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**2015 Budget Testimony**

**House Appropriations Committee**

**Education & Economic Development  
Subcommittee**

**March 5, 2015**

Treasurer Nancy Kopp, Chair, College Savings Plans of Maryland Board  
Joan Marshall, Executive Director, College Savings Plans of Maryland

Madam Chair and Members of the Subcommittee,

Thank you for the opportunity to review the budget and related issues for the College Savings Plans of Maryland (CSPM) on behalf of our Board.

We are pleased to report continued improvement in participation in both the Maryland College Investment Plan (MCIP) and the Maryland Prepaid College Trust (MPCT).

The number of active accounts in the MCIP grew at more than twice the national rate. At December 31, 2014, there were nearly 211,000 accounts, which was nearly 10% more than at December 31, 2013. This compares to the national average growth in 529 plan accounts of 4.1%.

The average account balance in this plan was \$19,032 as of December 31, 2014. This is less than the total cost of attendance for one year for a resident undergraduate student at the University of Maryland College Park for the 2014-2015 academic year which is \$24,352.

In addition, approximately 46% of MCIP accounts are established with automatic monthly contributions that average \$149 per month.

For the Maryland Prepaid College Trust, the 2014-2015 enrollment period opened on December 1, 2014 and will continue through April 15, 2015. As of March 3, 2015, the Prepaid College Trust received 987 new enrollments. This is on pace with enrollments received last year, when the Trust had received 946 new enrollments as of March 3, 2014.

Key issues to address this year include:

### **Managing for Results - CSPM's marketing approach to Maryland families**

The marketing approach for the agency has always been to provide information about both the MPCT and the MCIP to allow families to choose the plan or plans they wish to participate in. Our primary message is to advocate for college savings and reduce reliance on costly student debt. We have never provided preferential treatment in terms of "selling" the advantages of one plan over another. We are not investment advisors and we have no way of knowing which plan will be more financially advantageous to an account holder. We promote the complimentary features and benefits of each plan and also encourage families to consider diversifying their college savings by participating in both plans.

We have found over the years that investor sentiment shifts to some degree from plan to plan depending on investment market conditions and the environment for tuition increases at Maryland's public colleges. At this point, we have seen low or no growth in

tuition at Maryland's public colleges for the past 8 years, combined with generally strong investment markets. These factors influence some families to prefer the MCIP, since they believe that if these trends continue, then their investment may perform better than in the MPCT. On the other hand, neither investment market performance nor tuition increase trends are likely to be permanent so at some point, that shift in plan preference will move more in favor of the MPCT.

**Issues to address include:**

**1. Maryland families' participation in CSPM**

CSPM joins with our peers in states across the country in taking exception to the GAO study quoted in the analysis that found less than 3% of American families had a 529 plan or a Coverdell Education Savings Plan. The GAO study used a total number of families that included ALL families, including those families with no children or with grown children. We believe it is more appropriate to consider families with children in the household who are 18 years of age or younger.

Two years ago, we looked at our data on Maryland resident account beneficiaries in our plans and determined that approximately 10% of all Maryland resident children age 18 or younger are enrolled in at least one of our two 529 plans. When we examine various regions of the state, we note that this participation level ranges from 3% in Western Maryland to 12% in Carroll and Frederick counties. Attachment A contains further detail.

We also know that additional Maryland resident children are enrolled in other states' 529 plans, although we are unable to obtain data on the number of these children.

In addition, we conducted statewide online research with more than 1,000 Maryland families who were not currently participating in CSPM and who had children in their household under the age of 12. This research yielded a lot of useful information, including:

- 76% of Maryland families say they are saving for college, of whom 88% were prompted to start to save by a pregnancy or birth of a child.
- Nearly 50% of families who are saving for college have other family members who are helping them to save.
- However, the vast majority of these families (65%), are saving in a savings account, vs. those who plan to use 401(k) plans (22%); stocks (20%), 529 plans (19%) CD's (16%), or bonds (16%).

Of those who were not currently saving for college, 71% believe they cannot afford to save. Other misconceptions about saving for college in a 529 plan include:

- 22% said they have not found the time to start a Maryland 529 plan;
- 18% believe that CSPM can only be used at Maryland colleges;
- 12% believe they would lose their savings if their child did not attend college.

