

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of February 23, 2015

The February 23, 2015 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
Bill Dwyer	Commissioner of the Treasury
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Lou D’Alessandro	State Senator
Michael Cryans	Public Member, appointed by the Governor
Ross Gittell	Chancellor, Community College System of New Hampshire
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Todd Leach	Chancellor, University System of New Hampshire
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations

Members absent were:

David Mahoney	Representing the Higher Education Commission – Dept. of Education
Jeanie Forrester	State Senator
Laurie Sanborn	State Representative
Lynne Ober	State Representative

Also present at the meeting were Keith Bernhardt, Kyla Doyle, Matt Golden, Ron Hazel, Peter Walsh, Brett Sumsion, and Sarah Pulsifer from Fidelity Investments (“Fidelity”), Rachel Bradley, and Michelle Farwell from PricewaterhouseCoopers (“PwC”), Stephen Smith from the Office of Legislative Budget Assistant (“LBA”), and Monica Mezzapelle from State Treasury.

Review of Prior Meeting Minutes

Minutes of the November 24, 2014 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mr. Cryans and seconded by Senator D’Alessandro. The motion passed unanimously.

Review of 2014 External Audit

Mr. Stephen Smith, Director of Audits for the LBA office, introduced himself to the Advisory Commission and mentioned that his office is responsible for the performance of the independent audits of the Unique College Investment Plan and the Fidelity Advisor 529 Plan. The LBA has a contract with PwC to conduct the Plan audits through fiscal year 2015. He then introduced Rachael Bradley, Partner from PwC, who oversaw the completion of the annual external audits of each of the portfolios within the UNIQUE College Investment Plan (36 portfolios) and the Fidelity Advisor 529 Plan (27 portfolios). The audits were as of, and for the year ended, September 30, 2014.

Ms. Bradley introduced Ms. Michelle Farwell who was the audit manager for the audits. Ms. Farwell presented the framework for the independent audits of both Plans. Ms. Farwell indicated that the audit approach focused on the controls relative to the daily portfolio unit value process (which relies on separate confirmation of clean opinions with respect to the underlying fund valuations), the rebalancing process, participant transactions (including new account set-ups and remittances), multi-class accounting, and management override of controls, as well as work on the financial statement areas of investment valuation of the underlying funds, proper accounting for fees and expenses (multi-class expenses for the FA 529 audit), participant subscriptions and redemptions, reclassification of capital gain distribution, and the appropriate financial statement disclosures and presentation.

Ms. Farwell stated that the financial statements received unqualified opinions and highlighted a few matters required to be communicated to the Advisory Commission. For example Ms. Farwell reported Fidelity and the Plans' Trustee provided full cooperation in the conduct of the audit, that no illegal or fraudulent acts were identified, and that no material weaknesses or significant deficiencies in the internal controls were noted. Ms. Bradley also noted that for the first time, no audit adjustments were proposed. State Treasurer Dwyer added that Ms. Bradley also presented the report to the State's Legislative Fiscal Committee on February 19, 2015.

Ms. Hodgdon moved and State Treasurer Dwyer seconded a motion to acknowledge receipt of the audit reports. The motion passed unanimously.

Summary of Investment Committee Meeting

Dr. MacKay presented a brief summary of the Investment Committee meeting that preceded the regular meeting. Dr. MacKay stated that in summary and after hearing presentations from Mr. Peter Walsh and Mr. Brett Sumsion from Fidelity about capital market and investment updates, the year 2014 in general favored the index managers rather than the active managers. Fidelity's active age-based portfolios, index portfolios, and multi-firm portfolios showed a slight relative underperformance compared to composite benchmarks. However, multi-firm portfolios revealed a very positive improvement during the last quarter of 2014 compared to the previous quarters.

