

DE 529 EDUCATION SAVINGS PLAN

STRATEGY DISCUSSION

PLANS MANAGEMENT BOARD

SEPTEMBER 2021 MEETING





Program Summary:

Delaware's 529 Plan, also known as DE529, is sponsored by the State of Delaware and managed by Fidelity Investments. The Plan provides tax-advantaged accounts designed to help parents, grandparents and others pay for education expenses, reducing the possibility of debt. Contributions can be invested in portfolios tailored to a person's age or the investor's ability to identify an asset allocation strategy. Investment earnings in DE529 grow federal and Delaware tax-deferred and qualified withdrawals are free from federal and Delaware income taxes.

The Plan currently has an account maximum limit of \$350,000. Contributions no longer can be made once the total value of all accounts for the same beneficiary in any DE529 Plan meet the account maximum.

The Plan was first offered in 1998 with many new accounts coming from residents outside the of the State of Delaware. The Delaware plan was one of the first plans offered in the country. With more states adopting plans over the years, the Delaware plan is becoming more reliant on state residents to open new accounts. Accounts opened by Delaware residents now represent 70% of new accounts.

The Office of State Treasurer (OST) was initially tasked with administration of the Plan and provided support to the Delaware College Investment Board. The Plan was transitioned to the Department of Education in 2009. With the creation of the Plans Management Board in July 2016, the Plan was transitioned back to the OST.

Current Investment Architecture:

The 529 Plan offers participants an array of professionally managed Fidelity investment options to enable diversification across a range of risk levels, asset classes, and investment strategies in order to accommodate the participants' varying needs and risk tolerances. Participants have the option of selecting an age-based strategy, or they may create a custom strategy consistent with their particular investment goals. Participants following a custom strategy could choose to invest with an age-based option, a static allocation option, one or more individual fund options, or any combination of the forgoing. Participants also have the option of a bank deposit portfolio.

Age-Based Options

The 529 Plan's investment array presently includes multiple aged-based options tied to a beneficiary's year of birth. Age-based options are "fund of funds" investment portfolios with "glide path" strategies that reallocate assets to more conservative fund investments as the beneficiary approaches college enrollment age. Participants may select investment portfolios invested in **actively managed** funds, **passively managed** index funds, or a **blend** of actively managed and index funds.

Static Allocation Options

The investment array presently includes six "static" allocation options – meaning that the target asset class allocations do not change over time. Each static investment portfolio is a "fund of funds" that invests in either **actively** or **passively** managed funds. Participants have three allocation options - aggressive growth, moderate growth, and conservative.

Individual Fund Options

The investment array presently includes **five investment portfolios** that are each invested in a single **underlying index-based** fund or an **actively managed money market fund**. The individual fund options allow participants to construct diversified portfolios and investment styles matching their risk tolerances, asset class preferences, time horizons, and expected returns. Options presently include two U.S. equity funds, one non-U.S. equity fund, one investment-grade debt fund, and one short-term debt (money market) fund.

Bank Deposit Option

The 529 Plan currently offers a bank deposit option. This portfolio is composed exclusively of deposits in an FDIC-insured interest-bearing omnibus negotiable order of withdrawal (or NOW) deposit account

\$767.4 Million in Assets

72% of total assets are invested in age-based options

(approximately \$554.5 million)

- Active Age-Based – \$425.2 million (55% of total assets)
- Index Age-Based – \$121.2 million (16% of total assets)
- *44% of total new contributions are directed into the index age-based option*
- Blend Age-Based – \$8.2 million (1% of total assets)

Approximately \$212.9 million (28% of total assets) allocated to static portfolios, individual funds, or a bank deposit portfolio.

