



Report to the Legislature

DreamAhead College Investment Plan

Policy Goals, Objectives, and Performance Measures Update

Committee on Advanced Tuition Payment and College Savings

November 2023

Foreword

Statute requires the Committee on Advanced Tuition Payment and College Savings (Committee) to exercise its powers, duties, and functions of the Washington college savings program (better known as the DreamAhead College Investment Plan or DreamAhead) to perform in a manner consistent with the policy goals established under [RCW 28B.95.032\(10\)](#).

The Committee is required to submit to the Legislature for its review, before the regular legislative session of each even-numbered year, the detailed and measurable objectives and related performance measures to progress toward the attainment of these policy goals. This report provides a progress update through November 1, 2023.

Executive Summary

The DreamAhead College Investment Plan is Washington State's 529 college investment plan that opened in April 2018. When establishing DreamAhead, the Legislature established five policy goals for the program ([RCW 28B.95.032\(10\)](#)):

- a) **Process:** To have an investment manager design a thoughtful, well-diversified glide path for age-based portfolios and offer a robust suite of investment options;
- b) **People:** To have a well-resourced, talented, and long-tenured investment manager;
- c) **Parent:** To demonstrate that the committee is a good caretaker of college savers' capital and can manage the plan professionally;
- d) **Performance:** To demonstrate that the program's options have earned their keep with solid risk-adjusted returns over relevant time periods; and
- e) **Price:** To demonstrate that the investment options are a good value.

The Legislature directed the Committee on Advanced Tuition Payment and College Savings (Committee) to establish objectives and performance measures for these policy goals and provide updates to the Legislature before the start of Legislative Sessions occurring in even-numbered years. The Committee has developed preliminary objectives and performance measures for each of the five policy goals and presents this update to the Legislature, as directed:

- DreamAhead launched in April 2018 with an innovative and diverse lineup of investment options, including year-of-enrollment portfolios with three different risk options, and seven static portfolios. The ten (10) index mutual funds underlying the portfolios are from established and well-regarded fund managers.
- DreamAhead opened with nationally competitive fees, even with limited startup funding, and has implemented multiple fee reductions for participants, including a five-dollar reduction to the annual account maintenance fee. The most recent fee reduction was the replacement of the long-term government bond underlying fund that saves customers up to two (2) basis points annually, depending on their selected investment portfolio(s). To further reduce fees to participants, among other objectives focused on improving the plan, in the fall of 2023, the Committee authorized WSAC staff to issue an RFP for program management and investment advisory services. The goal of the procurement is to secure a new program management agreement for DreamAhead that ensures we are offering Washington families the best product, service, and pricing for their college savings.
- DreamAhead has been recognized by industry rating outlets such as [savingforcollege.com](#) and Morningstar. Since [savingforcollege.com](#) began evaluating DreamAhead in 2019, it has consistently assigned DreamAhead a "five-cap" rating for in-state residents (the highest available rating). In October 2021, DreamAhead was recognized by Morningstar, Inc. as one of the top 529 savings plans in the country and awarded the plan a bronze medal for the second year in a row. Since 2022, Morningstar, Inc. has not included DreamAhead in its 529 plan coverage.

- WA529 selected Vestwell State Savings, LLC¹ (a wholly owned subsidiary of Vestwell Holdings, Inc.) as DreamAhead’s program manager and BNY Mellon Advisors, Inc.² as the program’s investment advisor. (Note that BNY Mellon Advisors has constructed an investment lineup that sources underlying funds from multiple investment managers.) This relationship could be subject to change, pending the outcome of a currently open competitive solicitation. In November 2023, WSAC issued an RFP for DreamAhead program management and investment advisory services. The Committee will provide an update to the Legislature if this RFP results in a vendor change.
- The current DreamAhead program management agreement (contract) contains various service-level agreements and deliverables that guide the Committee and WA529 staff in monitoring the performance of Vestwell, BNY Mellon Advisors, and underlying fund managers. WA529 also engages the support of independent experts in managing the program, contract, and participant experience.
- To further evaluate how DreamAhead is helping families reach their savings goals, WA529 has conducted formal customer surveys since 2021. The majority of respondents provided a positive rating regarding investment options, customer service, and website experience.

To provide additional transparency on DreamAhead’s progress toward meeting the policy goals, WA529 created a performance dashboard, viewable to the Legislature, stakeholders, and the public. The Committee will provide a formal update to this report no later than the start of the 2024 Legislative Session.

¹ WA529 originally selected Sundry Administration, LLC (a subsidiary of BNY Mellon) as the DreamAhead program manager. In February 2022, Sundry was acquired by Vestwell Holdings, Inc. and renamed Vestwell State Savings, LLC.

² BNY Mellon Advisors, Inc. is a wholly owned subsidiary of Pershing Group LLC, which in turn is a wholly owned subsidiary of The Bank of New York Mellon Corporation, which has been in operation since 1784 and stewards \$1.8 trillion in public sector assets.

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Introduction

The Washington College Savings Program, better known as the DreamAhead College Investment Plan or DreamAhead, is the State’s 529 college investment plan opened in April 2018. Under the program’s enabling statute, [Chapter 28B.95 RCW](#), DreamAhead is intended to complement the Advanced College Tuition Payment (GET) program to help families save toward “the full cost of attending college” ([RCW 28B.95.032\(8\)](#)). DreamAhead is governed by the Committee on Advanced Tuition Payment and College Savings (Committee) and is supported by the Washington College Savings Plans (WA529) division within the Washington Student Achievement Council (WSAC).

Washington is one of 49 states, along with the District of Columbia, offering a direct-sold 529 college investment plan directly to the public without an intermediary such as an investment advisor or broker. Unlike 529 prepaid tuition plans such as GET, which generally permit only savers who reside within the plan’s home state, college investment plans are typically available to savers nationwide. Accordingly, the Legislature adopted the five policy goals to ensure DreamAhead is competitive nationally (see the information box to the right).³

The Legislature has directed the Committee to establish *objectives* and *performance measures* for these policy goals and to provide updates to the Legislature before the start of every Legislative Session occurring in even-numbered years. The Committee submitted the first formal report to the Legislature in January 2020. The report, entitled [DreamAhead College Investment Plan: Policy Goals, Objectives, and Performance Measures Update](#), laid out preliminary objectives and initial associated performance measures.

Since 2020, the Committee has worked to refine these objectives and performance measures and has been incorporating them into a [performance dashboard](#) accessible to the Legislature, other stakeholders, and the public. The dashboard is intended to provide the most up-to-date status of the plan relative to the five policy goals. GET Program data is also included in the dashboard for added transparency and to better understand the collective impact of and future opportunities for both plans. The Committee will continue providing the Legislature with a formal report of these performance measures on a biennial basis.

Legislative Policy Goals for DreamAhead [RCW 28B.95.032\(10\)](#)

- a) **Process:** To have an investment manager design a thoughtful, well-diversified glide path for age-based portfolios and offer a robust suite of investment options;
- b) **People:** To have a well-resourced, talented, and long-tenured investment manager;
- c) **Parent:** To demonstrate that the committee is a good caretaker of college savers’ capital and can manage the plan professionally;
- d) **Performance:** To demonstrate that the program’s options have earned their keep with solid risk-adjusted returns over relevant time periods; and
- e) **Price:** To demonstrate that the investment options are a good value.

