1999 SENATE EDUCATION

SB 2414

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2414

Senate Education Committee

☐ Conference Committee

Hearing Date February 8, 1999

Tape Number	Side A	Side B	Meter #
2	x		3742-end
2		x	0-464
3	x		1206-2778
Committee Clerk Signature Linda Christman			

Minutes:

SENATOR FREBORG opened the hearing on SB2414.

Testimony in Favor: SENATOR KRAUTER, introduced and explained the bill. Testimony attached. Put post tax money in a savings plan, the savings plan will grow with interest and dividends, when student is ready for college at any public or private institution in the US, the money is available to the student at their tax rate for tuition, fees, books, room and board, etc.

SENATOR REDLIN: What is the difference from any grandparent doing that right now. Where is the advantage of this plan.

SENATOR KRAUTER: Advantage, when you put money in savings today and you take it out you pay taxes on it in your tax bracket. Under this plan, money comes out under students name and is taxed at students tax rate.

SENATOR REDLIN: Investments do carry a certain amount of risk.

SENATOR FLAKOLL : Event of death or child deciding they don't want to go to college is it transferable or how does this work.

SENATOR KRAUTER: Can transfer it to any other family member or you can get the money out, you will pay a penalty.

SENATOR FLAKOLL: Is there a time it needs to kick in by , say they want to do the Peace Corps, military, etc.

SENATOR KRAUTER: Yes it is still in effect. Flexible.

SENATOR WANZEK : What prohibits us from doing that now. We now have money put away for our kids under their names, am I going to be taxed at my rate even though it is in their money.

SENATOR KRAUTER: You can do that, estate planning.

SENATOR COOK : Say invest $1,000 a year for 10 years, we have $10,000 plus earning, the student starts drawing that out. Is the student paying tax on the $10,000 plus earnings or just the earnings.

SENATOR KRAUTER: Student pays taxes on all the withdrawals at their tax bracket.

SENATOR COOK : What tax advantage. Do I get a deduction for the $1,000 I put in there. I paid taxes on it, are there any other advantages.

SENATOR KRAUTER: Post tax, so no.

Neutral Testimony: Carol Siegert, Deputy State Treasurer No written testimony.

Close Hearing on SB2414.

Discussion:

Passed out an amendment for discussion.

SENATOR KELSH : Move to adopt amendment 90804.0101 on SB2414.

SENATOR REDLIN: 2nd

Vote: 5 Yes 1 No

SENATOR KELSH : Move a DO PASS as amended rerefer to appropriations.

SENATOR REDLIN : 2nd

Vote: 5 Yes 2 No

CARRIER: SENATOR KELSH

FISCAL NOTE

FEB 11 1999

(Return original and 10 copies)

Bill/Resolution No.: ______________ Amendment to: SB 2414

Requested by Legislative Council Date of Request: 2-10-99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

   Narrative:

   Costs to administer the North Dakota Higher Education Savings Plan by Bank of North Dakota.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		1999-2001 Biennium	
	General Fund	**Special Funds**	**General Fund**	**Special Funds**	**General Fund**	**Special Funds**
Revenues:	-0-	-0-	-0-	-0-	-0-	-0-
Expenditures:	-0-	-0-	$57,000	-0-	-0-	-0-

3. What, if any, is the effect of this measure on the appropriation for your agency or department:
   a. For rest of 1997-99 biennium: ______________
   b. For the 1999-2001 biennium: Administrative expense of $57,000 (as identified above).
   c. For the 2001-03 biennium: ______________

4. **County, City, and School District** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**

If additional space is needed, attach a supplemental sheet.

Date Prepared: February 10, 1999

Signed Julie Kubisiak

Typed Name Julie Kubisiak

Department Bank of North Dakota

Phone Number 701-328-5621

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: SB 2414 Amendment to: ________

Requested by Legislative Council Date of Request: 1-27-99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

   Narrative:

   Fiscal impact unknown. (See attachment)

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	**Other Funds**	**General Fund**	**Other Funds**	**General Fund**	**Other Funds**
Revenues			Unknown		Unknown	
Expenditures						

3. What, if any, is the effect of this measure on the budget for your agency or department:

a. For rest of 1997-99 biennium: Unknown

b. For the 1999-2001 biennium: Unknown

c. For the 2001-03 biennium: Unknown

4. **County, city, and school district** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**

Signed: Laura Glatt

Typed Name: Laura Glatt

Department: North Dakota University System

Phone Number: 328-4116

Date Prepared: 2-5-99

Attachment for Fiscal Note SB2414

It is estimated that the fiscal impact of SB2414 will range from $650,000 - $800,000 for each of the 1999-2001 and 2001-03 biennia. This cost estimate is based on studies conducted by the National Association of State Treasurers. Items included in this cost estimate include: advisory board costs for 15 members (travel, per diem), office staffing and operating, actuarial study assistance, consultant costs, legal counsel, investment managers, audits, insurance fees, advertising and promotion, office equipment, annual reports and monthly newspaper reporting, etc., just to name a few. This estimate assumes that a new office will be created to administer the program. Without an actuarial study, it is difficult to estimate the level of participation and potential investment returns for this program.

A fiscal note prepared by the Bank of ND for SB2195, which creates a state prepaid tuition plan has an estimated fiscal impact of $70,000 - $135,000 for the 1999-2001 and 2001-03 biennia. The differences between the two cost estimates appears to be related to the number of advisory board members, office staffing and operating cost requirements. The prepaid tuition plan program would be largely staffed by existing staff at the Bank of ND. No costs were factored into the SB2195 fiscal note for unfunded liabilities should tuition increase at a level which exceeds that planned for in the actuary study or the investment return.

The reduction in taxes to the State of North Dakota would be minimal according to representatives of the State Tax Department. Without knowing the level of participation in such a program, it would be difficult to estimate the impact on revenues. Many of the families that would invest in this program may already be investing in other similar tax deferred savings plans.

The fiscal estimates provided here do not reflect any potential unfunded liability to the State of North Dakota for the schoolshare trust program since it is not clear to what extent the State would be liable for any shortfall in the plan.

Prepared by the Legislative Council staff for
Senator Krauter
February 5, 1999

PROPOSED AMENDMENTS TO SENATE BILL NO. 2414

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create a North Dakota higher education savings plan; and to provide an appropriation.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. North Dakota higher education savings plan - Administration - Rules. The Bank of North Dakota shall adopt rules to administer, manage, promote, and market a North Dakota higher education savings plan. The Bank shall ensure that the North Dakota higher education savings plan is maintained in compliance with internal revenue service standards for qualified state tuition programs.

SECTION 2. APPROPRIATION. There is hereby appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $57,000, or so much of the sum as may be necessary, to the Bank of North Dakota for the purpose of administering, managing, promoting, and marketing the North Dakota higher education savings plan, for the biennium beginning July 1, 1999, and ending June 30, 2001."

Renumber accordingly

Date: 2/8/99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2414

Senate EDUCATION Committee

☐ Subcommittee on

or

☐ Conference Committee

Legislative Council Amendment Number

Action Taken Move to adopt amendment 90804.0101,

Motion Made By Kelsh Seconded By Redlin

Senators	Yes	No	Senators	Yes	No
Senator Freborg, Chairman		✓			
Senator Cook, Vice Chairman	✓				
Senator Flakoll	✓				
Senator Wanzek	✓				
Senator Kelsh	✓				
Senator O'Connell					
Senator Redlin	✓				

Total (Yes) 5 No 1

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 2/8/99
Roll Call Vote #: 2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB2414

Senate EDUCATION Committee

☐ Subcommittee on ______

or

☐ Conference Committee

Legislative Council Amendment Number ______

Action Taken Move Do Pass SB2414 as amended rerefer to Approp.

Motion Made By Kelsh Seconded By Redlin

Senators	Yes	No	Senators	Yes	No
Senator Freborg, Chairman		✓			
Senator Cook, Vice Chairman		✓			
Senator Flakoll	✓				
Senator Wanzek	✓				
Senator Kelsh	✓				
Senator O'Connell	✓				
Senator Redlin	✓				

Total (Yes) 5 No 2

Absent ______

Floor Assignment Kelsh

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2414: Education Committee (Sen. Freborg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2414 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create a North Dakota higher education savings plan; and to provide an appropriation.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. North Dakota higher education savings plan - Administration - Rules. The Bank of North Dakota shall adopt rules to administer, manage, promote, and market a North Dakota higher education savings plan. The Bank shall ensure that the North Dakota higher education savings plan is maintained in compliance with internal revenue service standards for qualified state tuition programs.

SECTION 2. APPROPRIATION. There is hereby appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $57,000, or so much of the sum as may be necessary, to the Bank of North Dakota for the purpose of administering, managing, promoting, and marketing the North Dakota higher education savings plan, for the biennium beginning July 1, 1999, and ending June 30, 2001."

Renumber accordingly

1999 SENATE APPROPRIATIONS

SB 2414

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2414

Senate Appropriations Committee

❑ Conference Committee

Hearing Date 2/10/99; Rehearing 2/15/99

Tape Number	Side A	Side B	Meter #
1		x	1667-3070
2/15/99 1	X		3275-3768
Committee Clerk Signature	Claudia Anderson		

Minutes:

SENATOR NETHING: Opened the hearing on engrossed SB 2414; a BILL for an Act to create a North Dakota higher education savings plan; and to provide an appropriation. (tape 1667)

SENATOR KRAUTER: District 35 and cosponsor of SB 2414, testified in support of SB 2414 as engrossed. (testimony attached #1) This bill provides for the ND higher education savings plan; whereby a contributor can put post-tax money into a savings plan that will grow tax-deferred with interest and dividends. When the college student accesses the funds, it is taxed at the student's rate, plus it can be used for any public or private institution in the US. And, it can be used for tuition, books, fees, room and board, and any related college expenses. When Congress passed the Tax Payer Relief Act of 1997, it made many changes to the Internal Revenue code. One of the changes included the establishment of the 529 plan which allows states to set up a college savings plan. These state plans allow for students to be taxed at the student's rate versus the contributor's rate. (tape 2640)

SENATOR BOWMAN: What happens if a child doesn't go to college?

SENATOR KRAUTER: It is your investment so you can draw out the dollars if the beneficiary does not. The state will develop the plan as well as the penalties associated with this. There will be public hearings on all of this so we can maximize the benefits so penalties are very acceptable.

SENATOR ANDRIST: How different from prepaid tuition is this bill? (tape 2755)

SENATOR KRAUTER: The $500 college education savings IRA is pretax dollars. This plan is post-tax. You can put up to $100,000 or you can put in as little as $25 per month.

SENATOR ANDRIST: So the only the thing taxable when the student takes it out is the earnings on it?

SENATOR KRAUTER: Correct, and it is taxed at the student rate.

MIKE HILLMAN: Vice Chancellor for Academic Affairs, ND University System. We've been studying this plan and the prepaid tuition savings plan. We have taken no stand on either of these other than to say saving for college is of particular benefit, especially to low income families. To offer an official state vehicle to do so, we think is in their best interest. (tape 2954)

SENATOR NETHING: Closed the hearing on SB 2414 (tape 3070)

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2/15/99 (Tape 1, Side A, 3275-3768)

SENATOR NETHING: Reopened the hearing on SB 2414 as engrossed.

SENATOR KRAUTER: Moved do pass on SB 2414 as engrossed.
SENATOR HOLMBERG: Seconded the motion.
ROLL CALL: 9 YEAS; 4 NAYS; 1 ABSENT & NOT VOTING

MOTION CARRIED TO DO PASS SB 2414 AS ENGROSSED
Yeas: Lindaas; Tomac; Robinson; Krauter; Grindberg; Holmberg; Kringstad; Bowman; Andrist
Nays: Nething; Naaden; Solberg; St. Aubyn
Absent & Not Voting Tallackson

CARRIER: SENATOR KELSCH
SENATOR NETHING: Closed the hearing on SB 2414

Date: 2-15-99

Roll Call Vote #:

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. SB 2414

Senate APPROPRIATIONS Committee

☐ Subcommittee on

or

☐ Conference Committee

Legislative Council Amendment Number

Action Taken DO PASS SB214 AS ENGROSSED

Motion Made By SENATOR KRAUTER Seconded By SENATOR HOLMBERG

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman		✓			
Senator Naaden, Vice Chairman		✓			
Senator Solberg		✓			
Senator Lindaas	✓				
Senator Tallackson					
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter	✓				
Senator St. Aubyn		✓			
Senator Grindberg	✓				
Senator Holmberg	✓				
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) 9 No 4

Absent 1

Floor Assignment SENATOR ~~KRAUTER~~ Kelsch

If the vote is on an amendment, briefly indicate intent: BACK to REFERRAL

REPORT OF STANDING COMMITTEE

SB 2414, as engrossed: Appropriations Committee (Sen. Nething, Chairman) recommends **DO PASS** (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2414 was placed on the Eleventh order on the calendar.

