
Higher Education Committee

E2SSB 6601

Brief Description: Creating the Washington college savings program.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Frockt, Bailey, Braun, Mullet, Carlyle and McAuliffe).

Brief Summary of Engrossed Second Substitute Bill

- Establishes the Washington College Savings Program (WCSP) along side the Washington Advanced College Tuition Payment Program, more commonly known as the Guaranteed Education Tuition (GET) Program, to be administered by the Committee on Advanced Tuition Payment and College Savings (Committee).
- Allows a resident or nonresident to open an individual college savings program account for the purpose of saving and investing money for an eligible beneficiary to enroll in an institution of higher education.
- Provides for various powers and responsibilities for the Committee to administer the WCSP.
- Establishes an investment manager to have full power to invest, reinvest, manage, contract, sell, or exchange the investment money in the WCSP, and allows the investment manager to be the State Investment Board, another state, or any other entity as selected by the Committee.
- Sets policy goals considered consistent with nationally competitive 529 savings plans to direct measurable objectives and performance measures in which to run the WCSP by.
- Sets conditions for when refunds may be issued, requires the Committee to determine conditions when individual account transfers to another family member should be allowed, and requires the Committee to establish expedited rollover processes to other types of 529 programs.
- Establishes the WCSP account in the custody of the State Treasurer as a discrete, nontreasury account retaining its interest earnings, and allows the WCSP account to hold a cash deficit for a period of no more than five fiscal years to defray initial program administration costs.

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.

- Changes the authority to discontinue the GET Program from the state to the Committee.

Hearing Date: 2/23/16

Staff: Megan Mulvihill (786-7304).

Background:

A 529 savings plan, named after section 529 of the Internal Revenue Code, is a tax-advantaged savings plan used to encourage families to save for future higher education expenses. There are two types of 529 plans: prepaid tuition plans and college savings plans. The plans are legally referred to as "Qualified Tuition Programs," and the rules governing them are laid out in section 529 of the Internal Revenue Code.

Prepaid Tuition Plans.

Prepaid tuition plans allow a purchaser to buy a tuition unit at a set price with the guarantee that the tuition unit will be worth the same amount of tuition in the future, regardless of the actual price of tuition. Washington has a prepaid tuition plan called the Advanced College Tuition Payment Program, also known as the Guaranteed Education Tuition (GET) Program. The GET program was established in 1998 and is administered by the Committee on Advanced Tuition Payment, also known as the GET Committee (Committee). The Washington Student Achievement Council (WSAC) provides staffing support, and the director of the WSAC is chair of the Committee. Over 157,000 GET accounts have been opened and over 37,000 students have used their accounts to attend an institution of higher education. For the quarter ending September 30, 2015, the GET Program had \$2.4 billion in assets under management.

In 2015 the Legislature passed the College Affordability Program, which lowered the price of resident undergraduate tuition. As a result, the GET program froze the payout value of tuition units at \$117.82 for the 2015-16 and 2016-17 academic years and closed the program to new accounts while the Committee decides how to move forward with the program. In addition, the College Affordability Program required the Committee to consider creating a 529 college savings plan. In December of 2015, the Committee announced it would move forward with creating a state-run 529 college savings plan.

College Savings Plans.

The 529 college savings plans are similar to 401Ks and Individual Retirement Accounts in which a person invests a sum of money in market-based investment options, such as stock or bond mutual funds or in money market funds. The account savings fluctuate and grow based on market conditions, and the earnings are not subject to federal tax as long as the money is used for qualified college expenses. A 529 college savings plan can be purchased for anyone, regardless of age.

There are two major types of 529 college savings plans:

- *Broker Sold Savings Programs:* Savings plans that are managed by a brokerage company. Broker-sold plans often require the account holder to pay a "load." Broadly

speaking, the load is paid to the broker as a commission for selling the college savings plan. Broker-sold savings programs exist in 30 states nationwide.

