R60H
Maryland 529

Operating Budget Data

($ in Thousands)

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change	% Change Prior Year
Nonbudgeted Fund	$3,323	$5,278	$12,204	$6,926	131.2%
Adjustments	0	0	0	0	
Adjusted Nonbudgeted Fund	**$3,323**	**$5,278**	**$12,204**	**$6,926**	**131.2%**
Adjusted Grand Total	**$3,323**	**$5,278**	**$12,204**	**$6,926**	**131.2%**

- Maryland 529 expects expenditures to increase by $6.9 million, or 131.2%, in fiscal 2019. This includes State funding for the second year of the contribution program, which the Administration has proposed reducing.

Personnel Data

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change
Regular Positions	27.00	27.00	27.00	
Contractual FTEs	0.20	0.20	12.00	11.80
Total Personnel	**27.20**	**27.20**	**39.00**	**11.80**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.08	4.00%
Positions and Percentage Vacant as of 12/31/17	n/a	n/a

- Maryland 529 currently has 7 vacant positions including the executive director, accounts payable accountant, director of finance, and an information technology position.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Continued Growth in Enrollments: The total number of Maryland College Investment Plan (MCIP) accounts grew 7.7% in fiscal 2017, to 182,616. In the Maryland Prepaid College Trust (MPCT), accounts grew 2.3% to 32,306 total accounts. The recent doubling of the number of MPCT enrollees attending Maryland public institutions has driven the increase of those students enrolled in the MPCT who enroll in Maryland public institutions from 41% to 64%.

Actuarial Surplus Still Large in the MPCT: After slight declines in fiscal 2015 and 2016, the MPCT reached a 149% funded rate in fiscal 2017. This was driven by strong investment performance and moderation in tuition increases at Maryland public institutions.

Issues

Implementation of Save4College Program: Through the new State contribution program, a $250 match was awarded to 1,815 unique beneficiary and contributor accounts. Driven by operational and nonoperational factors, less than 10% of the total $5 million allocation was disbursed.

Federal Tax Code Change: Federal tax reform enables 529 plan holders to use up to $10,000 of their Investment Plan accounts on private K-12 educational expenses each year. This may warrant State-level clarification on a number of related topics.

Achieving a Better Life Experience Program Implementation: The new Maryland Achieving a Better Life Experience program opened enrollment in November 2017. As of January 2018, 216 beneficiaries already had more than $1 million in assets invested through the program.

Recommended Actions

1. Create a separate budget program for the Save4College program in order to more easily track revenues and expenditures related to the program.

BRFA Recommendation

1. Amend the Budget Reconciliation and Financing Act of 2018 to increase available funding for the Save4College Program to $3.0 million in fiscal 2019 and thereafter rather than the $2.0 million proposed by the Administration.

Updates

Lower, but Still Strong, Investment Performance: For fiscal 2016 and 2017, the MCIP rating with Morningstar has fallen to "Silver" from the "Gold" rating that it received from fiscal 2012 to 2015.

Operating Budget Analysis

Program Description

The Maryland 529 program administers three affordable and flexible programs to encourage and reward saving: the Maryland Prepaid College Trust (MPCT), the Maryland College Investment Plan (MCIP), and the new Achieving a Better Life Experience (ABLE) program. Maryland 529, formerly known as College Savings Plans of Maryland (CSPM), is an independent agency, originally established during the 1997 session (Maryland Annotated Code, Education Article, Section 18-1901 through 18-1916 and 18-19A-01 through 18-19A-07). An 11-member board administers the trust and oversees the administration of the plans. Six board members serve by virtue of the State office they hold including the State Treasurer, the State Comptroller, the Secretary of the Maryland Higher Education Commission (MHEC), the State Superintendent of Schools, the Chancellor of the University System of Maryland, and the Secretary of Disabilities. The Governor appoints the 5 remaining members. The plans are also known as 529 plans after the section in the Internal Revenue Code (IRC) that permits states to establish and administer tax-deferred savings plans. The plans offer federal and State tax benefits including:

- federal and State taxes deferred on growth;
- federal and State tax-free earnings, provided funds are used for qualified expenses; and
- State income tax deduction of contributions to any of the plans up to $2,500 annually per taxpayer per account or beneficiary. Excess annual contributions over $2,500 may be carried forward and deducted in future years.

As of June 30, 2017, the combined assets of both plans were about $6.2 billion. The new ABLE program had about $1 million in assets as of January 2018.

Maryland Prepaid College Trust

The MPCT allows participants to lock in a current price for future college tuition benefits backed by a State legislative guarantee. In instances when the current MPCT prepaid contract obligations exceed the market value of its assets, the Governor is obliged by this guarantee to include an appropriation in the amount needed to cover the shortfall in the annual budget, which would then require approval of the General Assembly. If the State appropriation is less than the amount needed for the MPCT to meet its current obligations, the CSPM board may adjust the terms of subsequent or current contracts to ensure continued actuarial soundness. To date, this plan has been adequately funded, and the legislative guarantee has never needed support through the State's operating budget.

Residents of Maryland and District of Columbia and out-of-state residents applying for a child residing in Maryland or the District of Columbia are eligible to create an account. In 2016, Chapter 197 enabled multiple taxpayers who are State residents to obtain the State income tax deduction of $2,500 per beneficiary by contributing to the same plan, ending the incentive for married individuals to open separate accounts to receive the deduction. Enrollment is open to children from newborns through grade 12, but an account must have been opened for at least three years before the payment of benefits. The enrollment period generally runs from December to early or mid-April, though newborns may be enrolled at any point until their first birthday.

