
DECEMBER 13, 2012

**AGENDA ITEM 4
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve Changes to the ScholarShare Maximum Account Balance Limit for the ScholarShare Plan

Recommendation

AKF Consulting Group (AKF) and ScholarShare Investment Board (SIB or Board) staff recommend that the Board adopt Resolution No. 2012-07 approving the increase in the ScholarShare maximum account balance limit from \$350,000 to \$371,000 per beneficiary.

Background

Internal Revenue Code Section 529 requires all qualified tuition plans to set adequate safeguards to prevent contributions in excess of those necessary to meet a beneficiary's expected qualified higher education expenses.

The current maximum account balance limit for the ScholarShare College Savings Plan (Plan) is \$350,000 and was approved by the ScholarShare Investment Board (SIB or Board) in September 2010. AKF, the Board's 529 industry consultant, has provided a memo that reviews the costs for attending various institutions both in California and out-of-state and recommends that the Board approve an increase to the current maximum account balance limit. Following proposed Section 529 Treasury Regulations issued in 1998, several private letter rulings released by the Treasury allowed qualified tuition programs to base maximum contribution limits on seven years of expenses for undergraduate and graduate studies. This limit was based upon a methodology of the cost of seven years of expenses for undergraduate and graduate studies.

Based on the information and recommendation from AKF, SIB staff recommends that the maximum account balance limit for the Plan be increased from \$350,000 to \$371,000 per beneficiary. If approved by the Board, this increase will take effect on April 1, 2013.

Presenter

Andrea Feirstein, Managing Member, AKF Consulting Group

RESOLUTION NO. 2012-07

**RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD
RELATING TO THE APPROVAL OF CHANGES TO THE
MAXIMUM ACCOUNT BALANCE LIMIT FOR THE
GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST**

WHEREAS, the ScholarShare Investment Board (the “Board”) was created under the provisions of Article 19 of the California Education Code commencing with Section 69980 and as amended by Chapter 318, Stats. 2005 (AB 961) (the “Golden State ScholarShare Trust Act” or “Act”); and

WHEREAS, Internal Revenue Code section 529 requires all qualified tuition plans to set adequate safeguards to prevent contributions in excess of those necessary to meet a beneficiary’s expected qualified higher education expenses; and

WHEREAS, Section 69982(i) of the Act provides that the Board shall have the powers and authority to set minimum and maximum investment levels; and

WHEREAS, the current maximum account balance limit (the “Limit”) for the Golden State ScholarShare College Savings Trust (“ScholarShare”) was set at \$350,000 by the Board in September 2010; and

WHEREAS, the Board’s 529 industry consultant has reviewed the cost of qualified higher education expenses using a methodology based on seven years of expenses for undergraduate and graduate studies, and recommends an increase in the Limit from \$350,000 to \$371,000 per beneficiary.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the change in the Limit from \$350,000 to \$371,000 per beneficiary.

Attest: _____
Chairperson

Date of Adoption: _____



MEMORANDUM

TO: SCHOLARSHARE INVESTMENT BOARD
FROM: AKF CONSULTING GROUP
DATE: NOVEMBER 27, 2012
RE: MAXIMUM ACCOUNT BALANCE LIMITS

I INTRODUCTION

In September 2010, the ScholarShare Investment Board (the “Board”) approved an increase in the maximum account balance limit for the ScholarShare 529 College Savings Plans from \$320,000 to the current \$350,000. The Board is now considering increasing the current maximum account balance limit and has asked AKF Consulting to comment on the proposal. This memorandum provides applicable cost data, summarizes nationwide maximum account balance limits, and recommends an increase from \$350,000 to \$371,000 based upon the data and methodology included in this memorandum.

