

TITLE 23: EDUCATION AND CULTURAL RESOURCES
SUBTITLE A: EDUCATION
CHAPTER XIX: ILLINOIS STUDENT ASSISTANCE COMMISSION

PART 2775
ILLINOIS PREPAID TUITION PROGRAM

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Section 2775.10 Summary and Purpose

- a) The Illinois Prepaid Tuition Program provides Illinois families with a tax-advantaged method of saving for college. The purpose of the program is to encourage and better enable Illinois families to help themselves finance the cost of higher education.
- b) This Part establishes rules that govern the Illinois Prepaid Tuition Program. Additional rules and definitions are contained in General Provisions, 23 Ill. Adm. Code 2700.

(Source: Amended at 35 Ill. Reg. 3538, effective February 16, 2011)

Section 2775.20 Definitions

"Code" – The Illinois Pension Code [40 ILCS 5].

"Consultant" – The independent investment consulting firm or firms contractually engaged by the Program to provide general or specialty investment consulting services for the prudent administration of the Program's investment portfolio as a fiduciary to the Fund.

"Custodian" – Pursuant to Section 35 of the Illinois Prepaid Tuition Act [110 ILCS 979], the investment custody service provider responsible for safekeeping of assets, trade processing and asset servicing, which includes a fiduciary obligation to the Fund.

"Eligible Institution" – An eligible educational institution as defined in section 529 of the federal Internal Revenue Code of 1986 (26 USC 529) and any regulations under that section.

"Fiduciary" or "Fiduciaries" – A person or entity is a fiduciary with respect to the Fund to the extent that the person or entity:

exercises any discretionary authority or discretionary control respecting management or disposition of its assets;

renders investment advice or renders advice on the selection of fiduciaries for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the Fund, or has any authority or responsibility to do so; or

has any discretionary authority or discretionary responsibility in the administration of the Fund.

"Fund" – The Illinois Prepaid Tuition Trust Fund.

"Illinois Community College" - A public community college as defined in Section 1-2 of the Public Community College Act [110 ILCS 805].

"Illinois Prepaid Tuition Contract" or "Contract" - A contract entered into between the Illinois Student Assistance Commission, on behalf of the State of Illinois, and a purchaser under Section 45 of the Illinois Prepaid Tuition Act [110 ILCS 979] to provide for the higher education of a qualified beneficiary.

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"Illinois Prepaid Tuition Program" or "Program" - The college savings and investment program created in Section 15 of the Illinois Prepaid Tuition Act.

"Illinois Prepaid Tuition Trust Fund" - The repository of all moneys received by the Commission, including all contributions, appropriations, interest and dividend payments, gifts, or other financial assets received in connection with operation of the Illinois Prepaid Tuition Program.

"Illinois Public University" - Any campus of: the University of Illinois, Illinois State University, Chicago State University, Governors State University, Southern Illinois University, Northern Illinois University, Eastern Illinois University, Western Illinois University or Northeastern Illinois University.

"Investment Advisor" or "Investment Manager" – A fiduciary appointed by the Commission to manage a portion of the Fund's assets or a fiduciary to a limited partnership or commingled fund in which the Fund is an investor.

"Investment Committee" – A subcommittee of the Commission consisting of at least three members of the Commission with knowledge of investing.

"Investment Services" – Investment Manager, Consultant and Custodian services or similar services.

"Manager Database" – An industry database containing information regarding institutional quality investment management firms. The database is used to identify, screen and evaluate Investment Manager candidates. The database may be provided and maintained by the Consultant or by a third-party firm approved by the Consultant.

"Member of the Family" or "Immediate Family" - Member of the family, as defined in the Internal Revenue Code, section 529(e)(2), as amended, means an individual who bears a relationship to a qualified beneficiary as follows: son or daughter, or a descendant of either; stepson or stepdaughter; brother, sister, stepbrother, stepsister, half-brother, or half-sister; father or mother or an ancestor of either; stepfather or stepmother; son or daughter of a brother or sister; brother or sister of the father or mother; son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law, or the spouse of any of these; the spouse; or any first cousin. In determining whether any of these relationships exist, a legally adopted child of an individual shall be treated as a child of that individual by blood.

