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*Saving for College Through Qualified Tuition (Section 529)
Programs*

Linda Levine, Domestic Social Policy Division

March 26, 2008

Abstract. As EGTRRA's modifications to Section 529 plans are now permanent, this report provides an overview of QTPs that cover its post-P.L. 107-16 provisions. It also addresses issues of recent concern associated with QTPs. The report discusses the interaction of Section 529 plans with other tax incentives for postsecondary education as well. The Appendix Tables A1 and A2 summarize Section 529 prepaid tuition and college savings plans by state, respectively, as of December 2003.

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CRS Report for Congress

Saving for College Through Qualified Tuition (Section 529) Programs

Updated March 26, 2008

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Prepared for Members and
Committees of Congress

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 called Section 529 programs after their citation in the Internal Revenue Code. QTPs initially allowed individuals to save for qualified higher education expenses (QHEEs) on a tax-deferred basis. The Pension Protection Act of 2006 (PPA) made permanent the temporary enhancements to QTPs contained in the Economic Growth and Tax Relief Reconciliation Act of 2001. The enhancements include making qualified withdrawals from QTPs 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. States were the only sponsors of prepaid plans until Congress extended sponsorship to eligible higher education (private) institutions effective in 2002.

States remain the sole sponsor of the more popular type of Section 529 program, *college savings plans*, which account for most of the \$105.7 billion in QTP assets as of December 31, 2006. 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 fee disclosure across plans, and the role of federal regulators in this area was the subject of oversight during the 108th Congress.

(More recently, the 109th Congress included in the PPA enactment of Section 529(f). It charges the Secretary of the Treasury with developing regulations to prevent abuse of Section 529 and to carry out its purposes in general. The Internal Revenue Service currently is developing a notice of proposed rule making, which will include portions of the 1998 proposed regulation and anti-abuse rules.)

Both types of Section 529 programs have several features in common beyond qualified withdrawals being tax-free. 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 an eligible relative of the original beneficiary. Account owners, rather than beneficiaries, maintain control over the funds. Contributions are not deductible on federal tax returns.

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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 heightened skill levels reportedly demanded by businesses. Indeed, the demand for workers with at least a bachelor's degree has been growing and is projected to continue growing at a more rapid rate than the demand for individuals with little, if any, postsecondary education.¹

At the same time, the cost of higher education has risen to a greater extent than average household income over the past two 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 amendment of Section 529 by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L. 107-16) greatly increased the program's attractiveness. Among other temporary amendments to QTPs, EGTRRA made withdrawals from Section 529 plans to pay qualified higher education expenses tax-free. (Previously, earnings on contributions to QTPs had been allowed to grow on a tax-deferred basis and their subsequent withdrawal to pay for qualified expenses had been taxable.) 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 Subsequently, the 109th Congress passed the Pension

¹ CRS Report RL34224, *College Costs and Prices: Issues for Reauthorization of the Higher Education Act*, by Rebecca R. Skinner and Blake Alan Naughton.

² 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. (Hereafter cited as CRS Report RS21870, *Education Tax Benefits*.)

Protection Act of 2006 (PPA, P.L. 109-250); it included provisions that made permanent EGTRRA's changes to Section 529 plans.

As EGTRRA's modifications to Section 529 plans are now permanent, this report provides an overview of QTPs that cover its post-P.L. 107-16 provisions. It also addresses issues of recent concern associated with QTPs. The report discusses the interaction of Section 529 plans with other tax incentives for postsecondary education as well. The **Appendix Tables A1** and **A2** summarize Section 529 prepaid tuition and college savings plans by state, respectively, as of December 2003.

What Is a Section 529 Program?

States, their agencies, or their 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 education⁴ 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

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 December 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. Eighteen states sponsor the plans. As of December 31, 2006, prepaid tuition plans held about \$15.6 billion in contributions and earnings.⁷

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.⁸ (See **Appendix, Table A1** 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, 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

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 Quarterly data on value of assets and number of contracts in each state-sponsored prepaid tuition program are available at [<http://www.collegesavings.org>].

