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Johnson-Endorsed Plan Makes College More Affordable

Bipartisan Bill Makes Tax-Free College Savings Plans Permanent

WASHINGTON, D.C. – Congresswoman Nancy Johnson today joined her colleagues to introduce bipartisan legislation making tax-free 529 college savings plans permanent, preventing huge tax hikes scheduled for 2011 on families using these critical savings tools.

“These plans are making college more affordable for families in Connecticut,” Johnson said. “We cannot allow families to get hit with unanticipated taxes on college savings just when they need them to pay for their children’s tuition. With the rising cost of higher education, we must make these critical savings tools permanent so that college is affordable for every Connecticut family.”

Named for the Internal Revenue Code section, 529 plans allow families to create college savings accounts that can grow in value and are not taxed upon withdrawal as long as the money is used to pay for college expenses.

This important savings program, however, is set to expire on Dec. 31, 2010, unfairly eliminating the tax-free treatment of all the savings withdrawn after that date. This discourages families from using 529 plans to save for college, even subjecting them to unanticipated taxes on college savings.

- **For example**, consider a couple earning a total of \$80,000 a year who began saving \$1,500 each year in a 529 plan when their child was born. Assuming a return of 5 percent, they would have \$48,000 saved for college by the time their son or daughter turns 18 years old. Until 2010, that family can use all \$48,000 to defray college costs. After 2010, they would pay \$12,000 in federal income taxes, shrinking their savings accumulated in their 529 plan by 25 percent.

Today, Johnson joined her colleagues on the Ways and Means Committee, Reps. Melissa Hart (R-PA) and Earl Pomeroy (D-ND), to introduce the “College 529 InvEST (Investment in Education Savings for Tomorrow) Act of 2005.” Johnson, a senior member of the tax-writing Ways and Means Committee, is an original co-sponsor of the measure.

All 50 states and the District of Columbia offer 529 college savings plans. In 1998, Connecticut General Assembly created its own 529 plan, the Connecticut Higher Education Trust (CHET).

Highly rated by experts, CHET has 41,172 participants who have invested over \$562 million to pay for college education. Currently, these families can withdraw these savings tax-free and use them at any college in the country to pay for tuition, fees, room and board.

CHET and other 529 plans are designed for families who are not experienced investors. 529 plans allow participants to select an option or combination of options that best fits their needs and investment philosophy. Most savings plans offer age-based investment options that automatically re-balance assets based on the age of the beneficiary, making it easy for families to save with confidence.

Additionally, the states' oversight role ensures savers receive better pricing and services than they could obtain independently. With CHET, for example, there are no sales charges and no application fees.

American families will save an estimated \$70 to \$100 billion in 529 plans over the next five years. Families deserve the peace of mind of knowing the tax savings these plans deliver will be there for them when they need it, Johnson said.

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