

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 24, 2015

The August 24, 2015 meeting of the New Hampshire College Tuition 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:

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| 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 | State Treasurer |
| Lou D'Alessandro | State Senator |
| Ross Gittell | Chancellor, Community College System of New Hampshire |
| Thomas Horgan | President & CEO, representing the New Hampshire College and University Council |
| Sylvia Larsen | Representing the Governor; Retired State Senator |
| Todd Leach | Chancellor, University System of New Hampshire |
| David Mahoney | Representing the Higher Education Commission – Dept. of Education |
| Tara Payne | Vice President, representing the NH Higher Education Assistance Foundation Organizations |

Members absent were:

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| Jeanie Forrester | State Senator |
| Lynne Ober | State Representative |
| Laurie Sanborn | State Representative |

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

Review of Prior Meeting Minutes

Minutes of the May 18, 2015 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mr. Cryans and seconded by Mr. Horgan. The motion passed unanimously.

Summary of Investment Committee Meeting

Dr. MacKay briefly summarized the results presented by Mr. Walsh and Mr. Dierdorf from Fidelity during the Investment Committee meeting which preceded the regular meeting. Dr. MacKay stated that the Plan had a very good quarter, outperforming the corresponding benchmarks during the second quarter. The Multi-firm strategies also outperformed benchmarks during the same period, a positive change from previous quarters.

Mr. Dierdorf, who along with Mr. Brett Sumsion manages the 529 Plan portfolios, briefly recapped the capital markets positioning during the second quarter of 2015 and how it influenced the performance in the 529 strategies. Mr. Dierdorf indicated they have been pleased with the performance of the Plans seeing positive absolute and relative results. Fidelity considers the macro environment, valuation, sentiment, and bottom-up indicators as part of the active allocation management process for the 529 age-based strategies.

Currently, 529 portfolios present a pro-cyclical asset classes expression, including equity and credit, while underweight fixed income and short-term debt. The glide path is built on the long-term horizon; however, active asset allocation provides opportunities to seek out mis-priced asset classes. Fidelity also continues to monitor risks, such as the timing of monetary tightening by the Federal Reserve, global market performance, and the strengthening of the US dollar.

In addition to recent economic views, some of the 529 highlights presented by the Fidelity team during the Investment Committee meeting were: active Fidelity age-based portfolios benefitted from strong contributions from underlying managers, as a relative outperformance was noted for active Fidelity age-based and static portfolios for the quarter, while relative results were mixed over the longer time periods. Aged-based Multi-Firm Funds performed in line with respective indices for the quarter, though they underperformed relative to indices over the longer time periods. The enhanced 529 glide path described by Fidelity in prior meetings was fully implemented in quarter one of 2015.

Fidelity also provided a brief update of its recent meeting with Morningstar. Fidelity typically meets with Morningstar at least once per year to provide an overview of the 529 Plans and any recent enhancements or changes needed for consideration as part of Morningstar's annual review. Last year, Morningstar downgraded the UNIQUE College Investing Plan from Bronze to Neutral, in Fidelity's opinion, mainly due to uncertainty around the Active Asset Allocation (AAA) enhancement Fidelity had recently implemented at the time. Mr. Dierdorf reported he and Mr. Keith Bernhardt had met with the Morningstar team and the dialogue maintained seemed very positive. Morningstar appears to be more comfortable with the AAA strategy and the questions asked were indicative of their understanding. Mr. Bernhardt was also able to fully describe the various services available to potential and active participants, such as the Online College Gifting tool and the College Planning Learning Center. Ms. Doyle added Morningstar conducts all their reviews and evaluations around this time of the year and publishes the results sometime in October of each year.

