2015 College Savings Foundation Conference

CollegeSavings FOUNDATION

529 Landscape

The 529 Landscape

- Moderator: Chris Lynch, Senior Director, TIAA-CREF Tuition Financing, Inc.
  - Panelist: Andrea K. Fierstein, President, AKF Consulting Group
  - Panelist: Massi DeSantis, Ph.D, Vice President Research, DFA
  - Panelist: Joe Hurley, Savingforcollege.com

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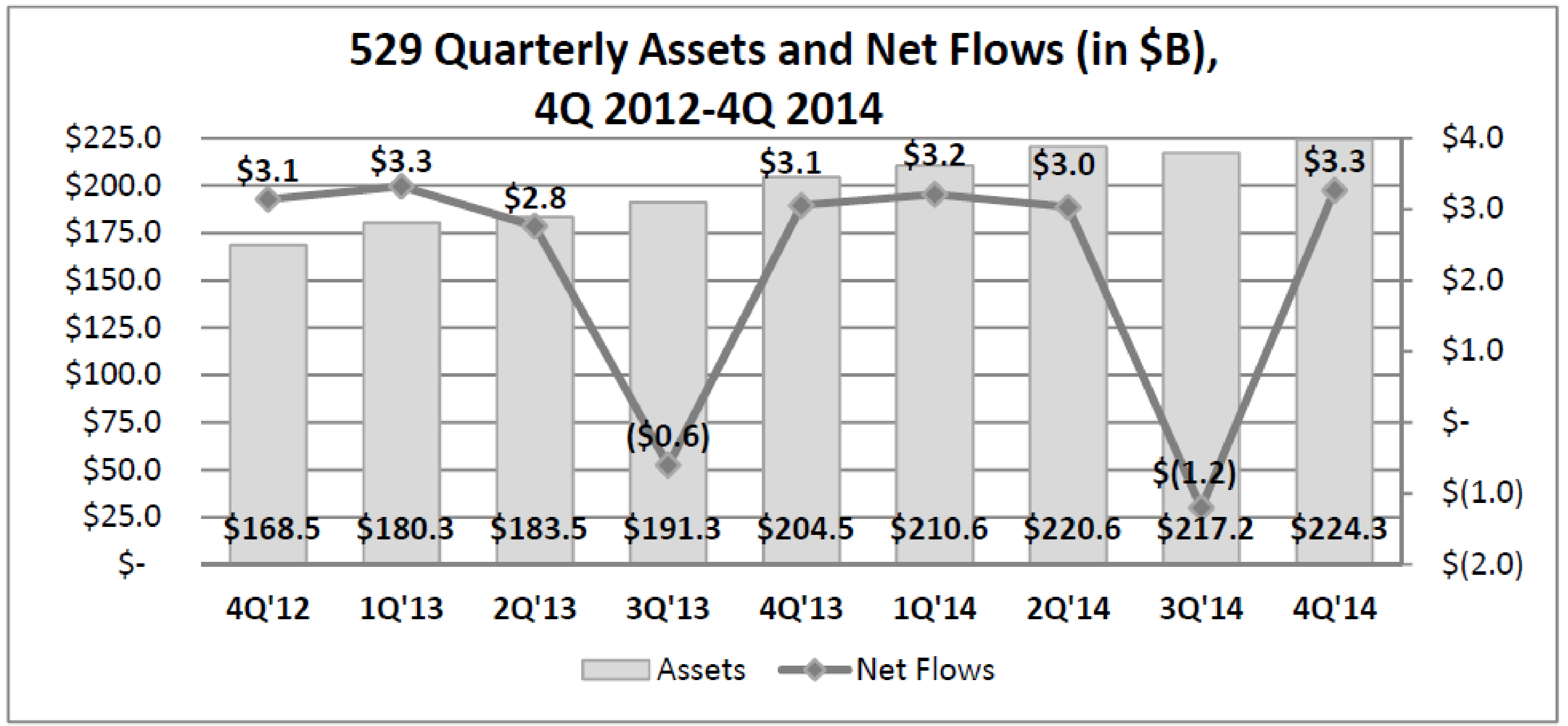
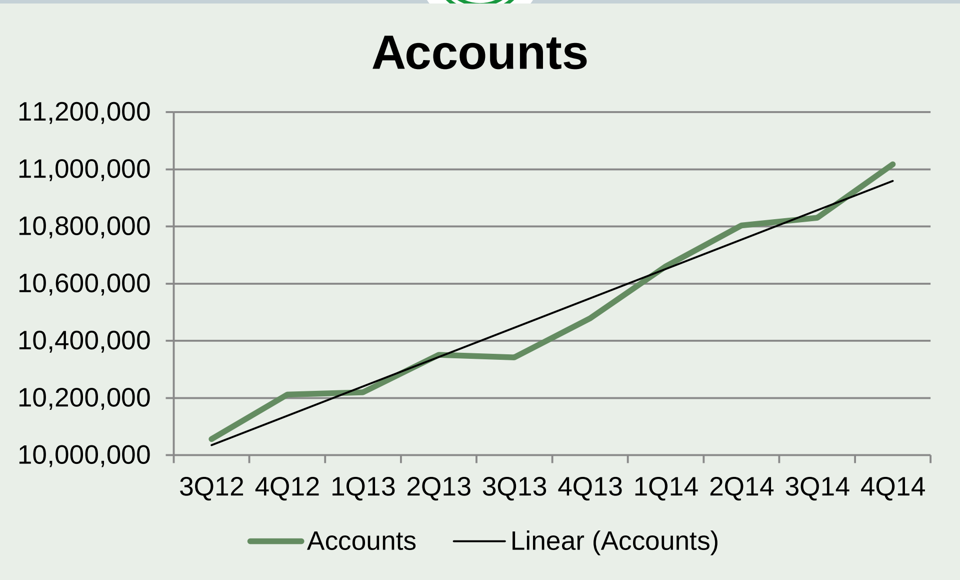
The Current Market



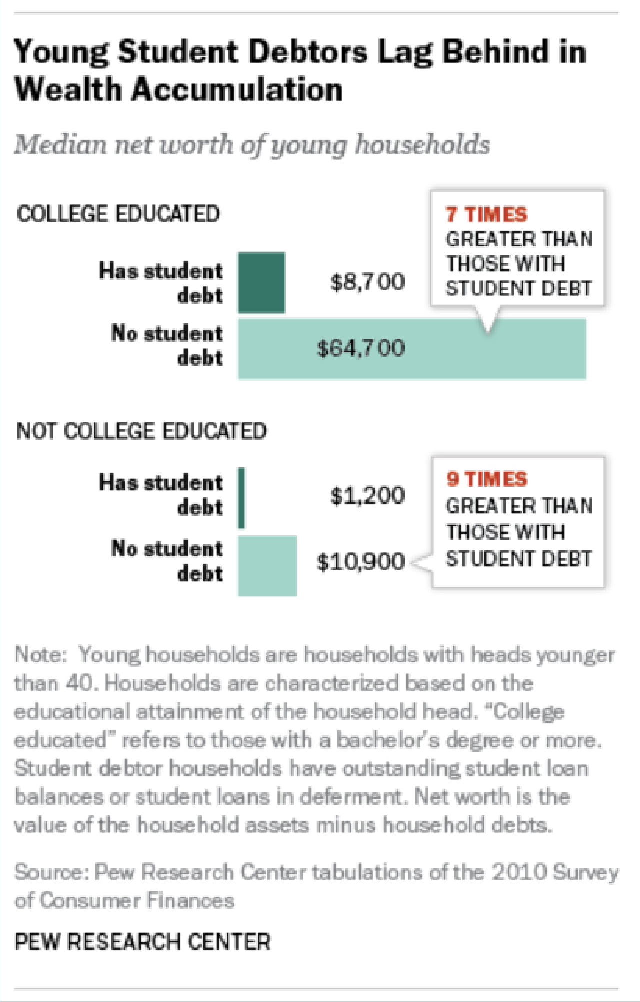
- According to Strategic Insight
  - Total 529 savings plan assets increased to an estimated $224.3 billion as of 2014 Q4, reflecting a 3.3% increase from 2014 Q3 assets and a 9.7% increase from 2013 Q4
- The growth in plan outflows reflects two movements in the 529 market
  - The market is maturing, i.e. beneficiaries are growing up and going to college, so their 529 accounts are being tapped
  - It is harder to find younger investors to replace the older account owners due to growing inequality and a relatively poor job market

