HB4376

LRB10017362HLH32527b

100TH GENERAL ASSEMBLY

State of Illinois

2017 and 2018

HB4376

by Rep. Peter Breen

SYNOPSIS AS INTRODUCED:

15 ILCS 505/16.5
15 ILCS 505/16.6

Amends the State Treasurer Act. In a Section concerning a college savings pool, provides that moneys may be used for qualified expenses allowed pursuant to Section 529 of the Internal Revenue Code. Provides that, before January 1, 2026, the Treasurer shall allow a rollover of funds contained in a College Savings Pool account into an eligible ABLE account. Effective immediately.

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A BILL FOR

AN ACT concerning State government.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The State Treasurer Act is amended by changing Sections 16.5 and 16.6 as follows:

(15 ILCS 505/16.5)

Sec. 16.5. College Savings Pool. The State Treasurer may establish and administer a College Savings Pool to supplement and enhance the investment opportunities otherwise available to persons seeking to finance the costs of higher education. The State Treasurer, in administering the College Savings Pool, may receive moneys paid into the pool by a participant and may serve as the fiscal agent of that participant for the purpose of holding and investing those moneys.

"Participant", as used in this Section, means any person who has authority to withdraw funds, change the designated beneficiary, or otherwise exercise control over an account. "Donor", as used in this Section, means any person who makes investments in the pool. "Designated beneficiary", as used in this Section, means any person on whose behalf an account is established in the College Savings Pool by a participant. Both in-state and out-of-state persons may be participants, donors, and designated beneficiaries in the College Savings Pool. The

College Savings Pool must be available to any individual with a valid social security number or taxpayer identification number for the benefit of any individual with a valid social security number or taxpayer identification number, unless a contract in effect on August 1, 2011 (the effective date of Public Act 97-233) does not allow for taxpayer identification numbers, in which case taxpayer identification numbers must be allowed upon the expiration of the contract.

New accounts in the College Savings Pool may be processed through participating financial institutions. "Participating financial institution", as used in this Section, means any financial institution insured by the Federal Deposit Insurance Corporation and lawfully doing business in the State of Illinois and any credit union approved by the State Treasurer and lawfully doing business in the State of Illinois that agrees to process new accounts in the College Savings Pool. Participating financial institutions may charge a processing fee to participants to open an account in the pool that shall not exceed $30 until the year 2001. Beginning in 2001 and every year thereafter, the maximum fee limit shall be adjusted by the Treasurer based on the Consumer Price Index for the North Central Region as published by the United States Department of Labor, Bureau of Labor Statistics for the immediately preceding calendar year. Every contribution received by a financial institution for investment in the College Savings Pool shall be transferred from the financial institution to a location selected by the State Treasurer within one business day following the day that the funds must be made available in accordance with federal law. All communications from the State Treasurer to participants and donors shall reference the participating financial institution at which the account was processed.

The Treasurer may invest the moneys in the College Savings Pool in the same manner and in the same types of investments provided for the investment of moneys by the Illinois State Board of Investment. To enhance the safety and liquidity of the College Savings Pool, to ensure the diversification of the investment portfolio of the pool, and in an effort to keep investment dollars in the State of Illinois, the State Treasurer may make a percentage of each account available for investment in participating financial institutions doing business in the State. The State Treasurer may deposit with the participating financial institution at which the account was processed the following percentage of each account at a prevailing rate offered by the institution, provided that the deposit is federally insured or fully collateralized and the institution accepts the deposit: 10% of the total amount of each account for which the current age of the beneficiary is less than 7 years of age, 20% of the total amount of each account for which the beneficiary is at least 7 years of age and less than 12 years of age, and 50% of the total amount of each account for which the current age of the beneficiary is at least 12 years of age. The Treasurer shall develop, publish, and implement an investment policy covering the investment of the moneys in the College Savings Pool. The policy shall be published each year as part of the audit of the College Savings Pool by the Auditor General, which shall be distributed to all participants. The Treasurer shall notify all participants in writing, and the Treasurer shall publish in a newspaper of general circulation in both Chicago and Springfield, any changes to the previously published investment policy at least 30 calendar days before implementing the policy. Any investment policy adopted by the Treasurer shall be reviewed and updated if necessary within 90 days following the date that the State Treasurer takes office.

