

# Illinois 529 College Savings Overview



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ILLINOIS STATE TREASURER

Secure Choice Board Meeting  
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Pre-Decisional DRAFT

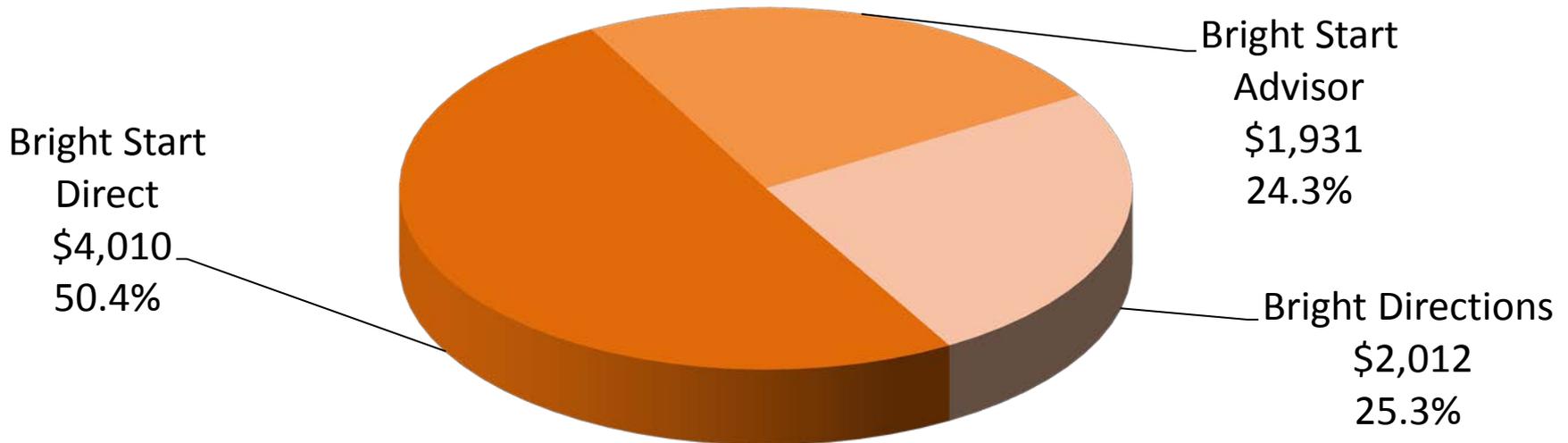
# What is a 529 Plan?

- A 529 Plan is a tax-advantaged investment plan designed to encourage saving for future college costs.
- 529 after Section 529 of the IRS Code
- 529 Plans can be used for Qualified Expenses at Qualified Institutions
- TWO types of 529 Plans:
  - 1) Pre-paid Administered by ISAC: College Illinois!
  - 2) College Savings Administered by the Treasurer who serves as Trustee:
    1. Bright Start Direct (2000)
    2. Bright Start Advisor (2000)
    3. Bright Directions (2005)

# IL 529 College Savings Today

	Bright Start Direct	Bright Start Advisor	Bright Directions	Total
<b>Market Value:</b>	\$4,009,997,126	\$1,931,348,984	\$ 2,011,727,222	\$7,953,073,332
<b>Total Accounts:</b>	222,650	91,552	111,145	426,202
<b>Net New Contributions (Month):</b>	\$30,634,104	\$8,448,018	\$20,509,357	\$59,962,594

