

**Ohio Tuition Trust Authority  
Prepared Testimony for the Ohio Constitutional Modernization Commission  
Education, Public Institutions, and Local Government Committee  
Presented Thursday, April 14, 2016**

Chairman Readler, Vice Chairman Gilbert and members of the committee, I'm Tim Gorrell, Executive Director of the Ohio Tuition Trust Authority (OTTA), an agency within the Ohio Department of Higher Education. Thank you for the opportunity to speak with you today about the Ohio Tuition Trust Authority, our CollegeAdvantage 529 Savings Program and specifically our Guaranteed Savings Plan.

**Agency Background:**

OTTA was created in 1989 under Ohio Revised Code (ORC) Chapter 3334 to help Ohio families save for higher education expenses. Our first accounts were opened in April 1990.

In November 1994, Ohio voters approved State Issue 3, a Constitutional amendment to provide full faith and credit backing by the State of Ohio for the Ohio Prepaid Tuition Program (now known as the Guaranteed Savings Plan) and to clarify the federal tax treatment of that Plan.

In 1996, section 529 was added to the Federal Internal Revenue Code to provide U.S. citizens with a federal tax-advantaged way to save for college education expenses. Then in 2000, state legislation authorized Ohio to offer variable savings plans which were launched with both a Direct Plan and an Advisor Plan. This same legislation also authorized a state tax benefit that allows Ohio residents to deduct up to \$2,000 a year, per beneficiary, from their Ohio taxable income. This deduction includes an unlimited carry forward for contributions in excess of the \$2,000 deduction per year.

In December 2003, the Guaranteed Savings Plan was closed to contributions and new enrollments in response to rapidly rising tuition costs and investment pressures due to the market environment.

In 2009, existing legislation was changed to place OTTA under the Department of Higher Education (ODHE) for oversight of agency operations, and the role of OTTA's 11-member Board was limited to a fiduciary duty over the investments in OTTA's college savings plans.

OTTA is a non-GRF, self-funded agency. All of OTTA's operating expenses are funded through account fees paid by CollegeAdvantage Program account owners and no GRF funds are used by the agency.

**Sponsoring and Managing Three Plans:**

The Ohio Tuition Trust Authority currently sponsors three plans under the CollegeAdvantage 529 College Savings Program: (1) the CollegeAdvantage Direct 529 Savings Plan, (2) the CollegeAdvantage Advisor 529 Savings Plan offered through BlackRock, and (3) the CollegeAdvantage Guaranteed 529 Savings Plan, which remains closed to new investments since December 31, 2003.

Funds invested in these plans may be used at any accredited college or university in the country, as well as at trade schools and other education programs that are eligible to participate in federal financial aid programs. Across the three plans, OTTA directly manages or oversees over 641,000 accounts and \$9.4 billion in assets as of March 31, 2016.

## **CollegeAdvantage Guaranteed 529 Savings Plan**

In 1990, OTTA first began selling prepaid tuition credits, and later units, which are guaranteed a redemption value equal to 1.15% (for credits) and 1% (for units) of the Weighted Average Tuition (WAT) of the State's public institutions of higher education. In November 1994, Ohio voters approved providing the Guaranteed Savings Plan with the full faith and credit backing of the State of Ohio. This guarantee means that if assets are not sufficient to cover Guaranteed Plan liabilities, then the Ohio General Assembly will appropriate money to offset the deficiency.

Although the Guaranteed Plan is closed, OTTA is required to continue to manage the Plan investments, maintain the account owner recordkeeping system, provide online account access at [CollegeAdvantage.com](http://CollegeAdvantage.com), process withdrawals and other account transactions, prepare and distribute quarterly account statements and annual tax reports, and provide customer service.

OTTA also has the responsibility to generate investment returns on assets to match any growth in tuition obligations. Currently, if we measure the Guaranteed Savings Plan assets under management against the actual liability, based on the current WAT payout values, we have sufficient assets on a cash basis to meet the payout obligations of the existing tuition units and credits held by account owners. However, as investment returns vary based on market conditions and as payout obligations increase when tuition increases, it is possible for the Plan position to reverse at some point in the future.

As of March 31, 2016, less than 34,000 accounts still hold approximately \$287 million in account value in the Guaranteed Plan. The number of accounts is down nearly 69% from a Plan high of over 112,000 accounts as of the end of FY03. This is supported by an investment pool of assets totaling approximately \$337 million as of March 31, 2016.

## **Conclusion**

Ohio's CollegeAdvantage 529 College Savings Program, including the Guaranteed Savings Plan, helps Ohioans and others across the country save over time to help offset the future costs of higher education. In the context of growing concern about rising student loan debt in our country, these savings, no matter their eventual size, help families to make higher education attainable and help tomorrow's college entrants minimize student loans as they pursue educational and career dreams.

