March 19, 2023

Dear Maryland Delegates,

On August 1, 2013, we fully funded 4 Maryland Prepaid College Trust accounts for our oldest daughter, **Alexa Nelson**, who was born on July 10, 2003 (who started college in the Fall 2021) and our Triplets **Gabriella, Zachary, and Jacob Nelson**, born on May 18, 2006 (who will be starting college in the Fall 2024). We will have all 4 children in college 2024 – 2025. We invested over **$167,000** in their future to ensure that no matter where they wanted to attend college that they would have fully paid tuition in-state and a huge bump to go out of state as the trust is backed by a legislative guarantee that committed to pay 6% interest compounded monthly. I was told numerous times that the additional earnings on the account could be used for books, housing, and other living expenses during their college. Further, if one of the children (my beneficiaries) chose not to attend college or use the whole amount that I could move the extra amount into one of our other children's accounts. It seemed like a wonderful plan to help our children to not have to start out their adult lives in college debt.

Two times, once in September 2020 and then again in May 2021, I was provided by the Maryland 529 staff a written manual Rollover calculation, which included the base amount and the earnings from time of inception. In September 2020, Maryland 529 valued all 4 accounts at almost $240,000 and in May 2021, Alexa's calculated Rollover amount, alone was $61,357.33. I did not ask for the triplet's numbers at that time.

In May of 2021, I contacted the Maryland 529 Prepaid Trust plan and spoke to a man named Silas Lilly. I explained that Alexa was preparing to enter University of Tennessee in August 2021. Mr. Lilly explained to me that if my daughter was not going to an in-state school that I needed to move the amount of money that we expected to need for the year to a Maryland Investment Plan account and then pay the university from that account. I explained to him that I was hoping that maybe after the first year away in Tennessee that our daughter would be willing to return to Maryland and finish her studies in state. So, I did not want to move all the money to the investment plan and then lose out on the Maryland 529 Prepaid Trust paid in full tuition benefit plus the earnings. We knew that the Maryland 529 Prepaid Trust plan would only pay the weighted average of the in-state benefit for the out of state tuition. He told me that I could move as much as I wanted of the calculated Rollover amount. **I divided the $61K by four and moved $15K to the Maryland Investment Plan for the school year 21 – 22.**

When I went back into my account in May 2022 to move more money for the next Fall 2022 tuition, I could no longer get into Alexa's account apparently they completely closed it the prior year when I moved the partial sum of $15K upon Mr. Lilly's direction by using the proper Rollover forms and a Medallion Notary. After help from Tracy Ornella, a manager from Intuition the new Maryland 529 management company, I was able to get her account reinstated, however, it never appeared on the year end 2021 statements due to this error. I have asked numerous times about this issue, and no one has been able to correct it.

After that time, in the Fall of 2022, Intuition would only disperse the minimum amount, which is $5304.26 for her twice a year tuition and again in the Spring of 2023 only $5304.26. These amounts are basically taking my initial investment and dividing it by 8 semesters – without any earnings or interest as I had in my contract since day one. Then without request, on January 17, 2023, Maryland 529 sent me a check for $687. No one explained why they sent it or why it was in my name from my oldest daughter account.

After joining a group of parents who have tried to piece together this debacle, we believe that in 2019 the Maryland 529 Board made a plan to ignore the language in the contracts, which was to apply the then current since inception 6% rate compounded monthly and instead implemented a combined calculation (for either tuition or rollover) and shared earnings rate of 10 Year Treasury rate after November 1, 2021. But in execution what they did is remove all our accrued investment earnings – 6% interest compounded monthly since August 1, 2013 - and replaced it with a "1 Year Treasury Note minus 1.2% interest rate in years prior to November 1, 2021". This rate is not found in my contract or associated with rollover cash values noted in my contract. And then are only giving us the 6% interest benefit in future years. They basically took my earnings and are now giving them to people just entering the plan in the last few years. **<u>Our 4 accounts should be worth close to $300,000</u>. Instead, according to the manual calculation that Intuition provided me last week, <u>they have the 4 accounts worth at $153,103 plus the $25,000</u> that we already used for Alexa's last 2 years in college. <u>That is over $122,000 short of the money we earned according to our contract.</u>**

Please read the Rollover-Refund (cash value) paragraphs in our 1998 – 2021 contracts – ours is 2013 specifically – you can see the damage they are doing to us who have children in college or soon to be entering college – both of which apply in our case. Those before us exited with full investment of 6% compounded earnings, those leaving in a decade will also exit with a full interest of 6% earnings. However, those of us that didn't exit before November 1, 2021, and must now exit now or in the next few years will only earn 0 – 1% interest. This is basically stealing the money from our children and their futures if you do not help us correct this now.

You are all very capable and intelligent people looking at these contracts and can individually use an interest calculator to prove the numbers as to what we should be getting. My request is that this gets rectified immediately as with our daughter in school currently we are not able to meet the tuition requirements that we committed to with the university based on the confirmed amounts that I was given previously by the Maryland 529 staff in May of 2022.