³ These policy goals are directly aligned with what was formerly known as the “Five Pillars” criteria that the investment research firm, Morningstar, used to evaluate and rank 529 plans through 2019. Beginning in 2020, Morningstar updated the format of their analysis and as part of that update, *Performance* is no longer a separate pillar.

Key Developments (2021–2023)

Underlying Fund Fee Reductions

Each year since DreamAhead opened, the Committee, WSAC, and DreamAhead’s program manager and investment advisor have worked together to lower fees for account owners. Since this report was last updated, two underlying fund changes resulted in lower fees for these asset classes.

- In July 2022, we replaced the underlying money market fund in the cash asset category which reduced fees by up to 0.01 percentage points depending on the portfolio selected; and
- In October 2023, we replaced the underlying long-term government index fund which reduced fees by up to two (2) basis points depending on the portfolio selected.

Additionally, in September 2023, the Committee voted to authorize WSAC staff to issue an RFP seeking creative and competitive proposals from the 529 program manager vendor community, which WSAC staff prepared and posted on November 7, 2023. The intent of this RFP is to secure a new program management agreement for DreamAhead that ensures we are offering Washington families the best product, service, and pricing for their college savings. Among other feature and service enhancements, the Committee is specifically focused on eliminating the plan’s account maintenance fee, which currently disproportionately impacts savers with lower account balances. The RFP is scheduled to remain open for bids through mid-January 2024 and, if successful, the Committee anticipates awarding a contract in the spring of 2024.

Investment Portfolio Refinements

Effective October 2023, the Committee voted to replace the emerging markets bond fund underlying several of the DreamAhead investment portfolios. The actively managed Vanguard Emerging Markets Bond Fund Admiral Shares (ticker: VEGBX) replaced the passively managed Vanguard Emerging Markets Government Bond Index Fund Institutional Shares (ticker: VGIVX) due to the current geopolitical and macroeconomic environment.

The change also simplified pricing by eliminating the 0.75 percent purchase fee applicable to the VGIVX fund (previously DreamAhead’s only underlying fund with a purchase fee). While the VEGBX fund does not carry a purchase fee, it does have higher annual fees, though the resulting impact on affected DreamAhead portfolios is relatively low. The impact of this change on fees charged to account owners depends on the portfolio selected and how long they hold their investments.

The net impact on fees from the two underlying fund fee reductions and the emerging markets fund replacement ranges from savings of 0.01 percentage points to an increase of 0.0029 percentage points annually when averaged over 10 years.

Customer Feedback

In 2021, WA529 began conducting surveys of current and prospective DreamAhead customers to assess perceptions of the overall quality of the DreamAhead program, customer service, and current investment lineup, as well as to identify opportunities for new investment offerings. WA529 most recently surveyed customers in April 2023. Feedback has been generally positive, with most respondents rating DreamAhead at four or above on a five-point scale in terms of overall satisfaction with the plan (62%); likelihood to recommend the plan to others (64%); and

satisfaction with the current variety of the DreamAhead investment lineup (51%). The full survey report can be accessed from the Static Reports page on the [WA529 Data Dashboard](#). The key themes derived from customer comments suggest opportunities to increase satisfaction by enhancing the investment lineup, lowering fees, and improving website navigation and functionality for online transactions.

Data Dashboard

In 2020, WA529 began developing an online performance dashboard for the benefit of the Committee, the Legislature, other stakeholders, and the public. The first phase of this project included GET performance data. In 2023, DreamAhead data was added to the dashboard. The dashboard provides regular, real-time updates on the status of both programs, including DreamAhead’s progress on the five policy goals. The Committee will continue providing the Legislature with an update to this formal report biennially.

National Recognition

In the past, DreamAhead has been evaluated by two different independent providers of 529 information, reviews, and plan ratings: [Morningstar Inc.](#) and [savingforcollege.com](#).

- DreamAhead continues to be rated highly by savingforcollege.com. In 2023, DreamAhead received an overall rating of “five caps” (their highest possible plan rating) for Washington residents and “four caps” for non-residents. A five-cap rating represents what savingforcollege.com deems an excellent program with many benefits for the participant and positive investment attributes. It should be noted that savingsforcollege.com provides a ‘Fee Score’ of four caps which, while positive, provides additional support for the Committee’s decision to issue a new RFP for program management and investment advisory services.
- Morningstar, Inc. first included DreamAhead in its 529 Analyst Ratings in 2020, where it recognized DreamAhead as a top 529 savings plan in the nation by awarding the plan a bronze medal. In 2021, Morningstar again recognized DreamAhead as a bronze medalist stating, “With its attractive fees and flexible menu design, Washington residents have a compelling option worth considering.” For the past two years, Morningstar has not covered DreamAhead in their 529 plan ratings.⁴ According to Morningstar staff in an email to WA529 staff in August 2022, the decision to remove DreamAhead from coverage was “due to a mix of factors” and “did not have to do with the quality of [the DreamAhead] offering.”

Objectives and Performance Measures

Process

Objectives

Objective 1: Offer a customizable but user-friendly set of investment portfolios

DreamAhead should offer an investment lineup that balances variety and customizability with low fees and ease of use. It is important that DreamAhead offer year-of-enrollment portfolios constructed, based on the latest industry research, to maximize participant returns while adequately protecting against relative risk. The static portfolios should allow savers to customize

⁴ DreamAhead was one of seven direct-sold plans nationally that were removed from Morningstar coverage in 2022.

their investment mix based on their investment goals and risk tolerance. Thus, it is important to offer a wide range of strategies from cash preservation to aggressive growth.

Objective 2: Ensure investment portfolios are continually monitored and adjusted as needed

Once the investment portfolios are established, they should be continually monitored to ensure they are meeting the stated investment goals and objectives and are performing as expected. If any of the portfolios are not meeting expectations, adjustments should be considered for the asset allocations and/or for the underlying funds.

Objective 3: Continue offering new investment options that are of interest to savers.

DreamAhead should offer best-in-class investment options that appeal to savers not only in Washington, but across the U.S. Once a strong initial menu of options is set for the program, WA529 staff, the program manager, the investment advisor, and the Committee should work together to continue assessing market trends and customer perceptions and demand for additional options. This research will inform the Committee if any new offerings (e.g. Environmental, Social and Governance (ESG) portfolios or individual fund portfolios) should be added to the lineup.

Performance Measures

Measure 1: Monitor key indicators for investment portfolios.

The investment advisor should continually monitor DreamAhead's portfolios using both quantitative and qualitative evaluation metrics and report to the Committee at least quarterly. This ongoing monitoring and evaluation should identify any issues needing remediation, including the removal of a fund and/or restructuring of the DreamAhead portfolios.

Measure 2: Monitor market trends, best practices, and innovations.

