How state tuition guarantee plan works

By Tim Richard
staff writer

WITH a lump sum payment of about $6,400, parents can guarantee their newborn child four years tuition at a state college when the child is ready.

Invested by the state, money in the the Michigan Education Trust (MET) fund will cover fees estimated to total $28,000 for four years of college by the year 2006, said Treasurer Robert Bowman.

The way it works: A parent's capital will earn 10 percent and be compounded; tuitions are estimated to rise 6-7 percent a year; and the 3-percent "spread" enables the state to guarantee the 1988's investment will cover 2006's tuition.

For two hours Wednesday night, Bowman fielded dozens of questions in the Southfield-Lathrup High gym. The audience started at nearly 2,000 but dwindled to 100 by what Bowman said was his 10 p.m. bedtime.

"We never dreamed we'd have this kind of turnout," said Gov. James Blanchard, who hired the former Wall Street investment banker as his top economic aide in 1983. Blanchard spoke briefly but left all the tough questions to the 33-year-old graduate of Harvard and Pennsylvania's Wharton School of finance. Some questions and his answers (paraphrased):

Q. Suppose the child doesn't want to go to college.

A. You get back what you paid in, plus interest, minus administrative costs. Same thing if the child dies before enrolling in college.

Q. What if the child wants to go to a private college such as the University of Detroit or an out-of-state school such as Ohio State?

A. The state will pay the equivalent of the average tuition at a Michigan college but can't guarantee to cover 100 percent of the cost, as it will if the child goes to a state college.

Q. When can I enroll my child?

A. There will be a five-day period this June when the state will guarantee to enroll all applicants registered at one of the five state Treasury offices. In future years, there may be a quota on how many can be enrolled.

The Detroit office is at 1200 Sixth St. The main office address is: State Treasurer, Lansing 48922.

To get the enrollment form and a copy of the contract, call toll-free 1-800-MET-4-KID. Request one copy for each child you plan to enroll.

Q. We don't have $6,400 in loose cash. Can we arrange payments?

A. Yes, through any savings and loan association in the state. S&Ls will be the "delivery" arm of the program.

You can borrow your investment from the S&L for payments as low as $25-$30 a month. The loan is guaranteed by the state.

If you use your house as equity, you can deduct the mortgage interest from taxable income. The interest your education trust fund equity earns will be tax free.

Q. Can I invest just enough to guarantee one, two or three years of college?

A. Yes.

Q. If my first child decides against college, can I transfer it to my second child?

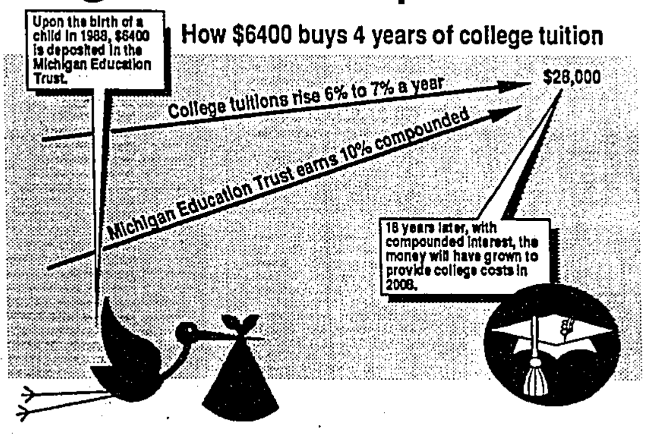
A. Yes — to a member of the immediate family.

Q. How are tuition payments handled?

A. The state pays it directly to the college.

Q. You've talked about what it would cost to enroll a newborn, but my children are five and eight years away from college.

A. Costs for older children will be outlined in a brochure. Costs will be higher. For those already in high school, the cost will be about $2,300 per year of college — nearly full prepayment. Those enrolling as high school students must indicate their college of choice because costs vary widely between state colleges.



Q. Can I transfer money into the education trust fund from my IRA without paying income tax?

A. Not under current law.

If you cashed in U.S. savings bonds to buy into the education trust fund, you would have to pay tax on the bond interest.

Q. If my child doesn't go to college and elects to take the money in cash, will he have to pay income tax on it?

A. Yes, but not much. The $20,000 can be spread over four years.

Q. Can my child stretch out his college work over five years?

A. Yes, but the education trust fund will cover only four years of college credits. Likewise, the student can attend summer school and complete degree work in three calendar years, but the state will cover four years worth of college credits.

We're not going to guarantee college for "professional students."

Q. What if my child prodigy is able to start college at 15 or 16?

A. We've factored that into the price. Tuition is guaranteed. It's also guaranteed for up to eight years after the normal college starting age.

