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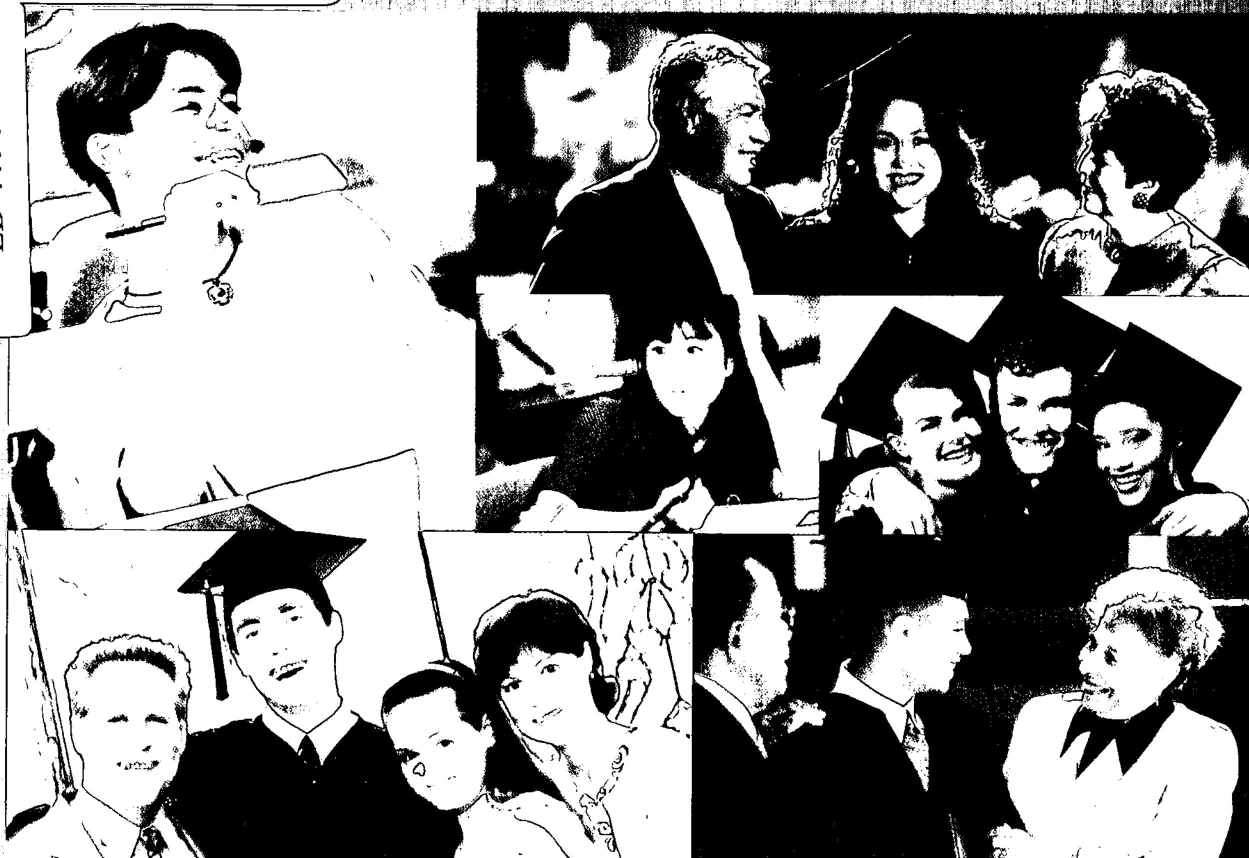
ABSTRACT

This publication provides an overview and discusses underlying issues of the college savings and prepaid tuition plans that are emerging in the states. Two papers offer different vantage points on college savings and prepaid plans in financing postsecondary education. The first paper, "The Evolution of State Plans" (Barbara M. Jennings), discusses taxing history, prepayment versus investment plans; treatment of accumulated savings/prepaid tuition when families apply for financial aid; the added value of prepaid tuition plans; pros and cons of various choices; and promoting family responsibility to save. The second paper, "Second Generation Progress and Problems" (Michael A. Olivas), discusses various policy concerns, including: equity implications; institutional implications; and legislative implications. Following the two papers, a colloquy on the issues between Lawrence Gladieux, executive director of the College Board, and the two authors covers such questions as: "Do We Need a National Tuition Savings Plan?" "How Can We Assure Student Choice?" "What Happens in the Next Recession?" "Who Benefits?" and "How Can We Extent the Wonders of Compound Interest to All?" Three appendixes present tables of state prepaid programs, tables of state savings programs, and contact information. (Contains 10 references.) (SM)

Prepaying & Saving for College

Opportunities and Issues



Barbara M. Jennings & Michael A. Olivas

No. 3

The College Board

POLICY PERSPECTIVES

PREPAYING & SAVING FOR COLLEGE

Opportunities and Issues

Barbara M. Jennings
Michael A. Olivas

The College Board
Washington, D.C.

March 2000

The College Board is a national nonprofit membership association dedicated to preparing, inspiring, and connecting students to college and opportunity. Founded in 1900, the association is composed of more than 3,800 schools, colleges, universities, and other educational organizations. Each year, the College Board serves over three million students and their parents, 22,000 high schools, and 5,000 colleges, through major programs and services in college admission, guidance, assessment, financial aid, enrollment, and teaching and learning. Among its best-known programs are the SAT, the PSAT/NMSQT, the Advanced Placement Program (AP), and Pacesetter. The College Board is committed to the principles of equity and excellence, and that commitment is embodied in all of its programs, services, activities, and concerns.

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The College Board

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Introduction

Who pays for postsecondary education? Who benefits? Who *should* pay? Society's answers to these questions are always in flux. The cost burden is shared—and shifts by degrees over time—among students, parents, taxpayers, and private donors.

Student and parent contributions must be financed by some combination of past income (savings), current income, and future income (borrowing). If we were to poll policymakers and education leaders across the country on our current system of financing postsecondary education, there would probably be broad consensus that: a) many students are borrowing too much and b) many parents today are less willing to sacrifice and bear as much of the burden of educational costs as their parents did for them.

On both philosophical and practical grounds, one can argue for the importance of public policies that reinforce the primary responsibility of parents—to the extent of their financial capacity—to finance their children's education. It is a matter of intergenerational equity. It is also a matter of finding alternative sources of financing. Stimulating family savings for college is one way to help stem the rising tide of student debt that almost no one seems to favor.

The question is what kind of policies and incentives will be effective and appropriate to generate greater savings, and who will benefit. Tax subsidies for savings will only help those who have dollars to save, not primarily low- and moderate-income families who can barely make ends meet and need other kinds of aid to gain access to higher education. Intergenerational equity in financing college may not have much meaning for those who would be the *first* generation in their family to go to college, or for older, nontraditional students who are no longer financially dependent on their parents.

So there are both opportunities and issues as policymakers in Washington and the state capitals embrace the movement to increase college savings.

Among the states this movement became a virtual stampede in the late 1990s.

More than 40 states now offer or have passed legislation to give parents the chance to prepay the costs of their children's education and/or set money aside in an investment fund dedicated to meet such future expenses.

Recent state initiatives to create or expand tuition savings programs can be traced to the 1980s. Almost 20 years ago, tuition in public and private higher education began to rise faster than both inflation and median family income, fueling public concern about college affordability. In 1986 Michigan gained national attention by creating a fund in which parents could invest and guarantee prospective college tuition payments for their young children. Other states followed with variations on the Michigan plan. But unresolved legal and tax issues loomed in the late 1980s and early 1990s. Only in the last three years has Congress clarified the treatment of "Qualified State Tuition Plans" under the federal tax code, encouraging states and potential investors to move full speed ahead.

As we enter a new century, the tuition spiral shows no signs of abating. Nor does public anxiety about rising college costs, or the need for creative policies to assure opportunity and choice in postsecondary education.

This report provides an overview of the college savings and prepaid tuition plans that are emerging in the states, and a discussion of the underlying issues. For the latter we commissioned papers from two leaders, Barbara M. Jennings and Michael A. Olivas, who offer different vantage points on the savings/prepaid movement.

Until January 1999, Barbara Jennings was founding director of the Ohio Tuition Trust Authority, one of the first (established in 1989) and largest state prepaid programs. From 1994 to 1997, she also served as chair of the College Savings Plans Network of the National Association of State Treasurers, a position from which she vigorously advocated the case for favorable federal tax treatment of state tuition savings and prepaid programs before Congress. Prior to her work for the Ohio Tuition Trust Authority, Jennings was a college administrator. An attorney, she is currently vice president for institutional advancement at Columbus College of Arts and Design.

Michael A. Olivas is William B. Bates Professor of Law and director of the

Institute for Higher Education Law and Governance at the University of Houston Law Center. In addition to extensive research and writing on the law and higher education, he has followed and analyzed the development of state prepaid tuition programs. He is editor of *Prepaid Tuition Plans: Promise and Problems* (College Board, 1993), and he is currently working on a book, *Dollars, Scholars, and Public Policy: Financing College Debt in the 21st Century* (forthcoming, 2000). He was the state's expert witness in the recent U.S. Supreme Court case *College Savings Bank v. Florida Prepaid College Program.*

We asked Barbara Jennings and Michael Olivas each to give us their vision of the future of college savings and prepaid plans in financing postsecondary education. What are the pros and cons of prepaid versus more conventional savings plans? What have been the successes and failures so far? What are the benefits and risks of prepaid programs—for states, for colleges, for students?

Where is public policy heading in the effort to make access to college more equitable in our society? Can savings programs reach those who most need help, not just middle- and upper-middle-income families?

Above all, where is public policy heading in the effort to make access to college more equitable in our society? Will the savings movement help close gaps in opportunity? Can savings programs reach those who most need help, not just middle- and upper-middle-income families for whom savings incentives may be primarily a convenience and source of tax breaks? And how will—or should—the new savings and prepaid accumulations affect eligibility for financial aid?

After reading their papers we asked the authors to answer several follow-up questions, which we have included here as a colloquy elaborating on the issues.

The Appendix provides up-to-date (as of fall 1999) information on the key features of the state programs. We thank the College Savings Plans Network, as well as state agencies across the country, for providing this information. Another especially useful source of data on state initiatives is the Web site maintained by FinAid at www.finaid.org.

