

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of November 24, 2014

The November 24, 2014 meeting of the New Hampshire College Savings Plan Advisory Commission (Advisory Commission), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair.

Members present, constituting a quorum, were:

Edward MacKay (Chair)	Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire
Michael Cryans	Public Member, appointed by the Governor
Bill Dwyer	Commissioner of the Treasury
Ross Gittell	Chancellor, Community College System of New Hampshire
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Todd Leach	Chancellor, University System of New Hampshire
David Mahoney	Representing the Higher Education Commission – Dept. of Education

Members absent were:

Jeanie Forrester	State Senator
H. Robert Menear	State Representative
Sylvia Larsen	State Senator
Lynne Ober	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations

Also present at the meeting were Keith Bernhardt, Kyla Doyle, Matt Golden, and Peter Walsh from Fidelity Investments (Fidelity), as well as Monica Mezzapelle from State Treasury.

Review of Prior Meeting Minutes

Minutes of the August 25, 2014 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mr. Cryans and seconded by Mr. Mahoney. The motion passed unanimously.

Investment Related Update

Mr. Peter Walsh from Fidelity provided an Investment update and recommended change in asset allocation as a result of the firm's most recent 529 Glide Path Research project, as well as a performance overview for the UNIQUE Multi-Firm age-based portfolios.

On the 529 Glide Path Research Project, Mr. Walsh emphasized the project takeaways: one being that the Enhanced 529 Glide Path reflects the best thinking of the Fidelity Global Asset Allocation investment team and aligns it with Fidelity's glide path research process; and the second one, that participant contributions continue to be a key component to achieving the college savings objective. The Enhanced 529 Glide Path reflects a better-aligned "risk spine" within which participants should be subjected to reduced performance volatility and therefore less likely to resort to withdrawal behavior during times of correction in the equity markets. Mr. Walsh went on to describe the current 529 glide path structure, as well as the elements of the Enhanced 529 Glide Path. Mr. Walsh noted that this glide path research is conducted approximately every five years and the results from this project, combined with the Asset Allocation Strategy already underway, should better contribute toward meeting participants' objectives of saving for college. In response to a question from Dr. Gittel, Mr. Walsh noted that the Advisory Commission's approval earlier this year of active asset allocation adjustments in the age-based portfolios still allows the Fidelity team a greater degree of discretionary latitude than the scale of the proposed changes to the glide path. Dr. MacKay asked members of the Fidelity Team as well as Treasury, whether or not the Glide Path Enhancement would require any contractual changes. The Fidelity team confirmed that no contractual changes are required and that the implementation is targeted for the first quarter of 2015. This update will also be communicated to participants in the next Fact Kit distributed to participants.

Mr. Walsh also provided the Advisory Commission with an update on the UNIQUE Multi-Firm age-based portfolios. This update attempted to answer some of the questions raised by Commission members during the previous meeting regarding the portfolio's underperformance compared to its benchmarks. Mr. Walsh stated that although underperformance continued through the third quarter, the portfolios have delivered positive absolute returns over longer time periods in support of the college savings objective. In addition he remarked that the multi-firm portfolios were introduced only three years ago and need more time to demonstrate the enhanced performance that is expected. Mr. Walsh, through his discussion, described Fidelity's approach as well as the use of a broad-based benchmark, which may differ from the benchmarks used by its competitors, who often report better performance. Mr. Walsh also explained that strategies in the Multi-Firm portfolios are regularly evaluated to ensure they are performing within expectations.

Potential Revisions to Administrative Rules and/or Statutes

Dr. MacKay informed the Advisory Commission that due to a recent review performed by the State Treasury, some questions have been raised as to whether the Advisory Commission has the proper statutory authority regarding certain aspects of the administration of the Endowment Trust Fund and the scholarship programs, particularly in the area of funding scholarships with

management fee income versus earnings generated by the Endowment Trust Fund. Legislative action may be required; however, clarification is still needed and, as a result, Dr. MacKay, Commissioner Dwyer, and Ms. Mezzapelle will meet with representatives from the Attorney General's office within the next few weeks in order to clarify some open issues. An update will be provided to Advisory Commission members as soon as it is available.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended September 30, 2014, was submitted by Commissioner Dwyer. The Endowment Trust Fund had a balance of \$2.9 million as of September 30, 2014, slightly lower than the \$3.4 million fund balance at the beginning of the fiscal year. This is due to the timing of the two scholarship program allocation distributions (the monthly Endowment Awards Program and the Annual Awards Program), which both are completed in July. During the first quarter of the fiscal year, the fund received \$3.1 million in management fee income, as well as interest, dividend earnings, and net market gains/losses in the fund of approximately \$18,000.

