

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of August 19, 2019

The August 19, 2019 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:

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|-----------------------|---|
| 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          |
| Sr. Paula Buley       | President, Rivier University<br>Representing the Higher Education Commission – Dept. of Education |
| Lou D’Allesandro      | State Senator   |
| Bill Dwyer            | State Treasurer   |
| Jay Knower            | Public Member, appointed by the Governor  |
| Sylvia Larsen         | Representing the Governor; Retired State Senator  |
| Todd Leach            | Chancellor, University System of New Hampshire  |
| Debby Scire           | Interim President & CEO, representing the New Hampshire College and University Council (“NHCUC”)  |
| Kenneth Weyler        | State Representative  |

Members absent were:

|                |   |
|----------------|---|
| Ross Gittell   | Chancellor, Community College System of New Hampshire (“CCSNH”) |
| Jay Kahn       | State Senator   |
| Peter Leishman | State Representative  |

Also present at the meeting were Melissa Ridolfi, Ron Hazel, Justin Rozzero, Chris Pariseault, and Eric Kaplan from Fidelity Investments (“Fidelity”), Shannon Reid from CCSNH, and Monica Mezzapelle from State Treasury.

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

The minutes of the May 20, 2019 meeting were presented for approval. Hearing no additional comments or corrections, Dr. MacKay requested a motion to approve the meeting minutes distributed in advance. Rep. Weyler moved and Senator D’Allesandro seconded. The meeting minutes were unanimously approved.

### **Summary of Investment Committee Meeting**

Dr. MacKay summarized a few points discussed during the Investment Committee meeting which began at 9:00 a.m. and was led by Mr. Pariseault and Mr. Kaplan. Mr. Pariseault provided an update of the capital markets, highlighting that the U.S. economy now appears to be in late cycle, reflected by low growth, low interest rates, low inflation, as well as a slight inversion of the yield curve. Positioning in the second quarter of 2019 remained underweight in U.S. equities and investment grade debt. The portfolios continued to overweight emerging market equities, TIPS, and commodities. Within fixed income, a slight duration underweight position was adopted.

Mr. Pariseault also reported that portfolios exhibited positive results in the second quarter of 2019, with Fidelity active age-based and static portfolios (UNIQUE and FA529) revealing positive absolute returns and the majority of the Fidelity active age-based and static portfolios outperforming their respective benchmarks. In contrast, the Multi-firm portfolios had positive absolute returns, however, lagged their benchmarks. For the 3-year period, the majority of Fidelity retail and advisor age-based portfolios outperformed their benchmarks. For the 5-year period, portfolio performance was positive, but mixed relative to benchmarks. Performance over the 10-year period was more mixed, with portfolios closer to college date outperforming their benchmarks. Security selection for underlying managers drove most of the outperformance for the second quarter, while active asset allocation slightly detracted. Fidelity Index portfolios performed in line with expectations.

#### *UNIQUE and Fidelity Advisor 529 Competitive Performance Update*

Mr. Kaplan presented the semiannual update of the 529 Plans' performance compared to their main competitors stating that portfolios performed well relative to peers.

For active funds, the T. Rowe Price strategy (with higher equity allocations along the glide path) was compared to the Fidelity active strategy. In quarter two 2019, the Fidelity active strategy outperformed the comparable T. Rowe Price strategy primarily driven by some relative underperformance in a sub-set of T. Rowe Price's underlying funds.

With respect to the passive strategy, Fidelity 529 index funds were compared to the Vanguard's moderate portfolios (more Non-US equity) and Fidelity outperformed the Vanguard strategy primarily driven by Fidelity's current strategic allocation.

Regarding the Advisor-sold strategy, American Funds were compared to the FA 529 portfolios. The FA 529 strategy did well due to strong domestic and international security selection. Mr. Kaplan added that over the 1, 3, & 5-year periods, the FA 529 portfolios ranked favorably relative to peers.

#### **Review of Dashboard Report**

Dr. MacKay presented the College Savings Plan Dashboard Report as of June 30, 2019. The Dashboard Report contains New Hampshire 529 historical and forecasted assets and revenue data,

endowment trust fund activity, as well as information relative to the two UNIQUE scholarship programs.

