

Blanchard, Bowman plump for state college tuition plan

By Tim Richard
staff writer

Michigan parents can guarantee their child's four years of college tuition will be covered by investing in BEST — the state Baccalaureate Education System Trust. So says Gov. James J. Blanchard.

State Treasurer Robert Bowman this week unveiled some details of the plan, contending it has advantages over individual savings. For the financiers earlier expressed doubts that a state fund could out-perform private investments.

So far, however, Blanchard's office hasn't revealed how much would have to be invested in a lump sum to guarantee the \$20,000 that four years of college tuition are expected to be by the year 2000.

The plan requires approval of the state Legislature.

BOWMAN said BEST has three advantages over private investments:

"First, this program guarantees tuition. Parents will have their child's tuition paid in full. Many private savings plans offer a lump sum in future years that might not be large enough to cover the full tuition cost."

"Second, Michigan's BEST will provide a tuition guarantee and tax advantages to parents. Professionals in the field believe that interest earnings can be made exempt from federal and state taxes, as is the subsequent value of the tuition."

"Third, in conjunction with the private investment community, the state's experienced money managers can take advantage of prudent in-

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— Robert Bowman
state treasurer

vestment opportunities which many individual investors may not be able to realize.

"For example, the state earned a 24-percent return last year on state pension fund investments, while tuitions were frozen at the previous year's levels."

EARLY NEWS reports, after Blanchard's state-of-the-state speech in January, used a figure of \$2,400 invested at birth yielding \$20,000 by the time a child reached college age. But the governor's report this week used no cost estimate.

Bankers interviewed by this newspaper frankly doubted the state could achieve the 13 percent or more return needed to yield a \$20,000 fund.

Bowman said, "The amount of investment will depend on the age of the child, the payment plan chosen, the date of entry and the option for separating from the fund." He outlined three options:

"Plan A — the most-cost option." A lump sum would be invested in tax-exempt securities. "Parents could separate from the fund and receive their investment plus some measure of fund earnings. The money returned to parents would be tax-

four-figure amount — to invest in the BEST plan?"

Grandparents or other relatives could make a gift, Bowman said, and many parents would see fit to borrow the investment.

As for poor families, he said, the state's expanded student aid programs will help the needy.

No state money would be used to administer the program, Bowman said, adding:

"A public authority — which would utilize the talents and knowledge of both the public and private sectors — would provide the best oversight for the fund, which will work through the private sector in making investments."

PRIVATE FINANCIERS spotted several questions about the Blanchard plan and said it has flaws. Among them:

What if the student decides to attend a private or non-Michigan college?

What about the major part of college costs — room and board, books, labor and computer fees, and transportation?

How can the state be sure the investment will be tax-exempt?

exempt because of the investment in tax-exempt securities."

"Plan B — the least-cost option. Parents could separate from the fund and receive only their principal investment. The money returned to parents would be tax exempt."

"Plan C — the mid-cost option. Parents' money would be invested in taxable securities. Parents could separate from the fund and receive their investment plus some measure of fund earnings. Parents might have a tax liability on the investment earnings, although they could eliminate or minimize the tax consequences by putting the earnings in the child's name."

HOW CAN parents of a newborn come up with \$2,400 — or any other



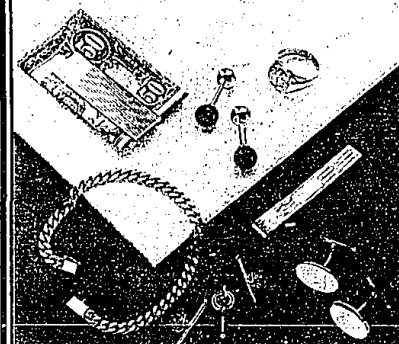
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