



State of Wisconsin
Department of Financial Institutions

Tony Evers, **Governor**

Cheryll Olson-Collins, **Secretary**

COLLEGE SAVINGS PROGRAM

REGULAR COLLEGE SAVINGS PROGRAM BOARD MEETING
WEDNESDAY, SEPTEMBER 18, 2024

MINUTES

A regular meeting of the Wisconsin College Savings Program Board of Directors was held virtually via Microsoft Teams on Wednesday, September 18, 2024 at 9:00 a.m.

1. Call to Order and Roll Call

Board Chair Bill Oemichen called the regular meeting of the College Savings Program Board to order at 9:01 a.m. with a quorum present.

Board Members Present In-Person & via Microsoft Teams

DFI Secretary Cheryll Olson-Collins, Bill Oemichen (Board Chair), Kim Shaul (Vice Chair), Jason Rector (SWIB), James Zylstra (WTCS), Eric Fulcomer (WAICU), Charles Saunders (Universities of Wisconsin), Sen. LaTonya Johnson, Susie Bauer, and Mayra Alaniz.

Others Present In-Person & via Microsoft Teams

Wilshire: Steve DiGirolamo and Felicia Bennett.

Voya: Paula Smith, James Harper, Lanyon Blair.

TIAA: Vivian Tsai, Regina Carmon, Jackie James, Jeremy Thiessen, Jordan Jones.

DFI: Jessica Wetzell, Cheryl Rapp, Chelsea Wunnicke, Matt Lynch, Craig Heilman, Catherine Haberland.

General Public Attendees: Justin Slaughter, Lacy Fox (Sen. Johnson's office).

2. Agenda Approval and Public Posting Report

The agenda was received and staff reported that the meeting notice and agenda have been properly posted. Susie Bauer motioned to approve the agenda. Eric Fulcomer seconded the motion. The motion carried.

3. Approval of Minutes from June 18, 2024 Board Meeting

Susie Bauer motioned to approve the June 18, 2024, College Savings Program Board meeting minutes. Sen. Johnson seconded the motion. The motion carried.

4. Administrative Reports

a. Board Chair Comments – Board Chair Bill Oemichen began by welcoming Charles Saunders to the College Savings Program Board. Saunders will be filling the ex-officio seat representing the UW Board of Regents which was vacated by Sean Nelson who retired from the Universities of Wisconsin in early September. Saunders is a CFA and has a strong background in investment management and portfolio oversight. He currently serves as the Chief Investment Officer at the Universities of Wisconsin, where they manage a multibillion-dollar endowment and is responsible for the oversight of the 403(b) program. Prior to this role, Charles held the position of

Chair of the Investment Committee at Lawrence University for eight years and served as an Investment Director for the State of Wisconsin Investment Board. Charles thanked Bill for the welcome and shared that he is looking forward to working on this program and with his fellow board members.

Oemichen moved on to provide a brief overview of Edvest and Tomorrow's Scholar plan data through August 2024, sharing that Edvest has \$5.5B in assets under management (AUM) (up 17.8% YOY) across 233,394 accounts (up 4.6% YOY) with an average account size of \$23,836 (up 12.7% YOY). Bill added that Tomorrow's Scholar has \$2.4B in AUM (up 12% YOY) and 168,352 accounts (up about 1% YOY), with an average account size of \$21,550 (up 13% YOY).

Finally, Oemichen provided the board with a status up on the program's administrative code updates, first reminding the board that the proposed updates were approved at the June board meeting and focus on eliminating obsolete provisions, correcting cross-references and errors, eliminating rules that are redundant with statutes, and modifying the structure of existing rules in non-substantive ways. On Wednesday August 28th, DFI held a public hearing on the updated rules where the public had the opportunity to speak or provide written comments in response to the changes. There were no attendees at the public hearing and DFI received no written comments in support or opposition. DFI submitted a final version of the proposed rule to the Governor for his approval on September 9th. Following receipt of his approval, DFI will send the rule to the legislature for Senate, Assembly, and Joint Committee for Review of Administrative Rules review, which won't occur until the next session begins in January 2025. Oemichen closed by sharing that DFI will keep the board posted of further progress and then welcomed Secretary Olson-Collins' comments.

