



**State of Wisconsin**  
*Department of Financial Institutions*

Scott Walker, **Governor**

Jay Risch, **Secretary**

**MINUTES OF COLLEGE SAVINGS PROGRAM BOARD**

A meeting was held at the Department of Financial Institutions, 201 West Washington Avenue, Madison, Wisconsin, on Wednesday, February 28, 2018 at 1:00 p.m.

MINUTES

MEMBERS PRESENT: *Jay Risch, Rob Kieckhefer, Bill Oemichen, Gary Evenson (for Rolf Wegenke), Jim Zylstra, Dereck Drummond, and Kim Shaul.*

OTHERS PRESENT: Michael Wolff, Annoesjka West, Paula Smith, Jeremy Thiessen, Shirley Yang, Vivian Tsai Catherine Burdick, Greg Reiman, Andy Schlueter, Bernie McCrossen, Dan Conti, Chris Meyers, Jessica Fandrich, Jim DiUlio.

- I. **Call to Order and Roll Call** – Chair *Bill Oemichen* called the meeting to order at 1:05 p.m., attendance was taken and a quorum was present.
- II. **Approval of Agenda** – Motion by *Zylstra*, 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 22, 2017 Motion by *Zylstra*, second by *Kieckhefer* to approve the minutes with one name change: replace Vivian Tsai's name with Pam McNulty. Carried.
- IV. **Public Presentations** [if requested in advance] – None requested, none present.

**V. Administrative Reports**

- A. **Board Chair Comments** – *Oemichen* commented the College Savings Program's move to today's site at the DFI building at 201 West Washington and then will be moving again in May to the new Hill Farms building on the city's Westside. The program has seen growth in the total number of accounts to over 300,000, up 4.6% over last year, and overall is 200 million dollars short of reaching five billion dollars in assets. For perspective, the program crossed four billion dollars twenty months ago, and three billion dollars five years ago.
- B. **Department of Financial Institutions** *Secretary Jay Risch* welcomed the College Savings Program officially to Department of Financial Institutions, and provided more detail of the May 2018 move that will take the entire agency to the new Hill Farms development near the Hilldale Mall. DFI participated in the 529 Program's Twentieth Anniversary Celebration, recently held at the State Capitol, and noted the really nice media attention to DFI's communication channels. He added that this was a great event, and that the program is a tremendous resource for the residents of Wisconsin. In the works is a process to offer state employees payroll deduction into our 529

plans, supported by a mix of print, online access and other information to all employees. Also anticipated is an effort to provide the same payroll contribution service to other employers across the state. He also said he is reading Prof. Thaler's book *Nudge*, on investor behavior.

- C. Program Director Comments** – There have been no investment proxy votes scheduled or taken since the last meeting, *DiUlio* reported. One communication was received while the office was still at the Department of Administration. A person with a group associated with the paper industry, named the Two Sides Organization of Chicago, raised concerns that by Edvest offering electronic statements, people would not use paper. We responded that we let the account owners make the choice of how they their data is delivered, adding that in Wisconsin, we understand the paper business. There was no reply from this group.

The program has crossed some nice thresholds and has become more prominent in the national 529 landscape. Included in today's materials is a recent two-page report from Strategic Insight with national statistics, assets and accounts of the larger 529 programs, and quarterly cash flows. The company also operates the popular [savingforcollege.com](http://savingforcollege.com) website and has a conference covering many related topics in the fall.

The outside financial audits for both plans were again produced in advance of deadlines, (thank you PriceWaterhouse and KPMG) and they now await inclusion in the state's comprehensive audit report. DFI staff shadowed the DOA auditors during the audit process. The DOA is assisting us in the current RFP for the outside investment consultant. Submissions closed November 20, with the evaluation period in December. The program's Statement of Investment Policy and Objectives was most recently updated with fund lineups in April 2017. With the agency move and other changes, an updated version will presented for approval at a coming meeting. And the Department of Revenue has issued the new Schedule CS, to claim the 529 contribution income subtraction on state tax returns.

