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South Carolina House of Representatives

Legislative Update & Research Reports

Robert J. Sheheen, Speaker of the House

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House Week in Review

The House has its work cut out for it this week after setting three bills or special order: H.3175 relating to the qualifications of sheriffs; S.457, the Home Instruction bill and H.3723, dealing with a municipality's right of condemnation.

The House voted to set the three bills for special order last Wednesday. The three House Resolutions called for the House to take up the sheriff's qualification bills last Wednesday, March 30, immediately after the uncontested calendar, with the other two bills, S.457 and H.3723, to follow in that order. However, House members never got to the special orders, which await them when they return this week.

Comprehensive Health Education

Much of Wednesday's session was spent considering the conference committee report on S.546, the Comprehensive Health Education bill. At the urging of District 19 Rep. Michael Fair, a member of the conference committee, the House dissolved into a committee of the whole to consider whether it wants to put stricter language on the teaching of homosexuality in the bill. The House ultimately decided to send the bill back to the conference committee.

Health and Human Services Finance Commission Elections

The House and Senate also met in a joint assembly Wednesday to elect three members to the Health and Human Services Finance Commission. By acclamation, the General Assembly elected T. Michael Copeland of Columbia to the 2nd District seat, Dr. Robert Robards of Taylors to the 4th District seat, and James L. Pasley, Jr. to the 6th District seat.

Prior to the joint assembly, the House saluted two outstanding high school basketball teams, their staffs and coaches. Presented to the House were the State Class AAA South Aiken High Lady Thoroughbred basketball team and the State AA Championship basketball team from Allendale-Fairfax High School.

Enrolled for Ratification

Last week also saw two important bills enrolled for ratification. H.2610, Tort Reform legislation, was enrolled after the Senate concurred with the House amendments to the bill. Also enrolled was H.3356, which will change the way retirement for law enforcement officers is calculated and reduce from 30 to 25 the years they must serve before retirement.

A Sad Announcement

A number of House members, including Speaker Robert Sheheen, took the podium Tuesday to express their regret at the decision of District 112 Clyde Dangerfield not to seek re-election. Dangerfield, chairman of the House Labor, Commerce and Industry Committee, is the longest serving member of the House. The Charleston Democrat has served as a member of the Charleston County delegation since September 1953.

Bills Introduced

Here is a sampling of the bills introduced in the House during the previous two weeks. Not all House bills introduced during that period are featured here. The bills are organized by the standing committees to which they were referred.

Agriculture and Natural Resources Committee

Aquaculture Permit Assistance (H.4035, Rep. Sharpe). Potential aquaculturalists would have a friend in the Department of Agriculture if this bill passes. This legislation would create the Aquaculture Permit Assistance Office, whose function would be to help guide the aquaculturalist through the permitting process.

Education and Public Works Committee

State Flag and Old Glory (H.4051, Rep. J. Bradley). All state agencies, public schools and colleges and universities would be required to fly the South Carolina flag below the American flag when they fly the Stars and Stripes if this bill is enacted into law.

Special Exit Exam Testing Arrangements (S.1202, Sen. Martschink). The State Board of Education would be required to make special testing arrangements for students with documented learning disabilities who are taking the state high school exit exam. The purpose of the legislation is to minimize the effect of learning disabilities on testing performance.

Special Plates for Retired Legislators (H.4016, Rep. Rudnick). This bill would provide special license tags for retired members of the General Assembly. The bill set fees and stipulates that the tag read, "South Carolina House, Retired," or "South Carolina Senate, Retired."

Special Plates for Retired Military Personnel (H.4017, Rep. Rudnick). Like the above bill, this would allow the state Highway Department to issue a special tag to any resident who is a retired member of the U.S. Armed Forces. The tag would read, "United States Armed Forces, Retired." The fee would be the regular registration fee plus the special personalized plate fee.

Judiciary Committee

License Suspension and Liquor for Minors (H.4057, Rep. Huff). Any person convicted of violations such as buying alcoholic beverages for minors, or presenting a false I.D. to buy beer or wine, or under-age possession of alcoholic beverages would have their driver's license suspended by the Highway Department. Conviction for a 1st offense violation would result in a 90 day suspension; 2nd offense, a six month suspension, and 3rd and subsequent offense, a one year suspension.

