Proponent Testimony on HB 193

Before the

House Ways and Means Committee

By the

Securities Industry and Financial Markets Association (SIFMA)

On

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Chairman Merrin, Vice Chair LaRe, Ranking member Rogers and members of the House Ways and Means Committee, thank you for the opportunity to provide proponent testimony on HB 193, jointly sponsored by Rep. Scherer (R) and Rep. Patterson (D).

My name is Tony Fiore and I serve as legislative counsel for the Securities Industry and Financial Markets Association[1] (SIFMA) in Ohio. SIFMA brings together the shared interests of hundreds of broker-dealers, banks and asset managers.

What does HB 193 do?

Current Ohio law provides up to a $4,000 deduction from state income tax per child each year for higher education savings, but this is limited to investing in Ohio's plan also known as Ohio's 529 College Advantage. HB 193 would simply permit the state tax deduction for college savings plan contributions to apply to all Ohioans, regardless of which 529 plan they choose to utilize in saving for their family's future education costs.

Why are additional options for college savings important?

SIFMA strongly believes that such savings incentives are vital to ensure that every young Ohioan is able to receive a quality education, and that providing savers the ability to choose the best-fitting college savings plan is a key component of these efforts.

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

Because college tuition costs continue to escalate at a rate far outpacing inflation, more families will need to invest in savings plans to cover the increased costs. Such costs are expected to continue to grow at an accelerated pace. College costs have outpaced inflation every year since the early 1980s[2] – sometimes reaching as high as 9.5% above the rate of inflation.[3] In fact, in the last 5 years, tuitions and fees have risen by 7% for a public four-year program (and 33% since 2004) and 10% at private non-profit four-year programs (and 26% since 2004), adjusted for inflation.[4]

Given this rapid increase in cost, recent data from the U.S. Department of Education notes that over 67% of students rely on some type of loans to pay for college.[5] 529 College Savings Plans are proven to be one of the most effective ways to minimize college costs. According to research by T. Rowe Price, $23,000 in 529 savings over 18 years would cover $51,000 in college and loan costs. To put this another way, 529 savings plans give investors a choice. When faced with $40,000 in college costs, Ohioans can either: 1) save $105 per month for 18 years before college; or 2) pay $424 per month for 10 years after college.[6]

With Ohio's strong tradition of leadership in providing high-quality higher education, it is important to continue to encourage growth in personal education savings. By applying the maximum deductible contribution to all Ohio college savers regardless of their specific investment choice, Ohio will take a strong step towards ensuring a bright future for the state and its residents, and will provide tremendous social benefits to both the state of Ohio and individual graduates. According to a Pew Research Study, young adults with a high school diploma earned an average of only 62% of the salary of college graduates.[7] Further, a College Board report concluded that college graduates have substantially higher median incomes than their high school counterparts and are more likely to receive health insurance and pension benefits (and therefore produce higher tax revenues for federal, state, and local governments). They also tend to be healthier, have lower levels of unemployment, and are significantly less likely to receive public assistance – factors which all provide significant fiscal advantages for the state.[8]

However, simply ensuring that individuals have access to a 529 College Savings Plan is insufficient; it is important that Ohioans are provided access to the *right* 529 College Savings Plan. In preparing for the significant expenditures of higher education, families benefit from the ability to choose the plan that fits their particular needs. Just as there are many factors that go into selecting a college, there are a wide variety of considerations when picking an investment advisor and strategy. Whether it is an in-state plan or another option that best suits the family's needs, increased choices and competition allow a family to have a potentially more effective return on their investment – particularly given considerations such as their ability to contribute, their investment time horizon, or the fees associated with the plan. As such, it is important that Ohio college savers are able to choose the investment option that is right for them based on all the considerations, and have access to the same

[2] Bloomberg Business, "College Tuition in the U.S. Again Rises Faster Than Inflation." Nov. 2014.
[3] College Board, "Tuition and Fees and Room and Board OverTime, 1974-75 to 2018-19, Selected Years."
[4] Id. *See also*, U.S. Department of Education, "Digest of Education Statistics," 2015 (NCES 2016-014).
[5] Thomas D. Snyder et al, "Digest of Education Statistics 2015, 723," (Department of Education, 51st edition).
[6] T. Rowe Price Investor Magazine, Fall 2016 Edition.
[7] Pew Research Center, "The Rising Cost of Not Going to College." Feb. 2014.
[8] College Board, "Education Pays 2013: The Benefits of Higher Education for Individuals and Society."

state tax treatment for their contributions as their neighbor who makes a different choice in their 529 College Savings Plan.

Options for Families Moving to Ohio

Tax parity would not only simplify savers decisions when choosing the best 529 plan for their needs, but it would also ensure that households with existing plans in other states are encouraged to continue saving when they move to Ohio. With roughly 2,000 households moving into the state each year since 2007,[9] it is vital that new Ohioans continue to save for college. Without tax parity, new residents are faced with a decision: close their existing account, maintain their existing account but discontinue contributions, or continue to make contributions while sacrificing the tax benefit (which is a notable disincentive to saving).[10]

Further, providing for investor choice would be unlikely to significantly affect the state's revenue. Primarily, the requested change would simply allow savers the ability to choose the most effective and efficient plan for a family in their particular circumstances. Moreover, by including the requested tax parity amendment, Ohio would be a part of a growing movement – roughly **1/3** of states that offer a tax deduction for college savings either provide, or have recently considered, an income tax deduction for contributions to any qualified 529 plan. States providing tax fairness for college savers include, but are not limited to, **Pennsylvania, Missouri**, **Arizona and Minnesota**. In fact, not only did Arizona implement a 529 tax parity deduction, but the state found it so successful that the state more than doubled the deduction's amount to further spur education-related savings. Moreover, Minnesota chose to enact 529 tax parity within the last two years.

It is also important to note that, because funds from any 529 College Savings Plan can be used at any school, implementing parity would in no way impact a student's decision to attend an Ohio college or university.

Conclusion

The *most important point* is that tax parity allows savers putting money away in a qualified 529 College Savings Plan to receive a state tax deduction or credit, regardless of which investment plan choice they make. This ensures that neighbors who choose different 529 plans based on their particular needs are treated equally by their state.

Mr. Chairman, thank you for the opportunity to provide proponent testimony on HB 193 to the committee. I would be happy to answer any questions.

[9] Atlas Van Lines, "Migration Patterns."
[10] Flynn, Katherine, "Tapping your 529 Plan to Pay Bills," SavingForCollege.com, (October 10, 2015).