HB 532

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 532 (Delegate Stein)
Appropriations

Maryland Senator Edward J. Kasemeyer College Investment Plan - State Contributions - Alterations

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This bill explicitly prohibits more than one State matching contribution per qualified beneficiary per year under the Maryland Senator Edward J. Kasemeyer College Investment Plan, beginning in 2021. The Maryland 529 Board may adopt regulations necessary to carry out the bill. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund expenditures may decrease beginning in FY 2022; however, the reduction, if any, depends on program demand, as discussed below. Revenues are not directly affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: For 529 investment accounts established after December 31, 2016, a State contribution of $250 or $500, depending on income, may be made to an investment account if:

- the qualified beneficiary of the investment account is a Maryland resident;
- the account holder (for example, a parent) submits an application to the 529 board or its designee between January 1 and June 1 of each year; and

- the account holder has Maryland taxable income in the previous taxable year no greater than $112,500 for an individual or $175,000 for a married couple filing a joint return.

A minimum amount of funds must be deposited into the investment account by the account holder in order to receive a State match, which is received by the end of the calendar year. Minimum contributions increase with income as the State match decreases. There is no explicit limit on the number of matching contributions per beneficiary per year.

The Governor must provide at least $3.0 million each fiscal year for matching contributions. If the amount of funding is insufficient to fully fund all contributions, the 529 board must prioritize awards based on the order in which the applications are received and for account holders who did not receive a contribution in any prior year.

Background: The lack of a clear limit on the number of matching contributions that a single beneficiary may receive in a single year has led to some account holders establishing multiple accounts and receiving thousands of dollars in contributions. The fiscal 2021 Higher Education Overview budget analysis, which can be found on the Maryland General Assembly's website, discusses the matching contribution program and the related multi-contribution issue in depth. The analysis highlights one example of a single family opening 195 total accounts for four children and receiving $97,500 in matching contributions. While this is a particularly extreme example, the analysis also points to data showing a growing trend of more applications per beneficiary. In fiscal 2020, the total State funding match awarded to beneficiaries with more than six matching contributions was $898,500, or 8.9% of the total $10.1 million State funding match awarded for the fiscal year (additional funding was provided over the required minimum funding amount in order to meet program demand).

State Expenditures: The Governor must provide at least $3.0 million for matching contributions each fiscal year. In practice, $10.1 million was provided in fiscal 2020 to meet total demand, and the same amount is in the Governor's proposed fiscal 2021 budget. Although not required, in prior years, the program has provided a match for all eligible applicants and, if demand exceeded appropriated funding in a fiscal year, a deficiency appropriation was provided. Thus, if program demand, which has been substantial, exceeds program funding in a particular fiscal year based on single contributions, then the bill's limitation on multiple contributions does not affect general fund expenditures – it merely reprioritizes them among eligible beneficiaries. If, however, program funding exceeds program demand (or the program receives a deficiency appropriation to meet experienced demand), then general fund expenditures decrease due to the bill's prohibition on multiple contributions per beneficiary per year. Based on the timing of the application and the grant process, the effects on general fund expenditures, if any, occur beginning in fiscal 2022.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 615 (Senators Klausmeier and Zucker) - Education, Health, and Environmental Affairs.

Information Source(s): College Savings Plans of Maryland; Department of Legislative Services

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