**R60H**
# College Savings Plans of Maryland

## *Operating Budget Data*

**($ in Thousands)**

| | FY 14 Actual | FY 15 Working | FY 16 Allowance | FY 15-16 Change | % Change Prior Year |
|---|---|---|---|---|---|
| Nonbudgeted Fund | $2,595 | $3,551 | $3,594 | $43 | 1.2% |
| **Adjusted Nonbudgeted Fund** | **$2,595** | **$3,551** | **$3,594** | **$43** | **1.2%** |
| **Adjusted Grand Total** | **$2,595** | **$3,551** | **$3,594** | **$43** | **1.2%** |

- For fiscal 2016, the College Savings Plan of Maryland (CSPM) expects expenditures to increase $43,000, or 1.2%, over fiscal 2015.

## *Personnel Data*

| | FY 14 Actual | FY 15 Working | FY 16 Allowance | FY 15-16 Change |
|---|---|---|---|---|
| Regular Positions | 15.00 | 20.00 | 20.00 | 0.00 |
| Contractual FTEs | 0.20 | 0.20 | 0.20 | 0.00 |
| **Total Personnel** | **15.20** | **20.20** | **20.20** | **0.00** |
| ***Vacancy Data: Regular Positions*** | | | | |
| Turnover and Necessary Vacancies, Excluding New Positions | | 0.00 | 0.00% | |
| Positions and Percentage Vacant as of 1/1/15 | | n/a | n/a | |

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

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# *Analysis in Brief*

## Major Trends

***Continued Growth in Accounts and Unique Holders:*** The number of accounts grew 6.5% to 232,402 in fiscal 2014, of which 63.0% were unique account holders.

***Sustained Enrollment Growth and Use of Trust:*** Growth in the trust slowed from 5.9% in fiscal 2010 to 0.7% in fiscal 2011 but has been 2.4% or higher in the three succeeding fiscal years. In fiscal 2014, for the second time in five years, the number of students attending a Maryland public institution using the trust decreased.

## Issues

***Few Families Participate in 529 Plans:*** According to a 2012 report released by the U.S. Government Accountability Office, less than 3% of families had a 529 plan. Those that participated had about 25 times the median financial assets and a median income about 3 times of those who did not participate in a plan. This is a trend that holds true in Maryland in which the highest participation rates occurred in those counties with higher median income.

***Actuarial Surplus Increases in the Maryland Prepaid College Trust:*** The surplus significantly increased from $2.5 million in fiscal 2010 to $321.5 million in fiscal 2014, and the trust was 143.0% funded. This growth was due to an overall return of 18.5% on the trust's investments compared to a return of only 7.7% in fiscal 2010.

***No Electronic Financial Transactions Available:*** CSPM still physically cuts and mails checks to send to university bursars. This issue will look at possibilities for electronic financial transactions between CSPM and universities to reduce the time between when CSPM sends out a payment and when that payment is confirmed in a student's financial account with an institution.

## Recommended Actions

1. Nonbudgeted.

## Updates

***Still No Brokerage Backed Plan:*** Chapter 548 of 2008 allows CSPM to establish the Maryland Broker-Dealer College Investment Plan allowing families who invest through private investment advisors to participate in one of the CSPM plans. To date, no progress has been made toward establishing a broker plan.

***Investment Plan Recognized for Strong Performance:*** For the third year in a row, the Maryland College Investment Plan (MCIP) received a "Gold" rating from Morningstar Investors for demonstrating superior performance on a risk-adjusted basis against peer groups. The MCIP is one of only four plans nationwide so recognized in 2014.

# *Operating Budget Analysis*

## Program Description

The College Savings Plans of Maryland (CSPM) offers the Maryland Prepaid College Trust (MPCT) and the Maryland College Investment Plan (MCIP), providing a variety of affordable and flexible options to encourage saving for a child's or adult's future college education. CSPM is an independent agency, established during the 1997 legislative session (Maryland Annotated Code, Education Article, Section 18-1901 through 18-1916 and 18-19A-01 through 18-19A-07). A 10-member board administers the trust and oversees the administration of the plan. Five 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, the State Superintendent of Schools, and the Chancellor of the University System of Maryland. The Governor appoints the 5 remaining members.

Both 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 college savings plans. Both 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 higher education expenses; and
- State income tax deduction of contributions to one or both plans up to $2,500 per taxpayer annually per account or beneficiary. Excess annual contributions over $2,500 may be carried forward and deducted in future years.

As of June 30, 2014, the combined assets of both plans were $4.8 billion.

### Maryland Prepaid College Trust

The MPCT allows participants to lock in a current price for future college tuition benefits and is backed by the Maryland Legislative Guarantee. The legislative guarantee requires the Governor, in instances when the MPCT's current prepaid contract obligations exceed the market value of its assets, to include in the annual budget an appropriation in the amount needed to cover the shortfall. The appropriation would then require approval of the General Assembly. Furthermore, 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 the MPCT's 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.

Participation is open to Maryland and District of Columbia residents. Additionally, people living out-of-state but applying for a child residing in Maryland or the District of Columbia are eligible to participate in the MPCT. Enrollment is open to children from newborns through grade 12, but an account must be opened for at least three years before the payment of benefits. The enrollment period is generally from December to early or mid-April, but newborns may be enrolled year round until their first birthday.