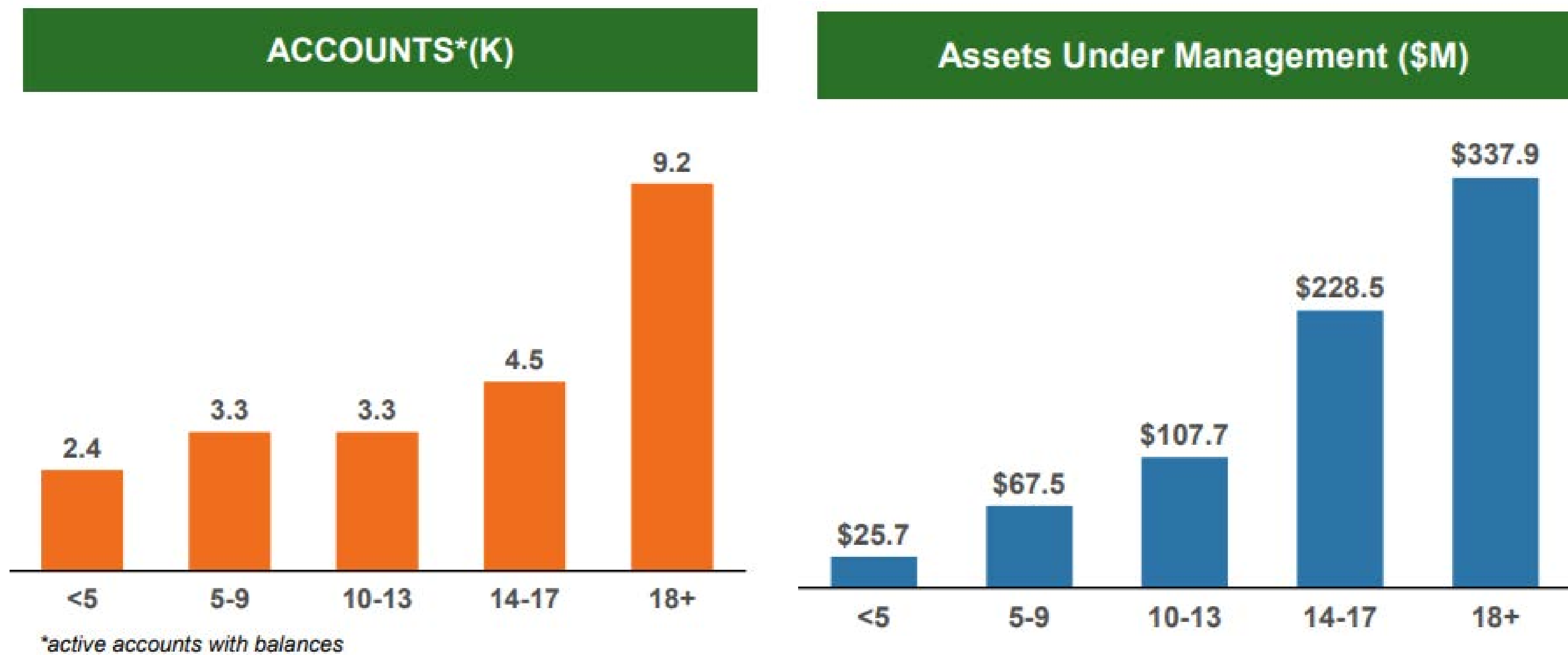
As of June 30, 2021



STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Account growth - New accounts grew by 39% in Q1 2021 vs Q1 2020 while the industry was up 20% Fidelity's Existing Customer base - 71% of new accounts in Q1 were opened by an existing Fidelity customer. Fidelity maintains relationships with 102k Delaware residents across all lines of business, including retail and workplace. Fidelity's marketing budget and regional sponsorship of events Administrative fund balance for Board's efforts to promote plan within Delaware Morningstar medal ranking Multiple investment options with an industry low index age-based fee Gifting tools and rewards credit card with 2% cash back Marketing access to State employee base Plans Management Board Oversight 	<ul style="list-style-type: none"> Age wave- 74% of assets are for beneficiaries older than 14 years old Fidelity's national plan is New Hampshire which restricts Delaware plan marketing to just in-state residents Tax incentives- One of seven state's not to offer a tax incentive to contribute to the 529 Plan (HB-145) Clearly defined Business Metrics/Goals
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Employer outreach and possible federal tax incentives for employer 529 contributions Trademark new logo and rebrand of plan Explore partnerships with three birthing hospitals in Delaware 	<ul style="list-style-type: none"> Low awareness of 529 product (i.e., 38% are very familiar with 529 plans) Other state plans marketing to Delaware residents Competing products (e.g, ROTH IRAs) Discretionary income for savings and competing consumer needs Inflation "Free" college Rising cost of college

