

Governor Quinn. Higher State Taxes. What Can You Do?



Now that citizens reelected Governor Pat Quinn, what does that mean for you? It probably will result in your state income taxes increasing. Quinn has wanted to raise taxes and has been quite vocal about the need to do so. That increase, if he can get it passed, will most likely take effect in 2011.

So here is how you can take little of the bite out of the new tax rate and do something good for your children or grandchildren or nieces and nephews.

By investing some of your child's education funds in the

state's 529 plan, those dollars will be exempt from Illinois state income tax, currently at 3 percent, and now expected to go to 4 percent in 2011. So you might just want to wait until January 2011 to make that investment.

To get the deduction, you need to invest in the Illinois 529 college savings plan. Morningstar, an independent rating agency, ranks it as one of the best programs and after researching 529 plans, I agree.



However, I only recommend the version of the plan where you invest directly rather than through an advisor. The advisor program charges high fees and that means reduced returns for your child's education savings. I also prefer the index fund choices due to low fees and historical returns relative to the managed choices. Go to www.brightstartsavings.com to set up an account or to add to your existing account.

You may have heard of some problems in the past with Bright Start College Program investments. In particular, one of the choices within the plan, the Oppenheimer Core Plus fund, supposedly a solid safe choice, included investments in risky mortgage-backed securities. When the market collapsed in 2008, the fund lost \$150 million in Illinois Bright Start funds. Illinois has since sued Oppenheimer and the company paid back investors an amount equal to about half of their losses.

This incident does not necessarily make Oppenheimer a bad choice going forward. However, in my more than 20 years in the investment business and all the research that I have done, indexing best meets investors' needs due to low fees and generally matching the market's returns.

In sum, I encourage you to invest in the Illinois 529 plan so you can have two benefits: supporting your child and saving on taxes.



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