PUBLIC HEARING

before

SENATE EDUCATION COMMITTEE

SENATE BILL 2499

(An Act Establishing a Guaranteed College Tuition Investment Program)

February 11, 1987
Room 334
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Matthew Feldman, Chairman
Senator Daniel J. Dalton, Vice Chairman
Senator John H. Ewing

ALSO PRESENT:

Deena R. Schorr
Office of Legislative Services
Aide, Senate Education Committee

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Hearing Recorded and Transcribed by
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January 20, 1987

NOTICE OF PUBLIC HEARING

The Senate Education Committee will hold a public hearing on Wednesday, February 11, 1987 at 10:00 A.M. in Room 334, State House Annex, Trenton, New Jersey.

The hearing will consider

SENATE BILL NO. 2499
"AN ACT ESTABLISHING A GUARANTEED COLLEGE TUITION INVESTMENT PROGRAM"

sponsored by Senator Dalton

Anyone wishing to testify should contact Deena R. Schorr, aide to the Senate Education Committee, at (609) 984-6843. Eight copies of the testimony should be submitted to the committee on the day of the hearing.

SENATE, No. 2499

STATE OF NEW JERSEY

INTRODUCED SEPTEMBER 15, 1986

By Senators DALTON, RAND, FELDMAN, LESNIAK, DUMONT, EWING, O'CONNOR, COWAN, VAN WAGNER, CODEY, ORECHIO, PALLONE, LYNCH, JACKMAN and FORAN

Referred to Committee on Education

AN ACT establishing a guaranteed college tuition investment program and supplementing Title 18A of the New Jersey Statutes.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. This act shall be known and may be cited as the "New Jersey Guaranteed College Tuition Investment Program Act of 1986."

2. The Legislature finds and declares: that families are finding it increasingly difficult to plan for college education due to the unpredictability of escalating costs; that an educated citizenry is essential to the well being of the State; that it is to the public benefit to encourage talented individuals to attend New Jersey institutions of higher education; and, that a program which guarantees college tuition for New Jersey residents will benefit individuals and will also serve an essential public purpose.

3. There is established in the New Jersey Higher Education Assistance Authority, the New Jersey Guaranteed College Tuition Investment Program. The purpose of the program shall be to permit participants to prepay college tuition in an amount equal to 90% of the projected tuition at the time of initial enrollment in college or 90% of the actual tuition at that time, whichever is less; and, to provide low interest loans to those participants for other education costs up to a maximum of 50% that guaranteed tuition rate.

4. a. In order to maintain and administer the program, the authority shall establish the New Jersey Guaranteed College Tuition Program Fund as a separate, nonlapsing revolving fund which shall be used exclusively for the purposes of the program as provided pursuant to this act; however, any moneys in the fund which are not disbursed immediately may be invested and reinvested by the Director of the Division of Investment in the Department of the Treasury on the written request and in accordance with the written instructions of the authority.

b. The fund shall consist of:

(1) All moneys invested in the program by program participants as provided pursuant to section 7 of this act;

(2) All interest received on moneys in the fund and sums received as repayment of any principal and interest on outstanding loans made by the fund pursuant to section 11 of this act; and

(3) Any other moneys, public or private, made available for the fund from any source or sources which the authority shall determine to be appropriate for inclusion in the fund.

5. Every public institution of higher education in New Jersey and each independent institution of higher education in New Jersey which elects to participate in the program shall submit to the authority an annualized projection of tuition costs for 15 years, based upon indicators and criteria established and approved by the authority. Annually thereafter, each institution shall project its tuition for an additional year, so as to provide for the maintenance of projected tuition costs on a 15 year basis. The tuition projections shall be reviewed and may be altered annually; however, no such alteration shall affect the terms of any contract already in effect.

Each institution shall guarantee that a dependent of a program participant who is admitted to that institution shall pay no more than 90% of that projected tuition for the appropriate years of attendance as provided in the contract between the participant and the authority, or no more than 90% of the actual tuition for those years, whichever is less.

6. Upon the establishment of the tuition projections as provided in section 5 of this act, the authority shall develop a schedule of the number and amount of payments necessary to provide funds sufficient for four years of tuition at the guaranteed rate at each institution based upon:

a. The date of enrollment in the program;

b. The year of initial matriculation in the institution; and,

c. The rate of investment selected by the participant. No one shall be eligible to participate in the program if the interval between initial enrollment and the year of initial matriculation is less than four years.

The authority shall provide for a number of payment options, and for accelerated payment by the participant; however, the authority may establish a minimum annual investment necessary for participation in the program.

7. Any individual who has been a resident of this State for 12 months prior to making application for the program may contract with the authority to participate in the guaranteed tuition program. The contract shall specify:

a. The amount of guaranteed tuition which is being purchased.

b. The amount of payments required from the participant.

c. The schedule of those payments.

d. Provisions for late payment charges and for default.

e. The number of years of tuition which the participant wishes to purchase.

f. The name, age and years of attendance of the dependent for whom tuition is being purchased.

g. The conditions under which another dependent may be substituted for the person originally named.

h. The conditions under which a refund due may be applied to a guaranteed tuition program for another dependent.

i. The conditions under which the years of attendance as provided in the original contract may be altered.

j. The terms and conditions for the termination of the contract and the amount and nature of any refunds including the percentage amount of accrued interest due from the program in the event of termination.

k. The terms and conditions attendant upon any special options selected by the participant apart from the guaranteed tuition program, including but not limited to the prepayment of additional education costs of attendance.

l. Any other terms or conditions determined to be necessary by the authority.

8. Upon entering a contract with the authority, a program participant shall be regarded as a resident of New Jersey for the purposes of this program so long as the terms of that contract are fulfilled, and the dependent for whom the tuition is purchased shall be regarded as a New Jersey resident for purposes of determining

tuition at public institutions of higher education and for State aid to independent institutions as provided pursuant to P. L. 1979, c. 132 (C. 18A:72B-15 et seq.).

9. Participation in this program shall in no way be construed to ensure that the dependent shall be admitted to a participating institution, nor shall an institution be required to follow any special admission procedures with regard to that dependent. Should an individual fail to gain admission to a participating institution, or fail to complete the undergraduate program at that institution, then all or a portion of the funds invested may be returned to the participant as provided in the contract and as specified in section 10 of this act.

10. a. The contract may be terminated and a participant may receive a refund of the full principal and any interest less administrative costs as agreed to in the contract under the following circumstances:

(1) The death or disability of the dependent.

(2) The decision not to attend college or to attend college in a state other than New Jersey.

(3) The decision to attend an independent college in New Jersey which does not participate in the guaranteed tuition investment program.

(4) Failure to gain admission to a college in New Jersey which participates in the guaranteed tuition investment program.

(5) Failure for any reason to complete payment for the number of years provided for under the contract.

b. In the event that guaranteed tuition as purchased in the contract is greater than the actual guaranteed tuition at the time of attendance, the participant may elect to receive a refund of the balance or may elect to apply the balance toward a guaranteed tuition contract for another dependent if this is provided for in the contract.

11. Whenever a dependent of a participant enrolls in an institution which participates in the guaranteed college tuition plan, the participant shall be entitled to receive from the authority a loan in an amount not to exceed 50% of the guaranteed tuition level at the institution of attendance, which shall be used to pay costs of attendance at the institution other than tuition. The loan shall not be contingent on the receipt of or eligibility for any other State or federal loan or grant; however, a participant shall be required to demonstrate to the authority that the total amount of financial aid

received by the dependent including the loan provided for in this section does not exceed the cost of attendance at the institution as determined by the Student Assistance Board in the Department of Higher Education. The authority shall determine the terms and conditions for the loan and the interest rate to be charged; however, the maximum permissible interest shall be the interest rate established for the federal Guaranteed Student Loan Program in the year in which the loan is initiated.

12. On or before March 1 of each year, the authority shall make an annual report on the activities of the program for the preceding calendar year to the Governor and the Legislature including in the report a complete operating and financial statement. The authority shall provide for an external audit of the books and accounts of the fund each year by certified public accountants.

13. The Higher Education Assistance Authority shall, pursuant to the "Administrative Procedure Act," P. L. 1968, c. 410 (C. 52:14B-1 et seq.) adopt such rules and regulations as are necessary for the implementation of this act.

14. Nothing in this act shall be construed to limit the power of the authority to establish and maintain the "Higher Education Assistance Fund" or to alter the terms and conditions of loans made to students under that fund.

15. Funds for the initial planning and administration of the Guaranteed College Tuition Program shall be made available to the fund from the uncommitted reserve fund of the Higher Education Assistance Authority.

16. This act shall take effect immediately.

STATEMENT

This bill establishes a New Jersey Guaranteed College Tuition Investment program to be administered by the Higher Education Assistance Authority. The purpose of the program is to allow parents or legal guardians to prepay college tuition for their child at a guaranteed rate. That rate would be equal to 90% of tuition as projected by the institution for the year of attendance or 90% of the actual tuition for that year, whichever was less. In addition, parents who elect to participate in the program would be entitled to low interest loans to meet other costs of attending the institution.

As provided in the bill, the public institutions of higher education and independent colleges or universities which elect to participate would be required to project their tuition rates for 15 years following the establishment of the program, and would be required to guarantee that a participant in the investment program would be charged no more than 90% of that tuition rate. The Higher Education Assistance Authority would then establish payment schedules necessary to provide for four years of tuition at the guaranteed rate at each institution based upon the year of enrollment, the year of expected matriculation and the rate of investment selected by the parent. Any resident of New Jersey could then contract with the authority for the prepayment of all or part of the tuition at a tuition rate of their choice.

If a child was not admitted to a participating institution or elected not to attend a participating institution in New Jersey, then the parent would be eligible for a refund of the principal and interest at a rate to be established in the original contract. If for any reason the cost of the institution the child attended is less than the amount of tuition provided for in the contract, the parent could receive a refund or could elect to apply the balance toward a guaranteed tuition contract for another dependent.

In addition to the guaranteed tuition, the program also provides for low interest education loans in an amount of up to 50% of the guaranteed tuition rate.

The program would thus offer participants four major advantages: it would provide for a guaranteed rate of tuition: it establishes a mechanism for saving money to meet that tuition: it offers the opportunity for a wide range of choice among institutions of higher education in New Jersey: and, it makes available educational loans for the balance of educational costs at rates comparable to the federal guaranteed student loan program. In addition, the program would make new Jersey institutions of higher education more attractive to New Jersey residents and thus serve the needs of the State for an educated and highly trained citizenry.

HIGHER EDUCATION—COLLEGES AND UNIVERSITIES
The "New Jersey Guaranteed College Tuition Investment Program Act of 1986."

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SENATOR MATTHEW FELDMAN (Chairman): Let me welcome you this morning to this public hearing on a very, very important bill. I am pleased to have Senator Ewing with us today, as well as the sponsor of the legislation that will be before us, Senator Dan Dalton.

Essentially, what we will be discussing is the growing problem of the affordability of higher education. As costs escalate, parents and students are facing very difficult choices. There is every indication that the situation will continue to worsen over time. Adding to the uncertainty, is the annual threat from the Federal government to reduce student financial aid programs. Reductions in the Guaranteed Student Loan Program have been recommended for the past several years. Yet, the Department of Education in Washington suggests an increasing reliance on loans for the payment of college costs, presumably at market rates. At the same time, there is growing national concern about the level of indebtedness which students are incurring.

So, this is clearly a matter of major concern which deserves the careful attention of this Committee. The bill before us today, which will provide for a Guaranteed College Tuition Investment Program, represents an important and innovative response to this problem. It is extremely significant for the future of higher education in our State.

I want to commend Senator Dalton publicly for his initiative in developing this legislation. As I correspond with people on the National Commission of Education, many have written to me-- Senator Dalton, you are now a household name. Other states are watching us now to see what develops with the Dalton-sponsored bill.

Before I call our first witness, Chancellor Hollander, Senator Dalton, as the sponsor, will you please explain the bill in detail, or encapsulate the bill for us?

SENATOR DALTON: Very quickly, Mr. Chairman, only in America can a second generation Irish immigrant's son become a household name. So, I want to thank you for--

SENATOR FELDMAN: Even in Bedminster.

SENATOR DALTON: I want to thank you, and also thank Jack Ewing, for your attentiveness to the bill, as illustrated by your presence today.

I introduced S-2499 last September, because I was concerned about the plight of middle-class families in New Jersey who face the prospect of paying for their children's college five or ten years from now. Being the father of four children, I understand the problem in a very personal way.

If the current trend in cuts in Federal aid -- in student assistance programs -- continues, there will be little or no help for middle-income families, even in the form of low interest loans. The only alternative will be for families to burden themselves with excessive debt, or to have their children bear the burden of years of indebtedness.

My proposal is targeted toward helping young middle-income families who plan to send their children to college, without excessive burden. It is a college layaway program; a college investment program. Start saving now, and you will have money for your kids' education. The Plan has several distinct advantages over other forms of investment. First, and perhaps most important, the Program guarantees what tuitions will be in New Jersey institutions when it comes time for your children to attend. Parents, therefore, know exactly how much money they must save, no matter what happens to the economy or college costs in general.

Secondly, the Program not only guarantees tuition, but guarantees a tuition at a reduced rate. The bill calls for a tuition that is 90% of what the projected or actual tuition is at participating institutions.

Third, the Program would allow the parents to borrow additional money at a reduced rate equal to the Federal Guaranteed Student Loan rate. In addition to helping New Jersey families, the Program is designed also to help New Jersey institutions of higher education, by limiting the Program to New Jersey colleges, both public and private. The goal, obviously, is to keep New Jersey talent in New Jersey schools.

New Jersey is the second highest exporter of students in the nation. By encouraging New Jersey families to send those children to New Jersey colleges, the Program will help to maintain the vitality of New Jersey colleges, and the continuing vitality of these institutions, of course, is a central ingredient to New Jersey's economic prosperity.

Another feature of the bill that is unique is the provisions for low-cost loans to cover the cost of ancillary or additional education costs. The bill provides that a family can borrow up to 50% of the value of their investment in low cost loans, without having to meet income qualifications. In some respects, the Income Investment Fund, which will be placed under the auspices of the Higher Education Assistance Authority, will be like a credit union. It will allow those who invest in it to borrow at a reduced rate. This aspect is of special benefit to middle-income families who have been priced out of the GSL market. This feature also helps to enhance the ability of a parent to choose from a variety of institutions at different price ranges.

I think if I've heard any criticism of my Program, it was the criticism that my Program is too aggressively consumer oriented. It favors the investors -- the middle-class families -- over the institutions of higher education, in providing advantages. Clearly, my primary goal was consumer oriented. I think the Program must be very attractive for parents if they are going to be encouraged to invest in New Jersey colleges years before their children are ready to attend college.

If I've weighted the advantage too much in the direction of the parents, I am open to criticism and suggestions for improving the Program. I look forward to learning from the testimony that will be provided today, and I am confident that working together with the Chancellor and the people around him, the people who have been involved in national efforts in this direction, and also with the individual State and private colleges, we will be able to come up with a Program that will meet the needs of middle-class families and will also benefit New Jersey institutions.

Thank you again, Matty, and thanks, Jack, for your attentiveness to this issue.

SENATOR FELDMAN: Thank you, Senator Dalton. Our first witness will be the Chancellor of Higher Education for our State, Chancellor T. Edward Hollander. With him is John Brugel, Assistant Chancellor, Student Assistance.

Allow me to congratulate you on the Governor recommending your reappointment, Chancellor.

CHANCELLOR T. EDWARD HOLLANDER: Thank you very much, Senator. I appreciate the opportunity the Governor is providing me to serve the State for another five years, and I appreciate, as I always do, the opportunity to come before this Committee, which has been so strongly supportive of higher education in the State. I mean that in Bedminster, too, Jack.

Senator Feldman, Senator Dalton, Senator Ewing, I would like to comment on a number of things this morning, and then share with you a proposal that the staff of the Department of Higher Eduation has been working on at the instance of the Board of Higher Education, which has established, within it, a committee to look at the whole question of affordability of higher education.

I think you are right on track. I think the affordability of higher education is a critical policy issue for the next two decades. It is probably an issue that is most on the minds of parents today. I think it is an issue, too, that is most on the minds of students, who face the prospects of increasingly going into debt in order to finance their higher education, a level of debt which we think is inappropriate, and could impact on family formation and the whole ability of our young people to pass on to successive generations the benefits they have had available to them.

I would like to talk first about the tuition issue, so we understand where we are and where we are likely to go. I have given you three graphs, and I wonder if you could look at the first graph, which is based on graph lines.

Let me say that with the strong support of the Governor and the Legislature, I think we have done very well in this State in helping students afford higher education. The years '82-'83 to '86-'87 were periods of unusually high tuition increases in New Jersey. This graph illustrates, I think, how we responded to it. If you will note, there are two variables that are important on the graph. One is a change in the price index over this period, which was an increase of 15% -- the Consumer Price Index. The second is the change in personal income of New Jersey parents, out of which they pay for tuition. That increase has been 36%, and is represented by the area that is shaded on the graph.

The gross tuition charges in New Jersey have varied among the different sectors of higher education. The red line shows the increase in tuition at independent colleges, and the increase during this period is 40%, or roughly 4% higher than the increase in income, and significantly higher -- 25% higher -- than the increase in the Consumer Price Index. The increases at Rutgers and the county colleges have been 36%, exactly paralleling the increase in income, and the increase in the State colleges was 33%, slightly below the increase in the income.

But, this doesn't tell the whole story. This just tells the gross tuition charge story. You have increased significantly -- and the Governor has -- tuition aid available to students. Our Tuition Aid Program is so structured that no student coming from a poor family pays any tuition at a public institution. So, none of these increases have been borne by low-income students; by that I mean students from families of $18,000 or less family income.

For moderate-income students, our Tuition Aid Grant Program is structured so that they do not pay for the increases in tuition. They pay the base amount they were paying four or five years ago. So, our Tuition Aid Income Program has held harmless low-income and moderate-income students from the tuition increases. The brunt of the tuition increases are borne by middle-income students and by high-income students. The problem, as I see it, for the future in terms of affordability, assuming we continue our commitment to tuition aid, is a problem for the middle-income student. As long as we provide the appropriate safety net in this State, our low-income students and our moderate-income students will be protected, but it is the middle-income student who is going to face the full brunt of the tuition increase.

Now, for the middle-income student, the rise in tuition has been equivalent to the rise in personal income. So, the middle-income student's family has paid roughly the same share of income for tuition as they did before these increases. In my judgment, that is not an acceptable level; that is, I think our middle-income students are presently overburdened, and the fact that they kept pace is not good enough in our judgment. So, the question is, how do you deal with that issue, and how do you deal with it at a time when the Federal commitment has declined? The Federal commitment is not proposed to decline; the Federal commitment has actually declined.

If you will look at the circles -- the chart with the circles -- they show the relative share the families, the State institutions, and the Federal government are paying for the costs of going to college in New Jersey for our full-time undergraduates. In 1981-'82, Federal student aid amounted to 29% of the total. Today, it amounts to only 17% of the total. That is a substantial reduction. The current family expenses have risen from 62% of the total to 73% of the total. New Jersey has kept pace and the institutions have kept pace in providing their share of the total.

So, whether or not Congress responds to the President's initiatives by restoring the programs he has proposed be cut, nevertheless, they have not been increasing those programs with the increased costs of going to college. So, in effect, the Federal commitment has declined. If you look at the last chart, you will see the extent of those changes.

In terms of the source of funds available to students, the Federal loan guarantees have dropped from 46% to 36%. The Federal grant funds, that is, the PEL grants and other grant funds -- SCOG AND SSIG -- have dropped from 51% to 45%, while the State has increased its share from 44% to 64%. The institutions have increased their share also. So, the burden is shifting clearly from the Federal government to the families, and from the Federal government to the states and to the institutions.

With respect to the present proposals that the President has put before Congress, the impact could be dramatic and significant. The President has proposed, in his budget for this year, to rescind currently appropriated funds that will come to New Jersey in the amount of $30 million. He has actually proposed that the student SSIG Program, which helps to finance our Tuition Aid Grant Program -- that the moneys that are committed and are built into our budgets that we have already shared with the institutions -- that that $2 million be dropped, and that an additional $28 million in college work study money and institutional grant funds, through the Supplemental Educational Opportunity Grant Fund, be eliminated from the Program, and that the NDSL Program, which is a subsidized loan program -- that those subsidies essentially be eliminated, and there are no new funds to help subsidize that Program.

For Fiscal Year 1988 -- the Federal government's Fiscal Year 1988, next year -- the President has proposed programs that would reduce all of the loan and grant in aid programs by $90 million. So, we've got a $120 million reduction proposed for this fiscal year and for next fiscal year. I don't believe Congress, by the way, will accept those reductions. I suspect they will do what they did last year and the year before, restore them, but hold the programs constant; that is, not fund increases in the program, and leave it to New Jersey to pick up the increases to our own State aid programs.

