WA529 Committee Meeting Minutes
September 9, 2020
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Virtual Meeting

WSAC/WA529 Staff in Attendance:
Luke Minor, Christina Crawford, Daniel Payne, Betsy Hagen, Rodger O'Connor, Don Bennett, Kari Clark, Diana Hurley, Melissa Huster, Jackie Ferrado, Jennifer Dyck, Wendell Jopson, Kim Porter.

Presenters in Attendance:
Sally Riefenstahl, Sumday/BNY Mellon
Matt Smith and Graham Dyer, Office of the State Actuary
Nick Procyk and Matt Forester, Lockwood Investments/BNY Mellon
Chris Phillips and Chris Hanak, Washington State Investment Board

Guests in Attendance:
Rick Brady, Attorney General Office
Sarah Baker and Katie Gross, Office of the State Actuary
Kate Henry, Michele Alishahi, Steven Ellis and Megan Mulvihill, Washington State Legislature
Breann Boggs, Office of Financial Management
Mike Bay, Nate Shaw, and Scott Chisa, TVW

WELCOME
Mike Meotti, Chair of the WA529 Committee, called the meeting to order at 2:04 p.m. The other WA529 Committee members in attendance were Brenda Snyder, proxy for Treasurer Duane Davidson, Director of the Office of Financial Management (OFM), David Schumacher, citizen member, Linden Rhoads and citizen member, Touk Sinantha.

APPROVAL OF THE SEPTEMBER 09, 2020 MINUTES
Rhoads moved to approve the minutes. Seconded by Snyder. Four ayes by Meotti, Snyder, Rhoads and Sinantha. Motion carries and minutes approved as presented.

PROGRAM UPDATES
Luke Minor, WA529 Director, and Sally Riefenstahl, Sumday Account Executive, provided GET and DreamAhead program updates.

In response to the COVID-19 crisis, the WA529 and Sumday teams have been working remotely since mid-March. Phone hours have been reduced for both programs, but full support remains for emails and support tickets. Customer feedback has been generally positive during this transition.

Since stay at home orders have gone into effect, GET program enrollments, contributions, and customer inquiries have generally been down. Minor noted that GET enrollments closed for the 2019-20 enrollment year 15 percent behind last year, with a total of 3,381, but unit sales did hit the statutory goal of 500,000, coming in at 502,902.

Minor noted GET projects in process including a partnership with the Tacoma Housing Authority (THA) on children's savings accounts (CSAs), an enhanced scholarship platform, EFT distributions to customers, and a tax reporting interface overhaul. Sinantha asked how many assets Tacoma Housing Authority (THA) has with the program. Minor replied that he would like to get permission from THA before sharing that information but that they have close to 200 participants. Meotti noted that the partnerships will tie in strategically with other work that the council does.

Minor gave a second quarter GET investment update noting that as of June 30, 2020, the GET fund was at $1.46 billion with asset allocations remaining within the new target ranges put into effect last December. There was a 12% return for the quarter and 7.4% for the one-year period. Rhoads asked what the assumptions were for the target annual return for the total portfolio and how often that is refreshed. Chris Phillips and Chris Hanak with the Washington State Investment Board (WSIB), replied that 5.55% was the midpoint average annual return for the modeled portfolio in the 2019 asset allocation study. This was based on long term capital market assumptions from 2019, which will be refreshed in 2021. Phillips offered to provide more detailed capital market assumption information to the committee.

Riefenstahl provided a DreamAhead update. She noted that the Sumday team received instruction from their CEO that they will remain working in a remote environment through the end of the calendar year 2020. DreamAhead enrollment and contribution activity and call center volume has been a bit slower but remained steady. Riefenstahl provided a second quarter DreamAhead investment update, noting that all portfolios met their respective benchmarks year-to-date and for the trailing 12-month period, that no remedial action is necessary. Riefenstahl also highlighted the work to submit an RFI to 529 plan ratings outlet, Morningstar, and recent program changes, including: year of enrollment fund exchanges and additions as directed by the committee in the May meeting; more flexible withdrawal options for customers; and security enhancements. In the face of the pandemic and market strains, people are still enrolling in DreamAhead.