We continue to use the results of this research to drive our marketing programs in order to provide correct information in as simple a format as possible, in order to correct these misperceptions.

Details of the research results are in Attachment B.

In addition, the Maryland College Investment Plan had just over \$4 billion in assets as of December 31, 2014. This is the fifth largest directly sold 529 plan in the nation among plans that are only marketed in their home state. The only such plans that had more assets than the Maryland College Investment Plan are those plans sponsored by California, New York, Massachusetts, and Ohio.

### **Initiatives to increase participation by moderate income families**

Participation in the College Savings Plans of Maryland by moderate income families has always been very important to us and to our Board

First, we have designed the plans to be as affordable as possible. In the Prepaid College Trust, tuition can be purchased for as little as a year at a Community College level or a semester at the University level. For the College Investment Plan, the minimum required investment is \$25 per month.

Second, we focus extensively on outreach to moderate income families in our community partnerships and events that we participate in across the state. Attachment C is a list of initiatives, partnerships, community events, and literature distribution programs that are designed to encourage moderate income families to save for college.

In addition, through our statewide network of ambassadors, we are almost always available to present to all types of community and religious organizations about the plans.

### **2. Prepaid College Trust was 143% funded as of 6/30/14**

As noted in the Analyst's report, the Prepaid College Trust was 143% funded as of June 30, 2014, with an actuarial surplus of \$321.5 million. This is a significant increase over the previous year, when the Trust was 125% funded, with an actuarial surplus of \$187.5 million. There are two primary reasons for this increase in the amount of the actuarial surplus:

- First, the Trust's investments produced an overall return of 18.5% during fiscal year 2012, as compared with the stated goal of 7.65%. This had a significant positive effect on the actuarial valuation.
- Second, the weighted average tuition at Maryland's public 4-year colleges increased by 3.1% for the 2014-2015 academic year. This actual increase is less

than our projected tuition increase of 6% and a mandatory fee increase of 10%. Since the actual increase was lower than our projection, this also had a positive effect on actuarial valuation.

Maryland law permits the Board to consider providing a rebate to account holders if the actuarial surplus is at least 130% and certain other conditions are met. FY 2014 is the first year in the history of the MPCT that the Board was eligible to consider such a rebate.

The Board reviewed the primary trends over the past five years that have contributed to the growth in the actuarial surplus, including strong investment markets and low tuition growth at Maryland's public colleges. The Board also consulted with its actuary, accountants, and financial advisor. Based on their discussions and consideration, the Board determined that this was not an appropriate time to consider a rebate. First, the Board believes there is a significant likelihood that these trends in investment returns and tuition growth may not continue at these levels over at least the next several years. Further, there can also be significant uncertainty and volatility in both of these trends – as evidenced by this year's mid-year tuition increase. At this time, the Board believes that it would not be prudent to provide a rebate to account holders until a full investment cycle has passed with the actuarial surplus consistently remaining above 130%, along with the continuation of positive trends in low tuition growth and strong investment markets, combined with similar projections for the future.

The Board will continue to closely monitor these trends and the actuarial surplus as part of their fiduciary oversight of the MPCT.

### **3. Electronic benefit payments to colleges**

The Prepaid College Trust is able to transfer funds electronically to colleges for benefit payments. At the present time, however, there has not been a single college in or out of Maryland that has encouraged us to do this.

The most common reason why colleges have discouraged the Trust from paying electronically is because when funds are transferred from "third party payers" like the Prepaid College Trust, the funds are transferred to the college's main bank account. From there, information about the receipt of the funds needs to be provided to the bursar's office and an employee of the bursar's office needs to manually post the payment to the students' accounts. The University of Maryland, College Park, for example, has told us that this process can take at least 2 weeks. During that time, the Prepaid College Trust can confirm with our account holders that we have transferred the funds to the university, but students and their parents are unable to see that the funds have been posted to the students' university accounts when they access the students' accounts online. If the student or parent calls the bursar's office during this period, the bursar's office will inform them that they have not received the funds from the Prepaid College Trust. This places the students and their parents in the position of not knowing who to believe. In addition, depending on the timing of the payment, more severe

negative consequences may occur such as the posting of late fees to students' accounts, students' classes being dropped, etc. All of this is understandably very disconcerting to students and their parents. Late fees can eventually be removed from students' accounts, but dropped classes cannot always be restored.