529 Participation Growth



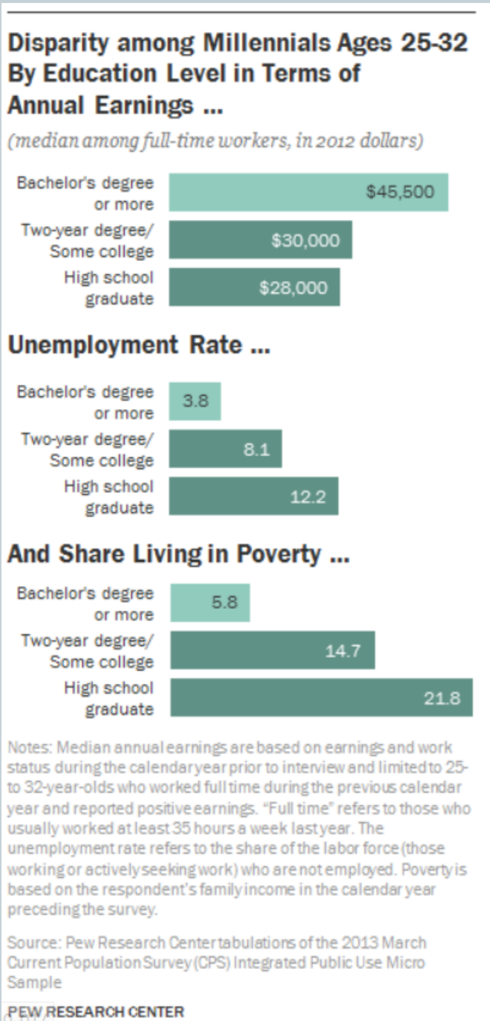
- Accounts for combined Direct and Advisor plans
  - Internal data suggests every Account Owner has approximately 1.2 accounts
- Data from Strategic Insight's 529 College Savings Quarterly Data Updates

Student Debt and Wealth Accumulation



- Households headed by a young, college-educated adult without any student debt obligations have about seven times the typical net worth ($64,700) of households headed by a young, college-educated adult with student debt ($8,700).
  - *Pew Research Center, 5/14/2014*

The Rising Cost of Not Going to College

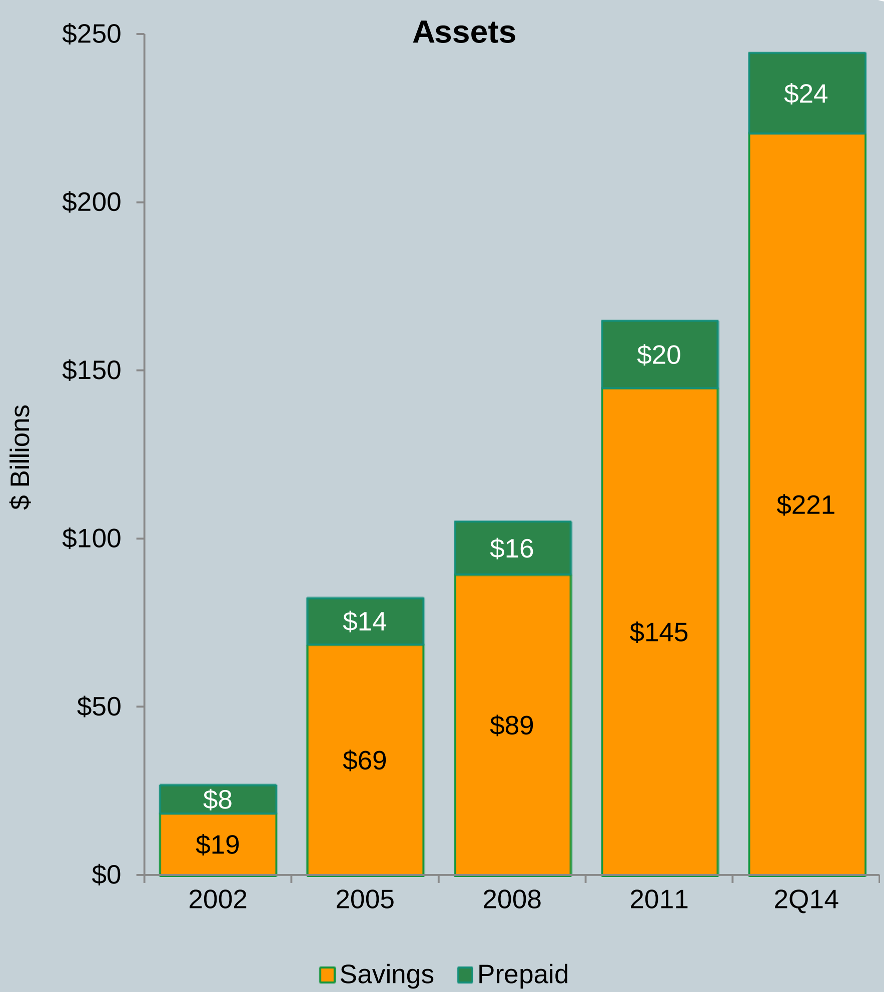


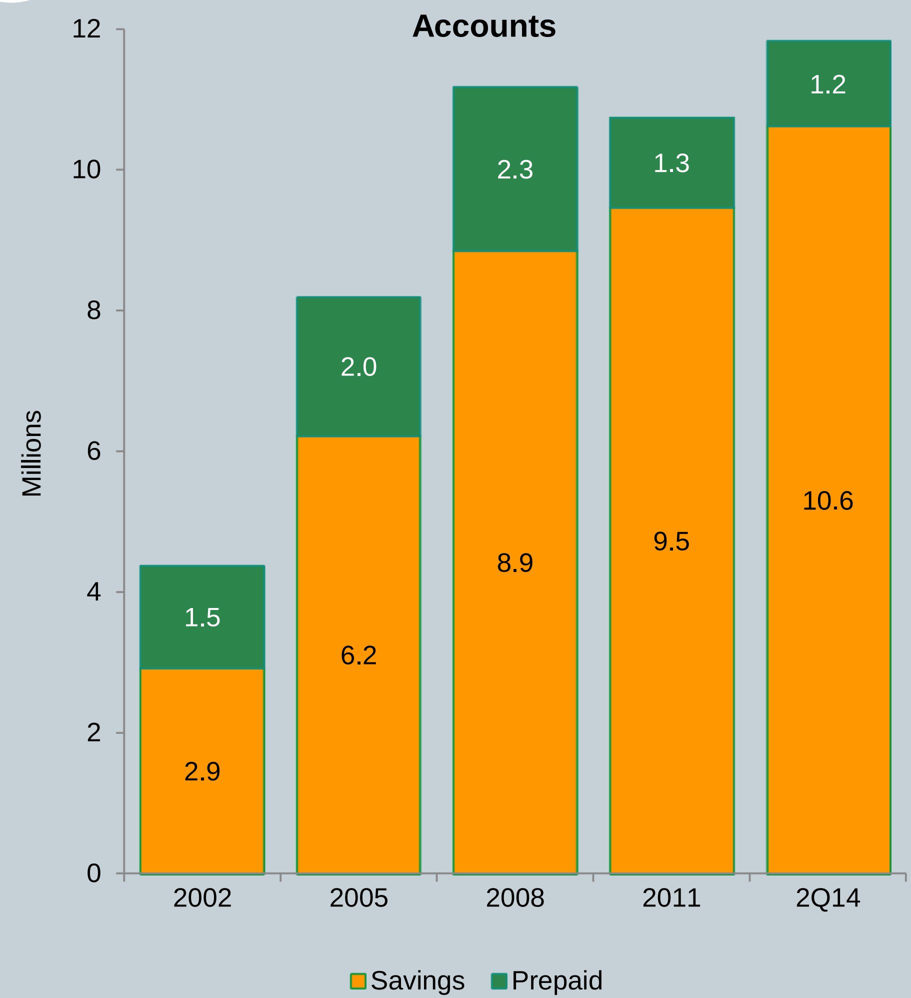
- The analysis by Pew Research finds
  - Millennial college graduates ages 25 to 32 who are working full time earn more annually – about $17,500 more – that employed young adults holding only a high school diploma
  - This pay gap was smaller in previous generations
  - College-educated Millennials are more likely to be employed full time than their less-educated counterparts (89% vs. 82%) and significantly less likely to be unemployed (3.8% vs. 12.2%)
- So not saving for college has a price

Today’s Discussion

- **Distribution Trends**
- **Program Management Landscape**
- **Investment Option Observations**