Fidelity updated revenue projections, estimating that the Commission will receive total revenues of \$14.3 million in 2019, \$14.8 million in 2020, and \$14.7 million in 2021. By the end of 2019, plan assets are projected to stay at \$18 billion, \$18.1 billion in 2020, and \$18.3 billion in 2021. Ms. Ridolfi agreed that projections provided by Fidelity appeared conservative (based on asset expectations), however, confirmation will be sought to ensure planned portfolio enhancements were contemplated in the revenue projections.

Scholarship data was last updated for the 2017-18 academic year. During that year, colleges and universities had granted a total of 5,297 in UNIQUE annual awards to full-time and part-time students, while restricted institution endowments had distributed 1,928 individual awards (\$1,000 minimum) totaling \$3.6 million. Program results for the 2018-19 academic year will be available in the next meeting after colleges and universities report results due by October 15. Ms. Reid also inquired about the descending trend in UNIQUE Annual Awards. Several Commission members tried to provide answers to that question indicating that it might be due to less students having an expected family contribution of \$0, the number of high school graduates is decreasing, and college enrollment is declining. Dr. Leach shared that enrollment declined approximately 10% in public institutions, while Ms. Reid stated that CCSNH enrollment increased for dual-enrollment programs, but has remained constant or declined slightly for traditional college age students. Sr. Buley and Dr. Scire stated that enrollment in private institutions has declined, cost being a contributing factor, students are choosing institutions for value and price.

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

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements reporting that during fiscal year 2019, the endowment trust fund received \$14.9 million in assessment revenues from Fidelity and earned \$181,958 in net market gains, and interest and dividend income.

Also during fiscal year 2019, Treasury distributed \$2.4 million to colleges and universities participating in the UNIQUE Annual Allocation program and \$11.9 million in monthly allocations to institution restricted endowments participating in the UNIQUE Endowment Allocation program. The endowment trust fund also incurred administrative expenses of \$431,760, consisting of: 1) \$340,829 paid to PricewaterhouseCoopers for the audits of the UNIQUE College Investing Plan and the Fidelity Advisory 529 plan; 2) \$10,313 relative to investment management fees paid in August, November, February, and May; 3) \$37,519 for the quarterly Treasury overhead allocations; 4) \$6,600 for the annual membership dues paid to the College Savings Plan Network (\$4,100) and College Savings Foundation (\$2,500); 5) \$36,000 paid to the Division of Educator Support and Higher Education for administrative support provided; and 6) \$499 for supplies and service awards presented to former Advisory Commission members Michael Cryans and David Mahoney.

Treasurer Dwyer also highlighted that since program inception and through June 30, 2019, the endowment trust fund had collected \$174.3 million in assessment revenue and had disbursed \$140.1 million in scholarship funds. As of June 30, 2019, the endowment trust fund had a balance of nearly \$2.7 million.

### **Maximum Participant Contribution (Csp 302.03)**

Mr. Hazel reminded Commission members that the 529 provisions allow for changes in the maximum amount participants can contribute to a 529 plan. New Hampshire currently ranks as having the fourth highest contribution limit nationwide at \$500,000. California has the highest contribution amount at \$529,000. The last time the Advisory Commission approved a contribution limit change was in 2017.

Mr. Hazel shared that the average tuition and fees of a public four-year institution increased by \$250 (2.5%) from \$9,980 in 2017-18 to \$10,230 in 2018-19. Average total tuition and fees and room and board charges in 2018-19 were \$21,370. The average total tuition and fees and room and board charges for a private four-year college were \$48,510.

Mr. Hazel explained that the Advisory Commission has traditionally used the Dartmouth College formula as one proxy to evaluate whether the contribution limit should be updated. The Dartmouth College formula includes undergraduate and graduate study for seven years resulting in total cost of \$522,081 ( $\$74,583 * 7$  years). The annual cost at Dartmouth of \$74,583 includes tuition, fees, housing, food, and books as of August of 2019. Ms. Larsen commented that the Dartmouth formula was developed to justify the Maximum Contribution amount established when the Plan was first launched. The Internal Revenue Service at the time was concerned that investors could abuse the tax benefits provided in the 529 plans. Ms. Ridolfi indicated that most states are using a similar formula to establish their contribution limit amount. Mr. Hazel added that only a small percentage of accounts in the UNIQUE and FA529 plans exceed the contribution limit and participants who reach the limit are able to maintain the assets in the Plan, however they are not allowed to make additional contributions.