Participants enter into a contract with the MPCT for payment of tuition and mandatory fees for a specified amount of semesters or years of college. 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 up to the full in-state or in-county tuition and mandatory fees or a minimum benefit, whichever is greater – 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 up to the weighted average tuition and mandatory fees of Maryland public colleges or a minimum benefit, whichever is greater. The minimum benefit equals the amount of payments to the MPCT plus a reasonable rate of return that is tied to a treasury index. This rate of return has been zero since October 2008. There are four payment options: lump sum, annual, five-year monthly, and extended monthly. For example, the contract price for an infant enrolled in the four-year university plan during the current enrollment period is

- lump sum = $42,715;
- annual = $4,216 (17 payments);
- five-year monthly = $856; or
- extended monthly = $373 (204 payments).

During the 2013-2014 enrollment period, there were approximately 1,858 new enrollments, a decrease from 2,352 during the 2010-2011 enrollment period. Infants comprised the largest group at 17% of new enrollments, and the four-year university plan was the most popular enrollment option with 32% of new enrollments choosing this option. For the fall 2014 semester and as of October 22, 2014, of the 10,184 students eligible to use benefits, approximately 48%, or 4,931 students, claimed benefits. Of those claiming benefits, 42% are attending a Maryland public institution, compared to 40% for the fall 2011 semester, while the rest attended a private or out-of-state college. The current enrollment period runs from December 1, 2014, through April 15, 2015.

As of June 30, 2014, the investments of the MPCT were valued at $895 million.

## 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 investment risk of the investment option(s) they select when opening their accounts. Effective in 2015, a new federal law allows participants to 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. This plan is not guaranteed by the State.

Approximately 44% of all new beneficiaries enrolled during fiscal 2014 were four years old or younger, and approximately 63% of beneficiaries were nine years old or younger. 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 with Portfolio 2030 comprising 16% of the new accounts.

As of June 30, 2014, MCIP investments equaled $3.9 billion.

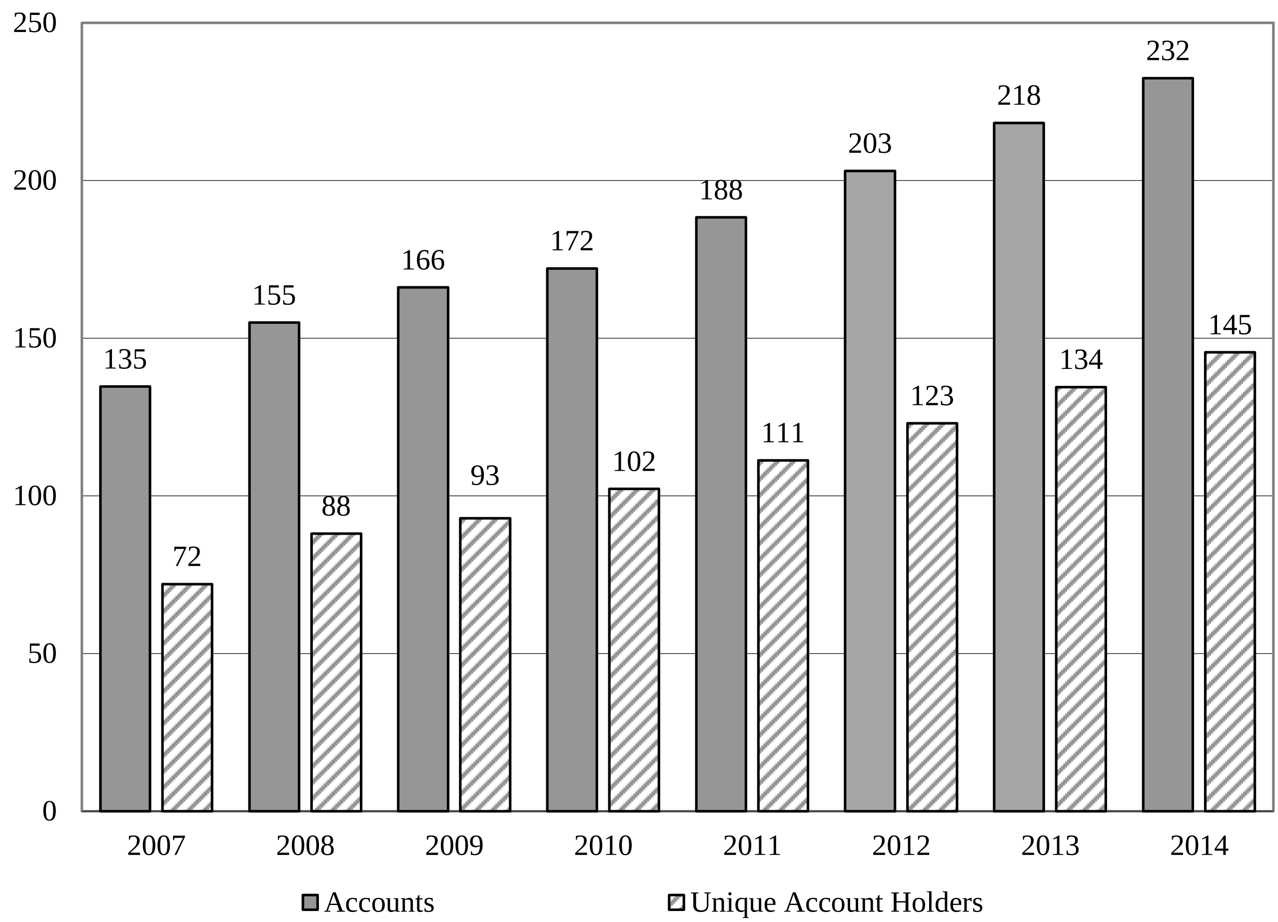
## Performance Analysis: Managing for Results

