

Financial Education and Capability Commission

2013 Membership Roster

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

Mr. 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. The below and following report outlines its recommendations.

- **Recommendation 1: Require any post-secondary institutions, public or private, to provide financial aid counseling to first-time borrowers who are taking out federal or private student loans in the state of Maryland.**
- **Recommendation 2: Determine the feasibility of creating a network of non-biased advising and counseling by nonprofits, the public or private sector; identifying opportunities to evaluate effectiveness, and providing incentives to those who demonstrate results.**
- **Recommendation 3: Explore innovative ideas and gather best practices for increasing enrollment in 529s for low to moderate income and minority families including, but not limited to increasing the income tax deduction, matching savings, and increasing public awareness promotion.**
- **Recommendation 4: Require all Maryland postsecondary colleges to provide the federal financial aid shopping sheet to parents and students as part of their financial aid award letters.**
 - a. **Explore requiring additional data to be disclosed in the shopping sheet, including outcomes, placement rates, career salaries, and other relevant items.**
- **Recommendation 5: MHEC shall explore ways to include information on available state and federal repayment/forgiveness plans, college cost transparency, and career salaries in implementation of (SB740) College and Career Readiness and College Completion Act of 2013 and other related efforts.**
- **Recommendation 6: Explore Alternative Funding Models including increased Tuition Assistance and Scholarship Programs.**
- **Recommendation 7: Promote April Financial Education Month activities including exploring a unified theme each year, promoting through the Commission members and interested stakeholders, and coordinating an annual awards program in April recognizing teachers (or teams) in K-12 public education and for community champions.**

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 time, 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. It is over 36% if only liquid sources like savings accounts are considered, and 16% of households have a zero or negative net worth. The Scorecard also showed that the average Marylander carries an average debt balance of \$13,068. 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 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. The first meeting was held in May 2013 with subsequent meetings in July, September, and November. The Commission completed a survey of potential topics to consider and decided to focus on issues related to student loans in the first year. The first meeting focused on organizing the commission and its work, the second meeting focused on issues related to

student loans, the third meeting focused on potential solutions, and the final meeting focused on the Commission's recommendations and report.

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

May meeting:

- Maryland CASH Campaign (Commission member): Commission survey results and CFED Asset and Opportunity Scorecard data
- Maryland State Department of Education (Commission member): Update on implementation of the recommendations issued by the Task Force to Study How to Improve Financial Literacy in the State

July meeting:

- MD Higher Education Commission (Commission member): MD student loan data
- MD Independent College and University Association: Efforts by MD colleges on student loans
- MD/DC Credit Union Association: Credit unions work with student loans and impact of student loan debt on other loans
- Ken Venick, Equity Mortgage Lending (Commission member): Impact of student loan debt on mortgages and other housing loans
- MD Coalition for Financial Literacy (Commission member)
- Montgomery County Community Action Agency: Impact of student loans on residents from the community perspective

September meeting:

- Sheldon Caplis, OneMain Financial (Commission member): Role of advising by colleges and non-profits
- Montgomery College Financial Aid Office: Financial education efforts through Financial Aid Office
- College Savings Plans of Maryland (Commission member): Program overview and role of savings in paying for college
- Consumer Financial Protection Bureau: 'Know Before You Owe' campaign, federal student loan forgiveness programs
- Maryland CASH Campaign (Commission member): Overview of Maryland student loan debt data by colleges, Garrett County tuition assistance program
- Delegate Sandy Rosenberg: Oregon 'Pay It Forward' model and potential Maryland legislation

In between meetings, two subcommittees met to discuss efforts to raise awareness of financial education activities, especially during Financial Education Month in April. The subcommittees discussed the creation of a calendar to promote all of the financial education events and workshops in April as well as a potential awards program recognizing teachers or teams in public K-12 education and community champions.

