



State of Wisconsin
Department of Financial Institutions

Scott Walker, Governor

Jay Risch, Secretary

MINUTES OF COLLEGE SAVINGS PROGRAM BOARD

A meeting was held at the Department of Financial Institutions, 4822 Madison Yards Way, Madison, Wisconsin, on Wednesday, August 22, 2018 at 1:00 p.m.

MINUTES

MEMBERS PRESENT: *Derek Drummond, Rob Kieckhefer, Rob Kreibich, Sean Nelson, Bill Oemichen, Jay Risch, Kim Shaul, Cassandra Krause (for Rolf Wegenke), and Jim Zylstra. (absent: Sen. Darling)*

OTHERS PRESENT: Paula Smith, Shirley Yang, Glenn Friedman, Catherine Burdick, Vivian Tsai, Bernie McCrossan, Greg Reiman, Bob Nenno, Michael Wolff, Jessica Fandrich, and Jim DiUlio.

- I. **Call to Order and Roll Call** – Vice-Chair *Kim Shaul* called the meeting to order at 1:05 p.m., attendance was taken and a quorum was present. She then asked all in attendance to introduce themselves.
- II. **Approval of Agenda** – The agenda was received as posted, and staff reported that the meeting notice and agenda have been properly posted.
- III. **Approval of Minutes** - of February 28, 2018 Motion by *Oemichen*, second by *Risch* to approve the minutes, carried.
- IV. **Administrative Reports**

A. Board Chair Comments – *Shaul* thanked the Members for submitting their Statements of Economic Interest in a timely fashion. She added that she made a withdrawal from her college fund for her daughter, who takes off for Maine this week. *Oemichen* added he has done the same for his son off to Purdue. *Shaul* remarked that the process is a good reminder of what we do for families. She also thanked those working with the outside financial audit teams, from TIAA and Voya, along with KPMG and PricewaterhouseCoopers. Their submitted work was completed on time to become part of the state's CAFR, the overall annual audit.

B. Department of Financial Institutions *Sec. Jay Risch* welcomed all to DFI's new building for this meeting. He then extended his thanks to state and program staff for the planning and rollout of 'Edvest at Work,' the employer-based contribution effort, and looks forward to a busy benefit fair season. He also recognized the cooperation now at DFI between college savings and the financial literacy programs as helping each other in their missions. New at this meeting is DFI communications director Bob Nenno, who replaced George Althoff who moved to Workforce Development, welcome Bob! *Shaul* asked about the number of employers to be contacted. *Jessica Fandrich* then detailed the initial efforts, targeting state agencies, along with the related forms and website pages. The effort will expand into the private sector later. *Zylstra* also commented that the program's presentation at the technical college system's board meeting, and anticipates good participation.

C. Program Director Comments Much has happened since we met in February, *DiUlio* stated. One highlight is the steady performance of the equity markets, now on a 5-year streak since August 2013. One result is more money to use for college expenses. We received good news in the financial press – Strategic Insight's Savingforcollege.com has posted their second quarter rankings of direct and advisor plans. Edvest placed in the top ten for one, three, and five years and Tomorrow's Scholar in the top ten for three and five years. We also retained our five- and 4.5 cap ratings of total factors. Morningstar, another publisher, will release their national report in late October. Wisconsin's interviews for both plans will be September 18.

The procurement process for an investment advisor is nearing completion, a finalist has been chosen with an announcement coming later this week. *DiUlio* thanked Board and Committee members *Oemichen, Drummond, and Wolff* for participating in the DOA process; we include board input whenever possible. Outreach has been busy, including a STEAM event for young women in Milwaukee, drawing 300-400 participants, and similar to another program sponsored by the Oshkosh AAUW. We have also participated in a program called '60 Forward,' a joint effort of the leaders of the technical colleges, UW campuses, and the independent universities, along with Lumina Foundation. The goal is to have 60% of adults with some higher ed credential by 2027, and the recent state focus has been workplace-based. Again this summer, we had a successful presence at Farm Technology Days, an event drawing 40,000 over three days. And with the fall, we have returned to 529 education with estate attorneys and financial planners. Dan Conti from Voya has set up lunch and learn sessions in multiple locations connected by Skype. Later in the year, we'll do programs with CPAs, CFPs, and financial aid administrators.