- *Direct Sold Savings Programs:* States offer college savings plans through which residents and, in many cases, non-residents can invest without paying a "load," or sales fee. This type of plan, which can be bought directly from the plan's sponsor or program manager without the assistance of a broker, is generally less expensive because it waives or does not charge sales fees that may apply to broker-sold plans. The District of Columbia and 48 states offer direct-sold savings programs. Washington and Wyoming are the two states that currently do not offer direct sold savings programs.

Washington State Investment Board.

The Washington State Investment Board (WSIB) includes 10 voting and five non-voting members who manage investments for 17 retirement plans and other investments for industrial insurance, the state's colleges and universities, and developmental disabilities programs. In 2015 WSIB had \$103.4 billion total assets under management, of which \$81.7 billion were retirement funds.

Summary of Bill:

The Washington College Savings Program and Administration.

Subject to appropriation, the Washington College Savings Program (WCSP) is established along side the GET Program to be administered by the Committee and chaired by the director of the WSAC. The WCSP allows a purchaser to establish an individual college savings program account for a beneficiary for the purpose of investing money to be used for enrollment at an institution of higher education recognized by the Internal Revenue Service under chapter 529 of the Internal Revenue Code. A resident or nonresident may enter into a contract to open an individual college savings program account. To open a new account, the purchaser may be required to make an initial minimum contribution, but the required amount must not exceed \$25. In addition to administering the WCSP in an actuarially sound manner, the Committee has the following list of powers and responsibilities:

- impose contribution limits;
- set age limits and time limits for the use of benefits;
- establish incentives to encourage participation, including entering into agreements with employers to offer employees automatic payroll deductions for WCSP contributions;
- impose and collect administrative fees and charges for transactions;
- appoint and use advisory committees and the state actuary as needed for direction and guidance;
- formulate and adopt rules and policies for administration of the WCSP;
- purchase insurance from insurers licensed to do business in the state to provide coverage against any loss in connection with the account's property, assets, or activities;
- make, execute, and deliver contracts, conveyances, and other instruments necessary to exercise and discharge the power and duties provided by the act;
- contract for services necessary for management and operation of the WCSP with other state or nonstate entities authorized to do business in the state for the investment of monies;
- contract for other services or for goods needed;
- contract for financial consultants, actuaries, auditors, and other consultants as necessary;

- solicit and accept gifts, bequests, cash donations, and grants from any person, governmental agency, private business, or organization; and
- perform all acts necessary and proper to carry out the duties and responsibilities of the WCSP.

The Committee must develop materials to educate potential account owners and beneficiaries on the differences between the WCSP and the GET Program, along with how the two programs can compliment each other to help save for the full cost of attending college.

Policy Goals.

The policy goals established for the WCSP include goals for process, people, parents, performance, and price, and are as follows:

- to have an investment manager design a thoughtful, well-diversified glide path for age-based portfolios and offer a robust suite of investment options;
- to have a well-resourced, talented, and long-tenured investment manager;
- to demonstrate that the Committee is a good caretaker of college savers' capital and can manage the plan professionally;
- to demonstrate that the WCSP's options have earned their keep with solid risk-adjusted returns over relevant time periods; and
- to demonstrate that the investment options are a good value.

The WCSP must be administered in a manner consistent with the policy goals. The Committee must establish, submit, and report objectives and performance measures to the Legislature before the regular session of the Legislature during even-numbered years thereafter.

Transfers.

The Committee must determine the conditions under which control or the beneficiary of an individual college savings program account may be transferred to another family member. The Committee must not permit transfers that allow the individual college savings program account to be bought, sold, bartered, or otherwise exchanged for goods and services by either the beneficiary or purchaser.

Rollovers.

