



Legislative Finance Committee
October 25, 2017

Pension Consulting Alliance, Inc.

Education Trust Board of New Mexico
Barbara Damron, PhD, RN, FAAN - Board Chair
Ted Miller, JD, LLM - Executive Director



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INTRODUCTION





NM ETB Mission, Vision & Goals

- **MISSION**

The New Mexico Education Trust Board (NM ETB) is responsible for New Mexico's 529 College Savings Program. Our mission is to make post-secondary education more attainable by offering a flexible, low-cost, tax-efficient way to save for the costs of higher education.

- **VISION**

NM ETB believes that higher education improves the lives of our children and ultimately benefits the citizens and the economy of New Mexico. Our vision is to enable as many New Mexican children as possible to become beneficiaries of 529 College Savings Accounts before age 10, and to promote continued contributions to the Accounts until post-secondary education is complete.

- **GOALS**

To show consistent year-over-year growth in new account owners in New Mexico.

To be recognized by industry experts/national rating services as a top rated program for both in-state and out-of-state residents.

By the end of FY 2020 to become one of the top 15 college savings programs in the country by assets and accounts.





What is a 529 College Savings Plan?

- A 529 Plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. An account can be opened with as little as \$25.
- 529 assets can be used to pay for the expenses of post-secondary education – public or private.
- All earnings and withdrawals from a 529 plan are free from federal and state income taxes if used to pay for qualified educational expenses.
- Contributions by a New Mexico taxpayer may be deducted from income for New Mexico individual income tax purposes.





Qualified Education Expenses

- Tuition and fees
- Room and board
- Books, supplies, and equipment
- Computer technology, equipment, or internet access
- Expenses for special needs services





GOVERNANCE, TRANSPARENCY AND OVERSIGHT





NM ETB Responsibility and Structure

- The NM ETB does not receive state general funds. By statute NM ETB must fund its efforts entirely from program fees.
- The Education Trust Board (NM ETB) is the governing body for New Mexico's 529 college savings programs
- The NM ETB Acts as a fiduciary of the Education Trust.
- The NM ETB is responsible for implementation, administration and marketing of the plans established under the Education Trust Act.
- The NM ETB is administratively attached to the New Mexico Higher Education Department.
- Secretary of Higher Education Department or the Secretary's designee is the Board Chair.
- Other members are appointed by the Governor (2), Senate Pro Tem (1), and Speaker of the House of Representatives (1).





NM ETB Program Manager

OppenheimerFunds serves as the program manager for the NM college savings program and is responsible for:

- Program Administration
- Customer Service and Recordkeeping
- Investment Management
- Marketing and Distribution





NM ETB Members, Staff, & Advisors

EDUCATION TRUST BOARD

Mark Jarmie
Gov. Appt.
6yrs.

David Jansen
Gov. Appt.
6yrs.

Dr. Barbara
Damron,
Chair

Robert
Desiderio,
Vice Chair
House Speaker
6yrs.

Dr. Jose Garcia,
Senate Pres.
Pro-tem
2 yrs.