1999 HOUSE EDUCATION

SB 2414

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2414

House Education Committee

☐ Conference Committee

Hearing Date 3-1-99

Tape Number	Side A	Side B	Meter #
Tape # 1	x		0.1 to 25.0
Committee Clerk Signature Joan Diers			

Minutes:

Chairman R Kelsch < Vice Chair Drovdal , Rep Brandenburg , Rep Haas , Rep Johnson , Rep Nelson , Rep Nottestad , Rep L Thoreson , Rep Grumbo , Rep. Hanson , Rep. Lundgren , Rep. Mueller , Rep. Nowatzki , Rep. Solberg .

Chairman R Kelsch : We will open the hearing on SB 2414 and ask the clerk to read the title.

Senator Krauter: District 35 sponsor of the bill (See attached testimony) .

Rep Nelson: Do you see a maximum contribution to the fund, what do you envision as a minimum - maximum in the savings plan?

Krauter: The IRS (when they established the 529 plan) has a long list of regulations. They ask the state to define what is the cost of higher education. They put a dollar amount on it and then that is the maximum that you can put into the savings plan. The state would then look at those guide lines and set up their rules.

Rep L Thoreson : Can this amount change? Is it variable thing?

Krauter: There is flexibility to this plan. The only requirement to this plan is the maximum amount for the education.

Rep L Thoreson : What happens when the student does not go to college?

Krauter: The 529 plan of the IRS allows for the contributor to get there money back out. The state sets up the penalty for withdrawal. The amount of money is then taxed on the contributors rate, when taken out by the student it is taxed at their rate.

Rep L Thoreson : Does this plan apply to two year programs or vo tech?

Krauter:You are correct, it is to go on to college education. The two year or vo tech would be allowed by the rules the state sets up, as long as it is public accredited college.

Rep. Nowatzki : Can a business receive a tax credit and contribute to this plan.

Krauter: Not to my knowledge, this is personal income.

Rep. Nowatzki : A local business cannot invest in the education of students as a tax shelter.

Rep Nottestad : Do the children have to be North Dakota residents?

Krauter: The IRS lets the state set up criteria, and it may not be necessary to be a North Dakota resident. This plan is flexible the contributor may also be a resident or non resident.

Rep Nottestad : The amount of money that isn't used, and the contributor is deceased, how do the estates deal with that?

Krauter: It is considered part of their estate and handled as such.

Rep Nottestad : What happens if the estate is closed?

Krauter: We have that happen every day, the estate is closed, and something comes up later, so they just go back and make that distribution. IF you invest in another state, there is no tax benefit from the state of North Dakota.

Rep Nottestad : If the children live out of state, that is where the problem comes in.

Krauter: If the child lives out of state, and you make a contribution to North Dakota's plan, if the state has a plan you can make the contribution anywhere you want.

Chairman R Kelsch : Currently you can invest in New York and use it for my student here in North Dakota.

Rep Nelson : If the student received a scholarship, does the plan allow you to transfer to another student?

Krauter: Yes, that is one of the options.

Rep Nelson : Is there any blood lines or is it a clean transfer to any other student?

Krauter: Can be set up any way.

Chairman R Kelsch : Chair made two comments. Number 1 this college savings fund is beneficial to low income people who cannot contribute at high amounts. Number 2 grandparents can contribute automatically without the parents having to take the money and be responsible to invest the funds. Anyone else who wishes to testify in support of SB 2414. Anyone wishing to appear in opposition of SB 2414? Seeing none, we will close the hearing on SB 2414.

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2414-3-10-99

House Education Committee

☐ Conference Committee

Hearing Date 3-10-99

Tape Number	Side A	Side B	Meter #
Tape #		x	41.5 to end
Tape # 2	x		0.1 to 5.7
Committee Clerk Signature Joan Diers			

Minutes:

Chairman R Kelsch, Vice Chair Drovdal, Rep Brandenburg, Rep Brusegaard, Rep Haas, Rep Nelson, Rep Nottestad, Rep L Thoreson, Rep Grumbo, Rep. Hanson, Rep. Lundgren, Rep. Mueller, Rep. Nowatzki, Rep. Solberg .

Chairman R Kelsch : We will take up SB 2414, what are the wishes of the committee?

Rep. Lundgren : Move a DO PASS.

Rep. Solberg : seconded the motion.

Chairman R Kelsch : Committee discussion

End tape 1 side B, begin tape 2 side A

Committee discussion continues.

Chairman R Kelsch : We have a DO PASS motion before the committtee on SB 2414, ask the clerk to take the roll. The DO PASS and be re-referred to Appropriation, motion passes 12 YES 2 NO 1 Absent and not voting.

Floor assignment Rep. Lundgren .

Date: 3-10-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB-2414

House Education Committee

☐ Subcommittee on ______
or
☐ Conference Committee

Legislative Council Amendment Number ______

Action Taken Do Pass & Re-referred to Appro.

Motion Made By Sundgren Seconded By Solberg

Representatives	Yes	No	Representatives	Yes	No
Rep. ReaAnn Kelsch-Chairperson	✓		Rep. Dorvan Solberg	✓	
Rep. David Drovdal-Vice Chair	✓				
Rep. Michael D. Brandenburg	✓				
Rep. Thomas T. Brusegaard		✓			
Rep. C. B. Haas	✓				
Rep. Dennis E. Johnson					
Rep. Jon O. Nelson	✓				
Rep. Darrell D. Nottestad	✓				
Rep. Laurel Thoreson		✓			
Rep. Howard Grumbo	✓				
Rep. Lyle Hanson	✓				
Rep. Deb Lundgren	✓				
Rep. Phillip Mueller	✓				
Rep. Robert E. Nowatzki	✓				

Total (Yes) ~~11~~ 12 No ~~0~~ 2

Absent 1

Floor Assignment Sundgren

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2414, as engrossed: Education Committee (Rep. R. Kelsch, Chairman) recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (12 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2414 was rereferred to the **Appropriations Committee**.

1999 HOUSE APPROPRIATIONS

SB 2414

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2414

House Appropriations Committee
Education and Environment Division

☐ Conference Committee

Hearing Date March 22, 1999

Tape Number	Side A	Side B	Meter #
1	x		0-24.0
Committee Clerk Signature	Casey Davis		

Minutes:

SB 2414 - A bill for an act to create a ND higher education savings plan; and to provide an appropriation.

CHAIRMAN WENTZ opened the hearing on SB 2414.
1A: 0.4 SENATOR AARON KRAUTER presented the bill and testified in support of it. (See testimony.)
1A: 9.0 REP. LLOYD asked if the money is transferable from one beneficiary to another, if the first decides not to attend college. Senator Krauter responded that it is transferable. Rep. Lloyd asked if a student would be able to receive the money if he or she went to school out of state. Senator Krauter said yes.
1A: 10.2 REP. MONSON asked if there were penalties for withdrawing money from the account. Senator Krauter replied that people can withdraw their money. The Bank of North Dakota will set up penalties as far as what the IRS will allow. The IRS is flexible on this, and it could be as low as 1%.
1A: 11.1 REP. AARSVOLD asked where the penalty dollars go. Senator Krauter replied that he hopes it would stay with the system or in the bank.
1A: 11.7 JASON BERNHARDT, North Dakota Student Association, testified in support of the bill. He said that students are increasingly overwhelmed by the cost of tuition. They face mental, social, and financial burdens. It is never too early to start saving for one's college tuition.
1A: 13.4 REP. MONSON asked about the startup of the program. Senator Krauter said the intent is that once it is started it should go on its own. Some states put it out on a bid and investment firms come in with good rates.
1A: 14.6 REP. MONSON asked how the money would be invested. Senator Krauter replied that this is where it is important that the university system is involved so that everyone has input. Rep. Monson asked if this meant that all the funds would be in variable accounts like stocks, rather than in fixed accounts. Senator Krauter said he is unable to say. The investment firm that comes in with the best interest rates and minimum penalties would be able to set up the plan.
1A: 16.2 REP. LLOYD asked who withdraws the money. Senator Krauter said that the beneficiary is the student. Some states require the school to withdraw the funds to insure it goes for education. Rep. Lloyd continued by asking if the contributor has little control over the withdrawal of the funds. Senator Krauter replied that the contributor does have some control. Though the rules of the program, there is a procedure to withdraw the funds.
1A: 17.8 REP. LLOYD asked if the money would be locked up in estate if the contributor passes away. Senator Krauter replied that he did not know the estate laws.
CHAIRMAN WENTZ closed the hearing.
1A: 20.3 REP. LLOYD said the program will probably be used readily. People can make a contribution and still control their funds.
1A: 21.7 REP. LLOYD made a motion for a Do Pass. The motion was seconded by Rep. Aarsvold. A roll call vote was taken and the motion carried with 7 yeas and 0 nays. Rep. Lloyd will carry the bill to the full committee.

General Discussion

- ❑ Committee on Committees
- ❑ Rules Committee
- ❑ Confirmation Hearings
- ❑ Delayed Bills Committee
- ☒ House Appropriations
- ❑ Senate Appropriations
- ❑ Other

Date March 25, 1999			
Tape Number	Side A	B Side	Meter #
1	x		0-31.0
Committee Clerk Signature Casey Davis			

Minutes:

SB 2414

CHAIRMAN DALRYMPLE opened discussion on SB 2414.
1A: 1.9 REP. LLOYD presented the EE subcommittee's recommendation for a Do Pass. He made the motion for a Do Pass, and the motion was seconded by Rep. Boehm.
1A: 4.1 REP. MONSON asked if anyone at the bank is certified to administer a mutual fund or to sell securities. Rep. Lloyd replied that in the testimony it was stated that the bank would develop an administrative plan. This specific issue was not brought up.
1A: 5.2 REP. DELZER asked if the bank sets up all the rules. Rep. Lloyd replied that they do. Rep. Delzer asked if people can withdraw their money. Rep. Lloyd said that they can, but there would be penalties.
1A: 5.7 CHAIRMAN DALRYMPLE asked for further explanation. Rep. Lloyd said that many states have adopted plans like this. It is similar to the Roth IRA.
1A: 7.9 REP. POOLMAN asked if there is a limit. Rep. Lloyd replied that there is no contribution limit.
1A: 8.6 REP. BYERLY asked if the dollars deposited are after tax or before tax dollars. Rep. Lloyd replied that the Bank of ND will set some of the limits up. Rep. Byerly asked how it works. Rep. Lloyd said that in many state plans it is federal tax deferred. When money is withdrawn it's taxed at the student rate.
1A: 10.3 REP. BYERLY asked if the principle is before tax or after tax dollars. Chairman Dalrymple said that there was a tuition tax credit passed in 1997 or 1998. This is credit for money expended at the time you pay tuition.
1A: 12.5 REP. WENTZ said that the bank will contract out services for investment.
1A: 13.7 REP. MONSON said that after tax dollars go in the account, and they are tax deferred. Wyoming set a plan up and it died due to lack of participation. It is like investment in a mutual fund. He stated that the Bank of ND

is not prepared to do this. Most people are not going to settle for a low percentage when they can invest in a mutual fund.

1A: 15.9 REP. AARSVOLD said that to qualify it must be a state sponsored plan. A 529 Savings plan in the IRS is the product of the Tax Player Relief Plan.

1A: 16.9 CHAIRMAN DALRYMPLE asked if the 529 has special features that are not otherwise available. Rep. Aarsvold said that it puts after tax dollars into the account, tax deferred until they are withdrawn. When the money is withdrawn it is taxed at the student rate.

1A: 17.9 REP. MONSON said the 529 is unique because there are no limits.

1A: 18.4 REP. LLOYD explained the participation rates in other states.

1A: 19.3 REP. POOLMAN said this is a good estate planning tool. He asked if the state investment board is investing or hiring out. Rep. Lloyd replied that it will be contracted out. Rep. Poolman continued by asking if administrative expenses are taken out of the bank or if it is essentially free to participants. Rep. Lloyd said that it was not mentioned at the hearing.

1A: 20.7 REP. MONSON said that the fiscal note of $57,000 is to get the program started. The fees to run it will probably come out of the accounts. If there is not enough participation, fees may be very steep.

1A: 21.8 REP. POOLMAN disagreed. He said that administration costs are often based on investment dollars.

1A: 22.5 CHAIRMAN DALRYMPLE said the bank would be allowed to adopt the rules and to charge a fee if they wanted to.

1A: 22.9 REP. DELZER asked how they arrived at $57,000. Rep. Wentz said that the number was arrived at by working with the Bank of ND and the NDUS. Rep. Delzer continued by commenting that this was not much money to market the program or to hire employees. Rep. Wentz said the bank felt they could use other existing resources.

1A: 24.0 REP. TIMM said that fees will make money for the state. Chairman Dalrymple said they are asking for an appropriation because the President of the Bank of ND probably feels that taking startup costs out of his pocket hurts their performance.