We are happy to work with the universities to facilitate their development of a process that would shorten the time period from when they receive funds from the Prepaid College Trust in their main bank account to when the funds are credited to students' accounts. When the universities can assure us that it takes no additional time to send our payments electronically as compared to mailing checks, we will be happy to switch to electronic payments.

### **Updates:**

#### **1. Advisor Sold College Investment Plan not yet authorized by CSPM Board**

Legislation was passed in 2008 to provide our Board with the authority to offer an advisor-sold College Investment Plan. Our Board has not yet determined whether or when to offer such a plan. At the time that the legislation was passed, the Board was clear that they were seeking the authority to offer such a plan, but did not commit to a launch of the plan for a specific time period. Since granted this authority, the Board has continued to monitor both the external environment and our internal staffing needs and has not yet committed to a launch of this plan.

In terms of the external environment, the continued potential for tax reform at the federal level presents some amount of uncertainty for all tax-preferred educational investment options, including 529 plans.

In addition, other bills under consideration in this year's session of the Maryland General Assembly could potentially have an impact on the number of new 529 plans that the Board may be responsible for and the order in which new plans may be introduced. Specifically, H.B. 692 would allow the Board to offer a bank savings account plan. As previously mentioned, S.B. 761 addresses an ABLE Program for Maryland families, which may or may not impact the College Savings Plans of Maryland.

The Board still believes that an advisor-sold 529 plan could be an effective complement to our current direct sold Prepaid College Trust and College Investment Plan and it will continue to monitor both the external environment and internal resources. Once external conditions are favorable and internal resources have been identified, the Board will decide when to launch this plan. As always, we will continue to keep you informed.

## **2. Maryland College Investment Plan receives a “Gold” rating from Morningstar**

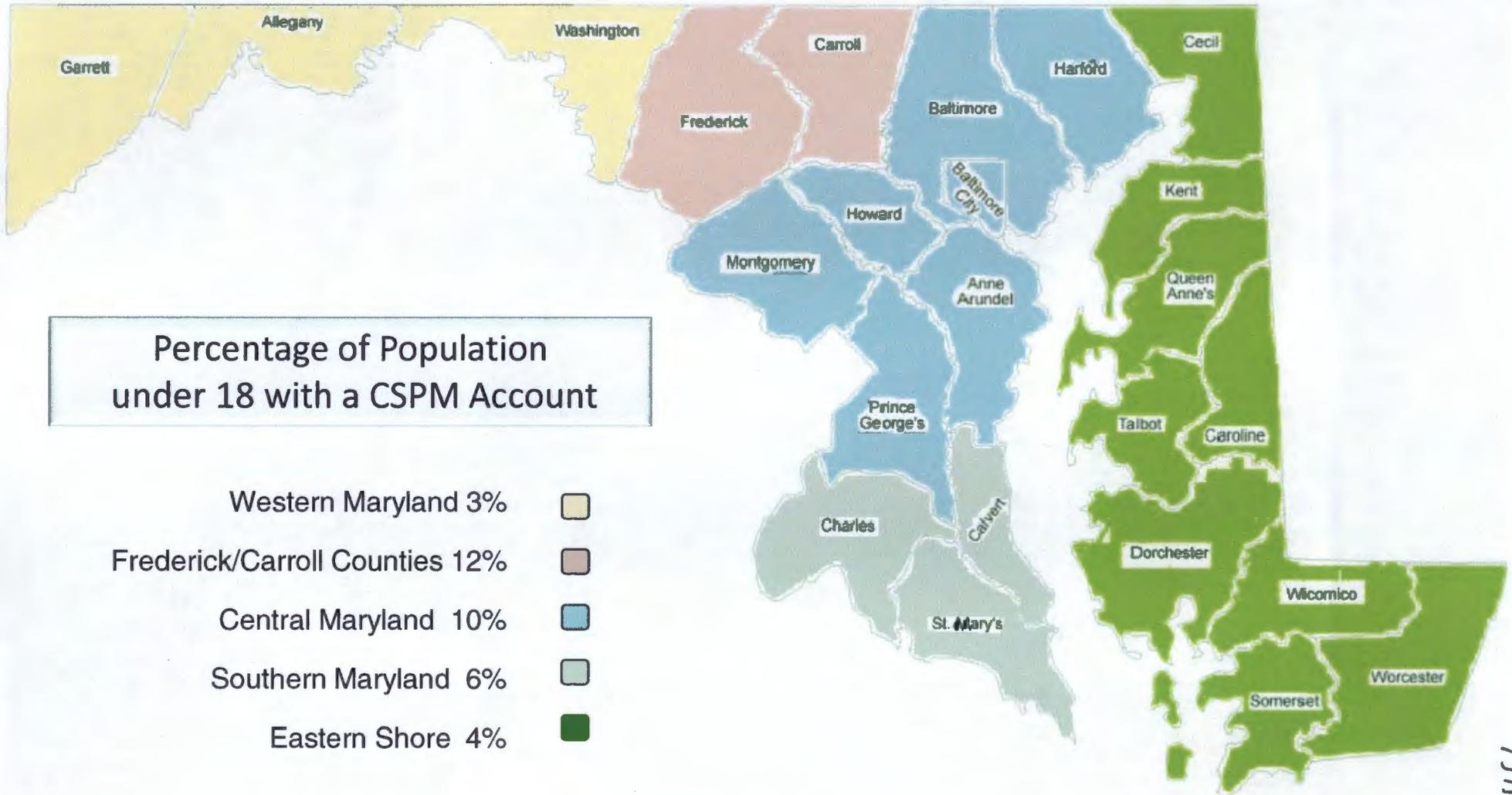
We are pleased to report that in October, 2014, Morningstar released its report of ratings of 529 college savings plans nationwide. The Maryland College Investment Plan was one of only 4 plans in the country to receive a “Gold” rating. According to the report, those plans with a “Gold” rating, “lead the industry and represent some of the best options available for college savers.” This is the fifth year in a row that the Maryland College Investment Plan has earned Morningstar’s highest rating.

