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# Saving for College through Qualified Tuition (Section 529) Programs

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# Saving for College through Qualified Tuition (Section 529) Programs


## Summary

Congress has tried to make higher education more affordable by providing favorable tax treatment to savings accumulated in qualified tuition programs (QTPs), also known as Section 529 programs. QTPs initially allowed individuals to save for qualified higher education expenses (QHEEs) at eligible institutions on a tax-deferred basis. With passage of P.L. 107-16, the benefit was enhanced temporarily by making qualified withdrawals from Section 529 programs tax free.

One type of QTP, *prepaid tuition plans*, enables account owners to make payments on behalf of student beneficiaries for a specified number of academic periods/course units at current prices thereby providing a hedge against tuition inflation. Only states were permitted to sponsor prepaid plans until P.L. 107-16 extended sponsorship to eligible higher education (private) institutions effective in 2002. Due to the impact of the 2001 recession on state government support for higher education and of the stock market downturn on plan performance, some state-sponsored prepaid plans have been modified or closed.

States remain the sole sponsor of the more popular type of Section 529 program, *college savings plans*, which account for some 80% of the more than $51 billion in QTPs as of March 2004. College savings plans can be used toward a variety of QHEEs at any eligible institution regardless of which state sponsors the plan or where the beneficiary attends school. In contrast, if beneficiaries of state-sponsored prepaid plans attend out-of-state or private schools, the programs typically pay the same tuition that would have been paid to an eligible in-state public school. Also unlike prepaid plans, in which the state plan invests the pooled contributions with the intent of at least matching tuition inflation, college savings account owners can select from a range of investment portfolios. College savings plans thus offer the chance of greater returns than prepaid plans, but they also could prove more risky. Additionally, college savings plans charge fees (e.g., enrollment fees and underlying mutual fund fees) that lower returns — more so for accounts opened through investment advisors (e.g., sales charges). The level of these fees vis-a-vis the tax savings, the extent and manner of disclosure across plans, and the role of federal regulators was the subject of oversight during the 108th Congress.

Both types of Section 529 programs have several features in common in addition to the above-mentioned federal tax treatment of qualified withdrawals. Account owners, rather than beneficiaries, maintain control over the funds. Contributions are not deductible on federal tax returns. A special gifting provision also allows a contributor to make five years worth of tax-free gifts in one year to a QTP beneficiary's account. Withdrawals used toward QHEEs must be coordinated with other higher education tax benefits. Assets in and income from QTPs may affect a student's eligibility for federal need-based financial aid. Earnings not applied toward QHEEs (e.g., the beneficiary forgoes college) generally are taxable and subject to a penalty. The tax and penalty can be avoided if account owners designate a new beneficiary who is a relative of the original beneficiary. This report will be updated as warranted.

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# Saving for College through Qualified Tuition (Section 529) Programs

Since the late 1980s, an oft-voiced concern has been that the nation's educational and training institutions may not be supplying enough persons with the reportedly heightened skill levels demanded by businesses. Indeed, the demand for workers with at least some postsecondary education has been growing and is projected to continue growing at a more rapid rate than the demand for individuals with, at most, a high school degree.[1]

At the same time, the cost of higher education has risen to a greater extent than average household income over the past 2 decades.[2] The trend has caused concern among Members of Congress that higher education is becoming less affordable for middle-income families.

In response to these trends, Congress has added a panoply of tax benefits to supplement the traditional student financial aid system with the intention of encouraging human capital development by increasing the affordability of postsecondary school attendance. Among the tax incentives to promote higher education is the qualified tuition program (QTP) or Section 529 program, named for its place in the Internal Revenue Code (IRC). It provides favorable tax treatment to money accumulated for future payment of qualified higher education expenses.

Although more states sponsored QTPs after the Small Business Job Protection Act of 1996 (P.L. 104-188) clarified their federal tax status, the recent amendment of Section 529 by the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) greatly increased the program's attractiveness. Earnings on contributions to QTPs had been allowed to grow on a tax-deferred basis, but they were subject to taxation upon withdrawal. P.L. 107-16 made withdrawals from QTPs to pay qualified higher education expenses tax free. In order to comply with the Congressional Budget Act of 1974, however, P.L. 107-16's amendments to Section 529 and many other provisions in the IRC sunset for tax years beginning after December 31, 2010.[3] The sunset provision introduces an element of uncertainty for individuals considering whether to contribute to QTPs on behalf of persons who will be attending postsecondary institutions in 2011 or thereafter.

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[1] See, for example, CRS Report 97-764, *The Skill (Education) Distribution of Jobs: How Is It Changing?* by Linda Levine.

[2] For more information, see CRS Report RL32100, *College Costs and Prices: Background and Issues for Reauthorization of the Higher Education Act*, by Rebecca R. Skinner.

[3] For additional information, see CRS Report RS21870, *Education Tax Benefits: Are They Permanent or Temporary?* by Linda Levine.

As Section 529 will revert to its pre-P.L. 107-16 version in tax years starting on or after January 1, 2011, absent congressional action, this report provides an overview of Section 529 that covers its pre- and post-P.L. 107-16 provisions. It also addresses issues of current concern associated with QTPs (e.g., fees of college savings accounts imposed by the state plan sponsors, mutual fund companies, and brokers/financial advisors). The report discusses the interaction of QTPs with other tax incentives for postsecondary education and with the traditional federal need-based student aid system, as well. The **Appendix Tables 1 and 2** summarize Section 529 prepaid tuition and college savings plans by state, respectively.

## What Is a Section 529 Program?

States, their agencies or instrumentalities can establish and maintain tax-exempt programs

> (1) that permit individuals to purchase tuition credits or certificates for use at eligible institutions of higher education[4] on behalf of a designated beneficiary which entitles the beneficiary to the waiver or payment of qualified higher education expenses; or
>
> (2) that permit individuals to contribute to an account for the purpose of paying a beneficiary's qualified higher education expenses (QHEEs).[5]

In addition to states, eligible institutions of higher education can now offer the first type of QTP, commonly called *prepaid tuition plans*. States remain the sole tax-exempt sponsors of *college savings plans*, which is the name commonly applied to the second type of QTP.

According to Section 529 of the IRC, payments to both types of QTPs must be in cash (e.g., not in the form of securities). A contributor may establish multiple accounts for the same beneficiary, and an individual may be a designated beneficiary of multiple accounts (e.g., an account in a college saving plan sponsored by state A and another in state B originated by a parent for child X or an account in a prepaid tuition plan sponsored by state C that is originated by a parent for child Y and an account in a college savings plan sponsored by state D that is originated by a

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[4] Eligible institutions of higher education generally are those accredited public and private non-profit postsecondary schools that offer a bachelor's, associate's, graduate or professional degree, or another recognized postsecondary credential as well as certain proprietary and vocational schools. The institutions also must be eligible to participate in student aid programs of the U.S. Department of Education.

[5] QHEEs are tuition, fees, books, supplies and equipment required for enrollment or attendance at an eligible institution as well as room and board for students attending school at least half-time. Note: P.L. 107-16 further expanded the definition of qualified expenses to cover the cost of special needs services for special needs beneficiaries. The legislation also raised the potential level of room and board expenses for students who attend eligible institutions at least half-time, thus enabling QTPs to pay for more of this qualified expense. Both these expansions are effective in tax year beginning after Dec. 31, 2001.

grandparent of child Y). But, states may establish restrictions that are not mandated either by Section 529 or by the proposed regulations issued in 1998. There generally are no income caps on contributors, unlike the limits that apply to taxpayers who want to claim Hope Scholarship and Lifetime Learning tax credits, or who want to use Coverdell Education Savings Accounts. The absence of an income limit on contributors likely makes Section 529 programs particularly attractive to higher income families, who also are likely to make above-average use of the savings plans because persons with more income have a greater propensity to save.[6]

## Prepaid Tuition Plans

A prepaid tuition plan enables a contributor (e.g., parent, grandparent, and interested non-relative) to make lump-sum or periodic payments for a specified number of academic periods or course units at current prices. Prepaid tuition programs thus provide a hedge against tuition inflation.

**State-Sponsored Plans.** More than 20 states sponsor the plans, according to the College Savings Plan Network (CSPN), which is an affiliate of the National Association of State Treasurers. As of March 31, 2004, prepaid tuition plans held a little over $9 billion in contributions and earnings.

If the beneficiary of a state-sponsored prepaid tuition contract (e.g., child, grandchild or someone not related to the contributor) elects to attend an in-state private college or an out-of-state college, the program typically will pay the student's chosen institution the tuition it would have paid an in-state public college — which may be less than the chosen institution's tuition. The specifics of prepaid tuition plans vary greatly from one state to another (e.g., as to a residency requirement, age limitation on beneficiaries, minimum and maximum contributions, refund policies, and state guarantee of rate of return and principal). Some plans reportedly have begun to cover room and board as well as tuition and related expenses.[7] (See **Appendix Table 1** for a summary of the specific elements of state-sponsored prepaid tuition programs, including how the different programs calculate the value of a contract if a beneficiary attends a private institution or an out-of-state public institution.)

**Plans of Eligible Institutions of Higher Education.** Effective for tax years beginning after December 31, 2001 and before January 1, 2011, P.L. 107-16 declared that one or more eligible higher education institutions — including *private institutions* — may establish and maintain prepaid tuition programs accorded the same federal tax treatment as state-sponsored prepaid tuition plans. Some believe the expansion of the plans to include private institutions might help them recruit students who would otherwise have been deterred from attending due to comparatively high tuition charges. It also has been suggested that the plans of private institutions might

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[6] For information on the characteristics of contributors to Section 529 programs, see Investment Company Institute, *Profile of Households Saving for College*, fall 2003. (Hereafter cited as Investment Company Institute, *Profile of Households Saving for College*.)