General Counsel

Sommer Udall

Executive Director

Ted Miller

Financial Coordinator

Vera Lyons

INDUSTRY / INVESTMENTS

MARKETING / OPERATIONS/ IT

Program
Manager

Oppenheimer
Funds

Investment
Consultant

Pension
Consulting
Alliance

529
Counsel

Hogan Lovells

Industry
Consultant

AKF
Consulting

Marketing

Esparza

Community
Outreach

Mikaela Roos
Michelle
Tange

Accounting
Consultant

Morton
Accounting
Services

Audit
Firm

Clifton
Larsen Allen

Public
Relations

Waite &
Co

IT

ABBA
Tech





Board Governance and Oversight Process

- NM ETB utilizes its professional staff and team of consultants to develop an Investment Policy Statement and to implement a monitoring and guidelines process:
 - Establish and periodically review (not less than annually) Investment Policy and Monitoring Guidelines
 - Watch List Process
 - Consultant reports criteria breaches and communicates with Program Manager
 - Consultant monitors and reports on changes in performance and continues dialogue with Program Manager
 - Recommendations to terminate, restore to normal status, or continue to monitor are made within a 12-18 month time period
 - ETB responsible for final decisions to add/remove funds from the “Watch” list
- Reports provided by PCA and AKF to the NM ETB
 - Monthly “Performance Flash Report” on all underlying mutual funds
 - Monthly “Investment Risk Metrics Report”
 - Quarterly “Investment Monitoring Report”
 - Quarterly “Watch” list Review and Update Memo
 - Quarterly Newsletter “529 Investment Overview”
 - Annual “529 Industry Landscape Analysis”
 - Assessment of Oppenheimer’s (OFI) Annual Program Review
- NM ETB and PCA conduct semi-annual site-visits with OFI for review of operations, investment management and risk management





Transparency – Online at nmetb.org

- Investment Policy Statement and Monitoring Procedures and Criteria
- Program Manager Quarterly Reports – including asset and account numbers and investment performance
- Current RFPs and supporting materials
- IPRA Policy
- Audited Financials
- ETB Open Meeting Resolution, Agendas and Minutes
- Plan expenses and detailed program information contained in plan disclosure documents (online at theeducationplan.com and scholarsedge529.com)





NEW MEXICO 529 PROGRAM STRUCTURE AND DATA





New Mexico 529 Program Structure

- The New Mexico College Savings Program consist of two separate plans:
 - The Education Plan (TEP) – sold directly to participants
 - Scholar’s Edge (SE) – sold through commission-based investment advisors

- Most participants in each plan tend to select an age-based portfolio option:
 - Utilizes a glide path structure typically 20 – 22 years in length
 - Adjusts asset allocation over time away from volatile equities and toward more stable fixed income/short-term bond classes near the “draw down” period (college age)





Current Plan Options



- Direct-Sold Plan
 - Assets – \$535 million
 - Accounts – 21,445
 - 3.8 ★'s Avg. Morningstar rating for underlying funds in plan
 - 40% funds 529 medal rated by Morningstar
 - Age-based and custom choice options
- Advisor-Sold Plan
 - Assets – \$1.9 billion
 - Accounts – 109,861
 - 3.8 ★'s Avg. Morningstar rating for funds underlying in plan
 - 36% funds 529 medal rated by Morningstar
 - Age-based, custom choice and individual fund options

- Three risk-based tracks currently offered in each Program – Aggressive, Growth and Balanced.
- The Education Plan and Scholar'sEdge glidepaths currently include six age-bands.
- Account assets are shifted to next stage of glidepath on birthday of Beneficiary.
- The Education Plan offers both index and blended portfolios in its age-based and custom choice options.





Current Underlying Money Managers



- Oppenheimer Funds
- Vanguard
- TIAA CREF
- Dreyfus



- Oppenheimer Funds
- Dreyfus
- American Century
- MainStay
- Monetta
- NYLIM Funding Agreement





