

HOUSE BILL REPORT

ESB 6087

As Passed House - Amended:

March 7, 2018

Title: An act relating to the Washington higher education tuition payment and college savings programs.

Brief Description: Modifying the Washington advanced college tuition payment and college savings programs.

Sponsors: Senators Mullet, Palumbo, Carlyle, Braun, Kuderer, Dhingra, Pedersen, Takko, McCoy, Lias and Conway.

Brief History:

Committee Activity:

Higher Education: 2/21/18, 2/23/18 [DP];

Appropriations: 2/24/18, 2/26/18 [DPA].

Floor Activity:

Passed House - Amended: 3/7/18, 88-9.

Brief Summary of Engrossed Bill (As Amended by House)

- Allows Guaranteed Education Tuition (GET) account holders who purchased GET units before July 1, 2015, to redeem their units for the unit cash value price if the funds are immediately transferred to the Washington College Savings Program.
- Requires the GET Committee, after the option to roll over to the Washington College Savings Plan for the unit cash value price is completed and by March 1, 2019, to do two things: (1) take the difference between the average unit purchase price in each individual's account and the 2016-17 unit payout value and increase the number of units in each individual's account by a number of units of equivalent total value at the 2017-18 unit purchase price, if the average unit purchase price is greater than the 2016-17 unit payout value; and (2) grant additional units to each account holder with unredeemed and purchased units before July 1, 2015, in order to lower the best-estimate funded status of the program to 125 percent, subject to a limit of an increase of 15 percent of unredeemed and purchased units per account holder.

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.

- Requires the GET Committee to impose an amortization fee as a component of each future unit sold whenever the GET Committee determines it necessary to increase the best-estimate funded status of a program.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass. Signed by 9 members: Representatives Hansen, Chair; Pollet, Vice Chair; Holy, Ranking Minority Member; Van Werven, Assistant Ranking Minority Member; Haler, Orwall, Sells, Stambaugh and Tarleton.

Staff: Megan Mulvihill (786-7304).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 18 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Bergquist, Cody, Fitzgibbon, Hansen, Hudgins, Jinkins, Kagi, Lytton, Pettigrew, Pollet, Sawyer, Senn, Springer, Stanford, Sullivan and Tharinger.

Minority Report: Do not pass. Signed by 14 members: Representatives Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Buys, Caldier, Condotta, Graves, Haler, Manweller, Schmick, Taylor, Vick, Volz and Wilcox.

Minority Report: Without recommendation. Signed by 1 member: Representative Harris.

Staff: Lily Sobolik (786-7157).

Background:

A 529 savings plan, named after section 529 of the Internal Revenue Code (IRC), 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 Guaranteed Education Tuition Program.

The Guaranteed Education Tuition (GET) program is Washington's prepaid 529 tuition plan that allows a purchaser to buy a GET unit at a set price with the guarantee that the unit will be worth the same amount of tuition in the future, regardless of the actual price of tuition. The GET program is administered by the GET Committee, and the Washington State Investment Board (WSIB) manages the GET fund. In addition, the Washington State Actuary conducts annual valuations of the program to assess GET's financial health.

Historically, 100 GET units have equaled one year of resident undergraduate tuition and state-mandated fees at the state's highest priced public university, and account holders could buy up to 500 GET units per beneficiary. Units purchased between May 1, 2011 and June 30, 2015 also included amortization fees to cover unexpected changes in the program's financial stability after the Great Recession. In August 2015, based on the funded status of the

program, the GET Committee automatically refunded the amortization fees paid by all customers who had unredeemed units purchased at prices of \$163 or greater.

Tuition was reduced to \$11,245 for the 2015-16 academic year and \$10,171 in the 2016-17 academic year. However, at the Legislature's direction, the GET Committee froze the GET unit payout value at \$117.82 for the 2015-16 and 2016-17 academic years to hold GET account holders harmless in response to the tuition reduction. The GET Committee also voted to delay new program enrollments and new unit purchases for a period lasting from July 1, 2015, to November 1, 2017. For the GET program reopening, the GET unit payout value was reduced to \$103.86. This means that 100 GET units once again equals one year of in-state tuition and fees at the highest priced public university, which is currently \$10,386.

On July 6, 2017, the GET Committee voted to rebase all existing customer accounts for the reopening of the program to ensure that GET accounts would not lose value due to the reduction in GET unit payout value. Rebasing added new units to all existing GET accounts in a proportion equal to the difference between the old \$117.82 payout value and the new \$103.86 payout value. Since the rebasing caused some GET accounts to exceed the GET unit maximum of 500 units, the GET Committee increased the maximum to 600 units, allowing students to use 150 units per year.

