What next? In President's "tax cuts" allow parents to save in tax free I.R.A. for their childrens ed.

MEMORANDUM

TO: TOM FREEDMAN

FROM: JULIE MIKUTA

RE: COLLEGE SAVING PROGRAMS

DATE: JUNE 23, 1997

SUMMARY

A prepaid tuition program is a college savings plan that is guaranteed to rise in value at the same rate as college tuition. They are growing in popularity as a mechanism for preparing for college. Currently, 16 states have prepaid tuition programs; 7 offer savings bonds programs; 5 states offer savings funds or savings plan trusts. Georgia has the HOPE Scholarship Program. Legislation about college savings programs is pending in 11 states and 13 others are studying the feasibility of such a program (see attached overview). In August, 1996, President Clinton signed legislation that defers the taxation of earnings from state college savings plans until the child enters college, when it is taxed at the beneficiary's income level. Efforts are now being made to completely exempt earnings from federal taxation, to expand the qualified expenses to include room and board, and to adjust financial aid calculations so that money in prepaid tuition accounts do not affect one's student aid eligibility as drastically as it does currently.

OVERVIEW OF PREPAID TUITION PROGRAMS

This section gives a summary of what these programs are, their benefits and drawbacks.

What it is

There are two types of plans:

1. *Prepaid Unit*: Units representing a fixed percentage of tuition are sold. Everybody pays the same price for the units, and the price increases each year.
2. *Contracts*: Contracts are sold, where the parent agrees to purchase a specified number of years of tuition. The purchase price depends on whether the payment is on a lump sum or installment basis. Most contract plans offer lower prices for younger children.

Main benefits

- *Peace of mind* for parents;
- *Simplicity* of plan;
- *Affordability*-- minimum investment is usually much lower than that of mutual funds;
- *Safety*-- plans are a low-risk investment and are often guaranteed by full faith and credit of state that runs the plan; and
- *Tax-exempt*-- usually exempt from state and local taxes and federal tax obligation is child's rate at time of matriculation.

Main drawbacks

- *Negative impact on aid eligibility*-- Plans reduce eligibility for federal student aid by 100%, whereas assets in parents' name reduce eligibility by 5.6% and those in student's name reduce it by 35%. Plans also do not reduce parent contribution.
- *Fees*-- may include enrollment fee and/or a load when deposits are made;
- *Limitations on school choice*-- All plans are designed for students to attend a state college. If the student does not, the rate of return is often significantly lower. However, many plans allow shares to be transferred to another member of the family.
- *Low rate of return on the investment*-- Stocks and mutual funds would most likely produce a larger yield. Also, many plans do not include the costs of room and board.
- *Limit of number of units that can be purchased*-- The limit may prevent accumulation of funds sufficient for some schools, state or private.
- *Exclusion of private investment companies*-- This source could provide an opportunity for residents of any state to participate.

Who invests

According to the GAO, investors tend to be middle- and upper-income families.

Variations between programs

The programs vary between states in these respects:

- *age restrictions* of the individuals for whom contracts are available (i.e. in Florida, the range is from infancy to the 8th grade, while in PA, it is anyone with 8 years or more to save);
- the size of the *payments* and any *fees* assessed, and minimum and maximum investments;
- *payment options*-- monthly installments of set or varying price, or a lump sum;
- *length of sign-on period* -- from a month each year to an open application period;
- *eligible schools*;
- early withdrawal *penalties*;
- *refund* if individual does not choose to go to college or receives a scholarship;
- *expenses* covered by plan;
- *residency* requirements of both purchaser and college-bound person;
- whether or not funds can be used for *graduate programs*.

Public Take-Up

There are frequent mentions in newspaper articles about the overwhelming response to a prepaid tuition program. For example, when VA introduced its program in 1996, it received approximately 3,000 calls a week. Texas sold 65,000 contracts in 1996. Michigan's program, although it is takes the expensive lump-sum approach, had 55,000 enrollees from 1988-90 before it closed off applications. Some states have marketed the units as a great gift idea.

EFFORT TO IMPROVE PREPAID TUITION PROGRAMS

Lobbyists are working to improve the negative impact on eligibility for financial aid in the reauthorization of the Higher Education Act (1997).

NATIONAL CLEARINGHOUSE

The College Savings Plans Network was formed in 1991 as an affiliate to the National Association of State Treasurers. This coalition of states shares information among existing programs, provides information to state agencies interested in starting a college savings program, and monitors relevant federal activities and legislation.

Located in the offices of the National Association of State Treasurers, an information clearinghouse is available which contains data on active college savings programs and other information as submitted by the membership. Information can be presented to CSPN, c/o NAST, P.O. Box 11910, Lexington, Kentucky 40578-1910. Fax: (606) 244-8053. E-mail: cspn@csg.org.

State College Savings Programs Overview

State	Program Name	Program Type & Status
Alabama.	Prepaid Affordable College Tuition (PACT)	Prepaid Tuition
Alaska.	University of Alaska Advance College Tuition Payment Plan	Prepaid Tuition
Arizona	.	Legislation pending
Arkansas	Arkansas College Savings Bond Program	Savings Bonds
California	NA	Savings Bonds (prepaid program pending)
Colorado	Colorado Student Obligation Authority	Prepaid Tuition/Savings Trust
Connecticut	.	Legislation pending
Delaware	Family Account for College Tomorrow (FACT)	Savings Fund
Florida.	Florida Prepaid College Program	Prepaid Tuition
Georgia.	Georgia HOPE Scholarship Program	100% tuition scholarships from lottery funds
Hawaii.	.	Studying feasibility
Idaho	.	Studying feasibility
Illinois.	Illinois College Savings Bond Program	Savings Bonds; studying prepaid tuition
Indiana	Indiana Education Savings Authority	Trust fund w/savings education program
Iowa	.	Studying feasibility
Kansas	.	Studying feasibility
Kentucky.	Kentucky Educational Savings Plan Trust	Savings Plan Trust
Louisiana	Louisiana Student Tuition Assistance & Revenue Trust Program	Savings Plan Trust with G.O. bonds
Maine.	.	Legislation pending
Maryland	.	Legislation pending
Massachusetts.	U-Plan - The Massachusetts College Savings Program	Prepaid Tuition
Michigan.	Michigan Education Trust	Prepaid Tuition
Minnesota	.	Legislation passed 1993; no further action

