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SECTION 529 SAVINGS PLANS, ACCESS TO POST-SECONDARY EDUCATION, AND UNIVERSAL ASSET BUILDING

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INTRODUCTION

Achieving economic security today requires access to both income and assets. One of the most significant factors in generating these resources is education, particularly post-secondary education. The problem for many Americans is that high and escalating tuition costs make it increasingly difficult to access a college education. Over the past ten years, the price of a year of college at a four-year public institution has increased 36 percent, 10.5 percent in the last year alone ("Trends in College Pricing" 2004). Affording these costs is especially challenging for families with fewer resources. More than half of academically-qualified low-income students are prevented from attending a four-year college because of cost considerations (Milano 2003). Given rising tuition costs and the value of a college degree, it is imperative to provide all Americans, and especially lower-income families, the opportunity to save for college.

One of the newest incentives to save for college is contained in Section 529 of the tax code.[2] The federal government has created a set of rules that sanction special saving account systems designed to help families set aside money to pay for college tuition. Implemented in 1996, and expanded greatly in 2001, these 529 savings plans are established and maintained at the state level. Each state plan includes the administration of an account system, the offering of investment options, and the oversight of private-sector investment management. The federal government allows for earnings from these personal accounts to be withdrawn tax-free when used to pay for qualified higher education expenses and many states offer additional incentives, such as tax deductions on state income tax calculations.[3]

Collectively, these state-run 529 savings plans have characteristics that make them a powerful tool to facilitate saving. However, in their current form, benefits flow largely to middle- and upper-income households. This is an issue with many tax-preferred savings accounts, including IRAs, where only households with higher incomes and larger income tax liabilities are able to take advantage of savings incentives. However, with proper policy reforms in place, the unique structure of 529 savings plans has the potential to create a broader, more inclusive savings platform.

This paper explores the opportunities and current limitations of using 529 savings plans to ensure that the greatest number of Americans are able to pursue a post-secondary education. Particular attention is given to considering the potential for 529 savings plans to serve as a basis for universal asset building. As these plans are still relatively new, this assessment builds on what has been learned to date. We conclude with a series of policy recommendations designed to strengthen the ability of these accounts and savings plans to facilitate greater access to post-secondary education, one of the most significant assets of our time.

BENEFITS OF A COLLEGE EDUCATION

Simply put, people who attend college earn more money. The statistics are quite revealing: each additional year of educational attainment yields an increase in annual earnings. In 1999, the average salary for a high school graduate was $30,400, while college graduates earned an average of $52,200 (Day and Newburger 2002). This disparity in earnings among workers with different levels of educational attainment has grown over the past 25 years. As shown in the table below, this

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[2] Section 529 of the U.S. tax code defines the tax rules that govern qualified tuition programs for post-secondary education. These qualified tuition programs are administered by each state, and include prepaid tuition benefit contracts and savings accounts. This paper focuses on the savings accounts, which are offered by each state in the context of a specific savings plan. We refer to these plans as "529 savings plans" when discussing the savings system as a whole and as "529 accounts" when focusing solely on features of the account.
[3] See appendix for a list of incentives offered by individual states.

earning differential adds up substantially over a lifetime. Over their working lives, individuals with bachelors degrees will earn $2.1 million on average, nearly twice more than their high school-educated counterparts and a third more than workers who attended but did not graduate from college (Day and Newburger 2002).

Table 1: Average Earnings for Different Educational Attainment Levels (in 1999 dollars)

	Annual Earnings	*Lifetime Earnings*
High School Diploma	$30,400	$1.2 million
Two-Year College Degree (Associate's Degree)	$38,200	$1.6 million
Four-Year College Degree (Bachelor's Degree)	$52,200	$2.1 million

Source: Day and Newburger (2002).

Obtaining a post-secondary education is not only usually a necessary step in securing a well-paying job, but also often a vital step to achieving security, acquiring assets, and building wealth. For example, college graduates are more likely to have jobs with benefits, such as health insurance and retirement plans—two key pillars of economic well-being. As the table below demonstrates, almost all individuals with a college education have a bank account and are in a better position to build wealth through retirement savings, investments, and homeownership. These resources provide a platform for building wealth throughout a lifetime, while also providing a foundation for intergenerational wealth transfer.

