

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of February 29, 2016

The February 29, 2016 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 9:00 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’Alessandro	State Senator
Jeanie Forrester	State Senator
Ross Gittell	Chancellor, Community College System of New Hampshire
Todd Leach	Chancellor, University System of New Hampshire

Members absent were:

Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations (“NHHEAF”)
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Sylvia Larsen	Representing the Governor; Retired State Senator
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Lynne Ober	State Representative
Laurie Sanborn	State Representative

Also present at the meeting were Keith Bernhardt, Kyla Doyle, Matt Golden, and Brett Sumsion from Fidelity Investments (“Fidelity”), Rachel Bradley, and Michelle Farwell from PricewaterhouseCoopers (“PwC”), Stephen Smith from the Office of Legislative Budget Assistant (“LBA”), Charles (“Chuck”) Saia from the Governor’s Commission on Disabilities, and Monica Mezzapelle from State Treasury.

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

Minutes of the November 23, 2015 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Treasurer Dwyer and seconded by Dr. Gittell. The motion passed unanimously.

### **Award Presentation to Tara Payne**

On behalf of the Advisory Commission, Dr. MacKay presented an award to former Commission member, Tara Payne, who represented the NHHEAF's organizations for eight years, to thank her for the many years of dedicated service to the Advisory Commission. Ms. Payne joined the Advisory Commission in 2007, replacing Ingrid Lemaire who had served on the Commission since its inception. After 19 years with NHHEAF, Ms. Payne left her position to join the University System of New Hampshire supporting enrollment and marketing at Granite State College. Ms. Payne contributed tremendously to the Advisory Commission sharing her expertise in all aspects of college planning, marketing, and creating public awareness. Ms. Payne expressed her gratitude and indicated she was very proud to have served for all those years and truly appreciates the important work the Advisory Commission and Fidelity provide to Plan participants and New Hampshire residents.

### **Review of 2015 External Audit**

Mr. Stephen Smith, Audit Director of the LBA Audit Office, informed the Advisory Commission that his Office is working with PwC on a new Engagement Letter that will cover the audits for the next three years and will provide an update when the Engagement Letter is finalized. The LBA Office is responsible for contracting the external auditor for the UNIQUE and FA 529 Plans.

Mr. Smith introduced Rachael Bradley who was the PwC Partner responsible for the completion of the audits. Ms. Bradley indicated that PwC conducted the audits of each of the portfolios within the UNIQUE College Investment Plan (36 portfolios) and the Fidelity Advisor 529 Plan (27 portfolios). The audits were as of, and for the year ended, September 30, 2015.

Ms. Bradley also introduced Ms. Michelle Farwell who was the senior audit manager for the audits. Ms. Farwell summarized the audit approach indicating that the audit focused on the controls of the daily portfolio unit value process (separate confirmation of clean opinions with respect to the underlying fund valuations), the re-balancing process, participant transactions (account set-up and remittance process), multi-class accounting, and management override of controls. The audit also tested investment valuation of the underlying funds, proper accounting for fees and expenses, participant subscriptions and redemptions, reclassification of capital gain distribution, and the proper financial statement presentation and disclosure. Ms. Farwell stated that the financial statements received unqualified opinions and emphasized that other than the matters required to be reported to the Advisory Commission and included in the presentation, no concerns came to their attention that should be reported. The audits were also presented by Ms. Bradley to the State's Joint Legislative Fiscal Committee on February 12, 2016.

Dr. Leach made a motion to accept the audit reports and Dr. Gittell seconded. The motion passed unanimously.