Minor shared that staff continues to monitor market activity and any possible state and federal budget and policy changes that would impact the programs, including a bill at the federal level that would temporarily allow expanded, private K-12 expenses.

Minor provided an update on the development of customer surveys, strategic partnerships, and a WA529 data dashboard to help inform committee members and stakeholders how the program is tracking compared to its goals. The dashboard framework is currently being built and is targeting a phase one launch by January 2021.

Minor gave an overview of 529 marketing efforts. In response to COVID-19, funds have been directed to more digital, social and TV news programming. Community outreach efforts have adapted to the COVID-19 impacts and continue with a major shift to virtual learning sessions. WA529 is working to strengthen partnerships with other financial literacy and educational groups, including plans to launch a refreshed web presence that will bring DreamAhead and GET under one umbrella.

WA529 OUTLOOK-2020 AND BEYOND
Meotti led the kickoff to an extended strategic planning conversation among committee members about the future of WA529. Meotti started with a timeline for the next year and key questions for the committee to answer. Key questions before the committee in this discussion are: what are our goals; what is the plan to achieve those goals; how is progress measured; how often should the goals be revisited; and how do we keep equity at the center of our work?

Sinantha asked if the committee should be looking for a vision for GET and DreamAhead together or separately. Meotti noted this was a good question and that he recommended the committee look at what the market is for these programs and also what a good form of measure is. For example, is the ideal measure the amount of savers, the amount of assets under management, or something different?

The committee discussed their goal to spread awareness of the plans broadly, the tax benefits and the options available for use in education, not just for Universities, while increasing the competitiveness of the plans as far as fees and performance.

- Snyder emphasized the need to look at all the ways that 529 plans can be used, various family needs and opportunities, and take a holistic view that a family can save for child's future, no matter what it looks like.
- Sinantha said we should focus on what makes our plans competitive and best in class – customers can shop among different 529 plans. For DreamAhead, she noted, the Morningstar review will be a good first indicator of where we are competitive and where we can improve.
- Rhoads expressed interest in helping residents take full advantage of the plans' flexibility, looking for case studies and best practices from other states, and helping boost college access and attendance to disadvantaged groups.

Meotti concluded with sharing that the Committee will want to consider how 529 plans fit into the broader college affordability framework for the state and that a joint meeting with WSAC council members may be beneficial. He stated that during the November meeting, the committee will take a deeper dive and set up a road map to inform the Committee's work for 2021. Meotti invited Committee members to submit points of discussion they want to focus on in advance of the next meeting.

FISCAL YEAR 2021 BUDGETS
Minor highlighted the Fiscal Year 2020 (FY20) Budget vs. Actual spending. The approved FY20 budgets were $5.55 Million for the GET Program and $992,500 for DreamAhead. The actual expenditures were about 10% under budget with GET at $4.9 Million and DreamAhead at $889,900. The primary reasons for these variances were salary savings, lower than anticipated indirect and COVID-19 impacts. The proposed budget for Fiscal Year 2021 (FY21) is $5,427,485 for the GET Program and $990,895 for DreamAhead.

Rhoads moved to approve the Fiscal Year 2021 Budgets. The motion was seconded by Sinantha. Five ayes from Snyder, Rhoads, Meotti, Sinantha and Schumacher. Motion approved as presented.