During the investment committee meeting, Mr. Walsh stated that Fidelity's strategy continues to overweight on US equities as they have shown solid returns and very positive results and that Fidelity's focus on the investment objectives, asset liability analysis, enhancements to the glide path, as well as utilizing the active asset allocation strategy continues to strengthen the State's 529 plans. And finally, before concluding the investment committee meeting, Ms. Sarah Pulsifer from Fidelity briefly presented the Competitor Age-Based Portfolio Comparisons to the Advisory Commission. The comparison included the top competitors selected based on managers using active or passive strategies and included the annualized returns based on equity allocations for different performance periods.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report for the quarter ended December 31, 2014 was submitted by the State Treasurer, Mr. Bill Dwyer. Treasurer Dwyer indicated that the Endowment Trust Fund had a balance of \$3.6 million as of December 31, 2014, an increase of \$630,171 or 21% since the last quarter. Since the beginning of the fiscal year the fund has received \$6.3 million in management fee income, as well as interest, dividend earnings, and net market gains of approximately \$56,000.

Annual Awards distribution totaling \$1,050,613 was 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 totaling approximately \$5 million through the second quarter of fiscal year 2015. Administrative expenses for the quarter totaled \$66,071 comprised of the first and second quarter Treasury overhead allocations for \$19,224, \$4,973 of endowment fund management fees paid in August and November, \$4,000 paid to the College Savings Plan Network for the yearly membership dues, the College Savings Foundation Dues for \$1,875, and the annual support services payment to Division of Higher Education for \$36,000.

Dashboard Review as of December 31, 2014

Dr. MacKay presented the semi-annual review of the College Savings Plan Dashboard Report as of December 31, 2014. This report presents the State's 529 Plan historical and forecasted account management fees, actual fee revenue received, assets held in the plans, as well as a historical analysis of the Endowment Trust Fund and scholarship information for both the Unique Annual Allocation and Endowment programs. Dr. MacKay described the various historic trends and future projections that assist the Advisory Commission in its decision making, particularly with regard to the Unique Annual Allocation grants.

Dr. MacKay highlighted that the projected revenue included in the Dashboard is presented on a calendar year basis and is calculated by Fidelity based on their plan assets and sales' projections. As a result, the State should receive about \$13.6 million in revenue by the end of fiscal year 2016.

Dr. Leach inquired about the difference between Fidelity's projected revenue since it is slightly higher compared to the Commission's projected revenue, if the basis points are the same for both organizations. Mr. Bernhardt from Fidelity explained that the increased revenue is due to the expectation that the demand for multi-firm portfolios will increase and the fee structure for these portfolios is higher for Fidelity with 25 bps compared to 10 bps the Advisory Commission receives.

Unique 2015-16 Annual Allocation Program Scholarship Award Decisions

Pursuant to Administrative Rule Csp 602.01, the Advisory Commission is required to annually establish certain student eligibility and award criteria for scholarships of the UNIQUE Annual Award Allocation Program for the upcoming academic year (2015-2016). The purpose of making these decisions is so that participating schools are notified and can begin planning and communicating their financial aid programs for the next academic year and initiate awards on a timely basis.

During the 2013-2014 academic year \$2.8 million was distributed to participating schools to fund awards for 6,453 New Hampshire students. Participating schools were notified in March of 2014 that the awards were set at \$700 per student, distributed to those with an EFC of \$0, and whose FAFSA was received by December 31, 2014. In addition, schools received an initial allocation of \$1 million in July 2013 and an additional \$1.8 million was distributed to those schools that requested reimbursements by June 30, 2014.

The criteria for the 2014-15 academic year was as follows:

- 1) Initial allocation of \$1 million disbursed to participating schools in the beginning of fiscal year 2015;
- 2) A maximum EFC of \$0;
- 3) An individual maximum award of \$700 for eligible full-time students;
- 4) Guaranteed reimbursements to participating institutions for Annual Awards disbursed in excess of the initial allocation; and
- 5) A FAFSA filing deadline of December 31, 2014.