NM ETB FY18 Plans and Actions

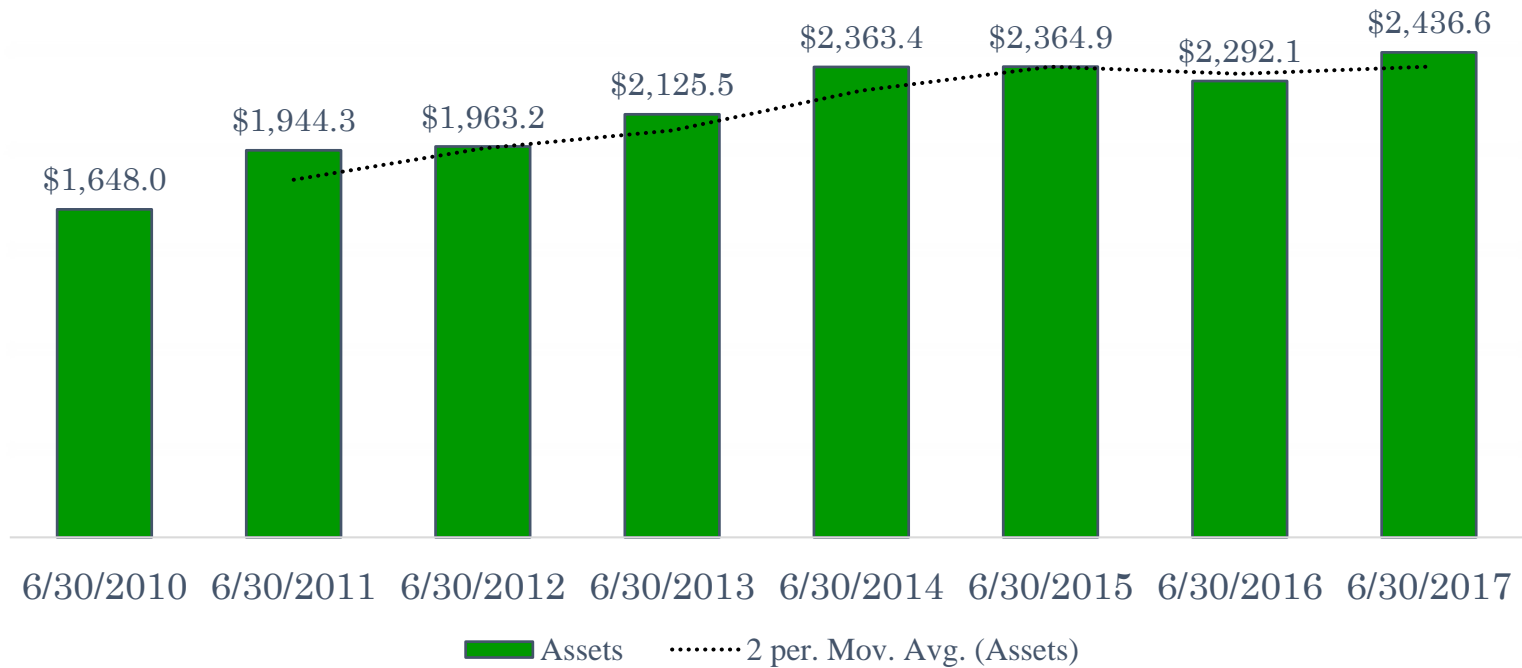
- Redesign and Repricing of Investment Offerings:
 - Lower costs on TEP Index by offering a Vanguard index funds lineup (average fees drop to 16 bps from 33 bps);
 - Lower costs on TEP Blended by replacing current Dreyfus and TIAA index funds with Vanguard index funds (average fees drop to 41 bps from 65 bps);
 - OppenheimerFunds reduces its TEP program manager fee to 5 bps from 10 bps;
 - ETB reduces its administrative fee for TEP Blended to 5bps from 10 bps in order to match TEP Index;
 - TEP priced in the top quartile of 529 plans nationwide as measured by Morningstar;
 - Reduced Sales Charges on SE broker-sold plan;
 - Increase investment diversification by adding new funds.





