

**Commission on Financial Education and Capability**

**2014 Annual Report to the Maryland General Assembly**

**In accordance with State Government Article Section 9–801 through  
9–804 under the subtitle “Subtitle 8. Financial Education and  
Capability Commission” 2012**

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## Financial Education and Capability Commission Members

Co-Chairs: Senator Katherine A. Klausmeier and Delegate Dana M. Stein

Senator Ronald N. Young

Delegate Melvin L. Stukes

Ms. Susanne Brogan

Mr. Sheldon Caplis

Mr. Randall Cerveney

Dr. Allen Cox

Mr. Robert Ek

Ms. Christine Feldmann

Ms. Melissa Gardner

Ms. Lynne Gilli

Mr. Bill Gruhn

Mr. Anwer Hasan

Mr. Mark Kaufman

Dr. Russell Kelley

Dr. Bruce Lubich

Ms. Robin McKinney

Mr. Wilson Parran

Mr. Reginald Stanfield

Ms. Courtney Thomas

Mr. Ken Venick

Ms. Meg Woodside

### Staff

The Commission is staffed by the Maryland Creating Assets, Savings, and Hope (CASH) Campaign, a program of the non-profit Job Opportunities Task Force. No state funds are provided for staffing of the Commission or its activities. Commission Staff is Sue Rogan, Director of Financial Education, from the Maryland CASH Campaign.

## Executive Summary

The Financial Education and Capability Commission was created by legislation in 2012. The Financial Education and Capability Commission is required to submit an annual report to the Governor and General Assembly on its recommendations and the status of efforts undertaken by state agencies or in partnership with state agencies.

The legislative purposes of the Commission are to:

- 1) Monitor the implementation of public and private initiatives to improve the financial education and capability of residents of the state; and
- 2) Make recommendations on the coordination of financial education and capability efforts across state agencies.

The Commission chose to focus on issues related to student loans in 2013 and 2014. The below and following report outlines its 2014 recommendations.

- **Recommendation 1: Ensure that the Maryland Higher Education Commission has sufficient need-based grant funding to meet demands of students who would otherwise have to take out private loans at Maryland schools.**
- **Recommendation 2: Survey Maryland institutions to see if any schools currently offer an emergency loan program. Explore the creation of a grant pool or an emergency loan pool that does not charge interest or have payments until graduation.**
- **Recommendation 3: Promote student loan debt calculators on the Maryland Higher Education Commission website.**
- **Recommendation 4: Propose amendments to the College and Career Readiness and College Completion Act of 2013 to require that tuition be paid according to the current statute's procedures only for students enrolled in college credit-bearing courses.**
- **Recommendation 5: Encourage the use of Junior Achievement's Build Your Future app to assist students and parents as they compare the costs of colleges, identify potential career majors, and review projected salaries for careers.**
- **Recommendation 6: Set a standard of 1 professional school counselor for every 250 students in K-12 schools.**
- **Recommendation 7: Ensure professional school counselors have time to focus on college access work by limiting the use of their time to no more than 20% of time on system support.**
- **Recommendation 8: Increase outreach and assistance to families starting in 9<sup>th</sup> grade to fill out the Free Application for Federal Student Aid (FAFSA) forms, including education about what the forms are used for and what they can potentially lead to for students.**
- **Recommendation 9: Promote the expansion of outreach about the available need-based aid (MHEC)**
- **Recommendation 10: Encourage public colleges and universities to expand awareness of their institutional aid programs.**

- **Recommendation 11:** Explore ways to expand access to financial aid for part-time students.
- **Recommendation 12:** Propose a Bill or Regulation (whichever applies) prohibiting awards displacement at Maryland institutions.
- **Recommendation 13:** Provide a letter of support to the Maryland Congressional delegation on pending Federal 529 bills.
- **Recommendation 14:** Increase maximum income tax deduction to \$4,000 per CSP account. Explore ways to target low to moderate income families.
- **Recommendation 15:** Explore State provision of matching funds for low-income residents and/or the feasibility of a children's savings account program.
- **Recommendation 16:** Ensure that 529 plan information is distributed to all professional school counselors. (Consider adding generic college savings messaging as well)
- **Recommendation 17:** Identify opportunities to include 529 information in existing mailings by relevant State agencies.
- **Recommendation 18:** Explore ways to expose teachers- in- training and provide them with standards-based professional development to better prepare them to teach financial education, including working with higher education institutions to make sure they are ready to teach personal financial education.
- **Recommendation 19:** Provide funding to ensure that professional development for teachers is ongoing and of high quality, consistent with Maryland's State financial education curriculum.
- **Recommendation 20:** Ensure that financial education training for teachers has a component of personal financial capability.