Mississippi.	Mississippi Prepaid Affordable College Tuition Program (MPACT)	Prepaid Tuition
Missouri	.	Savings bonds; also, legislation passed for prepaid.
Montana	.	Legislation pending
Nebraska.	.	Studying feasibility
Nevada.	Zero Coupon Bonds for Nevadans	Savings Bonds; introducing legislation for prepaid
New Hampshire.	NH College Savers	Savings Bonds; studying prepaid
New Jersey.	.	Legislation pending.
New Mexico.	.	Studying feasibility
New York	.	Legislation pending
North Carolina.	.	Studying feasibility
North Dakota.	.	Studying feasibility
Ohio	Ohio Tuition Trust Authority (a)	Prepaid Tuition & Savings Bonds
Oklahoma	.	Legislation authorizes prepaid tuition.
Oregon	.	Savings bonds & legislation pending for prepaid
Pennsylvania	Pennsylvania Tuition Account Program	Prepaid Tuition
Rhode Island	.	Studying feasibility
South Carolina	.	Legislation pending
South Dakota	.	Legislation pending
Tennessee	Tennessee BEST	Prepaid Tuition
Texas	Texas Prepaid Higher Education Tuition Program (TOMORROW)	Prepaid Tuition
Utah	Utah Educational Savings Plan Trust	Savings Plan Trust
Vermont	.	Studying feasibility
Virginia	Virginia Prepaid Education Program (VPEP)	Prepaid Tuition
Washington.	NA	Advanced tuition savings plan
West Virginia.	.	Studying feasibility
Wisconsin	EdVest Wisconsin (Wisconsin Education Investment Program)	Prepaid Tuition (b)
Wyoming	APHEC	Cancelled

Key:

NA - Not available

Notes:

(a) Prepaid Tuition Program and Ohio College Bond Program.

(b) Modified. Program guarantees to cover tuition as estimated at time of purchase.

Pay Now, Learn Later

College Savings Plans Network

- Welcome
- Purpose
- Information Clearinghouse
- States On-Line
- States Toll-Free
- Other Cool Links
- Marketplace
- Federal Initiatives

What is the best advice for middle-income parents who have hopes and expectations that their children will go to college? Will the traditional forms of student financial aid -- scholarships, grants, work-study, and subsidized loans -- that they may have relied on to pay for their own higher education still be available for the children in the future? Or, should new ways for insuring access to higher education be considered? The best logical answer is to encourage advance family savings. Middle-class entitlement programs are clearly on the endangered list, as over-dependence on financial aid has caused the total annual cost of federal financial aid, originally targeted to assist low-income families, to spiral upward at a pace that cannot be allowed to continue indefinitely. Major reengineering of financial aid will occur: it is just a matter of how soon. The College Savings Plans Network believes that more responsibility will fall to the family to pay for college and the well-documented savings rate of Americans clearly indicates that incentives will be required to get families to start saving.

Because there are few free rides to pay for college, early financial planning is advised. And states are stepping in to provide the means for families to save. This page is available to help you figure out what states are offering, and provides information about the association serving the state college savings plans.

The **College Savings Plans Network** formed in 1991 as an affiliate to the National Association of State Treasurers. This coalition of states work together to find ways to encourage families to save ahead for college. The College Savings Plans Network shares information among existing programs, provides information to other state agencies interested in starting a college savings program, and monitors federal activities and legislation affecting the state programs.

Executive Board

Please sign our Guestbook

About NAST

000910

Where To Reach Us

For more information about the College Savings Plans Network or the National Association of State Treasurers, contact us using the information below:

Mailing Address:
P.O. Box 11910
Lexington, KY 40578-1910

Street Address:
3560 Iron Works Pike
Lexington, KY 40511

Telephone:	*Fax:*	*E-mail:*
(606) 244-8175	(606) 244-8053	cspn@csg.org **or** nast@csg.org

"There's a groundswell of interest in college savings. This college-savings movement is getting enough size and clout that states may very well feel that they're missing out on something if they don't come along."
- Barbara Jennings, Chairman of the College Savings Plans Network and Executive Director, Ohio Tuition Trust Authority

"Our goal is simple. We want our children to go to college. We believe that our children truly are our most valuable resource."
- Brenda Emfinger, Alabama Prepaid Affordable College Tuition Trust Fund

"College isn't going to get cheaper. By investing in college savings bonds, we are buying a better future for our children, and indirectly, for all of us." - U.S. Treasurer Mary Ellen Withrow, former Ohio Treasurer of State

guaranteed benefit program with greater tax advantages because the benefit is for the sole purpose of paying for higher education.

As I researched programs in operation across the country, I realized several challenges exist for these programs and should be addressed so participation will increase.

First, because of the current tax laws, only state-sponsored programs can participate in prepaid tuition programs and receive the tax benefit. Because of this, most states provide only for public colleges and universities to participate in their programs. Private colleges and universities are excluded.

Next, there is no guarantee that the other 39 states will start such programs, thereby denying families in those states the chance to take advantage of this remarkable program. Last, private investment companies are excluded from starting their own programs and remain an untapped resource.

If tax laws were modified to allow investment companies to start their own form of prepaid tuition programs, the results would be tremendous. Parents would be given the option of enrolling their children in either state-sponsored or private programs and could choose between public or private colleges and universities. Also, the program could expand nationwide so all parents could have the option of guaranteeing, or "locking in," tuition payments. Last, an entire industry would be created for the sole purpose of making college more affordable and accessible without increasing the burden on taxpayers.

-- Mathew Mossburg

is a Republican delegate to the Maryland House of Delegates, District 39.

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-include grad programs (TX) OH

TX = 65,000 - 1996

FL = 400,000 contracts

MI = MET = 55,000 enrollees

open MET II: 600 ~~1000~~ calls Day 1 for applications (1995)

OH = gift idea

Geared to middle class who don't qualify for financial aid.

Well Before College

Sunday, June 22, 1997; Page C08
The Washington Post

—

The idea of expanding prepaid college tuition programs in the United States has arrived.

What is a prepaid tuition program? The concept is simple. It is a program in which purchasers of prepaid contracts (usually parents) can prepay their children's college tuition and mandatory fees into a fund by making a lump-sum or monthly installment payments. When their children are ready to enter college, the fund guarantees that the cost of tuition and mandatory fees will be covered, thereby alleviating the tremendous burden many families face concerning the affordability of college.

The program has proven successful in states that have pioneered such programs. Florida, one of the first to start a prepaid tuition program, is managing a $1.2 billion trust fund with a $200 million surplus and 400,000 contracts sold. The contracts are usually available for children from infancy to the eighth grade. And the payments are affordable. For about the price of a monthly utility bill, parents can enroll their children into the program and sleep easy at night knowing their cost of tuition is covered.

Currently, 11 states have some form of a prepaid tuition program operating or getting ready to come on line. Maryland is the latest state to adopt such a program. Virginia started its program last summer and received approximately 3,000 calls a week. I introduced legislation in 1995 and 1996 for Maryland to start its own prepaid tuition program and am happy to report that it has finally become reality.

In 1996, federal tax laws were changed, affording state-sponsored programs certain tax benefits. Money invested in the programs grows tax-deferred. When the benefits are paid out, they are taxed at the beneficiary's tax rate. That means the tax liability is considerably less because students usually have no income to report and are in a lower tax bracket. In its essence, this program is a

Located in the offices of the National Association of State Treasurers, an information clearinghouse is available which contains data on active college savings programs and other information as submitted by the membership. Information can be presented to CSPN, c/o NAST, P.O. Box 11910, Lexington, Kentucky 40578-1910. Fax: (606) 244-8053. E-mail: cspn@csg.org.