Participants enter into a contract with the MPCT for payment of tuition and mandatory fees for a specified number of semesters or years of education. Account holders can purchase tuition plans for one or two years of community college, one semester or one to five years of a four-year university, or two years of community college and two years of a four-year university. For a child enrolled in a Maryland public college, the MPCT will pay the greater of the full in-state or in-county tuition and mandatory fees or a minimum benefit (either to the college or reimbursed to the account holder upon request). If a child attends an eligible private or out-of-state college, the MPCT will pay the greater of weighted average tuition and mandatory fees of Maryland public colleges or a minimum benefit. The minimum benefit equals the amount of payments to the MPCT plus a reasonable rate of return tied to a Treasury index. This rate is equal to a monthly rate of return of a U.S. Government Security with a constant maturity of one year minus 1.2% but will never be less than zero. This rate of return has been zero since October 2008. **Maryland 529 should comment on whether this is expected to change.** There are four payment options: lump sum, annual, five-year monthly, and extended monthly. The contract price for an infant enrolled in the most popular four-year university plan during the current enrollment period is as following:

- lump sum = $46,135;
- annual = $4,236 (17 payments);
- five-year monthly = $894; or
- extended monthly = $374 (204 payments).

During the 2016 through 2017 enrollment period, there were approximately 1,478 new enrollments, an increase over the prior year. Infants comprised the largest group at 20% of new enrollments. Montgomery County residents continue to be most likely to enroll, disproportionately responsible for one-third of all new enrollments. Three out of the eight tuition plan options made up 74% of all plans purchased during the period: the four-year university plan (30%), the one-year university plan (25%), and the two-year university plan (19%). As of September 17, 2017, 4,244 students had accessed their benefits.

As of June 30, 2017, fund assets of the MPCT were valued at $1,164.7 million (including program assets and present value of installment contract receivables). For the same date, an actuarial soundness valuation found the present value of all future tuition obligations under contracts outstanding (and including administrative expenses) to be $782.3 million. The actuarial surplus of $382.4 million exceeds the $270.0 million surplus calculated exactly a year earlier.

Maryland College Investment Plan

The MCIP, which functions similarly to a 401(k) plan, provides more flexibility than the MPCT in that participants choose how much they wish to invest. Funds from MCIP accounts may be used at any eligible college or trade school. Participants select among eight enrollment-based and six fixed investment portfolios, managed by T. Rowe Price. Participants are required to invest a minimum of $250 to open an account, unless they participate with automatic monthly contributions of as little as $25 per month. MCIP participants directly bear the risk of the investment option(s) they select when opening their accounts. Since 2015, participants may move or transfer funds from one investment portfolio to another up to twice per calendar year. The MCIP began in December 2001 and is open to children or adults of any age. Enrollment is open year round, and investors may choose how much and how often they wish to contribute. Contributions and investment earnings are available for qualified higher education expenses including tuition, fees, room and board, and other expenses defined by Section 529 of the IRC. As of 2015, personal computers and related expenses are also eligible. A provision of the federal Tax Cuts and Jobs Act of 2017 expands eligible 529 plan spending to private K-12 tuition expenses up to $10,000 annually. This is discussed further in Issue 2. This plan is not guaranteed by the State. As of 2016, Chapter 197 extended the State income tax deduction to any Maryland resident contributing to an account, not just the account holder.

Approximately 44% of all new beneficiaries enrolled during the most recent enrollment period were four years old or younger, 63% of new beneficiaries were nine years old or younger, and only 11% of new enrollees were older than 18 years of age. Trends in investment selections show the enrollment-based portfolios, in which investment mixes automatically adjust to be more conservative over time, continue to be a popular choice.

A net gain of 13,000 beneficiaries led to a total of 182,617 beneficiaries at the end of fiscal 2017. With more than $520.9 million in contributions from account holders and mixed investment markets during the fiscal year, the average account balance equaled $28,407 as of June 30, 2017.

Chapters 689 and 690 of 2016 established a State contribution program for low- and middle-income families who had not opened an account as of December 31, 2016, to encourage and help them save for college. Fiscal 2018 is the first year of the program, as discussed further in Issue 1.