II APPLICABLE DATA

Qualified tuition programs continue to rely upon the seven-year standards set forth in private letter rulings to establish applicable maximum account balances. To determine the limit for ScholarShare, we first establish the universe of higher education institutions from which to draw the annual costs of attendance, which include tuition, required fees, certain room and board costs, and required books and supplies. In light of the breadth of higher education institutions in California, as well as the diversity of population across the State, we believe the California maximum account balance limit calculation should include the following higher education institutions:

- California Private Colleges:
 - Claremont McKenna College
 - Harvey Mudd
 - Occidental College
 - Stanford University
 - University of Southern California
 - University of Phoenix
- Most Expensive California Public College:
 - University of California, Berkeley
- National Private Colleges:
 - George Washington University
 - New York University
 - Sarah Lawrence College (the highest cost private college nationwide)



The following chart shows the 2012-2013 costs of attendance associated with these schools:

Institution	Costs of Attendance for Academic Year 2012-2013				
	Tuition	Required Fees	Room and Board	Books and Supplies	Total
<i>Claremont McKenna College California</i>	\$43,840	\$245	\$14,940 ¹	\$1,191 ²	\$60,216
<i>Harvey Mudd College California</i>	\$44,159	\$383	\$14,471	\$800	\$59,813
<i>Occidental College California</i>	\$43,490	\$1,080	\$12,458	\$1,213	\$58,241
<i>Stanford University California</i>	\$41,250	\$438	\$12,721	\$1,500	\$55,909
<i>University of Southern California California</i>	\$43,722	\$891 ³	\$12,440	\$1,500	\$58,553
<i>University of Phoenix California</i>	\$13,650 ⁴	None	\$13,669 ⁵	\$950 ⁶	\$28,269
<i>University of California, Berkeley California</i>	\$12,876 ⁷	Included in Tuition	\$15,000	\$1,214	\$29,090
<i>George Washington University District of Columbia</i>	\$45,735	\$395	\$10,550	\$1,275	\$57,955
<i>New York University New York</i>	\$43,204	\$500	\$16,133	\$1,070	\$60,907
<i>Sarah Lawrence College New York</i>	\$45,900	\$1,024	\$14,312	\$1,200	\$62,436

Source: University and College websites, "Cost of Attendance," unless otherwise noted in footnotes

Based on the foregoing, the average annual costs and estimated seven-year totals are as follows:

Cost Basis	Average Annual Cost	Estimated Seven-Year Total Cost
All Schools Above	\$53,139	\$371,973
Only Private Schools ⁸	\$55,260	\$386,823
Only California Schools	\$50,013	\$350,092
Excludes Highest and Lowest Cost Schools ⁹	\$55,086	\$385,599

¹ Most expensive room and board option

² The cost for books and supplies is not provided by Claremont McKenna College, so the cost shown assumes the average of other schools in this chart

³ Includes \$150 orientation fee for new students

⁴ 30 credit hours per year (assumed) x \$455 cost per credit hour (provided on school's website)

⁵ The cost for room and board is not provided by the University of Phoenix, so the cost shown assumes the average of other schools in this chart

⁶ 10 courses (assumed) x \$95 per course (provided on school's website)