We also provide a list of references and resources, including previous reports on this topic from the College Board. During the early days of the prepaid tuition movement, the Board helped foster debate, hosting conferences in 1987 and 1989 on the nascent plans then on the drawing board. In 1990 the College Board published *College Savings Plans: Public Policy Choices*, edited by Jansen Hansen, and in 1993 the Board published the above-mentioned volume edited by Michael Olivas. We hope the current report helps to promote policies that broaden access to higher education.

Ginny Perrin oversaw the editing and production of this report. Scott Swail advised on content, design, and graphics. Alicia Dorsey assisted on logistics and gathered information for the appendices.

This publication is the third in our Policy Perspectives series from the Washington Office of the College Board. The first, "The Virtual University and Educational Opportunity: Issues of Equity and Access for the Next Generation," was published last spring. The second in the series, "From Rusty Wire Fences to Wrought-Iron Gates: How the Poor Succeed in Getting to—and Through—College," was released in January 2000.

Information about these and other policy studies from the Washington Office can be found at the College Board's Web site (www.collegeboard.org).

Lawrence E. Gladieux
Executive Director for Policy Analysis
The College Board

The Evolution of State Plans

Barbara M. Jennings

Rumor has it that state college savings plans are on the endangered list, soon to be replaced by a sweeping horde of "new and improved" college savings options—including a possible national plan. These newest plans purportedly offer families greater value and better reward for early savings. Higher allowable total contribution levels and portability of use make the newer plans particularly appealing to higher-income families. They are more aggressive than the more structured defined-benefit nature of the prepaid tuition plans. But, before the original prepaid plans are written off as a mere transitional construct that paved the way for these "better" plans, the relative value for true middle-income families deserves further consideration.

A Taxing History

Proponents of the savings plans argue that the "prepaid tuition movement" served its sole purpose in being the catalyst in attaining pro-college savings tax relief by standing up to the IRS and successfully lobbying Congress. Resulting congressional action in 1996—Section 529 of the Internal Revenue Code—is the vehicle that has given life to a proliferation of alternative new college savings options. Continued pressure led to the Taxpayer's Relief Act, which enhanced Section 529 by expanding the definition of Qualified State Tuition Programs (QSTPs) and broadening the scope of qualified higher education expenses to include room and board, books and supplies, etc. Today, the concept of state-operated tuition plans has become mainstream and a total of 44 states have a wide array of plans in operation or design.

Prepayment vs. Investment

The majority of the newest state plans are not the originally popular prepaid tuition variety; they are the "new and improved" college savings investment plans. And, even states that are already successfully marketing a prepaid tuition plan are contemplating adding an alternative college savings plan. The goal is to leverage existing marketing costs and reach a broader range of families, with varying levels of both income and risk tolerance, by offering a choice of college plans that will allow and encourage maximum savings for comprehensive college costs.

States are flocking to adopt these savings/investment plans, and all the popular "how-to" personal finance magazines are declaring these new plans to be the smart choice. Why are they all the rage? The answer is different for the consumer than it is for the states.

The new college savings plans allow funds contributed to a child's account to be pooled in a trust fund made up of many such accounts, to be strategically invested, and, most importantly, to offer a market rate of return that is not limited to actual tuition inflation. Prepaid tuition plans offer pooled accounts, strategic investment, but typically have a rate of return tied to actual annual tuition inflation in the state. Earnings on savings plan contributions have the same federal and state tax advantages as prepaid tuition plans; however, accumulated savings can be more flexibly applied to cover all qualified higher education expenses out of one account. Prepaid tuition accounts are typically structured and priced to cover only costs of tuition.

Because there is no guarantee that earnings will keep up with the rate of tuition inflation, many states are opting to create savings plans. Savings plans can be structured to involve little or no financial risk for the state by passing more risk to plan participants. Families who favor savings plans are willing to trade the safety of a tuition-inflation guarantee for the chance of a higher rate of return. In this amazing era of skyrocketing stock market performance, the reality is that the rate of return could also be zero or negative, resulting in a loss of principal, but that risk does not deter the ever-growing number of individuals in the retail market who seek to maximize earnings.

States have enlisted in the college savings movement due to the good public purpose served in encouraging a more educated and better-trained future workforce. A well-educated, employable population increases tax revenues and slows cost growth for welfare, crime prevention, and corrections. State financial resources are already stretched to keep up with budget requirements for Medicare, prisons, K–12 education, and infrastructure costs. Increased direct support for higher education or additional state financial aid programs is problematic. From a state's perspective, if a viable, self-help college savings program can be offered at little or no expense to the general taxpayers and thereby relieve public pressure to increase state financial aid, this is good.

States have been willing to give state income tax incentives of tax-free earnings and/or deductibility of contributions, but most state plans have been actuarially structured to ensure that all future financial risk rests with the plan and not the state. Only a very few state prepaid plans are backed by the full faith and credit of the state—most are backed only by plan assets. This means that state law provides no guarantee that the state will financially bail out a plan should tuition obligations exceed plan assets, and these state plans must therefore be actuarially structured to have contingency reserves. It has been a blessing that the earliest plans were initiated and have been thriving in an amazingly healthy economic climate.

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The federal government has been slow to embrace the public value of these state plans. The IRS saw the plans as tax shelters for the wealthy and almost closed down the state savings movement. The first state prepaid tuition plan was offered by Michigan—the Michigan Education Trust (MET)—and the IRS promptly ruled that the state was not entitled to tax-free growth of the trust fund, and Michigan was unexpectedly required to pay tax on the inside buildup of the MET fund. Michigan then challenged the IRS ruling with a lawsuit in 1988. Eventually Michigan won its case on appeal in 1994, but at a high cost in terms of legal fees and lost program viability. For over six years, the IRS refused to rule on any other private letter ruling requests filed by other states with prepaid tuition plans, leaving several operational plans in limbo as to federal tax treatment.

Several brave states designed their plans in response to the Michigan ruling. Kentucky created the first college savings account plan, avoiding the prepaid plan dilemma. Florida set up its prepaid plan with the full faith and credit of the state to automatically qualify the plan for tax-exempt status, and the Florida plan is undoubtedly the most successful state prepaid plan to date, with over 500,000 accounts established. To insure fiduciary soundness, Ohio opted to price its prepaid tuition plan at a premium and build reserves in case federal taxes would be required. However, after more than five years of no clarification from the IRS, the state further attempted to meet the IRS requirement of state financial backing by providing $1 million in state operating funds for its prepaid plan in its 1994-95 biennial budget. The IRS then indicated in conference that only permanent financial backing would suffice. Ohio finally passed a constitutional amendment to put the full faith and credit of the state behind its prepaid plan, and subsequently rebated the original pricing premiums back to charter participants in the form of added prepaid tuition.

The uncertain federal tax status coupled with all the negative media generated by the Michigan tax controversy kept most states on the sidelines, watching and waiting to take legislated plans operational. Congress finally intervened in 1995 and gave protective recognition to state college savings plans, providing all qualified plans with tax-exempt status. However, federal regulations that are still pending will likely cause plans to mutate and have great similarity of features—begging the question as to why Congress did not simply create one national college savings plan. Vice President Gore's recent "innovative" campaign proposal to create a national college savings plan will undoubtedly meet healthy resistance by states with viable pre-existing plans. These states' rights advocates continue to pressure Congress to allow plan participants federally tax-free earnings, rather than tax-deferred earnings, and the strong bipartisan support and sheer number of states involved make tax-free treatment highly likely. It is more a question of when and whether appropriate maximum contribution levels and/or income limitations will be imposed.

The Financial Aid Quandary

The more challenging federal issue for these plans is the treatment of accumulated savings/prepaid tuition when families apply for financial aid.

A controversial distinction exists between the prepaid plans and savings plans. Because college savings accounts are deemed to be owned and controlled by the parents for the benefit of a designated child, plan advocates are assuming that accumulated savings can be counted as parental assets for purposes of determining financial aid eligibility. Pending federal regulations for interpretation, current law is actually silent as to this assumption, but, if correct, such financial aid treatment of savings plans would make them a better financial deal than prepaid plans, especially for middle-income families. Middle-income families with multiple children typically cannot afford to save enough to cover all college costs and generally need to augment savings with some form of financial aid.

In the Higher Education Amendments of 1992, Congress unfortunately established that the account value of a state prepaid tuition account must be treated as "other financial assistance" in determining financial aid eligibility. This means that the "prepayment" account value is supposed to be counted the same as if it were external scholarship support, thus reducing financial aid eligibility dollar-for-dollar. In effect, the current federal financial aid methodology provides that "parental assets" impact aid eligibility at a rate of only 6 percent, whereas "other financial assistance" impacts eligibility at a rate of 100 percent! Efforts to fix this highly inequitable, punitive financial aid treatment of state prepaid accounts during the 1998 reauthorization of the Higher Education Act were unsuccessful, not for lack of merit but because attention was riveted on student loan interest rates. The National Association of Student Financial Aid Administrators (NASFAA) agrees that this problem needs to be fixed, but unfortunately many desired corrections relating to the financial aid formula were bypassed in 1998.

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This glaring disparity in financial aid impact between the state prepaid tuition plans and the state college savings plans is perhaps the major source of the rumblings that prepaid plans are destined to disappear from the scene. However, it is precisely because the current financial aid methodology's bias against prepaid tuition plans is so blatantly unfair, relative to how other types of parental savings are counted, that it seems likely that prepaid plans will be given a reprieve. If the 19 states with prepaid tuition plans mobilize the more than 900,000 prepaid tuition account owners to loudly complain about this problem, Congress will likely pay attention and take action. Once attention is focused, the illogic in treating family savings as "scholarships" will hopefully lead to repeal of the punitive treatment of prepaid accounts and result in fair and equal treatment.

A simple and logical solution would be to count qualified state tuition plan savings—regardless of the type of plan—as funds dedicated to be used to pay the expected family contribution (EFC) component of the financial aid formula. Excess savings, if any, could be applied to reduce financial aid eligibility, which is most often loan eligibility for middle- and upper-income families.

Prepaid Tuition Plans' Added Value

It is vitally important that prepaid tuition plans remain a viable alternative. By design, they are created to best serve true middle-income families—those with total family incomes in the range of $30,000 to $50,000 for a family of four. Prepaid plans are typically structured to allow prepayment sufficient to cover only basic tuition costs of the state's public two-year colleges and four-year universities. The goal is to assist in saving to cover basic academic costs at in-state public institutions, and this focus helps keep plan costs reasonably affordable for the average family. And affordability is key because families in this income group have minimal disposable income available for savings, yet they are most at risk of missing higher education opportunity should financial aid eligibility be a problem.