National Market 2002 – 2Q14





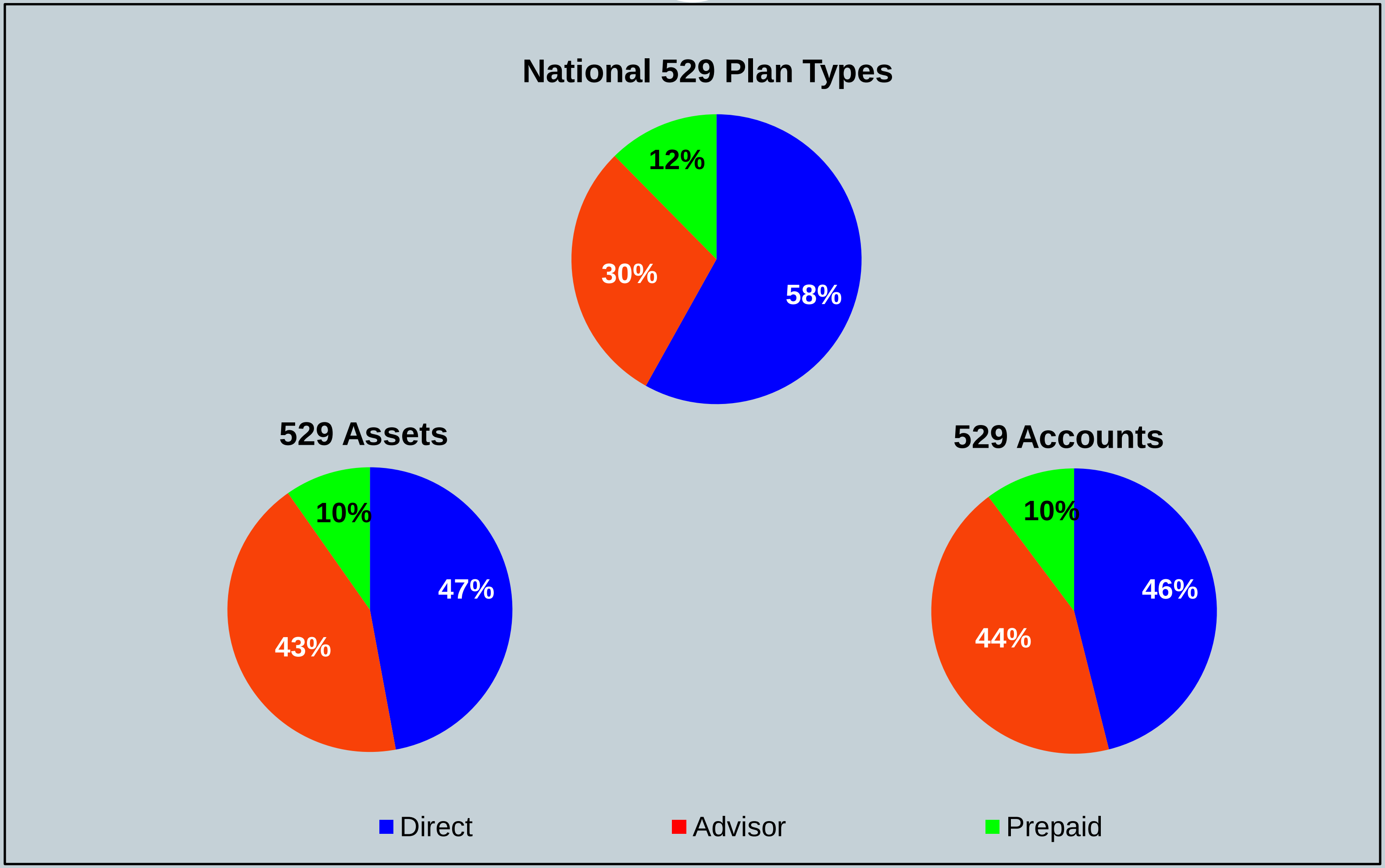
Sources: College Savings Plans Network (“CSPN”) and certain State data as of June 30, 2014

Snapshot of the 529 Market

	Prepaid Plans	Direct Savings Plans	Advisor Savings Plans	Total
States	**12**	**49 (with DC)**	**30 (with DC)**	**50 (with DC)**
Plans	**13 (with Private College Plan)**	**61**	**31**	**105**
Assets	**$23,820,569,563**	**$115,103,062,867**	**$105,529,574,142**	**$244,453,206,572**
Accounts	**1,208,598**	**5,449,745**	**5,169,907**	**11,828,250**
Average Account Size	**--**	**$21,121**	**$20,412**	**--**

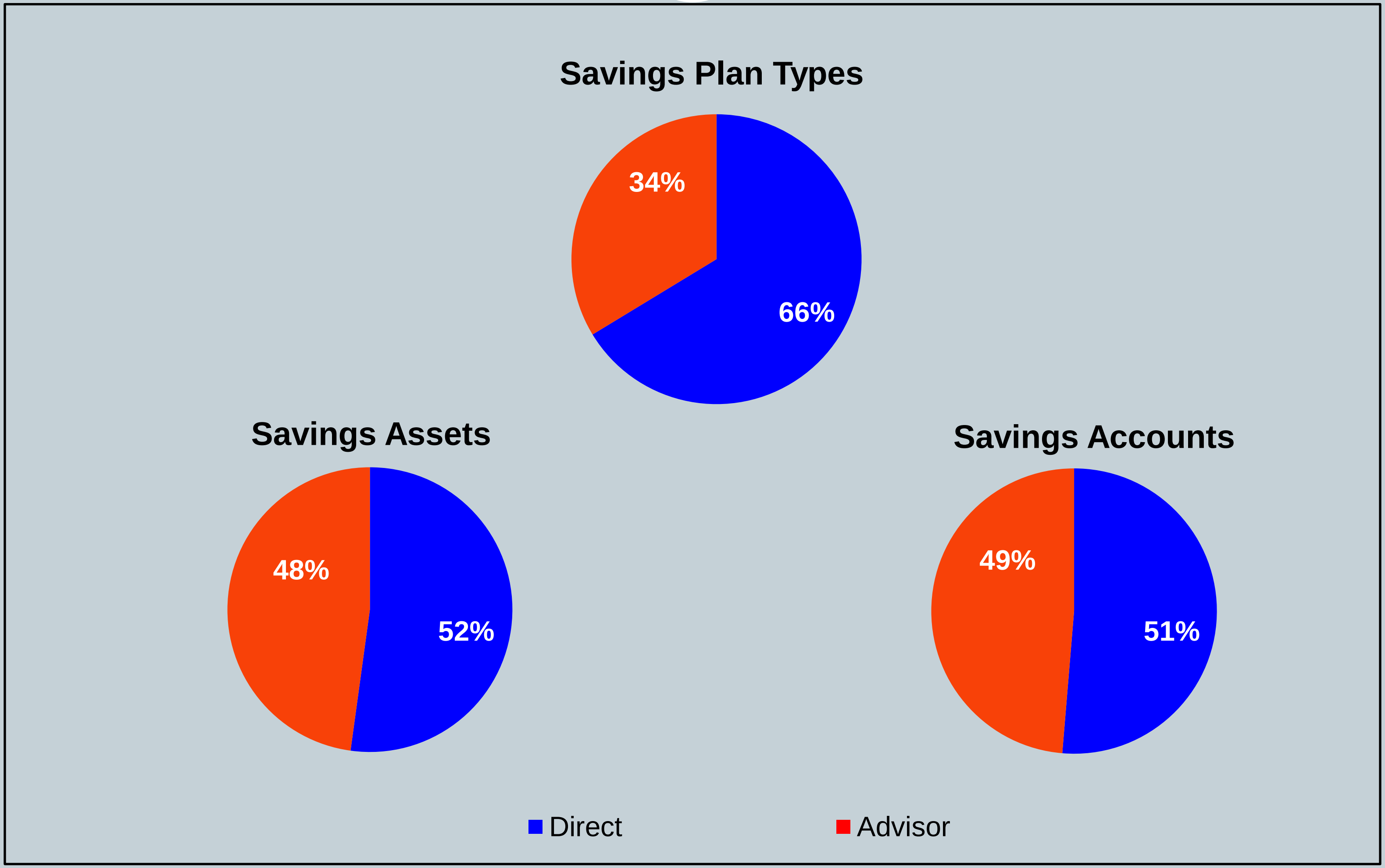
Sources: CSPN and certain States as of June 30, 2014; Washington, D.C. is included in Direct Plan count
Open Prepaid Plans: AK, FL, IL, MD, MA, MI, MS, NV, PA, TX, VA, WA, Private College Consortium