A Competitive Performance Update for both plans was presented by Ms. Sarah Pulsifer (UNIQUE) and Mr. Matt Golden (FA529). This was the first time a Competitive Performance Update was being presented for the Advisor-sold side. The Comparisons included the top competitors based on managers using active and passive (Index) strategies. Comparisons

considered annualized returns based on equity allocation for different periods. The idea behind these comparisons was to not only highlight performance against representative benchmarks, but also against the top competitors in the 529 industry. On the Direct-sold side, competitors for the Active comparison included T. Rowe Price (AK), USAA (NV), Schwab (KS), and Franklin Templeton (NJ). Competitors used for the Index comparison were Vanguard (NV), Vanguard (NY), and Oppenheimer (IL). The competitive analyses as of June 30, 2015 for age-based Active portfolios revealed the UNIQUE plan outperformed its competitors on the 1 Year Performance Analysis and performed in line with competitors for the 3 and 5 Year Performance Analyses. The competitive analyses for age-based Index portfolios revealed that the UNIQUE plan underperformed its competitors on the 1 Year Performance Analysis, but performed in line with competitors for the 3 & 5 Year Performance Analyses. Competitors on the Advisor-sold side were Alliance Bernstein (RI), American Funds (VA), Blackrock (OH), and John Hancock (AK). Competitive Analyses indicated the age-based Active portfolios, based on the 1, 3, and 5 Year Performance Analyses, outperformed or performed in line with competitors as of June 30, 2015.

Review of the Dashboard Report as of June 30, 2015

Dr. MacKay presented the semi-annual update of the College Tuition Savings Plan Dashboard Report as of June 30, 2015. The Dashboard report presents the New Hampshire's 529 Plan historical and forecasted information, including but not limited to, actual and projected management fee income, actual and projected plan assets under management, activity of the NH Excellence in Higher Education Endowment Trust Fund established in RSA 6:38, as well as Award information relative to the two UNIQUE scholarship programs administered by the Advisory Commission.

Dr. MacKay pointed out the Dashboard is presenting updated projected revenue for calendar year 2015, 2016, and 2017 of \$13.6 million, \$14.6 million, and \$15.9 million, respectively, resulting in approximately \$14.1 million in fiscal year 2016 projected revenue. The endowment trust fund finished with a balance of nearly \$2.9 million, slightly less than the \$3 million mark, which having a lower balance is a deliberate decision the Advisory Commission has made to award more scholarships to eligible students. The Dashboard report also included Annual Award activity reported by participating institutions as of June 30, 2015, which is mainly from institutions requesting reimbursements in excess of the amount initially distributed in July of 2014. Total Annual Awards reported as of June 30, 2015 totaled 6,161 or \$2.7 million but it is expected the number/amount will increase as several schools have not submitted their final numbers until October 15, which is the deadline established in the administrative rules.

As a follow-up from the last meeting, Dr. MacKay reported the difference between actual Annual Awards granted during the 2014-15 academic year and the estimates participating institutions provided to the Division of Higher Education last November of 2014 was primarily due to estimates reported by three institutions: Mount Washington College, University System of New Hampshire (Granite State College), and the Community College System of New Hampshire. Based on the research performed by the Division of Higher Education and State Treasury, estimates from those schools included part-time awards on a semester by semester basis (or terms

other than semesters) and not necessarily by academic-year, which inadvertently inflated the number of annual awards projected for fiscal year 2015.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and Scholarship Disbursements report as of June 30 2015 was presented by State Treasurer Dwyer. Treasurer Dwyer stated the Endowment Trust Fund finished with a balance of nearly \$2.9 million at the end of fiscal year 2015. During the year the fund received a total of \$12.7 million in management fee income, as well as \$52,000 in investment earnings and net market gains, and had net disbursements of approximately \$13.3 million.

