Reforming College Saving Benefits Would Improve Effectiveness and Equity

Position Statement in Support of Senate Bill 779

Given before the Senate Budget and Taxation Committee

Higher education can act as a stepping stone to economic opportunity, but the increasingly unaffordable cost of college puts it out of reach for many and saddles others with burdensome debt. Maryland's state benefits for people who save for college through a 529 plan are one of the many ways we help more Marylanders afford higher education. Senate Bill 779 builds on smart steps the General Assembly took last year to ensure state contributions to 529 plans expand access to college rather than allowing a few to pocket massive sums. For these reasons, the Maryland Center on Economic Policy supports Senate Bill 779.

Under the Senator Edward J. Kasemeyer College Investment Plan, the state boosts the power of families' college savings by contributing up to $500 when a qualified applicant makes a small contribution (as little as $25, depending on family income) to a 529 account.

Plan administrators in 2019 identified a relatively small but growing trend of individuals abusing this program by opening large numbers of 529 accounts for a single beneficiary and thereby pocketing thousands in state contributions—in one case, nearly $100,000.[i] The General Assembly in 2020 added safeguards to prevent this abuse by limiting each beneficiary (such as a child or prospective student) to two state contributions in a given year. Senate Bill 779 would build on this reform to improve the program's ability to help as many people as possible, especially those who need the most help:

- It would require both the account holder (such as a parent) and the beneficiary (such as a student or prospective student) to reside in Maryland to receive a state contribution.
- It would calculate eligibility and state contribution amounts based on an applicant's Maryland adjusted gross income, preventing wealthy families from using tax breaks to access benefits intended for working families.
- It would target benefits to prospective students who are under 26 years old at the time of the contribution.
- In years when qualifying applications exceed budgeted funding, the bill would distribute benefits to as many different families as possible before distributing multiple benefits to the same family.
- The bill would limit each contributor to $9,000 in state contributions over the course of their life.

These reforms would ensure that benefits are spread among as many savers as possible and target benefits to families who have limited resources to contribute on their own.

Effective policies to make college affordable are vital at a time when tuition growth is outpacing wage growth. Tuition and fees at public four-year institutions increased by 34 percent from the 2008–2009 academic year to 2018–2019 (23 percent adjusted for inflation), while tuition at two-year institutions grew by 41 percent (23 percent, adjusted for inflation).[ii][2] In contrast, typical Maryland workers saw their hourly earnings increase by only 16 percent during this period—a 3 percent *decrease* after adjusting for inflation.[iii] Tuition growth has even outpaced wage growth among college graduates.

Rising college costs put higher education further out of reach for many Marylanders of color because of lopsided economic growth that often leaves them behind. Between 2009 and 2019:[iv][4]

- Tuition and fees at public four-year institutions in Maryland increased four times as fast as typical Black workers' wages. Tuition and fees at two-year institutions grew *five times* as fast as Black workers' wages.
- College costs grew about twice as quickly as typical Latinx workers' hourly earnings.
- Tuition and fees at four-year institutions grew about 1.3 times as quickly as white workers' wages, while costs at two-year institutions grew about 1.6 times as fast.

Senate Bill 779 would make Maryland's 529 benefits more effective and more equitable, and would as a result make college more affordable for Marylanders.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make a favorable report on Senate Bill 779.

Equity Impact Analysis: Senate Bill 779

Bill summary

Senate Bill 779 would institute several reforms to the Senator Edward J. Kasemeyer College Savings Plan:

- It would require both the account holder (such as a parent) and the beneficiary (such as a student or prospective student) to reside in Maryland to receive a state contribution.
- It would calculate eligibility and state contribution amounts based on an applicant's Maryland adjusted gross income, preventing wealthy families from using tax breaks to access benefits intended for working families.
- It would target benefits to prospective students who are under 26 years old at the time of the contribution.
- In years when qualifying applications exceed budgeted funding, the bill would distribute benefits to as many different families as possible before distributing multiple benefits to the same family.
- The bill would limit each contributor to $9,000 in state contributions over the course of their life.

Background

529 plan administrators in 2019 reported a growing number of account holders collecting thousands in state contributions by opening multiple college savings accounts, including one instance of an account holder opening nearly 200 accounts and thereby collecting close to $100,000 in state contributions.

The General Assembly in 2020 enacted reforms to prevent this type of abuse by limiting each plan beneficiary (or prospective student) to a maximum of two state contributions in any given year.

Equity implications

Rapidly rising costs have made it harder for students of all backgrounds to afford a college education. Cost poses an especially high barrier to Marylanders of color, whose wages have grown more slowly than their white counterparts over the last decade:

- Tuition and fees at public four-year institutions in Maryland increased four times as fast as typical Black workers' wages. Tuition and fees at two-year institutions grew *five times* as fast as Black workers' wages.
- College costs grew about twice as quickly as typical Latinx workers' hourly earnings.
- Tuition and fees at four-year institutions grew about 1.3 times as quickly as white workers' wages, while costs at two-year institutions grew about 1.6 times as fast.

Impact

Senate Bill 779 would likely **improve racial and economic equity** in Maryland.

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[i] Maryland FY 2021 Budget Analysis: Higher Education Overview, http://mgaleg.maryland.gov/pubs/budgetfiscal/2021fy-budget-docs-operating-HIGHED-Higher-Education-Overview.pdf

[ii] MDCEP analysis of College Board College Cost Trends 2020 data.

[iii] Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group.

[iv] Calculations below based on College Board College Cost Trends 2020 and Economic Policy Institute wage data.