

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of December 4, 2017

The December 4, 2017 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair.

Members present, constituting a quorum, were:

Edward MacKay (Chair)	Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire
Michael Cryans	Public Member, appointed by the Governor
Bill Dwyer	State Treasurer
Lou D’Allesandro	State Senator
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Michael Vlacich	President & CEO, representing the New Hampshire College and University Council
Peter Leishman	State Representative
Kenneth Weyler	State Representative

Members absent were:

Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Ross Gittell	Chancellor, Community College System of New Hampshire (“CCSNH”)
Daniel Innis	State Senator
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire

Also present at the meeting were Kyla Doyle, Keith Bernhardt, and Ron Hazel from Fidelity Investments (“Fidelity”), Dr. Horgan, retired Advisory Commission member, Charles Ansell from CCSNH, Michael Seidel, Director of Division of Higher Education, Dept. of Education, Joel Maiola, Public Member, as well as Monica Mezzapelle from New Hampshire State Treasury.

**Award Presentation to Dr. Horgan**

On behalf of the Advisory Commission, Dr. MacKay presented an award to Dr. Thomas Horgan who represented the College and University Council on the Advisory Commission for over 20 years. Dr. MacKay highlighted that Dr. Horgan was one of the founding members who establish the NH 529 program. Dr. Horgan not only participated in the development of guidelines for the Request For Proposal that selected Fidelity as the program administrator, but for over 20 years, Dr. Horgan has been one of the individuals that guided the program’s policy development and was one of the early advocates to ensuring that, as part of the original statutes, the fees to be received

by the State were to be used primarily to support New Hampshire residents to go to New Hampshire colleges and universities. Dr. Horgan was also instrumental in the creation of the Endowment program (UNIQUE endowment allocation scholarship program), designating a portion of the State fees to create endowments that would provide scholarships to New Hampshire students in perpetuity. Dr. Horgan was very appreciative of Dr. MacKay's kind words and recognition and shared that it has been an honor to be part of the group and the important work the Advisory Commission has done for over 20 years – implementing the NH 529 plan and scholarship programs.

### **Review of Prior Meeting Minutes**

Minutes of the August 21, 2017 regular meeting and non-public session were reviewed and presented for approval by Dr. MacKay. Hearing no additional comments or corrections, Dr. MacKay requested a motion to approve the August 21, 2017 regular meeting minutes, as distributed. Mr. Cryans moved, Senator D'Allesandro seconded. All Advisory Commission members voted in favor. Dr. MacKay then requested a motion to approve the non-public session minutes. Mr. Cryans moved and Treasurer Dwyer seconded. All members voted in favor. Minutes of the September 21, 2017 special meeting were also reviewed. Senator D'Allesandro made a motion to approve and Rep. Weyler seconded. The minutes were unanimously approved.

### **Update of Endowment Trust Fund and Scholarship Disbursements**

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements for quarter ending September 30, 2017.

During the first quarter of fiscal year 2018, the endowment trust fund received from Fidelity over \$3.6 million in management fee income and disbursed nearly \$3.9 million. Administrative expenses of under \$16,000 were also incurred during the quarter, comprised of the first quarterly Treasury overhead allocation of \$9,252, the endowment trust fund management fees of \$2,479, and the yearly membership dues paid to the College Savings Plan Network of \$4,100. As of September 30, 2017, the endowment trust fund reported a balance of over \$2.2 million.

Also in July of 2017, participating higher education institutions received the initial UNIQUE Annual Award Allocations of \$1 million and through September 30, 2017, participating institutions received allocations of nearly \$2.9 million for the UNIQUE Endowment Allocation Program. Treasurer Dwyer also highlighted that since program inception, the endowment trust fund has received over \$148 million in revenues and has disbursed \$115 in scholarship funds through September 30, 2017.

### **UNIQUE Scholarships Report for the 2016-17 Academic Year**

Dr. MacKay presented the results of the UNIQUE Scholarship Programs for the 2016-17 academic year, as well as award estimates for the 2017-18 academic year, as reported by participating higher

education institutions on or prior to October 15, 2017. Results presented were compiled by Janet Fiderio, Research and Studies Specialist from the Div. of Higher Education, which reported the following:

- For the 2017-18 academic year, full time enrollment decreased by 4.2% from prior year, conversely part time enrollment increased significantly by 43%.
- Participating colleges and universities expect to distribute approximately \$3 million in UNIQUE Annual Awards, a surge of about 26.8%, which is primarily due to the increase in the individual award from \$700 to \$800 in the 2017-18 academic year. Dr. MacKay also added the Commission's budget included \$3.2 million in UNIQUE Annual Awards and a shortfall of approximately \$1 million intended to be covered by the endowment trust fund balance – a deliberate decision by the Advisory Commission in order to maximize the benefits for New Hampshire students. However, based on updated award information reported by participating institutions and steady management fee revenue coming from Fidelity, it appears that only about \$700,000 would be needed from the endowment trust fund balance. Assuming revenue will continue to come in at the same rate or higher (in line with market performance), the endowment trust fund could finish the fiscal year with a balance of \$1.7 to \$1.8 million.
- Colleges participating in the UNIQUE Endowment Allocation Program reported an aggregated balance of approximately \$97.6 million as of June 30, 2017, an addition of \$17.5 million into the endowments (29.9% growth) since last year. Treasurer Dwyer commented that institutions are being monitored to ensure minimum payout is distributed – at least 4% of the 12-quarter rolling average of the endowment balance is distributed each academic year. In addition, Dr. MacKay indicated administrative costs are not allowed charges under the program, as the endowment funds are to be used exclusively for scholarships to benefit New Hampshire residents.

### **UNIQUE 2018-19 Annual Allocation Program Scholarship Award Decisions**

Pursuant to Administrative Rule Csp 602.01, the Advisory Commission is required to annually determine the total amount available for initial and subsequent allocation in the upcoming fiscal year, the maximum Expected Family Contribution (“EFC”), the date of the Free Application for Federal Student Aid (“FAFSA”) by the federal processor and the maximum amount of the individual student award. Prior to amending the administrative rules in 2016, the Commission also determined whether institutions were going to be reimbursed for awards exceeding the initial allocation amount. Current administrative rules allow for reimbursements, as long as institutions meet all the requirements of the program.

The criteria for the 2017-18 academic year were as follows:

- 1) Initial allocation of \$1 million, subsequent allocation based on requested reimbursements;
- 2) A maximum EFC of \$0;
- 3) An individual maximum award of \$800 for full-time students, prorated for part-time; and
- 4) A FAFSA filing deadline of December 31, 2017.

Dr. MacKay once again indicated that being very conservative, approximately \$3 million could be expected in Annual Awards during this academic year and, therefore, if the Commission were to select the same criteria for the 2018-19 academic year, another potential drawdown of the endowment trust fund could be expected to ensure the number of scholarships being distributed is maximized. Mr. Ansell inquired if an EFC greater than \$0 has been considered. Dr. MacKay responded that the last time an EFC greater than \$0 was used was in 2013, but unfortunately, the funding requirement would significantly increase.

After some discussion, Dr. MacKay requested a motion to maintain the same eligibility criteria for the 2018-19 academic year. Mr. Cryans moved and Senator D'Allesandro seconded. The motion carried unanimously. The UNIQUE Annual Allocation Program eligibility criteria for 2018-19 academic year will be as follows:

- 1) Initial allocation amount of \$1 million to be distributed to participating institutions in July of 2018 and a subsequent allocation intended to reimburse institutions for all eligible students;
- 2) A maximum EFC of \$0;
- 3) An annual maximum award of \$800 for a full-time student, prorated for part-time; and
- 4) A FAFSA filing deadline of December 31, 2018.

### **Overview of the 529 Programs**

#### *529 Industry Market Update*

Mr. Hazel from Fidelity Investments presented the 529 Industry update for quarter three of 2017, highlighting that 529 industry assets increased by 2.2% from the previous quarter and by 13.7% year over year. New Hampshire remains the fourth largest plan in the country with over \$16.6 billion in market-value assets, an increase of 1.5% since the last quarter and of 10.2% year over year. The 529 Industry continues to benefit from the returns of the equity markets, as reflected by the Dow Jones U.S. Total Stock Market Index performance, which was up 4% during the quarter and climbed 18.7% year over year. In addition, the Barclays U.S. Aggregate Bond Index reported a gain of 0.8% for the quarter and 0.1% year over year. New Hampshire trails Virginia (\$63.5 billion in market value assets managed by American Funds), New York (\$26.6 billion, managed by J.P. Morgan), and the Nevada plans (\$21.3 billion, multiple managers – including Vanguard).

New Hampshire participants represent 3.2% of total NH 529 Plan assets, as well as 3% of the total participant accounts, with \$473.1 million in the UNIQUE Plan and \$64.1 million in the Fidelity Advisor 529 Plan.

#### *Fidelity Advisor 529 Plan Review*

Mr. Hazel began reporting that Fidelity was recently made aware of some errors made by certain program managers when migrating accounts to the omnibus platform. Apparently, while converting those accounts, some program managers were double counting that activity. It is unclear at this point of the overall impact and Fidelity will provide an update as soon as the information becomes available.