Table 2: Educational Attainment and Asset Ownership

	Bank Account	***Investments****	***Retirement Savings*****	***Homeownership***
No High School Diploma	72.6%	11.1%	17.1%	58.9%
High School Diploma	89.5%	32.3%	45.6%	65.4%
Some College	95.1%	39.6%	52.5%	63.4%
College Degree	98.1%	63.7%	74.8%	76.3%

*Mutual Funds, Stocks, Bonds
**Defined Contribution Plan, IRAs, KEOGHs
Source: 2001 Survey of Consumer Finances, analysis by Craig Copeland of the Employee Benefits Research Institute.

ACCESS, COSTS, AND FINANCIAL AID TRENDS

While educational attainment rates continue to rise across all race and income groups, persistent gaps remain between races and people of different socio-economic backgrounds. Family wealth and income, as well as parental educational attainment, continue to be the best predictors of which students will enroll in college, regardless of a student's own academic preparation. Today, financial barriers prevent almost half of the academically-qualified low-income students from attending a four-year college and almost a quarter from attending any college at all within a few years of high school graduation (Milano 2003).

The cost of attending a public college has increased 36 percent over the last ten years. These escalations have hit low-income families the hardest, as household income and financial aid has not kept pace. Currently, low-income families pay 70 percent of their incomes for a year of public college, which is a 40 percent increase from the mid-1970s. In contrast, higher-income families spend 5 percent of their income on a year of college, which is basically the same rate they would have paid thirty years ago ("Debt Burden" 2004).

While these cost increases are somewhat tempered by financial aid, federal student aid programs have undergone a fundamental shift. Today, fewer resources are devoted to need-based aid in the form of grants. A greater emphasis is being placed on loans, merit awards, and tax credits. For example, even though funding for Pell Grants has continued to increase in absolute terms, the individual grant awards to students have lagged behind the rising tuition costs and increased demand for college. Consequently, students turn increasingly to loans, often with high balances, which has led to the median debt level for a public college graduate to rise to $16,200 ("Debt Burden" 2004). The prospect of having to take on such a liability may deter many low-income students from attending college altogether, especially those who may not be confident they can finish school.

In recent years, almost all new forms of financial aid have been created through the tax code, in the form of credits and deductions that are inaccessible to many low- and moderate-income families who have limited tax liabilities. Created in 1997 and expanded in 2001, Coverdell Education Savings Accounts (formerly known as Education IRAs) allow taxpayers to contribute up to $2,000 annually for each child under the age of 18. These accounts are governed by rules similar to Roth IRAs, in which after-tax contributions are nondeductible but withdrawals are tax-free as long as the funds are used to pay for educational expenses. In addition, the HOPE Scholarship and Lifetime Learning non-refundable tax credits were created in 1997. The HOPE Scholarship credit allows for a maximum credit of $1,500 against college expenses for the first two years, while the Lifetime Learning credit offers a 20 percent credit for the first $10,000 of educational expense annually after the first two years. Yet since both of these credits are non-refundable, their value for lower-income families is restricted. These credits are targeted in the sense that the tax benefits are capped according to income, but the greatest beneficiaries are not low-income households but higher earners with incomes below the specified income limit.[4]

One of the main features of 529 savings plans are that, unlike the HOPE and Lifetime Learning credits, participation is not restricted by income, but is available to all. Anyone can open a 529 plan for a designated beneficiary and, since 2002, after-tax contributions can be withdrawn tax-free for educational purposes until the account reaches a specified level.[5] The program's costs are modest in the initial years, but once account balances accrue over time, the tax savings for account holders and revenue losses for the U.S. Treasury are expected to increase substantially.

In their relatively short history, 529 savings plans have proven to be quite popular. According to the College Savings Plans Network, total assets under management at the close of 2004 exceeded $51 billion held in more than five million accounts.[6] Today, approximately 8 percent of families with children under age 18 have a 529 account, and this growth is expected to continue, with total asset holdings in 529 accounts expected to double by the end of 2006 (Shapiro 2004). The Financial Research Corporation of Boston estimates that investments in these plans will top $300 billion by 2010. Unfortunately, since states are not required to collect information on the characteristics of 529 investors, at this point little is known about the economic profile of account holders.

