

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of January 22, 2007

The sixty-second meeting of the NH College Savings Plan Advisory Commission (Commission), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:05 a.m. by Mr. MacKay, Vice Chair. Present at the meeting were:

Harold Janeway	State Senator
Maggie Hassan	State Senator
Russell Ingram	State Representative
Ingrid Lemaire	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Ann Weddleton	Director of System Research and Grants, representing the Community Technical College System
Edward MacKay	Vice Chancellor, representing the University System of New Hampshire
Thomas Horgan	Executive Director, New Hampshire College and University Council
Martha Gooze	Public Member
Catherine Provencher	State Treasurer
<u>Absent were:</u>	
Michael Cryans	Public Member
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Linda Hodgdon	Representative from the Office of the Governor

Also present were David Pearlman, Jeff Troutman, Joe Ciccariello, Heidi Siegal and Mary Connors from Fidelity, Judy Knapp from Postsecondary Education Commission, Dick Gustafson, former Commission member, and Brad Jacobson, Deputy State Treasurer. The Commission has not received the appointment of the second House representative to the Commission.

The minutes of the meeting of October 23, 2006 were reviewed. The minutes were motioned for approval by Ms. Lemaire and seconded by Ms. Weddleton. The motion passed unanimously.

There was no old business to discuss.

Report of Investment Sub-Committee

Mr. MacKay provided a report from the Investment Subcommittee which met just prior to the Advisory Commission meeting. While the performance of both the UNIQUE

and the Advisory plans was positive for the year 2006, many of the individual portfolios were below the respective portfolio benchmarks. Fidelity is currently looking at ways to improve their performance to meet and exceed the benchmarks.

New Hampshire's 529 Program Overview

Mr. Pearlman and Ms. Connors updated the Advisory Commission on federal and state regulatory and legal issues. On the federal level the Municipal Securities Rulemaking Board (MSRB) recently issued amendments to Rule G-21 with the result of making TV & radio advertising less cumbersome for 529 plans by easing disclosure requirements. Future clarification of the MSRB's rulemaking is in progress and SEC approval is targeted at February 1, 2007.

With the passing of the Pension Protection Act, the 2010 sunset provision of IRS code, providing tax advantages for 529 savings accounts, was eliminated. These tax provisions are now permanent. The U. S. Treasury Department, however, has yet to issue their final regulations and Fidelity and others in the 529 Plan industry are working with the Treasury to resolve certain technical issues to prevent any negative impacts on 529 plans.

Certain amendments to the state's College Savings Plan statute (RSA 195-H) are being proposed to the Legislature in this current session. The primary intent of the changes is to eliminate the statutory requirement to continually update the Commission's administrative rules for ongoing federal initiatives and Plan changes to stay competitive in the marketplace. The proposed amendments delegate this responsibility to the Commission. Bill Ardinger of Rath Young & Pignatilli in Concord has drafted these changes and Senator Estabrook is primary sponsor. Ms. Gooze moved and Senator Janeway seconded a motion that: The Advisory Commission endorse and support the proposed Legislative changes. The motion passed unanimously. Treasury will track the proposed legislation and inform the Commission of its progress from time-to-time.

Mr. Ciccariello provided an overview of the 529 Plan marketplace. New Hampshire continues to maintain its position as the third leading sponsor of section 529 college savings plans with 7.6% market share of the 529 industry and \$6.7 billion in assets (UNIQUE and Advisor Plans combined). Net assets of the New Hampshire plans increased 31% in 2006 and the average account balance of approximately \$15,000 places the New Hampshire plans in the top 25% of all states' plans. The credit card rebate program also remains successful with approximately \$6 million in rebates generated since being implemented in 2003.

Besides Fidelity, other private sector 529 program managers are also introducing index funds and lowering fees to become more competitive. Several states are reviewing relationships with and changing their program managers while several program managers are not seeking renewal of plans.