Q. What if my child qualifies for a scholarship?

A. Take the scholarship, then apply the education trust fund money to room and board or transfer the education trust fund to another child, or ask for a refund.

Q. Who controls the money — the donor or beneficiary?

A. For tax reasons, you will want the beneficiary to control it.

Q. This program seems to be for middle-income people. What about the child from a welfare family or whose parents can't qualify for a loan to join the education trust fund?

A. You're right — it is for middle-income people, but it's only one of several state educational programs. The TIP program covers two years at a community college for a child who has been on welfare.

Q. Is this limited to middle-income people?

A. No, people of any income level can join. But it's frankly of most benefit to middle-income people.

Q. Suppose my kid flunks out after two years.

A. You'll get the equivalent of a two-year refund. But if he stays in longer than two years, the money stays with the system.

Q. Suppose, because of the popularity of this program, there's an overwhelming demand for one university. Who decides which students get in?

A. The university admissions officer. There may well be stiff competition to get into certain colleges.

Q. Can I, as an adult, enroll in the education trust fund now and go to college 20 years from now?

A. There would be no discount at your age. It wouldn't be worth it.

Q. Does my child have to have a Social Security number?

A. We'd prefer it, but you don't have to have one.

'Unique job'

Actuaries calculated MET payment costs

By Tim Richard
staff writer

Figuring what parents must invest in the Michigan Education Trust to prepay their kids' college tuition took more than a knowledge of investments. Much of the work was done by actuaries — people who calculate insurance rates.

"It was a unique job," said Rick Kaye, a West Bloomfield resident who was involved in setting the first-in-the-nation guarantee of college tuition.

"No one's ever done it before. Actuaries don't deal with tuition rates," said Kaye, managing partner of the actuarial benefits consulting division of Coopers & Lybrand, certified public accountants and actuaries.

Rick Kaye
"unique job"

KAY HAS a degree in math and and master's in actuarial science from the University of Michigan. Coopers & Lybrand's usual line of work is advising businesses on retirement and fringe benefits — how to fund them to keep them solvent. Having the state treasurer as a client was different.

"We're the ones who determine the prices," said Kaye. The MET board is expected to announce soon how much a parent will have to invest, at a child's birth, to guarantee the youngster four years of tuition at one of Michigan's 15 state colleges and universities.

Best guess: $6,400 for a newborn, $8,000 for a high school senior.

The tuition investment trust is kind of a discount plan: Mother and dad pay a lump sum now that earns interest and pays the big bill later on. And it doesn't have to be mother and dad — many grandparents are eyeing the plan, and state officials hope private companies will buy them for employees' kids.

First, Kaye said, the actuaries had to calculate how much tuition will rise between now and 2006 AD. Their guesstimate: 6-7 percent a year.

Second, they had to figure how much the fund would grow. They used a figure of 10 percent, which state Treasurer Robert Bowman says is below what state pension funds have been earning in the high-interest rate days of the last decade.

Third, the MET must pay federal taxes on the investment. Neither parents nor kids will pay taxes on the investment.

THEN THE JOB gets tricky. The goal was a yield equal to the weighted average of tuitions at the 15 four-year colleges.

Kaye said they assume more "borderline" students will set their sights on college knowing it's financially possible.

They had to consider there's a great difference between costs of a "regional" college such as Northern Michigan, in the upper peninsula, and the University of Michigan, with the highest public college tuition in the U.S.

"If more went to NMU, our cost could be lowered," said Kaye. "And the more that join, the more the risk is spread."

Parents asked Bowman last week whether the MET program would stimulate competition for admission into the premier schools — U-M, Michigan State, Wayne State and Michigan Tech.

Bowman said it likely would.

Next task was to look at the historical evidence and see not only how many traditional 18-year-olds would enroll in college, but how many 16-year-old prodigies and how many late bloomers. The more who delay entering college, the more interest can be earned by the MET.

If the actuaries and the MET board guess wrong, Bowman said, they have an opportunity to correct themselves each year by adjusting the entry price for new joiners.

KAYE SAID the company used economic models in its forecasts.

"There are public policy issues, too — issues of why tuition goes up faster than the CPI (consumer price index)," he added.

For example, Bowman publicly urged young parents, legislators and the media to scrutinize the tuition rates of colleges. If public sentiment builds up for containing tuition rates, costs could be reduced.

Kaye has three youngsters himself — one at Central Michigan, one at Country Day and a 3-year-old. He personally likes the MET plan. "It's a guarantee, and it's forced savings. I know the money will be there."

Would he enroll his 3-year-old?

"I would."