

R60H
College Savings Plans of Maryland

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Nonbudgeted Fund	\$2,073	\$2,256	\$2,303	\$47	2.1%
Adjusted Nonbudgeted Fund	\$2,073	\$2,256	\$2,303	\$47	2.1%
Adjusted Grand Total	\$2,073	\$2,256	\$2,303	\$47	2.1%

- For fiscal 2010, the College Savings Plan of Maryland (CSPM) expects expenditures to increase \$46,793, or 2.1%, over fiscal 2009.

Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	13.50	13.50	13.50	0.00
Contractual FTEs	<u>11.00</u>	<u>11.00</u>	<u>11.00</u>	<u>0.00</u>
Total Personnel	24.50	24.50	24.50	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/08	0.00	0.00%

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Number of Accounts and Unique Account Holders Continue to Grow: Since fiscal 2005, the number of new accounts increased 46%, totaling 154,895 in fiscal 2008. The number of unique account holders increased 35% over the same time frame, totaling 32,507 accounts.

Continued Strong Enrollment in the Maryland College Investment Plan; Steady Increase of Students Using the Maryland Prepaid Trust: Enrollment in the prepaid trust grew moderately from fiscal 2002 to 2008, with 11,824 new enrollments while enrollments in the investment plan increased by 81,475. In fiscal 2008 an additional 284 students attended college using funds from the trust.

Issues

Status of the Maryland Prepaid College Trust: New enrollments decreased from 2,100 during the 2006-2007 enrollment period to 1,800 during the 2007-2008 enrollment period. The Maryland Prepaid College Trust is most likely in a deficit situation due to poor market performance.

Status of the Maryland College Investment Plan: The number of new accounts increased from 23,749 in 2007 to 24,671 accounts as of June, 30, 2008, with 65% of the beneficiaries under nine years old. Since July 2007, approximately \$71 million has been distributed to 6,105 unique beneficiaries.

Implementation of Brokerage Backed Plans: Chapter 548 of 2008 allows CSPM to establish the Maryland Broker-Dealer College Investment Plan allowing families who invest through private investment advisors to participate in one of the CSPM plans.

Federal Investment Strategy: The Internal Revenue Service is allowing account holders in the investment plan to change their investments twice during 2009. Previously these account holders were limited to one change per year.

Recommended Actions

1. Adopt committee narrative requesting a report on the Actuarial Status of the Maryland Prepaid College Trust.

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Operating Budget Analysis

Program Description

The College Savings Plans of Maryland (CSPM) offers the Maryland Prepaid College Trust and the Maryland College Investment Plan, giving families a wide variety of features and benefits to encourage saving for a child's college education. CSPM is an independent agency, established during the 1997 legislative session (Maryland Annotated Code, Education Article, Section 18-1901 through 18-1916 and 18-19A-01 through 18-19A-07). A 10-member board administers the trust and oversees the administration of the plan. Five board members serve by virtue of the State office they hold including the State Treasurer, the State Comptroller, the Secretary of the Maryland Higher Education Commission, the State Superintendent of Schools, and the Chancellor of the University System of Maryland. The Governor appoints the 5 remaining members.

Both plans are also known as 529 plans after the section in the Internal Revenue Code that permits states to establish and administer tax-deferred college savings plans. Both plans offer federal and State tax benefits including:

- federal and State taxes deferred on growth;
- federal and State tax-free earnings, provided funds are used for eligible college expenses; and
- State income deduction of contributions to one or both plans up to \$2,500 annually per account or beneficiary. Excess annual contributions over \$2,500 may be carried forward and deducted in future years.

Maryland Prepaid College Trust

The Maryland Prepaid College Trust allows participants to lock in future college tuition costs at Maryland public colleges and universities at today's prices and is backed by the Maryland Legislative Guarantee. The guarantee requires the Governor, in instances when the current prepaid contract obligations exceed the market value of the trust assets, to include in the annual budget an appropriation in the amount needed to cover the shortfall. The appropriation would then require approval of the General Assembly. Furthermore, if the State appropriation is less than the amount needed for the trust to meet current obligations, the CSPM board may adjust the terms of subsequent or the current contracts to ensure continued actuarial soundness of the trust.