The City of Milwaukee's Children's Savings Accounts have progressed, with a kickoff meeting with philanthropists back in March. The City has formally partnered with the United Way of Milwaukee and Waukesha Counties to act as the program's fiscal agent. Funding for this effort will come from private donations. A group in Madison is researching a similar idea, but in the very early stages.

On the federal legislative front, there is some support for excluding 529 account balances from the FAFSA financial aid calculations. This would remove a significant objection from some who are hesitant to use 529 plans. At this time, however, not much activity is happening in the Congress.

Communications, proxy voting

There have been no communications to the Board since our last meeting.

V. Program Manager Comments

- A. **Voya** 2018 sales remain steady, reports *Paula Smith* of Voya, with strong growth in the younger age categories. Tomorrow's Scholar has increased assets at both in-state and national broker dealers. There has been an uptick in redemptions recently. Versions of omnibus platforms continues at many firms, smoothing the enrollment and servicing process. Out of state sales remain steady.

Marketing campaigns and outreach events are also doing well, both with local and national audiences. Voya continues to promote the plan at industry-wide conferences. The rollout of 529 as a Voya employee benefit product is moving into the next phase and is doing well, she said. (Refer to presentation deck)

- B. **TIAA** *Shirley Yang* of TIAA also said that Edvest is also showing strong growth in both accounts and assets. She reported that the format of the quarterly reports they prepare for the Board are being updated and should be in place for the next meeting. Referring to the recent changes allowing elementary and secondary school tuition from 529, she noted increased withdrawals among older teenage groups. *Yang* also thanked *Greg Reiman* for his work in getting the state statutes updated quickly to bring them in alignment with the new federal law. She then showed examples where Wisconsin participation in a number of segments is keeping pace and in some cases exceeds national averages.

Catherine Burdick's marketing report began with a summary of 529 Day and launch of the Edvest at Work project. The newly-created webpages are at edvest.com/benefit. Attractive features for employers include no costs to set up or operate, and as a tool for retention and recruitment. Employees will enjoy convenience and availability. It is anticipated that this channel will broaden the audience to include non-savers, a difficult segment to reach. Other targeted efforts included a match promotion which showed early results. The Green Bay Packers 5K fun run and Farm Technology Days were also successful. She also reviewed some media coverages. The third quarter will be highlighted with more state agencies adding the internet links and the start of the benefit fair season.

Bernie McCrossan, an operations and administration manager with TIAA, shared some areas of their current focus. Customer services continue to be improved, including providing the services most requested—such as digital convenience. Another area is enhancing the security process, including identifications and authentication. The new account setup process will also become more reactive, to replace a 'fill out the form' introduction to the plan and will shorten the enrollment process. *Shaul* remarked that her recent experience with the Edvest phone app was very responsive. (Refer to the presentation deck)

