

THE BOARD OF TRUSTEES OF THE
COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING
June 21, 2016

Chairman Dan Schwartz, State Treasurer, called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 1:00 p.m., on Tuesday, June 21, 2016. The meeting was held by conference call from the Nevada State Laxalt Building, 401 North Carson Street, 2nd Floor Chambers, Carson City, Nevada to the Grant Sawyer Building, 555 East Washington Avenue, Suite 5100, Las Vegas, Nevada. Other attendees participated in person or by conference call.

Board members present:

Chairman Dan Schwartz – Las Vegas
Ned Martin – Las Vegas
Bob Seale – Carson City
Janet Murphy – Carson City
Jamie Hullman – Carson City

Others present:

Tara Hagan, Chief Deputy Treasurer, Treasurer's Office
Grant Hewitt, Chief of Staff, Treasurer's Office
Linda J. English, Senior Deputy Treasurer – South
Budd Milazzo, Senior Deputy Treasurer – North
Holly Primka, Treasurer's Office
Sheila Salehian, Deputy Treasurer for Prepaid Tuition & Financial Literacy
Shane Chesney, Nevada Attorney General's Office
James Canup, Hirschler Fleischer
Eric White, Pension Consulting Alliance
Greg Walker, Thomas & Thomas
Megan Bedera, Amplify Relations
Chris Smith, USAA
Bob Landry, USAA
Paul Fulmer, USAA
Lisa Connor, Ascensus College Savings
Ardie Hollingsworth, Ascensus College Savings
Sue Serewicz, Ascensus College Savings
Tom Hewitt, Vanguard
Blanca Platt, Treasurer's Office
Judy Minsk, Putnam Investments

Rick Polsinello, Putnam, Fixed Income Investment Director
Ken Alberts, GRS
David Kausch, GRS

Roll was taken, and it was determined a quorum was present. Ms. English indicated the meeting had been properly noticed and the agenda was posted in accordance with the Open Meeting Law in both Carson City and Las Vegas.

1. Public Comment

There was no public comment in Las Vegas or Carson City.

Consent Agenda

2. For possible action – Board review and approval of the minutes of the College Savings Board of Trustees meeting of June 2, 2016.
3. For possible action: Board review and approval of the Ascensus program manager's report encompassing results for Vanguard, USAA, and SSGA Upromise 529 plans for the quarter ended March 31, 2016.
4. For possible action: Board review and approval of the Putnam 529 for America program manager's report for the quarter ended March 31, 2016.
5. For possible action: Board consent to a contract extension of the USAA Private Label Agreement between USAA and Ascensus Broker Dealer, Inc.
6. For possible action: Board review and approval of a supplement to the Vanguard 529 College Savings Plan Program Description to notice participants that Vanguard plans to replace the Vanguard Prime Money Market fund within the Vanguard Short-Term Reserves Account with the Vanguard Federal Money Market Fund.
7. For possible action: Board review and approval of the Prepaid Tuition Investment Monitoring Report prepared by Pension Consulting Alliance, Inc. for the quarter ending March 31, 2016.
8. For possible action: Board review in-state marketing plans for the Vanguard 529 College Savings Plan, USAA College Savings Plan, SSGA Upromise Plan for the RIA channel and Putnam 529 for America.
9. For possible action: Board review and approval the FY17 Education and Outreach plan and budget for the umbrella and SSgA Upromise 529 Plan.

Jamie Hullman asked to pull Agenda Item 7 from the Consent Agenda.

Ned Martin motioned to approve Consent Agenda items 2, 3, 4, 5, 6, 8, and 9. Bob Seale seconded the motion. Motion passed unanimously.

Mr. Hullman asked the Pension Consulting Alliance (PCA) Representative, Eric White why the Prepaid Tuition Trust Fund reports were gross of fees and not net of fees. Mr. White explained that in the defined benefit universe it is customary to report gross fees rather than net, as the calculation for the custom separate accounts is extremely detailed and difficult to calculate. However, Mr. White noted that the Prepaid Tuition fund uses low cost institutional mutual funds, which represent over sixty percent of the overall assets are reported net of fees. He noted that the fees for the fund are extremely low and his quick calculation would put the total asset-weighted fees at around 0.30% or thirty basis points.

Jamie Hullman motioned to approve the Agenda Item 7. Bob Seale seconded the motion. Motion passed unanimously

Discussion Agenda

10. For possible action: Board to receive an update on "Let's Go to College! Nevada Saves" from Amplify Relations.

Megan Bedera representing Amplify Relations gave a brief presentation on their advertising campaign.

Treasurer Schwartz asked if there was a way to revise the campaign to make it inclusive to community colleges, apprenticeships and trade schools.

Linda English replied that the campaign has always had that message but she is happy to put in a stronger emphasis on this point in the program materials.

Grant Hewitt suggested that we work towards identifying events that are more focused on those folks going to career or technical schools.

Ned Martin questioned if the monies in 529s could be utilized at trade schools or for apprenticeships.

Linda English explained that an eligible institution is any institution eligible to participate in federal financial aid programs.