## **Background**

Maryland, like many other states, was hit hard by the economic recession beginning in 2008. High foreclosure rates, job loss, credit card and student loan debt, and a lack of savings contributed to decreases in net worth across most households. Legislative responses included regulatory changes, increased oversight of financial institutions, and increased access to non-profit housing counseling and mortgage relief programs. During this same timeframe, there was a proliferation of financial education by public agencies, non-profits, the financial services industry, educational and faith-based institutions, and community groups. The momentum behind these efforts culminated in the creation of a legislative taskforce from 2008-2010. Created by legislation, the Task Force to Study How to Improve Financial Literacy in the State released its final recommendations in 2010. Much of the Task Force's work focused on ways to expand financial education in public schools, grades K-12. Other recommendations focused on ways to integrate adult financial education into various state systems.

Since 2010, the economic climate has improved, but there is still a significant role for the state to play in increasing and highlighting financial education. According to the Corporation for Enterprise Development's (CFED) 2013 Assets and Opportunity Scorecard, 23% of Maryland households were considered asset poor, meaning that they do not have enough money in savings to live at the poverty level for 3 months. This data point is nearly 35% if only liquid sources like savings accounts are considered, and over 16% of households have a zero or negative net worth. The Scorecard also showed that the average Marylander carries an average debt balance of \$12,651. Additionally, over 55% of Marylanders are using subprime credit. This data shows that there is significant work to be done to make sure Maryland residents have access to information and resources that can help them to be financially secure and to make informed financial decisions.

## **Legislative response**

The General Assembly sought to build off of the 2010 recommendations of the Task Force to Study Financial Literacy in the State by creating a standing commission entitled the Financial Education and Capability Commission. The Commission was created by legislation in 2012. The Financial Education and Capability Commission is required to submit an annual report to the Governor and General Assembly on its recommendations and the status of efforts undertaken by State agencies or in partnership with State agencies.

The legislative purposes of the Commission are to:

- 1) Monitor the implementation of public and private initiatives to improve the financial education and capability of residents of the State; and
- 2) Make recommendations on the coordination of financial education and capability efforts across State agencies.

The Commission is staffed by the Maryland CASH Campaign, a program of the non-profit Job Opportunities Task Force. No State funds are provided for staffing of the Commission or its activities.

## **Process**

The Commission was seated in December 2012 and January 2013. Meetings in 2014 were held in May, July, September, and November. The Commission voted at the May meeting to again focus its efforts on understanding issues related to student loans.

Presentations were made by a wide array of Commission members and stakeholders:

May meeting:

- Legislative updates
  - Changes to the Commission's scope to offer an awards program and to add a designee to the Maryland Higher Education Commission
  - Financial Aid Shopping Sheet
  - Tax relief for cancelled student loan debt
  - Pay it Forward
- Central Scholarship: Awards displacement

July meeting:

- Paying for college: savings options, navigating financial aid, and State programs
- Opportunities to save for college
  - College Savings Plans of Maryland
  - Junior Achievement College Savings Feasibility Project
- Current financial aid environment and State programs to address student loans and the cost of college
  - MD Higher Education Commission
  - Job Opportunities Task Force

September meeting:

- College and Financial Aid Counseling
  - Maryland School Counselor Association: role of guidance counselors in college access
  - Maryland State Department of Education: Presentation of new video and online courses
- Role of Teacher Training
  - Maryland Coalition for Financial Literacy: Presentation on survey on availability of pre-service teacher training available at select Maryland colleges and universities.

## **Background and Rationale for Recommendations**

Recent college graduates accounted for more than half of all entry-level hires in 2012, up from 45 percent in 2010<sup>i</sup> and the costs of college have risen significantly over the last 10 years<sup>ii</sup>. Many students are using student loans to finance college expenses. In Maryland, 58% of students are using loans and are leaving college with an average \$25,951 in debt<sup>iii</sup>. Parents and students have a complex system to navigate to select a school that meets their academic and financial needs. Paying for college is often a significant investment of resources and there is uneven infrastructure to guide parents and students through the process. The Commission considered a wide-ranging set of data, presentations, and discussion on student loans. This led the Commission to focus on recommendations in five key areas: college advising, college savings, disclosures and education, tuition assistance and scholarship programs, and financial education.

