

Ohio Tuition Trust Authority

Senate Finance and Financial Institutions Committee

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Legislative Service Commission

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LSC Redbook
for the
Ohio Tuition Trust Authority

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May 7, 2003

Ohio Tuition Trust Authority

- Over 127,000 Ohio families have opened accounts in the Guaranteed Savings Plan since 1989
- As of June 30, 2002, the Variable Savings Plan had \$1.7 billion in assets and a customer base of 330,000

OVERVIEW

The Ohio Tuition Trust Authority (OTTA) provides a means for Ohio families to save for their children's college education. The Authority's Board of Directors is comprised of 11 members: six members appointed by the Governor, two appointed by the Speaker of the House of Representatives, two appointed by the President of the Senate, and the Chancellor of the Board of Regents.

The OTTA is responsible for two programs that promote private savings for the payment of college tuition: the Guaranteed Savings Plan (formerly known as the Prepaid Tuition Program) and the Variable Savings Plan. The Variable Savings Plan is a new addition to OTTA's savings plan, established by S.B. 161 of the 123rd General Assembly. The Guaranteed Savings Plan and the Variable Savings Plan are referred to as the College Advantage Savings Plan. Funds in either plan can be used at any college in the country, and both plans qualify as a 529 college savings program. Of all the dollars and participants in various 529 college savings programs around the country, approximately 9.6% are in Ohio's Guaranteed and Variable Savings Plans.

The OTTA can encourage Ohio families to save for college because of the various tax advantages that result from both plans qualifying as a 529 college savings program. These include tax-free growth while the value of the account accumulates, as well as withdrawals being exempt from both federal and state income taxes if the distributions are used to pay for qualified higher educational expenses. These qualified expenses include tuition, room and board, plus any other fees or costs that are required for enrollment or attendance at the college or university. In addition, Ohio residents can deduct up to \$2,000 per beneficiary per year (with unlimited carry forward) from Ohio taxable income for contributions into the program.

The Guaranteed Savings Plan program allows for the purchase of future tuition at a price based on the current weighted average tuition of Ohio's 13 public universities. Ohio's prepaid program is the third oldest program of its type in the country. The Authority currently offers two ways to purchase prepaid tuition: (1) any time, any amount purchase coupons and (2) an autopayment plan. Paying via a payroll deduction or automatic cash transfer plan offers a \$2.00 savings per tuition unit purchase over the cost of purchasing units individually. The program guarantees that approximately 100 tuition units will pay for one year of tuition at an average-priced public university. According to current OTTA estimates, community and technical colleges would require an average of 42 units, while a private university would require an average 304 units to pay for one year of tuition.

In FY 2002, the Guaranteed Savings Plan ran its first actuarial deficit, amounting to \$23.8 million. However, the Board of Directors of the OTTA has authorized future contingent payments from fees generated by the Variable Savings Plan to offset this deficit. These future payments have an expected value of \$25.1 million, which means that the Guaranteed Savings Plan remains actuarially sound. The downturn in the stock market as well as the large increases in tuition at Ohio's universities after the removal of the tuition caps beginning in FY 2002 are responsible for the financial problems in the Guaranteed Savings Plan. In an attempt to offset this problem, the OTTA instituted its first midyear price increase on January 14, 2002. Since that time, the OTTA has begun to re-evaluate the price of tuition units on a quarterly basis, leading to three other midyear price increases. Because of this, the price of a tuition unit has increased by almost 46% since October 1, 2001, from \$56.00 to its current price of \$81.50.

The Variable Savings Plan offers individuals market-based choices to save for college. Funds in the Variable Savings Plan are not backed by the full faith and credit of the state of Ohio. Participants have a choice of 15 investment options in various Putnam mutual funds, including four asset allocation options, and 11 asset class options. Participants also have a choice in opening an account through a financial advisor who has a selling agreement with Putnam, or directly through the OTTA. Opening an account directly through the OTTA allows the participant to pay lower fees per share than if the account were opened through a financial advisor. Only Ohio residents may enroll directly through the OTTA. The OTTA receives 0.05% of a participant's assets on an annualized basis for accounts opened directly through the OTTA, while it receives 0.20% from non-Ohio residents, and Ohio residents who enroll through a financial advisor.

There are four sections within the OTTA. These are Marketing, Operations, Information Systems, and Administration. The Marketing Department integrates speaking engagements, strategic mailing initiatives, and the Internet to promote the OTTA to its target audience. The Operations Department is focused on maintaining existing accounts and improving the efficiency with which staff provides customer service. The Information Systems Department ensures that the technological capacities of the OTTA can meet the demands of an increasing customer base. The Administrative Section holds the agency accountable with regard to legal and actuarial regulations.

ANALYSIS OF EXECUTIVE PROPOSAL

Ohio Tuition Trust Authority

Purpose: To administer savings programs that help provide financial assistance for a college education.

The following table shows the line item that is used to fund this agency's program series, as well as the Governor's recommended funding levels.

