
DECEMBER 10, 2015

**AGENDA ITEM 3
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

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

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2015-05 approving an increase to the ScholarShare maximum account balance limit for the ScholarShare College Savings Plan (Plan) from \$371,000 to \$475,000 per beneficiary.

Background

Internal Revenue Code section 529 (Code) 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. Several private letter rulings have been issued by the U.S. Treasury Department and have allowed qualified tuition programs to establish best practices for complying with the Code. Specifically, there have been public letter rulings that determine maximum account balance limits based on seven years of expenses for undergraduate studies or four years of undergraduate and three years of graduate studies at the most expensive educational institution.

The current maximum account balance limit for the Plan is \$371,000 and was approved by the Board in March 2013. AKF Consulting Group (AKF), the Board's 529 industry consultant, provided a memo (Exhibit A) that reviewed the costs associated with attending various institutions of higher education and outlined a range of maximum account balance limit amounts ranging from \$414,000 to \$475,000 for the Board's consideration of an increase to the Plan's current limit. AKF's analysis took into consideration a diverse mix of public, private, in-state, and out-of-state institutions and the base maximum contribution limits currently in place at other 529 plans.

Based on the information and analysis provided by AKF and the guidance offered in the U.S. Treasury Department's private letter rulings, SIB staff recommends that the maximum account balance limit for the Plan be increased from \$371,000 to \$475,000 per beneficiary. This amount would reflect the cost of attending California's most expensive undergraduate institution of higher education multiplied by seven years.

Presenters

Julio Martinez, Executive Director, ScholarShare Investment Board
Andrea Feirstein, Managing Director, AKF Consulting Group

RESOLUTION NO. 2015-05

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

WHEREAS, the ScholarShare Investment Board (the “SIB” or “Board”) was created under Education Code section 69980 et seq. (the “Golden State ScholarShare Trust Act” or “Act”);

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;

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

WHEREAS, the current maximum account balance limit (the “Limit”) for the Golden State ScholarShare College Savings Trust (“ScholarShare”) was set at \$371,000 by the Board in March 2013; and

WHEREAS, SIB staff recommends an increase to the Limit from \$371,000 to \$475,000 per beneficiary, based on the analysis of the 529 industry provided by the Board’s 529 industry consultant and guidance obtained from private letter rulings issued by the U.S. Treasury Department that have determined maximum account balance limits based on seven years of expenses for undergraduate studies or four years of undergraduate and three years of graduate studies at the most expensive educational institution;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the change in the Limit from \$371,000 to \$475,000 per beneficiary.

BE IT FURTHER RESOLVED, that this Resolution becomes effective upon its adoption by the Board.

Attest: _____
Chairperson

Date of Adoption: _____



MEMORANDUM

TO: SCHOLARSHARE INVESTMENT BOARD
FROM: AKF CONSULTING GROUP
DATE: DECEMBER 3, 2015
RE: MAXIMUM ACCOUNT BALANCE LIMITS

I INTRODUCTION

On March 14, 2013, the ScholarShare Investment Board (the “Board”) approved an increase in the maximum account balance limit for the ScholarShare 529 College Savings Plan from \$350,000 to the current \$371,000. The Board is now considering the current maximum account balance limit and has asked AKF Consulting Group to comment on a proposed increase in the limit. This memorandum provides a foundation for setting the maximum account balance based upon applicable California cost data and summarizes maximum account balance limits nationwide.

II FOUNDATION FOR THE ACCOUNT BALANCE LIMIT

Qualified tuition programs generally rely upon a seven-year standard set forth in certain Private Letter Rulings to establish applicable maximum account balances. These several Private Letter Rulings (“PLRs”) issued by the US Treasury Department to individual 529 programs provide a variety of standards by which to calculate allowable account balance limits. Please note that a PLR is written for the benefit of the individual program submitting the request so other qualified tuition plans technically cannot rely upon the Treasury’s position in a given PLR. That being said, the 529 industry has looked to PLRs generally on key tax points to establish industry best practices for complying with the Section 529 of the Internal Revenue Code of 1986, as amended (“Section 529”). The calculation of maximum account balances falls into this category.