For the 2015-16 academic year, Dr. MacKay presented historical enrollment, tuition, Annual Award, and endowment award data, plus preliminary Annual Awards projections to the Advisory Commission. Dr. MacKay highlighted that the total award projections are for approximately 2,900 full time and 3,750 part time students/awards totaling a little over \$3.5 million, which is about 24% higher than last year. Dr. MacKay indicated that if the information provided is used as a basis, the Advisory Commission would need to spend part of the endowment trust fund balance to pay for those increased grants. Dr. MacKay stated that based on the analysis provided by the Higher Education Commission, he was recommending maintaining the same criteria as used for academic year 2014-15. Concerns were expressed relative to spending too much from the endowment trust fund. State Treasurer Dwyer added that on the Unique Endowment Trust Cash Flow Planning document provided in the materials, the projected trust fund balance at June 30,

2015 will be approximately \$2.9 million. Therefore, using the trust fund balance to pay for the increase in projected scholarships could significantly reduce the trust fund balance.

Senator D'Alessandro mentioned that, even though the economy is improving, the trend will most likely continue and there will be more eligible students based on need. Dr. Gittell suggested to change the current criteria to accommodate for the projected increase in scholarships. Additional discussion occurred among Commission members providing different alternatives for the 2015-16 Annual Award program criteria. For example, several members supported the idea of reducing the scholarship to either \$600 or \$500 and possibly requesting schools provide the difference from their endowments. Another idea was presented by Ms. Payne to move the FAFSA deadline to an earlier date, which would facilitate the planning for financial aid offices and control the pool of eligible students. Both ideas generated concern from some members.

After the discussion, Dr. MacKay asked for a motion to maintain the award at \$700, a maximum EFC of \$0, and with a FAFSA filing deadline of December 31. Mr. Cryans moved and Ms. Payne seconded. The motion passed unanimously.

Following the discussion, Dr. MacKay indicated that as part of the criteria the Advisory Commission has to determine the amount to be distributed in July of 2015, as required in the administrative rules. State Treasurer Dwyer indicated that if the endowment trust fund balance is at risk, the amount set by the Advisory Commission should be \$1,000,000. Dr. MacKay made a motion that the Allocation amount of \$1,000,000 will be initially distributed to participating schools and that administrative rules will need to be amended in the near future to be able to fulfill the anticipated increase in scholarships. State Treasurer Dwyer moved and Mr. Horgan seconded. The motion passed unanimously.

The Annual Award criteria for 2015-16 academic year is as follows:

- 1) Allocation amount of \$1,000,000 to be disbursed to participating schools in the beginning of fiscal year 2016;
- 2) A maximum EFC of \$0;
- 3) An individual maximum award of \$700 for eligible students;
- 4) A FAFSA filing deadline of December 31, 2014.

It was communicated that the State Treasury will notify all participating institutions in early March of 2015 regarding the approved Annual Awards criteria for 2015-16 academic year. Dr. MacKay noted the Advisory Commission will need to amend the administrative rules prior to June 30, 2016 to ensure it is clear the authority exists to make supplemental distributions.

Overview of the 529 Programs

529 Industry Market Update

Mr. Golden then presented the fourth quarter 2014 Industry Market Update. The NH Programs maintain a strong position ranking ahead of Ohio as the fourth largest in the country in asset value as of December 31, 2014, with just over \$14 billion in assets (at market value) and 6.2% of the industry's market share. New Hampshire followed Virginia (\$50.8 billion in assets managed by American Funds), New York (\$20 billion in assets managed by J.P. Morgan), and Nevada (\$14.8 billion in assets administered by multiple managers, including Vanguard).

Total 529 Plan market-value industry assets as of December 31, 2014 increased by 3.3% from the previous quarter and increased by 9.7% year over year, while New Hampshire's assets (UNIQUE and FA 529 plans combined) increased by 2.1% for the quarter and increased by 6.9% year over year.

Mr. Golden noted that for the fourth quarter of 2014, the S&P 500 increased by 4.93% and the Barclays Aggregate Bond Index increased by 1.79%. He also noted that for the one year period ending December 31, 2014, the S&P 500 increased by 13.69% and the Barclays Aggregate Bond Index increased by 5.97%.

Mr. Cryans inquired about Nevada's current ranking as they used to be behind New Hampshire just a few years back. Mr. Golden stated that Nevada has four plans, three retail and one advisor plan. The largest retail plan is managed by Vanguard and Vanguard has done a very good job promoting the plan. State Treasurer Dwyer also added that the Nevada plan is less matured than the New Hampshire plans and, therefore, there are less withdrawals from that plan.

