

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of January 28, 2008

The January 28, 2008 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 Dr. MacKay, Advisory Commission Chair. Present at the meeting were:

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|-----------------------|--|
| Edward MacKay (Chair) | Vice Chancellor, representing the University System of New Hampshire                     |
| Harold Janeway        | State Senator  |
| Robert Foose          | State Representative   |
| Russell Ingram        | State Representative   |
| 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         | President & CEO, 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  |
| Martha Gooze          | Public Member  |
| Michael Cryans        | Public Member  |

Also present were Heidi Siegal, Joe Ciccariello, Jeff Troutman, David Pearlman, and Bill McNamara from Fidelity Investments, Amy Bourgault from the Community College System of New Hampshire, Steve Hirt of PricewaterhouseCoopers, Richard Mahoney of the New Hampshire State Audit Division, Judith Knapp of Post Secondary Education and Brad Jacobson, Deputy State Treasurer.

The minutes of the meeting of October 22, 2007 were reviewed. The minutes were motioned for approval by Ms. Provencher and seconded by Dr. Dodge. The motion passed unanimously.

September 30, 2007 External Audit

Mr. Hirt presented the results of the September 30, 2007 annual external audits performed by the firm of PricewaterhouseCoopers for both the UNIQUE and the Advisor 529 plans. He reviewed the areas of focus of the audit team in the subjects of internal control as well as the financial statement valuations and presentations. All audits received an unqualified

opinion. The audit did identify three adjustments, categorized as “minor” by Mr. Hirt, which were processed by Fidelity. There were no proposed adjustments by PwC which were not processed by Fidelity. Several items required by the accounting profession to be communicated to clients were also identified by Mr. Hirt and include auditor’s responsibilities and judgments with respect to the financial statement and significant accounting policies and estimates.

### Old Business

Dr. MacKay advised that the Investment Committee had intended to present to the Advisory Commission a recommendation for potential changes in the investment portfolio of the \$25 million Endowment Fund at this meeting. Due to calendar conflicts among the Investment Committee members and Fidelity, the Investment Committee had not been able to meet and review any recommended changes but should be ready to report such changes at the next Advisory Commission meeting (May 5).

### Review of Investment Committee Meeting

The Investment Committee met at 9:00, before the Advisory Commission meeting, to review the historic performance of the various College Savings Plan portfolios in both the UNIQUE and the Advisory 529 plans. Dr. MacKay summarized the meeting stating that the equity investments in both plans had done fairly well over the last year while the fixed income investments didn’t do as well as investors adopted a strategy of “flight to quality” during the year. Overall, however, the Plans’ investments were doing well, considering the current volatility in the marketplace.

Senator Janeway asked if Fidelity could complete a comparison of the Fidelity portfolios to their largest 529 Plan management competitors. Mr. Ciccariello indicated that while this type of “apples-to-apples” comparison is very difficult due to the differing composition of the portfolios of the various state plans, Fidelity would put together a competitive review and deliver it to the Investment Committee at a later date.

### New Hampshire’s 529 Program Overview

Mr. Ciccariello announced that Heidi Siegal, who has been a key member of the Fidelity 529 plan team, is leaving for a position in Fidelity’s charitable gift business – a good opportunity for her and an area in which she has expressed interest. Dr. MacKay and the rest of the Advisory Commission expressed their sincere thanks for all of the support Heidi has provided to these Programs over the last several years.

Mr. Ciccariello provided an overview of the 529 Plan market place as of the end of the fourth quarter 2007. New Hampshire continues to remain the third largest of all state plans, with a market share of 7.4%, following Virginia (23.4%) and Rhode Island (7.8%). New York is currently the fourth largest plan at 6.9%. The New Hampshire plan has experienced a slight

decrease in market share (.2%) as compared to the previous year. Combined fund balances of the UNIQUE retail and advisor plans increased to year-end 2007 market value of \$8.1 billion (a 30% increase during the year).

The current Fidelity contract for the management of the Massachusetts 529 plan expires at the end of this year and Massachusetts is expected to initiate a Request for Proposal (RFP) process during the Spring. Fidelity intends to participate in the RFP process. Due to the competitive nature of the 529 industry among the various fund managers for new business Fidelity is anticipating having to lower the Program Management Fee for the Massachusetts plan to compete with other firms participating in the RFP process. Since the contract between Fidelity and New Hampshire requires that no other state program can have fees lower than New Hampshire, Mr. Ciccariello stated that Fidelity may be requesting that New Hampshire renegotiate the fee component of our existing contract. Fidelity is going to be doing significant analysis with respect to New Hampshire's structure and will share that information in the next couple of months with the Advisory Commission. (The current New Hampshire contract expires on December 31, 2013 with the option for 5-year renewals.)

Dr. MacKay requested that an ad hoc negotiating committee be involved in any fee negotiations with Fidelity and then recommend such changes, if any, to the Advisory Commission. The following individuals volunteered for the negotiating committee:

|              |                                    |
|--------------|------------------------------------|
| Dr. MacKay   | Senator Janeway                    |
| Rep. Foose   | Ms. Provencher                     |
| Mr. Jacobson | Dr. Richard Gustafson (if willing) |

Dr. Gustafson, currently Chancellor of the NH Community College System was instrumental in the development of the initial contract with Fidelity. Mr. Horgan will contact Dr. Gustafson to determine if he is willing to participate.