UNIQUE Plan Review

Ms. Siegal reviewed the business results of the UNIQUE retail plan with the Commission. At the end of 2006 the UNIQUE Plan had market-value assets of approximately \$4.6 billion and total participants of over 325,000. Fidelity has established goals for 2007 which include 39,000 new accounts and net sales of \$612 million. Expectations for growth in the UNIQUE plan 2007 are 23%. In addition to other information typically provided to the Commission, Fidelity will begin providing status toward achieving these goals.

Ms. Siegal then presented highlights of the UNIQUE portfolios in the month of December, following the November launch of the new investment products, which included the following information:

1. Custom portfolios were 30% of new sales in December
2. \$10.4 million of the \$66.6 million of December sales were in the new index funds.

Starting in 2007 performance in the new index funds will be presented to the Commission. Marketing and distribution plans for 2007 were reviewed. With respect to technology upgrades and improvements, Fidelity invested \$5 million in 2006 and intends to expend an additional \$1million in 2007.

Fidelity Advisor 529 Plan Review

Mr. Troutman reviewed with the Commission the business results for calendar year 2006 for the FA 529 Plan (Advisor Plan). At the end of the year the Advisor Plan had assets of over \$2.1 billion. The sale of new accounts was lower throughout 2006, as compared to 2005, and Fidelity is investigating why this happened and how to address the issues. The majority of asset flows into the Advisor Plan (69%) during the year were in age-based accounts. Account rollover activity flattened out in the last half of 2006, compared to 2005 and earlier in 2006 as was expected and previously discussed with the Commission. Many of the Advisor accounts were rolled over into UNIQUE accounts. Marketing and program activities for the 4th quarter were reviewed as were targets for 2007. Fidelity is targeting net sales at \$500 million in 2007 in the Advisor Plan

UNIQUE Annual Allocation Program Review

The UNIQUE Annual Allocation Program background information and the Program criteria decisions to be made by the Commission for 2007-08 school year awards were presented by Mr. MacKay. The decisions to be made include the:

1. Total amount of funds to be distributed,

2. Expected Family Contribution maximum amount (EFC) for student eligibility and,
3. Amount of each scholarship.

After a review of an analysis prepared by the Treasury, and significant discussion among the Commission members, the following motion was made by Representative Ingram and seconded by Senator Janeway: That the total amount of funds to be distributed to participating institutions from the NH Excellence in Higher Education Endowment Fund (Endowment Fund) would approximate but not exceed \$800,000 for the 2007-08 school. Each scholarship would be in the amount of \$1,500 and the EFC would not exceed \$0. The motion passed unanimously. Furthermore, Treasury was delegated the responsibility to make the appropriate "rounding" decisions in calculating the total amount to disburse to each institution.

Mr. MacKay recapped previous discussions, held with the financial aid representatives of the participating institutions and among Commission members, that the Commission would consider, but not guarantee, reimbursement to Institutions whose total distribution of UNIQUE Annual Allocation scholarships to eligible students exceeded the funds provided initially by the Commission for the 2006-07 school year (\$400,000). The institutions were informed that their requests for reimbursement, if any, were to be filed with the Commission prior to March 1, 2007. After some discussion a motion was made by Senator Janeway, and seconded by Mr. Horgan, that: The Treasurer, as Trustee, be delegated the responsibility to distribute additional funds, as needed and requested, from the NH Excellence in Higher Education Endowment Fund to reimburse any participating institution that during the current school year (2006-07) distributed UNIQUE Annual Allocation Program awards to eligible students in excess of the amount initially provided by the Commission last July and, further, that the Treasurer submit a report on the supplemental distributions to the Commission. The motion passed unanimously.

During the preceding discussion it was agreed that Ms. Knapp would provide the Commission, on or before the January 2008 meeting, with an analysis of the impact on the number of eligible students if the EFC was increased from its current maximum of \$0 to other alternative maximum amounts. It was further discussed, as one alternative, that the EFC potentially remain at \$0 for the initial award and then raised for previous award recipients if they stay in school. It was also agreed that Mr. Jacobson would provide the Commission with an alternative analysis, as described by Senator Janeway, to compare to the current Commission methodology of using 5% of the rolling 12 quarter average fund balance. This analysis has been utilized to evaluate the reasonableness of the total Annual Allocation Program funds to disburse in the upcoming school year.

