

HB

268

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: February 4, 2000

FURTHER REFERRALS:

Date of Committee Action: 2/9/00

The FINANCE Committee considered:

HB 268

HOUSE BILL NO. 268

COLLEGE TUITION SAVINGS PLAN

"An Act relating to the Alaska Higher Education Savings Trust; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 268 (HES) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal note(s) _____

fiscal note(s) LA, 2/4/00

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Lane Therriault</i> Therriault	X			
<i>John Bunde</i> Bunde			✓	
<i>Alan Quaterman</i> Quaterman			✓	
<i>Mr. Dan DAVIES</i> DAVIES	X			
<i>Ben Grussendorf</i> Grussendorf			X	
<i>Carl Moses</i> Moses			X	
<i>Steve DAVIS</i> DAVIS	X			
<i>William</i> William	X			
<i>Lair Phillips</i> Phillips	✓			

CHAIR'S SIGNATURE

Lane Therriault

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. CSHB268 (HES)

Revision Date (Note if correction)		Dept. Affected	University of Alaska
Title	An Act relating to the Alaska Higher Education Savings Trust; and providing for an effective date.	BRU	Statewide
Sponsor	Representative Lisa Murkowski	Component	
Requester		Component Serial No.	

Expenditures/Revenues

OPERATING EXPENDITURES	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services	50.0	50.0	50.0	50.0	50.0
Travel	10.0	5.0	5.0	5.0	5.0
Contractual	90.0	20.0	20.0	20.0	20.0
Supplies	30.0	25.0	25.0	25.0	25.0
Equipment	20.0				
Land & Structures					
Grants & Claims					
Miscellaneous					
TOTAL OPERATING	200.0	100.0	100.0	100.0	100.0

CAPITAL EXPENDITURES					
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CHANGE IN REVENUES ()	○	60.0	70.0	80.0	90.0	100.0
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FUND SOURCE

1002 Federal Receipts					
1003 GF Match					
1004 GF					
1005 GF/Program Receipts					
1037 GF/Mental Health					
1048 University Receipts	200.0	100.0	100.0	100.0	100.0
TOTAL	200.0	100.0	100.0	100.0	100.0

Estimate of any current year (FY00) cost: none

POSITIONS

Full-time	1	1	1	1	1
Part-time					
Temporary					

ANALYSIS: *(Attach a separate page if necessary)*

At this time there are many uncertainties about how the program can be best implemented. However, many of these cost will otherwise have to be incurred by the Advance College Tuition Program without regard to creation of the Alaska Higher Education Trust in order to meet participants needs for higher earning options. The Advance College Tuition program continues to have an important role in financing education, but changes in the federal tax and other laws currently favor more aggressive savings programs.

Prepared by	Jim Lynch, Interim Vice President for Finance	Phone	474-7448
Division	Statewide Finance	Date	2/1/00
Approved by	Commissioner Jim Lynch, Interim Vice President for Finance	Date	2/1/00
Agency	Statewide Finance		

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Session:
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JUNEAU, AK 99801-1182
PHONE: (907) 465-3781
FAX: (907) 465-2293
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Interim:
716 WEST 4TH AVENUE
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PHONE: (907) 269-0174
FAX: (907) 269-0177

REPRESENTATIVE LISA MURKOWSKI

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House Bill 268 – Alaska Higher Education Savings Trust Sponsor's Statement

Alaska, through its student loan program and the Advance College Tuition program has traditionally offered its residents seeking a higher education, solid financial options. HB 268 continues this trend and will allow residents and non-residents alike the ability to put money into a trust fund that may be used for higher education expenses. HB 268 will ensure that Alaskans will continue to have flexible and powerful financial options to utilize for their higher education.

Under IRS code 26 USC 529 commonly known as "Section 529," states are allowed to create "qualified State tuition programs." Section 529 defines "qualified State tuition program" as a program established and maintained by a State or an agency under which a person may either purchase tuition credits or certificates on behalf of a designated beneficiary which entitle the beneficiary to the waiver or payment of qualified higher education expense of the beneficiary; or, may make contributions to an account which is established for the purpose of meeting the qualified higher education expenses of the designated beneficiary.

Under Section 529, individuals are permitted to front load large sums of money, in some states in excess of \$100,000, gift-tax free either in one lump sum or over a 5 - year period. Quite a contrast to the \$500 annual limit on the Education IRA. Furthermore, the participant may change the beneficiary at any time and may even choose him or herself to be the beneficiary. Section 529 provides unprecedented flexibility and savings power.