The Committee is required to create an expedited process by which owners can complete a direct rollover of a 529 account for any of the following:

- a state-sponsored prepaid tuition plan to a state-sponsored college savings plan;
- a state-sponsored college savings plan to a state-sponsored prepaid tuition plan; or
- a state-sponsored prepaid tuition plan or a state-sponsored college savings plan to an out-of-state eligible 529 plan.

The Committee is required to annually report to the Governor and the Legislature on the number of accounts that have been rolled into the WCSP from out-of-state and the number of accounts rolled out of the WCSP into out-of-state 529 plans.

Refunds.

Refunds must be issued, less any administrative fees charged by the Committee and possibly subject to federal taxes and penalties, under the following conditions:

- The beneficiary is 18 years of age or older and certifies that they will not attend a public or private institution of higher education, in which case the refund is not to exceed the current value at the time of certification.

- A certificate for the beneficiary's death or disability is presented, in which case the refund will be equal to 100 percent of the value at the time the certification is submitted.
- The beneficiary presents a certificate demonstrating that they graduated or completed their program of study, in which case the refund will be 100 percent of the value at the time the certificate is presented.
- The beneficiary presents certification demonstrating scholarships that cover the cost of tuition, in which case the refund will be equal to 100 percent of the value at the time of the refund request, but is not to exceed the value of the scholarship.
- The beneficiary or purchaser provided incorrect or misleading information, in which case the refund must not exceed the actual dollar value of the purchaser's and contributor's contributions.
- The Committee may determine other circumstances for refunds of remaining unused participant account balances.

Bankruptcy.

For bankruptcy filings and judgments, contributions to an individual college savings program accounts made two years before the date of filing or judgment are considered excluded personal assets.

Investing the WCSP Funds.

The investment manager, which may be the State Investment Board, another state, or any other entity as selected by the Committee, including another college savings plan, has the full power to invest, reinvest, manage, contract, sell, or exchange investment money in the program without limitation as to the amount. In investing the money contributed to individual college savings program accounts, the investments may be in credit unions, savings and loan associations, banks, mutual savings banks, purchase life insurance, shares of an investment company, individual securities, fixed annuity contracts, variable annuity contracts, any insurance company, other 529 plans, or any investment company licensed to contract business in this state. If deemed appropriate, the investment manager may commingle the program account money for investment with other funds subject to investment by the investment manager. The investment manager must be paid for all investment and operating costs associated with the investments.

The investment manager, in consultation with the Committee, must provide a set of investment options for owners of individual college savings program accounts to choose from. All earnings from investments accrue directly to the owner of an individual college savings program account, and the owner has exclusive authority to establish and change the asset allocation for their account.

The Committee must report to the Governor and the Legislature annually each December 1st on the total fees charged for each investment option offered. The Legislature intends not to charge fees that exceed .005 percent for any investment option on an annual basis. In the next legislative session after receipt of the first report on fees, the Legislature must review the report and consider whether legislative action is necessary for investment options with fees that exceed .005 percent.

All moneys in the program account, all property and rights purchased with the account, and all income attributable to the account, must be held in a trust for the exclusive benefit of the owners and their eligible beneficiaries.

The WCSP Account.

The WCSP account is created in the custody of the State Treasurer as a discrete, nontreasury account retaining its interest earnings. All money received for the program is to be deposited into the account by the Committee. The assets of the account may be spent without appropriation for the purpose of making payments to institutions of higher education on behalf of the qualified beneficiaries, making refunds, transfers, or direct payments upon the termination of the program.

To defray initial program administration costs, the account is authorized to maintain a cash deficit for a period of no more than five fiscal years. By December 31, 2017, the Committee must establish a WCSP administration spending plan and a fee schedule to discharge any projected cash deficit to the account. The Legislature may make appropriations into the account to reduce WCSP administration costs.

Additional Provisions.

The authority to discontinue the GET Program if deemed not financially feasible is switched from the state to the Committee.

If funding for the program is not received, the bill is null and void.

Appropriation: None.

Fiscal Note: Available.

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