Wi$e Up Teleconference Call
July 31, 2007
Paying for Higher Education and Repaying Student Loans
Speaker 2 – Maureen O’Brien

Jane Walstedt: Now, I would like to turn the floor over to Cynthia Dawkins, a member of the Women’s Bureau National Office team that plans the Wi$e Up teleconference calls, to introduce our second speaker.

Cynthia--

Cynthia Dawkins: Thank you, Jane.

Maureen O'Brien is currently the Deputy Director and Director of Marketing for the Ohio Tuition Trust Authority.

The Tuition Trust is a State agency which offers Ohio’s 529 college savings plan. Ohio’s 529 plan is one of the largest in the country, with over $6.4 billion in total assets and over 750,000 accounts.

Ms. O'Brien has been with the agency since 1990 and has over 20 years of experience working in public relations and marketing for non-profit organizations and corporations.

She earned her Marketing degree from Otterbein College. She is an active member of the American Marketing Association and is the chair for the College Savings Plans Network’s (CSPN) national marketing committee. CSPN is the national association for state 529 college savings plans.

Welcome, Maureen.

Maureen O'Brien: Great.

Thank you, Cynthia.

And it is then my role today with the College Savings Plans Network that's brought me to this call and to really give you a ten-minute or less crash course on 529 plans.

Some of the topics that we'd like to cover are the basics--what are 529 plans?, why 529?, why did they call them that?, some of the advantages, and then, most importantly, steps that you can take to quickly and easily get started.

529 plans are tax-advantaged college savings programs, and they were created--administered by states--as really a public policy initiative to encourage early saving for higher education. They've been around since the early 1990s, and the name 529 actually comes from the tax code, named after Section 529 of the Internal Revenue Code, and this is the section of the tax code which defines the tax treatment and various other rules and regulations of the plan.

529 plans do offer significant tax benefits, which is one of the key reasons these plans have become one of the most popular ways for families to save for college.

Currently, there is about $110 billion that has been invested in these plans on behalf of about nine million beneficiaries across the country. There are basically two types of 529 plans -- prepaid and savings.

The prepaid plans are offered in 18 states, and this is where they allow families to…basically you can pre-purchase tuition based on today's rates. And then they are…the monies are then paid out at the future cost of tuition when the beneficiary is ready for college. So, essentially, the performance of the fund is based on the rising cost of tuition or tuition inflation.

These prepaid plans are basically administered by States or they can also be administered by higher education institutions, and, in fact, there is a consortium of very high profile, higher expense private colleges that offer prepaid plans. So in addition to States, some schools do offer them as well.

But most of these--of the prepaid plans--do limit participation in the plan to the residents of their state; however, most states do let you use your funds at any college in the country, so you're not usually locked into the State or the public school.

But I would encourage you to check to see if your State offers a prepaid plan. They can be a good deal, but be sure to check out all the details and make sure it offers you the flexibility that you're looking for.

The most common type of 529 plans are the savings plans, and that's the type of plan we're going to focus most of our time on today. The savings plans differ from the prepaid [plans] in that your earnings are based more on the market performance of the underlying investments, which are typically stock and bond mutual funds.

The savings plans are…pretty much every state in the country offers a savings plan. There are two exceptions. Wyoming just consolidated its plan with Colorado, and Tennessee is in the process of consolidating with Georgia, but pretty much every State, including the District of Columbia, offers its own 529 plan, and again, each state is going to have its own set of benefits and investment options that all are a little bit different.

529 accounts when they're set up, they're set up for designated beneficiaries, and this is usually a child or grandchild, and usually the parent or grandparent is the account owner, and the account owner controls…has complete control over how the funds are used. Really, anyone though could open the account--an aunt, an uncle, a friend of the beneficiary.

There are no income restrictions for the account owner, and the beneficiary can be of any age. You could open an account for yourself, list yourself as the account owner, list yourself as the beneficiary, and you could save for your own education down the road.

Most of these state plans do allow investors from outside of their states to participate; however, there are significant state tax advantages for investors within their own home state plan.

So a good idea when looking at 529 plans is to take a look at your home state plan first. We'll talk a little bit more later about how you might want to… how to go about looking at 529 plans and how to choose a plan.

But I think first let me add a few more highlights on the features and benefits of the 529 plans, and I'll kind of go through this quickly so we can get to our other speaker too, and we can certainly go through a lot more detail in the Q&A section.

As I said, one of the main benefits of 529 plans are the tax benefits. All money grows federal and state income tax free while you're investing the money. Withdrawals--when they're used to pay for what's called qualified higher education expenses--those are exempt - the earnings are exempt from federal income tax. And many or most states also exempt their earnings from state income tax for qualified expenses.

So essentially 529 plans are a tax-free way to save for college, which is a great benefit. Now if the funds are not used for college, then the earnings are taxable and you do pay a 10% federal tax penalty on the earnings.

So, again, really important that you have a good, clear idea what you want to use this money for down the road.

There's a whole host of expenses that qualify to…in order to get the tax advantages. Obviously, tuition would be one of them, and that's tuition at any school-state, public, private, two-year, four-year, undergrad, graduate. The 529s can also be used to pay for any sort of miscellaneous fees, room and board expenses, books, supplies, required equipment. If a computer is required, it would pay for that expense as well.