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32

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URGENT

Total Pages: ____

LRM ID: CJB53

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Tuesday, June 17, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

Janet R. Forsgren

FROM: Janet R. Forsgren (for) Assistant Director for Legislative Reference

OMB CONTACT: Constance J. Bowers
PHONE: (202)395-3803 FAX: (202)395-6148

SUBJECT: REVISED EDUCATION Testimony on Higher Education Act Reauthorization

DEADLINE: 10:30 a.m. Wednesday, June 18, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS:

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LRM ID: CJB53 **SUBJECT:** REVISED EDUCATION Testimony on Higher Education Act Reauthorization

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Constance J. Bowers Phone: 395-3803 Fax: 395-6148
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ______________________ (Date)
______________________ (Name)
______________________ (Agency)
______________________ (Telephone)

The following is the reponse of our agency to your request for views on the above-captioned subject:

______ Concur

______ No Objection

______ No Comment

______ See proposed edits on pages ______

______ Other: ______________

______ FAX RETURN of _____ pages, attached to this reponse sheet

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(Telephone # - 401-8313)

Telefax Transmittal Sheet
(Telefax # - 401-5391)

TO: CONNIE BOWERS OMB/LRD

FROM: LORI TEMPLEMAN

DATE/TIME: 6/17/97 5^07 pm

PAGES SENT (including transmittal) 14

COMMENTS: Revised testimony, per conversation.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-2110

DEPARTMENT OF EDUCATION

Statement of

Richard W. Riley, Secretary

June 18, 1997

Subcommittee on Postsecondary Education, Training and Life-Long Learning

United States House of Representatives
Committee on Education and the Workforce

DRAFT - 6/17/97 -- 5:00 p.m.

Mr. Chairman and Members of the Subcommittee,

I am pleased to appear before you to discuss the Administration's proposal for the reauthorization of the Higher Education Act of 1965 (HEA). The President has emphasized universal access to postsecondary education and lifelong learning as top priorities of his Administration. Our reauthorization proposal builds upon the President's proposed HOPE Scholarship, $10,000 tax deduction, and increases in Pell Grants and Work Study. It will set the direction for Federal support of higher education as we enter the next century.

More than ever before, education is the fault line between those who will prosper in the new economy and those who will be left behind. Today's good jobs increasingly require skills and training beyond a high school education, and effective and accessible postsecondary education is critically important to individuals as well as our Nation's economy and democracy. In fact, the most recent estimates available from the Census Bureau show that a person with a bachelor's degree earns about $600,000 more in today's dollars over the course of a lifetime than a person who did not continue his or her education beyond high school.

For over 30 years, the HEA has worked to promote access to effective postsecondary education, with college enrollment increasing from 5.9 million students in the fall of 1965 to 14.3 million in the fall of 1995. In 1997, we expect 7.6 million students, or about one-third of all postsecondary students enrolled throughout the year, to receive nearly $43 billion through HEA student financial aid programs, costing the Federal government $13 billion. This is a good investment in America's future.

But we have an unfinished agenda. Students whose parents have less income and formal education still enroll in higher education at lower rates than do their peers from more affluent and better educated families. Ninety-one percent of 1992 high school graduates from the highest socio-economic quartile entered college within two years, compared to only 71 percent of students in the middle quartiles and 49 percent of students in the lowest quartile. Ensuring access is therefore the first critical principle underlying our HEA reauthorization proposal. The other three are supporting high standards and high achievement; improving outreach to potential students and linkages to employment and elementary and secondary education; and simplifying program delivery and improving management. I am encouraged that the Congress and the higher education community share these objectives.

The challenge in this reauthorization is to achieve greater investment in postsecondary education within the Bipartisan Budget Agreement. Our overall proposal will be aggressive, but realistic. We will recommend targeted program reforms rather than a "wish list" of new programs that we can fund in the context of a balanced budget.

Access: Opportunity with Responsibility

Ensuring access to postsecondary education for all Americans continues to be the most important goal of Federal postsecondary education policy. President Clinton extends the concept of educational access to mean "opportunity with responsibility." As the principal beneficiaries of postsecondary education, students should be expected to study hard and pay some of the costs of their own education. Nonetheless, the student's family, the States, postsecondary institutions, and the Federal government also have important roles. The student's family has an obligation to prepare the student for a fulfilling and productive future. States provide crucial governance and financial support to the Nation's higher education system, especially through annual appropriations that cover large portions of public institutions' operating budgets. Each institution also has a duty to provide high-quality and efficiently administered programs, support students, and manage Federal funds responsibly. Any consideration of the Federal role in postsecondary education must recognize the roles and responsibilities of these multiple players.

We are concerned that students and parents, especially those from low-income families, have incomplete, and sometimes misleading, knowledge of the cost of attending postsecondary education, the availability of financial aid, and eligibility requirements for aid. Also troubling are recent reports indicating that parents of even very young children view college costs as one of their foremost worries. Although it is not the role of the Federal government to determine tuition levels, we can do more to allay fears about college costs and also to encourage long-term planning for education after high school. We are examining a number of options, including one that would identify and publicize the amount of Federal aid that postsecondary students in participating programs are eligible to receive and the typical costs of education.

We are also concerned that our current need analysis formula -- which determines how much financial aid a student is eligible to receive -- may discourage students from working and families from saving. To address this concern, we are considering ways to modify the treatment of assets in the calculation of expected family contribution. We know that Congressman Clay has recently introduced a bill, H.R. 1435, that would increase the amount of income that is excluded from assessment in the need analysis formulas for both dependent and independent students. We are reviewing this proposal in terms of its benefits to students and its conformity with a balanced budget.

Pell Grants, which are the foundation of Federal student aid, have made postsecondary education possible for millions of low-income students who otherwise would not have had this opportunity. Recent bipartisan support in Congress has resulted in considerable increases in Pell Grant funding and an increase in the number of undergraduate student recipients. We would like the reauthorized HEA to provide a strong Pell Grant program, and in future budgets we hope to propose substantial annual increases in the maximum Pell Grant award, as long as they can be paid for within a balanced budget. To this end, the Administration proposed a $3,000 maximum award in the 1998 budget, and the President fought for this increase in the Bipartisan Budget Agreement.

In part because of the diminishing value of the Pell Grant in real terms throughout the 1980s, many students and families increasingly rely on student loans to finance postsecondary education. Given borrowers' financial obligations, we will not consider any proposal that would increase the cost of borrowing for students or parents. On the contrary, the President's 1998 budget proposed substantial reductions in the loan origination fees that student borrowers must pay, and we will continue to work to eliminate these fees entirely if it is possible within the framework of a balanced Federal budget.

To improve HEA programs for graduate education, we are considering the consolidation of Title IX's Javits, Harris, and Graduate Assistance in Areas of National Need programs into one flexible, comprehensive fellowship program focused on national academic needs. We are preparing a proposal that would define national need in terms of both academic discipline and population representation. The new program would provide flexibility while retaining important elements of the programs that would be consolidated.