The summary at the bottom of--

SENATOR FELDMAN: Yes, Senator? (in response to one of the Committee members)

CHANCELLOR HOLLANDER: Let me just finish this point. To give you a sense of what that $120 million means, that is equal to our Tuition Aid Grant Program for two years; that is, our whole Tuition Aid Grant Program is $120 million, and if the Federal government reduces its commitment by $120 million, that is equivalent to eliminating our Student Aid Program. So, it is a very significant amount of money. It is not a trivial amount.

SENATOR FELDMAN: I would suggest that you complete your testimony before we have any questions. All right, Jack?

SENATOR EWING: Well, I just want to know when this is going to take effect in the Federal government. This year-- There has been $30 million left out.

CHANCELLOR HOLLANDER: The $30 million recisions would take effect in our year beginning next September; the $90 million in the following academic year, because the Federal budget is October 1 to September 30.

We think it would be imprudent for us not to begin to plan alternative ways of financing. We think Senator Dalton's proposal, and raising this issue and bringing it before the public, provides a tremendous contribution, and we thank you, Senator, for proposing the Program, and for doing it in such a dramatic way. I wish we had ours ready before you had yours ready, but you were there first, and I think it has been very, very helpful.

The question is, what kind of a program can we support and sustain in the State, and what ought it to be? I think you are going to find, if you look at what other states are doing, a wide variety of plans and a wide variety of concerns about the plans.

Let me just distinguish between the two possible plans, what you call -- and properly so -- the Tuition Investment Plan, and what I call the Tuition Assurance Plan. The differences are significant. The Tuition Investment Plan -- and a number of states have proposed these -- represents a way by which parents can set aside money to cover the costs of tuition when their children reach college age. Those moneys go into a fund; the fund earns interest. If the parents want to withdraw those moneys, for whatever reason, during the course of the operation of the Plan, they can do so, and they can get their money back, plus the interest.

The strength of that Plan is that the parent, as the consumer, is best off. The weakness of that Plan is that the income that is generated is probably taxable to the parent, or to the child if it is less than $1000 and the child is under 14, or to the child if the child is over 14 and the Plan is structured right, so that the taxes have to be paid by the parent out of his or her other income because the Plan is likely to be deemed a taxable Plan.

The second disadvantage of that Plan is, somebody has to undertake the risk that the rate of tuition increase will be higher than the rate of return on the investment. Now, either the risk has to be borne by the parents, namely they get back what they put in -- and that is useful, by the way, because it will cover a large part of the tuition increase -- or the risk has to be borne by the institution, which would agree to take as tuition whatever is in the Plan, or the risk has to be borne by the State or the other sponsoring agency, which would say, "We will make up the difference." In the Michigan plan, I believe the risk is being borne by the state. In Senator Dalton's Plan, the risk is being shared by the institution and the State.

You need to understand that that risk could be very, very high, because when you are dealing with an accumulating amount of money held over long periods of time, the differences between the investment rate of increase and the tuition rate of increase, even if they are small, are accumulative. It is possible -- 10 or 15 or 20 years down the line -- to find that whoever assumed that risk will have assumed an extraordinarily large risk.

The Tuition Assurance Plan that we are proposing as an alternative and as a compliment to the Tuition Investment Plan, is really intended to be insurance; that is, the risk is divided among the State, the institutions, and the families. The proposal we make -- and are going to put on the table here -- is this: That we provide an alternative to an investment plan as an insurance plan; that what the parent is buying is insurance that when his or her child goes to college, the tuition they pay now will be accepted in full for whatever the tuition charge is at the institution the child attends, so that the parent can rest easy that the child is provided for.

The risk the parent takes in the proposal we are making is like the risk in life insurance. If you don't die, you don't collect. If the parent withdraws from the Plan, or if the child withdraws from the Plan, for whatever reason, they would get back only their principal; that is, whatever they put in, they would get back. If the child goes out of State to another institution, whatever they put in they would get back. But, the parent who sends his or her child to a New Jersey institution-- That child will go, essentially, for whatever tuition had originally been put into the Plan, regardless of what the tuition rates are. So, the parent is insuring against not being able to provide for his or her child's eduction.

Now, the way we propose it is, the New Jersey resident who enrolls in the Plan -- much as your Plan, Senator Dalton -- is insured, if you like, whether he moves out of State or stays in the State. The parents are insured no matter what institution the child attends, though they would have to make up the differences in rates, or receive back the differences in rates, among the institutions. They are insured for a New Jersey institution -- participating independent institution -- and we would propose that all public institutions be covered. We could not guarantee anyone admission to a particular institution. Obviously, that depends on the qualifications, but clearly, under our Open Access Plan in New Jersey, that child could go to an institution in New Jersey. The child would be guaranteed admission to an institution in New Jersey.

Now, what are the risks to the institution? The proposal we are going to put forward guarantees the institution 90% of whatever the tuition is at that point in time. We expect that the institutions will receive 100% of the tuition at that point in time, but there is a risk that they will receive only 90%. We don't think that is an unreasonable risk for the institution. Many institutions now provide unfunded scholarship aid of 10% anyway, and we think that risk is minimal in size.

What is the risk to the State, and that has been a problem with a lot of these plans? We brought an actuary in to look at our Plan, and let me explain the actuarial risks and how you deal with them. The bottom line is this: If the rate of return on investment is within 3% of the rate of increase in tuition, the risk to the State after 25 years, assuming $4 million comes into the Plan a year, is something on the order of $1 million or $2 million. There is no risk to the State in the first 24 years; that is, there is no need for a State subsidy in the first 24 years.

Now, we don't think that is a risk at all, by the way, because if you look down 25 years from now, our tuition at Rutgers will be $25,000, $30,000; our Tuition Aid Grant Program will probably be around $300 million, instead of $60 million; and prices and incomes will be up at levels where a $3 million-- The State budget will probably be around $60 billion, so you're looking at a relatively small risk.

Now, why is the risk to the State so small? Because we estimate two things: One, we estimate that roughtly 30% of the parents will elect to take their principal back, and their children will either not attend college, or will go out of State. So, they will help the other 70% meet the requirements of the Plan.

Secondly, we don't think the gap between the rate of tuition increase and the investment return is going to be 3%. So, we don't even think that risk is a serious risk to the State. For example, if today we were to invest-- If we could invest at 7% -- and we don't think the rate of tuition increase is likely to exceed 7% over a longer period of time, because that has not been our experience in the past -- and if we got a rate of return of 7% and the tuition rate increase was only 7%, there is virtually no risk to the institutions and no risk to the State, and the parents would essentially receive -- as they would under any of these alternatives -- the full amount of tuition. And, the Plan would probably generate revenues to support other student aid efforts. When you get a 1%, or even a 2% gap, that is, if we invested today at 7% and the tuition was a 9% increase a year, the institution would receive 100% of its return, there would be no risk to the State, and the parent would receive full tuition. It is only when you get beyond the 2% gap that you get a risk to the State, and that risk is minimal. Now, if you got to a 4% gap -- which we don't think actuarily is likely to happen -- then there is a substantial risk to the State because, again, that is accumulative over 25 years. I think one can limit that risk by simply limiting the number of such options that are made available annually to the parents in the State, and it probably ought to be done that way in the first couple of years anyway to get some experience. That is what the State of Michigan is proposing to do during their pilot period.

So, we think there is room for what we call the Tuition Insurance Plan. Very candidly, we want to encourage more of our students and their families to consider a New Jersey institution. We think we have a special obligation to parents in our State, but we also have an obligation to the institutions in our State, and we ought to meet both of those obligations in the Plan.

That doesn't mean that there can't be a Tuition Investment Plan also, but we think the Tuition Insurance Plan is likely to be a more appropriate one for most parents, especially because we think it will be tax free; that is, we don't think the income generated will be taxable currently. We are not sure whether there might be a deferred tax charge or not, but we don't think there will be if the Plan is structured properly.

So, we offer this as an alternative for your serious consideration. We are going to release our draft of that Plan today, so it also can get into the public forum for public debate.

We are concerned, Senator, and I want to be candid about it, about using the investment as a pool for loans. If we do use the investment as a pool for loans, then either those loans are going to have to be subsidized by the State in significant amounts, or the rate of return on the investment pool may not be sufficient to accumulate enough money to pay tuition and, as a result, the State may have to come in with a major subsidy. Then there is a value judgment, I think, that the State has to make, whether it wants to put its subsidy into this particular Program in significant amounts, thereby limiting State funds for the rest of our student aid programs, or whether it would prefer to minimize its risk and subsidy in this Program in order to better be able to maintain its commitments to low- and moderate-income students.

I guess our view is that we ought to minimize the State's risk in subsidy here, while providing the subsidy essentially through a tax deferred arrangement, so that State has the flexibility annually to determine where it wants to put its additional moneys in the form of student aid.

I would be happy to answer any questions.

SENATOR FELDMAN: I have a question after listening to--

CHANCELLOR HOLLANDER: Oh, just one point. I'm sorry, Senator. I want to be sure you understand that the proposal we are making now is essentially a staff recommendation. It has been considered by the Student Aid Committee of the Board of Higher Education, which, in its draft report, will recommend that there be a plan, though they will not necessarily recommend this Plan. We have not discussed this proposal with the Governor's office, so I am here speaking as Chancellor of Higher Education, carrying out an initiative that the Board asked me to carry out. The Governor, of course, is going to have to make his own independent judgment as to whether or not this proposal is a sensible one and consistent with his own views.

SENATOR FELDMAN: If the sponsor so desires, and our Committee concurs, there can be parts of your recommendations put into the Dalton bill as sort of a, you know--

CHANCELLOR HOLLANDER: That is your prerogative.

SENATOR FELDMAN: Right. It is no longer an assumption -- from what you have said, and from the charts before us -- that tuitions will continue to increase. A child born today, 18 years from today, all set to enter a State college, will have, according to your predictions, a tuition -- costs of over $15,000 a year. The independent colleges-- I am just throwing this out because it may be 13, it may be 16, but there is going to be a significant increase.

CHANCELLOR HOLLANDER: It will be higher. If you would like a rule of thumb, it will double every seven to eight years.

SENATOR FELDMAN: Independent colleges may be over $30,000 a year. My question is this: What obligation does this State have -- does the Department of Higher Education have in trying to control these costs? We have an answer now from Senator Dalton how we are going to react to the higher costs. But, what can we do to control these higher costs of tuition for educating our young people.

CHANCELLOR HOLLANDER: Well, I think there is a lot we can and should do about contolling the costs. That is not an agenda at this point in time, but it is an issue that I am going to share with the Board and discuss with the Board, as I present my agenda for the next five years -- the question of constraining costs.

Let me try to be realistic and candid about the issue. Higher education-- Let me state this as an assumption, and then tell you why I think it is so. I believe tuition will rise in proportion to the increases in salaries at our colleges and universities, for two reasons: One, higher education has, for three or four centuries -- and I think properly so -- based its delivery system on people. College faculties teach students, and college faculties teach them in reasonable size classes. Though there are opportunities for substitution of capital for labor, wherever that has occurred it has usually been to increase the effectiveness of teaching, not to substitute for the basic educational strategy.

Now, in other industries, there is a major substitution of capital for labor, as labor costs go higher. So, it is possible, in the automobile industry, to raise wages every year and maintain the cost of a car by increasing "productivity," which means substituting capital for labor. Whereas in higher education, 80%, or 70% of our budget is for salaries, and as the overall level of income and salary rises, our level of income and salary rises and the student's share of that will also rise.

So, the ability of any educational institution, unless it changes the way in which education is offered -- and one ought to look at that; I am not suggesting we not -- the likelihood is that the labor-saving devices that are available in manufacturing, and in high technology, are really not as available in higher education and, therefore, tuition and salary costs are likely to go up parallel. If we ever reach a point in our society where salaries stabilize -- don't increase -- then faculty salaries will stabilize, too, and tuition increases and tuition charges will stabilize.

I don't think that is going to happen. The way in which our economy is structured tends to drive up prices, even at only 3% or 4% a year, which we now call "price stability," but is also a kind of inflation, and we tend to increase salaries a little faster than inflation, so real income increases, and our faculty are likely to enjoy the same benefits as everybody else in society. But, we can't substitute capital and, therefore, tuition is likely to follow the salary increase curve. I think that is a realistic way of looking at the issue long term as one plans, while, at the same time, we do everything we can to constrain cost increases and constrain tuition increases.

SENATOR FELDMAN: Thank you, Chancellor. Senator Dalton, Senator Ewing, are there any questions?

SENATOR DALTON: Chancellor, I appreciate the comments you have made. Just like the Chairman, I don't think the Plan that I have proposed, called Investment, and the Plan you have proposed, called Insurance, are mutually exclusive plans.

CHANCELLOR HOLLANDER: Yeah, I agree.

SENATOR DALTON: They are plans that have a lot in common. I feel they are probably more alike than they are different. Why don't we focus on the differences, so I will understand a little bit better?

CHANCELLOR HOLLANDER: Sure; okay.

SENATOR DALTON: Why don't you tell me the chief differences in the Program? By the way, Michigan has both plans.

CHANCELLOR HOLLANDER: Yes, they do. I think, in a very fundamental sense, the differences have to do with the distribution of risk. That is very clear. The risk in your Plan is borne, in part, by the institutions, and let me explain that. In your Plan, we are asking the institutions to project tuition, to discount that at the current interest rate, and then provide a discount of 10% to the parents, and, therefore, the investment presumably will accumulate at the current rate of interest to provide 90% of the tuition estimated by the institution 15 to 20 years from now.

Now, the institutions is at risk in two ways, obviously. One, if they underestimate the increases in tuition, they have to eat the difference; that is, they have to accept the money that is in the Plan, regardless of what tuition is. In very large measure, that is beyond their control; that is, the level of tuition increase is going to be impacted as much by the economy as anything else and, therefore, that is a risk that the current president of an institution is going to lay on some president 10 or 15 years down the line. The risk may be to the institution's liability itself, and that could get shifted back to the State. So, that is a serious risk.

The other problem there is, if I were president of an institution and I was worrying about my successors and my board, I would tend to overestimate tuition increases because I wouldn't want to make a mistake on the down side. Now, if I do that, I may take myself out of the market for the Program. Therefore, the Program would not be applicable to that institution as a practical matter, or there would be pressure on the institution to modify its estimate to a more realistic one, which means that somebody else would have to control tuition, and we would have a price-fixing arrangement of one kind or another in such an arrangement. I am just not sure we ought to do that if it is we who are making that determination. Then, 10 or 15 years from now, the president of that institution is going to say, "The State made us do it. It made us estimate so low. We knew it should have been higher; therefore, the State has to bail us out." So, we then would be shifting the cost to the State again.

The other difference has to do with the loan program. If you lend out the money at the current rate of interest, then you are providing the parent with a non-subsidized loan, which is available through the Plus Program. If, on the other hand, you lend the money out of the investment pool at less than the current rate of interest, then the amount in the investment pool will not reach the tuition levels projected by the institutions. So, somebody has to make up that difference, and that somebody is either the State-- Well, it has to be the State if the State is the sponsor of the Plan.

Now, those differences can be enormous over time. That is the problem. You know, it's like an unfunded pension program. If you promise a larger amount in pension payments than you are accumulating currently, 20 years down, or 30 years down, that gap is enormous. So, we do not think it would be prudent for the State to undertake that level of risk simply because we are concerned, not for the taxpayer, we are concerned about the impact that those subsidies will have on the other tuition aid programs, because the State then is going to have to make choices as to where it puts its money. If it has a prior obligation to meet this Program subsidy, what happends to our TAG Program for low-income students; what happens to our TAG Program for moderate-income students; what happens to our EOF Program; what happens to our other needs for higher education?

Therefore, we have tried to come up with a Program that minimizes everybody's risks, but doesn't eliminate them entirely. I guess I think that is a sounder approach. First of all, it is based on whatever the real tuition is at that time. Second, it does not permit the parent to withdraw the interest that his investment provides, which your Program does. Our proposal would not permit the parent to take those moneys, with the income, out of State, as your Program does. So your Program, in a sense, provides the consumer with those additional benefits, but at the tax cost, which we think we would like to avoid as much as possible, and with the total shift of that risk to the State, which I think ends up affecting the parents as taxpayers.

So, we're asking the parents to assume a small part of the risk. We are asking the parents to assume the risk that if their children decide not to go to a college in New Jersey, or not to go to college, that they would get back their principal and would not get back their income. But, what they would get in return for that would be the insurance policy, which would say that they have a place to send their children at a tuition they have already paid, if they want to take that option.

It's a little bit like an insurance policy. You share the risk, but you also gain the benefit from sharing that risk. So, that is the major difference. I guess, fundamentally, Senator, the difference really boils down to whether you ask the State to put in a big subsidy at some time in the future, or ask the institutions to assume the risk, or whether you share the risk among all the parties. That is really what the fundamental difference is.

SENATOR DALTON: Yeah, I suspect so. The insurance aspects of your and my proposals are very similar. I mean, what we are both doing is insuring the tuition rate. Okay? You do it from what you feel is a very conservative perspective; I do it from a projection perspective. But the bottom line -- the effect on the parent -- is that that tuition is insured.

CHANCELLOR HOLLANDER: Yeah. The bottom line for the parent is that the tuition is insured. That is true. But your Plan does -- I believe, Senator -- require a State subsidy.

SENATOR EWING: It could be controlled by the interest earnings you rake into it.

SENATOR DALTON: Yeah. On one of your optional plans, you called for an up-front premium.

CHANCELLOR HOLLANDER: Yeah?

SENATOR DALTON: Doesn't the calculation of such a premium assume projections of future tuition costs?

CHANCELLOR HOLLANDER: The up-front premium would be in our Investment Plan, wouldn't it, John?

ASST. CHANCELLOR JOHN F. BRUGEL: Yeah.

CHANCELLOR HOLLANDER: It's really to cover administrative expenses, and it would be very small.

ASSISTANT CHANCELLOR BRUGEL: It could be that, or it could be if the investment experience actually was not keeping pace with the tuition growth. It would be an opportunity, then, to cut the down-side risk to the State, and to pass that on to the consumer.

CHANCELLOR HOLLANDER: That's in the Plan, isn't it?

ASSISTANT CHANCELLOR BRUGEL: Yeah, See, our Plan is in both options.

CHANCELLOR HOLLANDER: Oh, it's in both options.

ASSISTANT CHANCELLOR BRUGEL: No, it is in the--

CHANCELLOR HOLLANDER: The Investment Plan option.

SENATOR DALTON: Doesn't your entire Program assume that tuition will grow at about the same rate as investments?

CHANCELLOR HOLLANDER: No, it is based on actuarial calculations which assume alternative differences between investment growth -- between the rate of return on investment and the rate of return on tuition. It is so designed as to provide a zero -- almost a zero risk to the State, with a 3% spread.

SENATOR DALTON: A 3% spread?

CHANCELLOR HOLLANDER: Yeah, which we think is a very large spread.

SENATOR DALTON: Yeah. How about if we write into the bill -- if we limit the rest to 3%?

CHANCELLOR HOLLANDER: Who would bear it? Do you mean the State would bear the risk beyond 3%?

SENATOR DALTON: Well, I mean the college could bear part of that risk, too.

CHANCELLOR HOLLANDER: I think it would make the Program unattractive to the college. I think it is like an insurance policy. If everybody should suddenly die, the insurance companies would be in deep, deep trouble, but one does not expect that to happen. I would say that the chances of the spread being more that 3% is a risk that the State could take -- a prudent risk that the State could take. The circumstances under which that would happen would probably be a hyper-inflation, and in hyper-inflation, the State tax revenues would rise dramatically we well. We don't think that is going to happen. Obviously, it is always a possibility, and the 3% risk becomes a risk to the State only after a long period of time.

So I guess I would argue, based on all the data we have looked at, that that is not an unreasonable risk to the State. It is hard for me to foresee where the spread would be more then 3%. In fact, I would think--

SENATOR DALTON: So, if we write it into the bill, what makes it less attractive?

CHANCELLOR HOLLANDER: Pardon?

SENATOR DALTON: If we write the 3% cap into the bill, what makes it less attractive?

CHANCELLOR HOLLANDER: Well, for an institution to take that risk could strike at the viability of the institution. Therefore, I suspect some institutions would say-- Well, if it is a public institution, it doesn't matter, because the State is going to end up having to pay for it one way or another. Right? There is no question about that.

In the case of an independent institution, I think they would be reluctant to take that risk, and I don't blame them because the president of an independent institution has really got to think about his sucessors in the future, and they are really depending on the market. I guess I would argue that they shouldn't take that risk.

SENATOR DALTON: Your Program places a 90% minimum on the amount of tuition an institution will be reimbursed.

CHANCELLOR HOLLANDER: That's right.

SENATOR DALTON: Okay. Shouldn't there also be a maximum?

CHANCELLOR HOLLANDER: Yeah. The maximum is 100%. Our Plan, as we are now talking about it -- we are not sure; you may have better wisdom -- is that the institution, under the worst of circumstances, would get back 90%. Under the best of circumstances, it would get back 100%. If the Program generated surpluses beyond the 100% -- and that is possible-- For example, if the spread was zero, this Program could be highly -- could generate significant amounts of revenues, and those moneys could benefit the entire higher education system, but probably students more directly than anyone else.

SENATOR FELDMAN: If I may follow up, Dan. You have a reservation, or you object, as I read it, to the loan provision in Senator Dalton's bill. With the Federal government literally phasing out student loan assistance, what does our Department propose with regard to a State loan program?

CHANCELLOR HOLLANDER: We are looking at whether or not it is feasible -- it is feasible -- whether or not there is a market, is a better way of putting it -- for the State to issue bonds -- taxable bonds, not tax-free bonds -- and use the proceeds to make loans to students. If we were to do that, the advantage to the families would be that the bonds, because they would carry, in effect, some kind of moral obligation of the State, would be likely to sell at a relatively low interest rate. Thereby, the loans that would be made to the parents would be at a more reasonable interest rate than the prevailing market rate if a parent went into a bank.

Now, the reason we have not done that is because there is the Plus Loan Program which provides for market rate loans to parents guaranteed by the Federal government. We are not sure that at this particular moment in time that there is a need for loan funds beyond that. So, that's one reason we are hesitating about issuing bonds directly.

Secondly, we have been talking about the possibility of encouraging lower tuition in the first two years of college, thereby making it less necessary for parents to borrow in the first two years of college, but concentrating, if you like, student indebtedness on the last two years of college. Now, there are two good reasons to do that, and you can probably think of some more. One, if the Reagan proposal to charge students interest in college -- while they are still in college -- is adopted, that interest accumulates in the first two years, resulting in a much higher debt to the student when he or she graduates. That would reduce that cumulative impact.

Also, the students who tend to default on loans, are students who drop out of college in the first two years. They tend to be high-risk students. As a result, we see our default rate going up, not because students don't want to pay back the money, but because they can't. Students who get to the third year of college tend to graduate and, therefore, tend to be able to earn enough funds to pay their loans back, and do it with a minimal burden.

Therefore, we would conclude that if we could do it -- if we could reduce student dependency on loans in the first two years of college -- and increase their dependence in the last two years, we would reduce the overall level of loans, and we would reduce the default rate on loans, which would save the State money and save the students a lot of unnecessary grief. So, we are looking at that issue as a serious issue.

And, of course, we are supporting alternative arrangements to loans. One of the problems this generation of students faces -- or some significant numbers of them face -- is that the mechanism of loans that was available in my generation, in your generation -- the mechanism of financing higher education -- has broken down. In our generations, our parents were in a position to finance the costs of our higher education, or tuition was so low that if we had to finance it ourselves, we realistically could. There was never a significant publicly sponsored program to encourage parents to save in advance. So, decisions on paying for college were almost always made when the child reached college age. Now, that was never the case with the wealthy, who were able to use Clifford Trust and other arrangements to accumulate the costs of going to college. But, that was the burden on the middle-income student.

We are in a period now where parents really haven't saved very much, at least middle-income parents, for their childrens' college, and the children are bearing a very high burden, or the families are bearing a very high burden. They are mortgaging their properties to pay for the loans. So, what we think we need to put in place now, is what we are talking about -- a way of encouraging parents to begin saving when the child is born, or one year old, or two years old, or five years old. But, we see two other things happening as well with this kind of a program. We see grandparents and aunts and uncles and others making gifts of college education to their grandchildren and nephews and nieces, and that is probably as good a gift as some of the gifts that children are getting now. This would be a way of facilitating that, so that there would be minimum risk that that gift would no longer have value 18 or 20 years down the road. That is very significant.

We think corporations and businesses will begin to make such a program available as a fringe benefit for employees, if there is a systematic way of bringing those moneys together. This would change the terms of trade, if you like, on how higher education is financed. We would permit the accumulation of money in advance to pay for college, rather than burdening parents at the time the child hits college. That is why I think these programs are very good.

SENATOR FELDMAN: Very interesting.

SENATOR DALTON: Through you, Mr. Chairman--

SENATOR FELDMAN: Yes.

SENATOR DALTON: One of the criticisms of the Program I have introduced is that it places too much of the burden of risk on the college.

CHANCELLOR HOLLANDER: Yeah.

SENATOR DALTON: Don't the colleges gain much from the fact that the Program will create a pool of students to attend New Jersey colleges?

CHANCELLOR HOLLANDER: That is not clear at this point. If the parents--

SENATOR DALTON: Well, if it doesn't, we are wasting a lot of our time.

CHANCELLOR HOLLANDER: Well, let me put it this way: The pattern of college attendance now is for roughly -- for the preponderant majority of the top quarter of the class to go out of State. Okay? There are a lot of reasons for that which are not fully relevant now, though the whole quality issue is relevant now, I guess, in terms of whether we have good enough institutions to attract our own students. That is a question of money, which is what we are talking about.

Second, your Plan would not change the pattern necessarily, because the parents who would have enough money to send their children in state, would also have enough money to send their children out of State. Because there is no special advantage to a college in New Jersey, that is, the parent has the same tuition reimbursement--

SENATOR DALTON: A 10% discount.

CHANCELLOR HOLLANDER: Pardon?

SENATOR DALTON: A 10% discount.

CHANCELLOR HOLLANDER: A 10% discount isn't sufficient to have--

SENATOR DALTON: The ability to use the loan -- guaranteed tuition. I mean, I--

CHANCELLOR HOLLANDER: I don't think they--

SENATOR DALTON: For a middle-class family they are not advantages?

CHANCELLOR HOLLANDER: No. Let me say why I think not. I may be wrong and, of course, we're speculating. All of the evidence I have seen suggests that for a relevant range of income -- and I would say that is around the median income and up -- the cost of going to college is not the important consideration in choosing a college. That is, if children get into an Ivy League school, parents will do anything, and children will do anything to pay for the cost of that higher education, and a 10% difference isn't going to shift them to an institution that is their second or third choice.

SENATOR DALTON: Okay. Now, let's--

CHANCELLOR HOLLANDER: So, Rutgers and Princeton have to be the first choice, and the State colleges have to be the first choice.

SENATOR DALTON: Okay, let's remove Princeton. Okay? Let's get down to the range where most college students are. Okay? Most students aren't Princeton.

CHANCELLOR HOLLANDER: Most students in New Jersey are, I would say, in the top range of colleges in New Jersey and around the country. They really are. I mean, we are the State with the fifth highest income, and with high expectations about college study. So, our students fan out to the best institutions.

SENATOR DALTON: But, we're talking about the middle-class family. Okay? I mean, if, in fact, a 10% discount and the ability to obtain a low interest loan based upon the principal that you put in-- I mean, they seem to me to be for middle-income families -- at least the ones I have talked to in this State, and I have talked about this Program -- tremendous inducements to the folks I have talked to.

CHANCELLOR HOLLANDER: Okay. Twenty years--

SENATOR DALTON: I mean, not only peers, people in my position who have five-, six-, seven-year-old children, but other people as well, when I have talked to PTA groups throughout the southern part of the State.

CHANCELLOR HOLLANDER: Well, let's look at it this way: If it costs $2500 to go to Rutgers a year now -- let's assume that is the case -- we have lots and lots of people who are eligible to go to Rutgers, who will go to an out-of-state institution and pay many more times that. Now, if Rutgers dropped their tuition from $2500 to $2250, will it change that arrangement? No. If it does change that arrangement, what would happen? The out-of-state institutions, feeling the same pressure, are going to reduce their tuition by 10%. As a matter of fact, a lot of people in New Jersey are solicited by out-of-state institutions, with offers of discounts from the nominal tuition rate, in order to be able to attract students who will pay the 85% or 90% of the tuition price.

I guess I really don't believe that a 10% difference is a significant difference. If the option the parent has, and the child has, is to go out of State and get the same amount and pay 10% more-- If they choose an out-of-state institution, they are likely to go to that out-of-state institution. I am not arguing it is bad, by the way, from the student's perspective, or the family's. I am only arguing that there is no particular advantage to the New Jersey institution by that arrangement.

SENATOR DALTON: So, you're saying a guaranteed tuition rate -- a 10% discount and also a loan would not serve as an inducement to middle-income families?

CHANCELLOR HOLLANDER: It would not, in a significant way, give an advantage to the New Jersey institutions over competitive institutions in other states. If I were developing a strategy for Rutgers -- and I think Ed Bloustein is thinking in these terms, too-- What is more important, Senator, to attract students to Rutgers, is improving the perception of quality, the amenities on campus.

SENATOR DALTON: No question; no question.

CHANCELLOR HOLLANDER: Yeah, so if I had 10% to invest, that is where I would put it.

SENATOR DALTON: Given that fact -- okay?-- I mean, if, in fact, we are talking about quality institutions -- and I think New Jersey has quality institutions--

CHANCELLOR HOLLANDER: I agree.

SENATOR DALTON: Obviously, you do, too.

CHANCELLOR HOLLANDER: Oh, sure I do.

SENATOR DALTON: Let's move out of that issue. If we are talking about inducements, your Program produces less of an inducement than the one I have proposed.

CHANCELLOR HOLLANDER: Well, let me tell you why I think it doesn't. If the parent, say, chooses -- let's pick Rutgers as the bellwether institution -- and enrolls in a program for Rutgers, and 20 years from now Rutgers is going to be seen as superb as it is now, the parent has an option -- or the child has an option 20 years from now -- go to Rutgers free -- because I got that voucher, I paid for my tuition already -- or go to an out-of-state institution and get back my principal and have to come up with the rest of the money to go to that out-of-state institution, clearly the difference will be more than 10%. The difference is going to be 200% at that point in time. So, that Program-- If you are looking at relative choices, that Program would give a better choice for a New Jersey institution.

It also means we have the responsibility, when that child goes to college, to make Rutgers -- the perception of Rutgers equal to the reality of Rutgers. That also applies to our State colleges.

SENATOR DALTON: I am not arguing perception; I am not arguing quality. What I am arguing--

CHANCELLOR HOLLANDER: Okay, let's argue financial-- Let's argue money.

SENATOR DALTON: Yeah, let's argue money.

CHANCELLOR HOLLANDER: That student will have the choice of going to Rutgers free -- from the student's perspective, because the tuition has been paid for -- okay? -- or getting the principal back, or going to another institution in New Jersey.

SENATOR DALTON: Yeah, and so does our Program.

CHANCELLOR HOLLANDER: Pardon?

SENATOR DALTON: That is the difference between that and what we propose?

CHANCELLOR HOLLANDER: You are proposing that if the student goes out of State, the student gets back whatever is in the fund.

SENATOR DALTON: First of all, we don't say that in our bill. Okay?

CHANCELLOR HOLLANDER: In other words, the student--

SENATOR DALTON: We basically say, and we left it broad, because obviously we want to have the ability to work on it-- We leave it open that the principal, and perhaps some interest, should go back to the parent, but we don't lock ourselves in to saying that all of the interest goes back to the parent, obviously.

CHANCELLOR HOLLANDER: Well, then, from the-- The principle is simply this: As you increase the difference between the cost at a New Jersey institution and the cost of some alternative out of State, you give the New Jersey institution the benefit. To the extent to which the two are very similar, then there is no particular benefit to the New Jersey institution.

SENATOR DALTON: Well, I am going to have to read the transcript because I still don't understand.

CHANCELLOR HOLLANDER: Okay.

SENATOR DALTON: I'll pass to Senator Ewing, if he has any questions.

SENATOR FELDMAN: Senator Ewing?

SENATOR EWING: Not really on the bill, but what plans do you have in the budget to make up this $30 million cut? Is that being taken into consideration in the budget?

CHANCELLOR HOLLANDER: Well, I think Congress is going to make it up, Senator.

SENATOR EWING: On the Assurance Plan, do you have an insurance company that is going to do it, or would we handle it all ourselves with the help of an actuary?

CHANCELLOR HOLLANDER: We would do it with the help-- We are proposing we do it with the help of an actuary, and we are proposing that the initial reserves for the funds be established on a loan from the Higher Education Assistance Corporation.

SENATOR EWING: In the amount of what?

CHANCELLOR HOLLANDER: About a million dollars.

SENATOR EWING: Is that all?

CHANCELLOR HOLLANDER: Yeah, as reserves.

SENATOR EWING: Then there would be a different premium paid by the family which took it out for a one-year-old child, took it out for a six-year-old, and took it out for a 12-year-old child?

CHANCELLOR HOLLANDER: No. Each parent would pay the current tuition. They would pay the current tuition, and when they paid--

SENATOR EWING: And, the premium?

CHANCELLOR HOLLANDER: That would be their investment, or premium, if you like. They would pay the current tuition. Let's assume they choose Rutgers. No, let's take Jersey City State College. They choose Jersey City State College as the instituion they want to go to. They would pay the current tuition at Jersey City State College.

SENATOR EWING: For four years?

CHANCELLOR HOLLANDER: For one year, two years, three years, or four years. Under our Plan, they can buy credits. They can buy 30 credits, 15 credits, 40 credits. It is a variable amount. But they pay the current tuition. Whatever they buy in terms of current tuition at Jersey City State

College would be what they would pay when the child went to that college.

Now, if a child decided not to go to that college, but to go to Rutgers, he would pay the difference between the tuition of Jersey City and Rutgers. If he decided to go to Princeton, he would pay the difference between the tuition at Jersey City and Princeton.

SENATOR DALTON: Under whose Program is that?

CHANCELLOR HOLLANDER: Under our proposal.

SENATOR DALTON: Under ours, too.

CHANCELLOR HOLLANDER: Yeah.

SENATOR DALTON: Okay.

CHANCELLOR HOLLANDER: They don't differ in that respect.

SENATOR DALTON: Okay.

SENATOR EWING: And, that would be just the tuition? What about books and things like that?

CHANCELLOR HOLLANDER: Well--

SENATOR EWING: And all the extras? I mean, because, you know, the bill-- College is not just the tuition.

CHANCELLOR HOLLANDER: We would limit it to tuition, because we would be concerned that under the Tax Reform Act, the payment for anything other than tuition might be considered payment for living costs and, therefore, would change the perception of whether the Plan should be taxed or not.

SENATOR EWING: Well, have you gotten a ruling, or--

CHANCELLOR HOLLANDER: No, no, no, no, no. We are going to have to get a ruling on any of this to make it work, but we are just getting advice on how to structure it, based on what it is they may say.

SENATOR EWING: Yeah, but you could be asking for different rulings as you went along. Has any effort been made to get any rulings on what you are thinking about, or the other Plan?

CHANCELLOR HOLLANDER: No. Further, the Internal Revenue Service has said they will not rule on any of these plans until they are put into place. That is the position they have taken.

SENATOR EWING: What does Michigan do?

CHANCELLOR HOLLANDER: Michigan is waiting for a ruling; they are waiting for a ruling.

SENATOR EWING: How long have they been in operation?

CHANCELLOR HOLLANDER: They just passed the legislation this year. I don't think they are in operation yet.

SENATOR FELDMAN: What if they don't get the ruling? Is that a possibility?

CHANCELLOR HOLLANDER: Oh, no. The Internal Revenue Service will give them a ruling one way or the other.

SENATOR FELDMAN: I mean an affirmative -- a positive ruling.

SENATOR DALTON: That's not true.

CHANCELLOR HOLLANDER: No?

SENATOR DALTON: The IRS doesn't feel obligated just to give a ruling willy-nilly.

CHANCELLOR HOLLANDER: Oh, no; oh, no, no, but I'm sure they would.

SENATOR DALTON: I mean, the ruling you are talking about is not one that is necessarily imminent. The ruling you are talking about may be four or five years away.

CHANCELLOR HOLLANDER: It's possible. Yeah, you're right. I think they'll give a ruling, but you're right; they are not guaranteed to give a ruling.

SENATOR EWING: Some families could be caught on it. If you go into it now and you wait four or five years for the ruling, they may suddenly say, "Oh, you have to pay a tax on that."

SENATOR DALTON: See, that is why the marriage-- The melding of what you propose and what I propose is the best of both worlds.

CHANCELLOR HOLLANDER: Oh, I'm sure of it, if we can do that.

SENATOR DALTON: Would you have any objections to that, Chancellor?

CHANCELLOR HOLLANDER: Of the melding of the proposals?

SENATOR DALTON: Yeah. I mean, that is what Michigan did.

CHANCELLOR HOLLANDER: In fact, I would suggest that maybe we should offer two plans; the one that is an Investment Plan, and the other that is an Assurance Plan.

SENATOR DALTON: I agree.

CHANCELLOR HOLLANDER: I do think, though, and here is where-- I don't know whether we will differ or not. I really think we ought not do what we have done in pensions; that is, allow the build-up of an unfunded cost. I am really concerned about that.

SENATOR EWING: To what extent are the pensions unfunded in the State of New Jersey?

CHANCELLOR HOLLANDER: Not necessarily in the State of New Jersey, but let's talk about corporations and businesses.

SENATOR EWING: Well, no, we're talking about the State operation.

CHANCELLOR HOLLANDER: I am not that familiar with the plan. I am familiar with corporate plans.

SENATOR EWING: Well, we are one of the best funded--

CHANCELLOR HOLLANDER: Yeah, I didn't mean to criticize our Pension Plan. I am just--

SENATOR EWING: Then don't bring up, you know-- Make it clear.

CHANCELLOR HOLLANDER: Jack, I am using the analogy--

SENATOR EWING: Why not use New York City then, or something, and their lousy plans?

CHANCELLOR HOLLANDER: Okay. We'll talk about New York City. In an unfunded pension plan, when you change the current rate of the pension and you don't contribute--

SENATOR EWING: That's right.

CHANCELLOR HOLLANDER: --the difference is very, very high. I am just arguing that the State cannot afford to take the risk of an enormous gap.

SENATOR EWING: Oh, no, I don't think we should. I don't think the Legislature would--

CHANCELLOR HOLLANDER: The reason I am concerned about it is because ultimately higher education will pay for it one way or the other.

SENATOR EWING: You mean the taxpayers?

CHANCELLOR HOLLANDER: The taxpayers will, but it's got to come out of some other program, and it is just as likely to come out of a Higher Education program as any other program. So, I don't think it is in our interest -- Higher Education's interest -- to burden the State in advance for a particular program and reduce its options to use the money as it sees appropriate at that point in time.

SENATOR FELDMAN: As I understand it, Jack, the Michigan plan does not take effect until the IRS comes out with its ruling. Am I correct? We must move now. You know, that could be three years, four years from now; it could be--

CHANCELLOR HOLLANDER: I don't know the answer to that. I do know they just passed it.

SENATOR DALTON: Should we wait? Should we wait, Chancellor?

CHANCELLOR HOLLANDER: Well, I think we-- Let me say I think we ought to do -- I'm thinking out loud now -- but I think we ought to do two things. One, we ought to pass the enabling legislation to find the Program so we can apply for a ruling. Two, I do think we have to do a market study of any plan that we propose, before we implement it, to determine whether or not, under whatever proposal we propose, there are parents out there who want to take advantage of it. We have not done a market survey, because we have just defined the

Program. We are going to do a market survey to make sure it meets the needs of the people of the State.

SENATOR EWING: It's too bad the insurance companies haven't done this -- Universal Life, because Universal Life is tremendous. It is a better vehicle than what either one of you is talking about.

SENATOR DALTON: No way; no way.

CHANCELLOR HOLLANDER: There are investment plans that are being proposed by commercial interests, and they are available.

SENATOR EWING: Universal Life, in particular.

SENATOR DALTON: I'll tell you, he sounds like an insurance agent, or something.

SENATOR FELDMAN: Well, he is; he is.

SENATOR DALTON: I sell it, too, but with mine you guarantee a tuition rate; you have a 10% discount; you have the ability to get a loan off the 50% of principal. I mean, that is better than any life insurance salesman can give me, and I don't have my life license.

SENATOR EWING: Yeah, but this way, with Universal Life, if the kid doesn't go to college, you get all that interest back. You can borrow against it without paying interest after about five or six years.

SENATOR DALTON: Well, from that perspective, you're right.

SENATOR EWING: Yeah.

SENATOR DALTON: That's an option.