At the federal level, the IRS has raised the gifting limit from \$14,000 to \$15,000 for 2018, affecting both the single year amount and the five-year superfunding to \$75,000 as allowed under Section 529.

*DiUlio* participated (via phone) yesterday with about a dozen 529 industry leaders including state administrators and attorneys, program managers, investment companies, and broker dealers, in a meeting with the Municipal Securities Rulemaking Board (MSRB) leadership (including *Executive Director Kelly*). MSRB, as the 529 regulator, asks for comments on proposed rules. However, concerns within the industry are that the comment periods are too short to reach a consensus among the variety of state 529 programs, resulting in uneven treatment. As a result of the afternoon meeting, MSRB will extend 529 comment periods and MSRB staff will attend 529-related conferences throughout the year to gain a better knowledge of the states' and program concerns.

The MSRB has also requested that when informing the public to check for home-state tax benefits when making an 529 plan choice and contributions, good disclosure materials will also discuss scholarship eligibility and creditor protection.

At the Congress, the current Higher Education Authorization Act proposal includes language to exempt assets in 529 plans from the financial aid FAFSA calculation. Now 529 assets count as a parent asset, the same as money in a checkbook. The effect would be significant, as parents often make the mistake to think that 529 savings have a greater negative effect.

Tax reform proposals (multiple versions proposed at the time of this meeting) include many things that may affect 529s including: eliminating Coverdell savings accounts and moving assets in them into 529s, adding apprenticeships as an allowable 529 expense, and consolidation of education-related federal credits (which may affect use of 529 withdrawals). On a related level, some other proposed items include elimination of the tuition deduction, graduate school tuition waivers, and increased standard deductions that may affect donations to some scholarship programs.

Finally, due to the activity related to the agency move from DOA to DFI, this year's onsite due diligence visits to selected investment and program managers will instead take place via teleconference on December 5, in the morning and afternoon. All interested parties are welcome to log-in and participate. It will be a posted meeting of the Investment Advisory Committee to address any quorum issues.

#### **D. Manager Comments**

A. Representing the program management, *Shirley Yang* of TIAA and *Paula Smith* of Voya presented third quarter highlights of Edvest and Tomorrow's Scholar plans, respectively. (Refer to the presentation decks). *Smith* introduced *Dan Conti*, the Wisconsin-based Voya 529 wholesale representative. She also said that Tomorrow's Scholar as part of employer benefit packages is a new Voya project, currently in two states. *Catherine Burdick* commented on the marketing report and the related Edvest outreach metrics.

*Tsai* responded to *Oemichen's* questions regarding a *NY Times* report that two former TIAA employees filed a class action against the firm regarding their retirement plan and investment selections. She said that there have been similar actions taken against many retirement plans over the past year, adding that the piece was not flattering. TIAA management is taking this action seriously, *Tsai* said, as it affects the reputation of all the company's business units. The Board, and all related parties will be kept up to date of any developments.

B. A presentation on Cyber Security followed. TFI's *Bernie McCrossen*, who, covers the operations on service and administration for Edvest participants provided a high-level overview of their part of the business. Because of proprietary security procedures with their partner at DST Systems, he did not go into specifics at this meeting, but will plan another conference call to go into the full detail. He also spoke broadly about the oversight role they serve as program managers, and their strategic relationship with DST who performs the transfer agency functions on our behalf.

Data security is a top priority, he added, saying it is clearly a topic that is in the news. This priority extends to TFI's vendor relationships, and the expectations that extend to them as well. The program has multiple layers of defense, focusing on identifying known risks as they occur. It is also focused on

constantly monitoring our employees, applications systems, networks, on a daily basis. Boston Financial Data Services (BFDS) of Kansas City, is the provider, soon to be fully acquired by DST. A number of other TFI-serviced 529 plans have done onsite due diligence meeting with DST. At the higher multi-plan level, TFI conducts oversight through annual meetings, spending a lot of time on the information security program. Considerable amounts of technology is in place to protect against breaches, secure applications, employee code of conduct, and phishing exercises that limit the amount of damage that can be done.