Participants shall be required to use moneys distributed from the College Savings Pool for qualified expenses at eligible educational institutions <u>or as otherwise allowed pursuant to Section 529 of the Internal Revenue Code</u>. "Qualified expenses", as used in this Section, means the following: (i) tuition, fees, and the costs of books, supplies, and equipment required for enrollment or attendance at an eligible educational institution; (ii) expenses for special needs services, in the case of a special needs beneficiary, which are incurred in connection with such enrollment or attendance; (iii) certain expenses for the purchase of computer or peripheral equipment, as defined in Section 168 of the federal Internal Revenue Code (26 U.S.C. 168), computer software, as defined in Section 197 of the federal Internal Revenue Code (26 U.S.C. 197), or Internet ~~internet~~ access and related services, if such equipment, software, or services are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution, except that, such expenses shall not include expenses for computer software designed for sports, games, or hobbies, unless the software is predominantly educational in nature; ~~and~~ (iv) certain room and board expenses incurred while attending an eligible educational institution at least half-time; and (v) any qualified higher education expense, as that term is used in subsection (c) of Section 529 of the federal Internal Revenue Code. "Eligible educational institutions", as used in this Section, means public and private colleges, junior colleges, graduate schools, and certain vocational institutions that are described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and that are eligible to participate in Department of Education student aid programs. A student shall be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the institution at which the student is enrolled. Distributions made from the pool for qualified expenses shall be made directly to the eligible educational institution, directly to a vendor, in the form of a check payable to both the beneficiary and the institution or vendor, or directly to the designated beneficiary in a manner that is permissible under Section 529 of the Internal Revenue Code. Any moneys that are distributed in any other manner or that are used for expenses other than qualified expenses at an eligible educational institution, or as otherwise allowed pursuant to Section 529 of the federal Internal Revenue Code, shall be subject to a penalty of 10% of the earnings unless the beneficiary dies, becomes a person with a disability, or receives a scholarship that equals or exceeds the distribution. Penalties shall be withheld at the time the distribution is made.

The Treasurer shall allow a participant or designated beneficiary, before January 1, 2026, to rollover the funds contained in a College Savings Pool account into an eligible ABLE account, as defined under Section 16.6 of this Act, in accordance with Section 529(c)(3)(C) of the Internal Revenue Code.

The Treasurer shall limit the contributions that may be made on behalf of a designated beneficiary based on the limitations established by the Internal Revenue Service. The contributions made on behalf of a beneficiary who is also a beneficiary under the Illinois Prepaid Tuition Program shall be further restricted to ensure that the contributions in both programs combined do not exceed the limit established for the College Savings Pool. The Treasurer shall provide the Illinois

Student Assistance Commission each year at a time designated by the Commission, an electronic report of all participant accounts in the Treasurer's College Savings Pool, listing total contributions and disbursements from each individual account during the previous calendar year. As soon thereafter as is possible following receipt of the Treasurer's report, the Illinois Student Assistance Commission shall, in turn, provide the Treasurer with an electronic report listing those College Savings Pool participants who also participate in the State's prepaid tuition program, administered by the Commission. The Commission shall be responsible for filing any combined tax reports regarding State qualified savings programs required by the United States Internal Revenue Service. The Treasurer shall work with the Illinois Student Assistance Commission to coordinate the marketing of the College Savings Pool and the Illinois Prepaid Tuition Program when considered beneficial by the Treasurer and the Director of the Illinois Student Assistance Commission. The Treasurer's office shall not publicize or otherwise market the College Savings Pool or accept any moneys into the College Savings Pool prior to March 1, 2000. The Treasurer shall provide a separate accounting for each designated beneficiary to each participant, the Illinois Student Assistance Commission, and the participating financial institution at which the account was processed. No interest in the program may be pledged as security for a loan. Moneys held in an account invested in the Illinois College Savings Pool shall be exempt from all claims of the creditors of the participant, donor, or designated beneficiary of that account, except for the non-exempt College Savings Pool transfers to or from the account as defined under subsection (j) of Section 12-1001 of the Code of Civil Procedure (735 ILCS 5/12-1001(j)).

The assets of the College Savings Pool and its income and operation shall be exempt from all taxation by the State of Illinois and any of its subdivisions. The accrued earnings on investments in the Pool once disbursed on behalf of a designated beneficiary shall be similarly exempt from all taxation by the State of Illinois and its subdivisions, so long as they are used for qualified expenses. Contributions to a College Savings Pool account during the taxable year may be deducted from adjusted gross income as provided in Section 203 of the Illinois Income Tax Act. The provisions of this paragraph are exempt from Section 250 of the Illinois Income Tax Act.

