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College Savings Plans Network Quashes Myths and Encourages Families to Plan Ahead on “529 College Savings Day”

LEXINGTON, Ky. (May 24, 2010) – When it comes to saving for college, many parents and families don’t know where to start—and when they do, they can be quickly overwhelmed with conflicting or misleading information. On May 29, the College Savings Plans Network (CSPN), a non-profit association that advocates for 529 college savings plans, will sponsor “529 College Savings Day” to combat misinformation in the market and educate families about the importance of saving for college.

“During the confusion of the financial crisis and the fallout that ensued, many myths were circulated about consumers’ investment options, including 529 plans,” said Joan Marshall, Chair of CSPN and Executive Director of the College Savings Plans of Maryland. “The truth is, 529 plans are convenient, tax-advantaged ways that families of all income levels can plan ahead to pay for college. On May 29, we encourage parents, grandparents, family members and friends to learn the facts about this important savings vehicle and make a plan to make their higher education dreams a reality.”

Top 10 Myths About 529 Plans

1. MYTH: 529 plans are only for wealthy investors.

FACT: 529 plans have much lower required minimum contribution amounts than many other investments, making them accessible and convenient for families of any income level. Families can usually start a plan with as little as \$15 to \$25 per month.

2. MYTH: I can just take out loans to pay for college, or my child will get financial aid.

FACT: Approximately 60 percent of federal financial aid comes in the form of student loans, and all loans represent debt that a family must incur. Any savings, even in small increments, that a family can put away will offset the final amount of debt it must take on to pay for college.

3. MYTH: Due to the recession and state budget gaps, investors in prepaid 529 plans have lost all of their investment.

FACT: There are currently 13 states that offer a Prepaid Tuition or Guaranteed Savings Plan that allow for the pre-purchase of tuition based on today's rates to be paid out at the future cost when the beneficiary is in college. While some states needed to rectify budget gaps created by the recent financial crisis, to date, a prepaid tuition plan has never run out of money to pay back investors.

4. MYTH: 529 plans are only for young children.

FACT: There is no maximum age for a 529 plan. Assets may be used at eligible schools offering adult career training or advanced degrees, including part-time programs.

5. MYTH: If I save now, my child won't be eligible to receive as much financial aid later.

FACT: The Deficit Reduction Act of 2005 specifies that funds saved in 529 plans are generally considered to be parental assets, which means that only about six percent of these assets are currently counted towards the family's expected contribution in federal need-based financial aid calculations.

6. MYTH: A 529 plan can only be used at schools in my home state.

FACT: Assets from 529 plans may be used at any school that is accredited and eligible to accept federal financial aid. This includes nearly all public and private colleges in the United States and many trade and technical schools as well. It even includes some colleges located outside of the US.

7. MYTH: The tax advantages of 529 plans will expire.

FACT: The Pension Protection Act of 2006 repealed the 2010 sunset of the federal tax exemption for Section 529 plans and ensures that money saved for higher education in 529 plans can continue to be used tax-free to help pay for college.

8. MYTH: A 529 plan can only be used for a four-year college.

FACT: Assets from 529 plans may be used at any eligible school, including two- and four-year colleges, graduate schools and vocational and technical schools. Funds may be used for tuition, fees, certain room and board costs, and in 2010, computers and course-related software.

9. MYTH: If my child doesn't go to college, I will lose my money.

FACT: A 529 account holder can change the plan's beneficiary to another eligible "member of the family," such as siblings or even oneself with no tax penalty.

10. MYTH: Opening a 529 plan is complicated.

FACT: Most 529 plans allow account holders to open an account online, and a wealth of information is available online for families seeking more information about 529 plans. CSPN's Web site, www.CollegeSavings.org, offers convenient tools and valuable information to help families make wise decisions about saving for college.

"The most frustrating myth I hear is: 'I'll never be able to save enough,'" said Marshall. "Putting away even small sums of money can really pay off over time when families make a plan and stick to it. On 529 College Savings Day, I invite families from every state to learn about their many options, and work together to develop a plan to help achieve their higher education dreams."

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About College Savings Plans Network (CSPN)

College Savings Plans Network (CSPN) is a leading voice for Section 529 College Savings Plans, one of the most popular, convenient and tax-advantaged ways to save for college. CSPN is a not-for-profit association affiliated with the National Association of State Treasurers (NAST) that brings together state administrators of 529 savings and prepaid plans as well as their private sector partners. Information that families of all income levels can use to make informed saving decisions is available on CSPN's Web site, www.CollegeSavings.org.