VI. **Old Business** – none today

VII. **New Business**

- A. **Investment Committee Report - Review of First and Second Quarter Investments.** *Chair Rob Kieckhefer* provided highlights of the Committee's meeting earlier today. He thanked *DiUlio* for preparing an interim performance report similar to the color-coded dashboard we have used in the past. The group discussed the global real estate investment that has been on watch, but in anticipation of a new investment advisor, *Kieckhefer* said they will wait for that input before making a decision. The category of stable value funds was discussed again, including the importance of duration. TIAA will prepare a short report regarding stable value for the committee and board's education. The group also discussed the upcoming plan-level interviews with Morningstar Inc., including their 5-Pillars evaluation system. *Fandrich* said we have high positive ratings in three, and hope to improve the other two in this year's evaluations. *Kieckhefer* also commented on the top-ten ratings from *savingforcollege.com*. He said for not being a large state, or one with the most assets, we have performed very well compared to the industry. Conversation then reviewed the program snapshot, prepared each quarter showing the consistent growth of assets and accounts, especially the past five.
- B. **Second Quarter Investment Review** *DiUlio* shared highlights from the trailing performance report he prepared. Of interest is the movement of 'watched' investments out of watch range as time passes. A possible conclusion is watch list parameters need review. As an earlier example, trailing periods that included the dot-com bubble or the time around the 9/11 events as a starting point become exaggerated. This will become a discussion point with the new investment consultant. The board then had a brief conversation on how quickly the plans could change allocations if needed. The program managers reviewed timelines, including providing proper notice and other details.
- C. **Watch List Recommendations** – no changes
- D. **Report and discussion on potential reduction of state fee for Tomorrow's Scholar plan** *Sec. Risch* opened the discussion, relating that investor fees are a topic with retirement and other plans, and that the growth of assets in Tomorrow's Scholar is producing greater revenue. Would the financial media, including Morningstar, look at our present fee arrangement positively or negatively, he asked.

Michael Wolff then provided some history from earlier days in the program on how the fees developed. The feeling then was to charge fees on the advisor plan, since customers were already paying additional fees, and due to startup costs the direct plan also carried a fee. For about five years, the flow was negative, with DOA budget picking up the difference until a point where the fee on the direct plan could also be dropped to make its cost competitive. The excess funds are held in a non-lapsing account, taking 20 years to get to the point of holding about \$16 million now as a litigation fund. As a securities issuer with \$5 billion in assets, one class action suit could wipe most of that

out, he added. The expense to defend could be increased with the Attorney General needing specialized outside counsel. The group reviewed a data sheet prepared by staff comparing 529 fees of other similar states and plans. Discussion included current and anticipated operating and administrative expenses. It was noted that while at DOA, the department continued to absorb a number of program expense. *Fandrich* outlined some of the current expenses the fee covers.

Risch recalled a media comment year ago where the higher fee on one small underlying investment colored the overall report. Further discussion included comparisons with neighboring states, subsidized plans, unknown budget needs, maintaining reserves, various risks, and marketing. *Shaul* asked if there were other stakeholder needing to be heard on this issue, and also if this is a decision the board can make. *DiUlio* replied that the statutes empower the board to do all investment-related decisions, but also in the event of a program manager change, existing account owners cannot be charged a higher fee than at present—so there is reference to the board and fees in the legislation.

Shaul suggested that we take up this fee discussion and a decision at a separate meeting. She asked if no board member objects, she requests DFI to schedule a meeting in two weeks, and prepare more than one recommendation along with supporting information by September 5. A tentative call to meet will take place September 7.

E. Continuing ed, additional ways to take money out of 529s.

Due to the time remaining, *DiUlio* highlighted just two recent updates. IRS now permits refunds from a college to be placed back into a 529 without penalty if a 529 was the source. Previously, the refund became a nonqualified, and thus taxable, distribution. Specifically, the refund has to come from the institution and not from breaking a lease. The other update now permits 529 account money to be rolled over with tax or penalty to a 529A ABL account. This provides families more uses of their money when needed for a child with a disability.

Two more notes from the national level: CSPN and the state treasurers are proposing a two-year window for 529 withdrawals to be matched with qualified expenses and remain tax-free. This addresses the way semesters are sometimes billed, with the actual expenses happening the year after payments are due. Another proposal in discussion would permit 529s to become Roth IRAs after a period of time.

VII. Announcements – The next meeting of the College Savings Program Board and the Investment Advisory Committee will be held on November 28, 2018, at the Hill Farms State Office Building on Madison’s west side.

VIII. Adjournment —Noting that a motion was not needed since the agenda was complete, the chair did entertain one. Motion by *Risch*, second by *Kieckhefer*. Carried. The meeting was adjourned at 3:10 p.m