Selling a savings plan to these families is very difficult because they struggle to meet month-to-month expenses, they do not feel particularly wealthy, and they tend to believe that they will qualify for financial aid because they are not aware that their family income is actually above the current limit for grant aid eligibility. Creative consumer education is needed to reach this group. Regrettably, most states have not yet been very successful in selling the concept of early college savings to this very important target market.

The safety provided by the guarantee that prepaid tuition will fully cover future tuition inflation is extremely valuable to these families. Middle-income families cannot easily absorb the risk of loss associated with more aggressive investment strategies. A loss of savings or a need to rely on excessive borrowing to afford higher education is likely to result in cancelled college opportunity. Reliability of dedicated funds is the key to why prepaid tuition plans are better than savings/investment plans for middle-income families. The risk that college will not be affordable is transferred to the plan.

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In addition to this risk-transfer, prepaid tuition plans offer many other valuable features most appropriate for those families who most need to keep their savings strategy affordable:

- Convenient and low-cost monthly installment plans can be set up through payroll deduction, electronic fund transfer, or coupon book options.
- A plan structure that offers a tangible way of tracking exactly how much future education is prepaid based upon the amount of dollars contributed, according to either payment of a preset contract price or accumulating a set number of tuition units.
- Parents rather than students control the prepaid account until it is distributed to pay college costs: They decide whether to transfer, defer use, or withdraw funds.
- Tuition disbursements are made directly to the schools: Funds are never paid directly to the student.
- Most plans allow for early withdrawal of account funds, allowing participants liquidity in case of emergency.

- Accounts can be transferred for use by any member of the immediate family, including the parents, to allow educational benefits to be applied as best needed by the family.
- Earnings on contributions are usually free of state tax and are always federally tax deferred, and, when used to pay tuition, earnings are federally taxed at the student's usually lower tax rate.
- And, a final, relatively new feature: The dollar value of prepaid tuition used to pay college costs each year can be used by middle-income parents to claim the new federal Hope and Lifelong Learning tax credits. Parents get the advantage of the tax credit applied to their higher income and, because the funds were used for the benefit of the student, the tax rate applies to the student's lower income. This full tax advantage does not apply to the upper-income families who do not qualify to claim the tax credits.

For the less investment-savvy individual who is simply trying to pick a smart way to successfully save, sorting through varying plan details can be overwhelming. In addition to confusion over the details of too many types of plans, most of the newest savings plans and several prepaid options do not even have residency requirements, so they are being aggressively marketed across state lines. Information overload is occurring. Increasingly, private investment firms—such as Fidelity and TIAA-CREF—are being hired by state plans to provide key services such as money management and marketing, and these well-recognized firms are applying their considerable marketing prowess, advertising networks, and deeper advertising budgets to promote early planning and sell college savings plans nationwide.

This proliferation of offerings was definitely complicated by the 1997 Taxpayer Relief Act's creation of the new federally approved Education IRAs. These new IRAs permit tax-free growth for up to $500 per year in college savings per child under 18. However, to be tax free, the savings must ultimately be used to pay only qualified college costs. In addition, the 1997 Act created the new, very popular Roth IRAs, which are being heavily marketed by financial planners and institutions nationwide with emphasis on the possibility of tax-advantaged early withdrawal to pay college costs. All these new IRA options, and the earlier federal EE savings bonds, are being touted by the federal government as ways to aid middle-income families and each has preset income limits restricting eligibility to participate. And, as if this weren't enough, even more competition is pending. Several coalitions of independent (not-for-profit) colleges are actively lobbying Congress to allow them to offer yet another savings choice—aimed to pay private school tuition—with the same federal tax advantages as the state-operated plans.

This bounty of college savings choice is absolutely astounding considering that, prior to the rise of the first state prepaid plans in the late 1980s, options available to the average family for saving for college were few and less than enticing. A few higher education institutions offered prepayment plans guaranteeing their own tuition inflation, and several insurance and annuity products were marketed as college funds. States offered fixed-rate, tax-exempt state college savings bonds; the federal government promoted affordable fixed-rate EE savings bonds; and financial institutions and credit unions offered passbook savings accounts. Studies show that the latter have been, by far, the most frequently used savings vehicle for middle-income families. Upper-income families more often established trust funds for their children, relied on their diversified investment portfolios, or simply planned to pay costs out of current income. Unfortunately, regardless of the number or quality of choices available to families, financial planning surveys over the last two decades indicate that the majority of families do not save for college costs.

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Pros and Cons of Explosion of Choices

One could argue that the explosion of college savings choices is inherently bad because there is now added perplexity in the minds of a group of folks who are basically reluctant to save in the first place. College saving should start as early as possible in order to take best advantage of the value of compound interest. Excess choices delay action. There is also serious complaint that what started out to be a safe and simple middle-income entitlement program—providing savings incentives for families who have too much income to qualify for free financial aid and not enough income to pay college costs without extensive borrowing—has now become a gold mine of unnecessary tax-shelters for wealthy families. And, as total savings are being spread across a wider number of plans and the disparity of financial aid treatment persists, the probability increases that the more affordable, guaranteed, defined-benefit prepaid plans best suited for the original target audience might not survive.

On the other hand, the growth of savings opportunities can be viewed as a very good thing. It is good to give people choice, because not everyone has the same monthly family budget limitations, savings goals, or risk-tolerance levels. Healthy competition between the multiple kinds of college savings plans might ultimately cause all plans to offer the best possible value at fair cost. However, for this more optimistic future to occur, a well-orchestrated consumer education campaign is urgently needed to help families understand the important differences between the choices available, by explaining relative risks and comparative tax implications and answering questions to help people make informed decisions.

Thankfully, a well-organized consumer advocacy group already exists in the College Savings Plans Network (CSPN), an affiliate of the National Association of State Treasurers. As demonstrated by its past successful educational activities targeting the U.S. Congress, the CSPN has the necessary capabilities to take the lead in developing and disseminating user-friendly information. Unbiased, clear, and concise coaching combined with heightened awareness through widespread marketing activities should ultimately result in a greater percentage of families being better prepared financially to pay college costs.

Promoting Family Responsibility to Save

The entire higher education community must work together to build universal awareness of the reality that, to increase access to higher education for all, each and every family has the responsibility to pay for higher education to the best of their ability. State and federal financial aid programs should be predominantly need-based and targeted to help those children whose families clearly don't have the wherewithal to save or pay themselves. The system should have zero tolerance for those parents who are clearly financially able to pay, but somehow believe that they are entitled to have others—usually the government or the institution—pay for them, so they work the system and pressure financial aid officers to give them favored treatment. Those that are financially able to save should be encouraged to save by factoring an "ability-based savings expectation" into the federal financial aid methodology. Favorable tax incentives for dedicated college savings coupled with an appropriate "failure to save penalty" for families with the financial wherewithal to save would send a clear message.

Because of a growing attitude of entitlement taken by many higher-income applicants for financial aid, assistance originally designed to benefit only the most needy students is being stretched too far. Financial aid offices are being co-opted as parents shop for the best deal to be offered in financial aid packaging. The conventional wisdom is that saving is counterproductive because it hurts eligibility for financial aid. Financial planning efforts by upper-income families are too often geared toward finding ways to hide and protect assets in order to feign need. Aside from the fact that such tactics lack integrity, they set a poor example for the college-bound child involved and can result in the selection of a college based on the best "deal" derived rather than on the best fit for college success.

Because of a growing attitude of entitlement taken by many higher-income applicants for financial aid, assistance originally designed to benefit only the most needy students is being stretched too far.

Saving has more meaning than just the dollars involved. A powerful message is conveyed to a child by a parent, grandparent, or any other adult who plans and saves for that child's higher education opportunity. The idea that higher education is expected gives incentive to stay in school and pay attention to academic performance. Saving and encouraging young children to think and talk about their interests and possible career paths is healthy for their self-esteem. If saving supports academic preparation and higher education success and if higher education unquestioningly opens windows of possibility, how can any caring parent avoid the responsibility to save?

Though rocky, the future for qualified state tuition plans still looks promising, and accumulated savings should slowly begin to curb family borrowing in order to afford higher education. As awareness of family responsibility is kindled and user-friendly information explaining choices is easier to find, a plethora of college prepaid/savings/investment offerings will continue to evolve and prosper.

As the American economy skyrockets upward, those families with the most disposable income will opt for the plans that offer highest potential rate of return. Unfortunately, many middle-income families that should opt for security over risk may be tempted to follow along. A model national savings plan and/or heightened competition by plans being marketed nationally by well-known investment firms will pose serious survival problems for state plans with minimal marketing budgets. However, some states may join forces and create more cost-efficient regional plans. States with prepaid tuition plans will likely develop companion savings plans to promote savings for other qualified college costs—or perhaps endorse another state's plans that can meet unmet needs. But the college savings movement will undoubtedly adapt and survive, and ability-based advance family savings will hopefully be utilized as a key strategic component in setting future federal financial aid policy.

Second Generation Progress and Problems

Michael A. Olivas

If college savings plans (CSPs) did not already exist, someone would surely have to invent them. As I travel through various states, I almost get a lump in my throat seeing public service ads for CSPs on late-night television: In Texas, a pretty young chicana asks her mom if she will be able to go to college. A Florida family stands around a cake, celebrating a grandchild's birthday, complete with prepaid tuition certificates as birthday gifts. Another state's public service announcement seems to be for its lottery—but no, all the hullabaloo is about the new prepaid tuition plan—some participants will even receive scholarships. Yet another state will give fully paid CSP awards to the first five children born in 2000. I find myself mentally backdating nine months from January 1, and realize I've missed out.

Prepaid Tuition plans, operational in 19 states, work on a very simple premise: Parents or grandparents invest a lump sum or make monthly payments and are guaranteed by contract that the money will be sufficient for an equivalent of tuition and fees in a set period of time in the future. Thus, if 1999 tuition at a Texas public college is $10,000 for four years, that $10,000 (plus a small fee) invested in the Texas Tomorrow Fund in 1999 will be guaranteed to cover my newborn daughter's four years of tuition and fees in 2017—18 years from now. The state can guarantee the return by virtue of pooled assets, economies of scale, and careful actuarial practices. Some states even assure the full faith and credit of their state (as does Texas) to the CSPs, pledging state funds to cover any eventual shortfall.