USING 529 SAVINGS PLANS AS A SAVINGS PLATFORM

The advent of 529 savings plans reflects the general trend to employ an account-based approach to encourage savings. Given the rising cost of college, targeted savings to help pay for post-secondary education seems like a good idea. Whether it will facilitate increased access to post-secondary education remains to be seen. It is likely to make it easier for some families to save. But many higher-income families might send their children to college even without 529 plans and their tax benefits. Increased personal saving is a potentially great factor in increasing access to education if lower-income families participate in 529 savings plans; however, most of the saving incentives do not benefit the families that need them the most.

What 529 savings plans do offer is a savings platform, with several beneficial features that create the opportunity to use the 529 accounts system as a foundation for a more inclusive savings policy. Each state is responsible for constructing their own 529 plan, but each plan includes the following features: (1) public sector oversight that allows incentives and coordination with other policy efforts; (2) centralized accounting functions; (3) a limited number of investment options; and (4) the ability to cross subsidize between large and small accounts (Clancy et al., 2004).

Public Sector Oversight and Policy Coordination

Because each state controls their savings plan, they have the ability to facilitate coordination with other program efforts and policy objectives. Some states are more active than others in reaching out to lower-income families and giving them incentives to save for college in a 529 plan. These states' actions include broad outreach efforts, small minimum deposit

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[4] In 2004, the Hope Scholarship and Lifetime Learning tax credits phase-out between $42,000 and $52,000 for singles or $85,000 and $105,000 for married couples.

[5] The current level is $267,580.

[6] Prepaid tuition contracts account for an additional $12.4 billion of assets in 1.8 million accounts, according to the College Savings Plans Network.

requirements, scholarships for accountholders, and other inclusive features. Five states—Louisiana, Maine, Michigan, Minnesota, and Rhode Island—offer a savings match to low- and moderate-income families who are state residents (Clancy and Sherraden 2003). In addition, Utah recently introduced a matching 529 savings pilot program for 50 state-resident families, with the possibility of greater expansion after the first phase (Utah System of Higher Education 2004). Many low-income families are not able to take full advantage of the federal tax benefits of these accounts. However, if more states offer matches, scholarships, and other incentives it may make greater economic sense for low-income families to save in 529 savings plans than in Coverdells or IRAs that do not incorporate any of these progressive features. Also, partnerships with public and non-profit entities allow states to market their 529 savings plans in non-traditional venues, such as schools systems, public libraries, the State Department of Human Resources (i.e. mailing 529 savings plan information with every birth certificate), child care centers, and others (Ferguson 2004).

Centralized System of Accounting

Each state is responsible for overseeing plan participation. To do this, states create a centralized system of account management. Within a state plan, all participants are in the same system, and a single provider carries out all accounting functions. This centralized system provides the accounting structure for states to match deposits for low- and moderate-income state resident families. It is a similar system to a 401(k) plan structure; the main difference being that the employer is the plan administrator and coverage extends only to each particular employer's base. These systems are capable of tracking contributions, investments, and earnings for all plan participants.

Limited Investment Options

In most 529 plans, there is a prevailing simplicity in investment options. Typically only a limited number of funds are offered that capture a range of risk and return characteristics. Professionally-managed mutual funds generate a degree of diversification. Most states generally offer a conservative guaranteed-return fund based on government bonds, balanced funds based on the beneficiary's age, and a small set of funds that track different aspects of the securities market. The notion is that a limited set of investment options provides account holders adequate investment choice in pursuing their investment strategies and is preferable to the information overload that may be experienced if choosing among an unlimited number of investment options. Recent studies focusing on 401(k) plans have found that too many investment choices can lead to financial inertia, paralysis, and low participation—qualities to avoid in long-term investing.

Small Accounts Viable

Centralizing administrative functions also creates economies of scale that can help lower costs. With such a large asset pool, states are in a strong position to negotiate a more competitive fee structure with their private sector investment managers than would be offered to individual investors. In many states, these advantages have been realized and investment companies have departed from their normal business practices to offer pricing and minimum contribution concessions (Stack, 2004). As a result, many 529 plans have relatively low initial deposit requirements compared to the mutual fund industry. There is the potential to lower fees further as assets under management rise. Because large- and small-value accounts are held in the same plan, there is a natural cross-subsidy where the smaller accounts (which may be unprofitable) can be supported by the larger accounts (with higher profit margins). As the state negotiates and controls the fee structure, there is an opportunity to support small accounts within the 529 college savings plan structure.

