

SB

186

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FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 1/28/00

FURTHER:

REPORTED OUT OF
SFC 2/11/00

DATE TURNED
IN TO OFFICE: 2/11/00

Finance Committee considered

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 186

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

and recommends:

be replaced with _____ CS _____

adopt previous _____ CS _____

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to the _____ Committee

*For Incoming
CS*

Senate Bill:
 same title
 new title
 House Bill:
 same title
 technical title
 new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	X				
<i>Loren D. Leman</i>	✓				
<i>[Signature]</i>	✓				
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			
Co-Chair:		Co-Chair:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

<i>For Incoming FN</i>			

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

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- attached amendment(s)
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- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	X				
<i>Loren D. Roman</i>	✓				
<i>[Signature]</i>	✓				
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			
Co-Chair:		Co-Chair:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

<i>Forthcoming</i>			
<i>FN</i>			

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOTE

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

BILL NO. CS SS SB186 (FIN)

Revision Date/Time (Note if correction)	Dept. Affected
Title <u>College Tuition Savings Plan</u>	<u>BRU</u>
Sponsor <u>Senator Tim Kelly</u>	Revenue <u>Revenue Operations</u>
Requester <u>Senate Finance Committee</u>	Component <u>Treasury Management</u>
Component No. <u>121</u>	

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Interagency Receipts)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time	0.0	0.0	0.0	0.0	0.0	0.0
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Earlier versions of this bill required the Treasury Division to be the custodian of funds. The Senate Finance version eliminates that requirement.

Prepared by: T. Davenport, Asst. Comptroller
 Division: Treasury Division
 Approved by: Commissioner Wilson Condon
 Agency: Revenue

Phone: 465-3751
 Date/Time: 2/14/00 7:47 AM
 Date: 02/14/2000

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FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. CSSB 123(FIN)

Revision Date _____ Dept. Affected Alaska Court System
 Title Public Interest Litigants BRU Alaska Court System
 Component Trial Courts
 Sponsor Senate Finance Committee
 Requester Senate Finance Committee Component Serial No. 769

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost None

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*
 No fiscal impact anticipated.

Prepared by: Doug Woollver, Administrative Attorney Phone: 907-264-8265
 Agency: Alaska Court System Date/Time: 2/22/00 1:00 PM

Approved by: Stephanie J. Cole, Administrative Director Date: 2/22/00
 Agency: Alaska Court System

V. Sen. Sec.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

REPORTED OUT OF
SFC 2/11/00

BILL NO. CSSB186 (FIN)

Revision Date (Note if correction) _____ Dept. Affected University of Alaska
 Title An Act relating to the Alaska Higher Education BRU Statewide
Savings Trust and the Alaska Advance College Tuition Savings Fund Component _____
 Sponsor Senator Tim Kelly _____
 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	FY 01	FY 02	FY 03	FY 04	FY 05
CHANGE IN REVENUES ()	60.0	70.0	80.0	90.0	100.0

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 Feb.14,'00
 Approved by Commissi Jim Lynch, Interim Vice President for Finance Date Feb.14,'00
 Agency Statewide Finance

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Ford
2/10/00

adopted

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 186(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): **SENATORS TIM KELLY, Wilken**

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a University of Alaska postsecondary education savings
2 program, to the Alaska Higher Education Savings Trust, and to the Alaska
3 advance college tuition savings fund; and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 09.25.120(a)(7) is amended to read:

6 (7) names, addresses, and other information identifying a person as a
7 participant in the Alaska Higher Education Savings Trust under AS 14.40.802 or
8 the advance college tuition savings [PAYMENT] program under AS 14.40.803 -
9 14.40.817;

10 * **Sec. 2.** AS 09.38.015(a)(9) is amended to read:

11 (9) tuition credit or savings accounts [CREDITS] under a higher
12 education savings account established under AS 14.40.802 or an advance college
13 tuition savings [PAYMENT] contract authorized under AS 14.40.809(a);

14 * **Sec. 3.** AS 14.40.170(a) is amended by adding a new paragraph to read:

L

1 (10) administer, manage, market, and promote a postsecondary
2 education savings program, including the Alaska Higher Education Savings Trust under
3 AS 14.40.802 and the Alaska advance college tuition savings fund under AS 14.40.803
4 - 14.40.817.