As approximately forty other states have done, House Bill 268 establishes a qualified State tuition program. The program will be administered by the University of Alaska and will be known as the "Alaska Higher Education Savings Trust." The bill also changes the structure of the current Advance College Tuition program by updating its structure to conform to new IRS codes and changing the name of the program to the Advance College Tuition Savings Fund. In order to keep the overhead, record keeping and marketing costs to a minimum, HB 268 places both programs under one administrative head.

It is vital that this education savings program be flexible and designed to maximize returns for the investor with minimal tax consequences. Not only is this important so that Alaskans are able to have meaningful savings options for their higher education, but, with a strong program, it should entice non-residents as well to invest their savings dollars in Alaska.

I urge your support of HB 268. Thank you for your consideration.

Invest up to \$100,000 tax-deferred for your child's or grandchild's college education

Through the new NextGen College Investing PlanSM



For many families, the expense of higher education is one of the financial challenges. That's why you should consider the NextGen Investing PlanSM, a new tax-advantaged way to invest up to \$100,000 for higher education.

Highlights of the NextGenSM plan include:

- Assets from the Plan can be used at accredited U.S. colleges or post-secondary schools.
- Earnings grow federal income tax-deferred.
- Any family members or friends may contribute for a beneficiary.
- Contributed assets are considered removed from your estate for estate purposes.

For additional information and for upcoming seminar dates and locations, please contact:

1-800-770-7000 or

907-561-4433

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3601 C. Street

Penthouse Suite West

Anchorage, AK 99503

- The beneficiary may be changed (within the family) without losing tax deferral.
- Choice of professionally managed portfolios.

Call today to reserve your place at our upcoming seminar on "Building College Savings Tax-Deferred." Seating is limited so please reserve in advance.

For more complete information, including charges, expenses and risks of investing in the NextGenSM plan, ask for a prospectus. Please read it carefully before you invest.

FAME

Finance Authority of Maine



Dale McCormick
Maine State Treasurer

* Couples may be eligible to contribute up to \$100,000 in a single year without creating a taxable gift. Aggregate account balance limit is \$138,000 per beneficiary.

The College
Investing Plan for
the Next Generation



Merrill Lynch

New College Savings Plans Gaining Popularity

By Joseph F. Hurley, CPA

The process of saving for college is being revolutionized by the new tax-advantaged programs being established these days by many of the states under

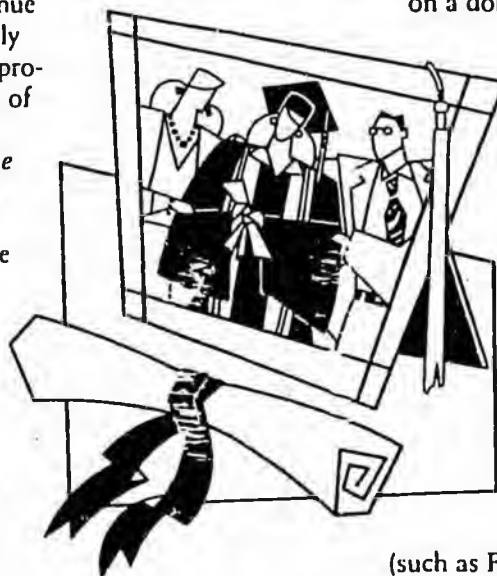
Section 529 of the Internal Revenue Code. These programs, technically known as qualified state tuition programs, have been attracting a lot of attention in recent months with articles in *TIME*, *Newsweek*, *The Wall Street Journal*, *Kiplinger's Personal Finance Magazine* and other national publications. Some of the newest programs, such as those in New York and New Hampshire, have been swamped with new account applications. It is imperative that we as financial planners become familiar with qualified state tuition programs because our clients are going to be coming to us with a lot of questions about them.

For families saving for college, Section 529 allows qualified state tuition programs to offer a host of tax advantages that, in many cases, make them superior to the Education IRA, taxable funds and other investment alternatives. In addition to the income tax advantages, there are some distinct estate and gift tax advantages. For middle- to high-income families who face many obstacles in the tax law, the qualified state tuition program can be a clear winner.