TOTAL EDUCATION TRUST ASSETS

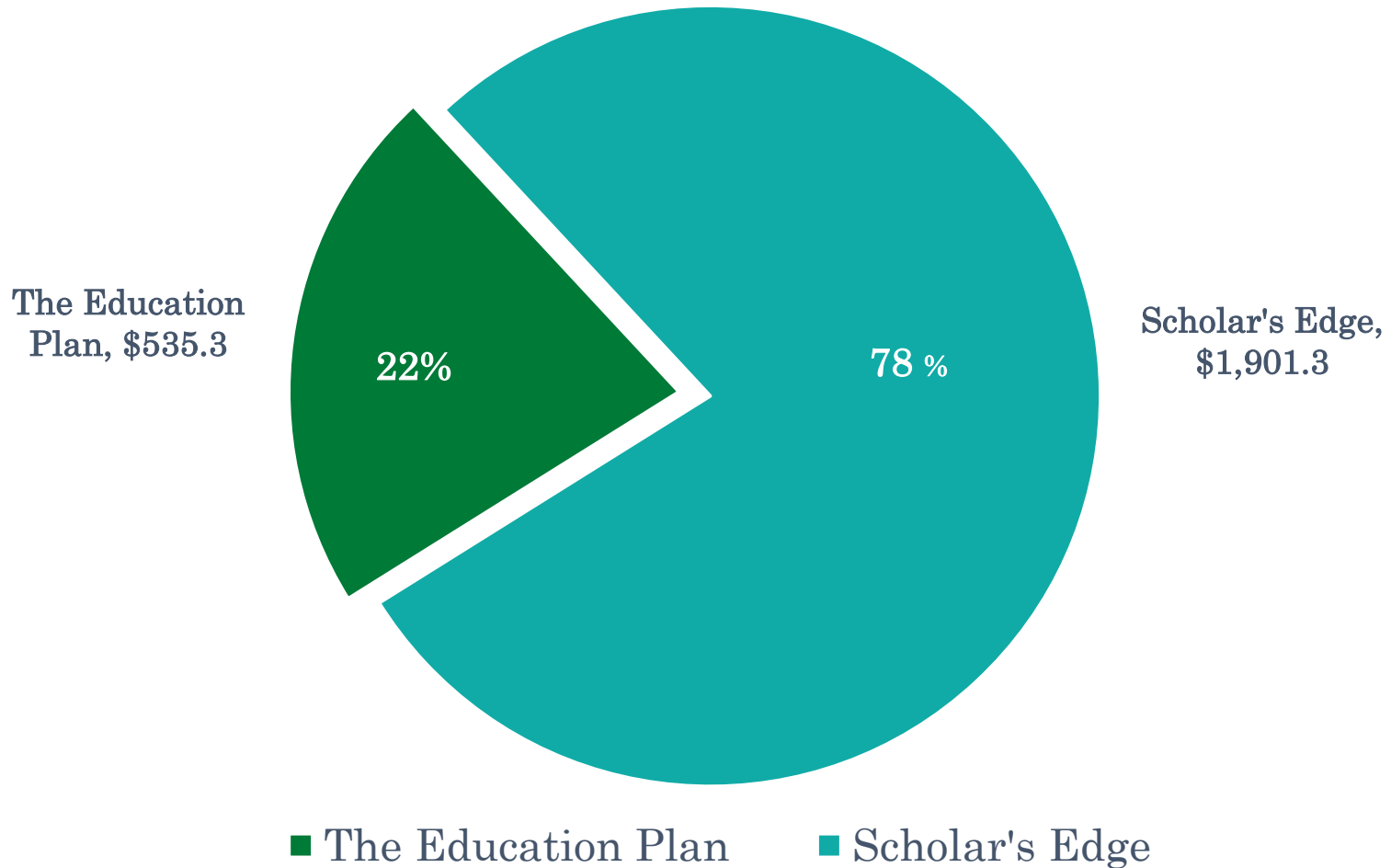
(IN MILLIONS)





