R60H
College Savings Plans of Maryland

Operating Budget Data

($ in Thousands)

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change	% Change Prior Year
Nonbudgeted Fund	$2,703	$3,594	$3,773	$178	5.0%
Adjusted Nonbudgeted Fund	**$2,703**	**$3,594**	**$3,773**	**$178**	**5.0%**
Adjusted Grand Total	**$2,703**	**$3,594**	**$3,773**	**$178**	**5.0%**

- The College Savings Plan of Maryland (CSPM) expects expenditures to increase $0.2 million, or 5.0%, in fiscal 2017.
- As a nonbudgeted agency, CSPM was not part of cost containment actions in fiscal 2015 or 2016 and is not part of health insurance reductions or personnel increments in fiscal 2017.

Personnel Data

	FY 15 Actual	FY 16 Working	FY 17 Allowance	FY 16-17 Change
Regular Positions	21.00	21.00	21.00	0.00
Contractual FTEs	0.20	0.20	0.20	0.00
Total Personnel	**21.20**	**21.20**	**21.20**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		0.00	0.00%	
Positions and Percentage Vacant as of 12/31/15		7.00	33.00%	

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 total number of accounts grew 6.5% to 247,504 in fiscal 2015, of which 64.0% were unique account holders. The share of unique account holders has grown about 10 percentage points over the past decade.

Decline in Enrollment and Use of Trust: Enrollment in the trust declined by 2.5% in fiscal 2015, the first decrease since the fiscal 2007 decline of 5.4%. Additionally, in fiscal 2015, for the second time in five years, the number of students attending a Maryland public institution using the trust decreased.

Actuarial Surplus Still Large in the Maryland Prepaid College Trust: The actuarial surplus in the trust significantly increased from $2.5 million in fiscal 2010 to $294.7 million in fiscal 2015, and the trust was 136.0% funded. This is lower than the fiscal 2014 143.0% funding due to a decline in the overall return, falling from 18.5% in fiscal 2014 to 2.4% in fiscal 2015.

Issues

Few Families Participate in 529 Plans: According to the limited available research, families that have a 529 plan have a median income about three times higher than those who did not participate in a plan. This holds true in Maryland as the highest participation rates occur in those counties with higher median incomes. This issue will look at how CSPM is adapting its marketing strategies to reach more Marylanders.

CSPM May Expand for ABLE Program: A workgroup recently submitted legislative recommendations for Maryland to implement the federal Achieving a Better Life Experience savings program. If legislation is passed in Maryland, this would dramatically expand the mission and services of CSPM.

Differential Tuition Issue Resolved: In fall 2015, the University of Maryland, College Park implemented differential tuition for certain students in three academic programs. After consultation, CSPM determined it would cover this new charge for students as it does regular tuition and fees.

Leadership Turnover and Vacancies: In fiscal 2016, CSPM has had 2 interim executive directors and 7 total vacancies out of only 20 positions. Limited personnel and institutional continuity present challenges for effectively managing the plan, expanding efforts, or launching new initiatives.

Recommended Actions

1. Nonbudgeted.

Updates

Investment Plan Again Recognized for Strong Performance: For the fourth 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 state plans recognized nationwide in calendar 2015.

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 two affordable and flexible options to encourage saving for a child's or adult's future college education. 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). A 10-member board administers the trust and oversees the administration of the plans. 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, 2015, the combined assets of both plans were about $5.2 billion.

Maryland Prepaid College Trust

The MPCT allows participants to lock in a current price for future college tuition benefits and is backed by a Maryland legislative guarantee. This guarantee requires the Governor, in instances when the current MPCT 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 continued actuarial soundness for the MPCT. 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 = $44,300;
- annual = $4,372 (17 payments);
- five-year monthly = $888; or
- extended monthly = $394 (204 payments).

During the 2014-2015 enrollment period, there were approximately 2,200 new enrollments, an increase over the prior year but still slightly below the 2,350 new enrollments during the 2010-2011 enrollment period. Infants comprised the largest group at 16% of new enrollments, and the four-year university plan remained the most popular enrollment option with 28% of new enrollments choosing this option. For the fall 2015 semester, of the 10,184 students eligible to use benefits, approximately 48%, or 4,828 students, claimed them. Of those, 41% 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, 2015, through April 20, 2016.

As of June 30, 2015, the investments of the MPCT were valued at $924 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 fiscal 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. A federal change in December 2015, made retroactive to January 1, 2015, makes personal computers and related peripherals a new category of eligible educational expenses. This plan is not guaranteed by the State.

Approximately 42% of all new beneficiaries enrolled during fiscal 2015 were four years old or younger, and approximately 62% 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 2033 comprising 17% of the new accounts.

