

HOUSE BILL REPORT

HB 1592

As Reported by House Committee On: College & Workforce Development

Title: An act relating to establishing the Washington children's educational savings account program.

Brief Description: Establishing the Washington children's educational savings account program.

Sponsors: Representatives Kilduff, Leavitt, Doglio, Frame, Bergquist, Goodman, Ortiz-Self, Thai, Valdez, Pollet, Callan, Stonier, Appleton, Lovick, Shewmake, Jinkins, Lekanoff and Slatter.

Brief History:

Committee Activity:

College & Workforce Development: 2/6/19, 2/15/19 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Children's Educational Savings Account (WCESA) Program to establish college savings accounts for low-income kindergartners in Washington public schools.
- Requires the Student Achievement Council (Council) to administer the program, including establishing a master account within the DreamAhead College Investment Plan to automatically enroll eligible beneficiaries with \$100 seed grants.
- Requires the Washington State Institute for Public Policy to evaluate the WCESA Program.
- Requires the Council to develop a pilot project to engage schools, school districts, and community organizations to innovatively market the WCESA program.

HOUSE COMMITTEE ON COLLEGE & WORKFORCE DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Hansen, Chair; Entenman, Vice Chair; Leavitt, Vice Chair; Van Werven, Ranking Minority Member; Gildon, Assistant Ranking Minority

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.

Member; Graham, Assistant Ranking Minority Member; Bergquist, Mead, Paul, Pollet, Ramos, Rude, Sells, Slatter and Sutherland.

Minority Report: Do not pass. Signed by 2 members: Representatives Kraft and Young.

Staff: Megan Mulvihill (786-7304).

Background:

529 College Savings Plans.

A 529 plan, named after section 529 of the Internal Revenue Code, is a tax-advantaged savings plan used to encourage families to save for future education expenses. There are two types of 529 plans: pre-paid tuition plans and college savings plans. Washington has both. The Guaranteed Education Tuition (GET) program is the state's pre-paid tuition plan, in which a purchaser can 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 price of tuition. The DreamAhead College Investment Plan (DreamAhead) is Washington's college savings plan. Similar to 401K plans and Individual Retirement Accounts, a person can invest a sum of money into a market-based investment option. The account savings will fluctuate and grow based on market conditions.

Children Savings Account Programs.

Various states, including Maine, Rhode Island, Connecticut, Vermont, Indiana, Nevada, and Oklahoma, have established children savings account (CSA) programs. Most of the CSA programs either provide an initial deposit or incentivize families to open 529 accounts by providing a state match. Maine has one of the longest running universal programs, in which every baby born to a Maine resident has a \$500 grant automatically invested in Maine's 529 college savings plan.

Summary of Substitute Bill:

The Student Achievement Council (Council) must establish and administer the Washington Children's Educational Savings Account (WCESA) Program. The WCESA Program's purpose is to establish college savings accounts for low- and middle-income kindergartners in Washington public schools. The Council must automatically enroll certain eligible beneficiaries (beneficiaries) in the WCESA Program by maintaining and administering an omnibus, master account within the DreamAhead program that contains state-funded grants for each beneficiary. Beneficiaries who are automatically enrolled in the WCESA Program are Washington state residents who are kindergartners enrolled in a public school who are eligible for the free or reduced-price lunch program. In addition, resident kindergartners at public schools who have family incomes that do not exceed 130 percent of the state median family income may be a beneficiary if the parent or guardian opts into the WCESA Program by opening an individual college savings account. Each beneficiary receives an initial \$100 seed grant and has the possibility of earning incentive grants as well. Parents and guardians of beneficiaries automatically enrolled have the option to opt-out of the WCESA Program.

Incentive Grants. The Council must deposit \$50 incentive grants for beneficiaries whose parent or guardian does any of the following:

- opens an individual DreamAhead account for the beneficiary and deposits a \$50 match;
- participates in a financial education training approved by the Council; or
- participates in an engagement and education activity established by the pilot project.

Administration. In administering the WCESA Program, the Council also has the following duties:

- establish a process to verify income eligibility for beneficiaries who are opted into the WCESA Program;
- coordinate with the GET Committee as necessary;
- coordinate with the Office of the Superintendent of Public Instruction (OSPI) to identify beneficiaries;
- develop partnerships with local communities, schools, school districts, or private organizations to promote and market the WCESA Program;
- coordinate with the Financial Education Public-Private Partnership (FEPPP) and the OSPI to provide financial education training and make information available to parents, guardians, and beneficiaries;
- accept donations for the WCESA Program; and
- adopt necessary rules.

