

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 18, 2015

The May 18, 2015 meeting of the New Hampshire College 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
Bill Dwyer	State Treasurer
Michael Cryans	Public Member, appointed by the Governor
Ross Gittell	Chancellor, Community College System of New Hampshire
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Todd Leach	Chancellor, University System of New Hampshire
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Laurie Sanborn	State Representative

Members absent were:

Lou D’Alessandro	State Senator
Jeanie Forrester	State Senator
Lynne Ober	State Representative

Also present at the meeting were Keith Bernhardt, Kyla Doyle, and Matt Golden from Fidelity Investments (Fidelity), Linda Hodgdon retiring Commission member, as well as Monica Mezzapelle from State Treasury.

Review of Prior Meeting Minutes

Minutes of the February 23, 2015 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mr. Mahoney and seconded by Mr. Horgan. The motion passed unanimously. Mr. Cryans was not present at the beginning of the meeting when this action was taken, and upon arrival, he requested that a section of the approved minutes be reviewed. As a result, a sentence from page 4 of 9 of the previously approved minutes was revised to say: “Concerns were expressed relative to spending too much from the endowment trust fund.” Dr. MacKay asked for a motion to approve the revised minutes, Mr. Horgan moved and Mr. Mahoney seconded. The motion again passed unanimously.

Award Presentation to Linda Hodgdon

On behalf of the Advisory Commission, Dr. MacKay presented an award to former Advisory Commission member, Linda Hodgdon. Ms. Hodgdon who initially participated in Advisory Commission activities on behalf of Governor Shaheen, has served on the Advisory Commission since 2006 as the Governor's Designee, initially when she was the Budget Director for Governor John Lynch and then during her tenure as the Commissioner of the Department of Administrative Services. Dr. MacKay thanked Ms. Hodgdon for all the years of dedicated service to the Commission. Ms. Hodgdon expressed her gratitude for the award received and reiterated the positive benefits of being a 529 plan participant.

Fiscal Year 2016 College Savings Program Budget Review

State Treasurer Dwyer presented the proposed fiscal year 2016 program budget and described each individual budget component. The 2016 budget includes management fees based on projected assets in the UNIQUE Plan (typically 70% of the total projected revenue) and Fidelity Advisor 529 Plan. The budget projects nearly \$9.6 million in revenue in FY2016 on the direct-sold side and \$4 million in revenue on the advisor-sold side. Program disbursements include UNIQUE Endowment allocations of \$10.9 million (80% of \$13.65 million in management fee income), representing the monthly allocation payments to the specific endowments each participating school maintains. UNIQUE Annual award scholarships are derived from program revenue, less the Endowment allocations, less budgeted administrative expenses. Therefore, the \$2.3 million for Annual awards is not exactly an estimate of what will be distributed for these scholarships, as the number of actual payouts could be more or less than budgeted depending on the total amounts awarded by participating colleges throughout the 2016-17 academic year. The Advisory Commission voted at its February 23 meeting to guarantee such reimbursements to participating institutions for Annual Awards distributed in excess of the initial \$1 million allocation to be distributed in July 2015. As a result, it is possible that a portion of the New Hampshire Excellence in Higher Education Endowment Fund balance may be used to fully fund the reimbursements. In addition, administrative expenses of \$93,000 include the budget for the FY2015 audits of the plans contracted with PricewaterhouseCoopers ("PwC"), association dues, the quarterly Treasury overhead allocation, administrative support fees paid to the Division of Higher Education, and miscellaneous expenses.

Dr. Gittell inquired about the audits performed by PwC. State Treasurer Dwyer mentioned that the contract is between the Legislative Budget Assistant Office ("LBA") and PwC. Ms. Mezzapelle further explained that the contract term ends with the 2015 audit in fiscal year 2016 and at that point it is expected that the LBA will procure a new vendor for the performance of future audits. Nonetheless, the cost of the audits is covered by the College Tuition Savings Plan program. After Advisory Commission members discussed the components of the budget, Dr. MacKay requested a motion to approve. Dr. Gittell moved for approval, and Mr. Cryans seconded. The Advisory Commission approved the budget unanimously.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report for the quarter ended March 31, 2015 was submitted by State Treasurer Dwyer. The Endowment Trust Fund had a balance of approximately \$3.9 million as of March 31, 2015, an increase of over \$287,000 or 8% since the last quarter. Since the beginning of the fiscal year the fund has received approximately \$9.3 million in management fee income, as well as investment earnings and net market gains of approximately \$69,000.