1A: 25.6 REP. BYERLY said that anyone can go out and do this now. He cited savings bonds as an example.

1A: 27.6 REP. POOLMAN said that savings bonds are not cutting it anymore. Other investment strategies have caps on donations. This is an estate planning tool. One can invest money and have it grow.

1A: 29.3 REP. HOFFNER said that there is federal legislation pending now that would make it tax exempt when it comes out to the beneficiary.

1A: 30.1 REP. LLOYD said that anyone could invest money and the donor still controls the funds.

1A: 30.8 REP. AARSVOLD said that to withdraw money they have to present vouchers from the institutions attended.

CHAIRMAN DALRYMPLE closed discussion.

Date: 3-22-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2414

House Appropriations Committee

☐ Subcommittee on Education and Environment
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Lloyd Seconded By Aarsvold

Representatives	Yes	No	Representatives	Yes	No
Chairperson Janet Wentz	✓				
Vice Chairman Ed Lloyd	✓				
Rep. Ole Aarsvold	✓				
Rep. James Boehm	✓				
Rep. Al Carlson	✓				
Rep. David Monson	✓				
Rep. Ronald Nichols	✓				

Total (Yes) 7 No 0

Absent

Floor Assignment Lloyd to full Committee

If the vote is on an amendment, briefly indicate intent:

Date: 3-25-99

Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2414

House Appropriations Committee

☐ Subcommittee on

or

☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Lloyd

Seconded By Boehm

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	X		Nichols	X	
Vice-Chairman Byerly		X	Poolman	X	
Aarsvold	X		Svedjan		
Bernstein			Timm	X	
Boehm	X		Tollefson	X	
Carlson	X		Wentz	X	
Carlisle		X			
Delzer		X			
Gulleson	X				
Hoffner	X				
Huether	X				
Kerzman	X				
Lloyd	X				
Monson		X			

Total (Yes) 14 No 4

Absent 2

Floor Assignment Ed. committee

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2414, as engrossed: Appropriations Committee (Rep. Dalrymple, Chairman) recommends **DO PASS** (14 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2414 was placed on the Fourteenth order on the calendar.

1999 TESTIMONY

SB 2414

Chairman Senator Freborg and committee members of the Senate Education Committee.

For the record my name is Aaron Krauter, State Senator from District 35 which is made of four counties in southwestern North Dakota.

SB 2414 is the start of the "North Dakota Higher Education Savings Plan". It is a savings plan whereby a contributor can put post tax money into a savings plan. The savings plan will grow with interest and dividends. Then when the student is ready for college at any public or private institution in the United States, the money is available to the student at their tax rate for tuition, fees, books, room and board and any related college expenses.

How can this be?

When Congress passed the "Taxpayers Relief Act of 1997" it made many changes to the Internal Revenue Tax Code. You are probably familiar with some of the changes like the "Roth IRA". Another one of those changes was the establishment of the "529 Plan", which allowed states to set up a college savings plan. A key factor was the allowance of these state plans to grow and then be taxed at the students tax rate versus the contributors tax rate. Plus states can make their own tax changes as they see fit.

As I stated in a letter to each of you last week; when the concept was discussed with the Legislative Council, we drafted SB 2414 patterned after plans found in other states. Many of these states have set up a governing board and commission to perform the functions of the savings plans. Since the original drafting, I have had time to work through many more details of what North Dakota could do to make a savings plan a reality. We do not need another commission or board when we can perform these functions with our existing state agencies. That is why the amendments are being presented to you today that would establish the "North Dakota Higher Education Savings Plan" at the Bank of North Dakota.

THE AMENDMENTS:

Section 1.
The Bank of North Dakota shall adopt rules to administer, manage, promote and manage the North Dakota Higher Education Savings Plan.

Why the Bank of North Dakota?

The Bank of North Dakota already has the student loan program which gives it some expertise in college finance. Plus that area of the Bank has a "College Information Services" that will be an asset in the marketing and promotion of the plan. I checked out the web site and was impressed.

SHALL ADOPT RULES- Through the Administrative Agencies Practice Act, NDCC 28-32; the Bank of North Dakota will set up the rules of how the savings plan will be set up to maximize the federal tax benefits for the contributor and beneficiary. Plus make the plan attractable for contributors to successfully invest for the future cost of a college education. This process allows for public input through the hearing process and the legislature interim Administrative Rules Committee will have input.

ADMINISTRATION- Refers to having charge of implementing a higher education savings plan with a policy. Policy issues would be eligibility of resident and nonresident, maximum amounts eligible to be invested, RFI (request for information) or RFP (request for proposal) of private investment contracts; etc.

MANAGING- Refers to direct, supervise, or carry on business or other affairs of a savings plan. This would be in regards to the Student Loans of North Dakota and College Information Services Divisions of the Bank of North Dakota that would carry out the implementation of the policies that are established.

MARKETING- Refers to offering for a sale an opportunity to save for a college education and receive a tax benefit with Internal Revenue Services standards and State of North Dakota tax standards.

PROMOTING- Refers to the progress or growth or to attempt to sell or popularize by advertising. This could be through brochures, public announcements or other private marketing means.

Section 2.
Appropriation $57,000
Bank of North Dakota/College Information Services

The goal of the North Dakota Higher Education Savings Plan should be four fold:

1 - least cost
2 - greatest benefit
3 - most flexible
4 - greatest return

1 - least cost - That is why working with the Bank of North Dakota and the University System to develop a savings plan that is contracted through a credible private investment firm will bring costs to a minimum.

2 - greatest benefit - The plan must be available to anyone who wants to participate and meets the minimum requirements established by rules.

3 - most flexible - This is a savings plan for education that should offer flexibility in the amounts invested, flexibility in the educational usees of the funds, minimal penalties for non-educational withdrawals and all within guidelines established by the Internal Revenue Service 529 Plan.

4 - greatest return - With the concept of contracting out for services of investing and managing, a request for information and proposal will give the competitive advantage for the greatest returns.

Now let us talk through how the savings plan works: (refer to diagram)

Kiplinger's article - February 1999
"How to Ace Savings for College"
"The best state savings plans are open to all and can be used anywhere."

Other States

Montana: savings plan approved in Spring 1997
plan implemented May 1998
600 participants

Minnesota: savings plan approved in Spring of 1997
in the RFP stage

South Dakota:
prepaid tuition plan in place but never implemented

New York: savings plan approved January 1997
implemented in September 1998
45,000 participants
$152,385,000

Iowa: Savings plan approved in May 1998
implemented in September 1998
2500 est. participants
$8 million

The savings plans are out there working and now is the time for North Dakota to provide that savings option also.

Just think about this scenario:

A very financially successful business man in Texas has a god child in North Dakota. He makes a contribution to the higher education savings plan in North Dakota thinking that maybe the godchild will study business someday. When that day comes the student actually goes to medical school at UND and then goes on to specialize in internal medicine in Chicago. It was all possible because of a savings plan that was started in North Dakota.

Or how about a young family that has $50 a month as an automatic withdrawal from their checking account and placed into their college savings plan for their son and daughter. At that early age it is invested into a growth fund. Eighteen years later the daughter goes to college with an interest in medicine. The growth of the savings plan has exceeded an annual 20% rate of return. The savings plan has now put that child into a pre-med program with medical school a financial reality.

Thank you Mr. Chairman and members of the Senate Education Committee.

SB 2414
(Engrossed)
2/10/99

SB 2414
Senate Appropriations
February 10, 1999

Chairman Nething and committee members,

For the record I am Aaron Krauter, State Senator from District 35, which comprises four counties in southwestern North Dakota.

SB 2414 is the state of "North Dakota Higher Education Savings Plan". It is a savings plan whereby a contributor can put post tax money into a savings plan that will grow tax deferred with interest and dividends. When the college student accesses the funds it is taxed at the students rate. Plus it can be used for any public or private institution in the United States. And plus, it can be used not only for tuition , but it can be used for books, fees, room and board and any related college expenses.

You ask how can that be?

When Congress passed the "Taxpayers Relief Act of 1997" it made many changes to the Internal Revenue Tax Code. You are probably familiar with one of those changes like the "Roth IRA". Another one of those changes was the establishment of the "529 Plan", which allowed states to set up a college savings plan. A key factor was the allowance of these state plans to grow and then be taxed at the students tax rate verses the contributors tax rate. Which naturally means a lower tax rate. Also the state could make their own state tax rate changes as they set fit. This bill is not making any changes to the current state tax code.

A few short years ago, state-sponsored college-tuition plans were not serious contenders for your college savings. Only 9 states offered them in 1995, mostly to their own residents and mostly on the premise that you could pay tomorrow 's tuition at today's prices. But that was before the landmark tax decision converged with widespread disappointment over the new education IRA, which puts a measly $500-a-year cap on contributions.

Today, 34 states offer tax-advantage tuition savings programs and the best programs promise to be a popular- and sensible-way for parent/grandparents/godparents in any state to save for a child's education. Attached to this testimony is a schedule showing the recent report that indicates states are moving away from pre-paid tuition programs towards the savings plans because of the following reason:

- no liability to state or higher education for shortfalls
- can be used at any public or private institution in the United States
- can be used for tuition, room, board, fees, books, etc.
- has a tax benefit of deferred growth
- is taxed at students rate
- allows for growth beyond the growth rate of college tuition
- can earn stock market rates of return
- is treated as a parental assets which is not as negative as a resources that reduces family's aid eligibility

Section 1 - The Bank of North Dakota shall adopt rules to administer, manger, promote and market the North Dakota Higher Education Savings Plan. The Bank already has the student loan program which gives it some experience in college finance. Plus that area of the Bank has "College Information Services" that will be an assets in the marketing and promotion of the plan. Through the Administrative Agencies Practice Act, NDCC 28-32; the Bank of North Dakota will set up rules of how the savings plan will be set up to maximize the federal tax benefits for the contribute and beneficiary. Plus make the plan attractable for contributors to successfully invest for the future cost of a college education. A key point to mention in the administration of the plan are policy issues that would define eligibility of resident and nonresident, maximum amounts eligible to be invests, and the process of RFI and RFP of private investment contract.

Section 2 - Appropriation of $57,000 for the 99-01 biennium. After working with the University System and Bank of North Dakota this amount was determined to meet the needs of establishing the plan while using other existing resources.

The goal of the North Dakota Higher Education Savings Plan would be four fold::

1- least cost - That is why no new boards or commissions are needed. The Bank of North Dakota along with the University System can work together to develop a savings plan that is contracted through a credible investment firm that will have costs at a minimum.

2 - greatest benefit - The plan must be available to anyone who wants to participate and meets the minimum requirements establish by rules.

3 - most flexibility - This is a savings plan for education that should offer flexibility in the amounts invested, flexibility in the educational uses of the funds, minimum penalties for non-educational withdrawals and all within the IRS "529 Plan".

4 - greatest return - With the concept of contracting out for services of investing and managing, a RFI/RFP will give the competitive advantage for the greatest return.

Surrounding states have done the following:

Montana: savings plan approved in Spring of 1997
plan implemented in May 1998
600 participants

Minnesota savings plan approved in 1997
completing RFP stage

South Dakota
prepaid tuition plan in place but never implemented

Thank you Mr. Chairman and members of the Senate Appropriations committee.

1995 9 states

1999 34 states

SAVINGS PLANS -	16
PREPAID TUITION (95)	9
PREPAID TUITION	4
TUITION TABLED	1
STUDY	1
TUITION VOTED DOWN	1
TUITIOIN SUSPENDED	1
ND	1

AZ	SAVINGS	1999	
AK	PREPAID TUITION	1999	
CA	SAVINGS	1999	
CO	PREPAID TUITION	1995	NO GUARANTEE
CT	SAVINGS	1998	
DE	SAVINGS	1998	
FL	PREPAID TUITION	1996	GUARANTEED BY STATE
IN	SAVINGS	1998	
IA	SAVINGS	1998	
KS	STUDY		
KT	SAVINGS	1997	
LA	SAVINGS	1998	
MA	SAVINGS	1999	
MI	SAVINGS	1999	
NE	TABLED	1997	
NV	PREPAID TUITION	1995	
NH	SAVINGS	1998	
NC	SAVINGS	1998	
ND	NONE		
OH	PREPAID TUITION	1995	
OK	SAVINGS	1999	
OR	PREPAID TUITION	VOTED DOWN	
PA	PREPAID TUITION	1995	GUARANTEED BY STATE
RI	SAVINGS	1998	
SC	PREPAID TUITION	1996	NO GUARANTEE
SD	PREPAID TUITION	1994	NOT IMPLEMENTED
TN	PREPAID TUITION	1995	
TX	PREPAID TUITION	1996	
UT	SAVINGS	1999	
VT	SAVINGS	1999	
WA	PREPAID TUITION	1995	
WV	PREPAID TUITION	1995	NO GUARANTEE
WI	PREPAID TUITION	1994	NO GUARANTEE
WY	PREPAID TUITION	SUSPENDED 1995 LACK OF PARTICIPATION	

Taxpayers Relief Act 1997 - 529 Plan - IRS

NORTH DAKOTA COLLEGE SAVINGS PLAN

PARTICIPANT
- POST TAX

$'s

- PARENTS
- GRAND PARENTS
- FAMILY

SAVINGS PLAN

$'s
$'s $'s $'s
$'s

- INVESTED
TAX DEFERRED
- FEDERAL

STUDENT

COLLEGE
PUBLIC or PRIVATE
IN U.S.

