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# Annual Report Summary

## *for Account Holders*

For the Fiscal Year  
Ended June 30, 2012



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*Sidney,  
College Savings Plans of Maryland Beneficiary*

# Annual Report Summary

## **Families Continue Their Commitment to College Savings during Fiscal Year 2012**

We are pleased to report that Maryland families are remaining focused on their educational goals by saving for the future higher education of more than 176,000 beneficiaries in the **College Savings Plans of Maryland** as of the end of fiscal year 2012. This is nearly 13,200 more than as of June 30, 2011. Investments in the plans grew as well, reaching a total of more than \$3.3 billion as of June 30, 2012, which is approximately \$240 million higher than as of June 30, 2011.

The **Maryland Prepaid College Trust** received 2,472 new enrollments, with 15% of them for newborn infants under 1 year of age. Total investments in the Trust reached \$654 million for 29,706 beneficiaries. In addition, as of June 30, 2012, the Trust continued to be 117% funded to meet anticipated future tuition payments.

For the **Maryland College Investment Plan**, approximately 12,500 new beneficiaries were enrolled during the fiscal year. Account holders contributed approximately \$332 million to this plan, or approximately \$17 million more than for the previous fiscal year. These contributions, along with an environment of mixed performance in investment markets, resulted in total investments in this plan of \$2.68 billion as of June 30, 2012. In addition, the average account size increased by nearly \$400 over the previous fiscal year, reaching \$15,882 as of June 30, 2012.

We are pleased to present this Annual Report Summary, which includes an overview of the past fiscal year, provides financial highlights of each Plan, discusses significant events, and affirms our commitment to helping Maryland families save for college with easy, affordable, tax-advantaged options. We also recommend that you read our Comprehensive Annual Report, which contains the audited financial statements of both Plans and more detailed information about the Plans.

Thank you for making college savings a priority in your family's budget and for your participation in the **College Savings Plans of Maryland**.

Sincerely,

*College Savings Plans of Maryland Board*

**Read the 2012 Comprehensive Annual Report by visiting [CollegeSavingsMD.org](http://CollegeSavingsMD.org) or by calling 888.4MD.GRAD (463.4723).**



## **2012 Snapshot**

6/30/12

### **Prepaid College Trust**

Contributions from Account Holders	<b>\$65 million</b>
Investments	<b>\$654 million</b>
Beneficiaries	<b>29,706</b>
Funded Status	<b>117%</b>

### **College Investment Plan**

Contributions from Account Holders	<b>\$332 million</b>
Investments	<b>\$2.68 billion</b>
Beneficiaries	<b>146,683</b>
Average Account Size	<b>\$15,882</b>

Martin O'Malley Governor  
Anthony Brown Lt. Governor

## **College Savings Plans of Maryland Board**

Nancy K. Kopp  
*Board Chair, State Treasurer*

Thomas H. Price, III, Esq.  
*Board Vice Chair and Public Member*

Lewis A. Robinson  
*Board Secretary and Public Member*

W. Gary Dorsch  
*Public Member*

Peter Franchot  
*State Comptroller*

Helene Grady  
*Public Member*

Danette G. Howard, Ph.D.  
*Secretary of Higher Education*

Russell V. Kelley, Ph.D.  
*Public Member*

William E. Kirwan, Ph.D.  
*Chancellor  
University System of Maryland*

Lillian M. Lowery, Ed.D.  
*Superintendent of Schools*

# More than 176,000 beneficiaries and more than \$3.3 billion invested in both Plans

## *A Year of Continued Growth for the College Savings Plans of Maryland*

Participants in the Prepaid College (Trust) and the College Investment Plan (Plan and together with the Trust, the Plans) invested a total of nearly \$400 million over the past fiscal year. In addition, the total number of beneficiaries in the two Plans increased by more than 13,000.

### **Highlights by Plan include:**

#### **Prepaid College Trust maintains actuarial surplus**

As of June 30, 2012, the Trust was 117% funded with an actuarial surplus of \$124.9 million. This is very close to the previous fiscal year, where the Trust was also 117% funded with an actuarial surplus of \$122.3 million. One of the benefits of the Trust's actuarial surplus is that it can help to reduce negative future impacts that may result from either investment earnings that fall below our projection; future tuition increases that exceed our projection; or both.