\*Figures current as of April 30, 2016



# Bright Start Overview



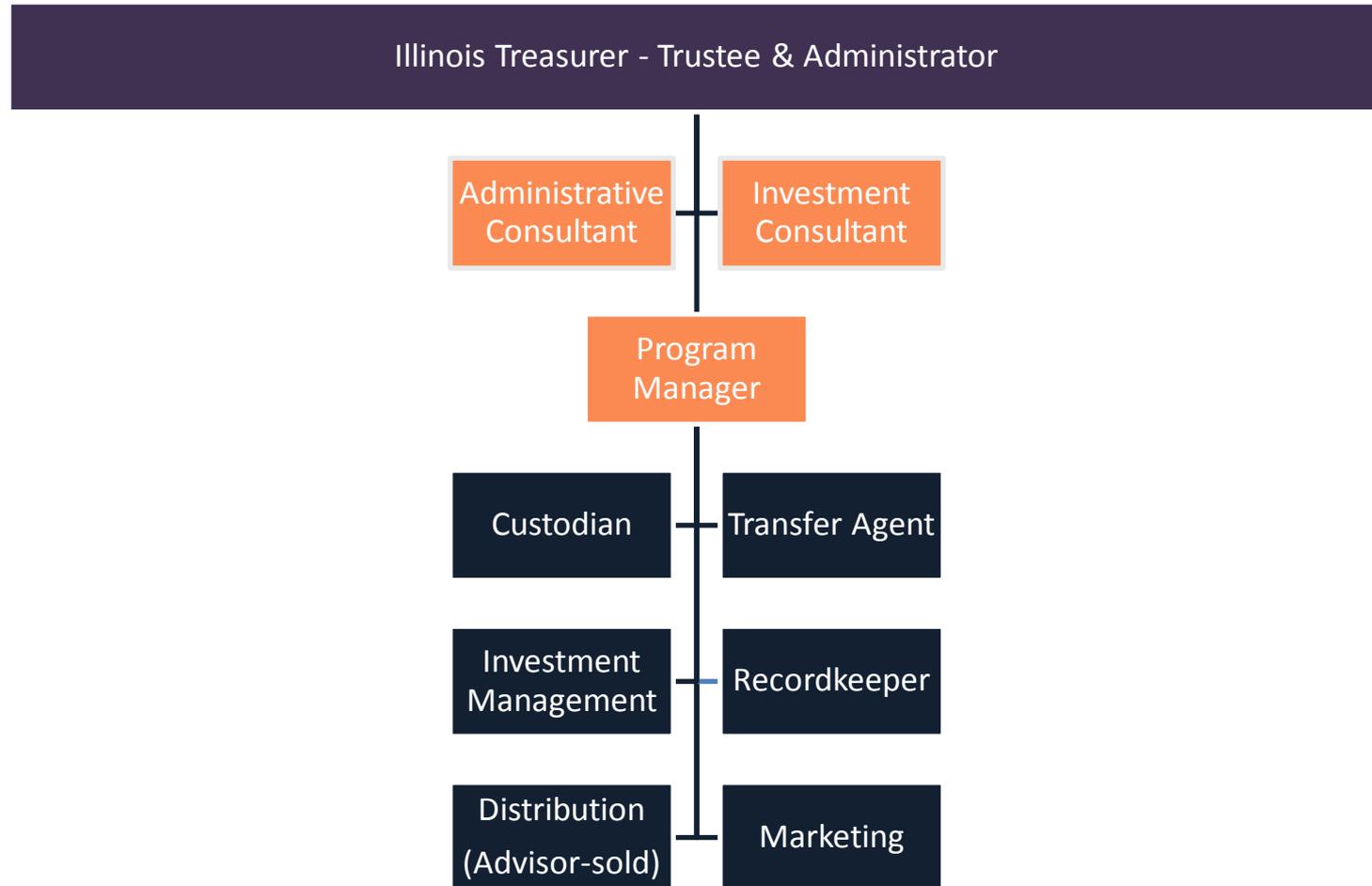
Created:	2000
Manager:	Oppenheimer Funds since 2007
Investment:	Oppenheimer Funds & Vanguard
Distributor:	Oppenheimer Distributors
Channel:	Direct and Advisor
Recordkeeper:	Oppenheimer/Smith Barney (Legacy)
Fees:	0.18% - 0.97%
Rating:	Bronze (Direct) & Neutral (Advisor)

# Bright Directions Overview



Created:	2005
Manager:	Union Bank & Trust since 2005
Inv. Consultant:	Wilshire Associates
Inv. Managers:	21 Funds Families (Best-in-class)
Distributor:	Northern Trust
Channel:	Advisor-sold only
Recordkeeper:	Union Bank & Trust
Fees:	0.28% – 1.57%
Rating:	Silver (Upgraded Fall 2015)

# Structure of Illinois' 529 Plans



# Definitions

- ***Custodian***: a financial institution that holds customer's securities for safekeeping so as to minimize the risk of their theft or loss.
- ***Transfer Agent***: a trust company, bank or similar financial institution assigned by a corporation to maintain records of investors and account balances and transactions, to cancel and issue certificates, to process investor mailings and to deal with any associated problems (i.e. lost or stolen certificates).
- ***Investment Manager***: manages investments. Includes recommending asset classes, investment options, and carrying out the investment policy of the Treasurer.