Participation in the trust began in spring 1998 and is open to Maryland and District of Columbia residents. Additionally, people living out-of-state but applying for a child residing in Maryland or the District of Columbia are eligible to participate in the trust.

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Enrollment is open to children from newborns through twelfth grade, but an account must be open for at least three years before payment of benefits. The enrollment period is generally from December to April, but newborns may be enrolled year round until their first birthday.

Each account holder enters into a contract with the trust for prepayment of tuition and mandatory fees for a specified number of year(s) of community college and/or semester(s) or year(s) of university tuition. Payments may be made in single, monthly, or annual installments. For a child enrolled in a Maryland public college, the trust will pay full in-state tuition and mandatory fees to the college. If a child attends an eligible private or out-of-state college, the trust will pay the weighted average tuition of Maryland public colleges.

As of December 31, 2008, the value of the trust was \$429.28 million.

Maryland College Investment Plan

The Maryland College Investment Plan allows participants to select among eight enrollment-based and five fixed income and/or money market mutual funds, managed by T. Rowe Price. Under the plan, participants take on greater risk in exchange for the possibility of greater returns. The plan began in December 2001 and is open to children or adults of any age. Enrollment is open year round and investors may choose how much and how often they wish to contribute. Contributions and investment earnings are available for eligible higher education expenses including tuition, fees, room and board, and other expenses defined by Section 529 of the Internal Revenue Code. The plan is not guaranteed by the State.

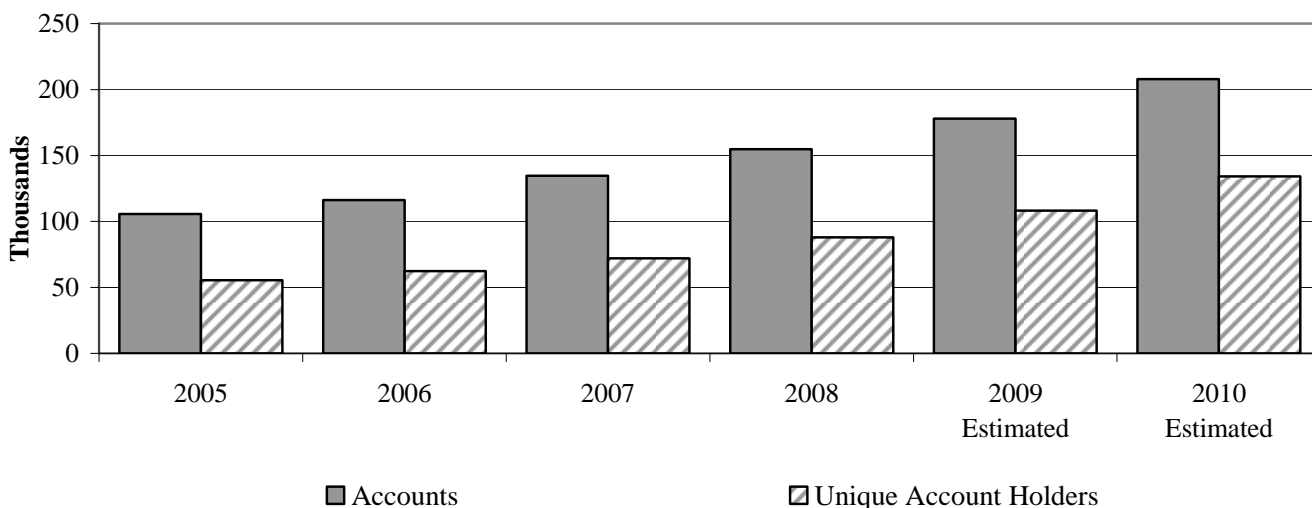
As of November 30, 2008, assets in the plan equaled \$1.2 billion.

Performance Analysis: Managing for Results

Number of Accounts and Unique Account Holders Continue to Grow

A goal of CSPM is to create and maintain statewide awareness of the plans. The total number of accounts and the number of unique account holders are shown in **Exhibit 1**. Since fiscal 2005, the number of accounts increased steadily from 105,732 to 154,895 accounts in fiscal 2008, an increase of 46%. It is projected accounts will continue to increase at approximately 20% per year from fiscal 2008, totaling 208,000 accounts in fiscal 2010. From fiscal 2005 to 2008, the number of unique account holders grew by 59%, or 32,507 accounts. On average, from fiscal 2005 to 2008, the number of unique account holders comprised 36% of accounts. This reflects the investment strategy of some participants to take advantage of the various options and benefits offered by the plans.

