State of Wisconsin
Department of Financial Institutions

Tony Evers, **Governor** Kathy Blumenfeld, **Secretary**

DRAFT MINUTES OF COLLEGE SAVINGS PROGRAM BOARD

A meeting was held at the Department of Financial Institutions, 4822 Madison Yards Way, Madison, Wisconsin, on Wednesday, November 20, 2019 at 9:00 a.m.

MINUTES

MEMBERS PRESENT: *Rob Kreibich, Secretary Kathy Blumenfeld, Kim Shaul, Bill Oemichen, Sean Nelson, Jim Zylstra, Cassandra Krause (for Rolf Wegenke), Derek Drummond, and Susie Bauer.*

OTHERS PRESENT: Steve DiGirolamo, Paula Smith, Barbara Reinhard, Andrew Cilento, Catherine Burdick, Shirley Yang, Vivian Tsai, Chris Lynch, Glenn Friedman, Cheryll Olson-Collins, Matt Lynch, Jess Noelk, Bailey Johnson, Brandon Wood, Jessica Fandrich, and Jim DiUlio.

I. **Call to Order and Roll Call** – Vice Chair *Kim Shaul* called the meeting to order at 9:05 a.m., with a quorum present. Chair *Bill Oemichen* called in from Fargo.

II. **Approval of Agenda** – The agenda was received, and staff reported that the meeting notice and agenda have been properly posted. Those present agreed to the request to move agenda item 8.a. to follow 5. to allow ample discussion time if needed.

III. **Approval of Minutes** – for October 31, 2019, with the correction that Jim Zylstra did not attend. Motion by *Zylstra*, second by *Oemichen* to approve the minutes, carried.

IV. **Administrative Reports**

A. **Board Chair Comments** – *Shaul* noted that the program continues to grow, and not all states can say that. The quarterly reports cite 15,100 more accounts or a 4.7% increase year over year. And as a parent with one child in college and another going soon, 529 accounts are encouraged for all.

B. **Department of Financial Institutions** – *Secretary Blumenfeld* shared details of the program's participation in the Military Makeover TV show, featuring the

Wojcik family at their home town of Strum. She said the family is well liked in the community, and was very humble when she surprised them with the $10,000 Edvest check for their three daughters' education. It was a positive experience that will be shared with the nation when the episode airs in a few weeks. Thanks to all who planned and worked on this promotional event. She also highlighted staff travels with a heavy travel schedule of benefit fairs last month, and thanked *Jessica Fandrich* for her contribution, especially making contacts for the Edvest at Work project

She also reported that incoming rollovers from other 529 plans are twice the amount of those going out, a positive sign, and electronic enrollments and statements continue to grow. With the holiday season approaching, she reminded all of us as program ambassadors to encourage 529 savings as a nice gift for grandchildren.

Shaul recognized Bailey Johnson and Brandon Wood, political science students from UW-Stevens Point, here to observe today's meeting.

B. <u>Program Director Comments</u> There have been no communications to the Board since we last met, *DiUlio* reported, nor have any proxy votes been scheduled or taken. Asset-based income to the program has remained steady, at about $120,000 per month, and our account in the state investment pool adds another $32,000—all sufficient for our current budget.

The Department of Revenue has determined that in 2020, an individual's contributions to Wisconsin's 529 plans up to $3,340 per beneficiary may be subtracted from state income. This is an increase of $60 from this year, based on a CPI-U calculation. Later in the meeting we will discuss the beneficiary maximum account, determined by different measure from the College Board.

Also since we last met, Morningstar has announced their 529 plan rankings. Our plans remain unchanged, Edvest at Bronze and Tomorrow's Scholar at neutral. There were more downgrades that upgrades this year, while Morningstar is in a two-year process expanding their measurement grid. There will be a national 529 plan webinar with Morningstar tomorrow, sponsored by CSPN. *DiUlio* said he and Andrea Feirstein will moderate and all are welcome to listen in. Saving for college-dot-com (SFC), the other prominent 529 website, released their 3Q report, and both plans rank at the top level with their direct and advisor peers, as they have done for some time. SFC includes a broader range of plan features and benefits.

On the national level, 529-related legislation in Congress remains stalled. The reauthorization of the Higher Education Act moves to next year, with the possibility of exempting 529 savings from FAFSA calculation. And DFI has started the process for changes to administrative rules, as approved by the Board in August.

Fandrich shared some experiences with October's outreach activity. She said with so many locations there is rotation to cover them all. This year's new benefit fair sites were appreciated by those attending. Correctional institutions, veterans' homes, and several chambers of commerce were among the new locations.

