

# HOUSE BILL REPORT

## ESB 6087

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### As Reported by House Committee On:

Higher Education  
Appropriations

**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].

#### Brief Summary of Engrossed Bill (As Amended by Committee)

- 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 closure of the period to redeem units for the cash value price and by June 30, 2019, to 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.
- Requires the GET Committee to determine the difference between the funded status of the GET program as a whole and a funded status of 125 percent, calculate the cash equivalent value above 125 percent, and add additional units, at the 2016-17 unit payout value, in a proportion equal to each account holder's total unredeemed units purchased before July 1, 2015.

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*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, in any year that the funded status falls below 115 percent, to impose an amortization fee of at least \$1 per every new unit purchased for every 5 percent below 115 percent funded.

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## 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).

### **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. Rebasings 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.

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#### **Summary of 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 Washington College Savings program 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 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.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(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.

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

**Persons Signed In To Testify But Not Testifying:** None.

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**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).

## **Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Higher Education:**

After the period to redeem units for the unit cash value price has passed and prior to June 30, 2018, the Guaranteed Education Tuition (GET) Committee is required to:

- First, 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.
- Second, if the funded status of the GET program is above 125 percent, determine the difference between the funded status of the GET program as a whole and a funded status of 125 percent, calculate the cash equivalent value above 125 percent funded status, and add additional units, at the 2016-17 unit payout value, in a proportion equal to each account holder's total unredeemed units purchased before July 1, 2015.

The GET Committee is required, in any year when the annual actuarial valuation shows a funded status of less than 115 percent, to charge an amortization fee of at least \$1 per every new unit purchased for every 5 percent below 115 percent funded status.

**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:**

(In support) None.

(Opposed) None.

**Persons Testifying:** None.

**Persons Signed In To Testify But Not Testifying:** None.