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Delegate Ben Barnes, Chair
Maryland House of Delegates
Appropriations Committee
Annapolis, MD 21401

Delegate Barnes and Members of the Committee:

Thank you for the opportunity to provide written testimony to the Committee in favor of House bill 1290, with amendments. This bill seeks to address the critical issue of the failure on the part of the Board of MD 529 to follow the contractual terms for those of us who invested in the Prepaid College Trust prior to October 31, 2021. I have three children whose accounts are impacted:

- 4014000395-Grace L. John beneficiary-University Plan-2 years
- 4014000430-Nora M. John beneficiary-University Plan-2 years
- 4014000431-Derek R. John beneficiary-University Plan-2 years

Since I have been a contract holder within the Maryland Prepaid College Trust ("the Trust"), an annual Disclosure Statement and Contract has been provided. Within Article VIII (General Provisions) is a clause that discusses changes to the contract. Specifically, this clause states the following (pulled from the current Disclosure Statement and Contract but consistent with language from previous years):

> **Changes to the Contract.** We may amend the terms of this Contract from time to time to comply with changes in the law or regulations or if we determine it is in Maryland 529's and/or the Prepaid College Trust's best interest to do so. However, we will not retroactively modify existing Contract provisions in a manner adverse to you or your Beneficiary, except to the extent necessary to assure compliance with applicable state (including the Enabling Legislation) and federal laws or regulations or to preserve the favorable tax treatment to you, your Beneficiary, Maryland 529, or the Prepaid College Trust. We will promptly notify you of such amendments, and you will be bound thereby unless you notify us in writing of your intent to terminate the Contract within 60 days of the date of the notice.

This establishes an expectation of consistency within the contract provisions and provides for a very clear indication that changes will not be retroactively adverse in nature.

While the Trust is ostensibly designed to pay tuition benefits for contract holders, it also contains a calculation for Minimum Benefits within the context of the Trust paying tuition under the contract. This definition of Minimum Benefits is in the contract presumably to create a floor of value such that the tuition benefits paid would never be below the original value of the contract. Importantly, the contract has always contained rollover and refund provisions as well, providing contract-holders with additional avenues for accessing their funds besides the payment of tuition, along with clear calculation methods for those provisions.

Prior to 2021, all annual contracts described a method for calculating Minimum Benefits **separate and distinct** from the calculation for rollovers and refunds. Minimum Benefits were defined and calculated, per the 2019-2020 Disclosure Statement and Contract Article V, "as payments duly made under this Contract plus a rate of return equal to a monthly rate of return of a US Government Security with a constant maturity of one year minus 1.2%. The rate of return will never be less than zero." For rollovers and refunds, however, the calculation instead used Trust Returns, which were defined as "the since inception rate of return for the Prepaid College Trust."

In August 2021, the Disclosure Statement was updated in part to make changes to these calculations. As stated in the update to Article VI of the Disclosure Statement "In an effort to simplify the Benefits available under the MPCT and create an ease of understanding and use by Account Holders, one calculation will be used for the Minimum Benefit, rollovers and refunds." The section goes on to say "For Accounts in existence on October 31, 2021, contributions in your Account prior to November 1, 2021 will earn 6% on balances, compounded monthly, until benefits are withdrawn, or your Contract is terminated."

This updated calculation method is further documented in the October 13, 2021 letter from GRS, included in the 2021 MD 529 Annual Report, attesting to the actuarial soundness of the Trust. Please see the below paragraph describing the new calculation methods and that they had been used in calculating the actuarial soundness of the Trust:

> Beginning November 1, 2021 and first reflected in the actuarial valuation results as of June 30, 2021, the same interest crediting will be used in calculations performed for the Minimum Benefit, rollovers and refunds. Interest will be credited through October 31, 2021 on account balances at the Trust since inception rate of return as of June 30, 2021 (6.00 percent). Interest credited after October 31, 2021 will be based on the 10-year Treasury note rate as of June 30, compounded monthly.

