

MD 529 Policy Holder Testimony (Feb 23, 2023)

We support Senate Bill 475 with the Amendment that the Workgroup present a more immediate solution to restore contractually guaranteed earnings to accounts holders, preferably within 90 days or less.

My name is Becky Tu-Sekine, and my husband and I purchased two Md529 Prepaid College Trusts (MPCT) for our children in 2008 and in 2012. After 14 years we are now being told that the rules have changed, and we are being denied the 100% return on investment earnings guaranteed in both our 2008 and 2012 contracts. In 2021 our oldest started college. When we verified the earnings for our 2008 account we happy to find the returns, while modest in terms of most investments, had accumulated over 14 years. This dollar value was an important factor in our financial decision to allow our child to accept an offer to Syracuse University, since the high tuition cost would be offset in part by these earnings.

However, now that the bills have come in, we are told that we no longer have these earnings – it was all a mistake.

The MPCT is a haven for conservative investors that offers two options for payout. We purchased this plan because of these options.

- 1) Under Article VII an account holder can roll over their funds to another eligible 529 plan with the transfer amount “equal to the contributions to the Prepaid College Trust plus or minus 100% of the Investment Earnings or losses realized on the contributions”.
- 2) Separately, under Article IV an option termed Minimum Benefits allows account holders to request payouts with a monthly rate of return equal to a U.S. Government Security with a constant maturity of one year, minus 1.2%. This is indeed a *Minimum benefit*, but it offers protection against major fluctuations in investment returns which was very appealing to us.

Every contract from 1998 to 2020 has these options. Period.

In addition, Article IX Clearly states “the Board 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...”

This is EXACTLY what the Board HAS DONE!

The MPCT board decided to merge the two payout options to a single option for the 2021/2022 contracts. For some mysterious reason they decided that all pre-existing contracts would **retroactively be converted** to the new 2021/2022 payout terms. We were not forewarned. Our earnings were frozen and the reason given was that a vendor (Intuition) made mistakes and account holders were overpaid. This is just not true, it is handwaving and blame casting.

Under this logic THOUSANDS OF PREVIOUS ACCOUNT HOLDERS would have been overpaid since 1998, because thousands have exercised their rollover option and reaped the rewards of their long-term investments. Will the Board now go back and try to recover this “overpayment” from these accounts?? If not, how can the deny me my contractual rights??

In another bout of insanity, the Board has recalculated interest rates to redistribute the very earnings they are denying us, by guaranteeing earnings on future years. Any accounts that were in place on Oct 31, 2021 will receive a new interest rate of 6% on all balances going forward from Nov 1, 2021. Since our family invested 14 years ago, and is now using the account to pay for college, we will see NO accumulated earnings from this recalculation. It's like trying to cash out a CD and having the bank tell you they “changed their mind” about paying you interest, and are going to give the earnings to the next person that walks through the door.

In addition, this 6% guaranteed return is NOT tied to the actual Investment Earnings of the fund, which is madness. The fund lost 8.5% in 2022. Will they just recalculate again in five years if they can't honor the 6%?

The MPCT management has been using the quasi-governmental nature of the Trust as a shield from responsibility

Parents who have been damaged have spent countless hours trying to get the situation remedied to no avail. Responses from the Trust have been a mixture of platitudes and obfuscation. Leadership of the Trust is subject to control only by the Trust's board and the Maryland legislature. A 2019 audit found more than 100 boxes of checks and documents that had not been processed for years, highlighting the fact that the Board has been negligent in their oversight of the fund. Its processes are opaque, and most discussion dealing with the MPCT has been held in closed sessions with no record available to the public. Neither management nor the board can be voted out by the parents who have entrusted their college savings to the Trust, and neither management nor the board has been willing to engage in a meaningful dialogue with parents. Without help from the legislature our only other avenue will be legal action, which has uncertain outcomes, takes years, and ironically will reduce the funds of the Trust since management will use the assets of the Trust to pay for its defense in any legal actions. Meanwhile, parents and their children have to make hard choices about whether they can attend the college of their choice, a direct consequence of the recent decisions by the MPCT board and management.

This is not hard to fix, and should never have happened

The easiest fix is to simply mandate that the board honor all contracts in place. The 2021/2022 contracts have the new terms in place, and people who bought this contract were aware of those terms. Just as we are aware of the terms that are in the contracts we signed.

We need immediate action – this will only get worse

We are the first wave of parents that have been damaged. The financial and emotional costs have been high over the last year. There are 15 waves of account holders behind us; every year will open the eyes of another thousand account holders, if not more.

Damages are accumulating. The MPCT has taken FIVE MONTHS to “recalculate” 419 accounts, and people that receive those recalculations are finding errors beyond the TOTAL LOSS OF EARNINGS. There is no appeal process yet in place to address these errors. This will become even more of an administrative nightmare as time goes on.

Today you have some sparks. By April 2024 this will become a wildfire that is out of control.

Please help us by restoring our contractual rights.

Thank you.

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