The Treasurer shall adopt rules he or she considers necessary for the efficient administration of the College Savings Pool. The rules shall provide whatever additional parameters and restrictions are necessary to ensure that the College Savings Pool meets all of the requirements for a qualified state tuition program under Section 529 of the Internal Revenue Code (26 U.S.C. 529). The rules shall provide for the administration expenses of the pool to be paid from its earnings and for the investment earnings in excess of the expenses and all moneys collected as penalties to be credited or paid monthly to the several participants in the pool in a manner which equitably reflects the differing amounts of their respective investments in the pool and the differing periods of time for which those amounts were in the custody of the pool. Also, the rules shall require the maintenance of records that enable the Treasurer's office to produce a report for each account in the pool at least annually that documents the account balance and investment earnings. Notice of any proposed amendments to the rules and regulations shall be provided to all participants prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment.

Upon creating the College Savings Pool, the State Treasurer shall give bond with 2 or more sufficient sureties, payable to and for the benefit of the participants in the College Savings Pool, in the penal sum of $1,000,000, conditioned upon the faithful discharge of his or her duties in relation to the College Savings Pool.

(Source: P.A. 91-607, eff. 1-1-00; 91-829, eff. 1-1-01; 91-943, eff. 2-9-01; 92-16, eff. 6-28-01; 92-439, eff. 8-17-01; 92-626, eff 7-11-02; 93-812, eff. 1-1-05; 95-23, eff. 8-3-07; 95-306, eff. 1-1-08; 95-521, eff. 8-28-07; 95-876, eff. 8-21-08; 97-233, eff. 8-1-11; 97-537, eff. 8-23-11; 97-813, eff. 7-13-12; 99-143, eff. 7-27-15; 100-161, eff. 8-18-17; revised 10-2-17.)

(15 ILCS 505/16.6)

Sec. 16.6. ABLE account program.

(a) As used in this Section:

"ABLE account" or "account" means an account established for the purpose of financing certain qualified expenses of eligible individuals as specifically provided for in this Section and authorized by Section 529A of the Internal Revenue Code.

"ABLE account plan" or "plan" means the savings account plan provided for in this Section.

"Account administrator" means the person selected by the State Treasurer to administer the daily operations of the ABLE account plan and provide marketing, recordkeeping, investment management, and other services for the plan.

"Aggregate account balance" means the amount in an account on a particular date or the fair market value of an account on a particular date.

"Beneficiary" means the ABLE account owner.

"Board" means the Illinois State Board of Investment.

"Contracting state" means a state without a qualified ABLE program which has entered into a contract with Illinois to provide residents of the contracting state access to a qualified ABLE program.

"Designated representative" means a person who is authorized to act on behalf of an account owner. An account owner is authorized to act on his or her own behalf unless the account owner is a minor or the account owner has been adjudicated to have a disability so that a guardian has been appointed. A designated representative acts in a fiduciary capacity to the account owner. The State Treasurer shall recognize a person as a designated representative without appointment by a court in the following order of priority:

(1) The account owner's plenary guardian of the estate, or the account owner's limited guardian of financial or contractual matters. Any guardian acting in this capacity shall not be required to seek court approval for any ABLE qualified distributions.

(2) The agent named by the account owner in a property power of attorney recognized as a statutory short form power of attorney for property.

(3) Such individual or entity that the account owner so designates in writing, in a manner to be established by the State Treasurer.

(4) Such other individual or entity designated by the State Treasurer pursuant to its rules.

"Disability certification" has the meaning given to that term under Section 529A of the Internal Revenue Code.

"Eligible individual" has the meaning given to that term under Section 529A of the Internal Revenue Code.

"Participation agreement" means an agreement to participate in the ABLE account plan between an account owner and the State, through its agencies and the State Treasurer.

"Qualified disability expenses" has the meaning given to that term under Section 529A of the Internal Revenue Code.

"Qualified withdrawal" or "qualified distribution" means a withdrawal from an ABLE account to pay the qualified disability expenses of the beneficiary of the account.