We also want to respond to changes in the demographics of the college population as well as technological innovations. Nearly half of all college students are now working adults over 25 years of age who cannot easily take time from their jobs or other commitments to participate in traditional higher education settings. Exciting new technologies are enabling postsecondary institutions to respond to popular demand from these students by offering enhanced distance learning opportunities. For example, students can now take courses over the Internet and interact with instructors via e-mail.

To ensure quality in these ventures, we will ask accrediting agencies to develop and enforce educational outcome standards specific to distance learning. To provide equivalent student aid opportunities for all learners, while making sure that this is a good investment of Federal education funds, we propose to modify several provisions of the HEA. In addition to taking steps to ensure educational quality through accreditation of these programs, we intend to modify some provisions that limit institutional eligibility for Title IV aid, including those based on percentages of students and programs in distance learning. Also under consideration is a proposal that the non-tuition cost of attendance for students in distance learning programs be computed under the same methodology used for other off-campus students.

Support Effective Education: High Standards, High Achievement

In addition to ensuring access, Federal programs should continue to promote and enhance outstanding educational opportunities and encourage students to take advantage of them. Several of our reauthorization ideas address this objective of promoting high standards and high achievement.

We are considering ways to reward needy students who excel academically. We also plan to propose limiting the length of time students may qualify for Pell Grants -- perhaps to 150 percent of the usual program length -- thereby encouraging timely degree completion and safeguarding taxpayer dollars. Taken together, these proposals reinforce our commitment to ensure access for all students and reward those who achieve at the highest level, yet also promote student accountability.

We can also encourage and promote high standards and achievement on the part of educational providers by continuing to support the Fund for the Improvement of Postsecondary Education (FIPSE). The postsecondary education community overwhelmingly endorses this program, which supports reform and enhancement projects in areas ranging from student preparation to faculty development and improvement of campus environments. We will stress dissemination as an important feature of the reauthorized FIPSE, thereby encouraging replication of the exciting and effective projects it funds.

We want to continue to support improvements in academic quality and institutional management at institutions serving disadvantaged and minority students. Our plan to create separate parts of Title III for Hispanic-Serving Institutions and Tribally-Controlled Colleges will elevate their visibility. We will also encourage all Title III schools to strengthen the use of technology in both academic and administrative operations.

Finally, we are concerned about the quality of teaching at elementary and secondary schools. We will propose to improve teacher preparation programs to help meet the President's goal of ensuring a talented, dedicated, and well-prepared teacher in every American classroom. Without effective teaching, the highest standards in the world will not yield a well educated society. Our Nation faces major challenges in this undertaking, as we will need an additional two million teachers to keep up with student population growth over the next decade. We are considering a new teacher preparation program, in which colleges and universities that have demonstrated excellence in preparing teachers would partner with other postsecondary institutions that are committed to improving their own teacher preparation programs. In addition, we are considering improved teacher recruitment programs to include paraprofessionals, mid-career people, and individuals willing to work in underserved areas.

Improve Outreach to Potential Students and Linkages to Employment and Elementary and Secondary Education

By forging strong links among elementary and secondary education, postsecondary education, and employment, we can establish crucial connections at both ends of the educational spectrum that complement and increase the effectiveness of our investment in student financial aid. Specifically, we aim to provide effective mentoring, academic preparation, and counseling to motivate young people and their families to develop and deepen their aspirations and commitment to pursue postsecondary education. Our goal must not be just to ensure access, but also to encourage students to persist and graduate.

We particularly would like to see increased degree and certificate completion among low-income students, whose rate of completion is one-third lower than that of their high-income counterparts. Thus, we are examining ways to reward institutions that serve large numbers of Pell Grant recipients who complete an educational program. Such incentives would encourage institutions to retain low-income students through degree completion.

We are determined to strengthen the TRIO programs, which support and encourage precollegiate students by preparing them for enrollment and success in college. The Upward Bound and Student Support Services programs help low-income, first-generation college students enter and persist in college. An evaluation conducted by Mathematica Policy Research showed that Upward Bound increases students' educational expectations, prepares them academically, and results in more parental involvement in their children's school-related activities. Similarly, an evaluation conducted by Westat, Inc. showed that participants in Student Support Services earn higher grade point averages, enroll in more classes, and persist at a greater rate than do other similar students.

We also want to strengthen the Federal commitment to mentoring and early intervention for disadvantaged youngsters by stepping up efforts to inform students at an early age that college is a realistic possibility. We are considering a proposal to redefine the Talent Search program as a mentoring and academic support program to help disadvantaged middle school students by instilling motivation and work habits conducive to academic success; providing information on collegiate academic requirements, typical costs, and financial aid availability; and involving parents.

Improve Management and Simplify Program Delivery

The reauthorized HEA should continue to improve management and simplify program delivery, our fourth guiding principle. We aim to reduce burden on institutions and provide them the flexibility to manage the programs so that they can serve students well. We will also ensure that students and postsecondary institutions continue to receive efficient, seamless and predictable customer service that enables them to plan ahead.

We will continue to strengthen Title IV program management by improving the Department's oversight of participating postsecondary institutions. In recent years, we have significantly improved Federal Family Education Loan (FFEL) program management. The national FFEL cohort default rate declined from 22.4 percent to 10.7 percent between 1990 and 1994. Federal payments for defaulted FFELs have declined approximately 40 percent between 1991 and 1996, despite a 60 percent increase in the volume of loans in repayment during the same period. And collections on defaulted FFELs have more than doubled since 1992.

We also have strengthened the gatekeeping procedures to prevent unscrupulous schools from participating in student aid programs. Over the past four years, the Department's actions have led to the removal of 875 schools, including 672 schools removed from all student aid programs and an additional 203 from Federal loan programs. These actions are the result of careful implementation of legislation enacted by the Congress since 1990, which have given the Department more tools to manage the Federal student aid programs.

We need to continue striving toward a proper balance, however, between protecting students and Federal funds and imposing burdens on schools. To strike this balance, we are proposing to create a statutory and regulatory framework for tailored, performance-based standards -- developed in consultation with the postsecondary community -- in lieu of the current "one size fits all" rules. A gatekeeping and oversight system based on institutions' track records and risk to Federal funds will recognize the diversity of American higher education, reduce burden where appropriate, provide incentives for institutions to be fiscally and administratively responsible, and target Federal oversight resources on high-risk institutions.

We are also working to ensure strong management of our student loan programs and to provide equal benefits for students in Direct Lending and FFEL. The creation and implementation of the Direct Loan program already has revolutionized Federal student loan delivery by providing a simpler, more automated, and more accountable system to borrowers and participating institutions. The existence of Direct Lending has also stimulated improvements in FFEL. The Direct Loan program also offers borrowers a choice of repayment options that have improved borrowers' ability to manage their student loan debt. In our FY 1998 budget submission, we proposed to expand the Direct Loan repayment options to FFEL borrowers, improve the terms of FFEL consolidation loans, and prohibit lenders from offering different benefits to selected borrowers. The budget provisions, like our HOPE Scholarship proposal, would provide students additional assistance and flexibility in financing postsecondary education, and we plan to include them in our reauthorization plan, as well.

