



# Tennessee 529 College Savings Plan Update

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*Tennessee State Treasurer*

House Finance, Ways and Means Committee

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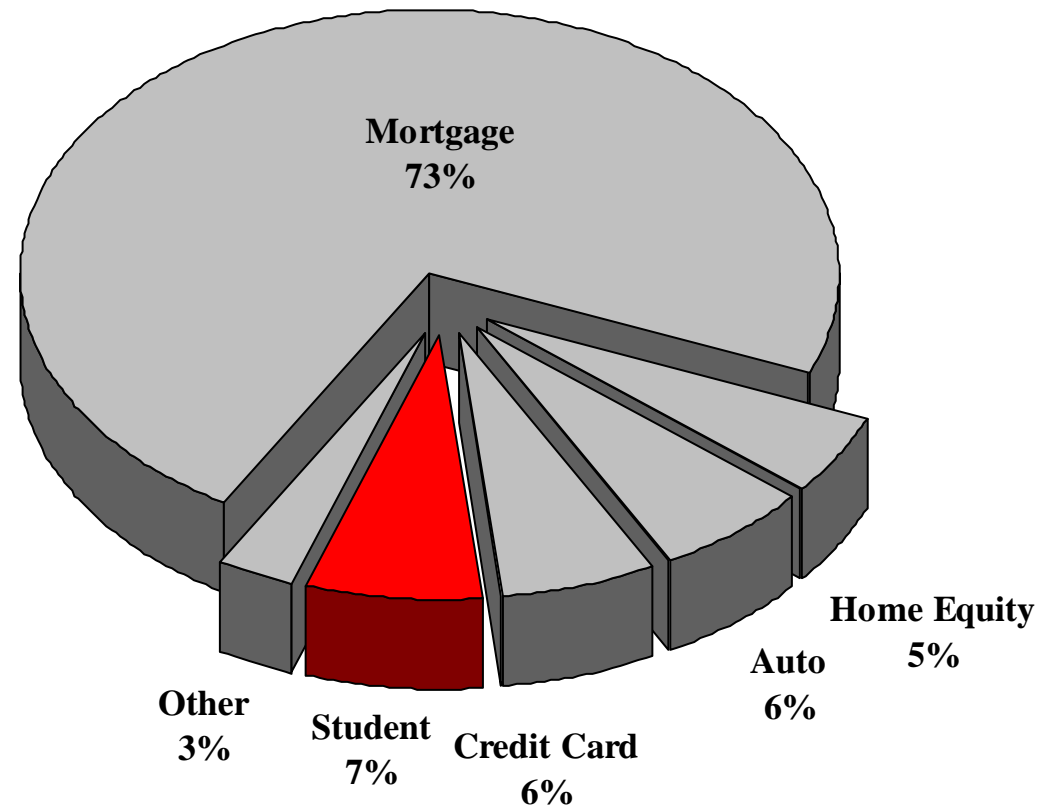
# The Goal

- Tennessee is currently 42nd in the nation in college attainment with an associates degree or bachelors degree.
- All Tennessee institutions of higher education produce 39,000 associates and bachelor's degrees annually.
- Tennessee's Public Agenda for Higher Education, implementing the Complete College Tennessee Act of 2010, sets the goal to increase annual degree production by 4% year-over-year by 2025 for Tennessee's college attainment rate to equal the national average. To reach that goal, the number of degrees awarded must increase an additional 210,000 cumulatively by 2025.



# Tennesseans Debt

- Student loans now total over \$800 billion, or 7% of all US mortgage and household debt.
- Total Tennessee Household Debt is now \$11.6 Billion.
- Tennessee Student Debt is approximately \$812 Million.