As of September 30, 2017, the FA 529 Plan had nearly \$4.7 billion in market-value assets, distributed across 185,413 participant accounts, which represents 3.7% of the market-share. During quarter three of 2017, Advisor-sold 529 Plan assets increased by 1.9% compared to the previous quarter and by 11.7% year over year. The FA 529 plan assets had a net increase of 1% from quarter two to quarter three 2017 and of 7% year over year. During quarter three, the New York plan advanced one spot, moving the New Hampshire plan to 7<sup>th</sup> place. The FA 529 plan continues to trail Virginia (\$59.4 billion in assets), Maine (\$8.8 billion in assets), Rhode Island (\$6.0 billion in assets), Ohio (\$5.1 billion in assets), Alaska (\$4.8 billion in assets), and now New York with \$4.7 billion in assets managed by J.P. Morgan. Mr. Hazel mentioned that J.P. Morgan took over from Columbia Funds, which have done a very good job promoting the New York income tax deduction benefit. In response to Rep. Weyler's inquiry, Mr. Hazel stated that the Virginia plan has always been the largest plan, managed by American Funds, and they control approximately 70% of all advisor-sold products. It is a state with wealthy investors and an attractive income tax deduction incentive.

As requested in prior meetings, market-share over time was provided: in 2014 market-share was 4%, 2015 – 3.9%, 2016 – 3.8% and through 9/30/2017 – 3.7%. Account growth slid this quarter (-7.2%), adding 1,902 new accounts compared to 2,049 new accounts in quarter two 2017 and 2,449 new accounts during the same quarter in 2016, a (-22.3% drop). Contributions also declined during the quarter compared to quarter two of 2017 by (-11.9%) and by (-6.4%) compared to quarter three in 2016. In contrast, distributions continue to rise reporting \$159.3 million in distributions during the quarter compared to \$67.1 million in quarter two of 2017 (137.4% increase). Mr. Hazel mentioned this is typical activity of quarter three, as parents are getting ready to pay tuition bills. Quarter three distributions were comparable to quarter three distributions in 2016, a 1% increase. New Hampshire participants also reported \$2.4 million in distributions during quarter three 2017.

Mr. Hazel mentioned other advisor-sold plans are experiencing similar challenges: In the advisor-sold channel new accounts in 2014 vs 2015 was down (-15.1%) and 2015 vs 2016 new accounts was down (-7.1%). The FA 529 plan in 2014 vs 2015 was down (-24.9%) and 2015 vs 2016 was down (-13.7%). Some of the many challenges the industry faces are higher fees (commission based), direction from the U.S. DOL Fiduciary rule, certain compliance requirements that need to be met (i.e. disclosures regarding in-state income tax deductions, scholarships and bankruptcy protections), etc. The most recent *College Saving Indicator* survey conducted by Fidelity revealed that Saving for College is the 2<sup>nd</sup> most important concern among parents, ahead of saving for retirement (most important is general savings). Results also indicated more parents want to cover or contribute to their children college education. Consequently, utilizing such relevant research, Fidelity continues to work with Financial Advisors to convey the message of the importance of saving for college. There are also plans to partner with new broker-dealers in 2018.

During the third quarter of 2017, the average account size of a FA 529 plan account was \$25,334, with New Hampshire residents averaging \$22,576.

#### *Direct-sold (UNIQUE) 529 Plan Review*

Regarding the Direct-sold 529 plans, Ms. Doyle reported that as of September 30, 2017, the UNIQUE College Investing Plan had over \$11.9 billion in market-value assets distributed across 691,021 participant accounts. 529 Direct-sold plan assets increased by 2.5% from quarter two to quarter three 2017 and by 15.5% year over year. Comparably, the UNIQUE Plan assets rose 1.7% during the quarter and 11.6% year over year. The UNIQUE Plan remains the third in its space, with a 7.6% of the market-share, trailing New York (\$21.9 billion in assets, 14.0% of market-share), and the Nevada plans (3 separate plans, \$16 billion in assets, 10.3% of market-share). Market-share in 2014 was 8.3%, 2015 – 8.1%, 2016 – 7.8% and through 9/30/2017 – 7.6%. The New Hampshire plan competes against two very successful plans, with very robust income tax deduction incentives.

New account growth increased during the quarter by 7% and climbed 19% year over year, adding 14,108 new accounts compared to 13,178 in quarter two 2017 and 11,807 in quarter three 2016. Jumping ahead, the month of October was very strong, with total of new accounts of nearly 5,000, which would equate to a 30% increase year over year. Conversely, contributions to the Plan declined by (-9%) during the quarter, however, increased by 10% during the third quarter of 2017 compared to quarter three in 2016. Again jumping ahead, October had \$110 million in contributions, which equates to a 28% increase year over year. Ms. Doyle added quarter four and quarter one are typically the best quarters, as it is the gifting season. Ms. Doyle was also very pleased to share very good news, at the end of October the UNIQUE plan had exceeded the \$12 billion threshold. Distributions in quarter three 2017 also increased 187% (\$434 million) and 11% year over year (\$434.1 million compared to \$391 million in quarter three 2016). New Hampshire residents distributed \$21.4 million compared to \$19.2 million in quarter three of 2016. As mentioned earlier, most of the distribution activity occurs in quarter three, as families begin to pay tuition bills.