POTENTIAL DRAWBACKS

Instead of taking on large amounts of debt to fill the gaps between grant aid and the cost of college, many lower-income families may consider saving for college in 529 accounts, Coverdell Education Savings Accounts, or even traditional retirement accounts such as IRAs and 401(k)s that allow withdrawals for post-secondary education expenses. Because 529 savings plan benefits vary by state, the decision to save in a 529 account instead of an alternative savings vehicle may depend on the features of each State's 529 plan.

Program Eligibility

One issue that impacts the viability of using 529 accounts for low- and moderate-income families is how these savings will interact with financial aid eligibility and public assistance programs.

To determine whether such accounts are a good choice for low-income students and their families, the impact of these savings on a student's financial aid prospects must be considered. There is difficulty in predicting how current savings will affect aid calculations in the distant future. This is true for all families, especially since 529 accounts are a relatively new savings vehicle. But the current financial aid process sheds light on how these accounts will potentially affect financial aid.

When it comes time to apply for financial aid, students and their families complete financial aid application forms to determine—based on both their income and assets—how much they should be expected to contribute towards the student's education and how much financial aid the student should receive. If the family's income does not exceed $50,000 and they

file a 1040 EZ or 1040A tax form (in other words, they don't itemize deductions on their tax returns), they do not have any of their assets taken into account. In effect, students and families that fall into this category can save in 529 accounts and be assured this will have not have a negative impact on their chances of receiving the maximum amount of aid. In contrast, if a family does have its assets taken into account, they still have to exceed a certain "asset protection allowance," based on the age of the older parent, before any savings will have an impact on aid.[7] Also, almost half of states exclude the value of 529 accounts from state financial aid determinations. Thus, for most low-income families, it seems unlikely that savings in a 529 account would affect financial aid calculations.

The impact of 529 savings on eligibility for public assistance may be a more significant factor for low-income families. Many public assistance programs—such as TANF, Medicaid, and Food Stamps—employ not only an income test to screen for eligibility, but an asset test as well. The asset test considers family's savings, investments, property and other wealth. Financially vulnerable families may decide against saving in any form because they fear that it may impact their ability to get public assistance. There is a strong case to be made that any savings in a restricted account, one that is devoted to a particular purpose such as retirement or education, should be excluded from these resource tests. At a minimum, the limits on these tests should be raised to make them more in line with contemporary standards.

Plan Costs

The administrative costs associated with 529 accounts vary widely between states and often among the investment options within a State's plan. Some states have high fees and do not offer low-fee alternatives. While many investment choices within state 529 plans are similar to mutual funds, they differ in that they lack uniform disclosure standards and may have an extra layer of fees imposed by the state to help with operating costs. With all of these variables and no mandated uniform disclosure, it can be hard for consumers to compare plans on a consistent basis in order to decide among various state 529 plans and other account-based options for saving for college. This problem can be compounded for low-income families, who might have lower account balances and therefore do not benefit from the tax savings. Thus they are more sensitive to fees associated with 529 accounts.

Penalties for Non-Qualified Uses

529 savings plan were created to facilitate saving for college. Families that use their funds for anything other than post-secondary education expenses are subject to a 10 percent penalty on the account earnings. Contributions to the accounts are made on an after-tax basis and can be withdrawn at any time without penalty, just like a Roth IRA. These penalties can also be avoided if another member of the household or extended family uses the account. Still, a decision to save in a 529 may depend on the family's expectation of their child continuing their education beyond high school and needing resources to pay for it. This is a potential deterrent for many prospective savers and one that is unlikely to be overcome without some alteration of the federal rules which sanction these accounts. It is worth considering what changes are needed to support more inclusive asset building.

THE POTENTIAL FOR 529 SAVINGS PLANS TO SUPPORT UNIVERSAL ASSET BUILDING

Over the last thirty years, the number of specialized savings accounts has expanded significantly, extending well beyond 529 savings plans.[8] While this policy trend represents a shift toward asset-based policy, the implementation of these efforts has been considerably more regressive than the proceeding social insurance and means-tested transfer programs developed since the New Deal (Sherraden 2003). Furthermore, the need to save for college is an extension of the underlying importance of savings as the basis for more extensive asset building. As such, there is a case to be made for government to support a universal and progressive asset-building policy. To do so will require a policy structure in which everyone has personal savings accounts to meet their asset building needs throughout their life.

