

Economic Sense # 5

Another Tuition Reduction Beneficiary: GET Holders

Welcome to the latest installment of "Economic Sense," a data-driven policy summary that examines economic issues facing our state.



Bottom Line: Up Front

Over 161,000 individuals who pre-purchased college tuition through the state's Guaranteed Education Tuition program stand to benefit tremendously with passage of the College Affordability Program (CAP).

Introduction

A central tenet of the Senate's budget is to make college more affordable because, more than ever, a college education is the key that opens the door of opportunity in today's competitive world market. To further this objective the Senate adopted the College Affordability Program, Senate Bill 5954 that would result in an average 25% tuition reduction at four year institutions and tie future tuition increases to the growth in the state's average wage¹.

Opponents don't like to come out against lower tuition so, instead, they raise concerns about the impact of the policy on the state's Guaranteed Education Tuition ("GET") program. Critics allege that both that GET holders and the program will be financially harmed.

That claim by opponents is the opposite of the truth.

I. The Senate budget will stretch GET payments further.

For example, a family whose GET account will fund 7 years of college tuition today will see that fund now able to pay for 9.5 years of college tuition.

The GET program allows individuals to pre-purchase college tuition by paying a set price and receiving a guarantee from the state that, regardless of tuition changes between the time of purchase and the time of usage of those credits, the person will have the value of those credits. The value of each credit is tied to the tuition & fees at the highest priced public institution in the state.

Here's an example: a GET holder has purchased seven years of college tuition for three daughters who are projected to enroll in college in the coming decade. The value of those credits is presently \$82,474, seven years of tuition and fees of \$11,782 per year at the University of Washington.

So what happens to that individual under CAP?

1 year of tuition = 100 GET units

7 years = 700 GET units

700 GET units X \$11,782 (Current Tuition & Fees) = \$82,474 value

\$82,474 ÷ \$8,602 (New Tuition & Fees) = 9.5 years of college tuition

What about an individual who only needs four years of credit and has purchased all four years already wouldn't they be adversely affected?

No, they would benefit too. GET can be used for any of the associated costs with attending college including room & board, which typically costs nearly the same amount as tuition & fees². A person in this circumstance could now use their GET payout to cover room & board costs, whereas previously the payout would have only covered tuition & fees.

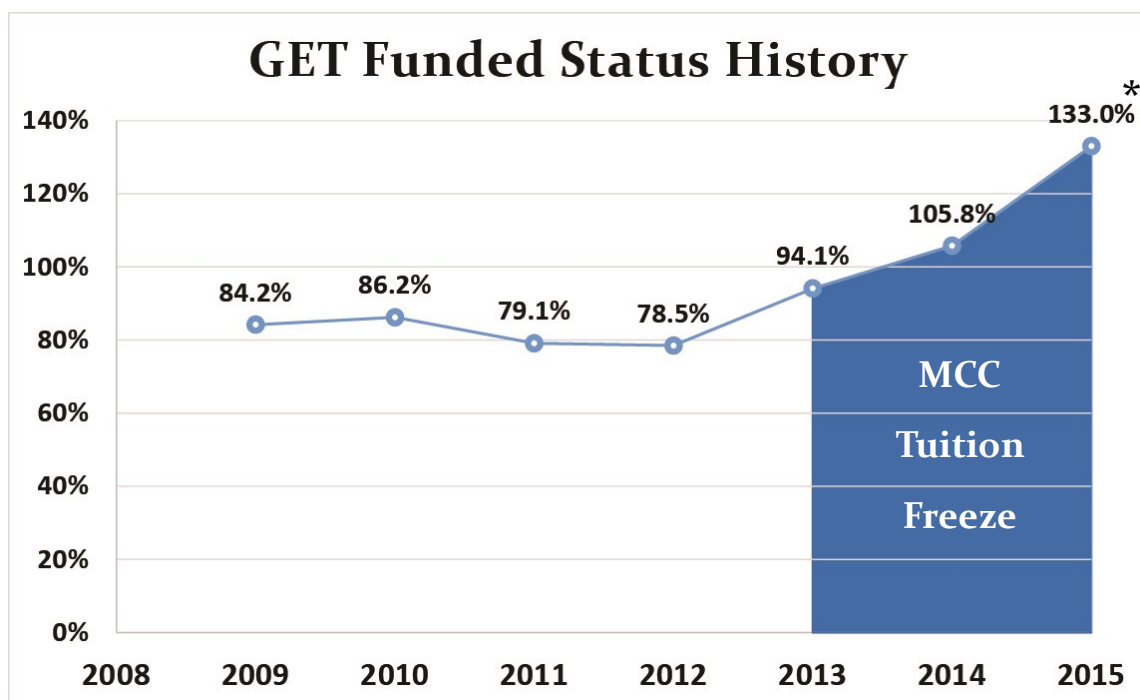
Simply put, the Senate's College Affordability Program lives up to the name – making college tremendously more affordable for the 161,000 current GET holders, as their existing purchases will now cover more years of college and associated costs than under current law³. To accomplish this the maximum payout is adjusted above the 125-credit limit to deal with the use of extra credits⁴.

