

**Maryland 529
Board Meeting Minutes**

October 27, 2022

9:30 AM – 1:00 PM

Held via: Video Conference

**Board Members/Designees Present via
Conference Call**

Peter Tsirigotis, Board Chair
Geoffrey Newman, Secretary of Higher
Education's Designee, Board Vice-Chair
Ellen Herbst, Chancellor of University
System of Maryland's Designee,
Secretary
Treasurer Dereck Davis, Maryland
Treasurer
Justin Dayhoff, Designee for the
Superintendent of Maryland State
Department of Education
Justin Hayes, Maryland Comptroller's
Designee
Capathia P. Campbell
Dave Erculiani

Board Members/Designees Absent

Carol Beatty, Secretary of Maryland
Department of Disabilities
Jessica McClain
Joanna Pratt

Staff, Representatives and Guests

Anthony Savia, Executive Director
Meghan Marek, Assistant Attorney General
Bette Ann Mobley, Director of ABLE
Dan Rambert, Director of Investments &
Cash Management
Michelle Winner, Director of Marketing
Maria Dodge, Director of Operations
Laura Atas, Maryland Treasurer's Designee
Glenn Ross, Marquette Associates, Inc.
Luis Sierra, Marquette Associates, Inc.
Dave Smith, Marquette Associates, Inc.
Dave McAvoy, T. Rowe Price
Diana Kendall, T. Rowe Price
Kim DeDominicis, T. Rowe Price
James Balsan, Vestwell
Sally Riefenstahl, Vestwell
Claire Whittington, Intuition
Amy Williams, GRS
Lance Weiss, GRS
Jack Reagan, UHY
Ivana Ritz, UHY
Brad Rustin, Nelson Mullins
Erin Kolmansberger, Nelson Mullins
Brad Moody, Nelson Mullins
Gina Greenwood, Nelson Mullins

Maryland 529 Board Meeting

Mr. Tsirigotis opened the meeting at 9:33 AM. There was a request to move into closed session to receive advice from counsel. There being no discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board move into closed session to receive advice from legal counsel.

The Board meeting returned to an open session at 11:36 AM.

The closed session was attended by Mr. Tsirigotis, Ellen Herbst, Geoff Newman, Treasurer Davis, Justin Dayhoff, Justin Hayes, Capathia Campbell and Dave Erculiani. In addition to those Board members, Anthony Savia, Meghan Marek, Maria Dodge and Laura Atas attended along

with outside counsel from Nelson Mullins including Gina Greenwood, Brad Moody, Brad Rustin, and Erin Kolmansberger.

Upon reopening, the following individuals were in attendance: Mr. Tsirigotis, Ms. Herbst, Treasurer Davis, Mr. Newman, Mr. Hayes, Mr. Erculiani, Mr. Dayhoff, Mr. Savia, Ms. Marek, Bette Ann Mobley, Dan Rambert, Michelle Winner, Laura Atas, Jack Reagan, Dave McAvoy, Diana Kendall, Jim Balsan, Sally Riefenstahl, Glenn Ross, Brad Rustin, Ivana Ritz, Claire Whittington, Eric Marshall, Lance Weiss, Amy Williams, Daniel Nzouankeu, Maria Padin, and Eric Johnson

Mr. Tsirigotis reported that in the closed session, which preceded this open session, the Board received advice from counsel and voted unanimously, except for Treasurer Davis abstaining, to approve the following items:

1. Clarification of Minimum Maturity Period: For contracts from August 1 to December 31, beneficiaries can obtain benefits in the fall semester once a full three-year period has elapsed from the contract date and that the fall semester will be treated as occurring as early as August 1 of each year.
2. Clarification of Termination Date: A contract's termination date is as of December 31 of the year that is 10 years after the Beneficiary's projected enrollment year plus the number of years purchased in the Contract.
3. Clarification of when to attribute earnings (interest) to an account: Interest accrues as of the 15th of each month.
4. Clarification of downgrades: Downgrades will be applied literally within a given plan and will not shift between plans except as noted below:
 - a. If University plan is not fully paid, keeps dropping within plan until no more University plan is available. Then a refund is issued.
 - b. If Community College plan is not fully paid, keeps dropping within plan until no more Community College plan is available. Then a refund is issued.
 - c. The only time a downgrade could switch plans is with 2+2 plan. If not paid in full, it can reduce to Community College plan and keeps dropping until plan is not available. Then a refund is issued.
5. Clarification of ledger balance system: Accounting for Prepaid College trust accounts should reflect a ledger system instead of a "net contribution" system.