The WA529 team and the contracted program manager and investment advisor should remain current on the latest industry developments and regularly report back to the Committee to assess DreamAhead's competitive position in the market. At a minimum, team members who are involved in the College Savings Plan Network (the 529 industry trade group) and are subscribed to business intelligence services should leverage these relationships and resources to monitor industry trends. Whenever a new trend or best practice is identified, such as a continued movement toward smoother glide paths for year of enrollment portfolios, the team should evaluate DreamAhead's current position and necessary response. At the quarterly WA529 Committee meetings, it is critical for the investment adviser to always be at the table to provide detailed updates on DreamAhead's investment portfolio performance, as well as broad market trends and indicators that may affect current or future investment offerings.

Measure 3: Assess demand for new investment offerings.

The WA529 team and DreamAhead program manager and investment advisor should continually monitor participation across the various investment portfolios to assess how well the current offerings are satisfying customer demands. Additionally, the team should conduct market research and customer surveys to identify new investment options (e.g., ESG portfolios) that may be of interest to savers. The WA529 team and contractors should share findings with the Committee at quarterly meetings to determine if any new products should be added to the investment lineup.

Progress Report

BNY Mellon Advisors, Inc. (formerly Lockwood Advisors) continues to serve as the DreamAhead investment advisor (read more about BNY Mellon Advisors in the “People” section below). To keep costs reasonably low for customers, BNY Mellon Advisors constructed the DreamAhead investment portfolios using mostly passively managed index mutual funds. In selecting the funds to underly the portfolios, BNY Mellon Advisors took an ‘agnostic’ approach by sourcing funds from multiple managers based on quantitative and qualitative analyses. Through this process, BNY Mellon Advisors selected 10 underlying funds from which to build an innovative and diverse set of investment options. The current underlying fund lineup includes five Fidelity funds, three Vanguard funds, and two Schwab funds (see the “Price” section below).

DreamAhead currently offers two types of investment options to DreamAhead participants:

- **Year of Enrollment Option (3 options).** This option offers portfolios designed for different anticipated college enrollment years in two-year increments. In addition, the year of enrollment investment option has three risk tolerances (Conservative, Moderate, or Growth) to choose from. In each portfolio, the participant’s money is moved automatically to progressively more conservative investments as the student approaches the targeted year of enrollment.
- **Static Investment Option (7 total portfolios).** Investment allocations within the static portfolios remain fixed over time, subject to periodic rebalancing back to the portfolio guidelines and any changes in investment policy made by the Committee. If a participant invests in a static portfolio, assets will not shift to more conservative investments over time unless the participant specifically directs us to move the assets to another portfolio.

Charts 1-4 on the following pages provide a summary of the current asset allocations for each investment portfolio as of July 1, 2023.