TOTAL EDUCATION TRUST ASSETS BY PLAN

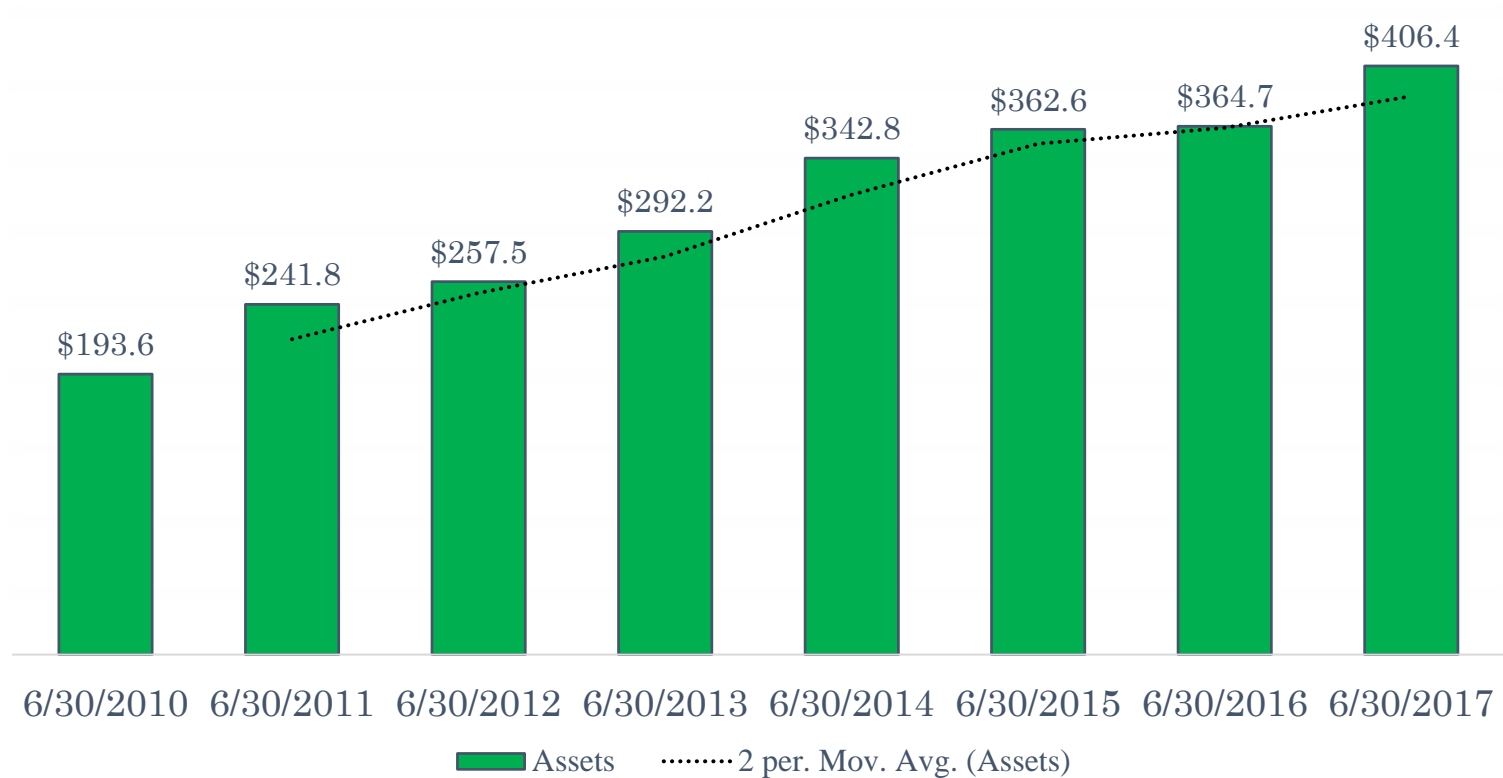
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EDUCATION TRUST ASSETS IN NM

(IN MILLIONS)

