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HEADLINE: Savings Plans Favor the Rich, Study Finds

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BODY:
Rich families benefit more than poor families from the college-savings plans that have become increasingly popular in recent years, a study from Harvard University's John F. Kennedy School of Government has found.

The savings programs, which are known as 529 and Coverdell plans based on the provisions of the federal tax code under which they were established, enable families to set aside and invest money, either tax-free or with tax-free earnings, that can later be used to pay tuition and other college expenses for their children.

In the report, "Who Benefits From the Education Saving Incentives? Income, Educational Expectations, and the Value of the 529 and Coverdell," Susan M. **Dynarski,** an assistant professor of public policy at Harvard, wrote that the incentives for the federal and state education-savings accounts are abundant for families with larger incomes.

The federal Coverdell Education Savings Account, for example, allows annual after-tax deposits of $2,000 per year. The account's subsequent earnings go untaxed.

All 50 states and the District of Columbia offer similar accounts, known as 529 plans. Those accounts are tax-free plans that allow participants to make annual, after-tax deposits of up to $11,000 a year per child.

The accounts are intended solely for education expenses. The funds can be withdrawn for other purposes, but the account's earnings will then be taxed and a 10-percent penalty will be assessed.

Frederick M. Hess, director of education public policy at the American Enterprise Institute for Public Policy Research, which sponsored a discussion on the study last month, said 529 accounts may also give higher-education institutions an incentive to raise their prices because they would know that families were prepared to spend more on their children's education.

"With more money for education, there is less pressure to put on colleges to place a ceiling on tuition or become efficient," Mr. Hess said. "There is a chance that these accounts make a family less price-conscientious than if it were placing the money in another investment."