



## **President stirs a hornets nest; Idea to tax college savings plans stings**

**By Mark Fitton**

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SPRINGFIELD — Critics say President Barack Obama’s plan to use new tax dollars to help fund community college tuitions for millions of students would penalize parents who have saved for their own children’s educations.

The president’s plan calls for funding his community college initiative by ending a tax break for 529 college savings plan.

The 529 plans are designed for and used by “middle-income families that can’t afford pay-as-you-go, but who aren’t eligible for need-based aid,” said Betty Lochner, chairwoman of the College Savings Plan Network.

Contributions to a 529 plan are not tax deductible. Withdrawals, however, are tax-free when used for qualified college expenses, including tuition.

Another 529 expert said Obama’s proposal — which might die anyway in a GOP-controlled Congress — would both kill the 529 plans and ultimately not pay for more education.

“That’s because such a tax would cause contributions to 529 plans to simply dry up,” wrote Joseph Hurley of [saveforcollege.com](http://saveforcollege.com). “Americans won’t put assets in a 529 plan if it were taxable. There can be no tax revenues when there are no assets to be taxed.”

The 529 plans, which are named for their spot in the federal tax code, are popular nationally and in Illinois.

Illinois has 385,000 Bright Start or Bright Directions (529) accounts with a total value of \$7.17 billion, said Gregg Rivara, spokesman for Illinois Treasurer Michael Frerichs, who administers the program.

“Obviously education is the best predictor of employability and an educated workforce is necessary for economic growth, and that is why Treasurer Frerichs is a strong proponent of empowering families to save for college,” said Rivara.

The state has a 529 prepaid college savings plan called College Illinois! available through an agency answerable to the governor, the Illinois Student Assistance Commission.

As of the end of June 2014, it had assets of \$1.17 billion and about 45,800 participants.

Neither Rivara nor a spokesman for Gov. Bruce Rauner addressed how their respective state officials stand on President Obama’s proposal.

Nationally, there were more than 12 million accounts and about \$245 billion under plan management as of June 2014. The average account size is about \$20,700, according to the College Saving Plan Network, which is allied with a national state treasurers’ organization.

Lochner points to the average fund balance, as one indicator the 529 plans are not a tax haven for the wealthy.

“That’s not enough a year of college in most places,” she said.

But not everyone agrees.

“It’s kind of just a cash giveaway to upper-income folks,” Mark Huelsman, a senior policy analyst at the think tank Demos, told the Washington Post. “The president, both from a policy and a political perspective, sees something like that and says why don’t we use some of that to pay for the cost of college up front.”

Some conservatives suggest the president’s plan amounts to a blatant redistribution of wealth.

Said Nicole Kaeding of the Cato Institute, “What he (the president) is saying is, ‘The way we are going to provide free college tuition for millions of people is by taxing the middle-class Americans who have actually been saving for their children’s education.’”

Lochner said she finds disturbing and divisive the idea of trying divide the middle class by arbitrary income levels and then saying who does or does not need or deserve 529 programs.

“It’s the wrong question,” she said. “Everyone — everyone — should have the opportunity to save money for college.”