5 * Sec. 4. AS 14.40 is amended by adding a new section to article 6 to read:

6 **Sec. 14.40.802. Alaska Higher Education Savings Trust.** (a) The Alaska
7 Higher Education Savings Trust is established in the University of Alaska. The
8 purpose of this trust is to secure obligations to participants and beneficiaries under a
9 postsecondary education savings program operated by the University of Alaska and to
10 provide participants a convenient method of saving for college or other postsecondary
11 education. The Board of Regents of the University of Alaska shall

12 (1) adopt policies that provide for the administration, management,
13 promotion, and marketing of the trust;

14 (2) maintain the trust in compliance with requirements of 26 U.S.C.
15 (Internal Revenue Code) for a qualified state tuition program as defined in
16 26 U.S.C. 529;

17 (3) coordinate savings options established under the trust and the
18 administration of the trust with the Alaska advance college tuition savings fund (AS
19 14.40.803), including the creation of common administrative and record-keeping
20 systems, marketing programs, and operating reserves;

21 (4) establish participation agreements, including application, savings
22 options, and withdrawal procedures;

23 (5) enter into participation agreements with participants for the
24 (A) accumulation, investment, and distribution of funds;
25 (B) payment or reimbursement of qualified higher education
26 expenses; and

27 (C) benefit of a beneficiary;

28 (6) enter into contracts with one or more contractors, including
29 investment managers; in determining the persons to act as investment managers,
30 consideration must be given to the qualifications of the contractor, including the
31 contractor's ability to

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(A) administer financial programs with individual account maintenance and reporting;

(B) develop, market, and administer investment options appropriate for the trust; and

(C) augment the savings program with other beneficial products and services;

(7) allow both residents and nonresidents to participate in the trust;

(8) allow the transfer or rollover of funds from the Alaska advance college tuition savings fund and other qualified state tuition programs under 26 U.S.C. 529 and the participation agreement;

(9) allow withdrawals from the trust to be used for qualified higher education expenses, including room and board as allowed by 26 U.S.C. 529;

(10) establish penalties for withdrawals from the trust for nonqualified expenses and other distributions as required under 26 U.S.C. 529 or as provided in the participation agreement;

(11) engage an independent firm of certified public accountants to audit the financial position of the trust.

(b) The board may

(1) divide the trust into multiple investment portfolios;

(2) commingle amounts credited to some or all accounts for investment purposes;

(3) establish trusts and accounts as the board considers appropriate under 26 U.S.C. 529;

(4) require trust participants to pay ^{all} administrative fees;

(5) establish earnings reserves as provided in the participation agreement, including reserves for the payment of administrative costs.

(c) The University of Alaska, the board, the state, or an agency of the state is not liable for a loss of funds that are invested under a participation agreement or for the denial of a perceived tax or other benefit. The board shall provide written notice to each applicant that there is no guarantee of any rate of return or benefit and that any risk of loss in account value or other benefit rests exclusively with the participant and

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except for needs based scholarships

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the beneficiary.

(d) Notwithstanding any other provision of law, earnings on funds deposited with the trust are not subject to taxation by the state or a municipality.

(e) Funds on deposit with the trust may not be considered by the University of Alaska or an agency of the state to limit eligibility for a state-funded scholarship.

(f) A participant has the right, as provided in the participation agreement, to
(1) change the beneficiary of an account to another individual who is a member of the family of the former beneficiary; or

(2) direct that all or a portion of an account be transferred to an account with a new beneficiary if the new beneficiary is a member of the family of the former beneficiary.

(g) The right to change the beneficiary or to transfer between accounts described in (f) of this section may be denied or limited as provided in the participation agreement, including transfers that would result in contributions or account balances in excess of allowable limits under the participation agreement.

(h) Except as provided under AS 4.40.110(b)(4), an account established under this section

(1) is exempt from a claim by the creditors of a participant or of a beneficiary;

(2) is conclusively presumed to be a spendthrift trust;

(3) is not an asset or property of either the participant or the beneficiary;

(4) may not be assigned, pledged, or otherwise used to secure a loan or other advancement;

(5) is not subject to involuntarily transfer or alienation.

(i) Except as permitted in 26 U.S.C. 529, a participant or beneficiary may not directly or indirectly direct the investment of an account or earnings on the account.

(j) A participant may, as provided in the participation agreement, designate a person other than the participant as a successor participant. The designation of a successor participant does not take effect until the participant dies or is declared legally incompetent. If a participant dies or is declared legally incompetent without having

*#3
1/6/07*

1 effectively designated a successor participant, the beneficiary may designate a
2 successor participant in the manner prescribed above if the beneficiary is not the same
3 person as the successor participant.

4 (k) The trust, a participation agreement, and this section are intended to
5 comply with the requirements of 26 U.S.C. 529 and shall be interpreted in that manner
6 to the extent permitted by law.

