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Testimony of
Oregon State Treasurer Randall Edwards
regarding
Section 529 College Savings Plans
before the
United States Senate Committee on Finance
July 22, 2004

Mr. Chairman and Members of the Committee, my name is Randall Edwards. I am the State Treasurer of Oregon and Chair of the Oregon 529 College Savings Board. I also serve on the executive board of the College Savings Plans Network (CSPN), which is an affiliate of the National Association of State Treasurers. CSPN coordinates states' 529 efforts by harnessing their collective resources to improve industry practices and develop self-regulating policies.

It is my sincere pleasure to be here today to speak with you about 529 college savings plans, the State of Oregon's perspective and philosophy regarding these plans, and how states are making them successful.

The states have been working with the Finance Committee for over a decade to increase access to college. This partnership culminated in the enactment of the tax exemption for qualified distributions from the plans in the Economic Growth and Tax Relief Reconciliation Act of 2001. Since 2001, these plans have grown tremendously, and we thank this committee for its vision and leadership in enhancing the ability of the states to build the college savings plans, which in turn makes higher education more affordable and accessible to families. You should know that your vision is being realized every day as 529 plans in all 50 states continue to help families achieve the dream of a college education. Families in record numbers are putting their hard-

earned dollars in 529 plans, and that commitment is paying off. More than 400,000 students nationwide already have used their 529 resources to pay for college, and another six million are waiting to use their accounts when they go to college.

Oregon's story is no different.

We began offering 529 plans in January of 2001, and in the short three and a half years since then, Oregonians have responded to 529 plans with unbelievable excitement and enthusiasm. More than \$311 million has been invested in our program. That excitement and high level of response is even more amazing when you consider that we started this plan in one of the worst financial markets in history. Oregonians clearly understand the need for higher education and what it will take financially to achieve their goals. 529 plans have given Oregonians a real incentive and flexible vehicle to save for college.

Our 529 program is built on the foundation of putting the investors and beneficiaries first. We weigh every program decision against the effect on the average investor. And while we maintain outstanding relationships with our private-sector partners, our first priority is always to our investors, the plan participants. That is why Oregon currently has three 529 plans to choose from, each offering investors a distinct set of investment portfolios and mutual funds. A key component of our 529 program is our lowest-cost option. This option is designed to encourage moderate- to low-income families to save for college, allowing them to set up an account for as little as \$25 with \$25 monthly contributions, or for a one-time contribution of \$250. It is our goal to offer solid investment choices to attract a wide range of investors with varying risk tolerances and investment philosophies.

We believe our approach is working, with nearly 52,000 accounts opened since 2001 and new investors joining daily.

The Public Policy Behind 529

The states long recognized the need to foster saving for college, which is economically more sound than borrowing, both for families and for institutions of higher education. Beginning in the

late 1980s, the states established tuition savings programs to encourage families to save for college, leading the way in meeting the needs of families to save for college by developing innovative plans to reach families of every income level and in every community. The mission of the state college savings plans, whose existence predates the passage of Section 529 of the Internal Revenue Code, has always been to increase access to higher education by offering families a simple, safe, affordable and dedicated way to save for college tuition. In 1996, Congress recognized the need to develop supportive federal policies to encourage and empower more Americans to save for college. Today, 529 plans are shining examples of how good public policy can enhance the futures of many Americans. My passion and my interest in the 529 program is the same as yours — to foster a savings ethic and help all families save for a college education.

So what is the challenge that Oregon families face to send their children to college?

The headline from last Saturday's edition of *The Oregonian* newspaper says it all: "Cost of college rising again." While Oregonians continue to take advantage of the 529 plans, they see the cost of college rising steadily every year. Families are doing financial back-flips to meet the rising cost. Many are forced to rely heavily on debt to meet their needs. According to the College Board's *Trends in College Pricing 2003*, average annual tuition and fees at a public four-year college in current dollars has increased from \$617 to \$4,694 since 1976, an increase of 761 percent. At the University of Oregon, annual tuition costs alone have increased 248 percent since 1990.

Despite the rising cost, the value of a college education is enormous. To give you an example, median annual earnings for full-time workers with bachelor's degrees are about 60 percent higher than earnings for those with only a high school diploma. Over a lifetime, this gap exceeds one million dollars in earning potential. Further, more and more jobs require technical training and post high-school education.

That is why Congress and the states long have recognized the need to foster a college savings ethic. A more educated workforce is a critical part of a stable economy with higher-paying,

family-wage jobs. Today, states design 529 plans to specifically promote future access to higher education for children of all economic means. These plans provide a unique savings opportunity for two-year, four-year, or graduate schools, vocational or technical schools, or any accredited educational institution, and the plans can be used any time in your life.

Everyone talks about the amount of money saved in 529 plans, and it is substantial, but I believe the more important statistic is the number of accounts. I don't care whether people are saving \$25 or \$25,000, as long as they save. In Oregon, we have developed a broad-based public awareness campaign to ensure that every Oregonian, regardless of income, understands and has easy access to the 529 program. I am proud to say that we have account owners in all of Oregon's 36 counties.

