

New Hampshire College Tuition Savings Plan Advisory Commission

Minutes of the Meeting of July 23, 2007

The July 23, 2007 meeting of the NH 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 10:10 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
Margaret Hassan	State Senator
Harold Janeway	State Senator
Russell Ingram	State Representative
Robert Foose	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 Weddleton	Director of System Research and Grants, representing the Community College System of NH
Thomas Horgan	Executive Director, New Hampshire College and University Council
<u>Absent were:</u>	
Linda Hodgdon	Representative from the Office of the Governor
Catherine Provencher	State Treasurer

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

The minutes of the meeting of May 7, 2007 were reviewed. The minutes were motioned for approval by Mr. Cryans and seconded by Mr. Horgan. The motion passed unanimously.

Mr. MacKay reported that service awards had been purchased and awarded to Ms. Ingrid Lemair and Mr. Michael Ablowich for their long service with the Advisory Commission. A service award has also been purchased for Senator Sylvia Larson but not yet presented to her due to the recent busy legislative session. Arrangements will be made for a presentation in a public forum; perhaps at the next Advisory Commission meeting.

### Portfolio Change Proposal

Mr. MacKay reported that a portfolio change proposal, developed by Fidelity Investments, had been reviewed and endorsed by the Investment Committee members in attendance and by Ms. Hodgdon and Ms. Provencher who could not attend this full Commission meeting. Mr. MacKay then introduced Mr. Dierdorf of Fidelity Investments who presented the proposed portfolio enhancements which are intended to:

1. Improve portfolio performance consistency
2. Broaden the portfolio diversification, and
3. Improve investment risk control

In addition to these performance enhancements, the fees for both the UNIQUE and the FA 529 Plans will be slightly lower.

Mr. Dierdorf presented each of the new underlying funds, their investment objectives and the justification for inclusion in the portfolios. Ms. Siegal presented the implementation timeline which includes a September approval of the Fidelity Funds' Board of Directors permitting the use of the FIMM funds in the College Savings Plans and an October through December update of marketing materials and legal documents and notifications to all existing participants. The portfolio changes, which will be made on a gradual basis over the next several months, include the addition and deletion of certain mutual funds and changes in the asset allocation of the underlying funds.

Approval to accept the proposed portfolio changes was moved by Mr. Cryans, seconded by Senator Janeway and unanimously approved by the Advisory Commission. The approval is contingent on the Fidelity Funds' Board of Directors for use of the FIMM fund in the Short-Term Bond portfolio. Details of the fund and allocation changes are summarized in the Attachment to these minutes.

### New Hampshire's 529 Program Overview

Ms. Siegal provided an overview of the 529 Plan marketplace as of the end of the second quarter 2007. Net assets of the combined assets of both the UNIQUE and the FA 529 Plans have increased 25% over the last year and total approximately \$7.7 billion. New Hampshire continues to remain the third largest of all state plans, with a market share of 7.4%, following Virginia (22.4%) and Rhode Island (8.2%).

With respect to state tax incentives, several states have already enacted or are considering legislation providing additional incentives for 529 Plan investments. At the federal level the "kiddie tax", which taxes earnings on the investments of children at the parents' tax rate, will be changing for all children up to age 18 and dependent children up to the age of 24. All of these initiatives are expected to make investing in the 529 plans more attractive.

Mr. Pearlman next updated the Advisory Commission on state and federal regulatory and legal issues. On the state level, Senate Bill 245 was signed into law on June 18, 2007. This bill:

1. Eliminates the statutory requirement to continually update certain of the Advisory Commission's Administrative Rules,
2. Conforms the statute to changes made at the federal level since the New Hampshire statute was first adopted, and
3. Enables the Advisory Commission to adapt more quickly to market changes and maintain its competitive position in the market without have to make changes to the applicable Administrative Rules.

Two current court cases are challenging preferential state tax treatment for residents investing in their home-state municipal bonds and 529 Plans rather than investments in similar but out-of-state bonds and Plans. Mr. Pearlman described the municipal bond lawsuit (Kentucky) and the 529 Plan lawsuit (Illinois) which are both challenging the preferential treatment given to residents for investing in-state but not providing similar tax treatment for investing in similar out-of-state products. Mr. Pearlman stated that the basis for the law suits is that such tax treatment represents an interstate trade barrier and thus violates the Commerce Clause of the U.S. Constitution. The Illinois 529 case also alleges a violation of the Illinois Constitution. Both cases will likely provide precedent for future state tax initiatives and, if successful, can only help the New Hampshire plans. The College Savings Foundation, a 529 Plan industry association, chaired by Mr. Pearlman, will not be filing briefs with the court. The College Savings Plan Network, which is a sub-group of the National Association of State Treasurers, will be filing a brief. It is up to the court, however, to decide whether to accept the CSPN brief to include in the record. The Advisory Commission, through the State Treasurer, is a member of both of these groups.