[7] Anne Tergesen, "Pay Now, Study Later," *Business Week*, Mar. 11, 2002.

appeal to alumni who could "boast they've not only enrolled their [offspring] in their alma mater at birth, [but] they've already paid the tuition."[8]

In early 2003, the not-for-profit Tuition Plan Consortium received regulatory approval to sell "tuition certificates" in its Independent 529 Plan. Over 290 colleges and universities in the consortium, ranging from Ivy League to small liberal arts colleges, have agreed to participate in the plan. A certificate prepays a share of a beneficiary's tuition, with the value of the share at a particular institution depending upon its tuition level (e.g., if, in the year a certificate in the amount of $10,000 would pay for one-half of the annual tuition and mandatory fees at College X or one-third of the annual tuition and fees at University Y, then the certificate will be worth that same fraction regardless of a school's tuition level at the time of enrollment). Beneficiaries do not commit to attending specific institutions at the time of pre-payment, and they may use the certificates at any participating school. Each year, participating institutions will set a discount from its current tuition and fees for purchasers of certificates, with the plan setting a minimum discount rate. A certificate cannot be used toward tuition and fees until three years from the date of purchase, and it generally will expire upon the 30th anniversary of its purchase. Unless at least $500 is contributed by the end of the first two years after having purchased a certificate, the plan will cancel the certificate and refund contributions without interest. The value of a certificate, adjusted for the plan's investment performance plus nominal amount of interest, cannot be refunded until one year from the date of purchase or upon the death of the designated beneficiary.[9] The Consortium began accepting contributions in fall 2003.[10]

## College Savings Plans

State-sponsored college savings plans typically offer several predetermined investment options from which contributors can select (e.g., a portfolio of equities and bonds whose percent composition changes automatically as the beneficiary ages, a portfolio with fixed shares of equities and bonds, or with a guaranteed minimum rate of return). Unlike with prepaid tuition plans, the value of each savings account is based on the performance of the investment strategy chosen by the account owner.

A number of explanations have been offered for the proliferation and popularity of this newer type of QTP. It has been suggested that state officials regard college savings plans as a way to offer people a benefit with little cost to the state. In contrast, if a state guarantees its prepaid tuition plan, it assumes the risk that earnings

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[8] Jeff Wuorio, *Prepaying Tuition Offers Peace of Mind at a Price*, available at [http://moneycentral.msn.com/articles/family/college/1462.asp].

[9] Description of the Independent 529 Plan submitted to the Securities and Exchange Commission. Available at [http://www.sec.gov/divisions/investment/noaction/tuitionplan020403.htm].

[10] See [http://www.Independent529plan.org] for additional information.

on the plan's pooled contributions will not match tuition inflation, in which case, the state must use other resources to satisfy the plan's obligations.[11]

Another reason put forth, this time from the contributors' perspective, is that the funds in a college savings plan can be used toward the full range of QHEEs at any eligible institution, regardless of which state sponsors the plan or where the contributor resides. In addition, some of the investment options of college savings plans offer account owners the possibility of greater returns than produced by the usually conservative investment strategy of prepaid tuition programs. Further, college savings plans have become increasingly popular as an employee benefit. Typically, the employer contracts with a mutual fund company and employees' voluntary contributions are deducted from their paychecks.[12] A few credit card companies also rebate a percentage of purchases made by cardholders. Accumulated rebates periodically are transferred into particular college savings plans.[13]

In part for these reasons, all 50 states and the District of Columbia offer college savings programs. Of the more than $51 billion in assets in Section 529 plans as of March 31, 2004, according to CSPN, some 80% (or $41.9 billion) was held in college savings accounts. (See **Appendix Table 2** for a summary of college savings plans by state.)

## Current Issues by Type of Section 529 Program

**College Savings Plans: Fees and Disclosure.** States generally have turned to financial services companies (e.g., the Vanguard Group, TIAA-CREF, Fidelity Investments, and Merrill Lynch) to manage their college savings plans. These firms charge account owners fees that are in addition to those states typically impose (e.g., enrollment fee, annual account maintenance fee, and administrative fee). The investment company fees, which reduce returns, generally are calculated as percentages of the assets in the basket of mutual funds that can comprise one investment option in a college savings plan.[14] (**Appendix Table 2** includes estimates of average annual expenses for direct-sold plans.) Reportedly, "expenses are higher in most 529 plans than in equivalent mutual funds ... [e]ven among plans that aren't sold by brokers (and thus don't have high upfront loads or annual sales fees)."[15]

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[11] Andrew P. Roth, "Who Benefits from States' College-Savings Plans?" *Chronicle of Higher Education*, Jan. 1, 2001.

[12] Lauren Paetsch, "Section 529 College Savings Plans More Attractive Due to 2001 Tax Law," *Employee Benefit Plan Review*, Feb. 2002.

[13] Brian Hindo, "Shop Your Way to College Savings," *Business Week*, Mar. 11, 2002; and Kristin Davis, "College: We Did Your Homework to Find the Best Way to Save for College, Circa 2004," *Kiplinger's Your Money*, May 2004. (Hereafter cited as Davis, *College: We Did Your Homework*.)

[14] Morningstar testimony before the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, House Committee on Financial Services, June 2, 2004. (Hereafter cited as *Morningstar testimony*.)

[15] Davis, *College: We Did Your Homework*, p. 72.

Perhaps in response to the plethora of college savings plans and to the multiplicity of each plan's investment choices, contributors appear to have increased their use of commissioned brokers and financial advisors.[16] These intermediaries are the most frequently mentioned source of plan information among persons who have established college savings accounts.[17] Additionally, as shown in **Appendix Table 2**, some plans require residents of other states to buy their plans through brokers or financial advisors. Almost two-thirds of college savings plans were sold by these intermediaries in 2003, with three-fourths of new accounts coming from this source.[18] Individuals who purchase college savings plans through brokers and financial advisors incur sales charges of up to 5.75% of account assets in addition to the fees imposed by the state plans and fund companies.[19]

Some Members of Congress have become concerned about such things as the overall level of fees and the extent to which they offset the value of the tax benefit, the lack of uniform disclosure across plans that impedes savers from making informed decisions, and about what group(s) has regulatory authority. In its March 2004 response to a letter from House Committee on Financial Services Chairman Oxley, the Securities and Exchange Commission (SEC) explained that the plans generally are not regulated under federal securities laws as they are considered instrumentalities of their respective states.[20] As a result, those who enroll in 529 savings plans are not required to be provided the same quality of information as other mutual fund investors. Similarly, the SEC stated that investors in the state-sponsored plans do not have to get the same periodic reporting as other mutual fund investors and that 529 investors encounter difficulty making comparisons across plans because of the lack of standardized disclosure (e.g., some plans report returns before fees are deducted while others report results after fees have been subtracted). The SEC went on to note, however, that the investment companies state-sponsored plans hire to manage assets or provide advice as well as the broker-dealers and municipal securities dealers that sell shares in the plans are governed by applicable federal securities laws (e.g., anti-fraud provisions) and rules of the Municipal Securities Rulemaking Board (MSRB) and the NASD. SEC Chairman Donaldson consequently created a Task Force on College Savings Plans in March 2004 to examine issues raised by the structure and sale of college savings plans. In addition, the NASD, which enforces its own rules for member companies as well as those of the MSRB, is investigating the largest sellers of college savings plans reportedly because they have been selling a lot of out-of-state plans to clients perhaps without informing them

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[16] Lynn O'Shaughnessy, "Avoiding Fee Pitfalls as College Savings Climb," *New York Times*, July 13, 2003.

[17] Investment Company Institute, *Profile of Households Saving for College*.

[18] Howard Isenstein, "As College Plans Proliferate, It Pays to Shop Around," *New York Times*, June 20, 2004.

[19] *Morningstar testimony*.

[20] [http://financialservices.house.gov/media/pdf/3-16-04%20529%20lttr%20part%20two_001.pdf].

of the tax benefits they could have obtained through home-state plans and for whose sale they would not have earned commissions.[21]

On June 2, 2004, the House Committee on Financial Services' Subcommittee on Capital Markets, Insurance and Government Spending held a hearing on these matters. The complexity of the college savings plans' fee structure and the lack of standardized disclosure were frequently raised by those who testified. One individual emphasized the particular importance of disclosure for 529 plan investors because they might think that state plan sponsorship would mean provision of "a high-quality, low-cost investment product. In fact, states' interests may not be aligned with plan participants' interests."[22] The Chair of the College Savings Plan Network testified that the group had approved a draft of voluntary disclosure principles at its annual meeting in late May 2004.[23] CSPN provided a copy of the approved draft to the SEC in advance of a meeting with Chairman Donaldson in late June 2004.

The Senate Committee on Governmental Affairs' Subcommittee on Financial Management, the Budget, and International Security held oversight hearings on college savings on September 30, 2004. NASD Vice Chairman and President of Regulatory Policy and Oversight Mary Schapiro testified about the application of advertising rules to the marketing of investments that underlie college savings plans: broker-dealers have been made to correct sales material they are required to file with the self-regulatory body. She also addressed the fact that some states accord preferential tax treatment to residents' contributions to in-state college savings plans and that an MSRB rule states that broker-dealers "have reasonable grounds...for believing that the [investment] recommendation is suitable [to the customer]." A 2003 NASD investigation of the sales practices of six firms found, however, that most sold over 95% "of the dollar value of 529 plan investments to non-residents of the state that sponsored the plan."[24] Upon expanding the investigation to additional firms in May 2004 and finding that "the vast majority of sales were made to residents outside of the state that sponsored the 529 plan," Schapiro reported that the NASD issued an Investor Alert. She went on to describe information on its website intended to educate both broker-dealers and investors on college savings plans.[25]

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[21] Kristin French, "SEC and NASD Are Examining 529s — Update," Mar. 18, 2004; Brooke A. Masters, "College Savings Get Closer Study," *Washington Post*, Apr. 14, 2004; and Rick Miller, "529s Place Some Reps in a Quandary," *Investment News*, Apr. 5, 2004.

[22] Testimony of Mercer E. Bullard of Fund Democracy Inc. and Professor of Law before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, House Committee on Financial Services, June 2, 2004, p. 12.

[23] Work on the guidelines began in 2003. Those who developed the draft met with the SEC in April 2004 and also obtained input from such private sector groups as the Securities Industry Association, which testified at the hearing as well.

[24] Testimony of Mary L. Schapiro, NASD, before the Subcommittee on Financial Management, the Budget, and International Security, Senate Committee on Governmental Affairs, Sept. 30, 2004, p. 6.

[25] [http://www.nasd.com].