Another View of the 529 Market



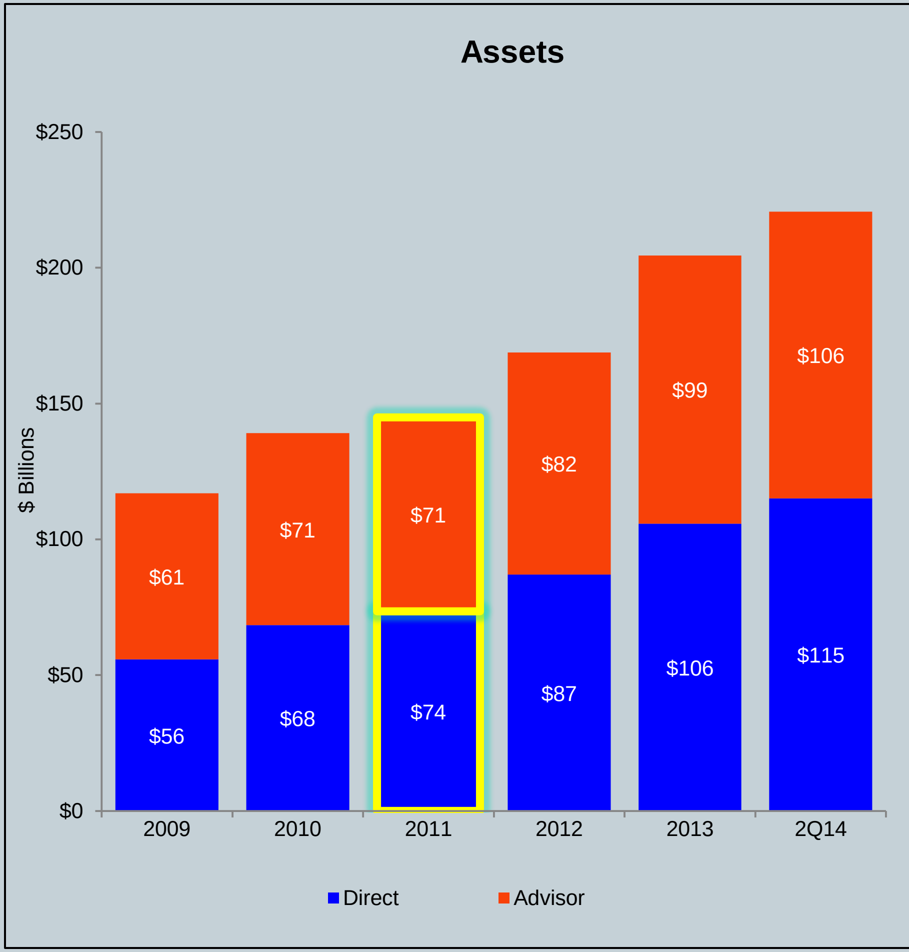
Sources: CSPN and certain States as of June 30, 2014. Washington, D.C. is included in Direct Plan count

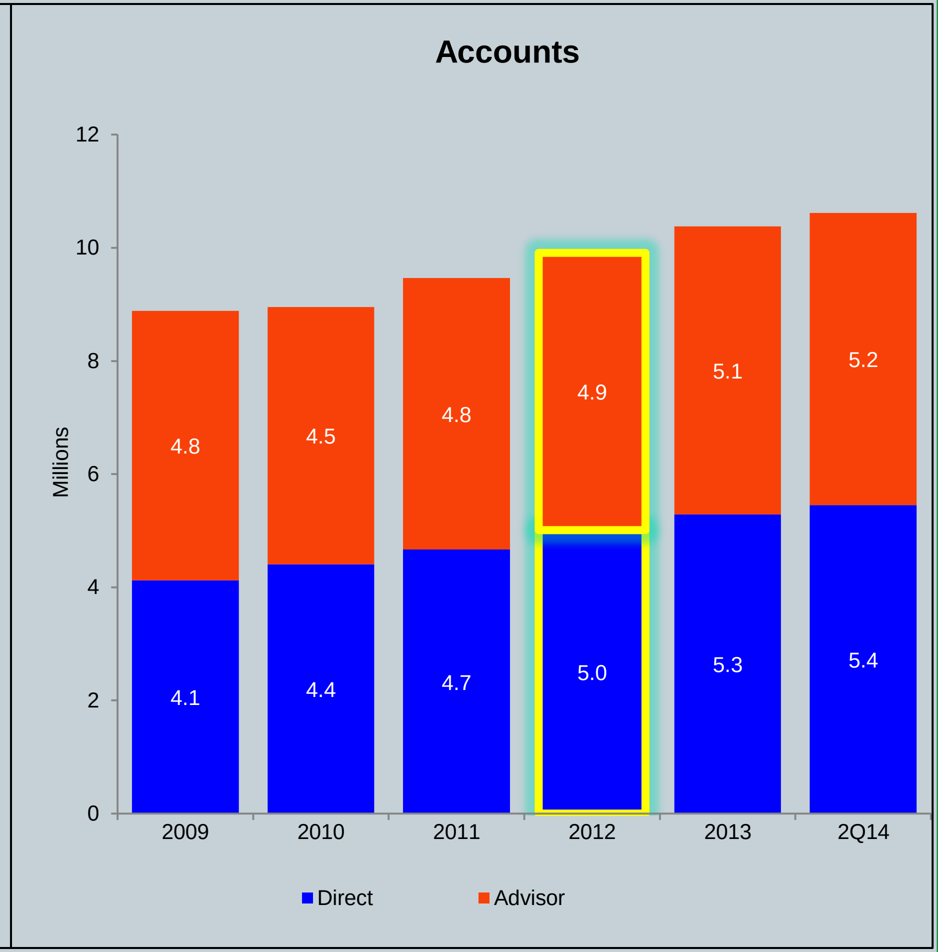
And the Savings-only View



Sources: CSPN and certain States as of June 30, 2014. Washington, D.C. is included in Direct Plan count

