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College Illinois bailout now tops $500 million

Permanently halting the college-savings program and honoring existing contracts will end up costing taxpayers more than $6,800 for every student who has gone or will go to college using it.

STEVE DANIELS

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The quad of the University of Illinois in Champaign.

More than $6,800.

That's the amount per student that Illinois taxpayers will have to shell out to make good on contracts purchased by parents and others to "pre-pay" for tuition at the University of Illinois Urbana-Champaign and other state schools under the state's College Illinois program.

It will cost an estimated $501 million to bail out what at the end of the day was a relatively small-scale effort, begun in the late 1990s, to help parents pay for college at what was designed to be no cost to taxpayers, according to the Illinois Student Assistance Commission, which has administered the program since its inception. ISAC officials have struck a deal with state lawmakers to bail out the program while closing it to future participants.

More than 73,000 have been or are beneficiaries of contracts to attend state schools since College Illinois was launched, according to ISAC documents.

The $727 million fund backing the contracts is projected to begin running out of money in 2026. Without taxpayer help, more than 2,000 contract beneficiaries would be at risk of being stiffed.

Technically, the bills don't start coming due for the state until then. But, ISAC spokeswoman Lynne Baker emails, "We have suggested to policymakers that it would be best to start funding the obligation sooner rather than later."

What had been a $308 million unfunded liability now has mushroomed to more than $500 million thanks to the decision to end the program for all but existing contract holders. The need to more quickly liquidate the fund will reduce the return ISAC can hope to achieve from its investments, draining the fund more quickly, according to a December actuarial update.

The idea when the program was launched during a rampaging bull market: Forecast both market returns and tuition inflation while pricing the tuition-payment contracts at sufficient levels to ensure the investment fund covered the costs when the time came. Inadequate pricing at the program's start, rampaging tuition inflation at the UofI and the market meltdown in 2008 and 2009 left that plan in tatters.

ISAC under Gov. Rod Blagojevich compounded the woes with a risky plan—revealed in a March 2011 Crain's investigation—to plow hundreds of millions into hedge funds, private equity, real estate and other "alternative" investments. It lost nearly $20 million it invested in ShoreBank, the South Side community bank that went belly up in 2010, and Fisker Automotive, an ill-starred hybrid-car maker.

At the same time, ISAC was marketing to new participants with promises of "peace of mind," knowing that college costs would be covered when the time came. Unfortunately, most of those contract purchasers thought the state was legally obligated to back the contracts if something went wrong; the law establishing the program promised no such thing. Only that it would be considered.

Then-Gov. Pat Quinn replaced everyone on the Blagojevich commission, which temporarily halted the program in 2011. ISAC later tried to reboot it at higher prices, but there was little interest from the public. The commission shut it down again two years ago, with a promise to determine its future alongside lawmakers. Here we are.

And, barring a last-minute decision to try for a third reboot, a small-scale state program—born of good intentions—is adding $501 million to the billions the fiscal basket case we call Illinois has to find for public-worker pensions and a massive backlog of unpaid bills.

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