Ms. Savia noted that these votes were on key details that will allow Maryland 529 to move forward to correct the MPCT calculation errors. Maryland 529 can now promptly proceed to the next stage of validation and implementation of the fix, with manual calculations on a case-by-case basis, in the short term. The FAQs on the website detail the priority system to be used.

Mr. Savia also reported that there is FAFSA guidance available on the website and that account holders who have been affected should submit a request form to have their account manually reviewed. Those forms are also available on the website.

- **Minutes**

Mr. Tsirigotis asked for comments on the minutes from the October 17, 2022 Board meeting's open session. There being none and upon motion duly made and seconded, it was unanimously

RESOLVED, that the minutes from the October 17, 2022 Board meeting's open session are hereby approved.

- **Administration, Personnel & Finance ("APF") Committee Report – Budget FY2024**

Mr. Savia presented the main operating budget and the ABLE budget for the fiscal year 2024, that were approved by the APF Committee last week. He noted that next year there will be one consolidated budget for the entire Agency. He reported that the FY21 \$800K Banner budget item for software licenses is no longer needed and \$9K number for the ABLE prepaid card will be higher once the prepaid card revenue has been added. There being no further discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, the Board approves the Maryland 529 Operating and ABLE Program FY24 budgets, as presented.

- **Audit & Governance Committee Report**

Mr. Reagan notified the Board that UHY is issuing an unmodified opinion, which is a testament to the quality of the staff and consultants to the MPCT. Under the circumstances, there were times when they were not sure this would happen. He wanted to let the Board know that this opinion was earned and that, with the assistance of the staff, they were able to get a lot of audit work completed. Mr. Reagan reported that there are no new auditing policies that were applied to the audit, but the form and presentation has changed.

Mr. Reagan reported that there was one corrected adjustment to MPCT's fair value of \$8M, which was not material. Management posted the adjustment; the cause was evaluated and UHY believes that the process breakdown did not rise to a deficiency. There were no difficulties encountered in performing the audit with cooperation and candor from management. There was one material weakness, which is the conversion from the internal Banner system to the external Intuition College Savings Solution ("ICSS") system. There were steps that both the Plan and ICSS took to identify two items, converting the data and business rules. Maryland 529 had an over reliance on remediation of matters post conversion, which will result in a representation letter being issued to management. He is confident that management is addressing the issue. He thanked the Board for allowing UHY to complete the audit. There was discussion that the Board could approve the report as written and if there are any changes, they could be brought back to the Board for additional consideration. There being no more discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, the Board approves the UHY audit report, as presented. Any significant changes to the report would be brought back to the Board for additional consideration.

- **Investment Committee Report**

Mr. Rambert presented the Investment Policy Statement (“IPS”) for MPCT, noting that most of the changes are to tighten things up, such a reporting frequency, changes to the watchlist process for underperforming managers and clarification of a few terms in the appendix, subject to some typographical errors to be corrected. There being no further discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, Board approves the Investment Policy Statement for the Maryland Prepaid College Trust, subject to some typographical changes.

Mr. Rambert presented the Investment Policy Statement (“IPS”) for the Maryland College Investment Plan, noting that most of the changes are to tighten things up, such the architectural system and outside manager limits with the Board having discretion, subject to some typographical errors to be corrected. There being no further discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, Board approves the Investment Policy Statement for the Maryland College Investment Plan, subject to some typographical changes.

Mr. Rambert presented the Certificates of Incumbency for US Bank and Wells Fargo to replace Ms. Kannan’s signature authority with Mr. Savia’s signature authority. There being no discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves replacing Ms. Kannan’s signature authority with Mr. Savia’s signature authority on the Certificates of Incumbency for US Bank and Wells Fargo.

Mr. Rambert requested two previously approved investments be re-approved to allow for the use of mutual funds instead of separate accounts or ETFs. This will allow for quicker transactions. This request was not included on the agenda for the meeting. Mr. Tsirigotis noted that this was approved by the Investment Committee at last week's meeting. After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves converting the previous approval for the Vanguard Short Term Treasury ETF (VGSH) to the Vanguard Short-Term Treasury Index Fund Institutional Shares (VSBIX).