Marketing. The Council must encourage families to open individual DreamAhead accounts by including information about how to do so with WCESA Program materials and in marketing. This may include a simplified and streamline application form. The Council also must establish a method for a parent or guardian of a beneficiary to claim the state grant money deposited on behalf of the beneficiary within 15 years. If the grant money is not claimed within 15 years, any initial or incentive grant dollars are returned to the WCESA Program.

Qualifying Use. Grants dollars received through the WCESA Program may only be used to attend an eligible educational institution for qualifying higher education expenses, as defined by the Internal Revenue Service. A beneficiary must use the grant dollars before the age of 29, unless the beneficiary serves in a national service program, such as the United States Armed Forces, National Guard, or Peace Corps. In which case, for each month of service, the beneficiary has an additional month to use the grant dollars.

Miscellaneous. All beneficiary and parent or guardian information obtained for use in the WCESA Program must only be used by the Council and is confidential. Unless expressly prohibited by Federal law, any funds deposited into an individual DreamAhead account for a WCESA Program beneficiary may not be considered when determining the individual's eligibility for federal or state funded assistance or benefits, such as Temporary Assistance for Needy Families or the Supplemental Nutrition Assistance Program.

The WCESA Program account is created in the State Treasurer's custody.

Reports and Evaluation. The Council must submit a report to the Legislature by December 1, 2025. The report must review how the WCESA Program is working towards the goals of

increasing college attendance and boosting college savings among residents; fostering a college bound identity in young Washingtonians; and promoting the financial security, financial literacy, and economic stability of Washington families. The report must also include WCESA Program data.

The Washington State Institute for Public Policy must complete an evaluation on the WCESA Program due December 1, 2035.

Washington Children's Educational Savings Account Marketing Pilot Project.

Subject to appropriation, the Council must coordinate with the OSPI and the FEPPP to engage schools, school districts, and community organizations to develop pilot projects to innovatively market the WCESA program. The content must be designed to educate and engage parents and guardians of beneficiaries about the WCESA Program, DreamAhead, and other college savings options. Populations with the greatest barriers to college savings must be prioritized for the pilot project. The Council must report to the Legislature regarding the pilot projects by December 1, 2025 on pilot project data, outcomes, and options for statewide expansion.

Substitute Bill Compared to Original Bill:

The substitute bill expands eligible beneficiary to include resident kindergartners at public schools who have a family income that does not exceed 130 percent of the state median family income, if the kindergartner's parent or guardian opts into the program by opening an individual CSA. The Council must establish a process for verifying income eligibility for these beneficiaries.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(In support) The opportunity of a higher education should be for all students. This bill targets kids with the greatest need and addresses behavioral economics, which is not insignificant. This bill creates a vision and an expectation to look ahead that is rooted in solid research. Research shows that if a child has \$1 to \$499 in college savings, they are three times more likely to attend college and four times more likely to graduate. Children's savings accounts are one small way to reach kids early and help them identify as college bound.

Children savings accounts provide positive health benefits for children and mothers. Children with college savings are more likely to be confident and happy, while those without

CSAs have lower self-esteem. In addition, CSAs help lower maternal depression, mothers show an increased sense of security, and have better outlooks for their children's future.

In today's rapidly changing society, postsecondary education is essential. However it remains unaffordable for many residents. Programs like this promote economic and equitable opportunity and help address racial and income gaps. It is a powerful message that the state is invested in the success of its youngest residents' lifelong trajectory. These CSA Programs help students aspire to go to college, pay for college, and feel they belong at college when they get there.

Education is an asset. A small investment by the state can reap a big return. This compliments efforts like the state need grant and is another tool in the engagement toolkit. The state is planning for and investing in tomorrow by helping families save for college costs.

Washington would join 34 other states who in some form or another have CSA programs. The Tacoma Housing Authority (THA) began offering CSAs in a Tacoma neighborhood. The CSA Program is a component of the THA's education project. There is a great deal of support in the community for the CSA Program. The oldest cohort is in ninth grade, and the THA has seen positive outcomes from the CSA Program. Students in the program have a GPA that is two points higher, are out performing their non-program peers, and are actively completing their high school and beyond plans. There has been an increase from families requesting investment materials and a growing interest from local financial institutions in the CSA Program.

The bill is currently exclusive to low-income students and the opportunity to expand to all students would be appreciated.

(Opposed) None.

Persons Testifying: Representative Kilduff, prime sponsor; Luke Minor, Washington 529; Jennifer Tran, Washington State Budget and Policy Center; Alejandra Villa, Partners for Our Children; Karen Bunce, Tacoma Housing Authority; Stephanie Bowman, Washington Asset Building Coalition; Mayra Pena, Thurston County Asset Building Coalition; Juliette Schindler Kelly, College Success Foundation; and Tracy Godat, Financial Education Public-Private Partnership.

Persons Signed In To Testify But Not Testifying: None.