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January 16, 2020

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Financial Institutions: Section 13.10 Request to Provide 1.0 Permanent Position and Additional Expenditure Authority for the College Savings Program -- Agenda Item VII

REQUEST

On January 2, 2020, the Department of Financial Institutions (DFI) submitted a request under s. 13.10 for the creation of 1.0 SEG permanent position and associated funding. The request would provide additional expenditure authority in DFI's administrative expenses; college savings program trust fund appropriation (trust fund appropriation) of $49,900 SEG in 2020-21.

BACKGROUND

Under 1999 Act 44, the current college savings program was created, along with the Wisconsin College Savings Program Board (CSPB). The CSPB consists of eleven members who are tasked with overseeing the college savings program, including setting the state's administrative fee charged under the program. The college savings program and the CSPB were initially attached to the State Treasurer's office. The program was transferred to the Department of Administration (DOA) under 2011 Act 32, before being transferred to DFI under 2017 Act 59. At that time, 2.0 SEG positions associated with the program were also transferred to DFI.

The college savings program is comprised of two main state tuition plans: Edvest and Tomorrow's Scholar. Both are qualified state tuition plans under section 529 of the U.S. Internal Revenue Code. Edvest is sold directly to investors, while Tomorrow's Scholar is sold through financial advisors. As of December, 2019, there were 341,115 accounts across both plans, with greater than $5.8 billion in total assets.

The state charges an administrative fee associated with the Tomorrow's Scholar plan (0.07% based on assets), while this fee is currently waived under the Edvest plan. This fee funds the activities and administration of the college savings program through DFI's trust fund appropriation. Expenditure authority in this appropriation is set at $687,600 SEG in 2019-20 and $687,800 SEG in

2020-21.

ANALYSIS

The college savings program is administered by 2.0 SEG-funded college investment program finance officer positions, who serve as primary staff persons to the CSPB and schedule its meetings. The officers are generally tasked with ensuring the college savings program is in compliance with state and federal legal, financial, and legislative requirements. They track relevant legislative changes and prepare write-ups of proposed regulatory modifications that affect the college savings program. They also may recommend statutory changes for the program, in coordination with the DFI Secretary's Office.

The officers are also charged with general administration of the college savings program. They coordinate with DFI's budget office to develop and maintain the program's biennial budget, and conduct expense tracking and reporting for the program. These positions coordinate financial audits of the program's investment plans, and report audit results to the CSPB. Officers are responsible for reviewing program investment offerings, conducting 529 plan fee studies of other programs, and submitting to the CSPB any related recommendations.

The officers coordinate the program's strategic plan, participate in conferences and other outreach events, and oversee development of the program's social media content, with the goal of generating additional program accounts. The positions perform customer service activities for program participants, and create press releases and other informative program content.

The 1.0 additional position being requested would occupy the role of administrative manager for the college savings program. Total funding for the requested position in 2020-21 would be $179,200 SEG, but only $49,900 additional SEG is requested because DFI currently spends less than the expenditure authority provided in its trust fund appropriation. According to DFI, this position would be tasked with similar responsibilities as the two officers, but at a supervisory level. The manager would hold the primary leadership role for the college savings program, and would support targeted outreach efforts to market the program to underserved areas and lower-income families.

In its request, DFI states one reason that the requested position is necessary is to ensure the maintenance of institutional knowledge related to the college savings program. In 2017 and 2018, the Assistant Deputy Secretary supervised the program, while the Deputy Secretary has occupied this supervisory role since 2019. The Deputy Secretary currently allocates approximately 15% of their time towards supervising the program, and could perform other departmental functions with the approval of this position. However, DFI indicates that this current allotment of time does not adequately reflect the additional responsibilities of the requested position. For example, the administrative manager would be responsible for expanding the program's outreach activities, and would need to develop a functional knowledge for future college savings program law changes, such as those described below.

