THE BOARD OF TRUSTEES OF THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING

October 18, 2018

Chairman Jeff Haag called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 10:01 a.m., on Thursday, October 18, 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 Jeff Haag – Carson City
Vice Chair Stephanie Shepherd – Carson City
Susan Brown – Carson City
Bob Seale – Excused
Andrew Martin – Carson City
Grant Hewitt – Las Vegas, Ex-Officio Non-Voting Board Member

Others present:

Tara Hagan, Chief Deputy Treasurer
Beth Yeatts, Senior Deputy Treasurer – South
Sheila Salehian, Deputy Treasurer – South
Wayne Howle, Attorney General
Sue Hopkins, Ascensus
Christy Erickson, Vanguard
Tom Hewitt, Vanguard
Kim Stockton, Vanguard

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

No public comment in Carson City, Las Vegas or telephone.

Consent Agenda

2. For possible action: Board review and approval of the minutes of the College

Savings Board of Trustees meeting of September 19, 2018.

3. **For possible action:** Board review and approval of the College Savings Board follow-up items, including Wealthfront 529 College Savings Plan's report outlining its unique features and demographics and offering a demo or direct access; and, Amplify Report with incentives removed to determine impact of lack of incentive dollars on SSgA accounts.

4. **For possible action:** Board review and approval of the Fiscal Year 2018 Audited Financial Statements for the Putnam 529 for America Plan, the SSgA Upromise 529 Plan, the USAA 529 College Savings Plan, the Vanguard 529 Plan and the Wealthfront 529 College Savings Plan and approve their filing with the State Controller.

5. **For possible action:** Board review and approval of the Board meeting dates for calendar year 2019.

   Vice Chair Shepherd motioned to approve the Consent Agenda Item #'s 2 – 5 with no changes or discussion. Andrew Martin seconded the motion. Motion passed unanimously.

Discussion Agenda

6. **For possible action:** Board review and approval of the Fiscal Year 2018 actuarial valuation study of the Nevada Higher Education Nevada Prepaid Tuition Program pursuant to NRS 353B.190 and approval of their filing with the Nevada State Controller's Office.

   Ken Alberts presented Nevada Prepaid Tuition Program Actuarial Valuation Report for the fiscal year ended June 30, 2018 to the Board, highlighting assumptions, program changes and results. Mr. Alberts explained that the rate of return on the market value basis was 8.51% for the year. However, using a 5-year smoothing method, the actuarial value of assets recognized a rate of return of 6.11%. The funded status increased from 132.7% to 142% year over year and would have been 147.6% if the market value of assets had been used. Mr. Alberts pointed out that there was a change in the denominator because the asset and liabilities are both growing which is impacting both the percentages and dollar amounts from year 2017 to 2018.

   During the sensitivity analysis description, Mr. Alberts went over the actuarial assumptions regarding future increases in tuition costs and fees and the future rate of investment return that were adopted by the Board. He explained how the projected program results for future investment income and tuition increases were determined.

Mr. Alberts stated that the take away from these assumption stress tests is that even if the assumptions are marginally wrong - up to 100 basis points - the funded status is still very strong. He concluded by stating that the program is in very good condition and it is continuing to grow.

Andrew Martin asked Mr. Alberts if he knew what is the greatest/least percentages for the rate of return and the tuition rate highs and lows since the inception of the fund.

Staff indicated that they would need to provide this information to the Board at its next meeting.

Andrew Martin stated he was concerned with the rising interest rates and the impact on the rates of return and asked if they were monitored.

Mr. Alberts explained that they look at the difference between the rate of tuition increase and the rate of investment return because it's that difference which is the real rate of return of money that lowers the cost of the program and the return right now is narrow and as interest rates rise, that may benefit the fund. He explained that they review these numbers every year right before they do the pricing.

Chair Haag asked why the annual benefit payouts have continued to be less than expected over the last several valuations. Why is that and how are those projections set?

Mr. Alberts explained that the payouts are tied into the utilization study and since this is the first full valuation in which the new assumptions are being employed, they are being measured against prior assumptions. In prior assumptions it was expected that beneficiaries would utilize credits much faster than they are using them.

