

# Critics are not informed, says Bowman

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 youngster's age. The state invests that money, and the child's tuition is guaranteed at any of Michigan's four-year colleges or community colleges.

The program has been hailed as a way of ensuring affordable college education for thousands of Michigan youngsters. But detractors have questioned both the state's assumptions on investments and tuition increases and also the trustworthiness of the trust's guarantee.

"I don't see where the trust can be self-supporting," said Mark D. Stenberg, a registered investment adviser with Mutual Service Corp. in Southfield.

"I see a picture 15 years down the line. The trust fund is broke and you've got parents picking the state capital building saying, 'You promised,'" Stenberg said.

Although the education trust legislation does not obligate the general fund to cover fund shortfalls, Stenberg sees a state legislature pressured to use money from taxpayers, including those not enrolled in the program, as a bailout because politicians "don't want to go back to their districts and have to explain why the state lied" to their constituents.

**BOWMAN STRONGLY** contests arguments from critics who say the trust fund cannot safely earn enough money to keep pace with tuition increases.

"There was double-digit inflation for the first 3 years of those 10 years," Bowman said of the Umspan cited by critics. "I looked at a 20-year period of 5-6 percent

(annual tuition increases) that still includes 3 years of inflation that this country has never seen before."

He said he feels the fund is prudently conservative by projecting annual tuition increases of 7.5 percent, although he feels the increase won't be that high.

Even though he thinks a state bailout is highly unlikely, Bowman says it would be easily justified. "If the state needs to bail this out and does half it out, I don't apologize to any taxpayers," he said.

"We are bailing out the school system every year," he said, referring to the \$1.2 billion the legislature sent Michigan colleges this year. He pointed out that taxpayers who don't have school-age children still contribute to education through their taxes.

**THE COMPARISON** is distressing to Stenberg.

"It concerns me that the state would choose to make some special bailout money available only to the trust participants, not directly to the college because then they are not subsidizing the schools — they are subsidizing a select group of parents who chose to get involved in a program years earlier," Stenberg said.

The price of education should be the same whether or not somebody chose to enroll in a voluntary state program."

At any rate, Stenberg says it is misleading to say that the tuition is guaranteed.

"There is no guarantee that the trust will pay tuition," he said. "The only guarantee is that if the trust cannot pay tuition, proceeds will be given proportionately" to those who



invested in the program.

"We all know that a guarantee is as good as the entity guaranteeing it," Bowman retorts. "This is the strongest guarantee that the Michigan legislature ever provided."

Bowman said he's heard conflicting arguments as to whether the MET will artificially inflate or artificially deflate tuition costs.

"My sense is that the truth, as always, lies in the middle," he said. "I

think what we will probably see in 10 years . . . is that tuition levels will be about the same across all schools, which means (the University of) Michigan's going to go up more slowly than the cheaper schools. We will get to a system like California or New York where the same dollar buys the same amount of credits and where you go to school isn't dependent on the size of your pocketbook but on what kind of grades you got."

**CRITICISM** OF the fund has been coming from those who make a living by telling people how to invest money, according to Bowman, who says some financial advisers fear the loss of \$80 million in commissions over 10 years.

"Financial advisers say this is a bad deal because they don't want the competition," he said. "This is money out of their pocket."

of conflicts of interest, including the one that they (state officials) have. I don't think there are a lot of people out there that can give you a totally unbiased opinion."

Stenberg, who said he has advised some of his clients to enroll in the fund, said Bowman was wrongly accusing financial advisers of worrying about commissions. For the "vast majority," he said, "it will not hurt them at all."

# MET contracts will be mailed by Labor Day

Here are some questions and answers about the Michigan Education Trust.

**Q.** What can applicants to the Michigan Education Trust expect to see happen next?

**A.** Applicants will soon be sent a contract, which they must sign and return to the state Treasurer's office before the end of the year. The contracts "will be in the mail no later than Labor Day," according to state Treasurer Robert Bowman.

**Q.** Can applicants still opt not to participate in the MET?

**A.** Yes, but the \$25 application fee is non-refundable.

**Q.** How much does it cost to enroll a child in the MET?

**A.** It varies. If the child is a newborn, participants will pay \$1,689 for each year of schooling. The amount increases with the age of the child. The cost for a 5-year-old, for example, is \$1,822; a 12-year-old's fee would be \$2,160.

**Q.** Do participants have to sign up for four years of tuition coverage?

**A.** No. Contracts can last from one to four years.

**Q.** What if a child is on the verge of entering college now?

**A.** High school juniors and seniors can participate, but they must pay the current tuition rate. However, that rate would be frozen for them for the course of the contract. So if tuition goes up while they're in school, they wouldn't pay an increase.

**Q.** Do the same amounts hold if the parents expect the child to enroll in a community college?

**A.** No. A flat fee of \$1,104 per year was set for community colleges, regardless of the student's age.

**Q.** Do participants have to hand over a lump sum?

**A.** Participants can either send the full amount by using personal savings or they can obtain a loan and pay in installments.

**Q.** Will the state provide loans for admission into the MET?

**A.** No, but the state has an arrangement with Michigan saving and loan institutions. The rates should be quite low" because "the MET will insure the loan" through an S&L, Bowman said.

**Q.** How low is "quite low"?

**A.** So far, the lowest rate Bowman has seen is 8.5 percent. He has seen a high of 15 percent, and the average has been about 9.5 percent.

**Q.** How can participants get information on various S&L loan rates?

**A.** The state will include with the contract a list of participating S&Ls, their MET loan interest rates and their phone numbers.

**Q.** What if a participant wants to use a bank or credit union loan?

**A.** That's perfectly acceptable, but the interest rates may be higher.

**Q.** What about taxes?

**A.** Participants can deduct MET

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payments on their state income tax returns.

**Q.** What about tax accrued on interest earned by the trust?

**A.** The state must pay that tax. The cost of that expense has been figured into the enrollment cost, Bowman said.

**Q.** Are students taxed when they receive the tuition funds?

**A.** Yes, Bowman said if the standard deduction doesn't increase and the trust is still treated as unearned income by the time the child enters college, he or she can expect to pay \$300 to \$400 a year in taxes.

**Q.** What if the youngster decides to go to an out-of-state college?

**A.** In that case, the student would receive the average tuition of Michigan public schools.

**Q.** If the youngster decides not to go to college, will a refund be given?

**A.** Yes, a refund equivalent to the tuition at the least expensive Michigan college.

**Q.** Is the refund given in a lump sum?

**A.** No. It's paid in four annual installments.

**Q.** Can a sibling use the trust instead of the youngster for which it was originally intended?

**A.** Yes. METs are transferrable to immediate family members. That includes brothers and sisters and stepbrothers and stepsisters of the beneficiary and the spouses, children, stepchildren, adopted children, grandchildren, nieces and nephews of the MET purchaser.

**Q.** Does it matter if the child dies?

**A.** Yes. A transfer or a refund would be given in that case.

**Q.** Will this year's rates prevail the next time the state offers admission to the MET?

**A.** Most probably not.

**Q.** How much will they increase?

**A.** No one knows yet. The actuaries who monitor the MET will decide that.

**Q.** When will the MET take applications again?

**A.** That's another matter to be decided by the actuaries, Bowman said. The state's goal is to take applications once a year.

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