THE "AGE WAVE"

THE NEED TO GROW ACCOUNTS AND CONTRIBUTIONS



*active accounts with balances

Source: Fidelity DE 529 Business Results – Q2 2021 August 18, 2021



- ① GROW ACCOUNTS
- ② INCREASE CONTRIBUTIONS
- ③ BUILD TOP TIER PLAN

OBJECTIVE ONE – GROW ACCOUNTS



- 1 **Goal One – Further Optimize Fidelity Marketing and Plan Marketing Spend**
Fidelity allocates \$300,000 per year to marketing the DE529 Education Savings Plan. Fidelity’s marketing budget is split over several marketing channels and is heavily weighted to digital channels and search. OST will continue to work with Fidelity to optimize non-digital Fidelity marketing spend to outlets within Delaware that attract young families (Delaware Natural History Museum, Winterthur’s Truck and Tractor Day). OST promote the plan through the marketing spend from the administrative fund as approved by the Board in the annual budget.
- 2 **Goal Two – Test and Implement a Match Incentive Program:**
With 74% of assets invested for beneficiaries older than 14 years old, the Plan faces substantial distributions over the next five to eight years. Although overall Plan assets have grown recently, market growth trends may reverse in future years. Attracting families with younger beneficiaries will be a primary objective for the Plan. In the first quarter of 2021, 45% of new accounts were for children under age 5. OST is recommending a match pilot program for 2022. The plan will contribute \$100 to all new, funded accounts opened for beneficiaries under the age of 5. Expected financial obligation is between \$40,000 to \$50,000 dollars.
- 3 **Goal Three – Establish Partnerships with Top Three Birthing Hospitals in Delaware:**
Over 10,000 babies are born each year in Delaware. 80% of the Delaware births occur in three hospitals within the state. Christiana Care delivers over 50% of the overall babies within Delaware, followed by Kent General and Nanticoke Memorial. Fidelity currently markets through a relationship with the Hospital Broadcast Network for in-room television advertising. OST will look to create and establish direct relationships with the hospitals to actively promote the plan.
- 4 **Goal Four –Partner with Delaware Public Schools:**
With over 138,000 students enrolled in Delaware Public Schools, the Board and OST should look for ways to promote the plan through distribution opportunities within the school system. For example, using administrative funds to partner with the University of Delaware on the “Bookworm” promotion, the Board and OST can promote the benefits of the plan to public school families. Leverage deferred compensation contacts within the education centers to promote DE529.
- 5 **Goal Five –Workplace Messaging:**
Through outreach to Delaware’s largest employers, the Board and OST have an opportunity to market the plan as a potential workplace benefit. Through collaboration with Fidelity, OST can identify employers that currently use Fidelity as a retirement plan provider and prioritize those employers as potential plan ambassadors. OST will also look to develop a marketing plan by leveraging a promotion to state employees and share as a “test case” with prospective employers.

Possible Measurements

- 2,500 new accounts a year by 2023
- Trend is 1,800-1,900 accounts
- Increase mix to 55% of new accounts for beneficiaries under age 5 by 2023
- Trend is currently 45%



OBJECTIVE TWO – INCREASE CONTRIBUTIONS



Summary:

Contributions into the Delaware's 529 Plan have grown steadily since 2017. Total contributions into the plan were up 26% in the first quarter 2021 versus the first quarter 2020. Total contribution growth outpaced the industry which was up 12% for the same period. Contributions attributed to new accounts grew by 35% in the first quarter 2021 compared to the first quarter 2020. The new account contribution growth also outpaced the industry growth for the quarterly comparison. Annual contributions into the plan have ranged from \$48.6 million in 2017 to \$53.3 million in 2020. Our focus continues to be on attracting young families to plan and setting up a systematic habit of contributing to the plan and in working with Fidelity on finding innovative and convenient ways to invest into a DE529 account..

