



State of Wisconsin
Department of Financial Institutions

Tony Evers, **Governor**

Kathy Blumenfeld, **Secretary**

MINUTES OF COLLEGE SAVINGS PROGRAM BOARD

A meeting was held at the Department of Financial Institutions, 4822 Madison Yards Way, Madison, Wisconsin, on Wednesday, August 28, 2019 at 9:00 a.m.

MINUTES

MEMBERS PRESENT: *Jim Zylstra, Susie Bauer, Rob Kreibich, Secretary Kathy Blumenfeld, Kim Shaul, Bill Oemichen, Cassandra Krause (for Rolf Wegenke), and Derek Drummond. Sean Nelson joins at 11:10.*

OTHERS PRESENT: *Jess Noelk, Paula Smith, Matt Lynch, Steve DiGirolamo, Catherine Haberland, Chris Lynch, Vivian Tsai, Bernie McCrossan, Jeremy Thiessen, Catherine Burdick, Jessica Fandrich, and Jim DiUlio.*

- I. **Call to Order and Roll Call** – *Bill Oemichen* called the meeting to order at 9:02 a.m., with a quorum present. Those present and on the phone introduced themselves.
- II. **Approval of Agenda** – Motion to approve the agenda by *Drummond*, second by *Zylstra*, carried. Staff reported that the meeting notice and agenda have been properly posted.
- III. **Approval of Minutes** – of May 29, 2019, meeting minutes. Motion by *Blumenfeld*, second by *Krause* to approve the minutes, carried.
- IV. **Administrative Reports**
 - A. **Board Chair Comments** – *Oemichen* reported that he and Susie Bauer recently met with the Senate Committee on Universities, Technical Colleges, Children and Families regarding their nominations to the Board. Both said the Senators showed good interest in the program. Confirmation by the full Senate is next. He noted that this is the season for college expenses and the program's account owners withdrew more than \$430 million for higher education expenses, about a fourth of that both federal and state tax-free. Through the second quarter more than \$500 million of new contributions have offset that number.

With the annual Morningstar 529 plan ranking process coming up, he wished the teams good luck as they prepare and present.

B. Department of Financial Institutions – *Secretary Blumenfeld* noted that this is her third meeting with the Board. A key focus DFI is building financial capability within Wisconsin, including financial literacy and encouraging saving for college. In her recent travels, she has heard sad stories of student loan debt, now up to \$24 billion dollars just in this state. Average debt at graduation is about \$30,000 and in some cases is multigenerational. Savings within 529 plans can be part of the solution, and the regular saving habit can be meaningful to families. DFI and its partners will increase the outreach for awareness to all communities statewide. At a recent all-department meeting, DFI staff were encouraged to be ‘529 ambassadors’ for the program.

An upcoming promotion will partner with the TV show, ‘Military Makeover with Montel Williams.’ Edvest will be a sponsor and surprise the selected family with a \$10,000 college savings account. Good exposure to both home improvement and veterans audiences is anticipated.

The move to greater online use continues. 87% of new Edvest accounts are now completed online. And between the two plans, 60% of accounts now receive statements electronically—up from 10% not that many years ago. We also continue to see increased new accounts at Tomorrow’s Scholar, up 8% last quarter in spite of flat growth with advisor-sold 529s nationally.

Oemichen thanked *Blumenfeld* for her initial and continuing support of the program. He recalled some less supportive times since 2004, including the program’s moves between departments.

C. Program Director Comments *DiUlio* took a moment to recognize those present at this meeting who do volunteer work nationwide on behalf of the 529 industry. As *Bauer* shared with the Senate Committee, in addition to her duties at R.W. Baird, she also represents the 529 industry with SIFMA, the largest association of broker dealers in the U.S. securities industry. *Chris Lynch* is a leader with the corporate affiliates of the National Association of State Treasurers and its liaison to CSPN, the group *DiUlio* has led for the past two years. *Vivian Tsai* is the incoming chair of College Savings Foundation, a subset in 529 of the larger states and larger program managers. All these groups work well together, serving the interests of the public, and the benefits of national action and sharing from these people also flow back to Wisconsin. He also noted that *Mary Lehman*, who was here at the February meeting, sits on the MSRB muni fund securities advisory committee. Thanks and appreciation to all who serve the larger enterprise.

Since the last meeting, there have been no communications directed to the Board, and no proxy votes were scheduled. The closing of the fiscal year is in process with no outstanding issues or concerns, as well as the work of the outside financial audits for both plans continuing on schedule.