In addition to prepaid or defined-benefits plans, many states have also created state-operated investment funds dedicated to educational expenses. With recent federal legislation, these funds gained tax-exempt status, covered additional college expenses (such as room and board), and allowed parents to defer the gains made from the investments and to delay and transfer the earnings to the beneficiary children, who are taxed at lower rates than are wage earners. States such as New York have also given state tax exemptions to the plans.

This panoply of state and federal tax treatments for both types of plans turned the tide: A decade ago these plans had no statutory tax exemption and were not even considered tax exempt by the Internal Revenue Service. When the Michigan Education Trust (MET) was challenged by the IRS, the MET lost its case at the trial level, but won an important victory in the appeals court. When the IRS decided not to appeal, the way was cleared for Congress to act. Since then, both types of plans have prospered. Florida has over $3.5 billion in prepaid contracts, while the Texas Tomorrow Fund sold nearly 50,000 contracts in its first year of operation. Additional developments continue: As states make provisions for investments in private institutions, the Teachers Insurance and Annuity Association — College Retirement Equities Fund (TIAA-CREF) has established a program to manage these state investments; some states have added full faith and credit (as in Texas and Ohio), while others have declined to do so (voters in Oregon voted down such a proposal in 1998); and private colleges have formed consortia to pool prepaid investments for their institutions.

When I first examined these plans, in the early 1990s, I wondered how these programs could survive the MET experience and thrive as taxed, essentially for-profit organizations. Well, as it turns out, reports of the deaths of these programs were exaggerated, and I am glad to have been wrong. My concern was who would be required to pay for burying these programs: I thought it wrong for states to use general tax revenues to bail out programs that served the relatively well-to-do.

However, these plans placed their bets on a bull market, and they won. Even conservatively managed funds (some bound by state investing practices that limit equity stocks and innovative investment vehicles) have outstripped higher education's annual rate of inflation, which has consistently doubled the Consumer Price Index in the 1990s. As long as the stock market does well, these plan managers will look like geniuses, especially in light of the long-term nature of the portfolios (usually requiring at least two or three years of investments and often covering children who will use the money a dozen or more years hence). The rising tide has floated many boats.

In another salutary development, these plans have attracted competent managers and given rise to a strong infrastructure of technical and government support mechanisms, both in the public and private sectors. The College Savings Plan Network, an arm of the National Association of State Treasurers, holds regular workshops and conferences for the industry. Private consulting firms and services exist to assist and manage programs for the states. Some of the most successful plans have privatized the operations and investments of CSP programs. The flexibility of the private sector has allowed the investments to build up, with few new public employees added to state rolls. As noted, TIAA-CREF has recently begun to make its investment and insurance underwriting expertise available to state plans. Other states have hired the College Savings Bank to administer their investments. CSB is the country's only bank devoted solely to college prepaid tuition financing.

Prepaid tuition plans, operational in 19 states, work on a very simple premise: Parents or grandparents invest a lump sum or make monthly payments and are guaranteed by contract that the money will be sufficient for an equivalent of tuition and fees in a set period of time in the future.

Thus, state plans have networked, established well-run organizations, lobbied for tax relief, and gained the confidence of investors and state officials. Ohio, for example, not only accorded the state's full faith and credit to the CSP program, but invested over one million dollars, enabling it to bring its operating costs down. California, however, remains a surprising exception. Discussions with legislative officials there have suggested that two political considerations have kept this pacesetter state from enacting its own CSP: Full faith and credit considerations, especially after the Orange County fiscal disaster, and the fact that development of a CSP was a major plank in the gubernatorial campaign platform of then-State Treasurer Kathleen Brown, making it an untouchable initiative for the eventual winner, Pete Wilson. Moreover, liberal State Senator Tom Hayden introduced the legislation, making it dead on arrival in the Republican-dominated legislature.

Nonetheless, it is only a matter of time before California resolves these issues and enacts a CSP, as it has the perfect, fertile climate for such a plan: Many students in excess of the state's capacity to build new institutions, a thriving system of independent colleges, several elite and nearly elite public institutions, a booming economy, and very low tuition in the public institutions. These characteristics, plus California's generally progressive good-government climate, will soon combine to produce a solid prepaid plan—with or without full faith and credit—and then the remaining states will follow.

As for the next generation of such plans, such as those likely to grow up in California and New York, two states with new college trust fund programs but not prepaid tuition plans, the programs will become very innovative and flexible, assuming strong investment markets continue. (Even bear markets provide solid investment opportunities in bonds and other high-grade debt instruments. The long-term nature of college investment portfolios, combined with the economies of scale and tax-exempt status of the plans, virtually assures their financial viability.) Moreover, as the plans spread, new program features will likely result, such as multistate compacts, relaxed residency requirements and increased reciprocity among states, more participation by private institutions, packages covering nontuition college expenses, and other financing options (such as increased use of indexed debt mechanisms, refinanced home mortgages, and income-contingent payment or repayment schemes). College going is sure to become more like home buying, with the full range of purchase and finance options.

In a variation of "every cloud has a silver lining" thinking, however, I would argue that this movement, while salutary in its overall stimulation of college going and parental planning and involvement, has troubling "seeds" built into its system, which may not bear fruit for several years to come. These "seeds" fall into three categories, which I label Equity Implications, Institutional Implications, and Legislative Implications.

Equity Implications

The bottom line for supporting CSP plans such as the Alabama Prepaid Affordable College Tuition (PACT) plan or the Texas Tomorrow Fund is that they provide an investment vehicle for parents (or grandparents or other "givers") that guarantees a return on the investment sufficient to pay for a specific amount of future tuition. By pooling the resources and gaining a certain market leverage, a well-run fund can get a better return on the money than can you or I. Further, the program can anticipate future tuition levels and predict with relative certainty how much has to be paid out at a given time in the future. Thus, run properly, it almost cannot lose: The state takes in the money up front and pays out at the back end, and over time. Program costs are either included as a cost of doing business—as part of the long-term "float"—or by a premium (for example, a set or sliding percentage fee). Unless bond markets go haywire or something cataclysmic occurs (as with the Mexican Bolsa or the Orange County budget), program actuaries can predict the cash flow, program participation ratios, and other technical details. Texans have participated in record numbers, far surpassing the first year experience in Florida, the country's premier program, run with excellent management, low-cost colleges, and over 500,000 contracts to date.

College going is sure to become more like home buying, with the full range of purchase and finance options.

But it is very likely to be wealthy and upper-middle class families who profit from such ventures. Take Michigan, for example, which sold its first contract in 1988. In 1990, professor and law dean Jeffrey Lehman published an influential article in the *Michigan Law Review*, "Social Irresponsibility, Actuarial Assumptions, and Wealth Redistribution: Lessons About Public Policy from a Prepaid Tuition Program," (Lehman, 1990). In 1993, he followed with a careful study of the Michigan Education Trust's (MET) decision to expand its subscriber base by offering a monthly payment option (Lehman, 1993). In his earlier article, Lehman charted the redistribution of state subsidy benefits upward to the most-advantaged Michigan residents. In 1990, partially in reaction to this criticism, the MET board changed its way of selling contracts to allow purchasers to spread the payments over a set period of time on an installment plan. It was anticipated that this would permit families with lower incomes to participate, especially since the size of monthly payments is often more salient to low-income consumers than is the total obligation. (I am reminded here of my brother, a former car salesman in New Mexico and California, who marvels at how customers seem more concerned with their monthly payment rates than they are with the total price of the cars he sells.)

Lehman found that the availability of the monthly payment option reduced the "skewedness" of the original MET purchaser profile, but not by a substantial margin, and measurement discrepancies between the periods before and after the change made exact comparisons difficult. Even so, in 1990, the richest two-fifths of the Michigan population with children had purchased 61 percent of the MET monthly payment option contracts.

More recent figures for Florida and Texas suggest that purchasers in these states are also their more advantaged citizens. For example, in 1999, only 16 percent of investors in the Texas Tomorrow Fund reported incomes below $50,000. When the purchaser profile is combined with the original state investment to start the program, it is a remarkable, and remarkably regressive, redistribution of state resources to the wealthy.

Any subsidy or bailout of a CSP would come from that state's general revenues—requiring all to pay for the advantaged purchasers' continued advantage. Even in Michigan, where there was no legal full-faith-and-credit provision, the governor said the state had a "moral full-faith-and-credit" obligation. A variant of this scenario happened in Ohio recently, where general state revenues of $1 million were used to reduce the price of the state's tuition units. If full faith and credit are not in force, subsequent purchasers will pay for poor planning. In the first year of the Texas operation, before the voters approved a constitutional amendment to extend full faith and credit to the state's CSP, the program underestimated costs by 10 percent. A shortfall has to be made up from somewhere, and now the state's citizens will foot this bill.

Paradoxically, the clear indication of state investment, willingness to use a state's full faith and credit, and incorporating general revenues into the program are signposts that the IRS (and judges) will look to in determining whether a CSP will be tax exempt. If all the program participants share proportionately in a loss (as in bad investments or a shortfall), that seems fair. I urge legislatures to constitute CSPs so that the state's taxpayers will contribute very few general fund dollars to either the startup or any bailout provisions. On equity grounds, it seems very unfair to tax those who cannot afford or who are unable to attend college, so that their more advantaged neighbors can do so more easily. I do not know where the fair tipping point is, but it may be some "borrowing against" the future and repayment to the state for out-of-pocket startup costs.

I know and respect the biblical admonishment that we will always have the poor among us, but I do not believe they should have to ante up so that wealthier parents can have an additional savings vehicle for their children to go to college and more easily consume the considerable state investment already in place. At the least, states should not underprice their product, as occurred in Michigan. Why should CSP purchasers receive a 20 percent discount? Indeed, I believe a surcharge for program fees is a better way to raise operating funds.

Institutional Implications

I also fear that at some point institutional behavior will change, so that admission might be predicated upon ability to pay. Let me project a plausible scenario, borrowing from Texas and Florida, whose demographics are similar. Florida's CSP has sold over 500,000 contracts and soon will have hundreds of thousands of contracts in play, spread over approximately 25 years; this includes children just born all the way to college seniors consuming the paid-for benefits. If this were in Texas, and meant that 15,000 contracts were coming due each year, let us say that two thirds of them actually wished to attend college in Texas and the others did not enroll or went out of state. This would mean 10,000 funded freshmen competing for spots in Texas institutions. Let us say 500 to 1,000 wanted to attend Rice, Trinity, Baylor, and Southwestern, the elite private institutions in the state. This would leave 9,000 to 9,500 funded students applying to the University of Texas, Texas A&M University, Texas Tech University, the University of Houston, and the state's other public and private two- and four-year colleges. The admission pressures upon the University of Texas and Texas A&M University, already evident as they scale back to more manageable size, will be enormous.