- b. DFI Secretary Comments** – Secretary Olson-Collins shared that DFI and program staff, with support from TIAA, Voya, and Wilshire, submitted annual RFI's to Morningstar and participated in analyst interviews for each plan in early September. She thanked board members Jason, Susie, and Bill for participating with DFI in interviews. She shared that she believed the meetings went very well, with good back and forth between the program and analyst. Olson-Collins reminded board members that Morningstar updated their rating methodology to more heavily look at the "Parent pillar" which looks at the quality of the state's decision-making and oversight around key items, including plan features, investment management, and fees, so interview time focused on these areas. She closed by sharing that the rankings should be announced by November and the board will be informed when they are out.
- c. Program Director Comments** – Financial Capability Director, Jessica Wetzel, thanked Secretary Olson-Collins and provided brief program updates. First, Wetzel noted that the program recently received audited financial statements for both the Edvest and Tomorrow's Scholar Plans and noted that there is nothing outstanding for either plan. Second, Wetzel informed the board that the program's Investment Policy Statement has been included in their meeting materials. Slight changes to the document include updated benchmark numbers and a small addition to watchlist language that documents the process currently followed more clearly. Finally, Wetzel shared that DFI, along with Wilshire and board member Jason Rector, conducted virtual due diligence meetings on risk-based funds included in the Edvest plan. All meetings went well, with each team providing insight into their philosophy, securities selection process, risk-mitigation efforts and outlook. Wetzel closed by sharing that the program will be participating in operations

due diligence with BNY Mellon – the entity who provides customer service and record keeping services to the Tomorrow's Scholar plan – in October.

5. Program Manager Comments (Voya Investment)

a. Second Quarter 2024 Plan Highlights & Marketing Update

Paula Smith reviewed Tomorrow's Scholar Q2 2024 plan activity. Smith began by sharing that the plan is continuing to experience strong sales and AUM momentum, with YTD contributions outpacing 2023 by 20% and program AUM approaching all-time highs. Sales were \$120 million through July 2024 and program AUM was at more than \$2.4B throughout that same period. Sales were spread across 178 broker/dealers nationally, with nearly all major broker/dealer partners showing YOY growth, particularly Ameriprise (8%), Edward Jones (25%), Morgan Stanley (4%), LPL (13%), and Northwestern Mutual (33%). YTD, more than 50% of contributions come from omnibus and omnibus-lite partners. More than 2,100 new direct-held accounts have been added since the beginning of the year, which is up 5% from 2023, and the number of in-state accounts have grown by 2% YOY. Average account size is more than \$21.3K, up 9% over last year, which Smith noted was aided by 9% growth in plan AUM.

Smith moved on to share that the elimination of Class AR shares was executed on August 16, 2024, and all participants were successfully converted into A shares. Smith shared that Lanyon Blair would be presenting a single-fund option change to the plan later in this meeting.

Marketing highlights for the quarter included Voya's investment management team releasing a white paper titled "Plan Today, Thrive Tomorrow: Designing 529 College Savings Plans" which explores their investment approach and how much college savers should save. Paula shared a few highlights from the paper and Wetzel noted that the paper was provided to board members as part of their meeting materials. Paula closed by going through recent marketing efforts which included the execution of a successful 529 Day email, social media, and webinar campaign.

b. Discussion on Enrollment-Based Portfolios

Board Chair, Bill Oemichen, reminded the board that as a result of Wilshire's 529 Landscape Report presented at their June meeting, the board asked for Voya to discuss Tomorrow's Scholar current glidepath and what it might look like to transition from age-based to enrollment-year portfolios. He noted that the board would not be voting on a formal change to the plan as a result of the information provided by Voya, rather this discussion was requested by the board as a due diligence step and the presentation will serve as an initial exploration of the topic.

Smith began the discussion by providing an overview of the pros and cons of transitioning the plan's current glidepath from age-based to year-of-enrollment portfolios. Pros of enrollment-based portfolios include reducing equity sequencing risk that happens at the time of the age-based migration; providing clear investment options for participants who want to save for K-12 using glidepath; eliminating annual age-based migrations; removing the use of a hypothetical age (move to hypothetical enrollment year); and allowing their investment team more flexibility to adjust glidepath and asset allocation within each option. Cons, or things that would give Voya pause, include the loss of the plan's strong 10-year performance history and top quartile since-inception performance; high implementation costs, operational complexity of mapping participants, particularly those with a hypothetical age, into the appropriate new option; complexities and cost associated with omnibus partners; and finally the shift would require the plan to launch a new option/portfolio every two years which would also involve the merger of the

nearest dated enrollment option into the in-school option. Smith noted that while an enrollment-year model provides a smoothed glide path, Voya employs a step-down approach to balance portfolio turnover and optimality. A step approach delivers expected tuition coverage ratios comparable to those of the optimized smoothed glide path. Overall, Smith stated that the loss of a strong track record and the operational complexity of making the switch would be Voya's biggest causes for pause in making a change from age-based to enrollment-year portfolios.

Board member, Susie Bauer, asked if there was any data or feedback from plans that have made this switch. Smith wasn't aware of any existing feedback but did state that advisors have never asked Voya to switch their glidepath design.