Again this quarter, 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 has authorized Fidelity, at its request, to waive certain fees for both the UNIQUE 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 and, as a result, Fidelity waived a total of \$803,000 in fees through December 31, 2014.

Fidelity Advisor 529 Plan Review

On the advisor-sold side, the FA 529 Plan ranks fifth with a 4.2% market share, trailing Virginia (47.8%), Maine (7.9%), Rhode Island (7.4%), and Ohio (4.7%). Mr. Golden noted that Virginia continues to be the leader in this sector. Mr. Golden reported that the Fidelity Advisor 529 Plan had approximately \$4.2 billion in market-value assets under management at December 31, 2014, distributed over 198,228 participant accounts. Using the fourth quarter 2013 as a basis for comparison, 14.3% fewer new accounts were opened in the fourth quarter of 2014 as well as a decline in contributions by 1.8% for these same periods. The metrics for the fourth quarter 2014 versus the third quarter 2014 were also provided with a decline in new account growth by 15.2%; however, an increase in contributions by 7.6%. Mr. Golden noted that the South Carolina 529 Plan, which is managed by Columbia Funds had the largest market share growth during the quarter in the advisor plan space. This plan is using an omnibus recordkeeping approach with Ameriprise, who is one of the largest third party broker-dealer distributors of the New Hampshire Fidelity Advisor 529 Plan.

The average account size in the advisor-sold plan was \$21,594 with New Hampshire residents averaging \$20,401 in account balances.

Direct-sold (UNIQUE) 529 Plan Review

In the direct-sold space, Ms. Doyle reported the UNIQUE Plan remained in third place with 8.3% of market share, trailing New York's 14.2% share, and Nevada's 9.3% share, which surpassed UNIQUE for the first time in the third quarter of 2013.

Ms. Doyle reported that as of December 31, 2014, UNIQUE retail plan assets totaled nearly \$9.7 billion in market value, consisting of 550,845 participant accounts. New accounts increased by 12% in the fourth quarter of 2014 compared to the same quarter in 2013. Ms. Doyle added that last year Fidelity saw very positive results from starting its marketing efforts in January of last year, and as a result, Fidelity repeated the strategy and already saw a large increase in new accounts with nearly 5,000 accounts in January alone compared to 4,755 in January of 2014.

Contributions for the fourth quarter of 2014 were approximately \$297.6 million and exceeded the fourth quarter 2013 contributions by 3%. The metrics for the fourth quarter 2014 versus the third quarter 2014 were also provided with an increase in both new account growth and contributions by 29% and 26%, respectively.

The average account size of a UNIQUE portfolio was \$24,387 as of December 31, 2014 with NH residents averaging a balance of \$20,221 in the Plan. The average monthly new account and existing account contributions nationwide in the fourth quarter were \$4,175 and \$152, respectively. Similarly, NH residents are registering new account and existing account contributions of \$2,602 and \$235, respectively.

Regulatory and Legislative Report

Ms. Doyle briefly discussed the Regulatory and Legislative update. On December 19, 2014 President Obama signed into law the ABLE Act. The ABLE Act includes tax-free savings accounts for individuals with disabilities to save for their medical care, housing, transportation, and employment training to name a few. Prior to the ABLE Act, those individuals were not able to accumulate more than \$2,000 without losing government assistance. The new law increases the amount parents can save from \$2,000 to \$100,000. Ms. Doyle mentioned that this legislation was originally drafted as a subsection of the 529 Internal Revenue Code. Furthermore, an ABLE account would generally be treated in a similar manner as a 529 account; however, it is not a 529 account. The U.S. Treasury is expected to issue regulations in the summer or fall timeframe to clarify the specifics of the program.