While DFI notes that the current and previous supervisors have had college savings program experience, they also state that the approval of a classified (unappointed) position in this role would help ensure that future managers would have the requisite knowledge to supervise the program effectively. This would also enable DFI to satisfy industry recommendations outlined in its request which state that "one way to maintain stability is by having professionals (as opposed to political appointees) dedicated to managing the 529 plan."

DFI highlights that additional federal law changes, such as the recent modification adopted by Wisconsin in 2017 Act 231 to allow distributions for eligible elementary and secondary school expenses, have made college savings programs more complex to administer. Other recent federal provisions that, at present, have not been adopted at the state level, such as expanding allowable distributions to fees, books, and other supplies purchased for participation in an apprenticeship program, increase the need for additional staff expertise.

Another justification the Department offers for the position is to address the continual growth of the program. Table 1 depicts the total assets under management in the college savings program, which have grown considerably over the period shown. These amounts include contributions to both Edvest and Tomorrow's Scholar plans. From December 2011 through December 2019, total assets have grown by an annual average of approximately 10.2%. On a per-position basis, total assets grew by an annual average of nearly 10.0% during the span in which the program had one staff member. Since the program has had two staff members, assets under management per position have continued to grow by an annual average of approximately 8.3%.

TABLE 1

College Savings Program Assets Under Management (Millions)

As of December	Assets Under Management	Program Positions	Assets per Position
2003	$1,099.5	3	$366.5
2004	1,356.3	3	452.1
2005	1,580.4	3	526.8
2006	1,927.0	3	642.3
2007	2,225.4	3	741.8
2008	1,738.6	3	579.5
2009	2,225.8	3	741.9
2010	2,691.4	3	897.1
2011	2,668.7	1	2,668.7
2012	2,941.5	1	2,941.5
2013	3,462.3	1	3,462.3
2014	3,827.0	1	3,827.0
2015	3,869.3	1	3,869.3
2016	4,256.3	1	4,256.3
2017	4,963.7	2	2,481.9
2018	4,835.1	2	2,417.6
2019	5,819.0	2	2,909.5

Table 2 illustrates the total number of college savings program accounts, as well as the average account size, over the same period. Total accounts include participants in both the Edvest and Tomorrow's Scholar programs. It should be noted that multiple persons may possess their own separate accounts for the same beneficiary. From December 2011 through December 2019, the total number of program accounts has grown by an approximate annual average of 3.1%, while the average account size has grown by an annual average of 6.9% during that same span.

TABLE 2

College Savings Program Accounts and Average Account Size

As of December	Total College Savings Program Accounts	Average Account Size
2003	175,347	$6,270
2004	185,521	7,311
2005	206,281	7,661
2006	221,272	8,709
2007	236,210	9,421
2008	244,029	7,125
2009	250,572	8,883
2010	260,473	10,333
2011	266,730	10,005
2012	243,174	12,096
2013	254,100	13,626
2014	267,980	14,281
2015	280,549	13,792
2016	293,093	14,522
2017	307,731	16,130
2018	327,242	14,775
2019	341,115	17,059

As mentioned above, the administrative fees charged under the Tomorrow's Scholar program generate the revenue that is used to fund DFI's trust fund appropriation. Revenues in this appropriation have historically exceeded program expenditures. In 2018-19, approximately $1.9 million in SEG revenue was deposited in the appropriation, and $461,000 of expenditures were incurred. It should be noted that the CSPB voted in September, 2018, to reduce the Tomorrow's Scholar administrative fee from 0.10% to 0.07%, effective October 1, 2018. Based on total assets under management in the Tomorrow's Scholar program as of December, 2019, it is estimated that this fee decrease has contributed to a fee reduction of nearly $640,000 annually. Even with this reduction, DFI expects that its administrative fees would be sufficient to fund its program expenditures under the request.

If the request is denied, DFI would need to continue to administer the program with the existing 2.0 positions.

ALTERNATIVES

1. Approve DFI's request for 1.0 permanent SEG position and associated SEG expenditure authority of $49,900 in 2020-21.

2. Deny the request.

Prepared by: Dan Spika