CHANCELLOR HOLLANDER: Any parent today can buy any number of tax-free municipal funds and accumulate funds to pay for his child's education. It can be done.

SENATOR DALTON: See, that is the problem I have--

CHANCELLOR HOLLANDER: Let me just finish. What is the advantage of this over that? Three things possibly: First, there is no assurance to the parent that the moneys are going to be sufficient to pay for the tuition, so the parent takes a risk with respect to the differences in rate of return. Two, the stability of the Program is a minor risk, but it is a risk. I mean, when you invest for the next five or ten years, you feel comfortable in what you invest in. When you are investing for 25, 30, or 35 years, you want to be sure that the money is going to be there when the child reaches the age. A State-sponsored program can provide a little better assurance of that than other programs. Third, in the sense that there is no fear of it going out of business. That is what I am talking about.

SENATOR DALTON: Well, I haven't seen a whole lot of insurance companies go out of business.

CHANCELLOR HOLLANDER: I am not suggesting that; I am just telling you what the differences are, that's all.

SENATOR EWING: Other companies are going out of business.

SENATOR DALTON: I mean, really--

CHANCELLOR HOLLANDER: Wait, wait, wait, wait. You asked me what the differences are, and I am telling you what the differences are.

SENATOR DALTON: Well, that's not a difference.

CHANCELLOR HOLLANDER: Okay. Well, there are insurance companies that go out of business.

SENATOR DALTON: Life insurance companies.

CHANCELLOR HOLLANDER: Which is the one that we just had a major--

SENATOR EWING: Ambassador.

SENATOR DALTON: Ambassador is property/casualty.

CHANCELLOR HOLLANDER: Another reason -- and I think it is probably as much psychological as real, though it is real in part -- is that when you define a systematic Program like this, and publicize it, and identify it, and provide the guarantee of paying tuition, people will participate in it, companies will participate in it, whereas they will not otherwise begin to think in these terms. We really think we need to do an education job on parents, to persuade them to save in advance for their children. When you set up a mechanism to do that, it is a lot easier to accomplish.

SENATOR DALTON: But, why would, for instance, your Program be more attractive than the one I have here? The problem I have with yours is that you don't make it attractive enough.

CHANCELLOR HOLLANDER: Yeah, you can say that, and that is so. The reason it is so is because we are presenting our Program as essentially an insurance program, and not an investment program; that is, we are arguing that investment programs are generally available, and what the parent needs and cannot otherwise get in our society is a guarantee of the tuition payment.

But, the difference is, fundamentally again, between our two Programs, Senator, is the subsidy that we think is necessary in your Program, and which we are concerned about because it reduces the option of government then to make choices about how it wants to spend its money.

SENATOR DALTON: I think we can work that out within our Program. I don't think that is going to be a problem.

CHANCELLOR HOLLANDER: Well, then, our programs will be identical, because once we spread the risk, yours becomes a little less attractive to parents, and more attractive to institutions in the State.

SENATOR DALTON: I have a commitment -- a basic principle that mine is always going to be-- I want that attractiveness. I don't want to just-- You know, you're talking about for the sake of State subsidy, eliminating some attractiveness.

CHANCELLOR HOLLANDER: That's right.

SENATOR DALTON: What I'm saying is, if you want middle-income people to invest in this Program, you are going to have to maintain a modicum of attractiveness. I mean, the greatest increases we are seeing in college these days are not tuition. They are the ancillary services that we allow people to borrow for. They are the greatest increases we are seeing. And, you know, talking about a room, or talking about books--

CHANCELLOR HOLLANDER: Room and board, yeah. They tend to be affected more by the free market than tuition.

SENATOR DALTON: Yeah.

SENATOR EWING: Chancellor, what would be the cost to the State if the interest was given back to those who went into the Assurance Plan?

CHANCELLOR HOLLANDER: It would be the difference between the interest you charge--

SENATOR EWING: Well, what did the actuary tell you?

CHANCELLOR HOLLANDER: Well, it depends how much interest you charge.

SENATOR EWING: You've had an actuary working on this.

CHANCELLOR HOLLANDER: Again, if the spread--

SENATOR EWING: Fine. In dollars-- You must have some general figures -- parameters -- you went through.

CHANCELLOR HOLLANDER: Our actuary worked on our proposal, not on that proposal. It depends on what you lend the money at. It depends on--

SENATOR EWING: Well, didn't he give you any examples? How much did you pay this guy?

CHANCELLOR HOLLANDER: Wait a minute. Are you asking me to give--

SENATOR EWING: I want to ask something. Who was the actuary you got?

ASSISTANT CHANCELLOR BRUGEL: Do you want me to answer that?

CHANCELLOR HOLLANDER: Yeah, go ahead, John. See, he answers the hard questions. I only answer the easy ones.

SENATOR EWING: Well, I hope you approve the bill.

ASSISTANT CHANCELLOR BRUGEL: We did not use an external consultant for that. We used our own staff.

CHANCELLOR HOLLANDER: We had it checked by an actuary.

SENATOR EWING: Who is your actuary?

ASSISTANT CHANCELLOR BRUGEL: Buck Consultants. We worked through the Department of the Treasury and used Buck Consultants. They then looked at our actuarial model -- the model we used for a modeling. But we did not use Senator Dalton's bill, so we really can't respond to your question.

SENATOR EWING: When you used Buck-- They do the State's work. Don't they do the actuarial work for the State?

SENATOR DALTON: They didn't study our bill.

SENATOR EWING: Did they charge you a separate fee then? How much did they charge you?

ASSISTANT CHANCELLOR BRUGEL: I think we have a contract that would provide for up to $8000 worth of consulting, and we have not used all of that yet.

SENATOR EWING: I was just wondering what it would cost in your Plan -- the Insurance Plan -- if the student decided not to go to college, or the student decided to go out of State, and the parent could get the money back with the interest. I think it would be very interesting to try that, because maybe that would have to be subsidized by the State to make the Plan more attractive from that point of view. I think it is very unfair to take people and ask them to invest -- it is going to be a sacrifice for them now, even though it will be less than years from now -- and say, "Oh, you're not going to get anything back."

CHANCELLOR HOLLANDER: The answer is simple. We just have to calculate it. It would be the cost of the interest.

SENATOR EWING: Fine, but they--

CHANCELLOR HOLLANDER: Wait a minute, Jack. Hold it, let me finish.

SENATOR EWING: No, I was talking first. The Universal Life plan-- They figure it out, and then they will change the interest each year. It can be projected out. They can do that, and come up with some plan.

CHANCELLOR HOLLANDER: We will give you a projection, but understand that when you permit the parent to withdraw the interest, you are likely then to change the taxability of the whole Program.

SENATOR EWING: Fine, but you don't know yet what the hell is going to happen with the IRS anyway -- period. So, why bring that up?

CHANCELLOR HOLLANDER: Because we can make reasonable assumptions based on past tradition, practices, the current Internal Revenue-- We can anticipate what is likely to be their decision. I mean, that is easy to do.

SENATOR EWING: I would be very interested to find that out then.

SENATOR DALTON: Jack, may I pick up on that point you were making?

SENATOR EWING: Yes.

SENATOR DALTON: I am a parent.

CHANCELLOR HOLLANDER: I am beginning to feel like a witness.

SENATOR EWING: You are.

SENATOR DALTON: I am a parent, and right now I have a Universal Life program for my kids. I do.

SENATOR EWING: Yeah, I know.

SENATOR DALTON: Okay. What I would get-- If the two children I am saving for don't go to school, decide not to for one reason or another -- college -- then I still receive the interest accrued -- principal and interest accrued from that program.

CHANCELLOR HOLLANDER: Sure.

SENATOR DALTON: Okay? If I invest in your Program -- okay? -- and my daughter decides not to go to college, I just get the principal back.

CHANCELLOR HOLLANDER: You are investing less in my Program than you would in the Universal Life policy, because you are paying a premium for your life insurance -- your term insurance. You've got two policies. You've got a term insurance policy and you've got an investment. If we charge the parents not 100% of tuition, as we didn't charge the parents current tuition, but 120% of the current tuition, or 130% of the current tuition, yeah, we could do the same thing. See, you're paying a premium--

SENATOR DALTON: The whole thing is, I don't know-- I am trying to think of why I would take my money out of that Universal Life program -- that savings program -- to go into yours. That is what I am trying to determine.

CHANCELLOR HOLLANDER: Well, once you're in it, I'm sure you won't.

SENATOR DALTON: Because, if my daughter decides not to go to school -- to college -- okay? -- then all you're giving me is the principal.

CHANCELLOR HOLLANDER: Yeah.

SENATOR DALTON: In Universal Life, I am getting the principal and the interest back.

SENATOR EWING: And you don't pay the tax on the interest until you take it out.

SENATOR DALTON: That's right.

CHANCELLOR HOLLANDER: But, let's examine these differences. You know, we're making all kinds of assumptions about numbers, and it's hard to do when you are comparing different approaches.

SENATOR DALTON: Okay.

CHANCELLOR HOLLANDER: But, remember, in your Plan, you are asking the institution to project tuition. Then you are discounting that projection at the current rate of interest. That may end up costing twice as much as the proposal in our Plan, especially if that estimate of future tuition is very high.

SENATOR DALTON: Your actuary said that?

CHANCELLOR HOLLANDER: No. I just preceded all of this by saying that we are looking at two different approaches, and it is very hard to-- It depends entirely-- It really depends entirely upon what that projection is. If an institution projects a 10% increase in tuition-- With me?

SENATOR DALTON: Yeah.

CHANCELLOR HOLLANDER: If an institution projects a 10% increase in tuition, and the current market rate is 7%, they have to put in more than today's tuition to reach that level, even 90%. So, we've got a Plan that says, "Here is what you have to pay in now, and here is the risk you assume." You've got a Plan that says, "We are going to determine what you have to pay in now to reach a predetermined amount." And that will be higher than ours if the rate of tuition increase is higher than the current investment rate. It will be lower than ours if the rate of tuition increase projected is less than the return on investment.

SENATOR FELDMAN: If I may, this is--

CHANCELLOR HOLLANDER: So, what you are buying from us -- okay? -- let me put it down to a bottom line -- is likely to be -- again, we are dealing with conjecture -- is likely to be a lower current outlay, Senator -- a lower current outlay for that insurance than under any other proposal.

SENATOR FELDMAN: May I suggest -- because this is conjecture now -- that there be a fiscal analysis on both plans, on Senator Dalton's Plan, your Department's Plan -- a thorough fiscal analysis by your Department, or whatever, and get it in to us as soon as possible. Then we would have these figures in black and white, and will be able to look at it from a fiscal point of view.

CHANCELLOR HOLLANDER: Yes, but in every case we are going to have to make assumptions about all these variables.

SENATOR FELDMAN: All right, but--

CHANCELLOR HOLLANDER: But, we can do that. We can assume that is the most likely circumstance, and then compare all of the plans. We can do that, sure.

SENATOR FELDMAN: For both plans?

CHANCELLOR HOLLANDER: Oh, sure.

SENATOR DALTON: See, I think you are absolutely right, Matty. I don't think these programs are mutually exclusive. As a matter of fact, I think they go hand in hand. Obviously, the Legislature and the Governor in Michigan felt the same way, because their program is a combination of both components.

CHANCELLOR HOLLANDER: Senator, I just have to make it clear that you are absolutely right. We are proposing two proposals -- an Investment Plan, which is almost identical to yours, except it doesn't start with a projection of tuition, and an Assurance Plan, which is the alternative. We are proposing that both be considered, not just one.

SENATOR EWING: I have a question.

SENATOR FELDMAN: Yes, Senator Ewing.

SENATOR EWING: On our loan default, you know--

CHANCELLOR HOLLANDER: Yeah?

SENATOR EWING: The State is very, very low on it in New Jersey; I mean, what we would--

CHANCELLOR HOLLANDER: Yeah. Our loan default rate, I think, is 4.8%. The trigger is 5%.

SENATOR EWING: If either one of these Programs, or a combination were put in, would it free up other money in the way of grants and things?

CHANCELLOR HOLLANDER: Well, let me play out the scenario. To the extent that some people participate in this Plan who, 10 or 15 or 20 years from now, might suffer a loss of income and, therefore, require TAG awards to the extent that this Program is available, they won't need those awards. To the extent that this Program is available, they may not have to borrow, and to the extent that those persons are not as good a credit risk as others, the default rate will be affected favorably.

SENATOR EWING: Well, should we think of something, and actually put it in, that if there is a substantial decrease in grants because of programs of this nature, and also a substantial decrease in default, that part of that money could go toward funding this Plan to gradually lower what the people have to put in. It seems the more money invested-- If the State put $20 million into a fund right now, it would certainly help to lower what the people would have to pay.

CHANCELLOR HOLLANDER: I think that is a fair statement, although it is hard to calculate.

SENATOR EWING: Oh, yeah, but I mean to say if--

CHANCELLOR HOLLANDER: Yeah. Any program that provides -- that eases the circumstance of parents in providing for their child's education, will help the parents, will help the children, will help the colleges, and will very likely help the State, because it will reduce their dependence on State subsidy when they go to college.

SENATOR EWING: I think that ought to be looked at, too, to see if something possibly could be worked out.

CHANCELLOR HOLLANDER: Okay.

SENATOR FELDMAN: Thank you, Chancellor.

CHANCELLOR HOLLANDER: Thank you for being so patient.

SENATOR FELDMAN: And to you, John Brugel, thank you very much. We will now move on to our next witness, Darryl Greer, the New Jersey State College Governing Boards Association.

Chancellor, you are to be interviewed.

CHANCELLOR HOLLANDER: Pardon?

SENATOR FELDMAN: The press wants you. Good morning, Darryl.

D A R R Y L G. G R E E R: Good morning, Mr. Chairman. Thank you very much for the opportunity to appear before this august body. First, I should say the Chancellor is a hard act to follow. Many of the things the Chancellor went into detail on, I will not take up the Committee's time on. I haven't had a chance to review the Chancellor's Plan, though I have looked at the Senator's bill and am prepared to comment on that.

I agree with many of the things that the Chancellor indicated before the Committee. I have for you-- I have given Dr. Schorr a one-page statement which summarizes the position of the State College Governing Boards, which represents the nine State colleges in New Jersey.

I had the privilege of talking briefly to Senator Dalton before today, so let me just make a couple of comments that I hope support some of the things that the Committee may have already discovered.

First, the Association does support -- very much -- the approach that Senator Dalton is outlining, principally because it -- by his own admission -- is an innovative approach. The purpose of this hearing is to acquire some testimony information so that the Senator and the Committee might refine it. The main reason that the Association supports the bill is because it provides one method -- one alternative -- to helping families plan and pay for college. As the Chancellor pointed out, with escalating costs and perhaps declining Federal support, this approach does need to be looked at.

I have indicated some of the strengths of the bill. I think there are also some concerns, which I won't go into to any great detail. I think the Chancellor has already touched on that, related to who shares in the risk -- the family, the institution, and the State. I think, also, you have hit upon with the Chancellor the uncertainty about tax deductibility, which may provide an incentive or a disincentive to prospective participants in the Plan.

I think I would be remiss if I didn't echo some of the Chancellor's sentiments that even though the bill -- and I think the sponsor has already recognized this -- even though the bill, if enacted, can provide an important supplement to families and students in New Jersey, it probably cannot supplant the basic State and Federal student aid programs that we have. I think the best support that this Committee and the Legislature can provide to citizens in New Jersey is continuing strong support, as you have, of the current basic student financial aid programs.

One thing I would like to do, with the sponsor's permission-- I have not consulted fully with his staff, but we really want to make a pledge to assist the Committee, the sponsor and the cosponsors, and the Chancellor in taking a hard look at the Plan and how it might be revised or merged, as questions come up and additional study is done. We don't have any magic answers, but we want to be supportive of the process to move this legislation along and study the issues.

One thing I would offer, in addition to the excellent staff and resources that the Chancellor has, and that the State colleges have, I think there are some national actors who John Brugel and the Chancellor are quite aware of, who they, too, can call on, and who I think my office can call on, who we have all worked with, who have studied these proposals, not only in Michigan, but at other institutions, such as Dartmouth, Duquesne, or some of the other colleges that have made some attempts in this direction.

So, we look forward to supporting the sponsor and the Committee in trying to uncover what remedies the bill may or may not need to move along in the legislative process. One thing I might point out, Mr. Chairman, is, in addition to my one-page statement on behalf of the Association, just to illustrate how on target the sponsor and the Committee and the Chancellor are on this issue-- In the current issue of "The Chronicle of Higher Education," there are two very brief articles I have supplied to you, one on the Michigan plan and one on a brand-new proposal from the Governor of Missouri, Governor Ashcroft, who has been very active in the higher education reform movement nationally. He has offered a tuition savings plan that is interesting, which you may or may not want to look at, but I provided it for your information. Under this plan, a student or parents could save for college tuition, and the Missouri taxes would be deferred. The family would not pay taxes, and the student could use it, in effect, as a voucher to go to any college in the country, not just in Missouri.

Again, I applaud the Senator's efforts, and the Committee's hearing of this issue. We pledge our support to work with you in helping to seek the proper tools to put the legislation together.

Thank you.

SENATOR FELDMAN: Thank you, Darryl. You know, some important pieces of legislation take two or three years to really get on the Governor's desk. However, I am determined that this bill is going to be expedited. With everyone's cooperation, I want this signed into law by the fall of this year. We want to send a signal out to the people of this State, as well as to the nation, that New Jersey is taking another big step forward to help higher education, as well as the middle-class community of our State.

Are there any questions for Darryl Greer?

SENATOR DALTON: No, I just appreciate his offer, and we are going to take him up on it.

MR. GREER: Like you, Senator, I have a six-year-old at home. We are in Burlington County, and I, perhaps, have benefited from too much higher education. But, he needs a chance, too, and we look forward to assisting you on this.

SENATOR EWING: Do you want to buy from Universal Life?

MR. GREER: How about-- Is a lunch involved in this?

SENATOR EWING: I'll give you my card.

MR. GREER: Okay, that's a good deal.

SENATOR EWING: I'll give you his card.

MR. GREER: That's a good deal. Thank you.

SENATOR FELDMAN: Robert Janiszewski, Association of Independent Colleges and Universities. Good morning, Bob.

ROBERT C. JANISZEWSKI: Mr. Chairman and members of the Committee, first let me thank you for the opportunity to appear here before you today on behalf of the Association and our colleges and universities. You will note from the submitted testimony that-- I think on page 1 I broached the basic issue which this bill is aimed at. As a matter of fact, it is the same issue that the Tuition Aid Grant Program in New Jersey is aimed at. It is the same issue that the proposed loan component to the Program in the Senator's bill is aimed at. That all has to do with the affordability of college.

Needless to say, like the Chancellor, like the Senator, like the State colleges and Rutgers University, the independent colleges have an abiding concern with regard to the issue of affordability of a college education. Our sector of the Higher Education quilt -- an opportunity that exists -- is the one which is most tempest tossed in the arena of market forces. Consequently, we are, I think, extraordinarily sensitive, when one takes a look at the average independent institution, to the issue of cost, to the issue of tuition, and, further, to the issue of our ability to attract students to our institutions so that we may perform the mission for which our institutions exist.

I note here in the early part of the paper several issues that have -- or several studies that have reported data which are of substantial concern to us. I am not going to go through all of them now, except to commend the written testimony to the Committee, which will help to point out some of the deep and abiding concerns our institutions have in the issue of affordability.

I should also say that I can only echo what the Chancellor has shared with the Committee with regard to the recent Federal budget proposals as they affect student aid, as they affect other programs. College Work Study, I think, should be mentioned specifically. Sometimes people don't look at that as a form of aid because students work for that money, but, nonetheless, it is. Essentially, Secretary Bennett is carving out and substantially slashing the patchwork of aid programs which allow our institutions to be affordable to the broad scope of students who are seeking higher education.

We are not -- choose not to be, and continue to pursue what we hope is the destiny of serving the entire demographic curve in the State of New Jersey, students from every economic background, every social description, and all manner of religions. That patchwork quilt of aid enables us to do that. I should, on behalf of those institutions, thank the Legislature, and this Committee, in particular, for its support in helping to bolster the variety of student aid programs that the State has offered, which assist us to allow students to participate in the educational processes at our institutions.

Rather than go through, again, the statistics of what the Secretary has proposed, suffice it to say that each year that he has proposed dramatic reductions in student aid, the Congress has, frankly, come to our rescue as the higher education community, by and large. However, it has been a rescue, as the Chancellor pointed out, of saving what is there, of trying to keep things whole and intact, as opposed to looking toward the future for new and creative ways to help students and their families to finance higher education.

Each time the Secretary and the Administration does that, it magnifies what people are already feeling, and that is a growing concern with the question of how to go about the business of paying for a college education.