In July of 2014, an initial Annual Awards Allocation of approximately \$1 million was distributed to participating colleges and universities and another \$1.8 million was reimbursed at the end of the fiscal year to those institutions who granted Annual Awards in excess of the original allocation amount received in July 2014. In addition, nearly \$10.1 million in monthly Endowment Award Allocations was distributed to participating institutions in fiscal year 2015. Treasurer Dwyer also indicated Attachment 3 of the meeting materials also includes total scholarship disbursements through June 30, 2015 by participating institution. As previously mentioned, \$2.8 million in scholarship funds were disbursed in fiscal year 2015 and a total of \$19 million have been disbursed since the inception of the UNIQUE Annual Allocation Program. Under the UNQUE Endowment Allocation Program about \$10 million in scholarship funds were disbursed to eligible institutions through June 30, 2015 and nearly \$66 million since the inception of the Program. Administrative expenses through June 30, 2015 were just over \$375,000, which comprised of nearly \$290,000 paid to PwC for the UNIQUE and FA529 Plan audits, the quarterly Treasury overhead allocations of \$33,000, endowment fund management fees of \$11,000, the yearly membership dues paid to the College Savings Plan Network and the College Savings Foundation of \$5,900, combined, and the annual support services payment to the Division of Higher Education of \$36,000.

Ms. Payne, in response to Mr. Cryans' question, confirmed that the UNIQUE scholarship programs are the major source of financial aid the State of New Hampshire currently provides to students pursuing postsecondary education.

Maximum Participant Contribution

Mr. Golden provided an overview of the 529 Contribution Limit. The Plan provisions allow changes to be made to the contribution limit and currently, New Hampshire is ranked as having the 10th largest maximum contribution limit nationwide at \$375,000. Mr. Golden added the average 529 Plan contribution limit is \$344,989 and the median is \$350,000. In addition, college costs are increasing every year: the average college tuition and fees for a four-year public college increased 2.9% from the 2014-15 academic year (\$22,424) and the average college tuition and fees for a four-year private college increased 3.7% from the 2014-15 academic-year (\$52,364).

Mr. Golden commented, over the years New Hampshire has used the Dartmouth College formula (the most expensive college in New Hampshire) as a basis for determining the Contribution Limit. The Dartmouth College formula includes undergraduate and graduate study for seven years resulting in total cost of \$469,308 (\$67,044 * 7 years). The annual cost of \$67,044 includes tuition, fees, books, housing, food, and miscellaneous expenses as of August of 2015. The current total of \$469,308 under this approach serves as one proxy for evaluating the maximum contribution limit. Also worth noting is that there are 156 accounts in the UNIQUE College Investing Plan and 49 in the Fidelity Advisor 529 that exceeded the contribution limit of \$375,000 as of August of 2015. Accounts that exceed the contribution limit are not allowed to make additional contributions but they are allowed to stay in the Plan and continue to generate growth.

Mr. Cryans offered a motion to remain at \$375,000 and Senator D'Allesandro seconded. The motion passed unanimously and the Maximum Participant Contribution remained at \$375,000.

Overview of the 529 Programs

529 Industry Market Update

Mr. Golden started his presentation with the market results for the second quarter indicating the S&P 500 increased by 0.28% and the Barclays Aggregate Bond Index decreased by 1.68%. At the end of the second quarter of 2015, the New Hampshire programs remained with a strong position as the fourth largest in the country with \$14.6 billion in market-value assets and 6.2% of the industry's market share. Total 529 industry assets increased by 1.2% from the last quarter and by 6.4% year over year. In addition, New Hampshire assets, UNIQUE and FA 529 plans combined, increased by 1.1% and by 4.1%, respectively during the same time periods. The New Hampshire Plans trailed Virginia (\$53.03 billion in assets managed by American Funds), New York (\$21.17 billion in assets managed by J.P. Morgan), and the Nevada plans (\$15.87 billion in assets administered by multiple managers, including Vanguard). Mr. Golden also pointed out that the Utah plan remained in 7th place with \$8.3 billion in assets and the Illinois plan surpassed the Rhode Island plan from the 9th to the 8th largest plan with total assets of approximately \$7.6 billion.

