
SENATE COMMITTEE ON EDUCATION

Senator Connie Leyva, Chair

2019 - 2020 Regular

Bill No: AB 853 **Hearing Date:** June 5, 2019
Author: Smith
Version: March 20, 2019
Urgency: No **Fiscal:** No
Consultant: Olgalilia Ramirez

Subject: Student financial aid: Golden State Scholarshare Trust Act.

SUMMARY

This bill authorizes the Scholarshare Investment Board to make payments to third parties, in addition to institutions of higher education, on behalf of program beneficiaries, and makes conforming changes.

BACKGROUND

Existing law:

- 1) Establishes the Golden State Scholarshare Trust Program as the California's state-sponsored college savings plan, pursuant to Section 529 of the Internal Revenue Code. (Education Code (EC) § 69980 et seq.)
- 2) Establishes the Scholarshare Investment Board (SIB), to oversee the trust program, and comprised of seven members, including the Treasurer, who serves as board chair. Among other duties, the board is authorized to enter into agreements with program participants - including an individual, trust estate, partnership association, company or corporation and several other entities - and to make payments to institutions of higher education, pursuant to participation agreements, and on behalf of program beneficiaries. The board may also develop a method to make payment of qualified higher education expenses directly to beneficiaries in a manner that is consistent with applicable federal requirements and restrictions. (EC §. 69981 and 69984 et. seq.)

ANALYSIS

This bill:

- 1) Authorizes the Scholarshare Investment Board to make payments to third parties, in addition to institutions of higher education, on behalf of program beneficiaries.
- 2) Makes conforming changes.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the State Treasurer and sponsor of the bill, "to help make it easier and more convenient for parents and other Plan participants

to pay for qualified higher education expense, ScholarShare 529 modified its withdrawal process a few years ago to allow for qualified distributions to be made directly to third parties. More recently, Scholarshare Investment Board felt it was prudent to expand current statute to explicitly clarify the authority for this practice to continue and to ensure consistency around the process. Nationally, there are currently nine states that allow for direct distributions from a 529 plan to third parties to pay for qualified higher education expenses.”

- 2) ***About the ScholarShare Trust program.*** Existing law establishes the Golden State ScholarShare Trust Program, administered by the State Treasurer's Office, offers California families a tax-advantaged college tuition savings plan that allows them to invest and save for a college education with state tax-deferred and federal tax-free benefits. Under this program, a participant opens an account on behalf of a designated named beneficiary. The contribution from a participant to an account is placed in a trust, and invested in special investment portfolios designed to meet the needs of differently aged beneficiaries, and different kinds of investors. The program offers federal and California income tax-free treatment for qualified withdrawals from a ScholarShare account. A qualified withdrawal is one that is used to pay for qualified higher education expenses at any eligible postsecondary educational institution throughout the U.S. (and even some outside the U.S.) including many vocational schools. Qualified higher education expenses include tuition and fees, books, computer equipment, and certain room and board costs. This bill expands the number and types of parties that can receive funds distributed from a ScholarShare 529 account for purposes of paying qualified higher education expenses, which for example, could include a landlord to pay for a student's off campus housing costs.

- 3) ***Prior and related legislation.***

AB 15 (Nazarian, 2019) automatically establishes a Scholareshare 529 college savings account for every child born in California after January 1, 2020, subject to available funding. AB 15 is currently in the Senate Rules Committee.

SB 791 (Hertzberg, 2015) would have required the Scholarshare Investment Board to consider entering into an agreement with a credit card issuer for the purposes of accumulating awards that are automatically deposited into the designated Scholarshare trust account. SB 791 was ultimately held in Senate Appropriations Committee.

SUPPORT

California State Treasurer (Sponsor)

OPPOSITION

None received

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