Morningstar will be improving some of their reporting metrics for the glidepaths in 529 plans that change over time. The changes will take place over two years.

Moving to national issues, he reported new 529-related proposals within the Secure Act and reauthorization of the Higher Education Act remain on hold as Congress returns for a short session. Many have said there may not be any action other than legislative extensions for the remainder of the year.

However, the financial industry has been active in reacting to the SEC's recent Regulation B-I, targeted at distribution channels and customer suitability. While not directly affecting 529 or mutual funds, there may be related concerns to watch at retirement plans, which have significant influence in the industry.

Bauer also commented that B-I has prompted much conversation, and it will be discussed at the upcoming 529 industry conference in September. She added that since 529 was not subject to ERISA, there may be little impact. *Smith* mentioned that broker dealers were concerned about handling multiple share classes and disclosure materials.

Outreach highlights from the summer included 'Get Up and Go' events with WPT in Appleton, Madison and La Crosse; Farm Technology Days in Jefferson County; and a 1K kids event with the Green Bay Packers. Coming up will be a busy 4 weeks of agency and campus employee benefit fairs in October.

V. Investment Consultant comments

Steve DiGirolamo of Wilshire Associates began with the 2Q market review. Looking back at 2018's performance for comparison, he said while recent equity performance is positive, but there will likely be a pull back for the near future. The same trend is occurring with international stocks. On the fixed side, corporate bonds have led the way and we are seeing better quality high yield issues. The Fed cut interest rates in July, with more anticipated before year end. In that area, there is uncertainty, shown by the yield inversion activity the last few trading sessions.

He then outlined the recent improvements Morningstar has made to follow 529 plan glidepaths. While many plans adjust allocations in steps every year or two, Morningstar used only three broad 6-year bands for comparison and benchmark purposes. The results were considered inconsistent and unfair by many. Their new system uses tighter 2-year bands, such as ages 7-8, and will better reflect each step's investment allocation. They have also created enrollment-based benchmarks for plans using that model.

Moving to the Wisconsin plans, he detailed Wilshire's snapshot of current performance and commented that all quarters should look this good. Alpha was very good, especially for active managers. The details are in the Wilshire deck. Briefly commenting on the two underlying funds on the Watch List, he said the Voya Large Cap Value has strong 2Q performance on a relative basis, while the BlackRock Global Allocation performed very close to its

benchmark. A short discussion regarding the current environment the asset classes both funds work in followed.

DiGirolamo then presented their updated Watch List matrix. It includes using Information Ratio as the risk measure, and also reference to following passive investment management using a 100 basis point band. The resulting scorecard or monitoring shows Wilshire's qualitative reporting, 3- and 5-year performance by the investment along with the benchmarks. In conversation with the members, he said this tool with multiple measures is not an absolute trigger to place an investment on the list, but rather to identify concerns for the Board. He added that most organizations similar to this program use this dynamic and flexible approach to investment discussion, with the ultimate decision up to the governing body.

VI. Program Manager Comments

- A. **TIAA** *Shirley Yang* briefly described Edvest's second quarter, with contributions of \$80 million, total assets increasing 5%, or about the same as the nation. New accounts were down slightly from last year, also mirroring national trends. A similar trend in retirement plan contributions, with people were sitting on the sidelines this year is a possible explanation.

She then reviewed cash flows, account owner detail, customer-related statistics, and demographic information. *McCrossan* reported on activity related to the Edvest phone centers and system. *Lynch* then commented on the stability of the Wisconsin program with regard to account owners. He is aware of other state plans in negative account situations, not having the steady replenishment of young beneficiaries.

Highlights of the recent market research project were then shared by *Catherine Burdick*. In Wisconsin, the researchers found that the decision to invest was indicated by a person's past. Usually, parents wanted to do the same or better than their own college experience (although there were a few wanting to do the opposite). Even if money were no object, they found that parents wanted children to have some skin in the game. One conclusion is that some message personalization may be very effective. An immediate application of these research results is to incorporate generational stories and images in our next round of Edvest marketing materials, including some testing for resulting responses. More details are in the lengthy deck.

All agreed to a change of the Agenda order: The overview of potential investment lineup and other changes to the Edvest plan for 2020 will continue following the *Voya Tomorrow's Scholar* report.