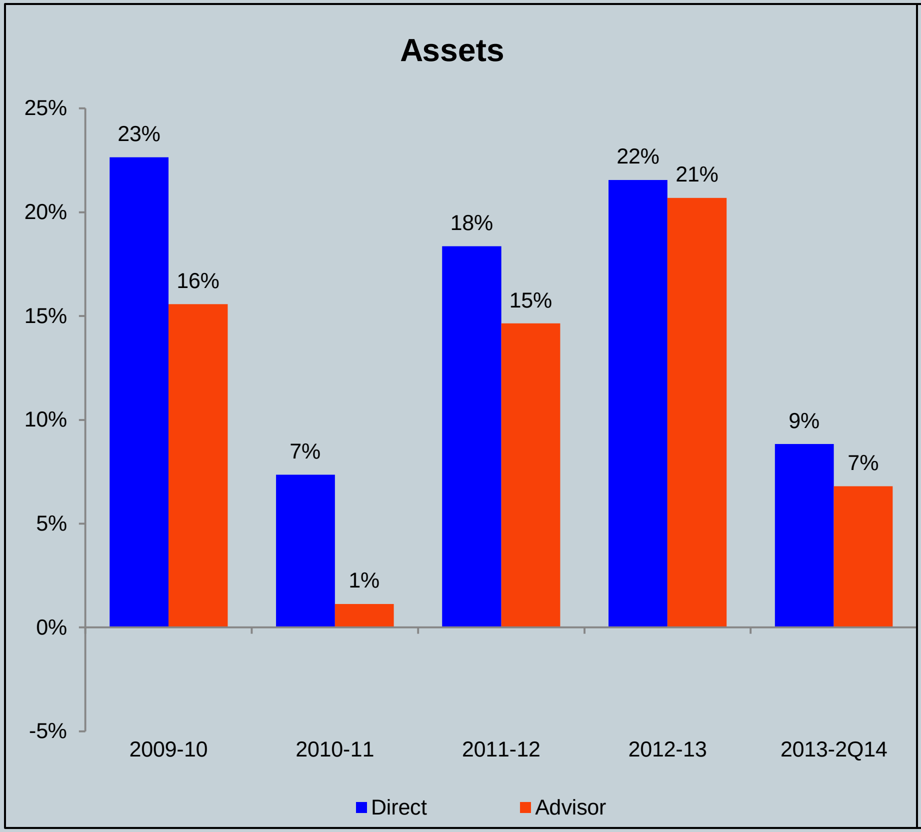
Direct and Advisor Savings 2009 – 2Q14

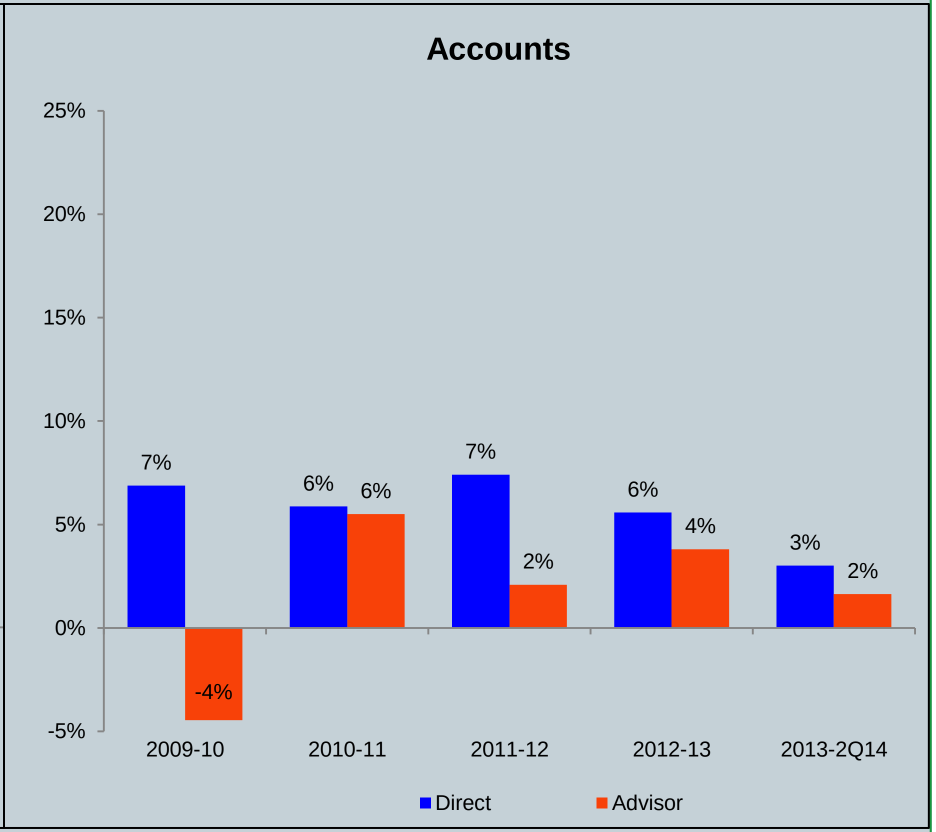




Sources: CSPN and State data as of June 30, 2014; for certain States, assumed 2009 direct versus advisor splits based upon 2010 proportions

Direct and Advisor Growth 2010 – 2Q14





Average Annual Growth:
Direct 17.5% : Advisor 13.1%

Average Annual Growth:
Direct 6.4% : Advisor 1.9%

Sources: CSPN and State data as of June 30, 2014; for certain States, assumed 2009 direct versus advisor splits based upon 2010 proportions

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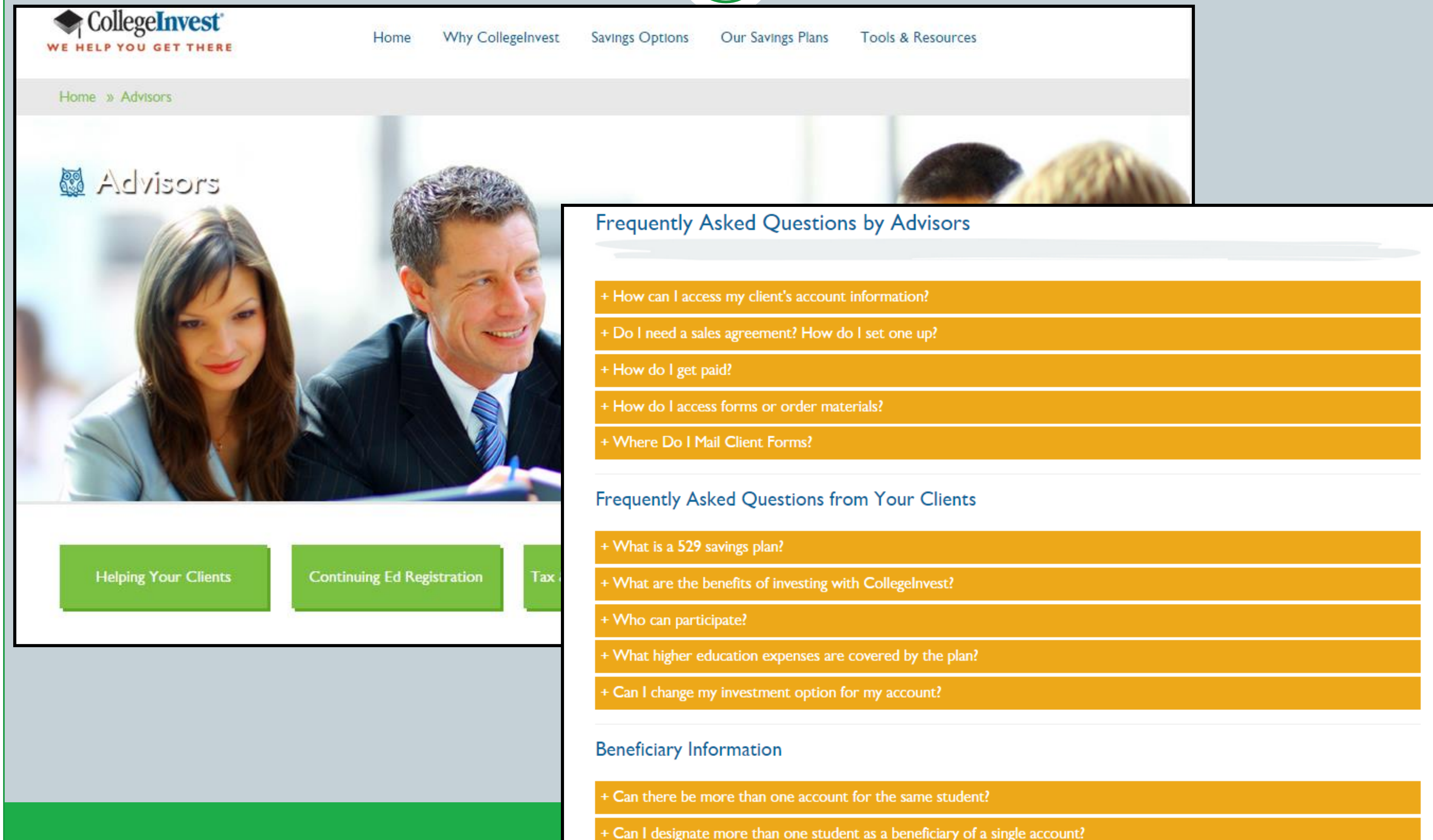
Observations on Distribution Trends

- **National press and strong markets bolster visibility of Direct Plans**
- **Administrative and marketing challenges may finally lead some brokers to “sell away”**
- **Direct Plans enhance web-based access for RIAs and Fee-Based Advisors**