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 2010ⁱ and the costs of college have risen significantly over the last 10 yearsⁱⁱ. Many students are using student loans to finance college expenses. In Maryland, 55% of students are using loans and are leaving college with an average \$24,002 in debtⁱⁱⁱ. 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 Access to College Advising

The decision to pursue postsecondary education is an important moment for a student's future career prospects and their financial security. Although recent reports show over 70% of guidance counselors are assigned other administrative activities, most students have access to assistance through school counselors. School counselors collaborate with postsecondary institutions and financial officers to provide extensive financial aid information to students and parents. 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 process.

- **Recommendation 1: Require any post-secondary institutions, public or private, to provide financial aid counseling to first-time borrowers who are taking out federal or private student loans in the state of Maryland.**
- **Recommendation 2: Determine the feasibility of creating a network of non-biased advising and counseling by nonprofits, the public or private sector; identifying opportunities to evaluate effectiveness, and providing incentives to those who demonstrate results.**

Increase Access to College Savings Programs

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 tax code. Staff members for 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 billion 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, with 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.

According to data from T. Rowe Price, which performs the financial management of the College Investment Plan, the impact of saving versus using student loans is significant. If a parent wanted to save \$25,000, they could save \$92/month for 15 years, assuming a 6% return. If they borrowed this amount, they would be paying back \$300 a month over 10 years.

- **Recommendation 3: Explore innovative ideas and gather best practices for increasing enrollment in 529s for low to moderate income and minority families including, but not limited to increasing the income tax deduction, matching savings, and increasing public awareness promotion.**

Increase Disclosures and Education about the Total Cost of College and Loans

Total outstanding student loan debt has nearly doubled since the start of the recession^{iv}. Student loan debt burdens both the students who face significant debt payments following graduation and the economy generally because money that otherwise would be used for goods or services must be spent on debt service. In order to make an informed decision about the substantial investment in education and to take on the burden of substantial student loans, the student needs to have complete information about the costs of the education, the cost of the debt that the student will be taking on, and other data.

The Consumer Financial Protection Bureau (CFPB) has developed tools and resources to help students and their families. One major tool was the Financial Aid Shopping Sheet, created in partnership with the United States Department of Education (USDoE). The Shopping Sheet is part of the CFPB's Know Before You Owe initiative. Over 750 colleges have signed on voluntarily to use the Shopping Sheet, including many in Maryland. This tool provides information in a transparent and easy to read format; it allows students to make comparisons among schools, resulting in more informed decisions. The tool helps students to project their debt burden and monthly payment obligations. There is also an online tool that allows a parent or student to upload information from award letters to compare costs. Senator Klausmeier and Delegate Stein created legislation in 2013 to codify the Financial Aid Shopping Sheet in Maryland colleges. SB714/HB557 required senior higher education institutions and community colleges to provide the Financial Aid Shopping Sheet to all first time freshman students. The bill did not pass and will be re-introduced in the 2014 session of the General Assembly.

High debt levels are having a negative impact on society and on the economy, including new graduates applying for public service jobs, purchasing homes, and contributing to retirement. There are existing programs that assist students who pursue certain careers with loan repayment. For example, the Consumer Financial Protection Bureau (CFPB) released a report in 2013 on student loan debt and public service. One quarter of new graduates work in jobs that could be considered public service. If someone is on an eligible student loan repayment plan, is employed by certain public service employers and makes 120 on-time full scheduled monthly payments, then the outstanding balance of the loan is forgiven. Furthermore, this cancelled debt has no federal income tax implications. There is no data available on Maryland residents, since this is a new program. The first loans will be forgiven in 2017.

- **Recommendation 4: Require all Maryland postsecondary colleges to provide the federal financial aid shopping sheet to parents and students as part of their financial aid award letters.**
 - **Explore requiring additional data to be disclosed in the shopping sheet, including outcomes, placement rates, career salaries, and other relevant items.**
- **Recommendation 5: MHEC shall explore ways to include information on available state and federal repayment/forgiveness plans, college cost transparency, and career salaries in implementation of (SB740) College and Career Readiness and College Completion Act of 2013 and other related efforts.**

Increase access to tuition assistance and scholarship programs

Student loan debt is a huge burden that affects the financial and professional decision making of young adults. The State of Maryland has three programs to encourage people to go into public service: the Janet L. Hoffman student loan forgiveness program, William Donald Schaefer scholarships, and the Sondheim Internship program at University of Maryland Baltimore County. An average of 200 to 300 people annually benefit from these programs.

