

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of December 5, 2016

The December 5, 2016 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:

Edward MacKay (Chair)	Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire
Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Lou D’Allesandro	State Senator
Bill Dwyer	State Treasurer
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:

Michael Cryans	Public Member, appointed by the Governor
Jeanie Forrester	State Senator
Ross Gittell	Chancellor, Community College System of New Hampshire
Sylvia Larsen	Representing the Governor; Retired State Senator
Lynne Ober	State Representative
Laurie Sanborn	State Representative

Also present at the meeting were Kyla Doyle, Keith Bernhardt, Ron Hazel, and Peter Walsh from Fidelity Investments (“Fidelity”), as well as Monica Mezzapelle from the New Hampshire State Treasury.

Review of Prior Meeting Minutes

Minutes of the August 22, 2016 regular meeting were reviewed and presented for approval by Dr. MacKay. Dr. MacKay asked for a motion to approve the August 22, 2016 meeting minutes as distributed. Treasurer Dwyer made a motion to approve, seconded by Dr. Leach. All Advisory Commission members voted in favor.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements for quarter ending September 30, 2016.

During the first quarter of fiscal year 2017, the endowment trust fund received over \$3.3 million in management fee income from the two 529 Plans and disbursed approximately \$3.6 million. Administrative expenses of approximately \$16,000 were also incurred during the quarter, comprised of the first quarterly Treasury overhead allocation of about \$9,000, the endowment trust fund management fees of \$2,900, and the yearly membership dues paid to the College Savings Plan Network of \$4,100. The endowment trust fund finished the quarter with a balance of \$2.2 million.

Participating institutions received the initial 2016-17 UNIQUE Annual Award Allocations in July of 2016 of about \$1 million. This is a key determining factor as to why the trust fund balance is at a low point this quarter. As the revenue share continues to accumulate, the trust balance should recover to an estimated balance of \$2.5 million. In addition, over \$2.6 million in monthly Endowment Allocations were distributed to participating institutions through quarter ending September 30, 2016. Since program inception, the endowment trust fund has received over \$134.6 million in revenues and has surpassed the \$100 million mark in combined scholarship disbursements, with nearly \$101.4 million distributed to participating colleges and universities through September 30, 2016.

UNIQUE Scholarships Report for the 2015-16 Academic Year

Dr. MacKay presented an update of the UNIQUE scholarship programs after all participating institutions filed the required reports with the Division of Higher Education by October 15.

Based on projections provided by the institutions, a slight increase in the number of awards is expected for the current 2016-17 academic year. Consequently, the program spending during the 2016-17 academic year should be about the same as fiscal year 2016 (approximately \$2.7 million). On the UNIQUE Endowment Allocation Program side, participating institutions reported endowment balances of approximately \$79.7 million in the aggregate as of June 30, 2016.

In response to a question from Ms. Berube, Dr. MacKay informed the Advisory Commission that Daniel Webster College closed and a teach-out program was approved by the New England Association of Schools and Colleges (“NEASC”), the U.S. Department of Education, and New Hampshire Higher Education Commission. Most Daniel Webster College students are completing their degrees through the teach-out a program provided by Southern New Hampshire University (“SNHU”) and other students have successfully transferred to other institutions. The funds under the UNIQUE Annual Allocation program will be awarded as intended and for those students attending the teach-out program, SNHU will file the associated required reporting.

Unique 2017-18 Annual Allocation Program Scholarship Award Decisions

Pursuant to Administrative Rule Csp 602.01, the Advisory Commission is required to annually determine the total amount available for initial and subsequent allocation in the upcoming fiscal year, the maximum Expected Family Contribution (“EFC”), the date of the Free Application for Federal Student Aid (“FAFSA”) by the federal processor and the maximum amount of the individual student award. Prior to amending the rules, the Commission also determined if institutions were going to be reimbursed for awards exceeding the initial allocation amount. Now institutions applying for reimbursement and meeting certain requirements will be compensated.

The criteria for the 2016-17 academic year were as follows:

- 1) Initial allocation of \$1 million;
- 2) A maximum EFC of \$0;
- 3) An individual maximum award of \$700 for full-time students;
- 4) A FAFSA filing deadline of December 31, 2016.