The credit card rebate program continued to increase throughout the year. In 2007 Mr. Ciccariello reported that this program was ranked first in the savings program category.

Mr. Pearlman next updated the Advisory Commission on regulatory and legal issues. The Pension Protection Act of 2006 required the U.S. Treasury to issue regulations, drafts of which should be available soon for comments. Both the College Savings plans Network and the College Savings Foundation have issued comment letters to Treasury on certain issues. One such issue involves gift tax complications on the transfer of funds from one beneficiary to another. Mr. Pearlman is hopeful that such issues will be resolved in the upcoming rulemaking process.

The ongoing federal case of Davis vs. the State of Kentucky, questioning state tax benefits being provided to only in-state residents for investment income of municipal debt, has not yet been finalized. It appears likely, however, that the U.S. Supreme Court will preserve current state tax practices on municipal bonds. The impact on state-sponsored 529 plans is that this court case will not be useful to achieve the goal of tax parity among state 529 plans.

### UNIQUE Plan Review

Ms. Siegal & Mr. Ciccariello reviewed the business plans, goals and plan results of the UNIQUE direct retail plan for 2007. As of December 31, 2007 the UNIQUE Plan had added almost 36,000 new accounts or 90% of the annual 2007 goal. The goal shortfall is believed to have been caused primarily by the online account opening feature not being available to prospective customers in January and February 2007. Total new accounts opened in 2007 did exceed 2006 new accounts by 1%.

The net 2007 annual sales goal of \$612 million was not reached. The \$558.5 million in net sales for 2007 did, however, slightly exceed the net sales in 2006. Besides the unavailability of the online account opening feature discussed above, December's market decline also contributed to the goal shortfall. At December 31, 2007 there were 369,877 open accounts in the UNIQUE retail plan with market values totaling \$5.5 billion.

2008 goals established for the UNIQUE retail plan are:

|               |               |
|---------------|---------------|
| Contributions | \$1 Billion   |
| New Sales     | \$668 million |
| New Accounts  | 40,000        |

Planned initiatives of Fidelity to improve the UNIQUE plan include a new online tool so that prospective 529 customers will be able to compare the UNIQUE plan with other states' plans. Such a comparison is difficult today for prospective new customers. A second new online tool is a state tax deduction calculator that customers can use to determine their potential state tax savings.

Highlights of the 2008 marketing plan were presented by Ms. Siegal & Mr. Ciccariello which includes components of online and print advertising, direct mail solicitation, existing Fidelity customer publication, public relations events, grassroots marketing, community relations, and workplace outreach (State of New Hampshire employees). Target audiences will include New Hampshire residents with no Fidelity relationships, existing Fidelity customers with no current 529 plans and existing UNIQUE customers. Continuing marketing efforts will include promotion of gift cards and in-school distributions. The intent of the marketing plan activities is to continue to build awareness of the UNIQUE Plan, to continue to improve the plan and to partner with the State to help residents save for college.

### Fidelity Advisor 529 Plan Review

Mr. Troutman reviewed the business results of the FA 529 Plan (Advisor Plan) for the year 2007. The Advisor Plan had assets with a market value of almost \$2.7 billion. New accounts and net cash inflows underperformed 2006 monthly throughout the year and were lower than expected. Fidelity is going to be reviewing and monitoring this trend more closely in 2008. Aged-based portfolios continue to be the key net flows driver with 71% of the total flows followed by individual portfolios (21%) and static portfolios (8%).

2008 goals, presented by Mr. Troutman, include:

|                     |               |
|---------------------|---------------|
| Gross Sales         | \$510 million |
| Net Flows           | \$415 million |
| New Accounts        | 21,821        |
| Net New "Producers" | 2,700         |

"Producers" are defined as an advisor who sells over \$10,000 in the Fidelity Advisor 529 Plan over a rolling 12-month period.

The number of account rollovers leaving Fidelity continued to exceed rollovers being processed into Fidelity. This trend continues to be an additional area of concern. According to a recent survey of customers leaving Fidelity, the largest contributor to this trend is the preferential tax advantages being provided to residents of their own states. Rollovers into Fidelity totaled \$39.4 million from 3,313 accounts. Rollovers leaving Fidelity in 2007 totaled \$46.4 million from 3,602 accounts. Mr. Troutman explained that such decisions are third-party financial advisor-directed and are not necessarily an independent participant decision. Fidelity is continuing to review ways to reverse this trend.

Mr. Troutman also indicated that the net effect of rollovers to the plan is marginal and requested that such reporting be eliminated. Senator Janeway suggested that it would be beneficial to receive an update at least annually. Mr. Troutman agreed and will provide such an update at the Commission's January meeting annually.

