

Minutes of the Meeting Of the College Savings Program Board

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

December 7, 2015
1:00 p.m.

MEMBERS PRESENT: *Derek Drummond, Rob Kieckhefer, Rob Kriebich (by phone), Scott Neitzel, Bill Oemichen, Kim Shaul (by phone), Rolf Wegenke, and Jim Zylstra.*

OTHERS PRESENT: *Annoesjka West, Callan Associates; Catherine Burdick, Jeremy Thiessen, Shirley Yang, all with TIAA-CREF; Paula Smith, Josh Dennin (by phone) with Voya Investment; Michael Wolff, David Erdman, DeeJ Lundgren, and Jim DiUlio.*

- I. **Call to Order and Roll Call** – Chair *Bill Oemichen* called the meeting to order at 1:06 p.m., with a quorum present. He welcomed new members Derek Drummond and Rob Kriebich to the Board and introductions were made by all in attendance.
- II. **Approval of Agenda** – Motion by *Wegenke*, second by *Kieckhefer* to accept the agenda. Voice vote, carried. Staff reported that the meeting notice and agenda have been properly posted.
- III. **Approval of Minutes of August 18, December 1, 2014, and May 18, 2015.** The Chair explained that membership on this statutory board does not carry over at end of a term. With delays in the appointment and confirmation process and meetings lacking a quorum, the minutes of these meeting have not yet been approved. Motion by *Zylstra*, second by *Shaul* to approve the outstanding minutes. Carried.

The August 17, 2015, meeting also lacked a quorum. However, members present received reports and the agenda contained no action items. A summary follows: The Board meeting was scheduled for 1:30, following a Lunch and Learn session presented by Andrea Feirstein of AKF Consulting. She has worked with us before in 529 procurement and training, and she is a subject matter expert and consultant for many 529 plans. If you missed the session, contact Jim for the materials; she covered board governance and responsibilities as fiduciaries, along with national news. Board and committee members present were Ken Johnson, Rob Kieckhefer, Scott Neitzel, Bill Oemichen, Kim Shaul (phone), Pat Sheehy (phone), and Jim Zylstra. Also present: Annoesjka West, Shirley Yang, Catherine Burdick, Jim DiUlio, and on the phone: Josh Dennin, Andy Schlueter, Aria Walfrand, and Paula Smith. The group recognized the contributions of Ken Johnson, who is attending his last meeting today as the ex-officio representative for the State of Wisconsin Investment Board (SWIB). Ken has been a Board member from shortly after the beginning of the program and has served as the chair of the Board's Investment Advisory Committee. A certificate and good wished were presented by the group. The group also welcomed Scott Neitzel, the

recently-appointed Secretary of the Department of Administration as a member. Rob Kieckhefer will take over as chair of the Investment Advisory Committee. The Outreach and Marketing Committee will regroup with a chair to be determined. Reports were received from TIAA-CREF for Edvest, from Voya for Tomorrow's Scholar and from Callan Associates. This report will be incorporated into the next meeting's minutes.

IV. Public Presentations [if requested in advance] – none requested, none at meeting

V. Administrative Reports

- A. Board Chair Comments** – *Oemichen* recognized outgoing Board members Pat Sheehy and John Wheeler; their last meeting was May 18. Pat was first appointed in 2005, then in an interim capacity in 2013, and served as chair of the Outreach and Marketing committee. John served from 2013. Motion by Wegenke, second by Shaul to recognize the service of these members. Voice vote. Carried. Certificates of recognition with the resolution of thanks will be prepared and presented to them.

Oemichen then gave a brief report of October's visit with *DiUlio* to Voya's annual investment conference in New York. He recalled some of the discussions, including recent market activity. *Paula Smith* added some details, also as a presenter there. *Annoesjka West* also attended this conference. While in New York, *Oemichen* and *DiUlio* also made a due diligence visit to TIAA-CREF talking to investment managers, including the Social Choice fund, arranged by *Shirley Yang*. They also visited the trading desk, including a thorough security and disclosure exercise upon entry.

