

THE BOARD OF TRUSTEES OF
THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING
June 21, 2018

Chairman Bob Seale called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 10:00 a.m., on Thursday, June 21, 2018. The meeting was held by video conference from the Nevada Capitol Building, 101 N. Carson Street, 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 Bob Seale – Carson City
Vice Chair Jeff Haag – Carson City
Susan Brown – Carson City
Stephanie Shepherd – Carson City
Ned Martin – Las Vegas
Grant Hewitt – Carson City, Ex-Officio Non-Voting Board Member

Others present:

Tara Hagan, Chief Deputy Treasurer
Beth Yeatts, Senior Deputy Treasurer – South
Sheila Salehian, Deputy Treasurer – South
Paul Fulmer, USAA
Brian Herscovici, USAA
Julius Barnes, USAA
Salma Meraz, USAA
Ken Albert, GRS
Sean Copus, PCA
Eric White, PCA
Sue Hopkins, Ascensus
Lisa Connor, Ascensus
Tom Hewitt, Vanguard
Sara Mongerson, Chicago Equity Partners
Megan Bedera, Amplify Relations
Trinda Freese, Amplify Relations

Roll was taken, and it was determined a quorum was present. Beth Yeatts 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.

AGENDA

Public Comment. There was no public comment.

- 1. For possible action:** Chairman Bob Seale nominated Jeff Haag as new Chairman and Stephanie Shepherd as Vice Chairman.

Susan Brown motioned to approve the Agenda Item# 1. Ned Martin seconded the motion. Motion passed unanimously.

Consent Agenda

- 2. For possible action:** Board review and approval of the minutes of the College Savings Board of Trustees meeting of March 22, 2018.

Bob Seale motioned to approve Agenda Item# 2. Susan Brown seconded the motion. Motion passed unanimously.

- 3. For possible action:** Board review and approval of the Ascensus program manager's report encompassing results for Vanguard, USAA, SSGA Upromise 529 and Wealthfront 529 plans for the quarter ended March 31, 2018.
- 4. For possible action:** Board review and approval of the Putnam 529 for America program manager's report for the quarter ended March 31, 2018.
- 5. For possible action:** Board review and approval of the Thomas & Thomas unaudited financial statements of the Nevada College Savings Plans compiled for the quarter ended March 31, 2018
- 6. For possible action:** Board review and approval of in-state marketing plans for the Vanguard 529 College Savings Plan, USAA College Savings Plan, SSGA Upromise Plan, Wealthfront 529 Plan and Putnam 529 for America Plan.
- 7. For possible action:** Board review and approval of the education and outreach expenditure report for the SSGA Upromise 529 Plan for the quarter ended March 31, 2018 to be recorded as non-cash revenue in the State's accounting system.

Ned Martin motioned to approve the Consent Agenda Items # 2 - 7. Bob Seale seconded the motion. Motion passed unanimously.

Discussion Agenda

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

Paul Fulmer, Brian Herscovici, Julius Barnes, and Salma Meraz presented to the Board the USAA 529 Annual Investment Review. Mr. Fulmer stated that USAA serves over 12 million members and its 529 College Savings Plan has \$3.6 billion in assets under management, ~282,000 funded accounts and 59% of those accounts are enrolled in an automatic investment plan. USAA has a high number of family members who contribute to 529 plans with over \$20 million gifted by family members. The Nevada plan offers a dollar for dollar match up to \$300 annually for Purple Heart recipients or active duty members with children under the age of 13; \$37,000 has been matched in the state of Nevada this past year.

Two new initiatives were launched by USAA in 2018. The first is a video describing a 529 plan and how to establish an account with USAA. The second initiative will be to help members understand what decisions are important to consider when contemplating opening a 529 account. Currently, members inquire with USAA professionals three times before opening an account and USAA wants to ensure members know enough about 529 accounts to feel comfortable opening accounts during the first visit.

Julius Barnes stated there are no recommended investment changes in the portfolio as USAA feels positive about the positioning at this time because the performance numbers are solid across all their portfolios.

Chair Haag asked if there is an overall cap to the amount USAA will match via the matching grant program.

Salma Meraz stated the cap is \$90,000 annually. She noted that two years ago they matched over \$40,000, but they have never reached the \$90,000 cap.

Grant Hewitt asked if there has been any discussion on expanding the match to veterans or others who may qualify as USAA account holders.

