

**Maryland 529
Board Meeting Minutes
Conference Call**

September 10, 2020

9:30 AM – 12:15 PM

Held by Conference Call

Call-in #: +1-415-655-0003 Access Code: 127 903 5167

**Board Members/Designees Present via
Conference Call**

Nancy K. Kopp, State Treasurer and Board
Chair
Geoffrey Newman, Secretary of Higher
Education's Designee and Board Vice-
Chair
Justin Hayes, Maryland Comptroller's
Designee and Board Secretary
Carol Beatty, Secretary of Maryland
Department of Disabilities
Amalie Brandenburg, Superintendent of
School's Designee
Sam Gallo
Jessica McClain
Joanna Pratt
Peter Tsirigotis
Dr. Lisa Weah

Staff, Representatives and Guests

Erin Layton, Executive Director and
Interim-Director of Investments & Cash
Management
Bernadette Benik, Chief Deputy Treasurer
Janaki Kannan, Director of Finance
Bette Ann Mobley, Director of ABLE
Meghan Marek, Assistant Attorney General
David McAvoy, T. Rowe Price
Christine Akins, T. Rowe Price
James Balsan, BNY Mellon
Sally Reinfenstahl, BNY Mellon
Glenn Ross, Marquette Associates
Dave Smith, Marquette Associates
William Seymour, SB and Company
Amy Williams, GRS
Josh Murner – GRS
Lance Weiss – GRS

Board Members Absent

Ellen Herbst, Chancellor of University
System of Maryland's Designee

Maryland 529 Board Meeting

Treasurer Kopp called the meeting to order at 9:35 AM.

- Board Chairman's Items

Treasurer Kopp welcomed Jessica McClain to the Board. Ms. McClain has an auditing and accounting background and will be serving on the Audit and Governance Committee.

- Updates from closed sessions on June 25, 2020 and July 13, 2020

Ms. Marek summarized activities from the Board's closed sessions on the June 25th and July 13th 2020. The June 25, 2020 meeting was a discussion of the minimum benefits calculations with no vote occurring. The July 13, 2020 meeting included additional discussion of the minimum benefits calculation and a vote approving the new minimum benefits calculation method for new

accounts beginning December 1, 2020, with accounts currently taken distributions being grandfathered in under the old minimum benefits calculation method.

- Approval of Minutes

Treasurer Kopp asked for comments on the minutes from the June 25, 2020 Board meeting. After discussion regarding technical revisions to be made, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the minutes for the June 25, 2020 Board meeting are hereby approved, subject to technical corrections to be submitted to the Executive Director.

Treasurer Kopp asked for comments on the minutes from the August 3, 2020 Board meeting. There being no comments and upon motion duly made and seconded, it was unanimously

RESOLVED, that the minutes for the August 3, 2020 Board meeting are hereby approved.

Closed meeting minutes were presented and approved for the June 25th and July 13th meetings.

RESOLVED, that the closed minutes for the June 25, 2020 and July 13, 2020 Board meeting are hereby approved.

- ABLE Quarterly Report

Ms. Reinfenstahl, BNY Mellon, presented the 4th quarter fiscal year report for ABLE. She reported that there were 3,231 funded accounts and approximately \$19.6M in assets under management and that they continue to see rollovers into the plan. Updating the Board on operations, she noted that BYN Mellon is currently scheduled to return to in-person operations on January 1, 2021, and they have added a position to their team to work on reporting and data analysis. Ms. Reinfenstahl discussed the increased contributions and average number of distributions nationally and compared those in Maryland. She noted that the numbers may be the result of the entity as Authorized Legal Representative (“ALR”) process. There was a discussion that ALR accounts have been growing since the pilot finished in January.

- APF Committee Report

Mr. Newman presented the report from the Administration Personnel and Finance Committee, which included:

- an update on the Spanish translation research being conducted by staff,
- an IT update from Ms. Layton,
- an accounting and budget update from Ms. Kannan,
- an HR and staffing update from Ms. Layton,
- a State Contribution Program update from Ms. Layton, and
- a potential mishandling of account data and the entity-ALR reports.

Regarding BNY and the potential accidental exposure of certain account information, Ms. Mobley informed the Board that an entity-ALR report was sent to the wrong entity due to a manual data entry error. The account information was found to have not been disclosed, however, as the email and its attachment were not received by the entity to which it was incorrectly sent. The issue is still being investigated to ensure all processes are updated to ensure such an incident does not occur again. ABLE staff are in discussions with BNY Mellon to have the process automated to avoid such problems in the future.