Texas Coordinating Board data conservatively predict that in a mere 16 years, there will be 155,000 more students clamoring for higher education in the state.

Now, say you are the president of the University of Texas, considering two students with identical qualifications—let's say Mexican Americans from the Valley. But one is fully funded and the other will require a combination of state, federal, and scarce institutional funding. Who are you going to admit? Mind you, the fact that one student is smart enough to be born into a family that saves for her college education is no reflection of her personal character; indeed, growing up successful in a family without financial resources has often been seen as a plus in admission decisions.

And I do not exaggerate the admission pressures. Even though, due to Texas's booming economy and other factors, current enrollments have slackened somewhat, Texas Coordinating Board data conservatively predict that in a mere 16 years, there will be 155,000 more students clamoring for higher education in the state (*Coordinating Board Report*, 1998). If we get lucky and minority achievement increases, we could have 400,000 more students by 2010. (In 1999, Texas public universities alone enrolled over 400,000 students.) Let's split the difference: By 2015 we will have 290,000 more students than we do today. This is nine *additional* University of Houstons. Moreover, a college savings tuition plan will stimulate savings and likely stimulate college attendance. (And I would argue that any of the "Higher Education Lite" proposals for distance learning via the Internet and related technologies will be inadequate to deal with this problem.) Even if the savings go to substantially the same students who would have enrolled without a Texas Tomorrow Fund, its existence is bound to increase—in fact, it is *designed* to stimulate—college going and college investment. That is, a successful plan will likely stimulate a greater need for college seats in Texas.

You could do the same calculations for Florida, and see the pressures those 50,000 contracts each year will have on Florida International, the University of Florida, or Florida State. The seduction to activate the CSP electronic funds transfers will be very powerful, and Florida institutions will ignore the pressure at their peril.

Thus, I believe my admonitions about the interrelation of admission and ability to pay are conservative and the pressures at the institutional level will prove to be irresistible. While no CSP guarantees admission, all will certainly guarantee higher expectations about admissibility on the part of purchaser parents, who are likely to become an angry cohort of taxpayers. No warning label or disclaimer about admission standards will serve to placate this group.

Legislative Implications

This leads to my third major concern, the legislative fallout from a successful CSP. After 10 years of a successful Texas Tomorrow Fund, widely advertised in English, Spanish, and Vietnamese, there will be a very large accumulated pool of money completely dedicated to higher education. Florida, in 1998 alone, earned a pooled fund of almost $500 million. Even Michigan, with its originally adverse tax ruling and a year of suspended sales for reorganization, sits on over $500 million. Will the state legislatures continue to appropriate state general revenues for an enterprise that has so many potential guaranteed-paid applicants in the pipeline? In other words, will this program *supplant* state support rather than *supplement* appropriations? And just to make it interesting, what will happen if the result is that tuition levels are freed to rise to "market levels"?

Again, I will use Texas as an example, but could use almost any other state to make my point. The fund, actuarially premised upon steady, predictable tuition rates, will find it difficult to stick with its careful figures—which drive the plan's engine—if tuition rates exceed investment rates. Any ratcheting effect here will doom the careful equilibrium necessary for balancing both ends of the equation. And again I ask, where will Texas get the funds to build the nine new UH campus equivalents in 15 years? State support for higher education in Texas has declined as a portion of overall expenses, and the state historically ranks low in per capita support of postsecondary education. The Texas Tomorrow Fund, instead of being a wonderful device for stimulating parental savings, could become an attractive nuisance—either by dampening legislative support for general institutional appropriations or as a large, unintended ratchet to keep tuition rates unrealistically low. As I noted earlier, Texas undershot its costs in Year One by nearly 10 percent, leaving the shortfall to be amortized across all latecomers.

The Texas Tomorrow Fund, instead of being a wonderful device for stimulating parental savings, could become an attractive nuisance—either by dampening legislative support for general institutional appropriations or as a large, unintended ratchet to keep tuition rates unrealistically low.

As a corollary concern, fees, also guaranteed by the CSP, have virtually no control. A cynic might observe that the Texas legislature has enacted a silent fee system to disguise its political unwillingness to take the heat for raising tuition rates. One good thing to come from this legislation may be a more open consideration of tuition, fees, and residency structures in the states. All of these details have real institutional consequences. Now there is a governmental counterweight in place to keep tuition levels low, even though they should probably rise in states such as Texas and Florida, which charge too little for their product. In Virginia, the year 2000 will see smaller actual dollar appropriations for public colleges than the 1999 levels. This does not even take inflation into account.

Moreover, if legislators do the right thing and substantially increase public tuition, these plans will lose over the long run, or one year's class will subsidize the others. There is nothing inherently wrong with this, but several years of imbalance, a market correction, or a long bear market could certainly erode any plan reserves.

Other Policy Concerns

College savings plans pose all these concerns, and additional ones: Parents might do better with their own investments than with these state-run programs, and so these savings plans will simply reallocate parents' overall savings, not stimulate new college savings. With the tax breaks now in place for the plans, it is unlikely that any amateur investors will do better, and many parents are risk-averse, so professional money managers may be the better investors. As of fall 1999, only three states (Massachusetts, Colorado, and Virginia) had in operation both a prepaid tuition and a college savings plan, but the next several years will see growth of both kinds of plans in remaining states.

Another issue is what to do when a program ends, as happened in 1995 with the eight-year-old Wyoming Advance Payment of Higher Education Costs Program, which closed due to poor participation rates. Because the state is obligated to honor all the contracts sold during the life of the program, the program may become the equivalent of a civil war widows fund—one that has to function until the last participant dies or chooses not to enroll in college. Perhaps the program can be absorbed into a regional pact or neighboring state's plan.

Washington State, for example, began a CSP in 1997, and it would likely help both states to combine their resources.

And how do these programs "count" when parental income forms are filed to determine the aid package for a student? Many states exempt the prepaid and savings plan contracts from consideration, or allow them to count as the expected parental contribution (Hurley, 1999). This income-shifting mechanism removes wealth from parents and reallocates it to their children (this also mimics the income tax treatment of the plans), making it possible that students will be eligible for more federal, state, or institutional aid.

Conclusion: Research and Evaluation Issues

My views on postsecondary prepaid tuition plans grow out of extensive research on the subject, familiarity with the national and state trends in this complex area, wide consultation with prepaid fund and trust fund officials, and discussions with a large number of legislators and treasurers in states with such funds or contemplating either program. My thinking on these programs has evolved to the point that I believe them to hold great promise but also to hold far-ranging implications—a number of which have been unanticipated and which could undermine general public support for the programs.

Most of the plans have shown little concern for evaluating their results or for conducting research on their portfolios. Success has been measured largely in the numbers of contracts or in how many dollars are invested in the plans. Surely, these cannot be the sole markers of success.

Earlier, especially during the pendency of the complex litigation over the Michigan fund's tax status, I was concerned (like many observers) with the viability of the programs. However, this corner has been turned. Given developments in federal revenue policy, tax legislation may be the only available means to infuse massive amounts of money into discretionary college funding initiatives. To be sure, federal taxation is a fluid and dynamic area of change, but I believe even the most negative tax determination (i.e., that the program is not tax exempt) could still allow a state program to maintain itself by amortizing the tax burden across all contracts. This development frees me to be constructively critical of many details, while being enthusiastic about the overall existence of such plans. It is almost unpatriotic to be against a program that assists parents in saving for their children's college education. Rather, I now fear the programs' likelihood of "success."

For the reasons I have explained here, I want more information on the plans, and more evaluation. Most of the plans have shown little concern for evaluating their results or for conducting research on their portfolios. Success has been measured largely in the numbers of contracts or in how many dollars are invested in the plans. Surely, these cannot be the sole markers of success. Why no postmortems on the Wyoming experience, analyses of Michigan's resurgence, research on Texas's underestimation of first year costs? For these programs to be genuinely successful, they need to undertake critical, searching self-analysis. I conclude by offering a partial research agenda, one that would likely answer nagging equity concerns, institutional implications, and legislative questions.

First, this is a field where there has been strangely little introspection. Each state needs to undertake evaluation plans on a regular, even annual basis, both to see the results of their targeted information and to plan for future products and services. Once they have established a baseline data set, they can model simulations, test innovations, and experiment. The availability of these data would be an important first step.

Second, more sophisticated research, such as the zip code analysis of MET contract purchasers, would be possible. Many other such initiatives would be possible if the data were made available to scholars and researchers seeking to understand financial aid policy. Program and legislative staff contemplating legislation would find data extremely useful in proposing legislation or regulations, as would public policy analysts generally.

Finally, the more the public, especially parents, understands these programs, the more likely it is to give support. People recognize that the finance mechanisms for college are changing, as they are in private markets generally, and building public support is essential for such plans, especially with the complex and confusing options. Analyzing Wyoming's underparticipation or Michigan's problems or Florida's possible overparticipation can lead to policy changes and program improvement. One thing is clear: These programs have become popular because they address an important social issue. Staying ahead of this curve is an important by-product of these plans, one that may enable them to gain the long-term support and confidence they will require.

For these programs to be genuinely successful, they need to undertake critical, searching self-analysis.

Notes

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1) *Do we need a national tuition savings plan?*

Lawrence Gladieux

Over the past decade we have seen federal policy evolve from the IRS nearly shutting down incipient state saving programs in Michigan, Florida, and elsewhere, to promoting and providing exempt status to "Qualified State Tuition Programs" under the federal tax code. As Barbara points out in her paper, IRS regulations regarding such qualified plans may tend over time to foster a degree of standardization in the state programs. Now Vice President Gore advocates a "National Tuition Savings" program. Granted we have few details on the vice president's proposal, but is this the next logical step in the college savings movement, a national savings plan that would assure access to similar if not identical options and incentives across all 50 states?

Michael Olivas

I think that such a plan would be a mistake for two reasons. First, how would it mesh with states that have spent a decade or more developing their programs? Would the U.S. offer its full faith and credit to Florida's 500,000 contract-holders? What about the guarantee tied to a state's tuition? This would penalize those states whose legislators have historically kept their tuitions low by providing generous college appropriations. One size does not fit all. Second, the field is ripe without a national plan. Most states have begun one or the other type of program, and I cannot imagine a more generous tax treatment. Remember, there is in place a whole panoply of tax benefits for those wealthy enough to take these things into account. I, for one, do not want college tax breaks to resemble those going to tobacco farmers, beekeepers, and oilmen—ones that cannot be justified in any reasonable way.