The income tax benefits include deferral of earnings until distributions are made from the plan and taxation of the earnings to the student at (usually) the lowest tax bracket. The estate and gift tax benefits include treatment of a contribution into the plan as a completed gift eligible for the \$10,000 annual exclusion, despite the fact that the donor maintains full control and can later switch beneficiaries or have the account refunded. A donor can contribute \$50,000 at once without gift tax consequences because an election is available to treat the gift as made over a five-year period.

There are two basic kinds of qualified state tuition programs – prepaid tuition plans and savings-type plans. Some of the prepaid tuition plans, such as Florida's, have actually been around for several years and do not have a great reputation as a savings vehicle (deservedly so). They are designed to provide a return that merely keeps up with tuition increases and will often provide a lower return if the child attends a private college or out-of-state institution. Most prepaid tuition plans are restricted to

residents of the state, can only be used for tuition and not the other costs of attending college, and are treated as a financial "resource," which reduces federal financial aid on a dollar-for-dollar basis.



The newer savings-type qualified state tuition programs are a whole different ballgame. Most of the states offering these programs make them available to residents and non-residents alike, and the choice of college makes no difference. In the typical program, over \$100,000 can be contributed for a single beneficiary and is invested on a tax-deferred basis in an age-banded portfolio of mutual funds, which provides a more aggressive asset allocation for younger beneficiaries and then becomes more conservatively invested as the beneficiary nears college age. The state will contract with an investment manager

(such as Fidelity, TIAA or Vanguard) to structure the portfolios and administer the program. Many states offer tax deductions, income exemption or scholarships for residents making contributions to their programs. For federal financial aid purposes, the account is generally considered to be an asset of the parent despite being taxed to the child.

Why should the financial planner be excited about these programs, particularly since none of them (with the exception of Montana) offer commissions to investment advisers? It is because they can be great for your clients, and your clients will definitely need help in sifting through all the special programs now available for higher education (Education IRA, withdrawals from regular and Roth IRA, Series EE bonds). They also need help in developing a strategy for using qualified state tuition programs. There are many different state programs to choose from and each program is different. And because the investment of contributions is directed by the state, not the account owner, your client will need help in properly balancing the asset allocation imposed by the state with his or her other investments.

Note: Joseph F. Hurley CPA, is a tax partner at Bonadio & Co. LLP in Rochester, N.Y. He has appeared before the IRS and Treasury in hearings on the regulations being developed under IRC Sec. 529 and has written a book, The Best Way To Save For College – A Comprehensive Guide to State-Sponsored College Savings Plans and Prepaid Tuition Contracts. For more information, send e-mail to jhurley@bonadio.com or go to www.savingforcollege.com.



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Eight Great Ways to Save for College

500

► The newest state savings plans go to the head of the class. By Kristin Davis

States have been busy since we last reviewed state-sponsored college-savings plans. Six states will offer new plans by September, and two more have improved their investment options. The best news: All the new plans earn *As* on the scale we used to grade 32 plans in the February 1999 issue ("How to Ace Saving for College").

These states earned top marks by adopting features we applauded in our February survey, such as providing investment options suited to long-term investors and allowing proceeds

to be used without penalty at any accredited college in the U.S.

Investments in the plans shift from an aggressive blend of stocks and bonds when children are young to a conservative mix as they mature. Money grows tax-deferred until it's used for college; earnings are then taxed in the student's bracket. Some states add tax benefits for residents.

All plans levy a penalty on withdrawals not used for college expenses.



Unless noted otherwise, any U.S. resident can open an account.

► Arizona's Family College Savings Program is our favorite among the new plans because it gives you some choices about how your money is invested. No plan gives you total control of your investments, but Arizona

lets you predesignate up to two switches—say, from SM&R Growth fund (three-year annualized return, 17.5%) to SM&R Balanced fund (12.9%) on your child's 13th birthday, and from that fund to a bond or money-market fund at 16.

Arizona also offers the College Savings Bank's CollegeSure CD, which pays a rate pegged to college-cost inflation with a minimum guarantee of 4%. Whichever you choose, earnings are exempt from Arizona state tax. For more information, call the College Savings Bank (800-888-2723) or Securities Management and Research (888-667-3239).

► California's Golden State Scholarship Trust (877-728-4338; www.scholarshare.com)

invests in three TIAA-CREF funds, including the Growth Equity (12-month return, 26.5%), Bond Plus and money-market funds. For children up to age 2, the mix is 75% stocks and 25% bonds.

