Ohio Tuition Trust Authority

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- Non-GRF agency; funding is entirely provided by fee revenue
- Funding increases by 8.6% in FY 2008 and 1.5% in FY 2009
- Funding is provided to hire three new employees in FY 2008

OVERVIEW

Duties and Responsibilities

The Ohio Tuition Trust Authority (OTTA) was created in 1989 to provide a tax advantaged investment option for Ohio families to save for their children's college education. It is governed by an 11-member board, which appoints an executive director to oversee the daily operations of the agency. 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), which is backed by the full faith and credit of the state, and the Variable Savings Plan, which is further divided into three investment options: Putnam, Vanguard, and Fifth Third Bank, none of which is backed by the state. Due to a large actuarial deficit, both new enrollments and contributions to the Guaranteed Savings Plan have been suspended since January 2004.

The Guaranteed Savings Plan and the Variable Savings Plan are collectively referred to as the College Advantage Savings Plan. Funds in both plans can be used at any college in the country, and both plans qualify as a 529 college savings program, which is a state-operated investment plan named after the section of the federal Internal Revenue Code that specifies the various tax advantages of participating in the program. Tax advantages under a 529 college savings program include tax-free growth while the value of the account accumulates, and withdrawals that are 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, and 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 from Ohio taxable income for contributions into the program. Contributions over $2,000 per beneficiary can be deducted in future years.

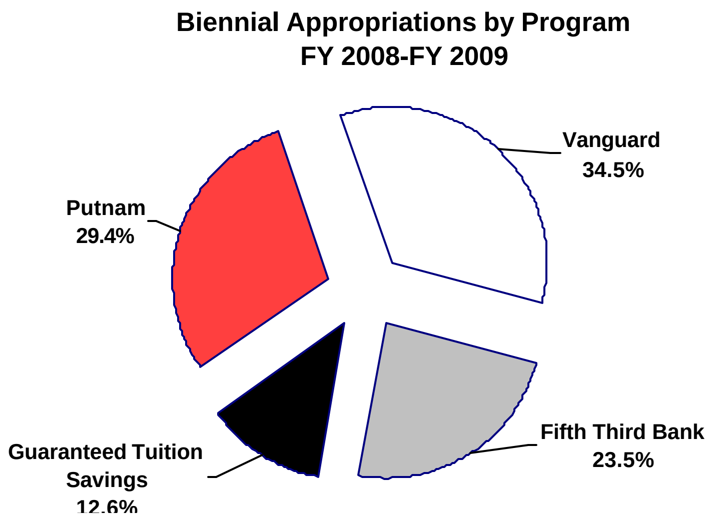
Agency in Brief

Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2008	2009	2008	2009	
41	$6.91 million	$7.02 million	$0	$0	Am. Sub. H.B. 119

*Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2007.

As seen from the table above, OTTA receives no General Revenue Fund money; its operations are entirely funded by fees assessed to investment accounts. The budget fully funds the OTTA's funding request and provides increases of 8.6% in FY 2008 and 1.5% in FY 2009, which will enable OTTA to implement the plan of hiring three additional employees in FY 2008. Two of these employees will work in information services, one as a network specialist and the other as support and database analyst. The third new employee will be an additional regional marketing representative for the northeastern region of Ohio, which is currently under-represented.

OTTA organizes its budgets into four programs: the Guaranteed College Tuition Savings Plan, Variable College Tuition Savings Plan (Putnam), Index College Tuition Savings Plan (Vanguard), and Banking Products (Fifth Third Bank). Essentially each investment option is its own program. The details of each program are provided in the Analysis of the Budget section. The Chart below shows OTTA's biennial appropriations by program. As seen from the Chart, due to the suspension of enrollments and contributions, the Guaranteed College Tuition Savings Plan has the smallest share of the biennial budget at 12.6%. The Vanguard Index College Tuition Savings Plan has the largest share at 34.5%, followed by the Putnam Variable College Tuition Savings Plan (29.4%) and the Fifth Third Bank Plan (23.5%).



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ANALYSIS OF THE BUDGET

Ohio Tuition Trust Authority

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

The following table shows the line items that are used to fund the agency, as well as the funding levels provided in the budget.

Fund	ALI	Title	FY 2008	FY 2009
State Special Revenue Fund (SSR)				
645	095-601	Guaranteed College Savings Plan	$872,086	$881,169
5P3	095-602	Variable College Savings Fund	$2,031,354	$2,063,596
5AM	095-603	Index Savings Plan	$2,376,852	$2,425,777
5DC	095-604	Banking Products	$1,631,283	$1,648,123
		State Special Revenue Fund Subtotal	**$6,911,575**	**$7,018,665**
Total Funding: Ohio Tuition Trust Authority			**$6,911,575**	**$7,018,665**

OTTA is a single program series agency with four programs that are funded by four appropriation items. These appropriations are for OTTA's expenses of administering the four tax advantaged college savings options. OTTA is a non-GRF agency, and all of its appropriations are supported by fees that are deposited in several state special revenue funds.