During the meeting, Dr. MacKay introduced a proposal to revise the maximum award amount of \$700 used in recent years to one that would provide an incentive for more students to enroll for at least 15 credits in a semester. As background, Dr. MacKay explained that last year New Hampshire joined more than 40 other states in endorsing Complete College America (“CCA”), an effort directed at improving postsecondary education persistence and graduation rates, and thereby substantively reduce student debt. One of the CCA “game changers” is “15 To Finish”, which could enable students to complete their college studies on time. As documented in numerous studies, students who enroll in at least 15 credits per semester are much more likely to graduate on time and not default on student loans (plus they avoid the opportunity cost of being out of the full time workforce for a longer period). The New Hampshire College and University Council, University System of New Hampshire and Community College System of New Hampshire have each embraced CCA and are working on implementation of related strategies.

The proposal increases the individual maximum annual award amount to \$1,000 (\$500 per semester) for students enrolled in 15 or more credits in a semester. Enrollment for less than 15 credits in a semester (and at least 6 credits) would be eligible for \$200 per year (\$100 per semester). Dr. MacKay clarified, the notion is “30 credits per year” – if the institution uses terms, the award amount per term would be prorated to an equivalent amount. For example, if an institution has three terms, the student enrolled in at least 10 credits (30 credits divided by 3) would be eligible for \$333 (\$1,000 divided by 3).

Dr. Leach and Dr. Horgan expressed support for this idea, as it encourages students to stay on track. However, a concern was raised that this new criterion could create additional administrative burden for institutions, as they would need to grant aid based on credits enrolled and not by enrollment status – full-time or part-time. Dr. Horgan commented, in response to Senator’s D’Allesandro’s question, it is unclear how this change would impact institutions that have adopted 4 semester credit hours rather than 3 semester credit hours. For example, a student attending one of those institutions might enroll in three classes during his/her last semester and would not need to enroll in 15 credits. Dr. Horgan and Dr. Leach suggested the Advisory Commission confer with

the postsecondary education institutions prior to approving it to ensure this policy would be operationally feasible. Ms. Berube mentioned the State Financial Aid Association will hold an executive committee meeting in the upcoming week and several New Hampshire institutions will be represented. This topic could be discussed during the meeting. Dr. MacKay agreed and suggested the Advisory Commission could approve this criteria subject to feasibility verification by postsecondary education institutions. A deadline of December 20th could be established to hear back from all institutions of whether or not this initiative would be operationally doable and would not create extraordinary logistical and operational complications if this policy were implemented. If institutions indicate this proposal is viable, the approved UNIQUE Annual Award criteria would be communicated to financial aid officers in the beginning of 2017; otherwise, the Advisory Commission would need to meet again in January and take action on revised Annual Award criteria, and potentially revert back to the current criteria.

Confirming with Advisory Commission members that the rest of the criteria can remain in place and that no other concerns exist, Dr. MacKay requested a motion to adopt the eligibility criteria that would encourage students to enroll in at least 15 credits per semester, subject to feasibility verification by postsecondary education institutions, and to maintain the initial and subsequent allocation amounts, EFC, and FAFSA deadline as in previous years for the 2017-18 academic year. Dr. Horgan moved to approve the UNIQUE Annual Award criteria as discussed during the meeting. Senator D'Allesandro seconded. The motion passed unanimously.

The UNIQUE Annual Award criteria for 2017-18 academic year will be as follows:

- 1) Initial allocation amount of \$1,000,000 to be distributed to participating institutions in July of 2017 and a subsequent allocation intended to reimburse institutions for all eligible students;
- 2) A maximum EFC of \$0;
- 3) An annual maximum award of:
 - a. \$1,000 (or \$500 per semester) – students enrolled in 15 or more credits per semester
 - b. \$200 (\$100 per semester) – students enrolled in less than 15 credits and a minimum of 6 credits per semester; and
- 4) A FAFSA filing deadline of December 31, 2017.

UNIQUE Endowment Allocation Program Application

The New Hampshire Institute of Art (“NHIA”) has expressed interest in participating in the UNIQUE Endowment Allocation Program and has submitted an application along with the required documentation to the State Treasury for consideration. Dr. MacKay reminded the Commission that in order to participate in this endowment program, an institution needs to be a not-for-profit entity and NEASC accredited. The application/agreement needs to be formally approved by the Advisory Commission and will be maintained at the State Treasurer’s office. The agreement specifies the requirements of the program as directed by the administrative rules Csp 700 (i.e. distribute a minimum payout of 4% of the endowment balance per year, award a

minimum of \$1,000 to an eligible student, administrative expenses are not allowed under this program).

