



**COLLEGE SAVINGS**  
**PLANS OF MARYLAND**

*Save here. Go anywhere.®*

217 East Redwood Street, Suite 1350  
Baltimore, MD 21202  
888.4MD.GRAD | CollegeSavingsMD.org

*Address Service Requested*

# Annual Report Summary and Highlights

## *for Account Holders*

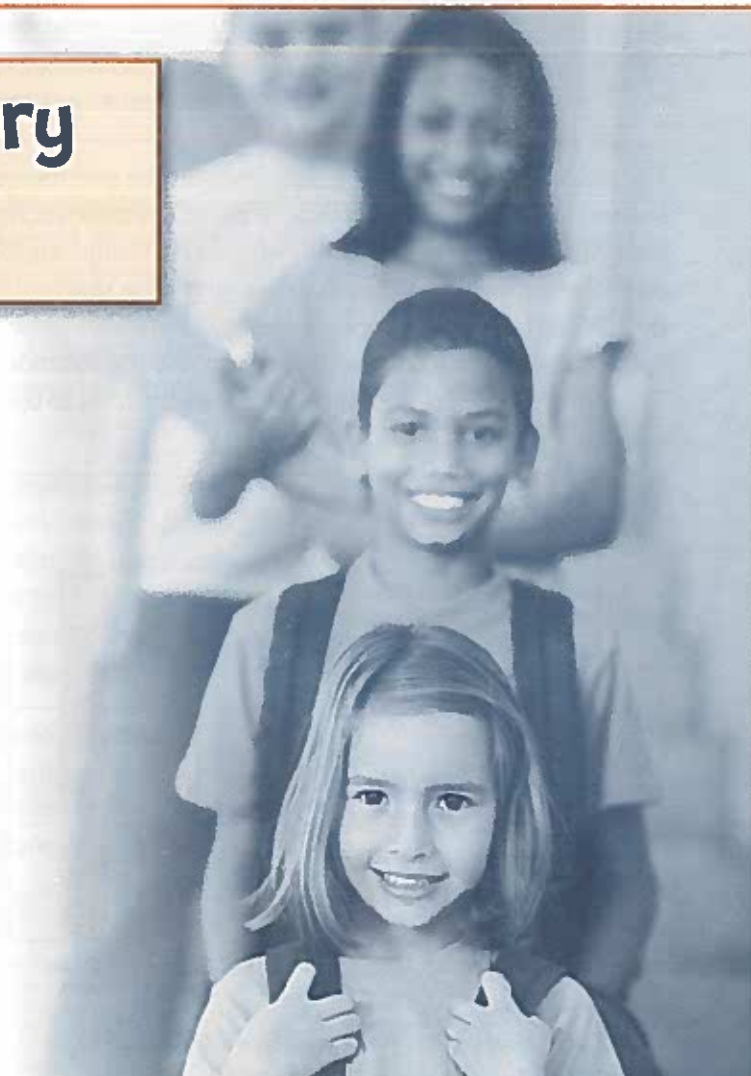
For the Fiscal Year  
Ended June 30, 2013



**COLLEGE SAVINGS**  
**PLANS OF MARYLAND**

*Save here. Go anywhere.®*

CollegeSavingsMD.org • 888.4MD.GRAD (463.4723)



# Annual Report Summary and Highlights

## **Families Continue Saving for College and are Aided by Strong Stock Market Performance**

We are pleased to report continued growth in the **College Savings Plans of Maryland** during Fiscal Year 2013. New enrollments and account holder contributions, combined with favorable stock market performance, significantly contributed to investments in both plans reaching nearly \$4 billion to help pay the future college expenses of nearly 165,000 beneficiaries.

The **Maryland Prepaid College Trust** has now completed 15 years of operations and has already helped thousands of students to pay for college. During the past fiscal year, more than 2,300 new enrollments were received, with 14% of these being for infants under 1 year old. Total investments reached \$756 million for more than 30,000 beneficiaries. In addition, the Trust was 125% funded to meet anticipated future tuition payments as of June 30, 2013.

In December 2013, the **Maryland College Investment Plan** will have been open to investors for 12 years. This Plan also had a very positive year. More than 10,700 new beneficiaries were added, increasing the total number of beneficiaries with funded accounts to more than 134,000 as of June 30, 2013. In addition, total investments reached \$3.2 billion at fiscal year-end, reflecting contributions from account holders of almost \$395 million and aided by strong stock market performance. This is nearly a 20% increase in investments over the past fiscal year and equates to an average account balance of \$17,500 as of June 30, 2013.