Salma stated that they have not thought of expanding the program yet, but instead have enhanced the outreach it conducts to ensure that those who meet the current qualifications are aware of the program. She noted at this juncture USAA believes it's an awareness issue rather than a limitation on the pool of eligible applicants.

Bob Seale asked what income groups are buying USAA 529 plans.

Salma Meraz responded that members with incomes in the range of \$80,000 – \$90,000 are the majority of clients contributing to 529 plans. She explained that to open an account, plan participants need one of two things; an initial contribution of \$250 or an ongoing contribution of \$50 a month.

Bob Seale asked if the demographics would be the same for participants in Nevada.

Ms. Meraz replied that they haven't dissected the data for Nevada but would be happy to follow up and provide the Board with this additional information at a later meeting.

Bob Seale motioned to approve the Agenda Item# 8. Susan Brown seconded the motion. Motion passed unanimously.

- 9. For possible action:** Board review and approval of the amended non-cash expenditure Report for the SSGA Upromise 529 Plan for the quarter ending December 31, 2017 to be recorded as non-cash revenue in the State's accounting system.

Grant Hewitt stated that an error was discovered in the marketing summary invoice for FY18 Q2 which was provided to the Board at the March meeting. He noted that the invoice was recorded as at \$9,966.36, but the actual amount should have been \$22,733.077.

No questions or comments from the Board Members.

Susan Brown motioned to approve Agenda Item #9. Bob Seale seconded the motion. Motion passed unanimously.

- 10. For possible action:** Board review and approval of the actuarial Experience Study prepared by Gabriel, Roeder and Smith (GRS) for the Nevada Prepaid Tuition Program.

Ken Alberts presented the actuarial experience study to the Board. He explained that over the last five years the study notes a few differences between actual numbers and assumptions utilized over this time period. One example is the Prepaid Tuition Program contracts are being refunded at a rate higher than those assumed during the five-year period studied. Refund rates are the rates at which contract holders opt to cancel their contracts and refund the monies paid into the Program. Mr. Alberts noted that the current assumptions assume different rates of refunding as a result of the type of payment plan purchased and the experience study noted that is still appropriate. Mr. Alberts noted that GRS is proposing a small assumption change in refund rates from the current assumptions.

Mr. Alberts noted that the Program's credit utilization has been lower than expected during the five-year experience period. This is primarily the result of beneficiaries not fully utilizing all their credits and refunding the program after matriculating. He also noted that the type of credits purchased affected utilization and recommended splitting University credits versus community college credits for the assumed credit utilization. He noted that on average members that were behind on the expected contract utilization never caught up and never utilized all their credits. He stated on average he estimated approximately 85% of credits purchased are utilized by those who matriculate. Mr. Alberts proposed modifying the credit utilization as follows, assume 50% of the difference between the past expectations and past actual utilization in the future and other 50% will remain unused to be refunded, if applicable. He also noted that Nevada's plan had a law change in 2017 which now allows students who have graduated but have unused credits to apply these credits to graduate school but at the same undergraduate rate.

Chair Haag inquired to the law change and questioned whether the intent was to increase participation in 529 plans.

Grant Hewitt stated that the intent of Senator Harris, who authored the bill, was to allow unused credits in the Prepaid Tuition Plan to be used in graduate school so that beneficiaries could get the full use of the contract. He noted that Senator Harris has encountered people who received the Kenny Guinn Millennium Scholarship or other scholarships who weren't able to use the full credits and weren't eligible for a refund.

Chair Haag asked if the residual funds could be used for other family members.

Sheila Salehian stated that they can gift any leftover credit hours to a family member; however, the new beneficiary would need to use it by the original expiration date of the contract.

Stephanie Shepherd asked for more clarification on information received from Universities regarding unused credits or other information being requested.

Ken Alberts replied that the universities only provide the cost per credit hour. They don't provide any other information about the student, such as leftover credits.

Sheila Salehian reported that the Prepaid Tuition Program staff will be sending e-mails/letters alerting students who haven't used all their Prepaid Tuition credits.

Grant Hewitt asked how Nevada compares with other Prepaid programs.

Ken Alberts stated that he works with Nevada, Michigan, and Mississippi and noted that Nevada's prepaid program is less complicated because there are fewer schools under the "state" umbrella. The students in Nevada are utilizing the contracts at slower rates. In Michigan, the Prepaid Program is merit based which is different from Nevada.

Chair Haag asked if there were any thoughts on why utilization rates are trending longer.

