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BILL



ANALYSIS

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Senate Bill 508
Sponsor: Senator Gary Peters
Committee: Education

Date Completed: 5-24-95

SUMMARY OF SENATE BILL 508 as introduced 5-9-95:

The bill would amend the Michigan Education Trust Act to require the board of directors of the Michigan Education Trust to ensure that an enrollment period for advance tuition payment contracts was provided at least annually. During the annual enrollment period, the trust would have to offer advance tuition payment contracts to potential purchasers. The board could adjust the amount to be charged for a contract before each enrollment period as it considered necessary to meet the Act's requirements for the trust's actuarial soundness, and to adjust for other financial factors the board considered relevant.

The bill specifies that the percentage increase from the immediately preceding annual enrollment period in the amount to be charged for an advance tuition payment contract could not exceed the percentage increase from the immediately preceding academic year in the weighted average tuition costs of State institutions of higher education.

Currently, the board must annually evaluate the actuarial soundness of the trust and have it evaluated by a nationally recognized actuary, and determine the additional assets needed, if any, to defray the trust's obligations. If there are insufficient funds to ensure this soundness, the trust must adjust payments of subsequent purchasers to ensure its actuarial soundness.

MCL 390.1431a

Legislative Analyst: L. Arasim

FISCAL IMPACT

According to the Department of Treasury, there would be no additional costs associated with the routine handling of additional contracts. For FY 1993-94, the Michigan Education Trust (MET) program spent \$825,000 on administrative costs. However, there would be new marketing and advertising costs estimated to be between \$200,000 and \$500,000 depending on the scope of marketing efforts.

This bill also would potentially affect the Michigan Education Trust Fund. Three variables influence the fiscal soundness of the MET Fund: 1) the amount charged to establish an advance tuition contract, 2) the earnings from investing the MET funds, and 3) the increase in tuition rates. If investment earnings increase at a rate greater than the increase in tuition, then it is likely that the cost of a contract could be increased at a relatively lower rate. On the other hand, if investment earnings increase at a slower rate than the increase in the cost of tuition, then in order to keep the Fund actuarially sound, the cost of a contract would have to be increased at a relatively faster rate.

so enough new revenue would be brought into the Fund to assure that future liabilities were adequately covered. This bill would put an upper limit on how much the cost of a contract could be increased from year-to-year, and therefore would make it more difficult to maintain the financial integrity of the Fund.

Fiscal Analyst: L. Nacionales-Tafoya
J. Wortley

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