UNIQUE Endowment Allocation Program Review

Mr. MacKay provided background information on the UNIQUE Endowment Allocation Program and the methodology utilized to distribute 80% of the monthly fee (15 basis points annually) the state receives from Fidelity. Mr. Jacobson reported that Treasury had received Fall 2006 tuition and fee information and enrollment data from the Postsecondary Education Commission (PEC) to develop the payment template for the 2007-08 school year. The enrollment information had been revised from what had been received initially by PEC in the Fall due to a recent meeting with the institution's representatives to clarify how they should determine the number of New Hampshire students.

The only outstanding issue regarding the Endowment Program for the 2007-08 school year was whether the New Hampshire Institute of Art would receive their accreditation from the New England Association of Schools & Colleges, Inc. (NEASC) in order to be eligible to participate in the Endowment Program. Ms. Knapp reported that the NEASC had recently granted "candidacy" status to the NH Institute of Art but that candidacy was usually for a 3-year period. After some discussion the Commission determined that the current Administrative Rules require full accreditation rather than just candidacy status. Therefore, unless accreditation is granted, the NH Institute of Art would not be eligible to participate in the UNIQUE Endowment Allocation Program for the 2007-08 school year.

During the current school year it was discovered that the enrollment information provided to the state by the schools did not include the New Hampshire students enrolled at the Manchester campus of the University System of New Hampshire. After some discussion of the impacts of making a mid-year enrollment adjustment, it was moved by Senator Janeway and seconded by Mr. Horgan that: Effective immediately the current distributions from the New Hampshire Excellence in Higher Education Endowment Fund, under the UNIQUE Endowment Allocation Program, be adjusted to include the enrollment figures from the University of New Hampshire – Manchester, which were inadvertently omitted from the initial calculations and previous distributions. The motion passed unanimously. Further discussion clarified that the intent was to make the adjustment on a "going forward" basis and not make a retroactive adjustment to the monthly endowment disbursement.

Endowment Fund and Scholarship Update

Ms. Provencher briefly updated the Commission on the status of the endowment fund, including a comparison of actual costs to budget and an update on the Annual and Endowment Allocation Program disbursements through December 31, 2006. The fund balance approximates \$21,476,000. No administrative expenditures have been made to date but the external audit fees, estimated at \$125,000, should be disbursed in the near future.

Other Items

1. Election of Officers – It was moved by Ms. Gooze and seconded by Senator Janeway that: Mr. MacKay be elected as Chairperson of the Commission. The motion passed unanimously. At Mr. MacKay's request the election of a Vice Chair would be deferred until the next meeting.
2. Annual Audit Status – Ms. Provencher informed the Commission that PriceWaterhouseCoopers had finished their audit and would present the results at the next meeting.
3. Termination of Two Year Terms – several members of the Commission serve for two-year terms. Mr. Jacobson reminded the appropriate Commission members that many of their terms terminate during 2007 and that they need to obtain letters from their sponsoring organization for their ongoing participation.
4. New Member Training - Mr. Jacobson announced that the Treasury would coordinate background training to the new members of the Commission, at their earliest convenience, once the Speaker of the House of Representatives had appointed another representative to the Commission.
5. Financial Disclosure - Mr. Jacobson reminded the Commission Members to file their annual financial disclosure forms with the Secretary of State if they had not already done so. A recent decision of the Executive Branch Ethics Committee indicated that all Commission members were required to file the disclosure form.

The meeting adjourned at 12:15 P.M.

The next meeting is scheduled for May 7 starting at 10:00 to take place in Concord at the New Hampshire Higher Education Assistance Foundation. There will not be an Investment Subcommittee meeting preceding this meeting.