At the same hearing, testimony also was given by another representative from a self-regulatory body — Ernesto Lanza, Senior Associate General Counsel, MSRB. He described the applicability to broker-dealers in the municipal securities market who sell 529 plans of various MSRB regulations and referenced proposed SEC rules that would supplement existing MSRB requirements concerning point-of-sale disclosure as well as confirmation disclosure of sales charges. Lanza discussed a set of draft amendments that the MSRB proposed in June 2004 concerning its advertising rule, which "commentators generally agree ... will substantially improve the quality and comparability of performance data, allowing investors to compare 529 college savings plans against one another and against mutual funds and other forms of investment."[26] The MSRB is expected to act on the proposal in November. Additionally, according to the MSRB, how well the CSPN's voluntary disclosure principles will improve the current situation depends "upon whether it can achieve universal compliance by all state plans and whether the state plans will view the principles as a baseline on which to add further and better disclosure rather than a target that need not be surpassed." (One of the several representatives of state-sponsored plans testified at the hearing that 21 states had begun to implement the principles as of September 30, 2004.)[27]

**Prepaid Tuition Plans: Closures and Modifications.** Due to the impact of the 2001 recession on state government support for higher education and of the coincident downturn in the stock market on plan performance, some state-sponsored prepaid plans have been modified or closed. As a result of unanticipatedly large increases in tuition,

> Many [plans] are reporting "actuarial deficits" in the millions to tens of millions of dollars, meaning the plans' assets are currently less than future tuition obligations ... There is a major difference between having an actuarial deficit and a cash-flow issue, [however] ... New participants will continue to join the program[s], current account holders will continue adding to their accounts, and program investments will have time to rebound.[28]

In addition, current participants in state-sponsored plans that offer a tuition contract for which they paid in full or for which they agreed to make payments over time are unlikely to be affected by rising tuition prices.

Nonetheless, a number of states have taken preemptive measures. For example, Colorado's prepaid tuition plan is closed to new participants and contributions are

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[26] Testimony of Ernesto A. Lanza, MSRB, before the Subcommittee on Financial Management, the Budget, and International Security, Senate Committee on Governmental Affairs, Sept. 30, 2004, p. 21.

[27] Testimony of Michael Ablowich, New Hampshire State Treasurer, before the Subcommittee on Financial Management, the Budget, and International Security, Senate Committee on Governmental Affairs, Sept. 30, 2004.

[28] Sarah Max, "Are Prepaid Tuition Plans in Trouble?," *CNN Money*, Jan. 10, 2003. Available at [http://money.cnn.com/2003/01/07/pf/college/prepaid/index.htm]. See also Peter Schmidt, "Prepaid-Tuition Plans Feel the Pinch," *Chronicle of Higher Education*, Sept. 12, 2003.

not being accepted from existing participants who have been told that future tuition increases might not be fully covered. Ohio also has closed its plan to new participants. Virginia has, for the moment, stopped taking new enrollments; when new enrollments are again accepted, contract prices very likely will be higher. Other plans have greatly increased the value of tuition units (e.g., Maryland has raised contract prices 25% in each of the past two years and is expecting another increase of 10% in the enrollment period that will occur before the end of 2004.)[29]

# Tax Treatment of QTP Contributions and Earnings

There is no federal income tax deduction for contributions to QTPs. About 26 states and the District of Columbia allow residents who participate in their own state's plan to claim a partial or total state income tax deduction on contributions.[30] Numerous financial services firms that manage Section 529 plans formed the College Savings Foundation in 2003 to, among other things, encourage all states to allow the deductibility of contributions of their residents to any state's plan.[31]

Earnings on contributions to Section 529 plans accumulate tax-deferred until withdrawn. The deferral confers greater benefits on families with relatively high incomes because of their higher marginal tax rates. Simulations that compared potential after-tax accumulations in a college savings plan to those in mutual funds employing the same asset allocation strategies generally found that the higher a household's tax bracket, the greater the advantage of saving through a Section 529 plan.[32] The study concluded that other factors substantially affect the level of accumulations as well. These factors are the investment expenses that alternative savings vehicles charge and the value of a state income tax deduction, if any, on contributions to a QTP. A subsequent analysis, which took into account reductions in capital gains and dividend tax rates, generally found that Section 529 plans remained a superior investment option.[33]

## Qualified Earnings Distributions

Earnings withdrawn from Section 529 plans to pay QHEEs are free from federal income tax effective in tax years starting after December 31, 2001 for state-sponsored programs, and starting after December 31, 2003 for programs of private institutions.

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[29] Albert B. Crenshaw, "No Quick Fix for Section 529 Plans," *Washington Post*, June 6, 2004.

[30] Davis, *College: We Did Your Homework*.

[31] Ross Tucker, "Lining Up Behind 529s," *Registered Rep*, Mar. 24, 2003. Note: The group also intends to lobby Congress to make permanent the federal tax exemption on QTP earnings withdrawn to pay QHEEs and to allow QTP assets to be transferred more than once a year. It also wants to become an information resource concerning QTPs.

[32] Jennifer Ma and Douglas Fore, "Saving for College with 529 Plans and Other Options: An Update," *Research Dialogue*, Issue no. 70, Jan. 2002.

[33] Jennifer Ma, "The Impact of the 2003 Tax Law on College Savings Options," available at [http://www.tiaa-crefinstitute.org/Publications/pubarts/pa073103.htm].

Until then, QTP beneficiaries continued to pay federal income tax based on annuity taxation rules (Section 72 of the Code) for distributions of qualified earnings; the practice conferred a considerable tax benefit on families in which the student's tax bracket (typically 15%) was much lower than the parents' tax bracket. The federal tax-exempt status of earnings withdrawals makes Section 529 plans an even more attractive means of saving for higher education expenses: for example, a student would pay nothing instead of incurring an $18,000 federal tax bill on $120,000 in earnings from contributions of $80,000 to a QTP made since the child was eight years old.[34] The tax-exemption might especially benefit older students who have relatively high incomes (e.g., a beneficiary employed full-time, or with a spouse employed full-time, who is pursuing an advanced degree or who is taking courses to update the skills used in his/her current occupation or to learn new skills in order to change occupations).

As shown in the Appendix tables, the majority of states now provide residents a tax break on qualified earnings distributions from Section 529 plans. The new federal tax exemption likely spurred some of these states to begin to do so. If the federal exemption sunsets after December 31, 2010, however, it could affect continuation of the state tax break. Only a few states extend the tax exemption on qualified earnings to residents that invest in other states' QTPs.[35]

## A Penalty

Plans must impose a "more than de minimis penalty" on the earnings portion of distributions that exceed or are not used for QHEEs (e.g., the beneficiary does not attend college). Effective for tax years beginning after December 31, 2001, withdrawals of excess earnings continue to be taxable income to the distributee (e.g., account owner or beneficiary) and subject to an additional tax of 10%, absent certain circumstances.[36] The 10% tax penalty is the same as that which applies to Coverdell education savings accounts.

Plans still may collect for themselves the penalty that prior federal law required. However, some observers have commented that the modest revenue the penalties have afforded states is outweighed by their administrative burden. In addition, the practice would create a competitive disadvantage unless all states continued it.

As clarified by the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147), the new tax penalty does not apply to earnings distributions that are included in income but used for QHEEs. For example, a withdrawal is made from a QTP in the amount of $2,000, which is equal to a student's QHEEs in a given year. Because

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[34] Joseph F. Hurley, "Planning Strategies under the Education Provisions of the New Tax Act," *Journal of Financial Planning*, Sept. 2001.

[35] Carol Marie Cropper and Anne Tergesen, "College Savings Plans Come of Age," *Business Week*, Mar. 12, 2001.

[36] The conditions under which an account owner is not subject to a penalty on a refund of excess earnings are the beneficiary's death or disability, or the beneficiary's receipt of a scholarship, veterans educational assistance allowance or other nontaxable payment for educational purposes (excluding a gift or inheritance).

a higher education tax credit of $500 is claimed, the coordination rule requires that the credit amount be subtracted from the QHEE total ($2,000 - $500 = $1,500). As a consequence, $500 of the QTP withdrawal becomes subject to taxation but not to the additional 10% tax penalty. (See the section below for more information on the interaction between Section 529 plans and other higher education tax incentives.)

Effective after December 31, 2002, the 10% tax penalty also no longer applies to withdrawals made when a beneficiary attends the U.S. Military Academy, the U.S. Naval Academy, the U.S. Air Force Academy, the U.S. Coast Guard Academy, or the U.S. Merchant Marine Academy. The amount of the withdrawals must be less than the costs of advanced education in order to avoid the penalty. This amendment is a part of the Military Family Tax Relief Act of 2003 (P.L. 108-121).

# Investment Control and the Tax Consequences of Transferring Funds between Section 529 Plans

Neither account owners nor beneficiaries are allowed to direct the investment of contributions to, or associated earnings from, a Section 529 plan. According to the proposed regulations published on August 24, 1998 in the *Federal Register* (63 F.R. 45019), contributors are permitted — at the time they establish an account — to choose a prepaid tuition plan, a college savings program, or both; if they select the a college savings program, they then can choose among its investment options.

The restriction on investment control had been considered a major drawback of QTPs, but it was significantly loosened. On September 7, 2001 (Cumulative Bulletin Notice 2001-55), the Internal Revenue Service issued a special rule that permits contributors to college savings programs to move balances — without incurring taxes and without changing beneficiaries — from one investment strategy to another within the state's offerings (e.g., into a less aggressive portfolio if market circumstances have significantly worsened over time) once per calendar year. Account owners also can, on a tax-free basis, move balances among a state's investment offerings if they change beneficiaries (e.g., into a more aggressive portfolio if the new beneficiary's matriculation date is later than the original beneficiary's).

## Changing Beneficiaries

Section 529 of the Code allows QTP distributions to occur without tax consequences if the funds are transferred to the account of a new beneficiary who is a family member of the old beneficiary. In order to receive this tax treatment, the new beneficiary must be one of the following family members:

(1) the spouse of the designated beneficiary;
(2) a son or daughter, or their descendants;
(3) stepchildren;
(4) a brother, sister, stepbrother, or stepsister;
(5) a father or mother, or their ancestors;
(6) a stepfather or stepmother;
(7) a niece or nephew;

(8) an aunt or uncle;
(9) a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law;
(10) the spouse of an individual referenced in (2)-(9); or
(11) any first cousin of the designated beneficiary.