Chart 1: Conservative Year of Enrollment Portfolio Asset Allocations

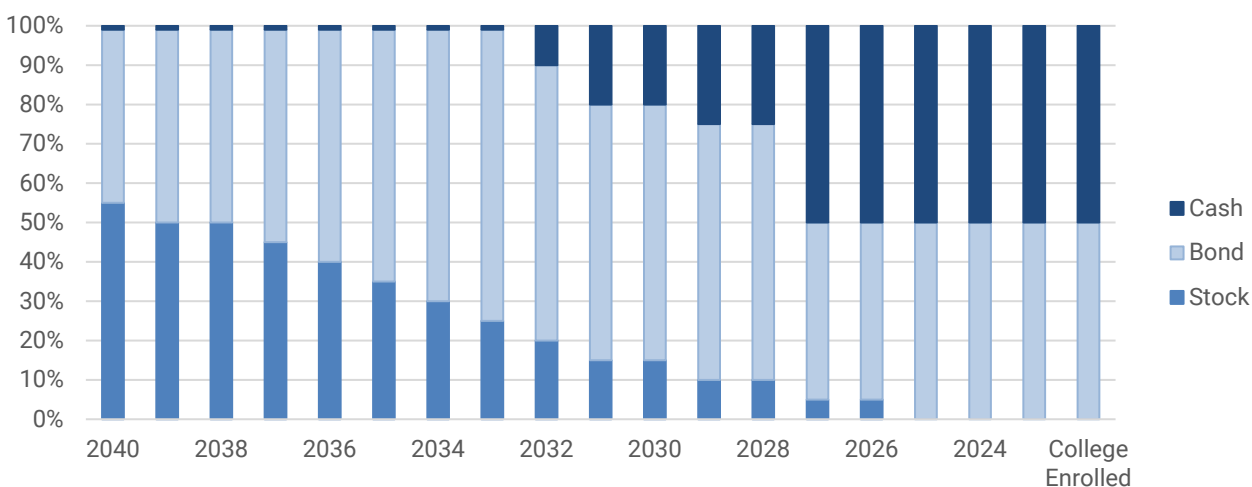


Chart 2: Moderate Year of Enrollment Portfolio Asset Allocations

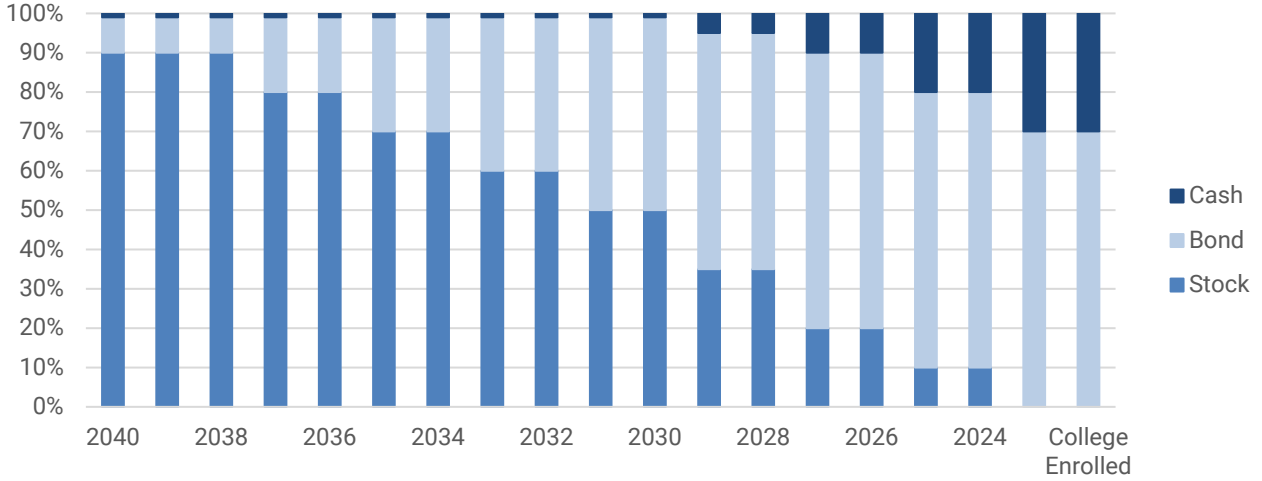


Chart 3: Growth Year of Enrollment Portfolio Asset Allocations

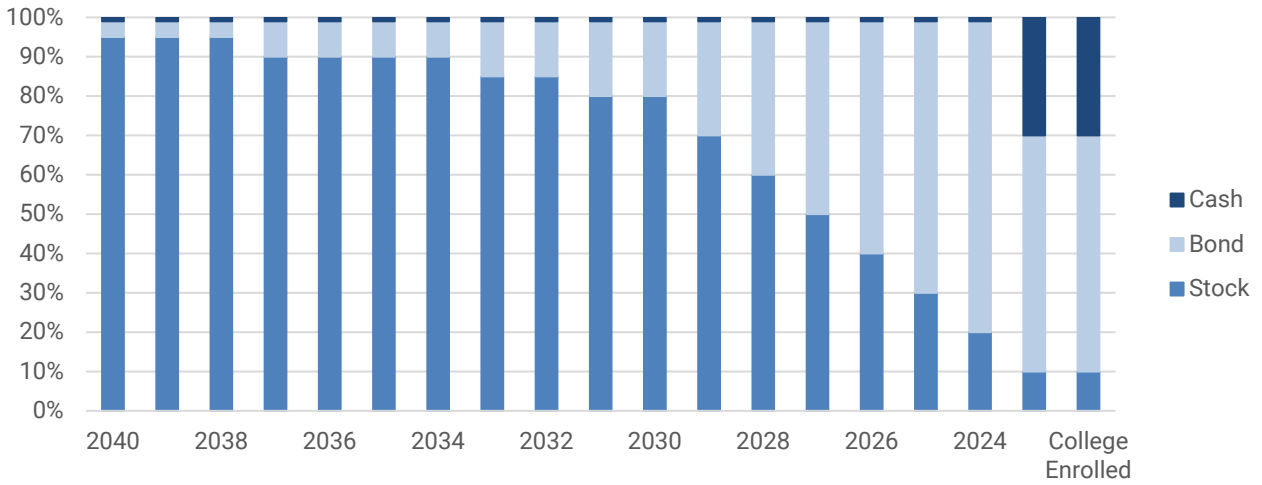


Chart 4: Static Portfolio Asset Allocations

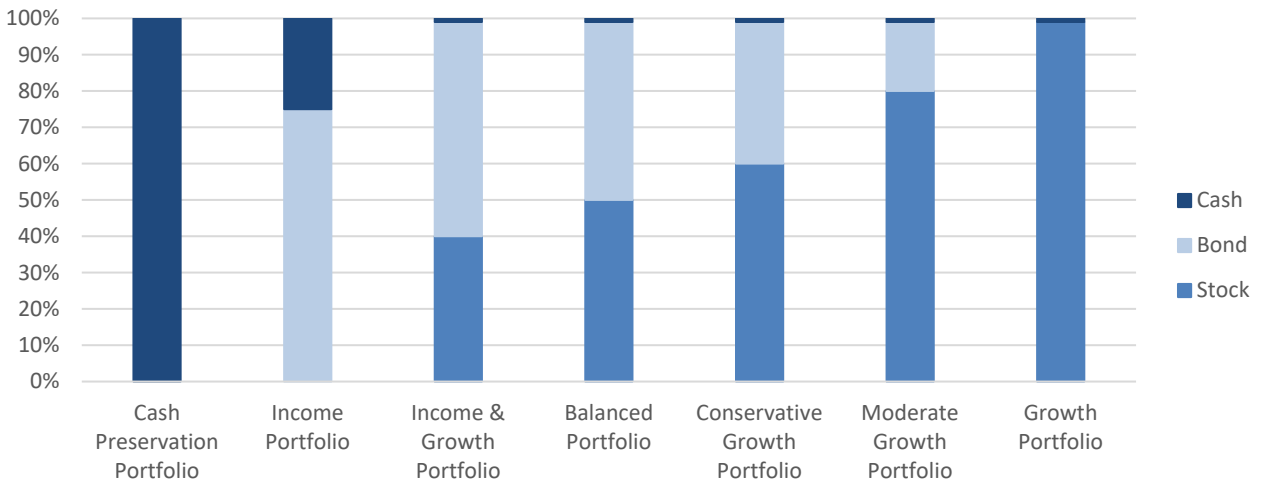


Table 1 below lists the 10 mutual funds that underly all the DreamAhead portfolios.

Table 1: DreamAhead Underlying Mutual Funds

Fund	Ticker
Fidelity® Total Market Index Fund	FSKAX
Fidelity® International Index Fund	FSPSX
Fidelity® Emerging Markets Index Fund	FPADX
Fidelity® U.S. Bond Index Fund	FXNAX
Fidelity® Long-Term Treasury Bond Index Fund	FNBGX
Schwab Total Stock Market Index Fund®	SWTSX
Schwab® Treasury Inflation Protected Securities Index Fund	SWRSX
Vanguard Total Bond Market Index Fund Institutional Plus Shares	VBMPX
Vanguard Emerging Markets Bond Fund Admiral Shares	VEGBX
Vanguard Cash Reserves Federal Money Market Fund Admiral Shares	VMRXX

BNY Mellon Advisors regularly monitors and reports at least quarterly to the Committee on portfolio performance compared to custom benchmarks, broad industry and market trends, and the status of underlying funds and managers. BNY Mellon Advisors also works with DreamAhead’s program manager, Vestwell State Savings, LLC (Vestwell), and the WA529 team to assess customer investment selection and movement in and out of the various investment portfolios.

The WA529 team conducted customer surveys in April 2023 to assess customer perceptions of the overall quality of the DreamAhead program, customer service, and current investment lineup, as well as to identify opportunities for new investment offerings. A majority of respondents rated DreamAhead at four or above on a five-point scale in terms of overall satisfaction with the plan (62%); likelihood to recommend the plan to others (64%); and satisfaction with the current variety of the DreamAhead investment lineup (51%).

However, these results indicate room for improvement in overall satisfaction with the program. Some key themes derived from customer comments suggest opportunities to increase satisfaction by enhancing the investment lineup, lowering fees, and improving website navigation and functionality for online transactions.

When prompted about their satisfaction with the investment lineup, respondents indicated an interest in increased variety in the investment options offered (such as stand-alone index funds, environment funds (i.e., ESG), and investment options with lower fees. The survey results revealed that 61 percent of those who rated their satisfaction with the investment options at a 2 or below also rated their overall satisfaction with DreamAhead at a 2 or below, indicating that satisfaction with the investment options may be associated with overall satisfaction with the plan.

As described in the Key Developments section, in fall 2023, the Committee voted to authorize WSAC staff to issue an RFP seeking creative and competitive proposals from the 529 program manager vendor community. The intent of this RFP is to secure a new program management agreement for DreamAhead that ensures we are offering Washington families the best product,

service, and pricing for their college savings and provides the opportunity to increase overall satisfaction. Among other feature and service enhancements, the Committee is specifically focused on eliminating the plan’s account maintenance fee, which currently disproportionately impacts savers with lower account balances. The RFP is scheduled to remain open for bids through mid-January 2024 and, if successful, the Committee anticipates awarding a contract in the spring of 2024.