Archeological FOI (S.1316, Sen. Dennis). This bill would exempt from Freedom of Information Act disclosure the archeological records of the S.C. Institute of Archeology and Anthropology relating to land sites, archeological finds and recovered objects. The bill would allow the director the discretion of releasing any records if he determines that their disclosure would help protect the archeological dig.

Labor, Commerce and Industry Committee

Background Check for Real Estates Agents (H.4023, Rep. E.B. McLeod). This bill would require the state Real Estate Commission to forward the names of anyone applying for a license to be a real estate agent, broker, appraiser or auctioneer to the State Law Enforcement Division for a criminal background check. Licenses would be denied anyone whose background check disclosed a felony conviction. This bill also would apply to anyone seeking a license renewal.

Background Check for Time Sharing Agents (H.4024, Rep. E.B. McLeod). This bill would require the same background check and requirements for persons applying for or renewing a vacation time sharing sales license.

Medical, Military, Public and Municipal Affairs Committee

State Land Sales (H.4030, Rep.Koon). Under this bill, before any land, donated to the state, could be sold, it would have to be offered first to the county, then to the municipality it is located in. If not accepted by these two local governments, it would have to be offered to the descendants of the original owner. If still no takers, the land then could be sold at the discretion of the state Budget and Control Board.

Labor, Commerce and Industry Committee

Rental Deposits (H.4040, Rep. Thrailkill). Landlords would be required to deposit all rental security deposits and prepaid rent in an interest-bearing account. The interest would be returned to the tenant when the deposit or rent is returned. Further, the bill stipulates that if a tenant has not been delinquent in his rental payments after one year, the landlord must return the deposit and prepaid rent with interest.

Insurance Commission Members (H.4050, Rep. J. Bradley). Two legislators would be added to the seven-member State Insurance Commission as ex-officio members under this bill. It requires that a member of the House Labor, Commerce and Industry Committee, as well as a member of the Senate Banking and Insurance Committee be appointed to the commission by their respective chairmen.

Ways and Means Committee

Agency Heads' Evaluation and Confidentiality. (H.4041, Rep. E.B. McLeod). The process by which the Agency Head Salary Commission handles evaluations would be structured by this bill, which sets out the time frame and the way the evaluations would be handled by the commission. It also requires strict confidentiality of the contents of the evaluations by both the Agency Head Salary Commission members and the boards and commission members submitting the evaluation forms.

Unclaimed Property (H.4046, Rep. Kirsh). This bill would repeal the old Uniform Disposition of Unclaimed Property Act and replace it with the new Uniform UnClaimed Property Act. These provisions set out how banks, savings and loans, stock brokerage houses and other similar institutions handle money, accounts or other valuable property which has been abandoned by their owners.

Flea Markets (S.1301, Sen. Waddell). Like H.3951, introduced three weeks ago, this Senate bill would require the owners of flea markets to ensure that all people renting space are properly licensed prior to the renting. This would mean that people renting space in a flea market to sell any type of merchandise would be required to have a retail license. The penalty for the flea market owner who violates this proposed law would be a fine not greater than $200 or not more than 30 days in jail.

Pork Production Sales Tax Exemption (H.4015, Rep. Harvin). If this bill is passed, you can add the gross proceeds of the sales of machine used in the production of pork or pork products to the list of sales tax exemptions, as well as natural and liquefied gas used for the same purposes.

Without Reference

Constitutional Amendments (H.4072, Rep. Sheheen). This joint resolution would extend the time that entire articles of the State Constitution may be revised, or a new article proposed as a single amendment, with only one question being submitted to the voters. Under current constitutional provisions, the 1988 general election is the last election that single amendments can be presented as single questions to voters in a statewide referendum. If the extension is not approved by the General Assembly, each provision of a constitutional change would have to be presented to the voters as a separate question on the General Election ballot, which will make for an awfully long time in the voting booth.