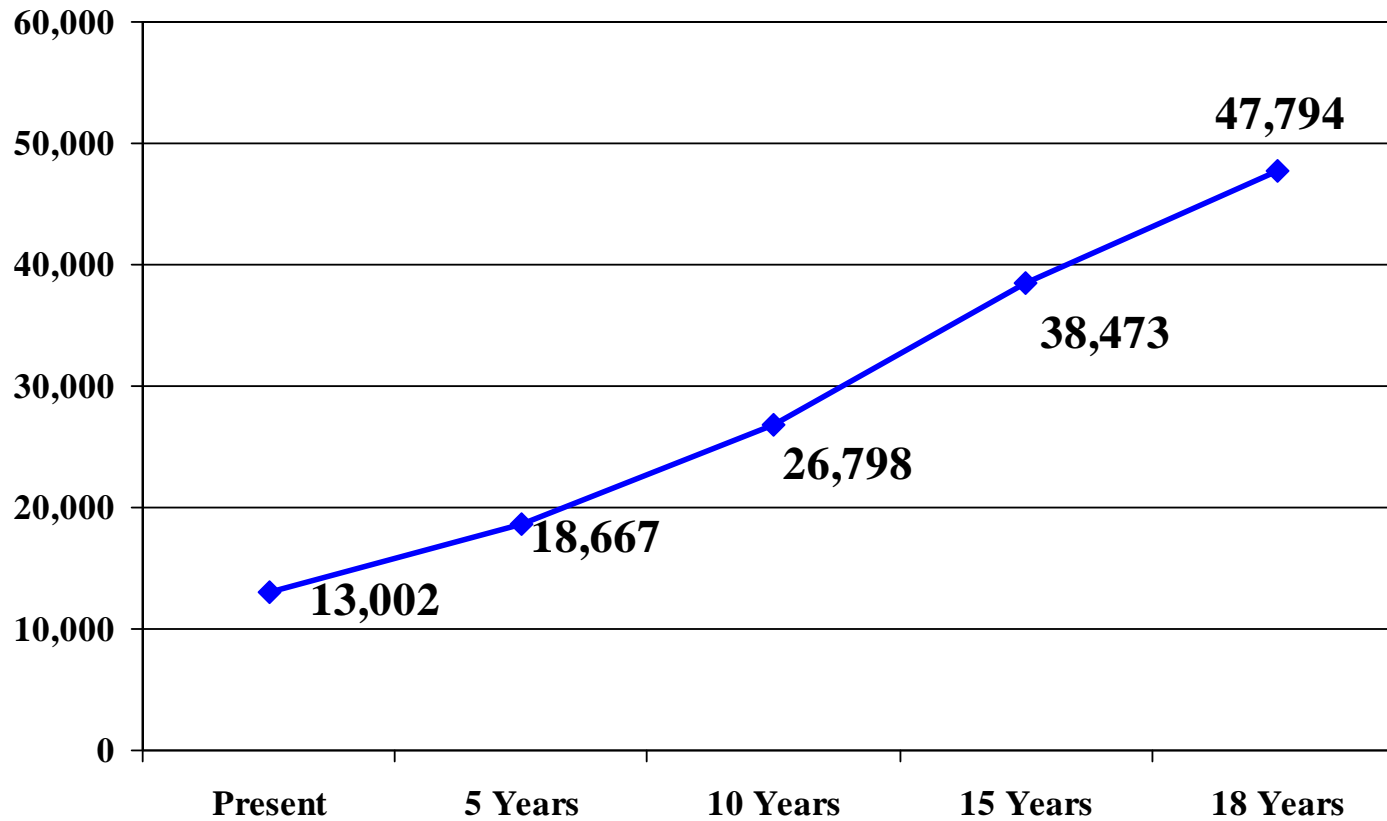


Source: NY Fed Quarterly Report November 2011



# Rising Cost of College

Forecasted increase of Public Universities' average tuition, fees, room and board in Tennessee's universities.



\* assumes a 7.5% growth rate.