⁸ Anne Tergesen, "Pay Now, Study Later," *Business Week*, March 11, 2002.

attending due to comparatively high tuition charges. It also has been suggested that the plans of private institutions might 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.”⁹

In early 2003, the not-for-profit Tuition Plan Consortium received regulatory approval to sell “tuition certificates” in its Independent 529 Plan. It began accepting contributions later that year. More than 240 colleges and universities, ranging from research universities 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.¹⁰ Unlike either state-sponsored prepaid tuition plans or college savings plans, account owners of Independent 529 Plan tuition certificates do not pay administrative fees. They are absorbed by the participating educational institutions.¹¹

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 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

⁹ Jeff Wuorio, *Prepaying Tuition Offers Peace of Mind at a Price*, available at [<http://moneycentral.msn.com/articles/family/college/1462.asp>].

¹⁰ Description of the Independent 529 Plan submitted to the Securities and Exchange Commission. Available online at [<http://www.sec.gov/divisions/investment/noaction/tuitionplan020403.htm>].

¹¹ See [<http://www.Independent529plan.org>] for additional information.

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 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.¹²

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 reportedly have increased in popularity as an employee benefit. Typically, the employer contracts with a mutual fund company and employees' voluntary contributions are deducted from their paychecks.¹³ A few credit card companies also rebate a percentage of purchases made by cardholders. Accumulated rebates periodically are transferred into particular college savings plans.¹⁴

In part for these reasons, all 50 states and the District of Columbia offer college savings programs. They accounted for more than \$90.1 billion (85%) of the \$105.7 billion held in 9.3 million QTP accounts as of December 31, 2006.¹⁵ (See **Appendix, Table A2** for a summary of college savings plans by state.)

Recent 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, 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.¹⁶ (**Appendix Table A2** includes estimates of average annual expenses for

¹² Andrew P. Roth, "Who Benefits from States' College-Savings Plans?" *Chronicle of Higher Education*, January 1, 2001.

¹³ Lauren Paetsch, "Section 529 College Savings Plans More Attractive Due to 2001 Tax Law," *Employee Benefit Plan Review*, February 2002.

¹⁴ Brian Hindo, "Shop Your Way to College Savings," *Business Week*, March 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*.)

¹⁵ Quarterly data on the value of assets and number of accounts in each state-sponsored college savings plan are available at [<http://www.collegesavings.org>]. Note: The number of accounts exceeds the number of beneficiaries because there is no limit to the number of accounts that can be established on behalf of a beneficiary.

¹⁶ Testimony of Daniel McNeela, Senior Analyst, Morningstar, Inc., in *Investing for the Future: 529 State Tuition Savings Plans*, Hearing before the Subcommittee on Capital (continued...)

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).”¹⁷

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.¹⁸ These intermediaries are the most frequently mentioned source of plan information among persons who have established college savings accounts.¹⁹ Additionally, as shown in **Appendix Table A2**, 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.²⁰ 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.²¹

Congressional Oversight. Some Members of Congress became 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 because they are considered instrumentalities of their respective states.²² 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 of fees. 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

¹⁶ (...continued)

Markets, Insurance, and Government Sponsored Enterprises, House Committee on Financial Services, 108th Congress, 2nd Sess., Serial No. 108-90 (June 2, 2004). (Hereafter cited as *Morningstar testimony*.)

¹⁷ Davis, *College: We Did Your Homework*, p. 72.

¹⁸ Lynn O’Shaughnessy, “Avoiding Fee Pitfalls as College Savings Climb,” *New York Times*, July 13, 2003; and

¹⁹ Investment Company Institute, *Profile of Households Saving for College*.

²⁰ Howard Isenstein, “As College Plans Proliferate, It Pays to Shop Around,” *New York Times*, June 20, 2004.

²¹ *Morningstar testimony*.

²² [http://financialservices.house.gov/media/pdf/3-16-04%20529%20ltr%20part%20two_001.pdf].

Rulemaking Board (MSRB) and the NASD (formerly known as the National Association of Securities Dealers).²³ Then 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.

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. The Chair of the College Savings Plan Network (CSPN) testified that the group had begun to develop voluntary disclosure guidelines in 2003.²⁴ (All states have implemented the first statement of disclosure principles, which CSPN adopted in December 2004. CSPN adopted a second statement of disclosure principles in July 2005, and it has been incorporated in the states' offering materials.)