### 1. Continued Growth in Accounts and Unique Holders

A goal of CSPM is to create and maintain statewide awareness of the plan, which is reflected in the total number of accounts and the number of unique account holders as shown in **Exhibit 1**. Overall, since fiscal 2007, the number of accounts has increased 72.7%, or 97,802 accounts. The effects of the economic recession can be seen in fiscal 2009 and 2010, when the rate of new accounts slowed to 7.2% and 3.6%, respectively, for a three-year average of 13.6%. Conversely, the 9.4% growth in the number of accounts in fiscal 2011 reflects an improving economy as people have money to put aside for their children's education. Moderate growth continued in fiscal 2012 through 2014, although fiscal 2014's rate of 6.5% is a percentage point lower than the prior year, and the post-recession growth rates have not equaled the rapid growth in fiscal 2007 and 2008 of 15.0% and 16.0%, respectively.

The number of unique account holders has grown 102.1%, or 73,483, since fiscal 2007. The percent of unique account holders has grown from 53.0% in fiscal 2007 to 63.0% in fiscal 2014, suggesting that while more Marylanders are participating in the State's 529 plans, more are opting for using only one type of plan for college savings rather than both.

**Exhibit 1**
**Accounts and Unique Account Holders**
**Fiscal 2007-2014**
**(In Thousands)**

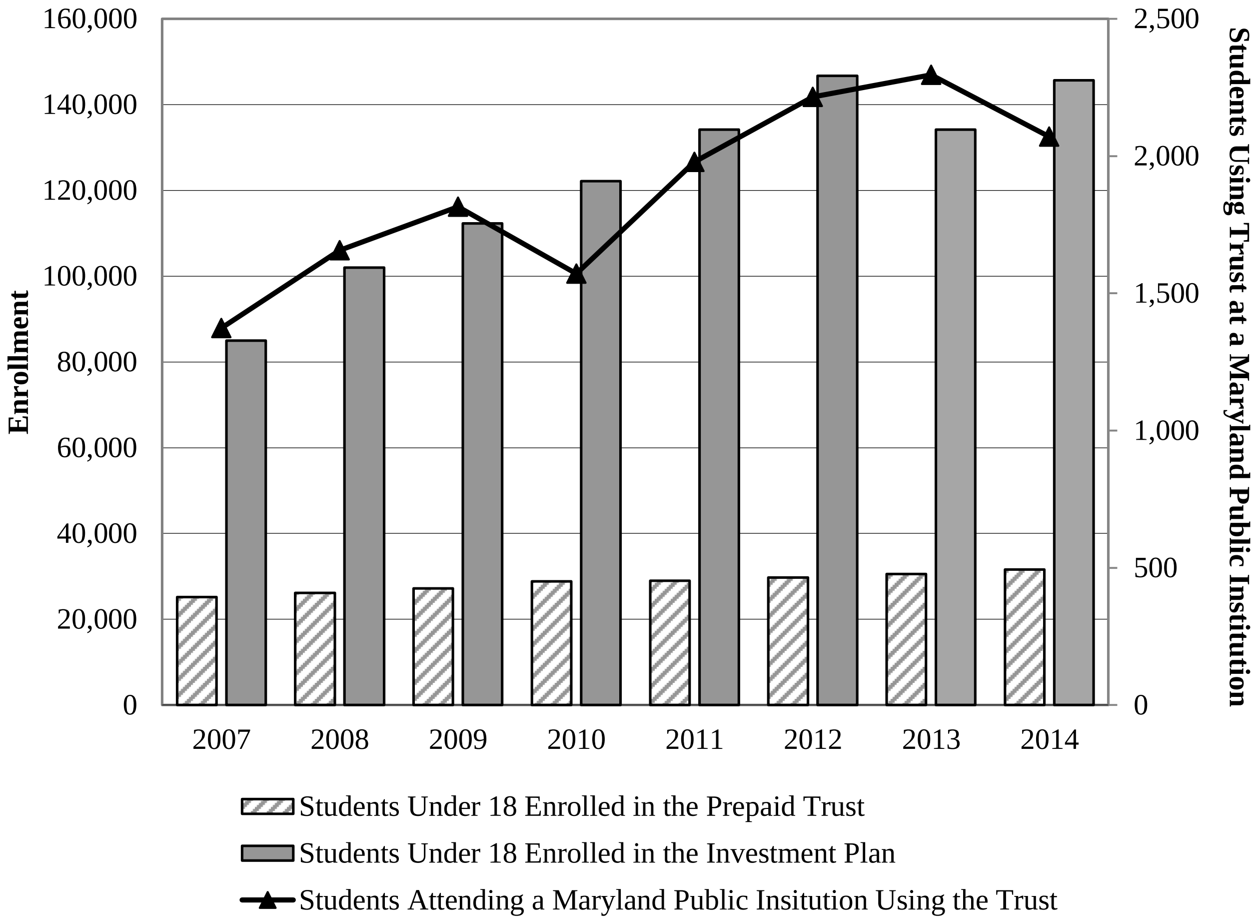



Source: Governor's Budget Books, Fiscal 2016

## 2. Sustained Enrollment Growth and Use of Trust

CSPM offers families many options to save for their children's college education and reduce reliance on loans to pay for college. **Exhibit 2** shows the number of students under the age of 18 enrolled in the prepaid trust and investment plan and students attending Maryland public institutions using the trust to pay for college. Enrollments in the prepaid trust grew at a moderate rate averaging 3.3% since fiscal 2007. The growth rate slowed considerably from 5.9% in fiscal 2010