Exhibit 1
Number of Accounts and Unique Account Holders
Fiscal 2005-2010



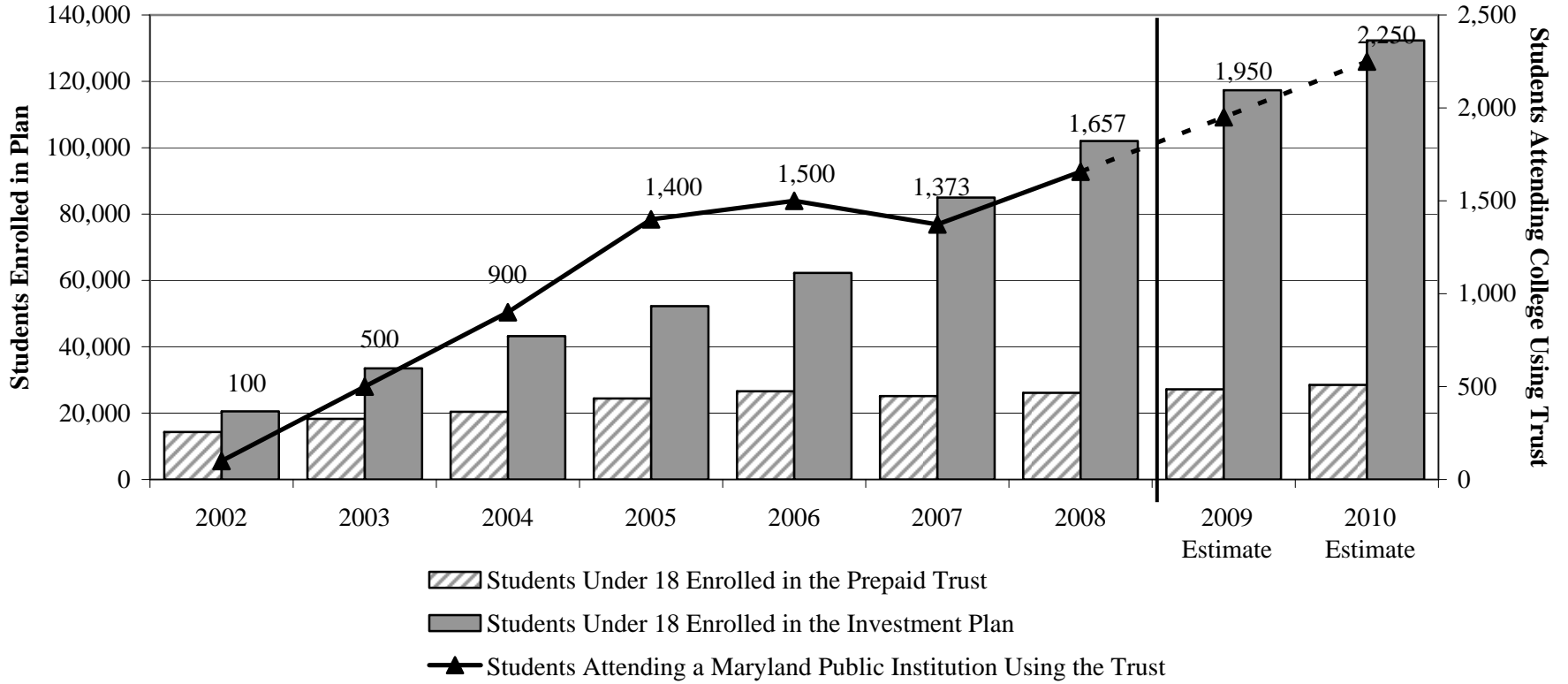
Source: College Savings Plan of Maryland; Governor’s Budget Books, Fiscal 2010

**Continued Strong Enrollment in the Maryland College Investment Plan;
Steady Increase of Students Using the Maryland Prepaid College Trust**

CSPM offers families many options to save for their children’s college education and reduce reliance on loans to pay for college. **Exhibit 2** shows the number of students under the age of 18 enrolled in the prepaid trust and investment plan and students attending Maryland public institutions using the trust to pay for college. Enrollment in the trust grew at a moderate rate between fiscal 2002 and 2008, with 11,824 new enrollments, an increase of 83%. During the same time, enrollment in the plan increased 396%, or by 81,475 new enrollments. While enrollment in the trust is projected to continue at a moderate rate with 2,403 new enrollments, a 9% increase from fiscal 2008 to 2010, enrollment in the plan is expected to remain strong with 30,287 new enrollments, or a 30% increase during the same time period.