Year	Total Contributions
2017	\$48.6 Million
2018	\$51.7 Million
2019	\$52.1 Million
2020	\$53.3 Million
2021 (Jan-June*)	\$36..4 Million*

Possible Measurements

- **Attract \$60 million in annual contributions into the plan by 2024**
- **Increase contributions by x% for new accounts**
- **Increase contributions for total accounts by x%**

1 Goal One – Support Tax incentive legislation within Delaware to attract additional contributions

OST's CPM team will work internally with our policy experts to help promote the benefits of a State tax deduction for contributions made to a DE529 account that has a DE beneficiary.

2 Goal Two – Test and Implement a Match Incentive Program:

In the first quarter of 2021, 45% of new accounts were for children under age 5. OST is recommending a match pilot program where the plan will contribute \$100 to all new accounts opened for beneficiaries under the age of 5. Expected financial obligation is between \$40,000 to \$50,000 dollars for calendar year 2022.

3 Goal Three –Collaborate with Fidelity on Gifting Tool Promotion and Employer Contributions:

The gifting tool is a customized link that account owners can share via social media and personal email to encourage family and friends to contribute to their beneficiary's account. Outreach to large Delaware employers to encourage automatic deposits by employees and potential employer contributions.



OBJECTIVE THREE – BUILD TOP TIER PLAN



- ① **Goal One – Create a “State Collective” of Fidelity 529 Plans**
Develop a partnership with Fidelity’s other 529 plans to share best practices and strategies to help residents and plan sponsors. Establish an annual summit where state partners could address issues and future enhancement requests with Fidelity.
- ② **Goal Two – Continue to Strengthen Oversight with Board and Committees**
In their 2020 rating, Morningstar noted *“Delaware has noticeably strengthened its oversight by expanding to an 11-member board and hiring an external investment consultant in recent years. These consistent, positive developments warrant an upgrade to the plan’s Parent rating to Above Average.”* The Board and OST should continue to build on this positive momentum and look for additional ways to strengthen its oversight of Fidelity (e.g. ,State Collective idea).
- ③ **Goal Three – Implement Strategy for Administrative Fee Balances**
Plan administration is funded through a state administration fee. These fees help pay expenses such as of salaries, marketing, legal, audit and investment consultant fees. Through prudent management of these expenses, the plan administrative account currently has a balance. The Investment Committee, with Board’s consultant CAPTRUST, will identify investment strategy for the administrative fund balance.
- ④ **Goal Four –Pass HB145 Tax Incentive**
In the August issue of [Delaware Today](#), Mallard Advisors Bill Starnes noted, *“Since there are no in-state tax benefits to using the Delaware College Investment Plan, look at low-cost 529 plans outside of Delaware. Low cost is paramount because most 529 plans are commodities.”* The Board and OST should support the passage of the HB 145 legislation that enact tax incentive legislation for Delaware residents that make contributions to 529 and ABLE accounts.
- ⑤ **Goal Five –Scholarship Pilot (Foster Youth)**
The Delaware “Aspire529” program ,a needs-based scholarship designed to help foster youth aging out of the system with expenses related to accessing college or vocational training.

Possible Measurements

Improve Morningstar Medal Ranking

Pass HB145 FOR Tax Incentive

Annual Summit of Fidelity States





1 GROW ACCOUNTS

Goal One – Further Optimize Fidelity Marketing and DE529 Plan Marketing Spend

Goal Two – Test and Implement a Match Incentive Program

Goal Three – Establish Partnerships with Top Three Birthing Hospitals in Delaware

Goal Four –Partner with Delaware Public Schools

Goal Five –Workplace Messaging

2 INCREASE CONTRIBUTIONS

Goal One – Support HB145 Tax incentive legislation within Delaware to attract additional contributions

