

Maryland529

Memorandum

To: Maryland House Appropriations Committee
From: Anthony Savia, Executive Director, Maryland 529
Date: January 26, 2023
Re: Maryland 529's Responses to Questions Asked at the January 19, 2023
Maryland House Appropriations Committee Meeting

Thank you for allowing Maryland 529 to testify on January 19, 2023 regarding the calculation issue of the Maryland Prepaid College Trust ("MPCT Tuition Plan"). Maryland 529's Executive Director, Anthony Savia, and the Interim Chair of the Board, Geoff Newman, also testified before the Maryland Senate Budget, Taxation, and Education, Senate Energy, and Senate Environment Committees on January 25, 2022.

In an effort to maintain transparency and to help ensure that Maryland 529 provides consistent information to all parties, this memorandum provides a brief summary of the issue and then responds to and clarifies questions asked by the Maryland House Appropriations Committee.

SUMMARY OF MARYLAND 529'S TESTIMONY BEFORE THE SENATE COMMITTEES

- 1. Maryland Prepaid College Trust tuition plan Account Holders purchased semesters of tuition and those Tuition Benefits have and continue to be paid each semester (as the Account Holder directs).**

The Maryland Prepaid College Trust Tuition Plan was primarily designed to provide for the payment of tuition and fees (not room and board, etc).

Specifically, MPCT tuition plan is a defined benefit plan that allows Account Holders to lock-in a tuition rate and purchase a certain number of semesters of college at today's tuition and fee rates that can then be used to pay for college tuition and fees in the future—even if tuition costs rise. Account Holders prepay for a specific number of semesters when they purchase the MPCT tuition plan.

Absent unique situations, in-state, private and out-of-state tuition payments have not been materially impacted by the current calculation issue. Maryland 529, through its program manager, Intuition, has continued to process and disburse tuition and fees benefits to both Maryland Public Colleges and private and out-of-state colleges.

- For the 2022-2023 academic year, nearly \$32 million has been paid toward MPCT Tuition Plan in-state and out-of-state tuition and fees.**

Maryland529

2. What is the calculation issue and how did it happen?

The calculation issue impacts only the Maryland Prepaid College Trust tuition plan—not the Maryland College Investment Plan. The calculation issue relates to the change in terms of the MPCT Disclosure Statement made by the Maryland 529 Board in June 2021. The calculation issue relates to two calculations: (1) for rollovers and refunds (which is largely used for private schools and out-of-state schools); and (2) for the “Minimum Benefit” value.

In December 2019, the Maryland Office of Legislative Audit (“OLA”) made a finding related to the recordkeeping technology Maryland 529 used and a finding that the Prepaid College Trust calculations for refunds/rollovers resulted in “excessive payments.”

Prior to 2021, the MPCT tuition plan was administered by the Maryland 529 agency using an recordkeeping software system, known as Banner, which was facing the end of its life cycle. When the service provider to the Banner system made the decision to discontinue supporting the system, Maryland 529 first tried to procure a new in-house software system, but that effort ultimately failed. Therefore, in 2020 Maryland 529 procured an outside program manager, Intuition College Savings Solutions, to move the administration of the MPCT tuition plan out of the agency and for Intuition to take over the operations by implementing a new, modern system.

In 2020 to 2021 during the COVID pandemic, Intuition and Maryland 529 transformed the MPCT tuition plan, transitioning from the unserviceable recordkeeping system to a modern, state-of-the-art web platform, launched in November 2021.

Over the years, the Maryland 529 Board has exercised its fiduciary responsibility and managed the Trust to meet its obligations to pay future tuition and fees for account beneficiaries when they matriculate. This is not a simple process and involves adopting complex actuarial assumptions to establish annual contract prices. Two key components of the actuarial analysis are investment earnings of the overall Trust and annual changes to tuition and fee rates. Each Prepaid account is designed to cover tuition and fees for time periods for as long as up to 32 years after the account has been established, 18 years toward matriculation, then four years of school, plus a 10-year window in which to start taking the benefit as not every beneficiary will enter school immediately upon graduating high school. Over the years of managing the Trust, the Trust accumulated a surplus of funds. This was mostly because of the State controlling annual tuition and fee increases from 0 to 2 percent over several years.

In 2019, the Office of Legislative Audits completed a review of Maryland 529. One finding in the resulting Report was that the calculation of distributions for rollovers and refunds under the Trust’s Disclosure Statement, led to what OLA considered “excessive payments.”

