

LSC Greenbook

Analysis of the Enacted Budget

Ohio Tuition Trust Authority

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ATTACHMENT:

Budget Spreadsheet By Line Item

Ohio Tuition Trust Authority

- Transferred to the Board of Regents
- Non-GRF agency
- Increased funding in FY 2010 and flat funding in FY 2011

OVERVIEW

Agency Overview

The Ohio Tuition Trust Authority (OTTA) was created in 1989 to provide a tax advantaged investment option for Ohio families to save for their children's college education. OTTA is responsible for Ohio's 529 college savings program, the College Advantage Savings Plan. A 529 college savings program is a state-operated investment plan named after the section of the federal Internal Revenue Code that specifies the various tax advantages of participating in the program. Funds invested in the plan can be used at any college in the country. According to OTTA, over 15% of all Ohio children aged 18 or younger are College Advantage beneficiaries. As of December 31, 2008, over 418,000 Ohio beneficiaries are enrolled in College Advantage with total assets of \$2.4 billion. The program is also offered nationally; total assets for Ohio and other states' beneficiaries total \$4.5 billion in more than 790,000 accounts.

As of June 2009, OTTA has 47 employees in addition to an 11-member governing board. All of its operations are funded through fee revenue generated through its programs – no expenditures are made from the General Revenue Fund (GRF).

Appropriation Overview

Agency Appropriations by Fund Group, FY 2010-FY 2011					
Fund Group	FY 2009	FY 2010	% change, FY 2009-FY 2010	FY 2011	% change, FY 2010-FY 2011
State Special Revenue	\$6,875,920	\$7,018,666	2.08%	\$7,018,665	0.00%
TOTAL	\$6,875,920	\$7,018,666	2.08%	\$7,018,665	0.00%

*FY 2009 figures represent actual expenditures.

As seen from the table above, OTTA receives only State Special Revenue Fund money; its operations are entirely funded by fees assessed on investment accounts. The budget increases OTTA's appropriation by approximately 2.1% in FY 2010 and provides flat funding in FY 2011.

The College Advantage Savings Plan includes two types of plans: the guaranteed savings plan and the variable savings plan. The guaranteed savings plan accounts for approximately 12.1% of the agency's biennial appropriations. Sales under the guaranteed savings plan have been suspended since FY 2004; however, maintenance and management of existing accounts continue. The remaining 87.9% of OTTA's biennial appropriations is divided among the programs under the variable savings plan. The variable savings plan does accept new accounts and includes 24 investment options. The budget requires OTTA to study and make recommendations by December 31, 2009, for a new guaranteed tuition plan to be offered in addition to the existing two plans.

Administrative Restructuring

The budget places OTTA within the office of the Chancellor of the Board of Regents (BOR). The budget changes the name of the 11-member panel that formerly governed the OTTA to the "Ohio Tuition Trust Authority Board," and limits its powers and duties.¹ The budget also removes a requirement that the Public Employees Retirement Board exercise OTTA's investment powers and authorizes the Authority to contract with another entity to exercise those powers.

¹ For a full discussion of these changes, please see the LSC Final Analysis, which can be accessed on the LSC web site (www.lsc.state.oh.us).

ANALYSIS OF ENACTED BUDGET

The following table shows the budget's appropriations for the Ohio Tuition Trust Authority.

Ohio Tuition Trust Authority Appropriations, FY 2010-FY 2011				
Fund	ALI and Name		FY 2010	FY 2011
State Special Revenue (SSR) Fund				
5P30	095602	Variable Savings Plan	\$6,175,707	\$6,156,515
6450	095601	Guaranteed Savings Plan	\$842,959	\$862,150
State Special Revenue Fund Group Subtotal			\$7,018,666	\$7,018,665
Total Funding: Tuition Trust			\$7,018,666	\$7,018,665

Variable Savings Plan (095602)

This appropriation item supports OTTA's investment options that offer participants market-based choices to save for college. The variable savings plan began in October 2000, with all of the investment options being offered by Putnam Investments. It now includes three established investment managers (Putnam, Vanguard, and Fifth Third Bank) and four investment managers that are new as of February 2009 (Advantage, PIMCO, Oppenheimer, and GE). The budget abolishes the appropriation items previously used for Vanguard (095603, Index College Savings) and Fifth Third Bank (095604, Banking Products) and combines them with the appropriation item previously used for Putnam (095602, Variable Savings Plan). The variable savings plan is entirely funded through appropriation item 095602, Variable Savings Plan, and the budget increases funding by 2.3% in FY 2010 and decreases funding by 0.3% in FY 2011.

Vanguard Options

The Vanguard Group investment options were added in May 2004. This program currently offers 16 investment options, including cash, bond, stock, and age-based basket options. As of December 31, 2008, the program had 115,847 accounts with assets totaling \$807.7 million.

The administration of this program is funded through fee revenues from the Vanguard options. The Vanguard program is approaching five years of age and fee revenue, which is paid by Vanguard on a monthly basis, is expected to become sufficient to pay the full cost of the program administration. OTTA receives 0.10% of a participant's assets, on an annualized basis in the Vanguard 500 Index Fund and 0.15% of a participant's assets in all other Vanguard options.