Annual Awards distributions and one 2013-14 reimbursement totaling a combined \$1,050,613 were disbursed to participating colleges and universities in July of 2014. Pursuant to Csp 702.01, monthly Endowment Awards distributions were also distributed to participating institutions beginning in July and totaled \$2.5 million during the first quarter of fiscal year 2015. Administrative expenses for the quarter totaled \$16,293, comprised of the first quarterly Treasury overhead allocation of \$9,612, quarterly Endowment Trust Fund management fees of \$2,681, and the yearly membership dues paid to the College Savings Plan Network (\$4,000).

529 Industry Market Update

Mr. Golden then presented the third quarter 2014 Industry Market Update. The NH Programs maintain a strong top-tier position ranking as the fourth largest in the country, ahead of Ohio, as of September 30, 2014, with just over \$13.7 billion in assets (at market value) and 6.3% of the industry's market share. New Hampshire followed Virginia (\$49.6 billion in assets managed by American Funds), New York (\$19 billion in assets managed by J.P. Morgan), and Nevada (\$14.2 billion in assets administered by multiple managers, including Vanguard).

Total 529 Plan market-value industry assets, as of September 30, 2014, decreased by 1.5% from the previous quarter and increased by 13.5% year over year, while New Hampshire's assets (UNIQUE and FA 529 plans combined) decreased by 2.2% for the quarter and increased by 9.8% year over year. The slighter higher rate of decline in the UNIQUE programs reflects the fact that it is a more "mature" plan than several that have been introduced in the past several years. Overall, most states showed a decrease in assets from the previous quarter, except for states like Utah showing a 3.6% growth over the last quarter. Mr. Golden noted that for the third quarter 2014, the S&P 500 increased by just over 1% and the Barclays Aggregate Bond Index was general flat. He also noted that for the one year period ending September 30, 2014, the S&P 500 increased by 11.94% and the Barclays Aggregate Bond Index increased by 3.96%.

As a result of low market interest rates, the money market portfolios' returns were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity, at its request, to waive certain fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent negative returns on each plan's money market portfolio. This practice has been in effect since late 2009 due to the historically low interest rate environment. Total waived fees through the third quarter of 2014 totaled \$610,000.

Fidelity Advisor 529 Plan Review

On the advisor-sold side, the FA 529 Plan ranks fifth with a 4.1% market share, trailing Virginia (44.9%), Maine (7.5%), Rhode Island (7.2%), and Ohio (4.7%). Mr. Golden noted that Virginia remains the leader in this sector. Mr. Golden went on to report that the Fidelity Advisor 529 Plan had approximately \$4.2 billion in market-valued assets under management at September 30, 2014, distributed over nearly 198,230 participant accounts. Using the third quarter 2013 as a basis for comparison, 3.3% fewer new accounts were opened during the third quarter of 2014, however with 0.5% more in contributions for these same periods. The metrics for the third quarter 2014 versus the second quarter 2014 were also provided, with a decline in both new account growth and account contributions, by 1.2% and 7.5%, respectively.

During his presentation, Mr. Golden added that the FA 529 omnibus recordkeeping/networking initiative with Ameriprise has been delayed to launch until July of 2015 rather than during the first quarter of 2015, as previously expected. The Advisory Commission had previously authorized Commissioner Dwyer during the May 19th meeting to seek G&C approval for an amendment to the Investment Management Agreement for the waiver of the \$20 annual account fee of participants whose advisor participates in the Omnibus initiative. G&C approved the fee structure change at its October 29th meeting. Commissioner Hodgdon inquired about the FA 529 Plan decline compared to the retail side and Mr. Golden responded that the retail-sold and advisor-sold markets are different and that there are some difficulties involved. For example, financial advisors may now more frequently than in the past offer in-state plans rather than national plans. Financial Advisors are also now beginning to offer plans with automated account opening and access. That is the reason Fidelity is committed to implementation of the omnibus recordkeeping initiative, as it believes it would improve its ability to work with broker-dealers and registered financial advisers.

The average account size in the advisor-sold plan was \$21,280 with New Hampshire residents averaging \$20,142 in account balances.

Direct-sold (UNIQUE) 529 Plan Review

In the direct-sold space, the UNIQUE Plan remained in third place with 8.4% of market share, trailing New York's 14.0% share and Nevada's 9.2% share.