# 529 College Savings Accounts

- A 529 College Savings Account allows you to contribute to an account established to pay a student's qualified education expenses at an eligible educational institution.
- Qualified Education Expenses are tuition and fees; books, supplies, and equipment; room and board.
- Eligible Educational Institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. It includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions.
- Contributions to a 529 College Savings Account are not deductible, but the account earnings are not taxed if used to pay Qualified Education Expenses.



# Tennessee College Prepaid Plan

- **BEST Prepaid Plan, established in 1997**

- Account holder purchases units at the current average tuition of Tennessee's nine state universities.
- To pay college tuition, units are later redeemed at the then average tuition of a state university.
- Cost of tuition has increased faster than investment returns.
- The state has contributed \$40 million over 13 years to the BEST Prepaid Plan – about \$3.076 million each year
- The BEST Prepaid Plan currently has 7,400 active accounts with a total of \$92 million in assets.
- Treasurer and BEST Board suspended participant contributions to BEST plan in November 2010



# Tennessee College Savings Plan

- **Educational College Savings Plan, established in 2000**
  - Achieved total of 5,000 account holders and \$46 million assets at its height.
  - Tennessee terminated its plan in June 2008, and subcontracted the Plan to Georgia.
  - Georgia terminated the subcontract in June 2011.
  - As of June 30, 2011, Georgia's Path2College 529 plan had 2,208 Tennessee account owners for approximately \$40.7 million in total assets for Tennessee.
  - Georgia has agreed to send two letters by June 30, 2012 to Tennesseans in the Georgia plan inviting them to roll over to a new Tennessee 529 College Savings plan.



# Tennessee needs a College Savings Plan

- Plans from other states will not actively market college savings in Tennessee
- Tennessee's civic and business leaders will not actively promote another state's College Savings Plan
- Establishing a College Savings Account for a child sets the expectation that child will go to college
- College savings is key to reducing excessive student loan debt
- College savings is a major key to achieving Tennessee's ambitious college attainment goals
- College savings is key to achieving a Tennessee workforce with 21<sup>st</sup> century job skills



# Goals of a new Tennessee 529 Plan

**To attain a level of assets and account growth of comparable states, with projected assets in the inaugural year of \$15 million and the plan growing to \$950 million by FY 2019**

## **Four Plan Elements are Key:**

- Low Plan fees – targeted to less than 35 basis points
- Sufficient Investment choices
- Large Tennessee companies participating in payroll deduction
- Providing financial incentives to Tennessee citizens

## **Achieve asset growth by encouraging Tennessee families to save for future college costs through:**

- The plan's targeted grass roots marketing efforts in tandem with Financial Literacy program in elementary schools throughout Tennessee.
- Public/private partnerships
- Encouraging existing Tennessee residents saving in out-of-state 529 plans to move assets to the new Tennessee 529 plan
- Use Social media to raise College Attainment/College Savings awareness



# New College Savings Plan

## **New Plan will feature the following:**

- Electronic Transfer and Direct Deposit from multiple sources
- Flexible investment options including self-selection, target date options based on when funds will be needed for college, an FDIC insured option and risk-based options.
- Diversified investments options including passive and active equity funds across the domestic market cap spectrum, passive fixed income, high yield, developed and emerging international funds, and cash.
- Versatile Web based Applications such as ACH contributions/ Contributions by Payroll deductions/ Rollover/ Account Change/ Transfer of Investment Options/ Change of Beneficiary/ Termination/ Refund