So, against that backdrop, let me suggest -- and I have shared this with Senator Dalton in the past -- that we, as the Association of Independent Colleges and Universities, have encouraged our national Association to form a task force -- which was done -- to take a look at the issue of prepayment plans and the wide variety that have been proposed in a number of states across the country. Essentially, that task force came back and reported -- just last week in Washington -- that they recommended that a national plan be put together. I think, from our perspective as the New Jersey Association of Independent Colleges, we hold out little hope that the national government, at this stage in the process, would be willing to put forward new and creative financing plans that perhaps have the potential to call for a commitment of additional Federal dollars, at the very same time when the current proposal on the table before the Appropriations Committees is to reduce student aid 40% and better across the country.

So, we really think that the leadership role in alternate methods of financing higher education is being cast upon the states, and the states, much to their credit, and this Committee, to its credit, and to Senator Dalton as the sponsor, to his credit, have been willing and eager to take up that task. We hope, in the long run that if a good number of states, in fact, do that, and proceed in their own way with plans of this nature, we may, in fact, from the grassroots of the states, in the final analysis, create, piece by piece, a national program.

But, in the meantime, I am not holding that hope forward at this point. We encourage the Committee, the Department, the Chancellor, and all of the sectors of higher education in New Jersey, frankly, to join together to encourage the adoption of a plan. I don't propose to suggest to the Committee that I know a plan, or the plan, or which plan it should be, but we have set forth in the testimony here several components which we think are important elements of a good prepayment plan. I would like to share them with you. They are numbered and underlined here for easy reference, and I will make this as brief as I can.

To echo what Mr. Greer said -- and it is something that is very close to the hearts of the independent institutions likewise, given what I stated earlier about being very sensitive to market forces and to price -- this Plan should not be viewed -- and I will no doubt say this many times through the process -- as a mechanism or a way to supplant other student aid programs, whether they be Federal or State. I know it is not the intent of the Committee to do that. The reason I emphasize that at this point, in public, is, in fact, to be on the public record. We have seen, in recent days in Washington, a variety of proposals put forward as new initiatives in student aid. The one most recently put forward is the Income Contingent Loan Program, which Secretary Bennett has put forward, but he has put that forward in the context as a replacement of Campus Work Study, as a replacement of State Student Incentive Grants, or Student Assistance Grants, and a wide variety of other student aid programs.

So, I want to be clear from the outset, and on the record, that our support of the concept and encouragement of its adoption should not be read, in any quarter, as a way in which to save money, to reduce student aid programs in any other quadrant of the higher education community. I think the important point to make here is, these programs-- This particular proposal is, in fact, a viable alternative only for families which, in fact, can afford, and have the current income resources, to put that money aside. It may even be a viable option for families which could borrow money if they do not have a current cash flow adequate to the job of investing in such a program. Home could craft a way through home equity, I suppose, to make even the interest and debt service on the borrowing as a tax exemption in order to place money into the fund.

But, for those who do not have home equity, for those who do not have current income which would be adequate to the amount of money needed to be invested, it still would be, where a college education may perhaps even become more remote in their perceived ability to pay for it, for those families. And, of course, I am principally speaking now of a demographic which is a low-income demographic, which is basically an urban center demographic, and an important part of the higher education opportunity that the State of New Jersey offers.

I point to studies by the Department of Higher Education and the focus it has placed on the decline in minority enrollment in our colleges and universities, and submit that the Committee should keep in mind that many families of lower socioeconomic status may not be able, at some point in time, to contribute to such a plan, depending on what the final plan may be.

We think that the Plan itself, as a concept, is one that should enhance student choice. That is what it is meant to do, I think, by providing vehicles and motivation and a mechanism through which families can save.

In connection with that, and I think some of that was revealed through earlier discussion, we believe the Plan absolutely must be simple. I have had these conversations with people on many occasions, with regard to various options in such plans and, more often than not, within about 15 or 20 minutes of exploring options, the person is absolutely lost in the explanation of how it works, what it does, what about these units of tuition, what is a standard unit, and it's lost. If people don't understand what a plan is about, if it is not placed in the most simple terms, it is going to be very difficult to get them to write a check, which is certainly the most important part of this process, to get money into an account which then can be used.

I want to skip over point four, except to say that when I say that a plan of this nature should enhance choice, I think the Committee should look at the issue of portability. How portable is it? Obviously, if it were a national plan, it would be portable across the country. I understand, however, the Committee's desire to address the question about migration likewise. I further understand, in a State-sponsored Program in particular, and one that may have some State appropriation attendant to it perhaps now or down the line, that there would be an incentive to spend that in-State. But, I raise that as an issue that perhaps could be addressed, although we are quite sensitive, likewise as the independent sector, to the issue of out-migration.

New Jersey, as you know, ranks number one in the country in the net out-migration of students to other states. So, I only mention that in passing, and place no emphasis really on it.

Point five, I think, is the most critical one. Our task force, that is the national Association's task force, in talking with a number of consultants, which I know that the legislative staff has spoken with, and the Department likewise, has gotten the message time and time and time again. I don't propose or submit to you as an expert on tax law, but from IRS rulings in the past, I think one thing is relatively sure. Unless the Plan can be viewed as a purchase of service, in advance of the delivery of that service, it may very well start to move away from the possibility of being ruled as tax exempt.

I don't believe we can approach the national government at this point and ask for the tax exemption, although it may be a possibility for the future. But, at this point, I would suggest, and Dr. Anderson out at Columbia has suggested likewise many a time, that the careful crafting of the verbiage in the bill, that the turning of one word here or there could very well impact a potential IRS review of the bill. The closer it can be described and, in fact, operate as a purchase of service, the greater the likelihood of a tax exemption.

The reason I emphasize that is, I really believe that that is the singular most important incentive to invest in this Program -- the tax exempt nature of it. I think that is the very reason why Michigan has waited to implement that component of their program -- awaiting a ruling from IRS. Without that exemption, I think they have found the attractiveness of investment, no matter how many other whistles and bells are put on it, may not be enough to make the program a viable alternative for financing higher education.

Additionally, I want to reinforce something that the Chancellor did say, anticipating a question the Committee may pose. It is listed as point a. underneath this. It falls in the first position because of our view that it is an important one. The Program, as submitted -- as introduced by Senator Dalton -- called for an automatic 10% discount. The issue was addressed a little bit earlier by the Chancellor. If we are talking about an average tuition in the independent sector today of some $6000 -- to take a round number -- that discount this year would be $600, multiplied times the number of students. Ten years, 15 or 20 from now, that would be a substantial number of dollars, and that presupposes the ability of an institution to, in fact, project accurately, at least to some degree, 15 years later.

Our sector has a difficulty with guaranteeing that tuition at the discounted level because of the substantial nature of what that discount would be in raw dollars, number one. And secondly, because, I would have to say, they feel it would be a virtual impossibility to, by any stretch of definition, to accurately project tuition out that far. The reason is, too many other forces well beyond our control impact directly on our tuition structure. The most recent example is the reauthorization of the Higher Education Assistance Act in Washington, which took place last year in 1986, and that reoccurs every five years. It is impossible for us to know five years from now, or 10, what that Higher Education Assistance Act will be, or what the economy will be, or whether, as in the past several years, the State or Federal government would require us, as an economic unit, to address such issues as asbestos removal, without the resources to do so, which ultimately impact tuition; fire code upgrades, which, again, without resources, fall principally in our structure -- our economic structure -- as institutions, impact on tuition. The imponderables and the uncontrolled costs are so dramatically a part of the tuition structure in the independent sector, any calculation out that far, if I were a college president in the independent sector, would be highly suspect, and would, perhaps, even put me at professional risk, given the inability to clearly see that far into the future and in light of the backdrop of reauthorization and other issues which could come.

Let me, at this point, stop to say that the balance is contained within the document that we would like to suggest as attractive features of a plan. We think it is important that such a plan be developed. In the summary section, we do make a recommendation -- and I have heard it made twice already today. Rather than go directly to the verbiage contained in there, our recommendation essentially was going to be -- before Senator Feldman made his commentary about his intended time line -- that the Committee continue to do what it has done today. You have really been a lightening rod today. The Senator was a lightening rod in the introduction of the bill;

drew attention to it; drew out some research. This Committee hearing today was a lightening rod insofar as it brought people to the table who finally had to commit one way or the other: In our case, two concepts and components in an ideal plan perhaps; and the Chancellor who committed to the nuts and bolts in an actual plan. You have moved this process along simply by virtue and act of having this hearing.

We ask, in the testimony, that you, in fact, as the Legislature, set up a task force. Now, that sounds like a way that time could be consumed on this thing. There have been student aid task forces put together by the Board of Higher Education. Mr. Merck has chaired those in studying alternative ways. The Chancellor and his Department have obviously done a great deal of work on this. Darryl Greer and the State colleges, Rutgers, NJIT, and others have no doubt looked at it. As a community of colleges from an institutional perspective, though, those institutions have not shared with each other some of the information that they have today shared with this Committee. I think perhaps you can assist us in putting together those components of the community who will be dealing with this on a day-to-day basis, not in any way to delay, although I did suggest September-- The reason I did, frankly, Senator, is because during the summer we are in a down cycle compared to the level of activity colleges have during the course of the normal academic year, and would have a little bit more time. But, I am not wedded to that; neither are the independent colleges.

SENATOR FELDMAN: Before you become County Executive from Hudson, we would like to have this as your crowning achievement.

MR. JANISZEWSKI: It could very well be.

SENATOR EWING: Did you switch parties?

MR. JANISZEWSKI: No, sir, not the last time I looked at my registration card.

SENATOR FELDMAN: What I intend to do-- I was going to call, not for a task force, but for a work group -- a work group. I was going to ask Dr. Schorr to be the organizer of this work group, speaking for me and for this Committee. On that work group, I would like to have everyone who testified here today -- the Chancellor's representative, you, and Darryl, and John Brugel, and also staff such as Bob Noonen, and whoever else -- people who are informed and who want to work on this thing and who can make a contribution -- because we must move. If there is anyone sitting here who is not a witness today -- I don't want it too unwieldy -- but anyone who feels he or she can add something to this work group, I would be very happy to entertain that name.

MR. JANISZEWSKI: We would be absolutely delighted to participate in such a working group, with the understanding that it is a working group which, on a time line, would participate in the crafting and--

SENATOR FELDMAN: Right, and to make sure it is expedited and that we move along, I am going to suggest, ask, command, whatever, that the sponsor of the bill chair this work group. So, you are their first head, Senator Dalton.

SENATOR DALTON: Good. As long as it is a command, Matty--

MR. JANISZEWSKI: Senator, we appreciate the invitation to participate, and look forward to the calling of that work group together.

With that, let me submit myself to whatever questions the Committee may have at this point.

SENATOR FELDMAN: I think you have encapsulated and summarized the things that have been said, and also the views of the independent colleges. I think this is something we must read (referring to witness' written statement), and we will.

Dan, do you have any questions for Bob?

SENATOR DALTON: No. I just think Bob's suggestion with regard to the real concern he places on the verbiage within the bill, with regard to its potential tax impact as determined by the IRS, is, you know-- He is right on target. I think we should take a look at some of the other programs that are now being proposed throughout the country. I think that is another ideal suggestion. I look forward to working with you, Bob, on this.

MR. JANISZEWSKI: Thank you very much.

SENATOR FELDMAN: Thank you, Bob. Is there anyone here who wishes to comment, who has not declared herself or himself as a witness? (no response) If not, let me thank you for coming, and you, Chancellor, for giving up your time, and your staff.

(HEARING CONCLUDED)

APPENDIX

NJ DEPARTMENT OF HIGHER EDUCATION

News Release

For Release: IMMEDIATELY
Telephone: John Brugel
(609) 588-3225

CHANCELLOR OF HIGHER EDUCATION TESTIFIES ON TUITION INVESTMENT PROGRAM

TRENTON, February 11, 1987 -- Chancellor T. Edward Hollander appeared today before the Senate Education Committee in the State House Annex to testify on Senator Daniel Dalton's Tuition Investment Program bill (S-2499).

Before commenting on the bill, Chancellor Hollander emphasized affordability as currently one of the major issues in higher education. "Unless we address this issue," he said, "New Jersey stands to lose a generation of nurses, teachers, social workers and other professionals who cannot mortgage themselves indefinitely to pay for educational costs."

The Chancellor also expressed his concern over decreasing federal support of student financial aid. In 1981-82 the federal government supported 29 percent of college expenses for undergraduate students; by 1985-86 that figure had dwindled to only 17 percent. Hollander noted that the Federal Administration's FY 1988 budget proposals threatened to rescind almost $30 million in FY 1987 funds to New Jersey and to cut current programs by at least $90 million in FY 1988. Students will have to pay more for federal loans and only a small number of the neediest students will obtain a federal grant.

Given the reduced federal commitment, Chancellor Hollander said that he supported efforts of state representatives to develop innovative funding strategies for students. He praised Senator Dalton and his staff for their work in sending the message to families on the responsibility for saving for a college education. Moreover, he felt the bill also helps promote New Jersey institutions by making them even more financially attractive to students.

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The Chancellor asked that Senator Dalton's bill be revised to reduce the risk to New Jersey colleges. He also pointed out that the supplemental loan component of the bill could be extremely costly to the state because it requires significant state subsidies and could reduce the availability of state funds for other state aid programs.

Hollander noted that, in conjunction with the Board of Higher Education's Student Assistance Committee, the Department has also been working on a tuition pre-payment plan that is similar to Senator Dalton's bill. The Department's plan, the Tuition Assurance Plan, differs, however, on several points. The Department's proposal allows participants to choose between tax-free and taxable benefits and calculates payments on the basis of current tuition prices instead of future tuition projections. This program would guarantee to institutions payments of at least 90 percent of tuition to minimize the institution's risks. Initial program funding would be provided through the New Jersey Higher Education Assistance Authority, and the program's fund would be allowed to build up reserves to minimize any financial exposure to the state.

The Chancellor released a draft copy of the department proposal at the hearing, adding that it would be circulated to the higher education community for comments, and that the program would be part of the final Student Assistance Committee recommendations to be presented to the State Board of Higher Education in May 1987.

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THE NEW JERSEY TUITION ASSURANCE PLAN

DRAFT

February 9, 1987

Office of Student Assistance
Department of Higher Education
#4 Quakerbridge Plaza
Trenton, NJ 08625

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Executive Summary

The New Jersey Tuition Assurance Plan is a savings plan designed to offer families an attractive means to insure themselves against the rising expense of sending their children to New Jersey colleges. The Plan guarantees that college credits purchased at the current tuition price or the current price plus a small premium can be redeemed at no further charge when the child enrolls in a participating institution in New Jersey. The Plan also offers the possibility of eliminating the tax consequences of the guarantee.

The Plan will be administered by a public Authority. All public institutions of higher education and those independent colleges and universities in New Jersey that elect to participate agree to accept from this Plan the future policy value or the actual tuition cost of credits assured on behalf of matriculating students, (whichever is less). The Plan will reimburse institutions for a minimum of 90% of tuition. In return, participating institutions agree to provide to students accepted for admission the number of credits (or their equivalent) assured through this Plan. The Plan is not envisioned to require any state funding: start-up funds will be loaned to the program by the Higher Education Assistance Authority.

For each child insured, families will select which participating institution the child will attend and the number of assured credits (from one semester to four years). This will determine the cost of the policy to the family based on current tuition prices at that institution. When the child reaches college-going age, he or she can use the tuition policy to attend the designated college. If, however, the beneficiary decides to attend a different participating institution, exchange agreements among these institutions will allow the individual to transfer the prepaid tuition.

The Plan offers two options which affect the tax status of the tuition benefits and the withdrawal terms of the Plan. Under the tax-free option, any refunds paid out to those who withdraw are limited to the principal only. Though dependent on an IRS ruling, it is anticipated that this should make the benefits of the Plan non-taxable. Under the interest-bearing option, payments will be based on current tuition plus a small premium, but any refunds will be based on both the principal plus an interest amount determined by the Authority. It is anticipated that these benefits will be taxable.

The Plan offers families a guaranteed tuition, the opportunity for a wide range of choice among higher education institutions in New Jersey, the option of realizing certain tax advantages on the appreciated value of the policy, and the chance to receive a refund or to transfer the credits in the event of a change of plans. The Plan offers New Jersey colleges an attractive means of recruiting students and a guaranteed return.

Objectives of the New Jersey Tuition Assurance Plan

To enable families to plan better for meeting the costs of college education, the Department of Higher Education recommends the establishment of the New Jersey Tuition Assurance Plan. This Plan will enhance a families' ability and willingness to pursue higher education for their children in New Jersey.

The primary purpose of the Tuition Assurance Plan is to encourage families to save for their childrens' education by providing a financially attractive savings plan. The program is designed as an insurance policy for families against the risk of rising higher education costs. The Plan allows families to set aside funds long before their children reach college age and may mitigate against the current trend of rising debt burden by encouraging families to "save now" instead of "owe later."

A secondary purpose of the Tuition Assurance Plan is to provide institutions of higher education in New Jersey with a program to help attract and retain New Jersey students. By ensuring a tuition payment plan for students, these institutions will be better situated to pursue tuition strategies compatible with the overall objectives of higher education in New Jersey and the mission of their institution. In addition, the Tuition Assurance Plan will permit institutions to share the risks and benefits of guaranteeing a future rate of tuition. By participating in a single state-wide plan and pooling their resources, they can benefit from the economies of scale, higher investment returns, the transferability of benefits between institutions, and the general goodwill and publicity that will be generated.

Administrative Provisions

A public authority shall oversee the operation of the Tuition Assurance Plan. In order to maintain and administer the program, the authority shall create the Tuition Assurance Plan Fund as a separate, nonlapsing revolving fund which shall be used exclusively for the purposes of the program. The monies in the fund shall be invested and reinvested by the Authority through the State Treasury. The fund shall include all monies invested in the Plan by participants, all interest received on monies in the fund, all fees charged for participating in the Plan, as well as any other monies, public or private, contributed to the fund. Initially, the fund shall seek a loan from the New Jersey Higher Education Assistance Authority to establish fund reserves and cover administrative costs. Once the tuition fund has stabilized its reserves, this loan shall be repaid.

On or before March 1 of each year, the Authority shall make an annual report on the activities of the program for the preceding calendar year to the Governor and the Legislature, including in the report a complete operating and financial statement. The authority shall provide for an external audit of the fund each year by certified public accountants.

Institutional Provisions

Every public institution of higher education in New Jersey shall participate in the Plan and each independent institution of higher education in New Jersey can elect to participate by submitting a formal request to the Authority. All participating institutions shall submit annually the average per credit tuition charge (or its equivalent) for attending that institution. This price will be used to determine the institutional tuition credit exchange rate on each policy issued during that academic year.

Each participating institution agrees to accept from the Authority the redemption value of each assurance policy redeemed at the institution during the semester. The redemption value will be at least 90% of the actual tuition charged at the time the policy is redeemed. The Authority shall determine the distribution of funds above the 90% level based upon tuition charges and participation levels at each institution. Any surplus (funds above the 100% level) will be allocated between the institutions and the Plan.

Each participating institution agrees to provide to every beneficiary of a valid assurance policy who is admitted to the institution, the number of tuition credits (or their equivalent) provided through that policy. If the policy is worth more than four years of tuition at that insitution, then the beneficiary's options depend on the withdrawal provisions of the policy. If the policy provides interest-bearing withdrawal, then the difference will be refunded to the beneficiary by the Authority at the withdrawal interest rate. If the policy provides for tax-free benefits, then only the principal may be refunded.

Sponsor and Beneficiary Provisions

Tuition assurance policies can be bought by any individual acting as sponsor. The designated beneficiary must be younger than fifteen years-old and must have been born in New Jersey or be a resident of the state for twelve months prior to application open a policy. If the beneficiary of a policy changes state residence, he or she will not lose assured tuition benefits. but any tuition not covered by the policy at public institutions will be assessed at the prevailing non-resident rate. A policy cannot have more than one beneficiary and the policy cannot be transferred from the designated beneficiary to another individual.

At the time the sponsor opens a policy, the sponsor must choose one of two withdrawal options. The first option is designed to carry no federal tax consequences (subject to IRS confirmation). This option restricts the cash surrender value of the policy to principal only if the sponsor or beneficiary withdraws from the Plan without redeeming the policy for its tuition benefits at a participating New Jersey institution. The second option is expected to carry a tax consequence on the accrued value of the policy, whether it is redeemed for tuition or surrendered for cash. This option restricts the cash surrender value of the policy to principal plus a rate of withdrawal interest set by the Authority and specified in the policy. This option also requires a premium or surcharge that must be paid by the sponsor in addition to current tuition value when the policy is purchased. The premium serves to cover the greater risk borne by this type of policy and will be included in determining the policy's cash surrender value. Both the withdrawal interest rate and the premium rate will be adjusted annually by the Authority.