Fidelity Advisor 529 Plan Review

On the Advisor-sold side, Mr. Golden reported during the second quarter FA529 Plan performed in line with competitors remaining as the fifth largest plan in the Industry with \$4.4 billion in market-value assets under management and 4% market share. 529 Advisor-sold plan assets increased by 1% from quarter one to quarter two of 2015 and increased by 4% year over year. The Virginia plan remained at the top of the list with \$49.8 billion in assets managed by American Funds, and 45% market share. The Virginia plan was followed by Maine (\$8.2 billion in assets), Rhode Island (\$7.3 billion in assets), and the Ohio plans (\$4.8 billion in assets). The FA 529 plan assets were distributed over 197,746 participant accounts.

Mr. Golden was pleased to report that Fidelity went live with the Omnibus recordkeeping initiative with Ameriprise on July 27, 2015. As a point of reference, Mr. Golden mentioned that

new account growth had declined during the last few months; for example, 148 new accounts were opened in May and 155 new accounts were opened in June of this year. Since the implementation of the omnibus recordkeeping platform, 269 new accounts have been opened. This provides a very positive outlook, as new account growth is not typical around this time of the year and Fidelity remains very optimistic to see better results as time goes on. Results for the second quarter were: The number of new accounts declined during the second quarter compared to the first quarter by 2.1% and 6.8% year over year. Contribution amounts also declined during the second quarter of 2015 compared to the first quarter by 2.8% and by 1% year over year. The average account size in the Advisor-sold plan was \$22,330 with New Hampshire residents averaging \$21,021 in account balances.

Direct-sold (UNIQUE) 529 Plan Review

On the Direct-sold side, Ms. Doyle reported that the Plan is keeping pace with the Industry remaining in third place with nearly \$10.2 billion in market-value assets and 8.2% of the market share, trailing New York's 14.1% share (\$17.5 billion in assets), and Nevada's 9.4% market share (\$11.7 billion in assets).

As of June 30, 2015, the UNIQUE plan had 574,811 participant accounts, a decline of 16% from the first quarter of 2015; however, an increase of 14% comparing the second quarter of 2015 to the second quarter of 2014. Contributions for the second quarter of 2015 also decreased compared to the first quarter of 2015 by 17%; however, contributions increased by 10% year over year.

During the second quarter of 2015, the average account size of a UNIQUE account was \$24,705 with New Hampshire residents averaging \$20,918 in account balance. In addition, the average monthly new account and existing account contributions nationwide were \$3,655 and \$130, respectively. Same metrics for New Hampshire residents: new account and existing account contributions were \$1,118 and \$196, respectively.

Regulatory and Legislative Report

In previous meetings, Ms. Doyle reported that H.R. 529 was introduced into the 114 Congress on January 26, 2015. The objective of this bill is to amend the Internal Revenue Code of 1986 to improve 529 plans. This bill was introduced by Representative Jenkins (R-KS) and referred to the House Committee on Ways and Means. The bill passed the House of Representatives on February 25, 2015 and was received in the Senate on February 26, 2015. The Bill provisions include the purchase of a computer, elimination of plan aggregation requirements, the ability to redeposit refunds from a college into a 529 account without immediate taxation and penalty which exists under the current law. Ms. Doyle stated there has been no movement on bringing this Bill to the Senate floor and no movement is expected in the coming months.

Review of Other Items

Update of HB479 - Amendments to the NH Excellence in Higher Education Endowment Trust Fund Related Statutes

Dr. MacKay updated the Advisory Commission on statutory changes intended for the New Hampshire Excellence in Higher Education Endowment Trust Fund related statutes. As a result of work performed by State Treasury and guidance obtained from the Attorney General's Office, a few technical corrections to the statutes were required. With the assistance of Senator Morse, such changes were introduced in HB479 and this bill was signed into law by Governor Hassan on July 13, 2015, and effective September 11, 2015.