State Special Revenue Fund Group

Fund	ALI	Title	FY 2004	FY 2005
5P3	095-602	Variable Savings Plan	\$1,639,747	\$1,690,213
645	095-601	Operating Expenses	\$3,570,614	\$3,689,101
Total funding: Ohio Tuition Trust Authority			\$5,210,361	\$5,379,314

The Executive has recommended \$5,210,361 for FY 2004, a 0.1% increase over funding levels for OTTA in FY 2003 and \$5,379,314 for FY 2005, a 3.2% increase over FY 2004. By line item, the recommendation of \$1,639,747 in FY 2004 for 095-602, Variable Savings Plan is a decrease of 10.6% from FY 2003, while the \$1,690,213 for FY 2005 is a 3.1% increase over FY 2004. For line item 095-601, Operating Expenses, the recommendation of \$3,570,614 for FY 2004 represents a 5.9% increase over FY 2003, and \$3,689,101 for FY 2005 is a 3.3% increase over FY 2004.

Following is a breakdown of the Tuition Trust Authority's line items, by object of expense. Each table includes the actual amounts spent in each in FY 2000 through FY 2002. The figures for FY 2003 are estimates, while those for FY 2004 and FY 2005 are the amounts recommended by the executive proposal.

095-602 Variable Savings Plan						
Object of Expense	Actual			Estimated	Recommended	
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
10 - Personal Service	\$0	\$0	\$0	\$612,328	\$595,180	\$619,307
13 - Purchased Service	\$0	\$6,233	\$19,390	\$342,800	\$583,859	\$598,864
20 - Maintenance	\$0	\$603	\$21,086	\$879,944	\$456,558	\$468,292
30 - Equipment	\$0	\$0	\$0	\$0	\$4,150	\$3,750
TOTAL	\$0	\$6,836	\$40,476	\$1,835,072	\$1,639,747	\$1,690,213

Note that the Variable Savings Plan was not established until the passage of S.B. 161 of the 123rd General Assembly, which had an effective date of June 8, 2000. The line item itself was not established until January 2001. Also, at the start of the Variable Savings Plan, funding for the administration of the program came from line item 095-601, Operating Expenses. Beginning in FY 2003, these expenses were paid for out of the Variable Savings Plan line item. This contributed to the decline of approximately \$866,000 from FY 2002 in the total expenses of line item 095-601.

095-601 Operating Expenses						
Object of Expense	Actual			Estimated	Recommended	
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
10 - Personal Service	\$1,344,034	\$1,462,509	\$1,822,412	\$1,411,405	\$1,569,920	\$1,626,693
13 - Purchased Service	\$838,874	\$1,001,088	\$844,823	\$517,089	\$1,078,497	\$1,117,394
20 - Maintenance	\$1,156,317	\$1,177,167	\$1,485,280	\$1,237,793	\$843,347	\$873,764
30 - Equipment	\$194,027	\$76,800	\$85,321	\$205,400	\$78,850	\$71,250
TOTAL	\$3,533,252	\$3,717,564	\$4,237,836	\$3,371,687	\$3,570,614	\$3,689,101

The appropriations in this budget for both line items are for the operating expenses of the Tuition Trust Authority. The money paid in for the purchase of tuition credits is held separate from the state budget. The funds in the purchased services line items includes expenditures for information services contracts, marketing consultants, actuarial services, external audit services, tax and legal counsel, and investment consulting.

Because the executive proposal completely funds its request, the Tuition Trust Authority will be able to go ahead with its plans to hire a programmer. This additional staff member will provide programming support for the agency's internal system, and will replace the outside consultant currently employed. The estimated costs of hiring a programmer, including salary, benefits, and a \$1,000 bonus will be \$67,814 for FY 2004 and \$71,547 for FY 2005. The annual cost over the last two years for the outside consultant, who works part-time at \$85 an hour, has been approximately \$81,600.

ADDITIONAL FACTS AND FIGURES

Staffing Levels

Ohio Tuition Trust Authority Staffing Levels						
					<i>Estimated</i>	
Fiscal Year	2000	2001	2002	2003	2004	2005
<i>Agency Personnel</i>	28.5	30.5	33.5	33.5	34.5	34.5

- The increase in the estimated staffing levels for 2004 and 2005 take into account the agency's request for one additional position. The programmer that would be hired will take the place of an outside consultant used in the past to provide support to the database administrator and for the agency's internal systems.

The Cost of Guaranteed Tuition Units

Dates		Price per Unit		
From	To	Periodically	Monthly	Newborn
Oct. 1, 1998	Sept. 30, 1999	\$45.50	\$43.00	***
Oct. 1, 1999	Sept. 30, 2000	\$47.50	\$45.00	***
Oct. 1, 2000	Sept. 30, 2001	\$51.00	\$49.00	***
Oct. 1, 2001	Jan. 14, 2002	\$56.00	\$55.00	***
Jan. 15, 2002	Mar. 31, 2002	\$59.50	\$58.50	***
April 1, 2002	June 30, 2002	\$69.00	\$67.00	\$63.00
July 1, 2002	Sept. 30, 2002	\$78.00	\$76.00	\$72.00
Oct. 1, 2002	Dec 31, 2002	\$80.00	\$78.00	\$74.00
Jan. 1, 2003		\$81.50	\$79.50	\$75.50

- The value of each tuition unit is based on 1% of the value of the weighted average tuition currently in effect at Ohio's 13, four-year public universities, plus an increase based on actuarial assumptions that include current and future tuition growth, investment returns on the Fund, operating and management costs, and program growth.
- As of January 1, 2003, the weighted average tuition of Ohio's 13, four-year public universities is \$5,979. Therefore, the base price of the tuition unit is \$59.79, while the actuarial costs of the tuition unit range from \$15.71 to \$21.71.
- Note that the newborn rate is in effect for both periodic and monthly tuition unit purchases for a child age newborn to 12 months.