**Exhibit 2**
**Students Enrolled in Plans and Using the Prepaid College Trust**
**Fiscal 2007-2014**




Source: Governor's Budget Books, Fiscal 2016

to 0.7% and 2.4% in fiscal 2011 and 2012, respectively. This increased to 3.3% in fiscal 2014, but this remains below the average growth rates in fiscal 2008 through 2010. Meanwhile, enrollments in the investment plan continue to outpace that of the trust, increasing 71.4%, or 60,693 enrollments, since fiscal 2007 indicating participants' preference for the flexibility afforded by the investment plan. Enrollments in the plan actually declined in fiscal 2013, after rapid growth from fiscal 2007 through 2012. Fiscal 2014 again has growth in this plan of 8.6%. Overall, the gap between enrollments in the MCIP versus the MPCT has grown from about 60,000 students in fiscal 2007 to 114,000 students in fiscal 2014.

After increasing 32.2% between fiscal 2007 and 2009, the number of students attending Maryland public institutions using the MPCT fell 13.4% in fiscal 2010. After three years of growth, in fiscal 2014, the number of students again declined 9.8%. In fiscal 2014, only 2,071 of 4,745 students who claimed tuition benefits attended a Maryland public institution, indicating more students were attending private or out-of-state institutions. CSPM projects an increase in the use of the MPCT in fiscal 2015 and 2016 (not shown), but this remains below the fiscal 2013 rates.

**Given the abrupt end of the tuition freeze and tuition buydown era at Maryland's public four-year institutions in fiscal 2015, the director of CSPM should comment on how CSPM can better market the MPCT to Maryland families.**

## Current Budget Overview

CSPM revenues from the prepaid trust consist of enrollment fees and other fees occasionally charged depending on the activity of the account holder. The enrollment fee structure is based on the method used to open an account – $75 for using the paper form; $50 for online enrollment; and $20 if purchasing an additional account or if rolling funds over from the investment plan. In addition, the trust charges 2.5% of all contract payments and a $4 payment processing fee for scheduled payment to cover operating expenses. Based on a new contract with T. Rowe Price, CSPM no longer collects revenue from management fees. As shown in **Exhibit 3**, fiscal 2016 revenues from trust enrollment fees are expected to increase 2.1% when compared to fiscal 2014. Revenues budgeted for fiscal 2015 and 2016 are based on a continued goal of 2,000 new enrollments and do not include estimates for early payments from account holders.

**Exhibit 3**
**College Savings Plans of Maryland Revenues and Expenditures**
**Fiscal 2014-2016**

| | 2014 | Estimated 2015 | % Increase 2014-15 | Estimated 2016 | % Increase 2015-16 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| **Prepaid Trust** | | | | | |
| Enrollment Fees | $1,550,775 | $1,583,200 | 2.1% | $1,583,200 | 0.0% |
| **Total** | **$1,550,775** | **$1,583,200** | **2.1%** | **$1,583,200** | **0.0%** |
| | | | | | |
| **Investment Plan** | | | | | |
| Program Contributions | $2,930,352 | $3,507,000 | 19.7% | $3,184,000 | -9.2% |
| **Total** | **$2,930,352** | **$3,507,000** | **19.7%** | **$3,184,000** | **-9.2%** |
| | | | | | |
| **Total Revenues** | **$4,481,127** | **$5,090,200** | **13.6%** | **$4,767,200** | **-6.3%** |

| | 2014 | Estimated 2015 | % Increase 2014-15 | Estimated 2016 | % Increase 2015-16 |
|---|---|---|---|---|---|
| **Expenditures** | | | | | |
| Salaries, Wages, and Fringe Benefits | $1,291,130 | $1,921,025 | **48.8%** | $1,970,701 | 2.6% |
| Communication | 110,108 | 134,220 | **21.9%** | 138,247 | 3.0% |
| Travel | 20,887 | 15,000 | **-28.2%** | 20,000 | 33.3% |
| Fiscal Services | 580,991 | 720,000 | **23.9%** | 732,000 | 1.7% |
| Contractual Services – Marketing | 212,240 | 271,650 | **28.0%** | 279,800 | 3.0% |
| Supplies and Materials | 38,812 | 39,500 | **1.8%** | 40,685 | 3.0% |
| Office Equipment | 67,704 | 105,000 | **55.1%** | 50,000 | -52.4% |
| Fixed Charges | 210,302 | 230,000 | **9.4%** | 235,289 | 2.3% |
| Other Expenses | 10,570 | 4,500 | **-57.4%** | 12,000 | 166.7% |
| Software License Fee | 52,434 | 110,000 | **109.8%** | 115,500 | 5.0% |
| **Total Expenditures** | **$2,595,178** | **$3,550,895** | **36.8%** | **$3,594,222** | **1.2%** |
| | | | | | |
| **Excess Revenues** | **$1,885,949** | **$1,539,305** | **-18.4%** | **$1,172,978** | **-23.8%** |

Note: The prepaid trust and the investment plan each have a fund for excess revenues. The revenues may only be used to benefit the families that participate in the plans.

