

UNIQUE COLLEGE INVESTING PLAN
Minutes of the Meeting of October 28, 2002

The forty-third meeting of the NH College Savings Plan Advisory Commission was called to order at 10:00 am by Sylvia Larsen, Chairman. The meeting was held at the offices of the New Hampshire Higher Education Assistance Foundation. Present were:

Michael Cryans	Public Member from Hanover
Linda Hodgdon	Budget Director representing the Governor
Sylvia Larsen	Senator from Concord
Ingrid Lemaire	Senior Director, Research and State Relations, NH Higher Education Assistance Foundation
Michael Ablowich	Commissioner of the Treasury
Martha Gooze	Public Member from Durham
Ann Weddleton	Grants Coordinator, representing the Community Technical College System
Edward MacKay	Vice Chancellor, representing the University System of New Hampshire
Richard Gustafson	President, Southern New Hampshire University, representing the College and University Council

Absent were:

Father Jonathan DeFelice	President, Saint Anselm, representing the Post Secondary Education Commission
Alan Thulander	Representative from Francestown
Andrew Peterson	Representative from Peterborough
Edward Gordon	Senator from Bristol

Also present were Ed Nigro, Eric Nottonson, David Pearlman, Meredith Mell and Mary Connors from Fidelity.

On motion of Mr. MacKay seconded by Ms. Gooze, the minutes of the previous meeting of July 29th, 2002 were approved.

The first order of business was to discuss a request from Judy Knapp of the Postsecondary Education Commission for an additional scholarship. Ms. Knapp explained that a former recipient of a scholarship from the Higher Education Savings Plan Endowment decided at the last moment to return to school. The student was not considered for a scholarship when the recipient list was compiled in August. The student

requested an additional scholarship since she was returning and was a prior recipient. There was some discussion about how the rules for the eligibility treated students who had large gaps in attendance at schools and also whether the rules addressed the question of capping a student's awards for no more than 4 years of school. A motion was made by Mr. MacKay to award an additional \$1,000 scholarship to the recipient, which was seconded by Ms. Lemaire.

Mr. Nigro reviewed the Advisor program business results through September 2002. On a year over year basis sales have increased, however due to the volatile market conditions sales have declined on a month over month basis. Despite the many options available to customers, cash flows to the FA 529 Plan are predominately targeted to the age based portfolios. Mr. Nigro discussed that fact that his group within Fidelity was not impacted by the recent staffing reductions at the firm.

Mr. Nigro discussed a proposal to change the pricing structure of the FA 529 Plan. He described the proposal to change the current pricing of the A, B and C units of the eight age-based and two static portfolios of the Fidelity Advisor 529 Plan. The proposal is in response to marketplace changes over the past ten months. Mr. Nigro compared the pricing structure of the FA 529 Plan with other similar plans. The FA 529 Plan fees are lower than other plans in the advisor sold market, which makes this plan less attractive to those investment professionals that sell this product. Since this product relies on financial intermediaries to sell the product as opposed to the UNIQUE plan which is sold direct to customers by Fidelity, financial intermediaries can be very price sensitive. Mr. Nigro estimated that by keeping our fees lower than our competitors that we might lose up to one third of our estimated sales.

Mr. Nigro proposed that the pricing for the Advisor product be changed for new customers. The pricing would be set at levels consistent with the pricing used by Fidelity in the intermediary-sold mutual fund environment, which is very similar to that used by other fund companies selling in the intermediary channel. Mr. Nigro presented specific pricing for each class of units by portfolio type. Customers who purchase under participation agreements before the date the new pricing goes into effect would continue to buy units under the original pricing structure. Mr. Mackay made a motion to accept Mr. Nigro proposal and allow the Commissioner of the Treasury to enter into such amendments to the Investment Management Agreement as necessary to authorize this change in the pricing structure. The motion was seconded by Mr. Gustafson. The motion was approved unanimously.

Mr. Nigro then discussed a proposal to rename the "Class C" age based pools to "Class D". In the financial intermediary marketplace there is a standard pricing associated with Class C shares. The age based portfolios that are designated as Class C shares have a non-standard pricing structure. This proposal is to establish a new Class D share, which will essentially split out the age, based portfolios into a new class. There will be no change in fees to customers. Ms. Gooze made a motion to accept Mr. Nigro's suggestion which was seconded by Mr. Cyrans. The motion was approved unanimously.