# Definitions

- **Record-keeper:** Third party or in-house organization responsible for confirmation of transactions and account statements per various SEC, MSRB and FINRA rules.
- **Distributor:** responsible for selling or distributing mutual funds to investors for fund management companies.
- **Marketing Firm:** 3<sup>rd</sup> party or in-house organization that works with program manager to market products while ensuring that they are adhering to FINRA regulations.

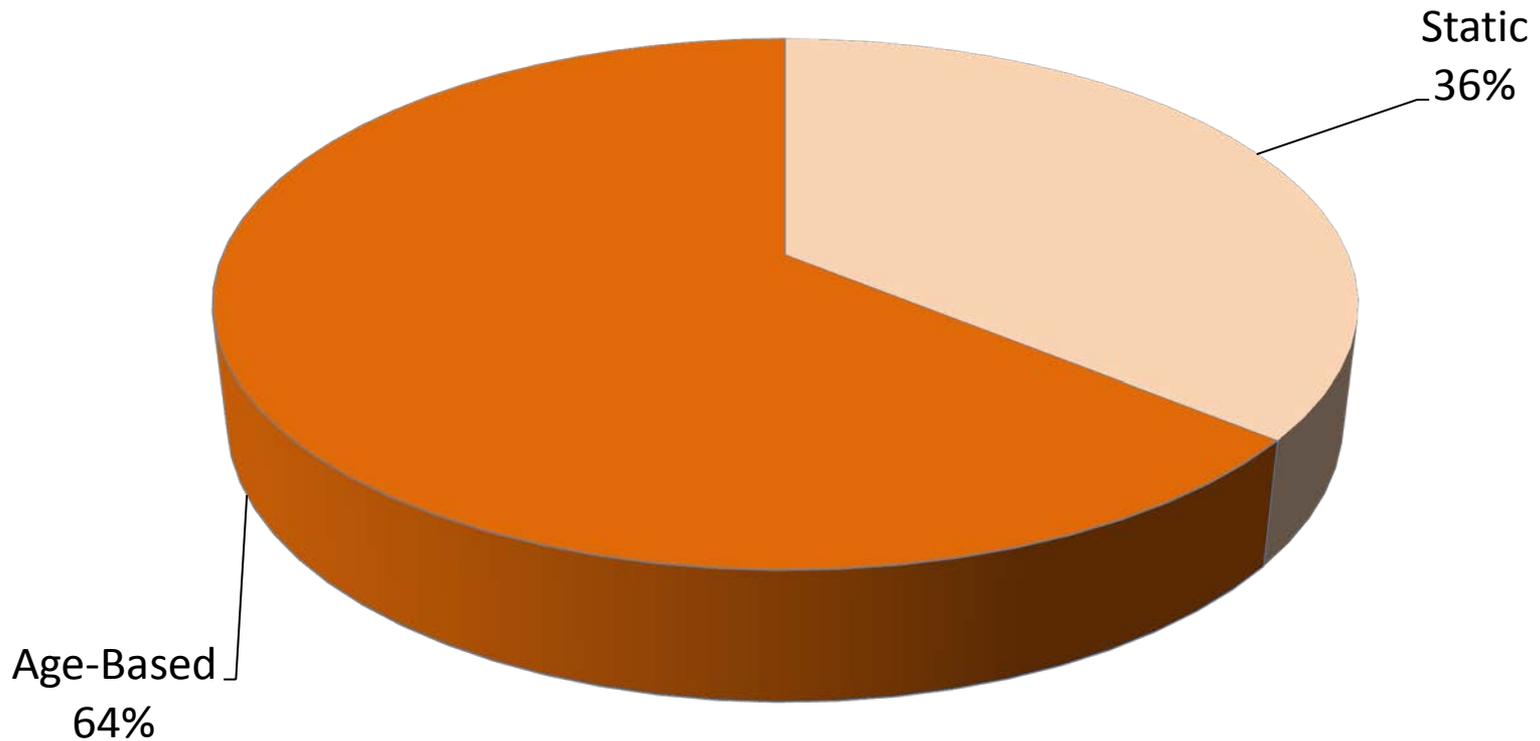
# Regulatory Oversight

- Financial Recordkeeping & Reporting of Currency and Foreign Transactions Act of 1970 (Banks Secrecy Act)
- USA Patriot Act of 2001
