

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of December 10, 2018

The December 10, 2018 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
Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Michael Cryans	Public Member, appointed by the Governor
Bill Dwyer	State Treasurer
Lou D’Allesandro	State Senator
Ross Gittell	Chancellor, Community College System of New Hampshire (“CCSNH”)
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire
Michael Vlacich	President & CEO, representing the New Hampshire College and University Council (“NHCUC”)
Kenneth Weyler	State Representative

Members absent were:

Daniel Innis	State Senator
Peter Leishman	State Representative
David Mahoney	Representing the Higher Education Commission – Dept. of Education

Also present at the meeting were Ron Hazel, and Justin Rozzero from Fidelity Investments (“Fidelity”), Michael Seidel from the NH Department of Education, as well as Monica Mezzapelle from the NH State Treasury.

Awards and Recognitions

Dr. MacKay began the meeting congratulating Treasurer Dwyer for his recent reelection by the NH Legislature stating that the partnership between the Advisory Commission and the Treasurer’s office has been invaluable over the years and the Commission is pleased to continue that relationship.

Also, Dr. MacKay recognized Mr. Michael Cryans for the 22 years of outstanding service to the Advisory Commission. Mr. Cryans was one of the founder members of the Commission and due to his recent election to the Executive Council seat, Mr. Cryans has to resign from the Advisory

Commission after 22 years of continued service. Mr. Cryans was the first person to invest in the NH's 529 Plan and his contributions as a Public Member have been invaluable and key to the success of the College Savings program. On behalf of the Advisory Commission, Dr. MacKay presented Mr. Cryans with an award to thank him for all the years of instrumental service to the Commission. Mr. Cryans was very grateful and expressed his gratitude by recalling a few memories that led to the creation of the College Savings program and by pointing out two great achievements of the Commission: 1) the establishment of the scholarship programs and 2) maintaining a low cost savings program accessible to all. Mr. Cryans added that being part of the Commission had been a true life experience.

Review of Prior Meeting Minutes

Minutes of the August 20, 2018 meeting were distributed in advance and presented for approval by Dr. MacKay. Dr. MacKay asked Commission members if there were any comments or corrections and, hearing none, Mr. Cryans moved to approve the meeting minutes as circulated and Senator D'Allesandro seconded. The motion was unanimously approved.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements through September 30, 2018, highlighting that the trust fund had received nearly \$3.8 million in assessment revenues from Fidelity, in line with the amount budgeted for fiscal year 2019, and had earned \$40,225 in net market gains and interest and dividend income. Regarding scholarship disbursements, Treasurer Dwyer stated that State Treasury had distributed \$1 million in July to colleges and universities participating in the UNIQUE Annual Award program and over \$3 million in aggregate monthly allocations to institution endowments participating in the UNIQUE Endowment Allocation program. Also since program inception, the endowment trust fund had received \$163.2 million in assessment revenues and had disbursed nearly \$130 million in scholarship funds through September 30, 2018.

Furthermore, the endowment trust funds had incurred \$16,439 in administrative expenses through September 30, 2018, consisting of: 1) investment management fees of \$2,959; 2) the first quarterly Treasury overhead allocation of \$9,380; and 3) the annual membership dues paid to the College Savings Plan Network of \$4,100. The trust fund finished the quarter with a balance of \$2,117,873.

UNIQUE Scholarships Report for the 2017-18 Academic Year

Dr. MacKay reported that results of the UNIQUE Scholarship Programs for the 2017-18 academic year, as well as award estimates for the 2018-19 academic year were provided by higher education institutions on or prior to October 15, 2018. Results were compiled by Janet Fiderio, Research and Studies Specialist from the Division of Higher Education, and Dr. MacKay encouraged Commission members to review the full report while highlighting the following:

- For the 2018-19 academic year, overall enrollment by NH students declined by 7%, however, full time enrollment only decreased by 2.5% compared to part time which decreased approximately 23%. In terms of students expected to receive UNIQUE Annual Awards, full time recipients increased by 259 compared to a decrease of 455 in part time students. Dr. MacKay commented that the increase in full time recipients appears positive as students will be able to complete their education more timely and presumably with less debt; this could be attributed to the increase in the individual annual award amount from \$700 to \$800 which might have encouraged students to enroll in more courses.
- Endowment dollars, in the aggregate, grew by \$15.6 million to a total of \$112,918,655, an increase of 16.1%. Colleges participating in the UNIQUE Endowment Allocation Program distributed a total of 1,929 awards of at least \$1,000 each.
- Participating colleges and universities anticipated a distribution of approximately \$3 million in UNIQUE Annual Awards to approximately 2,279 full time and 3,521 part time students during the 2017-18 academic year, however, institutions reported total of \$2.8 million in Annual Awards to 1,948 full time and 3,349 part time students.
- Institutions anticipate a distribution of approximately \$2.8 million in annual awards to 2,207 full time students and 2,894 part time students during the 2018-19 academic year.
- In response to a request from the Treasurer's office on behalf of the Advisory Commission, Expected Family Contribution ("EFC") data was provided by financial aid offices. Institutions reported that NH students with an EFC of \$0 to \$500 in the current academic year (2018-19) were 6,492 and NH students with an EFC of \$501 to \$1,000 were 5,330. Dr. MacKay added that it is possible some institutions misinterpreted the question, as students with EFC of \$1 - \$500 rather than \$0 -\$500; nevertheless, the data provided some estimates of the additional number of students who could benefit if the UNIQUE Annual Award EFC criterion were changed to a higher amount.

Dr. Gittell commented on the benefits of reviewing the EFC results and pointed out that as the economy improves, the number of students falling in the \$501 - \$1,000 category increases and they are no longer benefiting from the UNIQUE Annual Award program, particularly in the Manchester Community College and NH Technical Institute in Concord.

In response to Dr. MacKay's question, Ms. Berube shared that the data provided appears on par with what her office sees in that families are either fully eligible or they miss it by a few hundred dollars, and even if the numbers were off by 10%, it is evident the impact that this program could make if it were expanded.

UNIQUE 2019-20 Annual Allocation Program Scholarship Award Decisions

Dr. MacKay continued the discussion stating that the Advisory Commission is charged with annually determining the UNIQUE Annual Awards eligibility criteria for the upcoming fiscal year. The approved eligibility criteria for 2018-19 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, 2018.

Dr. MacKay indicated that in order to assist the Commission in this process, the Treasurer's office prepared a sensitivity analysis based on the information reported and asked Ms. Mezzapelle to walk Commission members through the materials provided.

Ms. Mezzapelle stated that the analyses were prepared using the approved fiscal year 2019 budget (approved by the Commission on May 21, 2018) and changing the 1) "Individual Award Amount" and 2) the number of eligible students according to the "Expected Family Contribution" estimates provided by institutions. The first analysis estimated the program cost by altering the Individual Award Amount from \$800 (current) to \$900 and \$1,000. The results indicated that by maintaining the individual award at \$800, the trust fund balance would decrease by approximately \$320,000 (in line with past experience). If the award were \$900, the effect would be a deficit of approximately \$680,000 leaving a trust fund balance of approximately \$1 million at the end of the fiscal year. If the award were \$1,000, the deficit would increase to approximately \$1 million, leaving a balance of approximately \$230,000 at the end of fiscal year 2019. The sensitivity analysis utilizing EFC data compared program costs by changing eligible students with EFC of \$0, EFC of \$0-\$500, and EFC of \$501-\$1,000. The calculations indicated that if the EFC remained at \$0, the trust fund balance would only be impacted (reduced) by approximately \$320,000. Assuming that the number of students in the EFC \$0-\$500 category were 6,492 as reported by institutions, the impact in the trust fund would be a deficit of \$1.2 million and if the EFC cap were increased to \$1,000, the deficit would increase to \$4.4 million, completely depleting the trust fund balance.

