

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

The October 22, 2007 meeting of the New Hampshire College Savings Plan Advisory Commission (Advisory Commission), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:00 a.m. by Mr. MacKay, Advisory Commission Chair. Present at the meeting were:

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

Also present were Heidi Siegal, Joe Ciccariello, Jeff Troutman, David Pearlman, and Mary Connors from Fidelity, Amy Bourgault and Richard Gustafson, Community College System of NH, and Brad Jacobson, Deputy State Treasurer.

The minutes of the meeting of July 23, 2007 were reviewed. The minutes were motioned for approval by Ms. Dodge and seconded by Representative Ingram. The motion passed unanimously.

New Hampshire's 529 Program Overview

Mr. Ciccariello advised the Advisory Commission of a recent organizational change at Fidelity. Rather than several independent businesses, Fidelity is realigning into two primary businesses which will mirror its distribution channels. One function will focus on Fidelity's retail and individual business functions and the other will focus on its institutional business functions. It is not expected that there will be any negative impacts on Fidelity's 529 College

Savings Plan business nor are there any New Hampshire plan personnel changes anticipated as a result of these changes.

Ms. Siegal provided an overview of the 529 Plan market place as of the end of the third quarter 2007. New Hampshire continues to remain the third largest of all state plans, with a market share of 7.3%, following Virginia (22.9%) and Rhode Island (7.9%). The New Hampshire plan has experienced a slight decrease in market share (4%) in the last 12 months but the average account balances remain constant. Combined fund balances of the UNIQUE retail and advisor plans approximate \$7.8 billion and 535,000 accounts. Fidelity is continuing to review ways to increase market share and will continue to monitor and report to the Advisory Commission on these efforts. The primary retail competition for Fidelity is the same as in previous years – Vanguard Funds for the UNIQUE retail plan and American Funds and Vanguard for the UNIQUE Advisor 529 plan.

Mr. Pearlman next updated the Advisory Commission on state and federal regulatory and legal issues. The U.S. Treasury has not yet issued final regulations for the 529 Plan changes included in the Pension Protection Act, originally scheduled for late 2006. It is expected that Treasury regulations, which are intended to mitigate any abusive tax practices resulting from the 529 plans, will be released shortly. Industry discussions with Treasury are ongoing. Comment letters have been submitted by both the College Savings Plans Network and the College Savings Plan Foundation.

The President signed House Bill 2669 (College Cost Reduction Act of 2007) on September 27, 2007 which, among other things, includes provisions relating to the financial aid treatment of 529 accounts. The bill became effective October 1, 2007. One provision of this bill specifies that 529 accounts will now be considered an asset of the parent, for financial aid determination, regardless if the account is in the name of the parent or the dependent student. Accounts of independent students will still be considered as an asset of the student. This provision will become effective July 1, 2009.

Mr. Ciccariello reviewed the results of Fidelity's College Savings Indicator Study which is intended to be a national measure of parents' preparedness to pay for higher education and is to be used to raise the awareness of the importance of saving for college. The indicator represents the percentage of projected college costs that the typical family is on track to cover based on current and expected savings or, in other words, the total assets accumulated for college divided by the cost of college.

The survey, planned to be repeated annually, was directed at 2300 families nationwide (100 families in New Hampshire) and specifically looked at:

1. College funding expectations and attitudes
2. College savings behaviors and
3. Strategies to minimize costs and lessons learned.

The survey indicates that nationally, on average, families are projected to meet only 24% of future college costs with the remainder of the cost to be paid with college loans (students and

parents). Nationally, parents anticipate covering only 43% of the cost (37% in New Hampshire) and that 18% of the cost will be financed by student loans (29% in New Hampshire). One of the more positive trends over the last five years is that the beginning age of children when college savings begins has moved from 9 years old to 5 years old.

The results of this survey are intended to be rolled out in early November in the form of a national press release with state-specific fact sheets to be used locally.

Maximum Contribution Level

Annually, in October, the Advisory Commission reviews the maximum contribution level that can be made to a New Hampshire 529 plan participant. The calculation is based on seven times (4 years undergraduate and 3 years graduate) times the cost of attending the most expensive school in New Hampshire (Dartmouth). The calculation this year is \$318,000 (\$45,483 X 7). The current ceiling on contributions to the NH Plans established last year is \$300,000.

The average contribution ceiling of all states is \$285,000 with a high of \$368,600 (Pennsylvania) and a low, shared by eight states, of \$235,000. Other state plans managed by Fidelity are:

Arizona	\$318,000	California	\$320,000
Delaware	\$300,000	Massachusetts	\$300,000

A motion was moved by Mr. Horgan and seconded by Ms. Dodge that the maximum contribution to a New Hampshire 529 plan account be increased to \$318,000. After considerable discussion, the majority of Advisory Commission members voted in favor of the motion. The new contribution limit will go into effect with the upcoming revisions to the plans' offering documents.

UNIQUE Plan Review

Ms. Siegal & Mr. Ciccariello reviewed the overall business plans, goals and results of the UNIQUE direct retail plan. As of year-to-date September 30, 2007 the UNIQUE Plan had added over 26,000 new accounts or 92% of the year-to-date goal. Year-to-date net sales of \$421 million represents 97% of the year-to-date goal. On a year-to-year basis as of September 30, new accounts are down 2% compared to last year but net sales have increased 5%.

