



## Pre-Paid Plan Expected To Gain In Popularity

*By Jennifer Woods*

The Independent 529 Plan, a prepaid tuition plan for private colleges, celebrated its three-year anniversary last week; now a new law solidifies the plan's future.

The new federal pension law, passed last month, makes the 529 plan more appealing than ever to future college students. The law guarantees the plan's very existence and makes tax-free withdrawals permanent.

"The permanency [of the plan] was a big thing for us," Nancy Farmer, chief executive of the plan told the *Los Angeles Times*. "We had this cloud hanging over us."

With Independent 529, families can purchase a tuition certificate that can be used at any of the 257 participating private colleges and universities. Families who take advantage of the plan have the potential to save significant amounts on college tuition by locking in at today's tuition rates.

Let's say a family contributes \$7,000 to a tuition certificate this year and then, years later, a family member attends a college whose annual tuition was \$14,000 in 2006. The student will then receive a certificate worth a half year's tuition at the college, regardless of the school's tuition costs once the student is enrolled.

Some schools are also required to provide a minimum discount. In that case, the longer the family participates in the plan, the greater the discount will be.

Signing up for the plan does not guarantee acceptance to a school. If the student does not go to college, the certificate can be transferred to another relative. If the student goes to a public college, money can be transferred into another savings plan. Refunds are also available.

The Independent Plan, which went into effect in September of 2003, currently has 4,700 accounts with \$92 million in assets. Now that the plan's future has been set in stone, that number is expected to increase, and more schools are expected to join.

Johns Hopkins University is the latest school to join Independent 529. Hopkins was reluctant to sign up at first because of the plan's impact on financial aid. Before, prepaid plans reduced need-based federal aid dollar-for-dollar. "You hate to make a recommendation for something that could hurt families who are very needy," Ellen Frishberg, Hopkins' director of student financial services, told the *Los Angeles Times*.



While the Independent 529 Plan might be beneficial for students interested in private schools, families can save the most money with state prepaid plans for public schools; because tuition inflation rises more rapidly at public schools than at private schools.

T. Rowe Price Associates, a Baltimore investment company, is giving a tax break to those who give. Last week the company cut annual administrative fees for the largest accounts (\$500,000 and up) contributing to its donor-advised funds. Additionally donors will now receive upfront charitable tax deductions if they contribute cash and securities to donor-advised funds.