Then, Ms. Kannan presented modifications to the ABLE budget which noted decreased expenses for communication and travel and less marketing due to ambassador salaries, but with the addition of \$20K for pre-paid cards. Ms. Mobley indicated that she is researching potential grants to help cover some of the deficiencies, but they are currently limited due to COVID-19. After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the FY21 Amended Maryland ABLE budget, as presented.

- Audit & Governance Committee Report

Ms. Layton presented the Audit & Governance Committee Report to the Board. She informed the Board that the forensic audit was approved by the Board of Public Works on September 2, 2020 and the process with Grant Thornton has already begun. She also told the Board that the Agency has engaged SB and Company (“SB”) to perform the annual audit.

Ms. Layton summarized the proposed changes that were presented to the Committee on the State Contribution Program and demographics that were presented by T. Rowe Price (“TRP”). Ms. Layton will be participating in a conference call tomorrow with key parties that will be involved with the next legislative session to discuss the proposals.

Ms. Layton reported that the Committee discussed the Board and Committees’ self-evaluation process, which will include year-end meetings to conduct the reviews.

Treasurer Kopp thanked William Seymour, SB, for taking lead on the annual audit. Mr. Seymour presented the outline for the audit which will include an audit of MCPT, Maryland College Investment Plan (“MCIP”) and ABLE. He described the process for planning, preliminary testing, fieldwork and reporting to the Board. SB’s goal is to have a draft of their report on October 19, 2020, a presentation for the Board on October 29, 2020 and an issuance of the final letter on October 30, 2020. Any issues that arise will be communicated to the Agency and/or Board immediately upon discovery. When asked about the impact of the most recent OLA report and the engagement of forensic auditors on SB’s work, Mr. Seymour responded that the annual audit is not directly impacted by any previous OLA reports, but that SB would be sensitive to the findings and address any ongoing issues, which they don’t believe there to be, with staff.

- Investment Committee Report

Ms. Pratt presented the Investment Committee's report to the Board. She summarized the Committee's discussion of potential changes to the actuarial assumptions that GRS was asked to run and report back on. The Committee asked for certain changes to the tuition increase assumptions and contract prices to be reviewed.

Ms. Pratt next informed the Board that the Committee referred the issue of ESG investments back to management and TRP to get more details on what TRP's future offering will look like and how pricing of that option may look.

Ms. Pratt reported Committee discussions of a replacement for the Emerging Marketing Manager. Mr. Ross summarized the search for a program manager after Franklin Templeton was put on alert and eventually dismissed. After a search and interviews by Ms. Layton and Marquette, it was recommended that Payden & Rygel Emerging Markets Debt be selected as the new program manager. After discussion and agreement that Marquette will provide in writing its criteria for ensuring diversity in its search and interview process, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves Payden & Rygel Emerging Markets Debt as the program manager to replace Franklin Templeton.

Ms. Layton summarized her recommendation that the Agency's operating surplus funds be moved to Wells Fargo Government Money Market Fund as a short term option. Ms. Layton has already confirmed with the Treasurer's Office that the move is allowable under the existing contract with Wells Fargo. There being no discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Agency's operating surplus funds be moved to Wells Fargo Government Money Market Fund.

- Maryland College Investment Plan

Ms. Layton reported that the plan has rebounded nicely and has maintained its overall asset balances even with the COVID-19 situation, and there has been an increase in contributions. She also discussed the conference call with Morningstar as part of the annual rating review they conduct.

Mr. McAvoy presented a summary of the MCIP plan highlighting the strong online usage by account holders with about 82% of account access occurring online. The volume of distributions is down 22% year over year, there was 10% growth in assets, and he noted that less than 1% of account holders have made any kind of significant moves in their portfolio as a result of the pandemic.

Secretary Beatty left the meeting at this time. Mr. Tsirigotis joined the meeting.

Mr. McAvoy presented the draft account holder cover letter and MCIP Disclosure Statement Supplement. He explained that since the supplemental disclosure is a complex document, TRP created a cover letter to provide an easy to understand explanation of the fee and investment changes to account holders. Provided the Board of Public Works approves the contract amendment on September 23, the Disclosure Statement Supplement would be mailed shortly thereafter.

Mr. McAvoy summarized the changes as a conversion to the Institutional Share Class and the associated fee changes including a reduction in the underlying expense ratio and the addition of a 5bp Program Management fee. There are also enhancements to the underlying funds being instituted to improve portfolio performance. TRP is anticipating and preparing for questions that may come from the account holders by training associates on the program enhancements. There being no additional discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the draft cover letter and Disclosure Statement Supplement subject to contract approval by the Board of Public Works.

