Tuition Shares

Financing Higher Education in the 21st Century

Institutions of higher learning encourage students to question and challenge the status quo, their own views, and to be open to opposing opinions. Yet, the approach taken by students and families to pay for or finance higher education has remained relatively unchanged. Parents began with traditional savings accounts and student loans. In 1996, Congress passed legislation authorizing qualified state tuition savings plans creating section 529 of the Internal Revenue Service code. Section 529 provides tax advantages to account beneficiaries in an effort to facilitate savings for higher education. As a result, two types of 529 plans emerged: 529 Prepaid Plan and 529 Savings Plan.

Despite total 529 Plan assets growing significantly from $26.8 billion in 2002 to $275.1 billion in 2016, students and families still need to supplement their savings with student loans. Student loan debt hit an all-time record high of $1.4 trillion in September 2017.

"Student loan debt hit an <u>all-time</u> record high of $1.4 trillion."

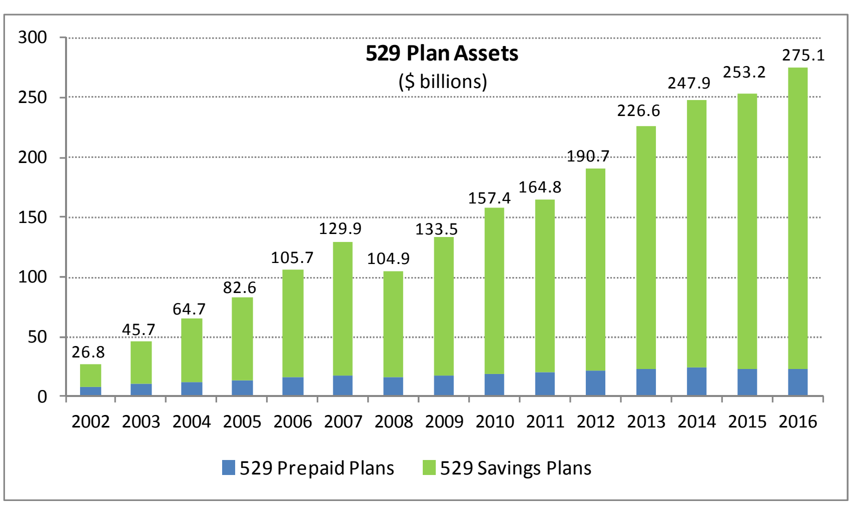
U.S. household incomes have had incremental increases over the years, but it hasn't been enough to keep pace with tuition costs. Since 1983 higher education costs have outpaced inflation and healthcare proving to be more financially challenging for students and their families. The lack of affordability limits accessibility.

This begs the question, why aren't savings enough? Families contribute to savings accounts with the hopes that enough accumulates to cover higher education costs. However, market fluctuations can be demoralizing, as demonstrated during the 2008 "Great Recession", where even prepaid plans were affected with total 529 Plan Assets (Prepaid & Savings) declining by $25 billion.

Is the lack of transparency what keeps families from preparing for college costs? Published tuition prices jolt families into sticker shock. Though, tuition paid often times is less than the listed price. Eligible students receive grants, scholarships, and financial aid while others negotiate fees. For some, this is reminiscent of buying a car, which tends to be a less than desirable experience.

Most parents agree that providing their children an undergraduate education is of value and studies have shown this to be true. Individuals with undergraduate degrees have higher earnings potential versus those that do not. So, why aren't parents saving more?

Sky rocketing costs and market conditions (low interest rates and market volatility) are factors but perhaps it's partially due to the U.S. culture. We are a consumer driven economy where individuals of diverse financial means flock to malls and stores to get the best deals on Black Friday, or search for deals on Cyber Monday. Others wait on lines for days to get the latest phone, video game release, or concert tickets. Is the lack of instant gratification to obtain a good deal impacting college savings?



Source: Investment Company Institute

The Velona Group, LLC

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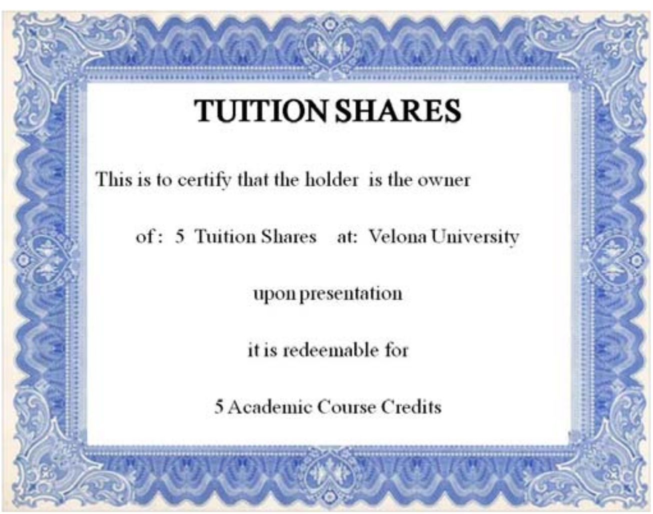
Financing for higher education has not progressed much over the years. Some universities have begun to offer Income Share Agreements or ISAs, where students pay for their education by entering into an agreement to pay back a set percentage of their post education salary over a set number of years. While different from a student loan, elements bare similarities.

