options that combine fund types in allocations that are managed on behalf of the participant based on the age of the beneficiary – similar to life-cycle funds. The plans encourage early college savings and promote future access to higher education. Families participating in the programs save specifically for college where otherwise they might not set aside money for this purpose. The programs, through their outreach efforts, draw attention to the need to save for college and help many take that first, all-important step of beginning to save – and to seeing college as an attainable goal.

State college savings programs have achieved tremendous success since their inception. With the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001, the number of children participating in the programs has skyrocketed. Almost every state in the nation and the District of Columbia now has at least one Section 529 savings plan. In December 2001 there were 2.6 million Section 529 accounts in this country and as of December 2007, there are over 10.5 million Section 529 accounts. In addition, the number of assets under management in these plans has grown significantly. In December 2001 there were 15 billion dollars of assets under management and today there is almost 130 billion dollars of assets under management. The average account size has grown from 5,792 dollars in 2001 to 12,316 dollars today.

III. Section 529 Plans Provide Benefits for Families of all Income Levels

In a survey of parents, ninety-six percent of all parents expected their children to pursue some form of higher education.[1] Yet Americans continue to spend more on take-out meals and vacations than they do on saving for their children's college education[2]. Section 529 plans provide families with a solution to not only begin to save but set families on a path to saving for an expense that dwarfs most other costs that a family will incur. This solution is even more critical today. As our country faces challenging economic times, we need to help families prepare and plan for the increasing costs of a college education.

Because States are involved in the establishment and administration of Section 529 plans, we ensure that plan outreach efforts target all segments of the population – including those not typically reached by private-sector investment firms. In contracting with their private-sector partners, States insist on joint efforts to reach all segments of the population.

In addition, the States leverage their experience as major institutional investors to establish low-cost, low-fee college savings investment options for plan participants. Many investments, such as mutual funds, typically require initial investments and subsequent minimum investments that are too high for most middle- and low-income families to meet. In negotiating agreements with investment managers, States generally insist that these investment minimums for Section 529 plans be reduced so that families of all income levels realistically may participate.

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[1] In Saving for College: A survey of Parents, 1,109 parents were surveyed by Vanguard and Upromise Research (December 2005)
[2] According to an Internet poll of 1,508 college graduates ages 21 to 35 sponsored by Alliance Bernstein Investments, Inc., and released in February of 2007.

Significantly, the States continue to seek new and innovative ways of attracting under-served populations to participate in Section 529 programs. For example, a private foundation in Maine provides an initial grant of 200 dollars for a new account of at least 50 dollars, and annual matching grants of 50% of contributions up to 200 dollars per beneficiary for qualifying account owners. Families with adjusted gross income below a certain level (2008 grants required that 2007 adjusted gross income be 75,000 dollars or less) qualify for the grants.

In Illinois, State Treasurer Alexi Giannoulias committed 3.5 million dollars in scholarships to Illinois students, including 2.8 million dollars in need-based grants. Through the Illinois State Treasurer's Bright Start Scholarship Program, Giannoulias will distribute 400,000 dollars in scholarships to four-year public and private universities in Illinois each of the next seven years. Schools will select recipients based on need, and the scholarship amounts will range from 1,000 to 2,500 dollars. Up to 400 scholarships will be awarded annually and almost 3,000 scholarships will be awarded to Illinois students through the life of the program.

In Pennsylvania, lower income families are encouraged to save for college through coordination of the state's Individual Development Account or IDA program with its Section 529 program. Families with incomes up to 200% of the poverty level can utilize the IDA program and earn a dollar for dollar match up to 2,000 dollars per saver. The saver's funds and the match can then be placed in Pennsylvania's 529 Guaranteed Savings Plan (GSP), where they grow just as in any other GSP account. Currently, 125 GSP 529 accounts have been opened by Pennsylvania IDA participants. Those lower income families have collectively saved 157,505 dollars and have received government matches of 146,684 dollars. If the saver ever takes a nonqualified withdrawal from the account, a proportionate amount of the match is forfeited.

In Massachusetts, grass roots marketing initiatives specifically target low-to-mid-income families through Early College Savings Seminars, Financial Aid Seminars, and educational events such as literacy events at Boys and Girls Clubs, reading events at public libraries across Massachusetts, and an Annual Art Competition for students across the Commonwealth.

In my own state of Georgia, we also market to low- and middle-income families through numerous initiatives. These include distribution of program information through urban and rural school systems, we work with state and local PTA groups, and we provide outreach to churches and other non-profit civic groups. In addition, we have partnered with other state agencies to insert program information in birth certificate mailings and have worked with parents in day care centers funded by United Way and affiliated with Head Start to encourage participation. We will present program information free of charge to any group, without minimum group size requirements, anywhere in the state.

These unique programs are just a few examples of the vital role the States play in providing opportunities to stimulate saving for higher education by all segments of the population. Without these efforts, it is highly unlikely that the Section 529 market would be so vibrant, and many middle- and low-income families would be underserved.

IV. Room for Improvement

Given all the success of Section 529 plans, there is still room for improvement in the federal tax treatment of these plans.

1. Treat Computer Technology and Equipment as an Eligible Education Expense

Coverdell Education Savings Accounts, which allow families to save for K-12 and higher education expenses, treat computer technology and equipment as an allowable expense. Under current law, however, Section 529 only allows computer technology and equipment to be treated as a qualified higher education expense if the college formally requires a computer for enrollment. CSPN has proposed that Section 529 be amended to provide that computers, Internet access, and educational software are allowable expenses for Section 529 plans.

2. Treat Contributions to Section 529 plans as allowable for the SAVERs credit

The Internal Revenue Code provides a "Saver's tax credit" for lower income taxpayers who voluntarily contribute to IRAs, 401(k) plans, or other similar workplace retirement programs. CSPN has proposed that contributions to a Section 529 qualified tuition program should be treated as contributions that qualify for the Saver's credit.

3. Exclude from Income Employer Contributions to an Employee's Section 529 Account

CSPN has proposed that certain contributions from an employer to an employee's Section 529 account should be excludable from gross income. Congressman Joseph Pitts from Pennsylvania introduced such a proposal this Congress and that legislation is currently pending before this Committee. Under Congressman Pitts' bill, H.R. 5591, employers would be allowed to contribute up to $500 into an employee's Section 529 account without the contribution being treated as income to the employee.

V. Conclusion

In order to ensure that everyone who wants to go to college has a vehicle to save for college -- the States have stepped in to fill a vital role. Section 529 plans provide better access for low and middle class families, better investment options -- including access to low-fee options that consumers can purchase directly from the program, low dollar thresholds for participation, and, of course, state tax incentives – including state income tax deductions or credits.

It is also important to note that the States bring a focus on outreach to all segments of our populations. It is largely because of the State role in Section 529 plans that we see outreach such as I've described – marketing efforts to ensure that our college savings plans are accessible by all income groups. We want to continue to build on these efforts.

Finally, I want to touch on one other aspect of Section 529 plans, which is less concrete but nonetheless very important. When families puts savings in a Section 529 plan for a newborn, a five year old, or even a fifteen year old, that family is sending a very important message to the child – that the family believes the child can and will go to college. A college education remains one of the surest paths to more success and higher achievement. Saving early in a Section 529 account sends a powerful and positive message to our children -- that they can and should go to college.