7 (l) The trust and participation agreements may be modified or amended on a
8 retroactive basis in order to maintain compliance with 26 U.S.C. (Internal Revenue
9 Code) and to maintain efficient operation of the trust as determined by the board.

10 (m) A name, address, or other information identifying a person as a participant
11 or beneficiary in the trust is confidential.

12 (n) In this section,

13 (1) "account" means an individual trust account established under this
14 section;

15 (2) "beneficiary" means any person designated by a participation
16 agreement, or by another method of designation authorized in this section, to benefit
17 from payments for qualified higher education expenses at an eligible educational
18 institution;

19 (3) "board" means the Board of Regents of the University of Alaska;

20 (4) "member of the family" has the meaning given in 26 U.S.C. 529(e);

21 (5) "participant" means a person who has entered into a participation
22 agreement or has been appointed as a participant as provided in this section and in the
23 participation agreement;

24 (6) "participation agreement" means an agreement between a participant
25 and the board providing for the establishment by the participant of one or more
26 accounts under this section and for the administration of those accounts for the benefit
27 of the participant and the beneficiary;

28 (7) "qualified higher education expenses" has the meaning given in
29 26 U.S.C. 529(e);

30 (8) "trust" means the Alaska Higher Education Savings Trust.

31 * Sec. 5. AS 14.40.803 is amended to read:

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Sec. 14.40.803. Alaska advance college tuition savings [PAYMENT] fund [ESTABLISHED]. (a) The Alaska advance college tuition savings [PAYMENT] fund is established as a nonlapsing fund of the University of Alaska. The [FUND IS ESTABLISHED FOR THE] purpose of the fund is to secure obligations to participants under a postsecondary education savings program operated by the University of Alaska and to enhance [ENHANCING] the ability of the university to provide (1) higher education for the people of the state; (2) wide and affordable access to higher education for residents and their children; (3) an incentive for residents to achieve higher academic standards in grades 7 - 12; and (4) an incentive for residents to continue and complete secondary and postsecondary education. The fund may be divided into separate accounts for accounting purposes.

- (b) The fund consists of
- (1) permanent fund dividend and cash contributions made under AS 14.40.807 under the terms of an advance college tuition savings [PAYMENT] contract;
 - (2) appropriations, gifts, bequests, and contributions; and
 - (3) income and earnings of the fund.

(c) Assets of the fund shall be expended to make payments to the university and other eligible educational institutions, including payments for refunds, redemptions, and awards under a savings [AN ADVANCE TUITION PAYMENT] contract or scholarships, [A PREPAID TUITION SCHOLARSHIP, AND] costs of administration, and other obligations of the fund.

* **Sec. 6.** AS 14.40.807(a) is amended to read:

- (a) Contributions to the fund under the terms of an advance college tuition savings [PAYMENT] contract may be made by direct cash payments or by contributions from the permanent fund dividend. The Department of Revenue shall
- (1) prepare the permanent fund dividend application to allow an applicant or a parent, legal guardian, or other authorized representative of an applicant who is an unemancipated minor to contribute 50 percent of a dividend to the fund [UNDER THE TERMS OF AN ADVANCE TUITION PAYMENT CONTRACT]; and
 - (2) include with each application for a permanent fund dividend an

1 explanation of the advance college [ADVANCED] tuition savings [PAYMENT]
2 program, including the right to receive a refund, a disclosure of the potential tax
3 liability of the fund, and disclosure of the possible general effect of the tax liability on
4 the advance college tuition savings [PAYMENT] program.

5 * Sec. 7. AS 14.40.809 is amended to read:

6 **Sec. 14.40.809. Powers and duties of the University of Alaska.** (a) The
7 Board of Regents of the University of Alaska may contract with a purchaser for the
8 purchase of advance college tuition credits for the payment of tuition and other
9 qualified higher education expenses [BY THE PURCHASER] for a beneficiary of any
10 age to attend a branch of the university or other eligible educational institution to
11 which the beneficiary is admitted. A purchaser and a beneficiary may be the same
12 person.