Achieving a Better Life Experience

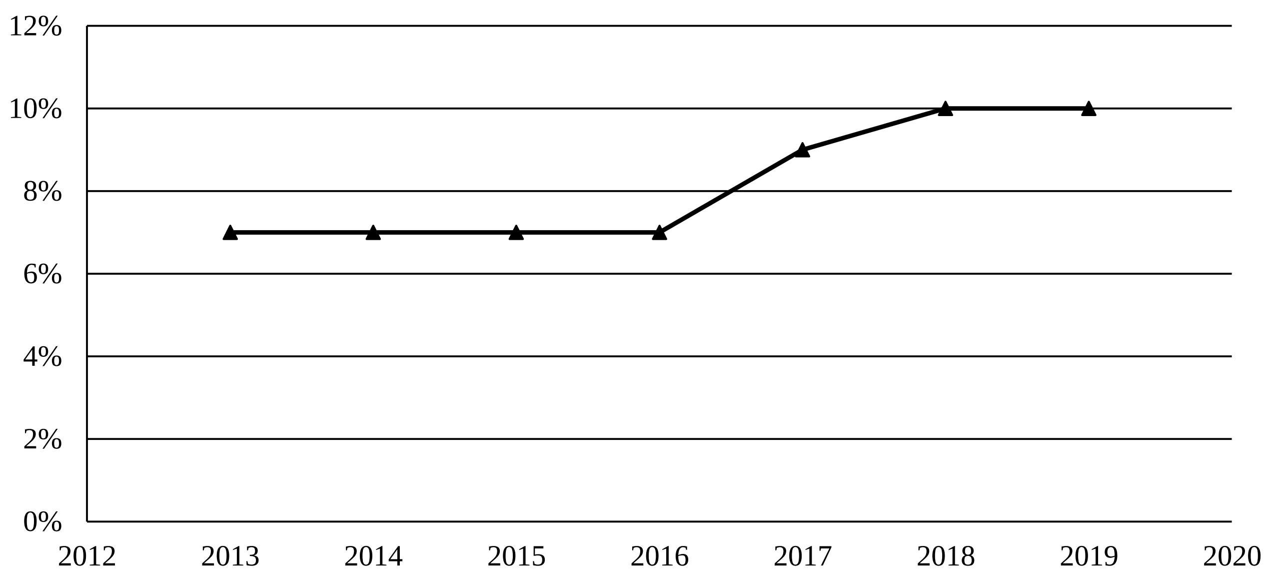
In fiscal 2016, the Maryland General Assembly passed the ABLE Act (SB 355/HB 431), making Maryland the thirtieth state to implement the federal ABLE Act (2014). New 529A plans mirror the structure of 529 college savings plans for individuals with disabilities. The law allows people who developed qualifying disabilities prior to the age of 26 to save tax-deferred funds for certain expenses so as not to endanger means-tested public benefits. Unlike the college savings plans, account holders must be qualifying individual beneficiaries. Qualified disability expenses include medical, living, and school expenses that directly improve quality of life with a disability. The amount that can be transferred annually into the account tax free is capped at $15,000, equivalent to the cap on the federal gift tax. Implementation of the program is discussed further in Issue 3.

Performance Analysis: Managing for Results

1. Continued Growth in Enrollments

Under Objective 2.1, to increase the number of Maryland students enrolled in college savings plans, performance measures include both the total number of enrollees in both plans as well as the percentage of the State's population under age 24 that has an account. A tracked measure of individual beneficiaries is the percentage of Maryland residents under age 24 who are enrolled in either plan. After remaining steady at 7% from fiscal 2013 through 2016, this figure is projected to increase to 9% in fiscal 2017 and 10% in fiscal 2018 and beyond, as shown in **Exhibit 1**. This projection is based on the agency's efforts to target marketing efforts to younger individuals. The data noted above, for the MPCT for example, would appear to support that contention.

Exhibit 1
Enrolled Students as a Percent of State Population under 24
Fiscal 2012-2020



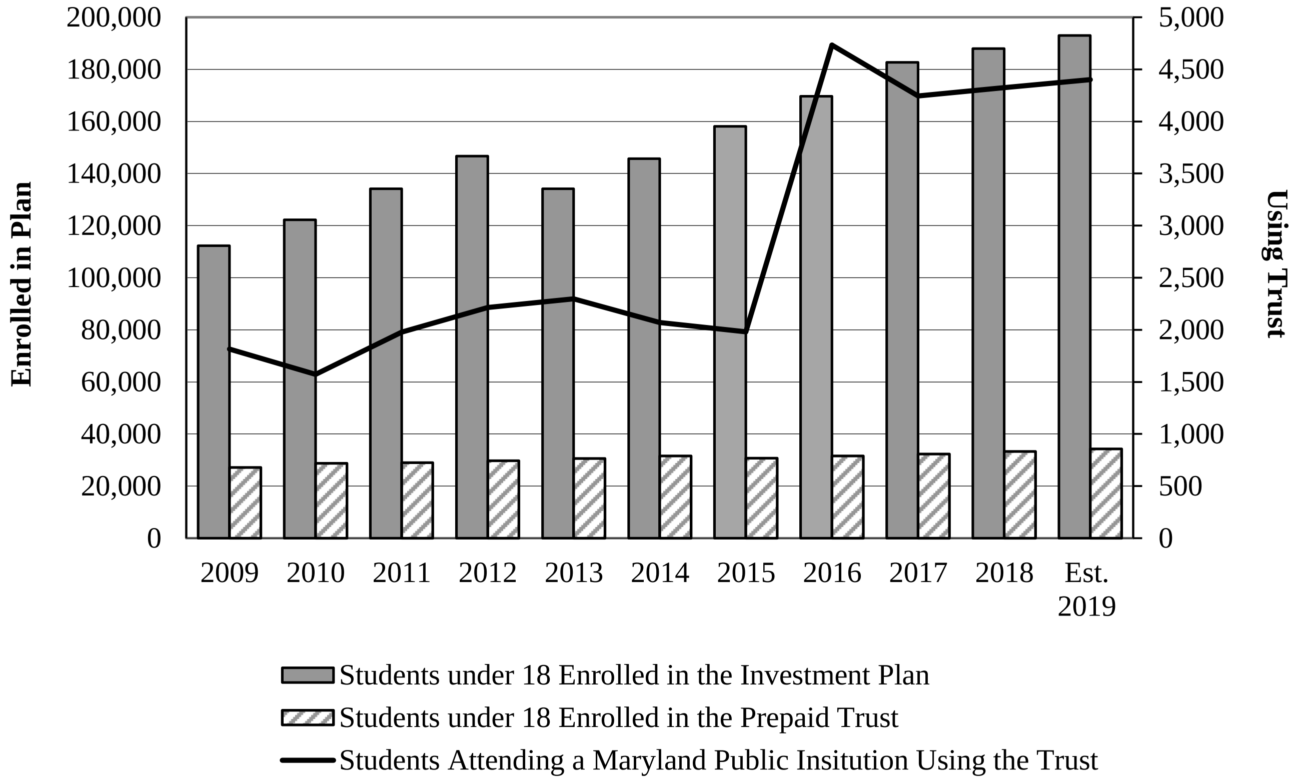
Source: Maryland 529

Performance measurement for the program is complicated by the recent legislative change in how people save for college and the terminology of “account holder.” Before fiscal 2016, married individuals were encouraged to individually open accounts in order to receive the maximum State tax deduction. Now, both can obtain the deduction from contributing to one account. The number of students enrolled reported by agency performance measures are, in fact, total accounts that are opened and controlled by a contributor who is not necessarily the beneficiary.