Mr. McAvoy provided a status report on the State Contribution Program announcing that there are about 30,000 applications representing a 27% increase year over year with about 98% of the applications being done online. Marketing efforts appear to be working as there is a continuous increase of applications in each regional area. There was a discussion regarding outreach efforts a reaching a broad pool of middle class applicants but that growth in applications is not quite as strong in the lowest-income bracket. Ms. Layton noted that the Agency continues to work with the Cash Campaign and T. Rowe Price Foundation to reach that group. The \$10M funding that has already been approved would fund all of the new and most of the repeat applications but at this point the total request of the State would be approximately \$14.4 million if all applications were funded this year. TRP will be sending letters to account holders in the next few weeks notifying them of their application status and funding is expected to occur by the end of the year.

- Maryland Prepaid College Trust

Mr. Weiss, GRS, summarized the preliminary results of the Actuarial Soundness Valuation, which compared the present value of all of the Prepaid tuition contracts through June 30, 2020, with the assets as of the same date. He also presented the assumptions and methods used to complete the valuation, including, but not limited to, tuition and fee increases and a 6% investment return assumptions. Mr. Weiss explained that results of the valuation, using the proposed assumptions, create a funded ratio of 184.6%. There was a discussion of how the assumptions affect the funded ratio and whether or not there should be any adjustments to the assumptions based on uncertainties that have been caused by COVID-19 and its potential impact on tuition and fees. Ms. Layton reminded the Board that the numbers were not final and could be adjusted. She noted contract prices were kept flat last year explained the impact to the load calculation if the assumption changes were implemented and contract prices remained the same. There was discussion regarding pricing recalibration, assumptions changes, costs, tuition rates, administration changes and the net investment return. Ms. Layton suggested that she continue to work with the actuary and regroup with the Board in October after getting additional input from Ms. Herbst on the future of USM tuition policy before making a final decision.

Ms. Layton reported that if there is a need to consider a rebate that process, while new to Maryland, has been completed by other states in the past. It is a complex process and would not be completed prior to December 1 when the next enrollment period begins. She will reach out to other states and their actuaries to see what the next steps would be.

- Executive Director Report

Ms. Layton summarized the Executive Director Report highlighting that ABLE has almost \$20M in assets under management. Ms. Layton reported that DoIt has finally determined that the transition to a program manager for the MPCT is not a major IT development project and they have closed their file. She informed the Board that the Evaluation Committee for the program manager procurement will hear oral presentations on September 21, 2020 and will plan to make a recommendation at a Board meeting on September 30, 2020. Ms. Layton indicated that investments are holding strong at about \$8 billion in assets.

Ms. Layton presented the UMBC tuition and fee numbers, which were updated after the rates were previously approved by the Board. After review, and upon motion duly made and seconded, it was unanimously

RESOLVED, the Board approves the revised UMBC tuition and mandatory fees as presented.

Ms. Layton reported that the Banner support contractor who was hired in early 2020 to assist with potential OLA report questions from account holders, also assisted on the Payment Manger project, which took longer than expected but that the overall cost for that contract will remain under budget.

- Legal Update

Ms. Marek reported that statutory revisions are in process to consider pooling administrative fees across the Agency's three programs, and that proposed regulations are undergoing review with the hope for finalization near the end of October. Ms. Marek also informed the Board that some Congressional bills for COVID relief funding would revise IRC section 529 to allow for homeschool expenses. At this time, it appears unlikely that any such provision would be included in a bill that could pass the House.

- New Business

Ms. Layton will be scheduling a meeting for September 30, 2020 to approve the program manager. She will provide an update of both audits at that time.

There being no other business and upon motion duly made and seconded, it was

RESOLVED, that the Board meeting be adjourned at 12:15 PM.

Approved: Justin H. Hayes Date: 11/19/2020
Justin Hayes, Board Secretary

Exhibit List

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|------|---------------------------------|-------|-----------------------------------|
| 01A- | Agenda | 09A- | MCIP Report 9/2020 |
| 02A- | Draft Meeting Minutes – 6/25/20 | 09B1- | MCIP TRP Cover Letter – Draft |
| 02B- | Draft Meeting Minutes – 8/3/20 | 09B2- | MCIP Disclosure Supplement 10/20 |
| 04- | ABLE Board Report Q4 – FY20 | 09C- | State Contribution Program Update |
| 05- | Amended ABLE Budget | 10A- | GRS Report |
| 06- | SB Annual Audit Presentation | 10B- | GRS Preliminary Valuation |
| 08A- | Emerging Market Debt Memo | 11A1- | Executive Director’s Report |
| 08B- | MD529 Operating Surplus Memo | 11A2- | MD529 Project Tracker |
| | | 11B- | UMBC Tuition Change |