The sponsor designates the participating institution whose tuition is to be assured at the time the policy is purchased. However, the beneficiary can enroll and claim assured credits (or their equivalent) at any institution that is participating in the Plan. The rate of credit exchange will be established according to the relative cost per credit for each institution at the time the policy was purchased. Normally, a maximum of four years of undergraduate credits will be assured. Any payments due to the beneficiary resulting from a transfer from the designated institution will be refunded under the withdrawal terms.

The Authority will set a minimum dollar amount for each payment made toward the beneficiary's policy. For example, the Authority may require a minimum annual payment of one semester's tuition, or $1,500, whichever is less. The Authority may charge both an administrative fee to cover record-keeping costs and a withdrawal fee to cover the additional costs associated with withdrawal. Once initiated, policy payments can be made up to the beneficiary's eighteenth birthday.

Corporations and other institutions in the state should be encouraged to provide payroll withholding plans to permit employees to participate in the Plan. The state may also want to establish a withholding plan for state employees. Corporations and institutions will qualify as sponsors if they choose to make such arrangements available as a fringe benefit for children of their employees.

Participating in this Plan shall in no way be construed to ensure that the beneficiary shall be admitted to a participating institution, nor shall an institution be required to follow any special admission policy for plan participants.

Any beneficiary who does not redeem either a part of the whole of a matured policy for credits at a participating institution, can surrender that part or whole to the Authority for a cash refund. The amount of the refund depends upon the withdrawal option chosen by the sponsor. The Authority shall develop policies for providing equitable refunds in case of the death or disability of a beneficiary.

The Risks and Benefits

Sponsors and Beneficiaries

The Tuition Assurance Plan is constructed to balance the risk between the families and the institutions. The risk to the families is obviously based upon which plan option is selected. Under the tax-free option, the risk is that the participants lose all investment earnings should they decide to withdraw from the Plan. Under the taxable option, there is less risk in case of withdrawal, as the participant is guaranteed investment earnings at an interest rate established by the Authority. Under this option, however, the purchase cost is increased by an initial premium to reduce institutional risk.

In the case of either option, the potential value of the tuition benefit of the Plan will be greater than the amount that would have been gained through regular savings plans. Families will have to assess the risk of withdrawal before joining the Plan. It is anticipated that the Plan will attract primarily those families who feel that there is a relatively small chance that the student will opt not to attend college or attend a non-participating institution.

There are several potential benefits of the Tuition Assurance Plan. Families benefit from the peace of mind they gain when they know that their children's educational future is financially secure. They also benefit from having access to a regular mechanism for stretching out college payments over a reasonable length of time and at today's lower prices. Finally, families will benefit if they wish to reduce the tax consequences of paying for higher college costs and choose the tax-free option. Although the tax benefit must await IRS ruling, the restrictive features of the tax-free option increase the chance of a favorable outcome.

Institutions

The risk to institutions in the Tuition Assurance Plan is that the amount they are reimbursed from the fund falls short of actual tuition. The maximum risk that an institution is exposed to is 90% of the actual tuition rate. The institution will receive funds above the 90% level based upon tuition charges and participation levels in the Plan. Any funds in excess of the tuition level will be split between the institution and the Authority. The size of the risk to institutions is dependent on the percentage spread between tuition increases and investment earnings. The Plan assumes that long-term investment rates will be close enough to the tuition increase rates over time to make the loss to institutions minimal.

Institutions benefit from the public goodwill that such a plan will generate. Yearly increases in the cost of college have sensitized families to the financial burden they must bear if they want their children to get a quality higher education. Institutions should play a role in helping parents pay for higher costs at the same time as they raise those costs. Institutions also stand to benefit from any surplus generated by the Plan.

The Authority

The reserves of the Tuition Assurance Plan will help minimize risk to the institutions and the state. The source of the reserves will be a) the initial premium of participants under the taxable option who do not withdraw; b) full or partial interest benefits of participants who withdraw; and c) any other revenues contributed to the fund. A portion of the reserves must be used to cover liquidity needs and administrative costs of the program. Any surplus in the reserves will be allocated between the institutions and the fund based upon criteria developed by the Authority.

The Plan will involve minimal risk to the Authority as it will be held liable only for the amount that investments fall below 90% of the tuition value. The Plan does not require any initial state subsidies as reserve funds will be established through a loan from a non-state account controlled by the New Jersey Higher Education Assistance Authority (NJHEAA).

The benefits to the State under this plan are several. The State will be providing New Jersey residents with a mechanism to save for higher education. In the long run this savings tool may reduce families' dependence on loans or even State grant programs. By establishing one statewide program (as opposed to individual institutional prepayment plans) the State is able to provide New Jersey residents with a choice of in-state educational opportunities. Finally, the State will be able to minimize the administrative costs and maximize investment returns by running one statewide program.

Cost Implications of the Tuition Assurance Plan

The costs of administering the plan will be met through custodial and transaction fees paid by the participants. A grant of $100,000 will be requested from the NJHEAA to establish the program in the first year.

The cost to the colleges or the Authority will be determined by the long-run difference between the average rate of tuition increase and the average rate of return on investment to the plan fund (the "point spread" between tuition rates and interest rates). Currently, the return on ten-year Treasury bonds is between 7-8 percent, while New Jersey college tuition has been increasing by 7-9 percent annually over the past five years. Although several colleges are considering increases higher than this in the next few years, such high rates of tuition growth cannot be sustained over a long period of time, and it is unlikely that the average spread will exceed two points in the long run. Under either withdrawal option, the Plan will be able to pay the colleges over 90% of actual tuition even if the rate of return on investment averages two percentage points below tuition growth. If the rate of return is only 1% below the tuition growth rate, the Plan can generate a surplus. There is no exposure to the Authority unless the long-run point spread is 3 points or more. (see Tables 1 and 2)

It is difficult to predict how many participants would actually be attracted to such a plan. There are about 1.5 million children under age 15 in New Jersey. About 75 percent will graduate from high school, about 60 percent of the high school graduates will go to college, and about 60 percent of these will go to college in New Jersey. That means there is a potential population of 400,000 participants (1.5 million x .75 x .60 x .60). If we assume that the Plan will attract only one percent of these per year, then about 4,000 would <u>enter</u> the Plan every year.

However, pay-out costs with the exception of withdrawals are only incurred when participants <u>leave</u> the Plan at age eighteen and claim the tuition benefit. There would be no pay-out costs during the first four years of the plan because all participants would be under eighteen. During the first ten years costs should be very low, because only a small number of participants will be reaching age eighteen each year if the age distribution is relatively uniform. If the Plan does attract about 4,000 participants per year with an even age distribution, it will take about eighteen years before as many as 4,000 per year would be leaving the Plan.

Assuming a 9% tuition growth and a 7% investment return with 4,000 students entering the Plan each year, after ten years the cost to the colleges would be about $300,000 (which would cover 98% of the actual tuition). With a 10% tuition growth the cost would be about one million dollars, which would cover 95% of actual tuition. (see Tables 3 - 5)

The financial impact of the proposed Tuition Assurance Plan on the participating colleges is difficult to specify or to interpret in absolute dollars, because the full costs of the program will not occur for several decades, during which time inflation will totally change our current conception of the value of a dollar. Participants can enroll in the plan at any age below 15, but cannot normally claim the tuition benefits until age 18; therefore participants can be in the plan anywhere from 4 to 18 years or later before maturity. If about the same number of participants enter the plan each year, and their ages are about evenly distributed, then it will take 18 years before the full costs of the plan are realized. If tuition actually continued to increase annually at the current rate of about 8% during that time, the colleges would be charging four times as much as today. Therefore, the potential costs of the plan to the colleges can best be understood in relative terms, as the percentage of actual future tuition that the Plan will be able to reimburse to the colleges.

Each year that a payment is made, the fund will incur a liability for paying a college for a certain number of future college credits, depending on the size of the payment made. The actual cost to the college will not be incurred until the student matriculates and claims the pre-paid tuition benefits by redeeming the assurance policy. At that time the college will be reimbursed by the plan for at least 90% of actual tuition.

Tables 1 and 2 show the results of the simulations in Appendix 2 with different combinations of tuition and interest rates assuming that either 70 percent or 80 percent of the participants will actually claim the benefits and matriculate in a New Jersey college. Under the tax-free option, the plan fund retains all the earnings of those who do not matriculate. In this example the interest-bearing option assumes withdrawal of principal plus interest earnings at a rate 2% below the average rate of return as well as payment of a 5% premium on tuition.

In Table 1 the rows show the average annual rate of tuition growth, while the columns show the average annual rate of return on investment. The numbers in the boxes show the redemption value of the policies as a percentage of actual tuition when the rate of return is equal to or less than tuition growth. For example, if we expect 80% matriculation, a 9% tuition growth, and a 7% return, then the redemption value will cover 95% of actual tuition.

Table 2 employes the same analytic approach, but arranges the results according to the percentage "point spread" between tuition growth and rate of return.

TABLE 1

TUITION ASSURANCE PLAN SIMULATION
PERCENTAGE OF ACTUAL TUITION COVERED BY THE PLAN
AT VARIOUS RATES OF TUITION, RETURN AND NJ MATRICULATION
PAYMENTS INCREASED ANNUALLY AT TUITION RATE

....TABLE 1.... PERCENT OF ACTUAL TUITION COVERED		PLAN OPTIONS																			
		(A) TAX-FREE										(B) INTEREST-BEARING									
		RATE OF RETURN										RATE OF RETURN									
		3	4	5	6	7	8	9	10	11	12	3	4	5	6	7	8	9	10	11	12
		PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT
NJ MATRICU-LATION %	TUITION GROWTH %																				
70	3	108	.	.	.	.	.	.	.	.	.	111	.	.	.	.	.	.	.	.	.
	4	101	110	.	.	.	.	.	.	.	.	103	111	.	.	.	.	.	.	.	.
	5	94	103	112	.	.	.	.	.	.	.	97	103	111	.	.	.	.	.	.	.
	6	88	96	104	114	.	.	.	.	.	.	90	97	103	111	.	.	.	.	.	.
	7	82	90	98	106	116	.	.	.	.	.	85	90	97	103	111	.	.	.	.	.
	8	77	84	91	99	108	117	.	.	.	.	79	85	90	97	103	111	.	.	.	.
	9	72	79	85	93	101	109	119	.	.	.	74	79	85	90	97	103	111	.	.	.
	10	68	74	80	87	94	102	111	120	.	.	70	75	79	85	90	97	103	111	.	.
	11	64	69	75	81	88	95	103	112	121	.	66	70	75	79	85	90	97	103	111	.
	12	60	65	71	76	83	89	97	104	113	122	62	66	70	75	79	85	90	97	103	111
80	TUITION GROWTH %																				
	3	105	.	.	.	.	.	.	.	.	.	108	.	.	.	.	.	.	.	.	.
	4	98	106	.	.	.	.	.	.	.	.	101	108	.	.	.	.	.	.	.	.
	5	91	99	107	.	.	.	.	.	.	.	95	101	108	.	.	.	.	.	.	.
	6	85	92	100	108	.	.	.	.	.	.	88	95	101	108	.	.	.	.	.	.
	7	80	86	93	101	109	.	.	.	.	.	83	88	95	101	108	.	.	.	.	.
	8	75	81	87	94	102	110	.	.	.	.	78	83	88	95	101	108	.	.	.	.
	9	70	76	82	88	95	103	111	.	.	.	73	78	83	89	95	101	108	.	.	.
	10	66	71	77	83	89	96	103	112	.	.	69	73	78	83	89	95	101	108	.	.
	11	62	67	72	77	83	90	97	104	112	.	65	69	73	78	83	89	95	101	108	.
	12	59	63	68	73	78	84	90	97	105	113	61	65	69	73	78	83	89	95	101	108

TABLE 2

TUITION ASSURANCE PLAN SIMULATION
PERCENTAGE OF ACTUAL TUITION COVERED BY THE PLAN
AT VARIOUS RATES OF TUITION, RETURN AND NJ MATRICULATION
PAYMENTS INCREASED ANNUALLY AT TUITION RATE

....TABLE 2.... PERCENT OF ACTUAL TUITION COVERED		PLAN OPTIONS																			
		(A) TAX-FREE										(B) INTEREST-BEARING									
		POINT SPREAD BETWEEN TUITION AND RETURN										POINT SPREAD BETWEEN TUITION AND RETURN									
		0	1	2	3	4	5	6	7	8	9	0	1	2	3	4	5	6	7	8	9
		PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT
NJ MATRICU-LATION %	TUITION GROWTH %																				
70	3	108	.	.	.	.	.	.	.	.	.	111	.	.	.	.	.	.	.	.	.
	4	110	101	.	.	.	.	.	.	.	.	111	103	.	.	.	.	.	.	.	.
	5	112	103	94	.	.	.	.	.	.	.	111	103	97	.	.	.	.	.	.	.
	6	114	104	96	88	.	.	.	.	.	.	111	103	97	90	.	.	.	.	.	.
	7	116	106	98	90	82	.	.	.	.	.	111	103	97	90	85	.	.	.	.	.
	8	117	108	99	91	84	77	.	.	.	.	111	103	97	90	85	79	.	.	.	.
	9	119	109	101	93	85	79	72	.	.	.	111	103	97	90	85	79	74	.	.	.
	10	120	111	102	94	87	80	74	68	.	.	111	103	97	90	85	79	75	70	.	.
	11	121	112	103	95	88	81	75	69	64	.	111	103	97	90	85	79	75	70	66	.
	12	122	113	104	97	89	83	76	71	65	60	111	103	97	90	85	79	75	70	66	62
80	TUITION GROWTH %																				
	3	105	.	.	.	.	.	.	.	.	.	108	.	.	.	.	.	.	.	.	.
	4	106	98	.	.	.	.	.	.	.	.	108	101	.	.	.	.	.	.	.	.
	5	107	99	91	.	.	.	.	.	.	.	108	101	95	.	.	.	.	.	.	.
	6	108	100	92	85	.	.	.	.	.	.	108	101	95	88	.	.	.	.	.	.
	7	109	101	93	86	80	.	.	.	.	.	108	101	95	88	83	.	.	.	.	.
	8	110	102	94	87	81	75	.	.	.	.	108	101	95	88	83	78	.	.	.	.
	9	111	103	95	88	82	76	70	.	.	.	108	101	95	89	83	78	73	.	.	.
	10	112	103	96	89	83	77	71	66	.	.	108	101	95	89	83	78	73	69	.	.
	11	112	104	97	90	83	77	72	67	62	.	108	101	95	89	83	78	73	69	65	.
	12	113	105	97	90	84	78	73	68	63	59	108	101	95	89	83	78	73	69	65	61

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Appendix 1: A Comparison With the Tuition Investment Program (New Jersey Senate Bill 2499)

The central problem in designing a guaranteed tuition plan is how it should be financed. The two basic financing issues are: 1) who is to pay for the costs if tuition rates increase faster than rates of return? 2) who should share in the risks?

In order to be successful, the plan must be equally attractive to both individuals and colleges, and this will happen only if they share the costs and the risks in return for certain assurances. The individual participant must be assured that the plan can offer a return (in tuition value) that is greater than the return available through individual investments. The colleges must be assured that the tuition revenue from the fund can cover an acceptable threshold of their actual tuition charges.

A plan can be structured so that the costs are paid by one or a combination of the following:

1. The colleges can bear the cost by being required to accept as payment for tuition whatever the plan fund has earned.

2. The participants can be required to pay for it by paying a premium on current tuition levels.

3. The participants who withdraw from the plan and do not claim their tuition benefits can be required to pay for it through penalties which restrict the amount of the refund.

4. The state can pay for it through subsidies or guarantees.

The issue of who pays the cost is closely related to the issue of who shares the risk of financial loss. The risk to participating individuals depends primarily on withdrawal rights. If participants can withdraw both their principal and the investment earnings from the plan fund, then there is no risk to them (except that the return might have been higher elsewhere). If they want tax-free benefits, they must accept the risk of losing their earnings if the tuition benefit is not claimed. The risk to the colleges is that the plan fund will not be able to earn enough to reimburse them for an acceptable percentage of the actual tuition charged. This institutional risk can be reduced by structuring the plan to retain all or part of the earnings of those who withdraw and requiring the payment of a premium on tuition.

The proposed Tuition Assurance Plan (TAP) provides one way to share the costs and the risks between individual participants and the colleges. An alternative approach which shares many of the same objectives is the Tuition Investment Program (Senate Bill 2499). Although this Plan has many attractive features, it requires the colleges to bear a level of cost and risk that may be unacceptably high.

Under the Tuition Investment Program (TIP) the colleges must annually submit a schedule of projected tuition levels at least fifteen years into the future. Participants are guaranteed tuition at 90 percent of this projected level, or 90 percent of the actual tuition level if it is less. The Plan Authority establishes a schedule of fixed payments so that when these payments are invested at the expected rate of return they will yield an amount equal to 90 percent of projected tuition. Participants who withdraw receive a refund of principal plus interest earnings at the fund's rate of return.

The Tuition Investment Program would be very attractive to individual participants, who are guaranteed tuition at a 10 percent discount and interest earnings if they withdraw; most of the risk and most of the cost must be borne by the colleges. Further, there is no provision for building a reserve fund to cover these risks. If the colleges project their future tuition accurately (which is unlikely), the minimum cost is the 10 percent of tuition represented by the discount. If colleges overestimate tuition growth, the cost is still 10 percent since all benefits or overpayments go to participants. If colleges underestimate tuition growth, then the colleges must bear the loss and accept less than 90 percent of actual tuition.

The Tuition Investment Program, unlike the TAP proposal, includes a provision for participants to take out supplemental loans up to 50% of the guaranteed tuition level to cover educational costs. The financial implications of this provision are difficult to calculate, however, it is assumed that the capital needed for loans would preclude some long term investing. The impact of this provision could be a) participants would be required to pay higher initial costs as a result of lower cumulative fund earnings; or b) institutions would be provided with a lower percentage of tuition payments as a result of this additional liability to the fund.

The basic differences between the Tuition Investment Program (TIP) and the Tuition Assurance Plan (TAP) concern three issues:

1. Insurance or Investment Plan?

The TIP is an investment plan in that it provides a return to all participants - either in the form of tuition benefits or the interest on payments made into the fund. The TAP is an insurance plan - it guarantees tuition if the benefit is claimed, otherwise only the principal or the principal plus earnings at a rate below average return are refunded.

College savings/investment plans are already available to families through financial institutions, and there may be no need for the State to establish a competing plan. The major advantage of a state plan structured like an insurance policy is that the benefits are more likely to be exempt from federal taxes. It appears that any investment plan which offers a return to those who withdraw or do not use the tuition benefit will probably be taxable. By restricting withdrawals, the Plan becomes an insurance plan: individuals must risk losing interest in return for the benefit of an assured tuition level.

2. Current Price or Future Price of Tuition?

Payments into TIP are based on projected future tuition; payments into the TAP are based on actual current tuition prices. Basing the size of the payments into the Plan on future tuition projections creates a number of problems. From a practical point of view, no one has developed a reliable economic model on which to base such projections, which would have to be made up to fifteen years into the future. From a policy perspective, colleges would get the wrong message, because they would be encouraged to overestimate tuition increases in order to reduce the risk of being underpaid by the Plan. Allowing participants to buy college credits at current tuition (or current tuition plus a premium) avoids these problems and there will be no ambiguity about how much has been pre-paid or how much to charge.

3. How Much Financial Risk and Cost to Colleges?

The TIP minimizes the risk to individual participants, but requires the colleges to absorb the costs of a 10 percent tuition discount plus the cost of underestimating tuition growth. The TAP provides for a sharing of the risk among individuals, the Plan, and the colleges. The maximum exposure of institutions is 10% of tuition.

Summary

The proposed Tuition Investment Program places the entire risk onto the colleges and requires them to absorb a cost which equals or exceeds 10 percent of the actual tuition. There is no risk to participants: they either receive the tuition benefits or their principal plus interest. The colleges, on the other hand, must give benefits equal to 90 percent of actual tuition or the projected tuition if it is less. If the college underestimates the tuition increase, it must absorb the cost; if it overestimates, only the student profits from the excess. There is no mechanism for the Plan fund to insure the colleges against projection errors or for the Plan fund to build reserves.