Portals for Advisors – Colorado



Portals for Advisors – Nevada SSgA

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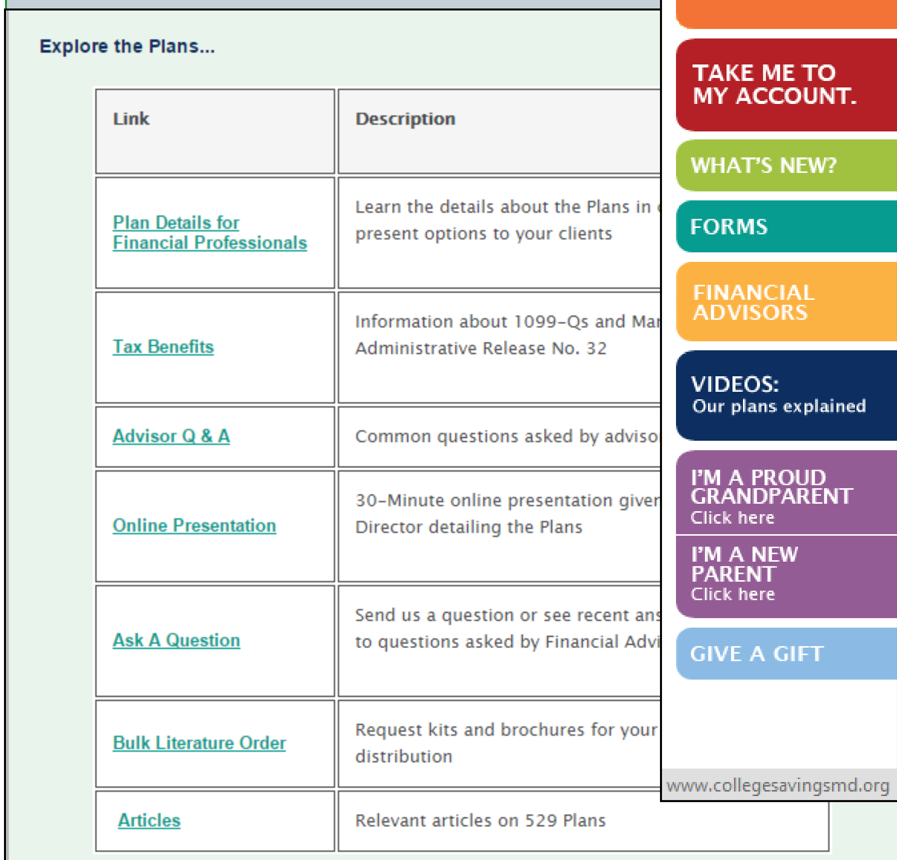
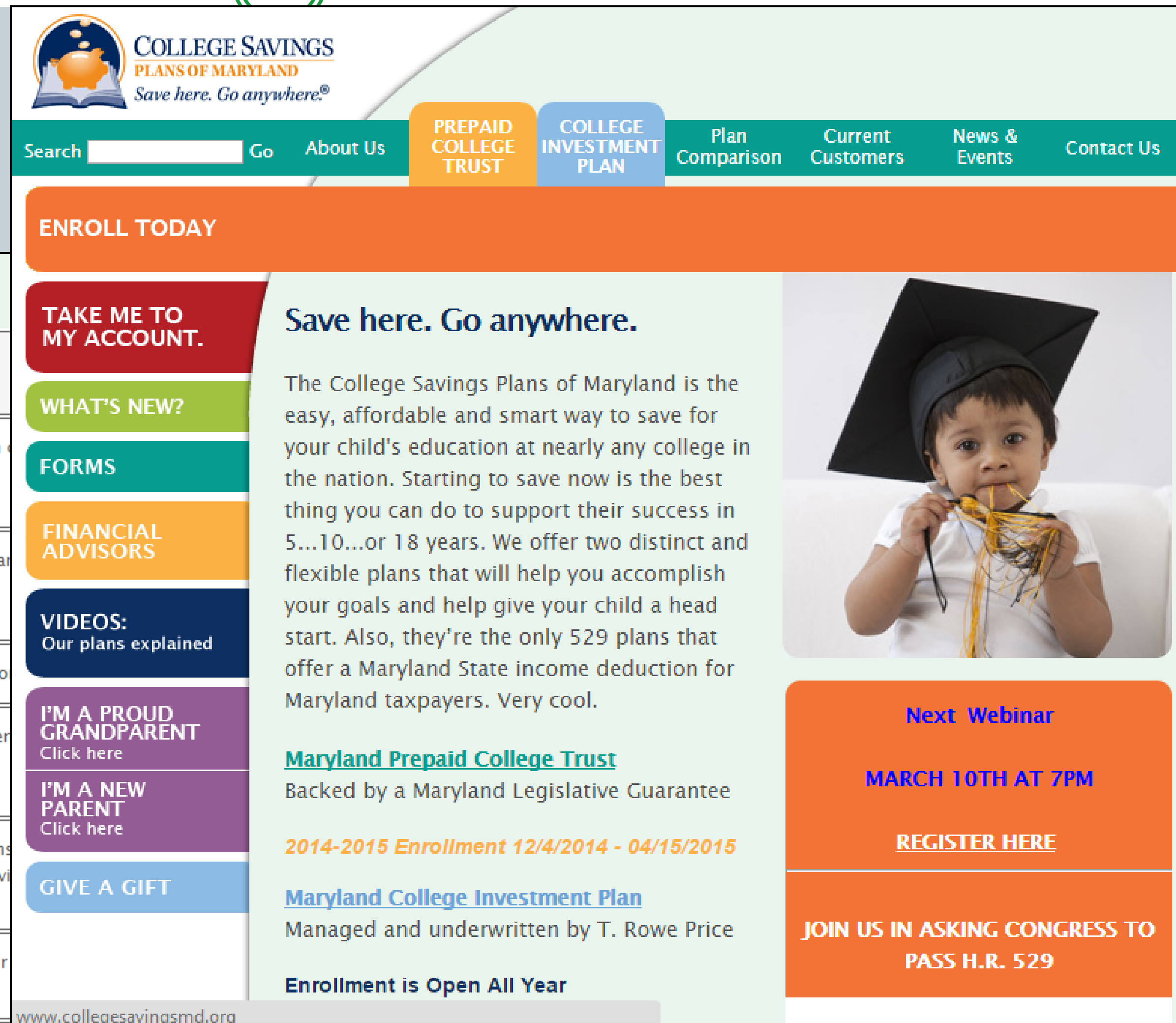
Portals for Advisors – Maryland



Explore the Plans...

Link	Description
Plan Details for Financial Professionals	Learn the details about the Plans in present options to your clients
Tax Benefits	Information about 1099-Qs and Mar Administrative Release No. 32
Advisor Q & A	Common questions asked by adviso
Online Presentation	30-Minute online presentation giver Director detailing the Plans
Ask A Question	Send us a question or see recent ans to questions asked by Financial Advi
Bulk Literature Order	Request kits and brochures for your distribution
Articles	Relevant articles on 529 Plans



Program Management Trends

- **Contract extensions push out expected RFPs**
- **No industry “exits” in last year**
- **New players continue to emerge**

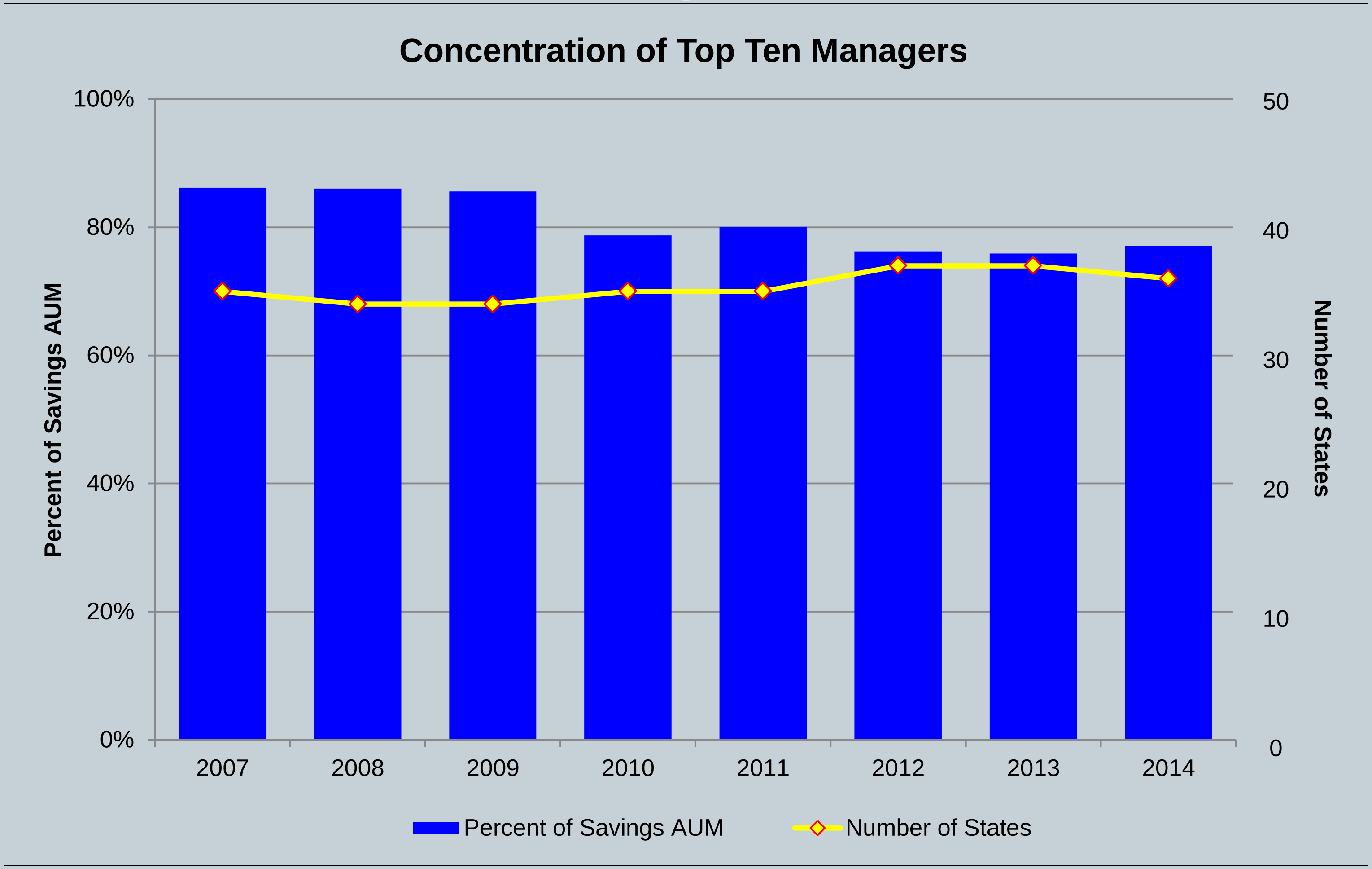
Program Management Trends Overview

Year	Re-Bids			Renegotiations
	Not Rebidding	Retained	Replaced	
2010	1 Plan	1 Plan	3 Programs: 6 Plans	1 Program: 2 Plans
2011	*1 Program: 2 Plans*	1 Plan	1 Plan	1 Plan
2012	*1 Program: 2 Plans*	1 Program: 2 Plans		
2013	*2 Programs: 4 Plans*	1 Plan		
2014		*2 Programs: 3 Plans*	1 Plan	*7 Programs: 8 Plans*

Program Management Trends Details

Year	Re-Bids			Renegotiations
	Not Rebidding	Retained	Replaced	
2010	OR Direct	MO Direct	AL Direct / Advisor MO Advisor NB Direct / Advisor	RI Direct / Advisor
2011	CA Direct / Advisor	NY Direct	NY Advisor	GA Direct
2012	WI Direct / Advisor	SC Direct / Advisor Prepaid		
2013	IA Advisor TX Direct / Advisor Prepaid	MI Direct		
2014		MN NM Direct / Advisor	VT Direct	CO Direct MN Direct OH Direct OK Direct OR Direct PA Direct SD Direct / Advisor

Manager Concentration Trends



Sources: CSPN data as of each year but for specific information provided by Arizona, Maine, South Carolina, South Dakota and Washington, D.C.

