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SUBJECT: An Overview and Comparison of 529 College Savings Plans

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INTRODUCTION

Currently offered by the District of Columbia and 49 states including Georgia, 529 college savings plans encourage families to save for future higher education expenses through various tax advantages. This memo provides a brief overview of the common features and eligibility requirements of 529 plans, officially named Qualified Tuition Programs by section 529 of the Internal Revenue Code. While features of these plans are governed by federal mandates, individual state plans may have additional rules and incentives, including matching grants. This memo provides an overview of 529 plans and outlines the characteristics of 10 states' matching grants, which are generally provided as an incentive for lower-to-moderate income residents to contribute to a college savings plan. Due to the limited number of studies of 529 plans available, this memo does not include findings of the optimum features and requirements of a matching grant program.

529 COLLEGE SAVINGS PLANS AND ELIGIBILITY REQUIREMENTS

529 college savings plans come in two forms—savings and prepaid plans.

- *Savings Plans:* Owners of savings plans establish accounts for a student beneficiary from which contributions and earnings may be withdrawn for future qualified higher education expenses. Investments in these plans are subject to market risk for the selected investment portfolio, and thus there is no guarantee that the balance of the account will be maintained (unless a guaranteed investment option is offered in the plan). Forty-eight states sponsor one or more savings plans. The state of Georgia sponsors this type of plan.
- *Prepaid plans,* currently offered by 12 states, allow account owners to purchase units (or credits) for a beneficiary that are redeemable for future tuition, and possibly other qualified expenses. The cost of tuition is guaranteed at the current market rates indicated in the plan. Unlike 529 savings plans, funds in prepaid plans must be used at colleges and universities within the state sponsoring the plan.