The number of students attending a Maryland public institution using the trust showed significant increases from fiscal 2002 to 2006, with usage increasing by 1,400%, or by 1,400 students. This is an indication of the maturity of the trust. The number of students using the trust to pay for college is expected to increase by 36%, or 593 students, from fiscal 2008 to 2010.

Exhibit 2
Students Enrolled in Investment Plan and Using the Prepaid College Trust
Fiscal 2002-2010



Source: Governor's Budget Books, Fiscal 2010

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CSPM provides the option of enrolling in the trust or plan online. The percentage of participants enrolling in the trust online increased from 45% in fiscal 2007 to 54% in 2008. Online enrollment in the plan increased from 42% in fiscal 2007 to 48% in 2008. As part of CSPM's continuing effort to improve customer service, the web site was redesigned in 2008, making it easier for account holders to access their accounts, check investment performance, and make certain changes. Additionally, CSPM added the ability for account holders to make a one-time electronic contribution, such as a transfer from a banking account to a plan.

CSPM retains a marketing firm to promote awareness of the plans. In fiscal 2008, 1,800 television and radio spots were aired, down from 2,600 in fiscal 2007. The number of enrollment kits that were distributed increased from 27,000 in fiscal 2007 to 45,000 in fiscal 2008.

Fiscal 2009 Actions

As part of the statewide furlough, 14 positions and 11 contractual positions were affected, for an approximate salary and wage savings of \$12,000.

Proposed Budget

CSPM revenues from the trust consist of enrollment fees, management fees, and other fees occasionally charged depending on the activity of the account holder. Revenues from the trust enrollment fees are projected to decline 19.1% in fiscal 2010 due to the new enrollment fee structure, as shown in **Exhibit 3**. Prior to the 2008-2009 enrollment period, the fee for those enrolling in the prepaid trust was \$75. CSPM instituted a new enrollment fee structure based on the method used to open an account: \$75 for using the paper form; \$50 for online enrollments; and \$20 if purchasing additional years or rolling funds over from the investment plan. The trust charges 2.5% of all contract payments and a \$4.00 payment processing fee is included in each scheduled payment to cover operating expenses.

Revenues from the investment plan are projected to decrease 2.9% in fiscal 2010. Revenues are based on the current contract which requires T. Rowe Price to pay CSPM an annual amount equal to or the greater of (1) \$636,000 or (2) 0.04% of the average monthly net assets of the plan when assets are between \$750 million and \$1.0 billion and an additional 0.06% of average plan assets greater than \$1.0 billion. Total revenue from both plans is expected to be \$2.4 million in 2009 but drop by 9.1% in 2010.

Proposed expenditures for CSPM as published in the Governor's budget books are also shown in Exhibit 3. Salaries and wages decline 2.3%, or by \$24,511, in fiscal 2010 reflecting the deletion of incremental increases. However, CSPM's operating budget submitted to the board for approval at the December 4, 2008 meeting included step increases and a 3.0% cost-of-living (COLA).

Exhibit 3
College Savings Plans of Maryland Revenues and Expenditures
Fiscal 2008-2010