#### **New Enrollments in the Prepaid College Trust increase by 5% over last year**

Not only do this year's 2,472 new enrollments in the Trust represent a 5% increase over last year, but it was particularly gratifying to see that 15% of these enrollments were for infants under one year of age. This shows that more families are truly planning ahead for future college tuition.

#### **College Investment Plan has mixed relative short- and long-term investment performance**

Five of the thirteen investment portfolios in the Plan exceeded their weighted benchmarks for the 12 months ended June 30, 2012. Regarding long-term performance as measured by annualized return since inception, five investment portfolios met or exceeded their weighted benchmarks. The Board reviews investment performance of the Plan at least quarterly and we encourage account holders to periodically review the performance of their investments on our website, since investment returns are updated each day that the New York Stock Exchange is open for business.

#### **The College Investment Plan earns Morningstar's highest rating for third year in a row**

In October 2012, we were pleased to learn that the Plan was one of four college savings plans in the country to receive a "Gold" rating from Morningstar, Inc. The report expressed that Morningstar "has the highest conviction in the plan's ability to serve college savers well over the long term". The report also mentions T. Rowe Price's "top-notch investments" and that the Plan has been an industry leader for several years running because it offers "high quality active strategies at a reasonable price". In addition to receiving a "Gold" rating in 2012, the College Investment Plan also received a "Top" rating in Morningstar's previous rating system for 2011 and 2010.



*Natalie,  
College Savings Plans of Maryland Beneficiary*



## Future Direction

According to the Institute for College Access & Success in their October 2012 study on “Student Debt and the Class of 2011”, two-thirds of college seniors who graduated in 2011 had student loan debt, with an average of \$26,600 for those with loans. However, the study also indicates that a college education is a very important qualification for employment, with four-year college graduates experiencing far less unemployment and earning higher salaries than their counterparts with only a high school education. In fact, the study reports that the unemployment rate for young high school graduates was 19.1% in 2011, which was more than double the rate for young college graduates.

We continue to believe that higher education is almost mandatory for entry into today’s competitive marketplace and that it’s very important to prepare in advance for college costs by starting to save when children are as young as possible, in order to avoid incurring burdensome debt.

Our desire is to provide easy-to-use, flexible, and affordable college savings options to help all Maryland families who have college dreams for their children. We continually seek ways to improve the features and benefits of these Plans. In fact, College Investment Plan participants will soon be learning of changes to many of that Plan’s investment options that are designed to further increase diversification and take advantage of long-term potential opportunities outside of the U.S.

## Financial Highlights – Maryland Prepaid College Trust

### Changes to Net Assets

The Prepaid College Trust allows families to lock in payments that are based in part on current tuition at Maryland’s public colleges. The Board invests those payments and commits to pay future tuition benefits when eligible students attend college, whether they attend a Maryland public college or nearly any other public or private 2- or 4-year college in the country.

Contributions from new and existing account holders were approximately \$65 million for the fiscal year. Approximately \$49.8 million was paid in tuition benefits for 5,710 beneficiaries.

For the fiscal year ended June 30, 2012, net assets of the Trust increased by \$2.3 million. This increase was negatively impacted by the 1.6% return on the Trust’s investments for the period, which was significantly below our projected return of 7.65%. In addition, the overall increases in tuition and mandatory fees were less than projected, which positively impacted net assets.

***The Prepaid College Trust invests  
your scheduled payments in order  
to pay future tuition benefits.***

### Condensed Statements of Net Assets As of June 30, (in millions)

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current	\$750.9	\$728.8
Noncurrent	<u>114.2</u>	<u>113.2</u>
Total	<u>865.1</u>	<u>842.0</u>
<b>Liabilities</b>		
Current	84.2	80.2
Noncurrent	<u>652.7</u>	<u>635.8</u>
Total	<u>736.9</u>	<u>716.0</u>
<b>Net Assets</b>	<u>\$128.2</u>	<u>\$126.0</u>

## **Maryland Prepaid College Trust – Investment Earnings and Actuarial Status**

### **Net Investment Gains**

During the fiscal year ended June 30, 2012, the Trust continued to invest contract payments received into its diversified investment portfolio. The investment balances and of June 30, 2012 and June 30, 2011 are shown at right.