First cousins are covered by the definition in tax years starting after December 31, 2001. The expansion to first cousins makes QTPs "more attractive to grandparents [who] can transfer an account between cousins [that is, between their grandchildren, and thereby avoid paying federal income tax and a penalty on non-qualified distributions] if, say, the original beneficiary decides not to go to college."[37]

### Same-Beneficiary Rollovers

P.L. 107-16 permits tax-free transfers from one QTP to another for the same beneficiary once in any 12-month period effective in tax years starting after December 31, 2001.[38] The report accompanying the legislation provided examples of the amendment's intended purpose: the same-beneficiary rollover permits contributors to make tax-free transfers between a prepaid tuition plan and a college savings plan offered by the same state, and between a state and a private prepaid tuition plan.

Perhaps more importantly according to some observers, the amendment provides an account owner with the opportunity for greater control over the investment of his/her funds without changing beneficiaries. An account owner could, for example, make a same-beneficiary rollover into the program of another state with an investment strategy the contributor prefers to those offered by the original state's program.[39]

## Coordination of Contributions with Estate, Gift, and Generation-Skipping Transfer Taxes

Contributors to Section 529 plans — rather than beneficiaries — maintain control over the accounts. In other words, contributors can change the beneficiary or have the plan balance refunded to them. This feature has been touted as a significant advantage of saving for college through a QTP as opposed to a custodial account opened under the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers for Minors Act (UTMA) or through a Coverdell education savings account.

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[37] Stephanie AuWerter, "The 529 Basics," *SmartMoney.com*, June 8, 2001. Available at [http://www.smartmoney.com/consumer/index.cfm?Story=200106083].

[38] This is a per-beneficiary limit rather than a per-account limit. If more than one account of a beneficiary is rolled over in a 12-month period, it would represent a nonqualified distribution that is subject to taxation. Susan T. Brat, "Planning for College Using Section 529 Savings Accounts," *The Practical Tax Lawyer*, winter 2002.

[39] Kristin Davis, "Miracle Grow," *Kiplinger's Personal Finance*, Sept. 2001, and [http://www.savingforcollege.com].

These savings vehicles ultimately are owned by the child. The child also can use them for whatever purpose they chose upon gaining control of the funds.[40]

Nonetheless, the Taxpayer Relief Act of 1997 (P.L. 105-34) declared that payments to Section 529 plans made after August 1997 are completed gifts of present interest from the contributor to the beneficiary. As a result, an individual can contribute up to $11,000 in 2004 as a tax-free gift per QTP beneficiary. (This amount is subject to indexation.)

A special gifting provision for contributions to Section 529 plans could make them of interest to individuals with substantial resources and to families with children who will be attending college in the not-too-distant future. A QTP contributor may make an excludable gift of up to $55,000 in a single year by treating the payment as if it were made over five years. Thus, for example, each grandparent could contribute $55,000 (for a total of $110,000) to each grandchild's QTP in tax year 2004, which potentially would allow more earnings to accumulate than if each had contributed $11,000 annually through 2008. In this instance, assuming the tax-free gift annual limit remained at $11,000 over the period, the two grandparents could not make another excludable gift to those account beneficiaries until 2009.

By making QTP contributions completed gifts, the Taxpayer Relief Act also generally removed the value of the payments from the contributor's taxable estate. An exception occurs, however, if a contributor who selected the five-year advance exclusion option dies within the period.

## Interaction with Other Higher Education Tax Incentives

P.L. 107-16 permits contributions to a QTP and to a Coverdell Education Savings Account in the same year for the same beneficiary, effective for tax years starting after December 31, 2001.[41] Before then, same-year contributions to a QTP and Coverdell account on behalf of the same beneficiary were considered an excess payment to the latter, and therefore, subject to income tax and a penalty.

P.L. 107-16 also allows Hope Scholarship and Lifetime Learning credits to be claimed for tuition and fees in the same year that tax-free distributions are made from

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[40] About 32 states allow parents to fund QTPs with money from custodial accounts. "Custodial" 529 plans retain some features of the original accounts (e.g., savings still belong to the child, and as a student's asset, the custodial 529 plans could have a more adverse effect on federal financial aid than other college savings plans). There also could be tax consequences to funding QTPs in this manner due to the requirement that QTPs accept only cash contributions (i.e., the sale of investments in custodial accounts could produce capital gains that would be subject to taxation). Penelope Wang, "Education: Yes, There's Still College," *Money*, Dec. 2001; and Anne Tergesen, "What About Those Custodial Accounts?" *Business Week*, Mar. 11, 2002.

[41] Same-year contributions to a QTP and a Coverdell account for the same beneficiary could have gift-tax consequences if the payment to the two savings vehicles exceeds the annual limit on gifts in one year or 5 times the annual limit the five-year option for QTPs is utilized.

a Section 529 plan or a Coverdell account, provided that the distributions are not used toward the same expenses for which the credits are claimed. If distributions are taken from a Section 529 plan and a Coverdell account on behalf of the same student, the act further requires that QHEEs remaining after reduction for the education tax credits must be allocated between the two savings vehicles. These provisions are effective for tax years beginning after December 31, 2001. Withdrawals from QTPs before that date could be used to pay for the same expenses for which Hope Scholarship or Lifetime Learning credits were claimed, but also under prior law, those withdrawals were taxable to the beneficiary.

P.L. 107-16 initiated an above-the-line income tax deduction for tuition and fees, effective in tax years starting after December 31, 2001 and ending before January 1, 2006. The deduction can be taken for qualified expenses paid with contributions portion of withdrawals from a Section 529 program.

## The Relationship between QTPs and Student Financial Aid

Saving for college, through a Section 529 plan or other vehicle, may adversely affect eligibility for and the amount of need-based student financial aid. The degree to which this occurs depends on the type of QTP and on a family's financial resources.

The "federal need analysis system" defines a student's financial need for federal student aid programs (other than Pell Grants) to be the gap between a school's cost of attendance (COA) and the student's expected family contribution (EFC) plus other estimated financial assistance.[42] A statutory formula determines the EFC based on data submitted by students to the U.S. Department of Education on the Free Application for Federal Student Aid (FAFSA).

As prescribed by Section 480(j) of the Higher Education Act (as revised by the Higher Education Amendments of 1992), the Department's formula considers qualified distributions from prepaid tuition plans (both contributions and earnings) to reduce the student's COA or as estimated financial assistance. Either treatment of prepaid tuition plan distributions cuts the student's financial need on a dollar-for-dollar basis. The sharp reduction occurs regardless of who is the account owner (e.g., a parent, aunt or non-relative).

The Department has more latitude regarding the treatment of college savings plans in financial need analysis. It decided that, because the account owner can change the beneficiary or close the account at will, this type of Section 529 plan is an asset of the parent rather than of the student. As the Department's formula counts a maximum of 5.64% of the account's value toward the EFC, the treatment is more favorable than if the account were considered a student's asset — of which a

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[42] The COA includes such items as tuition and fees, room and board, books, supplies, and living expenses. The EFC is the sum that a family can be expected to devote to higher education expenses based on its reported financial situation.

maximum of 35% counts toward the EFC — and much more favorable than is the case with prepaid tuition plans.

For beneficiaries of college savings plans established by someone other than their parents, the value of the accounts is not reported on the FAFSA, and thus, does not automatically raise the EFC. The exclusion of these assets from financial need analysis may "make eligible for student aid those who by definition are more affluent than others because they have more money to invest."[43]

As previously discussed, private educational institutions recently were extended the right to sponsor prepaid tuition plans. In order to "level the playing field" in financial need analysis between prepaid tuition and college savings plans, it is expected that these institutions among other groups will attempt to have Congress amend the Higher Education Act which is up for reauthorization during the 108th Congress.[44]

The Department's formula applies the same share (50%) of the student's taxable income toward the EFC whether he/she is the beneficiary of a prepaid tuition or college savings plan. According to Section 529 of the IRC, earnings distributions for payment of QHEEs through December 31, 2001 were includable as taxable income of the beneficiary (regardless of who is the account owner). The earnings distribution thus may have increased the student's EFC and could have reduced his/her financial need.

P.L. 107-16 makes qualified distributions of QTP earnings tax-free effective in tax years starting after December 31, 2001 for state-sponsored plans and after December 31, 2003 for plans of eligible higher education institutions. As students no longer will have taxable income from QTPs as of those dates, the earnings distributions will not raise their EFC.[45]

It should be kept in mind that some private postsecondary institutions use other methodologies to determine student eligibility for non-federal student aid. These alternatives to the Department's formula may treat either or both types of QTPs differently when calculating student need. Although some private postsecondary schools attempt "to avoid penalizing students for having such accounts, ... many colleges are moving in the opposite direction, and making sure their aid formulas count" QTPs as resources available to students.[46] Similarly, while most states

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[43] Roth, *Who Benefits from States' College-Savings Plans?*

[44] For more information, see Georgie A. Thomas, "A Better Way to Plan for College," *State Government News*, Sept. 1, 2001.

[45] According to the U.S. Department of Education's *Federal Student Aid Handbook*, nontaxable earnings distributions from state-sponsored QTPs will not be included in student income (i.e., they will not be treated as untaxed income or as resources).

[46] Peter Schmidt, "Bush Tax Cut Gives New Clout to States' College-Savings Plans," *The Chronicle of Higher Education*, June 22, 2001.

include balances in Section 529 plans when determining state financial aid for students, a sizeable share (44%) exclude the value of QTPs.[47]

## Closing Observations

In the last several years, numerous tax-advantaged measures have been enacted to make it easier for individuals to pursue postsecondary education. Some of these benefits are intended to encourage taxpayers to save in advance of students attending institutions of higher education, while other tax incentives do not come into play until students have entered postsecondary school. The variety of higher education provisions in the IRC could make it difficult for the typical family to determine the best tax benefit or combination of benefits to use. A factor that could further complicate the decision-making process is the interaction between the various tax incentives and eligibility for student financial aid.[48]

Whether to establish a QTP, and then of which type, could prove to be a difficult decision in and of itself. Families presumably would want to study the differences between each state's prepaid tuition plan, each private institution's or group of institutions' prepaid tuition plan, and each state's college savings plan.

To some degree, the financial situation of a family could make it easier for some to say "yea" or "nay" to QTPs. There are some low-income families who cannot afford to put current earnings toward saving, for college or other purposes. Some other low-income families might be able to save for college, but by doing so, they could reduce the amount of financial aid for which their children could well qualify. Of course, these relatively low-income families would have to be aware of the potentially adverse effect on student aid of Section 529 plans generally, and of prepaid tuition plans particularly, in order to factor it into their decision-making process.