"Minority Person", "female", "person with a disability", "minority owned business", "female owned business", "business owned by a person with a

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disability" – All have the meaning ascribed in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act [30 ILCS 575].

"Nonpublic Institution of Higher Education" – An eligible institution, other than a public institution of higher education.

"Private Market Fund" – Any private equity fund, private equity fund of funds, venture capital fund, hedge fund, hedge fund of funds, real estate fund, or other investment vehicle that is not publicly traded.

"Program" – The Illinois Prepaid Tuition Program.

"Public Institution of Higher Education" - An Illinois public university or Illinois community college.

"Purchaser" - Any person that has contracted to make payments under an Illinois prepaid tuition contract in accordance with State and federal laws.

"Qualified Beneficiary" - An individual designated as the recipient of the benefits of a prepaid tuition contract, provided he/she: has been a resident of this State for at least 12 months prior to the date of the application; or is a nonresident, so long as the purchaser has been a resident of the State for at least 12 months prior to the date of the application; or is less than one year of age and whose parent or legal guardian has been a resident of the State for at least 12 months prior to the date of the application.

"Registration Fees" - The charges derived by combining tuition and mandatory fees.

"Staff" – The professional investment staff of the Program.

(Source: Amended at 40 Ill. Reg. 16811, effective January 1, 2017)

Section 2775.30 Participant Eligibility

- a) The purchaser or qualified beneficiary must have been a resident of the State of Illinois for twelve continuous full months on the date of the application. Proof of residency shall be submitted to ISAC upon request. In the event either a new purchaser or new beneficiary is named pursuant to the terms of the contract, neither the new purchaser nor new beneficiary need be a resident of Illinois. (See Section 2775.50(e).)

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- b) For a purchaser, a qualified beneficiary, the parent or legal guardian of a qualified beneficiary, or a member of the family of a qualified beneficiary, evidence of residency may be provided by documentation consistent with the requirements of 23 Ill. Adm. Code 2700.50(g)(3).
- c) For the purpose of establishing the residency status of a minor child as a qualified beneficiary, a progress report from the child beneficiary's day care center, preschool, or other school of attendance indicating twelve months of residency in Illinois will also be considered sufficient evidence.
- d) In the absence of other proof of residency for the qualified beneficiary, the parents' or legal guardians' residency shall be determinative.
- e) There is no age limit with regard to the qualified beneficiary of an Illinois prepaid tuition contract.

(Source: Amended at 25 Ill. Reg. 8410, effective July 1, 2001)

Section 2775.40 Program Procedures

- a) Application and Disclosure Statement and Master Agreement
 - 1) The application period for purchases of contracts for the prepayment of postsecondary registration fees shall commence and terminate on dates set annually and announced publicly by the Commission.
 - 2) After receipt and approval of the purchaser's application, the Disclosure Statement and Master Agreement and a participation and payment schedule shall be mailed to the purchaser. The contract shall be comprised of these three documents.
 - 3) Each prepaid tuition contract must have one person designated as purchaser and one person designated as qualified beneficiary, except as provided in the Disclosure Statement and Master Agreement.

- b) Contract Prices and Fees

The Commission shall annually review contract prices and adjust prices for new contracts, referencing annual changes in registration fees at Illinois public universities and Illinois community colleges. An implied interest rate for installment payment plans will be calculated annually, and subsequently approved or reaffirmed by the Commission as part of its pricing policy for the program. The Commission shall also approve annually a schedule of administrative, service and

cancellation fees.

c) Payment Options

All contributions must be made in cash or its equivalent. Payments may be made only by check, money order, authorized monthly debit (ACH) from a bank account, payroll deduction, if available, or other payment method established by the Commission. Payments are due in accordance with conditions set forth in the contract. Payments may be made by lump sum or by installments. No penalty shall be assessed for early payment of installment contracts.

