

# Minutes of the Meeting Of the College Savings Program Board

Held at the State of Wisconsin Department of Administration Building  
101 E. Wilson Street, St. Croix Room; Madison, Wisconsin

August 19, 2013  
1:00 p.m.

MEMBERS PRESENT: *Debbie Durcan, Ken Johnson, Rob Kieckhefer, Bill Oemichen, Pat Sheehy (by phone), Wendy Wink (for Rolf Wegenke), John Wheeler, Jim Zylstra.*

OTHERS PRESENT: *Annoesjka West, Callan Associates; Catherine Burdick, Kerry Alexander, Bernie McCrossan, all with TIAA-CREF; Paula Smith, Paul Zemsky, Andy Schlueter (by phone), with ING US Investment; Michael Wolff, DOA; Holly Patterson and Gary Bennett (Sen. Darling's office), Kimberly Shaul, and Jim DiUlio.*

**I. Call to Order and Roll Call** –Chair *Oemichen* called the meeting to order at 1:07 p.m. with a quorum present. (See above for attendance.) All present introduced themselves.

**II. Approval of Agenda** – *Oemichen* asked for an agenda change to allow guest *Paul Zemsky* to speak earlier to accommodate travel schedules. Motion by *Durcan*, second by *Zylstra* to approve the agenda as modified. Motion carried. Staff reported that the meeting agenda has been properly posted.

**III. Approval of Minutes of May 20, 2013** Minutes were reviewed. Motion by *Wink*, second by *Johnson* to approve the minutes. Carried.

**IV. Public Presentations** [if requested in advance] – There were none requested.

## **V. Administrative Reports**

- A. Board Chair Comments** – *Oemichen* announced that *Paul Adamski* has not been reappointed to the Board as a public member, having served since 2000. He directed *DiUlio* to prepare a resolution on behalf of the Board and present him with a plaque thanking him for his years of service. Also, member *Debbie Durcan* is retiring from the UW System soon and this will be her last meeting as the representative of the UW Regents. A resolution and plaque will also be prepared, recognizing her service to the Board and program since 2000.

Members will now receive a monthly e-mail update between meetings to keep the group informed of related news and activities. *Oemichen* also announced a vacancy to chair the Board's Marketing and Outreach Committee. *Adamski* had volunteered to lead that effort. Any member with an interest is asked to consider the position. The committee helps insure we reach all populations in the state, as well as oversee partnerships and other support activities. The chair will work closely with the TIAA-CREF marketing manager and state staff. Those interested may contact *Oemichen* or *DiUlio* for more details.

**At this point the agenda moved to item V.D.2, Highlights of Tomorrow's Scholar plan design, portfolios.** -- *Paul Zemsky*, the CIO of ING U.S. Investment Management's Multi-Asset Strategies Team.

*Zemsky* opened his remarks to the Board giving an overview of ING US and its related businesses. His presentation deck covered the range of the larger company and his area of responsibility, the multi-asset portfolios in target date retirement plans as well as 529 plans. The platforms are set up as open architecture to use any manager. ING currently works with 30 to 40 to provide a range of expertise in addition to ING's wide capabilities. The Tomorrow's Scholar plan offers the age-based track, or a 'set and forget' choice, risk-based multi-fund portfolios, as well as 21 standalone options, a wide menu for financial advisors to use. *Zemsky* then went through the investment choices, highlighting the use of both ING and outside managers. He also highlighted the overall fee reductions of about 25% for current investors as a result of this new lineup. It was a result of the economies of scale as well as good management.

*Johnson* reported that all of these topics were covered by *Zemsky* in greater detail at the Investment Committee meeting earlier today, along with related topics. As he told the committee, *Zemsky* said the most unique aspect of the Tomorrow's Scholar plan is the open architecture format, allowing for a range of managers. It is very attractive to advisors and consumers, and allows additions of outside expertise easily, as well as changes to existing managers. He added that very few 529 or target date offerings use this format. Another feature that resonates with advisors is the glidepath mix, in particular the greater equity exposure in the early years.

He also commented on the age-based bond mix in the later age 17 and 18 portfolios. Those are managed for a lower sensitivity to interest rates, recognizing the accounts will be accessed soon for college. Each year, all of the investment portfolios go through an optimization process, including long-term capital market assumptions, volatility analysis, and other forecasts. Then the results guide any adjustments of the portfolio mixes, if needed. In some cases, manager changes may be identified through this and other research in the toolkit.

