



## Stanley G. Tate Florida Prepaid College Program

### What is the Florida Prepaid College Program?

The Stanley G. Tate Florida Prepaid College Program (Prepaid Program) is offered by the State of Florida to assist families in planning and saving for a college education.<sup>1</sup> The program is administered by the Florida Prepaid College Board (Board).<sup>2</sup>

The Prepaid Program is a qualified tuition plan, which is a tax advantaged college plan authorized by s. 529 of the Internal Revenue Code. Contributions to these plans grow tax-deferred, and when the beneficiary (student) is ready for college, withdrawals for qualified higher education expenses are exempt from federal income and State of Florida taxes.<sup>3</sup>

The Prepaid Program provides for the purchase of advanced payment contracts (Prepaid Contracts) for postsecondary education. These contracts lock in many of the costs associated with attendance at institutions in the Florida College System (FCS) and State University System (SUS) at the time the contract is purchased. For a contract to attend a FCS or SUS institution, the locked-in costs include registration and local fees. Additionally, a SUS contract includes the tuition differential fee and a separate contract may also be purchased for SUS dormitory costs.<sup>4</sup> The specific charges covered by each fee are as follows:

- ❖ **Registration Fee:** This fee covers tuition and the financial aid, building, and Capital Improvement Trust Fund fees charged by FCS and SUS institutions.<sup>5</sup>
- ❖ **Local Fee:** This fee covers the student activity and service, athletic, and health fees charged by a SUS institution and the student activity and service and technology fees charged by a FCS institution.<sup>6</sup>
- ❖ **Tuition Differential Fee:** This fee covers the charge that may be assessed for undergraduate courses by a SUS Board of Trustees when approved by the Board of Governors.<sup>7</sup>

As of August 2010, more than 1.4 million Prepaid Contracts have been purchased.<sup>8</sup>

<sup>1</sup> Section 1009.98(1), F.S.; Florida Prepaid College Plans, *Compare Plans*, <http://www.myfloridaprepaid.com/compare-plans/> (last visited Oct. 18, 2010).

<sup>2</sup> Section 1009.971(1), F.S.

<sup>3</sup> 26 U.S.C. s. 529(b)(1); Florida Prepaid College Plans, *Comparing 529 Plans*, available at <http://www.myfloridaprepaid.com/newsroom/media-kit.aspx>.

<sup>4</sup> Rule 19B-5.001, F.A.C.

<sup>5</sup> Section 1009.97(3)(g), F.S.; rule 19B-5.001(1)(c), F.A.C.; see also Postsecondary Tuition & Fee Policy – State University System Fact Sheet and Postsecondary Tuition and Fee Policy – Florida College System Fact Sheet.

<sup>6</sup> Rule 19B-5.001(1)(b), F.A.C.; see also Postsecondary Tuition & Fee Policy – State University System Fact Sheet and Postsecondary Tuition & Fee Policy – Florida College System Fact Sheet.

<sup>7</sup> Section 1009.24(16), F.S.; rule 19B-5.001(1)(e), F.A.C.; see also Postsecondary Tuition & Fee Policy – State University System Fact Sheet.

<sup>8</sup> Telephone interview with Florida Prepaid College Board staff, State Board of Administration (Aug. 25, 2010).

### **What options are available through the Prepaid Program?**

Beginning with the 2010-11 open enrollment period being held October 18, 2010 through January 31, 2011, the Prepaid Program offers the following four types of plans:

- ❖ **Four-Year Florida University Plan:** This plan prepays the registration, local, and tuition differential fees for 120 undergraduate credit hours of enrollment at any institution in the SUS.
- ❖ **2 + 2 Florida Plan:** This plan covers the registration and local fees for 60 credit hours of lower division enrollment at any institution in the FCS and the registration, local, and tuition differential fees for 60 credit hours of upper division enrollment at any institution in the SUS.
- ❖ **Four-Year Florida College Plan:** This plan covers the registration fee and local fees for 60 credit hours of lower division enrollment and for 60 credit hours of upper division enrollment at any institution in the FCS.
- ❖ **Two-Year Florida College Plan:** This plan covers the registration and local fees for 60 credit hours of lower division enrollment at any institution in the FCS.<sup>9</sup>