- TUITION
- BOOKS
- FEE'S
- Room
- BOARD
ETC.

WITHDRAWAL
TAXED AT
STUDENTS RATE

KIPLINGER'S
PERSONAL FINANCE MAGAZINE

February 1999

How to Ace Saving for College

Kristin Davis

The best state savings plans are open to all and can be used anywhere.

A few short years ago, state-sponsored college-tuition plans were not serious contenders for your college savings. Only nine states offered them in 1995, mostly to their own residents and mostly on the premise that you could pay tomorrow's tuition at today's prices. But that was before a landmark tax decision converged with widespread disappointment over the new education IRA, which puts a measly $500-a-year cap on contributions.

RELATED LINKS
For information on your state's college-savings plan see our **report card**.
Have questions about college-savings plans for author Kristin Davis? Go to our **forums**.
Want more information about saving for college? Check out an excerpt from Davis's book, **Kiplinger's Financing College**.

Today, 34 states offer tax-advantaged tuition-savings programs, and the best programs promise to be a popular--and sensible--way for parents in any state to save for their children's education. Corinna and Arnold Huntrods of Collins, Iowa, pounced on the chance last fall to join their state's brand-new plan. For each of their three daughters--Erin, 12, Kate, 7, and Jenna, 6--the couple contributed $2,000, which earned them a hefty $6,000 deduction on their Iowa income-tax return

What makes Iowa's plan--our favorite among those operating so far--and many of the other new plans so attractive is the opportunity to earn stock-market returns on college savings you don't need right away. The Huntrods family's money is invested in Vanguard LifeStrategy Portfolios, a group of four funds tailored to the number of years a child has before entering college.

The younger girls' money is in Vanguard LifeStrategy Moderate Growth fund, which invests in a mix of 60% stocks and 40% bonds; it returned an annualized 16.5% over the three years to December 1. (Contributions for children under age 6 are invested in a more aggressive growth fund that returned an annualized 18.6%.) Their older sister's account is in the LifeStrategy Conservative Growth fund (annualized return, 14%), which holds about 40% stocks and 60% bonds. When Erin turns 16, her money will shift into the portfolio's income fund, which holds 80% in bonds (annualized return, 11.6%).

That strategy limits risk while paying significantly more than the U.S. savings bonds the Huntrodses cashed in to fund the accounts. Plus, their savings may get an extra boost: a prorated share of earnings from an endowment fund that Iowa has set up to receive contributions from corporations, foundations and individuals.

An even bigger draw for the Huntrodses is that their savings can be used for tuition, room and board, and other expenses at any accredited college in the U.S. They especially want to keep options open for Erin, who is deaf. "A state school might be fine," Corinna says, "but there are schools for deaf students, and we want the flexibility for her to be able to go there." In fact, while it is widely believed that state-sponsored plans restrict your choices to in-state public schools, most allow you to take your savings to any accredited institution in the U.S., public or private, without penalty.

Then there are the tax benefits. Thanks to a federal law passed in 1996, contributions to state college-savings plans grow tax-deferred until the money is used to pay for college. Then earnings are taxed in the student's bracket. States are free to add their own tax advantages: Iowans, for instance, can earn a state-tax deduction of up to $2,000 per contributor per account each year, and earnings in the plan are free from state income tax.

Most plans allow relatives and friends to open an account for a child or contribute to an existing account. "We've suggested it instead of buying gifts for Christmas or birthdays," says Corinna.

Of course, there is a catch. If you don't use the money for college, you're hit with a penalty, often 10% or 15% of your accumulated earnings or 1% of the account balance. The harshest penalties are levied by Alabama and Florida, which return only your contributions, with no earnings. But even if your child decides not to go to college, you may avoid a penalty by transferring the account to another family member--or by deferring use of the money in case the beneficiary attends college up to ten years later.

Go to the head of the class

If the states that offer any kind of college-savings plan were a graduating class, Iowa would be the valedictorian and New York the salutatorian (both earn an A+ on our report card, which begins on the next page). Those states, and nine others, have no residency requirements for contributors or beneficiaries, so if you don't like what your own state offers, you can enroll in one of them (though without the special benefits enjoyed by state residents).

Nineteen states offer prepaid-tuition plans, which essentially limit the growth of your account to the rate of public-college tuition increases in your state. Some are tuition "contracts," in which you agree to prepay a set amount in a lump sum or monthly installments. Others sell "units" or "credits," each worth a percentage of future tuition and fees, which you can buy irregularly or on a schedule.

Prepaid plans were more attractive a decade ago, when tuitions were rising 8% to 9% annually. But tuition hikes have slowed to between 4% and 5%, on average, according to the College Board. Considering the tax benefits, that's a satisfactory return for money you'll need to use in three years or less. But parents of young children should aim for higher returns.

College-savings plans, now available in 15 states, offer that potential. They can significantly outpace tuition inflation--though if the market tanks, so may your college fund.

In evaluating the 34 state-sponsored plans, we considered both the potential return on your investment and--for prepaid plans--whether the state backs the plan with a guarantee, meaning the state would make up any shortfall should its investment pool fail to earn enough to cover rising costs. Without a guarantee, you'll get what the state earned, which may not fully cover tuition.

Our top grades went to plans with the potential for high returns, maximum flexibility to use the proceeds at any accredited U.S. school, reasonable penalties for noneducation withdrawals, and state-tax benefits.

Other criteria we considered:

Are contributions flexible? While you may like the idea of forced savings, the consequences can be harsh if you can't keep up installment payments: In many contract plans, the state may cancel your account and return your money, minus a penalty for refunds.

Can you save enough? With some plans you can save only enough to cover tuition and fees at a public college in your state, which may be less than half the total cost of attendance for boarders. In some states, even a four-year contract might cover only one semester if used at a private college. Newer plans tend to have high maximums--$100,000 in Indiana, for example--or no maximum at all.

How steep are the fees? Many plans have a nonrefundable enrollment fee; $50 is typical. Some add monthly account-maintenance fees and administrative fees (for transferring the account to another beneficiary, for instance). Most savings plans also charge an asset-management fee, which is reflected in the return credited to your account. The prospectus for each plan should provide details on all potential fees.

What's the impact on financial aid? Though Congress may eventually change the rules, prepaid plans are treated more severely than savings plans under federal financial-aid formulas. Prepaid plans are considered a "resource" that reduces a family's aid eligibility dollar for dollar. Savings plans are treated as a parental asset, of which only 5.6% is considered available to cover college costs each year.

Page 1: **How to Ace Saving for College**
Page 2: **The Report Card**
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ARIZONA No grade top

A savings plan, similar to Montana's, is expected in 1999.

ARKANSAS No grade top

A prepaid tuition plan is expected to begin in July 1999.

CALIFORNIA No grade top

Expects to launch a savings plan mid-year 1999.

COLORADO B- top

Prepaid Tuition Fund

800-478-5651

Enrollment: October to December (newborns anytime)

No residency requirement

Type: prepaid (hybrid)

You buy "tuition units" (1,500 would cover four years' total expenses at the average public college in Colorado; you can buy as many as 4,500 units if you're saving for private-school expenses). But you must pay in a lump sum on a set schedule, as with a prepaid contract. You can design your own payment plan, but Colorado is serious about forced saving. Once you sign up you must keep up payments or your contract is subject to cancellation. And there are no refunds (except if your child dies or becomes disabled) until the scheduled payout date--that is, when your child reaches college age. The penalty on refunds is 10% of your earnings. Earnings are exempt from state taxes in Colorado. The state does not back its plan with a guarantee.

CONNECTICUT A- top

Higher Education Trust

888-799-2438

Enrollment: anytime

Type: savings

Connecticut's savings plan invests your money with money managers at Aeltus, Lazard Freres, J.P. Morgan and Montgomery Asset Management. The asset allocation changes with the child's age--up to age 6, the money is invested 90% in equities and 10% in fixed-income investments. By age 17, it's 90% in fixed-income and 10% in stocks. Accounts can be used to pay expenses at any U.S. school--even for graduate school. You lose 15% of your earnings the money is not used for college. There's a $15 annual account fee plus 1.55% asset management fee.

DISTRICT OF COLUMBIA No grade top

The city council will vote on a plan this year.

DELAWARE A- top

College Investment Plan

800-544-1655

Enrollment: anytime

Type: savings

No residency requirement

This savings plan invests in Fidelity funds, with the mix of assets based on the age of the beneficiary. The minimum investment is $500 or $50 per month; the maximum balance is $112,950 (to be adjusted annually for inflation). Withdrawals can be used for all education expenses at any U.S. college. Withdrawals not used for college are subject to a 15% penalty on earnings. There is a $30 annual fee (waived for automatic contributions and accounts exceeding $25,000) plus a 0.3% administrative fee and mutual fund management expenses.

FLORIDA C- top

Prepaid College Program

800-552-4723

Enrollment: October through January; beneficiary must be in the 11th grade or younger

Type: prepaid (contract)

The largest of the prepaid plans, with 468,000 contracts, is also the least flexible in the country. Your contributions are guaranteed to keep pace with tuition costs in Florida only if the beneficiary attends a public or private college

INDIANA A- top

Family College Savings Plan

888-814-6800

Enrollment: anytime

Type: savings

No residency requirement

You can invest up to $9,405 a year ($100,000 overall) in Indiana's savings plan, which invests in a series of Pegasus mutual funds. Up until age 12, contributions are invested in 80% equities and 20% fixed income. By age 18, the allocation shifts to 20% equities, 30% fixed income and 50% money-market funds. Withdrawals not used for college suffer a 10% penalty on earnings. Management and administration fees total 1.75%.

IOWA A+ top

College Savings Iowa

888-446-6696

Enrollment: anytime; beneficiary must be under age 17

Type: savings

No residency requirement

Iowa's savings plan invests in Vanguard's LifeStrategy Portfolios, with asset allocations based on the beneficiary's age, gradually shifting from 80% stocks/20% fixed income for preschool children to a 20%/80% ratio by age 16. Each parent (or any other contributor) can invest up to $2,000 per year per child and can deduct the contribution on Iowa's income tax return. Earnings are free of state taxes and can be used anywhere; you forfeit 10% of your earnings if the money is not used for college.

Bonuses: The expenses on the Vanguard funds are a superlow 0.29% of assets, and Iowa charges no additional expenses or administrative fees. In addition, Iowa has set up an endowment fund to which corporations, foundations and others can contribute--participants in the savings plan will receive a prorated share of the earnings.

KANSAS No grade top

The legislature is conducting feasibility study.

KENTUCKY B+ top

Educational Savings Plan Trust

800-338-0318

Enrollment: anytime; beneficiary must be under age 15

Type: savings

Kentucky's savings plan is a good spot for a high schooler's college savings. The trust is entirely in fixed-income investments and has earned contributors close to 6% in each of the past three years. You're guaranteed a minimum return of 4%. Proceeds can be used at any school and are free from state income and ad valorem taxes. Once you've participated for two years, the penalty for withdrawals not used for college is just $25. You can also qualify for in-state tuition rates at Kentucky after eight years of participation, even if you move out of state.

LOUISIANA A- top

START Saving Program

800-259-5626

Enrollment: July through October (newborns anytime); account must be open one year before any withdrawals.

Type: savings

Louisiana's plan is like a tax-deferred savings account with a matching grant. Your contributions earn interest (at 6% in 1998) plus--if your family income is less than $100,000--a tuition assistance grant ranging from 4% for families earning $75,000 to $99,999 to 14% for families earning less than $15,000. The catch: You can keep the grant and the interest it earns only if the beneficiary attends a public or private college in Louisiana. If the money is used at an out-of-state school, you receive only your contributions plus interest (free from state tax), and if the money is not used for college at all, you forfeit 10% of the earnings.

MAINE No grade top

College Savings Program

Will open in first quarter of 1999

(phone not yet available)

Type: savings

Maine's forthcoming savings plan has grade-A potential. The state intends to offer two savings options, one with low-risk investments and a guaranteed rate of return and a second with stock-market investments. Savings will be fully portable to any U.S. school, and earnings will be free from state-tax.