We do not recommend any changes to the existing Article VI, Section 6 of the Ohio Constitution. As stated earlier, the purposes of the constitutional amendment were (1) to clarify Federal tax treatment of the Guaranteed Savings Plan, and (2) to provide the Guaranteed Savings Plan with the full faith and credit backing of the State of Ohio. The Federal tax goal of the provision came from a period of unsettled case law that created uncertainty regarding whether or not similar prepaid tuition programs were exempt from Federal taxation. That uncertainty has since been resolved by the codification of Internal Revenue Code Section 529 which exempts such programs from federal taxation, and therefore the Constitutional provision is no longer necessary to achieve purpose one. With regard to the second purpose of establishing the full faith and credit backing of the Guaranteed Savings Plan, we defer to experts in Ohio constitutional law as to whether the Constitutional language is necessary to maintain that guarantee. We believe as an agency that it is our duty to continue to service the existing Guaranteed Savings Plan account holders and to manage the investments of the Plan in a way that minimizes risk to the State under the Guarantee.

Thank you for this opportunity. I would be happy to answer any questions.

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# CollegeAdvantage 529 Savings Program

25 years of helping families in Ohio and across the country save for college

Consistently rated as one of the nation's top plans by Morningstar

OHIO TUITION TRUST AUTHORITY

**CollegeAdvantage**

OHIO'S 529 SAVINGS PROGRAM

www.CollegeAdvantage.com

Est. 1989

## CollegeAdvantage Direct 529 Savings Plan

Program Manager: OTTA

## CollegeAdvantage Advisor 529 Savings Plan

Sponsor: OTTA

Program Manager: BlackRock

## CollegeAdvantage Guaranteed 529 Savings Plan

Program Manager: OTTA

### Types Of Investment Offerings:

- Mutual fund based options sold directly to investors.
- CDs and savings accounts.
- 24 investment options for savers of all income levels, investment experiences, goals, and risk-tolerance preferences.
- Low \$25 initial and subsequent contributions.
- Account owner bears investment performance risk.

- Mutual fund based options sold through professional financial advisors.
- 23 investment options for investors interested in working with a financial advisor, includes all major asset classes and investments for varying risk-tolerance preferences.
- Low \$25 initial and subsequent contributions.
- Account owner bears investment performance risk.

- Prepaid tuition credits and units, secured by the full faith and credit of the State of Ohio.
- Redemption values based on the recent Weighted Average Tuition (WAT) at Ohio's four-year public higher education institutions.
- OTTA-managed investment portfolio must keep pace with tuition inflation.
- State bears investment risk.
- Closed since 12/31/03 to new enrollments and contributions.

### Benefits Available In All Three Plans:

- Earnings grow tax-free at both the state and federal level.
- Withdrawals are tax-free when used for Internal Revenue Code 529-qualified higher education expenses.
- Ohio taxpayers may deduct up to \$2,000 per year for contributions, per beneficiary, from their Ohio taxable income. Contributions over \$2,000 in a year may be carried over to future tax years until they are fully deducted.
- Funds can be used at any accredited college or university in the country (2-4 yr., graduate, or technical; schools that are eligible for federal financial aid).

### Total Value Of Customer Accounts: \$9.39 Billion (as of 3/31/16)

\$4.46 Billion

- 75% of assets held by Ohioans
- Private investments of families who chose CollegeAdvantage from among 50 states/107 college savings plans and other investment alternatives.

\$4.64 Billion

- 37% of assets held by Ohioans
- Private investments of families who chose CollegeAdvantage from among 50 states/107 college savings plans and other investment alternatives.

\$287 Million

- Ohio residency of owner or beneficiary was required at the time of account opening.
- State of Ohio is obligated for any deficiency between total assets and plan liabilities.
- Market Value of Assets \$337 million

### Total Number Of Accounts: 641,388 (as of 3/31/16)

269,279

338,866

33,243

### Fund Managers:

Vanguard, Dimensional, Fifth Third

BlackRock, iShares, Rainier, Voya, Wells Fargo

OTTA manages the investments of the GSF

### Investment Fees:

0% - 0.745%

0.55% - 1.69% (Class A Units)

N/A. Fees originally assessed on each sale.

### Professional Services:

Wilshire Consulting (investments)

Wilshire Consulting (investments)

NEPC, LLC (investments) and Milliman (actuarial)

### Operational Funding:

No State of Ohio General Revenue Funds (GRF) are used in the Program. Investment fees cover administrative and operational costs.

### Investment Oversight By OTTA Board:

11 members. Six appointed by the Governor of Ohio; two legislators, one from each party, appointed by the Speaker of the Ohio House of Representatives; two legislators, one from each party, appointed by the President of the Senate; and the Chancellor of the Ohio Department of Higher Education is ex-officio, voting member.

3/31/16

*Mission:* We empower generations of families in Ohio and throughout the nation to achieve college savings goals for their loved ones by investing with the CollegeAdvantage 529 savings program.



## History of CollegeAdvantage

**1989:** Ohio Tuition Trust Authority (OTTA) was established by the Ohio H.B. 61.

**1990:** The first college savings accounts were opened in the Prepaid Tuition Program (now known as the CollegeAdvantage Guaranteed 529 Savings Plan). College Savings Bonds offered in conjunction with Ohio Treasurer.