Dr. Leach mentioned that it would be helpful to have EFC data of less than \$500 (\$1-\$100 or \$101 - \$200) to see if the UNIQUE Annual Award program could serve that population. Dr. MacKay agreed and indicated that clarification of the current EFC data will be sought and additional EFC information will be requested in the future to see if more students could be beneficiaries of this program. Also, several Commission members shared their concern with regard to the sustainability of the program when changes such as higher enrollment or changes in the economy occur. After an engaged discussion, Ms. Larsen moved to maintain the same eligibility criteria for the 2019-20 academic year and Dr. Leach seconded the motion. The motion was unanimously approved.

The UNIQUE Annual Allocation Program eligibility criteria for 2019-20 academic year was approved as follows:

- 1) Initial allocation amount of \$1 million to be distributed to participating institutions in July of 2019 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, 2019.

Overview of the 529 Programs

529 Industry Market Update

Mr. Hazel from Fidelity Investments provided an update of the 529 industry, stating that 529 industry assets increased by 1.9% in quarter three 2018 from quarter two 2018 and increased by 10% year over year. Similarly, New Hampshire assets rose 0.4% in the third quarter 2018 and 5.9% year over year. As point of reference, the stock market had a strong quarter, U.S Equities were up 7.1%, while Investment Grade Debt was flat at 0.0%. U.S. Equities increased by 17.6% for the one year period and Investment Grade Debt was up 0.3%. The New Hampshire 529 program remains the 4th largest in the country with over \$17.6 billion in market-value assets, representing 5.7% of the market-share. The New Hampshire plans continue to trail Virginia (\$69.8 billion in assets managed by American Funds), New York (with \$30 billion in assets managed by J.P. Morgan), and the Nevada plans (with \$24.5 billion in assets managed by multiple providers, including Vanguard).

Mr. Hazel then reviewed the Advisor-sold 529 plan industry results, highlighting that 529 Advisor-sold plan assets increased by 1% from quarter two 2018 to quarter three 2018 and by 7.3% year over year. In contrast, the New Hampshire Fidelity Advisor 529 Plan decreased by -0.2% during the third quarter, however grew 2.4% year over year. As of September 30, 2018, the FA 529 Plan had over \$4.8 billion in assets with 180,134 active participant accounts. The FA 529 Plan is the 8th largest in the Advisory-sold space, with 3.6% of the market-share. Virginia remains the top Advisor-sold plan with 22.5% of the market share and \$69.8 billion in assets managed by American Funds.

With regard to the Direct-sold 529 industry, assets increased by 2.6% from quarter two 2018 to quarter three 2018 and by 12.1% year over year. Assets in the UNIQUE College Investing Plan increased by 0.7% from quarter two 2018 to quarter three 2018 and by 7.4% year over year. As of September 30, 2018, the UNIQUE Plan had \$12.8 billion in market-value assets, a net increase of 8% from quarter three 2017, representing 7.3% of the market-share. The UNIQUE Plan was surpassed by Utah and is now the 4th largest plan in this space trailing New York (\$24.7 billion in assets, 14.1% of market-share), Nevada (\$18.6 billion in assets, 10.6% of market-share) and Utah (\$13.1 billion in assets, 7.5% of market-share).

Morningstar Update

Mr. Hazel continued the presentation sharing that Fidelity was pleased to reaffirm the “bronze” medal rating for the UNIQUE Plan, but striving for the Plan to be “gold” in the future. As mentioned in previous meetings, Morningstar uses five pillars to evaluate the plans and the UNIQUE Plan was rated “positive” in Parent, People, and Process and “neutral” in Performance and Price. The FA 529 Plan retained its “neutral” rating, also scoring “positive” in Parent, People, and Process, “neutral” in Performance, but “negative” in Price. Mr. Hazel added that with regard to pricing, Fidelity had made several changes to both plans and will continue to look for ways to strengthen the plans. Commission members were interested in the Morningstar ratings of other state plans and requested Fidelity to provide that information in future meetings.