Next

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Type: prepaid (contract)

For a newborn, a single payment of $9,383 or an $84 monthly payment buys four years' tuition and fees at a Mississippi public college (guaranteed). The full value of the contract can be transferred to a private or out-of-state school. Refunds are paid with interest at a bank savings-account rate, less a $150 fee. Contributions are state-tax deductible and earnings are state-tax free.

MISSOURI No grade top

A savings plan is expected in May 1999.

MONTANA B+ top

Family Education Savings Program

800-888-2723

Enrollment: anytime

Type: savings

No residency requirement

Montana's savings plan invests your contributions in the College Savings Bank's CollegeSure CDs, which pays a rate equal to the increase in a national index of college costs. You can contribute as little as $250 or as much as $176,440 (adjusted for inflation) which would cover college and graduate school costs. Montana residents can deduct contributions of up to $3,000 per year ($6,000 for a married couple).

The index used to calculate returns is the College Board's IC 500, which includes room and board costs and therefore has historically risen less rapidly than the tuition-only averages the College Board is known for. Last year, the IC 500 rose 4.8% ; the CollegeSure CD guarantees you a minimum return of 4%. Given the low returns, the plan make sense mainly for college funds you'll need to tap in the next few years. You forfeit 10% of your earnings (plus $100 in the first three years) if the money isn't used for college.

NEBRASKA No grade top

Legislation was tabled in 1997; no plan is expected.

NEVADA C+ top

Prepaid Tuition Program

888-477-2667

Enrollment: October to November (newborns anytime); beneficiary must be in the 9th grade or younger

Type: prepaid (contract)

A prepaid contract covering four years' tuition cost $6,278 for a newborn in 1998, or $55 a month for 210 months. The full value can transfer to a private or out-of-state school, less a $25-per-term fee. Refunds are paid with interest at a rate set annually by the state, less administrative fees.

NEW HAMPSHIRE A top

Unique College Investment Plan

800-544-1722

Enrollment: anytime

Type: savings

No residency requirement

This savings plan invests in Fidelity mutual funds, with asset allocations that grow more conservative as the beneficiary reaches college age. Earnings are tax-free in New Hampshire. You can use the proceeds at any college in the U.S., but you forfeit 15% of your earnings if you don't use the money for college. A $30 annual fee is waived if you make automatic contributions or invest more than $25,000. You also pay fund management fees to Fidelity and a 0.3% annual administrative fee.

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portfolios allocated according to the beneficiary's age. Contributions are state-tax deductible in New York up to $5,000 per year ($10,000 for married couples), and earnings are state-tax-exempt. You forfeit 10% of earnings if the money isn't used for college. Asset management expenses are 0.65% annually.

NORTH CAROLINA B top

College Vision Fund

800-600-3453

Enrollment: anytime; beneficiary must be in the 10th grade or younger

Type: savings

In a nod to the reality that most families pay for college with both savings and loans, North Carolina's plan blends the two. Parents of a sixth-grader, for instance, would make payments for the six years until college, four years during college and six years following college. Funds accumulated before college earn a return based on fixed-income investments (free from state tax); later payments may go to pay off a low-interest-rate loan. The loan component is optional, however, and savings can be used at private and out-of-state schools. Refunds are subject to a 15% penalty.

NORTH DAKOTA No grade top

Authorizing legislation was voted down.

OHIO B top

Prepaid Tuition Program

800-233-6734

Enrollment: October to February (newborns anytime)

Type: prepaid (credits)

Each tuition unit in Ohio's prepaid plan (at $38 to $45.50 in 1998) is guaranteed to cover 1/100th of a year's average tuition and fees at public colleges in Ohio. You can buy up to 2000 units--to cover room and board, or private-college expenses--and use them at any college in the U.S. Earnings are free from state tax in Ohio.

Investments in the trust are highly illiquid: While the penalty for refunds is just 1% of the value of your account, you get your money back in four annual installments--after a one-year delay.

OKLAHOMA No grade top

A savings plan is expected in early 1999.

OREGON No grade top

Voters turned down a prepaid plan in a November referendum, but proponents plan to try again in the 1999 legislature.

PENNSYLVANIA B top

Tuition Account Program

800-440-4000

Enrollment: anytime; account must be open four years before first withdrawal

Type: prepaid (credits)

Pennsylvania's prepaid plan sells tuition credits, each worth 1/24 of the annual tuition at a Pennsylvania school you choose. (Average credit: $260.) Your child need not attend that school, but your earnings will be based on tuition increases there. Earnings are state-tax free for residents.

Pennsylvania backs its plan with a guarantee, but only if you use the money at an in-state public school. Elsewhere, if the state earns less on your contributions than the rate of tuition growth, you get the lower return. Refunds are 90% of the value of your tuition credits or 90% of the value of your account, whichever is less.

RHODE ISLAND A- top

Higher Education Savings Trust

877-474-4378

Enrollment: anytime

Type: savings

No residency requirement

J.P. Morgan, Fleet Investment Advisors, Brown Brothers Harriman and Montgomery Asset Management manage the money in Rhode Island's savings plan, investing 90% of your money in domestic and international stocks until the beneficiary reaches age 6 and gradually shifting to 10% equities by age 17. There's no upper limit on contributions, and the funds can be used at any school, including graduate school. Refunds are subject to a 15% penalty on earnings. Fees are $18 a year plus 1.55% in fund management expenses.

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KIPLINGER'S
PERSONAL FINANCE MAGAZINE

February 1999

The Report Card: South Carolina - Wyoming

Return to article

Choose a state: list of states and their grades

SOUTH CAROLINA B-

Tuition Prepayment Program

888-772-4723

Enrollment: September to December; beneficiary must be resident in the 10th grade or younger

Type: prepaid (contract)

A single payment of $12,714 or $109 a month prepays four years' tuition and fees at a South Carolina public college, and the full value of the contract can be used at any U.S. school. A penalty of up to $100 applies to refunds. Earnings are state-tax fee. South Carolina does not back its plan with a guarantee.

SOUTH DAKOTA No grade top

The legislature authorized a prepaid plan in 1994, but it has not been implemented.

TENNESSEE B- top

Baccalaureate Education System Trust

888-486-2378

Enrollment: August through October (newborns anytime); account must be open two years before first withdrawal

Type: prepaid (credits)

Tennessee sells tuition units, each of which costs $28 and covers 1% of a year's tuition and fees at the average four-year public college in the state. You can buy up to 1,500 units, and can use them at any college in the U.S.--including graduate school--for tuition, fees, room, board and other expenses.

Earnings are state-tax free, but you forfeit 50% of your earnings if the money is not used for college.

TEXAS C top

Texas Tomorrow Fund

800-445-4723

Enrollment: October to February

Type: prepaid (contract)

For a newborn, $11,609 up front or $98 a month prepays four years' tuition and fees (guaranteed) at a public college in Texas. You can also buy a contract to cover four years of private-college tuition ($37,632 up front or $318 a month for a newborn)--earnings will keep pace with private tuition costs in Texas but are not guaranteed to cover costs. The value of any contract can be used out of state. Refunds after a beneficiary's high school graduation date equal the lowest tuition and fees at a Texas school; before then, you get your contributions back with no interest.

UTAH B top

Educational Savings Plan Trust

800-418-2551

Enrollment: anytime, beneficiary must be under age 17

Type: savings

No residency requirement

Invest in Utah's savings plan (up to $1,240 per year per child) and your money goes into a state-run investment pool that buys fixed-income securities. The money can be used at any U.S. school, and former residents qualify for in-state tuition rates in Utah after 8 years' participation. Earnings are state-tax free in Utah. After two years, the penalty on refunds is no more than $50.

VERMONT No grade top

Higher Education Savings Plan

Intends to open the first quarter of 1999

800-642-3177

Enrollment: buyer or beneficiary must be resident

Type: savings

Vermont is still working out the details, but its savings plan looks promising. Participants will be able to choose between a low-risk investment pool with returns pegged to Treasury bills and a more-aggressive pool that invests in stocks. Earnings will be state-tax free.

VIRGINIA C top

Prepaid Education Program

888-567-0540

Enrollment: October through January; beneficiary must be in the 9th grade or younger

Type: prepaid (contract)

A guaranteed four years of tuition and fees at a Virginia public college costs $15,924 up front or $136 a month for a newborn. If you use the money at an in-state private college, you get the actual rate of return Virginia earns on your money, up to the highest in-state tuition and fees. Use the money out-of-state and you get a money-market rate of return, up to the average in-state tuition and fees. After three years, refunds include a "reasonable" rate of return. Contributions are state-tax deductible up to $2,000 per contract per year, and earnings are state-tax free. Virginia's plan is heavy on fees, including an $85 enrollment fee and a $25 fee to make changes to your payment plan.

WASHINGTON B top

Guaranteed Education Tuition

877-438-8848

Enrollment: September to January; beneficiary must be resident; account must be open two years before first withdrawal

Type: prepaid (credits)

Tuition units in Washington's plan cost $35 apiece and cover 1% of a year's tuition at the University of Washington or Washington State (guaranteed). You can buy up to 500 units, via a payment contract or with irregular contributions. Proceeds can be used at any school. You cannot get a refund until the beneficiary is age 18--and then can get no more than one year's tuition at a time. Refunds equal 95% of the weighted average tuition and fees in the state.

WEST VIRGINIA B- top

Prepaid College Plan

800-307-4701

Enrollment: October through December; buyer or beneficiary must be resident; ninth grade or younger

Type: prepaid (contract)

A contract covers up to five years' tuition and fees at a West Virginia public college. The full value can be transferred elsewhere, and you lose no more than $150 if the money is not used for college. Contributions are state-tax deductible, but the state does not back its plan with a guarantee.

WISCONSIN B top

EdVest Wisconsin College Tuition Savings Program

888-338-3789

Enrollment: anytime; account must be open four years before first withdrawal

Type: prepaid (credits)

You can buy up to 520 tuition units (at $30.70 to $40.80 each, depending on the age of the child) in Wisconsin's plan, which would cover four years of tuition and fees at the state's most-expensive public schools, UW-Madison and UW-Milwaukee. Your account can be used toward expenses at any school in the U.S. You forfeit 1% of your account balance if the money isn't used for college.

Earnings on the account are state-tax free. Wisconsin does not back its plan with a guarantee.

WYOMING No grade top

A prepaid plan was suspended in 1995 for lack of participation. Existing contracts are being honored.

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San Francisco Chronicle

BUSINESS

TUESDAY, NOVEMBER 17, 1998

YOUR MONEY

Huge College Tax Break

Tom Murray / The Chronicle

By Arthur M. Louis
CHRONICLE STAFF WRITER

Financing a college education will become much easier for many Californians under a bountiful but scantily publicized, investment program slated to begin operating next year.

The so-called Scholarshare program, created by the California Legislature and administered by the state government, is like a nondeductible IRA for college savings, but with more generous limits.

You probably will be able to contribute far more than the $2,000 annual limit imposed on IRAs. The state hasn't named a figure yet, but you might be able to put in as much as $100,000 per child — either up front or in stages.

In addition, it won't matter what your income is, as it does with IRAs: You will be able to contribute the maximum amount regardless.

One drawback of the program is that you won't be able to manage the money yourself, as you can with an IRA. All the funds will be pooled and managed by an investment firm to be chosen by the state.

Tom Dithridge, chief administrator of Scholarshare, says the state is still deciding which investment manager to choose. Student accounts will be opened at some unspecified time next year.

With Scholarshare, parents, grandparents or any other member of a prospective college student's family can open and contribute to a tax-sheltered education account from the moment the child is born.

There is no tax deduction up front, but all dividends, interest and capital gains will compound free of federal and state income taxes until the money is withdrawn to pay for the student's education.

At that point, any investment gains

▶ COLLEGE: Page C4 Col. 1

INSIDE

▶ Scholarshare versus Uniform Transfer to Minors Accounts. C4

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Parents May Be Able to Put $100,000 in Plan

▶ **COLLEGE**
From Page C1

included in the withdrawn funds will be taxed as ordinary income at the student's tax rate — presumably a low one.

Although Scholarshare will be limited to students who live in California, they can use the program to attend a public or private college in any state.

Scholarshare will transfer funds from the student's account directly to the college, and the money can be used to cover not only tuition, but also room and board and other educational expenses, such as books.

The person who contributes to the account will retain legal ownership of the money until it is tapped for college expenses.

Contributors to Scholarshare will be able to take money out of an account any time before the child goes to college. They can even cancel the account at whim and take all the money back, but they will have to pay taxes on the investment gains as well as a penalty — size not yet determined.

However, if the original beneficiary doesn't go to college, the account can be switched to another member of the family without penalty.

If there is still money in the account after the student graduates, it can be transferred to another Scholarshare account to benefit a sibling or other close relative of the student. Or, the contributor can cancel the account, take back the remaining money and pay taxes and a penalty.

If Scholarshare looks appealing to you, you might want to consider selling some of your current investments that aren't tax-deferred, so you will have the money ready to contribute when the program opens for business.