We are pleased to present this Annual Report Summary and Highlights, which includes an overview of the past 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 2013 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 2013 Annual Report by visiting [CollegeSavingsMD.org](http://CollegeSavingsMD.org) or by calling 888.4MD.GRAD (463.4723).**



## **2013 Snapshot**

6/30/13

### **Prepaid College Trust**

Contributions from Account Holders	<b>\$65 million</b>
Investments	<b>\$756 million</b>
Beneficiaries	<b>30,572</b>
Funded Status	<b>125%</b>

### **College Investment Plan**

Contributions from Account Holders	<b>\$395 million</b>
Investments	<b>\$3.2 billion</b>
Beneficiaries	<b>134,209</b>
Average Account Size	<b>\$17,500</b>

Martin O'Malley *Governor*  
Anthony Brown *Lt. Governor*

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

Nancy K. Kopp  
*Board Chair, State Treasurer*

Helene Grady  
*Board Vice Chair and Public Member*

Lewis A. Robinson  
*Board Secretary and Public Member*

W. Gary Dorsch  
*Public Member*

Peter Franchot  
*State Comptroller*

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

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

John D. Kenney  
*Public Member*

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

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

# Total investments in both Plans reached nearly \$4 billion for nearly 165,000 beneficiaries

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

Participants in the Prepaid College Trust (Trust) and the College Investment Plan (Plan) contributed over \$460 million over the past fiscal year. Nearly 165,000 beneficiaries had active, funded accounts in at least one plan as of June 30, 2013.

### *Highlights by Plan include:*

#### **Prepaid College Trust strengthens actuarial surplus**

As of June 30, 2013, the Trust was 125% funded with an actuarial surplus of \$187.5 million. This is an increase from the previous fiscal year, where the Trust was 117% funded with an actuarial surplus of \$124.9 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 projections; future tuition increases that exceed our projections; or both.

#### **Total Beneficiaries with active accounts in the Prepaid College Trust exceed 30,000**

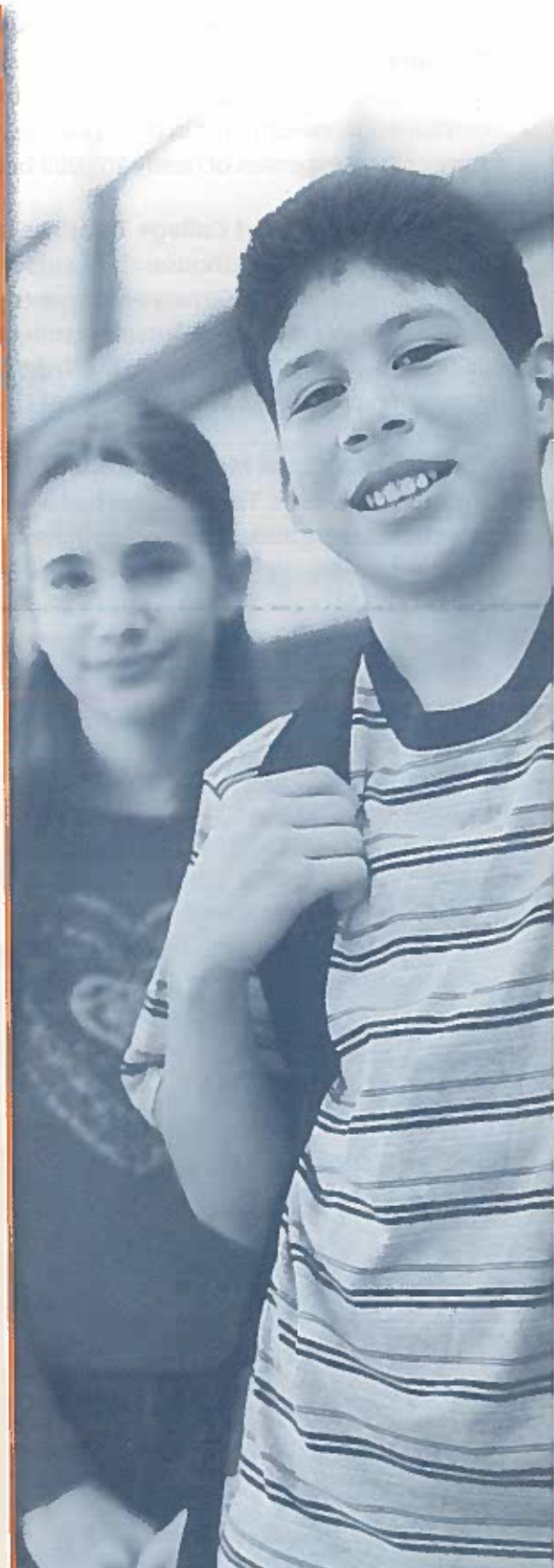
While new enrollments for the fiscal year were about 100 less than last year, the total number of beneficiaries exceeded 30,000 at fiscal year-end for the first time. We are particularly gratified to see that 14% of these enrollments were for infants under one year of age. This continues a trend from last year, when 15% of new enrollments were for infants and shows that some families are planning far ahead for future college tuition.