Grant Hewitt stated that Nevada System of Higher Education (NSHE) is looking into this trend and trying to find ways to encourage students to graduate quicker to help alleviate more student loan debt among other issues.

Chair Haag asked if this is a move to include more trade school certifications rather than a two/four-year college degree.

Grant Hewitt stated that some of the programs can be used at trade schools. Sheila stated that we can attempt to put together a summary of deferred benefits. The Treasurer's office has also been seeing a trend in students taking a year off for missionary work.

11. For possible action: Board review and approval of the proposed actuarial assumptions for the Fiscal Year 2018 Nevada Prepaid Tuition Program.

Ken Alberts presented the assumptions for FY18 of the Nevada Prepaid Tuition Program and stated that the Board or Regents proposed 4% increase in tuition.

The Proposed assumptions: Tuition Increase – 2019-2021: 4% University and 4% Community College. Tuition Increase – Beyond 2021: 4.75% University and 4.00% Community College.

Assumed Rate of Return: 5.00%, Borrowing Rate for Payment Plans: 6.25%, Inflation: 1.75%.

Mr. Alberts noted that when GRS produced the materials for the meeting the recommended assumptions letter from the Nevada Board of Regents had proposed a 1.8% increase in tuition for 2019/2020 and 2020/2021 each. He noted that since that time, he had received an email from Sheila Salehian indicating that the Board of Regents had adopted 4% for each of those years instead.

Grant Hewitt asked how the assumptions would be affected if, as a marketing tool, the Program gave a 10% discount for someone who pays a lumpsum versus paying over a contract period for a certain limited number of people or if the

Program has two costs; one for the first three months of open enrollment and a higher rate for the last three months.

Ken Alberts explained there are two pieces to the pricing: 1) theoretical and 2) risk margin. The theoretical pricing makes assumptions based on a beneficiary based on age, expected matriculation date, etc. and distributions from the trust are based upon this information to determine the pricing discount. The risk margin is comprised not of the assumed rate of return but of the spot rate which builds in a risk premium. He noted that if your pricing discount is less than the risk margin than you would not run afoul of the system. However, if you were to bring the prices down below that margin than you would be selling a contract at less than cost which would be a problem.

Grant Hewitt requested that Mr. Alberts consider a one-pager for discussion regarding these potential changes to enhance the marketing and potentially help to increase contract sales.

Chair Haag agreed with Mr. Hewitt's recommendation and requested Mr. Alberts breakout the lumpsum versus the diminishing payments.

Mr. Alberts noted that the contract payments today are charged a 6.25% interest rate similar to a car loan and the investment return assumptions today are 5.00%. He noted that the Plan is assuming it will earn less with a lumpsum than a contract plan; therefore, if the Board incentivizes a lumpsum it could be costing the program money. He noted that the borrowing rate or 'coupon payment' should be considered in the asset allocation similar to fixed income securities.

Grant Hewitt asked if interest rates are going up should we consider raising the Prepaid Tuition Plan rate from 6.25% since it has remained at that rate for three years.

Ken Alberts noted that is a good question. He noted that he has a personal bias toward having that number be higher than your assumed rate of return and stated that he recommends a range somewhere in the 50 – 100 basis points and the Plan is currently at 125 basis points which is fine. He noted that it is a policy decision to decide where the difference or range in these numbers should be but would caution against having the borrowing rate too high similar to an unsecured loan at a bank which could be seen as too high for this type of program.

Bob Seale motioned to approve Items # 10 and #11. Ned Martin seconded the motion. The motion passed unanimously.

- 12. For possible action:** Board review and approval of the Nevada Prepaid Tuition Investment Monitoring Report prepared by Pension Consulting Alliance, Inc. for the quarter ending March 31, 2018.

Sean Copus with PCA presented the Nevada Prepaid Tuition Investment Monitoring Report. He stated the portfolio performance met its stated blended benchmark and explained that over the past year the total Portfolio increased by \$22.9 million.

No questions or comments from the Board Members.

Susan Brown motioned to approve Agenda Item#12. Stephanie Shepherd seconded the motion. The motion passed unanimously.

- 13. For possible action:** Board review and approval of the Nevada 529 College Savings Plans Investment Monitoring Report prepared by Pension Consulting Alliance, Inc. for the quarter ending March 31, 2018.

Eric White with PCA presented the Nevada 529 College Savings Plans Investment Monitoring Report. He reported that overall the report is positive with 90% good, and 10%-20% not so good. The underlying performance of the different funds is very positive. Mr. White reviewed the Watch report explaining that two funds remain on "Watch": USAA Income Stock and USAA Small Cap Stock.