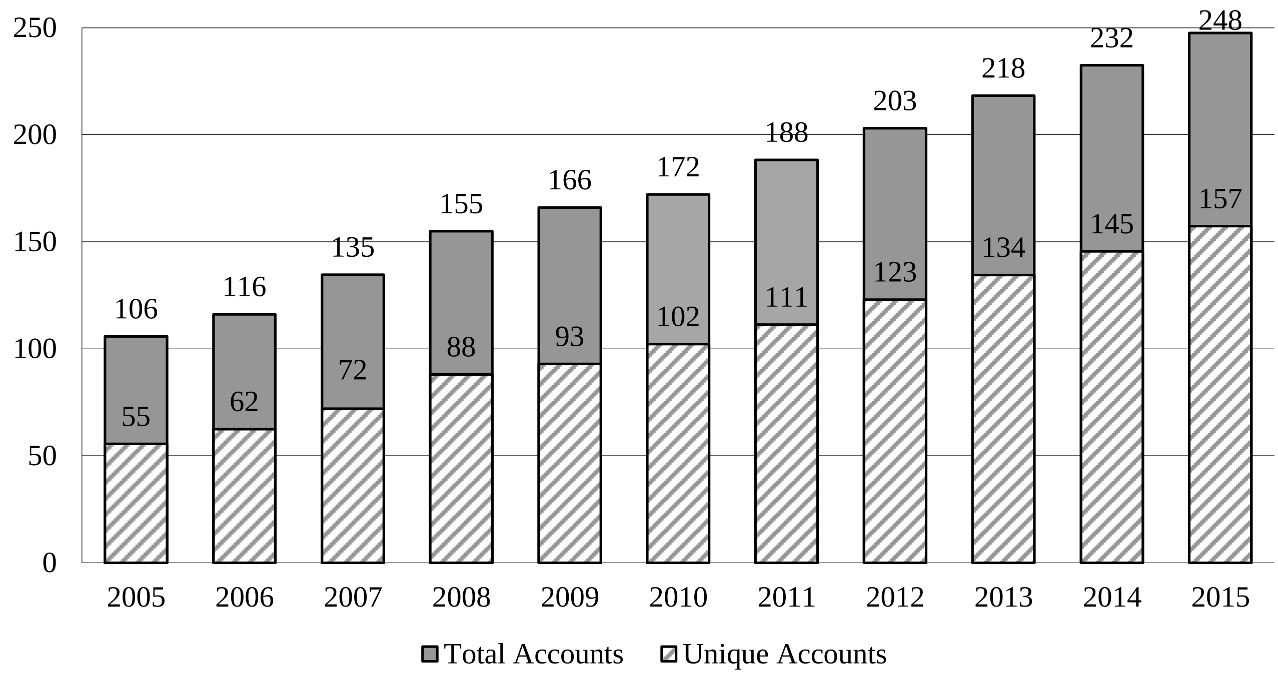
As of June 30, 2015, MCIP investments equaled $4.2 billion.

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 2005, the total number of accounts has increased over 130.0%, or over 140,000 accounts. The effects of the recent economic recession can be seen as the growth of accounts fell from nearly 16.0% in fiscal 2007 to under 4.0% in fiscal 2010. An improving economy led to growth of about 8.0% to 9.0% in fiscal years 2011 through 2013. Growth in accounts in fiscal 2014 and 2015 slowed to 6.5%, but even so it illustrates that more people have had money to put aside for their children's education since the recession ended. CSPM forecasts growth rates slowing further in fiscal 2016 and 2017 to 5.0% and 5.8%, respectively. Other than the low growth rate in fiscal 2010, these would be the lowest growth rates since at least 2005.

Exhibit 1
Total Accounts and Unique Accounts
Fiscal 2005-2015
(In Thousands)



Source: Department of Budget and Management; College Savings Plan of Maryland

The number of unique account holders has grown over 180.0%, or over 100,000, since fiscal 2005. The percent of unique account holders out of total accounts has grown from 52.5% in fiscal 2005 to 63.5% 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.

2. Decline in Enrollment and Use of Trust

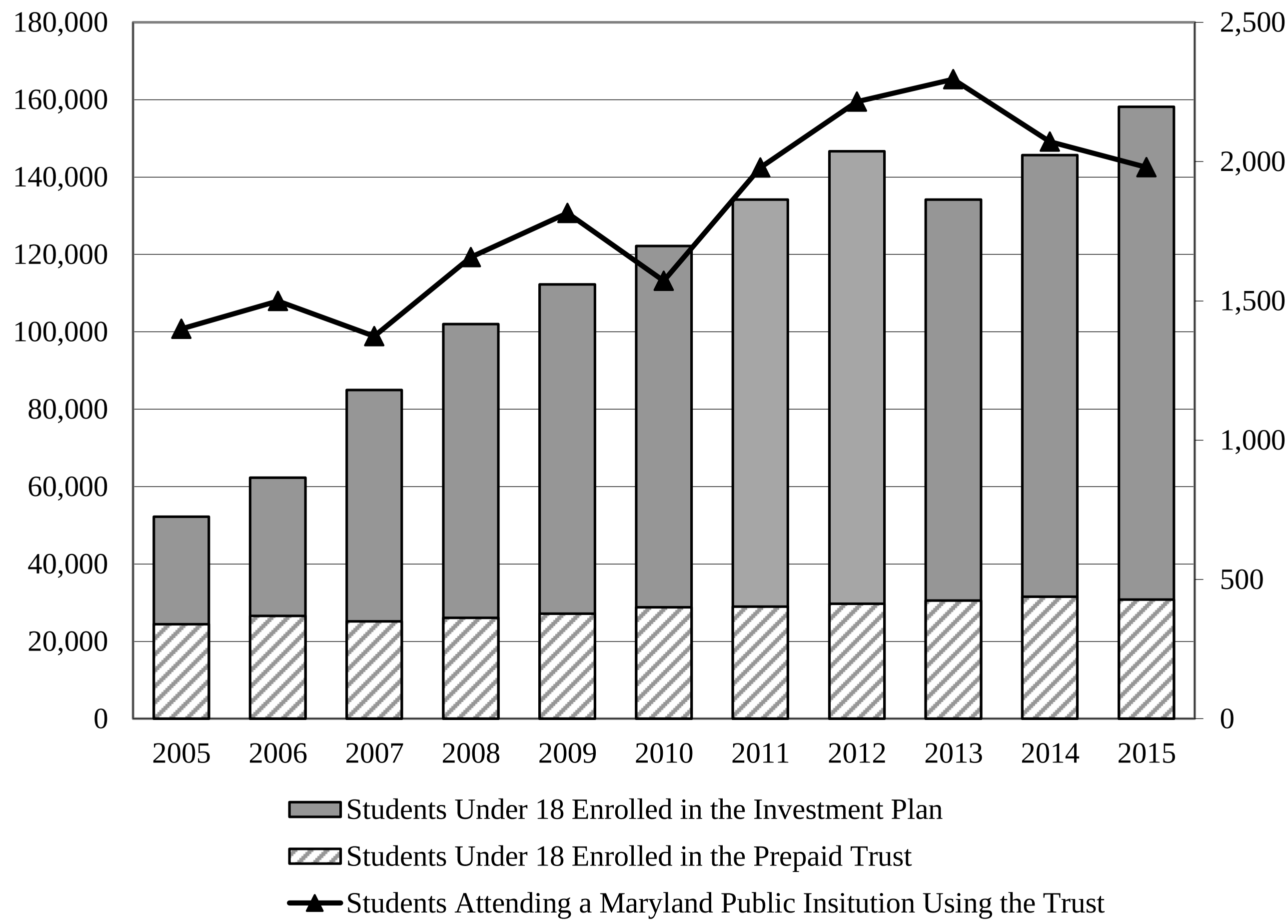
CSPM offers families many options to save for their children's college education and reduce reliance on loans to pay for college expenses. **Exhibit 2** shows the number of students under the age of 18 enrolled in the prepaid trust and investment plan and students attending Maryland public institutions using the trust to pay for college. Enrollments in the prepaid trust have grown at a moderate rate averaging 4.0% since fiscal 2005. The growth rate slowed considerably from 5.9% in fiscal 2010 to 0.7% in fiscal 2011. Moderate growth from fiscal 2012 through 2014 drove enrollment to an all-time high of almost 31,600 students in fiscal 2014, but fiscal 2015 declined 2.5% to about 30,800 students. This was due to CSPM removing accounts with zero balances, which had not been done in many years.

Meanwhile, enrollments in the investment plan continue to greatly outpace that of the trust, increasing over 200.0%, or about 106,000 enrollments, since fiscal 2005, indicating participants' preference for the flexibility afforded by the investment plan. It is not clear why enrollments in the investment plan actually declined in fiscal 2013 by 8.5%, as it had grown by at least 8.0% in every year before. Enrollments resumed their growth in fiscal 2014 from the lower base. Fiscal 2016 and 2017 have projected growth of at least 7.0%. Overall, the gap between enrollments in the MCIP versus the MPCT has grown from less than 30,000 students in fiscal 2005 to almost 130,000 students in fiscal 2015. This means while in 2005 there were about 2 investment plan students for every trust student, the ratio has increased to about 5 to 1 in fiscal 2015.

Exhibit 2

Students Enrolled in Plans and Using the Prepaid College Trust

Fiscal 2005-2015



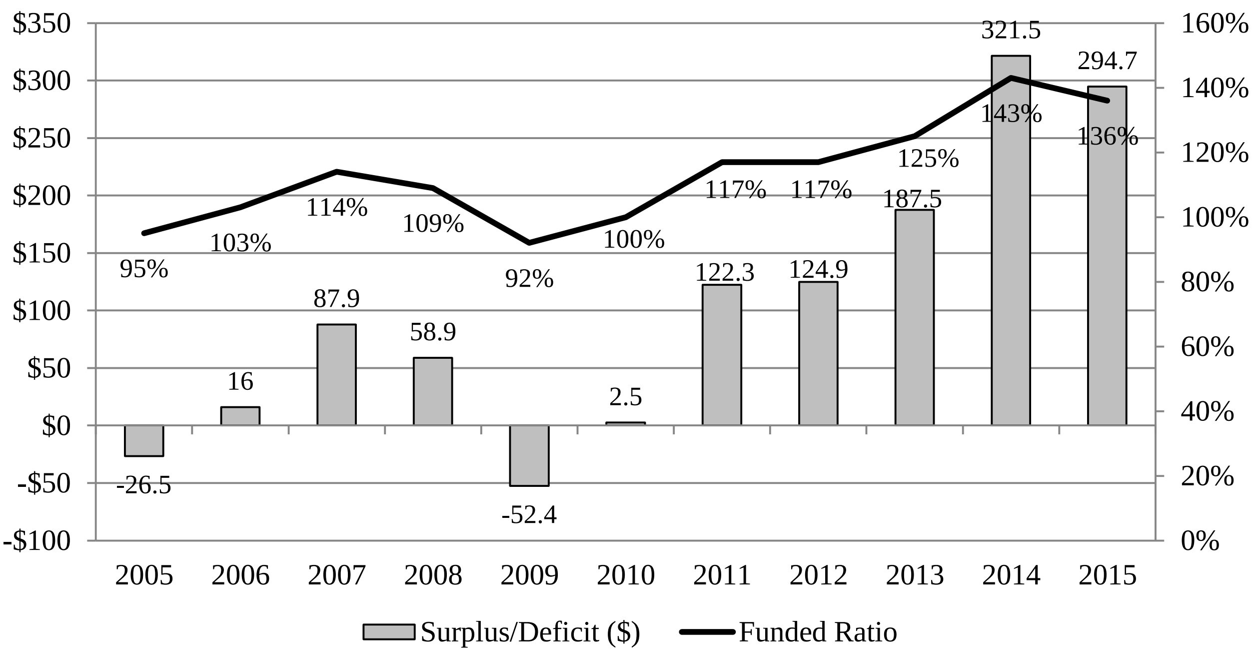
Source: Department of Budget and Management; College Savings Plan of Maryland

The number of students attending Maryland public institutions using the MPCT has fluctuated over the past decade, with notable decreases in fiscal 2007, 2010, 2014, and 2015. In fall 2015 (fiscal 2016), only 1,980 of 4,828 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 by attendees of Maryland public institutions in fiscal 2016 and 2017 (not shown), but these years would still remain below the fiscal 2013 rates.

3. Actuarial Surplus Still Large in the Maryland Prepaid College Trust

The actuarial surpluses and deficits for MPCT from fiscal 2005 to 2015 are shown in **Exhibit 3**. The surplus significantly increased from $2.5 million in fiscal 2010 to $321.5 million in fiscal 2014, before declining slightly to $294.7 million in fiscal 2015. While the MPCT had annual returns of 10.7% in fiscal 2013 and 18.5% in fiscal 2014, it reached only 2.4% in fiscal 2015. This was the second lowest return of the past 5 years. In 9 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 in fiscal 2009.

Exhibit 3
MPCT Actuarial Surplus/Deficit as of June 30, 2005-2015
($ in Millions)



MPCT: Maryland Prepaid College Trust

Source: College Savings Plan of Maryland

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 and fees at Maryland public colleges, except for St. Mary's College of Maryland, was only 2.9% versus a projected weighted tuition and fee increase of 7.0% assumption made by the CSPM board. In fiscal 2017, tuition and fees are expected to grow only 2.2% at all of Maryland's four-year institutions. Overall, Maryland compares favorably to other state prepaid plans, as during the recent 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 and 2016, the CSPM board did not provide any rebate to plan investors. Although 2.0% tuition increases were announced in January 2016 at public Maryland universities, this decision reflects caution in the face of financial market volatility that began in fiscal 2016. Because of this, CSPM has revised its expected investment returns from 7.65% to 7.0% in fiscal 2016 and beyond. **The CSPM 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.**

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 per scheduled payment to cover operating expenses. As shown in **Exhibit 4**, fiscal 2017 revenues from trust enrollment fees are expected to be flat when compared to fiscal 2016, although still 13.5% over fiscal 2015. Revenues budgeted for fiscal 2017 are based on a continued goal of 2,000 new enrollments and do not include estimates for early payments from account holders, which led to higher trust revenue in fiscal 2016.

Exhibit 4
College Savings Plans of Maryland Revenues and Expenditures
Fiscal 2015-2017

	2015	Estimated 2016	% Increase 2015-16	Estimated 2017	% Increase 2016-17
Revenues					
Prepaid Trust					
Enrollment Fees	$1,395,391	$1,583,200	13.5%	$1,583,200	0.0%
Total	**$1,395,391**	**$1,583,200**	**13.5%**	**$1,583,200**	**0.0%**
Investment Plan					
Program Contributions	3,090,282	3,184,000		2,931,987	
Total	**$3,090,282**	**$3,184,000**	**3.0%**	**$2,931,987**	**-7.9%**

	2015	Estimated 2016	% Increase 2015-16	Estimated 2017	% Increase 2016-17
Total Revenues	**$4,485,673**	**$4,767,200**	**6.3%**	**$4,515,187**	**-5.3%**
Expenditures					
Salaries, Wages, and Fringe Benefits	$1,376,187	$1,970,701	**43.2%**	$1,955,585	-0.8%
Communication	115,749	138,247	**19.4%**	119,951	-13.2%
Travel	18,265	20,000	**9.5%**	20,000	0.0%
Fiscal and Contractual Services	650,610	732,000	**12.5%**	1,039,824	42.1%
Marketing	217,669	279,800	**28.5%**	288,194	3.0%
Supplies and Materials	31,901	40,685	**27.5%**	40,000	-1.7%
Office Equipment	19,142	50,000	**161.2%**	50,000	0.0%
Fixed Charges	246,758	247,289	**0.2%**	188,977	-23.6%
Software License Fee	26,281	115,500	**339.5%**	70,000	-39.4%
Total Expenditures	**$2,702,562**	**$3,594,222**	**33.0%**	**$3,772,531**	**5.0%**
Excess Revenues	**$1,783,111**	**$1,172,978**	**-34.2%**	**$742,656**	**-36.7%**

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. The salaries line also includes technical and special fees.

Source: College Savings Plans of Maryland

Revenues from the investment plan are projected to increase 3.0% in fiscal 2016 but decrease 7.9% in fiscal 2017. Revenues in the first half of fiscal 2015 were based on the old contract, which required 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 $1.0 billion and an additional 0.06% of average plan assets greater than $1.0 billion. In fiscal 2015, the plan's assets easily exceeded $2.0 billion resulting in total payment of $3.1 million. Total revenues from both plans are expected to be $4.5 million in 2017, a decrease of 5.3% over fiscal 2016.

Effective January 2015, CSPM entered into a new contract which required T. Rowe Price to pay CSPM 0.07% of average net monthly assets with a minimum annual payment of $2 million. The program fee, which is assessed to plan participants, also decreases from 0.2% 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 the CSPM 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 assets grow in the long run. These actions result in the 7.9% decrease in program contributions shown in Exhibit 4. As fiscal 2015 was a peak year for the investment plan, MCIP revenue was very high. In fiscal 2016, entirely under the new fee contract, fee revenue was projected to increase as plan assets initially remained at record highs, even though the fee on the overall plan assets declined from 0.1% to 0.07% for plan assets over $1 billion. However, the market information and fee structure used in preparation for the fiscal 2016 budget (fall 2014) both ended up being inaccurate. The fee structure changed, as mentioned, and sudden financial market downturns now mean CSPM will almost certainly not hit its revenue target for MCIP fees in fiscal 2016. As market volatility is expected for the near future, CSPM is now budgeting a more cautious fiscal 2017.

On the expenditure side, in fiscal 2016, there are several large changes from the prior year. Salaries and wages increase nearly $600,000, or 43.2%, partly due to filling two new positions. These include a new procurement specialist and another administrator to improve customer service. While these positions were added in fiscal 2016, the timing is largely coincidental rather than tied to any particular initiative at CSPM. At the same time, several vacancies arose that greatly reduced salaries in fiscal 2015. This will be discussed in Issue 4. For fiscal 2017, salaries and wages are expected to decline 0.8%.

Fiscal and contractual services jump over 42%, or over $0.3 million, in fiscal 2017, which includes actuarial services, independent audits, banking, financial advisors, database host, records administration, and disaster recovery. This growth is due to CSPM planning to hire a project manager for procurement of new information technology (IT) services to manage account holder records. Also, the program manager contract with T. Rowe Price expires in fiscal 2017. Fixed charges decline almost 24%, or about $58,000, due to reducing liability insurance that is actually covered by the State. The CSPM office rent contract with the Department of General Services will expire soon, and its renewal or relocation will be an important consideration for CSPM leadership in fiscal 2017.

IT maintenance and support are significant expenditures for CSPM as it needs extremely reliable software and disaster recovery tools to manage financial assets. Software license fees decline about 39%, or nearly $50,000, due to a new contract for network services with the Department of the Treasury. This will review all software contracts at CSPM, looking for opportunities for consolidation to reduce costs. Changes in all other budget categories are generally small or flat and reflect nearly constant costs assumed by CSPM in budgeting the next year.