Average Teacher Salaries

At the heart of educational reform is the effort to improve teacher salaries. In South Carolina, this commitment is seen in the efforts of the General Assembly to fund teacher salaries at the Southeastern average. The average teacher salary in the proposed 1988-89 Appropriation Bill, now before the Senate, is $25,239.

Here is a breakdown of the average teacher salary by school district. Also included are statistics on the average classroom teacher salary in the southern states.

Data on teacher salaries by district were taken from the state Department of Education's *Teacher Salary Study 1987-1988,* issued in February. Salary statistics from the southern states was obtained from the report "1987-88 Salary Increases and Preliminary 1988-89 Salary Information," published by the Southern Regional Education Board in Atlanta. Both sources represent the latest available information.

Average Classroom Teacher Salary, SREB States

State	*Aver. Salary '86-'87*	*Est. Change '87-'88*
Alabama	$23,500	0
Arkansas	$19,904	1-2%
Florida	$23,785	8%
Georgia	$24,200	5%
Kentucky	$22,612	5%
Louisiana	$20,054	0
Maryland	$28,893	6%
Mississippi	$19,447	5%
North Carolina	$23,775	5%
Oklahoma	$22,060	0
SOUTH CAROLINA	$23,190	6%
Tennessee	$22,627	4%
Texas	$24,588	NA
Virginia	$25,473	10%
West Virginia	$21,446	1-2%

Average Teacher Salary by District 1986-87

District	Salary	Rank	District	Salary	Rank
Abbeville	21,734	70	Kershaw	24,410	15
Aiken	23,709	21	Lancaster	23,470	29
Allendale	20,791	86	Laurens 55	23,518	26
Anderson 1	23,774	20	Laurens 56	22,804	40
Anderson 2	23,493	28	Lee	21,336	79
Anderson 3	21,904	67	Lexington 1	23,329	32
Anderson 4	22,078	62	Lexington 2	23,933	18
Anderson 5	23,234	34	Lexington 3	22,572	45
Bamberg 1	23,522	25	Lexington 4	22,559	46
Bamberg 2	21,930	66	Lexington 5	24,493	13
Barnwell 19	20,485	87	McCormick	21,178	83
Barnwell 29	22,047	63	Marion 1	22,031	64
Barnwell 45	23,331	31	Marion 2	21,330	80
Beaufort	23,572	24	Marion 3	19,452	91
Berkeley	22,431	50	Marion 4	20,297	89
Calhoun	22,618	43	Marlboro	21,602	73
Charleston	22,201	58	Newberry	22,396	54
Cherokee	25,053	6	Oconee	23,211	35
Chester	23,643	22	Orangeburg 1	22,258	57
Chesterfield	22,398	52	Orangeburg 2	21,382	76
Clarendon 1	21,271	81	Orangeburg 3	22,653	42
Clarendon 2	22,398	52	Orangeburg 4	22,892	39
Clarendon 3	22,143	60	Orangeburg 5	24,208	17
Colleton	22,340	55	Orangeburg 6	20,232	90
Darlington	22,402	51	Orangeburg 7	21,423	75
Dillon 1	21,642	71	Orangeburg 8	21,340	78
Dillon 2	21,107	84	Pickens	23,891	19
Dillon 3	21,822	69	Richland 1	24,251	16
Dorchester 2	23,612	23	Richland 2	24,436	14
Dorchester 4	21,994	65	Saluda	21,829	68
Edgefield	20,980	85	Spartanburg 1	24,870	8
Fairfield	22,084	61	Spartanburg 2	24,509	12
Florence 1	22,171	59	Spartanburg 3	25,400	4
Florence 2	22,995	37	Spartanburg 4	24,648	11
Florence 3	21,641	72	Spartanburg 5	24,668	10
Florence 4	20,364	88	Spartanburg 6	25,435	3
Florence 5	23,334	30	Spartanburg 7	25,440	2
Georgetown	22,559	46	Sumter 2	22,544	48
Greenville	23,513	27	Sumter 17	23,311	33
Greenwood 50	23,128	36	Union	22,602	44
Greenwood 51	22,515	49	Williamsburg	21,243	82
Greenwood 52	22,912	38	York 1	24,916	7
Hampton 1	22,262	56	York 2	24,763	9
Hampton 2	21,352	77	York 3	25,363	5
Horry	22,728	41	York 4	25,728	1
Jasper	21,432	74			

