

Approved: 3-14-2000
Date

MINUTES OF THE SENATE EDUCATION COMMITTEE.

The meeting was called to order by Chairperson Senator Barbara Lawrence at 9:00 a.m. on March 1, 2000 in Room 123-S of the Capitol.

All members were present except: Senators Bleeker, Kerr and Oleen - Excused

Committee staff present: Avis Swartzman, Revisor
Ben Barrett, Legislative Research
Jackie Breymeyer, Committee Secretary

Conferees appearing before the committee: Tim Shallenburger, State Treasurer
Bill Bates, Vice President, Government Affairs,
American Century Investments

Others attending: See Attached List

Chairperson Lawrence called the meeting to order and welcomed the State Treasurer, Tim Shallenburger, to the meeting. The State Treasurer was present to speak to:

HB 2655 - Kansas postsecondary educational savings program

State Treasurer Shallenburger distributed an attachment with proposed changes that represented clarification and technical changes to stay compliant. The attachment listed a brief summary of the changes. (Attachment 1) He went through the major revisions of the program. The penalty amount has been changed from 15% to 10% of the portion of the withdrawal constituting earnings. The reduction to 10% will allow the program to be more competitive with other states while still meeting the minimum penalty amount as described by IRC section 529. The age definition has been expanded and the age requirement for withdrawals has been eliminated. Non-traditional students are included. On page 5, lines 35-36, following 'citizen', insert the word 'resident' to read "must be a resident or citizen". This clarification is provided that an account owner or beneficiary must be a citizen or resident of the United States of America, to include overseas citizens. Page 9, lines 26-27 adds, "\$4,000 for a married couple filing a joint return." This eliminates the marriage penalty and allows a \$4,000 state tax deduction per beneficiary for married couples filing a joint return. The effective date of the bill will read, "after publication in the Kansas Register." Treasurer Shallenburger added that a video is available for anyone who would like to view it. He ended his testimony by stating the program isn't up and running yet, but there has been overwhelming response.

Bill Bates, American Century Investments, added his comments and testimony (Attachment 2). He stated American Century is very pleased to be the program manager for the new program. The changes as outlined in **HB 2655** will improve it greatly. He gave a short history of American Century, formerly 20th Century Investments. American Century has 82,000 Kansas customers which represents \$2.3 billion dollars of Kansas money. Approximately 1,000 Kansans are employed with the company.

Mr. Bates stated this is the best and most intelligent way to save for education and American Century is committed to making it one of the best programs in the nation. He added that all of the competitive plans do not have any type of age requirement. He was very pleased with the request for proposal (RFP) process. It attracted the best money managers in the nation. American Century was willing to go down to the smaller account levels when other providers were not. Assets can be captured on the high side which will allow them to subsidize the program on the low end. This is what was wanted. He ended by stating that this is a win win type of relationship for everyone.

Chairperson Lawrence stated final action would be taken on the bill Thursday.

CONTINUATION SHEET

MINUTES OF THE SENATE EDUCATION COMMITTEE, Room 123-S Statehouse, at 9:00 a.m. on March 1, 2000.

Senator Lee moved to amend HB 2655 with the changes submitted by Treasurer Shallenburger that would include, on page 5, lines 35-36 reinsertion of the word 'resident' to read, "must be a resident or citizen." Senator Langworthy gave a second to the motion.

The motion carried.

Senator Emert moved to amend HB 2655 to read "after publication in the Kansas Register." Senator Langworthy gave a second to the motion. The motion carried.

The minutes of February 17, 21, 22 & 23 were approved on a motion from Senator Emert, with a second by Senator Langworthy.

The meeting was adjourned.

SENATE EDUCATION COMMITTEE GUEST LIST

DATE: March 1, 2000

NAME	REPRESENTING
Peggy Hanna	State Treasurer
Bill Bates	American Century Investments
Tim Shullenburger	State Treas.
Katrina Hull	University Daily Kansan
JOE Rossillon	ESU



STATE OF KANSAS

Tim Shallenburger
TREASURER

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March 1, 2000

To: Senate Education Committee

From: Tim Shallenburger, State Treasurer

Re: House Bill 2655

Madame Chair and Members of the Senate Education Committee:

Thank you for the opportunity to submit comments on the proposed bill revision on behalf of the State Treasurer's Office as found in House Bill 2655.

As you know the Kansas Postsecondary Education Savings program was created by the 1999 Kansas Legislature. The program will permit people to contribute to education savings accounts to pay postsecondary education expenses for individuals they designate or for themselves.

The program continues to be on track as we move toward implementation on July 1, 2000.