Barbara Jennings

If Congress had opted to create a national plan in 1995, prior to the creation of state-based plans in the majority of states, I might have agreed with a national plan. There is a successful precedent in that Canada has had a popular, multiprovince prepaid college insurance plan for over 25 years.

But at this stage in our country a national college savings plan would be redundant. Each state has structured its plan(s) to best fit state-specific family income levels and tuition rates, and all are reported to be financially and actuarially sound. Current federal tax law and pending regulations allow and encourage maximum flexibility of use and portability of these pre-existing state plans.

The new Education IRAs, expanded regular and Roth IRAs, and the EE-College Savings Bonds are already national college savings "plans," in the form of tax incentives. Plus, the Hope Tax Credit and Lifelong Learning Tax Credit have just gone into effect as national "answers" to encouraging college access for middle-income students.

One thing that would add value would be a national public education campaign designed to stimulate additional college savings. A respected national spokesperson, such as General Colin Powell, Bill Cosby, Oprah Winfrey, or Michael Jordan, could be recruited to personalize and underscore parental responsibility for planning and saving to maximize college opportunity and choice. Such visible and persuasive leadership, coupled with a wide array of user-friendly consumer information sources to help families select a plan that best fits their needs, could go a long way in increasing savings and decreasing dependency on loans.

2) How can we assure student choice?

Gladieux

The state programs, especially the prepaid plans, are primarily designed for students who will matriculate at a state college or university. Some include private institutions, most do not. If the student decides to go out of state or to a school that does not participate, the proceeds of the plan are sometimes transferable to another family member, sometimes not. The issue is restriction on college choice. Is a national savings plan the answer to this problem? If not, what is?

Jennings

Contrary to presumed misconceptions, most existing QSTP plans already offer wide transferability, portability, and college choice. The real problem is inability or reluctance to prepay or save sufficient funds to support choice. For example, in 1989 Ohio's prepaid tuition plan was actuarially structured to help families save enough to cover the full cost of up to four years of tuition and fees at any Ohio public university and, from inception, any prepaid tuition could be applied to cover tuition costs of any public, private, or proprietary college nationwide. By national rankings, Ohio's average four-year university tuition cost ranks ninth highest, and two-year college average tuition rates rank fifth highest in the country. Prepaying Ohio's four-year public tuition rates is indeed a tough financial challenge for most participating families, particularly those with multiple children.

The 1997 tax amendments permit contributions to a QSTP account at a level sufficient to cover all major costs of attendance (tuition, fees, books, supplies, and room and board) for up to five years of undergraduate study at the most expensive institution of higher education. Accordingly, to stay competitive and viable, state plans will expand features or offer alternatives that allow their participants to take advantage of the maximum contribution levels, portability, and flexibility of use. Whereas a national savings plan may not be the answer to increased choice of institutions, an effective national savings incentive campaign to encourage greater total college savings per child, coupled with fair, nonpunitive federal financial aid treatment of all savings ultimately used to pay college costs, would indeed enable choice.

Olivas

Why not start multistate plans for small states (say, in New England), with more state reciprocity than is currently in place? Don't let just the public colleges play. Make provisions for private colleges, and guarantee the same returns as those promised for public tuitions. There are still a lot of clever plans and arrangements to come from these states in due course. Don't undercut them by advantaging the advantaged nationally.

Some of the state agencies are also becoming magnets for scholarship funds and charitable donations, which they can distribute to needy students at both public and their state's private colleges. These plans can be structured to allow savings for use at private colleges, without the colleges actually having to do anything other than be the passive recipients of funds. In Texas, the Texas Tomorrow Fund picks an amount for private tuitions, but it doesn't guarantee returns to meet inflation in this sector. The private colleges have no risk at all under such a scheme, which still generously lists the colleges for students to see.

3) What happens in the next recession?

Gladieux

The viability of the prepaid plans is looking awfully good these days. The favorable federal tax treatment has been a big factor. So has, of course, this long-running bull market. But what happens in the next recession? I don't believe we have retired the business cycle. Project, if you would, what we might anticipate when financial markets inevitably take a downturn: for states that have made full faith-and-credit commitments to these plans, for programs that are guaranteed only by plan assets, and for the overall future of the college savings movement.

Olivas

The plans should stay the course, as they are managing assets for the long haul. Even bear markets offer solid bond investment opportunities, and these plans are tax exempt to begin with and manage substantial, stable assets. If they guess wrong one year, they pass it on. I think most state treasurers and legislators learned from the Orange County fiasco not to invest in tricky instruments. But I still believe that a prudent manager can hit the actuarial targets even in a less-robust market. And, as I suggest, the plans are a counterweight to higher tuition, perhaps too much so in states that are underutilizing tuition revenue. Also, not all the plans guarantee full coverage. Still, for risk-averse parents, it is hard to imagine us doing better in our own little portfolios.

Jennings

This is a difficult question to answer simply. Each state plan is managed by state officials or appointed fiduciaries who have a duty to be knowledgeable and aware of market risk. Because all prepaid tuition plans have some sort of guarantee to keep pace with actual tuition inflation, each plan provides for reserves to sustain actuarial soundness. Typically, conservative public fund investment strategies apply, with some plans having more aggressive yet balanced portfolio structures designed to weather business cycles. Because most state savings plans have no specific rate of return guaranteed, these plans are less at risk, but participants experience investment loss directly. Still, to the degree that a state relies on plan earnings to cover its marketing and administrative costs, a savings plan may be at risk once reserves are depleted.

With guaranteed prepaid tuition plans, should investments not keep pace with tuition payment obligations, reserves must be used to make tuition distributions and protect erosion of principal. States with full faith and credit backing have a further "reserve" available in the form of general revenue funds; however, these rainy-day funds would likely be scarce due to other state operations also being impacted by the recession. In case a recessionary period lasts longer than reserves, by law, most plans provide that the state may terminate its QSTP plan in order to limit total state financial risk, and plan contracts usually stipulate an account payout value in the event of termination.

4) Who benefits?

Gladieux

Which groups primarily benefit from the state programs? Barbara, you say in your paper that the prepaid plans are serving "true middle-income families," those in the $30,000 to $50,000 range. Michael, based on the Michigan experience and the structure of the Texas Tomorrow Fund and other more recent programs, you argue that the benefits are skewed to the wealthy and upper middle class. Available data on who is investing in the state plans are not systematic. But is there evidence that these programs—prepaid or savings—are in fact reaching households at or below the median family income (about $47,000 in 1998, according to the U.S. Census Bureau)? Or are these programs primarily a convenience and growing source of tax breaks for those in the upper half of the income distribution?

Jennings

It is true that the primary purchasers of QSTP contracts tend to be upper-middle- or lower-upper-income families who have sufficient disposable income to more readily afford savings. The typical Ohio prepaid contract family consists of two parents aged 35 to 45, with a combined income of $55,000 to $75,000, and two or more children. Despite concentrated marketing efforts aimed to reach and sell college savings to lower-middle-income families in the $35,000 to $50,000 range, sales have been slow. According to focus groups conducted with representatives from this target audience in 1998, most felt that whatever minimal savings they could accumulate would only serve to hurt their financial aid eligibility, and many, despite evidence to the contrary, somehow believe that their relatively lower family income will qualify their children for significant grant aid in addition to loan eligibility. Interestingly, their interpretation of "affordability" was what could be afforded at the end of each month after all the other household obligations were paid. The concept of saving or investing $25 per month per child—totaling $50 to $75 dollars in the case of multiple children—was seen as unaffordable by lower-middle-income parents.

And, $25 per month equals only $300 per year. Compound interest can only do so much to chase the reality of an average Ohio public university tuition rate that is already more than $4200 per year in 1999—with a total annual cost of attendance (including tuition and fees, room and board, books and supplies, etc.) well over $9000! The sticker shock of Ohio's ninth highest tuition rates makes it very hard to market any college savings plan as "affordable." This is why Ohio opted to sell its prepaid tuition plan in the form of "tuition units," allowing purchasers to accumulate as many as units as necessary, with each unit having a future value equal to one percent of one year of weighted-average Ohio public tuition. One hundred units equals a full year, but it takes only 34 for an academic quarter or 50 to prepay a semester of study.

Because relatively higher-income families have been attracted to the Ohio plan, building financial and actuarial soundness, the plan has been able to keep tuition unit pricing as low as possible and thereby benefit the fewer lower-middle income participants who tend to prepay at a slower pace. In addition, the broad-based marketing efforts of the state QSTP plans have served to educate the general public—through school newsletters, direct mail, Web site information, etc.—as to actual costs of higher education and as to the need for early financial planning and preparation. These educational efforts have stimulated more savings than that reflected by QSTP assets. Increased total college savings for upper-middle-income families should eventually produce the added benefit of decreased reliance on borrowing and reduction of postcollege student debt.

Olivas

The early published data and my own conversations with the folks who run these plans is that the beneficiaries are mostly high-end users. This isn't universally true, as the plans vary across state lines, but it is a large ticket item to put down the four-year lump sum, even in a low-tuition state like Texas or Florida. Monthly options spread out the payment schedules, but they also cost more than the lump sum arrangement. Here, the forced frugality may be as important as the actual amount.

One thing I do not understand or agree with is the habit of some states to offer these plans only at certain times during the year. They say they do it to meet the actuarial targets, but this seems like a lot of institutional downtime and program slack. Imagine a broker who will only sell you Series EE Bonds until February each year! But I expect the details will work themselves out as more states get into the mix. By the way, TIAA-CREF administers the New York plan. Why does TIAA-CREF need a state's participation at all? If they offered a national investment program, they could easily do it without any state having to participate. They certainly have the horses and record to run such a program, and losing their not-for-profit status has enabled them to bloom. (I was always of two minds about TIAA-CREF losing their tax-exempt status, which seemed both to protect and constrain them.)

I do not believe most states want to say for sure how much their families are making. However, I think making these data available would buy them some political cover. Lots of governmental programs help the wealthy. I consider it a cost of doing business when trying to help the less advantaged. As I noted earlier, it is hard to dispute a program that stimulates parents to invest in their children's college education and that, at the end of the day, pays it own way.

