CSF
CollegeSavings
FOUNDATION

April 15, 2015

College Savings Foundation Comments to the Senate Finance Committee Working Group on Individual Income Tax

Chairman Grassley, Chairman Enzi, Chairwoman Stabenow, and Members of the Working Group:

The College Savings Foundation (CSF) appreciates the opportunity to provide comments to the Senate Finance Committee's Tax Reform Working Group on Individual Income Tax. We appreciate the thoughtful review and thorough analyses that you are undertaking on these important issues. As part of this review, we hope the Working Group will consider the important role of Federal education savings tax incentives, and especially 529 college savings plans, in helping Americans meet their higher education costs.

CSF is a Washington, D.C.-based not-for-profit organization whose mission is to help American families achieve their education savings goals. 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 States, investment managers, law firms, accounting and consulting firms, and non-profit agencies that participate in the sponsorship or administration of 529 college savings plans. A list of CSF's members is attached.

Today, in the face of an increasingly competitive world economy, higher education is more essential than ever for future generations and for the Nation. A post-secondary education is often critical to helping Americans reach their full personal and professional potential, and research shows that higher education produces greater financial success. Simply put, higher education leads to higher earnings. Further, college graduates experience lower levels of unemployment and are less likely to depend on safety-net programs. Research also shows that education increases civic participation, with college-educated adults voting in greater numbers and 25 percent more college graduates performing organized volunteer activities than individuals with a high school diploma. In addition, higher education correlates with a healthier lifestyle, which is beneficial for college-educated adults and their families, and reduces medical costs within society.

Yet the cost of college continues to escalate, forcing more families to turn to student loans to help finance their children's education. According to the Federal Reserve Bank of New York (FRBNY), at the end of 2014, there were nearly 43 million student loan borrowers with an average balance per borrower of approximately $27,000. In its 2015 First Quarterly Report on Household Debt and Credit, the FRBNY stated that the outstanding student loan debt balance nationwide was $1.2 trillion as of December 2014.

According to a recent article published by the Federal Reserve Bank of Cleveland, mounting student loan debt not only burdens the borrower, but also has a considerable impact on the economy -- the effects of which are likely to be felt far into the future. Student borrowers may be unable to move out of their parents' homes or purchase a home, plan for retirement, buy a car, start their own businesses, or even pursue their career of choice.

The Internal Revenue Code provides a numbers of tax benefits to individual taxpayers for education expenses. These include tax benefits for current education expenses as well as tax benefits for saving for future education expenses. Section 529 plans fall into the latter category, and are the single most important initiative allowing working Americans to plan for the cost of their children's college education. Every dollar saved in advance significantly reduces the cost of college, and every dollar saved is one less dollar of debt that the student or the family will face after graduation. Moreover, research shows that students with college savings are more likely to attend college than students without any college savings.

The States have established 529 savings programs to encourage and assist Americans in saving for the escalating costs of higher education. Contributions to 529 plan accounts are made with after-tax dollars and the savings on those accounts grow on a tax-deferred basis. Withdrawals of the earnings are not subject to Federal income tax if, and only if, they are used for qualified higher education expenses.

While 529 college savings plans have only been a part of the Internal Revenue Code since 1996, their origin dates to the late 1980s when a number of States (including Florida, Michigan, and Ohio) created pre-paid tuition plans to encourage families to save for college. In 1996, the Small Business Job Protection Act created qualified state tuition programs and provided a deferral on earnings within the account, with distributions taxed at the beneficiary's rate. In 2001, the Economic Growth and Tax Relief Reconciliation Act provided, through 2010, tax-free treatment for distributions from 529 plans for qualified higher education expenses. In 2006, through a strong bipartisan effort led by Senator Chuck Grassley (R-IA), the Pension Protection Act made permanent the 2001 provisions, giving families the certainty that qualified distributions from 529 plans would be tax-free. And it worked. By September 30, 2014, some seven million families were saving for college in over 12 million 529 accounts. Assets in 529 accounts totaled almost $248 billion as of December 31, 2014.

American families are sending a message that 529s are a successful savings vehicle. This is also demonstrated in CSF's most recent quarterly data report. Representing nearly 70 percent of the 529 marketplace, the CSF data was analyzed by Strategic Insight (SI). The findings are encouraging – families are saving and using 529s. A 2014 survey of high school students conducted by CSF showed that 29 percent of families whose children are college-bound are using a 529 account and 38 percent of these families had started saving when the children were born.