2018 College Savings Indicator Results

Mr. Hazel also shared a few facts that came from the biennial 2018 College Savings Indicator Study. This year the CSI revealed the following:

- More parents understand the importance of saving for college, are starting to save earlier and are saving in a dedicated account such as a 529 college savings plan.
- 45% of New Hampshire parents are starting to save before their child reaches the age of two, up from 40% just two years ago.
- Parents are more realistic about their ability to cover so much of the college bills and they are expecting their children to contribute toward college costs.
- New Hampshire parents received a CSI Readiness score of 24%, down 2% from 2016.
- 64% of families feel they are closer to achieving their college saving goals thanks to the help of their advisors compared to those who do not work with a financial professional.

Fidelity Advisor 529 Plan Review

Regarding new account growth, Mr. Hazel stated that New Hampshire outperformed the industry for both advisor and direct-sold plans. In quarter three 2018, the FA 529 Plan saw a 20% increase in new accounts compared to quarter three 2017. Also new account activity was 21% higher year-to-date compared to January through September in 2017. Positive results may be due the Class C to Class A share conversion and pricing structure change that the FA 529 plan recently underwent. The quarter ended with 180,134 active participant accounts.

Regarding contributions, the positive trend continued during the third quarter of 2018 which increased by 16% compared to quarter three in 2017 and contributions January through September 2018 increased by 7% compared to January through September in 2017. Distributions in quarter three 2018 compared to quarter three in 2017 rose 19%. Year-to-date there have been \$378.4 million in distributions, an 18% increase year over year.

Proposal to Change the FA 529 Front-end Sales Load Purchase Waiver Provision

Mr. Hazel reviewed a proposal to change the front-end sales load purchase waiver provision amount from \$5 or less to \$10 or less. Currently participants are subject to an up-front sales load on Class A purchases above \$5 and increasing the load-waiver from \$5 to \$10 would benefit FA

529 plan participants and it would more closely align the FA 529 Plan with Fidelity's mutual fund load waiver policy. The change, subject to Governor and Council approval, will go into effect on January 2, 2018.

Rep. Weyler moved to approve the request brought before the Commission, Ms. Larsen seconded. All Commission members voted in favor with Mr. Cryans recusing from voting.

Proposal to Add an Institutional Share Class to the FA 529 Plan

Mr. Hazel also introduced a proposal to add an Institutional Share Class to the FA 529 plan as a result of the industry moving to a model that is asset based fee rather than a commission based. Currently 15 advisor-sold 529 plans, approximately 50% of the advisor-sold industry, offer an institutional share class option and assets in these shares have doubled in the past two years from 2.3% in quarter one 2016 to 5% in quarter one 2018. Commonwealth, one of Fidelity's largest broker-dealer clients, directs 90% of their 529 sales to institutional share classes and beginning in 2019, Commonwealth will be able to trade in the Fidelity Advisor omnibus, representing an opportunity for the FA 529 plan. Mr. Hazel added that although advisory fees are not currently considered a qualified distribution under 529 IRS rules, many broker-dealers have been creating internal policies and procedures to allow their advisors to charge clients directly for the services they provide. Mr. Hazel noted that if the Commission decided not to move in that direction, future FA 529 sales would likely experience an annual 5% decline, as more advisors begin to shift to institutional share classes. In response to Rep. Weyler's question, Mr. Hazel mentioned that on average, a participant would save 25 basis points in comparison to Class A shares and there will be no minimums to invest in this share class. Also, adding an institutional share class will require an amendment to current agreements and Fidelity will work with the Treasurer's office to bring this amendment to the Governor and Council for approval.

Dr. MacKay requested a motion to approve the creation of institutional shares in the Fidelity Advisor 529 Plan, Ms. Larsen moved, Senator D'Allesandro seconded the motion. All Commission members voted in favor with Mr. Cryans recusing from voting.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Rozzero provided an update on the Direct-sold plan highlighting that new account and contribution growth was very strong during the quarter, the highest in Plan history. The trend was seen throughout the year and it continued in quarter three 2018, even though the overall asset growth (net of distributions) was slightly behind the industry due to being a mature plan.