Program 1: Guaranteed College Tuition Savings Plan

Funding for this program is provided in SSR appropriation item 095-601, Guaranteed College Savings Plan. These funds are used to pay for the administrative costs of operating the Guaranteed Savings Plan, which was established in October 1989. Backed by the full faith and credit of the state of Ohio, the program guarantees that approximately 100 tuition units will pay for one year of tuition at an average-priced Ohio public university. The budget provides a 2.1% decrease for FY 2008 and a 1.0% increase for FY 2009 for this program. The funding decrease in FY 2008 is a result of the ongoing suspension of the Guaranteed Savings Plan for new enrollees beginning on October 8, 2003, and the suspension of contributions to existing accounts beginning on January 1, 2004. No services or activities will be eliminated from this program over the FY 2008 - 2009 biennium. OTTA anticipates a lower demand for services as withdraws continue. Due to its large deficit, this suspension will continue through December 31, 2007 and is likely to continue through the FY 2008 - 2009 biennium.

Even though enrollments and contributions to the program have been suspended, withdrawals from the program are permitted. OTTA has already paid out approximately $365.2 million since the program's inception. The Ohio Constitution pledges the full faith and credit of the state behind the redemption value of the tuition units purchased under the Guaranteed Savings Plan. Thus, any actual shortfall would require an appropriation from the General Assembly in order to make the full payment on the value of the tuition units. The budget freezes in-state undergraduate tuition at all state-assisted colleges and universities in both FY 2008 and FY 2009. OTTA anticipates that this tuition freeze will significantly reduce the Guaranteed Savings Plan's actuarial deficit.

Since new enrollments and contributions to the program have been suspended, the main activities of the program have been processing withdrawals, answering questions from program participants, and making program participants aware of investment options available under the Variable Savings Plan. The other priority of the program is to effectively manage the existing assets in the program to maximize the investment return while minimizing risk. As of December 31, 2006, the Guaranteed Savings Plan had about 100,025 accounts and $875.7 million in assets.

Funding for this program comes from the reserve fund within the program, which was assessed on each sale (approximately $5 per contract) when the program was open for new enrollments and contributions. As of January 31, 2007, the program had a total of $70.8 million in its reserve fund.

Program 2: Variable College Tuition Savings Plan

Funding for this program is provided in SSR appropriation item 095-602, Variable College Savings Fund. These funds are used to pay for the costs of operating the Putnam investment options, which were added to Ohio's 529 college savings program in October 2000. The budget provides a 42.2% increase for FY 2008 and a 1.6% increase for FY 2009 for this program. These increases include funds for hiring additional employees and for information technology improvements.

The Variable College Tuition Savings Plan currently offers 15 investment options, including cash, bond, stock, and age-based basket options. This program's participants can open accounts directly with OTTA (direct-sold accounts) or with participating financial advisors (advisor-sold accounts). As of December 31, 2006, the program had 519,503 accounts with assets totaling $4,436.1 million. OTTA anticipates that in each fiscal year of the FY 2008 - 2009 biennium, new accounts under this program will grow by approximately 3,000-4,000 and sales will increase by $4-$5 million.

Funding source for this program comes from the basis point revenue earned on the cumulative assets in the Putnam investment options. Putnam pays this revenue to OTTA on a quarterly basis. This revenue funds the entire cost of administering the Putnam program as well as some costs of administering Vanguard and Fifth Third Bank investment options. As the latter two are relatively new, they have not yet earned enough fee revenues to fully support their operations.

OTTA receives 0.05% of a participant's assets on an annualized basis for accounts opened directly through OTTA, while it receives 0.20% from non-Ohio residents and Ohio residents who enroll through a financial advisor. In early FY 2006, record keeping and administration of some 78,000 advisor-sold accounts were transferred from Putnam to OTTA. This change was to enhance efficiency and improve customer service by providing a single point of contact for customers with multiple accounts. OTTA receives an additional fee of $3 per year for each Putnam investment option from those affected accounts, amounting to approximately $240,000 in additional revenue per year.

Program 3: Index College Tuition Savings Plan

Funding for this program is provided in SSR appropriation item 095-603, Index Savings Plan. These funds are used to pay for the administrative cost of the Vanguard Group investment options, which were added in May 2004. The budget provides a 12.6% increase for FY 2008 and a 2.1% increase for FY 2009 for this program. These funds are to support the hiring of new employees and improvements in technological infrastructure, including web site development, automation of services, and additional backup and storage hardware. Funds will also support the production of additional customer statements and marketing efforts.

The Index College Tuition Savings Plan currently offers 15 investment options, including cash, bond, stock, and age-based basket options. Participants choosing one of the Vanguard Group options must open the account directly with OTTA. As of December 31, 2006, the program had 66,327 accounts with assets totaling $553 million. OTTA anticipates that in each fiscal year of the FY 2008 - 2009 biennium, new accounts under the Vanguard options will increase by approximately 3,500-4,500 and sales will increase by $18-$20 million.

OTTA receives 0.10% of a participant's assets, on an annualized basis, in the Vanguard 500 Index Fund and 0.20% of a participant's assets in all other Vanguard options. The higher fee on Vanguard accounts opened directly with OTTA as compared to the Putnam accounts (0.05%) opened directly with OTTA is due to OTTA's responsibility for the administration of the accounts opened through the Vanguard Group. The Vanguard Group is only responsible for investing the assets.

Currently the administration of this program is funded through fee revenues from both the Vanguard and Putnam options. The Vanguard program is approaching three years of age. Fee revenue earned from this program, which is paid by the Vanguard Group on a monthly basis, is not yet sufficient to pay the full cost of the program administration. OTTA predicts that the Vanguard program will be self-sufficient by the end of FY 2009.

Program 4: Banking Products

Funding for this program is provided in SSR appropriation item 095-604, Banking Products. These funds are used to pay for the cost of administering the Banking Products program, which was established in September 2005 when the Fifth Third Bank was added as a provider of tax advantaged investment options under the Variable Savings Plan. Participants choosing one of the two Fifth Third Bank options, savings accounts and certificates of deposit (CDs), can save money at fixed interest rates for a fixed amount of time. These two products are backed by FDIC insurance. As of December 31, 2006, this program had 5,326 accounts with assets totaling $32.8 million. OTTA estimates that in each fiscal year of the FY 2008 - 2009 biennium, new accounts under this program will grow by approximately 6,000-7,000 and sales will increase by approximately $30 million.

The budget provides a 15.7% decrease for FY 2008 and a 1.0% increase for FY 2009 for this program. The large decrease from FY 2007 to FY 2008 is due to a change in growth expectations since the program began. In initial estimates of Fifth Third Bank plan's growth, OTTA used historical growth trends for Putnam and Vanguard as a basis. Because of slow market penetration and the small number of the Fifth Third Bank options, these initial estimates were much higher than actual growth in FY 2006 and FY 2007. For FY 2008, OTTA has adjusted its estimates to more accurately reflect the program's expected growth.

OTTA receives revenue paid by Fifth Third Bank based on the basis points earned on the cumulative assets of the Banking Products program. Participants are not charged for these basis points. Currently, the administration of this program is funded through fee revenues from both the Banking Products and Variable Savings (Putnam) programs. The Banking Products program is less than two years old and fee revenue earned from this program is not yet sufficient to support the entire cost of the program. OTTA anticipates this program to be self-sufficient by the end of FY 2011.

Line Item Detail by Agency

Report For: **Main Operating Appropriations Bill** *Version:* **Enacted**

TTA Ohio Tuition Trust Authority

			FY 2005:	FY 2006:	FY 2007 Adj. Appropriations:	FY 2008 Appropriations:	% Change 2007 to 2008:	FY 2009 Appropriations:	% Change 2008 to 2009:
5AM	095-603	Index Savings Plan	$ 2,191,189	$ 2,332,567	$ 2,111,156	$ 2,376,852	12.59%	$ 2,425,777	2.06%
5DC	095-604	Banking Products	----	$ 979,559	$ 1,934,012	$ 1,631,283	-15.65%	$ 1,648,123	1.03%
5P3	095-602	Variable College Savings Fund	$ 1,511,472	$ 1,899,351	$ 1,428,364	$ 2,031,354	42.22%	$ 2,063,596	1.59%
645	095-601	Operating Expenses	$ 1,744,268	$ 998,738	$ 891,173	$ 872,086	-2.14%	$ 881,169	1.04%
State Special Revenue Fund Group Total			**$ 5,446,930**	**$ 6,210,216**	**$ 6,364,705**	**$ 6,911,575**	**8.59%**	**$ 7,018,665**	**1.55%**
Ohio Tuition Trust Authority Total			***$ 5,446,930***	***$ 6,210,216***	***$ 6,364,705***	***$ 6,911,575***	***8.59%***	***$ 7,018,665***	***1.55%***