# Potential Risk Based Options

## **Conservative**

25% Domestic Equities

65% Fixed

10% Cash

## **Moderate**

40% Domestic Equities

5% International Equities

55% Fixed

## **Growth**

60% Domestic Equities

20% International Equities

20% Fixed

## **Aggressive Growth**

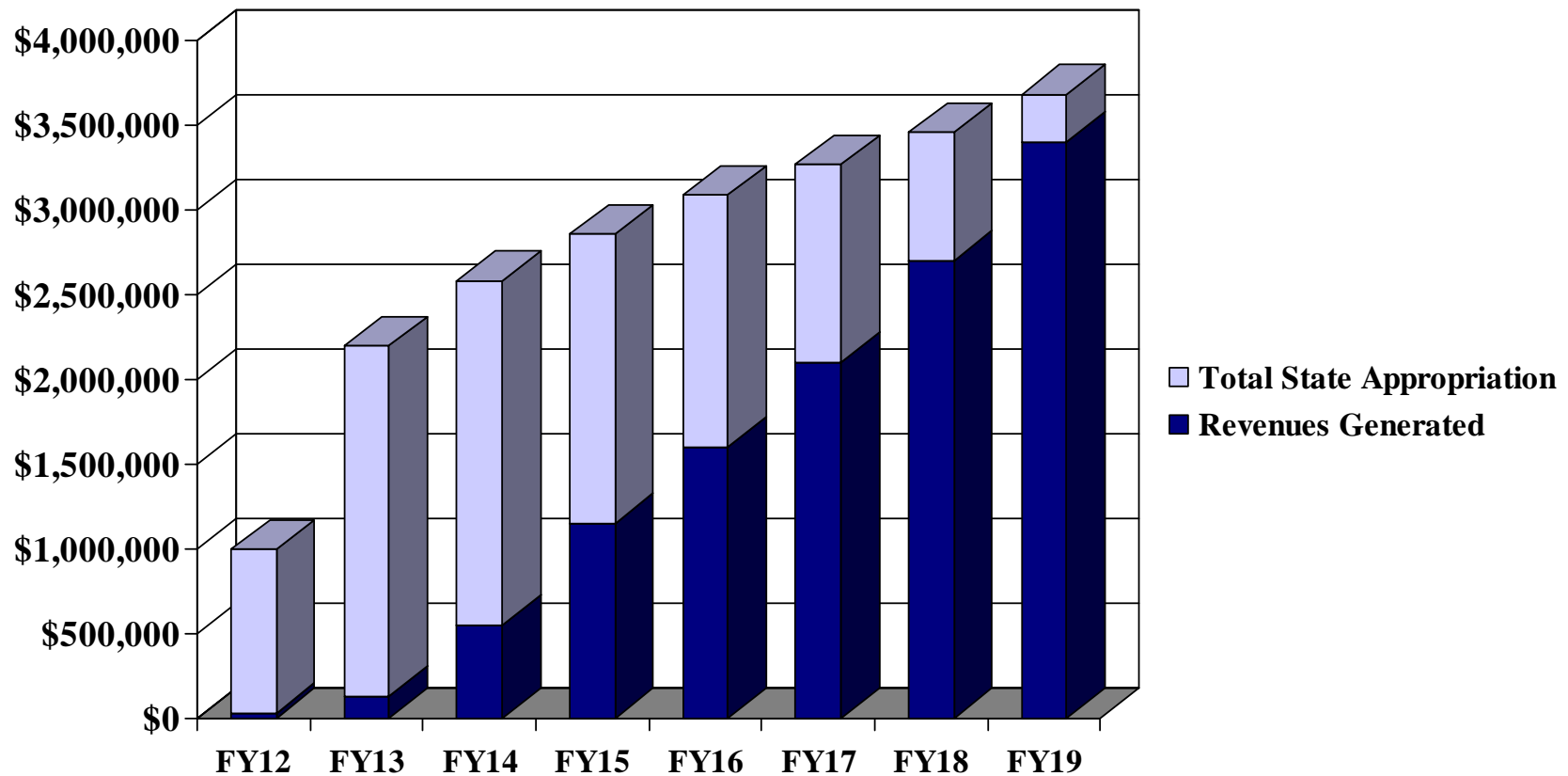
70% Domestic Equities

30 % International Equities



# Tennessee 529 Plan

New plan is projected to be self sustaining and state appropriations reduce over time