## **3. Recent Federal initiatives**

At the federal level, several legislative initiatives have either been passed or are proceeding through Congress that would provide further improvements to 529 plans:

- **Expansion of Investment Exchanges** - The ABLE Bill (A Better Life Experience) was passed into law and signed by the President in December 2014, which authorizes states to establish tax-preferred programs to allow disabled individuals to save for a broad range of future living expenses. While this is the subject of another Maryland bill (S.B. 761), the federal legislation also affected 529 college savings programs starting in 2015 with the expansion of the number of investment changes that can be made annually from one to two.
- **H.R. 529** passed the U.S. House of Representatives last month and would make 529 plans more flexible by making computers an eligible higher education expense; allowing the redeposit of college refunds without negative tax implications in certain circumstances; and updating outdated accounting rules. We are optimistic about the passage of this legislation in the U.S. Senate and for the President to sign this bill into federal law.

# CSPM Reach across the Counties



Percentage of Population under 18 with a CSPM Account

- Western Maryland 3%
- Frederick/Carroll Counties 12%
- Central Maryland 10%
- Southern Maryland 6%
- Eastern Shore 4%

# New study shows Maryland families are preparing for the cost of college



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Attachment B

The College Savings Plans of Maryland conducted a statewide online survey of more than 1,000 families—all of whom have children under the age of 12 and are not currently saving in the Plans—to see how Marylanders are getting ready for the rising cost of college. We found that many parents are on the right path—but still have savings opportunities, like 529 plans, worth exploring.

## More Maryland families are saving for college—and starting early



**76%** vs. **51%**

of Maryland families are saving for college. of families are saving nationwide.\*

\*Sallie Mae, How America Saves for College 2014



**88%**

of Maryland families who are saving were prompted to start by a pregnancy or the birth of a child.



Nearly **50%**

of Maryland families who are saving have other family members helping them save for college.

## Parents foresee college tuition bills in their future



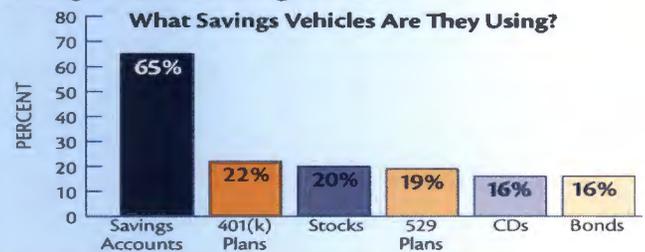
of parents who are saving for college believe they will pay for all or part of their child's college education.



of families who are NOT saving for college still believe that their child will attend a four-year university.

