

HOUSE BILL REPORT

SSB 5749

As Passed House - Amended:
April 7, 2011

Title: An act relating to the Washington advanced college tuition payment program.

Brief Description: Regarding the Washington advanced college tuition payment (GET) program.

Sponsors: Senate Committee on Higher Education & Workforce Development (originally sponsored by Senators Brown, Hewitt and Shin).

Brief History:

Committee Activity:

Higher Education: 3/21/11, 3/25/11 [DP];
Ways & Means: 3/31/11 [DPA].

Floor Activity:

Passed House - Amended: 4/7/11, 90-2.

**Brief Summary of Substitute Bill
(As Amended by House)**

- Specifies a term length of four-years rather than an unspecified term length for members on the Committee on Advanced Tuition appointed by the Governor.
- Adds a requirement that that the Guaranteed Education Tuition committee utilize the State Actuary in reviewing the Guaranteed Education Tuition Program annually rather than a nationally recognized actuary.
- Adds a requirement that the Guaranteed Education Tuition Program adopt an actuarially sound and prudently predictable payout value factor that provides long-term assets to meet the long-term obligations of the account.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass. Signed by 8 members: Representatives Seaquist, Chair; Carlyle, Vice Chair; Haler, Ranking Minority Member; Hasegawa, Probst, Reykdal, Sells and Springer.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Do not pass. Signed by 5 members: Representatives Parker, Assistant Ranking Minority Member; Buys, Fagan, Warnick and Zeiger.

Staff: Madeleine Thompson (786-7304).

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended. Signed by 27 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

Staff: Trista Zugel (786-7157).

Background:

Most states have a form of a "529 Plan" operated by a state or educational institution designed to help families set aside funds for future college costs. They are named after section 529 of the Internal Revenue Code which created these types of savings plans in 1996. Washington's Guaranteed Education Tuition (GET) Program was created in 1998 as Washington's prepaid college tuition program.

The GET Program allows purchasers to buy tuition units at current prices for use at a later date. These funds are invested by the State Investment Board and the purchaser is guaranteed that one year's worth of units purchased now will be worth one year's worth of public university tuition in the future and is guaranteed to keep pace with rising tuition. One hundred GET units are equal to one year of resident undergraduate tuition and state-mandated fees at the most expensive public university in Washington.

The Higher Education Coordinating Board administers the GET Program while the State Investment Board oversees its investments. A five-member committee establishes the policies of the program and sets the price of the GET unit, which is currently \$117. Guaranteed Education Tuition accounts can be used at nearly any public or private college in the country. Families can buy between one and 500 units per child, and the account will benefit from tax-free growth and withdrawals. Since GET began in 1998, families have opened more than 119,000 accounts and 16,500 students have used their GET accounts in all 50 states.

Summary of Amended Bill:

The two members of the Committee on Advanced Tuition are appointed by the Governor for four-year terms instead of an unspecified period of time.

Various changes are made to the GET Program as of August 1, 2011. These changes apply for tuition units purchased or contracted for purchase on a custom monthly plan:

- The definition of tuition and fees includes operating fees and building fees, but no longer includes services and activities (S&A) fees. Students will pay S&A fees at the time of enrollment.
- The value of each tuition unit is the price of tuition and fees at the time of purchase multiplied by the average percentage increase in resident undergraduate tuition and fees at all state institutions of higher education weighted by the number of full-time equivalent resident undergraduate students.
- A limitation may be made to the number of GET units purchased. Currently, the limitation may not be less than those needed to achieve four years of full-time undergraduate tuition charges.
- The minimum purchase price may not be discounted for special circumstances.
- After the first GET unit is redeemed, the beneficiary must use the remainder within six years.
- Refunds in cases of death or disability or after a student graduates remain at 100 percent of current value minus administrative fees. In cases when the beneficiary chooses not to attend or other circumstances, the refund is for the lesser of : (1) the actual dollar value of contributions plus actual interest earned; or (2) the price of tuition and fees at the time of purchase multiplied by the average percent increase in resident undergrad tuition and fees at all state institutions of higher education weighted by the number of full-time equivalent resident undergraduate students.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony (Higher Education):

(In support) Washington has a great GET Program. This bill makes some modifications. It is an excellent opportunity for Washington families to invest in higher education for their children. The modification helps to balance the opportunity with fiscal responsibility that we have down the road. The GET Program has been very effective in helping Washington families save for their children's tuition. Nothing will change about the credits guaranteed. The funding model delinks the value of the credit over time from the highest cost of a credit in the state, and instead the value is linked to the average cost of a credit in the state. It would still be a guarantee of the state and a great opportunity for families. It shortens the amount of time for redeeming funds from the program.

(Commented) The formula includes a weighted average and since the community and technical population is significantly greater than the four-year population, this is a concern. There can be a large impact from opening a new program following the example of Texas that lost a significant number of customers when they opened a second phase of the program. When you start to make changes, customers become unsure about the program and lose confidence in it.

(Opposed) The proposal makes the program a moving target. The purpose is to decrease the payout price. This proposal shifts the risk from the state to the investor. The proposal reduces the value of credits of this program. The omission of fees also reduces the value to the customer. This bill creates more variables, and it is unclear what it means. Some purchasers purchase for their grandchildren and this becomes a less attractive program under this bill. This proposal does not favor those current purchasers who do not have cash available to buy their credits all at once and who are planning to buy more credits in the future.

Staff Summary of Public Testimony (Ways & Means):

(In support) None.

(Commented) The GET committee does have some concerns about this bill. It is important to note that the costs to modify the program as a result of this bill cannot be borne by existing participants, so they will have an impact on the state budget. Under this bill, the unit value at the time of payout is based on a weighted average of enrollment levels in the entire higher education system. This makes it impossible to determine the actual payout until the school year begins. The agency supports the more flexible language in Substitute House Bill 1795, that creates a more thoughtful review process.

(Information only) If you terminate the state program, a state contribution would be required. The State Actuary recommended changes to tuition assumptions. Those recommendations were adopted by the GET committee. In response to concerns about the solvency of the program, the Office of the State Actuary's updated its analysis of the GET Program. Some key findings were: if you keep the program open in its current form, there is less than a 1 percent chance of insolvency. If you take the recommendation of this bill, and there is not a drop off in future sales, there is still a low chance of insolvency. However, if there is a drop in future purchases, the chance of insolvency and therefore the chance of a state contribution increases. Lastly, both programs can accommodate tuition increases, as long as the unit price is set properly. The program can weather a lot of changes as it is.

(Opposed) None.

Persons Testifying (Higher Education): (In support) Senator Brown, prime sponsor.

(Commented) David Cheal.

(Opposed) Jennifer Cameran-Rulkowski.

Persons Testifying (Ways & Means): (Commented) Larry Lee, Higher Education Coordinating Board.

(Information only) Matt Smith, State Actuary.

Persons Signed In To Testify But Not Testifying (Higher Education): None.

Persons Signed In To Testify But Not Testifying (Ways & Means): None.