Regarding the markets this year, he concluded the first half had its challenges, but ING remains positive on active managers down at the stock picking level, with their level of research and experience in both good and difficult times. *Oemichen* thanked *Zemsky* for the visit and remarks.

*Oemichen* recognized and welcomed *Kimberly Shaul*, who arrived during the presentation. She is in the middle of the nomination and confirmation process to become a public member of the Board in the coming weeks.

The meeting resumed the regular agenda

- B. Department of Administration** – For the benefit of those new to the group, *Michael Wolff* reviewed the history of the program. Starting in DOA in 1997, moving to the State Treasurer's office in 2000 until 2011 and then back to DOA. The program's contract administration has always been with DOA, while the investment part is a charge of the Board. He also reviewed the transition process in which the Board approved the new investment lineups and authorized the reinvestment of accounts on behalf of the participants. Assisting the Board and DOA is our independent investment advisor, Callan Associates. *Oemichen* expanded on the Board role in the investment process—with members acting as trustees of the program and actually

directing the investments for the benefit of the individual owners. This is not a pro forma board, but actually one that has liability as a group. He said there is not personal liability for individual members when acting in a reasonable manner, but if needed, the Department of Justice and DOA attorneys would provide representation in legal matters.

- C. Program Director Comments** –The fiscal year ended with two notable things, *DiUlio* stated: a slight increase in income to the program as the remaining Edvest-Advisor accounts were moved to Tomorrow’s Scholar and became subject to the 10 basis point fee; and we finished the year with more money than we started, even with a number of transition-related expenses. Another significant mark is total assets under management has been over the \$3 billion mark for a few months. *Oemichen* said legislators have not considered the \$8 million balance the program carried over to be excessive in light of the program’s size. Additionally, no tax dollars are used in the program’s operation so this amount is not returned to the state; that balance is sometimes used in support of the program’s activities with children. At the outset years ago, the program used a startup loan of \$300-400,000, which was repaid through cashflow.

The program received some additional funds in 2010 of about \$790,000 as a result of an SEC action against Strong Funds and associates. These dollars were earmarked to pay for outside audit expenses of the program for a number of years until exhausted. Up until that point, an asset-based audit fee was assessed to participants. There was a class action suit involving Strong, settled earlier this year and we received about \$140,000 and added to our accounts. Some individuals with previous Wisconsin 529 accounts received checks, but the class action attorneys have been silent as to whether we are obligated to issue corrected 1099-Q forms. Some participants in the Nevada and Oregon 529 programs also received checks, but in smaller amounts than those here.

There were no proxy votes this quarter. It has been the custom of the Board to grant the Program Director the authority to vote on routine elections of directors, mergers involving no material changes, or other actions usually recommended by the fund company. In addition to staff research, the outside Investment Consultant is also part of the pre-vote process. Votes of a major nature involving increased costs, control issues, or style will be brought to the Board for direction.

Regarding federal and state issues, *DiUlio* said that Congress is in a holding position currently with HR 529 and the companion technical bill. But Senate and House committees are addressing broader federal tax codes, the effect on 529 plans unknown at this time.

On the state side, there is a quirk in state Statutes regarding the program that is in court. There are two federal bankruptcy cases on appeal in Chicago: A decision in the Western district of Wisconsin in 2010 that differed from federal law, but followed existing Statutes regarding beneficiaries, and another case just this spring in the Eastern district taking a different opinion. We and the budget office are working with the Legislature to enact correcting language, as well as some other improvements to the program, including an extension of the deadline for state tax breaks to April 15 and increasing the contribution amount from \$3,000 per year per beneficiary. *Wheeler* asked how long the state number has been at that amount, and *DiUlio* replied it has been at that amount since the start, the latest cost put at \$10.7 million of taxes lost per year. Some states, including Nebraska and Arizona have

increased their amounts this year, while Minnesota recently removed a tax credit. *Johnson* recalled there had been discussion to allow tax benefits to those using any state's program, but the added cost was estimated in the millions. *DiUlio* added that there is a misconception that \$3,000 is the annual maximum, when that amount is the limit on the annual tax benefit; accounts may accept up the lifetime limit of \$330,000 all at once, but only the first \$3,000 receives the tax benefit. Other states have varying numbers and benefits.

The Colorado prepaid tuition plan is dissolving later this year. The investments could not keep pace with the promises made without large state support. Those account owners will receive their money back, eligible for rollovers into other 529 savings plans. Other state prepaid plans are facing similar stresses in the current fixed income environment. However, Wisconsin's Tuition Units (the original Edvest), remains solvent through its final payouts in 2024; it was closed to new money in 2002 and less than 600 accounts remain.