- **GRS – Assumptions & Pricing**

Ms. Williams, GRS Consulting (“GRS”), presented the Assumptions and Pricing letter. She reviewed the pricing scenario that maintains the current contract pricing for FY23-24. Based on the calculations and the pricing loads associated with that scenario, there was a positive pricing load. A positive load is used to cover costs that may be higher than expected and to protect against variance from assumed investment returns or tuition and fees increases. The same assumptions are used for pricing and actuarial soundness: 6% return on investments, 3% annual tuition increase for the first 3 years and 5% thereafter, 6% annual fee increases, 9% bias load on

community college contracts and tuition differential assumptions for 50% of beneficiaries with university contracts.

She then explained that Exhibit II contained a summary of contract pricing increases and pricing loads year over year with this year's analysis being a 11.3% pricing load for university contracts and a 10.4% pricing load for community colleges. Ms. Williams then reviewed the scenario for various age and grades providing assumed contract prices. In response to a question from Mr. Tsirigotis about whether the 6% percent assumption is still appropriate and reasonable under the current market situation, she confirmed that maintaining the contract prices with a lower return assumption would result in a lower load, but it would still be a positive pricing load. Mr. Erculiani inquired about any concerns pertaining to the Treasurer bill rate of 2% and inflation being around for a while. Ms. Williams responded that their evaluation looks at a long period of time and not a short one and over longer periods when considering more than a one- or two-year period, the assumption is appropriate. As this is evaluated annually, the assumptions can be looked at again next year before a report would be prepared. There being no more discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approve the assumptions for pricing and setting contract prices, as submitted by GRS Consulting.

- **Maryland College Investment Plan (“MCIP”) Report**

Mr. McAvoy, T. Rowe Price (“TRP”), presented the September 30, 2022 quarterly report and a request for approval of Disclosure Statement updates noting that TRP has been watching account holder behavior during this volatile market to determine reallocation patterns. Since January, 2022 only about 2% of account holders have opted for change to more conservative options, just as account holders did not previously chase the market when it was at a high.

Mr. McAvoy reported although nationally 529 plans were down 15.2% year over year, the assets of MCIP were only down 13.8%. This is contributed to the three largest portfolios which make up 50% of the Plan that are in more conservative options since they are closer to maturity. Year to date contributions are down slightly compared to last year's record highs, but pacing at 92% year over year, which exceeds the pre-pandemic numbers. New accounts are down, primarily due to the legislative changes to the State Contribution program, but the number of beneficiaries continues to grow.

Mr. McAvoy presented Disclosure Statement updates, which included fees and costs, asset allocations, performance, and gift tax limits. There were discussions about any changes that occur between now and December 1, 2022 when the statements are issued. Ms. Marek reminded the Board that in the past the Disclosure Statement was completely restated each year and that now supplements are used and there is no need to completely rewrite each time. There being no more discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approve proposed changes to T. Rowe Price's Disclosure Statement, subject to there being no additional changes between now and when it is issued.

- **MPCT Report**

Ms. Whittington, ICSS, summarized the MPCT quarterly report. She noted that ICSS's reports have a year over year comparison so there are still several not applicable entries that will begin to disappear as the program goes forward. At the end of the quarter, there were 31,239 active accounts, which is up from the first quarter. There was an increase in online registrations indicating that account holders are adopting the new service options. Approximately, 85% of payments were electronic through AMC or a one-time online contribution. Distributions and refunds are slowing down. Customer engagement includes 6,540 uploaded documents, which reduces turnaround time. Website assistance calls are down, which is a good trend as customers get comfortable with the online process. She is looking forward to talking more about year over year as those numbers become available.