We need the state representatives to step in an ensure that parents like myself and our children's accounts are protected and made whole again.

Thank you for your time and anticipated help.

Sincerely,
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Amendments to MD 529 Prepaid College Trust State and House Bills

"If the General Assembly would like STO to resolve the dispute between the Maryland 529 Program and account holders, the legislation will need to identify the methodology, process, and funding source for such resolution."

Amendment I: Methodology:

Earning Rate: As of June 1, 2023, The State Treasurer shall grant and apply account holders a 6% earnings rate compounded monthly on account balances from the date of contribution to the date of the transfer. An updated account statement should be sent to each account holder.

Rationale: 6 percent was then "since inception return rate" that existed at the time of the April 2022 earnings freeze. This rate essentially honors the "Termination, Transfer and Refund" article of contracts that called for "100 percent of investment earnings" or losses on contributions from inception. It also corresponds with the 6 percent compounded monthly rate that the Board voted on in 2021 and that was reflected on the December 2021 FAFSA refund values, which were considered binding as of March 1, 2022. Account holders relied on those "refund value" statements to make financial decisions for beneficiaries. Note: Actuaries, 529 staff, Intuition and others all interpreted this 6 percent rate as applying to contributions in an account from inception. This amendment will eliminate the Article IX contract violations that have caused harm to account holders. That provision of the contracts said that the board could not retroactively modify contracts in a manner adverse to beneficiaries, and that any such change required prompt notification so account holders could cancel their contracts.

Who Calculates: Intuition will reinstate the correct earnings calculation for account holders to comply with the contract terms that resulted in the December 2021 statement FAFSA values.

Rationale: The plan cannot be migrated to another platform in a financially responsible and timely manner. Intuition is already set up and has the correct calculation formulas as evidenced by their production of the December 2021 FAFSA statements and are in the business of administering prepaid plan contracts.

Amendment II: Claims Process:

Can be filed by account holder or beneficiary (over the age of 18) using any of the following options (options can be done as separate claims if more than one type is needed):

Types of Claims:

A. Accept and process Rollover, Refund, Tuition, and other Qualified Educational Expenses on priority system as follows:

1. Beginning July 1, 2023: Priority Group 1: Account holders or beneficiaries that have incurred college expenses from the time of the earning freeze to the present and those that will be attending college in the Fall of 2023

2. Beginning September 1, 2023: Priority Group 2: All other account holders or beneficiaries.

Rationale: Relieves account holders that have not been able to pay past expenses first and allows those that will have fall bills due in August to have access to their funds. Prevents further damages to account holders that are incurring IRS penalties due to trust payments being made in years after expenses were incurred.

B. Establish a Damages Claims Process for those who have incurred expenses who were unable to access their funds from April 15, 2022 to the present

Rationale: Account holders should be reimbursed for damages because of the frozen earnings. Examples of harm can include but are not limited to the following: loans with interest, interest from credit cards, penalty for using retirement accounts, refinancing a house at higher interest, IRS tax and/or state tax penalty, etc. For those that used Weighted Average Tuition after the investment earning's freeze (April 15, 2022), the excess benefits not accessible shall be calculated and refunded to beneficiaries or account holders.

Amendment III: Funding Source:

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

2. The MPCT operating surplus is invested in a Money Market Mutual fund and has been maintained in an account held by Wells Fargo (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 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 (there is precedent to this as the State provided start up loans to the Trust for both the Prepaid and ABLE plans).

Rationale: The funds in the trust belong to the account holders and consist solely of contributions made from the account holders personal funds and the investment earnings made on those contributions. All fund expenses have been borne by the account holders via fees paid per account holder contracts. There is no taxpayer money in this fund, therefore it should be returned to who it belongs to, the account holders themselves for the intended benefit of the education of their children. The Rainy Day Fund should not be needed if the MPCT audits and actuary reports are correct but needs to be available if they are not per the legislative guarantee.

Amendment IV: Add subpoena power so the work group can call on people to provide information.

Amendment V: Provide a mechanism to combine multiple accounts of a beneficiary so it is in one account to comply with IRS rule that only one account rollover is permitted per year.

Amendment VI: Extend statute of limitations for contract disputes to 1 year after the work group report is made public.

Amendment VII: Notification will be provided to all account holders regarding Maryland 529 transfer to Treasurer be mailed, emailed, and stated on 529 website to notify account holders of the change within 15 days of passage of the Bill.

Amendment VIII: Upon passage of the Bill, close Maryland 529 Prepaid College Trust to new contracts. Rationale is that practically, it will be challenging to implement the transfer to Treasury and process new contracts simultaneously. Also avoids increasing liability for such contracts.

Amendment IX: Start date of work group by June 1, 2023 and end date to September 2023. Work group should include 2 appointed Senators, 2 appointed Delegates, 4 MD 529 account holders who have experienced issues accessing their funds, and the Treasurer.

Amendment X: 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.