Montana Family Education Savings Program (MFESP)
March 16, 2010
GSL Conference Room 102A - Helena, MT
1:00 pm – 4:00 pm

In Attendance:
Board members in person: Jon Satre (Chair), John Driscoll, Lynne Egan, Paul Christofferson, Todd Buchanan (on phone)
Public: Dan Davenport with College Savings Bank (CSB), Mary Anne Busse with Great Disclosure (on phone)
GSL/OCHE Staff: Bruce Marks, Mick Robinson, Robin Graham, Amy Berry, Sheila Newlun

1. Welcome and Introduction of Mary Anne Busse:
Jon Satre – Call to order and welcome to all
Jon Satre Motioned: to approve the minutes from the 1/13/10 meeting, Lynne Egan seconded.
Vote: all in favor, none-opposed.

Amy introduced the new consultant, Mary Anne Busse. Mary Anne is contracted to help monitor and make recommendations for the mapping of investments from Pacific Life to Vanguard. Her goals are to make sure the new products are in best interest of account holders, to help create, suggest and monitor good communication strategies along with CSB, to confirm that all the steps are taken in a timely fashion, and to analyze the entire process to avoid any unintended consequences. The length of her contract states that she is available until November, however, if the transition process takes longer then this date she is flexible.

2. College Savings Bank and Vanguard updates: Dan presented these updates.
   - In January, steps were taken to negotiate with Vanguard and UPromise. The CSB Board has approved working with Vanguard, the legal dept is now looking over the Vanguard contract. The UPromise contract is due to Dan next week. Both contracts should be completed by the end of March.
   - November was the original target date for the final transition, but CSB is now hoping to transition in September. This offers a couple benefits; investors are not in a “holding pattern” as long, and it is not so close to year-end.
   - UPromise turned out to be more attractive than PNC (they were an option discussed at the last meeting). UPromise uses a percentage of assets charge, whereas PNC has a “fixed charge” regardless of assets in the plan. The UPromise option has less risk to the CSB, which ultimately results in a lower cost to investors. Mary Anne has also worked with UPromise, they have extensive experience and streamlined customer service because this is all they do, they really are the experts (located in Boston). UPromise also has other added benefits; they offer a rewards program – investors can register their debit and grocery cards and for every dollar spent, the investor gets credits towards college savings, their credits can then be automatically rolled into a Savings account once it hits a set dollar amount. Anyone across the country can sign up, this program is a great awareness builder and is good to market around. They also offer the UGift program, so family and friends can easily contribute to college savings accounts.
   - The term “mapping” means; compiling the investments that are currently in the plan, determine which ones need to move, by when, and to where.

3. Action Item: Pacific Life Funds update and mapping of funds scheduled to be liquidated in July 2010:
   - Dan – Pacific Life used to offer 13 individual investment funds, but they decided to stop allowing new deposits to these funds about 5 years ago. They did allow current investors in those funds to keep and to add to those accounts. Pacific Life has now decided to liquidate these funds in July 2010. This will affect between 900 and 1000 investors (approx. $9mil). This committee needs to recommend placement of these funds, and have it approved by the Board of Regents by July 2, or all of these account holders would suffer an unqualified move.
   - Mary Anne presented a slideshow of 3 options for mapping of these funds:
     a. First option – is the most desirable. Move directly into Vanguard. This would be a one-step transition that would help limit investor confusion. Dan is working with Pacific Life to release sample accounts to UPromise for conversion testing. Ultimately they will need to convert all transaction history in each account, and include the mapping data. Based on timing, this option is very unlikely, but worth pursuing if at all possible. Dan did ask Pacific Life to push the liquidation date back, but they declined. He then asked UPromise and Vanguard if they could transition earlier, they didn’t say no, but do need to see the accounts from Pacific Life to see how quickly they could make the conversion.
     b. Second option – is the most viable. “Park” these investors in the CSB savings account until the conversion this fall. Ultimately they would be mapped based on their original investment with PL into
comparable Vanguard funds. The move from Pacific Life to CSB is not counted as a once-per-year change if directed by the Board of Regents (BOR), and the move from CSB into Vanguard isn’t either, as long as it is also dictated by the BOR. This would be the default, if an investor wants to move to another Pacific Fund for example, this can still be done. The goal would be to have them “parked” for the shortest amount of time as possible.

c. Third option – is the least desirable. Mapping them directly into Pacific Life’s current options, and then mapping them into Vanguard in September. This option is very cumbersome, it would create lots of confusion, there would be greater opportunities for errors in the conversion processes, and it would require additional cooperation from Pacific Life. Pacific Life has already said that due to time constraints and the complexity of this type of transition, this is not an option they are willing to participate in.

- Communication plan – regardless of which option is chosen the bank has planned an aggressive communication strategy.
  a. The first letter to investors was sent in January explaining that on July 2nd their investments will be liquidated, CSB plans to send 2 more letters before July. Then the CSB call center will personally call each of the 900+ accounts to explain options and answer questions. Many investors may not understand their options, the call center is a staff of 5, they will not give investment advice but are very knowledgeable and well-trained. If the callers have questions about specific investments options, they will advise them to talk to a financial advisor. Dan has asked Pacific Life to provide us with the split between Montana vs. out-of-state accounts and Broker vs. individual accounts, he will then share this with the committee.
  b. Dan gets weekly reports from his call center, he can share this with this committee throughout the process
  c. The call center is planning to make 2 phone calls to each investor

- Mary Anne recommends continuing to explore the viability of a direct transfer to Vanguard, if not viable, then the accounts would automatically map into the CSB savings account
- Want to be able to have a decision regarding the first option, so it can be presented to BOR if available, if not then would go with second option. Will know next week if this can happen, if they can’t decide by then there won’t be enough time to pursue this option (would also have to get confidentially agreements between the 3 to be able to share information)
- This committee needs to make a recommendation to the BOR, will probably have the call around the 29th?