Our review of PLRs shows that several programs calculate the maximum account balance limit based upon seven years of qualified higher education expenses associated with the most expensive higher education institution in a given state. Specifically, the PLR language refers to contributions not being allowed if:

“the aggregate balance of all accounts in the program for that designated beneficiary exceeds the product of one year of qualified higher education expense (as defined in Section 529(e) of the Code) at the most expensive undergraduate educational institution eligible for the program multiplied by seven years (defined in the program as the “account balance limit on contributions”).”

Additional PLRs that determine the account balance limits based upon the most expensive institution in a particular state provide that contributions will not be accepted if:

“The aggregate balance in all program accounts established for the benefit of the same designated beneficiary exceed the sum of four times the cost of one year of undergraduate tuition, fees, books, supplies, and room and board at the most expensive educational institution eligible for the program and three times the cost of one year of graduate school



tuition, fees, books, supplies, and room and board at the most expensive graduate school eligible for the program, defined in the program rules as the ‘maximum account balance.’”

III APPLICABLE DATA

To determine an account balance limit for ScholarShare, we must first establish the universe of higher education institutions from which to draw the allowable annual costs of attendance, which include tuition, required fees, certain room and board costs, and required books and supplies, all as established by Section 529. In light of the breadth of higher education institutions in the State of California, as well as the diversity of population across the State, we believe the California maximum account balance calculation should consider the following higher education institutions:

- **California Private Colleges:**
 - Claremont McKenna College
 - Harvey Mudd College
 - Occidental College
 - Stanford University
 - University of Southern California
- **Most Expensive California Public College:**
 - University of California, Berkeley
- **National Private Colleges:**
 - George Washington University
 - New York University
 - Vassar College
- **Most Expensive Ivy League College:**
 - Columbia University

The following chart shows the 2015-2016 costs of attendance associated with these ten schools:

	Institution	Costs of Attendance for Academic Year 2015-2016				
		Tuition	Required Fees ¹	Room and Board	Books and Supplies	Total
<i>In-State Public and Private</i>	<i>Claremont McKenna College California</i>	\$48,800	\$245	\$16,320 ²	\$900	\$66,265
	<i>Harvey Mudd College California</i>	\$50,368	\$281	\$16,506	\$800	\$67,955
	<i>Occidental College California</i>	\$48,690	\$558	\$13,946	\$1,244	\$64,438
	<i>Stanford University California</i>	\$45,729	\$591	\$14,107	\$1,425	\$61,852
	<i>University of Southern California</i>	\$49,464	\$813	\$13,855	\$1,500	\$65,632

¹ Required fees include only those fees that are mandatory for all students. Therefore, the fees shown exclude items such as first-year student orientation or matriculation charges for new students

² Includes cost of single room, residence hall and 16-meals-per-week food plan



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	Institution	Costs of Attendance for Academic Year 2015-2016				
		Tuition	Required Fees ¹	Room and Board	Books and Supplies	Total
	<i>University of California, Berkeley California</i>	\$13,432 ³	Included in Tuition	\$14,388	\$1,240	\$29,060
<i>Out-of-State Private</i>	<i>George Washington University District of Columbia</i>	\$50,367	\$68	\$12,050	\$1,275	\$63,760
	<i>New York University New York</i>	\$47,750	\$530	\$17,580	\$1,070	\$66,930
	<i>Vassar College New York</i>	\$50,550	\$750	\$11,980	\$1,125 ⁴	\$64,405
	<i>Columbia University New York</i>	\$53,000	None specified	\$12,860	\$1,400 ⁵	\$67,260

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 generally are as follows:

Cost Basis	Average Annual Total Cost	Estimated Seven-Year Total Cost
All Schools Above	\$61,756	\$432,290
Only Private Schools ⁶	\$65,389	\$457,720
Only California Schools	\$59,200	\$414,402
Highest Cost California School	\$67,955	\$475,685
Excludes Highest and Lowest Cost Schools ⁷	\$65,068	\$455,474

As shown in the chart immediately above, the current account balance limit of \$371,000 is below even the compilation of California-only schools. Any combination of schools would produce a maximum account balance limit in excess of the current \$371,000, which confirms that the current maximum limit is too low to cover the allowable costs of attendance at most of these schools.