Source: College Savings Plans of Maryland

Revenues from the investment plan are projected to increase 19.7% in fiscal 2015 but decrease 9.2% in fiscal 2016. Revenues are based on the current contract which requires T. Rowe Price to pay CSPM an annual amount equal to the greater of (1) $636,000 or (2) 0.04% of the average monthly net assets of the plan when assets are between $750.0 million and $1 billion and an additional 0.06% of average plan assets greater than $1 billion. In fiscal 2014, the plan's assets exceeded $2 billion resulting in payment of $2.9 million. Total revenues from both plans are expected to be $4.8 million in 2016, a decrease of 6.3% over fiscal 2015.

Effective January 1, 2015, CSPM has enacted a new contract which requires T. Rowe Price to pay CSPM 0.07% of average net monthly assets with a minimum annual payment of $2.0 million. The program fee, which is assessed to plan participants, also decreases from 0.20% of assets per year to 0.11% for the Global Equity Market Index Portfolio and 0.13% for all other portfolios. This is a significant fee reduction that makes CSPM's plan more favorable for its investors, who may expect that as plan assets increase, fees for investors should decrease. T. Rowe Price is willing to accept this deal because its revenue will increase as CSPM's assets grow in the long run. These actions lead to the 9.2% decrease in program contributions shown in Exhibit 3.

On the expenditure side, in fiscal 2015, there are several large changes from the prior year. Salaries and wages increase about $630,000, or 48.8%, due to 5 new positions. These include a new accountancy position recommended by the Office of Legislative Audits, as well as a procurement specialist, a program manager, a compliance manager, and another accountant to improve customer service. While these positions were all added in fiscal 2015, the timing is largely coincidental rather than tied to any particular initiative at CSPM.

Software license fees jump 109.8%, or $57,566, and office equipment grows $37,296, or 55.1%. Expenses for fiscal services, which include actuarial services, independent audits, banking, financial advisors, database host, records administration, and disaster recovery, increased 23.9%, or $139,009. These three increases are all related to new information technology upgrades to the computer network at CSPM in fiscal 2015. Some costs, like the software licenses and fiscal services, will be ongoing due to the purchase of new database servers, but office equipment expenses in fiscal 2016 are nearer to the 2014 level. Other changes in the budget are fairly small and are not related to any particular actions of CSPM.

As a nonbudgeted State agency, CSPM is not part of any statewide cost containment actions in fiscal 2015 or 2016.

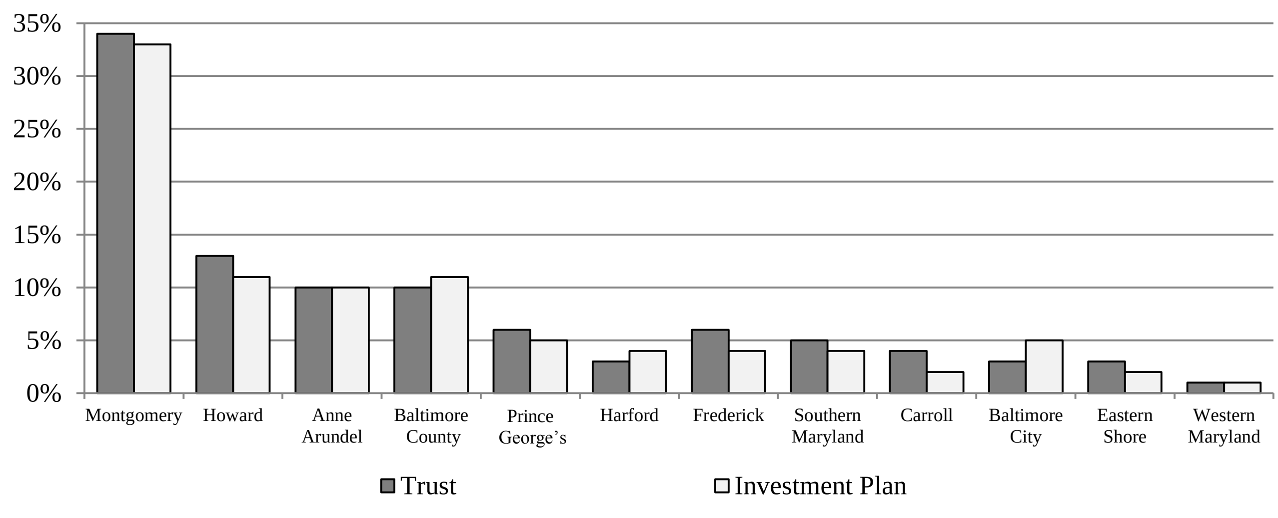
# *Issues*

## 1. Few Families Participate in 529 Plans

Nationally, not only are few families participating in 529 plans but those who do tend to be wealthier than others according to a December 2012, U.S. Government Accountability Office (GAO) report entitled, *A Small Percentage of Families Save in 529 Plans.* To date, this remains one of the few comprehensive nationwide studies on 529 plans. Forty-nine states offer a variety of 529 plans, and as of July 2012, more than 100 plan options were developed and managed by states and the District of Columbia. In 2014, there were more than 12 million accounts with total assets of about $250 billion according to the College Savings Plan Network. According to the 2010 Survey of Consumer Finances, less than 3% of families had a 529 plan or Coverdell Education Savings Account (a similar but less frequently used federal education savings account). These families had about 25 times the median financial assets and about 3 times the median income as those who did not participate in a 529 plan, $142,400 per year compared to $45,100 per year.