Program Sales and Participation

Guaranteed Savings Plan			
Fiscal Year	New Accounts	Units Purchased	Yearly Revenue
FY 1990*	2,846	51,170	\$1,688,111
FY 1991	12,077	598,620	\$19,937,605
FY 1992	5,924	841,837	\$30,873,315
FY 1993	5,965	783,627	\$31,751,084
FY 1994	4,228	492,234	\$21,600,475
FY 1995	10,115	787,708	\$28,155,356
FY 1996	6,387	724,345	\$26,572,986
FY 1997	10,600	1,219,508	\$46,367,047
FY 1998	11,067	1,159,433	\$45,623,647
FY 1999	12,595	1,335,105	\$55,792,275
FY 2000	13,242	1,446,063	\$63,129,872
FY 2001	7,839	1,478,508	\$70,275,351
FY 2002	16,979	2,935,151	\$163,783,608
FY 2003**	7,310	754,478	\$56,361,968
Total	127,174	14,607,786	\$661,912,700

*Only three months of data

**Through December 31, 2002

Variable Savings Plan			
Fiscal Year	New Ohio-Resident Accounts	Yearly Revenue: Ohio only	Yearly Revenue: National
FY 2001*	18,272	\$61,347,127	\$371,185,985
FY 2002	53,370	\$263,860,664	\$1,155,671,151
FY 2003**	24,312	\$106,720,381	\$266,128,783
Total	95,954	\$431,928,172	\$1,792,985,919

*Variable Options added on October 10, 2000

**Through December 31, 2002

PERMANENT AND TEMPORARY LAW

Permanent Law Provisions

There are no permanent law provisions with fiscal effects on this agency.

Temporary Law Provisions

There are no temporary law provisions with fiscal effects on this agency.

REQUESTS NOT FUNDED

The executive proposal completely funds the requests made by the Tuition Trust Authority during this biennium.

State Special Revenue Fund Group

5P3 095-602 Variable Savings Plan

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$0	\$6,836	\$40,476	\$1,835,072	\$1,639,747	\$1,690,213
	N/A	492.1%	4433.7%	-10.6%	3.1%

Source: SSR: Fees received from the sales of the Variable Savings Options. Currently, these range from 0.05% of assets on an annualized basis for any Ohio resident enrolling directly through the Tuition Trust Authority, to 0.20% of assets on an annualized basis for those enrolling with a financial advisor, or for any non-Ohio resident.

Legal Basis: As-needed line item (originally established by Controlling Board in January 2001)

Purpose: The funds from this line item are used to pay the expenses of operating the Variable Savings Plan. Operations are structured into four departments: marketing, operations and customer service, information systems, and administration and finance.

645 095-601 Operating Expenses

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$3,533,252	\$3,717,565	\$4,237,835	\$3,371,687	\$3,570,614	\$3,689,101
	5.2%	14.0%	-20.4%	5.9%	3.3%

Source: SSR: Transfers from the Trust and Reserve Fund, which consists of revenue from the sale of customer contracts, tuition units and investment income earned. Currently, this amounts to less than 0.75% of the assets held in the Trust and Reserve Fund.

Legal Basis: ORC 3334

Purpose: The funds from this line item are used to pay the expenses of operating the Guaranteed Savings Plan. Operations are structured into four departments: marketing, operations and customer service, information systems, and administration and finance.

LSC Budget Spreadsheet by Line Item, FY 2004 - FY 2005

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	Estimated 2003	<i>As Introduced 2004</i>	<i>House Sub Bill 2004</i>	<i>% Change Est. 2003 to House 2004</i>	<i>As Introduced 2005</i>	<i>House Sub Bill 2005</i>	<i>% Change House 2004 to House 2005</i>
TTA Ohio Tuition Trust Authority									
5P3	095-602	Variable Savings Plan	\$1,835,072	\$ 1,639,747	\$ 1,639,747	-10.6%	\$ 1,690,213	\$ 1,690,213	3.1%
645	095-601	Operating Expenses	\$3,371,687	\$ 3,570,614	\$ 3,570,614	5.9%	\$ 3,689,101	\$ 3,689,101	3.3%
State Special Revenue Fund Group Total			\$ 5,206,759	\$ 5,210,361	\$ 5,210,361	0.1%	\$ 5,379,314	\$ 5,379,314	3.2%
Total All Budget Fund Groups			\$ 5,206,759	\$ 5,210,361	\$ 5,210,361	0.1%	\$ 5,379,314	\$ 5,379,314	3.2%