#### **College Investment Plan maintains strong one-year relative investment performance, although relative returns "since inception" are mixed**

For the 12 months ended June 30, 2013, eight of the 11 investment portfolios that consist primarily of actively managed T. Rowe Price mutual funds exceeded their weighted benchmarks (Portfolio 2033 was not included because it had less than one year of performance history). However, relative performance "since inception" is mixed, with seven of 12 portfolios either exceeding or being in line with their weighted benchmarks. Not counted in the above portfolios are the Global Equity Market Index Portfolio and the U.S. Treasury Money Market Portfolio, which consist of only index funds or a money market fund. These portfolios underperformed their benchmarks primarily due to their expenses. 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 fourth year in a row**

In October 2013, we were pleased to learn that the Plan was again one of four college savings plans in the country to receive a "Gold" rating from Morningstar, Inc. Morningstar stated that plans with a Gold rating represent their "highest conviction recommendations and stand out as best of breed for their ability to help college savers meet their goals." In addition to also receiving a "Gold" rating in 2012, the College Investment Plan received Morningstar's "Top" rating in 2011 and 2010.



## Future Direction

As we look to the future, it is important for families to remain focused on their college savings goals. An analysis by T. Rowe Price shows an example of how borrowing \$25,000, instead of investing, can double the out-of-pocket cost of college:

INVEST in a 529 Plan	OR	PAY Student Loan Debt
<p><b>About \$106 per month</b> for 15 years – assuming a 6% annual return but not representative of any particular investment.</p>	<p><b>About \$320 per month</b> for 10 years, with payments starting after accruing interest during four years of college and assuming an 8% annual interest rate, which was used to depict a blend of various interest rates representing various loan types.</p>	
<p>This means investing approximately <b>\$19,000 over time to potentially build a \$25,000 investment for college.</b></p>	<p>This means total loan payments of approximately <b>\$38,000 to repay \$25,000 of student loan debt.</b></p>	

This example does not consider any investment or loan origination fees. Amounts are adjusted to today's dollars and assume an inflation/discount rate of 3% annualized.

We hope you will choose to continue on your path of saving for your children's and grandchildren's higher education. We also ask for your help in spreading the word to others about the importance of saving for college as early as possible.

## Financial Highlights – Maryland Prepaid College Trust

### Changes to Net Position

The Prepaid College Trust allows families to lock in payments that are based in part on current tuition and mandatory fees 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 \$52.3 million was paid in tuition benefits for 6,007 beneficiaries.

For the fiscal year ended June 30, 2013, the net position of the Trust increased by \$63.7 million. This increase was due to two factors, the most significant of which was the Trust's 10.7% return on investments for the period, which was higher than our projected return of 7.5%. In addition, the combined actual increase in tuition and mandatory fees was 2.8%, compared to the projected tuition increase of 6% and mandatory fee increase of 10%. This also had a positive effect on the Trust's net position.

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

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

	2013	2012
<b>Assets</b>		
Current	\$839.1	\$750.9
Noncurrent	<u>117.7</u>	<u>114.2</u>
Total	956.8	865.1
<b>Liabilities</b>		
Current	92.2	84.2
Noncurrent	<u>672.7</u>	<u>652.7</u>
Total	<u>764.9</u>	<u>736.9</u>
<b>Net Position</b>	<u>\$191.9</u>	<u>\$128.2</u>

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

### Net Investment Gains

During the fiscal year ended June 30, 2013, the Trust continued to invest contract payments received into its increasingly diversified investment portfolio. The investment balances as of June 30, 2013 and June 30, 2012 are shown at right.

The Trust's investments produced an overall return of 10.7% for the fiscal year, which is significantly more than our rate of return goal of 7.65%.