This trend holds true in Maryland in which the highest percentage of new account holders reside in those counties with higher median incomes. As shown in **Exhibit 4**, Montgomery County residents account for about 33% of the new enrollments in both the trust and investment plans.

**Exhibit 4**
**Profile of New Prepaid College Trust and Investment Plan Enrollment By County/Region of Residence**
**Fiscal 2014**




Note: Prepaid Trust sums to 98% and Investment Plans totals 92% with the remaining 2% and 8%, respectively, of account holders residing outside of Maryland

Source: College Savings Plan of Maryland

The GAO identified various barriers families encounter when considering whether to save for college. These include insufficient income, underestimating the cost of college, and misconceptions about the availability of financial aid. A 2010 national survey conducted by Sallie Mae found that while 9 out of 10 parents expected their children to attend college, only about 3 out of 5 have saved or invested for their oldest child's education. Many families who want to save for their children's education are not even aware of 529 plans. It was reported among parents who are saving for college that almost half are unfamiliar with 529 plans, and 4% never heard of these plans. Also, due to the number of plans and variations in investment options, those who want to use a 529 plan find it difficult to compare plans. Other factors that may limit participation include federal and state tax benefits that may not be as helpful to low-income families and the limit of only changing an investment option once a year. The report cites steps some states have taken to overcome these barriers, specifically for low-income families, such as adopting plans that include less risky investments, having low minimum contributions, and matching a family's contribution.

This is consistent with marketing research CSPM has conducted. This indicated that only 8.3% of MCIP accounts holders and 11.3% of MPCT accounts holders in 2014 were African American residents, despite African Americans making up about 30% of Maryland's total population. As well as seeking enrollments from more racial and ethnic minorities in Maryland, CSPM is also seeking more geographic diversity. Marketing plan efforts in fiscal 2016 will broaden CSPM advertising and outreach to Western Maryland and the Eastern Shore, which are underrepresented in plan participation rates. CSPM's marketing strategy continues to evolve with technology and the ability to target certain groups. For example, CSPM is diverting more resources from radio advertising to television and increasing its footprint in social media, such as Facebook, Youtube, and Google Adwords.

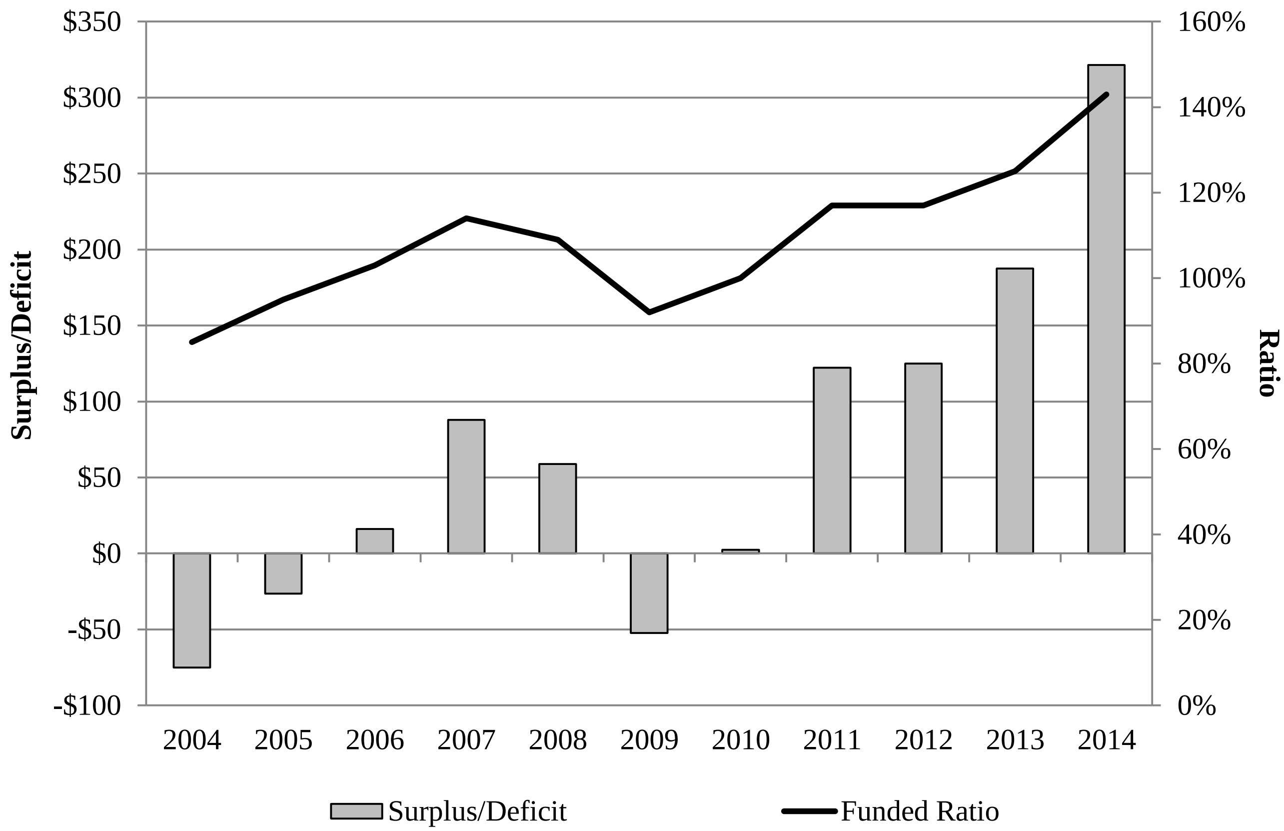
**CSPM should comment on its efforts to increase the awareness and participation of low-income families and what actions or initiatives could be undertaken at the State level or in partnership with other State agencies or institutions.**