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, private-sector organization. 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 must have reason to believe that the investments they recommend are suitable to the customer. A 2003 NASD investigation of the sales practices of six firms found, however, that most sold virtually all their 529 plan investments to customers who were not residents of the state sponsoring the plan.²⁵ Upon expanding the investigation to additional firms in May 2004 and finding that most 529 plan sales involved the same practice, Schapiro reported that the NASD issued an Investor Alert. She also noted the availability of

²³ The NASD is the major private-sector regulator the U.S. securities industry. The MSRB is the self-regulatory body that Congress created to develop rules governing broker-dealers and dealer banks that underwrite, trade, and sell municipal securities (e.g., sell interests in 529 college savings plans). Most of the municipal securities dealers regulated by the MSRB also are licensed broker-dealers regulated by NASD. NASD enforces the MSRB's rules pertaining to non-bank broker-dealers.

²⁴ Testimony of Diana Cantor, Executive Director of the Virginia College Savings Plan and Chair of the College Savings Plan Network, Hearings before the Subcommittee on Capital Markets and Government Sponsored Enterprises, House Committee on Financial Services, 108th Congress, 2nd Sess., Serial No. 108-90 (June 2, 2004).

²⁵ Testimony of Mary L. Schapiro, NASD, in *Section 529 College Savings Plans: High Fees, Inadequate Disclosure, Disparate State Tax Treatment and Questionable Broker Sales Practices*, Oversight Hearing Before the Subcommittee on Financial Management, the Budget, and International Security, Senate Committee on Governmental Affairs, 108th Congress, 2nd Sess., Serial 108-716, September 30, 2004.

information on its website intended to educate both broker-dealers and investors on college savings plans.²⁶

At the same hearing, testimony was given by the MSRB Senior Associate General Counsel Ernesto Lanza. He discussed a draft amendment to the MSRB's advertising rule proposed in June 2004, which went into effect in December 2005, after the MSRB filed the proposed rule change with the SEC; it is intended to improve the comparability of performance data across different state-sponsored 529 savings plans, mutual funds, and other types of investments.²⁷ The MSRB and NASD issued a statement in February 2006 in which they agreed to cooperatively strive to promote consistency across regulations and interpretations regarding 529 plans. In August 2006, the MSRB's interpretive guidance about customer protection obligations of brokers, dealers, and municipals securities dealers marketing college savings plans became effective (e.g., disclosure to clients of tax benefits offered by their home states' 529 plans).

The SEC similarly has continued to pursue its oversight of states that sponsor and firms that sell 529 savings plans. In August 2005, for example, the commission announced settlement of a cease-and-desist proceeding against the Utah Educational Savings Plan Trust which had made false statements and omissions about errors in its operation system and accounting practices. The SEC also filed a civil action against the Trust's former director for violating securities laws. In addition, the commission released a new Section 529 investor guide that explains the different plans, their disclosures, tax implications, and expenses.²⁸ In December 2005, the SEC settled administrative and cease-and-desist proceedings against American Express Financial Advisors Inc. for its failure to disclose receipt of revenue-sharing payments that resulted from distribution of certain shares of mutual funds and 529 college savings plans.

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, many state-sponsored prepaid plans in 2003 reported

“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.²⁹

²⁶ [<http://www.nasd.com/index.htm>].

²⁷ [<http://www.msrb.org/msrb1/>].

²⁸ [<http://www.sec.gov>].

²⁹ Sarah Max, “Are Prepaid Tuition Plans in Trouble?,” *CNN Money*, January 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*, September 12, 2003.

In addition, 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 took preemptive measures. For example, Colorado's prepaid tuition plan was closed to new participants and contributions were not being accepted from existing participants. Ohio also closed its plan to new participants. Other states modified their prepaid plans by, for example, greatly increasing the value of tuition units.³⁰

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.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 became 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. 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

³⁰ Albert B. Crenshaw, "No Quick Fix for Section 529 Plans," *Washington Post*, June 6, 2004.

³¹ Davis, *College: We Did Your Homework*.

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

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 federal tax exemption likely spurred some of these states to begin to do so. 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).³⁶ 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.³⁷

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 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

³⁴ Joseph F. Hurley, “Planning Strategies Under the Education Provisions of the New Tax Act,” *Journal of Financial Planning*, September 2001.

³⁵ Carol Marie Cropper and Anne Tergesen, “College Savings Plans Come of Age,” *Business Week*, March 12, 2001.

³⁶ 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.

³⁷ 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).

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).