5) How can we extend the wonders of compound interest to all?

Gladieux

Prepaid and other tax-advantaged savings programs benefit only those who have sufficient a) discretionary income to put money aside for the future, and b) taxable income to benefit from the expanding federal and state tax breaks associated with such savings. How can the college savings movement help those with the least resources?

Maybe the answer is that those who can't save must rely on financial aid. But savings are so important to people feeling that they have a stake in our society and economy—and in their own future. When Congress debated the Taxpayer Relief Act two years ago, Senator John Breaux and a few of his colleagues advocated a college savings trust that the government would establish on behalf of each low-income child. It was a gesture of fairness, to balance the tuition savings benefits that were being enacted for higher-income citizens at that time. The Breaux proposal died. Two years later it's conceivable that the political environment may become more receptive to such ideas. President Clinton has proposed Universal Savings Accounts to put government money aside in individual retirement accounts for low-income earners. Under Senator Bob Kerrey's "Kid Save" proposal, the government would provide every newborn with a $1000 savings account. Shouldn't we consider public policies that extend the benefit of compound interest to all?

Olivas

I think that this is the most important policy issue. The first time I was old enough to vote, I voted for George McGovern, who made a proposal to give $1,000 to everyone. Maybe his idea, widely ridiculed at the time, should have been grounded in college savings. In 1968, when I was a freshman at the College of Santa Fe, New Mexico, $1,000 would have covered most of my year's tuition.

The problem with the Breaux, Clinton, and Kerrey proposals is that each requires new spending. The Taxpayer Relief Act of 1997 enacted the greatest single dollar increase in higher education spending, probably greater than the Serviceman's Readjustment Act of 1944 (the "GI Bill"). Higher education groups should not go to the well again so quickly. They should at least wait and see how all the Education IRAs, "Lifetime Learning Credits," "Hope Scholarships" (really, tax credits), and CSP relief legislation play out. Most are already windfalls for certain wealthy families. At the next Higher Education Act reauthorization, they can estimate the net gains and line up at the trough again.

My advice, given the 1990 Budget Enforcement Act's endorsement of tax policy and entitlements over discretionary spending, would be to concentrate upon tax incentives, or to make Pell Grants an entitlement program. The latter may not be politically popular, although I have never understood why. There are several obvious places to tweak the new tax windfalls (i.e., tax policies) to make them less regressive or better targeted.

Of course, the problem with using tax policy for federal financial aid generally is that by *definition* it aids the wealthy. But there are several things I would do right away, within existing tax policy. As things stand now, you do not receive the Hope or Lifelong Earning Credits unless you have some excess tax liability, i.e., these tax credits are not refundable. Also, the credits, if they are refunded, are traded off against Pell Grants received by the student. This particularly penalizes lower-income and low-middle-income students who are Pell-eligible, which is a sophisticated shell game. Congress, or the Internal Revenue Service in some cases, could make the tax credits refundable on a dollar-for-dollar basis and exempt Pell Grants from means testing. Why have an elaborate mechanism in place to determine aid eligibility (targeted toward lower-income students), only to trade off one program for another? This seems regressive and needlessly complex.

Jennings

This is where I believe we need leadership at the national level. I would support a national prepaid scholarship trust plan designed specifically to benefit those children from lower-income families who are most at-risk of missing out on higher education. Most QSTP plans (with the exception of Florida's STARS program) have not yet developed a component scholarship program to fund tuition prepayment/savings to help low-income families. States with prepaid tuition plans have long been interested, but federal tax law has not been definitive as to what auxiliary enterprises are permitted. A national trust established to prepay early scholarship awards for at-risk children of elementary school age, with conditions for ultimate scholarship award being that they remain in school, stay drug- and crime-free, and earn decent grades, would have a far-reaching impact. Students could be identified early and nominated by their teachers. Such advance financial aid could be structured to foster greater parental involvement throughout the K–12 experience, while also encouraging exciting career exploration based on the knowledge that college is probable.

Such a federal initiative would be even better if it came with matching funds. An innovative self-help-based federal matching funds plan created to match QSTP contributions on a one-to-one or even a two-to-one basis would be a terrific incentive for lower-income families to invest in regular savings. A matching-qualified QSTP account would have to offer no possible early withdrawal of college funds. Fund distributions would have to be made directly to a school to pay qualified higher education expenses once the beneficiary reaches college age or only the amount contributed by the family, plus reasonable interest thereon, and minus all matching funds, would be refunded to the account holder. Eligibility for match could be based on a combination of annual taxable income and number of dependents, with the ratio of match to contribution highest for those with lowest incomes.

QSTP plans could easily administer such a matching program by keeping record of the two distinctive sources of funds per account. Matching funds could be contributed directly to a QSTP for appropriate book-entry per account; funds would then be pooled with all other QSTP assets and invested with earnings attributed to each account in the same manner as standard QSTP accounts. Matching funds plus earnings that are reclaimed because an assigned account ends up refunded rather than distributed for college use could be "recirculated" as matching funds within the same QSTP or returned to the federal program. As family income might increase over time to the point of ineligibility for continued matching support, the routine of regular savings plus the substantial base of earlier savings would likely encourage continued savings.

A national program that could allow a low-income participant to seamlessly move from full advance scholarship awards to matching support for self-help contributions, as family income increases, would result in a steady flow of dedicated savings that would reap the full benefit of compound interest for lower-income children.

The beauty of this type of conditional entitlement program would be that it could stimulate parental (or other guardian) interest in and learning about college financial planning while the children are growing up. An early promise of college opportunity for children of low-income families can help make their K–12 school experience more valuable and relevant to their future. Children of lowest-income families are most at risk of missing higher education opportunity, and I believe that a well-engineered and widely promoted new federal plan offering early promise of dedicated college funding for every at-risk child would be an excellent investment of tax dollars.

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United States General Accounting Office (1995). *College Savings: Information on State Tuition Prepayment Programs* (GAO/HEHS Publication No. B-254026). Washington, DC: U.S. Government Printing Office.

Web Sites

FinAid Page LLC. URL http://www.finaid.org

College Savings Plan Network/National Association of State Treasurers. URL http://www.collegesavings.org

Table of State Prepaid Programs

State	Status	Start Date[1]	Agency to Administer	Portable[2]	Room & Board	Full Faith	Fee[3]	Enrollees
Alabama Prepaid Affordable College Tuition (PACT)	Operational	1990	Alabama State Treasurer's Office	Yes	No	No	Yes	47,700
Alaska Advance College Tuition Payment Program (ACT)	Operational	1991	University of Alaska	Yes	No	No[4]	Yes	8,500
Arkansas No Program	Studying feasibility							
Colorado Colorado Prepaid Tuition Fund*	Operational	1997	Colorado Student Obligation Bond Authority	Yes	Yes	No	Yes	11,000
Florida Florida Prepaid College Program	Operational	1988	Florida Prepaid College Program Board	Yes	Yes[5]	Yes	Yes	536,000
Georgia No Program								
Hawaii No Program	Studying feasibility							
Idaho No Program	Studying feasibility							
Illinois College Illinois!	Operational	1998	Illinois Student Assistance Commission	Yes	No	No[6]	Yes	11,653
Kansas No Program	Studying feasibility							
Maryland Maryland Prepaid College Trust	Operational	1998	Maryland Prepaid College Trust Board	Yes	No	No	Yes	2,700
Massachusetts The U. Plan*	Operational	1995	Massachusetts Education Finance Authority	Yes	No	Yes	Yes	42,000
Michigan Michigan Education Trust (MET)	Operational	1988	Michigan Department of the Treasury	Yes	No	No	Yes	57,236
Mississippi Mississippi Prepaid Affordable College Tuition Program (MPACT)	Operational	1997	Mississippi Treasury Department	Yes	No	Yes	Yes	9,800
Nebraska No Program								
Nevada Nevada Prepaid Tuition Program	Operational	1998	Nevada State Treasurer's Office	Yes	No	No	Yes	2,811

State	Status	Start Date[1]	Agency to Administer	Portable[2]	Room & Board	Full Faith	Fee[3]	Enrollees
North Dakota No Program								
Ohio Ohio Prepaid Tuition Program	Operational	1989	Ohio Tuition Trust Authority	Yes	Yes	Yes	Yes	85,000
Pennsylvania Tuition Account Program (TAP)	Operational	1993	Pennsylvania State Treasurer's Office	Yes	Yes[7]	No[8]	Yes	28,500
South Dakota No Program								
South Carolina South Carolina Tuition Prepayment Program	Operational	1998	South Carolina Budget and Control Board	Yes	No	No[9]	Yes	1,365
Tennessee Baccalaureate Education System Trust (BEST)	Operational	1997	Tennessee Treasury Department	Yes	Yes	No	Yes	5,400
Texas Texas Tomorrow Fund	Operational	1996	State Comptroller's Office	Yes	No	Yes	Yes	86,000
Virginia Virginia Prepaid Education Program (VPEP)	Operational	1996	Higher Education Tuition Trust Fund Board	Yes	No	Yes	Yes	30,000
Washington Guaranteed Education Tuition Program (GET)	Operational	1998	The Committee on Advanced Tuition Payment	Yes	No	Yes	Yes	8,200
West Virginia West Virginia Prepaid College Plan	Operational	1998	West VA State Treasurer's Office	Yes	No	No	Yes	5,000
Wyoming Wyoming's Advanced Payment for Higher Education Cost	Suspended	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* There is no residency requirement for the purchaser or the beneficiary

1. The date that the program began accepting contracts
2. The funds for the program may be used in another state but are not necessarily equal to the entire cost of the selected college/university
3. An enrollment or application fee
4. Backed by the University of Alaska
5. Dormitory only, not board
6. Backed by moral obligation of the state
7. Limited room and board
8. Guaranteed by fund surplus
9. 4% guaranteed return from the State General Fund if the program is dissolved