**Administrative Rules – Adoption of Rule Csp 103, Conditional Approval Response of Rule Csp 300, Approval of Final Proposal of Rule Csp 600 and Conditional Approval Request of Rule Csp 700**

Dr. MacKay updated the Advisory Commission on the status of the administrative rules, reporting that State Treasury had filed several documents with the Office of Legislative Services (“OLS”) and that State Treasurer Dwyer, Ms. Mezzapelle, and he had attended two meetings of the Joint Legislative Committee on Administrative Rules (“JLCAR”). After considering additional information from Ms. Mezzapelle, the Advisory Commission reviewed each of the rules in the following manner:

*1. Adoption of Rule Csp 103*

The JLCAR met and approved the Final Proposed Rule – Csp 103 on December 17, 2015. After the approval, the rule requires adoption by the Commission so it can become effective upon notification to the OLS. Dr. MacKay asked for a motion to adopt Rule Csp 103, Mr. Cryans moved and Treasurer Dwyer seconded. Rule Csp 103 was unanimously adopted. Treasury will file a document with the OLS requesting that the Rule be adopted immediately.

*2. Conditional Approval Response - Rule Csp 300*

Treasury filed a Conditional Approval Request for Csp 300, which essentially responded to all of the substantive comments issued by the OLS attorneys. After hearing testimony from Dr. MacKay and Treasurer Dwyer regarding the unique characteristics of the Plan and its administration, the JLCAR members approved the Advisory Commission’s request on January 15, 2016. If no objection is presented to the language approved by the JLCAR, the Advisory Commission has to respond by submitting a Conditional Approval Response to the OLS. After some discussion and hearing no objections, Dr. MacKay asked for a motion to agree with the provisions of the conditional approval, Dr. Leach moved and Mr. Cryans seconded. The Conditional Approval of Rule Csp 300 was unanimously confirmed. Treasury will file a Conditional Approval Response with the OLS and the Rule can subsequently be adopted in the next quarterly meeting.

*3. Final Proposal of Rule Csp 600*

Dr. MacKay reminded the Commission that during the last meeting, the finalization of the Proposed Rule Csp 600 was postponed due to comments raised by the OLS attorneys in regard to the existing residency requirements to qualify for the UNIQUE Annual Allocation Program. Since then, we have received guidance from the Attorney General’s Office and from OLS’ attorneys which clarified those questions. The draft document distributed to Advisory Commission members in advance contained language that responds to the substantial concerns. After some discussion, Dr. MacKay requested a motion to approve the Proposed Final Rule – Csp 600 – UNIQUE Annual Allocation Scholarship Program. Treasurer Dwyer moved and Senator D’Alessandro seconded. Rule Csp 600 was unanimously approved.

Treasury will file the Final Proposal with OLS prior to the March 18, 2016 JLCAR meeting deadline.

#### *4. Conditional Approval Request of Rule Csp 700*

A final proposal was filed with the OLS and scheduled to be discussed at the December 17 JLCAR meeting; however, due to additional comments provided by OLS staff in regard to the residency requirements, similar to the points raised in Csp 600, Treasurer Dwyer and Dr. MacKay decided to request that the JLCAR discuss Csp 700 in March, after receiving more guidance. JLCAR members approved the request and Csp 700 will be discussed during the March 18<sup>th</sup> meeting. A draft of the Conditional Approval Request – Csp 700 was distributed in advance to Advisory Commission members, which was based on the same guidance provided by the Attorney General's Office and OLS' attorneys. Ms. Mezzapelle added Rules Csp 600 and Csp 700 are now in sync and the draft document contains only minor edits. Dr. MacKay requested again a motion to continue with the process for Rule Csp 700 – UNIQUE Endowment Allocation Scholarship Program. Senator D'Alessandro moved and Treasurer Dwyer seconded. Motion was unanimously approved. A conditional Approval request will be filed with the OLS and Rule Csp 700 will be discussed on the March 18, 2016 JLCAR meeting.

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

The Endowment Trust Fund and scholarship update report for the quarter ended December 31, 2015 was submitted by State Treasurer, Bill Dwyer. Treasurer Dwyer indicated that the Endowment Trust Fund had a balance of over \$3 million as of December 31, 2015, an increase of \$625,750 or 26% since the last quarter. Since the beginning of the fiscal year, the fund has received \$6.4 million in management fee income and interest and dividend earnings and net market gains of approximately \$47,600. Treasurer Dwyer also highlighted that since program inception, \$125 million in account management revenue has been received and over \$5.4 million in investment management income has been earned by the Endowment Trust Fund, while over \$91 million has been disbursed for the UNIQUE Annual and Endowment Allocation programs.