The programmatic change from fiscal 2016 is the reason for the agency’s projected slowing growth in MCIP new enrollments from fiscal 2017 to 2018 and beyond despite steady growth in assets. Excluding a one-year decrease in enrollments in fiscal 2013, growth has generally averaged between 7.3% and 20.0% annual growth since fiscal 2005. In fiscal 2018, enrollments are only expected to grow by 2.9% to 188,000. In fiscal 2019, enrollments are expected to grow by 2.7%. As noted above, this does not necessarily mean slowing growth in the number of individual beneficiaries. New accounts in both plans do continue to grow over the period. For fiscal 2017 through 2019, growth in MPCT accounts remains relatively stable at around 3% annually.

Finally, significant progress has been made with regard to Objective 2.3: increase the number of students who attend a Maryland public college with a MPCT account. As shown in **Exhibit 2**, the number of students enrolled in Maryland public institutions increased from just under 2,000 in fiscal 2015 to more than 4,700 in fiscal 2016, before stabilizing around 4,500 in ensuing years. This increase may be driven by a combination of an increased number of students with MPCT accounts accessing their funds, as well as higher rates attending a public institution. Between fall 2015 and 2017, the percentage of students using the MPCT to enroll in Maryland public institutions as opposed to private or out-of-state institutions increased dramatically from 41% to 64%, with much of that increase (13 percentage points) occurring between fall 2016 and 2017. Conversely, the percentage attending private or out-of-state institutions has fallen.

Exhibit 2
Plan Enrollments and Use of Trust in Maryland Public Institutions
Fiscal 2009-2019 Est.