(b) The "Achieving a Better Life Experience" or "ABLE" account program is hereby created and shall be administered by the State Treasurer. The purpose of the ABLE plan is to encourage and assist individuals and families in saving private funds for the purpose of supporting individuals with disabilities to maintain health, independence, and quality of life, and to provide secure funding for disability-related expenses on behalf of designated beneficiaries with disabilities that will supplement, but not supplant, benefits provided through private insurance, federal and State medical and disability insurance, the beneficiary's employment, and other sources. Under the plan, a person may make contributions to an ABLE account to meet the qualified disability expenses of the designated beneficiary of the account. The plan must be operated as an accounts-type plan that permits persons to save for qualified disability expenses incurred by or on behalf of an eligible individual.

The State Treasurer shall promote awareness of the availability and advantages of the ABLE account plan as a way to assist individuals and families in saving private funds for the purpose of supporting individuals with disabilities. The cost of these promotional efforts shall not be funded with fees imposed on participants by the State Treasurer.

The State Treasurer shall not accept contributions for ABLE accounts under this Section until the Internal Revenue Service has issued its final regulations or interim guidance concerning ABLE accounts.

A separate account must be maintained for each beneficiary for whom contributions are made, and no more than one account shall be established per beneficiary. If an ABLE account is established for a designated beneficiary, no account subsequently established for such beneficiary shall be treated as an ABLE account. The preceding sentence shall not apply in the case of an ABLE account established for purposes of a rollover as permitted under Section 529A of the Internal Revenue Code.

An ABLE account may be established under this Section for a designated beneficiary who is a resident of Illinois, a resident of a contracting state, or a resident of any other state.

Prior to the establishment of an ABLE account, an account owner must provide documentation to the State Treasurer that the account beneficiary is an eligible individual.

Annual contributions to an ABLE account on behalf of a beneficiary are subject to the requirements of subsection (b) of Section 529A of the Internal Revenue Code. No person may make a contribution to an ABLE account if such a contribution would result in the aggregate account balance of an ABLE account exceeding the account balance limit authorized under Section 529A of the Internal Revenue Code. The Treasurer shall review the contribution limit at least annually.

The State Treasurer shall administer the plan, including accepting and processing applications, maintaining account records, making payments, and undertaking any other necessary tasks to administer the plan, including the appointment of an account administrator. The State Treasurer may contract with one or more third parties to carry out some or all of these administrative duties, including, but not limited to, providing investment management services, incentives, and marketing the plan.

In designing and establishing the plan's requirements and in negotiating or entering into contracts with third parties under this Section, the State Treasurer shall consult with the Board. The State Treasurer shall establish fees to be imposed on participants to recover the costs of administration, recordkeeping, and investment management. The State Treasurer must use his or her best efforts to keep these fees as low as possible, consistent with efficient administration.

Prior to January 1, 2026, the State Treasurer shall allow a rollover of an eligible existing College Savings Pool account under Section 16.5 into an eligible ABLE account in accordance with Section 529(c)(3)(C) of the Internal Revenue Code.

The Illinois ABLE Accounts Administrative Fund is created as a nonappropriated trust fund in the State treasury. The State Treasurer shall use moneys in the Administrative Fund to pay for administrative expenses he or she incurs in the performance of his or her duties under this Section. The State Treasurer shall use moneys in the Administrative Fund to cover administrative expenses incurred under this Section. The Administrative Fund may receive any grants or other moneys designated for administrative purposes from the State, or any unit of federal, state, or local government, or any other person, firm, partnership, or corporation. Any interest earnings that are attributable to moneys in the Administrative Fund must be deposited into the Administrative Fund. Any fees established by the State Treasurer to recover the costs of administration, recordkeeping, and investment management shall be deposited into the Administrative Fund.

Subject to appropriation, the State Treasurer may pay administrative costs associated with the creation and management of the plan until sufficient assets are available in the Administrative Fund for that purpose.

Applications for accounts, account owner data, account data, and data on beneficiaries of accounts are confidential and exempt from disclosure under the Freedom of Information Act.

(c) The State Treasurer may invest the moneys in ABLE accounts in the same manner and in the same types of investments provided for the investment of moneys by the Board. To enhance the safety and liquidity of ABLE accounts, to ensure the diversification of the investment portfolio of accounts, and in an effort to keep investment dollars in the State, the State Treasurer may make a percentage of each account available for investment in participating financial institutions doing business in the State, except that the accounts may be invested without limit in investment options from open-ended investment companies registered under Section 80a of the federal Investment Company Act of 1940. The State Treasurer may contract with one or more third parties for investment management, recordkeeping, or other services in connection with investing the accounts.