The DOA websites upgrade is scheduled for September, which will include web pages for the program separate from the Edvest and Tomorrow's Scholar plan sites. Another feature in the works is a separate mailbox for comments directly to the Board—good and bad—as another form of communication with the public.

And finally, the next round of interviews with Morningstar analysts begins this week in Chicago with the Edvest plan and TIAA-CREF. With less than a year of history in the new format, we would expect the evaluators to take notice of the improvements in plan design and the across the board reduction in participant fees. The Tomorrow's Scholar interview with the ING team will take place in September, with a release of this year's Morningstar ratings in late October.

**D. 1. Manager [TIAA-CREF Tuition Financing Inc.] Comments** – *Kerry Alexander* commented on the structure of the Wisconsin Board, committee assignments, and the use of an outside investment consultant. He said this Board and program staff stands out among other states, with experience and acumen that Morningstar should recognize in their 'parent' and 'people' categories. He then introduced *Bernie McCrossan* TFI's new Director of Operations, replacing *Joe DelGrande* who guided the smooth transition process and was promoted to another position in the company. *McCrossan* said he has been in financial operations for 25 years with State Street here and also in Europe, and inherits *DelGrande's* experienced team at TFI. He said he was impressed with the quality staff members assigned to the Wisconsin plan in Charlotte and elsewhere.

*Alexander* then went through the quarterly summary report for Edvest, noting that the average account size is just under \$14,000, a 7% increase over last year and total accounts are up 1.7% over last year. He then explained the three ways the \$55 million withdrawals to date have been taken: withdrawn to pay for qualified higher ed expenses, some non-qualified and thus taxable, and some as rollovers to other 529 plans.

Other data in the quarterly report covers call center activity and other operations metrics along with demographic information—both from the recordkeeping files and that self-reported by account owners. Some of the data reported as from Minneapolis may in fact be from Western Wisconsin communities going through Minnesota-based ISP networks.

Currently, their data shows an average account owner has 1.7 beneficiaries, and the average account owner holds around \$25,000 in total. With regard to participant

fees, *Alexander* noted that Wisconsin would likely place in the five lowest-cost plans in the country now.

The Edvest marketing and outreach report was presented by *Catherine Burdick*, who will cover one highlights of the quarter, with the full report in her presentation deck. She reviewed the transition of year-round marketing so far, including a number of community activities, as well as PR exposure.

Leap into Reading was a partnership with public libraries and the Department of Public Instruction, and the Green Bay Packers, all in support of local summer reading programs. The libraries provide Edvest broad exposure to parents throughout the state, across all income categories, and the Packers are the one channel that reaches all of Wisconsin. *Burdick* said the promotion was built to drive traffic to the libraries and branches, and a sweepstakes to win for a pre-teen child one of 20 prize packages, including a \$1,000 starter Edvest account and 4 tickets to Packer pre-season Family Fun Night at Lambeau Field on August 3 (an alternate to the tickets was a Pro Shop gift card). The winners were among the 17 library districts, plus three at large. In addition, if the local winner's library was participating, they also received a \$500 grant. The Packers added extra tickets and autographed footballs for related promotions at the local level. The promotion was announced on 5-29 Day (May 29) at Lambeau, with full-state radio and TV coverage. Also included was a 'surprise' appearance by player John Kuhn at the Gillett Public Library for two events reading to kids. Kuhn was a great role model for the kids, sharing his plans to become a dentist, while earning a degree in chemistry. Three-fourths of the libraries and branches participated (about 252), more likely next time since some libraries had other promotions underway when we announced ours. Preliminary results have been good, with 86 media mentions representing 6.1 million impressions; our social media mentions were 804, but then with the Packers linking, the number jumped to over 11,000 in a few days. There were 6,128 contest entries, from 486 communities, a very high percentage compared to other states' reading programs, *Burdick* said. 1,452 became hard leads, asking for more information, including enrollment kits and follow up communication. Other leads have also spun off this promotion. *DiUlio* commented that this promotion had many components, as comprehensive as it could be in planning and execution, and it drew the attention of the national 529 community. He thanked *Burdick* on behalf of the program for an outreach promotion well done.

Due to travel considerations, the agenda jumped to the Investment Committee's report from Callan's *Annoesjka West*.