⁷ Includes tuition and required fees

⁸ Eliminates University of California at Berkeley

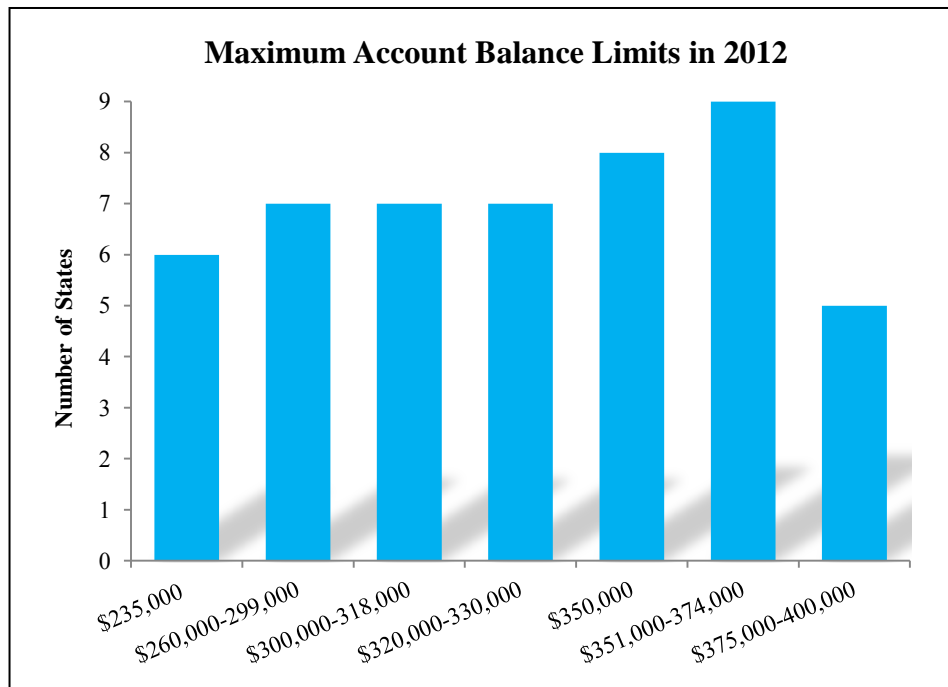
⁹ Eliminates University of California at Berkeley and Sarah Lawrence College



As shown in the chart immediately above, the compilation of California-only schools is the only data that justifies a maximum account balance limit of \$350,000. Any other combination of schools would produce a maximum account balance limit in excess of the current \$350,000, which confirms that the current maximum limit is too low to cover the allowable costs of attendance at most of these schools.

III MAXIMUM ACCOUNT BALANCE LIMITS NATIONWIDE

We have surveyed the maximum account balance limits for 529 plans across the country as of November 2012. The maximum account balance limits range from \$235,000 to \$400,000, resulting in an average of \$322,244, as shown below:



It is interesting to note that 35 states have maximum account balance limits that currently are \$350,000 or less. Of these, seven states – California, Alabama, Idaho, Illinois, Montana, New Hampshire, South Dakota and Virginia – have maximum account balance limits of \$350,000. Of the remaining 14 states at above \$350,000, nine states have maximum account balance limits between \$351,000 and \$374,000, and five states have limits between \$375,000 and \$400,000. The proposed limit for California of \$371,000 would comfortably place it well below the highest group. Please see the **Appendix** to this memo for a complete listing of maximum account balance limits.



Memorandum to SIB, November 27, 2012

IV RECOMMENDATION

Based on the information above, and the general level of maximum account balance limits allowed by other qualified tuition programs nationwide, AKF Consulting recommends increasing the maximum account balance limit for the ScholarShare Plan from \$350,000 to \$371,000 per beneficiary. In terms of California, we note that moving from \$350,000 to \$371,000 would represent a 6.0% increase. While this may seem like a substantial increase, in our opinion it is in-line with the increases in the costs of colleges and universities for the 2012-2013 academic year. Additionally, 75 accounts are funded at levels greater than \$330,000 and several accounts at levels greater than \$350,000 in ScholarShare. Although these accounts do not represent a substantial portion of the ScholarShare account base, we believe increasing the current maximum account balance limit to \$371,000 is reasonable.

Most important, we believe a higher maximum account balance limit would be consistent with more California families choosing private college options for higher education. Including the University of Phoenix in California in our calculations also offsets the highest cost private university options (e.g., George Washington University, Sarah Lawrence College and New York University) while acknowledging the popularity of lower cost private higher education options in California.

And finally, the rest of the college savings market is consistently adjusting maximum account balance limits to keep pace with rapidly rising costs of higher education. In the past 13 months alone, 12 states increased their maximum account balance limits. In particular, Texas increased its maximum account balance limit from \$320,000 to \$370,000, which represents a 15.6% increase.

We hope this memorandum demonstrates why California should increase its maximum account balance limit to \$371,000. We will be glad to provide any additional information you may find useful in setting a new maximum account balance limit.



