

States cutting back pre-paid tuition plans

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Many of the 20 states that offer “prepaid tuition plans” have either stopped taking new accounts or raised the amount of money families must put into the plans.

Skyrocketing tuition increases and paltry market returns make prepaid tuition plans attractive deals for families, but give states financial heartburn. That’s because the amount of money families put into the plans may not be enough to cover tuition and most states guarantee to make up the difference.

“It’s certainly a unique financial position that prepaid plans find themselves in,” said Joseph F. Hurley, a certified public accountant and founder of SavingforCollege.com, an online Web site devoted to tuition savings plans.

Prepaid tuition plans differ from savings programs. With saving programs, parents put money in an account for their child’s college costs and get a variable rate of return. Prepaid tuition plans, on the other hand, permit parents to lock in today’s tuition rates and the program will pay out future college tuition at any of the state’s eligible colleges or universities.

The idea is that the prepaid tuition programs pool the money and make long-range investments so that the earnings meet or exceed college tuition increases in that state.

The problem, however, is that states now face double-digit tuition hikes – not the 5 to 7 percent increases that most states banked on when they developed their prepaid plans, said Alan Perry, consulting actuary at Milliman USA consulting firm.

Nearly 1.7 million prepaid tuition plan accounts are currently open, according to the College Savings Plans Network, an affiliate of the National Association of State Treasurers, which serves as a clearinghouse for college savings programs.

Kentucky, Texas and West Virginia have stopped taking new participants in their prepaid plans, at least temporarily.

“States are capping [enrollment], trying to figure out ways to actually salvage the plan and not have it go away,” said Carl Krueger, assistant policy analyst of the Education Commission of the States, a Denver-based group made up of state education experts.

States such as Ohio, Michigan and Washington have increased the amount families have to pay into the accounts. Colorado has taken the most drastic step: it closed its plan and is allowing participants to move their money elsewhere. “It looks like Colorado’s plan is in the worst shape,” Krueger said. □