



**State of Wisconsin**  
*Department of Financial Institutions*

Scott Walker, **Governor**

Jay Risch, **Secretary**

**MINUTES OF COLLEGE SAVINGS PROGRAM BOARD**

A meeting was held at the Department of Financial Institutions, 201 West Washington Avenue, Madison, Wisconsin, on Wednesday, February 28, 2018 at 1:00 p.m.

MINUTES

MEMBERS PRESENT: *Alberta Darling, Dereck Drummond, Rob Kieckhefer, Sean Nelson, Bill Oemichen, Jay Risch, Kim Shaul, Carrie Stahl (for Rolf Wegenke), and Jim Zylstra.*

OTHERS PRESENT: Paula Smith, Halvard Kvaale, Shirley Yang, Glenn Friedman, Mary Lehman, Catherine Burdick, Greg Reiman, Chris Meyers, George Althoff, Alicia Alvarez, Kim Springer, John Buscher, Jessica Fandrich, and Jim DiUlio.

- I. **Call to Order and Roll Call** – Chair *Bill Oemichen* called the meeting to order at 1:05 p.m., attendance was taken and a quorum was present.
- II. **Approval of Agenda** – Motion by *Shaul*, second by *Zylstra* to accept the agenda. Voice vote, carried. Staff reported that the meeting notice and agenda have been properly posted.
- III. **Approval of Minutes** - of November 29, 2017 Motion by *Zylstra*, second by *Kieckhefer* to approve the minutes, carried.

The Board took a brief recess to take a group photograph

**IV. Administrative Reports**

- A. **Board Chair Comments** – Resuming the meeting, *Oemichen* commented that the program's assets have been bouncing above and below \$5 billion in held assets with the market volatility. He and *Sen Darling* remarked that in the early days, one billion seemed like an impossible goal. And now in Wisconsin, we have accounts in just over ten percent of households with children, another good milestone. The new federal tax law now allows 529 assets to rollover into ABLE accounts, those recently created by Congress for children with disabilities. This will provide families with more flexible options for their children. On the horizon for the Board is to revisit our governance policies and procedures in the coming year. Resources from other states' 529 programs are available. He said a committee will be forming to work on this project, and those with experience with bylaws and the like are welcome to participate.

**B. Department of Financial Institutions** This will be the last meeting in this building said *Secretary Jay Risch*, with the department moving to the new state office building in early May. He also noted that our 529 program is participating in America Saves Week, which DFI has been a long time participant and supporter with the banks and credit unions. This year, America Saves Week is featuring education savings and 529 plans in many states are participating. At the legislature, work is underway to expand the tax benefits of 529 for K-12 tuition expenses, as allowed by the new federal tax law. Also, legislation to provide employers an incentive to contribute to their employees' 529 accounts is nearly complete, and will be a nice benefit statewide. Later in the meeting, Jessica will provide details of the payroll contribution project for state, university, and other employees. This will be successful and encourage other employers to participate, too

**C. Program Director Comments** Before the reports, *DiUlio* updated the Board on last year's bid process for our independent investment consultant contract. The process selected a new company, Wilshire Associates of Santa Monica as the finalist to negotiate and contract talks will begin soon. Callan's contract term ended December 31. At present, we do not have a consultant under contract and we discussed that during this morning's Investment Committee meeting. Wilshire has a deep research team, following 60,000 investments worldwide, and we will be serviced by principals from their Pittsburgh office. Currently Wilshire advises the Ohio 529 program, and has previous college savings experience with Virginia, Maryland, and New Mexico. They also have a different role with the Alabama and Illinois plans, and are familiar with the business. We anticipate their work to start before the next Board meeting.

For the historical record, *DiUlio* related, the program's first consultant was *Linda Schlissel* of Evaluation Associates, Inc. until her company was merged into Mercer, and their accounts were assumed by Callan in 2011. In the past seven years, Callan has been a good partner, including assisting in the selection of our current TIAA and Voya program managers in 2012, and have provided fee studies and national 529 landscape reports to assist us. On their way out, they were kind enough to provide the 2017 year-end reports before us today, and will assist the new consultant with historical data transfer.

On reflection, *Oemichen* expressed his thanks to Annoesjka West and the Callan organization for their outstanding work and guidance during their time with us. He will write a letter to them on behalf of the Board.

**Communications, proxy voting**

None received, and no proxy votes have been presented in two years.

**Federal and state issues update**

**Tax law changes affecting 529 and ABLE plans**

Combining both topics, the new federal tax law and K-12 school tuition have been a discussion topic at 529 programs nationwide. Many states will have to modify their laws to extend the state tax benefits for these elementary and secondary school expenses. The federal government will also have to change the definition of 'Eligible Education Institution' to fit the new law; that is expected later this year. A concern of

many in the 529 industry it that savings diverted for K-12 use may not be replaced, creating savings shortfalls at the time of college enrollment.