# Comparable States

529 College Savings Plan states with comparable population, median income, and per capita income.

State	2010 Population	2009 Median Household Income	2009 Per Capita Personal Income	Value of tax incentive*
Indiana	6,483,802	45,424	34,089	\$1,000
Georgia	9,687,653	47,590	33,786	\$240
Missouri	5,988,927	45,149	24,423	\$300
<b>Tennessee</b>	6,346,105	41,725	33,725	

Indiana, Georgia and Missouri offer a state income tax incentive for contributions to their 529 plan. Missouri offers tax parity.

\*Based on \$5,000 in annual contributions, and an assumed annual income of \$100,000. Georgia's deduction is capped at \$2,000 for an individual (\$4,000 for married filing jointly). The tax rates for Indiana, Georgia, and Missouri are 3.4%, 6%, and 6% respectively. The Missouri tax incentive is portable to other state 529 plans.

Source: Morningstar Report September 20, 2011



# Comparable States

Account growth of comparable states for year four through year ten of operation.

<b>Account Growth</b>				
<b>Year in Operation</b>	<b>Indiana</b>	<b>Georgia</b>	<b>Missouri</b>	<b>Average Number of Accounts</b>
4	7,088	52,248	69,878	<b>43,071</b>
5	24,204	61,177	71,186	<b>52,189</b>
6	39,204	72,133	87,624	<b>66,320</b>
7	49,673	75,575	89,302	<b>71,517</b>
8	59,226	82,999	105,176	<b>82,467</b>
9	62,842	89,915	149,778	<b>100,845</b>
10	109,568	121,000	107,439	<b>112,669</b>



# Comparable States

The below information shows comparable states asset growth for year four through year ten of operation.

<b>Asset Growth</b>				
<b>Year in Operation</b>	<b>Indiana</b>	<b>Georgia</b>	<b>Missouri</b>	<b>Average Assets</b>
4	32,360,083	329,427,632	445,214,298	<b>269,000,671</b>
5	97,580,514	459,606,298	650,130,665	<b>402,439,159</b>
6	195,681,782	576,345,788	827,645,557	<b>533,224,376</b>
7	310,629,255	550,550,540	1,028,006,548	<b>629,728,781</b>
8	402,281,664	730,469,876	1,249,394,837	<b>794,048,792</b>
9	504,536,073	897,608,704	1,087,810,289	<b>829,985,022</b>
10	754,454,790	1,000,000,000	1,265,116,354	<b>1,006,523,715</b>



# Financial Literacy

The Tennessee Financial Literacy Commission (TNFLC), created by the General Assembly in 2010 in the Treasurer's office, is working to increase financial literacy awareness, including college savings, through teachers, parents and grandparents of elementary school aged children.

- TNFLC reaches the same audience that the 529 marketing plan would target (parents and grandparents of elementary school students).
- One key goal of TNFLC is to have financial literacy education, including college savings, in every elementary classroom in Tennessee.



# General Observations

- 1) The top funds (OH, VA, MD, AK, NV, and UT) offer very flexible 529 plans in partnership with respected financial institutions that allow participants to select or build highly diversified portfolios.
- 2) Funds offer investment options that allow participants to self select funds, specify risk tolerance, or enter an age-based option that include investments that dynamically evolve over time to match risk/return requirements.
- 3) The top funds have user friendly web-sites that generally have a logical flow and highlight 529 basics (benefits and rules), investment option description, performance, and fees.
- 4) The top funds offer electronic transfer and direct deposit (usually a \$25-\$50 minimum). However, individual underlying funds may have a minimum investment, which in many cases is \$3,000.



# Successful Tennessee College Savings Plan

*When successful in FY 2019, the new Tennessee College Savings Plan is projected to have about \$90 of participant contributions and earnings for every \$1 of state appropriations.*

*Treasurer David H. Lillard, Jr.*