State Oversight

The states have a legitimate, vested interest in making college more affordable and more accessible for their citizens.

State oversight of 529 plans has been a critical element in the growth and success of these programs. We have found that the imprimatur of the state's administration of these programs helps add credibility and therefore encourage new investors who otherwise might not have considered such a vehicle for their college savings needs.

States have become very innovative in their approaches to attract college savers, using everything from state tax deductions, scholarship programs, matching grant programs, low-cost mutual funds, easy contribution and withdrawal features, online enrollment and account access, and low investment minimums.

In Oregon, I have authored a number of legislative initiatives that have enhanced the state's 529 program in an attempt to attract more savers: a \$2,000 state tax deduction, a tax roll-forward provision on contributions above \$2,000, state tax-free withdrawals, and an allowance for low-income Oregonians to access the 529 plan through Individual Development Accounts.

The Oregon 529 program is administered directly out of my office, as is the case for many state treasurers around the country. This allows me, and my staff, under the direction of the Oregon 529 College Savings Board, to exercise full control over the program as well as oversee our private-sector program managers. Every decision made regarding the program, whether investment-related or administrative, is analyzed and approved by my office and the Board.

This level of state oversight of 529 plans provides an essential additional layer of protection and accountability for the participants. Our program is administered by an independent state board, which holds all 529 assets in trust. Our program is governed by state law and administrative rule, and must adhere to state procurement laws, ethical standards, and open public records and meetings laws. In addition, our program is subject to financial reporting and auditing requirements. Financial reports are submitted to the Governor and the State Legislature every biennium.

The 529 plan in Oregon is becoming an increasingly important tool in the higher education policy toolbox in our state. The recent and continuing state budget crises hit Oregon especially hard, and General Fund support for higher education has suffered, resulting in rapid tuition increases. Nevertheless, the Oregon Board of Higher Education and Governor Kulongoski share a deep commitment to access to secondary education, and support the efforts of our program to provide investor education and access to savings opportunities for Oregon citizens of all income levels. More cooperation and collaboration is expected in the future. A member of the Oregon Board of Higher Education now serves as a member of the Oregon 529 College Savings Board, and we are beginning work to develop grants and scholarships from our 529 program to reach students who otherwise would be unable to attend college. It is imperative to the health of higher education and of our economy in Oregon that the state exercises every resource for higher education available. Our 529 program has become a visible and vital resource.

Another critical aspect of state oversight is choosing investment managers. In Oregon, we are very selective about whom we elect to do business with. Investment managers must meet and maintain a host of high standards: from top-quality, low-cost mutual funds and outstanding customer service to high ethical standards and a commitment to act in the best interest of our

investors. We have formally adopted investment policies to which every investment manager must adhere.

Our Board takes its fiduciary duty seriously. In fact, Oregon was the first and, I believe the only, state to terminate a 529 program manager as a result of the recent mutual fund scandal. Our Board determined that one of our program managers violated investors' trust and put the program at risk. This kind of independent, unbiased oversight can be achieved only through the involvement of the states.

Recently, our program adopted new disclosure guidelines developed by the College Savings Plans Network and state treasurers to provide more transparency and give investors more uniform information regarding fees, expenses, investment performance, state tax treatment, and other benefits. These self-regulating guidelines will also make it easier for investors to compare all 529 plans and is another step to make them easier to understand for the average investor.

Federal Tax Permanency for 529 Plans

Mr. Chairman and Members of the Committee, we need your help. We need the federal tax exemption on 529 withdrawals to become permanent. This exemption, created in 2001, is a powerful incentive for average, middle-income investors to save for college.

Because the exemption sunsets in 2010, it is difficult for investors to understand and awkward for the states to explain and disclose. My belief is that most people invest with the understanding that they will receive the federal tax exemption regardless of when they withdraw their money. The sunset is creating a climate of confusion and misunderstanding. All of us involved in 529, states and vendors alike, urge you to make the federal tax exemption permanent, and we are ready to work with you to make this happen.

Conclusion

Creating greater access to higher education and encouraging savings over borrowing is sound public policy. The 529 plans are designed to improve access to higher education and, through the states' administration of the plans, do in fact improve access. The state 529 plans provide

opportunities for investment and savings for low- and middle-income investors, support investor education, and reduce the need for financial aid and loans. In the longer term, the plans provide our states and nation a better-educated workforce, and help individuals to secure higher-paying jobs. And Section 529 is working: Citizens are investing in these plans in great numbers because they trust that the states are administering them in the best interest of the participants. The public policy goals of the Section 529 qualified tuition programs are foremost in the administrative efforts of the states, and the states are in a unique position to further those goals.

You have my commitment to work with you and the other states to continue to improve the 529 plans and make them the best way for American families to save for a college education.

Thank you for the opportunity to be here today. I will happy to answer any questions.