d) Delinquency and Default

1) Contracts purchased on or after November 1, 2009

- A) A late fee will be assessed if no contract payment is received by the first payment due date.
- B) An account will be cancelled if the initial payment is not received within 15 days after the first payment due date.
- C) For monthly payment plans, failure to make full payment within 15 days after the due date shall result in assessment of a late fee and suspension of the qualified beneficiary's rights under the plan.
- D) For annual payment plans, failure to make full payment within 30 days after the due date shall result in assessment of a late fee and suspension of the qualified beneficiary's rights under the plan.
- E) Contracts that are suspended for missing information will be cancelled on the 16th of the month, along with those accounts that have made no contract payment.
- F) If an account is delinquent for 210 days, the account is automatically converted from an installment plan to the same contract plan type reflecting the number of semesters already paid in full at the time of conversion, less any outstanding fees. If the amount paid towards the account is insufficient to pay in full the same contract plan type at the time the application was submitted, the account is cancelled and the purchaser is sent the appropriate refund amount.

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- 2) Contracts purchased prior to November 1, 2009
 - A) For monthly payment plans, failure to make full payment within 15 days after the due date shall result in assessment of a late fee and suspension of the qualified beneficiary's rights under the plan.
 - B) For lump sum and annual payment plans, failure to make full payment within 30 days after the due date shall result in assessment of a late fee and suspension of the qualified beneficiary's rights under the plan.
 - C) If an account is delinquent for 210 days after the scheduled payment date, the account is canceled and the purchaser is sent the appropriate refund amount.

e) Termination

There are two types of contract termination, involuntary and voluntary:

- 1) Involuntary termination shall occur upon a finding of fraud in the verification of residency of a qualified beneficiary at the time of application or the nonpayment of any appropriate payments due within established time frames.
- 2) Voluntary termination shall occur within 30 days after receiving written notice of a purchaser's desire to cancel a contract.

f) Refunds

Generally, no refund shall exceed the amount paid into the Illinois Prepaid Tuition Trust Fund by the purchaser and no refund shall be authorized under any prepaid tuition contract for any term partially attended but not completed. Refunds shall be made payable to the order of the purchaser only. The Commission shall authorize refunds in excess of the amount paid into the Illinois Prepaid Tuition Trust Fund only for contracts held for at least three years under the following conditions:

- 1) When a qualified beneficiary is awarded a grant or scholarship, the terms of which duplicate the benefits covered by his or her prepaid tuition contract, then the moneys paid for the purchase of the contract shall be returned to the purchaser, in term installments that coincide with the matriculation of the qualified beneficiary.

- A) If the qualified beneficiary is enrolled at an Illinois Public University or Illinois Community College, the refund will be equal to the institution's current in-state or in-district registration fees, less any registration fees not covered by the scholarship and any applicable service fees.
 - B) If the qualified beneficiary is enrolled at a nonpublic institution of higher education, the refund will be equal to the current mean-weighted average of registration fees at Illinois public universities or Illinois community colleges, depending on the plan purchased under the contract, less the registration fees not covered by the scholarship and any applicable service fees.
- 2) In the event of death or total disability of the qualified beneficiary, moneys paid for the purchase of the contract shall be returned to the purchaser together with all accrued earnings.
 - 3) In cases where a public university plan contract is converted for usage at an Illinois community college, then the amount refunded shall be on a term-by-term basis. The refund should be the current value of the original contract minus the current value of the contract after conversion.
 - 4) In all instances of a voluntary contract cancellation, the amount refunded shall be the original purchase price of the contract less the applicable cancellation fees.

(Source: Amended at 37 Ill. Reg. 9554, effective July 1, 2013)

Section 2775.50 Contract Terms and Conditions

a) **Contract Types**

The program shall offer purchasers at least two different types of contracts: a public university plan and a community college plan. Additional contract plans may be offered. All contract types shall cover registration fees.

- 1) The public university plan specifies that no more than 9 terms, or 135 credit hours, at an Illinois public university may be purchased for the benefit of a qualified beneficiary. Applicants may choose to purchase as little as one term, or 15 credit hours, at a time.
- 2) The community college plan specifies that no more than 4 terms, or 60 credit hours, at an Illinois community college may be purchased for the

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benefit of a qualified beneficiary. Applicants may choose to purchase as little as one term, or 15 credit hours, at a time.

