

Tuition program gets more attractive with longer terms

The enrollment period for Washington's Guaranteed Education Tuition college savings program re-opened on Sept. 15. You might have noticed over the summer the price of future GET tuition credits increased 33 percent. Units that cost \$76 during the enrollment period that ended last March, now cost \$101. That's an alarming increase that the state deemed necessary to keep the program solvent. Part of the increase is a response to the state legislature's vote to allow 14 percent tuition increases each of the next two years at state four-year public universities.



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"The GET Committee sets the unit price twice annually and includes a premium based on an actuarial formula. This formula includes current tuition, estimated future tuition, inflation, investment returns, administrative costs, and a reserve to assist in periods of lower-than-expected investment returns or higher-than-expected tuition increases."

The younger your child is when you start buying units, the less burdensome the premium is and the more competitive GET's tuition guarantee becomes when compared with other savings and investment opportunities. While the GET material indicates that you should not purchase units within two years of using them, you might want to plan for an even longer growth period. This is especially true if you purchase units in monthly installments.

If you participate in GET's monthly payment program, accumulating units over time at a fixed cost, there is a 7.5 percent finance charge on each purchase. Depending on the level of tuition inflation, a year's growth in the value of each unit could be wiped out by the finance charge. If you buy tuition credits within a handful of years of using them and do so via an installment plan you might be paying too much and not holding them long enough for the inflation guarantee to be meaningful.

The best way to utilize the GET program is to make lump sum purchases while the child is young. This way, there's no finance charge, and the length of time before redeeming the units is sufficient for them to achieve an attractive rate of return.

Buying 100 GET units is the equivalent of one year's state school tuition. You can purchase up to 500 units per student so that you could redeem up to 125 per year, allowing for coverage of some nontuition costs, such as books. To cover other costs, or to increase savings for a possible private college education, you will need to save in a different vehicle.

The GET program is one form of what is called a 529 college savings plan. GET is a prepaid tuition plan without an underlying investment account associated with each participant. Its cousin, the standard 529 plan, allows families to invest for all qualified higher education expenses including room and board and even a computer, regardless of school choice.

You accept market risk in a standard 529 plan where you direct the investments. In a prepaid tuition plan like GET, there are risks as well. Because there is a limit on units that can be purchased, the need might be underfunded for a private school or if a chosen out-of-state school experiences higher tuition inflation than in-state schools.

With standard 529 plans, earnings can be used tax free for qualified expenses. These plans are particularly useful for annual gifting strategies and estate planning for grandparents. It might make sense for some people to participate in both GET and a standard 529. Of course, there are many details around taxes, qualified expenses and financial aid that might influence your decision.

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The GET program can be a good college funding vehicle in many cases but there are less-known aspects of the program that make it a less-than-optimal option for some participants. The unit cost increase is clear. What isn't so well understood is that on top of the per unit price hike, GET requires you to pay a unit value that is actually higher than today's tuition rate. For example, the GET program charged \$76 for a single unit through its March 31 enrollment deadline. However, for the 2008-2009 school year, the redemption value was \$67.20 per unit. As the GET marketing material explains: "The GET unit price includes a premium over current tuition. Consequently, you should plan to hold your units for at least two years before you can expect to see any real gain."

GET material goes on to clarify that: "Because the state guarantees that the money you put into GET will keep pace with rising tuition, we must ensure that we always have sufficient funds available.