The proposed changes would ensure the "most beneficial program" for Kansas citizens. Most of the changes are for clarification or represent technical changes to stay compliant with the Internal Revenue Code (IRC) Section 529.

As a brief summary the changes are:

- Page 1, Line 21. This section changes the definition of "Account Owner" from 'individual or individuals' to "Person or persons" to be consistent with IRC Section 529.
- Page 2, Lines 24-25. This section adds the definition of "Rollover Distribution" to be consistent with IRC Section 529.
- Page 3, Line 11. This section is revised to read "The state treasurer "may" establish a nominal nonrefundable application fee for applications." The word "may" is substituted for "shall" to provide the Treasurer with flexibility to charge an application fee or not.
- Page 4, Line 2. This section changes the penalty amount from 15% to 10% of the portion of the withdrawal constituting earnings. The reduction in the penalty to 10% will allow the program to be competitive with other states, but still meet the minimum penalty amount as described by IRC section 529.

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Attachment 1*

- Page 4, Line 3. This section changes the word ‘income’ to “earnings” to be consistent with IRC, Section 529.
- Page 4, Lines 4-5. The phrase “plus an amount equal to the amount of interest earned on such portion” is deleted because it is not consistent with IRC, Section 529.
- Page 4, Lines 37-38. This section changes the word “balance” to “contributions” to be consistent with IRC, Section 529.
- Page 5, Line 13-14. This section adds the words “state or” local government “or agency or instrumentality thereof”. The change will allow the state and Regents institutions to award scholarships.
- Page 5, Line 26 and Lines 28-31. These sections expand the age definition, eliminate the age requirement for withdrawals and include non-traditional students.
- Page 5, Line 27. This section deletes the word “calendar” to ensure all account owners and beneficiaries are subject to the same waiting period before a qualified withdrawal can be made, irrespective of the contribution date.
- Page 5, Line 35-36. Following citizen, we reinsert the word resident to read “must be a resident or citizen”. Clarification is provided that an account owner or beneficiary must be a citizen or resident of the United States of America, to include citizens who live overseas.
- Page 7, Lines 36-42. This section allows previously deducted taxes to be recovered on amounts withdrawn but not used for educational expenses.
- Page 9, Line 26-27. This section adds “\$4,000 for a married couple filing a joint return.” This wording eliminates the marriage penalty and allows for a \$4,000 state tax deduction per beneficiary for married couples filing a joint return.
- Page 10, New Section 4. This section adds new language and will provide for payroll deduction for state employees to establish family postsecondary education savings accounts at no cost to the state employee.
- Page 10, Line 15. Change the effective date of the bill to read “after publication in the Kansas Register.”

I appreciate your consideration of the aforementioned proposed changes. Thank you for your time and I will be glad to stand for questions.

Tim Shallenburger, State Treasurer

Senate Education Committee
Testimony by Tim Shallenburger, Treasurer
March 1, 2000
House Bill 2655
New Changes

Page 10 Line 15-16, Section 6. This act shall take effect and be in force from and after its publication in the Kansas Register.

Page 5 Line 35-36 changed to read, "An account owner or designated beneficiary of a Kansas postsecondary education savings account must be a citizen or resident of the United States of America."

Date: February 29, 2000

To: Kansas Senate Education Committee

From: Bill Bates, Vice President – Government Affairs, American Century Investments

Subj: Summary of Oral Testimony to be delivered Wednesday, March 1, 2000

American Century Investments is honored to have been selected by the State Treasurer to serve as program manager for the Kansas Postsecondary Education Savings Program. This outstanding program was created by the Kansas Legislature last year. In addition to marketing the program, American Century will act as financial depository, record keeper and investment manager for thousands of persons saving for postsecondary education. This is an awesome responsibility, but one for which we are well prepared.

American Century is a Kansas City company that has grown to become the nation's fifth largest family of directed-marketed mutual funds. We manage more than \$110 billion spread among 70 mutual funds for more than two million shareholders nationwide. In Kansas, we serve more than 82,000 Kansas investors who entrust us with more than \$2.3 billion of their money. We also employ over 950 Kansas residents.

House Bill 2655 contains important technical corrections to the Kansas Postsecondary Education Savings Plan law and modest policy changes. American Century has worked with the State Treasurer's office on these legislative proposals and supports their prompt passage. We believe the changes will improve an already excellent Kansas law and help Kansas to offer one of the finest state-sponsored education savings programs in the nation.

American Century Investments is pleased and proud to have the opportunity to serve the State of Kansas and I will be happy to answer any questions about the improvements proposed in House Bill 2655.

*Senate Education
3-1-2000
Attachment 2*