Goal Two – Test and Implement a Match Incentive Program

Goal Three –Collaborate with Fidelity on Gifting Tool Promotion and Employer Contributions

3 BUILD TOP TIER PLAN

Goal One – Create a “State Collective” of Fidelity 529 Plans

Goal Two – Continue to Strengthen Oversight with Board and Committees

Goal Three – Implement Strategy for Administrative Fee Balances

Goal Four –Pass HB145 Tax Incentive

Goal Five –Scholarship Pilot (Foster Youth)

• *Green font represent “always on” efforts*

Focus Timeline

2021

- RFP for Plan
- Rebranding of plan

2022

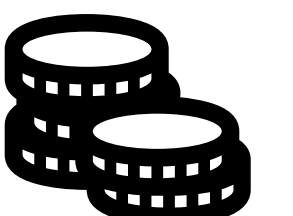
- Test Match Incentive Program (May 29th)
- Support HB145 Tax Incentive
- Top birthing hospital partnerships
- Implement strategy for administrative fee balances
- Scholarship Pilot

2023

- Workplace messaging/employer campaigns
- Match Incentive Program assessment
- Collaborate with Fidelity on workplace
- Promotion of gifting tool
- Host virtual “State Collective” Summit
- Scholarship Pilot

2024

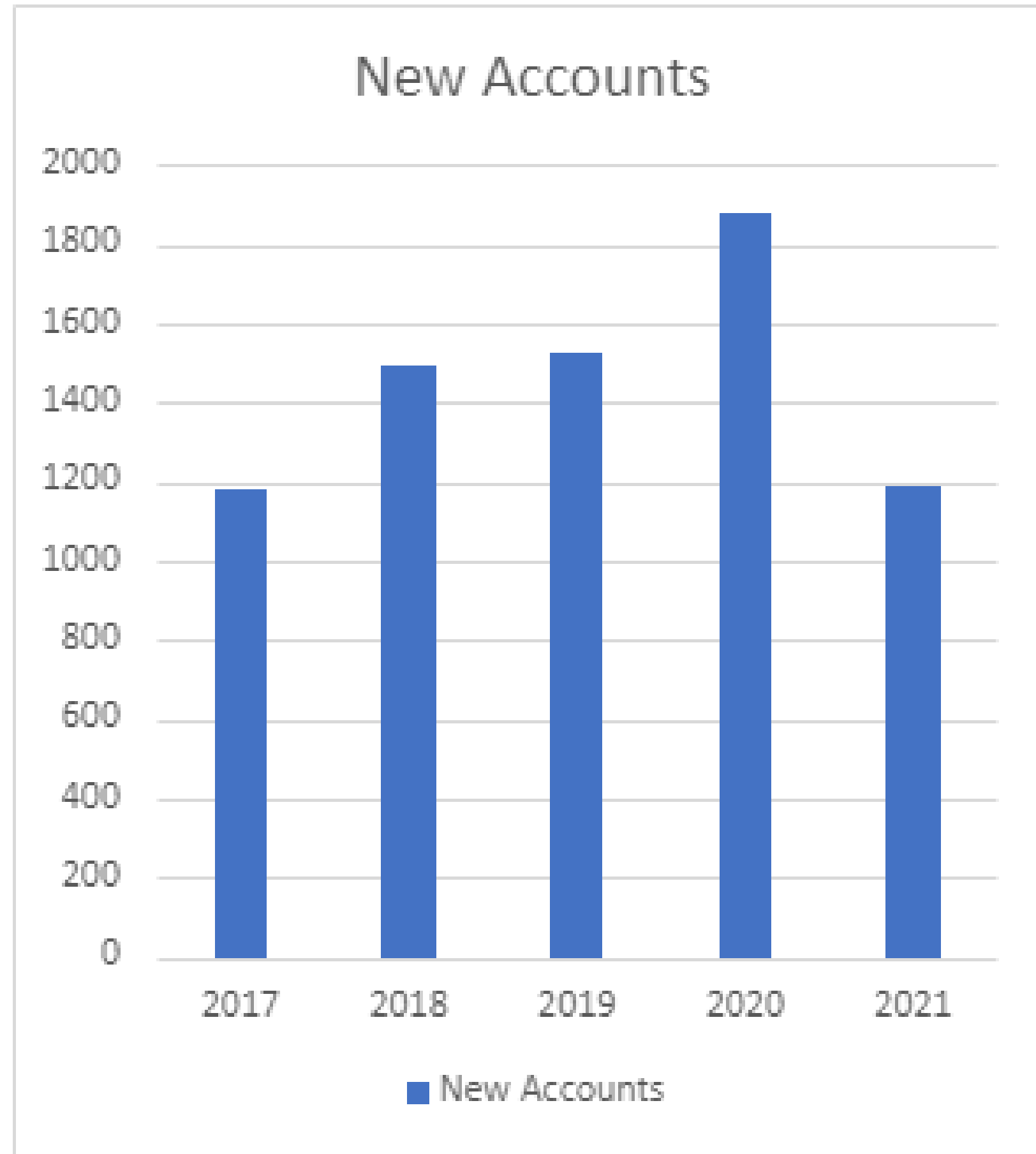
- Morningstar Medal Assessment
- Scholarship Pilot