Prior to the 2010-11 open enrollment period, the Prepaid Program offered three types of plans: (1) tuition plans for registration fees at FCS or SUS institutions; (2) local fee plans for FCS or SUS institutions; and (3) tuition differential fee plans for SUS institutions. As of the 2010-11 open enrollment period, the tuition plan is no longer available for purchase. Further, local fee plans may now only be purchased by persons who purchased a tuition plan for enrollment in a FCS or SUS institution on or before January 31, 2010, and tuition differential plans may now only be purchased by persons who purchased a tuition plan for enrollment in a SUS institution on or before January 31, 2010.<sup>10</sup>

Finally, the Prepaid Program has previously offered and continues to offer an optional SUS Dormitory Plan that may only be purchased in conjunction with a SUS tuition plan purchased on or before January 31, 2010, or with a Four-Year Florida University Plan or 2 + 2 Florida Plan purchased thereafter. The SUS Dormitory Plan covers the fees associated with residence in a double-occupancy, air-conditioned room on a state university campus. SUS institutions may limit the dormitories eligible for prepaid coverage. If a student applies for housing at a SUS institution but does not receive a room assignment, the purchaser of the plan may request a refund equal to the average dormitory rate for a standard, double-occupancy, air-conditioned dormitory room at the institution the student is attending. Dormitory plans are available in two-semester (one-year) increments for a maximum of 10 semesters (five years). The plan may not be used during summer terms. A beneficiary who attends a FCS institution may transfer the benefits of the dormitory plan to a dormitory operated by a FCS institution or the direct support organization of a FCS institution.<sup>11</sup>

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<sup>9</sup> Rule 19B-5.001(2) through (5), F.A.C.

<sup>10</sup> Rule 19B-5.001(6) through (8), F.A.C.

<sup>11</sup> Section 1009.98(2), F.S.; rules 19B-5.001(9) and 19B-9.004, F.A.C.; Florida Prepaid College Plans, *University Dormitory Plans*, <http://www.myfloridaprepaid.com/compare-plans/dormitory-plan.aspx> (last visited Oct. 22, 2010).

### **Who may purchase a Prepaid Contract?**

Any person, corporation, or organization may purchase a Prepaid Contract for a qualified beneficiary. A person purchasing a contract must be 18 years of age or older and either a U.S. citizen or resident alien.<sup>12</sup> A co-purchaser may also be designated on the contract, but is not required.<sup>13</sup> If a co-purchaser is designated, changes to the name of purchaser, co-purchaser, or beneficiary on the contract, requests for cancellation of the contract, and refund requests must be consented to by both the purchaser and co-purchaser if the contract was purchased on or after February 1, 2009. If the contract was purchased before February 1, 2009, such changes and requests need only be consented to by the purchaser.<sup>14</sup>

### **Who may be a qualified beneficiary?**

The beneficiary is the person for whom the Prepaid Contract is purchased. To be a qualified beneficiary, the person must be a U.S. citizen or resident alien who is under 21 years of age on the first day of the month in which the open enrollment period begins and who has not completed the 11th grade. Additionally, a qualified beneficiary must have been a resident of Florida for 12 months prior to the date of the application for a Prepaid Contract or an infant born in Florida who is less than one year of age. A child who is a non-resident of Florida, but whose noncustodial parent is a resident of Florida, is eligible to have his or her Florida parent purchase a contract for him or her.<sup>15</sup>

### **May a Prepaid Contract be purchased without naming a beneficiary?**

Generally, no. A beneficiary must be named when purchasing a Prepaid Contract, unless the contract is purchased by the Florida Prepaid College Foundation or by nonprofit organizations<sup>16</sup> that operate a scholarship program approved by the Board. The Foundation and approved organizations are not required to identify the beneficiary at the time a scholarship is purchased; however, the beneficiary<sup>17</sup> must be assigned to the scholarship by April 1 of the anticipated matriculation year.<sup>18</sup>

### **How may Prepaid Contracts be purchased?**

Prepaid Contracts may be purchased online at the Board's website ([www.myfloridaprepaid.com](http://www.myfloridaprepaid.com)). Alternatively, an enrollment kit and application may be printed

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<sup>12</sup> Rule 19B-5.004(1), F.A.C.

