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S.J. legislator proposes prepaid UC tuition

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SACRAMENTO - Assemblyman Jim Beall wants parents to be able to purchase tuition for the college class of 2030 -- at 2008 prices.

Beall has proposed legislation to create a state-run savings program that would allow parents to pre-pay their children's tuition, locking in rates no matter the dips in the investment market or spikes in tuition.

"I hope to see this bill as a step toward making college education more affordable for all Californians," said Beall, D-San Jose. "If you look at tuition over the last several years, it's gone up tremendously."

Undergraduate tuition and fees in the University of California system are expected to climb to \$7,347 next school year under Gov. Arnold Schwarzenegger's proposed budget -- an increase of nearly 400 percent from 20 years earlier.

California has had a somewhat similar program in place since 1999 known as ScholarShare, a so-called 529 college savings plan based on tax-deductible contributions, but it can be negatively affected by economic downturns.

Beall's measure, however, which also falls under IRS Section 529 regulations, would guarantee students a financial benefit equivalent to the amount of tuition purchased. For example, if parents of a toddler purchased four full years worth of tuition over the next 10 years, their child would be entitled to four years of tuition whenever he or she starts college -- regardless of tuition increases.

The measure assumes the state government would fund any shortcomings, a provision that fiscally conservative legislators may find difficult to support. But it also means if the rate of return on the investment exceeds tuition increases, the state reaps that benefit.

Similar plans

A total of 18 states operate similar plans -- some going back 20 years -- and none has run into serious financial problems, said Chris Hunter, a program manager with the College Savings Plans Network, a national clearinghouse for college savings programs.

If investors were to put their funds in a money market account, Hunter said, they could expect 2 percent to 3 percent in return, but investing in prepaid tuition has allowed them to "meet or exceed" tuition inflation, which he said averages 6 to 7 percent each year.

But while parents might get a better return with higher risk investments, Hunter said, the tuition plan provides a certain level of security.

Beall's measure, AB 152, also known as the California Prepaid Tuition Program, would allow parents, grandparents or others to purchase financial units over time based on the then-current tuition cost at the University of California, plus some administrative costs. Each year's tuition would cost 100 financial

units.

If students attend a school that charges less than a UC campus, such as the California State University system, a community college or career and technical education school, and the amount of prepaid tuition exceeds the amount of tuition charged at that school, the student will be allowed to use the leftover money for college-related expenses, such as books.

If students attend a school that charges more than a UC campus, such as a private institution, the student can transfer the prepaid tuition to the more expensive school, and pay for the difference out of pocket.

If a student doesn't attend college, the prepaid tuition can be transferred to a sibling. The financial units cannot be ``bought, sold, bartered, or otherwise exchanged for goods and services by either the beneficiary or the purchaser," according to the measure, which Beall introduced last week.

Washington's law

The bill mirrors a law in the state of Washington, where nearly 70,000 accounts have been opened, worth \$809.5 million, according to Beall. Families that bought four years worth of Washington tuition -- 400 financial units -- in 1998, for \$14,000, are now getting the equivalent of \$23,552 in tuition.

California's measure has received a warm response from some legislators and financial experts.

``I would applaud the state if they decide to do something like this," said Libby Mihalka, owner of Altamont Capital Management in Livermore.

She added: ``California wants to stay on the leading edge of education, and I think they've been behind the curve, so anything the state wants to do to help the middle class -- in particular try to give the middle class and lower-middle class a chance to get a good education -- is going to help our state."

A national expert on college savings plans, Joseph Hurley, acknowledged the prepaid tuition program could ``absolutely" be risky for the state's finances, but provides a significant benefit to parents worried about paying for their children's education.

``The reason it may stand out is that there's no market risk like there is with 529 savings plans," said Hurley, who owns the popular Web site Savingforcollege.com. ``And by keeping up with tuition at UC, that's basically satisfying the college funding objective of many families, just to be able to not have to worry about future increases in tuition."

Beall, a lifelong South Bay resident who worked seasonal jobs in Central Valley agricultural fields to pay his way through San Jose State three decades ago, said finding ways for families to save for college is an issue ``near and dear to my heart."

``If you're a parent, and your kid has this kind of program set up," Beall said, ``it certainly gives the kid an incentive to get good grades and go on to college. It gives them hope."

The measure is expected to be heard in the coming weeks in the Assembly Higher Education Committee.