After considering the information presented, the Advisory Commission decided to increase the contribution limit. Rep. Weyler made a motion to increase the contribution limit to \$522,000 based on the Dartmouth formula. Dr. Leach seconded the motion. The motion was unanimously approved.

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

#### *529 Industry Market Update*

Mr. Hazel began the presentation reiterating that the capital markets remained positive in quarter two 2019 and the majority of the active portfolios had a strong performance. Asset growth for both plans exceeded the 529 industry. The New Hampshire 529 program remains the 4<sup>th</sup> largest in

the country with over \$18.6 billion in market-value assets, representing 5.7% of the market share. The New Hampshire plans continue to trail Virginia (\$71.6 billion in assets managed by American Funds), New York (\$32.5 billion in assets managed by Ascensus) and the Nevada plans (\$26.7 billion in assets managed by multiple providers, including Vanguard).

529 industry assets increased by 3.9% from quarter one to quarter two 2019 and increased by 7.7% year over year. Similarly, New Hampshire assets increased by 4.2% in quarter two and 6% year over year. Asset growth mirrored gains in U.S. equities, up 4.1% for the quarter and 8.9% year over year. Investment grade debt also increased 3.1% for the quarter and 7.9% year over year.

#### *Legislative Update*

Mr. Hazel provided an update on the California AB 211, which was introduced on January 15, 2019 to provide a \$5,000 tax deduction for a contribution to an in-state 529 plan (\$10,000 for married couple filing jointly). Mr. Hazel mentioned that on June 12, AB 211 was approved by the Senate Governance and Finance Committee and the bill now resides in the Senate Suspense File. The File is scheduled to be acted on August 30, however if the bill remains held in the Suspense File, it will be dead for 2019.

#### *Fidelity Advisor 529 Plan Review*

With respect to the Advisor-sold industry, Mr. Hazel stated that Virginia remains the top advisor-sold plan with 47.9% of the advisor-sold market share. 529 Advisor-sold plan assets increased by 2.9% from quarter one to quarter two 2019 and increased by 3.8% year over year. New Hampshire FA 529 assets increased by 3.5% for the quarter and by 2% year over year. As of June 30, 2019, FA 529 Plan had \$4.9 billion in assets under management.

Mr. Hazel reported that new account growth remained strong through the second quarter of 2019, adding 2,500 new accounts. As of June 30, 2019, the FA 529 Plan had a total of 176,900 active accounts, which represented a 3% decrease year over year.

Regarding contributions, Mr. Hazel reported that total contributions increased 5% in quarter two 2019 compared to quarter two 2018, adding \$83.7 million to the plan in the past year. Mr. Hazel also highlighted that approximately 4% of FA 529 Plan contributions came in from the Fidelity Clearing & Custody Solutions 529 omnibus trading platform, new in quarter two, where approximately \$3 million were added in a period of one month. Mr. Hazel added this new functionality is very promising and more positive news are anticipated in the future. Total distributions decreased by -2% compared to quarter two 2018 while distributions from New Hampshire accounts increased by 43% compared to quarter two 2018 (total of \$74.9 million in distributions, of which New Hampshire accounts accounted for \$1 million).

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

Mr. Rozzero provided an update on the Direct-sold space reporting that 529 Direct-sold plan assets had increased by 4.5% in quarter two 2019 and by 7.7% year over year. Comparably, the UNIQUE plan assets increased by 4.5% during quarter two 2019 and by 8% year over year. As of June 30, 2019, UNIQUE Plan assets had reached \$13.7 million, 7.2% of the Direct-sold market share with 522,800 active accounts.

With respect to account growth, Mr. Rozzero noted that in quarter two 2019, there was a 6% increase in new accounts opened (adding 15,600 new accounts), outpacing the industry, which was down -5.6%. Each month for the quarter was at all-time high for Plan history and April was a record month. 43% of new accounts opened were for beneficiaries under the age 5, in line with 2018.

Total contributions rose 9% in quarter two 2019 compared to quarter two 2018, totaling \$352.6 million year over year. The UNIQUE Plan outpaced the Direct-sold industry, which reflected increases by 8.4%. Plan inflows were at all-time high again in April and May. At the same time, distributions increased by 11%, totaling \$161.9 million, of which \$2.1 million were from New Hampshire accounts (or 1.3%). A chart depicting Assets by Age was also provided, highlighting that assets are fairly spread out across the age spectrum with more assets tilted toward the older beneficiary population as expected based on the age of the UNIQUE Plan.