The U.S. Treasury has not yet issued regulations for the 529 Plan changes included in the Pension Protection Act which was signed into law in 2006. The most significant issue of concern to the industry is the potential gift tax exposure to the parent (participant) vs. to the child (beneficiary) of a 529 Plan. Discussions with Treasury are ongoing and written comments are being submitted by the industry. Proposed final regulations are expected to be released in the third quarter of 2007.

### UNIQUE Plan Review

Ms. Siegal & Mr. Ciccariello reviewed the overall business plans, goals and results of the UNIQUE direct retail plan. As of June 30, 2007 the UNIQUE Plan had market-value assets in excess of \$5.2 billion. On a year-to-date basis net sales exceeded the 2007 goal by 11% at of the end of June. New accounts are only 90% of the year-to-date June goal which is of concern. An evaluation of this shortfall is currently underway to improve on this goal.

The Fidelity team is continuing to find ways to make the UNIQUE plan easier to use of current and potential customers. Enhancement initiatives underway include the:

1. Creation of deposit slips to make it easier to make contributions

2. Launching of a 2027 portfolio for new babies born after 2007
3. Improvement of the back-end systems for easier future development

Improvement comments from customers are collected online and are continually reviewed for additional improvements.

Recent marketing efforts include a successful day (June 9, 2007) for Fidelity at Storyland. Approximately 100 families requested information at the UNIQUE booth about saving for college. Online advertising as of year-to-date June has proven to be effective with 12 new accounts totaling over \$580,000 of new money deposited. Likewise, the national search initiative generated 132 new accounts and over \$4,000,000 of new deposits. In both categories, Google provided the highest returns. Results of both the online advertising and search are being monitored for possible future adjustments in the marketing campaign.

#### Fidelity Advisor 529 Plan Review

Mr. Troutman reviewed the business results of the FA 529 Plan (Advisor Plan) through June of 2007. As of June 30, 2007 the Advisor Plan had assets with a market value of almost \$2.5 billion. New accounts and net cash inflows were underperforming 2006 as of year-to-date June and are lower than planned. 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. While this trend seems to have leveled off in recent quarters, Fidelity is developing a questionnaire for customers to fill out so that they can better understand the reason for funds leaving Fidelity. Mr. Troutman explained that such decisions are third-party financial advisor-directed and are not necessarily a participant decision. Fidelity is competing with other firms' savings and investment products which financial advisors have available to sell to their clients.

Marketing and program activities directed at participants and financial advisors was reviewed. To encourage the establishment of systematic investment plans, Mr. Troutman stated that over 13,000 letters were sent to existing customers, and over 3,500 welcome letters were sent to new customers, advising them that the \$20 annual maintenance fee would be waived if systematic investment plans were established. A direct mail and email campaign to financial advisors scheduled for late May was also completed.

At the request of the Advisory Commission, Fidelity has agreed to develop a comparison of the New Hampshire 529 plans to those of other states, together with a report of how third party sources compare and rate the plans. It was acknowledged that such a comparison is difficult because of the differences in plan design.

#### UNIQUE Allocation Program Updates

Mr. Jacobson, on behalf of Ms. Provencher, provided an update on the UNIQUE Annual and Endowment Allocation programs.

1. Net disbursements for the Annual Allocation Program scholarships, by institution, for the 2007 fiscal year were summarized as follows:

Initial Disbursement in July 2007	\$400,000
Reimbursement of Over-awards	125,000
Refunds of Unused Scholarship Funds	<u>(7,250)</u>
Net Program Disbursements	<u>\$517,750</u>

2. Compliance filings of all institutions for both the Annual and the Endowment Programs consisting of their certification of eligibility and certain other documents were due by June 1. While all of the institutions were late in their filing, all but Southern New Hampshire University (SNHU) have now been received by Treasury. SNHU has communicated that their filing is in process and will be sent to the State Treasurer shortly.
3. The fiscal 2008 Annual Allocation Program disbursement was made earlier this month and totaled \$799,500, representing 533 awards of \$1,500 each. The calculation of the Program disbursement was presented to Advisory Commission members for information.
4. The fiscal 2008 Endowment Allocation Program calculation was presented for information. The calculation utilized an example of monthly management fees received of \$800,000 which results in a disbursement to institutions of \$640,000 or 80%.

#### Fiscal 2008 Budget

Mr. Jacobson, on behalf of Ms. Provencher, presented the budget for the fiscal year 2008. Receipt of management fees was estimated at \$10.5 million or a conservative increase over fiscal 2007 actual fees received of 10%. Administrative costs are estimated at \$148,000, slightly higher than fiscal 2007 actual expenses, as follows:

Audit Fees	\$130,000
Audit Out-of-pocket Expenses	5,000
Advisory Commission Member Travel	3,000
Miscellaneous	10,000

Endowment Allocation Program disbursements are estimated at \$8.4 million or 80% of estimated collected fees. Annual Allocation Program disbursements are estimated at \$900,000 which includes the \$799,500 initial disbursement and an additional \$100,500 for estimated reimbursements based our experience in fiscal 2007. Rep. Foose moved a motion for approval of the budget and it was seconded by Ms. Payne. The motion for approval passed unanimously.