The 2017 GET Actuarial Valuation Report indicates the present value of future obligations to the GET Program is \$1.7 billion and the present value of the fund is \$2.3 billion. As of June 30, 2017, the program is 132.8 percent funded, with a reserve of \$570 million. The June 30, 2017, market value of total assets in the GET Program was \$2.168 billion, and the estimated total number of GET units purchased and unredeemed were 16,480,660 (including the estimated number of units added from the program rebase). Based on these figures, the estimated unit cash value price of a GET unit is \$131.54 per unit at June 30, 2017.

The Washington College Savings Program.

The Washington College Savings Program, known as the DreamAhead College Investment Plan (DreamAhead), is Washington's 529 college savings plan. DreamAhead was authorized during the 2016 Legislative Session, and is expected to open to investors in early 2018. The money contributed to an account under DreamAhead 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 for qualified higher education expenses. Unlike the GET program, in which units have a guaranteed value when redeemed, the state does not guarantee a specific outcome for a college savings account.

Summary of Amended Bill:

The GET account holders who purchased GET units before July 1, 2015, may redeem those units at the unit cash value price if the redeemed funds are immediately deposited into a DreamAhead account. The unit cash value price is defined as "the total value of assets under management in the GET program on a date to be determined by the GET Committee, divided by the total number of outstanding units purchased by eligible purchasers before July 1, 2015, and any outstanding units accrued by eligible purchasers as a result of the July 2017 unit rebase." The total market value of assets does not include the total accumulated market value of proceeds from units purchased after June 20, 2015.

The GET Committee, in consultation with the Washington State Actuary and the WSIB, must establish at least a 90 day period to allow GET account holders to redeem GET units at the unit cash value price and provide at least a 30 day notice to eligible account holders. The GET Committee must also establish the unit cash value price and has the authority to revalue the unit cash value price up to three times during the 90 day period. The GET Committee must also create an expedited process for GET account holders to make the investment change from a GET account to a Washington College Savings Program account.

The GET Committee, by March 1, 2019, must adjust all remaining unredeemed GET units purchased before July 1, 2015, after the option to roll over to the Washington College Savings program for the unit cash value price is completed, as follows:

1. First, the GET Committee must take the difference of the average unit purchase price in each individual's account and the 2016-17 unit payout value and increase the number of units in each individual's account by a number of units of equivalent total value at the 2017-18 unit purchase price, if the average unit purchase price is more than the 2016-17 unit payout value; and
2. Second, with assistance from the State Actuary, grant an additional number of units to each account holder with unredeemed and purchased units before July 1, 2015, in order to lower the best-estimate funded status of the GET program to 125 percent, subject to a limit of an increase of 15 percent of unredeemed and purchased units per account holder.

In addition, the GET Committee is required to collect an amortization fee as a component of each future unit sold whenever the governing body determines it necessary to increase the best-estimate funded status of the GET program.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on April 15, 2018.

Staff Summary of Public Testimony (Higher Education):

(In support) This could be viewed as the middle class version of making an investment in higher education. The GET account value has not changed. That money has been invested on behalf of GET account holders this entire time and grown. This bill simply says if you want to roll your money over into the state's 529 program when it opens, you can get the actual cash value of what your account is worth. Right now an account is worth about \$10,400 if you have one year's worth of GET units. If this bill passes, the cash value of the account would be worth around \$14,400. People think this makes the state have greater liability or puts GET account holders at more risk, but a transferred GET unit means the state's liability for that unit is gone. If half of the GET units are transferred, the remaining credits still have the exact same cushion. There is less outstanding risk in the aggregate. The Washington State Treasurer's goal is to minimize risk of public funds, and this bill fits that philosophy. While the GET program is currently robust, the high volatility with the stock

market can cause this to change. The state would not want to be in a position to make up a deficit. There is no cost to the General Fund.

This increases college savings options, reduces financial barriers, and increases post secondary degree attainment, and that is a good thing. It is optional and would benefit the families that would decide to do it. If someone has kids in high school who plan to attend college in the near future, this makes a lot of sense. Having a 529 plan does not mean someone is automatically invested in stocks and does not force someone into a risky investment. They can pick a conservative bond option. It is a nice way to help families who chose GET.

(Opposed) None.

Staff Summary of Public Testimony (Appropriations):

(In support) None.

(Opposed) None.

Persons Testifying (Higher Education): Senator Mullet, prime sponsor; Shawn Myers, Office of the State Treasurer; and Joe Dacca, University of Washington.

Persons Testifying (Appropriations): None.

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

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