<sup>13</sup> Rule 19B-5.004(2), (3), and (4), F.A.C.

<sup>14</sup> Id.

<sup>15</sup> Section 1009.97(3)(f), F.S.; rules 19B-7.001 through 19B-7.003, F.A.C.

<sup>16</sup> See s. 1009.98(9), F.S. (authorizing nonprofit organizations to purchase Prepaid Contracts for a scholarship program approved by the Board and operated by the organization).

<sup>17</sup> The scholarship beneficiary must be a graduate of an accredited high school in this state and a Florida resident at the time he or she is designated to receive the benefits of the Prepaid Contract. Section 1009.97(3)(f)3., F.S.; rule 19B-8.004, F.A.C.

<sup>18</sup> Rules 19B-5.003(1) and 19B-5.007, F.A.C.

from the website or requested by calling 1-800-552-GRAD.<sup>19</sup> A Prepaid Contract must be purchased during the annual enrollment period, typically held between mid-October and January, except that the Florida Prepaid College Foundation, persons participating in employer participation programs, or persons purchasing pursuant to a court order may purchase the contracts year round.<sup>20</sup> Each application requires payment of a one-time, non-refundable \$50 fee, unless the applicant purchaser and named beneficiary currently have a Florida College Investment Plan account in which case the fee is \$30.<sup>21</sup> Contract prices are posted on the Board's website.<sup>22</sup>

### **What types of payment options are available?**

There are three types of payment options: a single, lump-sum payment; a monthly payment plan consisting of equal payments each month until October of the year the child enters college; and a five-year installment plan consisting of 55 equal monthly payments. The five-year plan is only available for students who are enrolled in or below eighth grade at the time of purchase. Payments may be made via automatic withdrawal from a checking or savings account or through payroll deduction if offered by the employer.<sup>23</sup>

### **How do the benefits of a Prepaid Contract work at a public institution in Florida?**

The benefits of a Prepaid Contract activate automatically in the beneficiary's projected year of high school graduation.<sup>24</sup> In early February, beneficiaries who are scheduled to start college in the fall will receive a Prepaid Program identification card and a letter explaining what to expect as they begin the college enrollment process. At the time of class registration and fee payment, the beneficiary presents the documentation received to the college. The college then bills the Prepaid Program. The student will not need cash to pay fees covered by the Prepaid Contract.<sup>25</sup>

### **May a Prepaid Contract only be used at FCS and SUS institutions?**

No. A student may use the benefits of a Prepaid Contract at any eligible educational institution as defined in s. 529 of the Internal Revenue Code, which generally means that the institution is

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<sup>19</sup> Florida Prepaid College Plans, *Enroll Now*, <http://www.myfloridaprepaid.com/enroll-now/> (last visited Oct. 21, 2010).

<sup>20</sup> Rule 19B-4.001(1), F.A.C.

<sup>21</sup> Rule 19B-6.001(1)(a) and (b), F.A.C.

<sup>22</sup> Rule 19B-4.002, F.A.C.; Florida Prepaid College Plans, *Florida Prepaid College Plan Pricing*, <http://www.myfloridaprepaid.com/compare-plans/sample-chart.aspx> (last visited Oct. 21, 2010).

<sup>23</sup> *Id.*; rule 19B-4.003, F.A.C.; Florida Prepaid College Plans, *Florida Prepaid College Plan – Prices & Master Covenant*, at 1, (Oct. 18, 2010), available at <http://www.myfloridaprepaid.com/resources/master-covenant.aspx>.

<sup>24</sup> A Prepaid Contract may be utilized up to three years prior to the projected college enrollment date if the child graduates from high school early. Additionally, if a beneficiary does not start college immediately after his or her high school graduation, the beneficiary's account stays current for 10 years from the date of graduation and may be extended by written request to the Board. Rule 19B-5.003(4) and (5), F.A.C.

