



**Ohio Tuition Trust Authority
Prepared Testimony for the Sunset Review Committee
Presented Monday, December 14, 2015**

Chairman Brown, Vice Chairman Jordan, and members of the Sunset Review Committee, I'm Tim Gorrell, Executive Director of the Ohio Tuition Trust Authority (OTTA), an agency within the Ohio Department of Higher Education. Thank you for the opportunity to speak with you today about OTTA, our CollegeAdvantage 529 College Savings Program and our goals and priorities to help Ohioans and families across the country save for the qualified higher education expenses of their loved ones.

Agency Background:

OTTA was created in 1989 under Ohio Revised Code (ORC) Chapter 3334 to help Ohio families save for higher education expenses. Our first accounts were opened in April 1990 and this year marked our 25th anniversary.

OTTA is a non-GRF, self-funded agency. All of OTTA's operating expenses are funded through account fees paid by CollegeAdvantage Program account owners and no GRF funds are used by the agency.

In 1996 section 529 was added to the Federal Internal Revenue Code to provide U.S. citizens with a Federal tax-advantaged way to save for college education expenses. Then in 2000, Ohio authorized a state tax benefit that allows Ohio residents to deduct up to \$2,000 a year, per beneficiary, from their Ohio taxable income. This deduction includes an unlimited carry forward for contributions in excess of the \$2,000 deduction per year.

In 2009, OTTA was brought under the Department of Higher Education (ODHE) for oversight of agency operations, and the role of OTTA's 11-member Board was limited to a fiduciary duty over the investments in OTTA's college savings plans. Since coming under, ODHE, OTTA has realized efficiencies in its IT servicing, as well as its legal department and human resources staffing. OTTA Board members do not receive compensation other than being reimbursed for expenses related to their Board duties. On a quarterly basis, total reimbursements to Board members average about \$300. A total of 10 OTTA employees spend some time supporting Board activities, for a total average of approximately 160 hours of OTTA staff time per quarter.

Sponsoring and Managing Three Plans:

The Ohio Tuition Trust Authority currently sponsors three plans under the CollegeAdvantage 529 College Savings Program: (1) the CollegeAdvantage Direct 529 Savings Plan, (2) the CollegeAdvantage Advisor 529 Savings Plan offered through BlackRock, and (3) the CollegeAdvantage Guaranteed 529 Savings Plan (closed since December 31, 2003).

Funds invested in these plans may be used at any accredited college or university in the country, as well as at trade schools and other education programs that are eligible to participate in Federal financial aid programs. Across the three plans, OTTA directly manages or oversees over 638,000 accounts and \$9.0 billion in assets as of the end of September 2015.

During the past 25 years, CollegeAdvantage has served over 750,000 beneficiaries. Families have saved over \$10 billion (which does not include their investment earnings), and they have withdrawn over \$4 billion for college expenses.

Over 75% of the payments to schools were made to Ohio colleges and universities, directly supporting higher education in the state. Students have used their CollegeAdvantage funds to attend at least 1,800 different schools across the country where funds have been used to pay for qualified higher education expenses.

Simply put, Ohio's college savings plans make higher education attainable and help account beneficiaries minimize the need for student loans.

1.) CollegeAdvantage Direct 529 Savings Plan

As the sponsor and program manager of the CollegeAdvantage Direct 529 Savings Plan, OTTA is responsible for investments, marketing, and customer service for the Direct Plan. Ascensus College Savings provides recordkeeping and fund accounting services for the Direct Plan.

As of September 30, 2015, the Direct Plan had more than 261,000 accounts (approximately 83% owned by Ohioans) and more than \$4.1 billion in assets (approximately 75% owned by Ohioans). Account owners may select one or more of the 24 different investment funds, including ready-made age-based portfolios, ready-made risk-based portfolios, or individual fund options, all of which are managed by Vanguard, Dimensional Fund Advisors, and Fifth Third Bank. The average fee for investment options in the CollegeAdvantage Direct Plan is 0.27% compared to the national average of 0.51% for direct 529 plans in the industry.