Ms. Doyle reported that as of September 30, 2014, UNIQUE retail plan assets totaled nearly \$9.5 billion in market value, consisting of almost 535,421 participant accounts. New accounts increased by 10,481 in the third quarter, or 14%, compared to the same quarter in 2013.

Contributions for the third quarter of 2014 were approximately \$236.6 million and exceeded third quarter 2013 contributions by 12%.

The average account size of a UNIQUE portfolio was \$24,276 as of September 30, 2014 with NH residents averaging a balance of \$16,059 in the Plan. The average monthly new account and existing account contributions nationwide in the third quarter were \$3,995 and \$127, respectively, with the same metrics for NH residents registering \$2,995 and \$229, respectively.

Regulatory and Legislative Report

Ms. Doyle briefly presented the Regulatory and Legislative update. “ABLE” Act legislation (H.R. 647) was approved on 7/31/2014 by the House Ways and Means Committee. As a result of an initial cost of \$20 billion, this legislation was re-introduced under a new Internal Revenue Code (529A), which included a new set of provisions, reducing the cost to \$2 billion. Provisions of the bill include tax-free savings accounts for individuals with disabilities to save for their medical care, housing, transportation, and continued education. The bill has over 400 co-sponsors and faces a 62% chance of enactment.

Review of Other Items

Proposed 2014 meeting dates

A brief discussion occurred regarding the meeting dates being proposed. Dr. MacKay mentioned that the March meeting seemed late and it could affect the participating institutions’ ability to determine financial aid packages. Mr. Horgan also questioned the November date meeting being so close to Thanksgiving and that it could affect participation. Commissioner Dwyer commented that today’s meeting is similarly-timed and that attendance was not a problem. After no further discussion, Dr. MacKay then requested a motion to accept the subsequent meeting dates of May 18, August 24, and November 23, 2015 followed by March 14, 2016. Mr. Cryans moved and Mr. Horgan seconded the motion, which passed by unanimous vote.

Annual financial disclosures due to Secretary of State on or before January 16, 2015

Dr. MacKay asked Commissioner Dwyer to update Advisory Commission members regarding the statutory filing requirement (RSA 15-A). Commissioner Dwyer explained that the deadline for filing with the Secretary of State is Friday, January 16 and that Ms. Mezzapelle will send an e-mail reminder to Advisory Commission members in December with links to the financial disclosure form on the Secretary of State website.

Report on the Children’s Savings Account legislative study committee (HB1146)

Dr. MacKay provided a brief summary to the Advisory Commission on the Children’s Savings Account (CSA) Legislative Study Committee (HB1146). Dr. MacKay stated that the Legislative Study Committee decided to recommend legislation to create a CSA (with the likely initial use of a bank account, but a preference for the 529 plan vehicle at some point). The idea behind this project is that there is significant academic research indicating that low and moderate income children with amounts as low as \$500 or less saved for college are three times more likely to enroll in college and four times more likely to graduate than children with no savings. As a target for a potential pilot program, approximately 1,500 students from the Coos County and the City of Manchester could benefit. These jurisdictions have been identified as having very high rates of eligibility for the Free and Reduced Lunch program, a reliable measure of poverty. The cost of this program is estimated to be \$250,000 or less annually and the 529 Plan fees are not part of the funding consideration. This program is being modeled after a program in Maine. Dr. MacKay asked Fidelity representatives if they had additional thoughts on this program. Ms. Doyle added that Fidelity has some concerns from a compliance standpoint regarding certain aspects of the program in Maine, particularly in the areas of opt-out requirements and investor disclosure. Recommended legislation will be introduced in the 2015 session.

Initiative to Increase NH Resident Participation in UNIQUE/Uses of Annual Awards

Regarding increasing NH participation in the UNIQUE plans and future use of Annual Award funds, Dr. MacKay asked the Commission members if they had additional thoughts on these topics. Commissioner Dwyer suggested that these topics could be better discussed once there is more information from the Attorney General’s office regarding statutory compliance with respect to the current distribution of scholarship dollars. Dr. MacKay commented that research has shown students who enroll in 15 credit hours per semester versus the 12 credit hours required to be considered minimally “full-time” are more likely to graduate within the expected time period (2 or 4 years typically) and, therefore, providing additional funding to those “full load” students could be a good use of the UNIQUE Annual Awards Program dollars. Dr. MacKay mentioned that this is something that could be considered during future meeting discussions.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 12:05 p.m.

NOTE: The next regular meeting is scheduled for Monday, February 23, 2015 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by the Investment Committee meeting beginning at 9:00 a.m. All Advisory Commission members are invited to attend.