Grant Hewitt stated that the campaign can do a better job talking to account holders to explaining the program and better dispel the myths.

Janet Murphy questioned if the 16% awareness on the 529 College Savings Programs is a good percentage and questioned the national numbers to better gauge the success of the 16%.

Megan Bedera stated that she did not bring the full study with her but will make sure to provide this information to the Board.

Grant Hewitt replied that staff will create a one page sheet to better explain the baseline to share with the Board.

11. For possible action: Board review and approval of amendments to Nevada Administrative Code 353B for the implementation of Senate Bill 412 which provided for a credit against taxes imposed on certain employers if an employer matches the contribution of an employee to certain college savings plans.

Staff has drafted amendments to Chapter 353B of Nevada Administrative Code (NAC) to establish certain regulations which were set forth in Senate Bill 412. In addition to the changes required under SB 412, Staff has also requested the Board's review and approval of the following amendments to NAC Chapter 353B Nevada Higher Education Prepaid Tuition Program: 1) Amendment to NAC 353B.310 to allow a purchaser to change the qualified beneficiary after benefits have been paid assuming the contract has remaining credit hours. The new qualified beneficiary must adhere to the original contract expiration date or the Board may charge a fee, if it deems necessary. 2) Amendment to 353B.350 to allow for a 10-year monthly payment plan, in addition to the 5-year monthly payment plan, extended monthly option and lump sum payment option.

Bob Seale questioned if there was a fiscal note filed on this particular bill.

Tara Hagan replied that there was a fiscal note due to the impact on tax revenue for Nevada. She noted that the fiscal note submitted was minimal at approximately \$230,000 annually in tax credits which offset tax revenue.

Bob Seale questioned if there is a limit that employers can contribute as a match to the Nevada College Savings Plans, including the Prepaid Tuition Plan.

Linda English stated that there is no limit to the amount of money that can be contributed as a match by the employer. She noted that the tax credit to the employer is limited to \$500 per employee.

Grant Hewitt stated that the credit can only be claimed when the employee is participating in a Nevada qualified 529 College Savings Program.

Ned Martin questioned the length of the contract usage capability, including the timeframe of the six year contracts versus the ten year contracts.

Sheila Salehian noted that contracts with a ten year payout period began early in the program's history and are slowly being phased out. She noted that for purposes of the amendment to the regulations that the current six year payout period will be maintained.

Janet Murphy wanted clarification regarding the regulation for the ten-year contracts and questioned if the regulation was increasing the monthly payment to ten-years from the current five-year payment plan.

Shelia Salehian replied that the Program currently has 6 years from the time that a student graduates from high school to use the contract. She stated that the regulation change is requiring adherence to the original contract so depending on when the contract was purchased; it could be ten-years in the case of an older contract or six-years in the case of the more recent contracts. She noted that if a child attends college for a semester and drops out, then the purchaser could transfer the remaining contract to another beneficiary. She stated that the contract length which is provided to the new beneficiary would not exceed the original contract length of either ten or six years.

Tara Hagan clarified that there are two separate issues which are being amended in the regulation. She noted that the amendment to NAC 353B.310 will allow a purchaser to change the qualified beneficiary after benefits have been paid assuming the contract has remaining credit hours which Ms. Salehian noted would be either the ten-year or six-year contract. She stated the amendment to 353B.350 will allow for a 10-year monthly payment plan, in addition to the 5-year monthly payment plan.

Ned Martin asked if there was any additional cost associated with either of these recommended amendments.

Sheila Salehian replied that the only additional cost would be if the actuary decided to charge for a 10 year payment schedule.

Ken Alberts, a representative from GRS stated that the firm would not charge a fee.

Ned Martin motioned to approve the amendments to Nevada Administrative Code 353B. Bob Seale seconded the motion. Motion passed unanimously.

12. For possible action: Board review and approval of Bill Draft Request which amends Nevada Revised Statute 353B.090 to allow students to use unused Prepaid Tuition contract hours toward graduate credit hours.

Staff noted that at the July 23, 2015, College Savings Board meeting, staff presented a potential amendment to the Nevada Revised Statutes (NRS 353B.090) for the Nevada Prepaid Tuition Plan. The amendment would allow beneficiaries with unused tuition credits which remain on his or her contract to use this credit (at the same undergraduate credit hour rate) toward graduate courses. The intent is that the amount will not exceed the original amount payable under the beneficiary's plan for undergraduate level course at the eligible educational institution.

Bob Seale asked why does the Board want to approve this amendment.

Sheila Salehian stated that this enhancement was more of a proactive move to recommend adding value to the program by allowing the use of unused credit hours toward graduate school. She noted that the attached matrix of other state's prepaid tuition plans noted that of the eleven states surveyed, seven states currently allow for unused tuition credits or units to be used for graduate level courses.

Bob Seale questioned if this would have any impact on the actuary evaluation.

Sheila Salehian answered that it would not have any impact on the actuary evaluation because the request was to only allow the remaining hours to be paid at the original rate for undergraduate courses regardless of the graduate rate.