Dr. MacKay requested a motion to approve the application submitted and to accept participation by the NHIA into the UNIQUE endowment allocation program beginning in the 2017-18 academic year. Dr. Leach made a motion to approve and Senator D'Allesandro seconded. Motion was unanimously approved. Dr. MacKay will be executing the agreement this morning.

Overview of the 529 Programs

529 Industry Market Update

Mr. Walsh from Fidelity began the presentation with a capital markets overview, stating the U.S. survived several events, such as Brexit, the U.S. elections, and it is facing a potential small rate increase by the U.S. Federal Reserve. Approaching the elections, the markets saw a lot of volatility, but after the elections stability followed, resulting in very strong subsequent returns. Sectors such as technology recovered and others like the bond sector declined. The fund managers took advantage of opportunities and adjusted the weights to benefit the plans. Active Asset Allocation brought in 45 bps in the quarter. The UNIQUE plan had positive 3- and 5-year absolute performance, deriving a 3-year return of 7% and 5-year return of 12.5% for the most aggressive funds and about 4% for the more conservative funds. Fidelity and Multi-Firm funds had positive relative performance for the quarter with 120 bps for the most aggressive funds and 74 bps for the college portfolios. Relative underperformance occurred over the long-term; however, it appears to be improving and it is now in the single digits. The index funds performed in line with its benchmark.

Mr. Walsh concluded his presentation by congratulating the New Hampshire and Fidelity teams for the upgrade from Neutral to Bronze Medal by Morningstar. Mr. Bernhardt shared with the Commission that he had the pleasure of attending the meeting with the Morningstar team and the increased familiarity with key aspects of the UNIQUE plan and the recent fee reductions helped raise the rating from Neutral to Bronze. Mr. Bernhardt explained the Morningstar rating methodology based on five key pillars: Process, Performance, People, Parent and Price. The UNIQUE plan scored positive on People (fund managers), and Parent (oversight provided). Treasurer Dwyer added it was helpful to have the opportunity to speak with the Morningstar Analyst to further describe the role of the Advisory Commission in providing oversight, as well as describe the relationship between the Treasury and Advisory Commission Chair and the Fidelity team (i.e. monthly calls and ongoing communication). Commission members were very pleased with the news.

Mr. Hazel continued the presentation with the 529 Industry Update for quarter three of 2016 noting that New Hampshire continues as the fourth largest in the country with over \$15 billion in market-value assets under management, an increase of 1.8% since the last quarter. To put that into perspective, the Dow Jones U.S. Total Stock Market Index was up 4.4% for the quarter and 14.9% year over year; the Barclays U.S. Aggregate Bond Index was 0.5% and 5.2% during the same time

periods. Similarly, the 529 industry assets increased by 2.2% from quarter two to quarter three and increased by 12.1% year over year. New Hampshire assets, both plans combined, also increased by 1.8% during the quarter and by 9.3% year over year, maintaining a 6.1% of the industry's market-share. New Hampshire again trailed Virginia (\$55.6 billion in assets managed by American Funds), New York (\$23.1 billion, managed by J.P. Morgan), and the Nevada plans (\$17.9 billion, multiple managers – including Vanguard).

Fidelity Advisor 529 Plan Review

On the 529 Advisor-sold space, Mr. Hazel continued reporting that as of September 30, 2016 the FA 529 Plan had nearly \$4.4 billion in market-value assets, distributed across 191,195 participant accounts and maintaining 3.9% of the market-share. 529 Advisor-sold Plan assets increased 1.6% from quarter two to quarter three and increased by 9.1% year over year. The FA 529 plan assets increased 1.5% from quarter two to quarter three and increased 6.5% year over year. New Hampshire moved to the sixth spot this quarter, trailing Virginia (\$52 billion in assets), Maine (\$8.2 billion in assets), Rhode Island (\$6.3 billion in assets), Ohio (\$4.8 billion in assets) and now Alaska (\$4.4 billion in assets), which was right behind New Hampshire last quarter.

New account growth improved during the quarter, adding 2,449 new accounts, an increase of 2.2% from quarter two to quarter three 2016; however, not as good as quarter three in 2015 which had added 2,598 new accounts. Contributions decreased in quarter three by 8.7%; however, the Plan improved compared to the previous quarter, which had reported a 14% decrease in contributions. Contributions were also lower this quarter compared to quarter three in 2015, from \$79.2 million reported to \$76.8 million.

Account size metrics were also reported. The average account size in the FA 529 plan was \$22,951, with New Hampshire residents averaging an account balance of \$21,060.