The involvement of state governments in 529 savings plans has provided a laboratory of innovation that sheds light on how a centralized system of inclusive accounts could operate in the future. Ultimately, a national savings plan may be preferable to 50 different state plans, but as in other areas of policy development in the United States, experimentation at the state level helps set the stage for a national strategy. While there are many different ways to construct a universal accounts system, the 529 experience provides valuable insights. First, it is clear that the public sector can play a leading role in defining and overseeing policy. Second, private financial firms can build upon their expertise to effectively manage assets and keep administrative costs down with high account volumes, limited transactions, and a small set of investment choices. Third, incentives must be crafted for each target population. Fourth, consumers must have access to timely and transparent information to make informed investment decisions that are right for them.

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[7] In 2004, for example, in addition to a family's home equity and retirement funds, a 40 year-old single parent could exclude $17,600 in assets from federal financial aid calculations. (U.S. Department of Education 2004)

[8] The list includes traditional Individual Retirement Accounts (IRAs) in 1974, Coverdell Education Savings Accounts in 1997, 401(k) plans in 1978, and Health Savings Accounts first created in 1996, and Roth IRAs in 1997.

These insights can be used to inform a particularly promising approach to constructing an account-based asset building system—children's savings accounts. Proposals of this type generally involve providing an account to each child and then supporting these accounts with additional savings incentives. Eventually, account resources could be used for asset building purposes, including post-secondary education. Some versions of this type of proposal call for an initial deposit from the government into the account or matching contributions. Governed by a uniform set of rules and administrative structures that would serve as the "plumbing" to support a national system of accounts, and universally accessible to each and every child, these accounts would help integrate the currently disparate account-based vehicles at the same time as they guarantee that everybody is included in the system. As a universal program, the children's savings account approach offers each child an economic opportunity to participate in asset building and also provides an opportunity to construct an integrated system for managing account-based asset building on a large scale. The state of Kentucky is exploring just such a possibility. State Treasurer Jonathan Miller and Secretary of State Trey Greyson have proposed a Cradle to College initiative which would provide a college savings account for every child born in Kentucky. Currently, a Commission is refining this idea and identifying long-term financing options.

The challenge in creating an effective and efficient system is significant, but many of the administrative issues can be addressed through the process of program design and implementation. The greater challenge is gaining political support for the proposal that is sufficient to shepherd it through the legislative process. One advantage children's savings accounts have over 529 accounts is that they are not restricted to college per se. Post-secondary education would be one of several asset-building investments that would be allowed.

The fiscal impact of a children's account system depends on the manner in which the policy is crafted. A voluntary system with no public contribution replicates existing policies that exclude many of the people who would most benefit from the policy. A universal system is able to reach those currently excluded, while providing every participant the opportunity to benefit. The most promising approach could build upon an expansion of the 529 savings plan in order to turn it into a universal system, with progressive public contributions and incentives to encourage voluntary contributions, deposited in a range of no-frills investment funds.

POLICY RECOMMENDATIONS AND PROPOSED REFORMS

529 savings plans offer an account-based approach to saving for post-secondary education. While the structure of most state-run 529 plans offers a useful savings platform, the federal tax incentives associated with these accounts primarily restrict benefits to middle- and upper-income families. Accordingly, it is unlikely that this federal policy, if left unchanged, will significantly increase access to post-secondary education opportunities. We suggest a series of recommendations that would improve the effectiveness of this policy and even provide the basis for a more universal asset-building account system. These proposals, built on the guiding principles of transparency, inclusiveness, and offering saving incentives for those who need them most, will enable families to evaluate and make informed choices as to how best to save for college. The 529 platform needs reform in order to entice more people to plan for their future and ensure that their children are able to get on the path of wealth building, a path that often begins with education.

Transparency

- Make comparison of benefits and costs between and among state plans possible.
- Mandate the provision of low-cost investment options.

Families have a choice of saving in a variety of 529 plans, from their own state's plan, as well as other states. While a majority of states offer state tax incentives to residents in addition to the federal tax benefit, these benefits are not available to non-residents. This means that the total costs and benefits can vary depending on both the plan chosen and the accountholder's residency. However, it is currently difficult to directly compare the overall price of the various plans since uniform disclosure of fees and other costs does not exist. Comparing plan costs and benefits is particularly important for lower-income families, because these families may not be able to access many of the plan's tax benefits.