13 (b) The board shall

14 (1) make appropriate arrangements as necessary to fulfill the board's
15 obligations under an advance college tuition savings [PAYMENT] contract;

16 (2) establish and adopt a formal plan for administration of the advance
17 college tuition savings [PAYMENT PROGRAM AND PREPAID TUITION
18 SCHOLARSHIP] program; the terms and conditions of the plan shall be considered
19 a part of an advance college tuition savings [PAYMENT] contract;

20 (3) establish investment objectives, criteria, and asset allocation
21 guidelines for the fund based on prudent institutional investor guidelines and actuarial
22 analysis of the earnings requirements for the advance college tuition savings
23 [PAYMENT] plan; and

24 (4) enter into contracts or agreements considered necessary for the
25 investment of the fund, including contracts or agreements with investment
26 managers, consultants, and other custodians of the fund;

27 (5) engage a financial advisor to annually report on the investment
28 performance of the fund;

29 (6) engage an independent firm of certified public accountants to
30 audit the financial position of the fund;

31 (7) do all acts, whether or not expressly authorized, that the board

1 considers necessary or proper in administering the assets of the fund;

2 (8) enter into reciprocal agreements with Sheldon Jackson College,
3 Alaska Pacific University, and other eligible educational institutions or state tuition
4 programs that the board determines to be beneficial to the advance college tuition
5 savings [PAYMENT] program;

6 (9) coordinate savings options established under the Alaska advance
7 college tuition savings program and the administration of the fund with the
8 Alaska Higher Education Savings Trust (AS 14.40.802) including the creation of
9 common administrative and record-keeping systems, marketing programs, and
10 operating reserves.

11 * Sec. 8. AS 14.40.811 is amended to read:

12 Sec. 14.40.811. Advance college tuition savings [PAYMENT] contracts. (a)
13 An advance college tuition savings [PAYMENT] contract must set out or include by
14 reference to the plan

15 (1) the name and date of birth of the purchaser and the beneficiary
16 under the contract;

17 (2) the number of advance college [PREPAID] tuition credits
18 purchased under the contract;

19 (3) the terms and conditions under which the contract may be
20 terminated and refunds made;

21 (4) the assumption of a contractual obligation by the board to provide
22 funding for specified education benefits for [TO] the beneficiary in accordance with
23 the terms of the plan;

24 (5) the period of time during which the beneficiary may receive the
25 benefits of the contract; and

26 (6) other terms and conditions the board determines to be appropriate
27 or that are required under 26 U.S.C. [BY THE UNITED STATES] (Internal Revenue
28 Code).

29 (b) An advance college tuition savings [PAYMENT] contract may be
30 terminated

31 (1) if the board determines that the number of purchasers is insufficient

1 to maintain the fund on an actuarially sound basis; or

2 (2) under other circumstances determined by the board and set out in
3 the advance tuition savings [PAYMENT] contract or in the plan.

4 * Sec. 9. AS 14.40.817(1) is amended to read:

5 (1) "advance college tuition savings [PAYMENT] contract" or
6 "contract" means a contract entered into by the board and a purchaser to provide for
7 the qualified higher education expenses of a beneficiary;

8 * Sec. 10. AS 14.40.817(5) is amended to read:

9 (5) "fund" means the Alaska advance college tuition savings
10 [PAYMENT] fund established under AS 14.40.803;

11 * Sec. 11. AS 14.40.817(6) is amended to read:

12 (6) "plan" means the formal plan for administration of an advance
13 college tuition savings [PAYMENT] program [AND PREPAID TUITION
14 SCHOLARSHIP PROGRAM] adopted by the board under AS 14.40.809(b);

15 * Sec. 12. AS 14.40.817(7) is amended to read:

16 (7) "purchaser" means the person who is named in the contract and has
17 the rights conferred upon a purchaser under an advance college tuition savings
18 [PAYMENT] contract;

19 * Sec. 13. AS 45.55.990(32) is amended to read:

20 (32) "security" means a note; stock; treasury stock; bond; debenture;
21 evidence of indebtedness; certificate of interest or participation in any profit-sharing
22 agreement; limited liability company interest under AS 10.50, notwithstanding the
23 limitations of AS 45.08.103(c); collateral-trust certificate; preorganization certificate
24 or subscription; transferable share; investment contract; voting-trust certificate;
25 certificate of deposit for a security; certificate of interest or participation in an oil, gas,
26 or mining title or lease or in payments out of production under the title or lease or in
27 any sale of or indenture or bond or contract for the conveyance of land or any interest
28 in land; an option on a contract for the future delivery of agricultural or mineral
29 commodities or any other commodity offered or sold to the public and not regulated
30 by the Commodity Futures Trading Commission; however, the contract or option is not
31 subject to the provisions of AS 45.55.070 if it is sold or purchased on the floor of a

1 bona fide exchange or board of trade and offered or sold to the public by a broker-
 2 dealer or agent registered under this chapter; investment of money or money's worth
 3 including goods furnished or services performed in the risk capital of a venture with
 4 the expectation of some benefit to the investor where the investor has no direct control
 5 over the investment or policy decision of the venture; or, in general, any interest or
 6 instrument commonly known as a "security," or any certificate of interest or
 7 participation in, temporary or interim certificate for, receipt for, guarantee of, or
 8 warrant or right to subscribe to or purchase, any of the foregoing; "security" does not
 9 include a participation agreement entered into under AS 14.40.802 or an insurance
 10 or endowment policy or annuity contract under which an insurance company promises
 11 to pay a fixed or variable sum of money either in a lump sum or periodically for life
 12 or for some other specified period;

13 * **Sec. 14.** AS 14.40.805 is repealed.

