Magazine Ranks States' Tuition-Savings Programs

By PATRICK HEALY

Iowa, New York, and six other states sponsor the best government-run savings plans for colleges in the United States, while other states that operate prepaid-tuition programs tend to offer fewer benefits to investors, according to an article in the February issue of *Kiplinger's Personal Finance Magazine*.

The best marks went to states with college-savings programs, which tend to offer greater earnings potential directly to investors than prepayment plans do. The eight states that received A's -- Connecticut, Delaware, Indiana, Iowa, Louisiana, New Hampshire, New York, and Rhode Island -- all offer savings programs.

Many college leaders love to hate these kinds of national rankings, complaining about flawed methodology and unfair criteria while privately checking out who's ahead of whom and eating up praise. Such is the case with many prepayment- and savings-plan managers. Some are touting the rankings, released last week, while others are pooh-poohing them.

Iowa and New York both received an A-plus for their programs, largely because they make aggressive investments and offer bonuses or very low fees to participants. Iowa, for example, uses Vanguard portfolios, which gear asset management to the student's age -- aggressive when young for a long-term investment, conservative when older for a short-term gain.

Iowa Treasurer Michael L. Fitzgerald, who oversees the year-old program, said Monday that the program was cheap and attractive to investors around the nation, who can use the earnings at any U.S. college. Iowans, moreover, can deduct up to $2,000 in contributions to the fund on their state-income tax return.

"We thought this type of program made a lot of sense because it's easy for us -- we're assuming no risk -- and it can be expensive to run a prepaid-tuition program, because you have to hire actuaries and others to run it," Mr. Fitzgerald said.

He added that savings plans have the flexibility to make customers happier than prepayment plans, whose rates of return largely depend on steady tuition inflation and enrollment of a child at an in-state public college.

Not surprisingly, some supporters and managers of
prepayment programs were unhappy or downright angry about the rankings, arguing that *Kiplinger's* was unfair to compare two types of programs that have different benefits.

Some states with the oldest and largest prepayment programs -- such as Florida and Michigan -- received the worst grade, a C-. When told that her Alabama Prepaid Affordable College Tuition program had received such a low mark, State Treasurer Lucy Baxley responded with a shocked "Why?" The $490-million program is seen as relatively inflexible: It is open only to state residents, offers the best benefits at in-state public colleges, and charges several fees to participants. (Ms. Baxley said the fee system was in the process of being changed.)

"I've been told by several people that Alabama's program is one of the best, if not the very best," Ms. Baxley said. "To lump all of us together is comparing apples to oranges."

Prepaid programs -- now in about 20 states -- generally offer a fixed rate of return based on current in-state college-tuition rates, guaranteeing to cover any tuition increases that occur by the time a student enrolls down the road. These programs are often advertised as providing "peace of mind" about tuition inflation to investors -- a benefit that is incalculable, supporters say.

College-savings plans -- now in about 15 states -- often provide higher rates of return to investors, but do not lock in today's tuition rates for tomorrow's students. Many financial advisers say that if parents save for college when a child is young, and tuition inflation in the United States continues to be modest, the parents will make much more money through an aggressively invested savings plan than through a prepayment plan.

Both types of programs offer federal and state income-tax breaks, as well as other tax incentives for investing. Many states allow investors to use the savings at any U.S. college. Some states guarantee the investments, and some assess large fees and penalties if money is withdrawn early or not used for college.

All of these factors were used by Kristin Davis, senior associate editor at *Kiplinger's*, to rank the programs. She said the comparisons were fair and useful, since residents of most states have the option of investing in their state's program or turning to another kind in a different state.

"I do recognize the apples-and-oranges issue, but this helps residents see how good their choice is compared to other states," Ms. Davis said.

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