Estimated Average Teacher Salary by District, 1987-88

District	Salary	Rank	District	Salary	Rank
Abbeville	22,643	73	Kershaw	25,067	18
Aiken	24,458	31	Lancaster	24,486	30
Allendale	21,842	86	Laurens 55	24,717	24
Anderson 1	24,587	25	Laurens 56	23,975	39
Anderson 2	24,061	36	Lee	22,331	80
Anderson 3	23,177	60	Lexington 1	24,535	27
Anderson 4	23,217	59	Lexington 2	24,978	19
Anderson 5	24,342	32	Lexington 3	24,021	38
Bamberg 1	24,834	20	Lexington 4	23,446	55
Bamberg 2	23,543	51	Lexington 5	25,502	13
Barnwell 19	21,793	87	McCormick	22,065	83
Barnwell 29	22,974	63	Marion 1	23,108	61
Barnwell 45	24,814	21	Marion 2	22,485	78
Beaufort	24,584	26	Marion 3	20,212	91
Berkeley	23,271	57	Marion 4	21,507	90
Calhoun	23,757	42	Marlboro	22,637	74
Charleston	23,314	56	Newberry	23,688	45
Cherokee	26,237	6	Oconee	24,123	34
Chester	24,791	22	Orangeburg 1	23,513	53
Chesterfield	23,578	49	Orangeburg 2	22,551	77
Clarendon 1	22,783	70	Orangeburg 3	23,593	48
Clarendon 2	23,548	50	Orangeburg 4	23,755	43
Clarendon 3	22,920	64	Orangeburg 5	25,262	15
Colleton	23,510	54	Orangeburg 6	21,602	88
Darlington	23,619	46	Orangeburg 7	22,288	82
Dillon 1	22,607	75	Orangeburg 8	22,905	67
Dillon 2	21,983	84	Pickens	25,260	16
Dillon 3	22,884	68	Richland 1	25,145	17
Dorchester 2	24,720	23	Richland 2	25,404	14
Dorchester 4	23,532	52	Saluda	22,768	71
Edgefield	21,949	85	Spartanburg 1	26,106	7
Fairfield	22,917	66	Spartanburg 2	25,833	12
Florence 1	23,086	62	Spartanburg 3	26,504	4
Florence 2	24,171	33	Spartanburg 4	26,093	8
Florence 3	22,558	76	Spartanburg 5	25,868	10
Florence 4	21,551	89	Spartanburg 6	26,862	2
Florence 5	24,534	28	Spartanburg 7	26,549	3
Georgetown	23,609	47	Sumter 2	23,241	58
Greenville	24,506	29	Sumter 17	24,075	35
Greenwood 50	23,831	41	Union	23,707	44
Greenwood 51	22,920	64	Williamsburg	22,310	81
Greenwood 52	24,054	37	York 1	25,860	11
Hampton 1	22,869	69	York 2	25,895	9
Hampton 2	22,416	79	York 3	26,419	5
Horry	23,836	40	York 4	26,953	1
Jasper	22,767	72			

Research Report: Advânced Tuition Payments

As the cost of paying for college goes up and the IRS rules on interest-paying investments change, parents throughout South Carolina are faced with the increasingly difficult prospect of paying for college tuitions. The following report, researched and written by USC Legislative Intern Larry Slovensky, examines the alternative payment proposals many states, including South Carolina, and some private colleges are considering.

Introduction

The cost of four years of tuition at a public university increased 49 percent over the years 1980 to 1984, while the average family income rose only 26 percent over the same period. This increase, coupled with the fact that the purchasing power of federal financial aid for students has dropped 25 percent during this decade, has led to great concern over how the next generation will be able to afford a college education. Three bills designed to help families deal with the high costs of higher education are currently pending before committees of the General Assembly.