In response to some concerns raised by Advisory Commission members, Mr. Hazel stated the Advisor-sold plans have moved to more consolidated way of reporting (omnibus recordkeeping) and some states are ahead with this initiative. Fidelity is working on upgrading its recordkeeping platform to be able to compete with plans that already have the technology implemented. Fidelity estimates the upgrade would be in place by May of 2018. Mr. Hazel added although the partnership with Ameriprise has been very positive, Fidelity is aware it needs to create new partnerships to gain market-share in this space. Dr. Horgan mentioned that periodic updates on the status of the upgrade would be helpful to monitor the performance of the plan.

Direct-sold (UNIQUE) 529 Plan Review

On the 529 Direct-sold side, Ms. Doyle reported that as of September 30, 2016, the UNIQUE Plan had over \$10.7 billion in market-value assets distributed across 633,285 participant accounts holding the number three slot in the industry. 529 Direct-sold plan assets increased by 2.7% from quarter two to quarter three and by 14.7% year over year. Similarly, UNIQUE Plan assets increased 2% during the quarter and increased by 10.5% year over year, with a 7.9% of the

market-share. The Plan also continues to trail New York (\$19.1 billion in assets, 14.1% of market-share), and Nevada (\$13.4 billion in assets, 9.9% of market-share).

New account growth was up during the quarter increasing by 10%, adding 11,807 new accounts. An increase of 9% was also seen during the quarter compared to quarter three in 2015. Contributions to the Plan also increased by 3% from quarter two 2016 to quarter three 2016 and by 6% from quarter three 2015 to quarter three 2016. Ms. Doyle added the strongest month was August with a 16% increase year over year continued by September with a 9% increase year over year. Ms. Doyle stated that the positive results could be attributed to the timing of when the College Savings Indicator Study (“CSI”) was released and since this was the 10-year anniversary of the study, it received a lot more press. Mr. Bernhardt added college savings awareness in general has had a lot more press recently and may be contributing to the strong results.

The average account size in a UNIQUE account was \$24,390, while New Hampshire residents averaged an account balance of \$20,224. The average monthly contributions to new and existing accounts nationwide were \$3,828 and \$123, respectively; while New Hampshire residents contributed an average of \$2,048 to new accounts and an average of \$266 to existing accounts.

In response to a question from Dr. Horgan, Mr. Bernhardt stated the increase in plan assets is net of distributions and, therefore, the increase in plan assets is relatively lower compared to the increase in account growth and contributions. Fidelity does not report participant distributions; however, distributions are very heavy in August. Treasurer Dwyer added that the New Hampshire plans are more mature compared to other states. As a result, the assets may be invested more conservatively compared to younger plans, such as Nevada and Alaska, where assets may be invested more aggressively and have lower level of requested distributions to participants.

Proposed 2017 meeting dates

Dr. MacKay directed Commission members to a list of proposed meeting dates included in the materials. The proposed 2017 meeting dates were selected based on the practice adopted by the Advisory Commission prior to 2014 to schedule meetings on the 8th Monday following the end of the quarter with some modifications to avoid vacation weeks and holidays.

After consideration given by Advisory Commission members, Dr. MacKay requested a motion to adopt the proposed meeting dates. Treasurer Dwyer moved and Senator D’Allesandro seconded. The motion passed unanimously. The meeting dates for calendar year 2017 will be March 6, May 15, August 21 and December 4, 2017.

Annual financial disclosures due to Secretary of State on or before January 20, 2017

Treasurer Dwyer reminded Advisory Commission members about the statutory filing requirement pursuant to RSA 15-A. The deadline for filing with the Secretary of State’s Office is the third Friday in January, which is January 20, 2017. Ms. Mezzapelle will send an e-mail reminder with

links to the financial disclosure forms located at the Secretary of State's website. Commission members should expect the email reminder in mid-December.

State Legislation Update

Update of the Children's Savings Account Program (RSA 195-J)

On the legislative front, Dr. MacKay updated the Advisory Commission on the Children's Savings Account Program pursuant to RSA 195-J, indicating that a legislative proposal has been submitted by Rep. Gile, as the lead sponsor, for the creation of the Children's Savings Account Program. The source of funding proposed is \$100 increase in the licensing fee paid for each mutual fund class. The seed funding would be \$250 for each second grader in New Hampshire who completes a financial literacy module. The notion is that it could eventually benefit the mutual fund industry if savings is embraced by these students and families.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:55 a.m.

NOTE: The next regular meeting is scheduled for Monday, March 6, 2017 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.