The decision to save for higher education expenses through a QTP also could be less difficult for high-income families. First, because of their relatively high marginal tax rate, higher income families stand to gain more than lower income families from the tax-advantaged treatment of Section 529 plans. Second, the offspring of high-income families are less likely to be eligible for need-based student aid. As a result, these families are unlikely to be swayed by whether a QTP offsets financial need dollar-for-dollar as in the case of prepaid tuition programs, or to a much lesser extent as in the case of college savings accounts, when considering

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[47] Margaret Clancy and Michael Sherraden, *The Potential for Inclusion in 529 Savings Plans: Report on a Survey of States*, Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, Dec. 2003.

[48] For further discussion of the relationship between other education tax benefits and federal student aid, see CRS Report RL32155, *Tax-Favored Higher Education Savings Benefits and Their Relationship to Traditional Federal Student Aid*, by Linda Levine and James B. Stedman; and CRS Report RL31129, *Higher Education Tax Credits and Deduction: An Overview of the Benefits and Their Relationship to Traditional Student Aid*, by Adam Stoll, James B. Stedman, and Linda Levine.

which type of plan to setup. In addition, the estate and gift tax treatment of Section 529 plans could make them useful as estate-planning tools for wealthy families.

Middle-income taxpayers could well have the greatest problem figuring out whether Section 529 should be part of their college financing plan and which type of QTP to fund. If, for example, a family suffers a reversal of fortune brought about by extended unemployment, very high medical bills or some other unanticipated event (e.g., birth of twins) after having established a QTP, it is more likely that a middle-income compared to high-income family will need the plan's savings for current consumption. As previously noted, however, account owners must pay income tax and penalties on refunds from either type of QTP. In addition, prepaid tuition plans typically return relatively little if any earnings compared to college savings accounts. Thus, for some middle-income families, saving for college through a vehicle not dedicated to a single purpose might be a more prudent choice.

The interaction of Section 529 plans with need-based student aid also is likely to pose more of a dilemma for middle- than high-income families. If middle-income parents want to save via a QTP and think their child will be eligible for some assistance, then a college savings account seemingly would be the superior option given its comparatively less adverse treatment in the Department of Education's financial need analysis. Indeed, some private colleges reportedly have not started prepaid tuition programs because they do not feel comfortable recommending this type of Section 529 plan to a family "if there is any chance at all that they would be eligible for financial aid."[49] Alternatively, prepaid tuition programs generally are a lower risk investment than college savings accounts and as such, prepaid plans might be a more comfortable choice for middle- compared to high-income taxpayers.

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[49] Stephanie AuWerter, "Prepaid Tuition Plans," *SmartMoney.com*, June 8, 2001. Available at [http://www.smartmoney.com/consumer/index.cfm?Story=200106081].

## Appendix Table 1. Comparison of State-Sponsored Prepaid Tuition Plans

(as of November 24, 2003)

| State and program name | Date of operation and enrollment period | Age restriction on beneficiary | What is covered in the contract? | How is contract value determined if used for private or out-of-state public institutions? | Refund policy | Comments |
|---|---|---|---|---|---|---|
| Alabama (Prepaid Affordable College Tuition) | 1990 (Sept.) | 9th grade or younger | 4 years of undergraduate tuition and fees at state public institutions | Average of four-year in-state public tuition and fees | Contract payments refundable plus up to 5% interest | $100 to enroll, benefits must be used within 10 years after the projected college entrance date, no residency requirement |
| Alaska (Advance College Tuition Payment Program) | 1991 (anytime) | None | Credits can be used on tuition, fees, books, supplies, equipment, room and board | Full value of the account | Full value of the account is refundable | Plan purchasers get full value of the earnings, benefits must be used within 15 years of the projected college entrance date, no residency requirement, guaranteed by the state |
| Colorado (Colorado Prepaid Tuition Fund) | 1997 | not available | not available | not available | not available | Program not accepting contributions or new enrollments as of Aug. 1, 2002 |
| Florida (Florida Prepaid College Program) | 1987 (Nov.-Jan.) | Under 21 and less than 12th grade | Up to 4 years of undergraduate tuition and fees at state public or private higher institutions, plus optional plans that cover other local fees and dormitory | Average in-state public tuition and fees | Only contributions refunded, $50 fee for contracts less than two years | $50 to enroll, benefits must be used within 10 years of the projected college entrance date, guaranteed by the state |

| State and program name | Date of operation and enrollment period | Age restriction on beneficiary | What is covered in the contract? | How is contract value determined if used for private or out-of-state public institutions? | Refund policy | Comments |
|---|---|---|---|---|---|---|
| Illinois (College Illinois!) | 1998 (Nov.-Mar.) (Newborns, Nov.-Aug.) | None | Up to nine semesters of tuition and fees at state public higher institutions | Average mean-weighted in-state public tuition and fees | Contributions + 2% interest refundable less $100 fee (no interest if contract is less than three years old) | $85 to enroll, three-year waiting period, benefits need to be used within 10 years of projected college entrance date |
| Kentucky (Affordable Prepaid Tuition Plan) | 2001 | Not available | Not available | Not available | Not available | Program temporarily closed, new enrollments suspended until June 30, 2004 at the earliest |
| Maryland (Maryland Prepaid College Trust) | April 1998 (Nov.-Mar.) (Newborns anytime) | 9th grade or younger | Up to five years of tuition and fees at state public institutions | Weighted average in-state public tuition and fees | $75 cancellation fee. Refund is equal to 1) contributions and 90% of earnings/losses after three years; 2) contributions and 50% of earnings/losses if cancelled within three years | $75 to enroll, up to $2,500 of contributions per taxpayer per year state tax deductible, benefits must be used within 10 years of projected high school graduation |

| State and program name | Date of operation and enrollment period | Age restriction on beneficiary | What is covered in the contract? | How is contract value determined if used for private or out-of-state public institutions? | Refund policy | Comments |
|---|---|---|---|---|---|---|
| Massachusetts (U. Plan) | 1995 (May-June) | 10th grade or younger | Certificates worth up to 4 years of tuition and fees at the highest cost institution among 81 participating institutions | Principal + annual compound interest equal to consumer price index | Certificates only redeemable upon maturity (between 5 and 16 years). However, certificates may be sold anytime. | Not a qualified 529 plan, but earnings are exempt from state tax, no enrollment fee, no residency requirement, certificates must be redeemed within six years of maturity, guaranteed by the state |
| Michigan (Michigan Education Trust) | 1988 (Dec.-April) | 8th grade or younger for full benefit contract, 10th grade or younger for limited benefit contract | Up to 4 years of tuition and fees at state public institutions | Weighted average of in-state public tuition and fees | $100 cancellation fee. Only students who are 18 or have a high school diploma may terminate contracts. Depending on the reason for cancellation, refund value can be 1) the lowest; 2) the average; or 3) the weighted average of in-state public tuition | $60 enrollment fee, $25 to $85 application fee based on contact postmark date, contributions state tax deductible if postmarked by Dec. 31 of tax year, benefits must be used within nine years of projected college entrance |

| State and program name | Date of operation and enrollment period | Age restriction on beneficiary | What is covered in the contract? | How is contract value determined if used for private or out-of-state public institutions? | Refund policy | Comments |
|---|---|---|---|---|---|---|
| Mississippi (Prepaid Affordable College Tuition) | 1997 (Sept.-Nov.) (Newborns anytime) | 18 years or younger | Up to five years of undergraduate tuition and fees at state public institutions | Weighted average in-state tuition and fees | Contributions and 90% of interest earnings refunded, cancellation fee is the lesser of $25 or 50% of contributions | $60 to enroll, contributions state tax deductible, benefits must be used within 10 years of projected enrollment date, guaranteed by the state |
| New Mexico (The Education Plan of New Mexico) | 2000 (Sept.-Dec.) (Newborns anytime) | Contract must be purchased at least five years before projected enrollment | Up to five years of tuition and fees at state public institutions | The lesser of (1) the average in-state undergraduate tuition and fees for the contract type, or (2) contributions plus a reasonable rate of return | Contributions refunded, plus a reasonable rate of return (if account has been open for at least five years) | No enrollment fee. All contributions deductible from state income tax, for non-qualified withdrawals earnings subject to 20% penalty, benefits must be used within 10 years of projected college entrance date |
| Nevada (Prepaid College Tuition Plan Trust Fund) | 1998 (Oct.-Nov.) (Newborns anytime) | Under 18 and below 9th grade | Up to 4 years of tuition at state institutions | Weighted average tuition and fees at in-state public institutions | Contributions and 90% of interest earnings refunded, up to $100 cancellation fee | $100 to enroll, benefits must be used within 10 years of projected college entrance date or the age of 30, account owner must be a state resident or alumnus of state college |
| Ohio (Ohio Prepaid Tuition Program) | 1989 (Anytime) | Not available | Not available | Not available | Not available | Program permanently closed |

| State and program name | Date of operation and enrollment period | Age restriction on beneficiary | What is covered in the contract? | How is contract value determined if used for private or out-of-state public institutions? | Refund policy | Comments |
|---|---|---|---|---|---|---|
| Pennsylvania (Tuition Account Program) | 1993 (Anytime) | None | Tuition credits for the chosen type of institutions | Full value of the contract | Only contributions refunded within 12 months. After, the refund is the lesser of the market or full value of the contract, but no less than contributions. | $50 to enroll, $25 annual maintenance fee, one-year waiting period, must be used within 10 years of projected college entrance date |
| South Carolina (SC Tuition Prepayment Program) | 1998 (Oct.-Jan.) (Newborns anytime) | $10^{th}$ grade or younger | Up to 4 years of tuition and fees at state public institutions | The lesser of the value of the contract or the actual tuition cost (plus $30 fee if school is out-of-state) | $100 cancellation fee. Contributions and 80% of earnings refunded for contracts of more than one year. | $75 to enroll, benefits must be used before age 30, contributions state tax deductible |
| Tennessee (Tennessee BEST Tuition Plan) | 1997 (Anytime) | None | Units can be purchased with each worth 1% of weighted average tuition and fees at state public institutions | Weighted average in-state tuition and fees | Contributions + 50% earnings refunded minus $25 fee, no refund before beneficiary is college age | Up to $42 to enroll, two-year waiting period |
| Texas (Texas Guaranteed Tuition Plan) | 1996 (Oct.-May) | Not available | Not available | Not available | Not available | Program closed to new enrollment, existing plan contracts remain backed by the state |