- Compliance & Regulations: SEC, MSRB, FINRA
- Other regulations (know your customer laws)
- Not subject to ERISA
- Legislative Changes (PATH Act – December 2015)

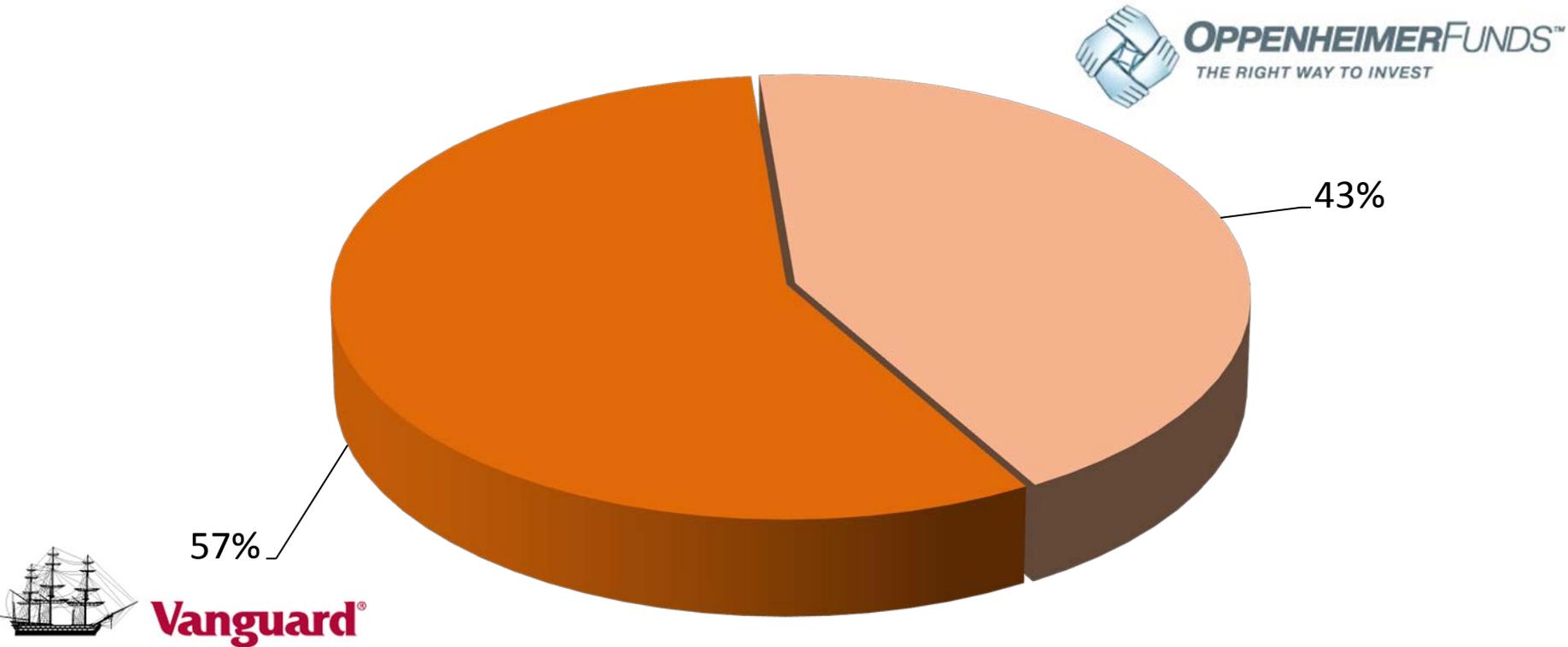
# STO Administration

- Investment Oversight and Performance Review - Daily
- Customer Service & Administration Review – Weekly
- Marketing Strategic Direction – Monthly
  1. Channels
  2. Promotions
  3. Campaigns
- Investment Oversight and Performance Review with Portfolio Managers – Quarterly
- Investment Policy Review- Annually
- Investment Due Diligence - Annually
- Operational Due Diligence – Annually
  1. Increased oversight
  2. Program Disclosure Statements

