



## SOCIETY FOR HUMAN RESOURCE MANAGEMENT

# Viewpoint: Strengthen Employee Loyalty with Corporate 529 Plans

Making college savings easy and systematic can become a key differentiator

By John Kenney, Legg Mason

**E**mployers increasingly understand the growing need to support family financial issues beyond the paycheck, including health care benefits, retirement savings and college savings. Most companies in the U.S. provide health care and retirement benefits, and a growing number are providing access to college savings plans.

Making college savings easy and systematic can become a key differentiator for organizations that are committed to their employees' entire financial health. Offering a 529 college savings plan in the workplace connects the company to the employee's family and helps foster loyalty and retention.

Employers do not need to incur any costs when offering a college savings plan beyond the typical administrative expenses associated with any benefits enrollment program. The 529s are funded by the employees directly; no changes are required on W-2 reporting, as the direct payroll deposits are made into a 529 plan with after-tax dollars. Some plans offer institutional class shares for employer-facilitated plans that might reduce fund fees for employees.

**“Employers do not  
need to incur any  
costs when offering a  
529 college savings  
plan beyond typical  
enrollment expenses.”**

### **The College Funding Gap**

The cost of a college education can be overwhelming, and college education inflation rates continue unabated. Consider these recent statistics from the College Board's 2011 Trends in College Pricing Report:

- **At the average in-state public university**, annual tuition increased by 8.3 percent to \$8,244.
- **At a typical private university**, living and studying costs rose 4.4 percent to \$38,589.
- **Public two-year college** tuition jumped 8.7 percent on average to \$2,963.

It's no wonder that the increasing gap between college tuition and available savings is a source of increasing financial stress. In response, HR benefits consulting firms are recommending that employers provide access to 529 plans funded through salary deferral contributions.

### **Benefits Education**

As with any benefit program, educating employees about 529 plans is essential to ensuring that employees value and use this benefit properly. In addition to explaining the convenience of monthly payroll deductions, a benefits education program should highlight the tax and financial planning benefits of 529 investments.

Some plans (“advisor sold plans”) are sold by financial advisors that provide financial advice and guidance to the employee, while other plans (“directly sold plans”) might be more appropriate for employees who are more interested in making their own investment choices.

For example, the state of Colorado offers four college savings plans through CollegeInvest, a division of Colorado's Department of Higher Education. Two plans—the Direct Portfolio College

Savings Plan and the Stable Value Plus College Savings Plan—are directly sold 529s through CollegeInvest. A third plan, the Smart Choice College Savings Plan, is directly sold through First Bank. The fourth plan is the Legg Mason Scholars Choice 529 Plan, which is available via financial advisors.

### **Tax Advantages**

No matter the state program, distributions from 529 plans for qualified higher education expenses are exempt from federal income tax.

Other tax benefits vary from state to state and from plan to plan, as do performance and expenses. As an example, for Colorado residents contributions are deductible from Colorado state income tax in the year of the contribution, up to the contributor's Colorado taxable income for that year. Investors who are not residents of Colorado might or might not qualify for meaningful state tax benefits depending on their state of residence. Some states have no local tax benefit, while some will extend the taxable benefit to investors from out of state.

### **A Commitment to Employees' Financial Health**

Parents want to be able to provide their children with more opportunities to achieve their dreams. Employers that offer access to a 529 college savings plan as part of a comprehensive benefits package help their employees reach their goals. Organizations that offer employer-facilitated 529 plans gain a competitive edge in attracting and retaining employees while contributing to the overall financial well-being of their employees.

*John Kenney is head of Legg Mason's Global Asset Allocation group, which offers a broad range of asset allocation products including the Legg Mason Scholars Choice 529 Plan.*

**Viewpoint: Strengthen Employee Loyalty with Corporate 529 Plans  
Society for Human Resource Management, February 17, 2012**

**An investor should consider the Program's investment objectives, risks, charges and expenses before investing. The Program Disclosure Statement at [scholars-choice.com](http://scholars-choice.com), which contains more information, should be read carefully before investing. If an investor or an investor's beneficiary is not a Colorado taxpayer, they should consider before investing whether their home states offer 529 plans that provide state tax and other benefits only available to state taxpayers investing in such plans.**

Investments in the Scholars Choice College Savings Program are not insured by the FDIC or any other government agency and are not deposits or other obligations of any depository institution. Investments are not guaranteed by the State of Colorado, CollegenInvest, Legg Mason Global Asset Allocation, LLC, Legg Mason Investor Services, LLC, Legg Mason, Inc. or its affiliates and are subject to investment risks, including loss of principal amount invested.

Deductions are subject to recapture in subsequent years in which a non-qualified withdrawal or a rollover to a non-colorado 529 plan is made.

There is no guarantee that investment objectives will be met. **Past performance is no guarantee of future results.**

The information in the enclosed reprint was compiled and drafted by *Society for Human Resource Management* as of February 17, 2012. Views expressed are not intended to be a forecast of future events, a guarantee of future results or investment advice. Predictions are inherently limited and should not be relied upon as an indication of actual or future performance. As a result, Legg Mason cannot guarantee the accuracy or completeness of any statements set forth in the enclosed reprint. This material is being used as an advertisement for Scholars Choice College Savings Program. All information was current at the time of this publication and is subject to change without notice. This reprint should not be deemed as an offer to sell or a solicitation to buy the securities mentioned in this article reprint.

Legg Mason, Inc., its affiliates and its employees are not in the business of providing tax or legal advice to taxpayers. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon by any such taxpayer for the purpose of avoiding tax penalties. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Scholars Choice is a registered service mark of CollegenInvest. CollegenInvest and the CollegenInvest logo are registered trademarks. Administered and issued by CollegenInvest, State of Colorado. Legg Mason Global Asset Allocation, LLC is the Investment Manager and Legg Mason Investor Services, LLC is the primary distributor of interests in the Program; together they serve as Manager of the Program. Legg Mason Global Asset Allocation, LLC, ClearBridge Advisors, LLC, Batterymarch Financial Management, Inc., Brandywine Global Investment Management, LLC, Royce & Associates, LLC, Western Asset Management Company and Western Asset Management Company Limited, and Legg Mason Investor Services, LLC are Legg Mason, Inc. affiliates.