People

Objectives

Objective 1: Secure an experienced and capable program manager, investment advisor, and underlying fund managers

It is vital that DreamAhead’s program manager, investment advisor, and the managers of the underlying funds are experienced, competent, ethical, and customer focused. DreamAhead’s investment advisor should have a good track record and significant experience with the types of mutual funds that typically underly 529 plan investment portfolios. Additionally, the Committee should be confident that the program manager always puts customers first in its operations, platform development, and business decisions.

Objective 2: Ensure underlying funds are sourced from reputable investment managers

An investment portfolio is only as good as the underlying funds that compose the portfolio. Therefore, it is vitally important that the funds selected for DreamAhead are highly rated and from well-regarded fund companies with strong track records and sound processes. The Committee will look to the DreamAhead investment advisor’s expertise in sourcing firms that are a good fit for the program.

Objective 3: Ensure consistent and continued performance from the program manager, investment advisor, and underlying fund managers

Securing an experienced and capable program manager, investment advisor, and underlying fund managers is only the first step in ensuring the right people are in place to support the program. The WA529 team should continually monitor the performance of the contracted DreamAhead program manager, investment advisor, and underlying fund managers, and notify the Committee of significant compliance issues to ensure these contractors are held accountable to the program, State, and the public.

Performance Measures

Measure 1: Monitor the practices and philosophies of underlying fund managers

As described in the “Process” section above, the Committee looks to the investment advisor to continually monitor DreamAhead’s portfolios using several quantitative and qualitative evaluation metrics. As part of this regular review, the investment advisor should take particular care in evaluating the managers of the underlying funds. If DreamAhead’s investment advisor identifies concerns about a fund manager’s practices or SEC filings, it should immediately alert WA529 staff and the Committee to discuss the next steps.

Measure 2: Monitor the program manager’s and investment advisor’s processes and practices

The DreamAhead program management contract contains service-level agreements and

deliverables, which the program manager and investment advisor should consistently deliver on. The WA529 team should use this contract as a guide and assess contractor performance against expectations and requirements. As needed, the WA529 team should engage the services of outside experts to provide third-party review. Outside expertise may include special assistant attorneys general with specific 529 plan industry knowledge, independent investment advisory consultants, and audit firms.

Progress Report

WA529 originally selected Sunday Administration, LLC (a subsidiary of BNY Mellon) as the DreamAhead program manager in 2017 through a competitive solicitation process. In February 2022, Vestwell Holdings Inc., a fintech⁵ company founded in 2016 whose primary line of business is digital recordkeeping for 401(k) retirement plans, acquired Sunday and established Vestwell State Savings. Vestwell State Savings provides program management services for several 529 plans, ABLE savings plans, and state-sponsored retirement plans nationwide.

In light of this acquisition, Vestwell is the current contractor of record for DreamAhead, and is responsible for the delivery of all program management and investment advisory services for the Plan. In carrying out its obligations to the Plan, it engages the services of multiple subcontractors, including BNY Mellon for most backend services including customer support, account servicing, and fund accounting, and BNY Mellon Advisors, Inc. for investment advisory services.

Company Profiles

Vestwell

Vestwell Holdings, Inc. is a ‘fintech’ company that supports savings programs for businesses and individual savers across the country. Vestwell states that its objective is to help close the savings gap by offering a flexible, cost-effective, modern solution to save for the critical aspects of life - retirement, education, and healthcare. Vestwell currently powers nearly 30,000 small businesses, over a million savers, and \$27 billion in assets in all 50 states. As of November 1, 2023, Vestwell’s affiliate, Vestwell State Savings, LLC provides program management services for over 30 state-sponsored savings programs (including DreamAhead and Washington ABLE) across automatic IRAs, 529 college savings plans, and ABLE programs.

BNY Mellon

BNY Mellon Advisors is a wholly-owned subsidiary of Pershing Group LLC, which in turn is a wholly-owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon) was founded in 1784. The bank has assets under custody and/or administration of \$45.7 trillion as of September 30, 2023, has industry-leading credit ratings, and is designated as a Global Systemically Important Bank (G-SIB) meaning it is subject to intense scrutiny and regulatory oversight. BNY Mellon delivers investment management and investment services for institutions, corporations, and individual investors in 35 countries and more than 100 markets. Importantly, BNY Mellon has significant experience supporting public sector funds, including other state-sponsored 529 and ABLE savings plans, with \$1.8 trillion in public sector assets under custody and administration.

⁵ Fintech is a portmanteau for “financial technology.” It is a term for technology used to augment, streamline, digitize or disrupt traditional financial services.

BNY Mellon Advisors

BNY Mellon Advisors Inc. is a wholly owned subsidiary of Pershing Group LLC, which in turn is a wholly owned subsidiary of BNY Mellon. BNY Mellon Advisors was founded in 1996 and is an investment adviser registered in the U.S. under the Investment Advisers Act of 1940. BNY Mellon Advisors applies a team-based comprehensive, long-term approach to portfolio construction, with an emphasis on downside risk management.

Coordination of Investment Advice, Management, and Oversight

BNY Mellon Advisors receives manager research and vehicle selection information from the BNY Mellon Manager Research Group, with the core focus on investment manager research and oversight. The team uses quantitative and qualitative analyses throughout the manager evaluation and selection process. The manager screening process begins with evaluating risk and return data from multiple databases and ranking prospective sub-managers. For candidates that pass this initial quantitative screening, BNY Mellon Advisors reviews qualitative factors of the investment managers, including the tenure and depth of key investment professionals, investment philosophy and process, sources and methods of investment research, implementation of the investment process, portfolio turnover, and ownership/business structure. BNY Mellon Advisors then performs an additional layer of analysis to assess the viability of the investment firm, including a review of the manager’s regulatory filings.

As referenced in the preceding “Process” section, in building the DreamAhead portfolios, BNY Mellon Advisors selected underlying funds from three established and well-regarded fund managers. They continually monitor the underlying funds and managers and report to the Committee quarterly. BNY Mellon Advisors has established a “watchlist” procedure to identify any funds or managers that present a risk to the program and participants.

Additionally, the WA529 team monitors both Vestwell’s and BNY Mellon Advisor’s compliance with the program management agreement and reports to the Committee when issues are identified. The “Parent” section below provides more detail on these processes.

As described in the Key Developments section, the Committee has authorized WSAC staff to issue a new RFP for program management and investment advisory services to ensure the best product, service, and customer experience for Washingtonians. The Committee will keep the Legislature updated on the results of this RFP and on any resulting “People” changes (if applicable). Following the outcome of the current RFP for program management and investment advisory services, the WA529 team also intends to contract with an independent investment advisory consulting firm every two to three years to review the current DreamAhead investment offerings, underlying funds, and selection process to ensure the investment advisor and underlying fund managers are meeting performance expectations.

Parent

Objectives

Objective 1: Ensure strong state administrative management, including effective contract oversight

The Committee expects DreamAhead to be administered professionally and to the high standards consistent with the administration of the state’s GET program. This includes ensuring that contractors are consistently meeting service level standards and other contract requirements

and deliverables. WA529 staff should manage the day-to-day interactions with the program manager's and investment advisor's staff to ensure both entities meet expectations, provide periodic contract deliverables on schedule, and remedy deficiencies fully and expediently when they arise. Whenever WA529 identifies significant issues, staff should document the deficiencies and remediation plans and brief Committee members.