Three South Carolina Bills

The South Carolina Education Trust Act, introduced by Sen. Garrison in March 1987 as S.458, would set up a trust fund to help families finance college educations. The plan allows parents to pay a set amount of money to an educational trust fund while their children are young.

The fund pools the money of all the parties that participate in the program and invests it. Then, when a participating student enters a state institution of higher education, the fund uses the income resulting from these investments to pay the student's tuition costs for four years. The bill is currently pending before the Senate Committee on Finance. Rep. Harvin introduced a similar bill in the House in January. H.3339 is currently before the Ways and Means Committee.

In addition to the two advanced tuition payment bills, Rep. Kirsh is sponsoring a bill that would allow the creation of state tax deductible college savings accounts. H.3825, also pending before the Ways and Means Committee, would permit banks to create savings accounts specifically for families of college bound students. Under the Kirsh proposal, up to $3,000 contributed to the account annually would be exempt from state taxes.

The History of Tuition Prepayment Plans

Duquesne University in Pittsburgh was the first private institution to develop a tuition prepayment plan to deal with the escalating cost of higher education. The plan, instituted in 1985, allows alumni to pay a lump sum to the university while their children are young. The university invests this sum of money, and when the child enters Duquesne, the university guarantees to pay the cost of tuition for the child for four years. However, there are some stipulations connected with the tuition guarantee.

The child must be accepted to and enter Duquesne University in order to enjoy the benefits of the plan. If the student decides not to attend Duquesne or is not accepted, the parents receive a refund of the original investment only. If the student enters Duquesne and attends for one year, then it is possible to transfer the payments, equal to costs at Duquesne, to any other institution. Other private institutions, such as Nichols College in Dudley, Mass., have followed Duquesne's lead by establishing similar plans.

However, Duquesne University recently announced it would discontinue its tuition prepayment program due to financial problems. The fund invested all of the money in zero-coupon bonds, and the rate of return on the bonds fell from 10.8 percent to 8.5 percent. Also, the fund managers had expected a 7 percent annual growth of tuition costs, while the actual increase was 7.9 percent.

These two developments made it economically unfeasible to continue the program. Those students who previously contracted to receive a tuition guarantee will still be covered by the plan, but no new participants will be accepted. The university is considering restarting the program in a few years if conditions allow.

Michigan's Plan

Michigan Gov. James J. Blanchard proposed a public adaptation of these private institution prepayment plans in 1986. Under the Michigan plan, which was enacted into law last year, a Michigan family can pay a set amount of money to an educational trust fund in exchange for a guarantee that the fund will pay the tuition costs for their child for four years at any of Michigan's 29 public universities and community colleges. Current estimates indicate that these tuition guarantees would cost $4,000 for a newborn child, while a payment of $8,000 would guarantee four years of tuition for a college age child.

The costs for buying a tuition guarantee would increase for new participants over the years as the cost of education increases, but once a family pays the original price, no further payment will ever be needed. The tuition prepayment would still be valid if the student happened to move out of the state but attended a Michigan school; however, the student would have to make up the difference between resident and non-resident tuition.

The Michigan Department of the Treasury would run this program, and would have the full responsibility of insuring that the income from investment of prepayment funds would be sufficient to cover the costs of tuition plus administrative costs. The tuition prepayment plan has been held up for more than a year pending a decision by the IRS over whether the income created by the fund would be considered taxable by the federal government.

IRS Decision

Gov. Blanchard recently announced that the IRS would allow parents to participate in Michigan's prepayment plan without having to pay additional federal income tax on the interest accrued. However, the March 23 edition of the Chronicle of Higher Education points out that there are technicalities in the IRS's ruling that may strip away some of the incentives of the plans.

According to the article, Michigan State Treasurer Robert A. Bowman said the IRS also told state officials that students in the program would be subject to federal income tax, and that the program itself could be subject to federal income taxes.