At the last meeting, *DiUlio* listed many 529-related items in the then-current discussions leading up to the legislation; most of them never made to the final bill. Some items may be revived later having received support, including rolling unused dormant 529 accounts to Roth IRAs, and extending the personal Saver's Credit to 529s on the 1040 tax form.

The new tax law also affects other state tax-related programs including advance refunding, and a short discussion followed.

Federal legislation currently in the House is the PROSPER Act affecting higher education, financial aid, and other things. The states have been successful in inserting a provision to exclude assets in 529 plans from the FAFSA calculations. If passed, it would have significant impact both in encouraging savings and removing a frequent objection to any type of reported savings.

Related to these federal issues, *DiUlio* did not mention at the last meeting due to time is his continued participation as the Wisconsin voting representative in the national College Savings Plans Network (CSPN), affiliated with the National Association of State Treasurers (NAST). Serving as a member of CSPN's Executive Board for the past six years, he has been elected to serve as Chair of the Executive Board this year, to represent the 529 industry and to also serve on NAST's board with state treasurers.

The role offers our program access to ideas and best practices around the country, and is a good opportunity to help shape regulatory and congressional actions from the state level to best serve the 13 million 529 plan participants nationwide. Two of his goals are to encourage more state-to-state sharing and also to develop the next generation of leaders.

### **Payroll direct deposit project**

*Jessica Fandrich* reported that great progress has been made during the last year, incorporating payroll systems, benefit managers from multiple agencies, and various administrators at state agencies and university locations. The project is designed to provide helpful information to those inquiring and work smoothly through the transaction process. A full-service enrollment and tracking system is ready to launch in the second quarter, on or about 5-29 Day. Also included in your meeting packet today, for your information, are current materials the Tomorrow's Scholar plan uses with the public.

*Oemichen* added his appreciation to DFI for promoting this state employee effort. Having worked both in private and state employment, he said this was a good addition. *Fandrich* added that the program is scalable to add private employers later.

### **Report from investment due diligence meeting held December 5, 2017**

A week after our last meeting, staff held the annual due diligence meeting with selected investment managers. With the agency move happening when we conducted usual October meetings in New York, this year we did it by telephone and print. We

discussed bonds, real estate, as well operational and internal compliance controls. About 20 people from TIAA and Voya participated in the day-long meetings. The presentation decks are available, along with explanatory notes. Board members have participated in the past, and are encouraged to represent the program.

## **V. Manager Comments**

- A. *Paula Smith* of Voya said 2017 was a great year for Tomorrow's Scholar. She related statistical information, showing increases in both accounts and assets in Wisconsin and nationwide. Her report tracked sales by leading securities dealers and current and planned marketing initiatives. (Refer to presentation deck)
- B. *Shirley Yang* of TIAA also remarked that 2017 was great for Edvest. National ranking of being named a Top Ten plan was a fourth quarter highlight. She then reviewed significant data report metrics. Catherine Burdick then reviewed the marketing and outreach efforts. Streaming video has been a successful addition. Tax time campaign is ready to go. (Refer to the presentation deck)

## **VI. New Business**

### **A. Investment Committee Report - Review of Third Quarter Investments.**

*Chair Rob Kieckhefer* briefed the Board in place of the investment consultant. He reviewed highlights from the data in Callan's executive summary. He commented on the government's CPI numbers, whether they included gasoline or not, and if what they report is an accurate reflection. There is also concern, he said, in that a handful of tech stocks account for much of the growth of the equity markets. Further, he said that Vanguard only counts 420 of the S&P 500, because Apple counts the same as the bottom 80.

During this transition period, the committee looks forward to working the new Wilshire team, but any major action is on hold in interim. One thing the committee agreed to do was remove the emerging markets fund on watch from the list. Last year, the fund returned 45%, bringing up the three and five year numbers to a more normal position.

Watch List update, Recommendations – Motion by Committee to remove the Voya Multi-manager Emerging Market Equity fund from the watch list. All voted aye, motion carried.

**VII. Announcements** – Coming events that may be of interest to the Board include the SWIB Spring Investment Conference, in April here in Madison; the Strategic Insight 529 Conference, including the one day '529 Essentials' program in September. It has been attended by members in the past, to good reviews. And there are periodic opportunities in Milwaukee and Chicago for investment-related seminars. Details shared when available.

*Oemichen* and *Darling* recalled the days when the Strong Funds legal problems affected individual members; they were sued directly and identified in the national press. Members are in fact trustees with fiduciary responsibility for education and knowledge of current practices. Let staff know if there is any interest in attending these training sessions.

Before closing, *Sen. Darling* told the group that *Secretary Risch* was once on her staff and 'look at you now.' She also added that Greg Reiman has been active in her district in a variety of projects.

The next meeting of the College Savings Program Board and the Investment Advisory Meeting will be held on May 30, 2018, at the new state office building on Madison's west side.

**VIII. Adjournment** — Motion by *Shaul*, second by *Kieckhefer*. Carried. The meeting was adjourned at 2:38 p.m