Fidelity continues to receive requests from managers of other state 529 plans to utilize Fidelity funds, especially index funds, in their portfolios. As of year-end 2007, the market value of these "investment-only" funds approximates \$256.1 million. To insure that these investment-only funds do not negatively impact the New Hampshire plan, and to insure that Fidelity retains some profitability in allowing the use of these funds by other states, Mr. Troutman presented some guidelines to be used in making future decisions, as follow:

- Fidelity will not proactively solicit the use of Index Funds
- Index funds will be placed primarily in age-based portfolios
- If Index funds are used in individual fund portfolios, fund class will match UNIQUE underlying fund class (no fund pricing advantage)
- Use of Index funds will be conditional upon use of active funds
- Consideration will be given to competitive issues
- The Fidelity 529 team will be involved in all insertion decisions
- NH Treasury will be notified of all such opportunities

There were no objections by the Advisory Commission for Fidelity to utilize these internal guidelines for future investment-only use of their funds.

Mr. McNamara, who provides the 529 Advisor plan with marketing support, is working on a multi-year targeted marketing strategy focusing on "selling" the plan to the 50,000 to 60,000 financial advisors in the U.S. marketplace as well as other businesses. The strategy will

include daily/ weekly monitoring of financial advisor activities, providing the Fidelity sales force with some practice management, building of campaigns targeted at clients not using the Advisor 529 plan and the use of cross-selling to users of other Fidelity products. Potentially there are plans to form advisor focus groups to better understand how financial advisors look at 529 plans. The objective of the marketing plan is to continue to educate and build awareness of 529 plans among the financial advisor community.

#### UNIQUE Allocation Program Review 2006-07 School Year

Dr. Dodge presented the actual results of the UNIQUE Annual and Endowment Allocation Programs, as reported to the Postsecondary Education Commission by the participating institutions in October, for the 2006-07 school year. Institutions reported that they had awarded UNIQUE Annual Allocation awards to 613 recipients totaling \$471,418. (This amount is in the process of being reconciled, institution by institution, with records of individual disbursements maintained by Treasury.) This amount represents the initial disbursements of \$400,000 made in July of 2007, plus reimbursements requested for awards in excess of the initial disbursements and refunds from institutions not utilizing the initial disbursement.

Total UNIQUE Endowment Allocation balances, maintained in restricted endowment funds by participating institutions, approximated \$13.7 million at June 30. \$12.6 million of the balance was disbursed by Treasury from the administrative fees (80% of fees collected) and the remaining \$1.1 million of that amount was from earnings of each institution's endowment fund. Only one institution (St. Anselm College) made awards from their endowment fund during the 2006-07 school year.

#### UNIQUE Allocation Program Award Criteria for the 2008-09 School Year

Ms. Knapp provided an analysis of potentially eligible participants in the UNIQUE Annual Allocation program if the students Estimated Financial Contribution (EFC) ranged from \$0 (used in prior years) to \$1,000 (considered for next year). While the analysis reflected all undergraduate students at New Hampshire postsecondary education institutions, it did provide some sense of the impact of various EFC's on the Annual Allocation Program relative to historical criteria.

Following discussion on EFC limits and individual annual awards, the following proposal was moved for approval by Mr. Horgan and seconded by Ms. Toomey relative to the criteria for the 2008-09 school year UNIQUE Annual Allocation Program:

|                                    |                |
|------------------------------------|----------------|
| Maximum EFC Level:                 | \$1,000        |
| Annual Award:                      | \$1,500 (award |
| Total Initial Program Disbursement | \$1.2 million  |

The motion passed unanimously.

Additional Advisory Commission discussion focused on interpretations and governance for the UNIQUE Annual Allocation Program documented in the Administrative Rules (Csp 600) regarding eligibility of prior recipients, breaks in enrollment and continued but part-time enrollments. As a result of this discussion and differing interpretations of the Administrative Rules, an ad hoc subcommittee was formed with the mission to review Csp 600 and recommend changes/ clarification to the full Advisory Commission. The following individuals volunteered for this project:

Ms. Knapp (lead)

Mr. Pearlman

Ms. Toomey

Dr. Gustafson (if willing to participate)

Templates for use in the 2008-09 school year UNIQUE Annual and Endowment Program Allocations were presented for review by Mr. Jacobson. The calculations utilized in the templates utilized the Fall 2007 enrollment and tuition data reported to Postsecondary Education by participating institutions. There were no objections expressed by any Advisory Commission members for the use of these templates.

#### Endowment Fund and Scholarship Update

Ms. Provencher presented a brief update of the Endowment Trust Fund as of December 31 , 2007. The fund balance of the Endowment Trust, at market value, was almost \$25.4 million. Cash inflows for the 2<sup>nd</sup> quarter of the fiscal year from administrative fees of \$2.9 million exceeded cash outflow for scholarships of \$2.3 million. There were no administrative expenses paid during the 2<sup>nd</sup> fiscal quarter. Audit fees totaling approximately \$180,000 will be paid to PWC in early February.

The meeting adjourned at 12:10 P.M.

The next regular meeting is scheduled for May 5, 2008 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord.