Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 692 (Delegate Frick, *et al.*)
Appropriations

College Savings Plans of Maryland - Maryland College Savings Account Plan - Authorization

This bill authorizes the College Savings Plans of Maryland Board to establish the Maryland College Savings Account Plan, which is generally integrated into the existing structure for the other plans administered by the board. The purpose of the plan is to allow contributions to a savings account (not an investment account) that is federally insured and established to meet the qualified education expenses of a qualified designated beneficiary. The State income tax subtraction modification for contributions to Maryland's College Savings plans is expanded to include the new plan.

The bill takes effect July 1, 2015, and applies to tax years 2015 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $69,800 in FY 2018, escalating to $639,500 by FY 2020, due to subtraction modifications for contributions to savings accounts authorized under the bill, under the assumptions discussed below. General fund revenues decrease significantly thereafter. Nonbudgeted expenditures for the board increase by $977,700 in FY 2016 and $875,700 in FY 2017 for information technology, personnel, and marketing costs and by about $900,000 annually thereafter for ongoing plan costs. Nonbudgeted revenues increase correspondingly; however, it is unclear what source of funds may be used for start-up costs.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	-	-	($69,800)	($327,800)	($639,500)
NonBud Rev.	$977,700	$875,700	$892,300	$909,800	$928,000
NonBud Exp.	$977,700	$875,700	$892,300	$909,800	$928,000
Net Effect	$0	$0	($69,800)	($327,800)	($639,500)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local income tax revenues decrease by $44,100 in FY 2018, escalating to $403,900 in FY 2020. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The savings account plan (1) may be established as one or more separate plans as determined by the board; (2) if established by the board, must be established in the form determined by the board; (3) must be marketed and promoted under the name or names determined by the board; and (4) may be established as one or more trusts to be declared by the board. A Maryland resident or, at the board's discretion, a nonresident may participate in and benefit from the savings account plan. In addition to any other procedures that it considers necessary to carry out the bill, the board must adopt procedures relating to:

- enrollment procedures for participation in the savings account plan;
- start-up costs incurred by the State for the development of the savings account plan with these costs to be reimbursed to the State by the savings account plan;
- early withdrawals so that there will be no major detriment to the remaining account holders in the savings account plan; and
- transfer of funds from the savings account plan to other qualified tuition programs and from other qualified tuition programs to the savings account plan in accordance with federal law.

The board may issue requests for proposals to evaluate and determine the means for the administration, management, promotion, or marketing of the savings account plan. The board must consider proposals that meet the following criteria:

- ability to develop and administer savings accounts of a nature similar to the objectives of the savings account plan;
- ability to administer financial programs with individual account records and reporting; and
- ability to market the savings account plan to Maryland residents.

The board may require an initial enrollment fee to be used for administrative costs of the savings account plan and may require additional fees associated with plan expenses.

The assets and income of the savings account plan are exempt from State and local taxation.

Contributions, which may be made only in cash or cash equivalents, to the savings account plan on behalf of a qualified designated beneficiary may not exceed the maximum amount determined by the board to be in accordance with Section 529 of the Internal Revenue Code. A person (other than the State) may not attach, execute, garnish, or otherwise seize any current or future benefit under a savings account or any asset of the savings account plan. The bill specifies several conditions related to the debts, contracts, and obligations of the plan and their relation to the State's obligation of payment. These are consistent with provisions for the other plans managed by the board. Specifically:

- The debts, contracts, and obligations of the savings account plan are not the contracts, debts, or obligations of the State, and neither the faith and credit nor taxing power of the State is pledged directly or indirectly or contingently, morally or otherwise, to the payment of the debts, contracts, and obligations.

- The board cannot directly or indirectly or contingently obligate, morally or otherwise, the State to levy or pledge any form of taxation whatsoever for the debts and obligations of the savings account plan or to make any appropriation for the payment of the debts and obligations of the savings account plan.

- Neither the State nor any eligible educational institution is liable for any losses or shortage of funds in the event that the account holder's account balance is insufficient to meet the tuition requirements of an institution attended by the qualified designated beneficiary.

- Money of the savings account plan may not be considered money of or commingled with any of the other plans administered by the board.

The Legislative Auditor must audit the savings account plan in accordance with current law. The board must also obtain an annual audit report from a service provider within six months of the end of the service provider's reporting period.

Current Law: The College Savings Plans of Maryland Board currently operates two plans established in State law: the Maryland Prepaid College Trust and the Maryland College Investment Plan. Chapter 548 of 2008 authorized the board to establish a third plan, the Maryland Broker-Dealer College Investment Plan, but the board has yet to do so. At the end of fiscal 2014, the assets of both operating plans totaled $4.8 billion across 177,000 accounts.

Tax benefits vary between the plans; however, in any tax year, an individual is eligible for both the subtraction modification for prepaid contributions and the subtraction modification for contributions to the investment plans. For the Maryland Prepaid College Trust, an individual may subtract up to $2,500 per year, per prepaid contract, from Maryland taxable income for contributions to the plan. For the Maryland College Investment Plan and the Maryland Broker-Dealer College Investment plan, an individual may subtract up to $2,500 per year, per qualified beneficiary, from Maryland taxable income for total contributions to the plans. For the investment plans, each spouse on a joint tax return is treated separately for this limited purpose. Contributions exceeding $2,500 may be carried over for 10 successive tax years. Earnings on money invested in college savings plans are not subject to State or federal taxes as long as the funds are used for eligible college expenses.

Background: The bill establishes a "savings account" plan, not an investment account plan. This type of account is particularly advantageous if either (1) the financial markets are in a period of instability or decline or (2) there is insufficient time for an investment to grow.

The Virginia College Savings Plan offers four programs: PrePAID, InVEST, CollegeWealth, and CollegeAmerica. Each program offers a different approach for saving. Excluding CollegeAmerica (which has $45.3 billion in assets), the other three plans had a combined $5.1 billion in assets across 253,000 accounts in fiscal 2014.

Similar to the plan established by the bill, CollegeWealth is a federally insured savings program that offers accounts through a partnership with two financial institutions. CollegeWealth participants make contributions to high-yield savings accounts (about 2%) through one of these two sponsor banks. The interest rates that contributions earn vary based on the amount saved. Funds may be used for any qualified higher education expense. CollegeWealth is targeted at Virginia residents but is open to any participant. An estimated 85% of CollegeWealth accounts are owned by Virginia residents. As CollegeWealth offers a fixed rate of return and is federally insured, there is minimal risk of investment loss.

CollegeWealth has experienced steady growth since it was established in 2007. The program added approximately 10,000 accounts – representing $63.4 million in assets – over its first five years of existence. At the end of fiscal 2014, there were nearly 14,000 accounts and $84.3 million in assets under management.

State Fiscal Effect: General fund revenues decrease by $69,800 in fiscal 2018, escalating to $639,500 by fiscal 2020, due to subtraction modifications for contributions to savings accounts authorized under the bill. General fund revenues decrease significantly thereafter, including by approximately $1.0 million in fiscal 2021 and $1.3 million in fiscal 2022.

This assumes that (1) the board chooses to establish the savings account plan; (2) the plan begins accepting deposits in fiscal 2018, which reflects a two-year start-up period; (3) the growth in accounts tracks that experienced in Virginia for its CollegeWealth program; and (4) each account is eligible for a subtraction modification of $2,500 annually.

The College Savings Plan of Maryland Board is a nonbudgeted State entity and receives no operating or capital funds in the State budget. Instead, it is funded though fees assessed on the plans that it manages. If the board chooses to establish the savings account plan, according to the board, nonbudgeted expenditures increase by $977,700 in fiscal 2016 and by $875,700 in fiscal 2017 for information technology, personnel, and marketing costs in order to start up the program. Future year expenditures of approximately $900,000 are required to cover the ongoing costs related to the plan. This amount is less than the cost to administer the current plans, which is $3.1 million combined in fiscal 2014. The Department of Legislative Services advises that this amount of start-up time or costs cannot be independently confirmed. Nonbudgeted revenues increase correspondingly beginning in fiscal 2018 from fees assessed on contributions to the savings plan; however, it is unclear at this time what source of funding is available to the board for start-up costs in fiscal 2016 and 2017.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Accordingly, local revenues decrease by $44,100 in fiscal 2018, $207,000 in fiscal 2019, and $403,900 in fiscal 2020. Local revenues continue to decrease significantly thereafter.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): College Savings Plans of Maryland, Comptroller's Office, Department of Budget and Management, University System of Maryland, Virginia529 College Savings Plan, Virginia Joint Legislative Audit and Review Commission, Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2015
min/rhh

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