- 3) No more than an aggregate of 135 credit hours of benefits may be purchased on behalf of any qualified beneficiary.

b) Contract Benefits

- 1) The registration fees contracted for by the purchaser shall be paid directly to the institution at the time of enrollment of the qualified beneficiary. The credit hours purchased may be used during any term of postsecondary undergraduate enrollment. A social security number or taxpayer identification number must be on file prior to payment of benefits.
- 2) No contract benefits may be received by a qualified beneficiary of an Illinois prepaid tuition contract earlier than three years from the due date of the first contract payment.
- 3) No interest in all or any portion of a contract may be used as security for a loan.

c) Contract Requirements

- 1) Purchasers must name a qualified beneficiary in the application, except as provided in the Disclosure Statement and Master Agreement. Only one qualified beneficiary is allowed per contract. A separate accounting will be provided for each designated beneficiary.
- 2) In the event duplicate applications for the same qualified beneficiary are processed, the application processed first shall be deemed valid and the remaining application or applications shall be deemed valid, if and only if, they provide for registration fees not already covered by previous applications.
- 3) The purchaser does not have to designate the postsecondary institution that the qualified beneficiary is expected to attend.
- 4) The benefits of a contract may be used in advance of the selected matriculation date indicated in the application with no penalty or additional cost. However, to utilize a contract prior to the selected matriculation date, the purchaser must pay the contract in full before changing the matriculation date.

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- 5) The qualified beneficiary must enroll in an eligible institution and request disbursement of any benefits within ten years after the projected enrollment date. This ten year limitation may be extended at the Commission's sole discretion upon purchaser's application for extension to the Commission. Any time spent by the qualified beneficiary in active military service shall not count as part of the time period for receiving contract benefits under all contract plans.
 - 6) The purchaser and qualified beneficiary are prohibited from directing the investment of any contributions to the program.
- d) Change of Purchaser and Change of Qualified Beneficiary
- 1) The purchaser of a contract may be changed upon written request of the original purchaser and the new purchaser. The new purchaser must meet the requirements of a qualified purchaser contained in the master agreement other than the residency requirement. (See Section 2775.30(a).)
 - 2) Upon written request, contract benefits may be transferred by the purchaser to a new qualified beneficiary prior to actual use. The new qualified beneficiary must be a member of the family of the original qualified beneficiary but need not meet the residency requirement. (See Section 2775.30(a).)
- e) Benefit Portability and Conversion Between Illinois Public Universities and Illinois Community Colleges
- 1) Public university plan benefits may be converted for usage at community colleges and community college plan benefits may be converted for usage at public universities.
 - 2) Benefits shall be converted by referencing the relative current average mean-weighted credit hour value of registration fees purchased under the contract. The benefit conversions shall be authorized on a term-by-term basis and no fee shall be assessed for conversion of benefits among in-State public institutions.
- f) Benefit Portability and Conversion to Nonpublic Institutions of Higher Education
- 1) Public university plan and community college plan contract benefits may be converted for payment of registration fees at nonpublic institutions of higher education.

- 2) Benefits shall be converted by referencing the current average mean-weighted credit hour value of registration fees purchased under the contract. Each term, the Commission shall transfer this amount to the nonpublic institution of higher education on behalf of the qualified beneficiary.

(Source: Amended at 37 Ill. Reg. 9554, effective July 1, 2013)

Section 2775.60 Scholarships, Grants or Monetary Assistance

If contract benefits are considered for purposes of determining eligibility for federal student financial assistance, contributions toward the purchase of a prepaid tuition contract may reduce the amount of any scholarship, grant, or monetary assistance that the qualified beneficiary is eligible to be awarded by the Commission, the State or any agency of the State.