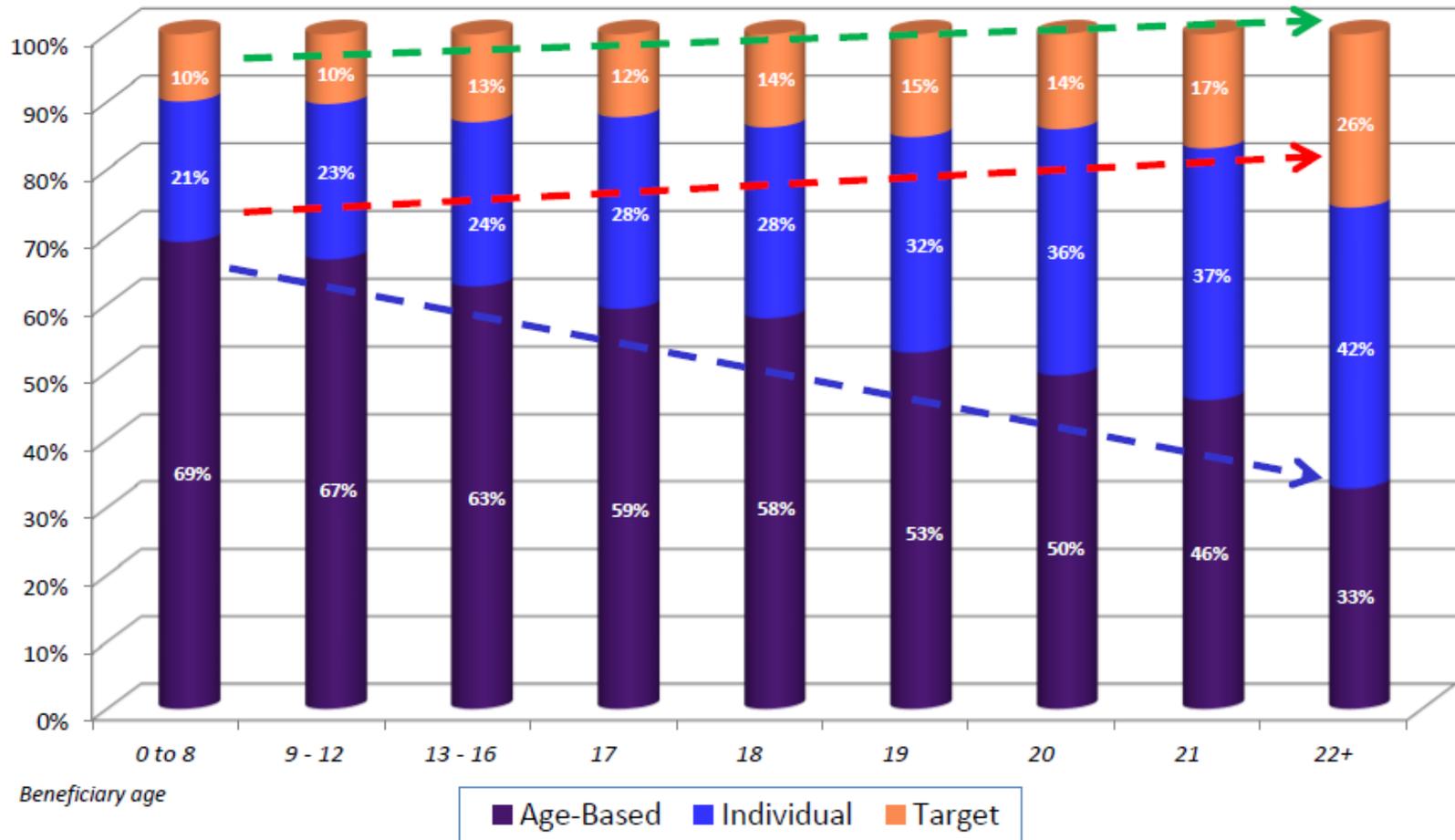
# Overall Plan Asset Election



# Bright Start Direct Fund Allocation



# Portfolio Utilization



# Strategic Priorities

- I. Offer affordable high-quality plans to account holders.
- II. Expand access by diversifying program participants:
  - Income
  - Race & Ethnicity
- III. Increase Oversight – Meetings with Fund Managers
  - Due Diligence with Investment & Operations teams
- IV. Assess & Restructure in anticipation of impending contract expirations.