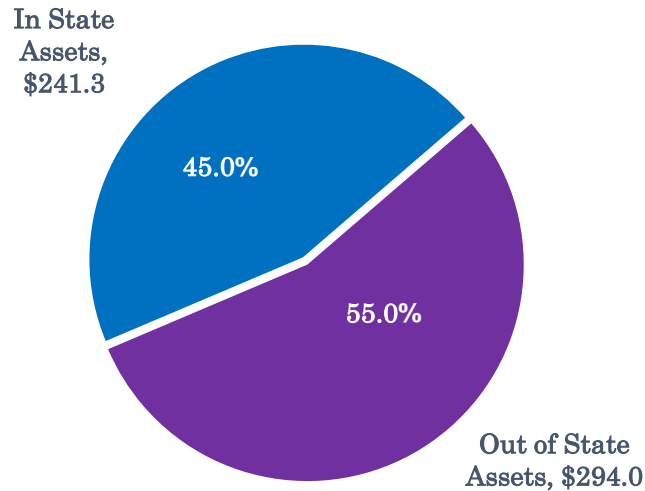




PROGRAM ASSETS BY RESIDENCY OF ACCOUNT OWNERS

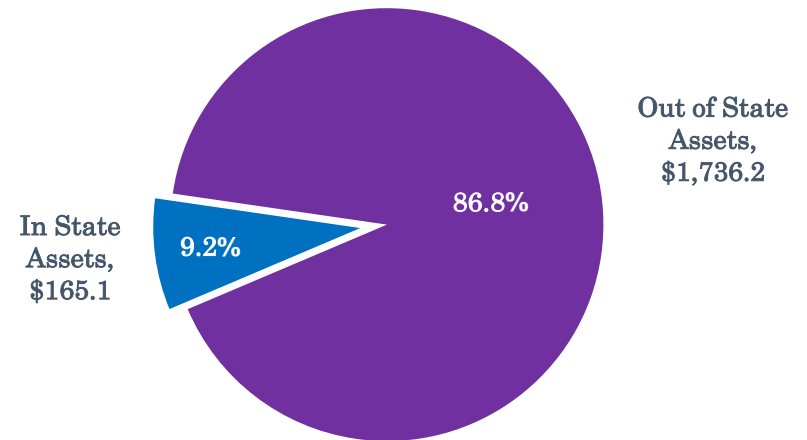
(IN MILLIONS)

