

SENATE BILL REPORT

ESB 6087

As Passed Senate, February 13, 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, Liias and Conway.

Brief History:

Committee Activity: Higher Education & Workforce Development: 1/16/18, 1/25/18 [DP-WM].

Floor Activity:

Passed Senate: 2/13/18, 43-3.

Brief Summary of Engrossed Bill

- Allows Guaranteed Education Tuition (GET) account holders to transfer the asset value of the GET credits into an eligible Washington college savings program for a period of up to 90 days.
- Declares an emergency and makes the act effective April 15, 2018.

SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Ranker, Chair; Palumbo, Vice Chair; Hawkins, Ranking Member; Carlyle, Liias, Miloscia, Nelson and Short.

Staff: Alicia Kinne-Clawson (786-7407)

Background: Qualified tuition plans, referred to as 529 plans, are plans authorized by the United States Internal Revenue Service and operated by a state or educational institution. These plans provide tax advantages and other potential incentives to make it easier to save for college and other post-secondary training for a designated beneficiary, such as a child or

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grandchild. There are two 529 plans authorized in the state of Washington: the GET Program and the Washington College Savings Plan (WCSP).

GET. The GET Program is Washington's 529 prepaid college tuition plan that was established in 1998. As a prepaid tuition program, GET has a participant payout structure tied to in-state tuition rather than market-based investment returns. Historically, 100 GET units have equaled one year of resident undergraduate tuition and state-mandated fees at the state's highest-priced public university. GET accounts can be used at nearly any public or private college in the country. Families can buy between 1 and 500 units per child, and the account benefits from tax-free growth and withdrawals.

The GET Program is administered by the GET Committee. The GET Committee is comprised of the State Treasurer, the Director of the Office of Financial Management, the Executive Director of the Student Achievement Council, and two citizen members. At the Legislature's direction, the GET Committee has maintained the \$117.82 unit payout value for the 2015-16 and 2016-17 academic years. The committee also voted to delay new program enrollments and new unit purchases effective July 1, 2015, for a period of two years or less. Current statute required the GET Committee to reopen the GET Program to new enrollments on July 1, 2017.

Historically, the average annual increase in tuition at public universities nationwide has been 5 percent. During the 2014-15 school year, the average increase for public universities was 2.9 percent. Tuition growth at the most expensive public university in Washington state has remained flat since 2011-12, rising to \$11,782 for three academic years between 2012 and 2015, before being reduced to \$11,245 in 2015-16 and \$10,171 in 2016-17. GET credits currently payout based on a \$11,782 tuition cost, even though the highest in-state tuition is \$10,171 for the 2016-17 school year. The payout value for GET credits has been 117.82 per credit since the 2012-13 school year.

As of June 30, 2016, the present value of future obligations to the GET Program was \$1.7 billion and the present value of the fund is \$2.3 billion. The program was 135.6 percent funded as of June 30, 2016. As of January 31, 2017, the total assets in the GET Program were \$2,098,388,156 billion and the total number of GET units purchased and unredeemed were \$14,988,862 million. Based on these figures, the value of a GET credit is \$140.00 per credit.

WCSP. The WCSP was authorized during the 2016 legislative session. The money contributed to a WCSP 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. Direct sold savings programs allow states to offer college savings plans through which residents and, in many cases, non-residents can invest without paying a sales fee, known as a load. 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. Unlike the GET program, where tuition units have a guaranteed value when they are redeemed, the state of Washington does not guarantee a specific outcome for an account holder's asset. The District of Columbia and 38 states offer direct sold savings programs. Washington and Wyoming are the two states that currently do not offer direct sold programs.

The GET Committee plans to have Washington's direct sold program available to consumers in early 2018.

Summary of Engrossed Bill: Defines the term unit cash value price as the total value of assets under management in the GET account divided by the total number of outstanding credits purchased by eligible purchasers in accounts opened before July 1, 2015. The committee on advanced tuition payment, in consultation with the state actuary and state investment board, must establish the unit cash value price. Eligible GET account holders are authorized to redeem units at the unit cash value price as long as the funds are immediately deposited into WCSP during the redemption period defined by the committee. GET credits are not authorized to be redeemed at the unit cash value price when they are deposited into an out-of-state eligible 529 plan.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: The surge in the market has created this unique situation where the value in the GET program fund far exceeds the unredeemed unit obligation. Funds in GET accounts are not general fund dollars and it is in the state's best interest to have fewer people invested in GET and reduce the state's liability. More options for families to save for college are in students' and their families best interest.

Persons Testifying: PRO: Senator Mark Mullet, Prime Sponsor; Joe Dacca, University of Washington; Chris Mulick, Washington State University; Becca Kenna-Schenk, Western Washington University.

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