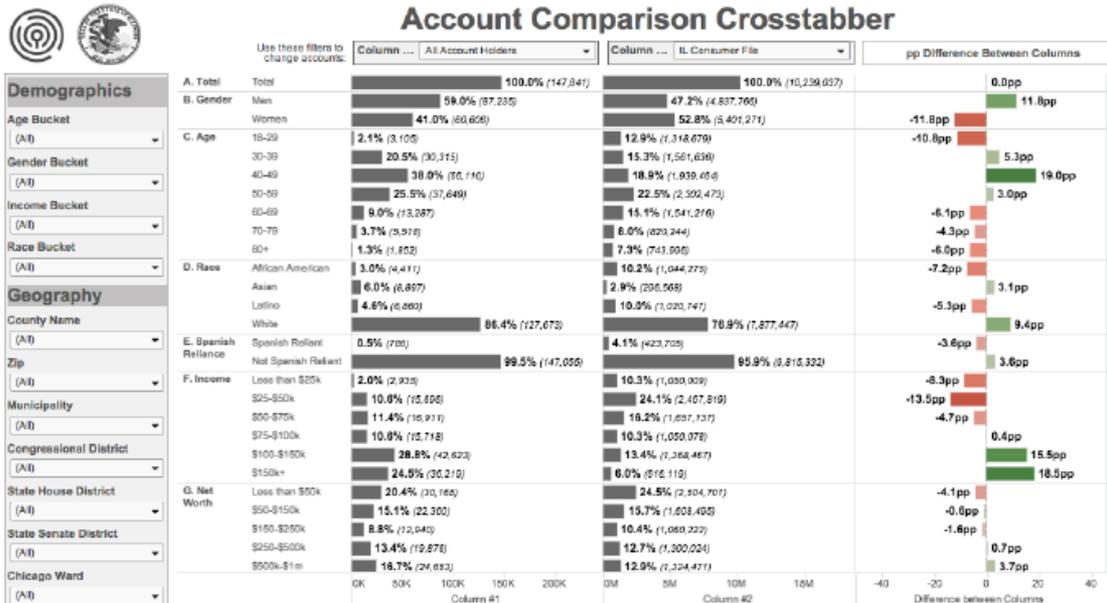
# Strategic Priorities

- I. Gain a better understanding of:
  - Who is saving?
  - Who should be saving?
  - Why are they saving?
  - How are they saving?
  - When are they saving? & When are they withdrawing?
  - How much are they saving?
- II. Create an effective and efficient marketing campaigns
- III. Create economies of scale to drive prices down for savers

# Strategic Priorities

- I. Data Cleaning
- II. Modeling & Prediction
- III. Data Exploration – Dashboard
- IV. Message Testing
- V. Data Pipeline & Reporting

# Civis Analytics – Account Holders



Percentages are approximations, counts are lower than actual. Treasurer account information matches to the IL Consumer File at a rate of ~85%. Categories are predicted using statistical models where necessary, as complete information is not available for each individual record.

**Why is this useful?** This tool allows you to compare one set of account holders against another, compare against the state, and narrow to the specific populations you're interested in.

## Primary Insights

- Middle-aged white men with high income are overrepresented among account holders
- Account holders are more likely to be married with children and own their home
- Bright Start has marginally fewer low and middle income account holders than Bright Directions

# 2015 Highlights

- Surpassed 400,000 account holders
- Reduced fees by 57.1% in Bright Directions
- Morningstar upgrades Bright Directions to Silver rating
- Bright Start ranked 3<sup>rd</sup> in performance by SavingforCollege.com
- Record year for contributions (\$1.1B)

# Looking Forward