Mr. Nigro proposed to introduce a new fixed income portfolio as the 11th individual fund option under FA 529. He proposed adding Fidelity's new "Inflation Protected Bond Fund" as a new individual portfolio with A, B, C and P unit pricing. Mr. Nigro explained that no other provider in the marketplace offers such a product. Ms. Lemaire made a motion to include the Inflation Protected Bond Fund as a single fund option under the FA 529 Plan which was seconded by Mr. MacKay. The motion was approved unanimously.

Mr. Nigro proposed adding a new feature to FA 529 Plan accounts. His proposal is to add a new dollar cost averaging feature to the FA 529 plan. This feature would allow shareholders to put a lump sum purchase into the FA 529 plan money fund and then automatically move a pre-determined dollar amount into more aggressive portfolios over a period of time. There was some discussion about whether this type of account feature was consistent with IRS rules for 529 Plans. Mr. Pearlman indicated that in his opinion that it was since the customer was not making multiple investment decisions but simply making one decision at the beginning of a time period to make multiple predetermined reallocations between funds.

Mr. Nottonson presented an overview of the UNIQUE Plan business results for the past quarter. As of September 30, 2002, UNIQUE had over \$1 billion under management and over 161,000 accounts. Cash inflows to the UNIQUE Plan are predominantly dedicated to existing accounts although new accounts continue to be opened although at a slower pace than in prior periods. Mr. Nottonson pointed out that new cash flows to the "Conservative Portfolio" were heavy in September, which is a reflection of the volatile market conditions. Mr. Nottonson explained that within 2 weeks customers would be able to open UNIQUE Plan accounts on-line. Mr. Nottonson also discussed the proposal to offer single fund accounts. Demand from customers has waned which has made offering this investment option not as attractive as it was in previous periods. At the January meeting Mr. Nottonson will make a proposal for single fund accounts that could be acted on by the Commission but not launched until investor demand was sufficient to make such a product attractive.

Mr. Nottonson also handed out a summary of management, penalty and advisor plan fees paid to the state. Mr. Ablowich also discussed the status of the endowment and agreed to provide to the Commission, at the next meeting, a reconciliation of the fees received to date and the current value of the endowment fund. The total fees since inception transferred to the state was in excess of \$2.8 million.

Mr. Nottonson discussed the current relationship between Upromise and Fidelity Investments. The contractual relationship between Upromise and Fidelity (and the UNIQUE Plan) is scheduled to end shortly (**timeframe?**). Mr. Nottonson presented a proposal from MBNA to partner with them to offer a credit card that would allow for "cash back" on purchases to go directly to a Fidelity managed 529 Plan. Mr. Nottonson described briefly the competitive landscape for credit card and 529 Plan partnerships.

The next item on the agenda was a discussion about the contribution limit. Each fall a contribution limit is to be set by the commission. This contribution limit is based on the annual cost of attending the most expensive school in New Hampshire (including tuition, room and board, and fees) multiplied by seven. The figure becomes effective the next calendar year (on January 1st). The current costs of attending Dartmouth College, the most expensive school in New Hampshire, is \$36,098 (based on a survey by the New Hampshire College and University Council). This figure multiplied by 7 equals over \$252,686. Mr. Nottonson suggested that we accept this figure, as calculated, but round it down to 250,000. His recommendation was based on Fidelity's marketing data, which suggested that customers could be confused about the contribution limits on the various plans that Fidelity offers. \$250,000 is the same figure set by Delaware and Massachusetts which also sponsor Fidelity managed 529 Plans. Making the contribution limit consistent would limit customer confusion over the limit. Ms. Gooze motioned to accept this recommendation. Mr. Cryans seconded the motion. The motion was approved unanimously.

Mr. Ablowich presented a draft piece of legislation for the commission to consider endorsing in the next legislative session. The proposed bill would amend the New Hampshire statute to allow for residents of the state who participate in qualified 529 plans other than New Hampshire's to receive the same interest and dividends tax benefit. Under current law, residents who participate in another state's 529 Plan other than New Hampshire's are liable to pay the state interest and dividends tax on any earnings. After briefly discussing the proposed legislation Mr. Gustafson made a motion that we support the legislation and ask Senator Larsen to sponsor it. Ms. Lemaire seconded the motion. The motion was approved unanimously.

The meeting adjourned at 1:15 PM. The next meeting will be February 3, 2003 at 10AM preceded by an Investment Committee meeting at 9AM. The meeting will take place at the New Hampshire Higher Education Assistance Foundation. The Commission also scheduled a meeting for 28 April, 2003 to review the 1st Quarter, 2003 business results.