Morningstar, the recognized source for independent investments research, has consistently rated Ohio's Direct Plan as one of the nation's best plans. In 2015, Morningstar reviewed 63 529 plans nationwide, CollegeAdvantage Direct was recognized with a Silver rating, making it one of the top eleven plans in the nation. Plans receiving a Silver rating are viewed positively by Morningstar analysts for program practices and investment offerings and are likely to outperform their peers.

2.) CollegeAdvantage Advisor 529 Savings Plan – offered through BlackRock

OTTA sponsors and BlackRock manages our Advisor Plan, available to consumers through their financial advisors. BlackRock is the world's largest money manager and an industry-leading investment firm. As the Advisor Plan is sponsored and overseen by OTTA, the OTTA Board has the responsibility of supervising the investment direction and performance of this Plan to ensure that account owners are being offered well-managed, reasonable-cost options with a high-level of earnings potential. BlackRock is responsible for marketing, distribution, customer service, and recordkeeping for the plan.

The Advisor Plan has over 341,000 accounts and holds more than \$4.5 billion in assets as of September 30, 2015. BlackRock offers Advisor Plan participants a choice of 23 different age-based, target-risk, or single strategy investment options from BlackRock, iShares, Wells Fargo, Voya, and Rainier fund managers.

3.) CollegeAdvantage Guaranteed 529 Savings Plan

In 1990, OTTA first began selling prepaid tuition credits, and later units, which are guaranteed to grow at the rate of the Weighted Average Tuition (WAT) of the State's public institutions of higher education and are backed by the full faith and credit of the State of Ohio. This Guaranteed Plan was closed to new enrollees and additional account contributions as of December 31, 2003. Although the Guaranteed Plan is closed, OTTA is required to continue to manage the Plan investments, maintain the recordkeeping system, provide online account access, process account transactions, prepare and distribute quarterly account statements and annual tax reports, and provide customer service. OTTA also has the responsibility to generate investment returns on assets to match the growth in tuition obligations. Currently, if we measure the guaranteed savings plan assets under management against the actual liability, based on the current WAT payout values, we have sufficient assets on a cash basis to meet the payout obligations of the Plan. However, as investment returns vary based on market conditions and as payout obligations increase with tuition, it is possible for the plan position to reverse at some point in the future.

As of September 30, 2015, less than 36,000 accounts still hold approximately \$316 million in account value in the Guaranteed Plan. The number of accounts is down nearly 68% from a Plan high of over 112,000 accounts as of the end of FY03.

Agency Goals and Priorities:

The 529 college savings marketplace is extremely competitive as college savers may choose to invest in any state's 529 plan, or may choose different investment vehicles like traditional mutual funds or bank savings accounts. It is important for Ohio to remain competitive with these options because account and asset growth help build scale, which in turn increases efficiencies and helps to drive fees lower.

Accordingly, CollegeAdvantage must continue to offer affordable, innovative, and performance-driven 529 plans and services to our existing and prospective account owners. We must deliver financial services in a manner consistent with what our investors have come to expect from their banks and other financial service providers and provide the best opportunities for investment growth while keeping fees as low as possible. This means offering a suitable range of investment options in our Plans to ensure customers of CollegeAdvantage are able to create and grow their college savings accounts to suit their individual risk tolerance and investment goals. Along with offering options to meet the needs of our customers, OTTA, in collaboration with our professional investment consultants and the OTTA Board, must monitor performance of all funds in the three Plans to be able to detect and mitigate any performance or organizational issues as soon as possible.

While enhancing the financial services we offer throughout our Program, with regard to the Direct Plan, we also seek to grow assets, add new accounts and raise awareness. To continue to grow the culture of saving for college, our goal is to increase our Direct Plan contributions by 5% annually through the current biennium. For the 12 months ending September 30, 2015 our contribution growth rate for the Direct Plan is 5.8%. Growth will be achieved by continuing our public outreach efforts, extensive marketing activities, and statewide advertising campaigns aimed at increasing awareness of CollegeAdvantage among Ohioans.