If you currently have an investment that is worth less than you paid, for example, you might want to sell it and nail down the capital loss to offset income and reduce your tax bill. Talk it over with your tax adviser.

The Legislature has decreed that Scholarshare funds can be invested in a broad range of U.S. investment vehicles: stocks, mutual funds, money-market funds, government debt and corporate debt.

Experts figure that Scholarshare's manager will adopt a prudent, middle-of-the-road investment strategy that produces annual returns of 8 percent to 10 percent over the long term.

That would conflict with the advice of most financial advisers, who urge parents to invest college funds in aggressive growth stocks. While Scholarshare's tax-deferred compounding is a significant advantage, the advantage could be offset by relatively slow growth.

Danville financial planner Richard DelMonte predicts that many parents will balk at Scholarshare because they can't pick the investments themselves and because the returns are likely to be only moderate.

The Legislature created Scholarshare early this year in response to a little-noticed provision in the federal Taxpayer Relief Act of 1997.

The act — best-known for creating the popular Roth IRA — authorized all the states to set up tax-deferred education programs, subject to uniform federal guidelines.

The college programs are known as "529 plans" — a reference to the section of the federal law that created them.

Roughly half the states have taken steps to create 529 plans, but only about a half-dozen have them up and running. Most of the plans now operating have set a limit of around $100,000 total per child for all contributions.

In New Hampshire, where a 529 plan has been operating since July, people opening a new account can contribute up to $100,311. They can do it all at once, or in stages.

Contributors won't have to remove the surplus if investment gains push the value of the account above the limit, but they will be forbidden to make additional contributions.

However, the limit will be adjusted each year to take into account increases in education costs, says Abram Claude, a vice president of Fidelity Investments, which manages the New Hampshire program.

Claude says $100,311 represents a simple average of the current cost of getting a degree at Dartmouth — one of New Hampshire's most expensive private colleges — and at the University of New Hampshire, the leading public institution.

You can learn more about Scholarshare by visiting the California Student Aid Commission's Web site at www.csac.ca.gov/scholar/scholar.htm.

If you don't have access to the Internet, you can inquire about Scholarshare by calling (916) 526-7590 Ext. 6.

SCHOLARSHARE PROGRAM HIGHLIGHTS

The California program, still in the formative stage, won't be fully operative until next year. Here are the key features that have been disclosed so far:

- **What it is:** A state-sponsored, IRA-style investment program that allows parents or other relatives to invest substantial sums of tax-sheltered money to finance a child's college education.
- **Who is eligible:** Any California resident. There are no income limits.
- **How it works:** You invest money in a prospective college student's account. Dividends, interest and capital gains compound free of federal and state income taxes until the money is withdrawn for college expenses. The money can be used for tuition, room and board and other educational expenses.
- **How the money is taxed:** Upon withdrawal, any investment gains will be taxed as ordinary income at the student's tax rate.
- **Who manages the money:** A professional investment firm, still to be chosen.
- **Where the money can be used:** Any accredited college, in California or elsewhere.
- **What happens if the child doesn't go to college:** The money can be shifted to a Scholarshare account for another member of the family.

Taxpayer Relief Act 1997
529 plan

How Scholarshare Stacks Up

SB 2414
Testimony to the
North Dakota
House Education Committee
March 1, 1999
Chair Rep. Kelsch
Vice Chair Rep. Drovdal

For the record my name Aaron Krauter, State Senator from District 35.

SB 2414 is the start of the "North Dakota Higher Education Savings Plan". A saving plan that will help families plan for their child's college future; a plan whereby a grandparent can contribute to a savings plan for their grandchildren; or a plan for a successful godparent to contribute to a godchild's higher educational costs.

SB 2414 is a college savings plan, not a prepaid tuition plan. The difference being that the savings plan has many more beneficial features compared to the tuition plan. The main two features of the savings plan are 1) the money grows federally tax deferred and is taxed at the students tax rate when withdrawals are made; 2) the savings can be used for more than just tuition. It can be used for books, room and board, fees, tuition and any related college expense and that's important.

A few short years ago, state-sponsored college tuition plans were not serious contenders for your college dollars. In 1990, there were just 5 states that offered tuition programs, investing about $550 million. In 1995, 9 states had pre-paid tuition programs investing about $1.1 billion. In 1997, things changed with the advent of the savings program, 18 states totaled about $2.5 billion and today 34 states offer plans and before the year is over it is expected that 43 states will have moved to the direction of offering a college savings plan.

1990	5 states	$550 million	tuition plans
1995	9 states	$ 1.1 billion	tuition plans
1997	**18 states**	**$2.5 billion**	**savings plans**
1998	**34 states**	**$?**	**savings plans**
1999	**43 states**	**$?**	**savings plans**

The big question is why have states turned towards the college savings plan?

When Congress passed the **"Taxpayers Relief Act of 1997"** it made many changes to the Internal Revenue Code. You are probably familiar with one of those changes like the "Roth IRA". Another one was the establishment of the ***"529 College Savings Plan"***, which allows states to set up their own college savings plan.

A key factor was the allowance of these state plans to grow federally tax deferred and then be taxed at the students tax rate versus the contributors tax rate. All dividends, interest and capital gains will compound free of federal taxes until the money is withdrawn. Which naturally means a lower tax rate. Also states could make their own state tax changes as they see fit. This bill is not making any changes to the current state tax code.

Other important factors of why states are moving towards these types of plans are:

- no state liability for shortfalls
- no liability to higher education for shortfalls
- can be used at any public or private institution in the United States
- can be used for tuition, room, board, fees, books, etc.
- allows for growth beyond the growth of college tuition
- can earn stock market rate of return
- is treated as a parental asset which is not as negative as a resource that reduces family's aid eligibility.

When SB 2414 was drafted by the legislative council it contained 7 pages of boards and commission and more level of bureaucracy that we need in North Dakota. As the bill is amended it contains just two section. The bills sponsors have worked with the University System and the Bank of North Dakota/Student Loans to develop the ***"529 Plan"*** within our current structures.

ENGROSSED SB 2414

Section 1 - The Bank of North Dakota shall adopt rules to administer, manage, promote and market the North Dakota Higher Education Savings Plan.

The Bank already has the student loan program which gives it experience in college finance. Plus that area already has the "College Information Services" that will be an asset in the marketing and promotion of the plan.

Through the Administrative Agencies Practice Act, NDCC 28-32; the Bank of North Dakota will set up rules of how the savings plan will be set up to maximize the federal tax benefits of the contributor and the beneficiary and make the plan attractable for contributors to successfully invest for the future cost of a college education. The key point to mention in the administration of the plan are policy issues that would define eligibility of residents, maximum amounts eligible to be invested and the process of RFI/RFP of private investment contracts.

Section 2 - Appropriation of $57,000 for the 99-01 biennium. After working with the University System and Bank of North Dakota this amount was determined to meet the need s of establishing the plan while using existing other resources.

The goal of the plan would be four fold:

1 - least cost - That is why no new boards or commission are needed. The Bank of North Dakota along with the University System can work together to develop a savings plan that is contracted through a credible investment firm that will have costs at a minimum.

2 - greatest benefit - the plan must be available to anyone who wants to participate and meets the minimum requirements established by rules.

3 - most flexibility - this is a savings plan for education that should offer flexibility in the amounts invested, flexibility in the educational uses of the funds and minimum penalties for non-educational withdrawals and all within the IRS ***"529 Plan"***.

4 - greatest return - with the concept of contracting out for services of investing and managing , a RFI/RFP will give the competitive advantage for the greatest return.

Now we should ask what is happen in states around us?

Montana savings plan approved Spring 1997
Plan implemented May 1998
600 participants first year

Minnesota Savings plan approved 1997
Plan completing RFP stage
Ready to implement

South Dakota
pre-paid plan in place but never implemented

Iowa Savings plan/trust approved May 1998
Plan implemented September 1998
2500 (est.) participants
$8 million

New York
Savings plan approved January 1997
Plan implemented September 1998
45,000 participants
$152,385,000

Attachments:

North Dakota Higher Education Savings Plan

"Huge College Tax Break"
San Francisco Chronicle November 17, 1998

"How to Ace Savings for College"
Kipplingers -February 1999

"Baby Goes to College"
U.S. News an World Report - March 1, 1999

"The Tuition Estate Trick"
Forbes Magazine - February 22, 1999

"Montana Family Education Savings Program"
Internet resource

Now how do we envision this process:
- August 1 1999: North Dakota Higher Education Savings Plan becomes law
- Bank of North Dakota along with the University System set up rules on Plan
- Public hearings are held according to NDCC 28-32
- RFI/RFP are conducted for investing and accepted
- North Dakota Higher Education Savings Plan starts

In closing I would like each of you to think about couple of scenarios:

A very financially successful business man in Texas has a godchild in North Dakota. He makes a contribution to the higher education savings plan thinking that maybe that godchild will study business someday. When that day comes the student actually goes to medical school at UND and then goes on to specialize in internal medicine in Chicago. It was all possible because of a savings plan that was started in North Dakota.

Or how about a young family that has $50 a month as an automatic withdrawal from their checking account and placed into their college savings plan for their son or daughter. At that early age it is invested in a growth fund and years later the daughter goes to college with an interest in medicine. The growth of the savings plan has exceeded an annual 20% rate of return. The savings plan has now put that child into a pre-med. program with medical school a financial reality.

Thank you madam chairman and members of the House Education Committee and I will stand for any questions.

NORTH DAKOTA HIGHER EDUCATION SAVINGS PLAN

CONTRIBUTOR

$100
A
MONTH

$1000
A
MONTH

BENEFICIARY

INVESTMENT

GROWS TAX DEFERRED
INTEREST, DIVIDENDS,
CAPITAL GAINS

"COLLEGE"

TUITION BOOKS ROOM

BOARD FEES ETC

STUDENT'S TAX RATE

Life is like a grindstone: Whether it grinds you down or polishes you up depends on what you're made of.
-ANONYMOUS

FORBES MAGAZINE FEBRUARY 22, 1999

ON THE COVER

Got any kids or grandkids? Redo your estate plan now!

The tuition estate trick

By Janet Novack

SEE TABLE

LAST FALL a 71-year-old midwestern corporate tax lawyer was perusing a Fidelity Investments publication when a new product—a tax-deferred college savings plan that Fidelity runs for New Hampshire—caught his eye.

One detail jumped out: Donors could make tax-free gifts to the plan for children or grandchildren, *but still control the account and even take back the money if they wanted to.*

It scarcely seemed possible. A basic principle of estate tax law says that assets you control at your death go into your estate. These college plans seemed to fly in the face of that principle. You could get money out of your estate now but change your mind later.

The tax lawyer raced to his copy of the Internal Revenue Code. IRC Section 529, and the preliminary IRS regulations clearly permit just what Fidelity was talking about.

In December the attorney and his wife put $700,000 in New Hampshire tax-deferred college accounts—$100,000 for each of seven grandchildren, now aged from 1 to 12. Says the attorney, who asked not to be named, "I've done my due diligence, and this is terrific."

Yes, it is. A year ago FORBES labeled the still-incubating state savings plans the sleeper tax-break of the 1997 tax act. Since then many have hatched, to favorable reviews. But what is still virtually unknown, even among estate-tax experts, is that these plans can provide large estate-tax breaks.

Here's why: Many affluent taxpayers—say, those with net worths between $1 million and $4 million—will leave taxable estates at death subject to rates as high as 55%. Often the easiest way for these folks to whittle down their estates is by making annual gifts to each child and grandchild. A single donor can give up to $10,000 a year and a couple can give up to $20,000 per year to each beneficiary they choose, tax free.

This exclusion would blow a huge hole in the U.S. estate tax but for one thing: Taxpayers are reluctant to make these gifts. Many fear that they will someday need the money themselves. Others, like the midwestern attorney, worry that if they give money to grandchildren through the Uniform Gift to Minors Act, the kids will blow it on cars instead of college.

New federal tax rules now let college plans address these concerns. When you put $10,000 into a college savings account for junior, it is a tax-free, completed gift—meaning that if you die, the money in the account isn't counted in your taxable estate. Yet so long as you remain the account's owner, you can change the beneficiary or even take the money back—if the state plan permits it.

And a lot of state plans do permit it. In a wonderful display of federalism's benefits, the states are falling all over themselves trying to make their plans attractive to their own residents and in some cases, to out-of-staters, too.

In its giant valentine to the education lobby Congress created another goody for affluent taxpayers. Normally, gifts to any one person greater than the $10,000 per single/$20,000 per couple limit eat into the lifetime gift tax and estate tax exemption. (That exemption, currently $650,000 for you and another $650,000 for your spouse, is due to rise gradually to $1 million). In addition, if the gift is to a grandchild, the excess cuts into the $1-million-per-grandparent lifetime exemption from the generation-skipping tax.