- B. **Voya** *Paula Smith* began her report by reviewing the quarter's success, due in part by their dedicated 529 wholesale team, unique in the 529 advisor-sold space. Also, the internal sales function has been relocated to *Voya's* Atlanta office and training is underway there. Assets and accounts continue

to grow year over year. An effort is underway to increase owners making monthly contributions.

Broker dealer activity includes branch office and webinar training sessions in 529 details. Marketing activity for the rest of the year will build on the successes of the first half, adding the Back to School campaign in September and year-end campaigns with key advisor groups.

The meeting recessed for a break at 10:50 a.m.

Meeting called back to order at 11:10 a.m. (*Sean Nelson* joins the call)

- C. **TIAA potential Edvest changes for 2020** – *Jeremy Theissen* began by reviewing the annual process of plan investment allocation adjustments, usually presented and voted upon at the November/December meeting. Due to a number of potential changes, today he will introduce TFI's suggestions early, to allow for more discussion.

The suggested changes involves the glidepaths, moving from age-based to enrollment-based naming and structure. Within the glidepaths, remove the Templeton Global Bond fund, and collapse the Short Term Bond fund and the money market into the TIAA Life Funding Agreement, also making similar changes to some risk portfolios, merging the small cap index portfolio into the large cap index, and moving the Bank CD portfolio into the Funding Agreement portfolio.

Blumenfeld added that this part of the meeting will not end with a vote today, but to provide more detail and time to understand all of suggested changes.

Theissen then reviewed the history of glidepaths, about two-thirds of all 529. He then explained the basics of the Funding Agreement contract, and the highlights of the other changes.

Conversation with Board members raised questions, and consensus was to schedule another public meeting before November to further discuss these changes.

Bernie McCrossan then provided information on the upcoming change in TFI's subcontractor providing recordkeeping services for their 529 plans. In the coming months, the TFI plans will move to new service provided by Ascensus. The process leading up to this change involved RFI/RFPs from 4 providers including the incumbent, the former BFDS. He said it became clear in the process that Ascensus is well equipped to handle present and future 529 needs, including gifting, CSAs, and electronic distributions.

Data security upgrades will also be part of the move. Current processes will transfer across platforms. Question was raised regarding payroll deduction problems during the 2012 platform transition. *McCrossan* replied that all concerns will be address prior to the move.

The Wisconsin plan transition would likely take place late 2Q, 2020.

VI. Old Business – None.

VII. New Business

- A. Proposed changes to state Administrative Rules regarding joint account ownership and refunds made by colleges. *Matt Lynch* briefed the Board on recent federal changes for permitted destinations for college refunds, account rollovers, and also account ownership practices at other 529 programs. Motion by Drummond, second by Blumenfeld to authorize DFI and program staff to initiate requests to modernize Administrative Rules to benefit account owners of Wisconsin 529 plans. All aye, carried.
- B. Suggested revisions to the program's Statement of Investment Policy and Objectives (SIPO), following action at the May 29 meeting. *Fandrich* reviewed language regarding the move from DOA to DFI as well as the recent end of the Investment Advisory Committee. *DiGirolamo* reviewed the change to Information Ratio as a risk measure, and the addition of a better guide for tracking passive investments. Motion by Blumenfeld, second by Drummond to update the SIPO policy document as recommended by DFI staff and Wilshire Associates. All aye, carried.
- C. Ethics refresher for board members (DFI Counsel) – due to the length of the meeting, *Lynch* suggested postponing the presentation to a later meeting. In the interim, contact him with any questions. *Oemichen* suggested rescheduling the refresher for the November 20 meeting.
- D. Legal report from DFI Counsel regarding Program Manager contract status. Motion by Drummond, second by Shaul to move into closed session. All aye, carried.

Roll Call Vote of the members to move the meeting to Closed Session for the purposes of deliberation of investment of public funds or other business where competitive reasons are an issue. Members *Blumenfeld, Drummond, Nelson, Krause, Shaul, and Oemichen* all vote aye. Move into closed session at 12:18 p.m.

Roll Call Vote of the members to return to the meeting to Open Session. Members *Blumenfeld, Drummond, Nelson, Krause, Shaul, and Oemichen* all vote aye. Return to open meeting at 12:40 p.m.

VII. Announcements – The next meeting will be November 20, 2019, 9:00 a.m., at the Hill Farms State Office Building on Madison's west side.

VIII. Adjournment – The meeting was adjourned at 12:41p.m.