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## The Birmingham News

### Alabama families weigh cashing out of prepaid tuition program, waiting on help from Legislature

With bills dead, -- choices range -- from waiting -- to cashing out --

Monday, May 25, 2009

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Billy Stalnaker, a retired electrician and former Marine from Goodwater in Coosa County, spent \$5,300 in 1993 to prepay college tuition for his granddaughter.

More than 16 years later, as she prepares for college, the state's prepaid tuition program is \$460 million short of what it needs to pay tuition for all of its contract holders, and six bailout bills have died in the Legislature.

It could be January before lawmakers take another crack at saving the program from insolvency, leaving the Stalnakers and the families of 48,000 other prospective college students with one question: What should they do in the meantime?

"I don't think there are any good answers," said Bob Straka, president of Grandview Financial, a Birmingham financial planning firm.

Financial planners and officials with Alabama's Prepaid Affordable College Tuition Program said those with prepaid tuition contracts have several choices:

They can cash out of the program, getting back what they paid plus 1 percent interest, and minus some fees.

They can roll that same money over into a tax-sheltered college savings plan such as Alabama's 529 plan.

They can do nothing and hope the Legislature can find a way to save the program.

What's appropriate depends largely on when the contract holder bought in, Straka said. Those who recently bought contracts can invest their money elsewhere without losing much. But for those who got in many years ago at a small fraction of the cost of tuition today, a refund of the initial investment wouldn't be much help.

Straka, who has had several clients who hold contracts, said the least risky option for most appears to be to do nothing. The PACT program has about \$467 million in assets, according to a report its financial advisers delivered to its board last week. That's only about half what is needed to pay all participants' tuition over the next two decades, but it is enough to refund everyone's initial investments.

State Treasurer Kay Ivey, whose office runs the program, said last week that, "barring a total collapse of the economy," PACT will continue to make tuition payments through at least spring 2010 while it awaits action in the Legislature.

"We still have a problem with no solution," Ivey said. "What we do have is ... a pathway that can lead to a solution."

The PACT program is in a deep financial hole because its assets were decimated by last year's stock market collapse. While most state prepaid tuition programs kept between 40 percent and 60 percent of

their assets in stocks, Alabama's plan had about 70 percent of its assets in equities at the time of the collapse.

The fund's value fell from about \$899 million in 2007 to a low of \$444 million, and has since rebounded to about \$467 million. As the fund bottomed out, Ivey sent contract holders a letter warning them that it was in trouble. Last week she said things are so bad that a big run in the markets alone wouldn't be enough to solve the problem. It will require money from the Legislature.

**No easy answer:**

For contract holders, it's hard to boil down the decision about what to do now to cold, hard numbers. Miriam Finch, a 74-year-old grandmother from Birmingham, bought three contracts for her grandchildren in the early 1990s. Her contracts explicitly guarantee that the state will make tuition payments.

"I don't want any money back," she said. "I put my trust in my state Legislature. I believe that our Legislature has a duty to honor this program that they set up."

Stalnaker, whose granddaughter wants to be an anesthesiologist, concurred. A fixture now at PACT board meetings and public hearings in his overalls, he said he had some cash when his granddaughter was born, and believed at the time that the PACT program might be the only chance he'd ever have to pay for her education.

"My granddaughter was my first grand young'un. She's not just smart. She's better than regular smart," he said. "I want this for her."

Choosing to do nothing and hoping the Legislature takes action carries its own risks, Straka said. The PACT board of directors voted in March to close the program to new enrollment. That means that, in addition to the losses it suffered in the markets, income from new contract sales has disappeared.

And more than 1,000 people have elected to withdraw their initial investments and take their money elsewhere. If many more people were to choose that option, it would be bad for those left behind.

"If all of a sudden people start pulling out, it's like a run on a bank," Straka said. "This is not a Ponzi scheme. But they were counting on more people putting their money in to support people going to college today."

Still, he said, staying put seems to be the best of the exclusively bad options.

"I don't see the thing falling apart to the point where you're not going to get any money back," Straka said. "So I would hold on. Because all of a sudden, legislators might come in and do something, and then you're back in the game again. If I had a client right now with a PACT, that's what I'd tell them to do. Hold on."

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