Maryland529

In considering the Trust's surplus, and the OLA findings, the Board discussed what program changes should be made as the Prepaid Trust transitioned to its outside program manager. The first change was to set an earnings rate that would apply to all the distribution options including Minimum Benefit, rollover and refund. This would simplify the program and allow better understanding for account holders. In addressing how the extra Trust earnings could be shared back with Account Holders, it was thought that, since the Trust was financially overfunded, funds could be provided back to the Account Holders as part of this simplified calculation. That is what has led to this earnings calculation issue.

The calculation error occurred while Maryland 529 was in the process of distributing additional attributable earnings back to MPCT tuition plan Account Holders, and also correcting "excessive payments" for the rollover and refund as cited by findings by the 2019 OLA Audit. The additional earnings were a result of an increase to the percentage of attributable earnings, which was memorialized in writing by the August 2021 amendments to the MPCT Disclosure Statement that became effective on November 1, 2021. Account Holders received notice of the amendment in August 2021.

The amendment was used to give the earnings back to Account Holders but was inaccurately reported to them between November 2021 and mid-April 2022 and had to be corrected. After the transition to Intuition and after the amended calculation was implemented, an automated calculation issue affecting the earnings rate on accounts was discovered by Maryland 529. When the calculation issue was discovered, the then Executive Director discussed the issue with the Board and advised that Maryland 529 was working to correct the issue with Intuition. At that time, it was believed that Maryland 529 and Intuition could resolve the issue with a relatively quick technical fix. That, however, was not the case. As time progressed, the then Executive Director notified the Board that the issue was more complex than anticipated and that it would take longer to resolve the problem.

During that time period, the Executive Director resigned and the former Deputy Treasurer came in as interim Executive Director and continued to assist the Board with resolving this issue. At that time, both the interim Executive Director and the auditing firm informed the Board that the calculation issue was very complex. The Board then worked with the Assistant Attorney General's Office to obtain additional assistance.

In September 2021, Maryland 529 hired a new Executive Director, Anthony Savia, who asked the Attorney General's Office to engage outside counsel to help with crisis management. The law firm hired a consulting accountant firm to assist. Both the law firm and the accounting firm specialize in these types of issues to assist Maryland 529 in resolving the calculation issue.

Maryland529

3. Why did the calculation error cause Account Holder confusion?

Account Holders saw incorrectly inflated values from the online account access portal for approximately 4-5 months between November 2021 and mid-April 2022 and on their 2021 year-end Account Statements. Account Holders also may not have realized they received notice of a change in the rollover and refund calculations effective November 1, 2021.

In banking, this is the equivalent to when you open your checking account today and it says you have \$100,000 in your checking account instead of the \$5,000 you really have. The \$95,000 is not an accurate calculation, and generally a financial institution cannot give a customer the benefit of that error. Account Disclosures allow for calculation errors to be corrected.

That example is an oversimplification of a very complex matter, but it is designed to explain the issue and why each and every Account Holder's case is being viewed independently. Each Account Holder has a different and unique set of facts. This is why the calculation issue has taken time to resolve.

4. The calculation has been fixed and is being applied manually to accounts for which Account Holders submitted Request for Account Support Forms.

Maryland 529 has resolved the calculation issue and correct earnings are now being reported to MPCT tuition plan Account Holders who requested support. To date, Maryland 529 and its consultants have received Request for Account Support Forms for approximately 500 MPCT tuition plan accounts. Maryland 529 and its consultants are conducting final checks and sending MPCT Tuition Plan Manual Review Reports to the individual Prepaid Trust Account Holders with an explanation of the individual Report.

To date, over 418 MPCT Tuition Plan accounts have been manually reviewed. Maryland 529 will continue to receive forms and process manual reviews until the calculation can be automated and verified on the Intuition online platform.

MARYLAND 529'S RESPONSES TO THE MARYLAND HOUSE APPROPRIATION COMMITTEE'S QUESTIONS

Question 1: "How many accounts are affected by this?"

There are currently approximately 30,000 MPCT tuition plan accounts that are open.

Of the 30,000 open accounts, there are **3,941** unique MPCT tuition plan accounts that have received or are currently receiving tuition payments for the 2022-2023 academic year.