### **Increase support for programs and tools that connect college access, completion, and financing**

College attendance and degree attainment are vital assets for an individual's financial security and stability as post-secondary degrees increase earnings and decrease unemployment rates. However, many students are unable to attend college due to academics or financial concerns, and many students currently enrolled in college will not complete college. Only 61.6% of students graduate from a four-year public institution within six years. The numbers for community college students are even lower as only 33.4% of all community college students transfer to a four-year institution or graduate within four years. Many students do not have the financial means to pay for college, so they often have to take out loans or receive grants. Even if students do not complete their college education, in many cases they still have debt after they attend college.

- **Recommendation 1: Ensure that the Maryland Higher Education Commission has sufficient need- based grant funding to meet demands of students who would otherwise have to take out private loans at Maryland schools.**
- **Recommendation 2: Survey Maryland institutions to see if any schools currently offer an emergency loan program. Explore the creation of a grant pool or an emergency loan pool that does not charge interest or have payments until graduation.**
- **Recommendation 3: Promote student loan debt calculators on the Maryland Higher Education Commission website.**
- **Recommendation 4: Propose amendments to the College and Career Readiness and College Completion Act of 2013 to require that tuition be paid for students enrolled in college credit-bearing courses.**
- **Recommendation 5: Encourage the use of Junior Achievement's Build Your Future app to assist students and parents as they compare the costs of colleges, identify potential career majors, and review projected salaries for careers.**



### **Expand access to college advising in high school**

The decision to pursue postsecondary education is an important moment for a student's future career prospects and his or her financial security. Recent reports show over 70% of school counselors are assigned other administrative activities, which could potentially limit student access to college advising assistance through school counselors. School counselors collaborate with postsecondary institutions and financial officers to provide extensive financial aid information to students and parents. Other college advisors work through non-profit, volunteers, and for-profit organizations to guide students through the financial aid, scholarships and grants, college application, and selection processes.

- **Recommendation 6: Set a standard of 1 professional school counselor for every 250 students in K-12 schools.**
- **Recommendation 7: Ensure professional school counselors have time to focus on college access work by limiting the use of their time to no more than 20% of time on system support.**

### **Improve outreach about the financial aid process**

The cost of college and students' inability to afford these costs pose one of the greatest barriers to access to college and degree attainment. In order to be able to afford college, many students seek financial aid; however, the process for obtaining it can be complex and cumbersome, leading some students not to apply for financial aid that they would have been eligible to receive. Almost all students, except for very high-income students, would qualify for some financial aid, but only 61% of students at public four-year institutions and 55% of students at Maryland community colleges file the Free Application for Federal Student Aid (FAFSA). This partially stems from misconceptions about qualifications for financial aid. Reasons given for students not filing for Pell Grants that they would have been eligible for included believing that they were ineligible for financial aid, believing that they did not need assistance in attending college, and believing that the grants were loans instead of grants. Furthermore, differences in deadlines between the United States government, the State of Maryland, and educational institutions lead to a lack of clarity on deadlines for the FAFSA, causing some students to miss the earlier deadlines that the State or educational institutions set for the form.

- **Recommendation 8: Increase outreach and assistance to families starting in 9<sup>th</sup> grade to fill out the Free Application for Federal Student Aid (FAFSA) forms, including education about what the forms are used for and what they can potentially lead to for students.**
- **Recommendation 9: Promote the expansion of outreach about the available need-based aid (MHEC)**
- **Recommendation 10: Encourage public colleges and universities to expand awareness of their institutional aid programs.**

- **Recommendation 11: Explore ways to expand access to financial aid for part-time students.**
- **Recommendation 12: Propose a Bill or Regulation (whichever applies) prohibiting awards displacement at Maryland institutions.**