The IRS stipulated that students would have to pay taxes on the interest the state had earned since their parents had first entered the program. This means that if parents had paid $5,000 in a tuition prepayment plan, and the cost of four years of tuition turned out to be $25,000 when the student entered college, the student would be liable for the tax on $20,000. This liability would be spread out over the four years of college.

Since a student is not likely to have much additional income that could be taxed, the ruling is more favorable to the plan than if it required parents to pay taxes on the interest. The IRS also ruled that the tuition prepayment trust fund itself would be subject to federal income taxes, although it was not stated specifically which taxes would be applicable.

Impact on Private Colleges

It is unclear how this ruling will be applied to private institutions or other states, but some private college administrators have stated that if the ruling in Michigan is applied to their institution, the program will become unfeasible.

For example, Canisius College, a four year, liberal arts private college in Buffalo, New York, has instituted a tuition prepayment plan requiring a payment of $7,000 at age one in order to insure four years of tuition at the college. College officials have estimated that the cost of four years at Canisius will cost about $128,000 in the year 2004. If the Michigan ruling is applied to private institutions, Canisius officials said a student would have a taxable income of $30,000 a year for each year in college. This would put a heavy burden on the student, and would probably make the program unattractive to potential participants.

The Proposed South Carolina Education Trust Act

The House and Senate versions of the South Carolina Education Trust Act are similar to the Michigan plan. Both bills establish a South Carolina Education Trust Commission composed of the State Treasurer and eight members appointed by the Governor with the advice and consent of the Senate. The Commission members serve four year terms. The Trust will create contracts for the advance payment of tuition for participants in the plan. These contracts specify the terms of the agreement, including the amount of payment required, the number of credit hours covered and terms for the termination of the contract.

The Trust Commission will offer at least two types of contracts. Under Plan One, the individual purchases a contract for either a set number of degree hours or for the number of hours required for a baccalaureate degree. If the contract is terminated before the beneficiary reaches the age of 18 or receives a high school diploma, only the original face value of the contract less any administrative costs will be refunded.

Plan Two provides for a similar contract except that if the contract is terminated prematurely, the original face value of the contract plus a set amount of the accrued investment income will be refunded, less any administrative costs.

Each of these plans will have two alternatives for the beneficiary. Under Alternative One, the contract will cover the cost for the number of credit hours required for a baccalaureate degree. Alternative Two will set up a contract that will reduce the number of credit hours to be covered if the beneficiary enters a state school with a tuition that is 5 percent higher than the weighted average tuition for all state institutions of higher education.

In the case where the beneficiary terminates the contract after reaching the age of 18 or decides not to enter a public institution of higher education in the state, the beneficiary will receive a refund equal to the weighted average tuition of all state institutions for the number of credit hours covered by the contract. If the beneficiary decides not to attend college at all, the refund will be equal to the lowest tuition of state schools for the credit hours covered in the contract.

The proposal states that the Education Fund will be inspected each year by a nationally recognized actuary to insure its soundness. If there are not sufficient funds to pay the costs of running the program, then the cost for new participants in the program can be adjusted. The bill further states that tuition prepayment contracts cannot be sold until the IRS rules favorably on the tax liability of the participants in the program. Otherwise, the bill states that the South Carolina Education Trust Commission will prepare a report for the General Assembly on how to modify the program.

Tuition Prepayment Plans in Other States

Florida

Several other states have attempted to help in the area of financing a college education. Florida legislators enacted a tuition prepayment plan during their 1987 session. This plan is similar to the Michigan plan, except that the state did not put in a provision concerning federal income tax exemptions.

The plan sets out three options available for Florida residents. The prospective student can purchase a plan that will pay either for tuition at a state university, for tuition and housing at a state university, or for tuition at a state community college. Potential students who move out of Florida before they enter a Florida state school do not have to pay any additional tuition costs.

If a student decides to enter a Florida private school, the payments they would have received at a public institution are transferred completely to the private school. Those that withdraw from the plan receive the principal, but none of the accrued interest. The Board established by the act has wide authority in deciding who will be in charge of investing the money in the fund and how it will be invested, but there has been no official decision on these questions yet. The fund plans to begin selling the tuition prepayment guarantees beginning September 1, 1988.