Some Expected Contract Terms

2015	2016	2017	
Arizona – Waddell	Arizona - College Bank	**Arkansas - Direct**	**Michigan – Direct**
Washington, DC	**California**	Arkansas – Advisor	Nebraska
Hawaii	**Georgia**	Colorado – Stable Value	Oregon – Advisor
Illinois - Bright Directions	**Kansas**	Connecticut - Advisor	South Carolina
Maryland	**Mississippi**	**Idaho**	West Virginia
Nevada – Putnam	**Missouri**	**Illinois – Bright Start**	**Wisconsin – Direct**
Rhode Island	**Pennsylvania**	Iowa – Direct	Wisconsin - Advisor
9 States 4 Direct Plans 5 Advisor Plans	**7 States** 8 Direct Plans 2 Advisor Plan	**14 States** 11 Direct Plans 8 Advisor Plan	

Investment Option Observations

- **TIPS-based investments appear more frequently as individual options**
- **More Plans include Real Estate as an Asset Class**
- **ETFs have made headway**
- **International Equity and Emerging Markets are increasingly included in asset allocation strategies**

Contact Information

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Investment Considerations in College Savings Plans

2015 College Savings Foundation Conference

March 4, 2015

Massi De Santis, Vice President

Agenda

1. A Research-based Framework
2. Asset Allocation Considerations for College Savings
3. Resources & Future Research
4. Handout:
   - Graduating to the Next Level, Reprint, Winter 2015, DC Dimensions

A Research-based Framework

Relevant Retirement-Focused Research


Financial Planning

Reprinted from the March/April 2012 issue of Defined Contribution Insights, with permission of the PSCA

How Much Retirement Income Is Enough?

Understanding how to arrive at a target replacement rate.

By Marlena I. Lee

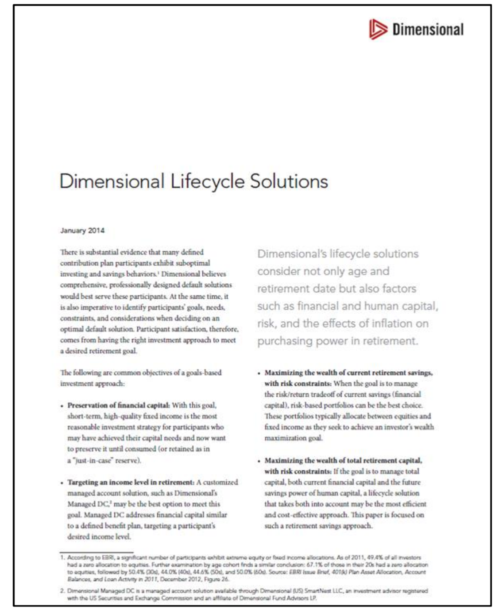

Plan Design

Reprinted from the September/October 2013 issue of Defined Contributions Insights, with permission of the PSCA

How Much Should I Save for Retirement?

Tailoring strategies for each participant.

By Marlena Lee and Massi De Santis


Dimensional

Dimensional Lifecycle Solutions

January 2014

Research Focus:

- Income Replacement Rates, or the "Goal"
- Savings Rates necessary to meet the Goal
- Implementation, or asset allocation

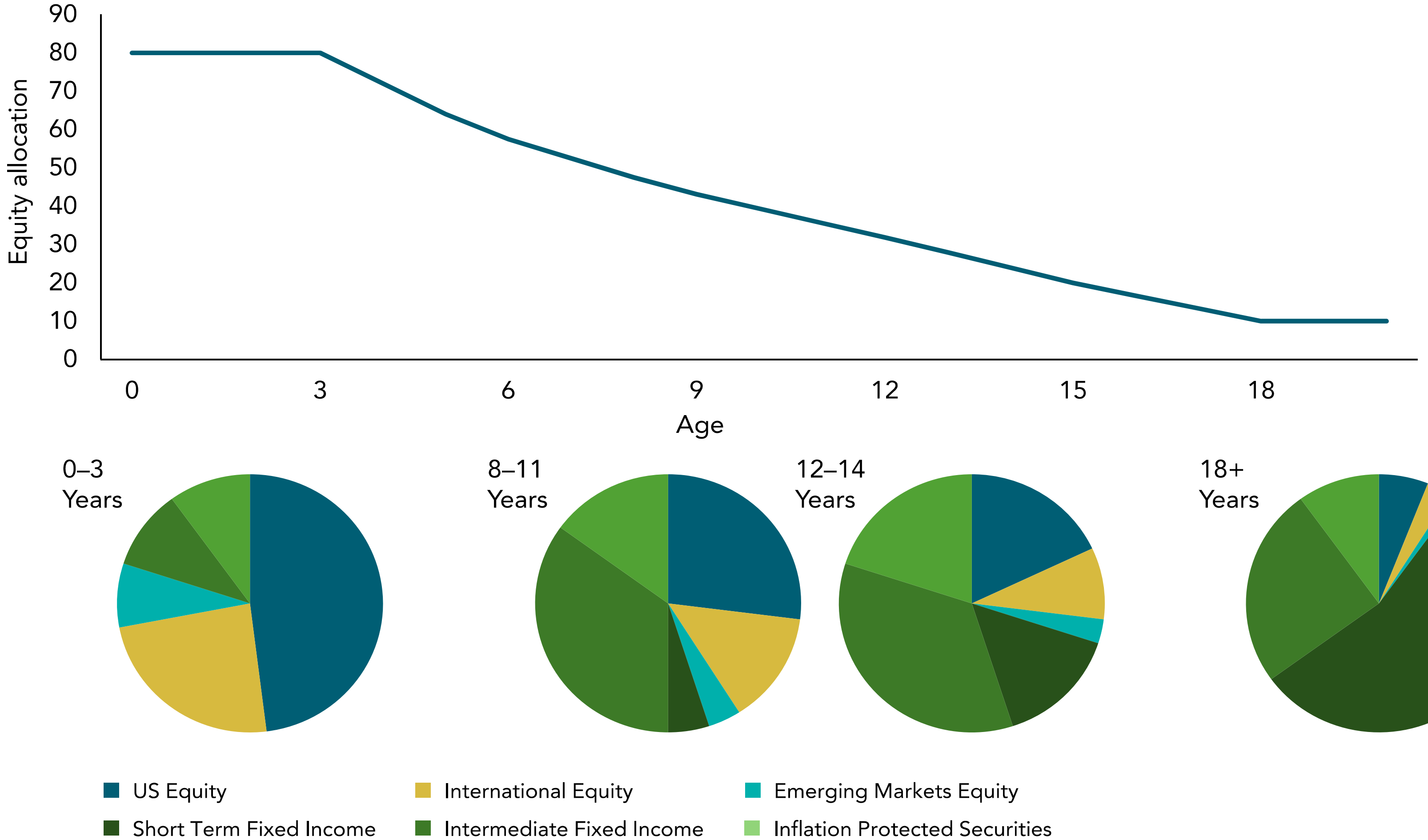
Asset Allocation Considerations

Glidepath Design

- Choice of options: simplification
- Age based models
  - Similarity to Target Date Funds?
  - The role of the Investment Goal
  - Risk preferences and flexibility
- Expected future cost of education?
  - Considerations for TIPS
    - CPI vs. HEPI (highly correlated)
  - The role of a "home bias"
- How much risk is too much risk?

Investing for College

Example of a purposeful asset allocation



For illustrative purposes only.