Mr. Rozzero also commented on contributions made via the online gifting platform which were up 19% year over year (\$2.5 million). Efforts to improve the online gifting tool are being implemented, an example of this is an article recently published by Fidelity aimed at helping parents understand the importance of gifting and providing tips on how to ask for gifts. Participants also continue to take advantage of the Fidelity rewards card as an alternative method for 529 contributions (\$6.3 million year over year).

Marketing efforts continued during the second quarter of 2019, taking advantage of the benefits provided by digital advertising. New placement with Pinterest launched in mid-May 2019 and Pandora streaming radio is planned for August 2019. As part of the 2019 Local Events and Sponsorships, the UNIQUE Plan participated in several events at the Children's Museum of New Hampshire and Strawberry Banke Museum in Portsmouth, NH. Mr. Rozzero also brought in several t-shirts from one the events at the Children's Museum of New Hampshire to share --- Treasurer Dwyer clarified that the State Treasury has a \$0 gift policy, therefore, t-shirts and any other promotional items from any of the local events are displayed at the Treasury entrance and available for the public.

### **State Legislation Update**

*HB 2, relative to State Fees, Funds, Revenues, and Expenditures (Trailer Bill)*

Dr. McKay shared that in July 2019 he had sent a Special Communication to Commission members explaining that HB 2, as approved by the House and Senate, had been vetoed by the Governor and that the State was operating under a 90-day Continuing Resolution providing

spending authority at the 2019 budget level. Included in HB 2 were several provisions that would have a direct impact on the Commission's operations:

- The Commission would assume responsibility of the Governor's Scholarship program ("GSP") currently administered by the Office of Strategic Initiatives. The GSP is similar to the UNIQUE Annual Award program as higher education institutions disburse aid to eligible students and then come back to request the corresponding reimbursement. Preliminary estimates revealed that approximately 6,500 students (Pell eligible) might eligible for the GSP awards. The award is \$1,000 or \$2,000 for a New Hampshire Scholar. \$8 million carried forward from the previous biennium and \$6 million appropriated for the 2020-2021 biennium would be available to fund the GSP.
- Another change included in HB 2 relates to reducing the amount that is allocated monthly to institution endowments from 80% to 20%. Dr. Mackay stated that over time that change would provide more direct scholarships to eligible students. Currently, since no laws have been amended, monthly allocations distributed to endowments continue at 80% of the gross assessments received from Fidelity.
- The third proposal in HB 2 was a transfer of \$5 million from the 529 Plan assessments to the Business Finance Authority to fund a Loan Forgiveness Program for employees working at the Advance Regenerative Manufacturing Institute ("ARMI").

Dr. MacKay mentioned that these changes could represent an opportunity to increase direct scholarship benefits to New Hampshire students, as the Advisory Commission could either increase the individual award amount or the expected family contribution criterion in order to benefit more students.

Commission members had an opportunity to discuss the proposals while legislative members serving on the Commission and involved in the budget negotiations were present to answer questions and share their insights. Senator D'Allesandro mentioned that meetings with the Governor will continue in order to resolve differences and that a special legislative session had been scheduled on September 18. Dr. MacKay mentioned that more information will be provided as it becomes available and, depending on the timing of the events, a special meeting may need to be convened.

### **Proposed 2019 Meeting Dates**

Advisory Commission members were provided with a list of proposed meeting dates for 2020. The proposed 2020 meeting dates were selected based on the practice adopted by the Advisory Commission prior to 2014 to schedule meetings the 8<sup>th</sup> Monday following the end of the quarter, taking into consideration Holidays and vacation weeks.

Hearing no questions or concerns, Dr. MacKay asked for a motion to adopt the proposed meeting dates. Rep. Weyler moved and Senator D'Allesandro seconded. The motion was unanimously

approved. The meeting dates for calendar year 2020 are March 9, 2020, May 18, 2020, August 17, 2020 and December 7, 2020.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:45 a.m.

**NOTE:** The next regular meeting is scheduled for Monday, December 9, 2019 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.