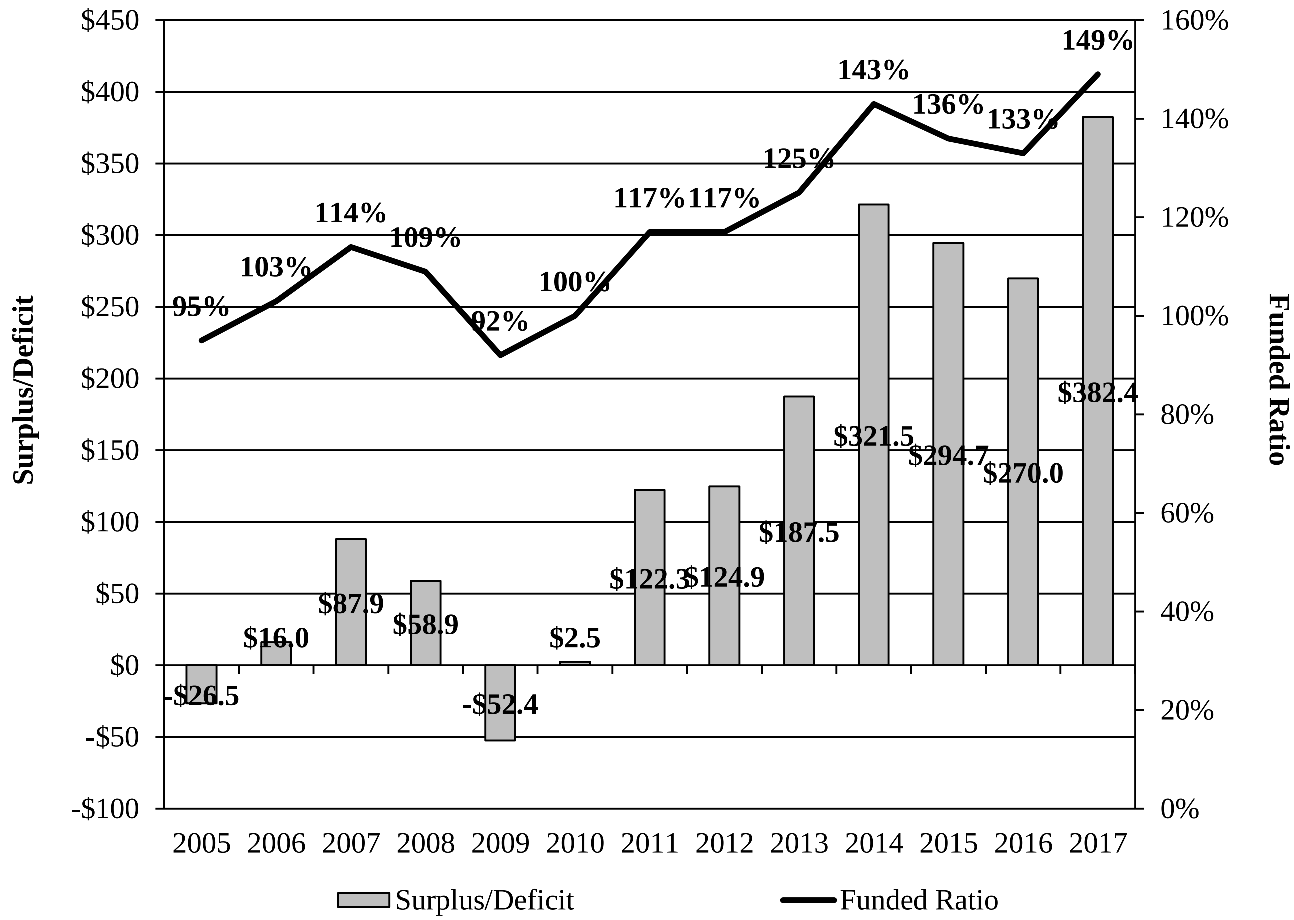
Source: Maryland 529

2. Actuarial Surplus Still Large in the MPCT

After slight decreases in the total investments and the percent of the trust funded in fiscal 2015 and 2016, the trust reached its highest ever funded ratio in fiscal 2017. As of June 30, 2017, MPCT investments reached $1.1 billion, and the fund reached 149% funded, as shown in **Exhibit 3**. Driving this trend were lower than expected tuition increases and strong investment performance. As compared to a stated 6.3% return goal, investments produced overall returns of 12.3% during fiscal 2017. Additionally, weighted average tuition increased by only 2.1%, less than the 6.0% projected tuition increase. Over the past seven years, tuition increases at Maryland public institutions have averaged between 2.0% to 3.0%. **The acting executive director should discuss the reasonableness of continuing to assume 6.0% to 7.0% annual growth in tuition and fees given recent tuition moderation in Maryland**. According to statute, if the surplus is 30%, *e.g.*, 130% funded or more, then the board may provide a rebate or dividend to account holders. **With the current 49% surplus, the**

director should also discuss whether the board plans to provide any rebate to account holders and how actuarial assumptions about tuition increases will be adjusted.

Exhibit 3
MPCT Actuarial Surplus/Deficit as of June 30, 2005-2017
($ in Millions)



Source: Maryland 529

Current Budget Overview

Overall revenues for the agency increase due to a significant increase in mandated Save4College grants to $7 million in the fiscal 2019 allowance, as shown in **Exhibit 4**. This program is discussed further in Issue 1. **The Department of Legislative Services (DLS) recommends that a separate budget program be created for the Save4College program in order to more easily track revenues and expenditures related to the program.**

Exhibit 4
529 Plans Revenues and Expenditures
Fiscal 2017-2019

	2017	Wrk Approp. 2018	Allowance 2019	Change 2018-2019	% Change 2018-2019
Revenues					
College Savings					
Enrollment Fees	$67,875	$83,200	$75,000	-$8,200	-9.9%
Application Fees	1,211,001	1,500,000	1,400,000	-100,000	-6.7%
Program Contributions	3,241,224	2,807,819	2,800,000	-7,819	-0.3%
State Grant for Implementing Save4College (MHEC)		100,000	0	-100,000	-100.0%
Save4College Funds from MHEC		453,750	7,000,000	6,546,250	1442.7%
ABLE Program					
Account Fees	$0	$2,500	$5,000	$2,500	100.0%
Market Value Fees	0	175	350	175	100.0%
State ABLE Implementation Funding*	642,600	194,500	0		
Total Revenues	**$5,162,700**	**$5,141,944**	**$11,280,350**	**$6,332,906**	**123%**
Expenditures					
Salaries, Wages, and Fringe Benefits	$1,478,772	$2,292,254	$2,251,506	-$40,748	-1.8%
Technical and Special Fees	127,575	8,197	13,197	5,000	61.0%
Communication	94,328	122,741	109,849	-12,892	-10.5%
Travel	17,022	25,000	27,500	2,500	10.0%
Motor Vehicles	17,076	17,016	16,200	-816	-4.8%
Contractual Services	1,399,772	2,112,586	2,415,003	302,417	14.3%
Supplies and Materials	34,968	40,010	41,000	990	2.5%
Equipment – Replacement	0	20,000	75,000	55,000	275.0%
Equipment – Additional	0	20,150	0	-20,150	-100.0%
Fixed Charges	153,785	166,421	254,516	88,095	52.9%
Save4College Payouts		453,750	7,000,000	6,546,250	1442.7%
Total Expenditures	**3,323,298**	**5,278,125**	**12,203,771**	**$6,925,646**	**131.2%**
Excess Revenues	**$1,839,402**	**-$136,181**	**-$923,421**		
Transfer from Fund Balance**	**$0**	**$260,340**	**$1,094,352**		

ABLE: Achieving a Better Life Experience   MHEC: Maryland Higher Education Commission

*Of the fiscal 2017 $642,600, only $69,907 was expended. The $194,500 in fiscal 2018 was appropriated but has not been transferred from MHEC. In fiscal 2019, the Department of Budget and Management directs the agency to spend down $333,716 of this amount.
** Fiscal 2019 transfer from reserve includes $333,716 of unspent fiscal 2017 State ABLE funding.

Note: The prepaid trust has a reserve fund for excess revenues. The revenues can only be used to benefit the families that participate in the plan. Fiscal 2018 Save4College funds from MHEC represent actual expenditures. Fiscal 2019 funding represents mandated funding level. The Budget Reconciliation and Financing of 2018 reduces the mandated funding level in fiscal 2019 and beyond to $2.0 million.