A UNIQUE Annual Awards distribution of \$999,600 was disbursed to participating colleges and universities in July of 2015. Monthly Endowment Allocations were also distributed to participating institutions totaling approximately \$5.2 million through the second quarter of fiscal year 2016. Administrative expenses for the quarter totaled \$65,700, representing Treasury overhead allocations of \$17,750, endowment fund management fees of \$5,350, yearly membership dues paid to the College Savings Foundation and College Savings Plan Network of \$6,600, combined, and the annual support services paid to the Division of Higher Education of \$36,000.

In response to a question from Mr. Cryans, Treasurer Dwyer clarified that even though it appears budget revenue projections may not be met, the overall budget will remain essentially balanced as approved because distributions to the endowment program will be reduced at the same rate as the reduction in revenue (note: 80% of the proceeds go to this program pursuant to Rule Csp 700).

### **Dashboard Review as of December 31, 2015**

Dr. MacKay presented the semi-annual review of the College Savings Plan Dashboard Report as of December 31, 2015. This report presents the New Hampshire's 529 Plan historical and forecasted income, actual revenue received, assets under management held in the Plans, as well as a historical analysis of the Endowment Trust Fund and award information relative to the UNIQUE Scholarship Programs. Fidelity updates the projected revenue from fees, which is based on the total projected Plan Assets. The report also summarizes scholarship program activity, which will assist the Advisory Commission in the determination of the UNIQUE Annual Award criteria.

### **UNIQUE 2016-17 Annual Allocation Program Scholarship Award Decisions**

Pursuant to Administrative Rule Csp 602.01, the Advisory Commission is required to establish certain student eligibility and award criteria for scholarships of the UNIQUE Annual Allocation Program for the upcoming 2016-2017 academic year. Once approved, participating institutions are notified and can begin the planning of financial aid packages for the next academic year.

For the 2015-2016 academic year, participating schools were notified in March of 2015 that the awards were set to \$700 per student, with an Expected Family Contribution (EFC) of \$0, and who filed a FAFSA by December 31, 2015.

The criteria for the 2015-16 academic year was as follows:

- 1) Initial allocation of \$1 million disbursed to participating schools in the beginning of fiscal year 2016;
- 2) A maximum EFC of \$0;
- 3) An individual maximum award of \$700 for eligible full-time students;
- 4) Guaranteed reimbursements to participating institutions for Annual Awards disbursed in excess of the initial allocation; and
- 5) A FAFSA filing deadline of December 31, 2015.

Dr. MacKay indicated that based on award data provided by participating institutions, similar Annual Award activity would be expected in the upcoming academic year. Dr. MacKay added that even with an endowment trust fund balance projection of approximately \$2 million at the end of fiscal year 2016, the Commission should be able to meet all of its obligations and provide the same level of UNIQUE Annual Awards for eligible students if the same criteria were selected for fiscal year 2017 (academic year 2016-17).

Hearing no further discussion, Mr. Cryans moved to maintain the same UNIQUE Annual Award criteria for the academic year 2016-17 and Dr. Gittell seconded. The motion passed unanimously.

The Annual Award criteria for 2016-17 academic year will be as follows:

- 1) Allocation amount of \$1,000,000 to be disbursed to participating schools in the beginning of fiscal year 2017;
- 2) A maximum EFC of \$0;
- 3) An individual maximum award of \$700 for eligible students;
- 4) A FAFSA filing deadline of December 31, 2016; and
- 5) Participating institutions will be eligible for reimbursement, if UNIQUE Annual Awards granted are in excess of amounts allocated and disbursed in July of 2016.

State Treasury will communicate the approved Annual Awards criteria for 2016-17 academic year to participating institutions in early March of 2016.

