

Date of Hearing: April 2, 2019

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 853 (Smith) – As Amended March 20, 2019

SUBJECT: Student financial aid: Golden State Scholarshare Trust Act

SUMMARY: Authorizes the Scholarshare Investment Board to make payments to third parties, in addition to institutions of higher education, on behalf of program beneficiaries, and makes conforming changes.

EXISTING LAW:

- 1) Establishes the Golden State Scholarshare Trust Program as the California's state-sponsored college savings plan, pursuant to Section 529 of the Internal Revenue Code. (Education Code (EC) Section 69980 et seq.)
- 2) Establishes the Scholarshare Investment Board (SIB), to oversee the trust program, and comprised of seven members, including the Treasurer, who serves as board chair. Among other duties, the board is authorized to enter into agreements with program participants - including an individual, trust estate, partnership association, company or corporation and several other entities - and to make payments to institutions of higher education, pursuant to participation agreements, and on behalf of program beneficiaries. The board may also develop a method to make payment of qualified higher education expenses directly to beneficiaries in a manner that is consistent with applicable federal requirements and restrictions. (EC Sects. 69981 and 69984 et. seq.)

FISCAL EFFECT: This bill is keyed non-fiscal by Legislative Counsel.

COMMENTS:

Background. The Scholarshare Trust Program, established in 1999 and administered by the State Treasurer's Office, offers California families a tax-advantaged college tuition savings plan that allows them to invest and save for college. Under this program, a participant opens an account on behalf of a designated named beneficiary. The after-tax money contributed by the participant to the account is placed in a trust, and investment earnings grow tax-deferred. The program offers federal and California income tax-free treatment for qualified withdrawals from a Scholarshare account. A qualified withdrawal is one that is used to pay for qualified higher education expenses at any eligible postsecondary educational institution throughout the U.S., including many vocational schools.

As of December 31, 2018, the program had \$8.3 billion invested and 317,000 separate accounts. In 2018, \$505 million was withdrawn from Scholarshare accounts for qualified higher education expenses.

Under current law, the board is authorized to make distributions of funds from the Plan directly to plan participants, account beneficiaries, and institutions of higher education, all as directed by the Plan participant and in accordance with participation agreements between the SIB and the participant. In order for these distributions be considered “qualified withdrawals” for tax

purposes, they must be used to pay for “qualified higher education expenses,” such as tuition and fees, books, computer equipment, and certain room and board costs.

To make it easier and more convenient for parents and other Plan participants to pay for qualified higher education expenses, the SIB modified its withdrawal process a few years ago to allow for qualified distributions to be made directly to third parties, which might include tuition payment services and parties that receive payment for expenses related to room and board, such as property management companies and/or landlords of off-campus housing. More recently, however, the board determined it was prudent to clarify current law and explicitly state the authority for this practice to continue and to ensure consistency around the process.

Purpose. AB 835, sponsored by the State Treasurer, expands the number and types of parties that can receive funds distributed from a Scholarshare account (as requested by the Plan participant) for purposes of paying for qualified higher education expenses. Currently these nine states allow such direct distributions from a 529 plan: Arizona, Delaware, Massachusetts, Nevada, New Hampshire, Pennsylvania, South Dakota, Virginia, and Wisconsin.

REGISTERED SUPPORT / OPPOSITION:**Support**

California State Treasurer

Opposition

None on file.

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