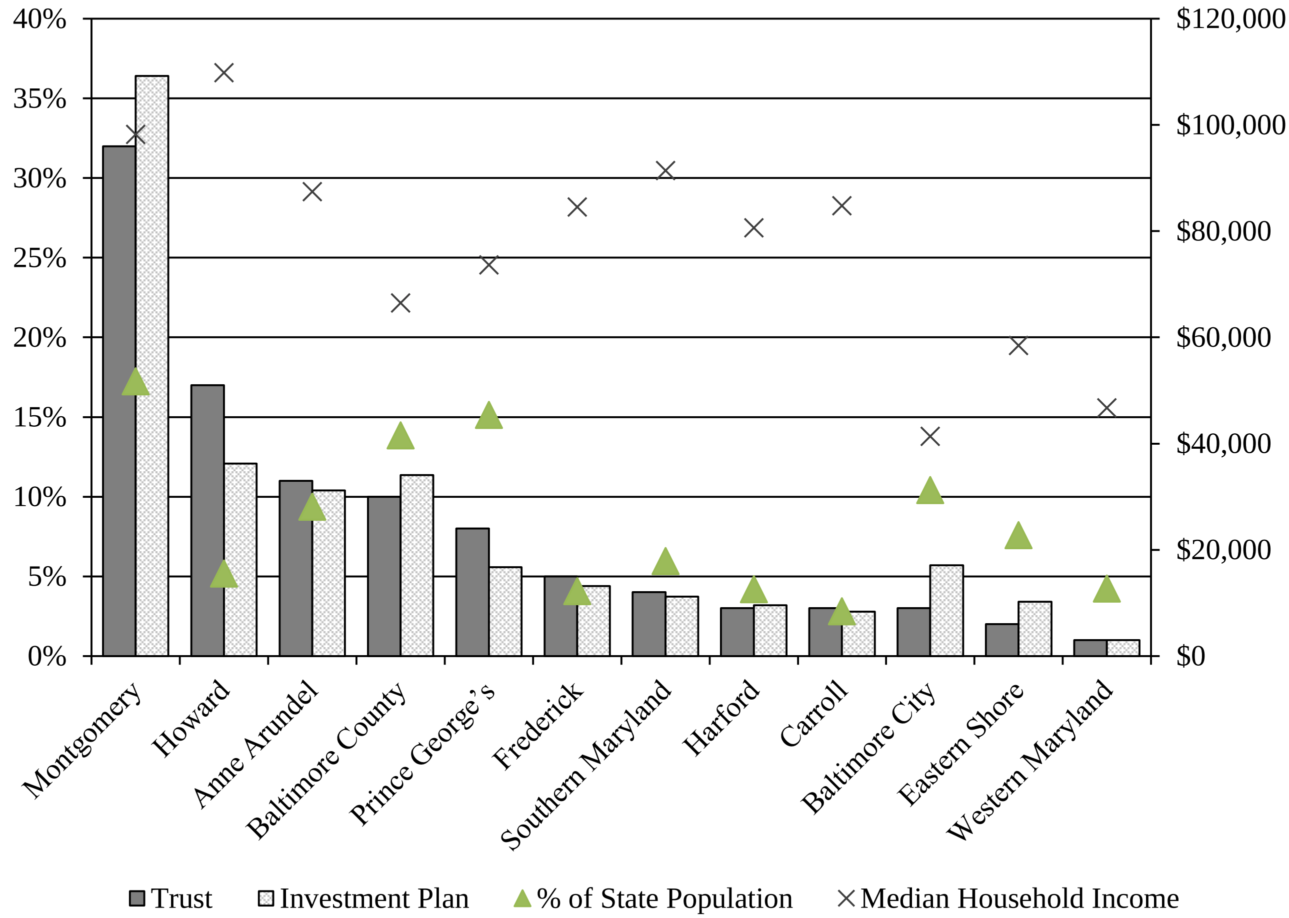
Issues

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 very 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 fiscal 2015, there were more than 12 million accounts with total assets of about $258 billion according to the College Savings Plan Network. Although national data is limited, Maryland compares favorably as survey data for CSPM indicates 76% of Maryland families are saving for college compared to 51% nationwide. However, 81% of Maryland families who reported that they were saving for college were not using a 529 plan, but rather some combination of traditional savings accounts, 401(k) plans, or traditional investment vehicles (like stocks, bonds, and certificates of deposit). This shows a tremendous growth opportunity remains for CSPM, but also a need to overcome erroneous beliefs and fears about how money in a 529 plan can be used and by whom.

Echoing the GAO study, a 2010 Survey of Consumer Finances found families using 529 plans 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. While CSPM does not have information on the incomes of individual plan holders, county residence is a rough way to estimate whether this trend also occurs in Maryland. As shown in **Exhibit 5**, Montgomery County residents account for over 30% of the new enrollments in both the trust and investment plans, despite representing only about 17% of the State's population in fiscal 2014 according to U.S. Census Bureau estimates. Howard County is also disproportionately represented among the savings plans, while Anne Arundel, Carroll, and Frederick counties are near expected rates. All other counties and Baltimore City are underrepresented among plan holders as compared to the State's population. Part of this discrepancy may in fact be explained by differences in personal income. Both Montgomery and Howard counties have much higher median household incomes, $98,221 and $109,865 respectively, than the State average of $73,538. Those households likely have not only more discretionary income, but more benefit to derive from 529 plan tax deductions.

Exhibit 5
Profile of New Prepaid College Trust and Investment Plan Enrollment
By County/Region of Residence
Fiscal 2015



Note: This chart only reflects plan holders residing in Maryland. The most recent population estimates reflect calendar year 2014.

Source: College Savings Plan of Maryland; Census Bureau

Financial literacy remains a large hurdle for enrollment, as is communicating to families who could transfer savings to 529 plans or begin college savings for the first time. According to CSPM's own survey data, many families who want to save for their children's education are not even aware of 529 plans. Also, due to the number of plans and variations in investment options, those who want to use a 529 plan may believe it is 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 twice a year. *The Survey of Consumer Finances* 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. Maine in particular is experimenting with automatic enrolling of all newborns with seed funding to get accounts started growing early.

In Maryland, the CSPM 2014 marketing survey indicated that only 8.3% of MCIP accounts' holders and 11.3% of MPCT accounts' holders were African American residents, despite African Americans making up about 30.0% of Maryland's total population. This survey also indicated that 71.0% of families who are not currently saving for college believe they cannot afford to do so. In response, in fiscal 2015, CSPM produced a new publication with Scholastic Inc. entitled *Smart State: A Family Guide to Saving for College* aimed at dispelling common misconceptions about 529 plans and emphasizing that contributions can start at only $25 per month for the MCIP and/or a one-semester college plan for the MPCT. CSPM is also focusing on more targeted print advertising to reach African American families.

