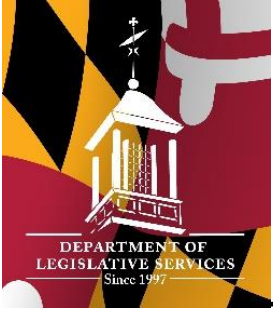

Maryland 529

**Presentation to the
House Appropriations Committee**

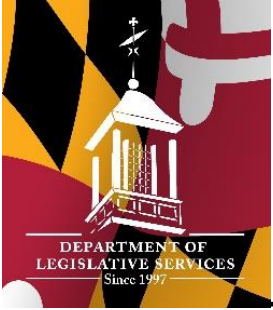


Thursday, January 19, 2023



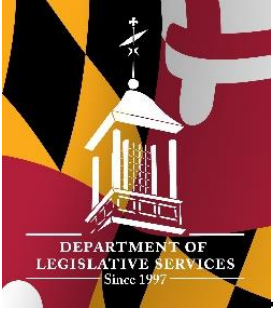
What is a 529 program?

- Tax-advantaged investment trust used to pay for education expenses
 - Distributions (withdrawals) from savings plans are tax free if they are used for qualified higher education expenses
- States may choose to set up two types of 529 plans:
 - Prepaid plans, where the contributor is “buying tomorrow’s education at today’s tuition” and
 - Savings plans, where the contributor is setting up a savings/investment vehicle for higher education expenses



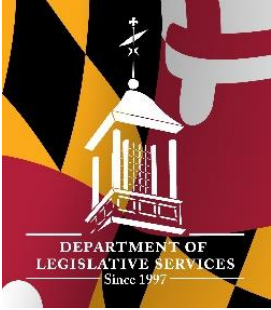
Maryland 529 Governance

- Independent agency established 1997 as the College Savings Plans of Maryland
- Led by an 11-member board including 6 State office holders and 5 Governor appointees
- Receives annual funding (through the Maryland Higher Education Commission) for the State's share of matching programs and administrative costs



Maryland 529 Overview

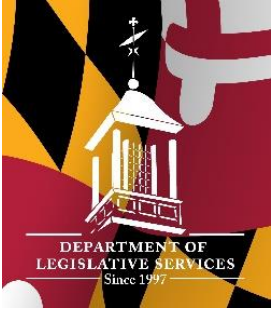
- Currently administers two savings plans for higher education expenses named after Senator Edward J. Kasemeyer:
 - Maryland College Investment Plan: contributor driven investment account
 - Maryland Prepaid College Trust (MPCT): defined benefit college savings plan
- Also administers a savings plan for individuals with disabilities:
 - Maryland ABLE Program



Maryland 529 Overview

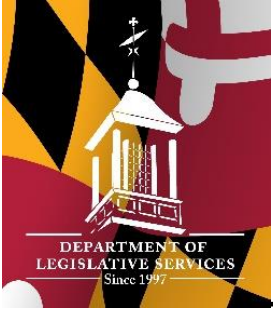
College Investment Plan – FY 2022		Prepaid College Trust – FY 2022	
Contributions from Account Holders	\$883 million	Contributions of Account Holders	\$36.7 million
Investments	\$7.8 Billion	Investments	\$1.1 billion
Total Beneficiaries	270,428	Total Accounts	27,683
New FY 2022 Accounts	37,567	New FY 2022 Enrollments	1,152
Average Account Balance	\$20,056	Funded Status	140%
Distributions	\$624.6 million	Total Tuition Benefits Paid FY 22	\$73.6 million
Rollovers to Other 529 Plans	\$30 million		

Source: [2022 MD529 Annual Report Summary.pdf \(maryland529.com\)](https://maryland529.com/2022-MD529-Annual-Report-Summary.pdf)



Maryland College Investment Plan

- A savings/investment vehicle for higher education expenses
- Contributors may select from multiple investment options (usually a combination of mutual funds) and their funds grow or shrink with the market
- Accounts may be opened by any U.S. citizen or resident alien for adults, children of any age, or future family planning



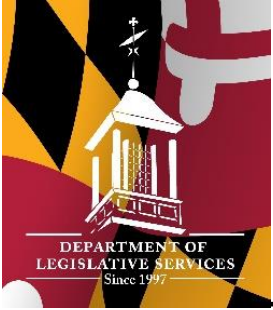
Maryland College Investment Plan

- Contributors can decide to invest at their own pace
- T. Rowe Price is the current program manager
- Maximum limit \$500,000 in contributions, minimum \$25 monthly contributions per portfolio