Maryland529

For those families, Maryland 529 has paid nearly **\$32 million in tuition for the 2022-2023 school year to date.**

Approximately 500 MPCT Account Holders have submitted Requests for Account Support Forms, which initiates the manual review account reconciliation process.

Please note, some of those 500 Account Holders are included in the 3,941 accounts currently receiving tuition payments; some have decided that they would like to wait until their manual account reviews are completed before deciding to continue receiving tuition payments or seek a refund or a rollover; and some do not have beneficiaries currently enrolled in higher education.

In-state College Tuition: There should not be any Maryland public college or university student who has not received tuition benefits if there are still semesters remaining to be spent in the account. Intuition is paying out tuition payments for all Account Holders who request payments through their normal process. In the event a constituents reports that they are unable to access in-state tuition payments, please direct them to email mpctassistance.md529@maryland.gov with the subject line: ASSISTANCE WITH CURRENT IN-STATE TUITION PAYMENT.

Out of State / Private School Tuition: There should not be any out-of-state / private college or university student who has not received tuition benefits – if there are still semesters remaining to be spent in the account. Tuition benefits in accordance with the plan documents are available.

Question 2: “The total \$ in discrepancies?”

Not all accounts were impacted the same way by the calculation issue due to the highly complex nature of the MPCT and the individual circumstances applicable to each account. Although the MPCT Disclosure Statements are the same for all Account Holders, the application of those rules varies widely depending on the particular circumstances of an account and the beneficiary’s college of choice.

The total dollar amount in discrepancy cannot be determined at this time because the manual reviews have not been completed for all MPCT accounts. Maryland 529 has employed a new actuary services firm to perform an evaluation of MPCT. That report is expected in mid-to-late February.

It is important to note that Account Holders received correct statements for years preceding the erroneous computer-generated statements and only saw

Maryland529

erroneous and inflated numbers on calendar year 2021 Annual Statements, or if they logged in to their Intuition account portal from November 9, 2021 through April 15, 2022—a period of five months and six days.

Please see the attached spreadsheet,¹ which shows the numbers of a sampling of what Account Holders would have seen on their year-end statements from 2018-2021. The spreadsheet shows that each Account Holder would have seen a large increase from the 2020 year-end statement to the 2021 year-end statement.

Question 3: “Demographics of individuals affected?”

Maryland 529 does not collect demographic information. Maryland 529 has compiled a zip code analysis of Account Holders who have submitted Request for Account Support Forms, which is attached in the form of a map.

Question 4: “How is the Board resolving the IRS implications for individuals or advising people?”

Please note that Maryland 529 strongly encourages Account Holders to discuss their Maryland 529 MPCT tuition plan with a tax professional to address any tax consequences.

Maryland 529 has implemented the manual review process to calculate each Account Holder's actual Minimum Benefit accurately within the terms of the plan documents. Currently that process is near completion for the 500 or so individuals who have requested account support. We are working with the program manager to correct the automated system. We do not have a definite timeline for how long that will take. Maryland 529 does not have the authority to resolve any claims for funds beyond those to which account holders are entitled under the plan documents.

Question 5: “Is there a financial penalty that could be imposed on the third party that caused this problem?”

Maryland 529 has been working on providing account holders correct information as quickly as possible. The Maryland 529 staff and Board is working with counsel to assess any potential claims.

¹ The numbers contained on this spreadsheet are for sample purposes only and are subject to change based on quality control.

Maryland529

Question 6: “When does the Board plan to hold its next meeting?”

The Maryland 529 Board is scheduled to hold a Board meeting on January 30, 2023 from 11:00 a.m. to 12:00 pm. The notice and the agenda are posted on the Maryland 529 website at: [Board Meeting Agendas and Minutes \(maryland529.com\)](#).

Question 7: Does the Maryland 529 Board get paid?

Pursuant to the Maryland Code, a Board member may not receive compensation but may seek reimbursement for expenses under the Standard State Travel Regulations. See Md. Code Ann., Educ. § 18-1905.

Question 8: “What is the timeline to get this resolved?”

Maryland 529 continues to receive requests from Account Holders and is performing manual reviews for those accounts. To date, Maryland 529 completed approximately 90 percent of manual calculations for Account Holders who submitted forms through December 31, 2022. Tuition benefits were never interrupted and to be available to Account Holders.

