

SENATE BILL REPORT

SB 6033

As Reported By Senate Committee On:
Higher Education, February 22, 2001
Ways & Means, March 8, 2001

Title: An act relating to college payment programs.

Brief Description: Authorizing a college savings plan.

Revised for 1st Substitute: Changing refund provisions for the GET program.

Sponsors: Senators Kohl-Welles and Costa; by request of Committee on Advanced College Tuition Payment; State Treasurer.

Brief History:

Committee Activity: Higher Education: 2/20/01, 2/22/01 [DP].

Ways & Means: 3/7/01, 3/8/01 [DPS].

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass.

Signed by Senators Kohl-Welles, Chair; Shin, Vice Chair; Carlson, Horn, Jacobsen, McAuliffe, Parlette, Sheahan and B. Sheldon.

Staff: Jean Six (786-7423)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6033 be substituted therefor, and the substitute bill do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fairley, Vice Chair; Fraser, Hewitt, Honeyford, Kline, Kohl-Welles, Long, Parlette, Rasmussen, Regala, Rossi, Sheahan, B. Sheldon, Snyder, Spanel, Thibaudeau, Winsley and Zarelli.

Staff: Karen Barrett (786-7711)

Background: The 1996 Legislature requested that the Higher Education Coordinating Board (HECB) develop a proposal for a prepaid tuition and fee program. The 1997 Legislature created the Washington Advanced College Tuition Payment Program that is known by the name Guaranteed Education Tuition (GET). State law presently enables GET's governing board to consider additional features like a prepaid plan for room and board contracts, or a savings plan for college expenses as permitted under federal tax codes.

GET began operation in August 1998, under the administration of a committee made up of the Executive Director of the HECB, the State Treasurer, the Director of the Office of Financial Management. Two citizen members, one of whom is an account holder, were

subsequently added to the governing board. The program has been self-supporting since July 1, 1999. Refunds are also available under certain circumstances.

As of February 3, 2001, Washington families have opened 11,334 GET accounts, totaling \$99.6 million. The first payout of program benefits occurred in September 2000, with benefits going to 68 students. Over 550 students are expected to be eligible to use their GET benefits in the 2001-02 academic year.

The tuition units purchased are guaranteed to cover the cost of tuition when the student enrolls in a public Washington higher education institution at a later date. Actuarial reports dating from June 30 suggest GET presently has reserves just over \$9 million; that is, assets whose value exceeds expected payout for current GET unit holders. However, tuition is only a portion of the cost of attending a college or university. Students need housing, books, and incur other costs related to obtaining a higher education. Twenty-six states offer a state-sponsored savings plan in addition to a prepaid tuition program. Sixteen other states offer only a state-sponsored savings plan.

Presently, there is a difference between the value of units if redeemed for use to attend college and the value of units refunded under special circumstances permitted in current law. The difference in the value has to do with the difference between tuition and fees to attend the state's highest cost public university and the weighted average tuition fees across all of the state's colleges and universities. Current law gives preference to refunds on a weighted average tuition fee basis. The difference in value for 100 units today is about \$300.

Summary of Substitute Bill: The governing body for the Guaranteed Education Tuition (GET) Program may determine the value of prepaid tuition units refunded for extenuating circumstances outlined in current law.

Substitute Bill Compared to Original Bill: Language enabling GET to proceed to establish and operate a college savings plan is removed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 2001.

Testimony For (Higher Education): The savings plan will allow families to save for expenses beyond tuition. The savings plan would be tax deferred. Under Section 529, there would be a penalty for withdrawal for reasons other than education needs. When investing in any mutual fund, you are not guaranteed a specific return. We are only asking for the authority to develop a savings plan; tax deferral only until the year you use the units.

The GET Committee wants the penalty for withdrawal consistent throughout the program. It is important to make refund policies consistent and fair.

Sound investment choices are important for all families. The college savings plan will provide choices for Washington students and families. Many states use professional management companies to manage the college savings plan.

Testimony Against (Higher Education): None.

Testified (Higher Education): Bruce Botka, HECB; Betty Lochner, GET Director; Warren Thompson, Frank Russell Co.

Testimony For (Ways & Means): The board would like the flexibility to refund the present value of the units but under current law, less than full value can be returned in certain circumstances. The college savings feature is one of interest to the board as it further encourages families to save for future higher education expenses beyond tuition that GET does not cover. Unlike GET where the state is the plan guarantor, the risk of loss in value is borne by the investor.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): Bruce Botka, HECB; Betty Lochner, HECB/GET.