

# HOUSE BILL REPORT

## HB 2662

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### As Reported by House Committee On: Higher Education

**Title:** An act relating to creating the Washington next generation educational savings account program.

**Brief Description:** Creating the Washington next generation educational savings account program.

**Sponsors:** Representatives Kilduff, Haler, Muri, Ortiz-Self, Riccelli, Orwall, Walkinshaw, Robinson, Farrell, Bergquist, Stanford, Goodman, Frame and Fey.

#### **Brief History:**

##### **Committee Activity:**

Higher Education: 2/2/16, 2/5/16 [DPS].

#### **Brief Summary of Substitute Bill**

- Establishes the Washington Next Generation Educational Savings Account program (program), which automatically establishes an educational savings account for every child born in the state with an initial deposit of \$250, contingent on funding being available.
- Provides an additional matching grant for low-income families of \$279 if the beneficiary's family saves \$250.
- Requires that the program be established through a state 529 college savings plan if a college savings plan is established by June 30, 2019, or if not, through traditional savings accounts by contracting with a federally insured financial institution.
- Requires a beneficiary to use the funds for a qualifying higher education expense before his or her twenty-ninth birthday.
- Requires the Student Achievement Council (Council) to coordinate with the Financial Education Public Private Partnership to make financial literacy information available to beneficiary's families.
- Requires the Department of Social and Health Services, adoption facilitators, and others involved in adoptions to provide information about the program to prospective adoptive parents.

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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.*

- Creates an account within the State Treasurer.
- Requires the Council to report to the Legislature on November 1 of each biennium on the program status.
- Requires the Washington State Institution of Public Policy to conduct a program evaluation six years after the program's inception, and each six years thereafter.

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## HOUSE COMMITTEE ON HIGHER EDUCATION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Hansen, Chair; Pollet, Vice Chair; Zeiger, Ranking Minority Member; Bergquist, Frame, Hargrove, Holy, Reykdal, Sells, Stambaugh, Tarleton and Van Werven.

**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 higher education expenses. There are two types of 529 plans: pre-paid tuition plans and college savings plans. Washington has a pre-paid tuition plan known as the Guaranteed Education Tuition (GET) program, 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 529 college savings plans are similar to 401Ks and Individual Retirement Accounts in which a person invests a sum of money in market-based investment options. The account savings fluctuate and grow based on market conditions. A beneficiary of a 529 pre-paid tuition plan or college savings plan needs to use the funds for a qualifying higher education expense or the money becomes taxable.

In 2015 the Legislature passed the College Affordability Program, which lowered the price of tuition. As a result, the GET program is currently closed to new accounts while the GET Committee decides how to move forward with the program. In addition, the College Affordability Program required the GET Committee to consider creating a 529 college savings plan. In December of 2015, the GET Committee announced it would move forward with creating a state-run 529 college savings plan.

#### Universal Children's Savings Accounts.

A few states and cities have established universal children's savings account programs. The states of Maine, Rhode Island, Connecticut, and Vermont have established, or passed legislation to establish, 529 college savings accounts for every child born in their states. Maine has one of the longest running programs called the Harold Alfond College Challenge, in which every baby born to a Maine resident will have a \$500 grant automatically invested in Maine's 529 college savings plan. The state invests the \$500 grants in one giant, state-

owned account, but encourages families to open their own 529 accounts. Once the child turns college age, the grant money must be used for a qualifying higher education expense. The program was funded with a \$100 million endowment from the Alford Foundation.

#### San Francisco's Kindergarten to College Program.

The City of San Francisco has a similar program called Kindergarten to College, but with a slightly different approach and structure. Every child who enters kindergarten in a San Francisco public school has a savings account automatically opened for them with a \$50 deposit. Children who are enrolled in the National School Lunch Program receive an additional \$50 deposit. San Francisco partnered with Citibank to use traditional savings accounts rather than 529 college savings plans. The city holds all of the accounts under a master omnibus account using the city's tax identification number. Therefore, the city can establish sub-accounts for the kindergarteners using information the school district can provide, such as names, dates of birth, and addresses, without Social Security numbers or signed consent forms from parents. However, in order for kindergarteners to qualify for the additional \$50 grant for being enrolled in the National School Lunch Program, a parent needs to sign a consent form to release additional information.

Citibank provides each sub-account with a unique account number and account card, and families can make contributions by mail, online, in-person, and by auto-deposit. To avoid tax issues, the accounts do not earn interest, but they do earn a growth amount similar to interest, but at a money market rate. There is also a cap for deposits of \$2,500 a year. Only withdrawals for qualifying higher education expenses are allowed, and the kindergartner has to use the money before the age of 25. If not, the grants deposited by the city are forfeited.

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#### **Summary of Substitute Bill:**

The Washington Next Generation Educational Savings Account program (program) is established. The program must be administered by the Student Achievement Council (Council), and the Council has the authority to adopt rules, partner with one or more private organizations to establish and fund the program, and determine when an adequate amount of funding has been secured to begin implementation of the program.

The program requires that the Council establish an educational savings account (account) on behalf of each child born in the state, contingent upon funding being available. The Council must coordinate with the Department of Health (DOH) for birth registration notices, and a beneficiary's family has the option to opt out of the program. Adoptive parents have the option to opt-in to the program after adopting a child who is not already the beneficiary of an account, as long as they submit a request to the Council within one year of the decree of adoption being issued.

