

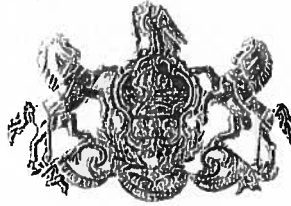
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APR 18 2011

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Senate of Pennsylvania

**MEMORANDUM**

To: All Senators

From: Senator Jake Corman 

Date: April 15, 2011

RE: **Co-sponsorship Memo # 15** – Strengthening PA TAP 529 Guaranteed Savings Plan

In the near future, I plan to introduce legislation to strengthen the Pennsylvania 529 Tuition Account Program (TAP) by backing the Guaranteed Savings Plan (GSP) with the Commonwealth's full faith and credit and limiting the tax incentives to the Pennsylvania 529 only.

The Pennsylvania 529 college savings program provides a valuable opportunity for families to invest towards their children's and grandchildren's higher education future. TAP is a tax-advantaged investment plan designed to encourage saving for the future higher education expense of a designated beneficiary. TAP is free of all federal, Pennsylvania state and local taxes, and the plans do not affect a student's eligibility for state financial aid.

Sponsored by the Commonwealth and administered by the state Treasury Department, Pennsylvania currently offers two 529 savings options: The Pennsylvania 529 GSP, which is tied to the rate of college tuition inflation; and, the Pennsylvania 529 Investment Plan (IP), which is tied to the market and allows an investor to choose from investment options provided by Vanguard.

Known as the original TAP plan, the GSP guarantees that your account value will grow in step with rising college tuition costs. The GSP is designed to protect principle investment from market fluctuations while keeping pace with tuition inflation. The "guarantee," however, is backed only by the GSP Fund itself and not the Commonwealth.

The lack of any explicit support from the Commonwealth, coupled with the absence of any provision in the TAP statute regarding what would happen in the unlikely event that the GSP would not be able to meet all of its obligations, results in uncertainty about the Plan. I believe that this uncertainty is impeding the Plan's effectiveness in reaching more Pennsylvania families and carrying out the public policy intent of the program. The GSP is established by state law, is promoted by some members of the General Assembly and state agencies, is administered by a state agency, and is named in statute as the Guaranteed Savings Plan. For these reasons, there is a strong impression that the GSP is truly backed by the Commonwealth.

In order to protect the long-term viability of the GSP, placing the Commonwealth's financial backing behind the plan will bring more money into the account, allowing for a more secure growth and funding capability. Five states currently offer 529 program benefits backed by the full faith and credit of the state, including Florida, Massachusetts, Mississippi, Texas and Washington.

The Pennsylvania TAP 529 plans also encourage families to save for college by providing a tax incentive. Thirty-five states provide a tax incentive, but Pennsylvania is one of only five states that provide a tax deduction for contributions made to any 529 program. We are the only large state that allows for an in-state tax deduction for contributions made to an out-of-state program, and, among the five, we have the most generous deduction.

Based on data from the Pennsylvania Department of Revenue, Treasury estimates that since 2006, when tax parity went into effect, through 2009, nearly \$600 million in contributions have been lost to out-of-state 529 programs. As a result of this tax situation, Pennsylvanians are, in effect, subsidizing other states' 529 programs and reducing the effectiveness of the Commonwealth's own 529 program. In order to strengthen the fiscal soundness of the TAP, I am introducing legislation to limit the current Pennsylvania income tax deduction for contributions made into any 529 program only to Pennsylvania's program.

The legislation I will introduce includes: (2 Separate Bills)

- 1.) Placing the Commonwealth full faith and credit behind the TAP Guaranteed Savings Program
- 2.) Limiting the current PA income tax deduction for contributions made only to the PA program

If you have any questions with regard to the legislation above, please contact Scott Sikorski in my office at 787-1377.

If you would like to cosponsor this legislation, please contact Kristi Kreiser in my office at 787-1378 or by email at [kkreiser@pasen.gov](mailto:kkreiser@pasen.gov).