The account administrator shall annually prepare and adopt a written statement of investment policy that includes a risk management and oversight program. The risk management and oversight program shall be designed to ensure that an effective risk management system is in place to monitor the risk levels of the ABLE plan, to ensure that the risks taken are prudent and properly managed, to provide an integrated process for overall risk management, and to assess investment returns as well as risk to determine if the risks taken are adequately compensated compared to applicable performance benchmarks and standards.

The State Treasurer may enter into agreements with other states to either allow Illinois residents to participate in a plan operated by another state or to allow residents of other states to participate in the Illinois ABLE plan.

(d) The State Treasurer shall ensure that the plan meets the requirements for an ABLE account under Section 529A of the Internal Revenue Code. The State Treasurer may request a private letter ruling or rulings from the Internal Revenue Service and must take any necessary steps to ensure that the plan qualifies under relevant provisions of federal law. Notwithstanding the foregoing, any determination by the Secretary of the Treasury of the United States that an account was utilized to make non-qualified distributions shall not result in an ABLE account being disregarded as a resource.

A person may make contributions to an ABLE account on behalf of a beneficiary. Contributions to an account made by persons other than the account owner become the property of the account owner. Contributions to an account shall be considered as a transfer of assets for fair market value. A person does not acquire an interest in an ABLE account by making contributions to an account. A contribution to any account for a beneficiary must be rejected if the contribution would cause either the aggregate or annual account balance of the account to exceed the limits imposed by Section 529A of the Internal Revenue Code.

Any change in account owner must be done in a manner consistent with Section 529A of the Internal Revenue Code.

Notice of any proposed amendments to the rules and regulations shall be provided to all owners or their designated representatives prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment. Amendments to this Section automatically amend the participation agreement. Any amendments to the operating procedures and policies of the plan shall automatically amend the participation agreement after adoption by the State Treasurer.

All assets of the plan, including any contributions to accounts, are held in trust for the exclusive benefit of the account owner and shall be considered spendthrift accounts exempt from all of the owner's creditors. The plan shall provide separate accounting for each designated beneficiary sufficient to satisfy the requirements of paragraph (3) of subsection (b) of Section 529A of the Internal Revenue Code. Assets must be held in either a state trust fund outside the State treasury, to be known as the Illinois ABLE plan trust fund, or in accounts with a third-party provider selected pursuant to this Section. Amounts contributed to ABLE accounts shall not be commingled with State funds and the State shall have no claim to or against, or interest in, such funds.

Plan assets are not subject to claims by creditors of the State and are not subject to appropriation by the State. Payments from the Illinois ABLE account plan shall be made under this Section.

The assets of ABLE accounts and their income may not be used as security for a loan.

The assets of ABLE accounts and their income and operation shall be exempt from all taxation by the State of Illinois and any of its subdivisions to the extent exempt from federal income taxation. The accrued earnings on investments in an ABLE account once disbursed on behalf of a designated beneficiary shall be similarly exempt from all taxation by the State of Illinois and its subdivisions to the extent exempt from federal income taxation, so long as they are used for qualified expenses.

Notwithstanding any other provision of law that requires consideration of one or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such provision to be provided to or for the benefit of such individual, any amount, including earnings thereon, in the ABLE account of such individual, any contributions to the ABLE account of the individual, and any distribution for qualified disability expenses shall be disregarded for such purpose with respect to any period during which such individual maintains, makes contributions to, or receives distributions from such ABLE account.

(e) The account owner or the designated representative of the account owner may request that a qualified distribution be made for the benefit of the account owner. Qualified distributions shall be made for qualified disability expenses allowed pursuant to Section 529A of the Internal Revenue Code. Qualified distributions must be withdrawn proportionally from contributions and earnings in an account owner's account on the date of distribution as provided in Section 529A of the Internal Revenue Code. Upon the death of a beneficiary, the amount remaining in the beneficiary's account must be distributed pursuant to subsection (f) of Section 529A of the Internal Revenue Code.

(f) The State Treasurer may adopt rules to carry out the purposes of this Section. The State Treasurer shall further have the power to issue peremptory rules necessary to ensure that ABLE accounts meet all of the requirements for a qualified state ABLE program under Section 529A of the Internal Revenue Code and any regulations issued by the Internal Revenue Service.

(Source: P.A. 99-145, eff. 1-1-16; 99-563, eff. 7-15-16.)

Section 99. Effective date. This Act takes effect upon becoming law.