



Memorandum in Support (with Amendments)

June 16, 2015

House Ways and Means Committee

SB 6 (Jones, Eklund): Income tax deduction for college savings-increase maximum amount /
Joint Committee on College Affordability

The Securities Industry and Financial Markets Association¹ (SIFMA) brings together the shared interests of hundreds of broker-dealers, banks and asset managers. Currently, SB 6 would increase the maximum state income tax deduction for contributions to a college savings programs created under Chapter 3334 of Ohio's Revised Code. SIFMA strongly believes that such savings incentives are vital to ensure that every young Ohioan is able to receive a quality education, and that providing savers the ability to choose the best-fitting college savings plan is a key component of these efforts. As such, we would like to request the consideration of the following language, to be included after "Chapter 3334 of the Revised Code" on page 1, line 14:

"... or to any qualified tuition program as provided in section 529(b)(1) of the Internal Revenue Code of 1986, as amended ..."

This would permit the state tax deduction for college savings plan contributions to apply to all Ohioans, regardless of which 529 plan they choose to utilize in saving for future education costs.

Because college tuition costs continue to escalate at a rate far outpacing inflation, more families will need to invest in savings plans to cover the increased costs. Moreover, such costs are expected to continue to grow. College costs have outpaced inflation every year since the early 1980s² – sometimes reaching as high as 9.5% beyond the rate of inflation.³

As the cost of education grows, so does the importance of 529 college savings plans and Ohio's need to encourage growth in personal education savings as well. By increasing the maximum deductible contribution and applying it to all Ohio college savers regardless of their specific investment choice,

¹ SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over \$2.4 trillion for businesses and municipalities in the U.S., serving retail clients with over \$16 trillion in assets and managing more than \$62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA has offices in New York and Washington, D.C. For more information, visit <http://www.sifma.org>.

² 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>.

³ 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>.

Ohio will take a strong step towards ensuring a bright future for the state and its residents, which will provide tremendous social benefits to the state of Ohio, as well as individual graduates. According to a recent Pew Research Study, young adults with a high school diploma earned an average of only 62% of the salary of college graduates.⁴ Further, a College Board report 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 (and therefore produce higher tax revenues for federal, state, and local governments). They also tend to be healthier, have lower levels of unemployment, and are significantly less likely to receive public assistance –factors which all provide significant fiscal advantages for the state.⁵

However, simply ensuring that individuals have access to a 529 college savings plan is insufficient; it is important that Ohioans are provided access to the *right* 529 college savings plan. In preparing for the significant expenditures of higher education, families benefit from the ability to choose the plan that fits their particular needs. 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 is an in-state plan or another option that best suits the family’s needs, increased choices and competition allow a family to have a potentially more effective return on their investment, given considerations such as their ability to contribute, their investment time horizon, or the fees associated with the plan. As such, it is important that Ohio college savers are able to choose the investment option that is right for them based on these and other considerations taken together, and have the same state tax treatment of their college savings contributions as their neighbor who makes a different choice in their 529 college savings plan.

Further, providing for investor choice would be unlikely to significantly affect the state’s revenue. Primarily, the requested change would simply allow savers the ability to enter into the most effective and efficient plan for a family in their particular circumstances. Moreover, by including the requested tax parity amendment, Ohio would be a part of a growing movement – roughly **1/3** of states that offer a tax deduction for college savings either provide or are legislatively considering an income tax deduction for contributions to any qualified 529 plan. States providing tax fairness for college savers include, but are not limited to, **Pennsylvania, Missouri and Arizona**. In fact, not only did Arizona implement a 529 tax parity deduction, but found it so successful that the state more than doubled the deduction’s limit to further spur education-related savings.

The *most important point* is that tax parity allows savers putting money away in a qualified 529 college savings plan to receive a state tax deduction or credit, regardless of which investment plan choice they make. This avoids neighbors who choose different 529 plans from being treated differently by their own state for choosing the plan that is best tailored to their particular needs.

Thank you for your time and consideration. If you have any questions, would like any additional information, or if you would like to speak with someone on this issue, please contact our Columbus counsel, Tony Fiore of Kegler Brown Hill + Ritter, at 614-462-5428, or SIFMA’s Marin Gibson at 212-313-1317.

⁴ Pew Research Center, “The Rising Cost of Not Going to College.” Feb. 2014. Available at: <http://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/>.

⁵ College Board, “Education Pays 2013: The Benefits of Higher Education for Individuals and Society.” Available at: <https://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report.pdf>.