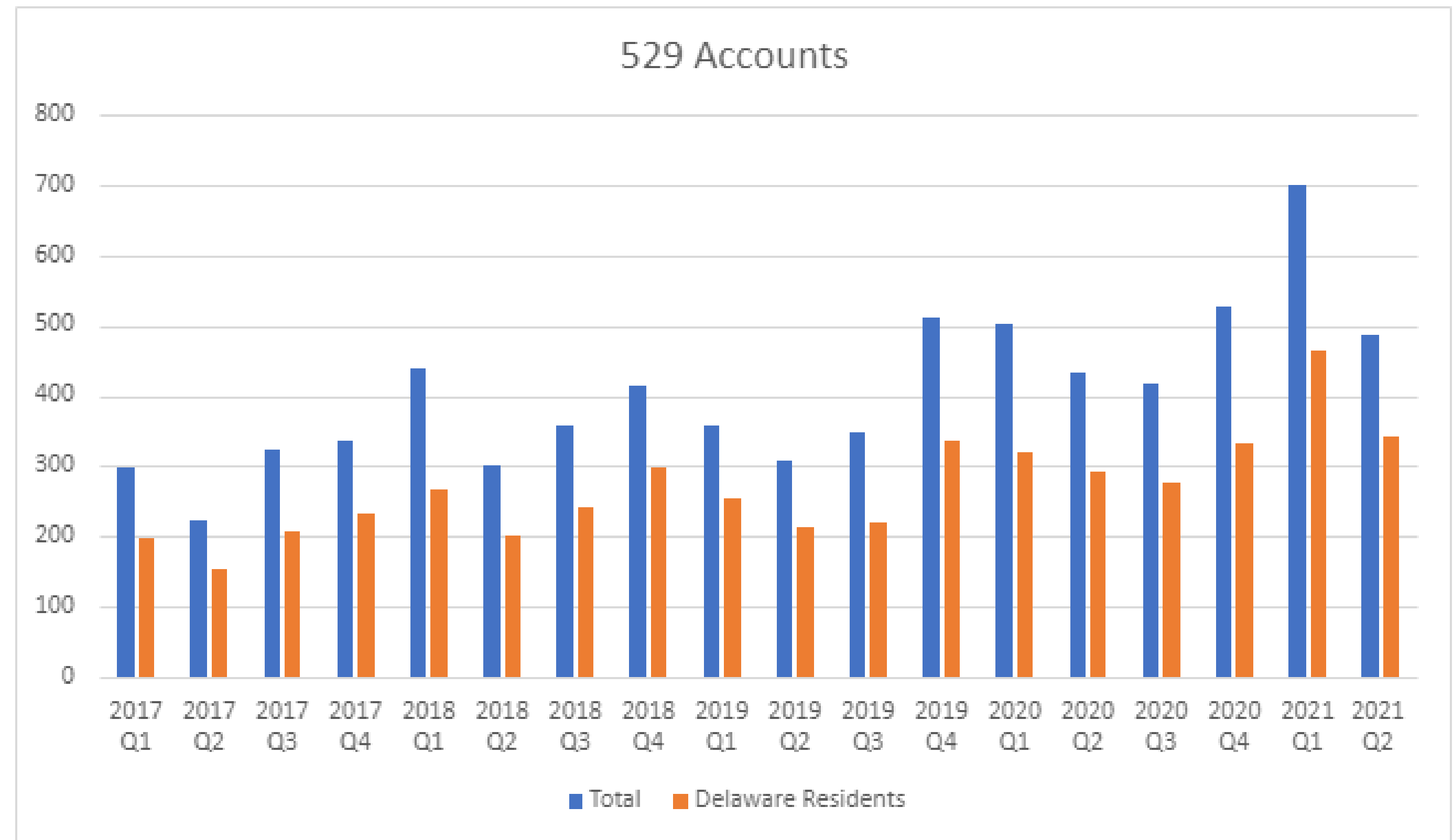
APPENDIX



ANNUAL ACCOUNTS



QUARTERLY NEW ACCOUNTS



Source: Fidelity DE 529 Business Results – Q2 2021 August 18, 2021
 2021 Accounts are through June 30, 2021



APPENDIX; OBJECTIVE ONE – GROW ACCOUNTS

Summary:

With 74% of assets invested for beneficiaries older than 14 years old, the Plan faces substantial distributions over the next five to eight years. Although overall Plan assets have grown recently, market growth trends may reverse in future years. Attracting families with younger beneficiaries will be a primary objective for the Plan. In the first quarter of 2021, 45% of new accounts were for children under age 5.

Supporting Data:

Delaware Birth Data:

In 2018, Delaware residents gave birth to **10,593** babies. With 94% of these babies being delivered within the state of Delaware. Christina Care delivered 50.2% or 5,318 babies, Kent General delivered 18% or 1,911 babies, and Nanticoke Memorial delivered 8.5% or 905 babies. First born babies represented 38% of deliveries. Source: <https://dhss.delaware.gov/dhss/dph/hp/files/lb18.pdf>

Delaware Population Consortium:

The Consortium estimates that in 2021, there are **228,172** Delaware residents between the ages of 0-19 years of age. The 0-4 age cohort in Delaware represents **53,780** children. Source: <https://stateplanning.delaware.gov/demography/dpc-projection-data.shtml>

Delaware Department of Education:

As of September 2020, **138, 414** students were enrolled in Delaware public schools. Enrollment includes all students in preschool through 12th grade in traditional school districts, charter schools and vocational-technical schools. Source: <https://reportcard.doe.k12.de.us>

2018

NUMBER AND PERCENT OF LIVE BIRTHS BY PLACE OF BIRTH

Place of Birth/ Type of Facility	Births to Delaware Residents	
	Number	Percent
DELAWARE		
HOSPITAL		
Beebe Medical Center	666	6.3
Kent General	1,911	18.0
Christiana Care	5,318	50.2
Milford Memorial	350	3.3
Nanticoke Memorial	905	8.5
St. Francis	689	6.5
A.I.DuPont	0	0.0
Total	9,839	92.9
BIRTHING CENTER	127	1.2
HOME BIRTH	77	0.7
ENROUTE/OTHER	5	0.0
UNKNOWN	0	0.0
TOTAL	10,048	94.9
OUT-OF-STATE		
HOSPITAL		
Crozier Med. Center, PA	81	0.8
Peninsula General, MD	150	1.4
Riddle Memorial, PA	32	0.3
Other Hospitals	265	2.5
Total	528	5.0
BIRTHING CENTER	4	0.0
HOME BIRTH	0	0.0
ENROUTE/OTHER	0	0.0
UNKNOWN	13	0.1
TOTAL	545	5.1
TOTAL	10,593	100.0

<https://dhss.delaware.gov/dhss/dph/hp/files/lb18.pdf>