The Fidelity team is continuing to find ways to improve the UNIQUE plan. Enhancement initiatives underway include the:

1. Modifications to the underlying mutual funds in the portfolios to deliver performance consistency which was approved at the July Advisory Commission meeting. The

- migration to the new underlying funds began October 1 and should be completed by the end of December.
2. Launching of a 2027 portfolio for new babies born after 2007
 3. Aggregation of contribution limits on the statements for participants with both a UNIQUE retail account and an Advisor account.
 4. Several enhancements to opening and funding an account online.
 5. UNIQUE gift cards available by Christmas
 6. Fidelity booths at Manchester Monarchs and Fisher Cats games
 7. Fidelity employee learning sessions about college savings plans

Additional initiatives in which Fidelity is working with the State, reported by Mr. Jacobson, include providing a payroll deduction for state employees scheduled for the Spring of 2008, participation in a retiree fair for the National Guard in November and in a state employee benefits fair in the Spring of 2008.

Fidelity Advisor 529 Plan Review

Mr. Troutman reviewed the business results of the FA 529 Plan (Advisor Plan) through the end of September 2007. The Advisor Plan had assets with a market value of over \$2.6 billion. New accounts and net cash inflows were underperforming 2006 as of year-to-date September and are lower than planned. New accounts are 82% of 2006 and net cash inflows are 96% of 2006.

The number of account rollovers leaving Fidelity continues to be high relative to historical levels and when compared to inbound rollovers being processed by Fidelity. Up to the second quarter of 2007 more account rollovers were coming in to Fidelity than were going out. . Fidelity has determined through a questionnaire that customers leave the New Hampshire 529 Advisory Plan for the following reasons:

1. State tax benefits for using an in-state plan (54%)
2. Account expenses lower than Fidelity in other plans (19%)
3. Investment performance (14%)
4. Dissatisfaction with plan features (6%) and
5. Dissatisfaction with Investment Options (5%)

Mr. Troutman explained that such decisions are third-party financial advisor-directed and are not necessarily a participant decision. Fidelity is continuing to review ways to reverse this trend.

Marketing and program activities directed at participants and financial advisors is continuing with letters being sent to existing customers and welcome letters to new account holders, both encouraging systematic investments. The back-to-school direct mail and email campaign has been completed with 51,000 notifications being sent. Fidelity will be shifting their marketing strategy slightly in the upcoming year with more targeted campaigns using a variety of messages. A draft marketing plan for 2008 is currently being developed.

Mr. Troutman updated the Advisory Commission with Fidelity funds being provided to states not managed by Fidelity, to include in their 529 plans. A total with \$441 million in assets is currently invested in these accounts.

UNIQUE Allocation Program Reporting Compliance

Ms. Dodge presented a status on the required reporting due from institutions under the UNIQUE Annual Allocation Program and the UNIQUE Endowment Allocation Program. Program status reports due annually by October 15 have been submitted by all institutions to Postsecondary Education Commission. The Annual Program reporting relates to scholarships awarded in the prior fiscal year. The Endowment Program reporting requirements also relates to scholarships awarded in the prior fiscal year as well as information on the restricted endowment funds which each institution was required to establish. All institutions have complied with these reporting requirements.

A second report is due annually from institutions on November 1 with enrollment and tuition information which will be presented to the Advisory Commission at the following January meeting to establish the allocations for the Annual and Endowment Programs to each institution for next year. Five institutions have already reported this information.

Reimbursement of UNIQUE Annual Allocation Award Scholarships

Ms. Toomey reported that the Community College System will likely be able to make Annual Allocation Awards of approximately \$300,000 which will be approximately \$125,000 more than their initial allocation for fiscal 2008. Typically, the System has a much higher percentage of financially needy New Hampshire students compared to its total enrollment than the other institutions. It is the practice of the Commission to review and approve requests for Annual Allocation Program reimbursements each year for those institutions who award more money in scholarships than was initially allocated to them.

Ms. Toomey moved that the Commission authorize reimbursement to institutions which apply for reimbursement of funds for awarded UNIQUE Annual Allocation Program scholarships, the total of which exceeds the initial distribution to them in fiscal 2008. The motion was seconded by Representative Ingram and approved unanimously. Treasury will notify all institutions engaged in the Annual Allocation Program of this decision of the Advisory Commission. The deadline for reimbursement requests will remain the same as last year (March 1) and Treasury is authorized to follow last year's practice of making the reimbursements upon the request of the institutions and reporting those results to the Advisory Commission.

Service Award Presentation

Senator Sylvia Larsen joined the meeting to receive an award for her long service and valuable contribution to the New Hampshire College Savings Plan. Senator Larsen served as a member and Chair of the Advisory Commission since its inception through the end of 2006.

Endowment Fund and Scholarship Update

Ms. Provencher presented a brief update of the Endowment Trust Fund as of September 30, 2007. The fund balance of the Endowment Trust, at market value, was \$25.2 million. For the first quarter of the fiscal year, actual disbursements of \$3,048,758 for scholarships under the UNIQUE Annual and Endowment Allocation Programs exceeded receipt of fees totaling \$2,818,655 due primarily to the one-time annual payment of the UNIQUE Annual Allocation Program scholarships to the institutions in July. There were no administrative expenses paid during the quarter.

Mr. MacKay advised the Advisory Commission that the Investment Committee has begun meeting with Fidelity to review the existing portfolio of funds in which the \$25.2 million is invested. The current portfolio was selected at the time the Endowment Fund was formed and needs a review based on its current size and intended use. It is expected that a recommendation for a change in the portfolio will be presented to the Advisory Commission at the January meeting.

Other Items

Mr. Jacobson reminded the Advisory Commission members that their annual financial disclosure forms, available on the Secretary of State's website, must be filed with the Secretary of State in early January. (<http://www.sos.nh.gov/ethics.htm>)

The meeting adjourned at 12:05 P.M. The next regular meeting is scheduled for January 28, 2008 starting at 10:00 a.m. to take place in Concord at the New Hampshire Higher Education Assistance Foundation. The meeting will be preceded by a meeting of the Investment Committee to which all members are invited.