	<u>2008</u>	<u>Estimated</u> <u>2009</u>	<u>%</u> <u>Increase</u> <u>2008-09</u>	<u>Estimated</u> <u>2010</u>	<u>%</u> <u>Increase</u> <u>2009-10</u>
<u>Revenues</u>					
Prepaid Trust					
Enrollment Fees	\$119,320	\$133,500	11.9%	\$108,000	-19.1%
Management Fees	1,431,329	1,125,000	-21.4%	1,125,000	0.0%
Total	\$1,550,649	\$1,258,500	-18.8%	\$1,233,000	-2.0%
Investment Plan					
Program Contributions	923,051	1,197,500	29.7%	1,000,000	-16.5%
Total	\$923,051	\$1,197,500	29.7%	\$1,000,000	-16.5%
Total Revenues	\$2,473,700	\$2,456,000	-0.7%	\$2,233,000	-9.1%
<u>Expenditures</u>					
Salaries, Wages, and Fringe Benefits	\$926,266	\$1,072,905	15.8%	\$1,048,394	-2.3%
Technical and Special Fees	19,481	0	-100.0%	0	
Communication	106,621	130,000	21.9%	151,603	16.6%
Travel	7,561	12,000	58.7%	12,000	0.0%
Fuel and Utilities	14,764	16,000	8.4%	17,500	9.4%
Motor Vehicles	9,300	0	-100.0%	0	
Contractual Services – Marketing	240,574	230,000	-4.4%	237,000	3.0%
Other Contractual Services	504,347	522,000	3.5%	525,837	0.7%
Supplies and Materials	27,888	40,000	43.4%	41,000	2.5%
Equipment – Additional	88,163	27,500	-68.8%	27,500	0.0%
Fixed Charges	128,346	205,310	60.0%	241,674	17.7%
Total Expenditures	\$2,073,311	\$2,255,715	8.8%	\$2,302,508	2.1%
Excess Revenues	\$400,389	\$200,285	-50.0%	-\$69,508	-134.7%

Source: College Savings Plans of Maryland; Maryland State Budget Books

The largest increase of 17.7% is expected in fixed charges due to an increase in insurance costs. Communications increases at the second highest rate at 16.6% related to the toll free number, postage, and NetworkMaryland, the State's high speed network. Overall, total expenditures are expected to exceed revenues by \$69,508 which will require a transfer from the fund balance. CSPM reports it has approximately \$773,000 in the fund balance.

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The Director should comment on the expected decline in revenues, plans to decrease expenditures, and the need to transfer funds from the fund balance to pay expenses. The Director should also comment if CSPM is planning to provide COLA and step increases to employees in light of the current fiscal situation.

Issues

1. Status of the Maryland Prepaid College Trust

During the 2007-2008 enrollment period, there were approximately 1,800 new enrollments, a decrease from 2,100 during the 2006-2007 enrollment period. Infants and one-year-olds comprised 20% of new enrollments, the largest group, while the four-year university plan was the most popular enrollment option with 38% of new enrollments choosing this option. The trust has five payment options: lump sum, annual, five-year monthly, extended monthly, and down-payments. For example, the contract price for an infant enrolled in the four-year university plan is:

- lump sum = \$37,001;
- annual payments = \$3,653 (17 payments);
- five-year monthly = \$741; and
- extended monthly = \$323 (204 payments).

For the fall 2008 semester, of the 5,872 students eligible to use benefits, approximately 59%, or 3,464 students, claimed tuition benefits. Of those claiming benefits, 48%, or 1,663 students are attending Maryland public institutions, while the rest attend private and out-of-state colleges.

The Director should comment on the decline in new contract enrollments, the steps being undertaken to increase enrollment, and the impact of the economy on attracting new participants.

Actuarial Surplus Declines

The actuarial surpluses and deficits from 2002 to 2008 are shown in the **Exhibit 4**. The latest actuarial report stated that as of June 30, 2008, the trust was 109% funded with an actuarial surplus of \$58.9 million, down \$29.0 million from 2007. However, given the poor market performance during fall 2008, it is probable that the trust has an actuarial deficit. At the December 4, 2008 board meeting, members requested a mid-year report on the estimated actuarial status of the trust. The Department of Legislative Services also requested an estimation but was informed one would not be available until the end of February 2009.

It should be noted that declines in the trust have been somewhat tempered by the lower than projected increases in tuition and mandatory fees for the current year at the University System of Maryland. Overall, the increase in tuition at Maryland public colleges was 0.1% while mandatory fees increased 4.4%. The trust projected a tuition increase of 7% and a fee increase of 10%.

The Director should comment on the projected actuarial status of the trust.