Memorandum to SIB, November 27, 2012

**APPENDIX
NATIONAL MAXIMUM ACCOUNT BALANCE LIMITS, AS OF NOVEMBER 12, 2012**

Sorted by Alphabetical Order			Sorted by Maximum Contribution		
	State	Max Contrib.		State	Max Contrib.
1	Alabama	\$350,000	1	North Carolina	\$400,000
2	Alaska	\$320,000	2	Rhode Island	\$395,000
3	Arizona	\$374,000	3	Florida	\$394,000
4	Arkansas	\$366,000	4	Utah	\$390,000
5	California	\$350,000	5	New York	\$375,000
6	Colorado	\$280,000	6	Arizona	\$374,000
7	Connecticut	\$300,000	7	Ohio	\$371,000
8	Delaware	\$320,000	8	Nevada	\$370,000
9	District of Columbia	\$260,000	9	Texas	\$370,000
10	Florida	\$394,000	10	Pennsylvania	\$368,600
11	Georgia	\$235,000	11	Arkansas	\$366,000
12	Hawaii	\$305,000	12	Maine	\$360,000
13	Idaho	\$350,000	13	Nebraska	\$360,000
14	Illinois	\$350,000	14	Vermont	\$352,800
15	Indiana	\$298,770	15	Alabama	\$350,000
16	Iowa	\$320,000	16	California	\$350,000
17	Kansas	\$325,000	17	Idaho	\$350,000
18	Kentucky	\$235,000	18	Illinois	\$350,000
19	Louisiana	\$268,170	19	Montana	\$350,000
20	Maine	\$360,000	20	New Hampshire	\$350,000
21	Maryland	\$320,000	21	South Dakota	\$350,000
22	Massachusetts	\$300,000	22	Virginia	\$350,000
23	Michigan	\$235,000	23	Wisconsin	\$330,000
24	Minnesota	\$235,000	24	Kansas	\$325,000
25	Mississippi	\$235,000	25	Missouri	\$325,000
26	Missouri	\$325,000	26	Alaska	\$320,000
27	Montana	\$350,000	27	Delaware	\$320,000
28	Nebraska	\$360,000	28	Iowa	\$320,000
29	Nevada	\$370,000	29	Maryland	\$320,000
30	New Hampshire	\$350,000	30	South Carolina	\$318,000
31	New Jersey	\$305,000	31	Oregon	\$310,000
32	New Mexico	\$294,000	32	Hawaii	\$305,000
33	New York	\$375,000	33	New Jersey	\$305,000
34	North Carolina	\$400,000	34	Connecticut	\$300,000
35	North Dakota	\$269,000	35	Massachusetts	\$300,000



Memorandum to SIB, November 27, 2012

Sorted by Alphabetical Order		
	State	Max Contrib.
36	Ohio	\$371,000
37	Oklahoma	\$300,000
38	Oregon	\$310,000
39	Pennsylvania	\$368,600
40	Rhode Island	\$395,000
41	South Carolina	\$318,000
42	South Dakota	\$350,000
43	Tennessee	\$235,000
44	Texas	\$370,000
45	Utah	\$390,000
46	Vermont	\$352,800
47	Virginia	\$350,000
48	West Virginia	\$265,620
49	Wisconsin	\$330,000

National Average	\$322,244
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Sorted by Maximum Contribution		
	State	Max Contrib.
36	Oklahoma	\$300,000
37	Indiana	\$298,770
38	New Mexico	\$294,000
39	Colorado	\$280,000
40	North Dakota	\$269,000
41	Louisiana	\$268,170
42	West Virginia	\$265,620
43	District of Columbia	\$260,000
44	Georgia	\$235,000
45	Kentucky	\$235,000
46	Michigan	\$235,000
47	Minnesota	\$235,000
48	Mississippi	\$235,000
49	Tennessee	\$235,000

National Median	\$325,000
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