| State and program name | Date of operation and enrollment period | Age restriction on beneficiary | What is covered in the contract? | How is contract value determined if used for private or out-of-state public institutions? | Refund policy | Comments |
|---|---|---|---|---|---|---|
| Virginia (Prepaid Education Program) | 1996 (Any time) | 9th grade or younger | Up to five years of tuition at state public institutions | Contributions and actual earnings up to the highest (average) in-state public tuition and fees for in-state private and out-of-state institutions | Within three years, only contributions refunded, less $100 penalty. After that, refund includes contributions plus a reasonable rate of return | $85 to enroll, up to $2,000 per year state tax deductible, must be used within 10 years after high school, guaranteed by the state |
| Washington (Guaranteed Education Tuition) | 1998 (Sept.-Mar.) | None | Up to five years of tuition units at the Univ. of Washington and Washington State | Full value of the contract | $10 penalty, refund can be requested after two years of contract being in effect, refund amount either the current value or the weighted average tuition, subject to administrative fees | $50 to enroll, two-year waiting period, must be used within 10 years of projected enrollment date or the first use of the units whichever is later, guaranteed by the state |
| West Virginia (WV Prepaid College Plan) | 1998 | Not available | Not available | Not available | Not available | Program closed as of Dec. 31, 2002 |

**Source:** Reprinted from [http://www.tiaa-crefinstitute.org/Data/statistics/pdfs/jma_prepaid.pdf], which relied on information contained in [http://www.collegesavings.org] and [http://www.savingforcollege.com] as well as in various states' websites.

**Note:** Between Jan. 1, 2002 and Dec. 31, 2010, earnings in Section 529 prepaid tuition plans are exempt from federal income tax when used for QHEEs. *Unless noted, earnings are exempt from state income tax as well and state residency is required from Section 529 prepaid tuition plans.* "Waiting period" is defined as the amount of time an account needs to be open before qualified withdrawals can be made without penalty.

## Appendix Table 2. Comparison of State-Sponsored College Savings Plans

(as of December 10, 2003)