In July of 2014, the initial Annual Awards Allocation of \$1,050,613 was distributed to participating colleges and universities and approximately \$7.5 million in monthly Endowment Award Allocations was also distributed to participating institutions through March 31, 2015. Administrative expenses through March 31, 2015 totaled approximately \$367,800, which comprised of the audit of the UNIQUE And FA 529 Plans by PwC for \$289,400, the first, second, and third quarter Treasury overhead allocations for \$28,800, the endowment fund management fees paid in August, November, and February for \$7,700, the yearly membership dues paid to the College Savings Plan Network for \$4,000, the College Savings Foundation for \$1,900, and the annual support services payment to the Division of Higher Education for \$36,000.

In response to Dr. Gittell's question, Dr. MacKay stated that increases in audit costs have been modest, typically a 4% to 5% increase each year. Treasurer Dwyer then added that increases in audit costs occur each year due to new funds being introduced to the portfolio lineup.

Dr. MacKay also highlighted that as a result of participating school not requesting as much reimbursements as previously anticipated by March 31, 2015, which was about \$1.7 million, the endowment trust fund balance will finish fiscal year 2015 with a balance of +/- \$3 million. This appears to be a positive outcome and more detailed information will be provided in the next quarterly meeting.

Overview of the 529 Programs

529 Industry Market Update

Mr. Golden briefly highlighted the market results for the quarter stating that it was a strong quarter for the managed portfolios which outperformed the index portfolios. As done in previous quarters, Mr. Golden shared the most common market indicators, noting that the S&P 500 increased by 0.95% and the Barclays Aggregate Bond Index increased by 1.61%.

Mr. Golden then presented the first quarter 2015 Industry Market Update reporting that New Hampshire programs remain with a strong position as the fourth largest in the country with approximately \$14.4 billion in assets (at market value) and 6.2% of the industry's market share. Total 529 Plan market-value industry assets as of March 31, 2015 increased by 3.4% from the previous quarter and increased by 10.1% year over year, while New Hampshire assets (UNIQUE and FA 529 plans combined) increased by 3.2% for the quarter and increased by 7.4% year over year. The New Hampshire plans followed Virginia (\$52.3 billion in assets managed by American

Funds), New York (\$20.9 billion in assets managed by J.P. Morgan), and Nevada (\$15.5 billion in assets administered by multiple managers, including Vanguard). During his presentation, Mr. Golden also pointed out that the Utah plan passed the Rhode Island plan from the eight largest to the seventh largest with total assets of approximately \$8.1 billion.

Fidelity Advisor 529 Plan Review

On the advisor-sold side, Mr. Golden reported that the FA 529 Plan ranks fifth with a 4% market share and nearly \$4.4 billion in market-value assets under management as of March 31, 2015. Mr. Golden noted that Virginia remains the leader in this sector with \$49.1 billion in assets managed by American Funds and 44.9% market share. Virginia was followed by Maine (7.4%), Rhode Island (6.8%), and Ohio (4.4%). Mr. Golden also indicated that the Alaska plan, not included in the slide but worth monitoring, is now the sixth largest in the country and it has recently implemented Omnibus Recordkeeping with Ameriprise. Following his comment, Mr. Golden confirmed that Fidelity remains on track with the Omnibus Recordkeeping implementation in July 2015. Furthermore, a Roll-over Waiver initiative has also been implemented and more information will be available to report for the next Advisory Commission meeting.

The FA 529 plan assets are distributed over 197,791 participant accounts. Using the first quarter of 2014 as comparison, 7.5% fewer new accounts were opened in the first quarter of 2015 with a decline in contributions by 1.9% during the same period. The metrics for the first quarter 2015 versus the fourth quarter of 2014 also indicated an increase in new accounts by 13.5% and in contributions by 2.4%. The average account size in the advisor-sold plan was \$22,177 with New Hampshire residents averaging \$21,030 in account balances.

Direct-sold (UNIQUE) 529 Plan Review

Ms. Doyle reported that the UNIQUE College Investing Plan remained in third place with 8.2% of market share, trailing New York's 14.2% share, and Nevada's 9.4% share, which surpassed UNIQUE for the first time in the third quarter of 2013.

Ms. Doyle reported that as of March 31, 2015, UNIQUE plan assets reached the milestone of \$10 billion in market value, consisting of 563,351 participant accounts. New accounts increased by 12% in the first quarter of 2015 compared to the same quarter in 2014. Contributions for the first quarter of 2015 were approximately \$311.8 million, an increase over the first quarter of 2014 by 8%. The metrics for the first quarter 2015 versus the fourth quarter of 2014 were also provided, displaying an increase in both, new account growth and contributions, by 1% and 5%, respectively. Ms. Doyle also added that April started strong with new accounts increasing by 15% year over year and contributions increasing by 11% year over year.