John Driscoll Motioned: to direct the Board of Regents to transfer the frozen Pacific Life funds directly to Vanguard, if this plan proves unviable by Friday, March 26th 2010, then the accounts would transfer into the CSB savings account. Lynne Egan seconded.

Discussion: Todd confirmed the timeline of the events, and agreed this is the best direction to proceed

Vote: all in favor, none opposed

4. Pacific Life funds update and mapping of remaining funds to be transferred by the Trustee in November (or September) 2010:

- It would be optimal to do the transfer in September – they are parked for a shorter period of time, and it is a better time of year for investors to focus on it. Mary Anne and Dan will make their recommendations to this committee before the BOR presentation at the end of May. At this time, they will have more details (like the age of investors in certain funds, etc). If the transfer is approved in May, it would give UPromise plenty of time to conduct the conversions by September. They are still researching and developing options, they want to devote plenty of time to make sure it is done right.
  a. Communication plan
    - 2 written communications to all account holders, mid-July and another 30 days out from the conversion. These letters will give investors all the details of where their accounts will map to.
    - Will probably not be able to call all of these accounts directly, but will have phone number available for them to call with questions (the CSB call center).
    - Brokers also have a specific channel with the bank for open communication.
    - What feedback has CSB gotten since the letters went out? They have received many more calls than normal, most are positive, excited about the possibility of Vanguard. The website also has a specific page that addresses this transition. They have had very few questions so far about what they need to do, most just want to be sure that they will be notified as the transition proceeds.
  b. Mapping to be presented to the Board of Regents (BOR) at their May meeting
    - Generally the mapping investment to investment is what the BOR will be approving. The investors will not have to do anything, but they can make changes other than their default choice (as discussed previously). The investors will not have to fill out any forms if they move to the funds that have been mapped for them.
No action from this committee is necessary right now. Amy will set up a meeting the end of April, beginning of May for these discussions.

Anticipated date when contracts will be signed, probably by mid-April, however, products will not be up and running until mid-Sept. It was conveyed to BOR that individuals would be able to purchase the funds before then, but this is not the case, the BOR will need to be informed of this clarification.

5. Continued 529 Pre-paid discussion:

- Basically, plans with conservative investment goals, strong investment advisors, and those that have avoided state interference have been successful.
- Many plans are in a lot of trouble. Mary Anne has lots of experience with different plans, what has been working? what hasn’t? Most successful plans are operated by independent State agencies OH, UT, VA, MD, WA, FL and MI. The plans that have struggled and have closed, ran into political issues, or have been proven to be too aggressive with their investments. VA, CO, TX, and AL have all shut down.
- WV was underfunded, the legislature shut them down to new investments, then failed
- The new TX plan has only been running for 2 years (the original plan failed) it is administered thru Oppenheimer investments. This adds cost, state agencies can usually do this more efficiently (in most cases as a separate new agency, not necessarily affiliated to BOR, or Higher ed. etc). They staff from 10-20 people, and operate out of 2% management fee that is built into the premium, total assets average from $100 mil-$750 mil, FL and MI have close to $1Bil. TX universities bear the risk, they make up the difference between actual cost, and actual amount saved by the student.
- Pre-paid plans are only in 18 states. For every one dollar in a pre-paid, there are 10 in a regular 529 account.
- A lot of talk in other states to develop, but not a lot of action because markets are tough. A plan needs to have some kind of guaranty. FL and TX put the burden on their Universities, many states have a legislative guaranty. Would it require upfront loading? Wouldn’t want to go more than 20% over current tuition costs to make it appealing to investors, there are lots a variables to consider, this is what makes is so difficult. Are they limited to state universities? Many allow students to attend any school, if they go out-of-state they are weighted as an average for the state, toward the out-of-state expense, the investor makes up the difference.
- Mary Anne can further research details of a couple plans that are working well, to share with this group in the future.
- John commented the report from Amy regarding the Alaska plan was very insightful. Residents can dedicate up to ½ their Alaska resident payment toward their plan (Montana doesn’t have this). Couple of other interesting things; many people could check a box that they would want to contribute to an account, but the application process was too difficult, so Alaska set it up making it easier for them to contribute. Maybe we could build off of Alaska’s experience; make it easier for people to get into a fund without having to do much, can we review our application process? What can we do to give this opportunity to more people? Maybe use the UGift program. Mary Anne – follow-through is always the most difficult challenge, using an online process is becoming a very popular avenue. Mary Anne, Amy and Dan will all be reviewing these processes to streamline and come up with new ideas.
- Jon has noticed lots of negative press lately toward 529 plans. Mary Anne confirmed this, stories are coming from variety of perspectives. The problems in AL with prepaid issues, also 6 states in Oppenheimer Core Bond Fund found they were not investing within the terms of its prospectus. Investors lost lots of money, OH is suing Oppenheimer that situation is creating lots of negative focus. The College Savings Network is trying to get out the press that many of these articles are incorrect, and are scaring people away with incorrect information.

6. Next meeting:

- End of April, first part of May – Amy will circulate to find a good day for everyone

Adjourned 2:55