Question from *Kreibich*: what is the number one 529 program in the country? Probably Utah, *DiUlio* responded, having been gold rated for nine years, with above average account growth. The Virginia plans are also top-rated, added *DiGirolamo*, with their massive asset base and number of accounts.

V. Investment Consultant comments

Steve DiGirolamo of Wilshire Associates said there was a lot of uncertainty during the third quarter, but U.S. markets performed fairly well. Measures of unemployment and inflation remain low. He then reviewed highlights of the equity and fixed income asset classes, both recent and longer term.

The Edvest plan's portfolios, he continued, show really strong one, three, and five year performance, nearly all in the top half compared with peers. The age-based portfolios rank high, driven by the asset allocation decisions. Similar story in the risk-based options. Underlying funds performed as expected.

Moving to Tomorrow's Scholar, the plan also benefitted from overweight equities in the glidepath for the quarter. Three and five year performance also ranked high for this plan. The value strategies are looking better, and there are no major concerns requiring further discussion this quarter.

With regard to the watch list report, *DiGirolamo* said none of the underlying investments in the Edvest plan were identified, and the two Tomorrow's Scholar funds on watch continue. Wilshire does not recommend any changes at this time.

The Board then moved to Item 8.a, as requested.

VIII.a Investment allocation changes to Tomorrow's Scholar for 2020

Paula Smith introduced *Barbara Reinhard*, the head of asset allocation for Voya's MASS team. *Reinhard* reviewed their approach to glidepaths, both retirement and college savings, along with layering of risk management, and diversification in classes and management. All plans and underlying pieces receive an annual review.

For 2020, Voya reduces equities in the age-based portfolios, based on the cycle and to deliver consistent returns, important to owners in a behavioral context. Within equities, rotate to more large cap vs. mid, small, and

international stocks. Core income and short duration bonds increase and reduce senior loans as a move to quality. And finally Voya removes commodities and international bonds as components, due to their lesser value in diversification.

Question from the board regarding Senior Loans. *Reinhard* explained these are bank loans by companies with more speculative credit quality. Like high yield, but with shorter 3-year (on average) maturities. We have used them as a hedge on interest rates, with favorable spreads. As an asset class, they have grown over the last 20 years. Follow up question regarding beta: she replied beta is the relationships between two measures; a beta of one means they act the same. If the correlation is identical, there is no benefit of diversification in a portfolio. Looking at Voya's capital assumptions, commodities now behave like emerging markets, with similar betas and not offering diversification.

After determining the strategic allocation, then asset managers are reviewed, she said. New to the mix are US large growth from T Rowe Price and large value from Invesco, complementing existing strategies from Voya. An additional international equity strategy is added, while passive bonds were removed from the glidepath. While overall age-based equity percentages have been reduced, they are still slightly above the mix of Morningstar's new category groups. She also noted the equities weighting in the 16 and 17 year bands, since there may be three years before dollars are used for later college expenses. Also, while CPI remains below 4%, equities are good hedge to maintain purchasing power.

The team's proposed changes reflect where we are in the economic cycle and match projections for both investments and college costs, as denominated in dollars. The single fund options will remain the same.

Smith then reviewed the fee impact for investors with these changes. On average, the blended fees will modestly decrease by a few basis points. She said the adjustments can be made to customer portfolios on January 31.

No further questions or comments from the group. Motion by *Kreibich*, second by *Bauer* to approve the changes to the Tomorrow's Scholar plan at recommended by Voya, and to be implemented in January 2020. All aye, motion carried.

The Board then recessed for a short break at 10:20 a.m.

Shaul called the meeting back to order at 10:25 a.m.

VI. Program Manager Comments

A. **Voya** *Paula Smith* said steady growth continues through Tomorrow's Scholar distribution channels. Sales are lower than last year, but in line with the

industry and volatility concerns. Strong results are coming from R.W. Baird, RBC Capital and Merrill Lynch. Accounts numbers are up, both in-state and nationwide. She reported on activities supporting omnibus relationships and new platforms coming online soon. As mentioned earlier, Tomorrow's Scholar continues to receive top ten rankings from Saving for College in the RIA share class. Year-end gifting messages are next in Voya's 529 marketing cycle, along with webinars for financial advisors.

On a company level, Voya is running a series of 'College Kid' commercials. And their foundation is providing grants to encourage K-8 student to consider STEM careers, along with a financial education curriculum for grades 9-12. It highlights navigating lifetime milestones, including debt, credit, home ownership and more.

Blumenfeld thanked Voya for the commitment to financial resilience and building financial capability, efforts that mirror DFI's mission of helping people on the front end, and to avoid many of the student loan debt problems we see today. *Smith* can provide additional details for reference.