The Trust's investments produced an overall return of 1.6% for the fiscal year, which is significantly less than the stated rate of return goal in our Investment Policy of 7.65%.

### **Investments as of June 30, (in thousands)**

	<u>2012</u>	<u>2011</u>
Large Cap Value	\$68,084	\$ 68,707
S&P 500 Core	76,039	51,252
Large Cap Growth	75,983	69,934
Small Cap Value	48,634	49,788
Small/Mid Cap Core	26,408	27,811
Small Cap Core	0	22,297
Real Estate	28,164	28,532
Intermediate Fixed Income	201,836	186,024
Short Fixed Income	32,312	31,483
International	51,018	57,391
Intl. Emerging Markets	45,813	50,828
Total Investments	<u>\$654,291</u>	<u>\$644,047</u>

***The Trust's Funded Status—the difference between the tuition benefits promised and the assets needed to pay those tuition benefits—is one way to measure the Trust's financial health.***

### **Prepaid College Trust is 117% Funded**

Each year, an actuarial valuation of the Prepaid College Trust is conducted. The purpose of this valuation and resulting Soundness Report is to compare the future value of the Trust's assets to its future liabilities, which are discounted to reflect their present value.

As of June 30, 2012, the Trust was 117% funded, with an actuarial surplus of \$124.9 million, which is very close to the previous year, when the Trust was also 117% funded, with an actuarial surplus of \$122.3 million.

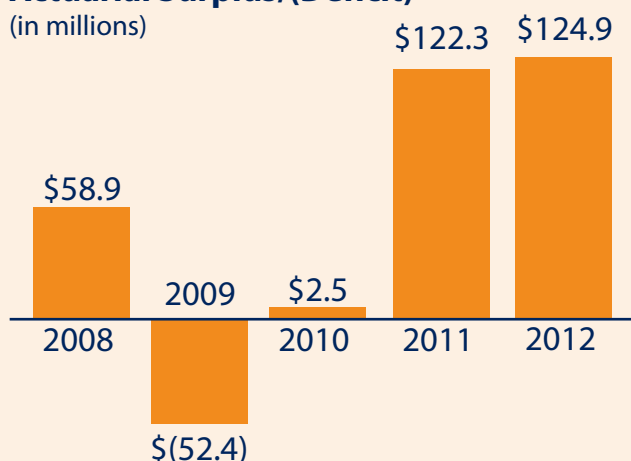
There are two primary reasons for the small increase in the amount of the actuarial surplus:

- First, the weighted average tuition at Maryland's public 4-year colleges increased by 3.0% for the 2012-2013 academic year. This actual increase is less than our projected tuition increase of 7% and a mandatory fee increase of 10% for 2012-2013. Since the actual increase was lower than our projection, this had a positive effect on actuarial valuation.
- Second, the Trust's investments produced an overall return of 1.6% during fiscal year 2012, as compared with the stated goal of 7.65%. This had a negative effect on the actuarial valuation.

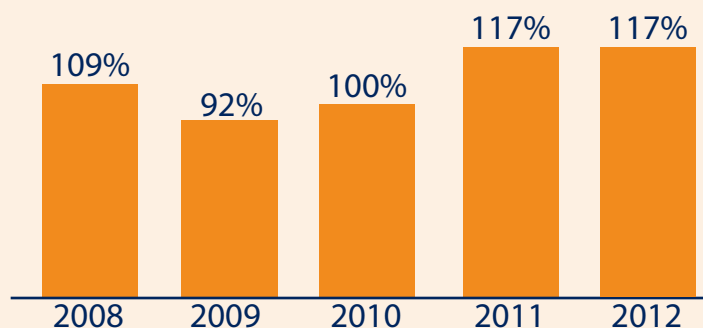
The key measures of soundness for the past five fiscal years are included in the charts below:

### Actuarial Surplus/(Deficit)

(in millions)



### Funded Ratio

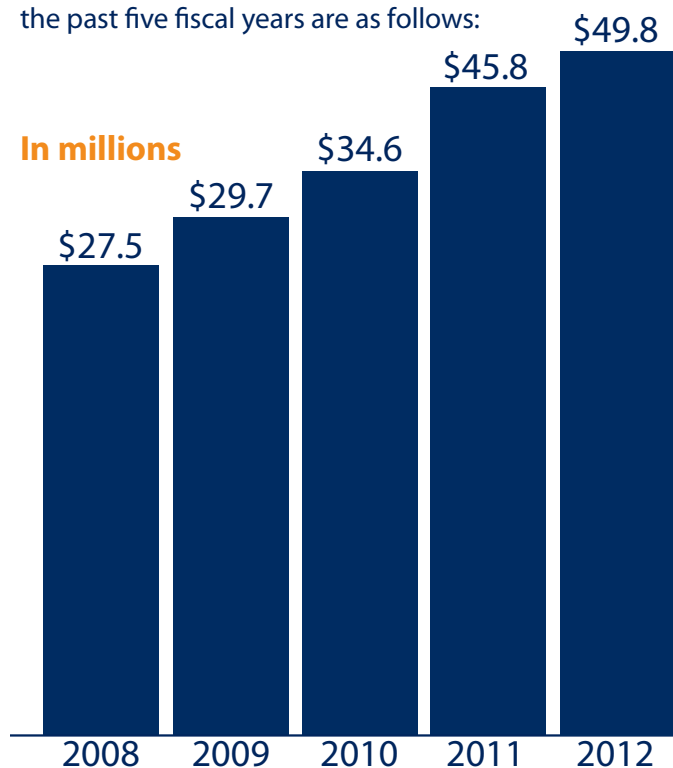


### More Students Continue to Use Tuition Benefits at Colleges Nationwide

There are a total of 9,381 students eligible to use benefits for the Fall 2012 semester, as compared to approximately 8,835 students who were eligible for the prior academic year. As of October 21, 2012, approximately 57% of eligible beneficiaries have claimed their benefits this Fall, with approximately 44% of these students attending Maryland public colleges and 56% attending a wide variety of private or out-of-state colleges across the country. The remaining 43% of eligible beneficiaries have yet to claim their Fall 2012 tuition benefits or have decided to defer using their benefits until a future semester.

Total tuition benefits paid during the past five fiscal years are as follows:

In millions



Help your family and friends learn about our Plans and saving for college by telling them about our website—[CollegeSavingsMD.org](http://CollegeSavingsMD.org)

Shelby and Stephanie,  
College Savings Plans of Maryland Beneficiary and Account Holder

# Financial Highlights

## Maryland College Investment Plan

### Changes to Net Assets

The College Investment Plan is managed and distributed by T. Rowe Price and offers families the opportunity to choose from a variety of investment options ranging from conservative to aggressive with no sales commissions or loads. Account holders choose how much they wish to invest, starting with as little as \$25 per month with automatic monthly contributions.

There was an increase in net assets of \$226 million for the Plan for fiscal year 2012. Net additions to net assets resulted from 19,591 new accounts, \$332 million in account holder contributions to portfolios, and \$53 million in net investment income. Net deductions from net assets include \$159 million in distributions to account holders for the fiscal year.

### Market Commentary

Market performance has a direct effect on the overall performance of investments in the College Investment Plan. The following is designed to provide a summary of market performance for the 12 months ended June 30, 2012.

**Mixed News For Stocks** - U.S. stocks produced mixed results for the 12-month period ended June 30, 2012. In general, domestic large-cap stocks performed well, while small and mid-cap stocks posted modest losses. In the large-cap universe, growth stocks outpaced value stocks, but the opposite was true among small- and mid-cap shares. Sector performance in the large-cap arena was mixed; defensive sectors, such as utilities, telecommunication services, and consumer staples, generally outperformed cyclical sectors, including energy and materials.