TEP



■ In State Assets ■ Out of State Assets

SE

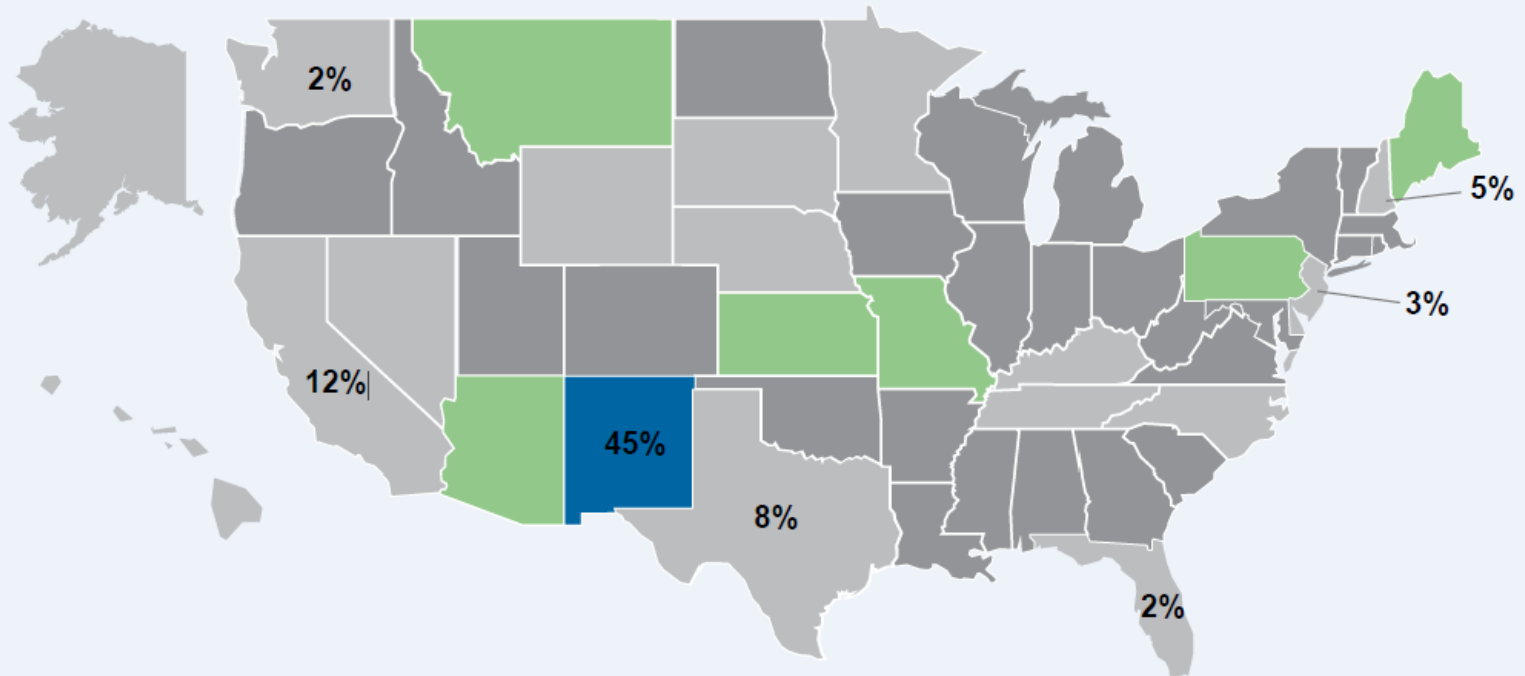


■ In State Assets ■ Out of State Assets





TEP PLAN STATE STATISTICS BY RESIDENCY OF ACCOUNT OWNERS



NEW MEXICO

Home of The Education Plan

TAX PARITY

These states offer tax deductions for contributions to any 529 plan, regardless of state.

IN-STATE TAX BENEFIT

These states offer tax deductions on contributions to the in-state 529 plan.