Exhibit 4
Actuarial Surplus/Deficit
As of June 30, 2002-2008
(\$ in Millions)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Actuarial Surplus/(Deficit)	-\$31.4	-\$69.9	-\$75.1	-\$26.5	\$16.0	\$87.9	\$58.9
Funded Ratio	88%	82%	85%	95%	103%	114%	109%

Source: College Savings Plan 2006 and 2008 Annual Report

2. Status of the Maryland College Investment Plan

As of June 30, 2008, 24,671 new accounts were opened, an increase from 23,749 in 2007. Over 65% of the beneficiaries are under nine years old with more than two-thirds of those age four or under at the time of enrollment. Trends in investment selection show the enrollment-based portfolios, with investment mixes that automatically adjust to be more conservative over time, continue to be a popular choice. Portfolio 2024, comprising 19% of the total accounts, was the most popular among the enrollment-based portfolios. Among the fixed portfolios, the equity portfolio was the most popular investment choice, comprising 11% of total accounts.

Since July 2007, approximately \$71.0 million has been distributed to 6,105 beneficiaries. This is an increase from July 2006 when \$45.9 million was distributed to 4,170 beneficiaries.

3. Implementation of Brokerage Backed Plans

Chapter 548 of 2008 allowed CSPM to establish a Maryland Broker-Dealer College Investment Plan, effective October 1, 2008. This allows Maryland families who invest through private investment advisors to participate in one of Maryland's college savings plans. Without this change, brokers do not have an incentive to direct clients to invest in one of the plans because participants enroll themselves directly in the program. Therefore, the broker does not receive a commission. As a result, brokers have steered clients toward programs in other states managed by their investment firm or another firm that pays commissions. CSPM's board has scheduled meetings in early 2009 to discuss implementation of a broker-dealer plan including regulatory issues, models used in other states, financial and legal implications of advisor plans, and a proposed timeline for implementation.

CSPM should comment on the status of the implementation of the broker plan and the projected number of new accounts and contributions resulting from families investing through a broker.

4. Federal Investment Strategy

On December 31, 2008, the Internal Revenue Service issued guidance allowing College Investment Plan account holders to change their investment strategy twice during 2009. Previously, account holders were limited to making only one change per year. This does not apply to the trust and is contingent upon CSPM's board approval.

Recommended Actions

1. Adopt the following narrative:

Report on the Actuarial Status of Maryland Prepaid Plan: The committees request that the College Savings Plan of Maryland (CSPM) submit a report by February 1, 2010, and annually thereafter, on the actuarial status of the Maryland Prepaid College Trust as of December 31 of the prior year. The trust is backed by the Legislative Guarantee which states if the current prepaid contract obligations exceed the market value of the trust assets, the Governor shall include in the annual budget an appropriation in the amount needed to cover the difference between current obligations and the market value of the assets. The appropriation would require approval of the General Assembly. Since the guarantee obligates State funds to cover potential shortfalls during a current year, the General Assembly needs to be kept informed on the actuarial status of the trust to be cognizant of potential liabilities, especially during periods of poor market performance.

Information Request	Author	Due Date
Report on the Actuarial State of the Maryland Prepaid College Trust	CSPM	February 1, 2010, and annually thereafter

**Object/Fund Difference Report
College Savings Plans of Maryland**

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	13.50	13.50	13.50	0	0%
02 Contractual	0.20	0	0	0	0.0%
Total Positions	13.70	13.50	13.50	0	0%
Objects					
01 Salaries and Wages	\$ 926,266	\$ 1,072,905	\$ 1,048,394	-\$ 24,511	-2.3%
02 Technical and Spec. Fees	19,481	0	0	0	0.0%
03 Communication	106,621	130,000	151,603	21,603	16.6%
04 Travel	7,561	12,000	12,000	0	0%
06 Fuel and Utilities	14,764	16,000	17,500	1,500	9.4%
07 Motor Vehicles	9,300	0	0	0	0.0%
08 Contractual Services	744,921	752,000	762,837	10,837	1.4%
09 Supplies and Materials	27,888	40,000	41,000	1,000	2.5%
11 Equipment – Additional	88,163	27,500	27,500	0	0%
13 Fixed Charges	128,346	205,310	241,674	36,364	17.7%
Total Objects	\$ 2,073,311	\$ 2,255,715	\$ 2,302,508	\$ 46,793	2.1%
Funds					
07 Nonbudgeted Fund	\$ 2,073,311	\$ 2,255,715	\$ 2,302,508	\$ 46,793	2.1%
Total Funds	\$ 2,073,311	\$ 2,255,715	\$ 2,302,508	\$ 46,793	2.1%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.