The average account size of a UNIQUE portfolio was \$24,454 as of March 31, 2015 with New Hampshire residents averaging a balance of \$20,658 in the Plan. In addition, the average monthly new account and existing account contributions nationwide were \$3,500 and \$164, respectively, and NH residents reported new account and existing account contributions of \$2,746 and \$357, respectively.

Regulatory and Legislative Report

Ms. Doyle indicated there have been no recent updates on regulatory and legislative matters. Last quarter, Ms. Doyle briefly presented an update relative to the H.R. 529. H.R. 529 was introduced into the 114 Congress on January 26, 2015. The objective of this bill is to amend the Internal Revenue Code of 1986 to improve 529 plans. This bill was introduced by Representative Jenkins (R-KS) and referred to the House Committee on Ways and Means. The bill passed the House of Representatives on February 25, 2015 and was received in the Senate on February 26, 2015. The Bill provisions include the purchase of a computer, elimination of plan aggregation requirements, the ability to redeposit refunds from a college into a 529 account without immediate taxation and penalty which exists under the current law.

Dr. MacKay reiterated that the bill is expected to bring positive benefits to the 529 program.

Review of Other Items

Potential Revisions to Administrative Rules and/or Statutes

Dr. MacKay updated the Commission on statutory changes intended for the New Hampshire Excellence in Higher Education Endowment Fund related statutes. As a result of work performed by State Treasury and guidance obtained from the Attorney General's Office, a few technical corrections to the statutes were required and with the assistance of Senator Morse, such changes were introduced in HB479. State Treasurer Dwyer had the opportunity to testify in favor of the bill and it is expected the bill will be enacted before the legislature recess for the summer. Once the legislative process concludes and language in HB479 is finalized, the process of updating administrative rules will need to start. Through the same review performed by State Treasury and in concurrence with the Attorney General's Office, an update to the rules will be necessary in order to continue with the Advisory Commission's current practice. Dr. MacKay indicated that during the next few meetings, the Advisory Commission will be presented with updates to review and approve. It is expected that the process will be lengthy and laborious, nonetheless necessary.

Report on the Children's Savings Account legislation – HB577

Dr. MacKay provided a brief update to the Advisory Commission on the Children's Savings Account legislation. HB577 establishes the Children's Savings Account ("CSA") program. The purpose of the CSA program is to increase opportunities for college and career success for all students and to do so by encouraging positive postsecondary education savings behavior for low and moderate income families and to provide, in cooperation with the public schools, financial literacy for all students and their parents. The CSA program would begin with two pilot programs consisting of creating savings accounts at a financial institution, with a minimum deposit of \$50 for each eligible child

attending public kindergarten in Coos County and in the City of Manchester. The bill also establishes a Commission with assigned responsibilities, such as establishing a fund raising plan to secure matching funds from federal, state, or private sources, among others.

Dr. MacKay reported the New Hampshire Charitable Foundation and the Bean Foundation have pledged funds to the program, but only if seed money is provided by the State. HB577, as introduced, included funding of \$100,000, however, the funding was removed by the House prior to its passage. The bill was recently amended to include bonding authority for the City of Dover, which will necessitate a return to the House prior to consideration for final passage. Dr. MacKay added the Commission essentially has one year to raise funds, and as such, the future of the program is still unclear if the State does not agree to fund it.

Report on the ABLÉ savings account program – SB265

As we learned from Fidelity in prior meetings, on December 19, 2014 President Obama signed into law the ABLÉ Act. The ABLÉ Act includes tax-free savings accounts for individuals with disabilities to save for their medical care, housing, transportation, and employment training to name a few. Prior to the ABLÉ Act, those individuals were not able to accumulate more than \$2,000 without losing government assistance. The new law increases the amount parents can save from \$2,000 to at least \$100,000 (amount can be higher, but recipients then lose full eligibility of certain federal programs). Dr. MacKay reported that disability advocates are working toward implementing the ABLÉ program in New Hampshire. SB265, as introduced, assigned this responsibility to the College Tuition Savings Plan Advisory Commission, however the bill has undergone several amendments and it is currently being discussed by House Finance - Division I. Among other concerns, due to the fact that the US regulations have not been published, the fate of this bill appears unclear.

There will be more to update in the next quarterly meeting.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:30 a.m.

NOTE: The next regular meeting is scheduled for Monday, August 24, 2015 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.