State	Status	Start Date[1]	Agency to Administer	Portable[2]	Room & Board	Full Faith	Fee[3]	Enrollees
Arizona								
Arizona Family College Savings Program	Operational	1999	Arizona Commission for Post Secondary Education	TBD	TBD	TBD	TBD	N/A
Arkansas								
No Program	Studying Feasibility							
California								
California Golden State Scholarshare Trust*	Operational	1999	California Student Aid Commission	Yes	Yes	No	No	N/A
Colorado								
Scholar's Choice	Operational	1999	Colorado Student Obligation Bond Authority	Yes	Yes	No	Yes	N/A
Connecticut								
Connecticut Higher Education Trust (CHET)*	Operational	1998	Connecticut State Treasurer's Office	Yes	Yes	No	No	6,000
Delaware								
Delaware College Investment Plan*	Operational	1999	Delaware Higher Education Commission	Yes	Yes	No	No	800+
District of Columbia								
National Capitol College Savings Trust	Studying feasibility		District of Columbia Treasurer's Office					
Georgia								
No Program								
Hawaii								
No Program	Studying feasibility							
Idaho								
No Program	Studying feasibility							
Indiana								
Indiana Family College Savings Plan*	Operational	1997	Indiana Education Savings Authority	Yes	Yes	No	Yes	3,609
Iowa								
College Savings Iowa*	Operational	1998	Iowa State Treasurer's Office	Yes	Yes	No	No	7,600
Kansas								
Kansas College Savings Plan	Pending	2000	Kansas State Treasurer	Yes	TBD	N/A	TBD	N/A
Kentucky								
Kentucky Educational Savings Plan Trust	Operational	1990	Kentucky Higher Education Assistance Authority	Yes	Yes	No	No	2,989
Louisiana								
Student Tuition Assistance and Revenue Trust (START)	Operational	1997	Louisiana Office of Student Financial Assistance	Yes	Yes	No	No	2,364

State	Status	Start Date[1]	Agency to Administer	Portable[2]	Room & Board	Full Faith	Fee[3]	Enrollees
Maine								
NextGen College Investment Plan	Operational	1999	Finance Authority of Maine	Yes	Yes	No	No	N/A
Massachusetts								
The U. Fund*	Operational	1999	Massachusetts Education Financing Authority	Yes	Yes	No	Yes	6,000
Minnesota								
EDVEST*	Operational	1999	Minnesota Higher Education Services Office	Yes	Yes	No	No	N/A
Missouri								
MO$T	Operational	1999	Missouri State Treasurer's Office	Yes	Yes	No	No	N/A
Montana								
Montana Family Education Savings Program*	Operational	1998	Montana Commission for Higher Education	Yes	Yes	No	No[4]	1,100
Nebraska								
No Program	Studying Feasibility							
New Hampshire								
UNIQUE Plan*	Operational	1998	State Treasurer's Office	Yes	Yes	No	No	21,226
New Jersey								
Better Educational Savings Trust (BEST)	Operational	1998	The Higher Education Student Assistance Authority	Yes	Yes	No[5]	No	1,001
New Mexico								
Name Pending	Pending	TBD	New Mexico Commission on Higher Education	Yes	Yes	No	Yes	N/A
New York								
New York State College Choice Tuition Savings Program*	Operational	1998	Comptroller and the Higher Education Services Corporation	Yes	Yes	No	No	55,737
North Carolina								
College Vision Fund	Operational	1998	The College Foundation	Yes	Yes	No	Yes	250
North Dakota								
North Dakota Higher Education Savings Plan*	Pending	Jan-00	The Bank of North Dakota	Yes	Yes	No	Yes	N/A
Ohio								
No Program	Studying Feasibility							
Oklahoma								
Oklahoma College Savings Plan	Pending	1999	Oklahoma State Treasurer's Office	TBD	Yes	No	TBD	N/A
Oregon								
Oregon Qualified Tuition Savings Program	Pending	Jan-01	Oregon State Treasurer's Office	Yes	No	No	TBD	N/A
Rhode Island								
Rhode Island Higher Education Savings Trust (RIHEST)*	Operational	1998	Rhode Island Higher Education Authority	Yes	Yes	No	No	2,050
South Dakota								
No Program								

State	Status	Start Date[1]	Agency to Administer	Portable[2]	Room & Board	Full Faith	Fee[3]	Enrollees
Utah								
Utah Educational Savings Plan Trust (UESP)*	Operational	1996	Utah State Treasurer's Office	Yes	Yes	No	No	318
Vermont								
Vermont Higher Education Savings Plan	Pending	1999	Vermont Student Assistance Corporation	Yes	Yes	No	Yes	N/A
Virginia								
Virginia Education Savings Trust (VEST)*	Operational	1999	Higher Education Tuition Trust Fund Board	Yes	Yes	No	Yes	N/A
Wisconsin								
EDVEST	Operational	Jul-97	Wisconsin Department of Administration	Yes	No	No	Yes	1,100
Wyoming								
Family College Savings Program	Pending	2000	Wyoming State Treasurer's Office	TBD	TBD	TBD	TBD	N/A

* There is no residency requirement for the purchaser or the beneficiary
1. The date that the program began accepting contracts
2. The funds for the program may be used in another state but are not necessarily equal to the entire cost of the selected college/university
3. An enrollment or application fee
4. Fee for non-residents only
5. Backed by the moral obligation of the state

Contacts: State Prepaid Programs

Alabama
phone: (800) 252-7228
Web site: www.treasury.state.al.us

Alaska
phone: (907) 474-5671
e-mail: ACT@alaska.edu
Web site: www.info.alaska.edu

Arkansas
Web site: www.nast.net

Colorado
phone: (800) 478-5651
e-mail: prepaid@csoba.org
Web site: www.prepaidtuition.org

Florida
phone: (800) 552-4723
e-mail: olsen_terry@fsba.state.fl.us
Web site: www.fsba.state.fl.us/prepaid/

Illinois
phone: (877) 877-3724
e-mail: collill@isac.org
Web site: www.collegeillinois.com

Kansas
Web site: www.nast.net

Maryland
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Web site: www.prepaid.usmd.edu

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e-mail: info@mefa.org
Web site: www.mefa.org

Michigan
phone: (800) 638-4543
Web site: www.treas.state.mi.us/college/met/metindex.htm

Mississippi
phone: (800) 987-4450
e-mail: bsimmons@mpact.state.ms.us
Web site: www.treasury.state.ms.us/mpact.htm

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Ohio
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e-mail: info@otta.state.oh.us
Web site: www.prepaid-tution.state.oh.us

Pennsylvania
phone: (800) 440-4000
e-mail: tapmail@tre.state.pa.us
Web site: www.patap.org

South Carolina
phone: (888) 772-4723
e-mail: tpp@oed.state.sc.us
Web site: www.state.sc.us/tpp/

Tennessee
phone: (888) 486-2378
e-mail: best@mail.state.tn.us
Web site: www.treasury.state.tn.us/best.htm

Texas
phone: (800) 445-4723
Web site: www.texastomorrowfund.com

Virginia
phone: (888) 567-0540
e-mail: mseemeyer@vpep.state.va.us
Web site: www.vpep.state.va.us

Washington
phone: (877) 438-8848
e-mail: susanp@hecb.wa.gov
Web site: www.get.wa.gov

West Virginia
phone: (800) 307-4701
Web site: www.wvtreasury.com

Wyoming
phone: (307) 777-7408
Web site: www.uwyo.edu

Contacts: State Savings Programs

Arizona
phone: (602) 229-2592
e-mail: toni@www.acpe.asu.edu
Web site: www.acpe.asu.edu

Arkansas
Web site: www.nast.net

California
phone: (916) 526-3027
e-mail: scholarshare@csac.ca.gov
Web site: www.csac.ca.gov/scholar/scholar.htm

Colorado
phone: (888) 572-4652
e-mail: collegeinvest@csoba.org
Web site: www.scholars-choice.com

Connecticut
phone: (888) 799-2438
Web site: www.aboutchet.com

Delaware
phone: (800) 544-1655
Web site: personal321.fidelity.com/planning/college/content/delaware.html.tsvr

District of Columbia
phone: (202) 727-6055

Indiana
phone: (888) 814-6800
e-mail: collegesave@em.fcnbd.com
Web site: www.che.state.in.us/ifcsp/

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Web site: www.treasurer.state.ia.us/

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Web site: www.treasurer.state.ks.us/savings/index.ihtml

Kentucky
phone: (800) 598-7878
Web site: www.kentuckytrust.org

Louisiana
phone: (800) 259-5626 ext. 1012
e-mail: start@osfa.state.la.us
Web site: www.osfa.state.la.us/start.htm

Maine
phone: (877) 463-9843
Web site: www.nextgenplan.com

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Web site: www.mefa.org

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e-mail: info@heso.state.mn.us
Web site: www.mheso.state.mn.us/cfdocs/webdirectory/index.cfm

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Montana
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e-mail: montana@collegesavings.com
Web site: montana.collegesavings.com

New Hampshire
phone: (800) 544-1722
Web site: personal341.fidelity.com/planning/college/content/unique.html.tvsr

New Jersey
phone: (877) 465-2378
e-mail: njbest@osa.state.nj.us
Web site: www.state.nj.us/treasury/osa/njbest/

New Mexico
phone: (800) 279-9777
e-mail: highered@che.state.nm.us
Web site: www.nmche.org

New York
phone: (877) 697-2837
e-mail: info@info.nysaves.org
Web site: www.nysaves.org

North Carolina
phone: (800) 600-3453
e-mail: cvfinfo@cfi-nc.org
Web site: www.collegevisionfund.org/HOME.htm

North Dakota
phone: (800) 472-2166

Oklahoma
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e-mail: rswitzer@ogslp.org
Web site: www.state.ok.us/~sto/college.html

Oregon
phone: (503) 986-1415
Web site: www.ost.state.or.us/optionsforcollegefinancing.htm

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Until January 1999, **Barbara Jennings** was founding director of the Ohio Tuition Trust Authority, one of the first (established in 1989) and largest state prepaid programs. From 1994 to 1997, she also served as chair of the College Savings Plans Network of the National Association of State Treasurers, a position from which she vigorously advocated the case for favorable federal tax treatment of state tuition savings and prepaid programs before Congress. Prior to her work for the Ohio Tuition Trust Authority, Jennings was a college administrator. An attorney, she is currently vice president for institutional advancement at Columbus College of Arts and Design.

Michael A. Olivas is William B. Bates Professor of Law and director of the Institute for Higher Education Law and Governance at the University of Houston Law Center. In addition to extensive research and writing on the law and higher education, he has followed and analyzed the development of state prepaid tuition programs. He is editor of *Prepaid Tuition Plans: Promise and Problems* (College Board, 1993), and he is currently working on a book, *Dollars, Scholars, and Public Policy: Financing College Debt in the 21st Century* (forthcoming, 2000). He was the state's expert witness in the recent U.S. Supreme Court case, *College Savings Bank v. Florida Prepaid College Program.*

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