Fifth Third Bank Options

The Banking Products program was established in September 2005 when the Fifth Third Bank was added as a provider of tax advantaged investment options under the variable savings plan. This program currently offers two no-fee investment options – savings accounts and certificates of deposit (CDs), both insured by the FDIC. The number of Ohio resident accounts increased by 37.9% in FY 2008. This is partially due to the appeal of stable banking investments in times of high market volatility. As of December 31, 2008, this program had 15,530 accounts with assets totaling \$105.9 million.

While participants of the Banking Products program pay no fees, OTTA receives revenue paid by Fifth Third Bank based on the basis points (0.10%) earned on the cumulative assets of the program. Currently, the administration of this program is funded through fee revenues from both the Fifth Third and other programs. The Banking Products program is less than four years old. Fee revenue earned from this program, which is paid by Fifth Third Bank on a monthly basis, is not yet sufficient to support the entire cost of the program. OTTA anticipates this program may be self-sufficient by the end of FY 2013. Fee revenue earned on OTTA's other plans will supplement this program's cost until it is self-sufficient.

Putnam Option

Putnam was the first investment partner to offer market options to Ohio's 529 college savings program in October 2000. This program currently offers one stable-value direct-sold investment option. In December 2008, Putnam's 11 options had nearly 585,000 accounts with \$3.0 billion in assets. According to OTTA, the elimination of the Putnam options has reduced redundancy, lowered fees, and improved performance. Almost all of these accounts were transferred to the new and existing Vanguard, PIMCO, Advantage, Oppenheimer, and GE options. Approximately 3,665 of these accounts are in the one remaining Putnam option.

New Investment Options

Until FY 2009, the variable savings plan included options from three investment managers: Putnam, Vanguard, and Fifth Third Bank. In fall 2008, OTTA eliminated ten existing investment options and added two new options to the variable savings plan. Of the ten investment options eliminated, eight were from Putnam Investments and two were from the Vanguard Group. All new options are direct-sold options under which all participants can open accounts directly with OTTA. Approximately 17,600 account owners with funds in eliminated options had their assets redirected into funds with similar investment objectives, nearly all of which have lower fees. OTTA estimates that \$77 million was transferred.

In February 2009, OTTA eliminated ten additional Putnam options and added six new investment options, including one new Vanguard option and five options from four new managers: Advantage, PIMCO, Oppenheimer, and GE. According to OTTA, these new options respond to customer demand for greater variety, lower fees, and direct-sold options. Approximately 66,000 accounts and \$209.0 million of assets from the eliminated Putnam investment options have been reallocated to the new options.

Guaranteed College Savings Plan (095601)

Funding for the Guaranteed College Savings Plan program is provided in SSR appropriation item 095601, Guaranteed Savings Plan. Backed by the full faith and credit of the state of Ohio, the program guarantees that approximately 100 tuition units will pay for one year of tuition at an average-priced Ohio public university. The budget decreases funding for this item by 2.2% in FY 2010 and increases funding by 2.3% in FY 2011.

Funding for this appropriation item pays for the administrative costs of operating the guaranteed savings plan, which was established in October 1989. Due to a large actuarial deficit, OTTA has suspended sales of new enrollments and contributions to existing accounts in the guaranteed savings plan since FY 2004. An actuarial deficit is essentially the difference between a plan's obligations and the plan's assets used to pay those obligations over a specified period.

Since new enrollments and contributions to the program have been suspended, the main activities of the program are processing withdrawals, answering questions from program participants, and making program participants aware of investment options available under the variable savings plan. The other priority of the program is to effectively manage the existing assets in the program to maximize the investment return while minimizing risk. As of December 31, 2008, the guaranteed savings plan had about 76,000 accounts and \$592.1 million in assets.

Funding for this program comes from the reserve fund within the program, which was assessed on each sale (approximately \$5 per contract) when the program was open for new enrollments and contributions. As of July 31, 2008, the program had a total of \$78.4 million in its reserve fund.

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FY 2010 - 2011 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2008	FY 2009	FY 2010 Appropriations	% Change FY09 - FY10	FY 2011 Appropriations	% Change FY10 - FY11
Report For: Main Operating Appropriations Bill			Version: Enacted					
TTA Ohio Tuition Trust Authority								
5AM0	095603	Index Savings Plan	\$ 2,243,155	\$ 2,417,954	\$ 0	-100.00%	\$ 0	N/A
5DC0	095604	Banking Products	\$ 1,512,132	\$ 1,540,606	\$ 0	-100.00%	\$ 0	N/A
5P30	095602	Variable Savings Plans	\$ 1,844,334	\$ 2,055,309	\$ 6,175,707	200.48%	\$ 6,156,515	-0.31%
6450	095601	Guaranteed Savings Plan	\$ 770,759	\$ 862,051	\$ 842,959	-2.21%	\$ 862,150	2.28%
State Special Revenue Fund Group Total			\$ 6,370,381	\$ 6,875,920	\$ 7,018,666	2.08%	\$ 7,018,665	0.00%
Ohio Tuition Trust Authority Total			\$ 6,370,381	\$ 6,875,920	\$ 7,018,666	2.08%	\$ 7,018,665	0.00%