Wyoming

Wyoming recently started its own tuition prepayment plan without waiting for a ruling from the IRS on the taxability question. The state decided that participants would be responsible for the taxes on the interest income resulting from the program. A payment of $5,400 guarantees four years of tuition, room, board and mandatory fees at any Wyoming institution. The trust fund is managed through the University of Wyoming, and the rate of return on investments is assessed quarterly to determine whether the initial payment needs to be adjusted for incoming participants.

Tennessee

Three other states have enacted tuition prepayment legislation but have waited for an IRS ruling. Tennessee enacted a tuition prepayment law during 1987 which is similar to the Michigan plan. The Tennessee plan sets up a trust fund for parents of college bound students. All income generated through the fund is exempt from state income tax.

Indiana and Maine have also implemented tuition prepayment plans along Michigan lines. Indiana higher education officials are still working out the mechanics of their prepayment plan, and are unsure of the implications of the IRS ruling in Michigan.

New Jersey

The New Jersey legislature is currently considering a bill slightly different in scope from the Michigan plan, but with similar intentions. Under the New Jersey plan, a student picks a New Jersey public or private institution four years before he plans to enter college. The student or parent pays for an amount of each year's tuition at current prices for the institution selected, and the state will pay for the tuition for the student for each year purchased when the student enrolls.

If the student decides not to attend college at all, he receives a refund of the principal. If the student is not accepted to the institution he chose, the entire investment is transferred dollar-for-dollar to another New Jersey institution. If the student decides to attend an out of state school, he can transfer only 75 percent of the amount of the pre-paid tuition.

Justifications for Tuition Payment Alternatives

The problem of financing a college education has become increasingly difficult for parents in today's economy. As Dr. Richard Anderson of Columbia University points out in an essay on tuition pre-payment plans, there have been several major reasons why citizens find it difficult to save money for the future.

The main purpose of saving money is to insure that future disruptions will not adversely affect the standard of living a citizen presently enjoys. The current provisions for social security and federal disability insurance have made saving for retirement or injury less necessary. Many employers now offer substantial health and retirement plans as a privilege of employment, and these inventions also make saving for a rainy day less vital for the average American. The only major expense that is not somewhat covered by these provisions is the economic stress of sending a child through college.

Saving sufficient money to finance a college education presents problems to the average parent. The volatility of inflation and the economy makes it difficult for parents to know how to effectively invest their money to pay for a future college education. The best hedge against major losses in any kind of risky field of investment is diversification, but few families have the resources to sufficiently diversify their portfolios. Moreover, federal tax law creates disincentives to invest by treating capital gains as ordinary income, and by placing high marginal rates on unearned income.

Proponents have pointed out that by pooling the money of interested parents, educational trust funds allow informed investment by experts in the field. Such a fund could be highly diversified, lowering the risk of loss. Also, since new participants in the program would continually add new money to the fund, the managers of the fund would be able to take a long term view. This would allow for more strength in the overall investment strategy, and would also help prevent short term losses. With the rapidly increasing cost of a college education and the problems most families face saving enough money to finance an education, proposals such as the Michigan tuition pre-payment plan address a serious need.

Drawbacks to Tuition Prepayment Plans

While tuition prepayment plans seem to be a great boon to parents with college age children, these proposals have raised several issues. First, some critics of such plans have argued that the choices of students will be limited. It is difficult to say what the quality of an institution, or a set of state institutions, will be 18 years in advance. But the plan puts a great pressure on a student, whose parents have invested in a tuition pre-payment plan, to attend the institutions where the plan would be valid.

This is not as great a concern for a state public system of institutions as it might be for one private institution, but the potential for mismatches between a student's abilities and desires, and the offerings of the institutions which he has become contracted to does exist.

Second, critics point out that these plans place a burden on the state treasury or other such body to invest funds wisely enough to outpace the rise in tuition and administrative costs associated with running the system. If there is some kind of unfortunate development in the investment scheme, the state may be faced with having to lay out money to pay the tuition of students enrolled in the plan. The Michigan Department of Treasury rebuts this argument by stating that they have averaged 18 percent growth over the past 5 years in the state pension fund that they oversee. However, it is impossible to determine whether such growth can be sustained in the future.