In response to criticism from consumers and the federal government, state 529 administrators have drafted disclosure principles.[9] With 21 states already beginning to implement these principles, this first step will hopefully lead to clear data points that consumers can use to evaluate multiple plans (Ablowich 2004). Higher transparency will not only lead to better

[9] These disclosure principles, adopted in December 2004, are available via the College Savings Plan Network, which is comprised of officials and senior staff in the executive, legislative and administrative branches of state government with responsibilities in the college savings area. See http://www.collegesavings.org/activities/Disclosure.Principles.12.2.04.pdf.

consumer choice, but may also help states evaluate whether their partnership with a selected financial 529 provider for their residents is fair or if renegotiation is needed.

This type of disclosure will help identify the states that have high fees. These annual charges can erode the value of a family's investment and significantly lower their saving potential. In the spirit of transparency, states should be required to offer low-cost investment options within their plan structure. Many states already offer such low-cost options within their plans and can serve as models for other states.

Inclusiveness

- Collect data to evaluate participation in 529 savings plans by income, geographic area, or other variables to better target outreach.
- Document, disclose, and expand (when appropriate) communication efforts to inform state-resident families of the benefits of investing in a 529 savings plan.
- Exclude savings in 529 accounts from consideration in federal benefit programs such as TANF, SSI, and food stamps.

Because demographic and savings activity data has not been collected on 529 accountholders, it is currently impossible to know the extent to which low-income families have used these accounts. Similarly, there is no comprehensive information on how these accounts have facilitated access to college. Unfortunately, many policy efforts implemented through the tax code also suffer from a lack of demographic and outcome data. This type of information regarding 529 savings plan participation is particularly important for evaluating the performance of this policy effort. Once this type of data is collected, outreach efforts and communication strategies could be further refined; features that are found to be helpful for lower-income families could be expanded upon. Some communication strategies may be more effective than others in reaching out to potential savers.

Another reform that could increase the inclusiveness of 529 savings plans is to ensure that savings in these accounts are excluded from public assistance calculations. Although most low-income savers are not adversely impacted by lower financial aid, they may have their TANF, food stamp, and other assistance eligibility threatened. Since financial aid is already excluded from eligibility, this could set a precedent for college savings to be excluded as well.

Incentives

- Provide an initial public deposit or a refundable tax credit for contributions to 529 accounts.
- Provide matching grants for accounts set up for low-income students.
- Expand qualified uses beyond post-secondary education, to include retirement security and homeownership.
- Use existing 529 account infrastructure to set up a system of universal children's savings accounts.

Currently, the largest incentives to save in 529 accounts accrue to families who need them the least—those with the highest incomes and, therefore, the highest tax liability. Lower-income families, who may have to make painful sacrifices to save in these accounts, do not benefit from incentives to help them do so, unless they live in one of the few states that currently offer limited matching grants. Fortunately, states have the ability to introduce their own policy innovations and can experiment with different ways to encourage low-income families to save for college. Options could include an initial public deposit delivered directly or through a refundable tax credit, matching grants, or setting up a system of children's savings accounts for each child through the 529 account infrastructure already in place.

Another change that could improve the advisability of 529 account investing for lower-income families would be the expansion of qualified uses beyond post-secondary education. As with IRAs, current tax penalties are designed to deter non-qualified uses, and if a family is uncertain they will need the resources for post-secondary education, they may not save. If account resources could be used for retirement security or a first-time home purchase, this concern would be mitigated. This change would create a more versatile savings platform, one that could be used to pursue a broader array of asset building activities.

Table 3: Summary of Recommendations

Guiding Principle	Recommendations
Transparency	• Make comparison of benefits and costs between and among state plans possible. • Mandate the provision of low-cost investment options.
Inclusiveness	• Collect data to evaluate participation in 529 savings plans by income, geographic area, or other variables to better target outreach. • Document, disclose, and expand (when appropriate) communication efforts to inform state-resident families of the benefits of investing in a 529 savings plan. • Exclude savings in 529 accounts from consideration in federal benefit programs such as TANF, SSI, and food stamps.
Incentives	• Provide an initial public deposit or refundable tax credit for contributions to 529 accounts. • Provide matching grants for accounts set up for low-income students. • Expand qualified uses beyond post-secondary education to include retirement security and homeownership. • Use existing 529 infrastructure to set up a system of universal children's savings accounts.

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APPENDIX A: SECTION 529 SAVINGS PLAN DETAILS

Eligibility
Generally, any U.S. citizen or resident alien can establish a 529 savings plan for themselves or for another beneficiary, regardless of income level.

Contributions
Up to $10,000 per year ($20,000 if filing jointly) can be contributed into a 529 Plan without incurring a gift tax. Alternatively, a lump sum of $50,000 ($100,000 if filing jointly) can be contributed in one year if the contribution is counted for five years. In addition, states may impose caps on the total amount that can be saved in a 529 Plan, the median of which is currently $235,000.

Tax Benefits
529 savings plan earnings are exempt from federal income tax. However, this federal income tax exemption is scheduled to sunset unless Congress acts before December 31, 2010. In addition to the federal tax benefit, most states exempt earnings from state income tax and many states offer a full or partial state income tax deduction for contributions. When savings are withdrawn for an eligible use, they are exempt from federal income tax and most state income taxes.

Eligible Uses
Savings can be used for a variety of educational expenses, including tuition, fees, books, supplies, and required equipment. For students attending school at least half-time, savings can also be used for room and board costs.

If withdrawals are made for a non-eligible use, the account owner would then have to pay income taxes on account earnings plus a 10 percent penalty. Alternatively, to avoid a tax penalty if the beneficiary decides not to attend college, the savings can be rolled into another family member's account or the beneficiary of the account can be changed. The 10 percent penalty is not assessed if the beneficiary does not use the account for an eligible use due to their death, disability, or receipt of a scholarship.

Eligible Institutions
Beneficiaries can use their 529 savings plans at any institution that is eligible to participate in federal financial aid programs administered by the Department of Education.

Interactions with Other Student Aid
Education tax credits—such as the Hope and Lifetime Learning credits—can be claimed in the same year that savings are withdrawn from a 529 plan. However, each must be targeted towards separate educational expenses. This principle is also applied to withdrawing money from both a Coverdell Education Savings Account and a 529 Plan—total withdrawals cannot exceed total educational expenses in a given year without incurring a tax penalty.

Assets such as 529 savings plans are generally taken into account when assessing the extent to which a student should receive financial aid. Some states do not count 529 Plans as an asset when calculating state financial aid.

APPENDIX B: STATE TAX DEDUCTIONS FOR 529 SAVINGS PLAN CONTRIBUTIONS

State	529 Deduction
Alabama	--
Alaska	N/A, no state income tax
Arkansas	--
Arizona	--
California	--
Colorado	Full amount of contribution
Connecticut	--
Delaware	--
Florida	N/A, no state income tax
Georgia	$2,000 per beneficiary
Hawaii	--
Idaho	$4,000 single/$8,000 joint
Illinois	$10,000 per contributor
Indiana	--
Iowa	$2,375 per contributor
Kansas	$3,000 single/$6,000 joint per account
Kentucky	--
Louisiana	$2,400 per beneficiary
Maine	--
Maryland	$2,500 per account, 10 year carryforward
Massachusetts	--
Michigan	$5,000 single/$10,000 joint
Minnesota	--
Mississippi	$10,000 single/$20,000 joint
Missouri	$8,000 single/$16,000 joint
Montana	$3,000 single/$6,000 joint
Nebraska	$1,000 per tax return
Nevada	N/A, no state income tax
New Hampshire	N/A, New Hampshire's income tax is limited to dividends and interest income
New Jersey	--
New Mexico	Full amount of contribution
New York	$5,000 single/$10,000 joint
North Carolina	--
North Dakota	--
Ohio	$2,000 per beneficiary per contributor or married couple with unlimited carryforward
Oklahoma	$2,500 per account
Oregon	$2,000 per year, with four year carryforward
Pennsylvania	--

State	529 Deduction
Rhode Island	$500 single/$1,000 joint, with unlimited carryforward
South Carolina	Full amount of contribution
South Dakota	N/A, no state income tax
Tennessee	N/A, Tennessee's income tax is limited to dividends and interest income
Texas	N/A, no state income tax
Utah	$1,510 single/$3,020 jointly
Vermont	5% credit on up to $2,000 per beneficiary
Virginia	$2,000 per account per year (no limit age 70 and older), unlimited carryforward
Washington, DC	$3,000 single/$6,000 joint
Washington	N/A, no state income tax
West Virginia	Full amount of contribution, five year carryforward
Wisconsin	$3,000 per dependent beneficiary, self, or grandchild
Wyoming	No state income tax

Source: FinAid.org and SavingforCollege.com.