In the President's 1998 budget, we propose economic incentives for guaranty agencies that would reduce the need for regulation, lower costs to the taxpayers, and improve performance. Our proposal clarifies that guaranty agencies administer guarantees paid by the Federal government under performance-based agreements. The Department would pay 100 percent of lender default claims, compensate guaranty agencies through a set of fees related to the functions they perform, and recall Federal funds unnecessarily held in reserve by the agencies.

We recognize the importance of simplifying program delivery and have taken steps in this direction. In consultation with students, schools, lenders, guaranty agencies, and secondary markets, the Department is developing Project Easy Access for Students and Institutions (EASI), an electronic, student-centered delivery system through which students will be able to apply for aid, determine their eligibility, and have their aid delivered to the school of their choice almost instantaneously. As envisioned, EASI would also enable borrowers to check on their loan balances 24 hours a day after leaving school, assist institutions in tracking enrollment and repayments as well as fulfilling reporting requirements, and help the Department with program management, reporting, and oversight in a real-time environment.

We are modernizing other aspects of the delivery system consistent with the EASI vision. Later this month, students and families will be able to complete the financial aid application via the Internet. We are also considering the use of multi-year promissory notes and imaging for both the Direct Loan and FFEL programs, which could greatly reduce administrative burden for the schools, lenders, and the Department.

Some in the postsecondary education community have advocated new organizational forms to modernize student aid. Recently proposed models include a mutual benefit corporation (MBC) -- which, as I understand it, is a non-governmental corporation operating under a charter and bylaws approved by an appropriate Federal agency that is set up to help run an industry -- and a performance-based organization (PBO) within a Federal agency under the policy supervision of the Secretary and the President. We are reviewing modifications that have been proposed for delivering student aid, and will communicate with the Committee if legislative change is needed to improve efficient and effective program management.

Conclusion

It has been my pleasure to share with you our higher education strategy and our approach to the reauthorization of the Higher Education Act. In proposing the HOPE Scholarship tax credit and other tax incentives to help families pay for college and life-long learning, major increases in funding for important postsecondary education programs in our FY 1998 budget, and a strong Higher Education Act, we are dedicated to strengthening the Federal commitment to postsecondary education. We look forward to working with you to craft a Higher Education Act that will allow us to meet the challenges of the next century. I am happy to respond to any questions you may have.

Financial Aid Information Page

Prepaid Tuition Plans

This page provides information about prepaid tuition plans, also known as tuition account programs. For information about tuition installment plans, please see the Tuition Payment Plans page. See also the page of loan information, especially the section on state aid agencies.

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What is a Prepaid Tuition Plan?

A prepaid tuition plan is a college savings plan that is guaranteed to rise in value at the same rate as college tuition. For example, if a family purchases shares that are worth half a year's tuition at a state college, they will always be worth half a year's tuition, even 10 years later when tuition rates will have probably doubled.

Prepaid tuition plans are often exempt from local and state taxes, and the federal tax obligation is levied on the beneficiary when the plan is used. Most plans are guaranteed by the full faith and credit of the state that offers them, but the nature of the guarantee differs from state to state.

Most plans offer monthly and annual investment options, in addition to lump sum investments. In a typical plan, the family purchases shares that represent a percentage of a year's tuition. The price of these shares, of course, increases every year. Most plans include features that make it easy to set aside money regularly, such as payroll deduction and automatic transfers from a checking or savings account.

There are two main types of plans. Some states provide one type and some the other:

- *Prepaid Unit.* The prepaid unit plans sell units that represent a fixed percentage of tuition. Everybody pays the same price for the units, and the price of a unit increases every year.
- *Contracts.* The contract plans sell contracts, where the parent agrees to purchase a specified number of years of tuition. The purchase price depends on whether the payment is on a lump sum or installment basis and on the age of the child. Most contract plans offer lower prices for younger children, since the state has more time to invest the money.

Many prepaid tuition plans are aimed at middle-income families, although several states have been adding provisions to make them more affordable to lower income families. According to the US General Accounting Office (GAO), investors in prepaid tuition plans tend to be middle- and upper-income families.

Prepaid tuition plans do *not* guarantee admission into college.

The main benefit of a prepaid tuition plan is that it allows the student's parents or legal guardian (and in some cases, grandparents or friends of the family) to lock in tuition at current rates, offering peace of mind. The simplicity of the plans is also attractive, and most plans offer a better rate of return on an investment than bank certificates of deposit and savings accounts.

Unfortunately, many plans may be used only at public colleges and universities, with only a few states extending the plans to selected in-state private schools. If the child ultimately decides to not attend a participating school, the value of the plan is significantly reduced. If the child decides to attend an out-of-state school, many plans let the family redeem their shares, but at a lower rate of return, and do not allow the proceeds to be used at trade schools or other for-profit institutions of higher education. For example, Massachusetts lets the family get back the initial investment adjusted for inflation (CPI), and Florida gives the family the initial investment adjusted for the increase in in-state tuition or a 5% annual return, whichever is less. Even so, the earnings of the investment are still tax-free. If the child decides to not go to college, the family will only get back what they originally contributed with no interest added, and there may be a cancellation penalty. However, most plans allow a sibling to use the plan in such circumstances. If the family moves out of state but the child attends a participating school, the family can still use the plan but may be held respnsible for the difference between out-of-state and in-state tuition.

Thus it is important that a family carefully evaluate their options before investing in a prepaid tuition plan. There are many benefits to a prepaid tuition plan, but such plans are not for everyone.

Prepaid Tuition Plan Checklist

This section presents a checklist of questions you should ask before investing in a prepaid tuition plan.

- What are the fees? Is there an enrollment fee or a load?
- What is the minimum and maximum investment?
- Is the plan exempt from state and local taxes? Are contributions to the plan tax deductible?
- Who is eligible to participate in the plan? Must the student (or a parent) be a state resident?
- Which schools participate in the plan?
- What happens if the child goes to an out of state school or if the child decides to not go to college? What happens if the child receives a scholarship from the school?
- What happens if the child dies or becomes disabled?
- What happens if the family moves out of state but the child still attends a participating school?
- Do I have to name a specific school when buying the contract? If the plan is school-specific, what happens if the child chooses a different school or isn't admitted by the school?
- Are there any age restrictions?
- Are shares in the plan guaranteed by the state?
- How are shares indexed to tuition? Are they guaranteed to equal actual tuition increases, the state average increase, or a projected increase?
- What expenses are included in the plan? Does the plan cover just tuition and fees, or does it also include room and board?
- What payment options, such as lump-sum and monthly installment, are available?
- Can payments be made through electronic funds transfer (EFT), allowing them to be deducted automatically from payroll checks and bank accounts?
- Who can purchase shares on behalf of the student? Must they be a resident of the state? Can grandparents and friends of the family purchase shares, or just the parents?
- Can the investment in the plan be cancelled? If so, how is the amount of the refund calculated?
- How are shares redeemed when the child matriculates in college?

