OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

INVESTING FOR THE FUTURE: 529 STATE TUITION SAVINGS PLANS

WEDNESDAY, JUNE 2, 2004

Mr. Chairman, we take great pride in Pennsylvania of reminding others of the many wise observations of Benjamin Franklin. As I prepared for today's hearing, I was accordingly reminded of one of his more insightful reflections: "An investment in knowledge always pays the best interest." This statement is as true today as it was more than 200 years ago, in part because of Section 529 tuition savings plans.

During the last decade, the cost of attending a university has increased 40 percent while the typical household income has increased just 12 percent. Additionally, the average cost of attending a four-year university now stands at $34,000 for state institutions and at $90,000 for private colleges. Moreover, the price tag for a higher education is expected to continue to grow in the future, likely continuing to outstrip any gains in a family's earnings.

Because Democrats and Republicans alike recognize that an investment in higher education continues to produce appreciable returns for individuals and society, we have worked cooperatively in recent years to help families cover this necessary financial expense. In 1996, for example, we joined together to create 529 plans. As a result, families today can use this instrument to set aside money for higher education purposes that grows free of any federal tax.

Section 529 plans have grown greatly in popularity since their inception in the late 1990s, and they are now one of the most common ways to save for a college education. Total assets in 529 plans, which stood at $2.6 billion at the end of 2000, rose to $8.5 billion by the close of 2001. They also doubled in value in 2003, reaching $35 billion and covering more than four million accounts by the year's end. In addition, the experts at the Financial Research Corporation now predict that American families will invest $300 billion in 529 plans by 2010.

The tremendous expansion of the tuition savings plan industry has now produced some predictable growing pains. Although we created 529 plans in the federal tax code in 1996, we did not simultaneously implement a comprehensive regulatory regime to cover this financial product. As a result, some have begun to raise concerns about the need to improve the oversight of this sector of our financial system.

For the purposes of our securities laws, the states generally have oversight responsibilities for Section 529 plans. One problem that has received substantial attention in recent months with respect to 529 plans concerns the disclosures that investors currently receive about the performance of these financial products. As we will hear later this morning, many states have begun to take action on their own to protect investors, including working to develop a model disclosure regime.

National authorities in recent months have also begun to examine 529 plans, which remain subject to federal anti-fraud rules and broker-dealer sales practice requirements. Earlier this year, the Securities and Exchange Commission announced the creation of a task force to study the fee disclosure regime and sale of 529 plans. Additionally, we have learned that the National Association of Securities Dealers is now investigating whether some brokers in selling out-of-state 529 plans ultimately exposed their clients to lower investment returns and higher state taxes.

From my perspective, it is very important to study these issues and for state and federal regulators to take coordinated action to protect the families who invest in 529 plans. Greater standardization in disclosing fees and expenses will facilitate direct comparisons in performance between the various 529 plans across state lines. I am therefore pleased that the College Savings Plans Network has begun the work needed to implement a comprehensive disclosure system that will provide for greater comparability of 529 plans for investors and help to ensure that they have access to the same quality of information as mutual fund investors.

As we proceed today, I hope that we will also examine the interplay between 529 plans and a proposal by the Bush Administration to create Lifetime Savings Accounts. As currently conceived, LSAs would permit individuals to save money tax free for any purpose, including higher education. A recent study by the Senate Finance Committee determined that because LSAs would be more flexible than a 529 account, they "could compete with the tax-favored savings programs for education -- particularly among persons with limited disposable income." We should therefore explore today whether the increased flexibility of LSAs might undermine a family's well-intentioned efforts to save for a child's higher education.

In sum, Mr. Chairman, I commend you for convening today's hearing on 529 plans. We should conduct oversight of this growing segment of our financial marketplace in order to determine how we can make the present regulatory structure stronger. The observations of today's witnesses about these matters will help me in forming my opinions on these issues.