The trading operation was impressive, *DiUlio* added, operating 24 hours in New York, San Francisco, and Charlotte—all linked by live video. Staff there shared operations insight, including cross-training and backup systems.

Oemichen reminded members to consider due diligence visits and conferences with staff, if available, to provide additional insight into the Board's role. At February's meeting, election of officers will be on the agenda, including a Board Vice Chair and a Chair for the Outreach and Marketing committee. There will also be a committee for those interested in the coming ABLE 529A plan and accounts for children with disabilities, following recent federal and state legislation.

- B. Department of Administration** *Sec. Neitzel* thanked *DiUlio* for his continuing work with the program and he also thanked *Sen. Darling* who was instrumental in restoring a staff position to the program in the recent budget. Job posting is expected to be in late January.
- C. Program Director Comments** – *DiUlio* reported there have been no communications directed to the Board since last time. And there have not been any proxy votes. He then reviewed the program's summary income and expense report for benefit of the new members. Some of the expenses have not been booked, as a software conversion is in process.

With regard to federal and state issues, Congress is working through some budget and must-pass legislation this month. There is a chance that current HR 529 could be added to legislation to be passes. Also in Washington, the ABLE 529A legislation is now being addressed by agencies to develop eligibility and reporting rules. States are also working on the legal foundations since by definition they will be state-issued

municipal fund securities, and subject to the same MSRB regulator as college savings.

Many state 529 plan administrators are discussing a multi-state consortium for ABLE 529A, to share startup costs and also get to a scale quickly where fees will be reasonable for both participants and states. In many states, the ABLE 529A plans will be attached or advised by the existing 529 college savings operations. Some states are building a combined governance structure for both types of plans. Twelve states, including us, will be meeting in Chicago this week to work out a framework and plans for a joint RFP, followed by a combined plan. Also, Wisconsin statutes will require some clarifying language to create a trust fund to hold accounts, along with a governance structure.

Another initiative nationally is Children's Savings Accounts. Research indicates that children are more likely to attend college and graduate, knowing that there are savings in the household for that purpose. About 10 programs have been up and running for a few years, either initiated by banks or 529 plans, and start with seed money accounts, followed by parent additions or incentive matches for good grades, etc. The City of Milwaukee is exploring a program to fund all kindergarten-age children with \$25 along with later incentives. Long-term goal is provide a well-educated workforce to remain as part of the city's economy. A coalition of school, city, foundation, and philanthropy interests are working on this project, and TIAA-CREF and Edvest may provide recordkeeping and investment services for little cost. CFED is also involved as part of business planning of this ambitious project.

One other update is from the US Department of Education, who administers the FAFSA, the college financial aid application. Many schools run out of limited scholarship funds available on a first-come first-serve basis, and some families can miss out because of filing tax returns in March and April. The new rule replaces submitting prior year tax information with prior-prior year data, from the earlier year. Adjustment can be made if situations change, but it allows earlier applications and consideration for aid.

And included in your book is this year's rating reports from Morningstar. Edvest retained the Bronze rating and Tomorrow's Scholar is still unrated, both likely due to the short 3-year history with the present lineups. *Rob Kieckhefer* joined the teams for the interviews in Chicago during the summer, saying Morningstar showed good interest, which may help us next time.

D. Manager Comments

Shirley Yang of TIAA-CREF highlighted selected slides from her deck. Plan statistics show continued increases in accounts, as well as the seasonality the business. Compared to national average numbers, the plan is doing well with a range of investors, both large and small. *Oemichen* then added that during his confirmation hearing, a question was raised asking if 529s only served high-income families. Based on this quarter's statistics, it shows Edvest's prime users are moderate and middle-income families. Age-based portfolios continue to be popular with new account owners.