► Kentucky has offered only a fixed-rate return in its Educational Savings Plan Trust (800-338-0318), with a minimum guarantee of 4%. Starting this fall, accounts will be invested in the TIAA-CREF funds named above, and only earlier contributions will retain the 4% guarantee. Earnings are free from Kentucky state income tax. Participants must have ties to Kentucky, such as living or working in the state or having a family member who lives there.

► Maine's NextGen College Investing Plan (877-463-9843) invests in nine Merrill Lynch funds, starting with 90% stocks and 10% bonds for children up to age 3. Earnings are free from Maine income tax.

► Massachusetts's U. Fund (800-544-2776) supplements the state's prepaid-tuition plan. Your money is invested in eight Fidelity portfolios.

► Minnesota's College Savings Program (800-657-3866) is a TIAA-CREF plan similar to California's and Kentucky's. Minnesota residents who meet certain income criteria can get a matching grant.

► Missouri's Saving for Tuition (Most) program (888-414-6678) is yet another TIAA-CREF plan that will eventually include a fixed-rate option with a guaranteed minimum return. The big boost for Missouri residents: a state-tax deduction of up to \$8,000 per contributor per year. Earnings are free from Missouri tax.

► Vermont's Higher Education Savings Plan (800-637-5860; www.vsac.org) will mirror Missouri's plan, with TIAA-CREF funds plus a guaranteed-return option. Withdrawals will be free from Vermont tax. The contributor or beneficiary must have a "Vermont connection."

For reviews of plans in other states, see www.kiplinger.com/kids. •

States' College-Savings Plans Go National

Big Firms Provide Marketing Muscle

YOUR
MONEY
MATTERS

By LYNN ASINOF

Staff Reporter of THE WALL STREET JOURNAL
Merrill Lynch & Co. and other financial heavyweights are staking out turf in the college-savings-plan business, transforming the once-stodgy state plans into investment products with a national market.

Merrill Lynch last month started using its vast brokerage network to market Maine's brand-new NextGen program. Its 16-page brochure shows bright-eyed children, documents the rising cost of college and outlines various tax advantages. But it mentions Maine's sponsorship only a handful of times, even in the fine print.

Citigroup is taking a similar approach with Colorado's Scholars Choice program, which was announced yesterday and will be marketed starting Oct. 19 through Salomon Smith Barney brokers. New Hampshire's year-old Unique program is touted by Fidelity Investments in national newspaper and magazine ads. And TIAA-CREF, which operates New York's plan, has six more state programs in the works.

"There is a tremendous momentum building for these programs," Joseph F. Hurley, author of "The Best Way to Save for College," says. "As more investment companies wake up to the possibilities, it widens the whole playing field."

Age-Based Portfolios

Typically, money contributed by parents and grandparents is invested in special age-based portfolios of mutual funds. No federal income tax is owed on earnings until the funds are withdrawn to pay for college. Even then, earnings are taxed as ordinary income at the student's rate, which is typically lower than that of the person funding the plan.

A parent or grandparent can put as much as \$50,000 into an account in a single year and owe no gift tax as long as no additional gifts are made during the next four years.

Early versions of the plans have been



around since the late 1980s, but they had their drawbacks. Most were prepaid tuition plans designed to protect against tuition inflation. Participation was restricted to state residents, and investors typically got full value only when used for colleges within their state's borders.

Then tax legislation in 1996 and 1997 cleared up lingering tax questions, and the number of plans mushroomed, Bernie Kent, a tax partner for PricewaterhouseCoopers in Detroit, says. They also started to change form. Prepaid plans still hold the most money, but it is now the savings plans that are growing fastest in number.

Unlike the original prepaid programs, the new savings plans generally aren't restricted to state residents. That means someone from, say, Illinois, could pick from among plans in states such as New York, New Hampshire, Maine and Massachusetts — or even put money into all of them — and use the funds to pay higher education expenses at virtually any school in the country.

The new savings plans also lend themselves to a "turn-key" approach, which shifts both operating cost and responsibility to outside companies. That is opening the door to competition between providers,

who must affiliate with a state plan to enter the market.

"Each firm is going to want to tell its customers 'We have one of these,'" Abram Claude, vice president of business development at Fidelity Investments, says.

For consumers, this competition is great news, Mr. Hurley says. People can shop among several state plans, comparing the performance, benefits, expense and restrictions.

Nationalization Concerns

But some providers worry about the trend toward nationalization. "We believe the intent of the law was for the states to set up a program for state residents," not to use a state to create a national platform. Timothy E. Lane, vice president of tuition financing with TIAA-CREF, says.