Objective 2: Ensure program participants are satisfied with DreamAhead and protect their interests

The Committee must be confident that existing, new, and prospective participants have good perceptions of the program. This is especially important, as they will act as conduits to future customers. The Committee's 25 years of experience with overseeing the GET program indicates that the most common way in which people hear about and decide to enroll in the program is from information shared by trusted formal and informal networks including friends, family members, and colleagues. Therefore, it is vitally important that DreamAhead participants feel that the program is adding value to their savings efforts, that they have good options to choose from, and that they can rely on program staff and contractors to assist them in managing their accounts.

Performance Measures

Measure 1: Track internal WA529 staff processes and performance

Holding the program accountable to participants starts with effective internal administration of WA529 processes and staffing. The WA529 team should engage in various activities and feedback loops that assess team performance. Efforts should include developing strategic growth plans, holding regular cross-functional meetings, engaging with and seeking feedback from stakeholders, and ensuring every staff member's performance is formally evaluated at least annually.

Measure 2: Track contract performance via contract management tools, meetings, due diligence visits, and performance reviews

WA529 should also have several processes in place to ensure the program manager and investment advisors are held accountable to contract requirements and customer service standards. The program management agreement for DreamAhead contains service-level agreements on which the program manager is expected to report to the Committee on a quarterly basis. As stated in the "People" section above, WA529 staff should regularly monitor performance under the contract and alert the Committee of significant issues.

Measure 3: Regularly review customer service interactions, end-user experience, and solicit participant feedback

WA529 staff should regularly measure the customer experience by monitoring day-to-day customer interactions, web metrics, enrollment trends, and investment portfolio selection and movement. The team should also employ customer surveys and feedback forms to garner feedback on various program features and functionalities, as well as ideas for future enhancements.

Progress Report

The WA529 team has effectively administered the GET program for 25 years, with a focus on customer service, operational excellence, and continuous improvement. The Committee

provides oversight, benefitting from the expertise of Committee members including the State Treasurer, the Director of the Office of Financial Management, the Director of WSAC, and two citizen members with extensive business, marketing, and/or investment sector experience. Since the previous update in 2021, there is one new citizen member with substantial non-profit financial management and higher education experience. Each member brings valuable skills and perspectives to the oversight of DreamAhead.

The Committee meets quarterly to discuss policy matters related to DreamAhead and GET. In these meetings, WA529 staff, Vestwell, and BNY Mellon Advisors provide detailed distribution trends, data on service level agreements, and ideas for enhancing the customer experience. BNY Mellon Advisors presents a comprehensive quarterly investment report that recaps relevant U.S. and global market trends, the performance of underlying mutual funds, and the performance of each investment portfolio against custom blended benchmarks. BNY Mellon Advisors also prepares an annual review that identifies key market indicators and trends, as well as recommendations for future investment lineup enhancements.

Throughout the past two years, the Committee has engaged in strategic planning discussions on how to increase the impact of and access to both DreamAhead and GET. This work is continuing into 2024 with the goal of ensuring both plans are meeting Washingtonians' needs, are competitive with other 529 options, and are accessible to people of all backgrounds and income levels.

To ensure effective day-to-day administration of DreamAhead, WA529 staff employ various strategic planning initiatives, lean process improvement practices, and weekly cross-functional team meetings. WA529 staff members also regularly collaborate with key WSAC and external stakeholders and conduct individualized annual performance reviews for each WA529 staff member.

WA529 staff closely monitor weekly performance metrics to ensure that DreamAhead's contractors are meeting performance expectations and service level agreements outlined in the program management agreement. WA529 staff is in regular, daily communication with the program manager and investment advisor, including formal weekly calls with the client relations team, and a comprehensive monthly status call with teams throughout Vestwell, BNY Mellon Advisors, and BNY Mellon. Also monthly, WA529 staff conduct spot audits of customer interactions with the program manager's staff. At least annually, WA529 staff conduct due diligence visits to meet with the program manager and investment advisor on-site.

The most recent due diligence visit was conducted in February 2023. This full-day site visit focused on various matters related to the delivery of services under the DreamAhead program management agreement including subcontractor oversight, customer service, data and reporting, cybersecurity, platform enhancements, and the overall growth strategy for DreamAhead. Several action plans were presented by Vestwell which they have begun to initiate and will continue to roll out over the next year and beyond. The WA529 team continues to diligently monitor progress on these action plans to ensure follow-through and proper accountability for promised deliverables.

To aid contract management, WA529 staff regularly consults with WSAC's assigned assistant attorney general and special assistant attorneys general with 529 expertise. If concerns or issues are identified, WA529 staff alert the Committee and discuss remediation steps. At the end of each calendar year, WA529 staff conduct a performance review of the program manager and

investment advisor to memorialize what went well during the year, what issues were identified, any expected remedies and action plans, and ideas for future enhancements.

As described in the Key Developments section, in fall 2023, the Committee voted to authorize WSAC staff to issue an RFP seeking creative and competitive proposals for a new program management agreement for DreamAhead that ensures we are offering Washington families the best product, service, and pricing for their college savings. According to respondents from the most recent DreamAhead participant survey, there is room to improve overall customer satisfaction by enhancing the current investment lineup to include options such as index funds and ESG funds, lowering fees, and improving functionality for online account transactions.

Performance

Objectives

Objective 1: Ensure each investment portfolio meets performance expectations

Each DreamAhead investment option should (at least) remain within the acceptable tracking error relative to its custom benchmark. Any adverse deviations should be immediately researched and addressed to bring performance in line with expectations.

Objective 2: Receive positive reviews from ratings firms based on performance

Program staff and the investment advisor should pay close attention to the investment performance of the DreamAhead portfolios relative to offerings from other 529 plans. DreamAhead can garner a certain level of interest and participation simply by being a program offered by the State of Washington. That alone, however, is not sufficient to help the program meet growth objectives and ensure the Committee is fully exercising its fiduciary obligations to participants. It is important that the program's performance is assessed and holds up against its competitors in the direct-sold 529 plan space.

Performance Measures

Measure 1: Measure investment portfolio performance relative to its benchmark

DreamAhead's performance should be assessed first by tracking investment portfolio performance against custom benchmarks developed by the investment advisor. WA529 staff and DreamAhead's contracted program manager and investment advisor should continually monitor portfolio performance and provide detailed reports to the Committee at least quarterly. The investment advisor should establish a process to identify portfolios that are not meeting performance expectations and/or if risks are materializing that may impact future performance expectations. The investment advisor should immediately alert the Committee of any such issues so problematic funds can be addressed.

Measure 2: Review quarterly and annual 529 plan rankings

Currently, the most tangible means of comparing 529 plans is through rating outlets. Two firms that assess 529 plan performance are Morningstar and savingforcollege.com. The savingforcollege.com group produces reports quarterly, whereas Morningstar reviews plans annually. WA529 should closely track these industry reports to determine how DreamAhead holds up nationally.

