SENATE COMMITTEE ON EDUCATION
Senator Carol Liu, Chair
2015 - 2016 Regular

Bill No:	SB 791		
Author:	Hertzberg		
Version:	February 27, 2015	**Hearing Date:**	April 8, 2015
Urgency:	No	**Fiscal:**	Yes
Consultant:	Olgalilia Ramirez		

Subject: Student financial aid: Golden State Scholarshare Trust Act

SUMMARY

This bill requires the Scholarshare Investment Board (Board) to enter into an agreement with a card issuer for the purposes of accumulating awards that are automatically deposited into the designated Scholarshare trust account.

BACKGROUND

Existing law establishes the Golden State ScholarShare Trust Program, administered by the State Treasurer's Office, offers California families a tax-advantaged college tuition savings plan that allows them to invest and save for a college education with state tax-deferred and federal tax-free benefits. Under this program, a participant opens an account on behalf of a designated named beneficiary. The money contributed by the participant to the account is placed in a trust, and invested in special investment portfolios designed to meet the needs of differently aged beneficiaries, and different kinds of investors. The program offers federal and California income tax-free treatment for qualified withdrawals from a ScholarShare account. A qualified withdrawal is one that is used to pay for qualified higher education expenses at any eligible postsecondary educational institution throughout the U.S. (and even some outside the U.S.) including many vocational schools. (Education Code § 69980 et. seq.)

To oversee the trust program, existing law, establishes the Scholarshare Investment Board, comprised of seven members including the Treasurer, the Director of Finance, executive director of the State Board of Education and representative from postsecondary institutions, as specified. Among other things, the Board is required to aggressively market the trust program and develop strategies designed to educate California residents about the benefits of saving for higher education and information to help them decide the level of Scholarshare participation and savings strategies that may be appropriate for them. Under its current powers the Board is also authorized to enter into an agreement with participants including an individual, trust estate, partnership association, company or corporation and several other entities on behalf of beneficiaries. (EC § 69980 et. seq.)

ANALYSIS

This bill:

1. Requires, the Board to enter into an agreement with a card issuer, as defined in Section 1747.02 of the Civil Code, for the purposes of, but not limited to, allowing credit card users to accumulate reasonable awards or points leading to an award, that are automatically deposited into the designated Scholarshare trust account.

2. Requires the agreement to provide for the accumulation of awards by using a credit card as defined in Section 1747.02 of the Civil Code.

STAFF COMMENTS

1. ***Need for the bill:*** According to the author many families fail to make regular contributions to their 529 college saving accounts. At the same time, students with as little as $500 or less in a college savings account are more likely to enroll and graduate from college. There are many options available for contributing to a college savings account including automatic payroll deduction and electronic transfer from a designated bank account. This bill creates a new method for automating contributions through cash rewards associated with credit card transactions.

2. ***Similar programs*****.** There are currently six states with programs similar to that proposed in this bill including Illinois, Alabama, Delaware, Massachusetts, New Hampshire and Arizona. The Bright Directions program in Illinois, and CollegeCounts in Alabama, both managed by Union Bank and Trust Company, offer a 529 savings Visa card. Card holders can earn a 1.529% reward on purchases that accrues and is automatically contributed into the linked account. Like most credit card programs, consumers need to apply and receive approval before the card is issued. Arizona, Delaware, Massachusetts and New Hampshire, through Fidelity Investment program, offer a slightly higher reward rate at 2% which, according to the Arizona website, translates into $50 for every $2,500 spent. Depending upon the consumers' spending habits and the life of the account, the program may produce meaningful savings.

   Of the six states that offer a credit card rewards program in their State 529 plan, none are statutorily mandated.

3. ***Is this the right approach?*** Under its current duties and powers, the Board already has the authority to enter into an agreement with a card issuer and did in fact offer a program similar to that described in the bill under its previous investment management entity, Fidelity Investments. The Board has since contracted with a new management company and according to the Executive Director, the credit card program has not been reinstated due to a lack of

consumer demand. Although there is growing awareness of 529 savings plans, participation in them is relatively low within California, as well as throughout the country. If the intent is to motivate contributions into these accounts, is requiring the Board to take specific action the right approach? Or should discretion as to how to motivate greater participation be left to the Board?

This bill proposes a convenient method for encouraging families to grow their college saving accounts. At the same, requiring the Board to enter into an agreement may have unintended effects of positioning the Board at a competitive disadvantage for negotiating a favorable program on behalf of beneficiaries. For this reason, **Staff recommends** the bill be amended to:

A. Require that the Board consider entering into an agreement with a card issuer.

B. Report on their decision and rationale at a regular meeting of the Board by January 1, 2017.

C. Delete the requirement that the Board enter into an agreement with a card issuer.

SUPPORT

California Communities United Institute
California State University
Faculty Association of California Community Colleges (FACCC)

OPPOSITION

None received.

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