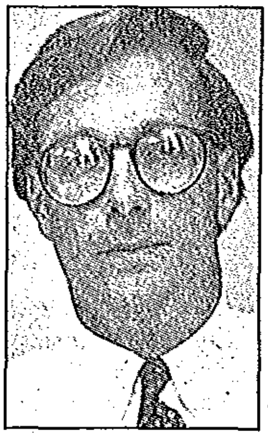
For Children's College, MET's a Safe Bet

Recently, a few investment analysts and brokers interested in where their clients might choose to invest their financial assets have claimed that the Michigan Education Trust (MET) is no better than numerous other investment alternatives.



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For those families only interested in earning a specific rate of return over a defined set of years, they may be right. For the rest of us, however, who utilize home insurance, car insurance, insurance on business, MET provides a similar kind of tuition insurance.

If families are concerned solely with the rate of return, MET may not be for them. Had MET intended to compete for their investment dollars, it would have offered an investment portfolio — structured by the managers of the state's pension funds — very similar to the kinds of strategies families have seen from their brokers. Incidentally, the state pension funds, totaling about $15.5 billion, have out-performed most of the private-sector brokers over the last six years.

MET DOES NOT offer a fixed rate of return. It provides more. MET offers security. MET provides a product not available from any other source at any price — the assurance that families can afford college tuition for their children. Just like when we deposit a portion of our paychecks in our savings account and just like when we commit a portion of our income to buying a house, our objectives are not solely "rate of return." Instead, we seek the security of the savings account and of shelter.

The evolution of the Michigan Education Trust is similar to that of the Federal Deposit Insurance Corporation (FDIC). The Great Depression and bank crash made families wary of saving because they were not sure that the money they saved would be available in the future. The rapid rise in tuition rates makes it impossible for families to be sure that the money they save for education will buy any education in the future. The FDIC gives families assurance that their savings will remain intact. MET assures families that their savings will be enough to send their children to college.

Some have been critical that MET rather than the state itself guarantees the MET contracts. That criticism ignores that families' employers and not the government guarantees their homes, autos or life insurance benefits; and that the FDIC and not the federal government guarantees their bank deposits. The MET guarantee is similar to the guarantee behind the FDIC.

For the first 50 years that the FDIC offered insurance, there was no law requiring federal assistance in case the FDIC became insolvent. Recent changes made in the banking laws require the federal government to guarantee only $3 billion to the FDIC in case of insolvency, representing a fraction of total deposits.

THE GOVERNING BOARD of the FDIC is appointed by the president, and sound pricing and investment strategies rather than a federal guarantee have kept the institution from ever coming close to requiring a congressional appropriation. The MET board is appointed by the governor, and sound pricing and investment strategies rather than an explicit state guarantee will provide a similar assurance to the people of Michigan.

MET is Michigan's FDIC for higher education.

MET, like the FDIC, enjoys the benefits of government assistance without any of the risks. MET will annually inform the state Legislature of its financial position and solicit assistance in the remote likelihood it is needed. But MET assets are protected from the state. Unlike the state's Land Trust Fund and the state's Veterans Trust Fund, which were raided by the state when it was in financial need, MET assets are separate from the state and cannot be touched by future state legislatures. In this fashion, MET's relationship is a one-way street. MET can receive assistance but cannot be invaded.

Again, MET should not be mistaken as only an investment plan. MET offers a product; higher education. In the future, a college education will be as much of a necessity as the roof over our heads. When a family purchases a house, it does not look solely at its ultimate resale value. The family also considers the protection the house will offer, it suitability to them and the quality of its workmanship.

TWO YEARS of careful study and preparation have made MET the safest home families can buy. Actuarial studies by Coopers and Lybrand have conservatively priced contracts to assure the actuarial soundness of MET. Tax advisers from Michigan's oldest law firm, Miller, Canfield, Paddock & Stone, have structured our contracts and investment policies to take full advantage of the favorable IRS ruling regarding MET. In addition to painstaking research and preparation so far, the professional money managers of the Department of Treasury, who have managed billions of dollars of state agency debt over the last 20 years without defaulting on a penny, provide an ongoing strong foundation for the future of the Michigan Education Trust.

As families continue to consider MET and the education of their children or grandchildren, remember that there are differences between MET and financial investment strategy. MET is an investment, but it is an investment in children and grandchildren rather than only in dollars. The return on families' MET dollars is the future of these students; a return not fixed by percentages.

Rather than listen to how financial investments can provide them with equivalent rates of return, families should ask their advisers which other private, federal, state or local investment will *guarantee* a return that will allow them to send their children to the Michigan college of their choice. Then they should ask those advisers to assist them in structuring their purchase of a MET contract to their best financial advantage.

MET is not an alternative to a family' personal financial goals but, like any other type of insurance, it is additional security for the family's future.

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