Each Account Holder who submitted a form has or will receive shortly a Manual Review Report with an explanation and instructions for next steps. The Account Holder can decide to use the Tuition benefit, take a rollover, or take a refund. Instructions for all options are provided to each Account Holder with the Manual Review Report. As new account support forms are received, it is expected to take approximately 2-3 weeks to process manual calculations.

Maryland 529 cannot provide a timeline for the automated solution on the Intuition platform. This phase of the calculation issue solution is critical. Maryland 529 will not announce that the calculation is automated and live until Intuition has completed the extensive computer coding and the automated calculation is tested and verified by our consultants and outside CPAs.

Again, Maryland 529 will continue with the manual process until it can ensure the Intuition process is working and can be automated on the Intuition platform—which will likely be late 2023.

Numbers Sampling of What Account Holders Would Have Seen on Year-End Statements from 2018-2021

Amount that Account Holder saw on Year-End 2018 Statement	Amount that Account Holder saw on Year-End 2019 Statement	Amount that Account Holder saw on Year-End 2020 Statement	Erroneous and Inflated Amount Account Holder saw on Year-End 2021 Statement
\$ 18,120.00	\$ 18,120.00	\$ 18,120.00	\$ 24,793.09
\$ 27,133.00	\$ 27,133.00	\$ 27,133.00	\$ 35,983.16
\$ 27,133.00	\$ 27,133.00	\$ 27,133.00	\$ 65,264.81
\$ 31,324.00	\$ 31,324.00	\$ 31,324.00	\$ 37,510.77
\$ 35,695.00	\$ 35,695.00	\$ 35,695.00	\$ 86,537.24
\$ 41,280.00	\$ 41,280.00	\$ 41,280.00	\$ 94,536.58
\$ 44,403.64	\$ 44,403.64	\$ 44,403.64	\$ 72,157.43
\$ 44,160.00	\$ 44,160.00	\$ 44,160.00	\$ 84,762.04
\$ 29,484.00	\$ 29,484.00	\$ 29,484.00	\$ 44,722.10
\$ 21,724.00	\$ 21,724.00	\$ 21,724.00	\$ 39,882.03
\$ 10,724.00	\$ 10,724.00	\$ 10,724.00	\$ 15,357.26
\$ 10,674.00	\$ 10,674.00	\$ 10,674.00	\$ 16,228.50
\$ 55,692.00	\$ 55,692.00	\$ 55,692.00	\$ 78,914.28
\$ 53,646.00	\$ 53,646.00	\$ 53,646.00	\$ 80,286.17
\$ 39,026.00	\$ 39,026.00	\$ 39,026.00	\$ 73,693.23
\$ 27,160.00	\$ 27,160.00	\$ 27,160.00	\$ 51,812.54
\$ 37,313.00	\$ 37,313.00	\$ 37,313.00	\$ 83,615.92
\$ 17,264.00	\$ 17,264.00	\$ 17,264.00	\$ 33,267.12
\$ 31,221.00	\$ 31,221.00	\$ 31,221.00	\$ 66,426.51
\$ 31,184.00	\$ 31,184.00	\$ 31,184.00	\$ 84,135.36
\$ 26,618.56	\$ 26,618.56	\$ 26,618.56	\$ 63,559.62
\$ 55,692.00	\$ 55,692.00	\$ 55,692.00	\$ 89,149.91
\$ 31,184.00	\$ 31,184.00	\$ 31,184.00	\$ 84,978.82
\$ 42,300.00	\$ 42,300.00	\$ 42,300.00	\$ 88,482.94
\$ 38,714.00	\$ 38,714.00	\$ 38,714.00	\$ 33,931.91
\$ 26,030.00	\$ 26,030.00	\$ 26,030.00	\$ 25,542.98
\$ 38,319.00	\$ 38,319.00	\$ 38,319.00	\$ 20,774.24
\$ 38,177.00	\$ 38,177.00	\$ 38,177.00	\$ 38,388.43
\$ 28,401.00	\$ 28,401.00	\$ 28,401.00	\$ 55,821.48
\$ 29,904.00	\$ 29,904.00	\$ 29,904.00	\$ 46,743.21
\$ 24,021.00	\$ 24,021.00	\$ 24,021.00	\$ 41,685.43

Maryland529

Zip Code Analysis:



¹ This analysis represents Account Holders who have submitted Request for Account Support forms. The total number fluctuates because Account Holders continue to submit forms.

of Account Holders
1 86 171

Powered by Bing
© GeoNames, Microsoft, TomTom