During the third quarter of 2017, the average account balance in a UNIQUE account was \$25,665, while New Hampshire residents averaged \$23,822. The average monthly contributions to new and existing accounts nationwide were \$3,165 and \$120, respectively; while New Hampshire residents contributed an average of \$2,871 to new accounts and an average of \$218 to existing accounts.

#### *Legislative Update*

On the legislative front, after Congress passed H.R. 1 and the Senate passed its version of the Tax Reform legislation, Ms. Doyle indicated that what appears more interesting to the 529 industry is the change relative to Coverdell accounts. Coverdell accounts will no longer be available, therefore it is anticipated those assets could rollover to 529 accounts. Other than clarifying a potential contribution cap (\$10,000 currently), 529 assets could increase as a result of this legislative change and the provisions of these accounts would be included in 529 accounts, such as

the ability to use funds for K-12 education. Another provision of the Tax Reform legislation introduced by the House included the ability to open a 529 account for an unborn child. The Senate version as of 12/4/2017 did not include such provision. Mr. Bernhardt mentioned it would be challenging to implement the “unborn child” provision if it were to pass. Other than that, current versions of the Tax Reform legislation do not appear to impact the current tax benefits of the 529 plan accounts.

### **Annual financial disclosures due to Secretary of State on or before January 19, 2018**

Treasurer Dwyer reminded Advisory Commission members about the filing requirement pursuant to RSA 15-A, the filing of annual Financial Disclosures by non-legislative members. The deadline to file with the Secretary of State’s Office is the third Friday in January, which would fall on January 19, 2018. State Treasury will send an email-reminder to all Commission members in mid-December to ensure this requirement is met prior to the next meeting on March 5<sup>th</sup>, 2018.

### **Update of GEAR UP New Hampshire Program**

Dr. MacKay mentioned that the New Hampshire College and University Council and Campus Compact qualified for the federal award, GEAR UP grant (Gaining Early Awareness and Readiness for Undergraduate Programs). The mission of the GEAR UP program is to significantly increase the number of low-income and underrepresented students who are prepared to enter and succeed in postsecondary education. There is a “match” requirement and the administrators of the program are looking for a partner that could assist in meeting the match requirement. The UNIQUE scholarship funds could potentially qualify as a “match” and, therefore, the Treasurer’s office has contacted the Attorney General’s office to determine whether the Advisory Commission, under the current statutes and administrative rules, would have the ability to collaborate in this effort. Mr. Vlacich added a cohort of seventh grade students from seven school districts in the North Country have been identified to participate in this program. GEAR UP New Hampshire will receive \$1.6 million annually for a period of seven years; \$1 million is to be invested and kept in a trust until students selected attend postsecondary education and the remaining funds are to be used to promote the mission of the program. Dr. MacKay indicated more information is anticipated to be presented to the Advisory Commission during the next meeting.

### **State Legislation Update**

#### *Children’s Savings Account Program*

Dr. MacKay stated that efforts continue regarding the Children’s Savings Account Program (“CSA”) in New Hampshire. Currently, there are 40-50 initiatives in the country introducing the notion of saving for college. The House Education committee approved HB 609, as amended, and the bill will be brought to the full House for a vote in the 2018 legislative session. The CSA

program was renamed “Student Career and College Investment Program” and the amendment removes the funding provision from the licensing fee paid for each mutual fund class, with no specific funding source.

*Governor’s Scholarship Program (RSA 4-C)*

The Governor Scholarship Program (“GSP”) is an initiative included in the 2018-19 budget to provide scholarships to New Hampshire students who meet certain residency, academic, or work requirements. The individual scholarship amount is \$1,000 and \$2,000 for students who participate in the *New Hampshire Scholars* program to encourage students who take a more rigorous curriculum while attending high school. Dr. MacKay stated the Office of Strategic Initiatives is working on finalizing the administrative rules for a launch of the program in the fall of 2018.

*Dual and Concurrent Enrollment Program (RSA 188-E:25-29)*

The \$10 million, non-lapsing funds, appropriated for the GSP includes funding (\$850,000 and \$950,000 for the 2018-19 biennium) for the “Dual and Concurrent Enrollment program”, which provides free credits to high school students attending the 11<sup>th</sup> and 12<sup>th</sup> grade who enroll in college level science, technology, and math courses. Mr. Ansell mentioned that CCSNH is ready for the implementation of the programs and it is currently waiting for the Department of Education to complete agreements with the School Districts in the state.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:40 a.m.

**NOTE:** The next regular meeting is scheduled for Monday, March 5, 2018 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by the Investment Committee meeting beginning at 9:00 a.m. All Advisory Commission members are invited to attend.