Third, opponents argue that these plans realistically only help middle and upper middle class families. Only a middle or upper middle class family could afford to pay the kind of lump sum such plans require. The Michigan Department of Treasury projects that the one time payment for a new born child would be $4,000 based on current tuition costs at Michigan institutions. It is argued that students who would participate in tuition prepayment plans would probably attend college even without the plans.

In response to this, however, some have observed that if payment is allowed in installments or through payroll deductions, it may become more accessible to lower income families. Also, the plans are designed to run without state subsidy. Since no state funds are required, the plan can help the needs of the middle class and allow the state to target lower income families for assistance.

Fourth, it has been argued that the idea of the system is good, but that its implementation could be much better carried out on the federal level or by the private market. Either alternative would sidestep the problem of students being limited to a certain institution or set of institutions.

Alternatives to Tuition Prepayment Plans

Missouri has come up with a slightly different way to help parents finance a college education. Under the plan initiated by Gov. John Ashcroft, banks and lending institutions would be authorized to offer special accounts similar to Individual Retirement Accounts (IRAs) to parents in order to help them finance their child's education.

The income generated by the fund must be used expressly for college costs, with a penalty of 10 percent if the funds are withdrawn for non-college expenditures. If the student dies or becomes incapacitated, a 6 percent tax on the account would be charged.

Contributors can add up to $2,000 a year to the account from the birth of a child to the age of 18. The income accrued from these accounts would be exempt from state income tax. Also, the plan would allow the accounts to be put in the child's name, which would lower the federal tax rate to be levied against the interest generated by the account.

This plan is heralded by its sponsors because it requires no special state administration and gives the family complete discretion on where the plan can be applied. However, Missouri is also looking at proposal similar to the Michigan prepayment plan, and it is considered more likely to be enacted than the educational savings account plan.

A South Carolina Proposal

In South Carolina, Rep. Herbert Kirsh introduced a bill in February, similar to the Missouri proposal, called the Child's Education Savings Account. H.3825 is currently under consideration by the House Committee on Ways and Means.

This bill would authorize the creation of savings accounts specifically for the benefit of a child's education. Banks, lending institutions, and credit associations would be allowed to manage these accounts. The child who would benefit from the account would have to be under the age of 16 when the account is started and must receive all interest from the account by the age of 24.

Contributions of up to $3,000 per year will be exempt from state taxation. If the bank or lending institution pays out money from the fund, it must be made payable to any accredited college or university. Otherwise, seven percent of the payment will be withheld as a penalty. The beneficiary of the account can make withdrawals from the account, but unless the withdrawal is used for educational costs, it will be treated as taxable income.

North Carolina Law Enacted

The North Carolina legislature enacted a law during the 1987 session that is also along the lines of the Missouri plan. North Carolina has authorized the sale of tax-free zero-coupon bonds by municipalities or any other body which issues such bonds. These capital appreciation bonds are targeted for purchase by families planning to finance a college education.

The state Department of the Treasury is in charge of administering the program. Bonds are offered to parents at a percentage of the final value of the bond at maturity, and are exempt from state and federal taxation.

National College Savings Bond Program

There has also been a proposal at the national level based on a similar idea. President Reagan's most recent budget proposal contains a provision for a national college savings bond program. Under this program, parents would receive tax discounts for savings bonds designed to help pay for college.

There would be a tax exemption on the interest earned by these bonds as long as the proceeds are used for educational costs. The exemption would be phased out for families with income between $60,000 and $80,000. If a student has not been claimed as a dependant by his parents, the student's income would be used to determine whether the tax exemption will be allowed.

Conclusion

Obviously, the question of how to help families pay for college education has provoked many proposals. Although the South Carolina Educational Trust Act offers some advantages to those preparing to pay for college, the plan also raises some legitimate caution flags. Nonetheless, as tuition costs increase, the need for some form of assistance for those who are attempting to finance a college education for their children will continue to grow.