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

	2013	2012
Large Cap Value	\$ 88,926	\$ 68,084
S&P 500 Core	91,681	76,039
Large Cap Growth	80,635	75,983
Small Cap Value	61,063	48,634
Small/Mid Cap Core	32,305	26,408
Private Markets	2,025	0
International Core	58,683	51,018
Developed Markets	22,458	0
Emerging Markets	24,733	45,813
Real Estate	31,497	28,164
Core Fixed Income	144,532	201,836
Short-Term Fixed Income	32,629	32,312
Emerging Market Debt	57,930	0
High Yield Fixed Income	26,814	0
Total Investments	<u>\$755,911</u>	<u>\$654,291</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 125% 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, 2013, the Trust was 125% funded, with an actuarial surplus of \$187.5 million, which is a significant increase from last year, when the Trust was 117% funded, with an actuarial surplus of \$124.9 million.

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

- First, the Trust's investments produced an overall return of 10.7% during fiscal year 2013, as compared with the stated goal of 7.65% for soundness. This had a significant positive effect on the actuarial valuation.
- Second, the weighted average tuition at Maryland's public 4-year colleges increased by 2.8% for the 2013-2014 academic year. This actual increase is less than our projected tuition increase of 6% and a mandatory fee increase of 10% for 2013-2014. Since the actual increase was lower than our projection, this also had a positive effect on actuarial valuation.

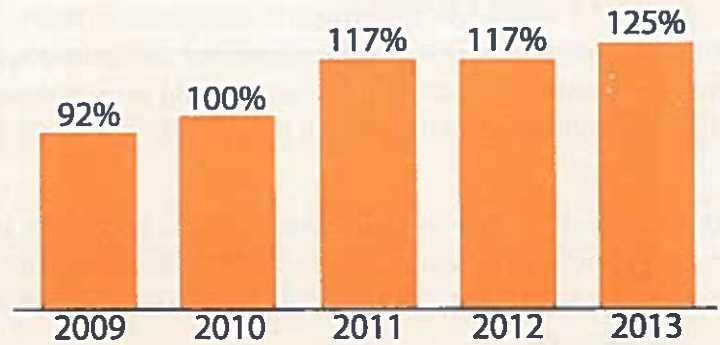
The key measures of soundness for the past five fiscal years are included in the charts below:

### Actuarial Surplus/(Deficit)

(in millions)



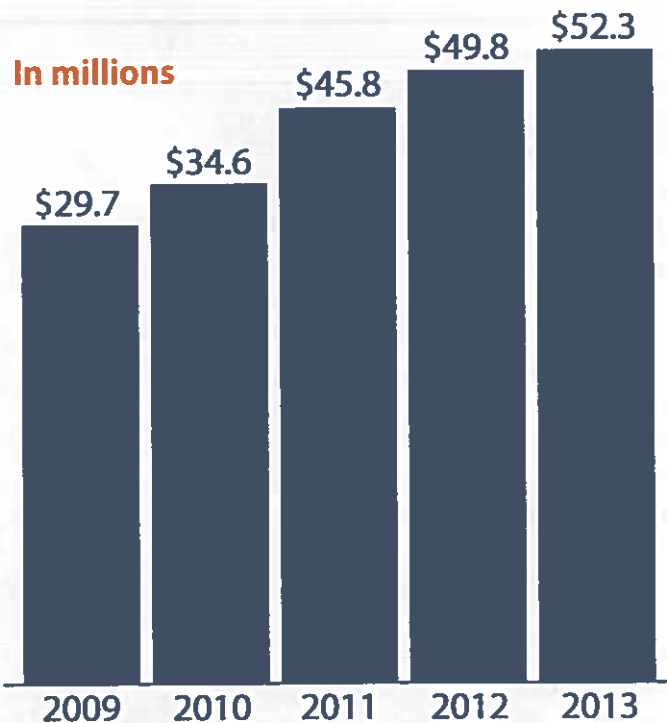
### Funded Ratio



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

There are a total of 9,764 students eligible to use benefits for the fall 2013 semester, as compared to 9,381 students who were eligible for the prior academic year. As of October 22, 2013, approximately 56% of eligible beneficiaries had claimed their benefits this fall, with approximately 42% of these students attending Maryland public colleges and 58% attending a wide variety of private or out-of-state colleges across the country. The remaining 44% of eligible beneficiaries have yet to claim their fall 2013 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:



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



# Financial Highlights

## Maryland College Investment Plan

### **Changes to Net Position**

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 position of \$532 million for the Plan for fiscal year 2013. Net additions to net position resulted from 24,875 new accounts, \$395 million in account holder contributions to portfolios, and \$327 million in net investment income. Net deductions from the Plan's net position include \$189 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 Savings Plans of Maryland. The following is designed to provide a summary of market performance for the period ended June 30, 2013.