<sup>25</sup> Rule 19B-5.002, F.A.C.; *Florida College Prepaid Plan, Enrollment Kit 2010-2011*, at 12 (Oct. 18, 2010), available at <http://www.myfloridaprepaid.com/resources/index.aspx>.

eligible to participate in federal financial aid programs.<sup>26</sup> Eligible educational institutions include certain technical schools, certain in-state private institutions, and certain out-of-state public and private institutions. A list of eligible educational institutions may be found on the Board's website.<sup>27</sup>

If a beneficiary enrolls in an eligible educational institution, the Prepaid Program will transfer to that institution an amount not to exceed the redemption value at a state postsecondary institution. Redemption value means, at the time of matriculation to an eligible educational institution, the sum of the average amounts that are payable to a FCS institution or SUS institution, as applicable, for the fees and costs covered by the contract. A transfer of benefits may not exceed the number of semester credit hours or semesters of dormitory residence included in the Prepaid Contract.<sup>28</sup>

### ***Are there tax benefits associated with a Prepaid Contract?***

Yes. When a Prepaid Contract is used for qualified higher education expenses earnings are exempt from federal income tax and State of Florida taxes.<sup>29</sup> Qualified higher education expenses are defined by the Internal Revenue Code to include tuition, fees, books, supplies, equipment for the enrollment or attendance at an eligible educational institution (including certain computer technology or equipment), and room and board for students who attend school at least half-time. Qualified higher education expenses also include expenses for special needs services in connection with enrollment or attendance at an eligible educational institution.<sup>30</sup>

### ***What options exist if a beneficiary receives a scholarship?***

If a beneficiary of a Prepaid Contract receives a scholarship that covers the benefits included in his or her contract, the purchaser of the contract may:

- ❖ Transfer the Prepaid Contract to a family member of the original beneficiary;
- ❖ Request a refund and receive the redemption value of the contract, meaning the sum of the average amounts at the time of matriculation which are payable to a FCS institution or SUS institution, as applicable, for the fees covered by the contract; or
- ❖ Donate the Prepaid Contract to the Florida Prepaid College Foundation, which awards scholarships to certain at-risk students through the program known as Stanley Tate Project STARS (Scholarship Tuition for At-Risk Students).<sup>31</sup>

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<sup>26</sup> Section 1009.98(3), F.S.; rule 19B-9.002, F.A.C.

<sup>27</sup> Rule 19B-4.002, F.A.C.; Florida Prepaid College Plans, *Approved Institutions*, [http://www.myfloridaprepaid.com/Plans/Approved\\_Colleges.asp?a=4](http://www.myfloridaprepaid.com/Plans/Approved_Colleges.asp?a=4) (last visited Oct. 31, 2010).

<sup>28</sup> Section 1009.98(3), F.S.; rule 19B-9.002, F.A.C.

<sup>29</sup> 26 U.S.C. s. 529(b)(1) .

<sup>30</sup> 26 U.S.C. s. 529(e)(3) .

<sup>31</sup> Section 1009.98(5)(b), 1009.983, and 1009.984, F.S.; rules 19B-8.001, 19B-8.002, and 19B-11.001, F.A.C.; Florida Prepaid College Plans, *Enrollment FAQs*, <http://www.myfloridaprepaid.com/compare-plans/enrollment-faq.aspx> (last visited Oct. 31, 2010) [hereinafter *Prepaid Plan FAQ*]; telephone interview with Florida Prepaid College Board staff, State Board of Administration (Oct. 21, 2010).

To accomplish the latter option, the purchaser must change his or her name on the Prepaid Contract to name of the Foundation. The Foundation may then receive the redemption value of the Prepaid Contract that is donated. The funds must be used for the purchase of scholarships.<sup>32</sup>

***Under what circumstances may a purchaser of a Prepaid Contract receive a refund or donate the contract?***

***Purchaser request.*** The purchaser of a Prepaid Contract may request a refund at any time by sending a notarized written request to the Board. If none of the benefits of the Prepaid Contract have been used, the purchaser will receive a refund of monies paid less a cancellation fee of \$50 or 50 percent of the amount paid into the program, whichever is less. If the Prepaid Contract has been partially used by the beneficiary, i.e, the beneficiary used the benefits to pay for one or more semesters of college, the purchaser will receive a refund of monies paid for the unused benefits less the cancellation fee. The cancellation fee is waived for contracts held longer than two years.<sup>33</sup>

If the purchaser does not wish to receive a refund, he or she may donate the contract to the Florida Prepaid College Foundation as discussed in the question above. In this case, the Foundation will receive the redemption value of the unused or partially used Prepaid Contract.<sup>34</sup>