Chair Haag asked if there should be concern with the slower utilization rate and will this slower pace result in higher payouts in the future. He also asked if there was an explanation as to why students are drawing down at a slower rate.

Mr. Alberts explained that the prior assumptions were based on a 4-6-year payment period but found out in the recent utilization study that students are using the credits over a 6-8-year period; not because they are delaying entry but rather because some students are attending on a part-time basis.

Sheila Salehian stated for the record and to the Board that the new program changes now allow program transfer after beneficiary use, which was not allowed in the past. If a student decides college is not for them, the parents can transfer the benefits to another beneficiary and this type of behavior will reduce the number of cancellations and shorten the payment period in the future.

Vice Chair Shepherd motioned to approve Agenda Item #6. Susan Brown seconded the motion. Motion passed unanimously.

7. **For possible action:** Board review and approval of the annual investment presentation for Vanguard.

Tom Hewitt presented the annual investment report for Vanguard and gave a brief overview of his company and their unique ownership structure.

Kim Stockton, Investment Strategist with Vanguard, went over the activity of the markets this year for fixed income and equity. She explained that during the first quarter there were slightly negative returns in the U.S. equity markets. Volatility was back to normal levels mainly in February and March. U.S. equity markets rebounded in Q2 and Q3, pushing the equity market to positive returns for the year to date. Ms. Stockton explained the international equities have come under pressure this year due to the dollar. This year the dollar has been unusually strong, and they expect it to be temporary, but it is driving the negative returns we have seen over the last 3-6 months. She explained that the non-U.S. hedged fixed income funds delivered positive returns because the appreciating dollar helps the hedge returns. Ms. Stockton went over the projections for the global fixed income ten-year return and stated they're expecting long term 2% for U.S. GDP but there will be a lot of variation around those long-term averages. Ms. Stockton also presented a high level economic and market overview that included: global growth, inflation, policy, interest rates and global asset returns.

Vice Chair Shepherd asked if they could expand on the volatility being clustered.

Ms. Stockton stated that typically when you have market volatility, it occurs consistently over history on both the positive and negative. A look back at history shows the exact same pattern and is the reason why Vanguard does not suggest market timing.

Andrew Martin questioned if they are making efforts to avoid foreign tax hits.

Ms. Stockton stated that in general Vanguard suggests hedging on the fixed income side, but they look at it more from the portfolio level so on the fixed income side, for non-U.S. fixed income level, Vanguard suggests hedging there and that is because of the volatility of currency. For international equities, Vanguard does not suggest hedging.

Andrew Martin asked how much of our funds are invested in the foreign assets and if we should we be concerned.

Tom Hewitt stated that in terms of exposure for the 529 plans, about 40% of the investors use age-based glide paths and in those funds 60% of the allocation is in U.S. equities. 40% is invested in the international stock market fund. On the fixed income side, the total international portion is 30% of the total fixed income portion. Both of those funds are broad market index funds with very broad country exposure.

Vice Chair Shepherd motioned to approve Agenda Item #7. Susan Brown seconded the motion. Motion passed unanimously.

8. **For possible action:** Discussion and possible approval of an increase in the maximum allowable lifetime contribution for College Savings 529 plans to as much as $425,000 pursuant to NAC 353B.645 and set effective date of January 1, 2019.

Tara Hagan presented the background for the request for an increase in the maximum allowable lifetime contribution limit to the Board. Currently the maximum contribution is $370,000 and it's been eight years since the Board has looked at this amount. Based on discussions with investment partners and AKF, our compliance consultant, and due to the program changes that now permit contributions for K-12, the staff looked at the national averages and concluded that based on the 2017-2019 average tuition, fees, and room and board for a four-year private college plus 4 years of doctorial school, it was necessary for Nevada to raise its contribution limit.

