An Act To Amend the Maine Education Savings Program

(EMERGENCY)

Submitted by the Finance Authority of Maine pursuant to Joint Rule 204.
Received by the Secretary of the Senate on January 11, 2021. Referred to the Committee on Innovation, Development, Economic Advancement and Business pursuant to Joint Rule 308.2 and ordered printed.

Presented by Senator DAUGTRY of Cumberland.
Emergency preamble. Whereas, acts and resolves of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, the Legislature established the Maine Education Savings Program, also known as NextGen 529, as Maine's Section 529 plan, so-called after Section 529 of the federal Internal Revenue Code of 1986, to be administered by the Finance Authority of Maine; and

Whereas, the Maine Education Savings Program provides account owners and beneficiaries the opportunity to realize potential tax advantages if assets are used for qualified higher education expenses; and

Whereas, the United States Congress has recently expanded the federal definition of "qualified higher education expenses" to include certain expenses related to registered and certified apprenticeship programs and limited repayments of qualified education loans; and

Whereas, under the Maine Revised Statutes, Title 20-A, section 11483, the Finance Authority of Maine is authorized to take necessary action to ensure that the Maine Education Savings Program complies with federal law, and the authority considers it prudent to make statutory changes to conform with the expanded federal definition and to make certain other amendments to the law; and

Whereas, in order to avoid confusion in the application and use of the Maine Education Savings Program, it is necessary that these conforming changes take effect as soon as possible; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 20-A MRSA §11471, as amended by PL 2017, c. 474, Pt. F, §§2, 3 and 9, is further amended to read:

§11471. Definitions
As used in this chapter, unless the context otherwise indicates, the following terms have the following meanings.

1. Advisory committee. "Advisory committee" means the Advisory Committee on Education Savings established in this chapter.

2. Authority. "Authority" means the Finance Authority of Maine, which serves as administrator of the Maine Education Savings Program.

3. Beneficiary. "Beneficiary" means any person designated by a participation agreement to benefit from payments for higher education expenses at an institution of higher education.

4. Benefits. "Benefits" means the payment of higher education expenses on behalf of a beneficiary by the Maine Education Savings Program during the beneficiary's attendance at an institution of higher education.
5. **Board.** "Board" means the board of directors of the Finance Authority of Maine.

6. **Contributions.** "Contributions" means amounts deposited by a participant to an account within the program fund.

7. **Higher education expenses.** "Higher education expenses" means the certified expenses for attendance at an institution of higher education as those expenses are defined by rule of the authority consistent with applicable provisions of the federal Internal Revenue Code of 1986 and its regulations addressing qualified state tuition programs. Beginning January 1, 2018, "higher education expenses" has the same meaning as "qualified higher education expenses" as defined in Section 529 of the federal Internal Revenue Code of 1986 and amendments to that Code and its regulations addressing qualified state tuition programs.

8. **Institution of higher education.** "Institution of higher education" means an institution of higher education that meets the requirements established by rule of the authority consistent with applicable provisions of the federal Internal Revenue Code of 1986 and its regulations addressing qualified state tuition programs.

9. **Participant.** "Participant" means any person who has entered into a participation agreement pursuant to this chapter.

10. **Participation agreement.** "Participation agreement" means an agreement between a participant and the authority providing for the establishment by the participant of one or more accounts within the program fund and for the administration of those accounts for the benefit of the participant and of one or more beneficiaries.

11. **Program earnings.** "Program earnings" means all interest, dividends, premiums, fees, profits upon disposition of assets and other revenue actually received by or on behalf of the program with respect to any assets held within the program fund to which that asset may be credited, less all administrative costs of the program and the program fund, as periodically determined by the authority.

12. **Tuition.** "Tuition" means the charges imposed to attend an institution of higher education and required as a condition of enrollment.

Sec. 2. 20-A MRSA §11472, as amended by PL 2017, c. 474, Pt. F, §4, is further amended to read:

§11472. Maine Education Savings Program

The Maine Education Savings Program, referred to in this chapter as the "program," is established to encourage the investment of funds to be used for higher education expenses at institutions of higher education and, beginning January 1, 2018, and as long as permitted by provisions of Section 529 of the federal Internal Revenue Code of 1986, expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private or religious school. The authority shall administer the program and act as administrator of the program fund.