Concerned that Congress could revoke the tax advantages, TIAA-CREF is avoiding glitzy national marketing, targeting instead in-state employers who could offer the plan through payroll deduction.

National interest is high. Just a year old, New Hampshire's plan has attracted nearly \$120 million from investors from all 50 states, Puerto Rico, Guam and the U.S. Virgin Islands. Residents of California — not New Hampshire — account for the largest number of plan accounts.

Out-of-state savers do forgo some important tax advantages. Residents typically aren't taxed by the state on earnings in their own state plan, although they will likely owe state tax on earnings from out-of-state plans. Likewise, some states give tax deductions for annual contributions to their own savings plans. At least one state — New Jersey — is taking a broader view, extending its income tax exemption to earnings in other states plans.

But these plans aren't for everyone. Once you put money into a plan, you lose all control over how it is invested. Each state has its own formula, and returns vary widely depending on the mix of equity to fixed income built into the age-based portfolios.

"The models are tremendously different," Kalman Chany, author of "Paying for College Without Going Broke," says. So are the fees. While savers in Maine's NextGen can expect to pay about 1.5% on assets in annual management fees, savers in New York's plan pay only 0.65% and New Hampshire plan savers pay about 1%.

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SPECIFIC EXAMPLES :

<i>New Hampshire</i>	
Type of Program:	Savings
Name of program:	UNIQUE College Investing Plan
Initial Year of Operation:	1998
Telephone:	1-800-544-1722
Internet:	www.fidelity.com/unique
Residency requirements:	None
Age/time requirements:	None
Basic program description:	Accounts can be used to pay for all higher education expenses allowed under Section 529.
Maximum contribution:	\$109,825 to increase on January 1, 2000
Minimum contribution:	\$1,000 lump sum or \$50/month automatic deposit.
Investment information:	Age-based portfolios using a blend of Fidelity mutual funds
Enrollment period:	Open
Program fee:	\$30 annual maintenance fee (waived for account with automatic deposit or exceeding \$25,000 in value). Program investment fee of 0.3% charged against net assets of the portfolio. Portfolio expenses range from .65% to .75%. Earnings are exempt from New Hampshire interest and dividends tax.
What we like most:	Strong and experience program manager Fidelity Investments.

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<i>Maine</i>	
Type of Program:	Savings
Name of program:	NextGen College Investing Plan
Initial Year of Operation:	1999
Telephone:	1-877-463-9843
Internet:	www.nextgenplan.com
Residency requirements:	None
Age/time requirements:	None
Basic program description:	Accounts may be used to pay for all higher education expenses allowed under Section 529. Earnings are exempt from Maine income tax if used for college.
Maximum contribution:	\$145,000
Minimum contribution:	\$250 lump sum or \$50 month with automatic deposit
Investment information:	Age-based portfolios using a blend of existing Merrill Lynch Asset Management mutual funds. Options exist to invest 100% in equity funds, 75/25 in equity/fixed income funds, and 100% in fixed income.
Enrollment period:	Open
Program fee:	\$50 annual maintenance fee, waived for Maine residents and for accounts with at least \$2,500 in contributions for the year and for accounts that reach \$20,000 in value. Annual program management fees totaling 0.6% of net asset value and expense ratios in the portfolios ranging from 0.76% to 0.98%.
What we like most:	Strong program manager with Merrill Lynch.

What we dislike most:	The program will be sold through sales reps from Merrill Lynch, other investment companies in Maine, and Maine banking institutions who may not have full knowledge of the intricacies of 529 Plans (although specialists will be available by telephone).
New developments:	Click here for new developments!



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MANAGING YOUR MONEY

Generous tax savings point many to prepaid tuition plans

Thomas A. Fogarty
TODAY

ert and Debra Armstrong of N.Y., have been good savers of their two children. In the government paid off a bond they had bought to help the kids' college education. Armstrongs invested the unneeded cash in the New York College Tuition Savings Program, one of the USA's 40 state-sponsored savings plans.

husband read up on it and it was a really good deal," says. Particularly attractive, says, was being able to deduct up to \$2,000 this year on their state income tax for their contribution. Tuition plans, which offer professional money management and a 10% federal income tax on assets, have become the rage of college savers (story, 1B). Assets shot up to \$7.1 billion from \$3 billion six months ago. States — Florida, Hawaii, Illinois, Kansas, Minnesota, North Dakota, Oklahoma, Tennessee, Vermont, Oregon, West Virginia and Washington — plan savings programs. And New Mexico are poised to launch prepaid plans, which let investors lock in tuition at public universities by prepaying a lower rate.