**Increase utilization and impact of 529 accounts for all Maryland families.**

College savings plans are investment-driven products that allow families to save for college in advance, therefore reducing the amount of student loans needed to finance their education. College savings plans have been available in Maryland since the late 1990s. There are two plans in Maryland, the Prepaid College Trust and the College Investment Plan, both offered by the College Savings Plans of Maryland. These are often referred to as 529 plans, named for the relevant part of the federal tax code. The College Savings Plans of MD work with parents from all income levels to encourage them to save whatever amount of money they can. For the prepaid plan, parents pre-pay tuition at a Maryland school at the current cost, or the equivalent of the average weighted tuition for in-state tuition toward a private or out-of-state college. This plan is backed by a Maryland Legislative Guarantee, which says that if for any reason the plan cannot pay the costs, the Legislature will provide the gap through the budget. As of September 2013, there are roughly 32,000 beneficiaries in the MD Prepaid College trust and \$800 million in investments. For the Maryland College Investment Plan, parents can save any amount of money and then choose a variety of options to invest in, from among mostly enrollment date-oriented investment vehicles. People may prefer the flexibility of this plan, and may also be intimidated by the high cost of the prepaid plan, though they are able to purchase as little as one semester through the prepaid plan. There are roughly 160,000 people who contribute to the college investment plan, which has accumulated over \$3.2 billion in investments. About half of all participants save automatically; and they save an average of \$145 each month.

- **Recommendation 13: Provide a letter of support to the Maryland Congressional delegation on pending Federal 529 bills. (Consider what specific topics are covered in the bills)**
- **Recommendation 14: Increase maximum income tax deduction to \$4,000 per CSP account. Explore ways to target low to moderate income families.**
- **Recommendation 15: Explore State provision of matching funds for low-income residents and/or the feasibility of a children's savings account program.**
- **Recommendation 16: Ensure that 529 plan information is distributed to all professional school counselors. (Consider adding generic college savings messaging as well)**
- **Recommendation 17: Identify opportunities to include 529 information in existing mailings by relevant State agencies.**

**Provide future teachers with access to financial education content as part of pre-service training along with financial education resources and professional development consistent with The Maryland State Curriculum for Personal Financial Literacy Education.**

Financial education is paramount to achieving financial stability as sage financial habits can help alleviate asset poverty and avoid financial scams. To this end, the State of Maryland has decided to adopt financial literacy education as part of its educational curriculum to ensure that its students will be financially literate. The State's curriculum focuses on the development of six core standards: making informed, financially responsible decisions; relating careers, education, and incomes; planning and managing money; managing credit and debt; creating and building wealth; and managing risk and preserving wealth. In order to successfully teach students these financial habits, it is imperative that teachers are properly trained in this field as part of their pre-service training.

- **Recommendation 18: Explore ways to expose teachers- in- training and provide them with standards-based professional development to better prepare them to teach financial education, including working with higher education institutions to make sure they are ready to teach personal financial education.**
- **Recommendation 19: Provide funding to ensure that professional development for teachers is ongoing and of high quality, consistent with Maryland's State curriculum.**
- **Recommendation 20: Ensure that financial education training for teachers has a component of personal financial capability.**

### **Legislative Support**

In the 2014 Maryland General Assembly session, HB 527 was introduced in the House of Delegates, which would have established the goal of having a ratio of one guidance counselor for every 250 students in middle school and high school, and the goal of having guidance counselors spend at least 80% of their time on direct services to students. The bill passed the House of Delegates; however, it did not receive further action after it was in committee in the State Senate.

### **Conclusion**

Information about paying for college, including both savings and loans, is a critical part of financial education efforts. Financial education should include increasing access to non-biased advising and college savings. In addition to education, the State should consider ways to expand tuition assistance and scholarship programs, and to ensure that parents and students fully understand the terms of financial aid packages. This comprehensive approach seeks to address the needs of parents and students throughout their post-secondary education path. Neither the recommendations of this report, nor the types of individuals to whom this report is addressed, are intended to be exhaustive. The recommendations are meant to make progress on the issues surrounding student loans and to help ensure that fewer students are unable to manage their student loan debt.

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<sup>i</sup> *Recruiting Benchmarks Survey Report*. (February 2013). retrieved 12/01/2013, from National Association of Colleges and Employers Web Site: <http://www.naceweb.org/uploadedFiles/Content/static-assets/downloads/executive-summary/2012-recruiting-benchmarks-survey-executive-summary.pdf>

<sup>ii</sup> U.S. Department of Education, National Center for Education Statistics. (2012). *Digest of Education Statistics, 2011* (NCES 2012-001), Chapter 3.

<sup>iii</sup> *Assets & Opportunity Scorecard - Maryland*. (January 2013). retrieved 12/01/2013, from Corporation for Enterprise Development Web Site: <http://scorecard.assetsandopportunity.org/2013/state/md>