Tax Status of Prepaid Tuition Plans

Investments in prepaid tuition plans are usually exempt from local and state income tax, but are still subject to federal income tax. The federal income tax obligation is deferred until the shares in the plan are redeemed (when the child attends college), and is then levied on the student who benefits from the plan, not the parents. This offers additional tax savings since the student's tax bracket is likely to be more favorable than the parents' tax bracket. Federal income tax will be due on the difference between the current value of the shares in tuition dollars and their original cost. The annual increase in value is *not* subject to annual capital gains tax, and contributions to a child's plan are not subject to gift taxes. For details on the federal tax status of prepaid tuition plans, see section 529 of the Internal Revenue Code, as amended by Congress in 1996.

Impact of Prepaid Tuition Plans on Aid Eligibility

A major problem with prepaid tuition plans is the negative impact on eligibility for federal student aid. The federal need analysis methodology currently treats the value of the benefits received by the student from the plan each academic year as a resource, which means that it reduces financial need (or cost of attendance, which yields the same effect) by 100%. Thus every dollar saved in a prepaid tuition plan reduces eligibility for student financial aid by a dollar. This is in contrast with assets saved in the parents' names, which reduce aid eligibility by at most 5.6%, and assets saved in the student's name, which reduce aid eligibility by 35%. Moreover, even though amounts saved in prepaid tuition plans reduce aid eligibility by 100%, they do **not** reduce the parent contribution.

The states recognize these problems, and are lobbying to have them changed during the 1997 reauthorization of the Higher Education Act.

The impact on eligibility for state aid is often much more favorable. Several states have provisions that shelter the savings from the state need analysis process. For example, Pennsylvania's TAP accounts do not have any impact on eligibility for state grants and loans. Virginia's program treats amounts in prepaid tuition plans as student assets.

Prepaid Tuition Plans should not be reported as a family asset on the Free Application for Federal Student Aid (FAFSA), but should instead be reported as a resource. Since the rules may change, students should contact the financial aid administrator at the schools to which they are applying to find out about the impact of the plans on financial aid and how to report the value of the plan on applications for financial aid.

Pros and Cons of Prepaid Tuition Plans

The are many considerations to be weighed before deciding to invest in a prepaid tuition plan. Aside from the restrictions on choice of college, the key consideration is a trade-off between risk and return. Prepaid tuition plans have low risk when compared with stocks and bonds, but they also limit the potential return. A family with financial savvy might be better off investing the funds on their own.

Prepaid tuition plans encourage parents to save for their children's education and offer them peace of mind. They are not necessarily the best way to save for college, but provide a safe, affordable, and convenient option for families who may not be very knowledgeable about investing.

The low risk of prepaid tuition plans is an important consideration. Most parents don't start saving until very late in the game. Even the financial advisors who tell parents that they could do better on their own will acknowledge that as college approaches the family should move the college savings into lower-risk investments. If college is less than five years away, the family should put the college fund in low risk investments like certificates of deposit, zero-coupon bonds, and prepaid tuition plans.

Before investing in a prepaid tuition plan, parents should carefully evaluate the plan and their other investment options. From an investment perspective, a prepaid tuition plan is a low-risk, tax-advantaged investment vehicle, with earnings indexed to the average increase in tuition. Since tuition rates seem to increase at about twice the inflation rate, the earning potential is probably greater than the interest earned from bank savings accounts and certificates of deposit (CDs). On the other hand, the negative impact on eligibility for federal student aid should be taken into account.

If the parents are willing to accept a greater amount of risk, they might be able to do better investing on their own. Some accountants advise families to invest in a diversified portfolio of mutual funds. For example, the Standard & Poors 500 index (S&P 500) has historically gone up by about 10% a year, offering a slightly better rate of return than most prepaid tuition plans after taking taxes into account. On the other hand, the S&P 500 isn't guaranteed to always increase at the same rate, and in some years it might have a worse return than a prepaid tuition plan. The opportunity for greater returns comes with a correspondingly greater risk.

The best advice is to carefully evaluate your options before considering any investment. Some of the key points to consider when evaluating a prepaid tuition plan are:

- **Safety.** Prepaid tuition plans are low risk, because they are guaranteed to increase at the "tuition inflation rate", typically between 6% and 8%. Investments in prepaid tuition plans are not subject to the unpredictability and volatility of the stock market. They are also often guaranteed by the full faith and credit of the state that runs the plan. On the other hand, this also means that the earning potential is more limited than that of riskier investments.
- **Tax Exempt.** Prepaid tuition plans are usually exempt from state and city taxes, and the federal tax obligation is at the child's rate and is deferred until matriculation.
- **Negative Impact on Aid Eligibility.** Prepaid tuition plans reduce eligibility for federal student financial aid by 100%, in contrast with other investment vehicles.
- **Fees.** The plan may charge an enrollment fee when the family signs up for the plan and/or a load when deposits are made into the plan.
- **Limitations on School Choice.** All plans are designed for students who intend to matriculate at a state college or university. Some restrict the plans to public schools, while others include selected private institutions. If the student decides to go to school out of state or attend a school that doesn't participate, the main benefit of the plan is eliminated. Most plans offer a lower rate of return if the shares are not used to pay for tuition at an in-state school. On the other hand, many plans allow shares to be transferred to other members of the family.
- **Return on Investment.** The effective rate of return may depend on the school, since the plan's earnings are indexed to the average rate of tuition increase, and an individual school's tuition may grow at a faster or slower rate. Depending on the nature of the plan, the package may not include all of the college expenses. For example, many plans are limited to tuition and fees, and do not cover room and board. So the family may need to plan for these additional costs as well.
- **Affordability.** The minimum investment amount is typically much lower than that required by most mutual funds, making prepaid tuition plans more accessible to lower income families.
- **Simplicity.** Prepaid tuition plans appeal to parents who may not have the time or knowledge to manage their own investments. Most plans sell shares that represent a fixed percentage of a year's tuition, a concept that is easily understood by most parents.

Whether or not the parents invest in a prepaid tuition plan, it is important that they start saving for their children's education as soon as possible, even the year the child is born. The greatest asset available to parents is time. If parents start saving early enough, even a modest weekly or monthly investment can grow to a significant college fund by the time the child matriculates. For example, saving $50 a month from birth would yield about $20,000 by the time the child turns 17, assuming a 7% return on investment. Parents may find the Savings Growth Projector, Savings Plan Designer, and Savings Plan Yield Calculator calculators helpful in evaluating different savings options.

Prepaid tuition plans may also be useful in other circumstances, such as divorce settlements and probate of a will.

State Prepaid Tuition Plan Programs

Currently fourteen states - Alabama, Alaska, Colorado, Florida, Massachusetts, Michigan, Missouri, Ohio, Pennsylvania, Tennessee, Texas, Virginia, Wisconsin, and Wyoming - offer prepaid tuition plans. Seven states - Arkansas, California, Illinois, Missouri, Nevada, New Hampshire, and Oregon - offer savings bond programs. Five states - Delaware, Indiana, Kentucky, Louisiana, and Utah - offer savings funds or savings plan trusts. Georgia offers the Georgia HOPE Scholarship Program using the proceeds from the state lottery. Thirty-two states - Arizona, California, Connecticut, Hawaii, Idaho, Illinois, from the state lottery. Thirty-two states - Arizona, California, Connecticut, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, Rhode Island, South Carolina, South Dakota, Vermont, Washington, West Virginia, and Wisconsin - are planning, developing, or thinking about offering prepaid tuition plans.