II. Improves financial sustainability of GET

Lowering tuition dramatically improves the fiscal health of GET.

The state actuary projects that GET is currently 106% funded, meaning that it is projected to have a little more in assets than is needed to pay out guarantees to existing GET holders⁵. But 106% is cutting it close, actuarially. An investment downturn could drop that percentage and expose taxpayers to the risk of paying the difference.

Under the College Affordability Program, the state actuary projects GET funding to increase to 133% funded status based on lower tuition and stable tuition policy⁶. This results in a dramatic increase to the financial viability of the program. Families and policy makers who support GET should laud the legislation for putting the program on more sound footing.

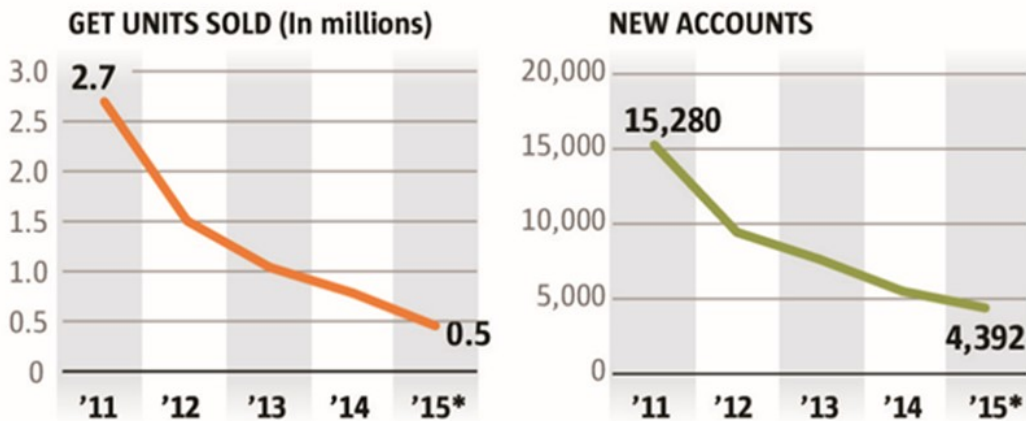


* GET program funded status would be 133% if College Affordability Program is adopted

III. Makes GET more financially feasible for average Washingtonian

Recently, the number of new GET purchases has come in lower than forecasted.

The reason for this is pretty evident: due to significant tuition hikes in the past decade, most Washingtonians can't afford to invest in GET credits.



*Year to date. Final figures available in July.

Source: Guaranteed Education Tuition program

KELLY SHEA / THE SEATTLE TIMES

As Economics 101 teaches us, as price goes up, demand goes down. The [charts to the left](#) appeared in a recent article in the [Seattle Times](#) that discussed GET in the context of the Senate's College Affordability legislation⁷.

By lowering tuition by an average of 25% at four year institutions, one year of GET credits becomes significantly cheaper, assuming that the

GET Board commensurately lowers the per unit price, for a person looking to pre-purchase college tuition. Many individuals who previously thought they could not afford GET will now reconsider.

The College Affordability Program makes a predictable and sustainable change to the state's tuition policy. Over the past decade tuition has nearly doubled and setting tuition has been a function of the budgeting process. This legislation sets in statute a predictable and controlled increase in tuition that is tied to what the average person in Washington can afford.

IV. Conclusion

The College Affordability Program would greatly benefit existing GET holders and improve the financial soundness of the GET program overall. What hurt GET were the significant, sometimes double-digit increases in tuition over the past decade. Those massive tuition hikes harmed working families ability to afford a college education for their children and hurt the GET program⁸.

Lower tuition, and tying future growth to the state's average wage to ensure affordability into the future, is the right policy for Washingtonians. With more than \$3.3 billion of additional projected revenue in the coming biennium, making college more affordable now and preserving and improving investments in GET must be a priority.

Footnotes

1. ESSB 5954 <http://wsldocs/2015-16/Pdf/Bills/Senate%20Bills/5954-S.E.pdf>
2. See "Using my GET units" on www.get.wa.gov
3. ESSB 5954, sec. 7
4. Id.
5. State Actuary email 3/26/15
6. Id., Also documented in additional email 5/27/15
7. <http://www.seattletimes.com/seattle-news/education/prepaid-tuition-safe-say-gop-advocates-of-a-25-cut/>
8. See Economic Sense #2, Making College Affordable Again (Sept. 2014) <http://johnbraun.src.wastateleg.org/wp-content/uploads/sites/16/2014/11/Braun-Economic-Sense-FINAL-092514.pdf>