Staff is recommending increasing the Nevada College Savings Plan's maximum contribution limit to $425,000. Ms. Hagan stated that it's Staff's understanding that we can use up to seven years for undergraduate costs but only up to three years of graduate costs. Jamie Canup, outside counsel, stated there is guidance in the proposed regulations that were issued in 1998 but they are very dated. There is a safe harbor provided by those regulations which allows for the expected expenses of a beneficiary for five years of undergraduate expense for tuition, fees, and room and board at the highest cost institution allowed by the program; then the number is actuarially estimated to what it will cost when a newborn attends college. There have been some private letter rulings that have used other formulas. Based on these letters, it is apparent that 7 years is maximum total number of years and that 3 years is the maximum number of graduate school years that can be used in the calculation. Mr. Canup stated that the formula is not an exact science, but the important thing is that a formula is used, and you document how you got to the numbers. He recommends to not be the highest number or one that is substantially higher than any of the other program which might be an audit flag to the IRS or Treasury.

Vice Chair Shepherd asked for more detail regarding what some of the considerations the IRS used when reviewing the maximum amounts.

Jamie Canup stated that one of the requirements to remain qualified for the program is that there is an established maximum contribution limit. It must be an amount that is established based on the criteria that the Board chooses and there needs to be back up.   When calculating the maximum contribution, seven years is permissible according to the guidelines. But the most important thing to keep in mind is that there needs to be a number that all the plans will follow and that they will communicate with each other.

Andrew Martin asked what the benefit and risk would be if the Board decided to move the number to $500,000. Do you have an objection to $500,000?

Jamie Canup stated that the most important thing is to have back up and documentation for the reason you are choosing the number you choose and be able to explain it.

Chair Haag commented that it's important that we are realizing how participants are using the plan today - from kindergarten to graduate school - and that we are giving them the ability to invest appropriately based on their financial means. He stated that we don't want to disadvantage folks from participating in our program if the maximum limit is below what they need. Mr. Haag said that he is an advocate of the $500,000 limit and is even inclined to ask Staff to build the number out further, so it gives our participants an opportunity to use the programs for longer education choices and to make sure we are competitive.

Vice Chair Shepherd stated her belief that three years to review the numbers is too long a time and Staff needs to review the limit more often.

Tara Hagan stated that Staff is happy to take this agenda item and review it and come up with a different formula for the Board to review.

Chair Haag suggested the motion be held until the December 13, 2018 meeting so that Staff has time to bring a different formula to the Board.

Informational Agenda

9. Staff to review the State Treasurer's Bill Draft Request submitted to the Legislative Counsel Bureau regarding amendments to NRS 353B.

Grant Hewitt presented the Treasurer's Bill Draft Request submitted to the Legislative Counsel Bureau regarding amendments to NRS 353B and explained that we are trying to accomplish three different things in the bill which are: Raise the cap to 10% from 3%; Change the nomenclature around "College Kick Start", to "Child Development Accounts;" and return the Treasurer to the Board. Additionally, the bill clarifies that a member whose term has expired will stay on the Board until that member is replaced by the appointment of a new member.

Andrew Martin inquired what the marketing budget was in the past compared to current budget, how many Kick Start accounts are active, and if Staff could send him the numbers.

Grant Hewitt replied that the previously combined marketing budgets were around $800,000, but in last legislative session – in AB475 – a statutory cap was placed and resulted in $178,000 budget. The Kick Start accounts are scholarship accounts so families cannot add/remove funds; instead they are encouraged to open a separate College Savings plan which in the past used incentives for parents to open a linked account. Currently, there is no guaranteed budget line for Kick Start administrative costs, but a budget request has been submitted to Governor's Office of Finance requesting $150,000 for each of the biennium years for administrative costs.

Chair Haag inquired if the new Treasurer will have the ability to revise the BDR.

Grant Hewitt replied that based on his prior experience that BDR's are locked in.

10. Board to receive a report on the FY18 Financial Literacy initiatives relating to the Senate Bill 249 Financial Literacy website and the online Financial Literacy training for military families and families with children with special needs.

Sheila Salehian presented the FY18 Financial Literacy initiatives to the Board. Because the Department of Education will require teachers in grades 3-12 to teach financial literacy, starting in the next school year, Staff hosted a conference that shared free curriculum - that incorporated information regarding Nevada College Savings programs – with Nevada teachers. After that conference, Staff worked with a company to create a website where College Savings materials and curriculum is available to teachers, parents and students. The website has also been used to provide financial literacy to specific populations: military families and families with children with special needs.

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

Meeting was adjourned at 12:07 p.m.