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Alabama | The Higher Education 529 Fund | 2002 | **Option 1 (enrollment-based):** three enrollment-based portfolios that shift away from equities and towards bonds and cash over time. **Option 2 (static portfolios):** 100% equities; 100% bonds, or 50% cash + 50% bonds. **Option 3 (individual fund portfolios):** eight individual fund portfolios | $269,000 | $25 annual fee + between 0.90% and 1.24% underlying fund fee | None | $25 annual fee reduced to $10 for state residents and waived for accounts with a balance of at least $25,000. Non-residents must open an account through an advisor |
| Alaska | University of Alaska College Savings Plan | 1991 | **Option 1 (enrollment-based):** multiple enrollment-based portfolios that shift away from equities and towards bonds and cash over time. **Option 2 (static portfolios):** 100% equities; 100% fixed-income; and 60% equities + 40% bonds, or 100% bond and money market. **Option 3 (advanced college tuition portfolio):** prepaid plan for University of Alaska | $250,000 | 0.33% for Option 3. For other options, $30 annual fee + 0.30% program fee + between 0.52% and 0.84% underlying fund fee | State has no income tax | $30 annual fee waived for accounts with investment in Option 3, automatic payments, or a combined balance of at least $25,000 for the same beneficiary |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Arizona | Arizona Family College Savings Program | 1999 | **Option 1:** CollegeSure CDs with at least 2% return and FDIC insured up to $100,000. **Option 2:** Investors choose from 10 mutual funds including all-equity, all-bond, all-money-market, and balanced funds | $187,000 | No fee for Option 1. For mutual funds, between 0.49% and 2.1% underlying fund fee | Earnings state income tax exempt | $10 to enroll for each mutual fund. Maturity for CollegeSure CDs ranges from 1 to 25 years. CDs must be withdrawn within 30 years |
| Arkansas | GIFT College Investing Plan | 1999 | **Option 1 (age-based):** 90% equities for youngest, 10% equities for 19 and older. **Option 2 (static portfolios):** growth, growth and income, balanced, and fixed-income portfolios with 100%, 75%, 50%, and 0% in equities, respectively | $245,000 | $25 annual fee + 0.60% management fee + between 0.70% and 1.38% underlying fund fee | Earnings state income tax exempt | $25 annual fee waived for state residents and accounts with a balance of at least $25,000. Non-residents must open an account through an advisor |
| California | Golden State Scholar-Share Trust | 1999 | **Option 1 (age-based):** 80% equities for youngest, 20% equities for 17 and older. **Option 2 (aggressive age-based):** 100% equities for youngest, 30% equities for 19 and older. **Option 3:** 100% equities. **Option 4:** 100% Social Choice equities. **Option 5:** guaranteed with at least 3% return | $267,580 | No fee for Option 5. For other options, 0.80% | Earnings state income tax exempt | An additional state tax of 2.5% will be imposed on earning of non-qualified withdrawals. This additional tax applies to state residents regardless which state's 529 plan the withdrawals are from |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Colorado | Scholars Choice | 1999 | **Option 1 (age-based):** 80% equities for youngest, 10% equities for 19 and older. **Option 2 (years-to-enrollment-based):** 60% equities if more than 10 years from enrollment, 10% equities if less than one year from enrollment. **Option 3 (balanced):** 50% equities + 50% bonds. **Option 4:** 100% equities. **Option 5:** 100% fixed income. **Option 6:** 80% equities + 20% fixed income. **Option 7:** 80% fixed income + 20% equities | $235,000 | $30 annual fee + between 0.99% and 1.09% | All contributions state tax deductible. Earnings state income tax exempt | $30 annual fee waived for state residents |
| Connecticut | Connecticut Higher Education Trust | 1997 | **Option 1 (aged-based):** 80% equities for youngest, 20% equities for 17 and older. **Option 2 (high equity):** 80% equities + 20% bonds. **Option 3 (principal plus interest):** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.79% | Earnings state income tax exempt | |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Delaware | Delaware College Investment Plan | 1998 | **Option 1 (age-based):** 88% equities for youngest, 20% equities for those already in college. **Option 2:** 100% equities. **Option 3:** 70% equities + 30% bonds. **Option 4:** 45% bonds + 55% money market | $250,000 | $30 annual fee + 1.04% | Earnings state income tax exempt | $30 annual fee waived for accounts with automatic payments or a balance of at least $25,000 |
| District of Columbia | DC College Savings Plan | 2002 | **Option 1 (age-based):** 85% equities for youngest, 13% equities for 17 and older. **Option 2:** Investors choose from six mutual funds including all equity, all bond, and balanced funds. **Option 3 (stability of principal):** guaranteed with at least 3% return | $260,000 | $30 annual fee + 0.15% management fee + between 0.35% and 1.70% underlying fund fee (no underlying fund fee for Option 3) | Up to $3,000 per taxpayer per year District tax deductible (with carry-forward up to 5 subsequent years). Earnings District tax exempt | $30 annual fee reduced to $15 for residents. $25 enrollment fee for non-residents |
| Florida | Florida College Investment Plan | 2002 | **Option 1 (age-based):** portfolios that shift away from equities and towards fixed income and cash over time. **Option 2:** 100% equities. **Option 3:** 100% fixed income. **Option 4:** 100% money market. **Option 5:** 50% equities + 50% fixed income | $283,000 | 0.75% | State has no income tax | $50 application fee (reduced to $30 for current Florida prepaid plan participants) |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Georgia | Georgia Higher Education Savings Plan | 2002 | **Option 1 (age-based):** 80% equities for youngest, 15% equities for 17 and older. **Option 2 (aggressive age-based):** 100% equities for youngest, 15% equities for 23 and older. **Option 3:** 100% equities. **Option 4 (balanced):** 50% equities + 50% bonds. **Option 5 (guaranteed):** guaranteed with at least 3% return | $235,000 | No fee for Option 5. For other options, 0.85% | Up to $2,000 per beneficiary per year state tax deductible. Earnings state tax exempt, if account has been open for more than a year | State tax deductions phase out between $100,000 and $105,000 for joint tax filers ($50,000 and $55,000 for single tax filers). For non-qualified withdrawals, contributions for which previous state tax deductions were taken will be subject to state income tax |
| Hawaii | Tuition-EDGE | 2002 | **Option 1 (age-based):** 85% equities for youngest, 10% equities for 18 and older. **Option 2 (static):** aggressive, balanced, and conservative portfolios with 80%, 60%, and 40% in equities, respectively. **Option 3 (savings account option):** FDIC insured savings account | $297,000 | No fee for Option 3. For other options, $25 + 0.95% | Earnings state tax exempt | $25 annual fee waived for residents or accounts with balance of at least $10,000. Non-residents must open an account through an advisor |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Idaho | Idaho College Savings Plan | 2001 | **Option 1 (age-based):** 75% equities for youngest, 10% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.70% | Up to $4,000 per taxpayer per year state tax deductible. Earnings state tax exempt | The entire amount of a non-qualified withdrawal, including both the earnings portion and the principal portion, will be included in the owner's taxable income for state tax purposes |
| Illinois[d] | Bright Start College Savings Plan | 2000 | **Option 1 (age-based):** 90% equities for youngest, 10% equities for 18 and older. **Option 2 (age-based with bank deposits):** similar to Option 1, with bank deposits. **Option 3:** 100% bonds. **Option 4:** 100% equities. **Option 5:** 50% bonds + 50% bank deposits. **Option 6:** principal protection income portfolio | $235,000 | 0.99% | All contributions state tax deductible. Earnings exempt from state tax | |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Indiana | College-Choice 529 Plan | 1997 | **Option 1 (age-based):** 90% equities for youngest, 100% money market for 20 and older. **Option 2 (static portfolios):** four portfolios with 100% equities, two with 100% bonds, one with 100% money market, one with 90% equities, one with 70% equities, one with 50% equities, and one with 30% equities. **Option 3 (individual fund portfolios):** 8 individual fund portfolios | $236,750 | $30 annual fee + administrative fees + between 0.35% and 1.49% underlying fund fees | Earnings state income tax exempt | $30 annual fee reduced to $10 for residents, reduced to $25 for accounts converted from former program, and waived for accounts with automatic payments or $25,000 balance. $10 annual state authority fee for non-residents. Very complicated fee structures |
| Iowa | College Savings Iowa | 1998 | **Option 1(age-based):** multiple portfolios available that shift away from equities and towards fixed income and cash over time. **Option 2 (statistic portfolios):** 8 portfolios including 100%, 80%, 60%, 40%, 20% equities; 100% bonds; 100% money market; and 80% bonds + 20% money market, respectively | $239,000 | 0.65% | Up to $2,230 per taxpayer per year state tax deductible. Earnings state tax exempt | Beneficiary must be under 18 when account opened. Account balance must be paid out within 30 days after a beneficiary turns 30 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Kansas | Learning Quest Education Savings Program | 2000 | **Option 1 (age-based):** three age-based investment tracks (aggressive, moderate, and conservative) available. **Option 2 (two static portfolios):** 100% equities or 100% money market | $235,000 | $27 annual fee + 0.39% management fee + between 0.47% and 0.94% underlying fund fee | Up to $2,000 per taxpayer per beneficiary per year state tax deductible. Earnings state tax exempt | 12-month waiting period.[e] $27 annual waived for residents and for accounts with a balance of at least $25,000 |
| Kentucky | Education Savings Plan Trust | 1990 | **Option 1 (age-based):** 80% equities for youngest, 15% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.80% | Earnings state tax exempt | A 1% Kentucky penalty applies to non-qualified withdrawals |
| Louisiana | Louisiana START | 1997 | State treasurer's office invests mostly in fixed income securities | $197,600 | None | Up to $2,400 per beneficiary per year state tax deductible with carry-forward. Earnings state tax exempt | Residency required. 12-month waiting period.[e] Up to 14% matching grant available for accounts with at least $100 contributions during the year |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Maine [f] | NextGen College Investing Plan | 1999 | **Option 1 (age-based):** 90% equities for youngest, 10% equities for 20 and older. **Option 2:** 100% equities. **Option 3:** 75% equities + 25% fixed income. **Option 4:** 100% fixed income | $250,000 | $50 annual fee + 0.55% management fee + between 0.77% and 1.12% underlying fund fee | Earnings state tax exempt | $50 annual fee reduced to $25 for payroll deposits and waived for residents, accounts with annual contributions of at least $2,500, or a balance of at least $20,000. Up to $200 initial matching grant and up to $100 annual matching grant available for families whose adjusted gross income is less than $50,000 |
| Maryland | Maryland College Investment Plan | 2001 | **Option 1 (age-based):** multiple age-based portfolios available that shift away from equities and towards fixed income and cash over time. **Option 2:** 100% equities. **Option 3:** 100% bonds. **Option 4:** 60% equities + 40% bonds | $250,000 | $30 annual fee + 0.38% management fee + between 0.35% and 0.96% underlying fund fee | Up to $2,500 per account per year state tax deductible (with carry-forward up to 10 succeeding years). Earnings state tax exempt | $90 to enroll (may be reduced under certain conditions). $30 annual fee waived for accounts with automatic contributions or a balance of at least $25,000 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Massachusetts | U. Fund | 1999 | **Option 1 (age-based):** 86% equities for youngest, 20% equities for those already in college. **Option 2:** 100% equities. **Option 3:** 70% equities + 30% bonds. **Option 4:** 45% bonds + 55% money market | $250,000 | $30 annual fee + 1.03% | Earnings state tax exempt | $30 annual fee waived for accounts with automatic contributions or a balance of at least $25,000 |
| Michigan | Michigan Education Savings Program | 2000 | **Option 1 (age-based):** 72% equities for youngest, 13-15% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.65% | Up to $5,000 per taxpayer per year state tax deductible. Earnings state tax exempt | One-third matching grant (up to $200) available for new accounts with a state resident beneficiary who is 6 or younger, and whose family income is less than $80,000 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Minnesota | Minnesota College Savings Plan | 2001 | **Option 1 (age-based):** 72% equities for youngest, 13-15% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.65% | Earnings state tax exempt | For accounts with at least $200 contributions made during the year, 15% state matching grant is available for state residents with family income less than $50,000 (5% matching rate for family income between $50,000 and $80,000). Annual maximum grant is $300 per beneficiary |
| Mississippi[d] | Mississippi Affordable College Savings | 2001 | **Option 1 (age-based):** 72% equities for youngest, 18% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.60% management fee + between 0-16% and 0-23% underlying fund fee | Up to $10,000 per taxpayer per year state tax deductible. Earnings state tax exempt | |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Missouri | MO$T (Missouri Saving for Tuition Program) | 1999 | **Option 1 (age-based):** 72% equities for youngest, 13-15% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.65% | Up to $8,000 per taxpayer per year state tax deductible. Earnings state tax exempt | |
| Montana | Montana Family Education Savings Program | 1998 | **Option 1:** CollegeSure CDs issued by College Savings Banks with at least 2% return (maturity of CDs needs to coincide with the expected years of college attendance), FDIC insured up to $100,000 per account. **Option 2:** investors choose from 15 individual mutual funds and 5 static portfolios | $262,000 | No fee for Option 1. For Option 2, $25 annual fee (waived for accounts with automatic payments or a balance of at least $25,000) + underlying fund fees | Up to $3,000 per taxpayer per year state tax deductible. Earnings exempt from state tax | State tax deductions will be recaptured at the highest state income tax rate if withdrawals are not used for higher education or if withdrawals are made within three years of account opening |
| Nebraska | Nebraska College Savings Plan | 2001 | **Option 1 (age-based):** multiple age-based portfolios that shift away from equities and toward fixed income and cash over time. **Option 2:** six target portfolios with 100%, 80%, 60%, 40%, 20%, and 0% equities, respectively. **Option 3:** 22 individual fund portfolios | $250,000 | $20 annual fee + 0.60% management fee + up to 1.17% underlying fund fee | Up to $1,000 per year state tax deductible ($500 if married filing separately). Earnings state tax exempt | |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Nevada | The Strong 529 Plan | 2001 | **Option 1 (age-based):** three age-based portfolios that shift away from equities and towards fixed income and cash over time. **Option 2 (aggressive):** 90% equities. **Option 3 (moderate):** 65% equities. **Option 4 (balanced):** 50% equities. **Option 5 (conservative):** 30% equities. **Option 6 (all bond):** 100% bonds | $250,000 | $10 annual fee + 1.25% (0.85% for Option 6) | State has no income tax | $10 to enroll |
| New Hampshire | Unique College Investing Plan | 1998 | **Option 1 (age-based):** 86% equities for youngest, 20% equities for those already in college. **Option 2:** 100% equities. **Option 3:** 70% equities + 30% bonds. **Option 4:** 45% bonds + 55% money market | $250,000 | $30 annual fee + 1.04% | State has no income tax. Earnings exempt from state interest and dividends tax | $30 annual fee waived for accounts with automatic contributions or a balance of at least $25,000 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| New Jersey | New Jersey's Better Educational Savings Trust | 1998 | **Option 1 (age-based):** 100% equities for the youngest, 0% equities for 21 and older. **Option 2:** three 100% equity portfolios. **Option 3:** 50% equities. **Option 4:** 80% fixed income + 20% cash. **Option 5:** 100% fixed income | $305,000 | 0.40% management fee + between 0.45% and 1.17% underlying fund fee | Earnings exempt from state tax | Residency required. Between $500 and $1,500 scholarship for college in NJ available for accounts that have been open for more than 4 years and with at least $1,200 contributions |
| New Mexico | The Education Plan's College Savings Program | 2000 | **Option 1 (age-based):** 85% equities for youngest, 20% equities for 19 and older. **Option 2:** 100% equities. **Option 3:** 100% bonds. **Option 4:** 100% money market. **Option 5:** five other static portfolios with 85%, 70%, 55%, 40%, and 20% in equities, respectively | $294,000 | $30 annual fee + 0.30% management fee + between 0.53% and 1.22% underlying fund fee | All contributions state tax deductible. Earnings exempt from state tax | 1-year waiting period.[e] $30 annual fee waived for residents, accounts with automatic contributions or a balance of at least $10,000 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| New York | New York's College Savings Program | 1998 | **Option 1 (age-based):** 65% equities for youngest, 100% income for 19 and older. **Option 2 (aggressive age-based):** 100% equities for youngest, 35% equities for 16-18, 100% income for 19 and older. **Option 3 (conservative):** 50% equities for youngest, 100% money market for 19 or older. **Option 4:** 12 static portfolios, 8 of which invest in a single mutual fund, and 4 of which invest in a blend of funds | $235,500 | 0.55% to 0.60% all-inclusive management fee, decreasing as program assets increase | Up to $5,000 per taxpayer per year state tax deductible. Earnings exempt from state tax | 3-year waiting period.[e] Starting 2003, rollovers from NY's 529 plan to another state's plan will be considered non-qualified withdrawals for NY income tax, meaning the earnings and the contributions for which previous state tax deductions were taken will be subject to state income tax |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| North Carolina[d] | North Carolina's National College Savings Program | 1998 | **Option 1 (age-based):** portfolios that shift away from equities and towards fixed income and cash over time. **Option 2:** 100% equities. **Option 3 (balanced):** 40% equities + 60% fixed income. **Option 4 (income fund):** 100% fixed income. **Option 5 (protected stock fund):** guaranteed with a 3% return per year or 70% of the gain in the S&P 500 Price Index over five years, whichever is greater. **Option 6**: any of the 22 portfolios used in the age-based option | $276,046 | $25 annual fee + 0.25% management fee (0.10% for Option 1) + between 0.05% and 1.28% underlying fund fee | Earnings state income tax exempt | $25 waived for accounts with automatic contributions or a balance of more than $1,000. Option 5 requires a lump-sum minimum contribution of $1,000 for a five-year period. Non-residents must open an account through an advisor |
| North Dakota | College SAVE | 2001 | **Option 1 (age-based):** multiple age-based portfolios that shift away from equities and towards fixed income and cash over time. **Option 2 (static portfolios):** two aggressive growth portfolios with 90% equities and two balanced portfolios with 50% equities and 50% bonds | $269,000 | $30 annual fee + 0.50% management fee + between 0.68% and 1.22% underlying fund fee | Earnings state income tax exempt | $30 annual fee and 0.50% management fee waived for state residents |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Ohio | College Advantage Savings Plan | 1989 | **Option 1 (age-based):** 85% equities for youngest, 15% equities for 21 and older. **Option 2 (balanced):** 60% equities + 30% bonds + 10% cash. **Option 3 (growth):** 85% equities + 15% bonds. **Option 4 (aggressive growth):** 100% equities. **Option 5:** 13 single-fund portfolios. **Option 6:** Guaranteed Savings Fund that is essentially a prepaid plan | $245,000 | No fee for Option 6. For others, 0.55% to 1.34% | Up to $2,000 per tax return per year state tax deductible, with unlimited carry-forward in future years. Earnings state tax exempt | Residency required for Option 6. Other options are available to non-residents through an advisor. Beneficiary must be 18 or older when prepaid tuition units are redeemed |
| Oklahoma | Oklahoma College Savings Plan | 2000 | **Option 1 (age-based):** 72% equities for youngest, 18% equities for 17 and older. **Option 2:** 100% equities. **Option 3:** guaranteed with at least 3% return | $235,000 | No fee for Option 3. For other options, 0.55% management fee + between 0.11% and 0.13% underlying fund fee | Up to $2,500 per account state tax deductible. Earnings state tax exempt | |
| Oregon | Oregon College Savings Plan | 2001 | **Option 1 (age-based):** 90% equities when 10 years or more away from college, 10% equities when in college. **Option 2 (static):** six portfolios with 100%, 90%, 60%, 50%, 30% and 10% in equities, respectively | $250,000 | $30 annual fee + 1.25% (0.975% for the 100%-equity portfolio) | Up to $2,000 per year state tax deductible ($1,000 if married filing separately). Earnings state tax exempt | $30 annual fee waived for state residents, accounts with automatic payments, or a balance of at least $25,000 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Pennsylvania[d] | TAP 529 Investment Plan | 2002 | **Option 1 (age-based):** 85% equities for youngest, 10% equities for 19 and older. **Option 2 (age-based):** 100% equities for youngest, 10% equities for 19 and older. **Option 3 (risk-based):** five static portfolios with 100%, 80%, 60%, 40%, 0% in equities, respectively. **Option 4 (socially responsible):** one bond portfolio and one equity portfolio | $290,000 | $25 annual fee + 0.35% management fee + between 0.45% and 1.69% underlying fund fee | Earnings state tax exempt | $25 annual fee waived for accounts with automatic contributions or a balance of at least $20,000. Non-residents must open an account through an advisor |
| Rhode Island | College-Bound Fund | 1998 | **Option 1 (age-based):** 100% equities for youngest, 25% equities for 19 and older. **Option 2 (age-based):** similar to Option 1, with more equities. **Option 3:** 100% equities (invested in aggressive funds). **Option 4:** 100% equities (invested in growth funds). **Option 5:** 60% equities + 40% fixed income. **Option 6:** 100% fixed income. **Option 7:** 9 single-fund portfolios | $301,550 | $25 annual fee + between 0.70% and 1.67% underlying fund fee | Up to $500 per taxpayer per year state tax deductible with carry-forward to future years. Earnings state tax exempt | $25 annual fee waived for state residents, accounts with automatic contributions or a balance of at least $25,000. Non-residents must open an account through an advisor |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| South Carolina | Future Scholar 529 College Savings Plan | 2002 | **Option 1 (age-based):** 100% equities for youngest, 15% equities for 18 and older. **Option 2:** six portfolios with different equity exposures. **Option 3:** three single-fund portfolios | $265,000 | $25 annual fee + 0.20% management fee + between 0.20% and 1.23% underlying fund fee | All contributions state tax deductible. Earnings state tax exempt | $25 annual fee waived for state residents and employees. Non-residents must open an account through an advisor |
| South Dakota | College Access 529 | 2002 | **Option 1 (age-based):** 85% equities for youngest, 5% equities for 18 and older. **Option 2 (real return plus portfolio):** 100% fixed-income | $305,000 | 0.65% for Option 1, 0.53% for Option 2 | State has no income tax | Non-residents must open an account through an advisor |
| Tennessee[f] | Tennessee BEST Investment Savings Program | 2000 | **Option 1 (age-based):** 75% equities for youngest, 10% equities for 17 and older. **Option 2:** 100% equities | $235,000 | 0.95% | State has no income tax. Earnings exempt from state interest and dividends tax | |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Texas | Tomorrow's College Investment Plan | 2002 | **Option 1 (age or enrollment-based):** 90% equities for youngest, 15% equities for 15 and older. For adult beneficiaries, 90% equities for 15 or more years away from enrolling in college, 15% equities if within two years of enrolling. **Option 2:** 60% equities + 40% fixed income. **Option 3:** 100% equities. **Option 4:** single-fund options that offer 13 portfolios focusing on a single investment strategy or asset class | $257,460 | $30 annual fee + 1.0% for the age-based and blended portfolios, 0.45% for the stable value and single fund portfolios | State has no income tax | $30 annual fee waives for state residents and accounts with automatic contributions or a balance of at least $25,000. Non-residents must open an account through an advisor |
| Utah | Utah Educational Savings Plan Trust | 1997 | **Option 1:** 100% State Treasurer's Investment Fund, which invests in money market securities. **Option 2:** 100% index equities. **Option 3:** 100% bonds. **Option 4:** 100% diversified equities. **Option 5-9 (age-based):** multiple age-based portfolios available that shift away from equities and towards fixed income and cash over time | $280,000 | No fee for Option 1. For other options, up to $25 annual fee + 0.25% management fee if balance is greater than $5,000 (0.75% otherwise) + between 0.0275% and 0.65% underlying fund fee | Up to $1,435 per beneficiary per taxpayer per year state tax deductible (account must be opened before the beneficiary turns 19 for this benefit) Earnings state tax exempt. | Only contributions (up to the current balance) are refunded if account is cancelled within two years of opening. Benefit payout must begin before the beneficiary turns 27, or 10 years after opening the account, whichever is later |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Vermont | Vermont Higher Education Savings Plan | 1999 | **Option 1 (age-based):** 80% equities for youngest, 15% equities for 17 and older. **Option 2:** 100% equities. **Option 3 (interest income option):** 100% fixed-income securities | $240,100 | No fee for Option 3. 0.80% for others. | Contributions made after 2003 are eligible for a tax credit that is 5% of contributions of up to $2,000 per beneficiary. Earnings state tax exempt | Tax credit will be recaptured for non-qualified withdrawals |
| Virginia | Virginia Education Savings Trust | 1999 | **Option 1 (age-based portfolios):** multiple age-based portfolios available that shift away from equities and towards fixed income and cash over time. **Option 2:** 80% equities + 20% fixed income. **Option 3:** 60% equities + 40% fixed income. **Option 4:** 20% equities + 80% fixed income. **Option 5:** 100% money market | $250,000 | Between 0.85% and 1.0% | Up to $2,000 per account per year state tax deductible with unlimited carry-forward in future years. Unlimited state tax deduction for owners 70 and older. Earnings state tax exempt | $85 to enroll. Benefits must be paid out within 10 years after the projected high school graduation date (or, for adults, 10 years after the account is opened) |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| West Virginia | Smart 529 Plan | 2002 | **Option 1 (age-based):** 100% equities for youngest, 20% equities for 19 and older. **Option 2:** 100% equities. **Option 3:** 80% equities + 20% bonds. **Option 4:** 60% equities + 30% bonds + 10% stable value portfolio. **Option 5 (stable value portfolio):** aims to preserve principal and interest income | $265,620 | $25 annual fee + 1.16% | All contributions state tax deductible. Earnings state tax exempt | $25 annual fee waived for state residents and accounts with automatic contributions or a balance of at least $25,000. Non-residents must open an account through an advisor |
| Wisconsin | EDVEST Wisconsin College Savings Program | 1997 | **Option 1 (age-based):** 90% equities for youngest, 100% bonds for those who are less than two years away from college. **Option 2:** 100% index equities. **Option 3:** 90% equities + 10% bonds. **Option 4:** 70% equities + 30% bonds. **Option 5:** 50% equities + 50% bonds. **Option 6:** 100% bonds. **Option 7 (stable value portfolio):** primarily invested in government bonds | $246,000 | $10 annual fee + 1.15% asset-based fee (0.90% for Option 7) | Up to $3,000 per beneficiary per year state tax deductible. Earnings state tax exempt | $10 enrollment fee per portfolio (waived for accounts opened through an employed-sponsor plan). $10 annual fee waived for accounts with automatic contributions or with a balance of at least $25,000 |

