SB779_SenElfreth_ FAV.pdf
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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

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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 Klausemeier, 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

Sarah Elfreth

Comptroller's testimony on HB1238-SB779.pdf

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TESTIMONY OF COMPTROLLER PETER FRANCHOT

Support – House Bill 1238/Senate Bill 779 – Maryland 529 Program – Board Authority and State Contribution – Alterations

February 24, 2021

It is my pleasure to provide testimony in **support** of **House Bill 1238/Senate Bill 779 – Maryland 529 Program – Board Authority and State Contribution – Alterations.** I would like to thank Del. Forbes and Senator Elfreth for sponsoring this important legislation.

As a member of the Maryland 529 Board for many years, I am incredibly proud of what this organization has accomplished, and never before has its mission and purpose been more consequential. Every new year brings new statistics on the value of higher education – higher lifetime earnings, economic mobility, greater community involvement, and better health outcomes – all proven benefits of higher education.

The original aspiration for Maryland 529 was to provide tax-incentivized opportunities to save money for college and help make that goal more attainable for more students without the anchor of crippling student loan debt. In 2016, the Achieving a Better Life Experience (ABLE) Program was created to support individuals with disabilities to maintain their health, independence, and quality of life. Most recently, in 2019, the General Assembly created the Save4College State Contribution Program, which helps seed students' accounts with as much as $500 per year, based on income. Each of these programs serves a vital purpose for the State of Maryland, and the legislation under consideration today will strengthen and preserve each of them for years to come.

For the reasons stated above, I respectfully request a **favorable report** for House Bill 1238/Senate Bill 779. Thank you for your time and consideration.

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SB 779- Maryland 529 Program – Board Authority and

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SB 779 - Maryland 529 Program – Board Authority and State Contribution – Alterations
February 24, 2021
<u>SUPPORT</u>

Chairman Guzzone, Vice-Chair and members of the committee, thank you for the opportunity to support Senate Bill 779. This bill strengthens the Save4College program, and aligns it with the original intent of the College Affordability Act of 2016 (SB 676/HB1014).

The CASH Campaign of Maryland promotes economic advancement for low-to-moderate income individuals and families in Baltimore and across Maryland. CASH accomplishes its mission through operating a portfolio of direct service programs, building organizational and field capacity, and leading policy and advocacy initiatives to strengthen family economic stability. CASH and its partners across the state achieve this by providing free tax preparation services through the IRS program 'VITA', offering free financial education and coaching, and engaging in policy research and advocacy. **Almost 4,000 of CASH's tax preparation clients earn less than $10,000 annually. More than half earn less than $20,000.**

The state match was created to help low and middle income families save for their child's future higher education costs. Unfortunately, there are unintended abuses of the program, with some individuals receiving tens of thousands of match funds. Most notably, one family received $97,500 in state match funds in a single application cycle. The General Assembly added language in last year's budget to clarify that in a single application year, one beneficiary can receive two state matches. This change will help lessen the ability to easily abuse the program; however, more clarification is needed.

SB 779 would implement the following changes to preserve the program and save the state $3 million.

- **$9,000 Account Holder Lifetime Limit**: This change, along with the current budget language, targets the individuals who are abusing the program. The limit assumes a max match of $500 per year for 18 years, but those who have abused the program will already have met their lifetime limit. Maryland provides the most generous match in the country; all other states provide a one-time match per household.
- **Calculate Income Using Adjusted Gross Income (AGI)**: The program currently determines income by using taxable income. A majority of means-tested programs and credit use AGI as the standard. Using taxable income allows for families with high income to qualify for the benefit. Taxable income can take into account many deductions that will lower an individual or family's income. For example, an individual who makes over $130,000 can qualify for the match, even though the cap is $112,500 for an individual.
- **Residency Requirements**: The account holder has to be a Maryland resident to be eligible for the state match.
- **Beneficiary Age Limit**: Establishes the beneficiary age limit for accounts to receive the state match as under the age of 26 before January 1 of the application cycle.

These changes only affect the state match program. They do not limit or change the ability to open or contribute to a Maryland 529 account. SB 779 will eliminate the need for another deficiency appropriation, align the program with its original intent, and ensure that the administration of the program is fair and efficient.

<u>We encourage you to return a favorable report of Senate Bill 779. Thank you.</u>

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FEBRUARY 24, 2021

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).[ii2] 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.

SB 779 - Maryland 529 Program – Board Authority an
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Testimony SUPPORT of Senate Bill 779
Maryland 529 Program – Board Authority and State Contribution – Alterations

Senate Budget & Taxation Committee
February 24, 2021

Samantha Zwerling
Government Relations

The Maryland State Education Association supports Senate Bill 779, which clarifies provisions related to 529 savings accounts and caps the total lifetime amount of state contributions an account holder may receive at $9,000. This is an important step in tightening up the state's 529 program and ensuring the program is meeting its intended goals.

MSEA represents 75,000 educators and school employees who work in Maryland's public schools, teaching and preparing our 896,837 students for careers and jobs of the future. MSEA also represents 39 local affiliates in every county across the state of Maryland, and our parent affiliate is the 3 million-member National Education Association (NEA).

MSEA supports Senate Bill 779 that helps clarify the original intent of the program, but believes more needs to be done to reign in this program and restore it to its original intent.

Maryland's 529 program is now serving two purposes: first, helping Marylanders save and pay for higher education for their loved ones, and secondly, helping families invest private school tuition funds in tax-benefitted accounts while receiving a state match. Provisions inserted into Federal Tax Cuts and Jobs Act of 2017 allows families to pay for private school K-12 tuition with 529 account funds. That was never the intent in Maryland and as the program currently stands, Maryland taxpayers are subsidizing private elementary and secondary school tuition with state funds designed to incentivize saving for college.

The Maryland Higher Education Commission estimates that student loan debt is about $1.48 trillion nationally, and the average student loan debt in Maryland is around $27,455 per student. Unfortunately, the loophole in the 529 program results in less funding available to address skyrocketing student loan debt. According to a press release from Governor Hogan in 2018, the 529 "program was designed to help families, especially those from low- and middle-income households, have the opportunity to start saving for college for their children." Marylanders struggle to afford higher education, and the legislature should restore this program to its original intent. This bill would help to put guardrails around the program and ensure families are not receiving more than $9,000 in matching funds.

The Kirwan Commission has determined that Maryland will need to put substantially more resources into education if our state is to help our citizens become truly successful in the very competitive national and global economies. This is the time to locate and allocate more resources to public education, and to make sure current expenditures are used for their intended purposes. The passage of this bill helps to do just that.

MSEA urges a favorable report of Senate Bill 779.