**A Strong Year for Stocks** - U.S. equities produced excellent returns over the last year, lifted by economic recovery and favorable corporate earnings. In addition, the Federal Reserve maintained its program of low interest rates and asset repurchases; these stimulus measures enhanced investor confidence in U.S. economic improvements. Only at the end of the period, when Federal Reserve Chairman Ben Bernanke indicated that stimulus programs may end sometime in 2014, did the equity markets experience any significant volatility.

Non-U.S. developed stock markets also posted strong gains for the year but lagged U.S. equity markets. Most of the large markets in Europe recorded double-digit advances. Developed Asian markets also fared well, led by Japan, which rallied more than 20% in U.S. dollar terms. Emerging markets significantly lagged developed markets. Although the emerging markets in Asia generated single-digit gains, many markets in Latin America and the emerging Europe, Middle East, and Africa region posted losses for the year.

**Bonds React to Rising Rates** - U.S. investment-grade bonds generated mixed results over the past year, as rising long-term interest rates—particularly in the last two months of the period—reduced or eliminated earlier gains. To support the economic recovery, the Federal Reserve kept its “fed funds target rate” in the 0.00% to 0.25% range and indicated that it plans to keep short-term rates very low, at least as long as the national unemployment rate remains above 6.5%.

High yield bonds, supported by the economic recovery, good corporate fundamentals, and strong demand in a low interest rate environment significantly outperformed high quality bonds. In the investment-grade universe, Treasury security performance declined over the 12-month period, with long-term issues falling sharply since the end of April.



## Investment Earnings by Portfolio

The investment returns for each Portfolio are listed below. Please read the 2013 Annual Report for explanations of performance vs. benchmark for each individual Portfolio.

### Performance Comparison as of June 30, 2013

Portfolio	1 Year Return	Weighted Benchmark*	Annualized Since Inception Return	Weighted Benchmark*	Inception Date
Portfolio 2033**	NA	NA	9.9	10.7	12/31/12
Portfolio 2030	19.2	19.9	11.6	11.8	12/31/09
Portfolio 2027	19.0	19.2	5.1	4.8	6/30/06
Portfolio 2024	16.7	15.9	6.6	6.4	10/31/03
Portfolio 2021	14.3	12.6	5.3	5.4	11/26/01
Portfolio 2018	12.2	9.5	5.3	5.3	11/26/01
Portfolio 2015	8.2	7.0	5.3	5.3	11/26/01
Portfolio for College	4.0	3.7	3.3	3.3	11/26/01
Equity Portfolio	19.1	19.9	5.5	5.6	11/26/01
Global Equity Market Index Portfolio	20.8	21.0	5.5	5.8	6/30/06
Balanced Portfolio	13.1	11.2	6.1	5.8	11/26/01
Bond & Income Portfolio	4.4	-0.7	6.4	5.1	11/26/01
Inflation Focused Bond Portfolio	-0.8	-1.7	2.7	2.8	10/31/03
U.S. Treasury Money Market Portfolio	0.0	0.1	0.0	0.1	12/31/09

\*Benchmark performance commenced on November 30, 2001 for the Investment Portfolios with an inception date of November 26, 2001. Benchmark performance for all other Investment Portfolios commenced on the same date as the Investment Portfolio's inception date.

\*\*Portfolio 2033 opened to investors on January 2, 2013; therefore Since Inception returns are cumulative.

## Asset Distribution by Portfolio

The relative distribution of assets invested by portfolio as of June 30, 2013, 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 2012. Among the Enrollment-Based Portfolios, the Portfolio for College shrunk by 4.2% during the fiscal year, primarily due to withdrawals for Beneficiaries who have reached college age. With the exception of Portfolio 2015, which declined by 0.5%, all remaining Enrollment-Based Portfolios grew slightly during the fiscal year, from 0.1% to 1.2%. Among the Fixed Portfolios, the Bond & Income Portfolio and the Inflation Focused Bond Portfolio declined by 0.1% and 0.4%, respectively. The remaining Fixed Portfolios each grew by 0.1% to 0.4%.