Source: Maryland 529

Excluding the Save4College contributions, revenues are projected to decrease 8.7% in fiscal 2019, due to the loss of grants for implementing Save4College and ABLE coupled with projected decreases in revenues from college savings plan fees. However, revenues do not decrease quite as significantly as they appear. Though not included in the fiscal 2019 revenues, Maryland 529 has been directed by the Department of Budget and Management (DBM) to spend down $333,716 from unused startup funds for the ABLE program appropriated in fiscal 2017. The agency expended only $69,907 of $642,600. An additional $194,500 is appropriated through MHEC in fiscal 2018, but it has not been transferred to Maryland 529. DBM will reevaluate the agency's need for the funds in May 2018. **The director should comment on the assumptions behind decreased enrollment and application fee projections for the MPCT and the MCIP and their future effects.**

On the expenditure side, again not considering the Save4College grant funding, the fiscal 2019 increase totals $379,396, or 7.9%. Primary drivers of this change include ongoing work on a major information technology project and the new ABLE program costs. To allow for the differential between expenditures and revenues, which rises from $136,181 in fiscal 2018 to $923,421 in fiscal 2019, the agency projects that it will expend $260,340 in fiscal 2018 and $760,636 in fiscal 2019 from its reserve account and $333,716 of unspent ABLE implementation funds. At this time, the reserve account has approximately $3 million in cash plus investments.

The increase in contractual expenses is driven by advertising expenses and legal publication, software licenses, and other spending. Advertising expenses and legal publications increase by $54,388, or 19.2%, to $338,000 in fiscal 2019. The advertising budget has fluctuated primarily due to uncertainty with the initiation of the ABLE program. It fell from $420,345 in fiscal 2017 to $283,613 in fiscal 2018, before increasing to $338,000 for fiscal 2019. Hiring a project manager and a year of experience have helped the agency to understand the appropriate needs in this category for the program.

Software license costs increase by $247,760, from $13,360 in fiscal 2018 to $261,120 in fiscal 2019. The funds are budgeted to accommodate purchasing software licenses for new recordkeeping software as soon as the board votes on a replacement for a contract terminated in December 2017. The agency had contracted with an out-of-state contractor for an off-the-shelf recordkeeping system to replace the existing software. While the existing recordkeeping system is owned, it lost official technical support at the end of November 2017. The board voted to terminate the contract and look at the agency's entire technology needs before proceeding. The projected was terminated for convenience at the December 2017 board meeting.

The creation of an Ambassadors program in the ABLE program accounts for $25,000 in new spending in fiscal 2019. Four additional contractual positions were allowed for ABLE in addition to the 8 contractual positions used for the MCIP and the MPCT. There is also a $55,000 increase due to equipment replacement in fiscal 2019.

Finally, the $88,095, or 52.9%, increase in fixed charges is driven by spending in the other category for moving expenditures in fiscal 2019 and for hiring a new strategic plan consultant in the context of senior leadership changes. After the former executive director resigned in October 2017, the director of investments assumed acting duties. The increase in technical and special fees is driven by a new $5,000 budget for training and staff development for all agency staff (both ABLE and CSPM).

Issues

1. Implementation of Save4College Program

Maryland 529 is managing the new Save4College State Contribution Program established by the College Affordability Act of 2016 (SB 676/HB 1014). Fiscal 2018 is the first year of funding for the State Contribution Program with $5 million mandated for the program, increasing to $7 million in fiscal 2019 and $10 million in fiscal 2020. A $250 match may be earned by three different levels of contribution based on eligible account holder income levels, as detailed in **Exhibit 5**. Similar to the MPCT, account holders in the MCIP are those in control of the assets and may or may not be the intended beneficiary of the fund. Anyone can contribute to the MCIP including the beneficiaries. However, only the account holder can request a distribution of funds. An account holder may have multiple accounts, each account therefore having a unique beneficiary. The program is structured such that applicants must apply for the State contribution between January 1 and June 1 and then pay their minimum contribution and file for matching funds between July1 and November 1.

Exhibit 5
Save4College State Contribution Tiers

Income Range		Minimum Contribution
Single	**Married Filing Jointly**	
Less than $50,000	Less than $75,000	$25
$50,000 to $87,499	$75,000 to $124,999	100
$87,500 to $112,500	$125,000 to $175,000	250

Source: Department of Legislative Services

During the first statutorily specified application period from January 1 to June 1, 2017, 3,084 applications were filed by 1,888 unique account holders. Providing the $250 contribution for accepted applications required the expenditure of only $453,750 of the $5 million appropriated for this purpose. The balance of the $5 million is still in MHEC's budget, and the Administration is assuming that it reverts to the General Fund at the end of the fiscal year.

In total, 1,269 applications (from 654 unique account holders) were denied for one of the following reasons: (1) beneficiary had an already established MCIP account; (2) beneficiary did not reside in Maryland; (3) account holder's household income exceeded $112,500 individual or $175,000 joint filer; or (4) the required minimum account contribution was not made by the November 1, 2017 deadline. T. Rowe Price, which manages the MCIP for Maryland 529, broke out the outcomes by the total applications and by the total applications by unique account holders as shown in **Exhibit 6**.

Exhibit 6
Reasons for Save4College Decisions

Problem	Applications Disqualified	Unique Account Holder Applications Disqualified
Applications Were Not in Good Order (Mainly Already Had an Account for the Beneficiary)	630	159
Income Certification Form Was Not Received	385	343
Income Range Was Not in Good Order	169	85
Contribution Requirement Was Not in Good Order	105	66
Affidavits Needed (Originally Denied, Retroactively Eligible)	+20	+11
Total Eligible	**1,815**	**1,245**
Total Noneligible	**1,269**	**654***
Total	**3,084**	**1,888**

*Eleven account holders both met and did not meet the requirements, so eligible plus noneligible does not equal unique account holder total.

Source: T. Rowe Price

Most (630) rejections occurred because the contributor had already contributed to that beneficiary's account or the contributor already had an existing account prior to December 31, 2016. The next most significant cause of rejection was that T. Rowe Price did not receive an income certification form from the account holder. Maryland 529 reports that it has entered into an agreement with the Comptroller's Office to verify income. More than 100 applications were disqualified because their contribution requirement was not in good order – either making contributions during the enrollment period (*i.e.*, before July 1) or enrolling and then failing to follow through with the contribution. Maryland 529 administrators believe that enabling applicants to open an account and make the minimum required contribution to receive the State match at the same time would increase both applications and acceptances.