## 2. Actuarial Surplus Increases in the Maryland Prepaid College Trust

The actuarial surpluses and deficits for MPCT from 2004 to 2014 are shown in **Exhibit 5**. The surplus significantly increased from $2.5 million in fiscal 2010 to $321.5 million in fiscal 2014, when the trust was 143.0% funded. This growth was due to an overall return of 18.5% on the trust's investments compared to a 7.7% return in fiscal 2010. In 8 of the past 10 years, the trust has been 100.0% funded or greater due to overall strong performance of financial markets, despite the decline at the beginning of the Great Recession.

According to statute, if the surplus is 30%, *e.g.*, 130% funded or more, then the CSPM board may provide a rebate, or dividend, to account holders. Investment declines in the trust have been somewhat tempered by the lower than projected increases in tuition and mandatory fees at the University System of Maryland from fiscal 2009 through 2014. Over these years, the average increase in tuition at Maryland public colleges, except for St. Mary's College of Maryland, was only 3% versus a projected tuition increase of 7%. Overall, Maryland compares favorably to other state prepaid plans,

**Exhibit 5**
**MPCT Actuarial Surplus/Deficit as of June 30, 2004-2014**
**($ in Millions)**




MPCT: Maryland Prepaid College Trust

Source: College Savings Plan of Maryland

which, according the College Savings Plans Network, are on average about 93% funded. During the recession, some states actually closed new membership to plans or even phased out plans whereas Maryland's 529 plans have remained very robust.

During fiscal 2015, the CSPM board chose not to provide any rebate to plan investors. This decision was made before mid-year tuition adjustments were announced in January 2015 at four public Maryland universities and before the budgeted 5% tuition increase was known in the State's fiscal 2016 budget, rather than the 3%, which had been budgeted since fiscal 2012.

**CPSM should comment on the overall actuarial surplus and what influenced the board's decision to not issue a rebate before higher tuition growth rates were known.**

## 3. No Electronic Financial Transactions Available

While CSPM investors can opt to automatically have monthly contributions performed electronically, CSPM is one of the last State-affiliated organizations to physically print out, cut, and mail checks out to recipients, in this case, higher education institutions. CSPM sends all materials first class. Other State programs, such as the Department of Human Resources' Supplemental Nutrition Assistance Program and child support assistance, are performed electronically unless the recipient opts out of electronic financial transactions (EFT). EFTs rely on the automated clearing house (ACH), an electronic network of financial transactions that process large volumes of money transfers, such as employers' direct deposit payrolls, which may be, as mentioned, used to deposit funds into CSPM's 529 plans. On the other hand, CSPM is distinct from other State operations because CSPM requires account holders to determine every distribution decision, namely when to use a benefit and how much is to be used. Because CSPM requires at least 10 business days to process completed payment requests from plan holders and then checks are mailed, weeks may pass before an institution receives payment. Additionally, while there is no confirmation of receipt of mail, CSPM does confirm receipt of email and faxes, if requested. Whether CSPM could use ETF is largely related to how billing works at universities in Maryland and in other states and whether account holders would actually want automated payments to institutions. The current system is in place largely because CSPM believes it is fairer to all account holders to process checks as they are received rather than hold up a batch of payment requests for an institution due to late account holder requests to use benefits.

When a public university's bursar bills a student for tuition and other costs of attendance, the charge is posted to an individual student's account. The university is the first party, and the student is the second party. CSPM reports that currently institutions do not allow CSPM, a third party, to directly access a student's financial account. This is mainly for security of financial records. For example, when a new semester begins at the University of Maryland, College Park (UMCP), the institution bills all of its students and sets a deadline for receipt of tuition payment. Next, account holders must notify CSPM of intent to use CSPM plan benefits as no bursar directly submits claims to CSPM. CSPM then processes MPCT benefit payment requests on a daily basis and will then mail one check per day with a list of payments for each student at UMCP that was processed on that date. There is lag due to CSPM needing to get the benefit payment request and the UMCP invoice from MPCT account holders, then waiting for the checks to arrive in the mail at UMCP, then UMCP manually entering the available credit to each student's account. In comparison, if ACH were enacted, the standard is for all transactions to clear in no more than two banking days. When funds are sent to the institution, CSPM sends a confirmation letter to the account holder via the postal service. In addition, account holders can access their accounts online through the CSPM website and view that a check has been issued from the date of issuance.