***Conversion.*** A Prepaid Contract may be converted to another Prepaid Program plan of a lesser value. In such case, the purchaser is entitled to a refund equal to the difference between the amount paid for the original contract and the amount that would have been paid for the converted contract under the same payment plan at the time the original contract was purchased.<sup>35</sup>

A Prepaid Contract may not be converted to a plan of higher value. The purchaser may cancel the current contract, receive a refund of monies paid, and reapply for a new plan during the open enrollment period. The new contract will be based on current contract prices.<sup>36</sup>

***Death or Disability.*** In the event of the death or total disability of the beneficiary, the purchaser may receive a refund by sending a notarized written request to the Board. The purchaser will receive the redemption value of the contract, meaning the sum of the average amounts at the time of the refund request which are payable to a FCS institution or SUS institution, as applicable, for the fees covered by the contract.<sup>37</sup>

Additionally, the purchaser may donate the Prepaid Contract to the Florida Prepaid College Foundation as discussed above.<sup>38</sup>

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<sup>32</sup> Sections 1009.98(5)(f) and 1009.983(1)(b), F.S.; rule 19B-5.004(2), (3), and (4), F.A.C.; telephone interview with Florida Prepaid College Board staff, State Board of Administration (Oct. 21, 2010).

<sup>33</sup> Section 1009.98(5)(a) and (e), F.S.; rules 19B-6.001(2), 19B-11.001, and 19B-11.005, F.A.C.

<sup>34</sup> Sections 1009.98(5)(f) and 1009.983(1)(b), F.S.; rule 19B-5.004(2), (3), and (4), F.A.C.; telephone interview with Florida Prepaid College Board staff, State Board of Administration (Oct. 21, 2010).

<sup>35</sup> Section 1009.98(5)(d), F.S.; rule 19B-11.002, F.A.C.

<sup>36</sup> See s. 1009.98(5)(d), F.S.

<sup>37</sup> Section 1009.98(5)(c), F.S.; rules 19B-10.002 and 19B-11.002(2)(b) and (3), F.A.C.

<sup>38</sup> Sections 1009.98(5)(f) and 1009.983(1)(b), F.S.; rule 19B-5.004(2), (3), and (4), F.A.C.; telephone interview with Florida Prepaid College Board staff, State Board of Administration (Oct. 21, 2010).

***Is a Prepaid Contract financially guaranteed?***

Yes. Prepaid Contracts are financially guaranteed by the State of Florida.<sup>39</sup> If the state determines the Prepaid Program to be financially infeasible, the state may discontinue the program. Any qualified beneficiary of a Prepaid Contract who has been accepted by and is enrolled in an eligible institution or is within five years of enrollment in an eligible institution will be entitled to exercise the complete benefits for which he or she has contracted. All other contract holders will receive a refund of the amount paid plus interest.<sup>40</sup>

***Does Florida offer families another way to save for college?***

Yes. The Board also offers a s. 529 college savings plan known as the Florida College Investment Plan (Investment Plan). The Investment Plan is complementary to the Prepaid Program. Families may participate in one or both options. The Investment Plan allows families to save funds that are invested in one or more of five different investment options. Contributions made to the plan grow tax-deferred, and when the beneficiary is ready for college, withdrawals for qualified higher education expenses at an eligible educational institution are exempt from federal income tax and State of Florida taxes.<sup>41</sup>

As required by the Internal Revenue Code, the Board has established a maximum contribution amount of \$382,000 for participation in both the Prepaid Program and Investment Plan.<sup>42</sup>

***What is the Florida Prepaid College Foundation?***

The Florida Prepaid College Foundation (Foundation) is the nonprofit 501(c)(3) direct support organization for the Board. The Foundation was created in 1990 to operate as a public/private partnership<sup>43</sup> through which nonprofit 501(c)(3) organizations<sup>44</sup> approved by the Board may purchase Prepaid Contracts to award as scholarships. These contracts cost the same as standard Prepaid Contracts and may be awarded to students who are Florida residents and who meet the organization's criteria for scholarship awards. As of June 30, 2009, a total of 6,469 Prepaid Contracts have been purchased through the Foundation by nonprofit organizations.<sup>45</sup>

Additionally, the Foundation administers Project STARS, which is a scholarship program funded by state appropriations that are matched dollar-for-dollar by private sector donations. For this program, the Foundation purchases Prepaid Contracts to award as scholarships to economically

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<sup>39</sup> Section 1009.98(7), F.S.