³ Includes tuition and required fees

⁴ Assumes half of Vassar’s estimated “budget for books, supplies, recreation” of \$2,250

⁵ Represents cost of books only

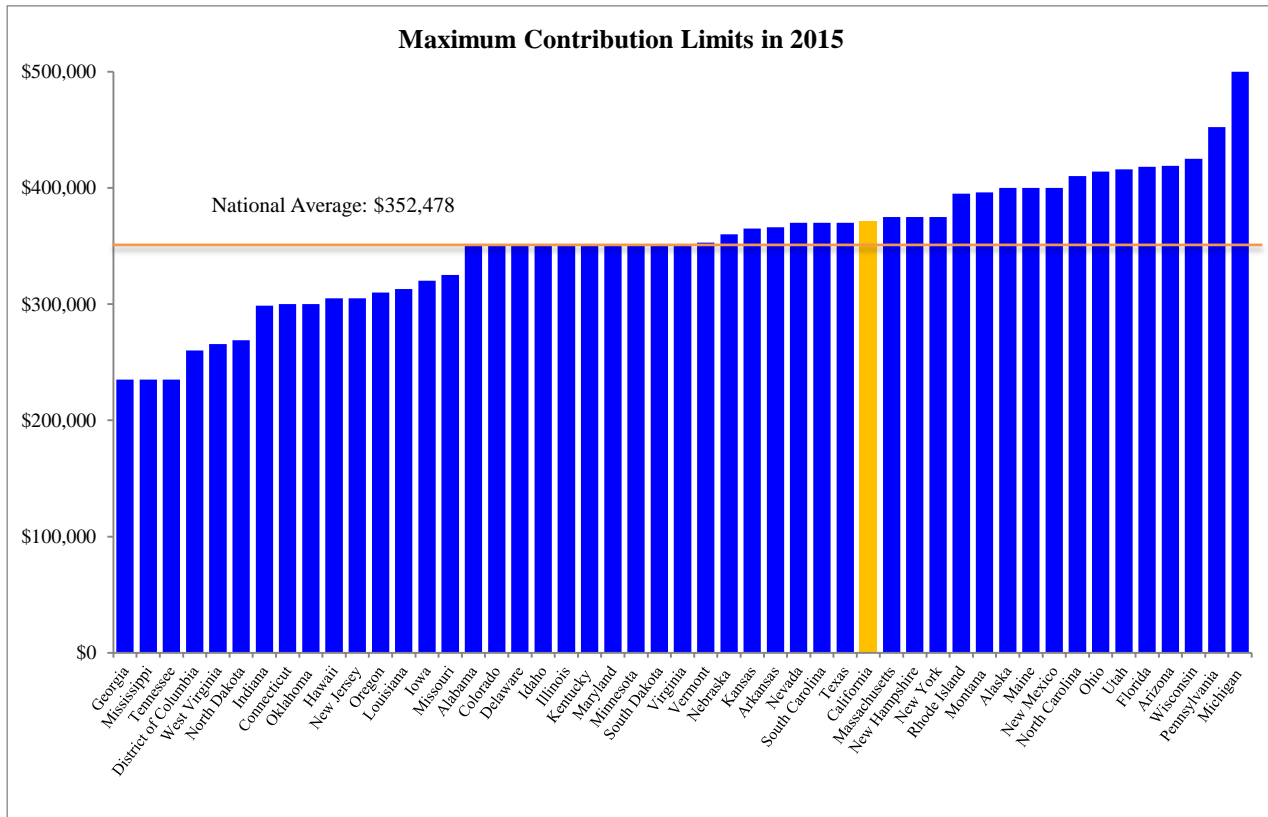
⁶ Eliminates University of California at Berkeley