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 are broadening CSPM advertising and outreach to Western Maryland and the Eastern Shore, which are underrepresented in plan participation rates, as shown in Exhibit 5. The 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 because many people simultaneously browse the internet on connected devices while watching television shows. CSPM is also running advertisements in theaters. This generated nearly 1.4 million impressions, or views, in November and December 2015, although this was mostly occurring in Montgomery, Prince George's, and Anne Arundel counties and the Baltimore metropolitan area. CSPM is currently reviewing the effectiveness of this marketing campaign before continuing further. Finally, CSPM is refocusing on mailings targeted around planned CSPM events at fairs, community gatherings, and sporting events. CSPM sent out about 10,000 mailings in fiscal 2011, but this increased to 45,000 by fiscal 2015. At the same time 529 enrollment kits distributed by mail declined from 25,000 to 16,000 as nearly all new accounts are created online. The new mailings focus on residents within 20 miles of events where CSPM is operating a booth or directly interacting with the audience. CSPM's most high profile marketing partnership, entering its sixth year, is with the Baltimore Ravens football team, but CSPM also works with all four of Maryland's minor league baseball teams.

CSPM launched a new website design in November 2015 with a new layout and a focus toward delivering webinars and downloadable material. Even before the new website, unique web visitors had grown about 25% from fiscal 2011 to 2015. At the same time, the Maryland Higher Education Commission has recently relaunched its own website and Maryland's college access website, MDGo4It, is another avenue to raise awareness of the State's 529 plans. Finally, CSPM has employer payroll deduction programs with the State of Maryland and several counties, which is one of the simplest ways to reach a very large body of employees who are generally familiar with automatic monthly contributions. Currently, the State and Howard and Prince George's counties are enrolled in this, but it often generates a lot of customer support needs on the back end for CSPM to manage due to the expectations of employees to have ready access to live customer support.

The CSPM director should comment on marketing plans in fiscal 2017 to increase the participation of low-income families and other underrepresented demographics in higher

education in 529 college savings plans. In particular, the director should comment on ways to bridge financial literacy hurdles that may limit the understanding of 529 plan benefits and reach the least represented regions: Western Maryland, the Eastern Shore, and Baltimore City.

2. CSPM May Expand for ABLE Program

The Achieving a Better Life Experience (ABLE) Act is a federal law enacted in December 2014 that created 529A plans, similar to 529 college savings plans. Specifically, it 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. Currently, no state has an operable 529A plan, but at least 34 are looking at expanding existing 529 college savings agencies to include 529A plans as well. Chapter 382 of 2015 formed a workgroup to examine how to implement a 529A plan in Maryland and submitted a final report in December 2015. This report had 9 legislative and 2 implementation recommendations. All of the legislative recommendations were incorporated into HB 431 of 2016. If passed, this bill would:

- require the CSPM Board to establish the Maryland ABLE Program;
- rename the CSPM Board to the Maryland 529 Board and add a new member;
- require consultation between Maryland 529 and the Maryland Department of Disabilities (MDOD) regarding implementation of the Maryland ABLE Program; and
- apply ABLE tax benefits to all years beginning after December 31, 2015, and have them match the college savings income tax deduction.

This bill differs from the ABLE taskforce's December 2015 report in two ways. First, it incorporates a recent federal change that users of a 529A plan no longer need to be a resident of the state in which they create an account. Second, it allows for Maryland's 529A plan to participate in a consortium of states. While the 2015 workgroup estimated as many as 53,000 Marylanders would be eligible for the plan, this is significantly lower than the 180,000 plan holders for college 529 plans. If states banded together, they would likely be able to achieve some economies of scale, such as putting together a more attractive, that is larger, portfolio for a private sector financial program manager. They could also use a uniform disclosure statement. Currently, at least 15 states are exploring this option.

Coincidentally, CSPM and MDOD are on the same floor of an office building in downtown Baltimore City. However, CSPM's lease will expire in fiscal 2017, presenting an opportunity to move to larger office space, which may be necessary if CSPM administers 529A plans.

The CSPM Director should comment on a potential timeline for opening enrollment in 529A plans. The Director should also comment on the need to change marketing features for the two existing 529 plans, such as website domain names, and the impending expiration of the CSPM

lease of office space in downtown Baltimore and the opportunity this presents to relocate to larger offices.

Finally, given these potential changes, the CSPM director should comment on whether now is also an opportunity to launch broker-dealer investment 529 plans, authorized by Chapter 548 of 2008, but never established.

3. Differential Tuition Problem Resolved

In May 2015, the University System of Maryland Board of Regents (BOR) approved a University of Maryland, College Park (UMCP) proposal to establish differential tuition for juniors and seniors in business, engineering, and computer science majors. These students will pay additional tuition in their junior and senior years due to high demand and increased program cost. The differential pricing is phased in, from fiscal 2016 through 2019, as shown in **Exhibit 6**.

Exhibit 6
Proposed Differential Pricing Phase-in for Upper Level Students at the University of Maryland, College Park

Fiscal Year	Student Status	Financial Impact	Percent Increase*
2016	Current Seniors	$700	2%
2016-2017	Current Juniors	$2,100	6%
2017-2018	Current Sophomores	$4,200	11%
2019+	Current Freshmen and Future Students	$5,600	15%

*Based on $38,000 in-state four-year tuition.