Ms. Doyle also presented an update relative to H.R. 529. H.R. 529 was introduced into the 114 Congress on January 26, 2015; the objective, to amend the Internal Revenue Code of 1986 to improve 529 plans. The bill provisions include reinstatement of computer technology and equipment to be treated as a qualified higher education expense; elimination of plan aggregation

requirements which will reduce paperwork for states that have multiple programs; and, the ability to redeposit refunds from a college into a 529 account without immediate taxation and penalty which exists under the current law. There are 27 co-sponsors of the bill as of January 30, 2015. In response to Dr. MacKay's question, Ms. Doyle stated that overall, the bill benefits 529 participants.

Omnibus Recordkeeping Proposal to add Broker-dealer fee language

Mr. Golden presented the 529 Omnibus brokerage fee proposal to the Advisory Commission.

Based on recent developments within the 529 omnibus environment, Fidelity has learned that some third party broker-dealers plan to charge 529 plan participants 529 specific brokerage fees. Ameriprise, who Fidelity has partnered with to launch 529 omnibus in September, has stated their plans to implement a \$25 annual 529 brokerage fee beginning in March of this year. The fee will be applied to 529 plan participants that are record kept on their platform. 529 plans will need to add language to their offering statements to disclose that additional fees may be charged when a third party broker-dealer services the participant account. In omnibus serviced accounts, the \$20 Annual Account Maintenance Fee currently charged by Fidelity will be waived.

Fidelity sought authorization from the Advisory Commission to move forward with the project and to add language to the offering statement to indicate that participants may elect to invest in the plan through a financial intermediary that maintains an omnibus account with the plan and that the participant may be subject to an alternate annual account maintenance fee and waiver provisions. Dr. MacKay asked for a motion. Mr. Horgan moved and Senator D'Alessandro seconded. The motion passed unanimously.

Review of Other Items

Potential Revisions to Administrative Rules and/or Statutes

Dr. MacKay updated the Advisory Commission on statutory changes to the Endowment Trust Fund related statutes and shared the changes with the Advisory Commission. Dr. MacKay, State Treasurer Dwyer, and Ms. Mezzapelle had a meeting with representatives from the Attorney General's Office to clarify the interpretation of the 529 plan and Endowment Trust Fund related statutes. As a result of that meeting, a few technical corrections will need to be made to the current statutes and administrative rules to better align the Advisory Commission practices and original intent with the college savings laws. Senator D'Alessandro mentioned a few suggestions to be able to make these corrections during this legislative session

Report on the Children's Savings Account legislation (HB577)

Dr. MacKay provided a brief update to the Commission on the Children's Savings Account (CSA) Legislation.

HB 577 establishes the Children's Savings Account ("CSA") program. The purpose of the CSA program is to increase opportunities for college and career success for all students, to encourage positive postsecondary education savings behavior for low and moderate income families, and to provide, in cooperation with the public schools, financial literacy for all students and their parents. The CSA program would begin with two pilot programs in Coos County and the City of Manchester consisting of creating savings accounts at a financial institution, with a minimum deposit of \$50 for each eligible child attending public kindergarten in Coos County and in the City of Manchester.

Dr. MacKay indicated that the House Education Committee passed the bill but removed the funding of \$100,000 originally included in the bill when introduced. The bill establishes a Commission with assigned responsibilities such as establishing a fund raising plan to secure matching funds from federal, state, or private sources, among others. The bill had been referred to the Finance Committee.

Mr. Cryans commented that in the future, the Advisory Commission should consider contributing to a program like the CSA from the endowment trust fund, which would contribute to the cause and still support the vision of helping those in need. Dr. MacKay agreed with the long term value of the CSA and stated that using 529 plan fees for this program is not currently possible but can be a point of future discussions.

Other items

Dr. MacKay also mentioned that Commissioner Hodgdon is retiring and that this was her last meeting. Dr. MacKay thanked Commissioner Hodgdon for all the years of dedicated service to the Advisory Commission and invited her to come back to the May meeting to officially thank her for her dedication.

In addition, Mr. Cryans commented that he was very pleased to see Senator D'Alessandro joining the Commission, as he felt it was very important to have active representation from the legislature. He welcomed Senator D'Alessandro.

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

NOTE: The next regular meeting is scheduled for Monday, May 18, 2015 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.