Thank you for reading my testimony. **First I would like to provide a recommended change. Please add the following to Senate Bill 959:**

1. Earning Rate: As of June 1, 2023, the State Treasurer shall grant and apply to account holders a 6 percent earnings rate compounded monthly on account balances from the date of contribution to the date of the transfer.
2. During the period July 1 - Dec 31 2023, account holders may choose to take a rollover based on their Dec 2021 account statement plus additional 6% accrued interest from Dec 2021 until their rollover.
3. After December 31, 2023, the Treasurer will establish a rollover option with an additional incentive to be determined based on the surplus funds identified in the actuarial audit.

Funding Source:

1. MD Prepaid College Trust. The 2022 529 annual report indicated the Trust had $1.2B in assets, which included a $355.6M surplus as well as $321M set aside for accrued earnings.

2. The MPCT operating surplus, which is invested in a Money Market Mutual fund and has been maintained in an account held by Wells Fargo, according to the 2022 annual report. (As of June 30, 2022, the amount invested in this account was $13,321,779).

3. If necessary, the Maryland State rainy day fund ($2.9B) and/or the Maryland State General fund ($2B); as other states have done when their Prepaid Trust Plans became insolvent. Additionally, in the case of a liquidity shortcoming by the Trust, the State could provide a loan to the Trust up to the full value of the Trust assets to cover account holder requests. (As precedent, the State provided start-up loans to the Trust for both the Prepaid and ABLE plans).

Second I would like to convey how this issue came about:

The actuarial soundness report from Oct 2021 based their actuarial calculations on a 6% return from the date of contribution until Oct 31 2021; then after Oct 31, 2021 all interest would be calculated on the treasury rate. The June 2021 minutes also supported this.

They actuarial report also showed how they incorporated $321M for these earnings as they anticipated them being distributed to the account holders. Further, there was still an **additional** $355.6.M in surplus. There were clearly funds available to pay account holders.

ACTUARIAL SOUNDNESS REPORT

Excerpt from the actuarial valuation issued by Gabriel Roeder Smith & Company dated October 13, 2021:

As of June 30, 2021, the Trust was 161.4% funded with an actuarial surplus of $525.4 million. In comparison, as of June 30, 2020 the Trust was 180.9% funded with an actuarial surplus of $538.7 million.

The primary factor behind the decrease in the Trust's actuarial surplus was a change in the calculation methodology for future minimum benefits, refunds and rollovers.

Also, the GRS report says: "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."

Therefore, 6% only applied until Oct 31, 2021. After that, all interest would be calculated based on 10 year treasury rate (not 6% for some and 10 year treasury rate for others.

June 2021 board minutes state: "The Board endorses the rate of return calculation for minimum benefits, rollovers and refunds to be the Trust's since-inception rate of return as of 6/30/21 for balances held prior to November 1, 2021." It says balances held prior to November 1, 2021; not balances held on October 31, 2021. A reasonable person would read this as their funds invested since the inception of the trust would now earn a minimum benefit of 6% - this would have brought the minimum benefit in line with what rollovers have been since the inception of the trust.

Then they issued an update to the disclosure statement in August 2021 that they are excited to announce upcoming changes and they have a number of process improvements planned for MPCT account holders. No where did they mention that some of the changes may have a severe detrimental impact on account holders' rollover value. Isn't this program set up to help us save for our children to go to college?

The discrepancy came when MD529 wrote their wording for incorporation into the new contracts (working was less clear than the actuarial report's language) and then decided to change their interpretation.
Now let's look at the competence of their decision making. The new minimum benefit and rollover calculation will provide newer account holders with a guaranteed return of 6% - in some cases up to 28 years, while providing 0 and sometimes negative returns to account holders who have held accounts in many cases for 15 to 20 years during a period of time when the trust has earned an average of 6% per year and tuition has increased at a rate of an average of 2%. (**not very fiscally responsible and not the initial intent**)

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