Not here. With college savings plans each grandparent or parent (or aunt or uncle or godmother) can put $50,000 into a college savings account for a child immediately and have it count as the next five years' $10,000 gifts. Thus the future appreciation on that amount is out of your estate now.

(If you die within five years, a prorated portion is thrown back into your estate. Noting this, our midwestern attorney put each grandchild's $100,000 gift in his wife's name, using the gift-splitting technique the IRS allows. As a 69-year-old woman she has a longer life expectancy.)

Once money is in a college savings account, it grows tax-deferred until withdrawn to pay for college tuition, books, room or board. Earnings are then taxed at the student's rate.

What if you decide to yank the money back? You owe income tax on the earnings left after the payment of a penalty. But the IRS has allowed states to

Earnings Estimates
Statistical Spotlight
-Asia on the cheap
The Funds
-Risk, redefined
-Creepy spiders

Investment Columnists:
Financial strategy
-Buy zeros now
Portfolio strategy
-The case against index funds
Stock trends
-Whoosh!

The Forbes Life:
Books
-Now you see it...
Auctions
-Sold! To the Internet
Collections
-Bourgeoisie boxes

set the penalty as low as 10% of earnings, and several have.

That's not steep given the tax deferral, says Bernard Kent, a Detroit partner with PricewaterhouseCoopers. He's right. Assume you are in a 50% tax bracket and destined to earn 8% a year, all currently taxable, from your investment. Hang in for a mere seven years and the deferral will more than pay for the penalty. If you assume a higher return, or that your tax bracket will fall in future years, the college plan becomes a winner even more quickly. (Try out your own assumptions at www.forbes.com/college.)

One last, little-known benefit of these accounts: They aren't just for kids. Say you're a 20-something New York single. You can open an account for yourself and claim deductions of $5,000 on your state income tax return. You can use the money for graduate school. If you don't go back to school but do start a family, you can name your child as beneficiary.

There are two hitches to state college savings plans. One is that you can't control how the money in the account is invested. But as the number of plans grows, this matters less. The states are getting competitive with their options. Arizona is even awaiting IRS approval of a plan that among other things lets donors choose, when opening an account, specific funds and allocations.

The other drawback is hard to quantify. There is some risk that after you have sunk your money in, Congress will double-cross you with a change in the tax laws. For example, it could impose an additional federal penalty on withdrawals not used for college.

On the other hand, these plans might get even better; the states are lobbying to make withdrawals for education federally tax exempt.

So despite their complexity, these plans are worth a close look. Fees are in some cases high (in Indiana's case, outlandish), but competition may bring them down.

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Sidebars:

- Roaming
- What about the other breaks for college?

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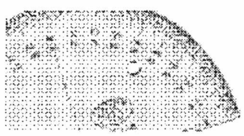

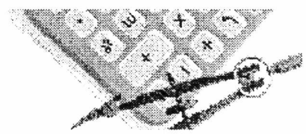

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MONEY

Baby goes to college

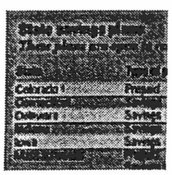
State savings plans make it easier to raise the cash for college

BY MINDY CHARSKI

When it comes to paying for college, Gardell and Leslie Jensen don't have full faith in U.S. savings bonds. They don't give too much credit to low-interest-bearing savings accounts. With two children in universities and one just graduated, the Jensens were shocked to find their savings didn't generate enough cash. They are facing a combined $20,000 in college costs for two more years of schooling, and finding that money won't be easy for the Great Falls, Mont., couple.

So to save for their new baby's college education 17 years from now, the Jensens are taking a different approach. They are contributing to Montana's Family Education Savings Program, a plan that guarantees at least a 4 percent annual return on their investment. "I'm looking to at least cover tuition," Gardell Jensen says.

His is an admirable goal, considering projections from the National College Resource Association. The total cost of four years at both public and private colleges is expected to more than double over the next 18 years to $104,444 for a public school and $222,228 for a private one–a 4 percent increase each year over that time.



Prepaid plans. While states have been reluctant to aggressively control costs at state schools, many have developed programs to help parents, relatives, and charitable friends pay for Junior's college expenses. By 1988, Michigan and Florida had rolled out plans that provide a hedge against inflation by allowing participants to buy a chunk of state college costs at today's prices. These "prepaid tuition" plans pool money and invest in a mix of long-term investments. (The states bet they can earn enough investing the money to outpace or equal rising college costs.) But it wasn't until 1996, when Congress granted favorable tax treatment to state tuition plans, that many other states

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USN&WR Li

A *U.S.News World Repo* chart lists 11 states with flexible savings plans for residents of any state.

Check out our best values rankings for schools where you get the most bang for your buck.

Tuition-free schools are not a dream. Check out our list.

How much should you save? Our work sheet will help you project future tuition prices for up to three schools.

Also on the Web

The College Savings Plans Network has details on your state's specific program.

Find out how to bid in WCNY's

hurried to design their own programs. Today 42 states have plans and eight more will roll out versions within a year. (Details of each can be found at collegesavings.org, *www.usnews.com* or by calling 877-277-6496.) About 788,500 children had college money working for them in the plans at the end of 1998.

What if your kid chooses an out-of-state or private school? The money will transfer, but you'll have to pay any additional tuition and, in rare cases, a penalty of $25. With most plans, you'll still have to pay for necessities like housing, textbooks, and late-night mozzarella sticks. That's why Dawn Annesty of Fort Lauderdale, Fla., encourages her 16-year-old daughter to keep up the grades and soccer moves. "I'm counting on her getting a scholarship because the Florida plan will only pay for about 25 percent of costs," she says.

Several states now have an even better idea. They are experimenting with savings plans that are like individual retirement accounts for college savings. Participants contribute up to the limit set by the plan. Best of all, many states don't tax the earnings, so the account can grow more quickly than regular savings. The federal government taxes the earnings only when the beneficiary withdraws the money–and then it's taxed at the child's rate, which is usually 15 percent. So if you are in the 30 percent tax bracket, you'd have to get a pretax rate of return of 6.38 percent to equal a plan's 5 percent return over the same 18-year period, says Bernard Kent, a tax partner at PricewaterhouseCoopers.

*

The tax status of Iowa's plan was the hook for Karen and George Carroll of Johnston, Iowa. The couple bought the plan for their two daughters after being hit with hefty taxes on the capital gains they made from mutual funds set aside to pay for college. "It has made a big difference for us," Karen Carroll says.

Many plans allow other family members or friends to contribute to the account. Some plans require the beneficiary to be a resident of the state; others just require the investor to be a state resident. So a grandmother in Illinois can buy her state's plan for her grandson, even though he lives in Texas. But she can only give the gift once he's born–the plans don't allow families to buy for future generations. Connecticut, Delaware, Indiana, Iowa, Massachusetts, Montana, New Hampshire, New York, Rhode Island, and Utah have flexible plans that are open to residents of any state.

Going outside your own state plan has risks. You can miss out on tax deductions your home state's plan may offer. Up to $2,000 a year in contributions is deductible on the Virginia state income tax form, for example.

Timid managers. Unlike an IRA, a tuition plan gives you little choice in how the money is invested. Pros

tuition auction. Or check out WLAE's auction for two Louisiana colleges.

Read about the nation's six work colleges, three of which guarantee tuition for some or all of their students.

Learn about education benefits from the Army National Guard or the Air National Guard.

manage the money. Fidelity is doing the job for Delaware and New Hampshire. TIAA-CREF, which manages the huge teachers' pension fund, runs the New York plan. They invest conservatively, perhaps too much so. They won't guarantee you'll earn enough to pay tuition, as do the prepaids.

And what if a child doesn't go to college at all? Most plans allow the funds to be transferred to another family member. Likewise, most plans will give a refund, in some cases charging a penalty of up to 10 percent of earnings, if there's no student to transfer the money to or if a child isn't able to get into school. But with 7,500 schools accepting funds from the plans, there's a good chance you'll have somewhere to be on parents' weekend.

FUNNY MONEY

Touch a car, win a pageant

OK, so your parents didn't start saving for college when you were two days old. There are alternative ways to pay–and, no, we don't mean by stripping.

This winter, Seth Oksanen, a junior at Radford University in Virginia, entered a local auto show's "Hands On" contest. He touched a car for a week and came away the proud owner of a $34,000 Toyota 4Runner. He swapped it for a cheaper car and had enough cash left to cover his remaining tuition.

Kennesaw State senior Christene Perry is paying her way with proceeds from state and local pageants. She's earned over $8,000 since 1993 (and she didn't even place in her first three contests). Charles Dunn, publisher of *Pageantry Magazine*, estimates that thousands of pageants award scholarships. Looks do matter, but you don't have to spend a fortune on clothes. Pageant vet Nicole Foerschler of Woodstock, Ga., won her first title in an old formal that cost about $100. Alternates and winners of special contests–remember Miss Congeniality?–take home prizes, too.

Some state National Guard units will pay 50 percent to 100 percent of members' tuition at state schools. Each state decides how much to reimburse. Members must undergo basic training, and serve one weekend a month and two weeks a year for at least three years. Steve Weydert joined because it sounded "better than working part-time at a truck stop"–but liked the Guard so much that he went on to officer training school.

They're free. Tuition-free colleges do exist, although you'll have to fight your way in. Cooper Union in New York City offers a free education to about 850 students. Missouri's College of the Ozarks has zero tuition costs. Kentucky's Berea College is free; so is the state's Alice Lloyd College (for residents of 100 nearby counties).

The three require all students to work 10 to 20 hours a week and favor those with genuine financial need. Also, many schools offer free tuition for employees' children. If parents are confident that Junior can be accepted, they can consider a job change.

Or buy discounted tuition on the auction block. WCNY, a public television and radio station in Syracuse, is auctioning 11 chunks of tuition from five New York schools. Bidders will likely save about 40 percent. See their Web site, www.wcny.org, for instructions. WLAE, a PBS station in New Orleans, will have two tuition packages on the block come March 23. Sorry, acceptance to the schools is *not* included.–*Holly J. Morris*

MONTANA
FAMILY EDUCATION SAVINGS PROGRAM
po box 1732 • Helena, Montana • 59624

Select from the following:

Montana Family Education Savings Program Highlights

Open to All Families
The Montana Program is open to all families regardless of income. Any family in the United States may take advantage of the substantial benefits this program offers. And there are no in-state use restrictions. Use the proceeds at any eligible college, university, proprietary or vocational school in the United States.

Tax-Advantaged Growth
Your earnings grow federal and State tax free while you control the assets. When the time comes to use the money for college, the earnings are then taxed at the child's lower tax rate.

Prepays College Costs
Contributions are invested in CollegeSure® CDs -- certificates of deposit indexed to college costs and guaranteed to meet future tuition, fees, room and board no matter how high costs climb. CollegeSure CDs are issued by College Savings Bank, an affiliate of College Savings Trust, Helena, Montana.

Backed by the Full Faith and Credit of the United States Government
Principal and interest are insured by the Federal Deposit Insurance Corporation up to $100,000 per depositor. CollegeSure CDs have been awarded the highest credit rating from Standard & Poor's Corporation.

Generous Contribution Limits
The Montana Program allows you to contribute enough today to fund a complete higher education including college and graduate school. Or you can make smaller contributions over time. The program even helps lump-sum depositors avoid federal gift taxes through five-year averaging.

Affordable
Open your account for as little as $250. And/or sign up for direct deposit from payroll of as little as $50 per pay period or automatic deposits of $100 or more per month from your bank account.

Special Benefits for Montana Residents

- Earnings are federal and State tax deferred
- Up to $3,000 annual tax deduction ($6,000 for married couples) on contributions with no recapture or withdrawals used to pay qualified higher education expenses

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- Letter From the Governor
- Program Highlights
- About the Investment
- Program Services
- About the Program Manager
- Deposit Options
- Frequently Asked Questions
- How to Get Started

A Wealth of Tax Benefits

The Montana Family Education Savings Program is a college savings account with a multitude of tax and other benefits:

- Anyone can participate. There are no income limitations restricting the availability of tax benefits like you'll find on Individual Retirement Accounts.
- Your earnings grow federal and State tax free until you withdraw the funds. Most other states also track the federal code (see the **Offering Circular** for more details).
- When the time comes to use the money for college, the earnings are taxed at the child's lower tax rate.
- You control the assets. If the child does not go to college you can change the beneficiary. Or you can withdraw the money minus a penalty.
- Federal gift taxes can be reduced or eliminated even if you contribute in one year over $10,000 single ($20,000 joint) by gift tax averaging your contribution over five years.
- At any time you may prepay as much college and graduate school as you'd like up to the maximum contribution limit. The maximum limit is the product of the most recently published value of the IC 500 times eight. As of July 31, 1998, the one-year value was $22,055 times eight for a total contribution limit of $176,440.
- Assets in a Montana Program account are not treated as part of the federal taxable estate of the account owner who is not a designated beneficiary.
- Montana residents are entitled to a $3,000 annual tax deduction (married couples may deduct $6,000 per year). What's more, there's no recapture (you do not have to pay tax on your deductions upon withdrawal) if the contributions are used to pay qualified education expenses.