With the establishment of each account, the Council must deposit an initial grant of \$250. For a beneficiary with a family income less than 250 percent of the federal poverty level using the most current guidelines available from the United States Department of Health and Human Services, the Council must provide a one-time matching grant of \$279 if the family

deposits \$250 into the account. The beneficiary, beneficiary's family, and other private and public individuals may deposit funds into an account.

The program has two possibilities for structuring the accounts: either through a state 529 college savings plan or through traditional savings accounts housed within a federally insured financial institution. If the chair of the Committee on Advanced Tuition Payment notifies the Office of the Code Reviser by June 30, 2019, that a college savings plan has been established, then the program must be established through the college savings plan. If the chair of the Committee on Advanced Tuition Payment notifies the Office of the Code Reviser by June 30, 2019, that a college savings plan has not been established, then the Council must seek to contract with a federally insured financial institution to establish the program. In the event that the program is established using traditional savings accounts, and a college savings plan is established after June 30, 2019, the Council must study the feasibility of transferring the traditional savings accounts over to the college savings plan. If a transfer is deemed feasible, then the Council may transfer the accounts and establish the program through the college savings plan.

To make a withdrawal from an account, the beneficiary must be:

- 18 years of age; or
- enrolled in an eligible educational institution as recognized by the Internal Revenue Service under section 529 of the Internal Revenue Code; and
- less than 29 years of age, unless the beneficiary serves in a national service program, such as the United States Armed Forces, National Guard, Americorps, or the Peace Corps, in which case each month of service will increase the maturity date of the account by one month.

Withdrawals from an account may only be used for qualifying higher education expenses. An account will be considered mature when the beneficiary turns 29 years of age, and if the funds are not used for a qualifying higher education expense before the beneficiary's twenty-ninth birthday, or in the event the beneficiary dies, unused grant money originally deposited by the Council and any interest earned on the grant money must be returned to the program's main account. Any private contributions and the interest earned on such, must remain with the beneficiary or the beneficiary's family. If private contributions are not used for a qualifying higher education expense, they may be subject to tax regulations.

An educational savings account may not be used in determining an individual's eligibility to receive, or the amount of, any federally or state-funded assistance or benefit. Accounts opened up under the program are exempt from unclaimed property laws and rules until a beneficiary turns 29 years of age.

The Council may coordinate the program with the Advanced College Tuition Payment program to the extent the Council deems appropriate, but the Committee on Advanced Tuition Payment does not have authority over the program.

The Council must coordinate with the Financial Education Public Private Partnership to make financial literacy information available to beneficiaries and their families enrolled in the program.

The Department of Social and Health Services (DSHS), adoption facilitators, and any others involved in adoptions must provide information on the program to prospective adoptive parents.

The Washington Next Generation Educational Savings Account program is created in the custody of the State Treasurer. All money received for the program is to be deposited into the Washington Next Generation Educational Savings Account.

The Council is required to report to the appropriate committees of the Legislature by November 1 of the beginning of each biennium on the status of the program. The report must include data on the number of accounts opened, the average balances of the accounts, demographics of account holders and their families, and any other information deemed relevant by the Council. The Washington State Institution of Public Policy must conduct a program evaluation after six years of the program's inception, and every six years thereafter.

**Substitute Bill Compared to Original Bill:**

The substitute bill changes the language around opening educational savings accounts for children adopted in Washington. Instead of the DOH notifying the Council about the issuance of each birth certificate or decree of adoption issued, the DOH is to notify the Council of the registration of each birth record in the state. In addition, the phrase "born or adopted" is removed from the definition of beneficiary. If an adopted child is not born in Washington, and therefore, not already the beneficiary of an educational savings account, the adoptive parents have the option to opt-in to the program if they submit a request to the Council within one year of the issuance of the decree of adoption.

The DSHS, adoption facilitators, and any person providing adoption-related services are required to provide information about the program to prospective adoptive parents.

Lastly, the substitute bill adds an exemption prohibiting the educational savings accounts from being used to determine an individual's eligibility for federal or state-funded assistance or benefits.

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**Appropriation:** None.

**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.

**Staff Summary of Public Testimony:**

(In support) By 2023 the state hopes to have 75 percent of our population aged 25 to 44 earning postsecondary degrees. This is a strategy to help Washington meet its goal and help end generational poverty. It is a long-term strategy, but every child in Washington should have an educational savings account. Children with college savings accounts in their name

are three times more likely to enroll and four times more likely to graduate. This is because from an early age they identify themselves as college bound. This college-bound identity helps install a belief in children from an early age and lets them aspire to a better education.

The mission to provide and promote financial literacy is strongly supported. Financial literacy education is important because financial aid information is complex and students often graduate high school unprepared. College savings account programs also provide access to financial services rather than payday loans. This program compliments the GET program well and the other proposal for a 529 college savings plan that is out there.

(Opposed) None.

**Persons Testifying:** Representative Kilduff, prime sponsor; Carol Dellecker, Bellingham Children's Savings Account Program; Tracy Godat, Financial Education Public Private Partnership; Stephanie Bowman; Andrea Cobb, Tacoma Housing Authority; and Madeline Thompson, Washington Student Achievement Council.

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