Key benefits

"329 plans," named after the number of federal tax law that permit, "combine a menu of options that you're just not going to see elsewhere," says Joseph Hurley, a New York City accountant who has written a guide to the plans. Many states hire investment companies to manage the accounts. TIAA-CREF, the company known for its educators' pensions, has the most state plan contracts (see Fidelity Investments and Salomon Smith Barney have others, and market some plans nationwide). Many plans provide for investors to invest in a student who is a scholar-ship recipient or disabled. Parents and beneficiaries need not invest, and some plans even allow a donor to be the beneficiary. The federal government has devalued expenses broadly to include tuition, fees, books, supplies and living expenses.

Advantages

Among the most frequently cited advantages of the plans: Federal income taxes. Earnings are tax-deferred until they are withdrawn when the money is used for education. It's taxed at the beneficiary's rate, typically 15%. State income taxes. All states have income taxes that match the deferral of taxes on earnings. Like New York with its \$10,000 limit per couple for contributions far beyond, Virginia and Mississippi offer generous tax breaks such as unlimited deductions on contributions, and tax exemptions on contributions at withdrawal if the money is used for college.

rate planning. Donors can contribute up to \$50,000 without triggering the federal gift tax that applies to after \$10,000 a year. Special treatment makes state plans especially appealing to some grandparents seeking a transfer wealth. Control. The contributor retains control of decisions about disbursement of parents or grandparents' money. In Johnny's plan to study statistics of rock concert tours at state U, they can transfer the money to another beneficiary. Parents are drawn to make sure the money goes for college expenses. Penalties apply when it is used for anything else. Most states follow

Saving for college? Here's how state tuition plans rate

College savers are not limited to their own state in selecting a state tuition plan, so they face an array of choices. Here is a listing of the plans that are now operating. More are on the way. The chart includes the rating given each plan by Joseph Hurley, a certified public accountant who has written a guide to funds called "The Best Way to Save for College." A rating of 5 is best; a 1 is worst. More information can be found on Hurley's Web site, www.savingforcollege.com, and on the Web site of the College Savings Plan Network, www.collegesavings.org.