Other factors unrelated to the structure of the program also contribute to the underuse of budgeted matching funds, including the fact that this was the first year of operation. Although the agency was required to develop a marketing plan for the program, it is unclear the extent to which the public was aware of the program. Changes in leadership in the agency may also have affected the program's implementation. From the agency's perspective, the initial expectation was ambitious as compared to the other plan enrollment rates. The initial $5 million State match equates to 20,000 accepted applications during a six-month period, considerably more than the approximately 13,000 annual applicants for the MCIP overall. Additionally, this calls into question whether the $250 match level is enough of a catalyst for low-income families to open a new plan and contribute in the context of the full costs of obtaining a postsecondary degree. Year one experience also casts doubt on whether the program in its current iteration requires the full amount of mandated spending. Mandated State funding for the program is $7,000,000 in fiscal 2019 and $10,000,000 in fiscal 2020 and thereafter. The Governor's proposed cost containment for fiscal 2019, as reflected in the reduction contingent on the Budget Reconciliation and Financing Act (BRFA) of 2018 as introduced, is to reduce the mandated funding to $2,000,000 in fiscal 2019 and each fiscal year thereafter.

The 1,815 accepted applications were distributed by income as shown in **Exhibit 7**. The majority of applicants had incomes of less than $87,499/$124,999, which shows that the program was successful in encouraging lower income families to save for college.

Exhibit 7
Income Distribution of Save4College Beneficiaries
Fiscal 2018

Income Range		Minimum Contribution	Eligible Applicants	Percentage of Recipients
Single	**Married Filing Jointly**			
Less than $50,000	Less than $75,000	$25	799	43%
$50,000 to $87,499	$75,000 to $124,999	100	808	44%
$87,500 to $112,500	$125,000 to $275,000	250	208	12%
Total			1,815	

Source: Maryland 529

Information on the geographical spread of match applications provides further information as to program targeting. Jurisdictions with relatively high poverty rates in families with children between the ages of 5 and 17 including Baltimore City and Prince George's and Cecil counties accounted for a higher share of State contribution applicants as compared to all new enrollments in fiscal 2017. Howard and Montgomery counties, jurisdictions that have the highest share of general MCIP new enrollments, had slightly lower percentages of applicants for the State match contribution.

In line with the marketing proposal submitted to the General Assembly in fiscal 2016, Maryland 529 implemented various activities to market the State match program. A new page on the Maryland 529 website received 28,246 hits between January 1 and June 1, 2017. Marketing activities for match funding took place between April 7 and June 1, 2017. Customized digital ads ran on Google as well as NCM.com, a cinema advertising company, and MNI.com, a media planning and buying company. Broadcast radio ads targeted adults ages 25+ with children under the age of 6 and household incomes under $75,000. Maryland 529 also worked with the following partners to host informational workshops and/or disseminate information about the State Contribution Program to lower income households: Maryland CASH Campaign, Junior Achievement, Port Discovery Children's Museum, the Maryland Teachers and State Employees Supplemental Retirement Plans, the Maryland State

Department of Education, the Maryland State Educators Association (MSEA), the Maryland Public Library System, the Maryland Society of Accounting and Tax Professionals, and TMN Corp., among others. Maryland 529 participated in the annual MSEA convention and distributed information about the plans and State contribution program to enlist educators and school counselors in extending resources to families they serve. TMN Corp, a marketing and communications company specializing in diverse markets, made contacts with over 4,000 Latino and African American families.

DLS recommends several changes to the program in an effort to increase participation. First, applicants should be able to make their contribution prior to having their application accepted. This would eliminate the rejection of applicants who made their contribution before July 1. Second, the $250 contribution should be increased to $500 to provide a greater incentive for participation. The General Assembly may wish to consider providing a higher match for the lowest income participants on a sliding scale and keeping the match at $250 for the highest eligible incomes. Even with these changes, it is likely that the $7 million currently mandated for the program in fiscal 2019 and the $10 million mandated for the program beginning in fiscal 2020 will not be used. DLS recommends, therefore, that the mandated funding for the program be reduced to $3 million in fiscal 2019 and thereafter, instead of the $2 million proposed in the BRFA of 2018.

2. Federal Tax Code Change

The federal Tax Cuts and Jobs Act (2017) expands the eligible uses from 529 funds for eligible higher education expenses to private K-12 education. This may be expected to increase enrollment in 529 plans while fundamentally changing their usage and program administration.

In collaboration with the Comptroller and other agencies, the 529 board continues to work through the implications of federal tax code changes for the State plans. From the agency's perspective, areas which may require State legislative clarification include:

- whether the MCPT should be used for K-12, which would require statutory changes;
- whether measures should be taken to limit the use of State matching funds through the Save4College program to higher education, rather than K-12; and
- whether the MCIP should have its name changed to reflect use for K-12.

Another matter for consideration is whether contributions for K-12 expenses should be eligible to receive the State income tax deduction. Preliminarily, the Comptroller's office is assuming annual State revenue losses of $20.0 million and local revenue losses of $11.4 million.