| State | Name of the program | First date of operation | Investment options for direct-sold plans[a] | Current lifetime account balance limit | Estimated average annual expenses and other fees for direct-sold plans[b] | State tax advantages | Comments[c] |
|---|---|---|---|---|---|---|---|
| Wyoming | Wyoming College Achievement Plan | 2000 | **Option 1 (age-based):** 90% equities for youngest, 10% equities for 22 and older. **Option 2:** 100% equities. **Option 3:** 75% equities + 25% fixed income. **Option 4:** 50% equities + 50% fixed income. **Option 5:** 100% fixed income | $245,000 | $25 annual fee + 0.95% management fee + between 0.85% and 1.45% underlying fund fee | State has no income tax | $25 annual fee waived for state residents or accounts with a balance of at least $25,000 |

**Source:** Reprinted from [http://www.tiaa-crefinstitute.org/Data/statistics/pdfs/jma_savingsplans.pdf], which relied on information contained in [http://www.collegesavings.org] and [http://www.savingforcollege.com] as well as in various states' websites.

a. The investment options listed in this table refer to those available to accounts opened directly through the program. More options may be available for accounts opened through an advisor or broker.
b. Estimated expense charges apply to accounts opened directly through the program. Additional and/or higher fees may apply to accounts opened through brokers.
c. The earnings of non-qualified withdrawals are subject to income tax at the distributee's rate in addition to a 10% federal penalty tax.
d. Earnings on qualified withdrawals are subject to state tax if withdrawals are from an out-of-state plan.
e. "Waiting period" is defined as the amount of time an account needs to be open before qualified withdrawals can be made without penalty.
f. Earnings on qualified withdrawals are subject to state interest and dividend tax if withdrawals are from an out-of-state plan.