Progress Report

As described in the “Process” section, each DreamAhead portfolio invests in one or more underlying funds and has varying objectives and strategies. For example, the Static Growth Portfolio is designed for investors with a very high tolerance for short-term equity market fluctuations who expect maximum capital appreciation and have no desire for income. The Static Income Portfolio, alternatively, is designed for investors with a very low tolerance for short-term market fluctuations who want low risk to principal and have a high desire for current income with limited capital appreciation.

With such varied objectives and strategies for each portfolio, performance expectations differ. To ensure portfolios are meeting expectations based on the stated objectives and strategies, BNY Mellon Advisors developed custom blended benchmarks for each portfolio. First, BNY Mellon Advisors selected asset class benchmarks for each underlying fund based on best-fit criteria. Since most of the mutual funds in the portfolios are passively managed index funds, the performance of each fund is measured against the respective benchmark index identified in Table 2 below.

BNY Mellon Advisors then constructed final portfolio benchmarks by assigning a weighting for the benchmark index identified for each asset class in the portfolio based upon that asset class allocation percentage. As benchmarks are not investable directly, portfolio benchmarks are not used to evaluate direct performance; rather they are used to monitor tracking errors for the overall portfolio. BNY Mellon Advisors expects the portfolio net performance to experience deviations from the index performance due to representative index sampling, trading costs, participant fees, or other trading frictions.

Table 2: Asset Class Benchmarks

Asset Class	Fund	Ticker	Benchmark
U.S. Large Cap Blend	Fidelity® Total Market Index Fund	FSKAX	Dow Jones US Total Stock Market TR USD
Foreign Large Blend	Fidelity® International Index Fund	FSPSX	MSCI EAFE NR USD
Diversified Emerging Markets	Fidelity® Emerging Markets Index Fund	FPADX	MSCI EM NR USD
Intermediate-Term Bond	Fidelity® U.S. Bond Index Fund	FXNAX	Bloomberg US Aggregate Bond TR USD
Long Government	Fidelity® Long-Term Treasury Bond Index Fund	FNBGX	Bloomberg Long Term US Treasury Total Return Index
U.S. Large Cap Blend	Schwab Total Stock Market Index Fund®	SWTSX	Dow Jones US Total Stock Market TR USD
Inflation-Protected Bond	Schwab® Treasury Inflation Protected Securities Index Fund	SWRSX	Bloomberg US Treasury US TIPS TR USD
Intermediate-Term Bond	Vanguard Total Bond Market Index Fund Institutional Plus Shares	VBMPX	Bloomberg US Aggregate Bond TR USD
Emerging Markets Bond	Vanguard Emerging Markets Bond Fund Admiral Shares	VEGBX	JPM EMBI Global Diversified TR USD
Cash	Vanguard Cash Reserves Federal Money Market Fund Admiral Shares	VMRXX	Bloomberg US Treasury Bill 1-3 Mon TR USD

As discussed in the “Parent” section above, the Committee meets quarterly. In those meetings,

the Committee reviews portfolio performance against the custom benchmarks and BNY Mellon Advisors advises if there are any performance concerns. BNY Mellon Advisors has established a process to address portfolios that are not meeting performance expectations and/or if risks are materializing that may impact future performance expectations. BNY Mellon Advisors will notify the Committee of any problematic funds and place them on a watchlist that will receive increased scrutiny and monitoring.

Through the third quarter of 2023, the DreamAhead investment portfolios and the underlying funds have consistently met performance expectations. BNY Mellon Advisors has not yet identified any funds at risk of not achieving their expected returns. BNY Mellon Advisors will continue monitoring performance to ensure returns are within the expected tracking error for the benchmarks. If the performance of any portfolio lags behind its benchmark, BNY Mellon Advisors and the Committee will work to make the necessary adjustments to the investment mix, up to and including, changing any problematic underlying funds. To date, the only portfolio changes implemented have been to take advantage of lower underlying fund fees or mitigate risk. No portfolio changes have been made due to performance concerns.

The independent 529 plan information clearinghouse [savingforcollege.com](https://www.savingforcollege.com) reviews 529 plans quarterly. The firm analyzed DreamAhead most recently as of September 2023. As a whole, the plan received a five-cap rating (the highest possible plan rating) for Washington residents, and four-cap rating for non-residents. A five-cap rating represents an excellent program with many benefits for the participant and positive investment attributes. The plan received a 4-cap rating on cost, features, and reliability. Due to multiple quarters of DreamAhead ranking relatively low on [savingforcollege.com](https://www.savingforcollege.com)'s quarterly performance ratings, DreamAhead's cap rating for performance has recently decreased to two caps. It is important to note that as of the end of the second quarter of 2023, DreamAhead ranked 13th out of 55 evaluated plans for one-year returns, which will likely result in DreamAhead's cap rating for performance to improve in the near future. While [savingforcollege.com](https://www.savingforcollege.com)'s current ratings of DreamAhead are mixed, its overall five-cap rating for the plan indicates it is still confident in DreamAhead's ability to deliver value to plan participants.

Morningstar, Inc. first included DreamAhead in its 529 Analyst Ratings in 2020, where it recognized DreamAhead as one of the top 529 savings plans in the nation by awarding the plan a bronze medal. In 2021, Morningstar again recognized DreamAhead as a bronze medalist stating, "With its attractive fees and flexible menu design, Washington residents have a compelling option worth considering." For the past two years, Morningstar hasn't covered DreamAhead in their 529 plan ratings due to a variety of business factors, and is not a reflection on the quality of the DreamAhead offering. It should also be noted that in 2020, Morningstar revised its approach to rating 529 plans and no longer evaluates 'Performance' as a separate pillar. Therefore, when Morningstar begins covering DreamAhead again, different variables will need to be reviewed to understand Morningstar's assessment of overall plan performance compared to peers.

Price

Objectives

Objective 1: Achieve positive plan rankings from 529 plan rating outlets

Most direct-sold 529 plans rely heavily on passively managed index mutual funds. Fund managers such as Fidelity and Vanguard continue to compete to drive down fees on their mutual

fund offerings, creating a low-price environment. Accordingly, rating outlets such as Morningstar weigh plan fees relatively heavily in their plan rankings. Therefore, it is vital that DreamAhead offers low-cost options relative to other direct-sold 529 plans.

Objective 2: Reduce and eventually eliminate the account maintenance fee

Many 529 plans have imposed flat fees such as enrollment fees or account maintenance fees in the past, especially upon startup. The challenge for DreamAhead is that it is a relatively new plan that entered a maturing industry when it opened in 2018. The majority of investment-based 529 plans have been in operation for one to two decades and have been able to reduce or eliminate flat fees over time. Therefore, the Committee intends to reduce and eventually eliminate the account maintenance fee for all DreamAhead account holder types as soon as possible.

Objective 3: Continue growing program participation to drive down asset-based fees

In order for DreamAhead to continue reducing asset-based fees and establish the program as a low-price leader in the industry, it is important to grow the asset base. Since price is regarded so favorably by 529 plan rating outlets, this becomes a virtuous cycle where, in general, the more a plan grows and reduces fees the more positively it is rated and accordingly, the more interest and participation it garners.