State	Name (phone)	Web site	Hurley's rating	Type of program	Available to non-residents? (Hurley rating)	Enrollment period	Investments/comments
Ala.	Prepaid Affordable College Tuition (PACT) Program (800-252-7228)	agencies.state.al.us/treasurer	2	Prepaid	No	September	Tracks Ala. tuition and fee increases; no interest if canceled
Alaska	Advance College Tuition (ACT) (in Alaska, 800-478-0003; outside Alaska, 907-474-5671)	www.aaskia.edu/swact	1	Combined	No	Open	Money market interest rates
Ariz.	Arizona Family College Savings Plan (602-229-2591)	www.acsp.asu.edu	3	Savings	Yes (3)	Open	CD rates, 4% minimum or four S&P 500 mutual funds
Ark.	Arkansas Tax-deferred Tuition Savings Program (877-442-6553)	www.thegiftplan.com	5	Savings	Yes (4)	Open	Nine age-based portfolios
Calif.	Golden State Scholarship Trust College Savings Program (877-728-4338)	www.scholarshare.com	4	Savings	Yes (3)	Open	Age-based portfolios managed by TIAA-CREF
Colo.	Scholars Choice College Savings Program (888-572-4652) Colorado Prepaid Tuition Fund (800-478-5651)	www.scholars-choice.com www.prepaidtuition.org	Savings: 5 Prepaid: 2	Both	Savings: Yes (4) Prepaid: Yes (1)	Open Fall	Savings: age-based portfolios using Salomon Smith Barney mutual funds
Conn.	Connecticut Higher Education Trust (CHET) (888-799-2438)	www.aboutchet.com	3	Savings	Yes (3)	Open	Age-based portfolios; various money managers
Del.	Delaware College Investment Plan (800-544-1655)	www.fidelity.com/delaware	4	Savings	Yes (4)	Open	Age-based portfolios using Fidelity funds
Fla.	Florida Prepaid Tuition Program (800-552-4723)	www.fltpa.state.fl.us/prepaid	2	Prepaid	No	October-January	Tracks Fla. tuition and fee increases; no interest if canceled
Ill.	College Illinois (877-877-3724)	www.collegeillinois.com	2	Prepaid	No	Oct. 18-Feb. 18	Tracks Ill. tuition and fee increases; heavy cancellation penalties
Ind.	Indiana Family College Savings Plan (888-814-6800)	www.chc.state.in.us/itcsp	4	Savings	Yes (4)	Open	Many One Group mutual fund options; Vanguard bond fund
Iowa	College Savings Iowa (888-446-6696)	www.collegesavingsiowa.com	4	Savings	Yes (3)	Open	One of four Vanguard portfolios
Ky.	Kentucky Education Savings Plan Trust (877-598-7878)	www.kentuckytrust.org	4	Savings	No	Open	Age-based portfolios managed by TIAA-CREF
La.	Louisiana Student Tuition Assistance and Revenue Trust Program (ISTART) (800-259-5626)	www.osta.state.la.us/start.htm	4	Savings	No	Open; Nov. 1 deadline for matching grant	Government bonds and other fixed-income investments
Maine	NextGen College Investing Plan (877-463-9843)	www.nextgenplan.com	5	Savings	Yes (4)	Open	Age-based portfolios using Merrill Lynch mutual funds
Md.	Maryland Prepaid College Trust (888-463-4723)	www.prepaid.usmd.edu	2	Prepaid	No	Feb. 10-June 10	Tracks Md. avg. tuition and fees; cannot cancel first three years
Mass.	U. Fund (800-544-2776) U. Plan (800-449-6332)	www.mefa.org	Savings: 4 Prepaid: 2	Both	Savings: Yes (4) Prepaid: Yes (1)	Savings: Open Prepaid: May 2000	Savings: age-based portfolios using Fidelity mutual funds
Mich.	Michigan Education Trust (800-638-4543)	www.mtas.state.mi.us/college/mef/mefindex.htm	1	Prepaid	No	Fall/winter	Tracks Mich. tuition and fees; no cancellations
Miss.	Mississippi Prepaid Affordable College Tuition Program (MPACT) (800-987-4450)	www.treasury.state.ms.us	3	Prepaid	No	Sept. 1-Nov. 30	Tracks Miss. tuition and fees
Mo.	Missouri Saving for Tuition Program (MOST) (888-414-6678)	www.missourimost.org	5	Savings	Yes (4)	Open	Age-based portfolios or fixed-income; both TIAA-CREF
Mont.	Montana Family Education Savings Program (800-888-2723)	www.montana.college.savings.com	4	Savings	Yes (3)	Open	CDs based on avg. college costs, 4% minimum
Nev.	Nevada Prepaid Tuition Program (888-477-2667)	prepaid-tuition.state.nv.us	3	Prepaid	No	Aug. 30-Nov. 16	Tracks Nevada tuition increases
N.H.	UNIQUE College Investing Plan (800-544-1722)	personal400.fidelity.com/d/annuity/college	5	Savings	Yes (4)	Open	Age-based portfolios using Fidelity mutual funds
N.J.	New Jersey Better Education Savings Trust (NJBEST) (877-465-2368)	www.state.nj.us/treasury/osa	3	Savings	No	Open	Invested by state; minimum 60% in bonds
N.Y.	New York's College Savings Program (877-697-2837)	www.nysaves.com	4	Savings	Yes (4)	Open	Age-based portfolios managed by TIAA-CREF
N.C.	College Vision Fund (800-600-3453)	www.collegevisionfund.org	2	Savings	No	Open	Fund-income accrues
Ohio	Ohio Prepaid Tuition Program (800-233-6734)	www.ohiocollege.savings.org/	2	Both	No	Open	Tracks Ohio tuition increases
Pa.	Pennsylvania Tuition Account Program (TAP) (800-440-4000)	www.petatap.org	2	Prepaid	No	Open	Tracks Pa. tuition increases; no interest if canceled
R.I.	Rhode Island Education Savings Trust (RIHEST) (877-474-4378)	www.rihest.com	3	Savings	Yes (3)	Open	Age-based portfolios with various money managers
S.C.	Prepaid Affordable College Education (PACE) (888-772-4723)	www.state.sc.us/top	2	Prepaid	No	Oct. 1-Jan. 21	Tracks S.C. tuition and fee increases; no interest if canceled
Tenn.	Tennessee Baccalaureate Education System Trust (BEST) (888-486-2378)	www.treasury.state.tn.us/best.htm	1	Prepaid	No	Open	Tracks Tenn. tuition and fee increases
Texas	Texas Tomorrow Fund (800-445-4723)	www.texas-tomorrow.fund.com	2	Prepaid	No	Nov. 1-March 28	Tracks Texas tuition and fee increases
Utah	Utah Educational Savings Plan Trust (UESP) (800-418-2551)	www.uesp.org	4	Savings	Yes (4)	Open	Four options, with state-run fixed-income fund and Vanguard stock and bond index funds
Va.	Virginia Education Savings Trust (VEST) Virginia Prepaid Education Program (VPEP) (888-567-0540)	www.vpep.state.va.us	Savings: 5 Prepaid: 3	Both	Savings: Yes (4) Prepaid: No	Savings: Open Prepaid: Dec. 1-Feb. 29	Prepaid: tracks Va. tuition and fee increases; savings: seven age-based portfolios
Wash.	Guaranteed Education Tuition of Washington (GET) (877-438-8848)	www.get.wa.gov	2	Prepaid	No	Sept. 1-Jan. 15	Tracks Wash. tuition increases
W.Va.	West Virginia Prepaid College Plan (800-307-4701)	www.wvtreasury.com	2	Prepaid	No	October-January	Tracks W.Va. tuition and fee increases; no interest if canceled
Wis.	Edvest Wisconsin (888-338-3789)	edvest.state.wi.us	1	Savings	No	Open	Tuition units similar to U.S. Savings Bonds, now 8% interest