Transfer Tax Provisions for Section 529 Plans

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 statutory restriction on investment control had been considered a major drawback of QTPs, but it was significantly loosened. On September 7, 2001 (Bulletin Notice 2001-55), the Internal Revenue Service (IRS) issued a special rule that permits contributors to Section 529's college savings programs to move balances once per calendar year from one investment strategy to another within the state's offerings without incurring taxes and without changing beneficiaries. Account owners also can, on a tax-free basis, move balances among a state's investment offerings if they change beneficiaries.

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.”³⁸

³⁸ Stephanie AuWerter, “The 529 Basics,” *SmartMoney.com*, June 8, 2001. Available at [<http://www.smartmoney.com/consumer/index.cfm?Story=200106083>].

Same-Beneficiary Rollovers. Tax-free transfers from one QTP to another for the same beneficiary can occur once in any 12-month period.³⁹ 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 to Section 529 made permanent by the PPA 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.⁴⁰

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. 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.⁴¹

Nonetheless, the Taxpayer Relief Act of 1997 (TRA, 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 \$12,000 in tax year 2007 as a tax-free gift per QTP beneficiary. (This amount of a tax-free gift 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 \$60,000 in 2007, for example, by

³⁹ 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.

⁴⁰ Kristin Davis, "Miracle Grow," *Kiplinger's Personal Finance*, September 2001, and [http://www.savingforcollege.com].

⁴¹ 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). 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*, December 2001; and Anne Tergesen, "What About Those Custodial Accounts?" *Business Week*, March 11, 2002.

treating the payment as if it were made over five years. Thus, each grandparent could contribute \$60,000 (for a total of \$120,000) to each grandchild's QTP in tax year 2007, which potentially would allow more earnings to accumulate than if each had contributed \$12,000 annually for five years. In this instance, assuming the tax-free gift annual limit remained at \$12,000 over the period, the two grandparents could not make another excludable gift to those account beneficiaries until 2012.

By making QTP contributions completed gifts, the TRA 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.

IRS Rulemaking: Potential for Abuse of Section 529 Accounts

At the same time that the PPA permanently extended the EGTRRA amendments to Section 529, the 2006 act added Section 529(f). It provides that the Secretary of the Treasury shall prescribe regulations to prevent abuse of 529 accounts. The Joint Committee on Taxation (JCT) gave two examples of abuse in its technical explanation of the bill (JCX-38-06). Abuse might arise because account owners can change beneficiaries without inducing transfer tax payments. For example, a taxpayer establishes several accounts for different beneficiaries and contributes to each using the five-year rule, discussed above, with the ultimate purpose of changing the beneficiaries to one individual and distributing to that beneficiary the combined account balance without further transfer tax consequences. The JCT also noted that abuse might arise because a taxpayer endeavors to use a QTP like a retirement account, but Section 529 does not have the same requirements and restrictions as retirement accounts.

The IRS, on March 3, 2008, published in Internal Revenue Bulletin 2008-9 an advance notice of rule making requesting that comments be submitted by March 18. The notice of proposed rule making (NPRM) is expected to include "a general anti-abuse rule that will apply when section 529 accounts are established or used for purposes of avoiding or evading transfer tax." The NPRM also "will include rules relating to the tax treatment of contributions to and participants in QTPs, including rules addressing the inconsistency between section 529 and the generally applicable income and transfer tax provisions of the Code." In addition, the NPRM will contain rules about the function and operation of the programs, drawing in part on regulations proposed in 1998, Notice 2001-55 concerning the statutory restriction against investment direction, Notice 2001-81 concerning recordkeeping, reporting and other requirements, and instructions related to Form 1099-Q (*Payments From Qualified Education Programs (Under Section 529 and 530)*).

Interaction with Other Higher Education Tax Incentives

Contributions can be made to a QTP and a Coverdell Education Savings Account in the same year for the same beneficiary.⁴² Before January 1, 2002, however, 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.⁴³

The Hope Scholarship and Lifetime Learning credits can be claimed for tuition and fees in the same year that tax-free distributions are made from 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.⁴⁴ If distributions are taken from a Section 529 plan and a Coverdell account on behalf of the same student, EGTRRA further requires that QHEEs remaining after reduction for the education tax credits must be allocated between the two savings vehicles.

