sifma
Invested in America

May 13, 2016

The Honorable Kevin McCarty
California State Assembly
915 L Street, Suite 110
Sacramento, CA 95814

RE: A. 2726 (MCCARTY)
An Act to Add and Repeal Sec. 17053 of the Revenue and Taxation Code

Dear Assemblymember Kevin McCarty:

The Securities Industry and Financial Markets Association ("SIFMA") strongly opposes A. 2726 for this legislation would eliminate investment choice, restrict the current tax deduction for college savings, and discourage many families from saving for ever-increasing college costs. This bill, as introduced, would allow tax credit in an amount equal to 20% of the monetary contributions made to one or more Scholarshare accounts by a qualified taxpayer during the taxable year, not to exceed $500. While SIFMA applauds the bill sponsors for looking at ways to encourage residents to save for college, we strongly believe that California residents would substantially benefit from an amendment which enabled them to claim the deduction if they contributed to the California plan or to any other qualified 529 plan. We appreciate your willingness to consider our concerns.

Saving for your children's college education can be a daunting task. The College Board reports that the current price tag for one year of undergraduate education (tuition, room and board) at a four year public in-state institution is $18,943 and the price tag for one year at a private institution is $42,419. When grant aid and tax benefits are factored in, the average net cost per student for the 2014-2015 academic year is expected to be $12,830 for four year public institutions and $23,550 for four year private institutions. [1]

Further, college costs are only rising. Over the last decade, the inflation adjusted price for tuition and fees increased by 42% at four-year public colleges and universities and 24% at four-year private colleges and universities.[2] Moreover, college costs have outpaced inflation every year since the early 1980s[3] – sometimes reaching as high as 9.5% beyond the inflation rate.[4]

Paying for college requires extensive planning and saving. Many entities, including Kiplinger's and savingforcollege.com, believe that 529 plans are the best college savings vehicle. A major reason why these plans are so attractive is that the Economic Growth and Tax Relief Reconciliation Act of 2001 makes earnings on 529 plans free from federal tax so long as they are used for qualified education expenses. In addition, most states – including California – have followed the federal government's lead and don't tax 529 earnings.

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[1] http://trends.collegeboard.org/sites/default/files/2014-trends-college-pricing-final-web.pdf at pages 3 and 10.
[2] See College Board report linked above at page 7.
[3] Bloomberg Business, "College Tuition in the U.S. Again Rises Faster Than Inflation." Nov. 2014. Available at: http://www.bloomberg.com/news/articles/2014-11-13/college-tuition-in-the-u-s-again-rises-faster-than-inflation.
[4] College Board, "Tuition and Fees and Room and Board Over Time, 1974-75 to 2014-15, Selected Years." Available at: http://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-board-time-1974-75-2014-15-selected-years.

SIFMA believes that creating a deduction which applies to all qualified 529 plans is a far better option for state residents than limiting that deduction to contributions to the state sponsored plan. This is true for several reasons. First, extending favorable tax treatment to all 529 plans gives California residents real choice. We want people to pick the 529 plan that is best suited for them. We want them to look at factors such as investment options, risk, manager reputation, expense ratio, and sales load. We do not want preferential tax status to be the sole or primary reason people select a particular 529 plan.
Second, creating a tax deduction for all qualified 529 plans encourages competition among plans. When the tax playing field is level, 529 plans will compete for business based on factors such as plan.

While A. 2726 creates a generous tax credit for contributions to the state sponsored 529 plan, simply ensuring that individuals have access to a 529 college savings plan is insufficient. It is important that state residents have access to the *right* 529 college savings plan. In preparing for the significant expenditures of higher education, families should be encouraged to choose the 529 plan that best suits their investment needs, taking into account such factors as investment options, risk tolerance, rate of return on investment, and the assistance of a trusted financial professional.

As you undoubtedly know, an educated population provides tremendous benefits to the state. According to a recent study done by the Pew Research Center, young adults with a high school diploma earned on average only 62% of the salary of college graduates.[5] In addition, a College Board report entitled "Education Pays 2013" concluded that college graduates have substantially higher median incomes than their high school counterparts and are more likely to receive health insurance and pension benefits. They also are healthier, have lower levels of unemployment, and are significantly less likely to receive public assistance.[6]

Please feel free to contact me at 212-313-1311 or my lobbyist, Joanne Bettencourt, at 916-447-8229 if you have any questions.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director and Associate General Counsel
State Government Affairs

Cc: Members, Assembly Budget Subcommittee on Education

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[5] http://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/
[6] https://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report.pdf