14 * **Sec. 15.** This Act takes effect immediately under AS 01.10.070(c).

SENATE FINANCE
COMMITTEE
Amendment Number: 1 LLS1084N.1
Bill Number: SB 186 Ford
Sponsor: Johnson Date: 2/7/00 1/25/00
Logged In By: Mindy

AMENDMENT

OFFERED IN THE SENATE

TO: CSSSSB 186(HES)

- 1 Page 2, line 2:
- 2 Delete "; the program must include"
- 3 Insert ", including"

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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Mail Stop 3101

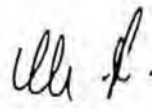
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

January 25, 2000

SUBJECT: Sectional Summary of CSSSSB 186(HES).

TO: Senator Tim Kelly
Attn: Ben

FROM: Michael F. Ford 
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Provides that the name, address, or other information identifying a person as a participant in the Alaska Higher Education Saving Trust under AS 14.40.802 or the advance college tuition savings program under AS 14.40.803 - 14.40.817 is not a public record subject to public inspection under AS 09.25.120.

Section 2. Provides that a tuition credit or savings account under the Alaska Higher Education Saving Trust under AS 14.40.802 or the advance college tuition savings program under AS 14.40.803 - 14.40.817 is not subject to the execution process to collect creditor claims.

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Senator Tim Kelly
January 25, 2000
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Section 14. Effective date.

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MANAGING YOUR MONEY

Generous tax savings point many to prepaid tuition plan

By Thomas A. Fogarty
USA TODAY

Robert and Debra Armstrong of Elmira, N.Y., have been good savers on behalf of their two children.

When the government paid off early a bond they had bought to help finance the kids' college education, the Armstrongs invested the unexpected cash in the New York College Choice Tuition Savings Program, one of the USA's 40 state-sponsored college savings plans.

"My husband read up on it and thought it was a really good deal," Debra says. Particularly attractive, she says, was being able to deduct up to \$10,000 this year on their state income tax for their contribution.

State income plans, which offer professional money management and deferral of federal income tax on earnings, have become the rage among college savers (story, 1B). Assets have shot up to \$7.1 billion from about \$3 billion six months ago. Twelve states — Florida, Hawaii, Illinois, Kansas, Minnesota, North Dakota, Oklahoma, Tennessee, Vermont, Oregon, West Virginia and Wyoming — plan savings programs.

Maine and New Mexico are poised to open prepaid plans, which let investors lock in tuition at public universities by prepaying a lower rate.

Unique benefits

The "529 plans," named after the section of federal tax law that permits them, "combine a menu of benefits that you're just not going to find elsewhere," says Joseph Hurley, a Professor, N.Y., accountant who has written a guide to the plans.

Many states hired investment companies to manage the accounts. TIAA-CREF, the company known for managing educators' pensions, has the most state plan contracts (see chart). Fidelity Investments and Salomon Smith Barney have others, and they market some plans nationwide.

All plans provide for investors to cash out if a student wins a scholarship, becomes not to attend college, dies or becomes disabled.

Donors and beneficiaries need not be related, and some plans even allow the donor to be the beneficiary.

The federal government has deducted college expenses broadly to include tuition, fees, books, supplies and living expenses.

The advantages

Among the most frequently cited advantages of the plans:

► **Federal income taxes.** Earnings grow tax-deferred until they are withdrawn — and when the money is spent for education, it's taxed at the student's rate, typically 15%.

► **State income taxes.** All states that have income taxes match the federal deferral of taxes on earnings, some, like New York with its \$10,000 reduction per couple for contributions, go far beyond. Virginia and Mississippi offer generous tax breaks, such as unlimited deductions or contributions, and tax exemptions or credits at withdrawal if the money is used for college.

► **Estate planning.** Donors can contribute up to \$50,000 without triggering the federal gift tax that normally kicks in after \$10,000 a year. That special treatment makes state tuition plans especially appealing to high-income grandparents seeking a way to transfer wealth.

► **Control.** The contributor retains control of decisions about disbursement. So if parents or grandparents disapprove of Johnny's plan to study the logistics of rock concert tours at Camp State U, they can transfer the account to another beneficiary.