(Source: Amended at 29 Ill. Reg. 9954, effective July 1, 2005)

Section 2775.70 Disclosure

- a) Information that identifies purchasers or qualified beneficiaries of Illinois prepaid tuition contracts is exempt from inspection, copying, or public disclosure under the Freedom of Information Act.
- b) The Commission nonetheless authorizes its program records administrator to release such information to appropriate personnel at the eligible institution at which the qualified beneficiary may enroll or is already enrolled or to another State or federal agency, for purposes deemed appropriate by the Commission.
- c) Any institution to which this information is released by the Commission shall ensure the continued confidentiality of the information.

(Source: Amended at 35 Ill. Reg. 3538, effective February 16, 2011)

Section 2775.80 Investment Services Procurement

- a) Summary and Purpose

Effective January 1, 2015, Public Act 98-1022 amended the Illinois Pension Code and the Illinois Prepaid Tuition Act, imposing duties on the Program designed to increase racial, ethnic and gender diversity of investment fiduciaries and Investment Managers by requiring investment boards subject to the Pension Code and the Program to establish diversity goals. This Section has been created in order to effectuate those goals and other procurement methodology. This Part complies with the provisions of Public Act 98-1022 and the Illinois Prepaid

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Tuition Act to ensure investment transparency and objective consideration of potential investment services providers in conformance with the fiduciary duties imposed by those laws. The procurement of all investment services and fiduciaries by the Program will be conducted in accordance with the Illinois Procurement Code [30 ILCS 500] and the additional competitive selection procedures set forth in this Section.

b) Manager Database

- 1) The Manager Database serves as the primary pool from which the Program identifies candidates for Investment Manager searches.
- 2) To be considered in a search, all interested Investment Managers not currently in the Manager Database should ensure that all required information has been submitted to the Manager Database prior to the screening dates specified in the candidate profiles described in subsection (c)(3). Should a search be conducted for which a developed database does not exist or is incomplete, Investment Managers may be requested to submit a written Request for Information (RFI).
- 3) No fee is required to participate in the Manager Database. It is essential that all interested parties are able to enter required information into the database. Investment Managers should contact the Consultant for assistance with the database and should contact Staff regarding any unresolved issues or concerns related to the Manager Database submission for a Fund related search. Contact information for the Consultant and Staff will be available on the Program's website.

c) Investment Manager Searches

- 1) The Commission authorizes the Program's asset allocation targets and Investment Manager structure by recorded vote in a business meeting of the Commission conducted in accordance with the Open Meetings Act [5 ILCS 120]. Staff may initiate searches as necessary to implement the Program's asset allocation and/or fill vacancies within the manager structure.
- 2) At each meeting of the Investment Committee, Staff will notify the Committee of any new manager search, the status of all existing searches and the outcome of all completed searches.
- 3) With the initiation of a search, working with the Consultant, a written candidate profile that lists specific requirements and the process for each

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search shall be prepared. The candidate profile identifies specific quantitative and qualitative factors, such as:

- A) minimum assets under management;
 - B) minimum track record;
 - C) risks relative to benchmarks;
 - D) return relative to benchmarks over various time periods;
 - E) size of the candidate's professional staff and tenure of the individual members of that staff;
 - F) investment strategy and process; and
 - G) organizational stability and strength.
- 4) The candidate profile is posted on the Program website to allow all interested candidates to review the search criteria and understand how to participate in the search.
- 5) The candidate profile identifies a specific screening period during which the Consultant will screen the Manager Database or other candidate information to identify all managers meeting the criteria of the candidate profile.
- 6) During the screening period identified in the candidate profile, Staff and the Consultant identify all candidates that meet the quantitative criteria specified in the candidate profile. Staff shall evaluate the efficacy of the screening process and initiate corrective action, if necessary.
- 7) Staff and the Consultant review the candidate list to eliminate any managers that fail to meet qualitative screens. All minority Investment Managers, as defined in Section 1-109.1(9) of the Code, that meet the minimum criteria of the search will be identified and the most qualified minority Investment Manager candidates will be included in the selection process described in this Section.
- 8) Staff and the Consultant further refine the candidate list to identify semifinalist firms that, based on criteria in the candidate profile, appear to have the highest probability of success over the next three to five years. In the event more information is necessary to narrow the semifinalist list, a

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standardized RFI may be issued to the pool of eligible semifinalists to facilitate further in-depth analysis by Staff and the Consultant. Semifinalists, in this case, are selected from the RFI submissions.