Jamie Hullman motioned to approve the bill draft request to amend Nevada Administrative Code 353B.090. Bob Seale seconded the motion. Motion passed unanimously.

13. For possible action: Board review and approval of the Nevada College Savings Plans Investment Monitoring Report prepared by Pension Consulting Alliance, Inc. for the quarter ending March 31, 2016. (Eric White – 10 min.)

Eric White, with PCA, presented the Nevada College Savings Plans Investment Monitoring Report to the Board for approval. He reviewed the funds that are currently the Board's "watch-list" and reviewed the performance of the age-based and risk-based portfolios versus the universe of 529 age-based and risk-based funds.

Jamie Hullman asked if the performance returns on page 263 and 264 were net of fees.

Mr. White responded that yes, the performance being reported is net of fees.

Bob Seale motioned to approve the Monitoring Report prepared by PCA. Janet Murphy seconded the motion. Motion passed unanimously.

14. For possible action: Board review and approval of the annual investment presentation for USAA 529 College Savings Plan.

- a. USAA Presentation (Chris Smith and others –USAA– 20 min.)
- b. PCA's Commentary (Eric White, PCA – 10 min.)
- c. Board review and approval of a supplement to the USAA 529 College Savings Plan Program Description and Participation Agreement to disclose mapping to Governmental Money Market Fund.

Paul Fulmer and Bob Landry with USAA presented the USAA investment outlook and recommendations to the portfolio allocations and investment options within the 529 program. Mr. Landry briefly outlined the recent performance of the USAA portfolio's stating there are three key tenants in its portfolio management which include, getting paid for taking on credit risk, global diversification which has resulted in a higher foreign equity exposure relative to its peers in 592 plans, and the belief in taking a value orientation to equity investments such as focusing on fundamentals, and looking for companies whose stock prices do not reflect what we believe are their intrinsic value.

Mr. Landry discussed the proposed changes and the first is to remove the real return fund, which is 2% of the overall allocation in all age-based portfolios. He noted that the second change is to reduce the emerging market allocation to be closer to the actual current allocation within the global market place and more closely align the allocation to the global benchmark. He stated that the third change is to slightly increase the domestic fixed income allocation. He noted the increase will slightly decrease the interest rate risk but add some credit risk. Mr. Landry mentioned that they are looking at changes to money market fund and are doing research on alternatives.

Treasurer Schwartz commented that it is an extremely difficult market and commented that he was in agreement with the changes and recommendations.

Eric White commented that PCA is in agreement with the changes USAA proposed and support the decision to remove the Real Return fund for simplification purposes. He stated that the second recommendation to reduce the emerging market allocation is warranted and agrees with the desire to more closely align the percentage with the benchmark. He noted that the reduction will assist in lowering the volatility in the portfolios and help the risk return charts on a go forward basis. He stated that the third change regarding the slight tweaks to the fixed income portfolio, are di minimus and mostly will not materially impact performance.

Ned Martin motioned to approve the annual investment presentation for USAA 529 College Savings Plan. Bob Seale seconded the motion. Motion passed unanimously.

15. For possible action: Board review and approval of the FY 2016 actuarial assumptions for the Prepaid Tuition Program. (Ken Alberts & David Kausch, GRS – 10 minutes)

Mr. Ken Alberts with GRS gave a quick overview of the recommended FY 2016 actuarial assumptions for the Prepaid Tuition Program. Mr. Alberts explained that they looked at the assumptions they used last year and compared those to the College Board's historical averages of tuition increases, inflation and performance/return assumptions. He noted that if the Board adopts the proposed assumptions, it should expect to see the pricing increase for 4-year college contracts and slightly increase the 2-year college contract costs in 2017.

Treasurer Schwartz commented that the assumed rate of return of 6% is too high and he doesn't think it should be incorporated in the FY16 assumptions for the actuarial analysis..

Ken Alberts replied that when they did their capital market assumption they came up with a reasonable investment return rate between 5% and 7%. He noted that the Board's consultant, PCA provide its assumed rate of return for the 10-year market cycle to be 5.91%; therefore, GRS believes 6.00% is a reasonable long term assumption.

Ned Martin questioned if we should look at this in absolute terms of 6% return or are we looking at this as a 3.50% real return.

Ken Alberts replied that Mr. Martin is correct in the 3.50% real return rate assumption.

Jamie Hullman questioned if we lower the rate of return would it increase the cost of the contract and requested if the Board should have two different scenarios presented at the next Board meeting.

Ned Martin questioned if we lower everything by a percentage across the board, what would the impact be to the model.

Ken Alberts replied that the contract prices would increase slightly beyond the current increases presented today, if the assumptions are lowered.

Bob Seale motioned to table until the July meeting and ask for a revised assumptions and impact on pricing. Ned Martin seconded the motion. Motion passed unanimously.

16. Staff Notes

Sheila Salehian gave highlights and updates.

17. Public Comment

No public comment in Carson City, NV; no public comment in Las Vegas, NV; and no public comment on conference call.

Meeting adjourned at 2:42pm.

Attest:



Linda English, Secretary to the Board