3. Achieving a Better Life Experience Program Implementation

Enrollment in ABLE formally opened on November 28, 2017. As of January 19, 2018, 216 account holders had deposits of $1,161,761. The program has made significant strides since it was authorized in fiscal 2016. To avoid the potentially high fees per participant needed to administer the program in house, the board chose the option provided by the legislature of contracting with a host state to implement the program. Based on its experience with the program, Oregon was selected. Two full-time staff include a program director and a marketing representative. Like the other two plans, State residents contributing to an ABLE account can deduct up to $2,500 from their State income taxes. In addition to the $25 required initial contribution, participants pay a $35 annual account fee, a 0.30% annual administrative fee, and investment fees ranging from 0.0647% to 0.0810% based on the risk profile.

As noted, State grants provided for ABLE startup expenses in fiscal 2017 and 2018. As when the MPCT was established, these funds are scheduled to be paid back once ABLE is sufficiently financially viable. The agency requires at least a year to accurately forecast a repayment schedule. Initial marketing for the program included messaging at community information sessions and cooperation with organizations in the disability community. The agency attributes high initial investment to the disability-advocate driven nature of this program and will rely and build upon that in the future.

The federal tax cut law authorizes monies held in 529 college savings plans to be rolled over to an ABLE account of the designated beneficiary or a member of the family of the designated beneficiary without a penalty, limited to the annual contribution limit of ABLE accounts. **Maryland 529 should comment on how they are currently accommodating these requests and whether any statutory changes are required.**

Recommended Actions

1. Create a separate budget program for the Save4College program in order to more easily track revenues and expenditures related to the program.

Updates

1. Lower, but Still Strong, Investment Performance

In October 2017, the MCIP received a "Silver" rating from Morningstar Investors for its strong performance on a risk-adjusted basis against peer groups. Maryland's plan was 1 of 10 state plans recognized at this level. It also received a "Silver" rating in fiscal 2016.

This represents strong performance but a step down from the "Gold" rating received each year between fiscal 2012 and 2015.

Appendix 1
Major Information Technology Projects
Maryland 529
Maryland 529 Prepaid Trust Account Holder Management System

Project Status	Cancelled December 2017	**New/Ongoing Project:**	NA.
Project Description:	Maryland 529 seeks a commercial off-the-shelf product to replace the existing system, which lost support by the end of November 2017, in supporting the agency's current and future needs.		
Project Business Goals:	Goals include the effective and expedient implementation, maintenance of all existing functionality, while increasing the usability and quality of the solution; quality production Go-Live to mitigate the impact of outdated software; and a single contract and point of contact for implementation, application support, and costing. Requirements for the new system include field search functions supported by performance-based indexing; document storage, search, and retrieval capabilities; automated communication to account holders; and ability to perform transaction-level investigation and audits.		
Estimated Total Project Cost:	$360,120	**Estimated Planning Project Cost:**	n/a.
Project Start Date:	September 20, 2017.	**Projected Completion Date:**	December 31, 2018.
Schedule Status:	Beginning on February 23, 2017, Maryland developed a set of requirements and use cases along with a Request for Proposals (RFP) to procure the new solution. On May 26, 2017, the RFP was released with a proposal submission date of July 17, 2017. The RFP was developed in collaboration with the Department of Information Technology (DoIT). The Board of Public Works approved it on September 20, 2017.		
Cost Status:	n/a.		
Scope Status:	n/a.		
Project Management Oversight Status:	The RFP was developed in collaboration with DoIT. The executives in Maryland 529 and Treasurer Chief Investment Officer are actively involved in the project, receiving and giving feedback at regular project briefings.		
Identifiable Risks:	Medium risks relate to funding, as budget for the project has not yet been confirmed to be sufficient; resource availability, based on limited capacity of small and focused agency staff for the project; and implementation, with the project targeting the implementation of a basic capability during the short timeframe for initial implementation only five months after the contract award.		

Fiscal Year Funding	**Prior Years**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**Balance to Complete**	**Total**
Personnel Services	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Professional and Outside Services	$100,000.0	$260,120.0	$0.0	$0.0	$0.0	$0.0	$0.0	$360,120.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	**$100,000.0**	**$260,120.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$360,120.0**

Appendix 2
Object/Fund Difference Report
Maryland 529

Object/Fund	FY 17 Actual	FY 18 Working Appropriation	FY 19 Allowance	FY 18 - FY 19 Amount Change	Percent Change
Positions					
01 Regular	27.00	27.00	27.00	0.00	0%
02 Contractual	0.20	0.20	8.00	7.80	3900.0%
Total Positions	**27.20**	**27.20**	**35.00**	**7.80**	**28.7%**
Objects					
01 Salaries and Wages	$ 1,478,772	$ 2,292,254	$ 2,251,506	-$ 40,748	-1.8%
02 Technical and Spec. Fees	127,575	8,197	13,197	5,000	61.0%
03 Communication	94,328	122,741	109,849	-12,892	-10.5%
04 Travel	17,022	25,000	27,500	2,500	10.0%
07 Motor Vehicles	17,076	17,016	16,200	-816	-4.8%
08 Contractual Services	1,399,772	2,112,586	2,415,003	302,417	14.3%
09 Supplies and Materials	34,968	40,010	41,000	990	2.5%
10 Equipment – Replacement	0	20,000	75,000	55,000	275.0%
11 Equipment – Additional	0	20,150	0	-20,150	-100.0%
13 Fixed Charges	153,785	166,421	254,516	88,095	52.9%
Total Objects	**$ 3,323,298**	**$ 4,824,375**	**$ 5,203,771**	**$ 379,396**	**7.9%**
Funds					
07 Nonbudgeted Fund	$ 3,323,298	$ 4,824,375	$ 5,203,771	$ 379,396	7.9%
Total Funds	**$ 3,323,298**	**$ 4,824,375**	**$ 5,203,771**	**$ 379,396**	**7.9%**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments