

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6544

BILL NUMBER: HB 1465

NOTE PREPARED: Dec 31, 2004

BILL AMENDED:

SUBJECT: Prepaid College Tuition.

FIRST AUTHOR: Rep. Goodin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill establishes the Indiana Prepaid College Program. The bill requires the Indiana Education Savings Authority to administer the program. It provides for the advance payment of tuition (including registration fees) or room and board, or both, at a community college or university. The bill makes an appropriation.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Summary:* The potential state fiscal impact depends on how accurately the premiums are set for the prepaid program. Once the premium is set, the state guarantees that the funds will be sufficient to pay the student's tuition and/or room and board costs when the student attends college. If earnings are less than projected or costs grow greater than projected, then the state would be liable for the additional costs. The possible impact is unknown. The bill appropriates from the General Fund an amount necessary to pay the obligations of the Education Savings Authority to qualified beneficiaries. The Education Savings Authority is authorized to collect reasonable administrative fees and charges on the transactions, so there should not be an increase in state costs for administering the program.

Background: Section 529 plans, also known as Qualified Tuition Programs (QTP), are a method of saving for a child's college education. There are two types of Section 529 plans: prepaid tuition plans and college savings plans. Both are named after Section 529 of the Internal Revenue Code, which specifies the requirements for the plans to be free from federal income taxes. Prepaid tuition plans let an individual lock in future tuition rates at in-state public colleges at current prices and are usually guaranteed by the state. College savings plans are more flexible, but do not offer a guarantee.

Every state (including Washington, D.C.) now offers a state Section 529 plan, with 32 states offering just college savings plans, 2 states offering just prepaid tuition plans, and 17 states offering both.

Participation in Section 529 plans is growing rapidly. On June 30, 2004, total investment was about \$54.3 billion with 6.8 million accounts. It is expected that investment will grow to between \$350 billion to \$400 billion with 15.2 million accounts by the end of 2010. According to the College Board, the average cost of a four-year education is about \$42,544 at a public university and \$107,416 at a private collage.

As of December 3, 2004, Indiana had 48,819 open accounts of Indiana and non-Indiana residents in the Section 529 Saving Plan, with assets of \$300,610,987.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Treasurer of State.

Local Agencies Affected:

Information Sources: Susan Loftus, Education Savings Authority, 317-232-5259:
<http://www.collegesavings.org>

Fiscal Analyst: Chuck Mayfield, 317-232-4825.