Other Investment Considerations

Costs vs. Benefits

- Administrative, Program Management, Fund Management
- Tax Benefits
- Scale
- Fees
- References:
  - http://corporate.morningstar.com/us/documents/529Reports/529-Plan-Ratings-Chart.pdf
  - http://corporate.morningstar.com/us/documents/529Reports/529Landscape2013.pdf

Other Investment Considerations

Structure

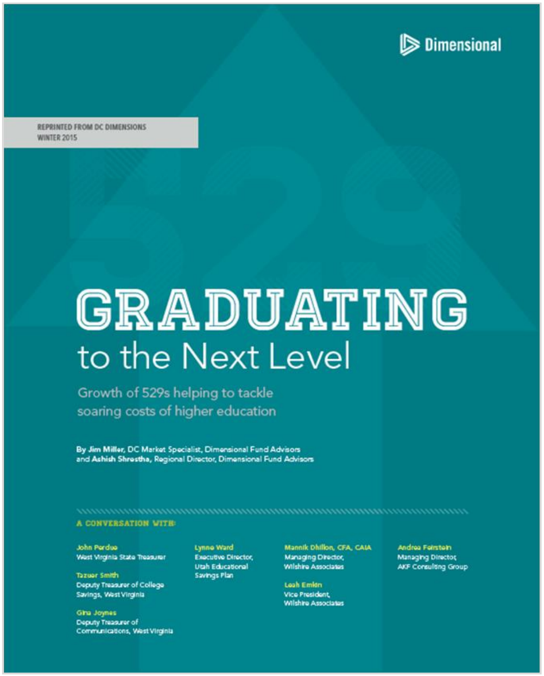
- Closed vs. Open Architecture
- IPS
- The role of the Program Manager

Elements of a Well Designed Plan

- Forward Looking
- Thoughtful Asset Allocation
- Disciplined Fund Selection
- Cost Sensitive
- Options based of risk appetite and preferences for active versus passive management
- Transparency
- The role of information

Dimensional

Resources and Future Research



"Graduating to the Next Level "

- Evolution of Plan Design
- Spotlight on Fees
- Partnerships
- Risk & Reward

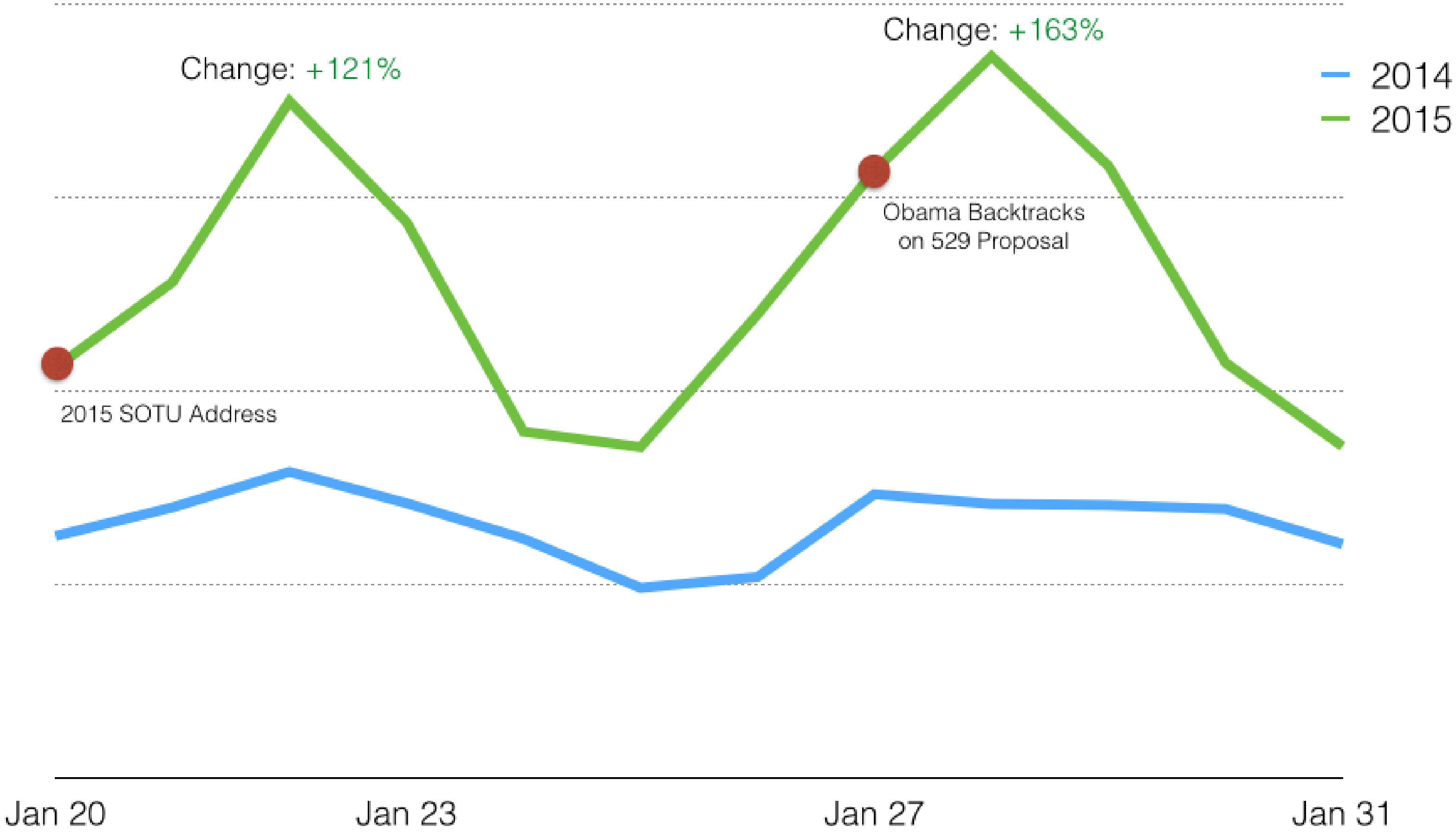
"How Much Should I Save For College?"

- The Goal
- Requisite Savings Needs
- Implementation
  - Individual Options
  - Asset Allocation Considerations

Future 529:
What Can We Anticipate?

Joe Hurley
College Savings Foundation
March 2015

Traffic to Savingforcollege.com



Overall Change: +95%

Include Computer Technology in QHEE

- Current bill
  - HR 529
- Prior bills (introduced & failed)
  - 2009: HR 1351
  - 2011: HR 529
  - 2014: HR 4333
- Lobbying/editorial
  - CSF (2013), CSPN (2007)

Eliminate Distribution Aggregation

- Current bill
  - HR 529
- Prior bills (introduced & failed)
  - 2014: HR 4333
- Lobbying/editorial
  - CSPN (2008)

Redeposit 529 Funds After Withdrawal

- Current bill
  - HR 529
- Prior bills (introduced & failed)
  - 2014: HR 4333
- Lobbying/editorial
  - CSPN (2008)

Means-testing 529 Contributors

- Current bills
  - None, proposed amendment to HR 529 in W&M was defeated
- Prior bills
  - None
- Lobbying/editorial
  - Washington Post (Jan. 25, 2015)

Savers Credit to Include 529 Contributions

- Current bills
  - None
- Prior bills (introduced & failed)
  - 2009: HR 1351
  - 2011: HR 529
  - 2013: HR 529
- Lobbying/editorial
  - CSPN (2007)
  - CSF (2013)

Increase # of Investment Changes

- Current bills
  - None, 2X per year enacted with tax extenders bill effective 2015
- Prior bills (introduced & failed)
  - 2009: HR 1351 (2X)
  - 2011: HR 529 (4X)
  - 2014: HR 4333 (4X)
- Lobbying/editorial
  - CSPN (2007) (2X or 4X)
  - CSF (2013) (unspecified #)

529/Roth Portability

- Current bills
  - None
- Prior bills
  - 2014: HR 1351 (max. $25K)
- Lobbying/editorial
  - Savingforcollege.com (since 2007)
  - Kantrowitz (2015)
  - Others

Pre-tax Employer Contributions

- Current bills
  - None
- Prior bills (introduced & failed)
  - 2011: HR 529 ($600 limit)
  - 2013: HR 529 ($600 limit)
- Lobbying/editorial
  - CSPN (2007)
  - Kantrowitz (2015) ($5,250 limit)

Expand Definition of QHEE

- Current bills
  - None
- Prior bills (introduced & failed)
  - 2009: S. 1120 (tie to Cost of Attendance)
- Lobbying/editorial
  - CSPN (2008) (tie to Cost of Attendance)
  - Savingforcollege.com (2001) and Kantrowitz (2015) (repayment of student loans)

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White House Middle Class Task Force (2009)

- Require age-based index-fund options
- Eliminate home-state bias
- Per beneficiary contribution limits
- Improve transparency
- Additional monitoring and compliance
  - Also debated at 2015 W&M Committee

CSPN (2008)

- Include more schools as eligible educational institutions
- Allow GI Bill benefits to go into 529 plans
- Some other things

Kantrowitz (2015)

- Exclude all 529 accounts from FAFSA
- Replace prepaid plans with guaranteed options
- Federal match of state/local matches
- Include K-12 expenses
  - Also see 2012 HR 5932 (Buerkle R-NY)

Savingforcollege.com

- Permit donation of excess 529 funds to colleges and 501(c)(3) scholarship programs

Thank You!

Joe Hurley

joe@savingforcollege.com