Mr. Rozzero mentioned that from quarter two to quarter three 2018, account growth was up 8.3% compared to the industry which was actually down -2.6%, and year over year, the Plan was up 13% compared to 10.6% by the Direct-sold industry. Mr. Rozzero added that 40% of accounts opened in quarter three were for children under five years old, which is consistent with the data reported by the CSI survey, parents are starting to save earlier. Also new accounts were up 17% for the first six months of the year compared to January through September 2017. Mr. Rozzero pointed out that 79% of new UNIQUE accounts are opened by an existing Fidelity Personal

Investment customer, 12% are opened by a brand new customer and 9% by a customer with an existing Fidelity Workplace relationship, remaining in line with past trends. As of the end of quarter three 2018, the UNIQUE plan had a total of 498,482 active accounts, up 7% from quarter three 2017.

Regarding contributions, quarter two vs. quarter three 2018, the UNIQUE Plan was slightly down -1% compared to the industry which increased by 15%. Contributions in the plan increased by 10% year over year compared to the industry which was up 27% year over year. The average new account contributions was \$6,897, an increase of 4.8% from quarter three 2017. The average balance of a 529 account was \$20,400 and the average balance in a UNIQUE account was \$25,717. In addition, Plan distributions which are being used to pay for college, continue to increase: in quarter three 2018, distributions totaled \$491.3 million (17% increase year over year), with New Hampshire accounts accounting for \$23.7 million (11% increase year over year).

Mr. Rozzero shared that the CSI study found that parents have changed their outlook and expect their children to partially pay for college. Fidelity is working with representatives out in the field to ensure the message of saving for college is communicated and, as part of that effort, Fidelity did a media tour comprising of 30 TV and online media placements and Melissa Ridolfi did all of the TV and radio ads talking about the CSI results. Also online, there were 18 million Twitter impressions, 16.5 million audience reached on the TV online ad and there were 34 million listeners on the over 1,200 radio placements. Mr. Rozzero added that there was another tour specific to the Holiday season promoting gifting to 529s. Ms. Ridolfi did a robust tour there as well with 90 media placements, counting TV online and radio, and specific radio hits with one targeted to New Hampshire residents to promote the UNIQUE Plan.

Annual financial disclosures due to Secretary of State on or before January 18, 2019

Treasurer Dwyer reminded Commission members of the obligation to file financial disclosures with the Secretary of State's office pursuant to RSA 15-A by the third Friday in January (January 18, 2019). Ms. Mezzapelle indicated that an email reminder will be distributed to all Commission members with the 2019 form and a link to the website where this information can be located. Ms. Mezzapelle recommended to notify the Treasurer's office once the filing had been submitted in order to ensure full participation in the next Commission meeting.

Update of GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) New Hampshire Program

Dr. MacKay shared that the Attorney General's office recently notified the Treasurer's office that, at this point, they are not in a position to recommend a partnership between the Advisory Commission and the GEAR UP program. As discussed in prior meetings, NHCUC and Campus Compact are the recipients of the federal GEAR UP grant and they have inquired about the possibility of satisfying the matching requirement by identifying the UNIQUE Scholarships as the match. Mr. Vlacich commented that they are still interested in working with the Attorney

General's office to clarify some of the concerns and therefore determine whether this is an avenue they should continue to pursue. Mr. Vlacich mentioned that in addition to the grant intended for the school districts in the North Country, a grant for Manchester had been awarded.

State Legislation Update

Dr. MacKay briefly updated the Commission on the status of the Children's Savings Account program and shared that the House Finance Committee did endorse a bill for consideration in the 2019 legislative session to support the creation of the Children's Savings Account Program. The Children's Savings Account Program intends for second graders to complete a financial literacy program working with their parents so they both understand the importance of saving for college and \$250 will be contributed to a UNIQUE 529 account as seed money. More information is expected to be shared in the next quarterly meeting.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:47 a.m.

NOTE: The next regular meeting is scheduled for Monday, March 4, 2019 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord, preceded by an Investment Committee meeting beginning at 9:00 a.m.