Expense Reimbursement to Treasury

Administrative costs incurred during the quarter and reimbursed to Treasury totaled \$6,764 and consisted of:

Annual Dues - College Savings Plan Network	\$4,050
Annual Dues – College Savings Plan Foundation	2,500
Miscellaneous Administrative Expenses	214

Since the administrative expenses did not exceed the ceiling specified in the Administrative Rules, and at the request of Mr. MacKay, administrative expense reimbursement will continue to be reported to the Advisory Commission but will not require a vote for approval.

Endowment Fund and Scholarship Update

Mr. Jacobson, on behalf of Ms. Provencher, presented the Endowment Trust Fund update as of June 30, 2007. For the fiscal year 2007, actual net receipts of \$1,423,297 exceeded estimated net receipts of \$1,113,350 due primarily to the management fees exceeding the annual estimate. Scholarship disbursements exceeded the estimate by \$300,000 and administrative expenses exceeded the estimate by about \$700.

The fund balance of the Endowment Trust at June 30, 2007, at market value, was \$24,218,803 which reconciled to the June 30 Fidelity statement. Disbursements for both of the UNIQUE Allocation Programs approximated \$8,000,000 for the fiscal year and \$13.4 million from their inception.

Other Items

Mr. MacKay initiated a brief discussion concerning succession planning at Fidelity as a result of recent media articles on executive management changes. Since all Fidelity management, especially the top dozen executives, receives a variety of rotational experiences Fidelity has very deep “bench strength” and is not expected to have any issues with the recent change in top management.

The meeting adjourned at 11:45 P.M. The next regular meeting is scheduled for October 22, 2007 starting at 10:00 a.m. to take place in Concord at the New Hampshire Higher Education Assistance Foundation.

**Portfolio Enhancement Proposal**

Attachment

**UNIQUE College Investment Plan**

Underlying Fidelity Fund	Allocation	
	Current	Proposed
<u>Domestic Equity</u>		
Blue Chip Growth	12.0%	5.0%
Disciplined Equity	15.0%	17.0%
Equity- Income	15.0%	17.0%
Growth Company	12.0%	17.0%
Dividend Growth	14.0%	17.0%
OTC Portfolio	10.0%	4.0%
Small Cap Independence	8.0%	8.0%
<b>Growth and Income</b>	14.0%	0.0%
<b>Large Cap Core Enhanced Index</b>	0.0%	15.0%
<u>International Equity</u>		
Diversified International	50.0%	50.0%
Overseas	50.0%	50.0%
<u>Investment Grade Bond</u>		
Government Income	37.5%	20.0%
<b>Intermediate Bond</b>	25.0%	0.0%
<b>Investment Grade Bond</b>	37.5%	0.0%
<b>Strategic Real Return</b>	0.0%	20.0%
<b>Total Bond</b>	0.0%	60.0%
<u>High Yield Bond</u>		
Capital & Income	50.0%	50.0%
High Income	50.0%	50.0%
<u>Short Term Bond</u>		
Short Term Bond	50.0%	50.0%
<b>Cash Reserves</b>	50.0%	0.0%
<b>FIMM Fund</b>	0.0%	50.0%

**Fidelity Advisor 529 Plan**

Underlying Fidelity Fund	Allocation	
	Current	Proposed
<u>Domestic Equity</u>		
Advisor Large Cap	16.0%	11.0%
Advisor Mid Cap	8.0%	4.0%
Advisor Small Cap	6.0%	6.0%
Advisor Growth & Income	16.0%	20.0%
Advisor Equity Income	21.0%	20.0%
Advisor Equity Growth	12.0%	5.0%
<b>Advisor Dividend Growth</b>	21.0%	0.0%
<b>Advisor Dynamic Cap Apprec</b>	0.0%	14.0%
<b>Large Cap Core Enhanced Index</b>	0.0%	20.0%
<u>International Equity</u>		
Advisor Diversified International	50.0%	50.0%
Advisor Overseas	50.0%	50.0%
<u>Investment Grade Bond</u>		
Advisor Government Income	50.0%	20.0%
<b>Advisor Intermediate Bond</b>	50.0%	0.0%
<b>Advisor Strategic Real Return</b>	0.0%	20.0%
<b>Advisor Total Bond</b>	0.0%	60.0%
<u>High Yield Bond</u>		
Advisor High Income Advantage	100.0%	100.0%
<u>Short Term Bond</u>		
Advisor Short-Fixed Income	50.0%	50.0%
<b>Cash Reserves</b>	50.0%	0.0%
<b>FIMM Fund</b>	0.0%	50.0%