

**Date:** August 30, 2012

**Subject:** Tuition Savings Plan Structures in Global Challenge States

Washington State’s Guaranteed Education Tuition program (GET) was established in 1998 under RCW 28B.95.050 as a legally binding contractual obligation between the state and account holders and is described in statute as “...an essential state government function.” The GET program is backed by the full faith and credit of the state, which means that the program would need to be kept whole with state appropriations if beneficiary payouts ever exceed available program funds. GET remains one of the few, and perhaps only, state-guaranteed tuition savings plans in the country that has not undergone any reform. Due to financial concerns, most other state-backed plans have either stopped accepting new accounts or significantly changed the options and enrollment requirements for new account holders. As of May 2012, Washington’s GET program was 80 percent funded compared to predicted obligations. In other words, years of tuition rate projections that were significantly lower than actual tuition increased coupled with inadequate actuarial analysis have degraded the longer-term viability of the program; it will not be fully funded until 2029 at current rates (even after the [largest unit price increase](#) of \$117 to \$163 last year).

While many states publicize voluntary 529 savings plans, Washington’s GET program is rare for a number of reasons, including its guaranteed state backing, consistent structure and contractual terms since inception, and use of the *highest* public tuition rate as a basis for which payouts are calculated regardless of where the student attends school. The last point is especially significant because an **unintended consequence of pegging payouts to the highest tuition level in the state is that concerns about the affordability of maintaining the GET program becomes a material factor in the tuition-setting process**, which means that pre-existing promises made by the state exert restrictive pressure on the ability of institutions to set tuition to replace lost state funding or to generate additional resources to offset more expensive programs.

Global Challenge States	Tuition Savings Plans (* Denotes State Guarantee)
California	<a href="#">ScholarShare</a> is an open 529 savings plan that generates returns income tax-free. The plan is not backed by the state; it is simply an investment-based savings plan for the purposes of offsetting education expenses (obviously not set to any one rate or unit price-based).
Colorado	Colorado’s guaranteed tuition plan was abandoned in 2003 when returns fell so far behind payout obligations that the program was restructured but no new (guaranteed) units were sold. Currently, the state offers a 529 savings plan, but is still paying off contractual obligations from the guaranteed tuition plan. Before the plan was closed, the state gave account holders the option of closing their accounts or entering into new contractual terms. Well over a <a href="#">third of the accounts were closed</a> .
Connecticut	The Connecticut Higher Education Trust ( <a href="#">CHET</a> ) is nearly identical to California’s college savings plan. Earnings are generated tax-free and can be used to cover qualified education-related expenses.
Maryland*	Maryland offers a <a href="#">guaranteed prepaid college</a> tuition program

backed by the state with annual four-month enrollment windows. The state also publicizes a [529 college savings plan](#). The state-backed “college trust” plan uses a weighted average base tuition rate (not the highest tuition rate) and offers [three tuition plans](#). The university plan is the most expensive plan, employing a weighted average of MD university-level tuition rates. The community college plan and the two plus two plan provide less expensive up-front costs and pay out less when used. Maryland also prohibits account holders from using their benefits for three years after account inception.

**New Jersey**

[NJBEST](#) is an open 529 savings plan that generates returns income tax-free. Like California and Connecticut, New Jersey offers a simple investment-based savings plan for the purposes of offsetting education expenses.

**Virginia\***

Virginia offers two major college savings plans for residents. Like Maryland, Virginia offers a [prepaid education program](#) that allows families to prepay tuition and fees at current prices with a state-backed guarantee. However, new contracts are limited by a strict, short enrollment period to only newborns through ninth grader students. The guaranteed plan does not cover fees specific to certain majors or courses of study (or course fees). The plan does not pay out in excess of the actual cost of resident undergrad tuition and mandatory fees (for VA, this includes operating fees, technology fees, and services and activities fees). Contract pricing is based on the intended college enrollment type and the age of the contract beneficiary. For example, VA offers one-year community college plans, two-year community college plans, and one- to five-year university plans. The older the beneficiary is when enrolling in the plan, the more the account holder will pay per year. Virginia also offers an investment-based 529 savings plan.

**Non-GCS Noteworthy Tuition Plans**

**Texas (Not a GCS Peer State)\***

**Tuition Savings Plans (\* Denotes State Guarantee)**

Like Virginia, Texas closed new enrollments to its Washington GET program equivalent in the early 2000s and began a new, tiered program with different pricing. The [Texas Tuition Promise Fund](#) offers three tiers: highest payout (like Washington’s GET program), weighted average payout (weighted average of all university and college tuition and fees) and technical/two-year college weighted average payout. The pricing structure dictates the highest possible payout a beneficiary may receive. In other words, if a student’s family purchased three years of the weighted average tuition plan, but the student attends UT Austin, the payout will be capped at the

	<p>weighted average tuition amount and not rise to cover total tuition and fees at the more expensive institution. Texas also offers a basic 529 savings plan.</p>
<p><b>Florida (Not a GCS Peer State)*</b></p>	<p>Florida offers the oldest and most complex array of prepaid tuition plans. The program began in 1988, but since evolved to offer six different plans: a two-year weighted average community college plan, a four-year weighted average college plan, a 2+2 transfer plan, a four-year weighted average university plan (which will cover tuition differentials and fees for new contract holders), and a university dormitory plan. Before 2010, account holders would add differential tuition expenses and/or local fees to their plans at extra expense, but in the last two years, new contracts include fees and differential tuition expenses. This extension came with a 15 percent additional premium, which is expected to assist in the program’s long-term health. Despite this variation, and relatively <a href="#">expensive plan prices</a>, both the prepaid tuition plan fund and the 529 savings plan fund are <a href="#">viable</a>.</p>

A few themes emerge from a simple scan of GCS peer states’ tuition savings plans. First, most states offer 529 investment portfolio savings plans, but stop short of guaranteeing college savings plan values and payout levels. For states that do or did offer guaranteed tuition savings plans similar to GET, most created tiered pricing and payout rates (e.g. community college, four-year), or based payout on the tuition rate of the actual institution attended (capped at the highest public tuition rate) or on a weighted average of public tuition rates in the state. Washington’s GET program remains a significant outlier in that it guarantees a payout of the highest tuition rate regardless of institution attended, and maintains one unit price for every account holder (though it allows account holders to buy program units via lump sums or monthly payments).

The Office of the State Actuary now produces projections for GET and assists in setting GET unit prices. Resident Washington GET units now cost \$172 dollars (and 100 units “buys” one year of tuition at the most expensive tuition rate) based on projections that tuition rate increases of 12 percent in 2013-14, 10 percent in 2014-15 and 2015-16, 8 percent in 2016-17, and 5.5 percent 2017 and into the future. It is possible that UW undergraduate tuition increases at a lower than assumed rate, which would allow room for some differentiation of undergraduate tuition rates as long as the highest rate on campus was within actuarial thresholds. If tuition does increase at or above the assumed rates, any kind of differential tuition will directly result in increased GET payout rates for all account holders.

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