2020-21 GET UNIT PRICE SETTING
State Actuary, Matt Smith and Graham Dyer with the Office of the State Actuary presented the 2020-21 GET unit price-setting and risk analysis to the committee. The Program is currently 132% funded with a $375 million reserve as of June 30, 2020. The best estimate unit price range for the next enrollment period is $129-$147. Reserve levels ranging from 10%-20% were analyzed and the current 15% reserve policy remains reasonable. The rate of assumed investment return was lowered from 5.25% to 4.75% . Tuition growth assumptions anticipate a 2.4% increase next year, 5.5% annual growth for the following eight years, and 5% annual growth in years thereafter. Smith reviewed components of the unit price and different scenarios detailing higher than expected tuition growth or lower than expected returns. The best estimate unit price for the 2020-21 enrollment period is $137.

Rhoads asked at a $137 unit price, how the premium would compare to past years. Smith answered that he remembers the premium being as high as 40% during the great recession and at 11.6% last year. Rhoads asked how sensitive the purchaser is to the premium when purchasing units. Smith deferred to Minor, but noted purchasers may not be as concerned with the premium as compared to the overall "break even" point and guarantee. Minor answered there is some price sensitivity and that this is more likely for existing, rather than new customers, but that customer behavior is also significantly influenced by tuition growth.

Rhoads voiced her concern about the premium of the proposed unit price of $137 during a rough environment. There is a struggle between schools raising tuition as a result of lost funds during the pandemic vs. parents feeling like a tuition increase is unwarranted, as the schools are offering less value to the students during remote education. Sinantha agreed, adding that she believes that a unit price of $137 is high given the assumptions and would feel more comfortable with the lower end of the best estimate range. Snyder added that while we need to keep in mind the customers responses, we also need to make sure that the price selected won't be detrimental to the program in the future. Smith reiterated that the biggest change in the price from last year to this year was the change in the rate of return, which was a result of the change to the asset allocation. Sinantha stated that the rate of return being lower than the expected tuition growth is a concern overall for the program that needs to be addressed. Meotti stated that the primary function of the fund is to protect the state tax payers from having to pay college expenses for account owners if the guarantee was ever triggered. Over the last few years the committee has made conservative choices that ended up with a higher reserve. Meotti stated that at this time he would be more inclined to go with the lower end of the best estimate range, possibly in the lower $130's. Schumacher reminded the committee that this is a price that gets changed every year and that if something significant changes, they have the ability to course correct . Rhoads agreed with this statement.

Schumacher moved to select a unit purchase price of $133. The motion was seconded by Sinantha. Five ayes from Snyder, Rhoads, Sinantha, Meotti and Schumacher.

GET PROGRAM DETAILS BOOKLET UPDATES
Minor stated that the updates include clarifying certain processes, incorporating all new federal provisions, adding new qualified higher education expenses, updating investment policy sections to reflect newly adopted standards and adding COVID-19 provisions to hours of operations.

Rhoads moved to approve the changes. The motion was seconded by Schumacher. Five Ayes from Snyder, Rhoads, Sinantha, Meotti and Schumacher.

DREAMAHEAD FUND CHANGE

Nick Procyk, Lockwood Advisors, gave an overview of a proposed underlying fund change. Lockwood proposes replacing the money market fund used in all DreamAhead portfolios to a lower cost option. Specifically, the JPMorgan U.S. Government Money Market Fund Capital Shares would be exchanged with the Vanguard Federal Money Market Fund Investor Shares. This fund change would reduce the money market fund expense ratio from 0.18% to 0.11%. Both are government money market funds appropriate for 529 plans.

Sinantha asked if the Vanguard fund had any gates or redemption fees. Procyk answered that it does not.

Sinantha asked if this change is made if other cash options can be pursued in the future. Procyk answered that yes, they can.

Rhoads moved that the fund be changed as proposed. The motion was seconded by Snyder. Five Ayes from Snyder, Rhoads, Sinantha, Meotti and Schumacher.

PUBLIC COMMENT

No public comment.

ADJOURNMENT

Rhoads motioned to adjourn meeting at 4:00 p.m. The motion was seconded by Snyder. Five ayes from Meotti, Snyder, Rhoads, Sinantha and Schumacher. Meeting adjourned.