The continued expansion of omnibus and other broker platforms is significant, *DiUlio* added, allowing more time and tools when advisors work with clients. A great improvement from the lengthy forms of a few years ago.

B. **TIAA** *Shirley Yang* began the Edvest report with the 3Q dashboard, noting a recovery in contributions resulting in an increase over last year at this time. In contrast, she continued, the direct-sold 529 industry has shown a decline. Edvest total accounts have also grown over last quarter, although the rate has decreased. Question from *Krause* if there is a relationship between college pricing and account openings. *Yang* replied it is hard to say, since the number of accounts are still growing. Availability of scholarships and financial aid may be more related. The state of Georgia's Hope Scholarship pays tuition only for a number of students, *Chris Lynch* commented, but TFI's 529 plan there shows similar growth when compared to states without that benefit.

The most popular portfolio choices continue to be the age-based tracks, *Yang* said. Call center performance in September dropped below expected levels, but October numbers have returned to a more normal rage in the nineties. Edvest's demographic statistics have remained constant through the quarter, she concluded.

Back to School was the prominent 3Q marketing effort, *Catherine Burdick* reported, including digital ads and paid social media. A new effort, for Beneficiary Birthday messaging, will focus on additional contributions and gifting a month in advance of the child's birthday. The core marketing plan continues to perform well, with some minor adjustments made earlier in the year to reflect on earlier successes. E-gift efforts also show preliminary success. *Burdick* then reported that CPA (cost per account) has dropped with decreased spend and more efficiency to drive later projects.

Activities in 4Q have or will include benefit fairs, SHRM, and other employer-directed events.

The Edvest segment for the Military Makeover TV show will air on November 29, featuring the veteran and family from Strum. There was considerable prep work before the recording, resulting in a very nice video piece, she said. There will be PR opportunities statewide with the media, and also advertising to veteran and active military members with children and grandchildren.

The upcoming holiday campaign, she concluded, will also target those with inactive accounts and owners who have made year-end lump sum contributions. The goal is to continue the increased contributions levels over last year and have more money available for college expenses.

VII. Old Business – Ethics refresher for Board members

The purpose of this next segment, *Matt Lynch* said, is to provide guidance and updates that public boards and officials need to know while conducting business. The key ethics statutes cover five areas: corruption, conflicts of interest, influence by lobbyists, public records, and open meetings.

For each of related statutes, he shared examples of what actions are explicitly not permitted. He also outlined a few exceptions for each such as things not related to official business, reasonable expenses as a writer or speaker, or small promotional items also offered to the general public.

Notes or drafts for personal use are not considered public, however if shared with another person, they then fall into the public area. He also reviewed definitions of duplicate records and retention rules. The last area covered open meetings, and he gave examples of quorum rules and applicable situations. Questions from the group may be directed to him or the Wisconsin Ethics Commission, or to their website.

Question was asked by *Nelson* if personal investments would become a conflict of interest. Lynch replied accounts available to the general public, such as retirement accounts, generally would not create a conflict members.

VIII. New Business

b. Review College Board's Trends in College Pricing 2019 and adjustment of maximum beneficiary amount.

DiUlio reviewed the annual process in setting a maximum account size. Some state use a formula based on years of college costs, others look at other state limits. Here in Wisconsin, by statute, we consider the annual

measure of private college tuition inflation, with upward adjustments determined each year, prior to January 1.

The memo from staff reports that the inflation number just reported by the College Board is 3.4%. Based on our current $488,000 limit, an additional 3.4% would be $504,592.

Discussion followed. Wisconsin's current place among state limits is at number 17, with California and New York the highest, at $529,000 and $520,000 respectively. The group agreed to round the stated number, as in the past, at 505,000. At that level, it would be number 4 behind Pennsylvania's $511,758, and ahead of a number of states at $500,000.

Bauer asked if the new limit could be effective immediately, in light of holiday promotion and gifting messages. *Lynch* said he would research the possibility following the meeting.

Motion by Kreibich, second by Bauer to set the maximum limit for a beneficiary in all Wisconsin 529 plans in aggregate at $505,000, as soon as legally permissible. All aye, motion carried. DFI staff will determine effective date.

[Note: A review following the meeting determined the new limit could become effective now, prior to January 2020. Recordkeepers and related staff were notified.]

IX. **Announcements** – The next meeting will be on Wednesday, March 6, 2020, at 9:00 a.m., at the Hill Farms State Office Building in Madison.

VIII. Adjournment – The meeting was adjourned at 11:40 a.m.