Why can't paying for college courses be as easy as purchasing prepaid concert or sporting event tickets?

Colleges and Universities can issue "Tuition Shares", which are securitized academic course credits (or a share of tuition attributable to course credits). Students or families purchase Tuition Shares as a form of prepayment for academic course credits which are redeemed at the issuing college or university. Tuition Shares lock-in costs associated with course credits, unlike 529 Prepaid Plans that lock-in full tuition. Tuition Shares level the playing field providing accessibility to prepayment, with the satisfaction that a share of tuition course credit is purchased.



Tuition Shares are held in 529 accounts until they are ready to be redeemed. Students still go through the standard college application process and wait anxiously to hear whether they are accepted at the school of their dreams. With great anticipation, acceptance letters are opened and the excitement of going to college begins. Then, students enroll in courses and submit their Tuition Shares for redemption at the issuing college or university. Tuition Shares presented are applied to the student account and deducted from the number of course credits. The remaining balance is for room/board, meal plans, transportation, books, and other miscellaneous expenses.

Tuition Shares are purchased and sold on an exchange, such as the New York Stock Exchange or a new higher education exchange is created.

Prices for Tuition Shares are driven by market demand providing transparency. This presents an opportunity to sell Tuition Shares, potentially for a profit. Of course, there is a possibility that Tuition Shares are sold at a loss. This is similar to how other investment instruments held in 529 Savings Plans behave. Tuition Shares offers the upside of potential gains versus 529 Prepaid Plans where in some cases the account holders' backstop is simply the assets contributed and penalties may apply.

Tuition Shares benefits to Students and Families:

- Provides accessibility to prepayment of academic course credits
- Locks-in costs associated with course credits
- Insulates Tuition Share owners from market fluctuations
- Provides flexibility if student isn't accepted or changes schools

Tuition Shares provide flexibility regardless of whether the student is accepted at the issuing college/university, or if they change their minds about where they want to attend. They can sell their Tuition Shares and either purchase Tuitions Shares for the institution they plan to attend or put proceeds from the sale towards tuition expenses.

While this is beneficial for the students and families, what are the advantages for colleges and universities?

Tuition Shares afford colleges and universities an independent source of capital. There is no debt associated with the issuance of Tuition Shares. Unlike 529 Prepaid Plans that lock-in all aspects of tuition, Tuition Shares only lock-in costs associated with course credits that are redeemed in the future. This provides flexibility for colleges and universities to adjust other fees that comprise tuition expenses, such as room/board, meal plans, transportation, books, and miscellaneous fees; as needed.

Tuition Shares benefits to Colleges and Universities:

- Independent source of capital, with no debt
- Monies raised can pay down debt & fund infrastructure projects
- Only lock-in the cost of college/university course credits
- Provides flexibility to adjust other tuition fees
- Ownership of Tuition Shares does not equate

Prepaid plans aggregate assets that are then invested in the hope of generating sufficient income to cover all costs associated with college tuition. Most contracts are in place for short periods of time (one- to two-years prior to the student entering into college); therefore, these accounts are significantly impacted by market movements. This is particularly true with market downturns. The “Great Recession” served a big blow to account values. This left the States offering prepayment plans with shortfalls. Investors can weather these storms over a full market cycle; which is generally five years.

How does a college or university avoid the 529 Prepaid Plan pitfalls?

An issuing university works with an underwriter to determine the price and terms of its Tuition Shares at the time of initial issuance. A break-even analysis is conducted to ascertain the number of Tuition Shares that can be redeemed and redemptions can be staggered accordingly. This is then factored into the Tuition Share terms at the time of issuance and implemented.

Monies raised from the initial offering are then used by the college or university for infrastructure improvements ranging from new dormitories to parking facilities to technological upgrades. Some assets may be invested, held in reserves, or used to pay off debt. Tuition Shares issuance can also help fund school initiatives such as expanded course offerings, degree programs, additions to faculty/staff or fund salary increases. Some universities may even decide to leverage the Tuition Share issuance to serve as a learning experience for students in their business schools providing a first handle glimpse into the capital markets.

Colleges and universities look to educate students, to expand their minds and expose them to different experiences all in the hopes of developing them into well-rounded individuals. The word “university” is derived from the Latin universitas, ‘the whole’. Should colleges and universities take a holistic approach that includes fiscal responsibility for their students instead of burdening them with debt before they’ve even started their careers? That will be up to each school to determine.

Curiously one might ask, why these institutions of higher learning that encourage challenging the status quo, haven’t done so with regards to college financing. Are Tuition Shares the first steps daring to aspire to new heights?

About The Velona Group, LLC

The Velona Group, LLC was established to sell or license rights of Tuition Shares. A portion of proceeds are to be utilized to promote and support education through a memorial scholarship fund.

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