

SENATOR SARAH ELFRETH
Legislative District 30
Anne Arundel County

Budget and Taxation Committee

Subcommittees

Education, Business and Administration

Chair, Pensions

Senate Chair

Joint Committee on Administrative,
Executive, and Legislative Review

Joint Committee on the Chesapeake and
Atlantic Coastal Bays Critical Area



James Senate Office Building
11 Bladen Street, Room 103
Annapolis, Maryland 21401
410-841-3578 · 301-858-3578
800-492-7122 Ext. 3578
Fax 410-841-3156 · 301-858-3156
Sarah.Elfreth@senate.state.md.us

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

February 24, 2021

Testimony in Favor of SB779
Maryland 529 Program - Board Authority and State Contribution - Alterations

Chairman Guzzone, Vice-Chair Rosapepe, and fellow members of the Budget and Taxation Committee,

I respectfully request a favorable report of Senate Bill 779, legislation which would reform the Maryland Save4College program administered through Maryland 529. To be clear: SB 779 only addresses the State match piece of 529 college savings plans.

This Committee is no stranger to hearing of an egregious budget item or program that has been abused and that requires a legislative fix. That is the case with our State's incredibly important Save4College 529 plan that helps middle- and low-income families save for college by providing a State match reflective of income levels and contribution.

Unfortunately, a small number of people are abusing the program -- including one family receiving \$97,500 in State match funds in just one year - in part resulting in additional funding needed for the program than previously allocated.

Last session, the General Assembly made a temporary fix by adding budget language to the BRFA to clarify that in a single application year one beneficiary can only receive up to two State matches; however, there is still significant reform needed to ensure that this program is strengthened and matches its original intent.

A workgroup was formed over the interim, including Senator Zucker, Senator Klausmeier, myself, members of the House Appropriations Committee, the Cash Campaign, and Maryland 529, to study improvements that can be made to ensure integrity in the program. This legislation is the result of that workgroup and specifically reforms the Save4College program by:

1. Specifying that both the account holder and the beneficiary are Maryland residents;
2. Changing the beneficiary age limit to 26 to target first-time college students;
3. Moving to adjusted gross income, a more accurate and universal standard, for eligibility;
4. Setting lifetime limits on the number of accounts and amount of State matches; and,
5. Setting a July 15 deadline for an individual to file taxes in order to receive the State match.

Specifying that both the account holder and beneficiary are Maryland residents will ensure that our State's investment in these programs is provided to Marylanders who pay taxes and live in our communities. It will also eliminate high-income out-of-State residents who may have low taxable income and therefore receive this match benefits as a result.

Changing the beneficiary age limit to 26 we will ensure that this program is more directly targeted at our first time college students. The workgroup believes there are other programs, including the Maryland Promise Scholarship and other aspects of 529 plans that benefit returning students.

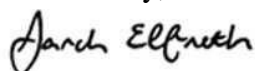
Moving towards adjusted gross income will ensure that the income level provided to Maryland 529 is more representative of an account holder's true financial means -- and not representative of the many deductions that more of our higher income individuals receive. This change will ensure the match program benefits low- and middle-income families.

Setting the lifetime limit at \$9,000 for an account holder will close the most egregious loophole that allows unlimited account holder-beneficiary matches. The workgroup felt that a \$9,000 lifetime limit will allow for one account holder, such as a parent, to still receive a State match for a beneficiary, such as a child, every year from birth to college.

Changing the tax due date to July 15 will ensure that Maryland 529 has the necessary time to submit and disburse the State match to members of the program well before the December deadline.

By clarifying the intention of the program, ensuring only Marylanders receive the match, and limiting the lifetime match, we can close loopholes and strengthen this critical program. When passed, Senate Bill 779 will save taxpayers an estimated \$3 million annually and still ensure low- and middle-income families can effectively save for college. What is more, these necessary changes outlined in SB 779 will still ensure that Maryland's Save4College program remains the most generous match program in the nation.

Sincerely,



Sarah Elfreth