No questions or comments from the Board Members.

Bob Seale motioned to approve Agenda Item#13. Ned Martin seconded the motion. Motion passed unanimously.

- 14. For possible action:** Board review and approval of the Kenny Guinn Memorial Scholarship winners in the North and South for 2017.

Sheila Salehian presented the Kenny Guinn Memorial Scholarship selected winners Rikki Boshetti from the north and Aubrey Klouse from the south to the Board for approval. She noted that each scholarship is worth \$4,500 each and this year we received eight applications but only five met the eligibility requirements.

Jeff Haag asked if the candidates had to reside in the North or does it depend on the location of their school.

Sheila Salehian stated that the statute state that it is dependent on the location of the school the students attend.

No further questions or comments from the Board Members.

Susan Brown motioned to approve Agenda Item#14. Stephanie Shepherd seconded the motion. Motion passed unanimously

Informational Items

- 15.** Board to receive the Prepaid Tuition Program report for the quarter ending March 31, 2018.

Sheila Salehian listed the highlights of the program. There are currently 12,444 active accounts. The Program had two contest winners, one in the south and one in the north and the original winner in the North was a doctor who asked to pay it forward and donate his winnings to a family making \$40,000 or less. The family that won had enrolled their 9th grader on a 2+2 plan and it reduced their monthly payment from \$510 to \$359 a month. Ms. Salehian pointed out that 24% of purchasers have income levels that fall below \$80,000.

No questions or comments from the Board Members.

No motion needed.

- 16.** Board to receive the FY19 Education and Outreach plan and budget for the umbrella and SSGA Upromise 529 Plan.

Grant Hewitt presented an update on Let's Go To College! Nevada Saves from Amplify Relations. He noted that while there has been a downshift in numbers for Quarter 3, the digital online ads continue to see traffic which is higher than the national average. Mr. Hewitt also reported on the statutory changes to the College Kick Start program that will require the forfeiture of accounts that are not claimed by the time a child has finished 4th grade. It was also mentioned that in FY19, the focus will be on online marketing and new creative avenues will be created. There will be a customer tracker added to the website and on the SSGA funnel. In FY19, the State Treasurer's Office will be moving away from sponsoring events but instead, focus on finding new community partners. There will still be sponsorships, but not as many.

Bob Seale asked if the budget adjustment has had a serious impact on our ability to sell 529 plans to Nevada residents.

Grant Hewitt replied that budget cuts have definitely had a negative impact using the reduction of public television advertising as one example. Based on the 3% marketing cap the FY20 marketing budget will drop to ~\$150,000.

Bob Seale asked if Treasury Staff has investigated raising the cap.

Grant Hewitt replied that there have already been several meetings with the legislature and this is one of the priorities in the office.

Jeff Haag stated that he would like to understand in detail how the staff communicates with schools. He believes that the Department of Education and schools should be more involved in educating the public on the importance of the college savings programs and would like a report on what has been done to engage with those entities at a future meeting.

Mr. Hewitt mentioned the states' efforts to mount a national 529 advertising campaign similar to the "Got Milk" campaign. All the states are currently being solicited for funds but because of the cuts Nevada cannot participate; however, Grant did encourage the 529 partners to participate.

No questions or comments from the Board Members. No motion needed

17. Staff Updates:

Sheila Salehian mentioned that the number of new Prepaid Tuition contracts is down by 16%. During her attendance at the NAST conference, she pooled other states and found that all other the states accounts had dropped by approximately 15%. This seems to be a national trend.

Silver State Matching Grant: Sheila mentioned that 187 applications have already been received this year, with 179 being received by the end of May.

\$529 College Savings Day Contest: A total of 215 entries were received for May and staff is in the process of randomly pulling the winner.

Status of Financial Literacy Initiatives: Starting 2020, Financial Literacy will be mandatory in schools; therefore, summits were held in Las Vegas and Reno with over 200 teachers attending in the south and over 50 in the north. The purpose of the summits were to prepare teachers for teaching financial literacy by providing resources and curriculum that included college savings components. Pre- and post-surveys were conducted and an invitation for teachers to become college savings ambassadors or to invite us to speak at their schools was issued. A full report will be available at a future College Savings Board meeting.

18. Public Comment: There was no public comment in Las Vegas, Carson City, or telephone.

Meeting was adjourned at 12:37 p.m.