<sup>40</sup> Section 1009.98(8), F.S.

<sup>41</sup> Section 1009.981, F.S.; Florida Prepaid College Board, *Florida College Investment Plan Disclosure Statement*, at 1-3 (April 1, 2010), available at [http://www.myfloridaprepaid.com/disclosure\\_statement/](http://www.myfloridaprepaid.com/disclosure_statement/).

<sup>42</sup> Telephone interview with Florida Prepaid College Board staff, State Board of Administration (Aug. 30, 2010); 26 U.S.C. s. 529(b)(6); rule 19B-4.005, F.A.C.; see also Florida College Investment Plan Fact Sheet.

<sup>43</sup> Section 1009.983, F.S.; rule 19B-15.001, F.A.C.

<sup>44</sup> See s. 1009.98(9), F.S. (authorizing nonprofit organizations to purchase Prepaid Contracts for a scholarship program approved by the Board and operated by the organization).

<sup>45</sup> Florida Prepaid College Foundation, *Annual Report 2008-2009*, at 16, available at [http://www.myfloridaprepaid.com/Foundation/Annual\\_Report.asp](http://www.myfloridaprepaid.com/Foundation/Annual_Report.asp) [hereinafter *Foundation Annual Report*].

disadvantaged youth in Florida who remain drug free<sup>46</sup> and crime free.<sup>47, 48</sup> The Legislature has appropriated approximately \$73 million for Project STARS since its inception in 1990 with \$4,020,587 of that amount most recently appropriated for the 2010-11 FY.<sup>49</sup> As of June 30, 2009, a total of 22,608 Prepaid Contracts have been purchased for Project STARS scholarship awards.<sup>50</sup>

Prepaid contracts purchased by the Foundation or by nonprofit organizations through the Foundation afford flexibility not available for traditional contract purchases. Foundation contracts may be purchased year round, not only during the annual enrollment period, and may be for an unnamed beneficiary.<sup>51</sup> The beneficiary does not have to be designated until April 1 of his or her anticipated matriculation year.<sup>52</sup> Additionally, if a Foundation contract is not fully used by the beneficiary, the Foundation or purchasing nonprofit organization may receive the redemption value, rather than the purchase price, for the remainder of the contract if those funds are used to purchase additional scholarships.<sup>53</sup>

### ***Where may I obtain additional information?***

#### ***Florida Prepaid College Board***

1-800-552-GRAD (4723)

<http://www.myfloridaprepaid.com>

#### ***Florida House of Representatives***

Education Committee

(850) 488-7451

<http://www.myfloridahouse.gov>

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<sup>46</sup> The term “drug free” means “not being convicted of, or adjudicated delinquent for, any violation of chapter 893 after being designated a recipient of a Florida prepaid tuition scholarship.” Section 1009.984(3)(a), F.S.

<sup>47</sup> The term “crime free” means “not be convicted of, or adjudicated delinquent for, any felony or first degree misdemeanor as defined in ss. 775.08 and 775.081 after being designated a recipient of a Florida prepaid tuition scholarship.” Section 1009.984(3)(b), F.S.

<sup>48</sup> Section 1009.984, F.S.; rule 19B-13.001, F.A.C; *Foundation Annual Report, supra* note 45, at 2 and 4.

<sup>49</sup> Specific Appropriation 65, s. 2, ch. 2010-152, L.O.F.; *Foundation Annual Report, supra* note 35, at 8.

<sup>50</sup> *Foundation Annual Report, supra* note 45, at 4.

<sup>51</sup> *Foundation Annual Report, supra* note 45, at 2 and 16; Florida Prepaid College Foundation, *Private Donor Policies and Procedures*, at 3-4, (April 27, 2005), available at <http://www.myfloridaprepaid.com/Foundation/>.

<sup>52</sup> Rule 19B-5.003(1), F.A.C.

<sup>53</sup> Section 1009.98(5)(f), F.A.C.