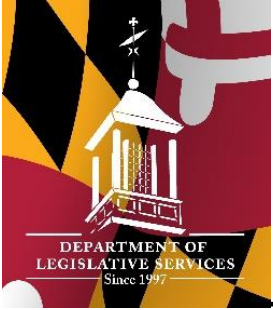
State Contributions

- Since 2017, the Save4College State Contribution program helps low- and middle-income families by providing State matching contributions to eligible Maryland College Investment Plan accounts
- For 529 investment accounts established after December 31, 2016, a State contribution of \$250 or \$500, depending on income, may be made to eligible accounts

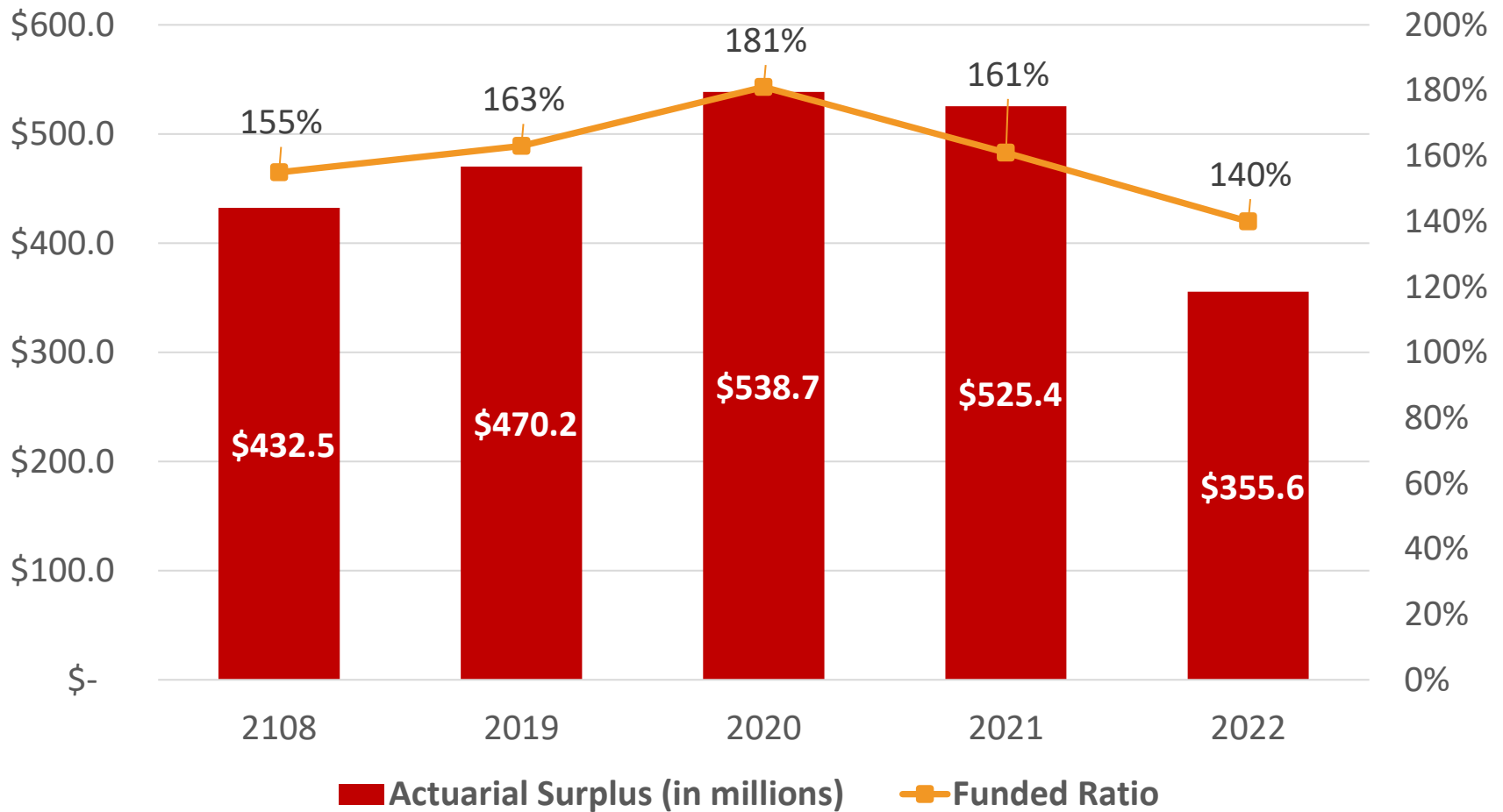


Maryland Prepaid College Trust

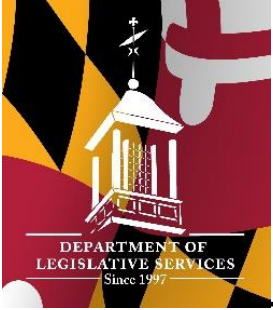
- Allows a contributor to make payments that entitle a beneficiary to the cost of specified academic credits in future years
- Maryland 529 offers plans that cover:
 - The cost of one semester to four years at a four-year college or university
 - One to two years at community college
 - A combination of two years at community college and two years at a four-year college



