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 Thursday, October 31, 2019 at 1:00 p.m.

MINUTES

MEMBERS PRESENT: *Secretary Kathy Blumenfeld, Derek Drummond, Sean Nelson, Cassandra Krause (for Rolf Wegenke), Kim Shaul, Bill Oemichen, and Susie Bauer.*

OTHERS PRESENT: Shirley Yang, Catherine Burdick, Vivian Tsai, Chris Lynch, Cheryll Olson-Collins, Matt Lynch, Glenn Friedman, Jeremy Thiessen, Steve DiGirolamo, Felicia Bennett, Jessica Fandrich, and Jim DiUlio.

I. **Call to Order and Roll Call** – The meeting was called to order by Chair *Bill Oemichen* at 1:00 p.m., with a quorum present. He added that prior to *Bauer's* upcoming Senate confirmation, she may participate but not vote. The abbreviated agenda for today's meeting was noted, and staff reported that the meeting notice and agenda have been properly posted.

II. **Approval of Agenda** – Today's shortened agenda was received, and had been posted with the required notice.

III. **Approval of Minutes** – Draft minutes of the August 28, 2019, meeting were reviewed. <u>Motion by *Blumenfeld,* second by *Shaul* to approve the minutes. All aye, carried.</u>

IV. **Old business –** *Oemichen* reviewed the detailed discussion from the previous meeting regarding TIAA Tuition Financing Inc.'s (TFI) proposed changes to the Edvest plan for 2020. The Board felt further information and discussion was needed, setting today's meeting for that purpose.

DFI Chief Counsel *Matt Lynch* then summarized the key parts of the proposal—changing the age-based glidepaths to enrollment-based dates, removing some underlying investments, and at the end of the glidepath using the TIAA Life funding agreement as the stable value component in the portfolios. In the background, he added, is next year's end date of the current contract and available extension. While the Board has a number of program responsibilities, the vendor contract is handled by DFI. He then reviewed recent discussions with TFI regarding contract extension. One topic explored if some of the cost savings the company may receive with its proposal to then flow back to benefit Edvest account owners, along with supporting outreach activities in the state. A goal would be to encourage awareness for education savings with low and moderate income families. He cited the positive reception from HR managers to the new 'Edvest at Work' tool, and suggesting additional field support would help meet that need. Another upgrade could include evening or weekend phone center hours for those working during the day, and targeted social media to Gen Y parents.

If the concepts are approved, *Lynch* said DFI could proceed to negotiate them into contract terms with TFI.

Question from *Nelson* regarding if the amount of cost savings is known. *Matt Lynch* deferred to TFI President *Chris Lynch*, who responded by comparing the 2017 contract extension with this one. *Oemichen* suggested breaking the conversation into three separate questions: first, address the change from age-based to enrollment-based portfolios within the Edvest glidepath; then consider using the funding agreement as an underlying portfolio investment; and then finally whether to keep the Templeton Global Bond fund in the Edvest mix. He said during the second discussion about funding agreement would be a better time to address *Nelson's* question.

Jeremy Thiessen outlined the proposed glidepath structure, pointing out there was no change in the underlying philosophy and allocations. The difference would be from stepping accounts through a series of purchases and redemptions, to remaining in the same portfolio with more frequent investment adjustments along the glidepath. *Shirley Yang* added that the concept is simpler to understand since it is based on dates of use, although owners would be free to select any portfolio. In addition, the existing two glidepath choices would be collapsed into one, a now common practice in other 529 plans.

There were no further questions from the members. <u>Motion by *Blumenfeld*, second by *Nelson*, to replace the Edvest multi-year options from the two age-based glidepaths to one enrollment-based glidepath, as proposed. All aye, motion carried.</u>

Commenting on the Board's decision, *Steve DiGirolamo* said he liked the smoothness of the enrollment-date concept and its lower volatility.

Thiessen resumed discussion of TIAA Life's funding agreement referencing the previously asked questions from the prior board meeting and mentioning the stability of the product during 19 years of varying market cycles. He then reviewed the portfolio construction, explaining the need for a reasonable yield while providing liquidity to participants. In addition, there must be sufficient assets set aside to meet regulatory capital charge limits, which is the greatest constraint on the portfolio's potential crediting rate. He said the amount changes with the portfolio's growth and anticipated withdrawals. Internal controls further control liquidity along with forward-looking anticipated interest rates.