Review of Proposed Amendments to Administrative Rules - Csp 100 – 700

After reporting on the recent passage of HB479, Dr. MacKay explained to Advisory Commission members that the process of updating current administrative rules needs to start. The Advisory Commission was provided with a draft of the proposed changes in advance to guarantee a productive discussion during the meeting. Ms. Mezzapelle, in response to Dr. MacKay's request, reviewed each of the proposed changes and allowed opportunities for questions as she proceeded. In summary, Ms. Mezzapelle explained that the proposed changes intend to align the administrative rules with the recent amendments to the statutes, as well as to include certain provisions in the rules not previously codified. Proposed changes were also reviewed by the Attorney General's office to ensure proposed changes were in agreement with all legal requirements. After the Advisory Commission members had an opportunity to review the changes being proposed, Dr. MacKay asked for a motion to bring the proposed rules to the JLCAR and continue with the process of updating them. Senator D'Alessandro moved and Mr. Horgan seconded. The motion passed unanimously.

Additional Reimbursements to CCSNH & Saint Anselm College for 2014-15 Annual Awards

Dr. MacKay indicated all schools that submitted reimbursement requests prior to May for Annual Awards granted in excess of the initial allocation amount distributed in July of 2014 were reimbursed by the Treasurer's Office by the end of fiscal year 2015. Two participating schools submitted requests in late May and the Treasurer's Office was unable to satisfy the requests, as there were not sufficient funds in the scholarship budget line to pay for these scholarships. All scholarships are paid out of an appropriation at the Treasurer's Office funded by the endowment trust fund and at the end of the year, Treasurer Dwyer had to go to before the Fiscal Committee to request authorization to use more funds from the endowment trust fund. The two schools that submitted late requests were not included in that request.

Dr. Mackay asked for a motion to reimburse a total of \$75,950 to the Community College System of New Hampshire (\$67,200) and Saint Anselm College (\$8,750) for awards granted under the UNIQUE Annual Allocation Program during the 2014-15 academic-

year. Mr. Cryans moved to approve and Mr. Horgan seconded. The motion passed unanimously.

Update of HB577 - Children's Savings Account Program

Dr. MacKay updated the Advisory Commission on the recent passage of HB577, which establishes the Children's Savings Account Program (CSA). HB577 is effective July 1, 2015.

The purpose of the CSA program is to increase opportunities for college and career success for all students and to do so by encouraging 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 will begin with two pilot programs 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. The law establishes a Commission which among other responsibilities, it is being charged with establishing a fund raising plan to secure matching funds from federal, state, or private sources, among others.

The intent is to model the Rhode Island or Maine programs. Dr. MacKay shared that institutions such as the New Hampshire Higher Education Assistance Foundation (NHHEAF) and Fidelity have had internal discussions about potentially administering the program. Ms. Payne reported from her participation in one of the meetings with the Federal Reserve Bank of Boston, she was pleased to learn that there will be many resources and roadmaps, as well as best practices available for when New Hampshire is able to start this program. Mr. Doyle also mentioned that Fidelity may be able to provide expertise, if New Hampshire chooses to partner with Fidelity again once funding is not an obstacle. Dr. MacKay emphasized it was important for the Advisory Commission to be updated regarding this program, as the intent has been that once the initial Commission establishes the fundamentals of this program, the oversight would move to the College Tuition Savings Plan Advisory Commission.

Update of SB265 - ABLE Act Program

As we learned from Fidelity in prior meetings, 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 at least \$100,000 (amount can be higher, but recipients then lose full eligibility of certain federal programs).

Dr. MacKay reported that disability advocates are still working on establishing the ABLE program in New Hampshire. However, Representative Ober recommended retaining SB265 until more information is available from U.S. Treasury.

Ms. Doyle commented she attended the ABLE Forum in Illinois, which the objective was to gather and share thoughts and concerns regarding the proposed regulations issued by the U.S. Treasury in June. Ms. Doyle also mentioned that Nebraska has already issued a Request For Proposal and Florida is also moving forward and has appropriated \$4.4 million for the implementation of this program. Ms. Doyle indicated Fidelity is still in the evaluation phase and has not made any decisions yet.

Treasurer Dwyer also added that there will be a public hearing in mid-October and the final U.S. regulations may not come out until the end of the year or after.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:50 a.m.

NOTE: The next regular meeting is scheduled for Monday, November 23, 2015 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.