⁷ Eliminates University of California at Berkeley and Harvey Mudd College

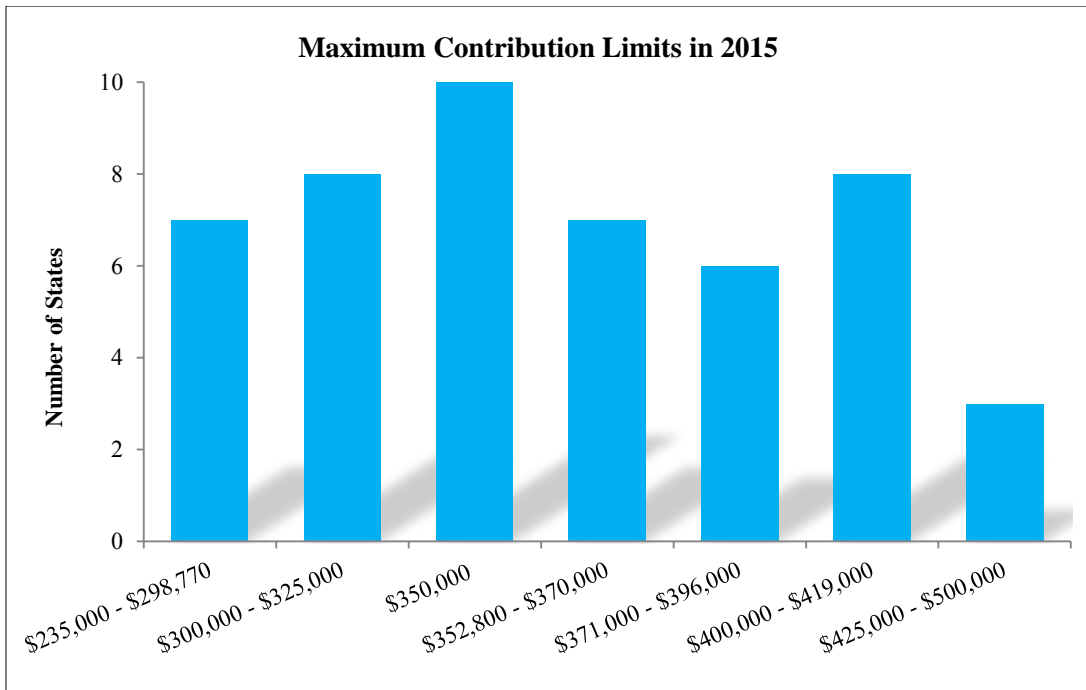


IV MAXIMUM ACCOUNT BALANCE LIMITS NATIONWIDE

We have surveyed the maximum account balance limits for 529 plans across the country as of October 21, 2015. The maximum account balance limits range from \$235,000 to \$500,000, resulting in a national average of \$352,478. As seen by the chart below, California’s current maximum account balance limit is only slightly above the national average.



It is interesting to note that thirty two states have maximum account balance limits that currently are less than \$371,000. Only California is at \$371,000, immediately ahead of Nevada, South Carolina and Texas with maximum account balance limits of \$370,000. Immediately above California – but under \$400,000 – are Massachusetts, New Hampshire, New York, Rhode Island and Montana, respectively. The chart below shows that seventeen states have account balance limits at or above \$371,000. Eight programs have limits between \$400,000 and \$419,000, while three programs have limits in the highest bracket (\$425,000 to \$500,000).



V CONCLUSION

Based on the information above, AKF Consulting concludes that it would be timely to increase the maximum account balance limit for the ScholarShare Plan. Importantly, we also believe a higher maximum account balance limit would be consistent with more California families choosing private, college options for higher education. We note that Harvey Mudd College based in California is the most expensive private institution in our universe of schools, exceeding Columbia and New York University in total cost of attendance.

We also note that the rest of the college savings market consistently adjusts maximum account balance limits to keep pace with rapidly rising costs of higher education. Since the last time we updated the Board with nationwide maximum contribution limits on March 14, 2013, twenty states increased their maximum account balance limits. In particular, Michigan just increased its maximum account balance limit from \$235,000 to \$500,000, which represents a 113% increase.