Source: University of Maryland, College Park

Differential tuition revenue will go back into the specific degree programs to hire new faculty, enroll additional students, and provide additional financial aid. The proposal indicated that 25% of the total will be reserved for grants for very-low and low-income students as well as full scholarship students, thereby effectively exempting them from the differential. At this time no other public Maryland institutions are pursuing differential tuition. In making its case to BOR in spring 2015, UMCP noted that it was the only Big 10 institution that did not charge differential tuition.

Initially, CSPM declined to pay for differential tuition on the grounds that it was not covered by the statutory definition of tuition and was not part of the assumptions made in managing the MCPT assets. This determination upset account holders. CSPM then reviewed contracts and disclosure statements with the Office of the Attorney General to determine whether this should legally be covered by the plan and also sought an actuarial analysis of the impact of this new cost. In December 2015, satisfied with legal guidance and the actuarial review, the CSPM board determined that it would cover the differential tuition retroactive to the fall 2015 semester. All 236 impacted account holders who submitted benefit claims were notified and will be reimbursed. Spring 2016 payments from CSPM will include differential tuition. **The CSPM director should comment on whether the differential tuition decision represents a new policy for all Maryland institutions going forward.**

4. Leadership Turnover and Vacancies

Since the 2015 legislative session, CSPM has experienced personnel turnover and vacancies at a much higher rate than in previous years. CSPM has had 2 interim executive directors in fiscal 2016 and, out of only 20 positions, there are 7 vacancies as of January 2016, including the chief financial officer position. This is an extraordinarily high vacancy rate of 33%. Some of these vacant positions have been downgraded from the classifications used in fiscal 2016, which is why salaries decrease overall for CSPM. As of February 2016, no job postings are shown for CSPM on the DBM Maryland State Online Employment Center website. CSPM also has a new Attorney General who was recently assigned to the agency. Given the changes in leadership and the loss of so many personnel at such a small organization, there may be challenges in providing effective customer service and other routine support and this will likely hinder any expansion of current operations or launching of new initiatives.

The CSPM director should comment on the timeline for filling the agency's management and regular employee positions and how effectively CSPM has been meeting its obligations during this time of turnover and personnel shortages. Finally, the director of CSPM should comment on the vision and future of CSPM given all of this change.

Recommended Actions

1. Nonbudgeted.

Updates

1. Investment Plan Again Recognized for Strong Performance

For the fourth year in a row, the MCIP was awarded a "Gold" ranking from Morningstar Advisor in fall 2015, one of only four 529 plans recognized nationwide. One of the other four, from Alaska, also uses T. Rowe Price as its program manager. These two plans demonstrated abilities to outperform their relevant benchmark and peer groups and protected consumer assets by adjusting investments quarterly rather than annually. Higher education competitor states California, New York, Ohio, and Virginia each had at least one "Silver" plan. Virginia notably has a direct contribution plan and an advisor plan. Only two plans nationwide received a negative rating overall. Prior to the "Gold" ratings system, the MCIP had received the "Top" rating from Morningstar in 2011 and 2010.

Appendix 1

Audit Findings

Audit Period for Last Audit:	August 3, 2011 – November 17, 2014
Issue Date:	June 2015
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: CSPM did not determine the disposition of uncashed checks nor did it take action to transfer funds determined to be abandoned to the Comptroller of Maryland as required.

Finding 2: CSPM lacked assurance that certain security controls were addressed by the service provider administering the MCIP.

Object/Fund Difference Report
College Savings Plans of Maryland

Object/Fund	FY 15 Actual	FY 16 Working Appropriation	FY 17 Allowance	FY 16 - FY 17 Amount Change	Percent Change
Positions					
01 Regular	21.00	21.00	21.00	0.00	0%
02 Contractual	0.20	0.20	0.20	0.00	0%
Total Positions	**21.20**	**21.20**	**21.20**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 1,288,570	$ 1,970,701	$ 1,891,136	-$ 79,565	-4.0%
02 Technical and Special Fees	87,617	0	69,846	69,846	n/a
03 Communication	115,749	138,247	119,952	-18,295	-13.2%
04 Travel	18,265	20,000	20,000	0	0%
07 Motor Vehicles	6,261	9,459	9,000	-459	-4.9%
08 Contractual Services	899,176	1,127,300	1,403,669	276,369	24.5%
09 Supplies and Materials	31,166	40,685	40,000	-685	-1.7%
11 Equipment – Additional	19,877	50,000	50,000	0	0%
13 Fixed Charges	235,880	237,830	168,930	-68,900	-29.0%
Total Objects	**$ 2,702,561**	**$ 3,594,222**	**$ 3,772,533**	**$ 178,311**	**5.0%**
Funds					
07 Nonbudgeted Fund	$ 2,702,561	$ 3,594,222	$ 3,772,533	$ 178,311	5.0%
Total Funds	**$ 2,702,561**	**$ 3,594,222**	**$ 3,772,533**	**$ 178,311**	**5.0%**

n/a: not applicable

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.