For independent institutions, like The Johns Hopkins University (JHU), CSPM usually mails individual checks for *each* Maryland student's account because of the significantly lower total enrollment of MPCT beneficiaries who attend Johns Hopkins as opposed to UMCP, as well as the timing of requests for plan usage. JHU reports that other states, like Texas and Florida, are able to mail one check, similar to how CSPM works with UMCP. Since JHU does not know when CSPM mails each Maryland student's check, a Maryland student's account at JHU is reflected as delinquent until the payment is received in the mail and manually posted. Converting to EFT would eliminate mail time but would still lead to issues with manually posted funds to students' accounts. One possibility is for CSPM to send ACH files to the institutions with addendum records that would include personal information, such as the student's name and university identification number. The posting process would still likely be manual but would be simplified with everything done electronically. While EFT and ACH transactions are still prone to human data input errors, they offer two strong advantages. First, the payments are confirmed as sent and received electronically, like email or debit card transactions, so there is no time spent en route where neither party knows where the funds are. Second, the transfer time is rarely more than 48 hours due to modern financial records and banking hours. This leads to less confusion of when funds are sent and received and leads to students' accounts being updated in a timely matter, reducing uncertainty for CSPM plan users. CSPM recently switched banking institutions for its accounts in fall 2014 and could use its new banking relationship to set up ACH payments as described above.

For comparison, Pennsylvania's 529 plan conducts EFT with its largest institutions: the Pennsylvania State University system, the University of Pittsburgh, and Temple University. Virginia wires funds directly to all public institutions.

**The director of CSPM should comment on whether it has investigated if any institutions would be willing to enable third-party access to student accounts and, if not, whether ACH files with addendums could be sent to institutions in light of CSPM's new banking relationship. The director should also comment on whether institutions can do more to improve the speed of payment processing from CSPM.**

# *Recommended Actions*

1. Nonbudgeted.

# *Updates*

## 1. Still No Brokerage Backed Plan

Chapter 548 of 2008 allowed CSPM to establish a Maryland Broker-Dealer College Investment Plan, effective October 1, 2008. This type of plan would allow Maryland families who invest through private investment advisors to participate in one of Maryland's college savings plans. From their taxable income, Maryland taxpayers will be allowed to deduct plan contributions for purposes of State and local income taxes. In the previously mentioned GAO report, it was noted that one way families learn about 529 plans is through their financial advisors. Without this change, brokers do not have the incentive to direct clients to invest in one of the plans because participants enroll themselves directly in the program. Therefore, the broker does not receive a commission. As a result, brokers steer clients toward programs in other states managed by their investment firm or another firm that pays commission.

These plans are substantially the same as directly sold plans like the MCIP but enable personal financial advisors to develop more customized investment strategies for clients. This mirrors the mutual fund industry in that investors can invest in mutual funds directly or go through an advisor in a fund that includes a load, or fee, to the advisor. In the past, CSPM had stated that many Maryland families rely on investment advisors for non-college investments and are pushed to invest in savings plans in other states, such as Virginia. This is cyclical as it pushes assets in other states' plans higher, enabling those states to negotiate lower fees making those same states' plans more attractive to investors.

To date, there has not been any progress toward establishing a brokerage plan despite an indication that such plans could be available by the end of calendar 2009. Currently, 29 states offer some type of savings plan that can be invested in through a personal financial advisor, including New Jersey, New York, Virginia, and West Virginia, as well as the District of Columbia.

## 2. Investment Plan Recognized for Strong Performance

For the third year in a row, the MCIP was awarded a "Gold" ranking from Morningstar Advisor in 2014, one of only four 529 plans recognized nationwide. One of the other four, from Arkansas, also uses T. Rowe Price as its program manager. These plans demonstrated, according to Morningstar, "abilities to outperform their relevant benchmark and peer groups on a risk-adjusted basis over the long term." Virginia has two "Silver" plans, one a direct contribution plan and the other an advisor plan. Only three plans nationwide received a negative rating overall. The MCIP had received the "Top" rating from Morningstar in 2010 and 2011.

**Object/Fund Difference Report**
**College Savings Plans of Maryland**

| Object/Fund | FY 14 Actual | FY 15 Working Appropriation | FY 16 Allowance | FY 15 - FY 16 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 15.00 | 20.00 | 20.00 | 0.00 | 0% |
| 02 Contractual | 0.20 | 0.20 | 0.20 | 0.00 | 0% |
| **Total Positions** | **15.20** | **20.20** | **20.20** | **0.00** | **0%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 1,291,129 | $ 1,921,026 | $ 1,970,701 | $ 49,675 | 2.6% |
| 03 Communication | 110,108 | 134,220 | 138,247 | 4,027 | 3.0% |
| 04 Travel | 20,887 | 15,000 | 20,000 | 5,000 | 33.3% |
| 07 Motor Vehicles | 5,940 | 9,460 | 9,459 | -1 | 0% |
| 08 Contractual Services | 845,665 | 1,101,650 | 1,127,300 | 25,650 | 2.3% |
| 09 Supplies and Materials | 38,812 | 39,500 | 40,685 | 1,185 | 3.0% |
| 11 Equipment – Additional | 67,704 | 105,000 | 50,000 | -55,000 | -52.4% |
| 13 Fixed Charges | 214,932 | 225,040 | 237,830 | 12,790 | 5.7% |
| **Total Objects** | **$ 2,595,177** | **$ 3,550,896** | **$ 3,594,222** | **$ 43,326** | **1.2%** |
| **Funds** | | | | | |
| 07 Nonbudgeted Fund | $ 2,595,177 | $ 3,550,896 | $ 3,594,222 | $ 43,326 | 1.2% |
| **Total Funds** | **$ 2,595,177** | **$ 3,550,896** | **$ 3,594,222** | **$ 43,326** | **1.2%** |