Alabama Prepaid Affordable College Tuition (PACT) (Alabama)

Children can be enrolled from infancy through the 9th grade. The contract pays four years of tuition and fees at any public college or university in Alabama. If the child decides to go to a private school or out-of-state, the contract pays the average cost of four-year public institutions in Alabama at that time. For more information call 1-800-ALA-PACT (1-800-252-7228), fax 1-334-242-7514, or write to Office of the State Treasurer, Rpp, S-106, Alabama State Capitol, 600 Dexter Avenue, Montgomery, AL 36130. See also the KHEAA web page, which is under construction, but which will eventually include information about the program.

Alaska Advance College Tuition (ACT) (Alaska)

For more information call 1-800-478-0003 or 1-907-474-7469.

Arizona Students' Association (Arizona)

The Arizona Students' Association has lobbied the state for a prepaid tuition plan, but their efforts were stalled in the legislature. For more information call 1-602-965-1717.

Colorado Student Obligation Bond Authority (Colorado)

For more information, call 1-800-478-5651.

Connecticut (Connecticut)

For more information, call 1-860-566-2982.

Delaware Family Account for College Tomorrow (FACT) (Delaware)

Florida Prepaid College Tuition Program (Florida)

The Florida Prepaid College Tuition Program began in 1988 and is the largest prepaid tuition plan in the country. About 375,000 Florida children are enrolled, or about 11% of the population. If the student decides to go to an out-of-state school, the shares can be redeemed for the original investment amount plus the increase that results from applying the current in-state tuition rate or 5% compounded interest, whichever is less. Purchasers of Prepaid College contracts can pay by lump sum or monthly installments. There is a $42 application fee. Contract prices depend on the child's age or year in school. Tuition contracts and dormitory room contracts are available. No other college expenses are covered. Investments in the fund are guaranteed by the state. Optional life insurance is available which will cover the remaining balance of the Prepaid College contract should the parent die. For more information call 1-904-488-8514, write to The Florida Prepaid College Tuition Program, 1801 Hermitage Boulevard, Suite 210, Tallahassee, Florida 32308, or send email to *prepaid@fsba.state.fl.us*. You can also call 1-800-552-GRAD (4723) toll free in Florida, write to Florida Prepaid College Program, PO Box 6567, Tallahassee, FL 32314-6567, or visit any branch of the First Union National Bank of Florida.

See also an article that appeared in the Palm Beach Post and gave a good summary of the program.

Georgia HOPE Scholarship Program (Georgia)

Indiana Education Savings Authority (Indiana)

For more information, call 1-317-232-6386.

Kentucky (Kentucky)

Web page under construction. Call 1-800-928-8926 or 1-800-338-0318 for more information.

Louisiana START Saving Program (Louisiana)

For more information, call 1-800-259-5626 x1012.

For more information, call 1-800-259-5626 x1012.

Massachusetts College Saving Program, The U. Plan (Massachusetts)

Massachusetts Educational Financing Authority (MEFA) is a not-for-profit state agency that provides college financing for students attending Massachusetts colleges and universities. Since 1995 MEFA has offered the U. Plan, a prepaid tuition program that allows parents of any state (or country!) to lock in tuition at today's rates at over 75 participating Massachusetts public and private colleges and universities. (Only 16 of the state's 91 accredited colleges and universities do not currently participate in the plan. The schools that do not participate tend to be those with the greatest out-of-state enrollments, such as Brandeis, Harvard, MIT, and Tufts.) For more information about the U. Plan, call 1-800-449-MEFA (6332) or 1-617-261-9760, write to MEFA, 176 Federal Street, Boston, MA 02110, or visit any Fleet Bank branch.

Michigan Education Trust (MET) (Michigan)

Michigan first offer a prepaid tuition plan in 1986, making it the first state to offer this type of program. Michigan also fought the IRS to preserve the tax-exempt nature of the plans. The Michigan Education Trust has a minimum lump-sum investment of $3,000 and a maximum of $19,808, with no installment plan available. The plan provides for up to four years of tuition and fees at state schools. There is a $25 enrollment fee. For more information call 1-800-MET-4KID or write to Michigan Education Trust, PO Box 30198, Lansing, MI 48909.

Mississippi Prepaid Affordable College Tuition Program (MPACT) (Mississippi)

The MPACT program is under development. Purchasers will be able to purchase shares through lump sum and monthly payments. In addition to the tuition plan, there will be an optional dormitory plan. Benefits will be transferrable to other family members. Earnings from the program are exempt from state income tax and payments into the program are deductible for Mississippi income tax purposes. The plan will be guaranteed by the full faith and credit of the State of Mississippi. For more information, call 1-888-308-1997 (in Mississippi) or 1-601-359-3600 or 1-601-359-2995, fax 1-601-359-2001, or write to MPACT, Mississippi Treasury Department, PO Box 138, Jackson, MS 39205.

Ohio Tuition Trust Authority (OTTA) (Ohio)

Parents (and grandparents) invest in the OTTA Prepaid Tuition Program by purchasing units that are adjusted annually to reflect the increases in college tuition. One hundred units equals the about one year's tuition and fees at an Ohio state college or university. Units cost $42 in 1996, with a $2 (5%) discount for units paid for by payroll deduction or automatic bank transfer. There is a $50 enrollment fee ($25 for children under 1) and a minimum monthly contribution of $15. Enrollment runs from October 1 through early January. Investments in the Tuition Trust Authority are guaranteed by the state. The trust also sells prepaid tuition gift certificates that may be given even to children who are not yet enrolled in the program. For more information, call 1-800-589-OTTA (6882) or 1-800-AFFORD-IT (233-6734), write to The Ohio Tuition Trust Authority, 62 E. Broad Street, 4th Floor, Columbus, OH 43215-3515, or send email to *otta@state.oh.us*.

Pennsylvania Tuition Account Program (TAP) (Pennsylvania) (old link)

The Pennsylvania Tuition Account Program (TAP) is limited to use at in-state public colleges and universities. 24 TAP credits equal a year's tuition at a state school, and there are 20 TAP units to a TAP credit. The price of a TAP credit depends on the school and the tuition level (resident or non-resident). Credits may be later converted to credits for a different state school for a $10 fee. The 1996 standard (average) tuition levels for state related, state system of higher education, and community colleges are $12.00/unit ($24.75 non-resident), $6.95/unit ($17.60 non-resident), and $3.35/unit ($9.35 non-resident), respectively. There is a $65 application fee. TAP credits are guaranteed by state. The value of TAP credits may be applied to any accredited college in the US. Anybody can contribute to a student's TAP account, including grandparents, relatives, and even friends of the family. More than 16,800 Pennsylvania children have been enrolled in the Tuition Account Program. For more information, call 1-800-440-4000, write to Tuition Account Program, PO Box 2235, Harrisburg, PA 17105-2235, or send email to *pa-tap@patap.org*.