Maryland Prepaid College Trust Status

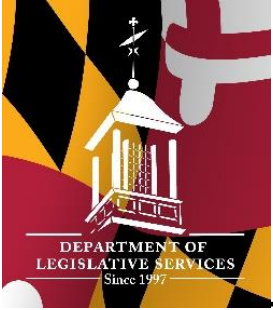


Source: [2022 MD529 Annual Report Summary.pdf \(maryland529.com\)](#)



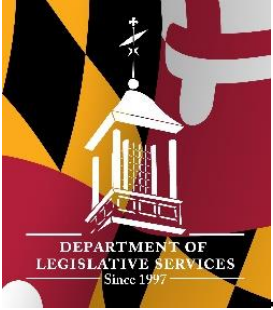
Additional Actions Affecting Trust Balance

- The State may choose to appropriate supplemental funds at the request of the Maryland 529 Board if contract obligations exceed MPCT assets
 - Maryland 529 must repay any authorized appropriations during each of the two succeeding fiscal years
- The board may adjust future contract payments to meet MPCT's contract obligations
- The board also may repay contract holders if the actuarial surplus is over 30%



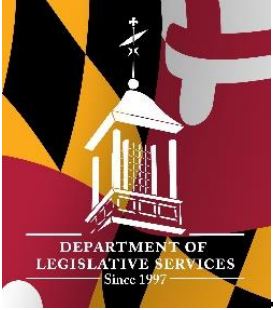
Receiving Benefits under MPCT – Public, In-state

- Beneficiary attends Maryland public university or community college (57% of FY 2022 beneficiaries):
 - Full in-state or in-county tuition at any Maryland public university or community college



Receiving Benefits Under MPCT – Private/Out-of-state

- Beneficiary attends a private institution (43% of FY 2022 beneficiaries):
 - Actual tuition each semester for a private or out-of-state institution
 - Up to the dollar equivalent of the greater of
 - the weighted average cost of tuition at in-state schools
 - \$10,607.61 for four-year public colleges
 - \$4,890.38 for community colleges
 - A beneficiary's calculated minimum benefit



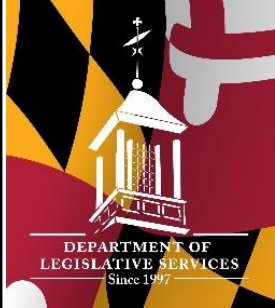
Receiving Benefits Under MPCT – Refund

- An account holder may request a refund of contributions for the purposes of transferring it to another qualified 529 plan
- A beneficiary's calculated minimum benefit is also used to determine refund amount



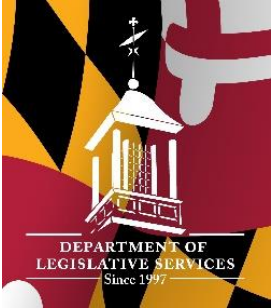
529 Plans and Federal Student Aid

- Interaction with federal student aid depends on the specific contributor/beneficiary relationship, but:
 - Distributions from 529 plans are generally not considered income nor reported as income on the Free Application for Federal Student Aid (FAFSA)
 - However, the value of the 529 plan is considered an asset and should be reported as part of FAFSA



529s and The Free Application for Federal Student Aid

- For expected family contribution (EFC), FAFSA assesses
 - student assets at a flat rate of 20%
 - parental assets on a sliding scale resulting in a maximum effective rate of 5.64%
- For dependents, 529 plans are considered an asset of the parent as long as custodial ownership of the plan belongs to either the parent or the student
- The federal FAFSA Simplification Act of 2022 created a new student aid index to replace EFC, and FAFSA is currently in transition; however, the treatment of assets is similar under both methods



Maryland 529 – Audit

- In December 2019, The Department of Legislative Services, Office of Legislative Audits completed an audit of Maryland 529
- The audit reported nine findings including one repeat finding from a prior audit
- Findings included a lack of documentation and oversight relating to MPCT, lack of independent supervisory reviews of calculations and bank reconciliations, and failure to determine the disposition of uncashed checks, among others

Maryland 529

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January 19, 2023