## There's an opportunity for families to make their savings work harder

81% of families who are saving for college are NOT using a dedicated 529 plan, which can provide tax and other advantages over other savings vehicles.



## Families need to consider 529 plans

**71%** of families who are NOT currently saving for college believe they can't afford to save.



**Fact**

Families can start saving for college with as little as **\$25 A MONTH** in a Maryland 529 Plan.

### Other Common 529 Myths

**22%** of families who are saving in some fashion say they just haven't found the time to start a Maryland 529 Plan.

**Fact**

Families can watch easy-to-understand videos about Maryland's 529 Plans and open an account at CollegeSavingsMD.org in as little as **10 MINUTES**.

**18%** believe Maryland 529 savings can only be used at Maryland colleges.

**Fact**

Maryland 529 Plans can be used toward nearly any accredited\* college in all **50 STATES**.

\*Please see the Enrollment Kit for specific definitions.

**12%** believe they would lose the savings in a 529 plan if their child doesn't go to college.

**Fact**

You can transfer your Maryland 529 savings account to another relative of the child you saved for with **ZERO PENALTY**.

Survey results have a 95% confidence level with a rate of error of +/- 3%. Survey was conducted over a one month period, starting 10/11/2014 and ending on 11/11/14. Please carefully read the Enrollment Kit, available online, which describes the investment objectives, risks, expenses, and other important information that you should consider before you invest in the College Savings Plans of Maryland. Also, if you or your beneficiary live outside of Maryland, you should consider before investing whether your state or your beneficiary's state offers state tax or other benefits for investing in its 529 plan. T. Rowe Price Investment Services, Inc., Distributor/Underwriter, Maryland College Investment Plan.

Visit [CollegeSavingsMD.org](http://CollegeSavingsMD.org) now to learn more and watch a **FREE**, on-demand webinar about Maryland's two flexible and affordable 529 plans.

**College Savings Plans of Maryland  
Low and Moderate Income Initiatives for 2014 - 2015:**

- Attendance at Back-to-School (BTS) Nights across the state including counties which have a larger population of low and moderate income families.
- Distribution of BTS e-newsletter to underserved counties
- Parent Information Nights across the state including counties which have a larger population of low and moderate income families.
- Employer payroll deduction programs with the State of Maryland, Harford County Employees, and Anne Arundel County employees.
- Attendance at events across the State some focusing on cultural or religious organizations.
- Partnerships with over 30 organizations including a number of non-profits who focus on financial literacy. Other partners include libraries and minor league baseball teams with summer reading programs.
- College Graduate poster initiative with the Baltimore Ravens. The Baltimore Ravens have one of the highest percentages of players who are college graduates in the NFL and the poster highlights those players, which include many of the best-known players. The poster has been distributed to students in Baltimore City and in the surrounding counties, many of which include low income families.
- Development of a financial literacy piece in conjunction with T. Rowe Price. The book will be produced by Scholastic and will be distributed to underserved areas.
- Partnership with the Maryland/Baltimore CASH Campaign - - a non-profit that provides free tax preparation and supports financial literacy. They provide brochures at all of their tax preparation sites and have CSPM present twice a year as part of their workshop series.
- Partnership with Junior Achievement - CSPM and T Rowe Price have established a mock business in Biztown. Last year over 6,000 4th to 6th grade students from more than 80 schools participated in this "one of a kind" financial literacy program that brings basic financial skills to young minds.

**Literature Distribution:**

- Prince George's County Children's Services is distributing brochures at their child care centers
- Human Services Coalition, which includes a large group of Prince George's County non-profits. They have been making our information available at their monthly meetings.
- Libraries – brochures sent to every county system except Montgomery
- Hospitals – brochures are sent regularly to 12 hospitals across the State for distribution to parents of newborn infants/
- Goodwill Industries is distributing brochures to new hires and has us present once a year
- YMCA of Central MD – distributes information to all new hires and includes a slide on CSPM in their new hire orientation. Plus, they plan to make our brochure available to all 2,000 of their employees.