- 9) Staff conducts in-person interviews of semifinalist firms at the Program's offices or an alternate location agreed upon by the Program and the firm.
 - 10) Following favorable results of the in-person interviews, Staff identifies finalist firms for formal due diligence meetings.
 - 11) Following favorable due diligence review, a recommendation is presented to the Investment Committee for provisional approval. Staff will provide the Committee with a full report of the search process, including a summary of the search criteria and candidate firms, as well as the diversity disclosures required by Section 1-113.21 of the Code.
 - 12) If any eligible managers, as defined in Section 1-109.1(9) of the Code, meet the minimum criteria of the search, the most qualified minority Investment Manager candidates will be invited to present as a finalist to the Investment Committee.
 - 13) The Investment Committee decision is subject to final approval at the next meeting of the Commission.
- d) Consultant or Custodian Searches
- 1) The Commission authorizes every search for a new or replacement Consultant or Custodian by recorded vote in a business meeting of the Commission conducted in accordance with the Open Meetings Act [5 ILCS 120].
 - 2) Following Commission authorization, Staff prepares a Request for Proposal (RFP) containing, but not limited to, the following information:
 - A) the type of services required;
 - B) an estimate of when and for how long the services will be required;
 - C) the date and time by which proposals must be submitted; and
 - D) a statement of the information the proposal must contain.
 - 3) The RFP is posted in the Illinois Procurement Bulletin and may also be

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posted on the Program website to allow any interested candidate to review the search criteria. The RFP notice summarizes the services sought, tells how and where to submit proposals, specifies the deadline for submitting proposals, and tells when and where proposals will be publicly opened.

- 4) Proposals submitted in response to an RFP must comply with all requirements set forth in the RFP and must be submitted within the time frame specified in the RFP. Proposals are date and time stamped upon receipt. Proposals that arrive late for any reason will not be considered.
 - 5) Proposals are publicly opened at the date and time specified in the RFP and the Illinois Procurement Bulletin and may also be found on the Program website. Staff reviews all proposals that are timely received to ensure that all required information is included. Proposal information is publicly available following execution of a contract with the successful firm.
 - 6) Staff identifies and ranks all proposals meeting all minimum qualifications specified in the RFP to identify semifinalist firms.
 - 7) Staff conducts in-person interviews of semifinalist firms at the Program's offices or alternate location agreed upon by the Program and the firm.
 - 8) Following favorable results of the in-person interviews, Staff identifies finalist firms for formal due diligence meetings.
 - 9) Following favorable due diligence review, a recommendation is presented to the Investment Committee for provisional approval. Staff will provide the Committee with a full report of the search process, including a summary of the search criteria and candidate firms, as well as the diversity disclosures required by Section 1-113.21 of the Code.
 - 10) The Investment Committee decision is subject to final approval at the next meeting of the Commission.
- e) Evaluation by Investment Committee
- 1) The Investment Committee ensures that the decision and process to hire a particular investment services provider is well-reasoned, thoroughly considered and prudent.
 - 2) The Investment Committee reviews written supporting documentation to assure the disclosure of all relevant issues; that the search process,

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investment sourcing and related due diligence was fair; and that the screening process was consistently applied.

- 3) Upon approval by the Investment Committee, any recommendation to hire a particular investment services provider is submitted to the Commission for approval.

f) Disclosures to be Considered Prior to Award

- 1) Prior to the award of a contract, an Investment Advisor, Consultant or Private Market Fund must make disclosures regarding its diversity pursuant to Section 1-113-21 of the Code.
- 2) The disclosures required by this Section shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract, oral or written, for Investment Advisor, Consultant or commitment to a Private Market Fund.

g) Fiduciary Obligation

All participants in the selection process for investment services shall conduct their responsibilities with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person familiar with these matters and acting in a like capacity would use in the conduct of an activity of like character and purpose. All conduct must be solely in the interest of the participants and beneficiaries of the Fund.

(Source: Added at 39 Ill. Reg. 9588, effective July 1, 2015)