- **ABLE Report**

Ms. Riefenstahl, Vestwell, reported manual entry errors from the last meeting that needed to be corrected. As of June 30, 2022, giftings were at 460 not 455 and there were six new ALR entities in the Western Region not five. They are working towards automating the process; and in the meanwhile, they are taking additional steps to review the data. She presented the ABLE 2nd Quarter Report noting that, as of today, there were 5,024 accounts with over \$52M in assets under management ("AUM") and that the new accounts were down due to a deliberate pause in entity outreach while the hierarchy issue is addressed. It is believed that the down trend in contributions and distributions are due to the economy, but it should be noted that the AUM did increase during this period. They are working through a zero-account balance process to eliminate those accounts. Rollovers from 529s and ABLE accounts continue and the ABLE to Work program is moving along. They are also working on closing out non-active prepaid cards to eliminate the fees associated with these accounts. ALRs are at \$15M with 1,664 accounts. Ms. Mobley and the Plan were recognized at the national conference recently for their entity growth and success. About 80% of the entity funds are in cash and the conservative options are up 5%. They are evaluating call center volume to assist with improving outreach efforts.

- **Prepaid Card – Cash Option Revenue**

Mr. Balsan, Vestwell, presented the Prepaid Cash Option numbers including the \$2K monthly Plan contributions to card fees. To help offset the Prepaid Card fees for those that use them, the program retains a portion of the interest on the FDIC investment option. He reviewed the formula used which resulted in \$13,825 overfunding in August. The purpose of the proposed change to the program fee is to try to match the interest retained by the program to the expenses of the program portion of the Prepaid Card fee as closely as possible. The proposal is that the program look at the expenses versus the FDIC balance on a quarterly basis to determine if there are changes that need to be made to the interest rate to allow for maximum distribution of interest earnings while still supporting the Prepaid expense. Ms. Mobley proposed that the \$45K that has accrued to date be put into a reserve account to be available if needed and that the new process would apply going forward.

Ms. Herbst commented that the Board wants to set the policy, but the process should be done at the Program level. Mr. Balsan replied that the quarterly option will provide flexibility to keep ABLE from having to keep coming back to the Board. Ms. Marek noted that this proposal could require a quarterly disclosure statement update, which led to a discussion of options for those updates. There was also a discussion about potential vendor changes and frequency of a review. After discussion, the Board requested that ABLE come back with some specific language. There being no more discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board supports a plan to continue to offset the prepaid card costs with the ABLE program's interest income and to return the excess on some reasonable timing to account holders, with more details on the process to be brought back to the Board.

- **Annual Report Update**

Ms. Winner presented the Annual Report, including this morning's revisions, noting that UHY and GRS have provided input. The report, which now combines Maryland 529 and ABLE, is close to final and is waiting for sign off from GRS and UHY after today's Board votes. There was a discussion regarding submission deadlines and approving the report subject to any significant changes after today being brought back to the Board for approval. Mr. Savia noted there are meetings to be scheduled with UHY and GRS tomorrow to discuss the outcome finalization of the report based on today's decisions on Prepaid clarifications. There was discussion that the Board would rely on the experts to let them know if there were impactful changes. There being no more discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the Annual Report as presented, subject to minor changes to finalize the document. If the effect of any change(s) is impactful to the report, the Agency will come back to the Board to approve those changes based on final input from the experts. If the experts are split on whether changes need to go back before the Board, the changes will be brought to the Board for consideration before submitting the final Annual Report.

Mr. Shird joined the meeting.

- **Abandoned Property Update**

Ms. Marek reported that a new draft of the abandoned property memo is circulating through the Office of the Attorney General, and, at this time, she does not have a specific timeline for completion. She is hopeful that it will be before the end of the year.

- **Closed Session (1:17 PM)**

There being no more business to discuss in open session and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board move into Closed Session to discuss awarding of a contract for actuarial services.

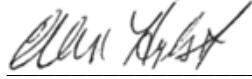
Approved:  _____ Date: December 4, 2022 _____
Ellen Herbst, Board Secretary

Exhibit:

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| 1- Agenda | 6A-B-Certificates of Incumbency |
| 1A- Minutes 10/17/22 – Closed | 7- GRS Assumptions/Pricing Update |
| 1B- Minutes 10/17/22 – Open | 8A1- MCIP Quarterly Report |
| 3A- MPCT Operating Budget – FY2024 | 8A2- MCIP Disclosure Statement Updates |
| 3B- ABLE Operating Budget – FYI2024 | 8B- MPCT Report |
| 4A- Auditor Update | 8C- ABLE Report |
| 5A-B -Investment Policy Statements | 9- Prepaid Card Cash Options |
| MPCT/MCIP | 10- Annual Report Update |