Board member, Charles Saunders, asked that, given glidepath transition from age-based to enrollment year is an emerging industry trend, is it better to make the move soon when other plans are also losing their track record? Smith noted that this was a good point and there could be a benefit to doing this sooner than later but noted that other plans may have benefited from losing a poor track record, which is not the case with Tomorrow's Scholar. Vivian Tsai from TIAA shared that the reason TIAA made the switch from age-based to enrollment year for all the plans they manage was to better allow account owners to make their own decision on when they want to use their funds. All TIAA-managed 529 plans made the switch from age-based to enrollment year portfolios between 2019-2020. Tsai noted that underlying asset allocations remained the same and only the structure was changed, and many of their state clients archived past performance on their website so that participants could view that and compare pre- and post-transition performance.

Board Chair, Bill Oemichen, asked about implications this change could have now that 529 savings can be used for primary or secondary school. Smith responded that enrollment-year portfolios make saving with the glidepath for K-12 easier. However, the plan has risk-based options that participants can use for this purpose.

Board member, Jason Rector, asked where Voya is leaning in terms of their decision. Smith noted that they will do what the board would like, but they feel that retaining track record is important and the current glidepath is working well. Rector asked what a transition from age-based to enrollment year would accomplish. Smith noted that with enrollment year portfolios, there is one smooth glidepath with a series of target-date funds, whereas an age-based glidepath has steps where participants are moved from one age-band to another. Rector noted that a seemingly clear benefit of enrollment-year portfolios is that plan participants can more easily decide where to invest their money based on how far they are from needing it. If there were no change to the glidepath asset allocation with a transition, perhaps there is a more effective way to utilize current age-bands and structure but look at renaming to better align with timeline to use.

Smith will investigate options to more clearly articulate and educate current and potential participants and advisors on selecting the appropriate age-based option and if it is a possibility to just re-name the options to be more reflective of how the band aligns with timeline to usage. She also noted that if the board would like to go with a full switch from age-based to enrollment-year portfolios, the implementation timeline would be about one year.

c. Proposed Fund Replacement

Lanyon Blair joined to present a recommendation to replace the plan's underlying Northern Small Cap Value fund with American Century Small Cap Value. Lanyon stated that Voya's investment management team has had a loss of conviction in Northern Small Cap Value, noting that it has not demonstrated a consistent enough track record of outperforming the Russell 2000 Value benchmark on an absolute or risk-adjusted basis while American Century has a proven track record of consistent risk-adjusted outperformance versus the Russell 2000 Value over the long-term (net of fees). Voya's team feels that they have been patient with the fund, but they have had little innovation recently. American Century is more of an all-weather fund and less dependent on market performance. Lanyon noted that American Century's net expense ratio (NER) of 0.89 is a reduction from Northern's NER of 1.01m which is a direct benefit to participants. Finally, Lanyon shared the criteria Voya's team used to determine potential sub-advisors and the list of funds that were considered.

Charles Saunders asked about the cumulative, historical performance of both funds, stating that in the early part of the ten-year performance history that Lanyon showed, the funds don't differ much. Did Northern de-risk during Covid or is the difference in performance more recently the result of philosophy change? Lanyon said they have not changed their philosophy pre- or post-Covid, but their approach has been less innovative than other managers which accounts for the more drastic outperformance by American Century in recent years.

Smith noted that if approved, the change would be implemented in the first quarter of 2025 and reflected in the Tomorrow's Scholar 12/31/2024 Plan Description supplement.

6. Program Manager Comments (TIAA)

a. Second Quarter 2024 Plan Activity

Board Chair, Bill Oemichen, informed the board that an outcome of their June board meeting was to investigate adding a Money Market Fund option to the Edvest plan. After program and marketing updates, TIAA's investment team will deliver a presentation on stable value vs. money market options and the board will later take a vote on whether they would like to have TIAA pursue researching and recommending a Money Market fund for including in the Edvest plan at a future meeting.

Regina Carmon provided a brief Edvest Q2 2024 plan activity updated. Carmon began by stating that the program continues to grow, noting that the plan's total assets increased slightly more than the industry average quarter over quarter and year over year. While contributions decreased by 24% QoQ, they increased 17% YoY. The plan opened 4,830 accounts in Q2, and Carmen noted that rollovers into the plan exceeded rollovers out of the plan. Finally, Carmen shared that during Q2 2024, Edvest's dedicated field consultants successfully held 14 webinars; conducted 87 one-on-one consultations, engaged in 18 Edvest-At-Work lead generating activities; and onboarded 6 new Workplace Savings Partners.

