529 college investment plan to remain tax-free for good

Contributed by Alex Masurovsky, Tufts Daily (Tufts U)

(U-WIRE) MEDFORD, Mass. - The 529 investment plan, families' weapon of choice for battling college costs, is here to stay.

The 2006 Pension Protection Act, signed into law by President George W. Bush last month, includes provisions ensuring that withdrawals from 529 college investment plans will not be taxed by the federal government.

The 529 plans were until this point fated by "sunset provisions" to lose tax-free status in the year 2010.

Under 529 plans, parents permit the government to entrust their funds with private investment companies, who in turn invest the money in securities. Smart investments on this scale help families grow college funds.

The 529 plans, named for the IRS code that created them, are sponsored by 49 states and the District of Columbia. The plans differ from state to state. Some states offer in-state tax benefits, and each state can offer a variety of different 529 plans with the constant condition that money withdrawn from these accounts cannot be federally taxed if it is to be used to pay for higher education.

State governments do not directly manage 529 plans, but rather work through investment companies such as Upromise Investments. Upromise Investments administers 12 529 plans to seven states.

The plans generally invest in "securities": Stocks and bonds. These investments, though generally stable, are not entirely risk-free.

Liz Kennedy of Upromise Investment's media relations, said that bank accounts gain "minimal interest." Securities, on the other hand, can claim an average return of 8 percent.

Today, families have over $77 billion invested in 529 plans nationwide, according to the Howstuffworks Web site.

For prospective students, 529 plans have little impact on financial aid eligibility, according to Patricia Reilly, Director of Tufts University Financial Aid and Co-Manager of Student Financial Services.

"Families should be aware that saving for college will have only a small [negative] impact on their financial aid eligibility, but will have a major impact on the family's ability to pay for college," she wrote in an e-mail to the Daily.

"If a family has substantial savings, they may get less financial aid," she said. "In most cases, the small decrease in aid is more than made up for by the additional assets available to help pay college costs."

The beneficiary never claims control of the account, to keep would-be college students from running off with the money. The account can be opened for anyone, by anyone. Each beneficiary can invest a large sum of money, usually up to $250,000, and in some cases more. There is no minimum income a beneficiary must make, and monthly deposits can be as low as $25 to $50.

James J. Fadule, President of Upromise Investments, said in a press release that "[the 2006 Pension Protection Act] is a great example of public policy helping to cement long-term savings incentives for Americans."

Senate Finance Chairman Chuck Grassley (R-Iowa) and Senator Max Baucus (D-Mont.) sponsored the Pension Protection Act of 2006.