Montana Family Education Savings Program  
August 19, 2008  
GSL Conference Room - Helena, MT  
9:00 am – 12:00 pm

In Attendance:
Board members and public: Jon Satre (Chair), Becky Gratsinger (RV Kuhns & Assoc), Dan Davenport (College Savings Bank, CSB)
GSL/OCHE Staff: Mick Robinson, Bruce Marks, Robin Graham, Sue Mohr, Sheila Newlun
On phone: Paul Christofferson (Board member), Cathy Swift (Office of the Commissioner of Higher Education, OCHE), Lynne Ward (Utah Educational Savings Program, UESP)

1. Introductions:
Intros were done. Jon led an overview of the Agenda. Cathy and Paul joined the meeting on speakerphone after Becky’s presentation. Once there was a quorum Todd Motioned: to approve the minutes from the last meeting, Paul seconded. Vote: all in favor, none-opposed.

2. RV Kuhns & Associates presentation by Becky Gratsinger (see powerpoint handouts):
- Total costs are important and sometimes hard to compare. It is very critical to make sure investors are making money after the net of fees.
- The goal is to look for a steady performer, which may not necessarily be the best performing within a given year.
- A good array of options are very important, so the investors can choose what works best for their situation.
- Pacific funds tend to be in the Risk-based category. It may be more appropriate to have an Age-based mix to help ensure the investment would have more ability to grow, as a long term investment.
- Typical rate of return for their investments; 5% bonds, 8% stock
- Most people do not take enough risk when investing for their children, they tend to use more stable funds as though they are investing for themselves.
- Basic rule of thumb to determine what mix an investor might want; for the moderate-risk investor, subtract their age from 100, that determines the percentage that should be invested in Stock. The remaining amount would be based in Bonds.
- It is important to have a good mix of Active and Index choices. Specifically for a 529 program, her first choice would be Target-dated funds, made up of a mostly Index funds.
- It is also a good idea to have a mix between the different families of funds. (ex…Vanguard, Fidelity, and American) to take advantage of the strengths of each company.
- Becky will email the pdf of slide #17, for easier viewing.
- Jon – mentioned that she has reinforced the thoughts of the Committee, that we are seeking low costs, and more choices for (Montana Family Education Saving Program) MFESP investors.
- Jon – voiced his concern that last time we went out for an RFP, we only had 2 bidders. Becky’s firm hasn’t done vendor searches for 529 plans, but based on the size, it could be attractive to some.
- Bruce – most of the money currently invested in the program would stay with the current Program Manager, or there would be surrendering fees.
- Becky – in that case, it may not be as attractive. The RFP would have to be very specific, maybe we could attain more investment options, and maintain our current Program Manager.
- Bruce – it sounds like the costs related to switching, may not make it competitive.
- Becky – an analysis should be conducted to figure this out. Also be sure we find out the surrendering fees from any new vendors. When a vendor gives the Fund recommendation, also ask to see the history of ALL their funds, and be sure the contract language states that other investment option could be chosen at a later date.
- Todd and Jon – great presentation with lots of good information.

3. Partnering with UESP (white paper handout):
- Paul and Cathy joined the meeting via speakerphone.
- Lynne Ward is also on speaker phone, the Director of UESP. UESP is a state agency (non-profit) so they can keep their costs lower than other programs. They currently offer 9 investment options, with plans to add a couple more soon. Primarily Vanguard funds, 5 are age-based, 4 are static. UESP does the record keeping of all transactions, sends out 1099’s, statements, etc… Every 3 years, an investors funds are moved to a higher
mix of bonds, compared to stocks for added stability. They offer lots of online services, and do some marketing in-state.

- Lynne – mentioned a study showing that too many options, actually makes it harder for investors, she will email it to Sue. Lynne – She met with her board, and they agreed to work with Montana, and start working toward a contract for a partnership. They read the requirements of the prospective manager, and believe they can meet them all.
- Cathy – can start working on a contract, to be finalized after the Board of Regents (BOR) approves.
- Cathy – has looked into the details, it appears that a partnership could be formed, without changing state law or the BOR policy. Vanguard is already registered in Montana, but not yet licensed. The Department of Revenue and the Secretary of State are also involved.
- Robin and Sue – are working to find out what the reporting requirements will be.
- It will still need to be determined how CSB and UESP will work together, links from websites etc…
- Initially there would not be any marketing dollars dedicated to this, investors would seek it out online. (UESP 92% are not Utah residents)
- UESP would be willing to share their marketing products for MFESP to rebrand and distribute, including printed materials and commercials.
- Shooting for a start date of November 2008
- A Salt Lake reporter wants to do a story on this potential partnership, the Governor’s office should be alerted, so they are not caught unaware.

**Motion by Todd:** The Oversight Committee recommends that the Board of Regents authorize the Commissioner to enter into a mutual agreement with the state of Utah’s Utah Educational Savings Program (UESP) to allow Montana residents to participate in UESP investments as part of the Montana Family Education Savings Program (MFESP) allowing a Montana state tax deduction for contribution to a UESP program.

Paul seconded.

**Discussion:** nothing further

**Public Comment:** none

**Vote:** all in favor, none opposed

**4. CSB ownership:**

- Dan – the potential sale of CSB has not gone through, and for now it is in a holding pattern due to the Student Loan lending market. The bank may still entertain these discussions at a later date, but they are no longer in negotiations at this time.
- Discussion – wouldn’t the agreements between CSB and Pacific Life continue even if the bank is sold? No one knows for sure how formal those agreements are. Sue and Dan will continue to research this, in case the potential sale reemerges.

**5. Next Steps:**

- Due to the size of the UESP partnership project, the Program Manager RFP will be deferred to a later date. All agreed the RFP needs to be well thought out and “done right” in order to get the best responses possible.
- The option of a consultant to help produce the RFP is still a good idea, however, it could be very expensive. It will have to be determined if MFESP could be granted a larger spending authority starting July 1 2009. Mick would need to bring it up at a budget meeting of the University System.
- Robin and Sue – it will also have to be determined if the program can maintain the revenue it has currently (due to Arizona investor migration), if it doesn’t produce enough of its own funds, then we would have to ask for General Fund, and that would be much harder to obtain.
- Jon – will talk to Cliff Sheets to get an estimate of how much a consultant might cost. Most think it would be very expensive, upwards of $50,000.
- Mick – possibly the consultation could be limited as more of a guide about what pieces we need to make sure we include in the RFP, then we could morph it into the State form.
- It is also possible that at the end of next year, we may still have some appropriation to spend, possibly that could cover some consultation. (smaller amount $5,000-$10,000K)
- Jon – current priorities of the Oversight Committee;
  1. Pursue UESP partnership and details
  2. Keep the RFP on the back burner (for now)
  3. Figure out where to obtain money for a consultant
  4. Go from there

Todd and Paul agreed.
6. **CSB and Pacific Life monitoring visits (see handouts of reports):**

- Annual reports for both are included in the packets.
- Sue and Robin visited CSB, very impressed with them and their upcoming online options.
- Sue visited Pacific Life visit went very well, they are talking about an aged-based option, will find out more soon.
- Dan will provide a final marketing budget to Sue, she will share it with the Committee members.

Todd, Jon and Paul – good job to everyone, for their creativity and hard work

**Paul Motion:** to adjourn
Todd seconded

**Vote:** All for, none opposed

**Adjourned:** 11:51 p.m.