

SENATE BILL REPORT

SB 6601

As of February 10, 2016

Title: An act relating to creating the Washington college savings program.

Brief Description: Creating the Washington college savings program.

Sponsors: Senators Frockt, Bailey, Braun, Mullet, Carlyle and McAuliffe.

Brief History:

Committee Activity: Higher Education: 2/02/16, 2/04/16 [DPS-WM].
Ways & Means: 2/08/16.

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: That Substitute Senate Bill No. 6601 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Bailey, Chair; Baumgartner, Vice Chair; Frockt, Ranking Member; Becker, Carlyle, Liias and Miloscia.

Staff: Clint McCarthy (786-7319)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Michele Alishahi (786-7433)

Background: A 529 savings plan is a tax-advantaged method of saving for future college expenses that is authorized by Section 529 of the Internal Revenue Service. There are two major types, pre-paid tuition plans and savings plans. Pre-paid tuition plans, like the Guaranteed Education Tuition (GET) program in the state of Washington, allow the plan holder to pay for the beneficiary's tuition and fees at designated institutions in advance. Savings plans are tax-advantaged investment vehicles, similar to individual retirement accounts (IRAs). Rules governing the plans are laid out in Section 529 of the Internal Revenue Code. They are legally referred to as "Qualified Tuition Programs" and sometimes called "Section 529 plans."

Prepaid Tuition Plans. The Guaranteed Education Tuition Program is Washington's 529 prepaid college tuition plan. It is administered by the Washington Student Achievement Council, and was established in 1998 to help families save for their child's future higher

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education costs. Since that time, over 157,000 GET accounts have been opened and over 37,000 students have used their accounts to attend colleges, universities, and technical schools nationwide. The state of Washington guarantees that the value of an account will keep pace with the cost of college tuition at its public institutions, no matter how much the cost of tuition increases in the future.

In 2015, the Legislature lowered resident undergraduate tuition. Starting in the 2015-16 academic year, tuition is reduced by 5 percent for all public higher education institutions in the state of Washington. In the 2016-17 academic year, tuition is reduced by another 10 percent for research institutions and another 15 percent for regional institutions. In response to lower tuition, the GET Committee has set the payout value for units redeemed at the 2014-15 rate of \$117.82 per unit for the 2015-16 and 2016-17 academic years. The GET program is not currently accepting new enrollments or lump sum purchases.

For the quarter ending September 30, 2015, the program had \$2.4 billion in assets under management.

529 Savings Plans. A 529 Savings Plan allows an account-holder to establish a college savings account for a beneficiary and use the money to pay for tuition, room and board, mandatory fees, and required books and computers. The money contributed to the account can be invested in stock or bond mutual funds or in money market funds, and the earnings are not subject to federal tax as long as the money is used only for qualified college expenses. The plans are open to both adults and children.

There are two major types of 529 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) was created in 1981 under Chapter 43.33A of the Revised Code of Washington (RCW). The WSIB has a staff of approximately 85 employees who work in three divisions - Investments, Operations, and Institutional Relations. The WSIB’s executive director is appointed by the WSIB to oversee the staff, develop and recommend agency and investment policies for WSIB adoption, and ensure adherence to state policies and laws.

According to the WSIB 2015 Annual Report, the WSIB has \$81.7 billion in retirement funds under management.

Summary of Bill (Recommended Substitute): The Washington College Savings Plan (WCSP) is established as an option, in addition to the Washington Advanced College Tuition Payment Program, for individuals to save for college. The WCSP must be administered by the Committee on Advanced Tuition Payment and College Savings (Committee), and chaired by the Director of the Washington Student Achievement Council. The WCSP is open to eligible purchasers and eligible beneficiaries who are residents and nonresidents of Washington State.

The Committee may either work with the WSIB or contract with other states or non-state entities that are authorized to do business in the state for the investment of monies in the college savings program. The committee shall be responsible for the following duties:

- determining the conditions under which control, or the beneficiary of an individual college savings program account, may be transferred to another family member; and
- promoting the WCSP.