Sec. 3. 20-A MRSA §11474, sub-$2, as amended by PL 2011, c. 150, §3 and affected by §9, is further amended to read:

2. **Invest funds.** With the advice of the advisory committee, invest and reinvest, or cause to be invested and reinvested, money in the program fund in any investments determined by the authority to be appropriate, notwithstanding any general statutory
limitations on investments of public funds specifically determined to be inapplicable to the
program fund. The authority must invest, or cause to be invested, money from the
program fund in financial institutions located in the State to the extent determined
reasonable by the authority;

Sec. 4. 20-A MRSA §11475, sub-§11, as enacted by PL 1997, c. 732, §4, is
amended to read:

11. No guaranty of admission. The execution of a participation agreement by the
authority does not guarantee in any way that higher education expenses will be equal to
projections and estimates provided by the authority or that the beneficiary named in any
participation agreement will:

A. Be admitted to an any elementary or secondary school, apprenticeship program or
   institution of higher education;

B. Be allowed to continue attendance at any elementary or secondary school,
   apprenticeship program or institution of higher education following admission; or

C. Graduate from the any elementary or secondary school, apprenticeship program or
   institution of higher education.

Sec. 5. 20-A MRSA §11476, as amended by PL 2011, c. 150, §4 and affected by
§9, is further amended to read:

§11476. Investment options and parameters

The authority, with the advice of the advisory committee, may provide investment
options for a participant within the program fund to the extent permitted by federal Internal
Revenue Code of 1986 provisions addressing qualified state tuition programs. The
authority, with the advice of the advisory committee, shall invest, or cause to be invested,
the amounts on deposit in the program fund in a reasonable manner to achieve the
objectives of each fund, exercising the discretion and care of a prudent person in similar
circumstances with similar objectives. A participant or designated beneficiary may not
direct the investment of any amounts on deposit in the program fund, except to the extent
allowed pursuant to provisions of the federal Internal Revenue Code of 1986 addressing
qualified state tuition programs. The authority shall give due consideration to rate of return,
term or maturity, diversification and liquidity of investments within the program fund or
any account in the program fund pertaining to the projected disbursements and
expenditures from the program fund and the expected payments, deposits, contributions
and gifts to be received.

Sec. 6. 20-A MRSA §11478, sub-§1, as enacted by PL 1997, c. 732, §4, is amended
to read:

1. Participant retains ownership. The participant retains ownership of all
contributions and all program earnings credited to a participant's account under a
participation agreement up to the date of utilization for payment of higher education
expenses for the beneficiary and, notwithstanding any other provision of law, an amount
credited to any account is not susceptible to levy, execution, judgment or other operation
of law, garnishment or other judicial enforcement and the amount is not an asset or property
of either the participant or the beneficiary for purposes of any state insolvency laws.
Notwithstanding this subsection, an amount credited to the participant's account may not
be included in any gross estate of the participant for purposes of state tax law, except to the
extent that the amount may be includable in any gross estate for purposes of federal tax
law.

Sec. 7. 20-A MRSA §11479, as amended by PL 2017, c. 474, Pt. F, §6, is further
amended to read:

§11479. Tax exemption

The assets of the program fund, all program earnings and any income from operations
are exempt from all taxation by the State or any of its political subdivisions. A deposit to
any account, transfer of that account to a successor participant, designation of a successor
beneficiary of that account, credit of program earnings to that account or qualified
distribution from that account used for the purpose of paying higher education expenses of
the designated beneficiary of that account pursuant to this chapter, as long as that
distribution does not exceed the limits established in Section 529 of the federal Internal
Revenue Code of 1986, as amended, or rollover distributions permitted under Section 529
of the federal Internal Revenue Code of 1986, as amended, does not subject that participant,
the estate of that participant or any beneficiary to any state income or estate tax liability.
In the event of cancellation or termination of a participation agreement and distribution of
funds to a participant, the increase in value over the amount deposited in the program fund
by that participant may be taxable to that participant in the year distributed.

Sec. 8. 20-A MRSA §11483, as enacted by PL 1997, c. 732, §4, is amended to read:

§11483. Compliance with federal law

The authority may take any action necessary to ensure that the program complies with
the federal Internal Revenue Code of 1986, Section 529, as amended, and any successor
provisions and other applicable laws, rules and regulations adopted pursuant to that
provision to the extent necessary for the program fund to constitute a qualified state tuition
program with the benefits of eligibility under provisions of the federal Internal Revenue
Code of 1986 addressing qualified state tuition programs.

Sec. 9. 20-A MRSA §11485, as enacted by PL 1997, c. 732, §4, is amended to read:

§11485. Rulemaking

The authority must establish rules for the implementation of the program
established by this chapter, including rules establishing fees and penalties and rules
necessary to ensure treatment as a qualified state tuition program for federal tax purposes.
Rules adopted pursuant to this section, including those setting fees and penalties, are
routine technical rules as defined by Title 5, chapter 375, subchapter II-A 2-A. The
authority shall submit a report to the joint standing committee of the Legislature having
jurisdiction over education and cultural affairs by January 30, 1999 on the rules and rule-
making process to implement a program providing limits on future increases in the costs of
education of participating institutions of higher education pursuant to section 11474, subsection 8.

Emergency clause. In view of the emergency cited in the preamble, this legislation
takes effect when approved.
SUMMARY

This bill conforms elements of the Maine Education Savings Program to recent changes to federal law affecting so-called Section 529 plans. It also makes certain other needed updates to the program and makes permissive rather than mandatory the investment of program fund dollars by the Finance Authority of Maine in state-based financial institutions.