



MONTANA UNIVERSITY SYSTEM
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

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August 13, 2019

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RECEIVED
August 14, 2019
LEGISLATIVE AUDIT DIV.

Madam Chair and Members of the Legislative Audit Committee,

At the June 25th meeting of the Legislative Audit Committee, the following question was asked, “Why isn’t Montana’s 529 College Savings Plan invested with the Montana Board of Investments?” The following paragraphs provide a brief description of the nature of the 529 College Savings Plan, as well as a definitive answer to the question.

Achieve Montana (Plan) is Montana’s college savings plan established under Section 529 of the Internal Revenue Code. The Plan issues municipal fund securities to individual investors in the form of interests in the Plan. The Plan is structured much like a defined contribution plan where individual investors are offered a choice of investment options designed to meet their college savings goals. The Board of Regents does not actively manage investments on behalf of investors. Rather, the Board approves the investment options for participants that are provided by a financial investment firm contracted by the Board.

The Plan is subject to federal regulatory requirements including the anti-fraud provisions of the federal securities laws and proposed rules under Section 529. Those federal requirements result in the need for particular expertise from service providers for the Plan. That expertise includes specialized portfolio construction, operations, recordkeeping and internal controls. The program manager or investment manager constructs and unitizes the portfolios offered by the Plan and builds a specialized and compliant recordkeeping platform to manage plan operations. Because of the need for highly specialized services, over 95% of the 529 plans across the country outsource these services. The few 529 plans that provide services in-house or through another state agency require, at a minimum 20-30 employees to provide the equivalent services for the plan and are still required to outsource many of the services needed to operate the plan.

After discussing this issue with the MT Board of Investments we have found that the level of investments by individuals in 529 plans is not part of their typical business model, however they do have expertise in portfolio construction and asset allocation which are both major components of 529 Plan management. We will continue to pursue discussions and exploration with BOI in an effort to ensure Montana’s 529 is maximizing in-state resources.

Sincerely,

A handwritten signature in black ink, appearing to read "Clayton T. Christian".

Clayton T. Christian
Commissioner of Higher Education