In addition to these duties, the GET Committee may:

- impose limits on the amount of contributions that may be made on behalf of any eligible beneficiary;
- determine and set age limits and time limits for the use of benefits;
- establish incentives to encourage participation in the WCSP;
- impose and collect administrative fees and charges in connection with any transaction;
- appoint and use advisory committees and the state actuary as needed to provide program direction and guidance;
- formulate and adopt all other policies and rules necessary for the efficient administration of the program;
- purchase insurance 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 the exercise and discharge of its powers and duties under this chapter; and
- contract for all or part of the services necessary for the management and operation of the WCSP.

The Washington College Savings Plan Account is created as a discrete, nontreasury account retaining its interest earnings. All monies received from the WCSP shall be deposited in this account. 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 WCSP.

In the event the state determines that the WCSP is not financially feasible, the state may declare the discontinuance of the program.

The investment manager has the full power to invest, reinvest, manage, contract, sell, or exchange investment money without limitation. As deemed appropriate by the investment manager, monies in the WCSP may be commingled for investment with other funds subject to investment by the investment manager. The authority to establish all policies relating to the WCSP account resides with the GET Committee. The investment manager shall routinely consult and communicate with the Committee.

Refunds must be issued under the following specific conditions:

- the beneficiary certifies that they will not attend a public or private institution of higher learning and is 19. The refund is not to exceed the current value at the time of such certification minus a penalty at a rate established by the Committee;
- the beneficiary has a death or disability certificate. The refund shall equal to 100 percent of the current value at the time that such certification is submitted to the Committee;
- the beneficiary certifies graduation or program completion, the refund shall be as great as 100 percent of the current value at the time that such certification submitted to the governing body, less any administrative processing fees;
- the beneficiary certifies that other tuition and fee scholarships will cover the cost of tuition;
- incorrect or misleading information provided by the purchaser or beneficiary may result in a refund of the purchaser's and contributor's contributions, less any administrative processing fees; and
- the Committee may determine other circumstances for qualifying for refunds of remaining unused participant WCSP account balances.

With regard to bankruptcy filings and enforcement of judgments, deposits made by participants into the WCSP more than two years before the date of filing or judgments are considered excluded personal assets.

EFFECT OF CHANGES MADE BY HIGHER EDUCATION COMMITTEE (Recommended Substitute): The term “investment manager” is defined as the SIB or another non-state entity selected by the governing body to operate the college savings plan, which is used often throughout the bill. The investment manager has the full power to invest, reinvest, manage, contract, sell, or exchange investment money without limitation. The investment of eligible contributors' deposits 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.

The WSIB is provided more overt authority to self-direct the investment of funds. The WSIB officers and employees are indemnified from legal action, in addition to board members.

Appropriation: None.

Fiscal Note: Requested on January 27, 2016.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Higher Education): PRO: All this bill does is setup a voluntary savings plan that residents and non-residents can use. People who are maxed out in the GET program can use this program to pay for costs of attendance

other than tuition. A savings plan provides flexibility for Washington residents. The Treasurer has taken a special interest in this bill. Saving for one of life's biggest expenses requires planning and time. Many Washington residents go out of state to save for costs above and beyond tuition.

Persons Testifying on Original Bill (Higher Education): PRO: Gene Sharratt, Executive Director, Washington Student Achievement Council; Ann Ryherd, Office of the State Treasurer.

Persons Signed In To Testify But Not Testifying on Original Bill: No one.

Staff Summary of Public Testimony on First Substitute (Ways & Means): PRO: A 529 college savings plan can provide further tax advantages for saving for attendance costs beyond tuition. The timing of this bill could be very important to current GET account holders who may be considering rolling over their GET funds to a new state 529 college savings plan. This is a reason why the GET Committee requested this bill this legislative session.

Persons Testifying on First Substitute (Ways & Means): PRO: Ann Ryherd, Office of the State Treasurer; Gene Sharratt, Washington Student Achievement Council

Persons Signed In To Testify But Not Testifying: No one.