COLLEGE SAVINGS FOUNDATION ASKS FOR RECALL OF 529 TAX TREATMENT ROLL-BACKS IN WHITE HOUSE TAX PROPOSAL

Washington, DC – January 20, 2015 -- The College Savings Foundation, a leading nonprofit helping American families save for college, calls for the White House to recall and Congress to oppose the proposal in the Administration's tax plan to roll back tax incentives for American families that have been available to them in 529 college savings plans since 2001.

"The President's proposal to tax 529 college savings plan distributions will undercut the effectiveness of 529 plans – the most effective and by far the most popular college savings vehicle available to middle income American families," said Mary Morris, Chair of the College Savings Foundation (CSF). "We in the college savings industry, CSF and the College Savings Plans Network (CSPN), are united in our opposition to the tax incentive rollback that will impact American families and their saving for education."

CSF statistics, provided by Strategic Insight (SI), an independent mutual fund research organization, demonstrate the dramatic rise in Americans' use of 529 college savings plans since 2001.

- <u>529 holders are middle class Americans</u>: According to SI as of March 2014, close to ten percent of 529 accounts are owned by households with income below $50,000, over 70 percent are owned by households with income below $150,000, and almost 95 percent of 529 accounts are in households with income below $250,000.
- <u>The average value of a 529 account has grown in recent years</u>, but remains at a modest $19,774, and the average contribution to accounts that receive regular electronic contributions is approximately $175 per month.
- <u>Over a million middle class students are currently enrolled in college</u> and benefiting from 529s.
- <u>529 account owners are using them for the purpose of funding qualified education costs</u>: In the early 529 years, between 1996-2001, distributions totaled only $1 billion; by the 3Q 2014, distributions approached $89-billion.
- <u>The number of families using 529s has grown</u> from less than 2 million in 2001 to some 7 million in 3Q 2014.
- <u>Numbers of accounts have grown</u> from approximately 1 million in 2001 to over 12 million as of 3Q 2014.
- <u>Assets in 529 college savings plans have risen</u> from $1 billion in 2001 to over $217 billion as of the 3Q 2014, the result of steady investing, new accounts and a strong market since the recession.

Today, 529 college savings plan distributions that are used to pay a student's college tuition and other qualified higher education expenses are tax-free. The

Administration proposes to roll the clock back to the rules in place before 2001, when 529 plan earnings were taxed as income to the student beneficiary.

“This would have a chilling effect on contributions by middle-income Americans because the current, simple and straight-forward tax-treatment of 529 plans has encouraged many millions of American families to embrace the accounts,” Morris said. “529 college savings plans are now helping millions to attend college, and reducing the amount of student loan debt students must incur.”

The President’s proposal would add financial pressure to the student beneficiaries as they would incur taxes on 529 plan earnings when they take a qualified distribution for their higher education. This would especially hurt those who are already working hard to earn money for their education in a summer job or during the school year, as this would increase their taxable income.

“The last thing that students struggling to meet the rising cost of attending college need is higher taxes,” Morris said. **“**This also hampers adults’ plans to save for themselves as lifetime learners. Many adults have plans to return to school to enhance existing skills or learn new ones to better meet the needs of a changing workplace – and enhance our future economy’s health.”

529 plans are vital savings tools for working adults to set aside funds to finance night school, vocational school, or other post-secondary education. The President’s proposal would be a particular disincentive to this segment of working adult savers because they will likely be taking 529 plan distributions when they are in a higher tax bracket because they are working and going to school.

“Higher education financing is even more difficult today than in 2001,” Morris added. “With college costs continuing to rise every year, students are struggling to finance college and are saddled with ever increasing student loan debt. For many families, 529 plan savings are a critical part of a college financing strategy; and taxing their 529 plan distributions will likely discourage many from saving at all.“

College costs have soared since 2001. According to the U.S. Department of Education, National Center for Education Statistics, the total cost (tuition, fees, room and board) of a four-year nonprofit college has increased from $23,257 in 2000-2001 to $39,302 in 2012-2013. Two-year public institutions have increased from $4,839 in 2000-2001 to $8,928 in 2012-13, and four-year public institutions have increased from $8,653 to $17,474.

CSF research and surveys reinforce the importance of savings and employment to tackle these escalating costs. CSF’s 2014 State of College Savings Survey found that 45 percent of parents put saving as their number one strategy for funding college. At the same time, they also are relying on their children working: nearly three quarters expect their children to help with the costs of college, and nearly half (44 percent) expect that to be with a job.

Federal tax incentives continue to be a great motivator in saving. CSF’s report, “529 Plans: A 15-Year Retrospective,” found that federal tax incentives were the strongest reason for non-529 users to adopt those plans. Of the 750 consumers polled for the report, 59 percent said they would “certainly“ or “very likely” open a 529 account if the federal government offered more tax incentives, while 60 percent said they would be certainly or very likely open an account if their state did so.