The second quarter was as not as good as the first, *West* began, due to difficulties in the fixed income area in May. However there are some steady areas of the economy. The housing market has bottomed, but rising interest rates may affect things later. Unemployment has held steady at 7.6%. Following broad cash flows in and out of fixed and equity markets shows the uncertainty about interest rates. Europe and the Pacific are weak but the domestic markets have been steady, holding on to positive results for the quarter. Commodities continued to fall. Non-US equities were down a percent, while emerging markets were down 8% for the quarter. On the fixed income side, the best performer was high yield down at 4.4%. We have seen the yield curve rise, with the biggest change on the five- and ten-year Treasuries.

Summarizing the plans, Tomorrow's Scholar assets are about \$500,000 up from last quarter. The multi-fund portfolios and others underperformed their benchmarks,

but only for the quarter, and not of concern. *West* pointed out the WFA Small Cap Value fund, which was significantly off from its benchmark, likely due to its weighting in mining and minerals, while having one very good month. The other fund that she noted is the Pimco Total Return Bond, lagging its benchmark. All other fixed income portfolios were negative, but outperforming their benchmarks.

The Edvest portfolios are up about \$30 million from last quarter. And as with the other plan, most performances were negative, but beating the benchmarks. The positive exceptions were the younger age portfolios with more equity exposure, as well as the static portfolios with more equities. The DFA funds within the portfolios did well.

There have been management changes to two funds in Tomorrow's Scholar lineup, one adding managers to the now called ING Multi-Manager International Equity Fund. The Columbia Dividend Opportunities fund lost one of three managers and an analyst, but it does not seem to have a material effect. Callan will monitor. At this time, Callan does not consider any funds eligible for Watch List status.

*Johnson* continued with the Investment Advisory Committee report. The group discussed adding some other types of fixed income to the actively managed portfolios, responding to the current environment. The Committee was open to changes, but also asked the program managers to be mindful of our commitment to low-cost investment for our participants. There will likely be some recommendations for the December 2 Board meeting. Also discussed, *Johnson* said, was removing some of the choices to make things simpler, but the consensus was to wait for awhile since all participants went through changes in the past year. The Investment Policy document is still in committee. This document is intended to provide guidance to Board members, consultants, and others and will likely be not more than a dozen pages, including references to other documents. As the Board and program moves to a more institutional status and calendar, there is a meeting scheduled soon with TIAA-CREF investment managers at their workplace. *Oemichen* agreed with *Johnson's* schedule of regular meetings with managers and consultants as a good practice.

The committee spent over an hour discussing the process ING uses in the allocation and evaluation process with *Paul Zemsky*, who addressed the Board earlier. *Oemichen* said any member was welcome to attend the Investment meetings.

The agenda moved back to Program Manager reports and *Paula Smith* from ING.

The Tomorrow's Scholar \$100,000 Gift of Education Awards will be made soon, to current account owners here in Wisconsin, nominated by their financial representatives. *Smith* said so far there are more than 400 nominations from a variety of broker dealers. Those under 14 receive \$529, over 14 receive \$1,529, with the advisor presenting the good news. The promotion has been well received. Currently, ING is working with 150 broker dealers selling the Tomorrow's Scholar plan. Merrill Lynch is close to coming on board soon, and Morgan Stanley has streamlined their application process for 529s making it easier for advisors to work with new accounts. ING is also developing a white paper regarding gifting, trusts, and related issues for 529 to assist advisors. A series of webinars featuring Savingforcollege.com's Chris Stack is planned along with the release of the white paper.

The Agenda now moved to Old Business

**VI. Old Business** – Independent Audit for FY2013 – *DiUlio* reported a few delays recently, but all appears to be on track for December completion.

**VII. New Business**

- A. **Investment Committee report from the committee's earlier meeting today, *Above***
- B. **Report and discussion regarding Maximum Account Limit Calculations** – Staff memo from Chris Stack and graphic was circulated for information. The last time Wisconsin adjusted the limit was 2008 from \$264,000 to \$330,000 and this is background prior to any adjustment to compare with other states.
- C. **Workshop on current 529 program topics for Board members and related persons** – Preliminary plans are for an inservice meeting for Board and related persons to cover current trends in the 529 marketplace and comparisons with other plans. Tentative date will be December 2, and will include Andrea Feirstein of AKF Consulting, who has earlier worked with the Board.

**IX. Announcements** – On September 25, Consumer Financial Protection Board and Director Richard Cordray will hold a public hearing at the UW Campus. More details to come. The next meeting of the Board will be Monday, December 2.

**X. Adjournment** — Motion by *Wheeler*, second by *Kieckhafer* to adjourn. Carried. The meeting was adjourned at 3:37 p.m.