SENATE BILL REPORT
SB 5704

As Reported by Senate Committee On:
Higher Education & Workforce Development, February 14, 2019

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: Senators Liias, Mullet, Darneille, Hasegawa, Wilson, C., Das, Hunt, Wellman, Walsh, Billig, Nguyen, Van De Wege, Conway, Keiser and Kuderer.

Brief History:
  Committee Activity: Higher Education & Workforce Development: 2/05/19, 2/14/19 [DPS-WM].

Brief Summary of First Substitute Bill

- Creates the Washington Children's Education Savings Program.

- Deposits $100 per eligible beneficiary in a Washington Children's Education Savings Account.

- Requires the Washington Student Achievement Council to develop pilot programs to increase college savings and promote financial stability.

SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5704 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
  Signed by Senators Palumbo, Chair; Randall, Vice Chair; Holy, Ranking Member; Brown, Liias and Wellman.

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

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for college and other post-secondary training for a designated beneficiary, such as a child or grandchild. There are two 529 plans authorized in the state of Washington: the Guaranteed Education Tuition (GET) Program and the Washington College Savings Plan (WCSP).

Guaranteed Education Tuition. The GET Program, established in 1998, is Washington's 529 prepaid college tuition plan. As a prepaid tuition program, GET has a participant payout structure tied to in-state tuition rather than market-based investment returns.

Washington College Savings Plan. 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.

Committee of Advanced Tuition Payment. The GET Program and the WCSP are administered by the Committee on Advanced Tuition Payment. The committee is comprised of the state treasurer, the director of the Office of Financial Management, the executive director of the Washington Student Achievement Council (WSAC), and two citizen members.

Summary of Bill (First Substitute): WSAC must establish and administer the Washington Children's Educational Savings Account Program. WSAC must:
- automatically enroll all free and reduced price lunch eligible beneficiaries in the program;
- make an initial seed grant in the program of $100 per eligible beneficiary;
- deposit incentive grants for those who qualify;
- coordinate with the Committee on Advanced Tuition Payment, OSPI, local communities, and other partners as necessary.

Eligible beneficiaries automatically enrolled in the program are Washington State residents who are kindergarteners enrolled in a public school and eligible for free or reduced-price lunch. Eligible beneficiaries who may opt-in to the program are those with median family incomes at or below 130 percent of median family income, adjusted for family size.

One-time incentive grants of $50 are provided when:
- a college savings program account is opened for an eligible beneficiary and $50 are deposited in the account;
- a parent or guardian of an eligible beneficiary participates in a financial education training approved by WSAC; or
- a parent or guardian of an eligible beneficiary participates in a pilot program to increase savings as designated by WSAC.

WSAC must establish a method for verifying income eligibility and claiming the benefits. If the benefits are not claimed within 15 years of the account being opened or are not used for an eligible higher education purpose by the time the beneficiary turns twenty-one, with some exceptions, then the benefits are returned to the Washington Children's Educational Grant Program.

WSAC must report to the Legislature by December 1, 2025, on the status of goals established by the program. WSIPP must complete an evaluation of the program and its effects on college going and financial security, among other program benefits, by December 1, 2035.

EFFECT OF CHANGES MADE BY HIGHER EDUCATION & WORKFORCE DEVELOPMENT COMMITTEE (First Substitute):

- Expands eligibility for the Washington Children's Educational Savings Account Program to Washington State residents who are kindergartners enrolled in a public school in Washington 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 in to the program by opening an individual college savings program account under the DreamAhead Program.
- Requires the Student Achievement Council to establish a process for verifying income eligibility for those beneficiaries with family incomes that do not exceed 130 percent of the state median family income.

Appropriation: The bill contains a null and void clause requiring specific funding be provided in an omnibus appropriation act.

Fiscal Note: Available.

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

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: There are substantial barriers for low-income individuals to access higher education. Studies have shown that kids with a college savings of less than $500 but still some college savings are three times more likely to go to college. Starting young people off, even if it is a small amount of money, builds the dream of college. This bill builds on that by giving all children entering kindergarten who are free and reduced price lunch a deposit towards saving for college. This helps break some of the historic injustices and wealth disparities for families of color. This is a powerful way to promote equity and opportunity in our state for kids facing barriers to success. This sends a powerful message that the state in invested in the long-term success of low-income youth. This is a policy that advances educational outcomes and economic mobility as well as supports the health and mental wellbeing of participants. This bill has the opportunity to impact intergenerational poverty and will be a great step towards achieving that goal.

Persons Testifying: PRO: Senator Marko Liias, Prime Sponsor; Luke Minor, Director, WA529; Jennifer Tran, Washington State Budget and Policy Center; Alejandra Villa, Partners

for Our Children; Amy Van, Tacoma Housing Authority; Tracy Godat, Financial Education Public Private Partnership.

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