The growing utilization of these plans demonstrates that they are an important means to assist families in addressing the escalating costs of educating their children. During the fourth quarter of 2014, CSF members reported $4.492 billion in new contributions -- or new money being invested in 529 college savings plans – compared to $4.198 billion in the fourth quarter of 2013.

The families that rely on 529 plans are predominantly middle-income Americans who work for a living and are caught between limited access to adequate grants or other direct financial aid and the rising costs of college. These families have income that exceeds the levels where they will be eligible for needs-based grants (such as Pell Grants), but they also understand that they will not have the resources to fund their children's education unless they save in advance. For those middle-income families, 529 plans provide a roadmap and 529 plan savings become a lifeline.

According to SI's most recent analysis, as of March 2014, close to 10 percent of 529 accounts were owned by households with income below $50,000, over 70 percent were owned by households with income below $150,000, and almost 95 percent of 529 accounts were owned by households with income below $250,000. The average value of a 529 account has grown in recent years, but remains at a modest $19,744, and the average contribution to accounts that receive regular electronic contributions is approximately $175 per month. These figures reflect the modest amounts that families are able to budget for college savings.

With the growing popularity of 529 plans, there must be a continued commitment to encourage savings by all families -- including those of modest income. Section 529 plans in every State have a clear focus or mandate to (1) educate all families on the importance of higher education and ways to finance those goals, (2) encourage and assist low- and moderate-income families to aspire to higher education for all family members, and (3) provide programs that are available to a broad segment of the population, including low- and moderate-income families and individuals, to help them prepare and save for college.

Some of the many ways in which State 529 plans help to make college more accessible and affordable for all families include: (1) low minimum balance requirements for 529 accounts, (2) access to mutual fund options that otherwise would require contributions in the thousands of dollars, (3) low fee options through direct-sold programs with no sales commissions or loads, (4) a range of conservative and/or nearly-guaranteed investment and savings options (including FDIC-insured bank accounts, Guaranteed Investment Contracts (GICs), money market funds, and Treasury inflation-protected options), and (5) State specific benefits, including income tax credits or deductions and creditor protection for 529 accounts.

Several State 529 plans provide scholarship and matching grant programs targeted at various populations, including low- and moderate-income families. A number of 529 plans also are involved in financial aid programs such as providing assistance to State partners in conjunction with the federal GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs). GEAR UP uses Federal and State funds to create scholarship accounts for low-income children for post-secondary education.

The commitment of 529 plans to make a difference and help low- and moderate-income families is certain. Everyone involved with 529 plans understands the tremendous potential of these programs to help children, parents, young adults, and others believe that a college education is possible and financially achievable.

Another significant component of all 529 plans is a variety of outreach programs created and administered by the States -- alone or in conjunction with public and private partners. All of these efforts are targeted to that broad segment of the population 529 plans attempt to reach -- including low- and moderate-income families. A small sampling of typical activities of 529 plans include the following: (1) outreach in public schools K-12, including work with school administrators, parents, and parent-teacher organizations, (2) public service radio and television segments, (3) inserts regarding 529 plans with DMV notices, with birth certificates, with State income tax mailings, and in conjunction with other public-sector communications, (4) collaborations and partnerships with State councils on higher education, colleges and universities, financial aid offices, and educational foundations counseling at-risk students about higher educational opportunities and financing options, (5) partnerships with employers, both public and private, to provide seminars on saving for college, (6) financial literacy outreach and seminars, (7) creative use of websites to provide financial literacy information, college savings calculators, financial aid information, and other pertinent information, and (8) outreach at State and county fairs, children's expos, sporting events, and other kinds of fairs and festivals.

While section 529 college savings plans have already helped millions of American families be better prepared for the expense of educating their children and less dependent on crushing debt, CSF continues to examine ways to make 529 plans even more effective. CSF has endorsed several Federal legislative proposals that would enhance the ability of families to better use 529 college savings plans to help meet their education savings goals. These include:

- Clarifying that Computers are a Qualified Higher Education Expense. Computers are a necessary educational tool, and there should be no question that college students should be able to use 529 funds for their purchase. This provision is included in S. 335, introduced by Senators Chuck Grassley (R-IA) and Bob Casey (D-PA), and in H.R. 529, legislation introduced by Representatives Lynn Jenkins (R-KS) and Ron Kind (D-WI). H.R. 529 passed the House on February 25, 2015, by a vote of 401-20.
- Eliminating Burdensome Distribution Aggregation Requirements. In calculating contributions and earnings attributable to 529 distributions for 1099-Q reporting

purposes, each State annually must aggregate all distributions from a plan for the same account owner and beneficiary. This requirement places a costly administrative burden on plan providers with no corresponding tax policy benefit. Aggregation is difficult to demonstrate or explain to 529 account owners. This proposal would eliminate the requirement and is included in S. 335, legislation introduced by Senators Chuck Grassley (R-IA) and Bob Casey (D-PA), and in H.R. 529, legislation introduced by Representatives Lynn Jenkins (R-KS) and Ron Kind (D-WI). An enhanced aggregation proposal is included in H.R. 529 as passed by the House on February 25, 2015, by a vote of 401-20.