Second Quarter 2024 Marketing & Outreach Report

Jackie James began by providing a Q2 2024 marketing activity overview, which included a Summer Savings (formally 529 Day) campaign, several local marketing initiatives, including sending a graduation gifting email to grandparents, two account owner engagement emails, a Money Smart Week editorial, and marketing of the 2024 tax deductible amount increases. The summer savings campaign resulted in 1,154 new accounts and just under \$11.5 million in new contributions to the plan, both of which exceeded established goals. The program is now focusing

on a College Savings Month campaign in September, finalizing the “ABC’s of 529’s” coloring book, and a strategic grandparent engagement campaign.

b. Money Market vs. Stable Value Discussion

Jeremy Thiessen began by providing an overview of the current interest rate environment, stating that the 525-basis point increase in the Federal Funds target rate from March 2022 through today has led to a meaningful inversion in the yield curve which is the primary reason why money market funds currently enjoy an attractive rate. He added that, while money market funds are enjoying a more attractive rate in the short run due to the rapid increase in short-term interest rates and the current inverted yield curve environment, stable value continues to provide a reliable and consistent participant experience. Thiessen went on to explain the role of the Edvest plan’s Guaranteed Funding Agreement (FA) provided by TIAA-CREF Life Insurance. The FA specifically delivers a crediting rate guaranteed for 12-months between 1% and 3%; principal guarantee; 100% liquidity to account owners; and no fees to account owners. The FA is a cash-like investment used to provide stability to participants, particularly during the most critical part of the glidepath when account owners are withdrawing for tuition payments. Thiessen then shared what TIAA’s process would be for recommending a Money Market Fund, which includes the Education Savings Investment Team completing due diligence of available Money Market Funds and employing a search process that includes mutual fund structure, lowest fee share class, and Government Funds (those that primarily invest in government securities, such as U.S. Treasuries and collateralized repos involving Treasuries).

Board member, Jason Rector asked TIAA what the current rate is on the plan’s Principal Plus Interest portfolio (PPI) and to provide what the Money Market and/or Federal Funds rate was at the time of the Principal Plus Interest portfolio crediting reset each year it has been part of the Edvest plan for comparison. Regina Carmen stated that the current rate on the PPI portfolio is 3%. Thiessen also stated that some of the spread on the funding agreement goes toward services provided to the plan, like low Program Manager fee, marketing budget, and field consultants.

7. Investment Analysis & Discussion (Wilshire Associates) – CLOSED SESSION *(A motion to go into closed session at this meeting is authorized pursuant to sections 19.85(1)(e) and 19.36(5) of the Wisconsin Statutes to consider confidential strategies for the investment of public funds, including the review of risk profiles of portfolio investments.)*

Investment Consultant Contract Discussion – CLOSED SESSION *(The Board may recess into closed session pursuant to Wis. Stat. s. 19.85(1)(e) concerning matters of public business where competitive or bargaining reasons require a closed session.)*

- a.** Board Chair, Bill Oemichen, welcomed a motion to move into closed session. Kim Shaul motioned to move into closed session. Jim Zylstra seconded the motion. A rollcall vote was taken and passed unanimously. The motion carried. The Board entered closed session at 10:37am.

The Board returned to full session at 11:59am after a motion to move to open session was initiated by Susie Bauer, seconded by Kim Shaul, and a full rollcall vote passed unanimously.

8. Old Business

- a. None**

9. New Business

a. Proposed Fund Replacement in Tomorrow's Scholar Plan – VOTE

Board Chair, Bill Oemichen, welcomed a motion to accept Voya's proposal to replace the Northern Small Cap Value fund with the American Century Small Cap Value fund in the Tomorrow's Scholar plan. Susie Bauer motioned to approve the recommendation. Charles Saunders seconded the motion. The motion carried.

b. Potential Vote on Edvest 529 Investment Line-Up – VOTE

Board Chair, Bill Oemichen, welcomed a motion for TIAA to research and bring forward a Money Market Fund recommendation as part of their 2025 investment and asset allocation changes. Charles Saunders motioned to approve the recommendation. Susie Bauer seconded the motion. The motion carried.

c. Potential Wilshire Contact Extension – VOTE

Board Chair, Bill Oemichen, welcomed a motion to authorize DFI to seek an agreement with Wilshire to exercise the final option to extend their contract for investment consulting services for an additional three years on the same terms. Susie Bauer motioned to approve the recommendation. Jim Zylstra seconded the motion. The motion carried.

10. Announcements & Action Items

- a.** The next meeting of the Wisconsin CSP Board will be held virtually on Thursday, December 5, 2024, at 9:00 a.m. CT.

- b. Action Items**

Jessica Wetzel will work with TIAA on continuing to discuss the plan's Funding Agreement and with Voya on exploring changes to the plan's current glidepath.

11. Adjournment

Board Chair, Bill Oemichen, welcomed a motion to adjourn the meeting at 12:02pm. Eric Fulcomer motioned to adjourn the meeting. Susie Bauer seconded the motion. The motion carried.