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

Please see the **Appendix** to this memo for a complete listing of maximum account balance limits.



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**APPENDIX
NATIONAL MAXIMUM ACCOUNT BALANCE LIMITS, AS OF OCTOBER 21, 2015**

Sort by Alphabetical Order			Sort by Maximum Contribution (descending order)		
	State	Max Contrib.		State	Max Contrib.
1	Alabama	\$350,000	1	Michigan	\$500,000
2	Alaska	\$400,000	2	Pennsylvania	\$452,210
3	Arizona	\$419,000	3	Wisconsin	\$425,000
4	Arkansas	\$366,000	4	Arizona	\$419,000
5	California	\$371,000	5	Florida	\$418,000
6	Colorado	\$350,000	6	Utah	\$416,000
7	Connecticut	\$300,000	7	Ohio	\$414,000
8	Delaware	\$350,000	8	North Carolina	\$410,000
9	District of Columbia	\$260,000	9	Alaska	\$400,000
10	Florida	\$418,000	10	Maine	\$400,000
11	Georgia	\$235,000	11	New Mexico	\$400,000
12	Hawaii	\$305,000	12	Montana	\$396,000
13	Idaho	\$350,000	13	Rhode Island	\$395,000
14	Illinois	\$350,000	14	Massachusetts	\$375,000
15	Indiana	\$298,770	15	New Hampshire	\$375,000
16	Iowa	\$320,000	16	New York	\$375,000
17	Kansas	\$365,000	17	California	\$371,000
18	Kentucky	\$350,000	18	Nevada	\$370,000
19	Louisiana	\$313,040	19	South Carolina	\$370,000
20	Maine	\$400,000	20	Texas	\$370,000
21	Maryland	\$350,000	21	Arkansas	\$366,000
22	Massachusetts	\$375,000	22	Kansas	\$365,000
23	Michigan	\$500,000	23	Nebraska	\$360,000
24	Minnesota	\$350,000	24	Vermont	\$352,800
25	Mississippi	\$235,000	25	Alabama	\$350,000
26	Missouri	\$325,000	26	Colorado	\$350,000
27	Montana	\$396,000	27	Delaware	\$350,000
28	Nebraska	\$360,000	28	Idaho	\$350,000
29	Nevada	\$370,000	29	Illinois	\$350,000
30	New Hampshire	\$375,000	30	Kentucky	\$350,000
31	New Jersey	\$305,000	31	Maryland	\$350,000
32	New Mexico	\$400,000	32	Minnesota	\$350,000
33	New York	\$375,000	33	South Dakota	\$350,000
34	North Carolina	\$410,000	34	Virginia	\$350,000



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Sort by Alphabetical Order		
	State	Max Contrib.
35	North Dakota	\$269,000
36	Ohio	\$414,000
37	Oklahoma	\$300,000
38	Oregon	\$310,000
39	Pennsylvania	\$452,210
40	Rhode Island	\$395,000
41	South Carolina	\$370,000
42	South Dakota	\$350,000
43	Tennessee	\$235,000
44	Texas	\$370,000
45	Utah	\$416,000
46	Vermont	\$352,800
47	Virginia	\$350,000
48	West Virginia	\$265,620
49	Wisconsin	\$425,000
National Average		\$352,478

Sort by Maximum Contribution (descending order)		
	State	Max Contrib.
35	Missouri	\$325,000
36	Iowa	\$320,000
37	Louisiana	\$313,040
38	Oregon	\$310,000
39	Hawaii	\$305,000
40	New Jersey	\$305,000
41	Connecticut	\$300,000
42	Oklahoma	\$300,000
43	Indiana	\$298,770
44	North Dakota	\$269,000
45	West Virginia	\$265,620
46	District of Columbia	\$260,000
47	Georgia	\$235,000
48	Mississippi	\$235,000
49	Tennessee	\$235,000
National Median		\$350,000