# Washington State
## House of Representatives
Office of Program Research

# BILL ANALYSIS

## Higher Education Committee

# ESB 6087

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

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

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### Brief Summary of Engrossed Bill

- 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.

- Declares an emergency and has an effective date of April, 15, 2018.

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**Hearing Date**: 2/21/18

**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.

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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.  Tuition at the most expensive public university in Washington was $11,782 between 2012 and 2015.  Tuition was then 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 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 college savings account.

**Appropriation**: None.

**Fiscal Note**: Available.

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