So a lot of flexibility in terms of how the funds can be used, and where any accredited college qualifies for 529 tax benefits, then that really is pretty much any college.

The qualifier is that the school qualifies for federal financial aid, but usually most of your very reputable schools will qualify for this.

Now states have a way to really encourage families to start saving for college. Not only do they exempt earnings from income tax, but they'll also offer a very generous state tax deduction for the amount that you contribute. So some deductions can be very generous and be unlimited and/or as little as $2000 a year, which is still pretty generous.

So there are some really nice additional state tax incentives that the states offer to encourage families to save and, again, kind of the public policy point behind it is that they want to encourage families to save enough so they do not have to rely as much on student loans or even some of the state and federal aid that can be very difficult to come by sometimes.

In addition to the state tax advantages, states also offer other incentives, such as a matching program that might be based on income. Lower- income families could qualify. If you put $15 in, the state may match at $15 as well. That's becoming a very popular feature among 529 plans.

States may also offer protection from creditors [and] exemption from state financial aid calculations, so, you know, again, we'll probably repeat those a few times. The best place to start when looking at a 529 plan is to look at your own state first, because it could potentially really provide you with some great benefits.

The 529…we have offered a lot of additional features besides tax [breaks] and some state benefits. One [that] I think is very important is control over the account.

The account owner--whether it's the mom, the dad, the grandparent, aunt, uncle, or friend--they are the person who decides how that money is used. So it's complete control no matter what age the beneficiary is. Even when they're [the child is] 19 or 20, the account owner has complete control over the fund.

The account owner can also choose to change the beneficiary, which gives a lot of flexibility for the family.

Just a few more benefits. I think we're doing okay on time so far. The plans can be very affordable to participate in, and most plans offer [allow] very low minimum amounts to be contributed initially. Some are as little as $15. Many states have arrangements with larger companies and state organizations to offer payroll deduction as a very convenient way to contribute - automatic transfers from bank accounts and even online contributions.

The 529 plans are also a lot like your 401(k) plan that you might be very familiar with or whatever government organization you might work for. Everyone has a 401(k) type of a plan [if their employer offers one. Most large employers offer one, according to *Savings Fitness: A Guide to Your Money and Your Financial Future*, p. 21, U.S. Department of Labor, Employee Benefits Security Administration, www.dol.gov/ebsa/pdf/savingsfitness.pdf]. And they're similar in that they offer a nice variety of investment options.

Just about all of the leading financial institutions are involved in 529 plans. Some that you're very familiar with may be investing with it already, such as the Vanguard Group, Fidelity, T. Rowe Price, American Funds, Oppenheimer. Some of the mutual fund families are very actively involved in the 529 plans in terms of the development and the investment options and the structure of the plans.

One of the most common types of investment options that are offered in the 529 plans are really a great way to save, and those are the age-based investment options. And this is where the underlying investments are based on the age of your child, and it kind of goes along with one standard investment philosophy, which is the longer the time that you have [until you need the money], the more investment **risk** you can take.

So the younger your child, the more aggressively the fund would be invested in stock mutual funds. In fact, for a newborn the allocation of the funds might be more like 100% in equities. But then each year, even in shorter intervals, as your child ages, the fund is going to progressively become more and more conservative, to the point that by when they're college age they will be primarily invested and maybe mostly [invested] in bond funds or money market funds. But the nice part is [that] over the course of the 18, 15, 10 years, the money is just being automatically shifted for you, which is a great simple way to invest for college.

Jane Walstedt: Maureen, let me just give you a time check. Maybe you could tell us about the steps you can take to get started.

Maureen O'Brien: Great. Thank you very much.

Jane Walstedt: Sure.

Maureen O'Brien: Real quickly, the steps to take… Just like Pam before…there are some really good Web sites that I would recommend to help you get started. And one of them is www.collegesavings.org, and that's the Web site of our national association, and it's a non-profit, non-commercial site that provides links to all the state plans. And it also allows you an opportunity to compare state plans side-by-side. You are not locked into your own state plan. You can look around, decide what features and benefits are important to you, and then choose the plan that meets your criteria. So you're not locked into your state plan, but I do recommend you look at that first and then see what other states have to offer.

There is a commercial site that also I think is very good, and it's called www.SavingforCollege.com. It is a commercial site but it is produced by someone who's a nationally-recognized expert on 529 plans and very well respected in the industry. He kind of does a Consumer Reports type of site where he reviews each state plan and gives kind of a rating. It's just one person's opinion, but it's a good source. So I would check out those two Web sites.

And then I think really list the criteria that are important to you. Do you have favorite fund managers that you have a preference for investing with? Check out what states are working with them. Fees or, you know, do you want something that's very low-cost in terms of the investment fees?

The www.collegesavings.org Web site has a great tool to help you evaluate who's offering what type of plan and at what cost, as well as being able to easily access performance, what states offer the most flexibility, the lowest amount - minimum amounts to put in, and others, you know, are state tax deductions important to you? So all of that that's really filled out on that Web site.

And I guess my final comment to make so we can move along here is that I think no matter how old your children are, whether they're four months or 14, it's really never too early or too late to start saving. And the more that you save, the less you'll have to rely on student loans in the future.

Jane Walstedt: Thank you so much, Maureen. That was very comprehensive and very helpful information.