Rules are drawn to make sure the money goes for college expenses, and penalties apply when it is used for something else. Most states follow some guidelines for that penalty, set at 10% of earnings and taxation of the donor's tax rate, which, presumably is higher than the student's.

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

College savers are no longer 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, including the listing 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's rating)	Enrollment period	Investment/management
Ala.	Prepaid Affordable College Tuition (PACT) Program (800-253-7228)	agencies.state.al.us/treasurer	2	Prepaid	No	Semiannual	Tracks Ala. tuition and has no interest if canceled
Alaska	Advance College Tuition (ACT) in Alaska, 800-478-0003; outside Alaska, 907-474-5571	www.alaska.edu/ward	1	Combined	No	Open	Money market interest rate
Ariz.	Arizona Family College Savings Plan (800-229-2591)	www.acosai.edu	3	Savings	Yes (3)	Open	CD rates, 4% minimum of S&P 500 mutual funds
Ariz.	Arizona Tax-deferred Tuition Savings Program (877-442-6553)	www.thegroupan.com	5	Savings	Yes (4)	Open	Nine age-based portfolios
Calif.	Golden State Scholars Trust College Savings Program (877-728-4338)	www.scholarstrust.com	4	Savings	Yes (3)	Open	Age-based portfolio market TIAA-CREF
Colo.	Scholar's Choice College Savings Program (888-572-4652)	www.scholars-choice.com	Savings: 3 Prepaid: 2	Both	Savings: Yes (4) Prepaid: Yes (1)	Open	Savings: age-based portfolio; Salomon Smith Barney mutual funds
Conn.	Connecticut Higher Education Trust (CHET) (888-799-2438)	www.usabot.chet.com	3	Savings	Yes (3)	Open	Age-based portfolio; Vanguard managers
Del.	Delaware College Investment Plan (800-544-1855)	www.hesby.com/osaware	4	Savings	Yes (4)	Open	Age-based portfolio using 7 funds
Fla.	Florida Prepaid Tuition Program (800-552-4723)	www.flcol.state.fl.us/prepaid	2	Prepaid	No	October-January	Tracks Fla. tuition increases; interest if canceled
Ill.	College Bond (877-877-3724)	www.collegebond.com	2	Prepaid	No	Oct. 18-Feb. 18	Tracks Ill. tuition and has no heavy cancellation penalties
Ind.	Indiana Family College Savings Plan (888-414-6800)	www.chesai.state.in.us/ICSP	4	Savings	Yes (4)	Open	Many One Group mutual funds; Vanguard bond fund
Iowa	College Savings Iowa (888-445-6696)	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 portfolio managed TIAA-CREF
La.	Louisiana Student Tuition Assistance and Revenue Trust Program (START) (800-259-5626)	www.osra.state.la.us/start.htm	4	Savings	No	Open; Nov. 1 deadline for matching grant	Government bonds and other income investments
Maine	NextGen College Investing Plan (877-463-9843)	www.nextgenplan.com	3	Savings	Yes (4)	Open	Age-based portfolio using M 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 cannot cancel first three years
Mass.	U. Fund (800-544-2776) U. Plan (800-449-5332)	www.mefa.org	Savings: 4 Prepaid: 2	Both	Savings: Yes (4) Prepaid: Yes (1)	Savings: Open Prepaid: May 2000	Savings: age-based portfolio; Fidelity mutual funds
Mich.	Michigan Education Trust (800-638-4543)	www.mest.tl.state.mi.us/collegesavings.htm	1	Prepaid	No	Fall/winter	Tracks Mich. tuition and has cancellations
Miss.	Mississippi Prepaid Affordable College Tuition Program (MPACT) (800-987-4450)	www.treasurer.state.ms.us	3	Prepaid	No	Sept. 1-Nov. 30	Tracks Miss. tuition and has
Mo.	Missouri Saving for Tuition Program (MOST) (888-414-6578)	www.missourimost.org	5	Savings	Yes (4)	Open	Age-based portfolio or fixed-income, both TIAA-CREF
Mont.	Montana Family Education Savings Program (800-868-2723)	montana.college-savings.com	4	Savings	Yes (3)	Open	CDs based on avg. college cost 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/planning/college	5	Savings	Yes (4)	Open	Age-based portfolio using Fidelity mutual funds
N.J.	New Jersey Better Education Savings Trust (NJBEST) (877-465-2368)	www.state.nj.us/treasurer/osa	3	Savings	No	Open	Invested by state; minimum 6% bonds
N.Y.	New York's College Savings Program (877-897-2837)	www.nysaves.com	4	Savings	Yes (4)	Open	Age-based portfolio managed TIAA-CREF
N.C.	College Vision Fund (800-600-3453)	www.collegevisionfund.org	2	Savings	No	Open	Fixed-income securities
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.pacta.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 portfolio with Vanguard money managers
S.C.	Prepaid Affordable College Education (PACE) (888-772-4723)	www.state.sc.us/vco	2	Prepaid	No	Oct. 1-Jan. 21	Tracks S.C. tuition and has no interest if canceled
Tenn.	Tennessee Bicentennial Education System Trust (BEST) (888-486-2378)	www.treasurer.state.tn.us/best.htm	1	Prepaid	No	Open	Tracks Tenn. tuition and has no interest if canceled
Texas	Texas Tomorrow Fund (800-445-4723)	www.texasctomorrowfund.com	2	Prepaid	No	Nov. 1-March 28	Tracks Texas tuition and has no interest if canceled
Utah	Utah Educational Savings Plan Trust (UESP) (800-418-2551)	www.used.org	4	Savings	Yes (4)	Open	Four options, with state-run fixed-income fund and Vanguard stock bond index funds
Va.	Virginia Education Savings Trust (VEST) Virginia Prepaid Education Program (VPEP) (888-567-0540)	www.vped.state.va.us	Savings: 3 Prepaid: 3	Both	Savings: Yes (4) Prepaid: No	Savings: Open Prepaid: Dec. 1-Feb. 29	Prepaid: tracks Va. tuition and 4% interest; 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.wvtreasurer.com	2	Prepaid	No	October-January	Tracks W.Va. tuition and has no interest if canceled
W.Va.	Edvest Wisconsin (888-338-3789)	www.edvest.wisconsin.gov	1	Savings	No	Open	Tuition units similar to U.S. Savings Bonds, now 6% interest