EGTRRA also 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 was last extended until January 1, 2008.)⁴⁵ It can be taken for qualified expenses paid with the contributions portion of withdrawals from a Section 529 program.

⁴² 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 five times the annual limit the five-year option for QTPs is utilized.

⁴³ For information on Coverdell Education Savings Accounts see CRS Report RL32155, *Tax-Favored Higher Education Savings Benefits and Their Relationship to Traditional Federal Student Aid*, by Linda Levine and Charmaine Mercer.

⁴⁴ For information on the credits see CRS Report RL31129, *Higher Education Tax Credits and Deduction: An Overview of the Benefits and Their Relationship to Traditional Student Aid*, by Linda Levine and Charmaine Mercer.

⁴⁵ For legislative activity on the deduction, see CRS Report RS21870, *Education Tax Benefits*, by Linda Levine.

Appendix. State-Sponsored Prepaid Tuition Plans and College Savings Plans

Table A1. 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.)	9 th grade or younger	four 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 12 th grade	Up to four 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)	9 th 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)	10 th grade or younger	Certificates worth up to four 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)	8 th grade or younger for full benefit contract, 10 th grade or younger for limited benefit contract	Up to four 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

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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 9 th grade	Up to four 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

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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 four 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

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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)	9 th 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

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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.

Table A2. 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 <small>http://wikileaks.org/wiki/CRS-RL31214</small>	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

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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

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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	<p>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</p>	\$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	<p>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</p>	\$235,000	No fee for Option 3. For other options, 0.79%	Earnings state income tax exempt	
Delaware	Delaware College Investment Plan	1998	<p>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</p>	\$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

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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
District of Columbia	DC College Savings Plan	2002 http://wikileaks.org/wiki/CRS-RL31214	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	<p>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</p>	\$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	<p>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</p>	\$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

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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	

<http://wikileaks.org/wiki/CRS-RL31214>

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 <small>http://wikileaks.org/wiki/CRS-RL31214</small>	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 http://wikileaks.org/wiki/CRS-RL31214	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	<p>Option 1 (age-based): 86% equities for youngest, 20% equities for those already in college.</p> <p>Option 2: 100% equities. Option 3: 70% equities + 30% bonds. Option 4: 45% bonds + 55% money market</p>	\$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	<p>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</p>	\$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

http://wikileaks.org/wiki/CRS-RL31214

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 <small>http://wikileaks.org/wiki/CRS-RL31214</small>	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	
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	

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Montana	Montana Family Education Savings Program	1998	<p>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.</p> <p>Option 2: investors choose from 15 individual mutual funds and 5 static portfolios</p>	\$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	<p>Option 1 (age-based): multiple age-based portfolios that shift away from equities and toward fixed income and cash over time.</p> <p>Option 2: six target portfolios with 100%, 80%, 60%, 40%, 20%, and 0% equities, respectively.</p> <p>Option 3: 22 individual fund portfolios</p>	\$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	

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Nevada	The Strong 529 Plan	2001	<p>Option 1 (age-based): three age-based portfolios that shift away from equities and towards fixed income and cash over time.</p> <p>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</p>	\$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	<p>Option 1 (age-based): 86% equities for youngest, 20% equities for those already in college.</p> <p>Option 2: 100% equities. Option 3: 70% equities + 30% bonds. Option 4: 45% bonds + 55% money market</p>	\$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
New Jersey	New Jersey's Better Educational Savings Trust	1998	<p>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</p>	\$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 four years and with at least \$1,200 contributions

<http://wikileaks.org/wiki/CRS-RL31214>

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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	one-year waiting period. ^e \$30 annual fee waived for residents, accounts with automatic contributions or a balance of at least \$10,000
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	three-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

<http://wikileaks.org/wiki/CRS-RL31214>

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North Carolina ^d	North Carolina's National College Savings Program	1998 <small>http://wikileaks.org/wiki/CRS-RL31214</small>	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

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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

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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	

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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	<p>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.</p> <p>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</p>	\$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	<p>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</p>	\$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

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Vermont	Vermont Higher Education Savings Plan	1999 <small>http://wikileaks.org/wiki/CRS-RL31214</small>	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)

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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 employer-sponsored plan). \$10 annual fee waived for accounts with automatic contributions or with a balance of at least \$25,000

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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

http://www.collegesavings.org/CRS-RL31214

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- 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.