*Andy Schlueter*, Vice President at Voya, related a similar overview of their operations partner at BNY Mellon. Their latest Cyber Security update was shared, and he spoke about the technology and the processes there. He added that there are over 100 dedicated security professionals on that team with over 85,000 tests that have been done.

**VI. Old Business** Information only – The current Statement of Investment Policy and Objectives is dated April 2017. Since that time, the program moved its home agency and editorial updates have been in draft form. An updated version will be available for approval at a future meetings.

## **VII. New Business**

A. **Investment Committee Report - Review of Third Quarter Investments.** In light of the hour, *Oemichen* reminded the Board that there are action items to address that require a quorum to be present. The group agreed to reorder the agenda to take those items up before the economic and market report.

*Rob Kieckhefer* provided the Investment Advisory Committee Report. The Committee reviewed the proposed adjustments to Tomorrow's Scholar plan as presented by Voya (refer to the presentation deck). The Committee agreed with the proposed changes for 2018.

He said the Committee was concerned about and discussed three funds that have been on watch for over two years: Columbia Limited Duration, and Voya Large Cap Value, and the Voya Clarion Real Estate. They asked Voya to research replacements and make recommendations to Callan Associates for review.

- B. Motion by Committee to approve the recommended changes to the Tomorrow's Scholar investment lineup for 2018. Second by *Zylstra*. The. Motion carried. Changes will occur in January after proper notice.
- C. Motion by Committee to request that Voya review and analyze the three underlying funds mentioned earlier and determine if there are alternative to recommend to the board. Voya will also provide information to Callan Associates for their analysis and input. Second by *Drummond*. Motion adopted.
- D. New business item 6.B: College Board's Trend on College Pricing 2017 and review/adjustment of the maximum account balance per beneficiary. By

statute, the Board annually considers the maximum account limit a beneficiary can have, as a total of all assets in Wisconsin 529 plans. The College Board's increase in four-year private undergraduate tuition or a similar measure is to be used. The recently published number from the College Board is 3.6% over the previous year. A short discussion about other state limits was held; currently 24 programs have limits greater than \$400,000, including 8 higher than ours. The current limit of \$456,000 plus 3.6% would equal \$472,416. *Risch* said he liked round numbers with a motion to set the limit at \$472,000. Second by *Drummond*. Motion adopted.

- E. Back to the economic and market report: Callan's *Annoesjka West* detailed activity for the third quarter in her Executive Summary (details in the reporting books). *West* reviewed the Third quarter saying that it continued to be strong 2017 market activity, GDP growth was up 3.0%, and even with the results from the hurricane in Florida results were strong. (See Investment Advisor Report and Executive Summary). Consumer spending is driving GDP growth, however inflation continues to be low. Valuations are high and there has been a strong run up in the market. The Russell 2000 is up over 20%, and the S&P 500 is up over 18%. Emerging markets are coming back very strong and are up over 22% for the year. Valuations abroad are more attractive than valuations abroad. The S&P 500 has 13 new all-time highs for the quarter. Commodities were positive, gold is up, oil is up, China, Russia, and Brazil, did very well because they are commodity driven countries. Facebook is up 48% YTD, Apple 34.7% YTD. On the small-cap side healthcare was one of the best performing sectors

Watch List update, Recommendations – There are no changes to the watch list, we have seen improvement over the last year for some funds, but not enough to warrant removal from the list. No additional action was taken.

**IX. Announcements** – The next meeting of the College Savings Program Board and the Investment Advisory Meeting will be held on May 30, 2018.

**X. Adjournment** — Motion by *Shaul*, second by *Kieckhefer*. Carried. The meeting was adjourned at 2:38 p.m.

If you require an interpreter, material in alternate formats, or other accommodations to access this meeting, please contact the Department of Financial Institutions, College Savings Program at (608) 261-7899.

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