Source: Saving for College by Joseph Hurley, 1999

The downside

So, what's not to like? Kaiman Chamy, author of *Paying for College Without Going Broke*, says state officials and companies that manage the plans are only picking the plans' good points.

For starters, Chamy says, anyone who invests in a tuition plan before making sure they are getting the maximum employer match in their company's 401(k) plan — if they have one — is making a big mistake. Beyond that, Chamy and others point

account can be steep.

► Lack of investment choice. Once an account is open, the state — or the investment company acting as the state's agent — takes full control over how the money is invested. In most savings plans, the assets are allocated, according to the beneficiary's age, among stocks, bonds and money market mutual funds.

The younger the beneficiary, the more risk is taken. By the time the student reaches college, most of the account is invested in low-risk bonds and money market mutual funds.

an account. New Hampshire, by contrast, invests 88% of a newborn's account in stocks.

► Prepaid plan conversions. Prepaid tuition contracts let students convert state university tuition credits for use at a private or out-of-state college. Some plans, however, make conversions at a significant discount from public university tuition.

► Taxes. Tax payments aren't considered a college expense under IRS rules. So a student must have another source of money to pay taxes on money coming out of the savings

investment account, which lets a minor withdraw up to \$700 in interest tax-free each year.

► Impact on financial aid. Proceeds from a prepaid tuition plan reduce a student's financial need dollar-for-dollar.

By contrast, at least for now, the government has issued an interpretation that gives savings plans relatively favorable treatment in financial aid calculations. As a result, savings accounts have less negative impact on aid than other assets.

But the debate over how savings

financial aid substantially.

So how do you pick a plan? The first decision is between a prepaid and a savings plan.

► A prepaid plan is for a conservative investor who wants the assurance that the full cost of college, at least the cost of college at a public university, will be covered.

► A savings plan is for those who can live with the idea that their savings may come up short of fully covering tuition.

Once that decision is made, check to see if your own state offers what

States by Type of Program

As of 7/1/99

12 Prepaid only – operational

Michigan	Pennsylvania	Maryland
Ohio	Texas	South Carolina
Alabama	Mississippi	West Virginia
Alaska	Washington	Nevada

1 Prepaid only – in progress

New Mexico

15 Savings only – operational

Kentucky	Connecticut	New Jersey
Wisconsin	North Carolina	Iowa
Louisiana	New Hampshire	New York
Indiana	Delaware	Rhode Island
Utah	Montana	Arizona

11 Savings only – in progress

Maine	Vermont	Kansas
California	North Dakota	Hawaii
Missouri	Wyoming	Oregon
Minnesota	Oklahoma	

1 Dual – operational

Massachusetts

5 Dual – in progress (with legislative authorization in place)

<u>43</u> Colorado	Tennessee	Florida
Virginia	Illinois	

Hopefuls

Arkansas	Idaho	South Dakota
Georgia	Nebraska	Washington, D.C.