In the proposed TAP, the risk and costs are shared by the participants, the colleges and the Authority. The participants must accept the risk of losing the full value of their interest if they do not claim the tuition benefit (tax-free option). Families finding this risk unacceptable may choose to participate in the alternative (taxable) program which requires a premium, but provides for withdrawal plus some level of interest earnings. The institutions face a maximum risk of 10% of tuition; however, favorable investment rates could eliminate any costs and perhaps generate a surplus distribution to the institutions. The Authority will be allowed to build reserves under the TAP program to minimize risk, cover administrative expenses, and guarantee 90% tuition to institutions.

Appendix 2: Tuition Assurance Plan Simulation

The attached tables show the results of a model which simulates the Tuition Assurance Plan (tax-free option) using the following assumptions:

- 1,000 participants enroll in the plan each year for 20 years, their ages at enrollment are uniformly distributed from birth through 14. They make an annual payment every year they are in the plan until they are 18, at which point they claim the tuition benefit or withdraw the principal.

- the ages of each entering cohort of participants are assumed to be uniformly distributed, 1/15 or 67 from each cohort reach age 18 after 4 years (since the maximum age at entry is 14) and every succeeding year for 15 years. The plan reaches stability after 19 years when 67 participants, from each of the first 15 entering cohorts (67 x 15 = 1,000 roughly), leaves the plan.

- participants will be in the plan for an average of 11 years (median age of entry of 7 plus four years of participation after age 14).

- the annual tuition purchases start at $1,000 for the first year of the plan and are increased every year at the rate of the average tuition increase. Therefore, subsequent payments always buy the same amount of tuition (inflation adjusted) as $1,000 bought in 1986.

The numbers for each "entry year" into the program show the 18-year averages and totals for each cohort of participants from birth to age 14 who enter the plan, in the same year, and who will therefore take from 4 to 18 years to claim their benefit. The numbers for each "exit year" represent the costs actually incurred in each future year. The first pay-out costs to the plan are incurred in year 5, when only those who were 14 years old in year 1 go to college. The model reaches stability after year 18. Since no new participants are added after year 20 the number of claims drops until year 38 when the last one-year-olds who joined in year 20 go to college. The bottom line in each table shows the totals or averages for all 20,000 participants in the simulation over the 38 years it will take before they all claim their benefits.

Column legend:

C	The number of participants entering or leaving the plan each year.
D	The average number of years of payments to purchase tuition.
E	The average annual dollar payment.
F	The total dollar amount of the payments (in millions) which the participants contributed.
G	The total pre-paid tuition benefits (in millions) claimed by those who matriculate. This is the value of the pre-paid credits the year they are claimed.
H	The plan funds available to pay the tuition benefits or "redemption value" (total of all payments plus all investment return minus the principal of the non-matriculants).
I	The cost of the Tuition Assurance Plan tax-free option proposal (the difference between tuition benefits claimed and plan funds).
J	The percentage of actual tuition claimed which could be paid out of plan funds to reimburse the colleges.
K	The (inflated) dollar value of the average pre-paid tuition benefit.
L,M,N	The number of years of college that the tuition benefit is worth at a state college, Rutgers and an independent college (average).

Table 3 simulates a 9% annual tuition growth, a 7% average annual investment return, and 80% of the participants matriculating at a New Jersey college. In year 1 the first cohort of one thousand participants enters the plan. Since their ages are uniformly distributed (67 age 1, 67 age 2, etc.) and they make a payment each year, they will make an average of 11 payments (median age 7 plus four years after age 14). The average yearly payment into the plan over the next 18 years is $1,780 (everyone pays $1,000 the first year, $1,090 the second year, $1,188 the third year, etc.). The total amount paid by the cohort after 18 years is $19.6 million. The total tuition benefit is $27.8 million, which represents the sum of the actual value of the pre-paid credits the year that they are claimed by 80% of the participants who matriculate.

The plan fund has collected and earned $26.4 million from this cohort (principal plus earnings from 80%, plus the earnings from the 20% who withdraw). The cost of the plan is $1.4 million, the difference between the value of the tuition benefit and the plan funds: the plan can reimburse the colleges for 95% of actual tuition. The average tuition benefit received over 15 years was $34,720. This would have bought 9 years of tuition at a state college, 6.2 years at Rutgers, or 1.9 years at an independent college. Those choosing the public institutions would pay in less; those choosing an independent institution would need to pay in more.

The value of the tuition benefits in terms of "tuition-years" and the percentage of the tuition covered by the plan is the same for all entering cohorts. The absolute dollar values, however, keep growing at 9% per year. The bottom half of the table shows the same information for each group of participants who reach age 18 and leave the plan. In year 5 only the 67 who entered at age 14 in year 1 leave the plan. They have paid an average of $1,140 for four years, which is enough to buy 2.9 years of tuition at a state college. Each year the oldest members of the next cohort leave the plan until year 19 when there are 1,000 entering and also 1,000 leaving so the plan attains stability.

The three simulations (tables 3 - 5) show the effect, respectively, of an 8 percent, 9 percent and 10 percent annual tuition increase assuming a return on investment of 7 percent and 80 percent of the participants actually matriculating in a New Jersey college. At an 8 percent tuition increase, the plan will generate a surplus sufficient to cover the actual tuition plus 2 percent; at 9 percent tuition increase the plan could cover 95 percent of actual tuition; at a 10 percent tuition increase it will cover 89 percent of tuition (Column I).

During the first four years of the plan there are no costs, since the 14-year olds who entered in year 1 will not go to college until year 5. During the first 10-15 years, the costs will be relatively low; during years 19-24, the plan attains stability (after year 24 the costs rise because no new participants are being added in the simulation). Although the average percentage of tuition reimbursed shown in tables 1 and 2 are the average percentages for the cohorts, these percentages are higher in the early years of the plan's operation and during the years when the plan attains stability.

TABLE 3
TUITION ASSURANCE PLAN SIMULATION
9% TUITION GROWTH 7% INVESTMENT RETURN 80% NJ MATRICULATION
PAYMENTS ADJUSTED TO RECEIVE $1000 TUITION AT 1986 PRICES

(A) ENTRY YEAR	(B) EXIT YEAR	(C) NUMBER	(D)AVG YRS PAID	(E)AVG YRLY PAYT	(F)TOTAL PAID $MIL	(G)TUITION BENIFIT $MIL	(H)PLAN FUNDS $MIL	(I)PLAN COST $MIL	(J)PCT OF TUITION COVERED	(K)AVG $ TUITION BENEFIT	(L)TUITION YRS VALUE STATE C	(M)TUITION YRS VALUE RUTGERS	(N)TUITION YRS VALUE INDEPNDT
1	.	1000	11.0	1780	19.6	27.8	26.4	1.353	0.95	34,720	9.0	6.2	1.9
2	.	1000	11.0	1940	21.4	30.3	28.8	1.475	0.95	37,840	9.0	6.2	1.9
3	.	1000	11.0	2120	23.3	33.0	31.4	1.608	0.95	41,250	9.0	6.2	1.9
4	.	1000	11.0	2310	25.4	36.0	34.2	1.752	0.95	44,960	9.0	6.2	1.9
5	.	1000	11.0	2510	27.7	39.2	37.3	1.910	0.95	49,010	9.0	6.2	1.9
6	.	1000	11.0	2740	30.1	42.7	40.7	2.082	0.95	53,420	9.0	6.2	1.9
7	.	1000	11.0	2990	32.9	46.6	44.3	2.270	0.95	58,230	9.0	6.2	1.9
8	.	1000	11.0	3260	35.8	50.8	48.3	2.474	0.95	63,470	9.0	6.2	1.9
9	.	1000	11.0	3550	39.0	55.3	52.6	2.696	0.95	69,180	9.0	6.2	1.9
10	.	1000	11.0	3870	42.5	60.3	57.4	2.939	0.95	75,410	9.0	6.2	1.9
11	.	1000	11.0	4220	46.4	65.8	62.5	3.203	0.95	82,190	9.0	6.2	1.9
12	.	1000	11.0	4600	50.5	71.7	68.2	3.492	0.95	89,590	9.0	6.2	1.9
13	.	1000	11.0	5010	55.1	78.1	74.3	3.806	0.95	97,650	9.0	6.2	1.9
14	.	1000	11.0	5460	60.1	85.2	81.0	4.149	0.95	106,440	9.0	6.2	1.9
15	.	1000	11.0	5950	65.5	92.8	88.3	4.522	0.95	116,020	9.0	6.2	1.9
16	.	1000	11.0	6490	71.4	101.2	96.2	4.930	0.95	126,460	9.0	6.2	1.9
17	.	1000	11.0	7070	77.8	110.3	104.9	5.373	0.95	137,840	9.0	6.2	1.9
18	.	1000	11.0	7710	84.8	120.2	114.3	5.857	0.95	150,250	9.0	6.2	1.9
19	.	1000	11.0	8400	92.4	131.0	124.6	6.384	0.95	163,770	9.0	6.2	1.9
20	.	1000	11.0	9160	100.7	142.8	135.8	6.959	0.95	178,510	9.0	6.2	1.9
.	5	67	4.0	1140	0.3	0.3	0.3	0.003	0.99	5,650	2.9	2.0	0.6
.	6	133	4.5	1220	0.7	0.7	0.7	0.008	0.99	6,930	3.2	2.2	0.7
.	7	200	5.0	1300	1.3	1.3	1.3	0.016	0.99	8,390	3.6	2.5	0.7
.	8	267	5.5	1380	2.0	2.1	2.1	0.030	0.99	10,050	3.9	2.7	0.8
.	9	333	6.0	1470	2.9	3.2	3.1	0.052	0.98	11,960	4.3	3.0	0.9
.	10	400	6.5	1570	4.1	4.5	4.4	0.083	0.98	14,120	4.7	3.2	1.0
.	11	467	7.0	1670	5.5	6.2	6.1	0.128	0.98	16,570	5.0	3.5	1.0
.	12	533	7.5	1780	7.1	8.3	8.1	0.190	0.98	19,350	5.4	3.7	1.1
.	13	600	8.0	1900	9.1	10.8	10.5	0.280	0.97	22,500	5.7	4.0	1.2
.	14	667	8.5	2020	11.5	13.9	13.5	0.396	0.97	26,060	6.1	4.2	1.3
.	15	733	9.0	2160	14.2	17.6	17.1	0.553	0.97	30,080	6.5	4.5	1.3
.	16	800	9.5	2300	17.5	22.1	21.4	0.752	0.97	34,600	6.8	4.7	1.4
.	17	867	10.0	2450	21.2	27.5	26.5	1.017	0.96	39,700	7.2	5.0	1.5
.	18	933	10.5	2610	25.6	33.9	32.6	1.362	0.96	45,440	7.5	5.2	1.6
.	19	1000	11.0	2790	30.7	41.5	39.7	1.789	0.96	51,890	7.9	5.4	1.6
.	20	1000	11.0	3040	33.4	45.3	43.3	1.955	0.96	56,560	7.9	5.4	1.6
.	21	1000	11.0	3310	36.4	49.3	47.2	2.124	0.96	61,640	7.9	5.4	1.6
.	22	1000	11.0	3610	39.7	53.8	51.4	2.320	0.96	67,200	7.9	5.4	1.6
.	23	1000	11.0	3940	43.3	58.6	56.1	2.534	0.96	73,250	7.9	5.4	1.6
.	24	1000	11.0	4290	47.2	63.9	61.1	2.757	0.96	79,840	7.9	5.4	1.6
.	25	933	11.5	4630	49.7	67.9	64.9	2.990	0.96	90,980	8.2	5.7	1.7
.	26	867	12.0	5000	52.0	71.7	68.5	3.232	0.95	103,480	8.6	5.9	1.8
.	27	800	12.5	5380	53.8	75.2	71.7	3.478	0.95	117,490	9.0	6.2	1.8
.	28	733	13.0	5790	55.2	78.1	74.4	3.722	0.95	133,190	9.3	6.4	1.9
.	29	667	13.5	6230	56.1	80.4	76.5	3.952	0.95	150,750	9.7	6.7	2.0
.	30	600	14.0	6700	56.3	81.8	77.6	4.157	0.95	170,410	10.0	6.9	2.1
.	31	533	14.5	7200	55.6	82.1	77.8	4.323	0.95	192,390	10.4	7.2	2.1
.	32	467	15.0	7730	54.1	81.0	76.6	4.422	0.95	216,930	10.8	7.4	2.2
.	33	400	15.5	8300	51.4	78.2	73.8	4.426	0.94	244,330	11.1	7.7	2.3
.	34	333	16.0	8900	47.5	73.3	69.0	4.310	0.94	274,910	11.5	7.9	2.4
.	35	267	16.5	9560	42.0	65.9	61.9	4.024	0.94	309,010	11.8	8.2	2.4
.	36	200	17.0	10250	34.9	55.5	52.0	3.521	0.94	347,040	12.2	8.4	2.5
.	37	133	17.5	11000	25.7	41.5	38.8	2.736	0.93	389,390	12.5	8.7	2.6
.	38	67	18.0	11800	14.2	23.3	21.7	1.593	0.93	436,570	12.9	8.9	2.7
.	.	20000	11.0	4560	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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TABLE 4
TUITION ASSURANCE PLAN SIMULATION
8% TUITION GROWTH 7% INVESTMENT RETURN 80% NJ MATRICULATION
PAYMENTS ADJUSTED TO RECEIVE $1000 TUITION AT 1986 PRICES

24x

(A) ENTRY YEAR	(B) EXIT YEAR	(C) NUMBER	(D)AVG YRS PAID	(E)AVG YRLY PAYT	(F)TOTAL PAID $MIL	(G)TUITION BENIFIT $MIL	(H)PLAN FUNDS $MIL	(I)PLAN COST $MIL	(J)PCT OF TUITION COVERED	(K)AVG $ TUITION BENEFIT	(L)TUITION YRS VALUE STATE C	(M)TUITION YRS VALUE RUTGERS	(N)TUITION YRS VALUE INDEPNDT
1	.	1000	11.0	1660	18.3	24.4	24.9	-0.444	1.02	30,550	9.0	6.2	1.9
2	.	1000	11.0	1800	19.7	26.4	26.9	-0.479	1.02	33,000	9.0	6.2	1.9
3	.	1000	11.0	1940	21.3	28.5	29.0	-0.517	1.02	35,640	9.0	6.2	1.9
4	.	1000	11.0	2090	23.0	30.8	31.3	-0.559	1.02	38,490	9.0	6.2	1.9
5	.	1000	11.0	2260	24.9	33.3	33.9	-0.603	1.02	41,570	9.0	6.2	1.9
6	.	1000	11.0	2440	26.9	35.9	36.6	-0.652	1.02	44,890	9.0	6.2	1.9
7	.	1000	11.0	2640	29.0	38.8	39.5	-0.704	1.02	48,480	9.0	6.2	1.9
8	.	1000	11.0	2850	31.3	41.9	42.6	-0.761	1.02	52,360	9.0	6.2	1.9
9	.	1000	11.0	3080	33.8	45.2	46.1	-0.822	1.02	56,550	9.0	6.2	1.9
10	.	1000	11.0	3320	36.5	48.9	49.7	-0.888	1.02	61,070	9.0	6.2	1.9
11	.	1000	11.0	3590	39.5	52.8	53.7	-0.959	1.02	65,960	9.0	6.2	1.9
12	.	1000	11.0	3880	42.6	57.0	58.0	-1.036	1.02	71,230	9.0	6.2	1.9
13	.	1000	11.0	4190	46.0	61.5	62.7	-1.118	1.02	76,930	9.0	6.2	1.9
14	.	1000	11.0	4520	49.7	66.5	67.7	-1.208	1.02	83,090	9.0	6.2	1.9
15	.	1000	11.0	4880	53.7	71.8	73.1	-1.304	1.02	89,730	9.0	6.2	1.9
16	.	1000	11.0	5270	58.0	77.5	78.9	-1.408	1.02	96,910	9.0	6.2	1.9
17	.	1000	11.0	5690	62.6	83.7	85.3	-1.521	1.02	104,670	9.0	6.2	1.9
18	.	1000	11.0	6150	67.6	90.4	92.1	-1.643	1.02	113,040	9.0	6.2	1.9
19	.	1000	11.0	6640	73.1	97.7	99.4	-1.775	1.02	122,080	9.0	6.2	1.9
20	.	1000	11.0	7170	78.9	105.5	107.4	-1.917	1.02	131,850	9.0	6.2	1.9
.	5	67	4.0	1130	0.3	0.3	0.3	-0.004	1.01	5,440	2.9	2.0	0.6
.	6	133	4.5	1190	0.7	0.7	0.7	-0.011	1.02	6,610	3.3	2.2	0.7
.	7	200	5.0	1260	1.3	1.3	1.3	-0.020	1.02	7,940	3.6	2.5	0.7
.	8	267	5.5	1340	2.0	2.0	2.0	-0.034	1.02	9,430	4.0	2.8	0.8
.	9	333	6.0	1410	2.8	3.0	3.0	-0.052	1.02	11,110	4.3	3.0	0.9
.	10	400	6.5	1490	3.9	4.2	4.2	-0.075	1.02	12,990	4.7	3.2	1.0
.	11	467	7.0	1580	5.2	5.6	5.7	-0.105	1.02	15,110	5.1	3.5	1.0
.	12	533	7.5	1670	6.7	7.5	7.6	-0.140	1.02	17,490	5.4	3.8	1.1
.	13	600	8.0	1770	8.5	9.7	9.9	-0.186	1.02	20,140	5.8	4.0	1.2
.	14	667	8.5	1870	10.6	12.3	12.6	-0.235	1.02	23,120	6.1	4.3	1.3
.	15	733	9.0	1980	13.1	15.5	15.8	-0.300	1.02	26,430	6.5	4.5	1.3
.	16	800	9.5	2090	15.9	19.3	19.7	-0.371	1.02	30,130	6.9	4.7	1.4
.	17	867	10.0	2220	19.2	23.8	24.2	-0.452	1.02	34,260	7.2	5.0	1.5
.	18	933	10.5	2350	23.0	29.0	29.6	-0.544	1.02	38,850	7.6	5.2	1.6
.	19	1000	11.0	2480	27.3	35.2	35.8	-0.645	1.02	43,960	8.0	5.5	1.6
.	20	1000	11.0	2680	29.5	38.0	38.7	-0.696	1.02	47,480	8.0	5.5	1.6
.	21	1000	11.0	2900	31.9	41.0	41.8	-0.755	1.02	51,270	8.0	5.5	1.6
.	22	1000	11.0	3130	34.4	44.3	45.1	-0.813	1.02	55,370	8.0	5.5	1.6
.	23	1000	11.0	3380	37.2	47.8	48.7	-0.875	1.02	59,810	8.0	5.5	1.6
.	24	1000	11.0	3650	40.1	51.7	52.6	-0.954	1.02	64,580	8.0	5.5	1.6
.	25	933	11.5	3910	42.0	54.4	55.5	-1.007	1.02	72,920	8.3	5.7	1.7
.	26	867	12.0	4180	43.5	57.0	58.0	-1.060	1.02	82,180	8.7	6.0	1.8
.	27	800	12.5	4470	44.7	59.2	60.3	-1.103	1.02	92,450	9.0	6.2	1.9
.	28	733	13.0	4770	45.5	60.9	62.1	-1.133	1.02	103,840	9.4	6.5	1.9
.	29	667	13.5	5090	45.8	62.1	63.3	-1.153	1.02	116,460	9.8	6.7	2.0
.	30	600	14.0	5430	45.6	62.6	63.8	-1.158	1.02	130,440	10.1	7.0	2.1
.	31	533	14.5	5790	44.8	62.3	63.4	-1.136	1.02	145,910	10.5	7.2	2.2
.	32	467	15.0	6170	43.2	60.9	62.0	-1.099	1.02	163,020	10.9	7.5	2.2
.	33	400	15.5	6570	40.7	58.2	59.3	-1.035	1.02	181,920	11.2	7.7	2.3
.	34	333	16.0	7000	37.3	54.1	55.0	-0.943	1.02	202,820	11.6	8.0	2.4
.	35	267	16.5	7450	32.8	48.2	49.0	-0.821	1.02	225,890	11.9	8.2	2.5
.	36	200	17.0	7930	27.0	40.2	40.9	-0.667	1.02	251,350	12.3	8.5	2.5
.	37	133	17.5	8440	19.7	29.8	30.3	-0.478	1.02	279,440	12.7	8.7	2.6
.	38	67	18.0	8980	10.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TABLE 5
TUITION ASSURANCE PLAN SIMULATION
10% TUITION GROWTH 7% INVESTMENT RETURN 80% NJ MATRICULATION
PAYMENTS ADJUSTED TO RECEIVE $1000 TUITION AT 1986 PRICES