- Permitting Redeposit of Refunds. When student illness or other circumstances result in a withdrawal from classes, refunds may not be redeposited to that student's 529 account without incurring income tax and a 10 percent penalty on earnings. This proposal corrects that unfair result, provided any redeposit occurs within 60 days of receipt of a refund. This provision is included in S. 335, introduced by Senators Chuck Grassley (R-IA) and Bob Casey (D-PA), and in H.R. 529, legislation introduced by Representatives Lynn Jenkins (R-KS) and Ron Kind (D-WI). A broader version is included in H.R. 529 as passed by the House on February 25, 2015, by a vote of 401-20.
- Allowing the Saver’s Credit for Contributions to 529 Plans. This proposal would provide incentives for low- and moderate-income taxpayers to save for higher education by making 529 contributions eligible for up to a $1,000 tax credit. The Saver’s Credit currently is available only for contributions to retirement savings programs such as IRAs and 401(k)s. This proposal was included in H.R. 529, legislation introduced in the 113th Congress by Representatives Lynn Jenkins (R-KS) and Ron Kind (D-WI).
- Encouraging Employers to Match 529 Contributions. This proposal would allow employers to match employee 529 contributions of up to $600 per year, with the employer match excluded from the gross income of the employee. This proposal was included in H.R. 529, legislation introduced in the 113th Congress by Representatives Lynn Jenkins (R-KS) and Ron Kind (D-WI).
- Providing a Limited Rollover Opportunity. This proposal would allow limited rollovers of 529 balances from accounts open at least ten years to a Roth IRA for the beneficiary or the account owner. This proposal was included in H.R. 4333, legislation introduced in the 113th Congress by Representatives Lynn Jenkins (R-KS) and Ron Kind (D-WI).
- Rebalancing of Account Investments. This proposal would clarify that rebalancing of account investments from among broadly diversified or federally guaranteed investment strategies designed exclusively by the program will not be treated as investment direction under section 529 or 529A.

The College Savings Foundation remains concerned with any proposals that would have a chilling effect on 529 contributions by hardworking American families.

There is no more important investment this country can make than in educating its citizens. Financing a child's college education can be the chief economic goal of an entire extended family, but the costs of a college education can be daunting. Too often, families take on the entire cost of college through "pay-as-you-go" financing and "pay-after-you-go" loans. There is a third option -- using 529 plans to save in advance. By saving before a child reaches college age, families can help ensure that adequate funds will be there to allow their children to attend college. The College Savings Foundation looks forward to working with the Finance Committee to help ensure that these important college savings programs remain viable and available to all American families.

Again, we appreciate the opportunity to share our views with the Working Group. If we can be of any assistance as you consider tax reform, please let us know. Kathy Hamor, CSF's Executive Director, may be reached at (703) 351-5091 or via e-mail at khamor@collegesavingsfoundation.org

Sincerely,

Mary Morris
Chair
College Savings Foundation

College Savings Foundation Members

- AKF Consulting Group
- Allianz Global Investors (PIMCO)
- American Century Investments
- Bank of America/Merrill Lynch
- BlackRock/iShares
- BNY Mellon
- Boston Financial/DST Systems
- Capital Research and Management Company
- CollegeInvest
- College Savings Bank
- Education Trust of Alaska
- Fidelity Investments
- Franklin Templeton Investments
- GiftofCollege.com
- GiftedPath
- Invite Education
- John Hancock Financial Services
- Mark Chapleau, Member, Weston Patrick P.A.
- Massachusetts Educational Financing Authority
- Mintz Levin
- Nebraska College Savings Plan
- Northstar Financial Services Group
- New Hampshire College Tuition Savings Plan Advisory Commission
- Ohio Tuition Trust Authority
- OppenheimerFunds
- Pershing LLP
- Private College 529
- Rhode Island Higher Education Assistance Authority
- Saving for College, LLC
- ScholarShare College Savings Plan
- Spectra Professional Services
- State Farm
- Strategic Insight
- TIAA CREF
- Virginia529
- Voya Investment Management
- Wealth Management Systems, Inc.