The actual crediting rate to account owners is reset each year, between 1 and 3% by contract, based on multiple factors in a proprietary calculation he explained. *Oemichen* then asked if the regulatory limit or percentage was a public number, and specifically if the portfolio was at the minimum or holding an additional cushion above that. It is in excess *Thiessen* replied, for the TIAA Life Company. *Yang* offered to send links to the regulatory reports for the larger TIAA general account for information.

Local factors, including assets and anticipated withdrawals, influence an individual state's crediting rate, *Thiessen* concluded. Returning to *Nelson's* question, *Oemichen* said the Board could only estimate the spreads and dollar amounts due the proprietary process and calculations. *Nelson* rephrased his comment to then ask: considering the amount of assets involved, is the program being aggressive enough with the price point with respect to what program participants would receive for making the change. *Matt Lynch* replied that DFI is looking at comparable states were similar expanded program services have been installed. He stated that the added benefits proposed by TFI were fair in principle, though there is work to be done to ensure that those benefits are realized and made enforceable in the final terms of a renewal agreement. There have been strategic planning discussions within the DFI team on goals for the program, *Blumenfeld* said, adding the process has been iterative, including TFI conversations.

A further question about counterparty risk and other protections was asked by *Oemichen*, and also what happens with the funding agreement if the Board decides to move to another program manager at the end of the proposed contract ending in 2023. *Chris Lynch* replied to the second question, speaking to situations where states have moved to another vendor. There is an orderly process in place, he said, as some programs have closed the funding agreement to new contributions, while working off the 4 years and one day liquidation period. Some departing states have elected to remain with the funding agreement as a choice for new contributions, *Tsai* added. With regard to the counterparty risk as mentioned in Wilshire's memo, *Thiessen* stated that TIAA Life has the highest rating with its portfolio, with assets in excess of regulatory minimums. The counterparty risk would reflect an increase of assets, not TIAA Life itself.

Drummond asked if TFI or TIAA had the right to unilaterally end the funding agreement's contract or liquidation schedule early, for any reason. *Chris Lynch* did not think so, as it is a prescribed and regulated contract. *Matt Lynch* stated that he reviewed the funding agreement and did not find any provision that would permit TFI or TIAA to end the funding agreement before the end of the program management term. *Drummond* then asked if TFI had veto power if the Board added another similar investment, such as a money market. Security regulations, *Yang* replied, would rule moves between substantially identical fixed investments. Another instance that would require both program and insurer approval, *Thiessen* added, would be a substantial change in duration positioning of the portfolio to respond to market conditions.

Wilshire's *DiGirolamo* said the counterparty risk, as explained by *Thiessen*, was accurate, and similar to other stable value strategies. With regard to the funding agreement's investment side, he said it provides an attractive risk-return framework looking forward. Regarding the insurance component, it is not too different from other stable value options, and a bit less expensive.

Motion by *Blumenfeld*, second by *Shaul* to accept the 2020 Edvest proposal, including the TIAA Life funding agreement within the selected portfolios. All aye, motion carried.

The Board then discussed the third question, removing the Templeton Global Bond fund from the glidepath allocations. *Thiessen* explained the fund's assets would reallocate to other bond funds within the portfolios. While it is a well-regarded fund in other settings, the fund's volatility along with periods of underperformance are not as valuable in a 529 plan, he said. *DiGirolamo* agreed with the analysis and recommendation. The asset class looking forward is not completely positive.

Motion by *Shaul*, second by *Drummond* to remove the Templeton Global Bond fund from the Edvest glidepath portfolios, and reallocate assets among the other bond funds. All aye, motion carried.

When could the changes be implemented, asked *Oemichen. Chris Lynch* said it would be linked to TFI's planned recordkeeper change for each of their 529 plans, likely for Edvest June 12.

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

VI. **Adjournment** – Motion by Blumenfeld, second by Shaul to adjourn. All aye, the meeting was adjourned at 2:20 p.m.