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

#### *UNIQUE Plan Multi-Firm Asset Class Changes*

Mr. Brett Sumsion, Portfolio Manager from Fidelity presented an overview of the recent Multi-Firm Asset Class changes affecting the UNIQUE Plan portfolios. Mr. Sumsion briefly described the rationale behind the changes, highlighting a few key reasons for some asset class changes. Mr. Sumsion explained that the long-term glide path strategy is the same for all portfolios (i.e. Fidelity Funds, Multi-Firm Funds) and the changes made were a result of a recent evaluation of the multi-firm portfolio managers, which is a more cyclical process. Changes to the Multi-Firm Asset Classes also resulted in a lower gross expense ratio for participants.

#### *Proposal to Convert Remaining FA 529 Class B Units to Class A Units*

Mr. Matt Golden from Fidelity presented a proposal to convert remaining FA 529 Class B units to Class A units. Mr. Golden explained, the Fidelity Advisor 529 Plan is designed for distribution through intermediaries and offers investment portfolios that have multiple classes of units. In turn these different classes each have separate fee structures of which Intermediaries or Plan participants select the class that best meet their needs considering factors such as sales load, size of the investment, and the length of time the participant expects to own the portfolio. The Plan's Class B units were sold without a front-end sales charge but may be subject to a back-end load or contingent deferred sales charge ("CDSC"). This CDSC, which is consistent with industry practice, declines over time to zero after three or six years (depending on the portfolio) and units then automatically convert to Class A units after four or seven years depending on the specific portfolio.

Due to declining sales and an industry shift away from Class B shares, Plan Class B units were closed to new accounts and additional purchases by existing participants after the close of business on September 1, 2010. There is currently \$80 million in Class B assets within the Plan (~2% of total Plan assets) spread across 15,000 accounts. Fidelity would like to accelerate the conversion of all remaining FA 529 Class B Units in order to fully eliminate the class on July 1, 2016, rather than waiting until September 2017 when all Class B conversions of existing units would be

completed under the automatic conversion schedule. Accelerating the conversion of Class B Units will benefit participants because of the lower expense structure of Class A Units. Accelerating the conversion of Plan Class B assets would align with the accelerated conversion of Fidelity Advisor Class B mutual fund assets. The conversion will be based on the relative net asset values of the two classes, without the imposition of any sales loads or fees. In addition, participant approval is not required and the accelerated conversion of FA 529 Class B Units would not result in any amendments to the Management and Administration Service Agreement or Investment Management Agreement.

After some discussion, Mr. Golden requested approval from the Advisory Commission to convert the remaining Class B units of the Plan into Class A units on July 1, 2016. Dr. MacKay asked for a motion to approve Fidelity's request. Mr. Cryans moved and Dr. Leach seconded. The motion passed unanimously.

#### *529 Industry Market Update*

Mr. Golden continued presenting the fourth quarter 2015 529 Industry Update noting that New Hampshire, as of December 31, 2015, continues as the fourth largest in the country with over \$14.1 billion in market-value assets under management and 6.1% of the industry's market-share. New Hampshire again trailed Virginia (\$50.8 billion in assets managed by American Funds), New York (\$21.1 billion, managed by J.P. Morgan), and Nevada (\$15.9 billion, overseen by multiple managers, including Vanguard) which remain ahead of the New Hampshire Plans. Mr. Golden added that large populous states with state income tax offering credits against the tax, such as New York, tend to grow faster than other plans.

529 industry assets increased by 4.1% from quarter three 2015 to quarter four 2015 and increased by 2.7% year over year. While New Hampshire's assets, both plans combined, increased by 2.6% from quarter three to quarter four 2015 and increased by 1.1% year over year ending December 31, 2015.

#### *Fidelity Advisor 529 Plan Review*

On the 529 advisor-sold side, Mr. Golden indicated that the FA 529 Plan remained as the fifth largest in the country with over \$4.2 billion in market-value assets, distributed across 195,138 participant accounts, and a 3.9% of the market-share as of the end of 2015. New Hampshire followed Virginia (\$48.6 billion in assets), Maine (\$7.8 billion in assets), Rhode Island (\$6.8 billion in assets), and Ohio (\$4.6 billion in assets). Mr. Golden pointed out that the Alaska plan is number six in the list.