(A) ENTRY YEAR	(B) EXIT YEAR	(C) NUM-BER	(D)AVG YRS PAID	(E)AVG YRLY PAYT	(F)TOTAL PAID $MIL	(G)TUITION BENIFIT $MIL	(H)PLAN FUNDS $MIL	(I)PLAN COST $MIL	(J)PCT OF TUITION COVERED	(K)AVG $ TUITION BENEFIT	(L)TUITION YRS VALUE STATE C	(M)TUITION YRS VALUE RUTGERS	(N)TUITION YRS VALUE INDEPNDT
1	.	1000	11.0	1910	21.0	31.6	28.1	3.474	0.89	39,450	9.0	6.2	1.9
2	.	1000	11.0	2100	23.1	34.7	30.9	3.822	0.89	43,400	9.0	6.2	1.9
3	.	1000	11.0	2310	25.4	38.2	34.0	4.203	0.89	47,730	9.0	6.2	1.9
4	.	1000	11.0	2540	28.0	42.0	37.4	4.624	0.89	52,510	9.0	6.2	1.9
5	.	1000	11.0	2800	30.8	46.2	41.1	5.086	0.89	57,760	9.0	6.2	1.9
6	.	1000	11.0	3080	33.8	50.8	45.2	5.594	0.89	63,530	9.0	6.2	1.9
7	.	1000	11.0	3380	37.2	55.9	49.8	6.154	0.89	69,890	9.0	6.2	1.9
8	.	1000	11.0	3720	40.9	61.5	54.7	6.770	0.89	76,880	9.0	6.2	1.9
9	.	1000	11.0	4100	45.0	67.7	60.2	7.448	0.89	84,570	9.0	6.2	1.9
10	.	1000	11.0	4500	49.5	74.4	66.2	8.193	0.89	93,020	9.0	6.2	1.9
11	.	1000	11.0	4960	54.5	81.9	72.8	9.012	0.89	102,320	9.0	6.2	1.9
12	.	1000	11.0	5450	60.0	90.0	80.1	9.914	0.89	112,560	9.0	6.2	1.9
13	.	1000	11.0	6000	65.9	99.1	88.1	10.905	0.89	123,810	9.0	6.2	1.9
14	.	1000	11.0	6590	72.5	109.0	97.0	11.995	0.89	136,190	9.0	6.2	1.9
15	.	1000	11.0	7250	79.8	119.9	106.7	13.195	0.89	149,810	9.0	6.2	1.9
16	.	1000	11.0	7980	87.8	131.8	117.3	14.515	0.89	164,790	9.0	6.2	1.9
17	.	1000	11.0	8780	96.6	145.0	129.1	15.967	0.89	181,270	9.0	6.2	1.9
18	.	1000	11.0	9660	106.2	159.5	142.0	17.563	0.89	199,400	9.0	6.2	1.9
19	.	1000	11.0	10620	116.8	175.5	156.2	19.320	0.89	219,340	9.0	6.2	1.9
20	.	1000	11.0	11680	128.5	193.0	171.8	21.252	0.89	241,280	9.0	6.2	1.9
.	5	67	4.0	1160	0.3	0.3	0.3	0.010	0.97	5,860	2.8	2.0	0.6
.	6	133	4.5	1250	0.7	0.8	0.7	0.027	0.97	7,250	3.2	2.2	0.7
.	7	200	5.0	1340	1.3	1.4	1.4	0.056	0.96	8,860	3.6	2.5	0.7
.	8	267	5.5	1430	2.1	2.3	2.2	0.100	0.96	10,720	3.9	2.7	0.8
.	9	333	6.0	1540	3.1	3.4	3.3	0.166	0.95	12,860	4.3	2.9	0.9
.	10	400	6.5	1650	4.3	4.9	4.6	0.260	0.95	15,330	4.6	3.2	1.0
.	11	467	7.0	1770	5.8	6.8	6.4	0.392	0.94	18,160	5.0	3.4	1.0
.	12	533	7.5	1900	7.6	9.1	8.6	0.572	0.94	21,400	5.3	3.7	1.1
.	13	600	8.0	2040	9.8	12.1	11.2	0.813	0.93	25,100	5.7	3.9	1.2
.	14	667	8.5	2190	12.4	15.6	14.5	1.138	0.93	29,340	6.0	4.2	1.2
.	15	733	9.0	2350	15.5	20.0	18.5	1.561	0.92	34,170	6.4	4.4	1.3
.	16	800	9.5	2520	19.2	25.4	23.3	2.111	0.92	39,680	6.7	4.7	1.4
.	17	867	10.0	2710	23.5	31.9	29.0	2.817	0.91	45,950	7.1	4.9	1.5
.	18	933	10.5	2910	28.5	39.6	35.9	3.712	0.91	53,070	7.5	5.2	1.5
.	19	1000	11.0	3130	34.4	48.9	44.1	4.850	0.90	61,160	7.8	5.4	1.6
.	20	1000	11.0	3440	37.9	53.8	48.5	5.335	0.90	67,280	7.8	5.4	1.6
.	21	1000	11.0	3790	41.6	59.2	53.3	5.863	0.90	74,000	7.8	5.4	1.6
.	22	1000	11.0	4170	45.8	65.1	58.7	6.452	0.90	81,400	7.8	5.4	1.6
.	23	1000	11.0	4580	50.4	71.6	64.5	7.098	0.90	89,540	7.8	5.4	1.6
.	24	1000	11.0	5040	55.4	78.8	71.0	7.807	0.90	98,490	7.8	5.4	1.6
.	25	933	11.5	5490	58.9	84.6	76.1	8.528	0.90	113,280	8.2	5.6	1.7
.	26	867	12.0	5970	62.0	90.1	80.9	9.271	0.90	130,020	8.5	5.9	1.8
.	27	800	12.5	6480	64.8	95.3	85.3	10.021	0.89	148,980	8.9	6.1	1.8
.	28	733	13.0	7030	67.0	100.0	89.2	10.764	0.89	170,430	9.2	6.4	1.9
.	29	667	13.5	7620	68.6	103.8	92.4	11.466	0.89	194,680	9.6	6.6	2.0
.	30	600	14.0	8260	69.3	106.6	94.5	12.090	0.89	222,080	9.9	6.9	2.1
.	31	533	14.5	8940	69.1	108.0	95.4	12.584	0.88	253,010	10.3	7.1	2.1
.	32	467	15.0	9680	67.7	107.5	96.6	12.890	0.88	287,910	10.7	7.4	2.2
.	33	400	15.5	10470	64.9	104.7	91.8	12.929	0.88	327,270	11.0	7.6	2.3
.	34	333	16.0	11330	60.4	99.1	86.5	12.592	0.87	371,600	11.4	7.9	2.3
.	35	267	16.5	12250	53.9	89.9	78.2	11.768	0.87	421,540	11.7	8.1	2.4
.	36	200	17.0	13250	45.1	76.4	66.1	10.297	0.87	477,730	12.1	8.3	2.5
.	37	133	17.5	14330	33.4	57.7	49.7	8.004	0.86	540,980	12.4	8.6	2.6
.	38	67	18.0	15490	18.6	32.6	28.0	4.660	0.86	612,070	12.8	8.8	2.6
.	.	20000	11.0	5470	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GLOSSARY

Actual Tuition	- Tuition charged by an institution in any year.
Average Actual Tuition	- Actual tuition averaged among all participating institutions, weighted by the number of credits assured through the plan and claimed in any year.
Beneficiary	- Individual identified to receive the credits assured through this plan. Beneficiary must be younger than age 15 and must have been a New Jersey resident for at least twelve months prior to the date the policy is issued on his or her behalf.
Cash Surrender Value	- The amount the policy pays out if the sponsor or beneficiary decide to withdraw from the plan. Under the tax-free withdrawal option, the cash surrender value equals the principal paid in. Under the interest-bearing option, the cash surrender value equals principal plus interest, set at a rate to be determined by the Authority.
Credit Exchange Rate	- The rate at which credits at the designated institution exchange for credits at alternative institutions. It is based on relative tuition costs in the year the policy is purchased.
Current Value	- The price of tuition at the time the policy is opened.
Designated Institution	- The institution whose tuition is purchased on a policy. There cannot be more than one designated institution per policy.
Interest-Bearing Option	- One option that allows sponsor to withdraw from the plan and receive interest set at a rate determined by the Authority.
Participating Institution	- All New Jersey collegiate institutions that offer tuition under the Tuition Assurance Plan. This includes all public institutions and all private institutions that wish to participate.

Plan Fund	- All monies invested in the Tuition Assurance Plan and all interest earned on those monies.
Premium	- The surcharge added to the current value of assurance policies purchased with the interest-bearing withdrawal option.
Redemption Value	- The investment value of a tuition assurance policy at the time it is redeemed for tuition.
Sponsor	- The individual who buys an assurance policy.
Surplus Distribution	- The distribution of surplus fund earnings among participating institutions.
Tax-Free Option	- One withdrawal option. It allows the sponsor to avoid taxes on the accrued value of the policy by foregoing all interest if the policy is withdrawn.

BOX 206
SUMMIT, NEW JERSEY 07901
(201) 277-3738

TESTIMONY

of the

ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES

in

NEW JERSEY

on

S-2499

THE GUARANTEED COLLEGE TUITION INVESTMENT PROGRAM

Robert Janiszewski
Vice President

February 11, 1987

Mr. Chairman and members of the committee:

On behalf of the Association and our 16 member institutions, I thank the committee and the bill sponsor, Senator Dalton, for the opportunity to share with you our thoughts and concerns regarding S2499/A3076, the Guaranteed College Tuition Investment Program.

As introduced, the legislation is designed to address several specific policy areas which are appropriately of legislative concern. Senator Dalton and the co-sponsors of the bill are to be commended for their sensitivity to these issues as well as their creativity in crafting a proposed solution to the problems of financing collegiate education.

AFFORDABILITY OF COLLEGE

Central to the issues raised in the proposed legislation is a growing concern regarding the affordability of higher education. Education and access to it have been the cornerstones of the American Experience. Recently, however, increasing attention and growing concern over the cost of a college education has begun to raise questions regarding access to higher education. Several recent studies have revealed some disturbing data.

-A 1985 Roper Poll examined public attitudes toward higher education. The data revealed that 3 of 4 families surveyed preferred that their children attend an independent college. Of those, only 25% believed that they would be able to afford the cost of education when their child was of age.

-On December 29, 1986, the Congressional Joint Economic Committee released the result of a study of higher education financing. The report concluded as follows:

> "Growing student indebtedness has raised questions about the implications of debt burdens for the national economy, for the individual well-being of borrowers, for equality of access to higher education, and even for the educational process itself."

According to the study, student borrowing from federal, state, or institutional lending programs rose from $3.5 billion in 1975-76 to $9.8 billion in 1985-86. During the same period, federal grants and scholarships fell some 62% from $13 billion to $5 billion.

-The New Jersey Department of Higher Education studies of minority enrollment in colleges and universities indicate a dramatic downturn in the numbers of minority students who enroll and successfully complete collegiate programs in New Jersey.

Against this backdrop, it should come as no surprise that students and their families have become more concerned regarding their ability to afford a college education. This growing pessimism has been further magnified by the Reagan administrantion's continuing attempts to sharply reduce the federal role in financing education. Secretary Bennett's current budget proposal for FY88, submitted to the Congress last month, would slash education funding by 30%. Student aid accounts would be cut by over 48%.

DHE analysis of the federal budget proposal reveals a projected loss to New Jersey students at $80 million in a wide variety of programs. Over 100,000 students would be affected through reductions or eliminations of a wide variety of aid programs. (See attachment A for details).

Having suggested such a dramatic reduction in aid, Secretary Bennett proposes to replace the lost grant dollars with a new Income Contingent Loan Program (ICL). The proposal would significantly increase current debt ceilings, the service for which would be paid at market rates. The practical effect of the proposal would be a substantial increase in debt burden assumed by college students. Mr. Bennett commented that his goal will be to "continue to shift emphasis from grants to loans." In his January 8, 1987 memorandum to college presidents, Chancellor Hollander described the proposed budget as an effort to "continue to pass the educational cost burden onto states, institutions, lenders and, most of all, students and their families."

Each element cited above reveals both the broad-scale nature of the debate and the complexity of the issues being discussed. Whatever directions are to be taken in the future, all colleges and universities, public and independent alike, will be substantially impacted. Of even greater concern is the impact that these proposed changes will have on future generations of students seeking the benefits of higher education. It is within this context that we respond to your generous invitation to submit commentary on S2499/A3076.

THE PROPOSAL

Since Senator Dalton first introduced this legislation in 1986 our Association has encouraged each institution to carefully calculate the potential campus impact that the bill would produce. During the process several study groups have been formed to consider the bill and to make suggestions for improving the proposal. During the fall of 1986, our association was successful in encouraging the National Association of Independent Colleges and Universities (NAICU) to form a Task Force to review the Dalton Plan and to review all such plans which have been put forward in various states. The Task Force was asked to consider whether the tuition prepayment concept could be implemented as part of the process to assure that independent colleges and universities will continue to be affordable. Further, the group was to carefully monitor developments on the state level to determine whether or not such plans were intended to replace current state grant programs already in place (as in the case of the federal shift from grants to loans).

In forming the Task Force, President Richard Rosser stated,"It is imperative for the future of American higher education that students continue to have the choice of independent college or university education. To remain strong and competitive, independent institutions must be affordable. To this end we must 1) assure that federal and state student aid programs are sustained and strengthened; 2) persue every opportunity to promote family savings for college; and 3) mitigate wherever possible the effects of tuition increases. Tuition prepayment may be a means of helping to achieve the second and third of these important goals."

After several months of study, the NAICU Task Force recently released an interim report which recommends that a national alternative plan be developed. They concluded that such a plan, if properly designed and carefully implemented, could be an important part of a long term solution to the affordability problem confronting independent higher education. As the New Jersey independent colleges and universities we see precious little hope that such a national model will be designed and implemented in the near future. Our students and our colleges and universities need help in the near term. Perhaps the time has come for the states to play the leadership role in innovative programming and funding of education. Should enough do so, a national response may very well follow.

During the study of a wide variety of prepayment plans, AICUNJ has come to believe that the following are essential considerations in the development of any broadly based program of tuition prepayment:

1. <u>The plan should supplement, not supplant existing student aid.</u>
   Even a highly effective prepayment plan can only be part of the solution to the problem of financing higher education. It is imperative that existing student aid programs at the federal and state levels not be diminished. Tuition prepayment is a viable alternative only to families with incomes sufficient to allow considerable savings for education. People who are in no position to save will continue to need assistance for their higher education from both federal and state sources.

2. <u>The plan should enhanse student choice.</u>
   A tuition prepayment program should increase the range of choices which students are able to make about their educations.

3. <u>The plan should be simple.</u>
   Provisions and requirements of the plan should be easily understood by potential purchasers of tuition and by participating colleges and universities.

4. <u>The plan should provide for portability.</u>
When children whose college tuition was prepaid reach college age, they should have the widest range of opportunities to select among colleges and universities. Such selection should not be restricted by limitations on geographic location, or type of educational program. While we recognize that the bill before the committee may also address the problem of out-migration of students by encouraging in-state recruitment, a general policy of portability should be implemented. Other factors such as state funding and/or management of the program may mitigage against this approach but the program should seek to encourage broader choice rather than be used as a devise to limit choice.

5. <u>The plan should be structured to receive appropriate incentives from federal and state government.</u>
The plan should be devised to recognize that the practice of planning for the financing of college is deserving of reasonable incentives provided by the federal and state government(i.e., matching grants, non-taxing of scholarships, grants, ect.) An essential element of such a plan is that payments be considered as <u>purchases</u> of a service to be obtained at a future date, rather than savings deposits or other investments, the increased value of which would be subject to income tax. In receiving prepayment the seller is making a commitment to provide the purchaser a pre-determined amount of service without additional adjustments in price when the service is provided. Provisions offering a guaranteed rate of return to the purchaser could have the effect of eliminating the distinction between a prepayment and an investment.

6. <u>The plan must be structured to insure the integrity of funds and reasonable allocation of risk between purchasers and participating institutions.</u>
Persons who make tuition prepayments must have a high degree of confidence that performance of services will not be at risk and institutions must have confidence that the yield of prepayments at maturity will be sufficient to cover the costs of education.

In addition to the above guidelines, AICUNJ believes that the following additional administrative/policy features are essential or highly desirable:

a. The program should not restrict the ability of institutions to set their own tuition rates.

b. The financial instrument of the plan should be some form of certificate with values denominated in understandable units for all or some portion of a college education and with a specific maturity date. Values could be developed in such a manner as to accommodate pricing variations among participating institutions.

c. Some allowance should be made for limited transferability of benefits, e.g. to all siblings in the family.

d. Provision should be made for extension of the maturity date to allow for the beneficiary's delayed entrance into college or for transfer of benefits to younger siblings.

SUMMARY AND CONCLUSIONS

Families wishing to exercise the choice of higher education for their children are confronted by increasing obstacles in the path of such a choice. The declining availability and value of federal grants, the rising price of tuition and other college costs, and the mounting burdens resulting from over-reliance on loans present a discouraging prospect. The Reagan administration's proposal to slash student aid expenditures some 48% in fiscal 1988 is a further discouragement. At the same time, colleges and universities are increasingly in need of the means to make themselves affordable to prospective students from all income levels. The dual system of higher education--public and independent--which has been the hallmark and pride of American higher learning, must be secured and encouraged.

One part of a solution to this many-faceted problem may lie in the prepayment program approach. Such a plan would need to make full use of the great diversity which is the strength of our system of higher education. It should be creatively designed to accommodate this valuable diversity. Further, it must be understood that this approach may provide but one element in a wide array of aid programs which will be essential to continue to offer both access and choice to future generations of students and their families.

Additionally, we must understand that even the most carefully crafted prepayment plan may have a difficult road (absent legislation to provide specifically for tax exemption) to pass muster before the Internal Revenue Service as exempt from taxation. As the primary incentive to any prepayment plan, the legislation must be carefully drafted to maximize the potential for such an exclusion.

In summary, prepayment plans may very well be a valuable tool in providing families with alternate ways to finance higher education. Such plans are complex and will affect both students and institutions in a wide variety of ways, some of which have yet to be discovered. This fact suggests that we proceed with deliberative caution as we explore this uncharted area. AICUNJ recommends that this committee create a Select Committee charged with the responsibility of carefully reviewing all such plans which have been introduced in legislatures across the nation, to consult with recognized national experts, to seek clarification from the Internal Revenue Service, and to report back to the committee not later than September (or other appropriate date) with their recommendations. The group could be a creature of the legislature or of the DHE and should include representatives of each sector of the collegiate community, staff from the legislature and the department of higher education as well as the Treasurer's office, and could be chaired by Chancellor Hollander, other DHE staff, or by Senator Dalton.

Whatever the outcome, we look forward to a continuing dialogue regarding this legislation and any other proposals which advance the cause of education.

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EFFECTS OF ADMINISTRATION'S FY 88 BUDGET PROPOSALS: COST TO NEW JERSEY

(1) Shift 2/3 of the cost of the Guaranteed Student Loan program from the federal government onto the students and the states.

- eliminate the 8% in-school interest subsidy to students. $ 16 m
- lower the Special Allowance to lenders from 3.25% to 2.75% and shift the cost from the government to students after 2 years of repayment. $ 1 m
- charge a 9% Guarantee Fee on all new loans (vs. current 5% origination fee) $ 8 m
- eliminate federal Administrative Cost Allowance to state agencies. $ 2 m
- reduce federal insurance coverage from 100% to 90% of default claim dollars. $ 5 m
- maintain undergraduate borrowing limit at $2,500 (instead of the $2,650 for lower division/$4,000 upper division student borrowing limits established through reauthorization)

Sub-Total $ 32

(2) Reduce Pell Grant funding by 30%.

- maintain maximum awards at $2,100. (although reauthorization extended maximum awards to $2,300)
- tighten eligibility requirements to eliminate families with incomes over $20,000. (current eligibility is generally limited to families with incomes under $28,900)
- eliminate the college administrative cost allowance.

Sub-Total $ 18

(3) Eliminate funding for all campus-based programs and State Student Incentive Grants.

Work-study program	$ 15
Supplemental Grants (SEOG)	$ 8
NDSL Capital contribution	$ 4
SSIG grants	$ 2
Sub-Total	$ 29

TOTAL Cost to New Jersey **$80+**

TOTAL NUMBER OF STUDENTS AFFECTED (Duplicated Count)

GSL loan costs increased	80,000	(100%)
Pell Grants reduced or lost	20,000	(40%)
Work-study jobs lost	15,000	(100%)
SEOG grants lost	15,000	(100%)
SSIG State grant supplementals lost (Reduction of TAG awards)	37,000	(100%)

34X

* Does not include the potential exposure of the Higher Education Assistance Authority reserves or the future cost to students, lenders and the State. The projections do not assume a drop in lender or