  Montana Residents: see **special definition** of qualified higher education expenses for Montana tax purposes.

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Frequently Asked Questions About the Montana Family Education Savings Program

What is the Montana Family Education Savings Program?

It's a new, state-sponsored, tax-advantaged program created by the state of Montana to encourage families to save for their children's higher education. The program was established to qualify as a state tuition program under Section 529 of the Internal Revenue Code. The Board of Regents has contracted with College Savings Bank to serve as account depository and manager of the program. Its affiliate, College Savings Trust, will hold all accounts in trust for the benefit of the account owner and the state of Montana.

Who can participate?

Any family in the U.S. may establish a tax-favored account for any child and there are no in-state use restrictions.

What are the tax advantages?

- Federal and State income taxes on the account earnings are postponed until distributions are made. Distributions to pay qualified higher education expenses are taxed at the child's (generally lower) rate.
- In-state residents may deduct from Montana income tax up to $3,000 per year on contributions and, upon withdrawal, are not subject to recapture if used to pay qualified higher education expenses.

Must I pay gift tax on the contribution?

No. Generally, you may make an annual $10,000 gift per recipient without gift tax to as many individuals as you want including children, grandchildren or any other person. Married couples may make combined annual gifts up to $20,000 per recipient. In fact, even if you decide to make a gift in one year of over $10,000 single ($20,000 joint) to the Montana Program, you may spread the entire gift ratably over five years to help avoid gift taxes.

Is the investment guaranteed to meet college costs?

Yes. The CollegeSure CD is indexed to a measure of college costs and guaranteed to meet future tuition, fees, room and board. One unit, at maturity, is equal to one full year's average tuition, fees, room and board at the average four-year private college.

Do I have to purchase a full unit?

Not at all. Units are simply a measure of how much college you have prepaid. For instance, .40 units prepays about one year at the average public college (in-state). About 1.40 units prepays one year at the average Ivy League college.

Is my money safe?

Yes. Principal and interest are backed by the full faith and credit of the U.S. Government up to $100,000 per depositor. The CollegeSure CD also has been awarded Standard & Poor's Corp's AAA-L rating.

Can I obtain more than $100,000 of FDIC insurance coverage by establishing multiple accounts for my child?

Yes. A child with two parents and four grandparents can obtain up to $600,000 in FDIC insurance with properly structured accounts. For assistance in structuring accounts for maximum FDIC coverage, especially for sums over $100,000, call 1-800-888-2723.

Should the CD maturities coincide with anticipated attendance at college or graduate school?

Yes. Maturities range from 1 to 25 years. You must time your CDs to mature the years your child attends college and/or graduate school.

How can the funds be used?

Funds can be used to pay qualified education expenses at any eligible institution of higher education in the U.S.

What are qualified higher education expenses?

Generally, qualified education expenses include tuition, fees, room, board, textbooks, supplies and equipment that are required for the child to attend. Under present law in Montana, room and board are not considered qualified expenses.

What if the funds are used for other purposes?

Distributions for other purposes are taxable and may be subject to a 10% penalty on earnings.

What is considered an eligible institution?

Eligible institutions include most accredited four-year colleges and universities, many accredited two-year institutions and certain proprietary or vocational schools in the U.S.

Does my child have to attend full time?

As long as the student's enrollment qualifies for at least half-time, all eligible tuition and fees are still covered under the program. Room and board expenses are also eligible generally up to the school's annual posted room and board charge for students living in student housing; $2,500 for students living off campus; $1,500 for students living at home with parents.

Must I select a college now?

No. Simply begin making deposits and on each confirmation notice we'll report how much college you've prepaid. If you'd like to target a specific college, just call 1-800-888-2723 and we'll tell you approximately how many units you'll need for that institution.

If I decide to target a specific college, does that help guarantee my child's admission?

No. Participation in the Montana program does not guarantee admission to any institution.

What happens when my child is ready to attend college?

The account owner must submit a Distribution Authorization Form and provide documentation to verify that the withdrawal is for higher education expenses. Generally, in August, a check will be sent to the child. Distributions made directly to an institution can be made whenever an invoice for eligible expenses is received.

Is there a time limit on use of the funds?

A Montana Program Account cannot be opened for more than 30 years.

Are there any enrollment fees?

There is an enrollment fee of $40 per account. However, this fee is waived if the beneficiary or account owner is a Montana resident.

Is there a contribution limit?

Yes. The maximum contribution limit per beneficiary of all qualified state tuition accounts combined is the product of the most recently published value of the IC 500 ($22,055 as of July 31, 1998) times eight.

Can others contribute to my child's account?

Yes. A person need not be an account owner to contribute to a child's account.

What if my child doesn't go to college?

The account owner may either close the account or change the beneficiary. If the account is closed, the funds are subject to a nonqualified distribution penalty in addition to tax reporting.

What if I have to cancel my account and withdraw the funds?

The account owner may cancel the account at any time. The account balance with earnings will be refunded. However, this refund is subject to a nonqualified distribution penalty and earnings are subject to tax. Distributions are subject to a $100 fee if the account has been open for less than three years. Montana residents who deducted contributions from their taxable income may be subject to tax recapture.

What if my child receives a scholarship?

Funds up to the amount of the scholarship can be returned to the account owner without penalty.

What is a nonqualified distribution?

Generally, nonqualified distributions are withdrawals made for purposes other than for qualified higher education expenses.

Can I change the account owner or beneficiary?

Yes. The account owner and beneficiary may be changed without tax consequences to other family members. There is no fee for the first change of owner or beneficiary. Thereafter, a $50 fee will be imposed for each change.

Can I also contribute to an Education IRA?

You cannot contribute to an Education IRA and the Montana Program in the same year. Amounts may be withdrawn tax free from Education IRAs to make contributions to the Montana Program.

What about Hope and Lifetime Learning Credits?

Participation in the Montana Program does not disqualify you from claiming the Hope and Lifetime Learning Credits if you so choose.

How does this program affect financial aid?

Program assets are considered if the student applies for financial aid or scholarships. Account balances are generally included in the assets of the parents rather than the student.

Is this program guaranteed by the state of Montana?

No. The program is not guaranteed by the State of Montana. However, principal and interest are backed by the full faith and credit of the U.S. Government up to $100,000 per depositor.

For complete information please read the Montana Family Education Savings Program Offering Circular.

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SB 2414
Testimony to the
North Dakota
House Education Committee
March 22, 1999
Chairman Janet Wentz
Vice Chairman Ed Lloyd

For the record, my name is Aaron Krauter, State Senator from District 35.

SB 2414 is the start of the "North Dakota Higher Education Savings Plan". A savings plan that will help families plan for their childrens' college future; a plan whereby a grandparent can contribute to a savings plan for their grandchildren; or a plan for a successful godparent to contribute to a godchild's higher educational costs.

SB 2414 is a college savings plan, not a prepaid tuition plan. The difference being that a savings plan has many more beneficial features compared to the tuition plan. The main two features of the savings plan are: 1) the money grows federally tax deferred and is taxed at the students tax rate when withdrawals are made, and 2) the savings can be used for more than just tuition. It can be used for books, room and board, fees, tuition, and any related college expense; and that is important.

A few short years ago, state-sponsored college tuition plans were not serious contenders for your college dollars. In 1990, there were just five states that offered tuition programs, investing about $550 million. In 1995, 9 states had pre-paid tuition programs investing about $1.1 billion. In 1997, things changed with the advent of the savings program; 18 states totaled about $2.5 billion. Today, 34 states offer plans, and before the year is over it is expected that 43 states will have moved to the direction of offering a college savings plan.

1990	5 states	$550 million	tuition plans
1995	9 states	$1.1 billion	tuition plans
1997	**18 states**	**$2.5 billion**	**savings plans**
1998	**34 states**	**$???**	**savings plans**
1999	**43 states**	**$???**	**savings plans**

The big question is why have states turned towards the college savings plan?

When Congress passed the **"Taxpayers Relief Act of 1997"** it made many changes to the Internal Revenue Code. You are probably familiar with one of those changes like the "Roth IRA". Another one was the establishment of the ***"529 College Savings Plan"***, which allows states to set up their own college savings plan.

A key factor was the allowance of these state plans to grow federally tax deferred and then be taxed at the students tax rate versus the contributors tax rate. All dividends, interest and capital gains will compound free of federal taxes until the money is withdrawn. Which naturally means a lower tax rate. Also states could make their own state tax changes as they see fit. This bill is not making any changes to the current state tax code.

Other important factors of why states are moving towards these types of plans are:

- no state liability for shortfalls
- no liability to higher education for shortfalls
- can be used at any public or private institution in the United States
- can be used for tuition, room, board, fees, books, etc.
- allows for growth beyond the growth of college tuition
- can earn stock market rate of return
- is treated as a parental asset which is not as negative as a resource that reduces family's aid eligibility.

When SB 2414 was drafted by the legislative council it contained 7 pages of boards and commission and more level of bureaucracy that we need in North Dakota. As the bill is amended it contains just two section. The bills sponsors have worked with the University System and the Bank of North Dakota/Student Loans to develop the ***"529 Plan"*** within our current structures.

ENGROSSED SB 2414

Section 1 - The Bank of North Dakota shall adopt rules to administer, manage, promote and market the North Dakota Higher Education Savings Plan.

The Bank already has the student loan program which gives it experience in college finance. Plus that area already has the "College Information Services" that will be an asset in the marketing and promotion of the plan.

Through the Administrative Agencies Practice Act, NDCC 28-32; the Bank of North Dakota will set up rules of how the savings plan will be set up to maximize the federal tax benefits of the contributor and the beneficiary and make the plan attractable for contributors to successfully invest for the future cost of a college education. The key point to mention in the administration of the plan are policy issues that would define eligibility of residents, maximum amounts eligible to be invested and the process of RFI/RFP of private investment contracts.

Section 2 - Appropriation of $57,000 for the 99-01 biennium. After working with the University System and Bank of North Dakota this amount was determined to meet the need s of establishing the plan while using existing other resources.

The goal of the plan would be four fold:

1 - least cost - That is why no new boards or commission are needed. The Bank of North Dakota along with the University System can work together to develop a savings plan that is contracted through a credible investment firm that will have costs at a minimum.

2 - greatest benefit - the plan must be available to anyone who wants to participate and meets the minimum requirements established by rules.

3 - most flexibility - this is a savings plan for education that should offer flexibility in the amounts invested, flexibility in the educational uses of the funds and minimum penalties for non-educational withdrawals and all within the IRS ***"529 Plan"***.

4 - greatest return - with the concept of contracting out for services of investing and managing , a RFI/RFP will give the competitive advantage for the greatest return.

Now we should ask what is happen in states around us?

Montana savings plan approved Spring 1997
Plan implemented May 1998
600 participants first year

Minnesota Savings plan approved 1997
Plan completing RFP stage
Ready to implement

South Dakota
pre-paid plan in place but never implemented

Iowa Savings plan/trust approved May 1998
Plan implemented September 1998
2500 (est.) participants
$8 million

New York
Savings plan approved January 1997
Plan implemented September 1998
45,000 participants
$152,385,000

Attachments:

North Dakota Higher Education Savings Plan

<u>"Huge College Tax Break"</u>
San Francisco Chronicle November 17, 1998

<u>"How to Ace Savings for College"</u>
Kipplingers -February 1999

<u>"Baby Goes to College"</u>
U.S. News an World Report - March 1, 1999

<u>"The Tuition Estate Trick"</u>
Forbes Magazine - February 22, 1999

"Montana Family Education Savings Program"
Internet resource

Now how do we envision this process:

- August 1 1999: North Dakota Higher Education Savings Plan becomes law
- Bank of North Dakota along with the University System set up rules on Plan
- Public hearings are held according to NDCC 28-32
- RFI/RFP are conducted for investing and accepted
- North Dakota Higher Education Savings Plan starts

In closing, I would like each of you to think about a couple of scenarios:

A financially successful business man in Texas has a godchild in North Dakota. He makes a contribution to the higher education savings plan thinking that maybe that godchild will study business someday. When that day comes, the student actually goes to medical school at UND, then goes on to specialize in internal medicine in Chicago. It was all possible because of a savings plan that was started in North Dakota.

Or how about a young family that has $50 a month as an automatic withdrawal from their checking account and placed into their college savings plan for their son or daughter. At that early age it is invested in a growth fund and years later the daughter goes to college with an interest in medicine. The growth of the savings plan has exceeded an annual 20% rate of return. The savings plan has now put that child into a pre-med program with medical school a financial reality.

Thank you Madam Chairman, and members of the Education Committee. I will stand for any questions.