Catherine Burdick reviewed the website upgrade project, including notices, contingency plans and customer comments. (a live demonstration will follow this meeting)The promotion campaigns have moved from a tax time theme to gifting, with good results. Staff covered most benefit fairs for most campus and state office locations, with assistance from TIAA staff. The Green Bay Packers Rookie Reporter campaign drew thousands of entries, along with earned media mentions. Other Packer events will continue throughout the year.

Paula Smith reported that Tomorrow's Scholar continues to grow locally and also in target states without state tax deductions. The messaging includes both tax benefits and long-term planning. Voya plans to add an additional Wisconsin-based wholesale representative to serve financial services offices and banks. A number of improvements are occurring in the back side, including recordkeeping. This will also help with the new G-45 reporting. Marketing materials are popular with advisors, including the upcoming Tomorrow's Scholar basketball bracket.

Yang added that TIAA-CREF is affiliating with a broker dealer and will be able to comply with G-45 by the end of the year, including full MSRB reporting. A disclosure will be sent soon to Edvest owners.

VI. Old Business none today

VII. New Business

- A. **Investment Committee Report** *Kieckhefer* reported that the committee met earlier and has recommendations for 2016 investment lineups, based on suggestions from TIAA-CREF and Voya Investments. In general, the underlying thought was to streamline the lineups to make the selection process less confusing for participants. There was some discussion, with a decision to wait until later on some of the suggestions, as well as making some minor adjustments to how discontinued portfolios would be mapped to new allocations. In addition, the group will place two funds on Watch, but first will be Callan's state of the union message:
- B. **Review of Third Quarter Investments** *Annoesjka West* briefly covered the quarter's market activity and performance by category (see the full report) She then reviewed the plan portfolios and underlying investment, identifying two fund for consideration to the Watch List, the Columbia Limited Duration Credit and Voya Global Real Estate, both for performance reasons.
- C. **Watch List update, recommendations** The committee reviewed recommendations by Callan Associates to place two funds in the Tomorrow's Scholar plan on the Watch List, due to performance relative to peers. Motion by Committee Chair, second by Neitzel to place Columbia Limited Duration Credit and Voya Global Real Estate portfolios on the Watch List. Voice vote, Carried.
- D. **Recommendation for 2016 adjustments to Edvest plan** (details in the Investment Advisory Committee minutes) Motion by Committee Chair, second by Wegenke for the Edvest plan to reduce both the passive and active

risk-based multifund portfolios from 5 to 3 options and to merge the US Equity Index into the Large Cap Stock Index portfolio. (as detailed in the committee minutes) Approved by voice vote. Carried.

- E. **Recommendation for 2016 adjustments to Tomorrow's Scholar plan** (details in the Investment Advisory Committee minutes) Motion by Committee Chair, second by Neitzel, for the Tomorrow's Scholar plan to reduce the 9 risk-based multifund portfolios to 5 options, adjust strategic allocation of the underlying funds for the multi-portfolios, and to add a multi-manager mid cap value option to the plan. Approved by voice vote. Carried.

- F. **Review of \$425,000 maximum beneficiary account balance and recent College Board report.** A new power was granted to the Board by statute in 2015. The Board is to required to adjust annually the allowed maximum balance per beneficiary in all Wisconsin plan accounts. The calculation is based on the national average tuition increase of private four-year undergraduate institutions as determined by The College Board or a similar measure. The College Board's latest report set that measure as +3.6%. Discussion noted that a dozen states now set limits at \$400,000-plus, with Michigan recently setting \$500,000 as a limit.

Motion by Wegenke, second by Kieckhefer to increase Wisconsin's limit by 3.6%, to \$440,300, effective in January 2016. Voice vote, Carried.

IX. Announcements – The February meeting date will be determined to accommodate additional DOA staff and those travelling to Madison.

X. Adjournment — Motion by Shaul, second by Kieckhefer to adjourn. Carried. The meeting was adjourned at 2:45 p.m.