Non-U.S. stock markets were sharply lower for the year, with most regions and markets recording double-digit losses. European debt issues, particularly in Greece, weighed on returns in European markets. Developed Asian markets also fell but fared better than those in Europe. Emerging markets lagged developed markets as the European debt crisis decreased demand for exports.

**Bonds Strong Despite Credit Downgrades** - U.S. bonds produced strong returns for the year. Despite Standard & Poor's downgrade of the U.S. government's credit rating, U.S. Treasury yields plunged to historic lows, causing their prices to soar. Investors still considered U.S. Treasury bonds a safe haven, compared with corporate bonds that are more exposed to global economic uncertainty and the European debt crisis.

Long-term Treasury securities were far and away the top performers in the investment grade universe. Municipal and corporate bonds also turned in solid results, while agency mortgage-backed and asset-backed securities were less robust. High yield securities were one of the best-performing fixed income sectors for the first half of 2012, but they trailed investment grade issues for the year due to weakness in the second half of 2011.

*Judy, Troy, Sean and Ryan,  
College Savings Plans of Maryland Account Holders  
and Beneficiaries*





## Investment Earnings by Portfolio

The investment returns for each Portfolio are listed below. Please read the Comprehensive Annual Report for explanations of performance vs. benchmark for each individual Portfolio.

## Performance Comparison as of June 30, 2012

Portfolio	1 Year Return	Weighted Benchmark*	Annualized Since Inception Return	Weighted Benchmark*	Inception Date
Portfolio 2030	-0.24	-0.26	8.69	8.69	12/31/09
Portfolio 2027	-0.25	-0.26	2.90	2.58	6/30/06
Portfolio 2024	0.38	0.67	5.44	5.34	10/31/03
Portfolio 2021	1.33	1.98	4.47	4.71	11/26/01
Portfolio 2018	2.17	3.35	4.70	4.93	11/26/01
Portfolio 2015	3.82	5.52	5.02	5.17	11/26/01
Portfolio for College	2.32	2.22	3.25	3.28	11/26/01
Equity Portfolio	-0.17	-0.26	4.28	4.36	11/26/01
Total Equity Market Index Portfolio	3.44	3.85	3.13	3.46	6/30/06
Balanced Portfolio	2.01	3.29	5.47	5.29	11/26/01
Bond & Income Portfolio	4.90	7.47	6.60	5.62	11/26/01
Short-Term Bond Portfolio	1.55	1.12	3.14	3.28	10/31/03
US Treasury Money Market Portfolio	0.00	0.04	0.00	0.09	12/31/09

\*The Weighted Benchmark varies by portfolio. Benchmark performance inception date for Portfolio 2030 and the U.S. Treasury Money Market Portfolio is December 31, 2009. Benchmark performance inception date for Portfolio 2027 and the Total Equity Market Index Portfolio is June 30, 2006. Benchmark performance inception date for Portfolio 2024 and the Short-Term Bond Portfolio is October 31, 2003. Benchmark performance inception date for all other portfolios is November 30, 2001.

## Asset Distribution by Portfolio

The relative distribution of assets invested by portfolio as of June 30, 2012, rounded to the nearest tenth of a percent, is shown below. Assets in Enrollment-Based Portfolios comprise approximately 74% of total Plan assets, the same as for fiscal year 2011. Among the Enrollment-Based Portfolios, the Portfolio for College grew by 8.6% during the fiscal year, primarily due to the scheduled roll of Portfolio 2012 to the Portfolio for College in June 2012. All remaining Enrollment-Based Portfolios grew slightly during the fiscal year, from 0.4% to 0.8%. Among the Fixed Portfolios, the Equity Portfolio declined by 0.8% during the fiscal year. The Total Equity Market Index Portfolio, the Bond and Income Portfolio, and the U.S. Treasury Money Market Portfolio each grew by 0.2% to 0.3% during the fiscal year, while the Balanced Portfolio and the Short-Term Bond Portfolio each declined during the same period, by 0.3% and 0.1%, respectively.