Performance Measures

Measure 1: Review quarterly and annual 529 plan rankings

As with plan performance, the most tangible means of comparing 529 plans side-by-side on price is through rating outlets. Both Morningstar and savingforcollege.com include price as a substantial factor in their ratings. The savingforcollege.com group produces reports quarterly, whereas Morningstar reviews plans annually. The program should closely track these industry reports to determine how DreamAhead measures nationally.

Measure 2: Monitor program enrollments, cash flows, and asset growth

It is vital to closely track program enrollment, contribution, and distribution activities as well as program expenditures to identify opportunities to lower fees. Each time the program hits significant growth milestones such as \$1 billion, \$1.5 billion, or \$2 billion in assets, there may be opportunities to negotiate fees down for the benefit of customers.

Progress Report

DreamAhead was developed and launched with zero plan assets and with limited state appropriations to defray administrative costs (\$25,000 was appropriated during the 2016 Legislative Session). DreamAhead is authorized to maintain a temporary cash deficit that must be repaid with the goal of the plan being self-sustaining. Accordingly, WA529 lacked the resources or leverage to negotiate the lowest fees in the nation at start-up.

Despite this challenge, WA529 was able to negotiate a program management agreement that resulted in a competitive asset-based fee structure. On opening, DreamAhead was able to offer low-cost investment options ranging from 28 to 40 basis points. This fee structure put DreamAhead immediately in a competitive position on asset-based fees, ranking in the top half of plans nationwide. Since program inception, DreamAhead has been able to continually lower asset-based fees, which now range from 25 to 32 basis points, due to increasing assets under

management and underlying fund changes. The plan charges a flat annual account maintenance fee, which has become exceedingly rare among 529 plans. Reducing and eliminating this fee has been a primary target for the Committee as assets have grown. As a first step toward this goal, the Committee voted to reduce the account maintenance fee from \$35 to \$30 as of July 2021.

Table 3 on the following page provides the current asset-based fees for each investment offering.

As of the most recent analysis available on industrywide 529 plan fees, conducted by Strategic Insight in June 2023, the direct-sold 529 plan average for asset-based fees is 35 basis points. The asset-based fees for each of DreamAhead’s investment portfolios, ranging from 25 to 32 basis points, are significantly below this industry average. As mentioned in the Performance section above, as of September 2023, DreamAhead has maintained its five out of five “cap” rating from savingforcollege.com. In the most recent analysis, DreamAhead received four out of five caps on “Fee Score.” This metric considers all asset-based fees, as well as other fees such as enrollment and/or annual account maintenance fees, as well as other fees such as enrollment and/or annual account maintenance fees. In Morningstar’s 2020 and 2021 analyses, it awarded DreamAhead a bronze rating, recognizing the plan with a “Positive” score on Price.

The Committee remains focused on continuing to reduce fees. As discussed in the Key Developments section above, in fall 2023, the Committee voted to authorize WSAC staff to issue an RFP seeking creative and competitive proposals from the 529 vendor community. The intent of the RFP is to secure a new program management agreement for the DreamAhead program that ensures we are offering Washington families the best product, service, and pricing for their college savings. Among other feature and service enhancements, the Committee is specifically focused on eliminating the plan’s account maintenance fee, which currently disproportionately impacts savers with lower account balances. The RFP is scheduled to remain open for bids through mid-January 2024 and, if successful, the Committee anticipates awarding a contract in the spring of 2024.

In addition to proactive steps such as the issuance of an RFP, the Committee continues looking ahead to asset thresholds that will lead to natural fee reduction points. For example, the Committee anticipates being able to continue fee reduction negotiations once DreamAhead plan assets reach \$1 billion. It is important to note that while Senate Bill 6087 helped grow plan assets quickly to over \$800 million, DreamAhead has already distributed over \$521 million to plan participants, as many accounts that rolled over from GET were for mature beneficiaries. This highlights the importance of securing a positive reputation for the plan through sound program management and attractive pricing and investment offerings while continuing marketing efforts to stimulate account openings and contributions.

Portfolio name	Underlying Fund fee ⁶	Service Fee	State Administrative Fee	Total Annual Asset-Based Fee	Percentage Point Change from 11/1/21
Static					
Growth	0.034%	0.120%	0.100%	0.254%	-0.0001%
Moderate Growth	0.041%	0.120%	0.100%	0.261%	0.0029%
Conservative Growth	0.040%	0.120%	0.100%	0.260%	0.0027%
Balanced	0.040%	0.120%	0.100%	0.260%	0.0027%
Income & Growth	0.039%	0.120%	0.100%	0.259%	0.0025%
Income	0.055%	0.120%	0.100%	0.275%	-0.0001%
Cash Preservation	0.100%	0.120%	0.100%	0.320%	-0.0100%
Conservative Year of Enrollment					
2040	0.041%	0.120%	0.100%	0.261%	0.0023%
2038	0.044%	0.120%	0.100%	0.264%	0.0018%
2036	0.049%	0.120%	0.100%	0.269%	0.0011%
2034	0.055%	0.120%	0.100%	0.275%	0.0001%
2032	0.062%	0.120%	0.100%	0.282%	-0.0008%
2030	0.067%	0.120%	0.100%	0.287%	-0.0015%
2028	0.070%	0.120%	0.100%	0.290%	-0.0020%
2026	0.072%	0.120%	0.100%	0.292%	-0.0022%
2024	0.072%	0.120%	0.100%	0.292%	-0.0022%
College Enrolled	0.072%	0.120%	0.100%	0.292%	-0.0022%
Moderate Year of Enrollment					
2040	0.039%	0.120%	0.100%	0.259%	0.0024%
2038	0.040%	0.120%	0.100%	0.260%	0.0026%
2036	0.041%	0.120%	0.100%	0.261%	0.0025%
2034	0.043%	0.120%	0.100%	0.263%	0.0021%
2032	0.046%	0.120%	0.100%	0.266 %	0.0015%
2030	0.049%	0.120%	0.100%	0.269%	0.0009%
2028	0.053%	0.120%	0.100%	0.273%	0.0003%
2026	0.056%	0.120%	0.100%	0.276%	-0.0002%
2024	0.058%	0.120%	0.100%	0.278%	-0.0005%
College Enrolled	0.059%	0.120%	0.100%	0.279%	-0.0006%
Growth Year of Enrollment					
2040	0.038%	0.120%	0.100%	0.258%	0.0019%
2038	0.039%	0.120%	0.100%	0.259%	0.0021%
2036	0.040%	0.120%	0.100%	0.260%	0.0024%
2034	0.040%	0.120%	0.100%	0.260%	0.0026%
2032	0.042%	0.120%	0.100%	0.262%	0.0024%
2030	0.045%	0.120%	0.100%	0.265%	0.0017%
2028	0.049%	0.120%	0.100%	0.269%	0.0011%
2026	0.053%	0.120%	0.100%	0.273%	0.0005%
2024	0.057%	0.120%	0.100%	0.277%	-0.0001%
College Enrolled	0.059%	0.120%	0.100%	0.279%	-0.0004%

⁶ The underlying fund fee reflected in this table is based on the average annual rate over a 10-year period.

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