The downside

So, what's not to like? **► 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. **► Penalties.** Most states are strict on locking participants into the plan. As a result, penalties for canceling an

account can be steep. **► Estate planning.** 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. **► Penalties.** Most states are strict on locking participants into the plan. As a result, penalties for canceling an

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States make saving for college easier

By Mike J. Dalessi
For the Journal

PERSONAL FINANCE



The ever-rising cost of higher education has many parents wondering, "How will I afford to send my children to college, and what is the best way to save for this important goal?"

If you have begun to explore education-funding possibilities, you have probably found that there is a downside to many traditional savings plans.

For example, if you would like to put the funds for your child's education into a custodial account, you are making an irrevocable gift to your child and giving up control of the money in that account. Upon the age of majority, your child can use the funds for any purpose, and you will have to hope that paying for education is a priority.

Education-specific savings alternatives, such as the Education IRA, do provide tax-free distributions for education expenses. However, parents with relatively high incomes may not be allowed to contribute to these accounts, and those who are able to contribute are limited to \$500 annually.

Other investments, such as U.S. Savings Bonds, a popular gift for children, carry modest invest rates of 4 percent to 5 percent.

Congress has heard the concerns of parents dissatisfied with these conventional savings plans and has passed legislation that gives individual states the authority to establish Qualified State Tuition programs — a boon for anyone interested in saving as much money as possible for a college education.

Recent changes to these programs, also called Section 529 College Savings Plans after the IRS code that establishes them, have allowed individuals to contribute substantially more money toward higher-education expenses while reaping significant tax benefits.

Many states have the new version of these College Savings Plans in place, while others are expected to implement their own plans over the next several months.

Alaska does not have a plan in place, but Alaskans can use Colorado's plan. If Alaska eventually implements a plan, local investors will be able to transfer their accounts from Colorado to

Alaska with no penalties or taxes.

Since these state-sponsored savings plans typically have no income restrictions and allow for relatively large contributions that can exceed six figures in many cases, they can be the answer to the education funding concerns of many middle- and upper-income families.

The funds in College Savings Plans are usually invested in a family of pre-selected portfolios according to the age of the student or the years to enrollment in college.

The contributor has no say in how the funds are invested other



Dalessi

than a possible choice of a balanced or conservative savings option.

The portfolios typically hold more equities while the account's student beneficiary is young. As the student ages, funds are automatically moved into portfolios with a

larger portion of fixed-income investments, thus reducing the risk of stock market volatility on funds needed to pay for college expenses in the near future.

The performance of the portfolios depends on market conditions and there is no guarantee

Continued on Page 18

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States' College Savings Plans often the smartest way to put tuition away now

Continued from Page 5

that there will be enough money in the account to cover all education expenses.