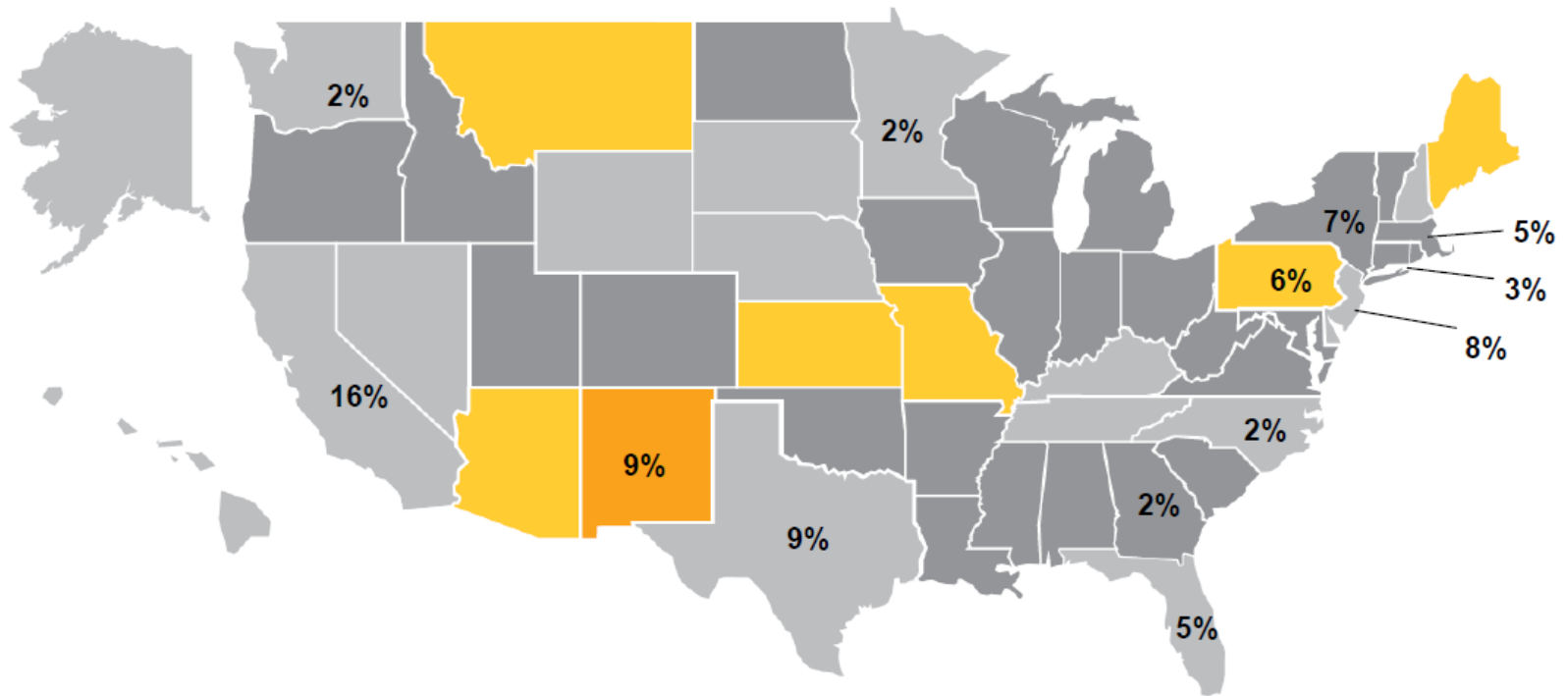
TAX NEUTRAL

These states do not offer tax deductions for 529 contributions.





SE PLAN STATE STATISTICS BY RESIDENCY OF ACCOUNT OWNERS



NEW MEXICO

Home of Scholar's Edge 529

TAX PARITY

These states offer tax deductions for contributions to any 529 plan, regardless of state.

IN-STATE TAX BENEFIT

These states offer tax deductions on contributions to the in-state 529 plan.

TAX NEUTRAL

These states do not offer tax deductions for 529 contributions.





PROGRAM MARKETING & INITIATIVES UPDATE





NM ETB FY17 Marketing Highlights

- TEP website revised for easier enrollment
- Instituted TEP default investment option for naïve investors
- Raised maximum contribution limit to \$500,000 to remain competitive with other national plans
- Began development of content strategy & architecture for new TEP website
- Launched first-ever TEP billboard campaign across the entire State
- Saw record-breaking traffic numbers across all marketing websites and media impressions





NM ETB FY17 Marketing Highlights

- Implemented inaugural employer-focused advertising campaign in local papers' business sections
- Held productive meetings with key NM employers/organizations – LANL, Presbyterian Health, UNM, AED, CNM, SFCC, various Counties, Chambers of Commerce, etc.
- Major sponsor of the New Mexico Spelling Bee
- Attended family-friendly events around the State – KidFest, UFO Festival, Lavender Festival
- Secured legal protection of new TEP tagline:

When they are 5 to 9, open a 529.[®]





Recommended Legislative Changes

The current ETB statute is lacking in specificity, in general, and we will consider legislation that:

- Ensures qualified people with finance and investments experience sit on the board;
- Allows the board to make decisions and enter into contracts more freely to maximize return for the New Mexicans who pay into these accounts; and
- Clarifies board responsibilities and procedures.





NM ETB FY18 Plans and Actions

- Redesign of TEP website
 - Designed to help unsophisticated investors
 - Include a system for capturing information from interested prospects
- Enhanced Community Outreach
 - Additional PR/community outreach initiatives with a new PR firm and 2 new outreach personnel
 - Stronger employer/professional outreach plan
 - Grant program for NM low-to-moderate income students pending legal approval
- Focus on Digital Marketing
 - Move to enhanced digital marketing in order to drive leads to website & strengthen tracking capabilities
 - New advertising creative messages for Scholar's Edge (create more distinction for SE; keep SE top-of-mind with financial advisors)





NJHS & NHS State Summit – April 25, 2017

- TEP is a strategic partner of NASSP
- TEP co-sponsored NHS/NJHS event at UNM
- Second occurrence of this event in New Mexico
- 500 middle school students nationally received Outstanding Academic Achievement Awards of \$500 TEP 529 savings accounts
- 7 winners from across New Mexico
- 290+ student/adviser attendees from all areas of the State (representing 27 schools)
- Jill Hruby from Sandia Labs, Acting President Abdallah, and Senator Soules spoke to the students







Thank You