Another innovative idea includes Oregon's Pay It Forward Model, where an educational institution gives free tuition to all students up front. The state would have to borrow to provide the revenue for that institution (thus incurring the additional cost of the interest rate). Upon graduation, every graduate of that institution will pay a percentage of their adjusted gross income (2-3%) for the next 20-30 years in order to repay the tuition that they did not pay up front. Similar to insurance, all students at the educational institution would be required to participate. This could be an incentive to take public service jobs because the student's repayment burden would be based on a typically lower salary than the private sector. This might be attractive to students who are interested in the non-profit and public sectors. There may be tax issues, concerns about residency and treatment of federal grants and scholarships that need to be determined for feasibility.

There are also innovative programs operating in Garrett County, Maryland and in other locations across the country that provides funding for the gap between scholarships or aid and the cost of tuition at community colleges. The Garrett County Scholarship Program seeks to ensure that college is a path open to all of their students, as well as to minimize the financial barrier. Students must exhaust their other options as far as grants and scholarships. The County will only cover the cost of education taken at Garrett Community College. Students are required to be full-time, and to have obtained their certificate or degree within three years. Students also have to maintain a GPA of at least 2.0. Importantly, this scholarship will also cover the cost of any needed developmental classes, which 61% of the overall student population requires prior to taking college-level credit-bearing courses. When the program began in 2006, the average award was \$800, but has increased substantially. The average scholarship award in 2012 was \$1,300. It operates at a small scale of 76 students because of limited population in the County. It costs Garrett County just over \$450,000 annually.

- **Recommendation 6: Explore Alternative Funding Models including increased Tuition Assistance and Scholarship Programs.**

Increase awareness about financial education programs

Through its legislative charge, the Commission seeks to highlight and raise awareness about financial education efforts by public agencies, non-profits, community organizations, and the private sector. April is designated as national Financial Education Month. Many groups hold events, workshops, and conduct media outreach to celebrate. The Commission seeks to engage in Financial Education Month by exploring ways to coordinate the various activities and events, promoting activities and events through Commission members and stakeholders, and by offering an awards program to highlight best practices by public school teachers or teams and community champions.

- **Recommendation 7: Promote April Financial Education Month activities including exploring a unified theme each year, promoting through the Commission members and interested stakeholders, and coordinating an annual awards program in April recognizing teachers (or teams) in K-12 public education and for community champions.**

Legislative support

The Commission affirmed its support in the upcoming legislative session for the Financial Aid Shopping Sheet. Introduced in 2013 by Senator Klausmeier and Delegate Stein, SB607/HB557 sought to codify the Financial Aid Shopping Sheet created by the US Department of Education and Consumer Financial Protection Bureau. The legislation will be re-introduced in the 2014 session of the General Assembly.

The Commission also affirmed its support for legislation regarding cancelled student loan debt and its impact on taxable income. Introduced in 2013 by Senator Madaleno and Delegate Luedtke, SB714/HB87 sought to remove cancelled student loan debt from tax income up to \$15,000 for an individual and up to \$25,000 for a married couple filing a joint return. When a student loan goes into default, the lender can elect to charge off the debt if it does not believe the person is solvent. Notifications of this cancelled debt is reported to the taxpayer on a 1099-C and must be reported as income on their federal and state income tax returns. There could be additional federal and state tax liabilities on this debt depending on its size. This bill sought to remove the cancelled debt from inclusion as income. The legislation will be re-introduced in the 2014 session of the General Assembly.

Conclusion

Information about paying for college, including 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 postsecondary 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.

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

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

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

^{iv} Chopra, Rohit. Prepared Remarks Before the Federal Reserve Bank of St. Louis. (November 2013) retrieved 12/01/2013 from Consumer Financial Protection Bureau Web Site: <http://www.consumerfinance.gov/newsroom/student-loan-ombudsman-rohit-chopra-before-the-federal-reserve-bank-of-st-louis/>