



**Written Statement of Nancy Lancia,
Managing Director, State Government Relations
on the behalf of the Securities Industry and Financial Markets Association
to the Senate Tax Reform Division of the Senate Tax Committee
SF 1834, College Savings Plan Tax Deduction**

April 2, 2014

Thank you very much for the opportunity to speak today on behalf of the Securities Industry and Financial Markets Association (SIFMA) to express our support of SF 1834. SIFMA strongly believes that SF 1834 will increase Minnesota families' abilities to save for college by providing a tax benefit to encourage college savings. SIFMA represents the shared interests of hundreds of securities firms, banks and asset managers, many of whom have a significant presence in Minnesota. Many of our members provide various services to college savings 529 plans, including advisory services, investment opportunities, and plan recordkeeping.

By providing a tax deduction to Minnesotans for any qualified college savings 529 plan, families will benefit from being able to save more for college and to choose the plan that is right for them. Just as there are many factors that go into selecting a college, so too are there with picking an investment advisor and strategy. Whether it be the direct-sold state-sponsored plan or an advisor-sold plan (in-state or out-), increased competition allows a family to potentially have a higher return on their investment.

As you know, earnings on most other college investment options, such as stocks, CDs, or mutual funds, are taxed at the investor's rate. A parent putting money away for college in one of these vehicles might have to give roughly 30% of any earnings back to the federal government in taxes. If, instead, the parent puts college savings money into a 529 plan, any earnings accrued are free from federal tax so long as those earnings are used for qualified education expenses.¹ This is a huge benefit, which effectively and dramatically increases the rate of return on the investment and results in more money to pay tuition and costs. An additionally meaningful benefit would be available upon enacting that 529 earnings were likewise not taxed at the state level.

¹As initially conceived, 529 plan earnings were taxed not at the parent/investor's rate but rather at the presumably lower tax rate of the child/beneficiary. The federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 made earnings on 529 plans free from federal tax.

College costs continue to rise well above the inflation rate. In their annual “Trends in College Pricing” study², the College Board (the organization that administers the SAT) estimates the average annual costs including tuition, fees, and room & board in 2013-2014 to be \$18,391 for attending a public four-year institution in-state, \$31,701 for attending a public four-year out-of-state institution, and \$40,917 for nonprofit four-year private institutions. Average published tuition and fee costs at public four-year colleges and universities increased by 19% beyond the rate of inflation over the five years from 2003-04 to 2008-09, and by another 27% between 2008-09 and 2013-14. Clearly there is a stark mismatch between how much families are able to put in their general savings and higher education inflation. The national personal saving rate -- personal saving as a percentage of disposable personal income -- was 3.9% in December 2013³. This figure encompasses all types of savings, so any amount a family puts aside for college education is likely falling far short of what they would need.

Another benefit of enhanced support for college savings: Minnesota benefits long-term by ensuring more adults are college graduates. A different College Board study,⁴ “The Benefits of Higher Education for Individuals and Society,” it is concluded that, “[f]ederal, state, and local governments enjoy increased tax revenues from college graduates and spend less on income support programs for them, providing a direct financial return on investments in postsecondary education.”

SF 1834 supports increased college savings for Minnesotans and will help to ensure that more students could become college graduates. We thank you for your leadership on this issue and your sponsorship of this important legislation.

² <https://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report-140108.pdf>

³ <http://www.bea.gov/newsreleases/national/pi/2014/pdf/pi1213.pdf>

⁴ <https://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report.pdf>