Conclusion

Ohio's CollegeAdvantage 529 College Savings Program helps Ohioans save even small amounts over time to help offset the future costs of higher education. In the context of growing concern about rising student loan debt in our country, these savings, no matter their eventual size, help families to make higher education attainable and help tomorrow's college entrants minimize student loans as they pursue their educational and career dreams.

We recommend reauthorization of OTTA and its Board. Additionally, since our Board's role is, as of 2009, limited to a fiduciary duty over investments, we recommend legislative change to re-name the Board the "Investment Board" and to revise the background required of appointees from the categories currently listed in the ORC¹ to a requirement that they have significant experience in finance, accounting and/or investment management.

Thank you for this opportunity. I would be happy to answer any questions.

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¹ Currently, our Board members appointed by the Governor must represent the following categories that no longer reflect the Board's role: state institutions of higher education, private nonprofit colleges and universities located in Ohio, the field of marketing or public relations, the field of information systems design or management, and the fields of banking, investment banking, insurance or law.

Addendum: Customer Testimonials

As a part of our celebration of our 25th anniversary, we invited families to share their college savings stories with us. I'd like to take a brief moment to share excerpts from two Ohio families' stories:

Elmer and Karen Kepaski of Coldwater, Ohio wrote, in part: *"We are a very traditional, middle-class family, who places great trust in the value of education. Even though the money invested in the CollegeAdvantage account was only able to fund a portion of college expenses for our four children, it was vital in making our college dreams a reality and was able to keep our children's college debt reasonable. We are so grateful, that through their hard work, and our financial help our children are all skilled and productive members of society. We are now contributing to each of our 7 (soon to be 8) grandchildren's CollegeAdvantage accounts."*

From Fremont, Ohio, Scott and Trisha Prunty shared, in part: *"As young parents, first starting out, we knew that education was important for our children's future. We knew that the only way to afford college would be step by step, putting away as much as we could every paycheck. We also had support from grandparents, aunts and uncles, and other family members on holidays and birthdays. We have seven children; four have graduated, one is a junior in college and two are still in high school with their CollegeAdvantage accounts waiting for their use. We are very grateful that the CollegeAdvantage program was available to help us make wonderful things happen for our children's education. When our first grandchild arrives in July, you can rest assured that we will be opening a CollegeAdvantage account in their name."*

From Vienna, Ohio, Vicki Amerine wrote, in part: *"CollegeAdvantage helped us make our children's dreams come true. Shortly after our children were born, we enrolled in the program. It was a struggle to put back money each year for two children. But, we had a budget that included payments to CollegeAdvantage, and we stuck to it."*

From Lima, Ohio, Patricia Johnson stated, in part: *"I funded his tuition and room and board entirely from my earnings. As a teacher, I knew a college education was the best gift I could ever provide. It was a painless way to save for my son's future . . . I had payroll deduction from my teacher paycheck directly to the fund."*

Judy and John Gore from Gahanna, Ohio shared, in part: *"It was a no-brainer for us that they would be going to school. We started saving when our two daughters were young. CollegeAdvantage was a great way to supplement them going off to school. Now they are saving for their children the same as we did for them."*

Jeanie Roush Wolfe of Kettering, Ohio wrote, in part: *"Now our daughters have opened CollegeAdvantage plans for their own children. My husband and I, aunts and uncles and grandparents are building the little kids' future by contributing each birthday or holiday. It is amazing to see their accounts grow."*

That's just six of over 100 stories submitted to us from families throughout Ohio who have successfully funded college educations through saving over time with CollegeAdvantage. If you are interested, please visit our blog to see additional college savings stories: <http://ow.ly/ULWtp>.