Those saving for education expenses through College Savings Plans may be able to benefit from the many tax advantages that these accounts provide on the contribution,

growth and distribution levels.

While contributions are not federally tax-deductible, they may be deductible on state or local tax returns. For this reason, investors should look into the programs within their own states to determine if this tax savings makes their state-sponsored plans more attractive than those of other states. Of

course, savings options and fund performance should also be examined.

The assets in a College Savings Plan grow tax-deferred, meaning that any dividends and realized capital gains are not taxed annually. This feature will allow the account to grow larger than an identical taxable account where

earnings are taxed every year.

The earnings on distributions used for qualified education expenses, which include tuition, fees, certain room and board expenses, supplies and equipment, are taxable upon withdrawal at the student's rate.

Since most children do not have earned income, the federal tax rate is usually 15 percent. Qualified distributions may be free of state and local taxes. Penalties apply to non-qualified withdrawals.

Where you live may not be the best place to invest. Several states allow accounts to be opened by and for nonresidents. If your state has a College Savings Plan, you should weigh any local tax benefits against the benefits and conditions of

plans offered by other states.

Also, if you are already saving within a custodial account, an Education IRA and with U.S. Savings Bonds, you may want to explore the tax-free transfer of these savings to a College Savings Plan. Your financial adviser can provide more information and can help you decide which education-funding strategy may be appropriate in your case.

Mike J. Dalessi is vice president-investments and branch manager for Smith Barney in Juneau. He can be reached at 1-800-178-0600.

Salomon Smith Barney does not provide tax or legal advice. Please contact a tax or legal adviser for guidance.



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SPONSOR STATEMENT
CSSSSB 186

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

Alaska, through its student loan program and the Advanced College Tuition program, has traditionally offered its residents seeking a higher education, solid financial options. Senate Bill 186 continues this trend and will allow residents and non-residents alike, the further option to invest money into a trust fund that may be used for higher education expenses. SB 186 will ensure that Alaskans will continue to have flexible and powerful financial opportunities 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. This entitles the beneficiary to the waiver or payment of qualified education expense of the beneficiary; or, 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 five-year period. The Savings Trust would grow, tax-deferred, until withdrawn by the beneficiary. This is quite a contrast to the \$500 annual limit placed on an 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.

Approximately 40 states have already or are planning to implement a college savings plan. 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 Advanced College Tuition program by updating its composition to conform to new IRS codes and changing the name of the program to the Advanced College Savings Fund. In order to keep the overhead, record keeping and marketing costs to a minimum, SB 186 places both programs under one administrative roof.

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.

###

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MEMORANDUM

January 25, 2000

SUBJECT: Sectional Summary of CSSSSB 186(HES).

TO: Senator Tim Kelly
Attn: Ben

FROM: Michael F. Ford 
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Provides that the name, address, or other information identifying a person as a participant in the Alaska Higher Education Saving Trust under AS 14.40.802 or the advance college tuition savings program under AS 14.40.803 - 14.40.817 is not a public record subject to public inspection under AS 09.25.120.

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Section 13. Repeals a provision of law relating to management of the advance tuition savings fund by the commissioner of the Department of Revenue.

Section 14. Effective date.

MFF:glc:jr
00-025 glc

Bill History/Action Display



BILL: SB 186 SHORT TITLE: COLLEGE TUITION SAVINGS PLAN
 BILL VERSION: SSSB 186
 SPONSOR(S): SENATOR(S) KELLY TIM, Wilken

CURRENT STATUS: (S) FIN STATUS DATE: 1/28/00

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

Bill/Resolution has Zero Fiscal Note(s).

Jrn-Date	Jrn-Page	Action
1/10/00	<u>1931</u>	(S) PREFILE RELEASED - 12/30/99
1/10/00	<u>1931</u>	(S) READ THE FIRST TIME
1/10/00	<u>1931</u>	(S) PREFILE RELEASED - SPONSOR SUB 1/7/00
1/10/00	<u>1931</u>	(S) SPONSOR SUBSTITUTE RD 1ST TIME-REFERRAL
1/10/00	<u>1931</u>	(S) HES, FIN
1/25/00	<u>2069</u>	(S) COSPONSOR(S): WILKEN
1/28/00		(S) HES RPT CS 2DP 2NR
1/28/00		(S) DP: WILKEN, MILLER; NR: PEARCE, ELTON
1/28/00		(S) FISCAL NOTE TO SSSB (REV)
1/28/00		(S) REFERRED TO FINANCE

Similar Subject Match or Exact Subject Match

EDUCATION

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Bill Root:

[Return to BASIS Main Menu\(21st Legislature\)](#)

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