Mr. Golden reported that the Plan had a very good quarter with new participant accounts increasing by 9.6% compared to quarter four in 2014 and by 6.2% compared to quarter three in 2015. An increase in contributions was also seen, by 3.4% compared to quarter four 2014 and by 22.0% compared to quarter three in 2015.

The average account size in the advisor-sold plan was \$21,556, with New Hampshire residents averaging \$20,091 in account balance.

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

On the 529 Direct-sold side, Ms. Doyle reported the UNIQUE Plan remained in third place with over \$9.9 billion in market-value assets and 8.1% of the market-share. Assets under management increased by 4.4% from quarter three 2015 to quarter four 2015 and increased by 4.7% year over year. The Plan continued to trail New York with \$17.4 billion in assets (14.2% market-share) and Nevada with \$11.8 billion (9.6% market-share).

As of December 31, 2015, the UNIQUE plan had 598,691 participant accounts, with the rate of growth in new accounts slowing by 3% compared to the prior year but showing an increase of 21% in the fourth quarter compared to quarter three 2015. Ms. Doyle added that since December 2014, Fidelity added nearly 49,000 accounts to the Plan. Contributions also decreased year over year by 0.3% but increased by 18% in the fourth quarter compared to quarter three 2015.

The average account size in a UNIQUE account was \$23,750, with New Hampshire residents averaging \$21,226 in account balance. In addition, the average monthly contributions to new and existing accounts, nationwide were \$4,150 and \$142, respectively, with New Hampshire residents averaging \$2,758 to new accounts and \$236 to existing accounts.

#### *Regulatory and Legislative Report*

Ms. Doyle provided a brief overview of the Protecting Americans From Tax Hikes (PATH) Act which addressed numerous expired tax code provisions known as “extenders”. Ms. Doyle indicated that the provisions of H.R. 529/S. 335, which passed the House in early 2015 and was approved by the Senate Finance Committee in April 2015 were included in the passage of this bill.

The provisions pertaining to 529 plans include:

- Expanding the definition of qualified higher education expenses allowing computer equipment and technology to be eligible.
- Eliminating the plan aggregation rule for accounts, which will simplify recordkeeping for Program Managers.
- Allowing the ability to redeposit tuition refunds from a college into a 529 plan account if made within 60 days of receiving the refund.

### **Review of Other Items**

#### **Report on the Children’s Savings Account legislation**

Dr. MacKay updated the Advisory Commission on the Children’s Savings Account Program (“CSA”) pursuant to RSA 195-J. 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 is to 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.

Dr. MacKay stated that SB 408, introduced to appropriate \$50,000 to the children's savings account fund pursuant to RSA 195-J:5, is in the Senate Finance Committee. The New Hampshire Charitable Foundation has pledged to match the funding if initial seed money is provided by the State. The total estimated cost of the first year of the program is \$65,000 for 1,300 students entering kindergarten in the two pilot locations. Part of the vision is to eventually migrate the oversight and management of this program to the College Tuition Savings Plan Advisory Commission.

### **Report on ABLÉ Act Program (SB 265)**

Dr. MacKay introduced Mr. Chuck Saia, Executive Director of the Governor's Commission on Disabilities. Mr. Chuck Saia expressed appreciation for being there and reported that SB 265 is now enrolled, which means it is awaiting signature from the Governor. Mr. Saia briefly described the ABLÉ program and stated that many good outcomes have occurred since the bill was first introduced. Federal regulations have been more relaxed to mirror the traditional 529 accounts. He also said it is not clear how many individuals would benefit from this program as one of the eligibility conditions is to have a disability prior to age 26. New Hampshire could also join a consortium with other states to launch this program. Treasurer Dwyer also mentioned about the three contingencies in this bill: No general fund revenue use, final federal regulations need to be enacted, and the State would need to have found a third party provider for this program. In response to a question, Ms. Doyle indicated that Fidelity may elaborate in the future about potential plans for this program.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:05 a.m.

**NOTE:** The next regular meeting is scheduled for Monday, May 16, 2016 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.