It is important to note that this language is **NOT** consistent with what is described in the August 2021 Disclosure Statement update, nor is it consistent with the GRS letter in the 2022 MD 529 Annual Report, shown below:

> Beginning November 1, 2021, the same interest crediting will be used in calculations performed for the Minimum Benefit, rollovers and refunds. Interest will be credited on contract payments made to the Trust prior to November 1, 2021 at the since inception rate of return as of June 30, 2021 (6.00 percent) for periods both before and after November 1, 2021. Contract payments made on or after November 1, 2021 will be credited interest based on the 10-year Treasury note rate as of June 30, compounded monthly.

What is clear to me is the intent to have both Minimum Benefit and rollover/refund calculations use the since inception rate of return, defined as 6% in the August 2021 Disclosure Statement update. Since the

Contract does not permit retroactive changes that are "adverse" to contract holders, this aligns as the rollover/refund calculations are held constant and the Minimum Benefit calculation is improved, removing the incentive to roll funds over since tuition increases have repeatedly been below the rate of return in the Trust.

It seems abundantly clear to me by the language of the contract, as well as GRS's letters in the 2021 and 2022 Annual Report (noting that the 2021 letter wording appears inaccurate with regard to returns after October 31, 2021), that all contracts can take their original payments made, and apply 6% compounded monthly, to arrive at a current Minimum Benefit, rollover or refund amount. I have done this simple calculation through 3/21/2023 for my three accounts below:

MD 529 Prepaid College Trust			
Ryan D. John Account Value Recalculation			
3/21/2023			
Beneficiary			
[redacted]	Initial Contract Lump Sum	$ 21,509.00	**A**
	Annual Interest Rate	6.00%	**B**
	Compounding periods/year	12	**C**
	Lump sum contribution date	7/11/2014	
	Ending date	3/21/2023	
	Number of months	104.00	**d**
	Ending amount	$ 36,131.89	**A*(1+B/C)^d**
[redacted]	Initial Contract Lump Sum	$ 21,423.00	**A**
	Annual Interest Rate	6.00%	**B**
	Compounding periods/year	12	**C**
	Lump sum contribution date	7/11/2014	
	Ending date	3/21/2023	
	Number of months	104.00	**d**
	Ending amount	$ 35,987.42	**A*(1+B/C)^d**
[redacted]	Initial Contract Lump Sum	$ 21,204.00	**A**
	Annual Interest Rate	6.00%	**B**
	Compounding periods/year	12	**C**
	Lump sum contribution date	7/11/2014	
	Ending date	3/21/2023	
	Number of months	104.00	**d**
	Ending amount	$ 35,619.53	**A*(1+B/C)^d**
Total Account Values eligible for rollover @3/21/2023		**$ 107,738.84**	

Since my receipt of the updated Disclosure Statement in August 2021, I chose to leave my funds in the Trust as the rate of return was guaranteed at 6% going forward. However, in early 2022, the Trust stopped allowing rollovers and began manual calculations that have resulted in retroactive adverse impacts to contract holders like me without an appropriate allowance of time for us to dispute the change and cancel our contracts.

It is clear to me that the Contract language is not being adhered to by Maryland 529, and those of us who chose to leave our funds in the Trust to continue to earn the 6% going forward are now being told we have earned little to no income in our time invested in the Trust (since 2014 for my accounts), even though the August 2021 Disclosure Statement update promised us 6% and our contracts clearly state that we are to be credited for this income if we choose to roll our funds over. Instead, we are being told our only option is to accept this breach of contract.

I respectfully ask this Committee to correct this significant error on the part of the MD 529 Board and executive leadership and re-instate the contractual calculation for rollovers and refunds for contracts payments received prior to 11/1/2021. This is the only fair and equitable approach to correct this issue for all investors in the Prepaid College Trust.

Thank you for the opportunity to provide written testimony to the Committee, and I welcome any questions members may have of me.

Respectfully Submitted,

Ryan D. John

CC (via email only):

Delegate Lauren C. Arikan: lauren.arikan@house.state.md.us
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