Rhode Island Savings Bond Program (Rhode Island)

Tennessee BEST (Tennessee)
For more information, call 1-888-486-BEST (1-888-486-2378) send email to *best@mail.state.tn.us*.

Texas Tomorrow Fund -- Prepaid College Tuition Program (Texas)
The Texas Tomorrow Fund allows individuals to prepay college tuition for Texas colleges and university's at today's prices. There is an application fee of $50, and lump-sum and monthly payment options. The purchase price depends on the age of the child. Their site also provides information about financial aid for Texas students and the cost of education in Texas. Call 1-800-445-GRAD (1-800-445-4723) to request an application form, or write to Texas Tomorrow Fund, Texas Comptroller of Public Accounts, PO Box 13407, Austin, TX 78711-3528. More information can also be obtained by calling 1-512-483-6340, 1-800-735-2988, or 1-800-252-5555, writing to Texas Higher Education Coordinating Board, Division of Student Services, PO Box 12788, Capitol Station, Austin, TX 78711-2788, or sending email to *wardaleen.belvin@cpa.state.tx.us*.

See also the Texas Administrative Code Title 34, Part I, Chapter 7 *Prepaid Higher Education Tuition Program* and a News Release from John Sharp.

Utah Educational Savings Plan Trust (Utah)
For more information, call 1-800-418-2551.

Virginia Higher Education Tuition Trust Fund (Virginia)
The Virginia Prepaid Education Program (VPEP) lets families lock in the current cost of tuition and fees at Virginia public colleges and universities. There are contracts available for Virginia private and out-of-state schools, which pay the actual earnings on the savings, less an administrative fee, and capped at the highest tuition charged by a Virginia public college or university. VPEP covers tuition and fees, but not room and board or other expenses. There is an $85 application fee. Plans include lump-sum payment, a five-year plan for children who have not yet completed the seventh grade, and a monthly installment plan. The deadline for signing up is February 28, and the first payment is due May 1. Only children who are currently in the ninth grade or younger may enroll in the program. For more information about the Virginia Prepaid Education Program, call 1-888-567-0540, TDD 1-800-253-0737, or send email to *fainfo@schev.edu*.

Wisconsin Education Investment Program (Wisconsin)
For more information, call 1-888-338-3789.

Wyoming Advance Payment of Higher Education Costs (Wyoming)
For more information call 1-307-766-3214.

Alternatives to Prepaid Tuition Plans

There are a few alternatives that have some of the characteristics of prepaid tuition plans.

CollegeSure CD
CollegeSure CD is a FDIC insured certificate of deposit that is indexed to college costs. It pays an annual interest rate that is indexed to a measure of tuition, fees, room and board at independent colleges and universities. The interest rate on the CollegeSure CD is guaranteed to always be at least 4.00%, even if college costs increase at a lower rate. The minimum investment is $1,000. Once the account is opened, additional investments can be made in increments of $250 or more. Interest earned on the CD is, however, subject to taxation, unlike the earnings from prepaid tuition plans. The CollegeSure CD is offered only by College Savings Bank. For more information, call 1-800-888-2723, write to College Savings Bank, 5 Vaughn Drive, Princeton, NJ 08540, or send email to *info@collegesavings.com*.

Inflation-Adjusted T-Bonds
In 1997 the US Treasury started offering 10-year T-bonds that are indexed to inflation. The bonds

In 1997 the US Treasury started offering 10-year T-bonds that are indexed to inflation. The bonds are guaranteed by the full faith and credit of the US government and are available in face amounts of $1,000. US Savings Bonds in amounts as low as $50 will not be available until January 1998. These bonds will permit interest to accrue in a tax-deferred fashion until the bonds are redeemed. Since the earnings are indexed to the Consumer Price Index (CPI), these bonds do not provide any capital growth. This makes them a poor choice for college savings funds. They might be a useful risk-free component of an investment portfolio, but since they do not keep pace with increases in tuition, they should not be part of the long-term investment strategy. For more information, call 1-202-874-4000.

Tufro

Tufro is a Tooth and Money Saving Kit that helps parents and children save teeth and save money. The focus of the Tufro Kit is on using the experience of losing baby teeth to educate children about proper dental care and to encourage families to save and invest for their children's college education. The Tufro Kit includes Windows compatible tooth calculator software, a set of Toothvelopes for saving baby teech, a Tooth Box for storing the Toothvelopes, and a booklet that describes the Toothaccount program. The cost is $24.99 plus $4 shipping and handling. The Tufro web site also includes information about college savings programs. For more information, call 1-888-HI-TUFRO (1-888-448-8376) or 1-617-431-1255, fax 1-617-431-8636, write to Toothaccount, Inc., 276 Oakland Street, Wellesley, MA 02181, or send email to *jwhitman@ix.netcom.com*.

Sources of Additional Information

The information in this section will be primarily of interest to states who are thinking of setting up a prepaid college tuition plan and to researches interested in sources of data about prepaid tuition plans.

College Savings Plan Network (CSPN) (alternate link)

The College Savings Plan Network (CSPN) was formed in 1991 as an affiliate of the National Association of State Treasurers (NAST). CSPN shares information among existing state college savings plans, provides information to state agencies that are interested in starting a college savings program, and monitors federal activities and legislation affecting the state programs.

CSPN is a membership organization, with membership open to officials and senior staff in state governments. Private sector membership is available as well. CSPN provides its members with a clearinghouse of information about state prepaid tuition plan programs. This clearinghouse contains data on active college savings programs and other information submitted by membership, including sample legislation and marketing materials.

CSPN has just published a *Special Report on State College Savings Plans* which profiles the states currently having prepaid tuition and savings trust plans. It contains tables that provide information such as number of participants, dollar value of programs, and start-up costs. It also has a listing of contacts in each state and a map indicating current status of programs in each of the states. It is available for $10 plus shipping and handling by contacting 1-800-800-1910, order number C153-9600.

Students and parents who contact CSPN will be referred to the appropriate office in their state government. A web page providing this information is under development.

For more information, call Kathy Tyson at 1-606-244-8175, fax 1-606-244-8053, write to CSPN, c/o NAST, PO Box 11910, Iron Works Pike, Lexington, KY 40578-1910, or send email to *ktyson@csg.org* or *cspn@csg.org*.

Designing a College Savings Plan

Many states use private companies to design their prepaid tuition plans or to consult on the design of the plans. Among the companies states have used are Coopers & Lybrand and Ernst & Young, LLP.

College Board Publications

The College Board has published a book about prepaid tuition plans. It contains six essays discussing the strengths and weaknesses of the Florida and Michigan prepaid college tuition programs.

Michael A. Olivas, editor, *Prepaid College Tuition Plans: Promise and Problems*, College Entrance Examination Board, New York, 1993.

The cost is $13 plus $3.94 shipping and handling (order number 004841). To order a copy, call 1-800-323-7155 or write to College Board Publications, Box 886, New York, NY 10101-0886. For more information, call 1-212-713-8165 or fax 1-212-713-8143.

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