**1994:** Voters approved State Issue 3, Constitutional amendment to provide full faith and credit backing by the State of Ohio for the Ohio Prepaid Tuition Program.

**1996:** Qualified Tuition Programs became part of the Small Business Protection Act of 1996. Section 529, created in the Internal Revenue Code, included tax exemption for states and tax deferral to participants.

**1997:** Additional changes were made via the 1997 Taxpayer Relief Act (room & board added as qualified expenses, special gift & estate tax treatments).

**2000:** Authorized by Ohio S.B. 161, State of Ohio tax deduction for contributions to CollegeAdvantage took effect. Also authorized variable savings plans; launched with Putnam Investments offering both the Direct and Advisor Plans.

**2001:** Federal Economic Growth & Tax Relief Act authorized qualified withdrawals from 529 plans to be exempt from federal income tax effective January 2002 (was to sunset in 2010). Exemption made permanent in 2006.

**2003:** The Guaranteed Savings Plan was closed to contributions and new enrollments in response to rapidly rising tuition costs and investment pressures due to the market environment.

**2004:** Passive investment options from Vanguard were added for the first time.

**2005:** Savings and CD options from Fifth Third Bank were added to provide FDIC-insured options.

**2009:** Significant Direct Plan structure changes were made: Putnam eliminated from the Direct Plan; manager diversification created by adding custom Advantage Age-Based Portfolio, PIMCO, GE Asset Management, Oppenheimer, and additional Vanguard options; and a second Advisor Plan with BlackRock was added. During the same year, OTTA was moved under the Office of the Chancellor, Ohio Department of Higher Education (formerly known as the Board of Regents) (Ohio H.B. 1).

**2010:** Eliminated Putnam Advisor Plan – assets transferred to BlackRock Advisor Plan.

**2013:** Direct Plan recordkeeping and portfolio fund accounting functions transferred from OTTA to Ascensus College Savings. Oppenheimer investment option eliminated.

**2014:** BlackRock (Advisor Plan) contract renewed for seven years. Also added two new fixed income options: BlackRock Multi-Asset Income Option and BlackRock Strategic Income Opportunities Option.

**2015:** Implemented significant investment option changes and enhancements in the Direct Plan (June 19, 2015), reduced the OTTA administrative fee from 0.04% to 0.02% for both the Direct Plan (June 19, 2015) and the Advisor Plan (July 1, 2015), reduced the Direct Plan Vanguard AUM-based fee for portfolio accounting and administration from 0.025% to 0.02% (August 1, 2015), and celebrated the 25<sup>th</sup> anniversary of the CollegeAdvantage program.

# 25 YEARS of saving for college

## BY THE NUMBERS

CollegeAdvantage 529 has served over

# 750,000 beneficiaries,

including those who have already gone to college and those who are future college students



## Over 400,000

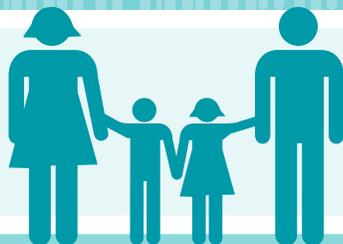


individuals in Ohio and across the country have owned accounts

Over **\$4 billion** has been withdrawn;

# 93%

of withdrawals being self-reported as used for 529-qualified expenses



Families have contributed over

# \$10 billion

to CollegeAdvantage 529 accounts

Account owners have identified at least

# 1,800

## schools across the country

where funds have been used to pay for qualified higher education expenses

# 25<sup>th</sup>

ANNIVERSARY

to learn more visit [CollegeAdvantage.com](http://CollegeAdvantage.com)



of withdrawals paid directly to schools went to Ohio schools

# 25 SCHOOLS

most often identified  
with qualified withdrawals

## Ohio Schools

University of Akron  
Baldwin Wallace University  
Bowling Green State University  
Capital University  
Case Western Reserve University  
Cincinnati State Tech. & CC  
University of Cincinnati  
Cleveland State University  
Columbus State Community College  
Cuyahoga Community College  
University of Dayton  
John Carroll University  
Kent State University

Lakeland Community College  
Miami University  
Ohio Northern University  
The Ohio State University  
Ohio University  
Otterbein University  
Owens Community College  
Sinclair Community College  
University of Toledo  
Wright State University  
Xavier University  
Youngstown State University

## Schools in Other States

Arizona State University (AZ)  
Ball State University (IN)  
Butler University (IN)  
Cornell University (NY)  
DePaul University (IL)  
Eastern Kentucky University (KY)  
Eastern Michigan University (MI)  
Indiana University (IN)  
Indiana Wesleyan University (IN)  
University of Kentucky (KY)  
Loyola University of Chicago (IL)  
Michigan State University (MI)  
University of Michigan (MI)

University of North Carolina (NC)  
Northern Kentucky University (KY)  
Northwestern University (IL)  
University of Notre Dame (IN)  
Pennsylvania State University (PA)  
University of Pittsburgh (PA)  
Purdue University (IN)  
Saint Louis University (MO)  
University of South Carolina (SC)  
Vanderbilt University (TN)  
Washington University (MO)  
West Virginia University (WV)