Maryland529

formerly College Savings Plans of Maryland

Testimony of Erin Layton, Interim-Executive Director

Before the

House Education and Economic Development Subcommittee

February 22, 2018

Good afternoon, Madam Chair and Subcommittee members. As the Interim Executive Director for Maryland 529 (MD529), it is my pleasure to be here this afternoon to discuss MD529's FY 2019 budget. I would like to thank Helen Rogers for her analysis of our budget and the issues surrounding it. Since our inception in 1998 with the launch of the Maryland Prepaid College Trust, our goal has been to help make college more affordable for Maryland families. We have made many significant strides toward that goal through our two college savings programs, the Maryland College Investment Plan and the Prepaid College Trust. At present we have over 30,000 accounts, 215,000 beneficiaries and approximately $6.5 billion of assets under management for both programs.

This past year MD529 launched two new programs. The first was the Save4College Program which was established by the College Affordability Act of 2016. This program established a State contribution match for income-eligible families. During its first year of launch, almost 2,000 families were able to take advantage of this program and began saving for future college expenses. The second new program is Maryland Achieving a Better Life Experience (ABLE) program that helps individuals with disabilities to save without jeopardizing other federal means-tested benefits such as Social Security and Medicaid. MD529 is partnering with the state of Oregon and its program manager, Bank New York Mellon subsidiary Sumday, to operate MarylandABLE. The program officially launched on November 28, 2017 and as of February 2018 we have almost 250 accounts and over $1.2 million in assets under management.

Analyst's Recommended Action: Create a separate budget program for the Save4College program in order to more easily track revenues and expenditures related to the program.

Agency Response: I concur with this recommendation and in addition MD529 will include this budget information in the annual MD529 State Contribution Report (MSAR #11397) and will establish an additional Managing For Results (MFR) goal. I would imagine items such as a goal for new accounts to be established, the number of actual new accounts opened, the appropriations allocated for the program along with the expenses incurred to run the program would be useful information for the Budget Committees.

Analyst's Comment: Maryland 529 should comment on whether the interest rate used to calculate an account holder's minimum benefit is expected to change.

Agency Response: This minimum benefit calculation is not used very often, but the MD529 Board does believe interest rates will be increasing. This belief is supported by comments made recently by the Federal Reserve. While increased interest rates would result in larger payouts, this benefit is rarely used and therefore would have a minimal impact on the plan.

Analyst's Comment (A): The acting executive director should discuss the reasonableness of continuing to assume 6.0% to 7.0% annual growth in tuition and fees given the recent tuition moderation in Maryland and how actuarial assumptions about tuition increases will be adjusted.

Agency Response: MD529 has gone through periods since the inception of the prepaid program where actual tuition increases have ranged anywhere from 0% - 20% in any given year. Therefore coming up with a simple average is challenging. The Board does review the tuition assumptions on an annual basis. As part of the annual review, when the contract prices are being set, the Board: (1) pays particular attention to the actuarial assumptions and contract prices; (2) tests the reasonableness of the tuition assumptions by checking with the University of Maryland on expected tuition increases; and (3) strives to keep the annual contract price increase less than or equal to the year-over-year increase in average tuition prices.

Analyst's Comment (B): With the current 49% surplus, the director should also discuss whether the board plans to provide any rebate to account holders.

Agency Response: The U.S. economy has experienced a bull market for almost a decade. These unprecedented investment returns have had a major impact on the funding status of the Prepaid Plan. However, what is important to note is that the Board has to consider that investment returns are expected to fund liabilities that are 15-18 years in the future when developing its asset allocation for the prepaid plan. If you look at exhibit 3 in the budget analysis, FY 2016 is worthy of note. In that year the program returned -0.7%, and we had a funding surplus of $270 million. For all intents and purposes, that was a flat year for returns. That flat year decreased our funding status by $25 million from the previous year. In 2018 market volatility has picked up and could mean major swings in our portfolio. A significant downturn in the market could result in significant decreases in investment returns. One could envision our funding status dropping by several hundred million dollars very quickly. All of that is to say that the Board tries to think about the longer term horizon and plan for the market uncertainties as best they can. Therefore the Board has no plans to provide any rebate to account holders at this time.

Analyst's Comment: The director should comment on the assumptions behind decreased enrollment and application fee projections for the MPCT and the MCIP and their future effect.

Agency response: While the number of new beneficiaries continues to increase, we anticipate enrollments fees and application fees to decrease for several reasons. We are actively encouraging applicants to use online enrollment which has a lower enrollment fee than paper applications. In addition, in 2016, the law changed to allow any contributor to a 529 account to take an income tax deduction for contributions made to that account. Prior to that law change, only the account holder could take the deduction. As a result, multiple individuals were opening accounts for the same beneficiary to receive the tax benefit. Under the new law, we would expect fewer people to open accounts for the same beneficiary. The overall impact is expected to result in slightly lower revenues from new enrollment fees and could mean the Trust may have to use cash reserves to cover expenses.

Analyst's Comment: Maryland 529 should comment on how they are currently accommodating ABLE rollover requests and whether any statutory changes are required.

Agency Response: The recent federal tax law changes included provisions that impact ABLE. Now, "ABLE-to work" will allow a beneficiary who is working to contribute up to $12,060 to his/her ABLE account on top of the $15,000 yearly account contribution limit; and rollovers from a 529 account to an ABLE account are permitted without adverse tax consequences. It is our understanding that legislative changes are being considered that will make the necessary changes to the MD ABLE law to permit these two positive changes to be a part of our program. MD529 is working with Oregon and our program managers to change the necessary administrative processes in order to accommodate these changes. To date no rollovers have been requested, but we anticipate being prepared to process a rollover request in the very near future. In addition, MD529 will include this new feature in our marketing of both MarylandABLE and 529 College Savings programs. An operational process is nearing completion that will allow for the implementation of "ABLE-to-work".