

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of October 26, 2009

The October 26, 2009 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. Edward MacKay, Advisory Commission Chair. Members present and constituting a quorum were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Harold Janeway	State Senator
Robert Foose	State Representative
Russell Ingram	State Representative
Amy Bourgault	Executive Director, CCSNH Foundation representing the Community College System of NH
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor

Members Absent were:

Amanda Merrill	State Senator
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Catherine Provencher	State Treasurer

Also present were Kyla Doyle, Joe Ciccariello, Jeff Troutman and Christopher Sharpe from Fidelity Investments (Fidelity), Richard Gustafson and Ann Toomey from the Community College System of NH, Judith Knapp and Cynthia Capodestria of Postsecondary Education.

**Review of Prior Meeting Minutes**

Minutes of the July 27, 2009 regular meeting were reviewed. Approval of the minutes was moved by Senator Janeway, seconded by Rep. Ingram and approved unanimously.

**Old Business**

The status of issues that have arisen in prior meetings and require further resolution were reviewed as follows:

1. Update on Fidelity Contractual Amendments – Mr. Ciccariello reported that the amendments to the two contracts with Fidelity and the related amendment to the Trust Agreement, resulting from recent negotiations with Fidelity, have been fully executed

and are pending final approval of the Governor and Executive Council at their November 4, 2009 meeting. The amendments are intended to go into effect on December 1, 2009.

Dr. MacKay indicated that the “Dashboard Report” which is distributed to and reviewed by Advisory Commission members in January and July, should incorporate the impact of this new fee structure and an updated forecast of assets under management. (Fidelity to provide to the Treasury.)

2. Shareholder Proxy Voting Guidelines – A draft of the Shareholder Proxy Voting Guidelines was provided in the meeting materials for the Advisory Commission members to review for a future discussion at the January 25, 2010 meeting. Dr. MacKay stated that such guidelines are consistent with national templates.

(Note: The State Treasurer is the Trustee of the New Hampshire Higher Education Savings Plan Trust and the legal shareholder of the underlying mutual funds of the Participants’ investment portfolios. In this specific fiduciary position, the Treasurer, as are all members of the Advisory Commission, is legally and ethically bound to advocate for and act in the best interests of the plan Participants. The guidelines are therefore intended to provide the appropriate proxy voting guidance for the Treasurer as Trustee and Shareholder.)

### **Adopt Administrative Rules**

The following Administrative Rules of the College Savings Plan were recently approved by the Joint Legislative Committee on Administrative Rules (the JLCAR) and need to be “Adopted” by the Advisory Commission as the next step in the Rules process:

1. Csp 100 – Organization Statements;
2. Csp 200 – Practice and Procedures; and
3. Csp 300 – Establishment, Operation and Administration of the Plan

All comments and changes discussed and approved by the Advisory Commission were included in these Administrative Rules as approved by the JLCAR. It was moved by Rep. Foose and seconded by Ms. Hodgdon that these Rules be adopted. The vote was unanimous. (The Treasurer will notify Legislative Services of this action.)

### **Delegation of Rulemaking Authority to Treasury**

During the review of the Administrative Rules (above), the JLCAR voted to recommend that the Advisory Commission seek legislative policy committee guidance on the delegation of rulemaking to the Treasurer rather than the Advisory Commission. This issue will be discussed further at the January 25, 2010 meeting. (A Legislative Service Request has been submitted by the JLCAR as a placeholder.)

### **Maximum Contribution Limit for 2010**

The plan's maximum contribution limit is reviewed and established annually by the Advisory Commission for the upcoming calendar year. The maximum contribution limit proposal for 2010, presented by Ms. Doyle, is to retain the current level of \$330,000. Currently the New Hampshire plan, at \$330,000 has the 14<sup>th</sup> highest contribution limit nationwide and 28 other states have maximum contributions of over \$300,000 with the largest being \$368,600 and the smallest being \$235,000.

Historically, the Advisory Commission has utilized seven years (undergraduate and graduate degrees) of Dartmouth costs (board, room, tuition and mandatory fees) as a benchmark for determining the maximum contribution. That annual cost for attending Dartmouth is \$49,974 or almost \$350,000 for seven years, excluding any future-year cost increases.

Two issues to consider when establishing the annual maximum contribution levels are:

1. Consideration by participants in selecting a State plan; and
2. IRS's ongoing review for potential tax abuse (e.g. avoidance of estate taxes) relating to very large contribution maximum limits

Fidelity's proposal has considered these two issues and does not believe that there will be any negative marketing impact on either of the New Hampshire plans if the maximum contribution level remains at \$330,000 for 2010. A motion to retain the maximum contribution limit at \$330,000 for 2010 was moved by Rep. Foose and seconded by Senator Janeway. The motion was unanimously approved.

### **Investment Portfolio Structure Changes**

Mr. Sharpe summarized proposed investment changes to New Hampshire's aged based portfolios which had been under Fidelity's review and analysis for several months. (A detailed review was recently performed by an ad hoc investment committee of Advisory Commission members who concurred with the recommended changes.) The proposed changes would:

1. Adjust the age-based roll-down to reach 20% equity exposure at age 18 rather than at age 20;
2. Increase the international equity exposure to 30% of total equities; and
3. Add the "Emerging Markets Fund" (Direct plan), the "Advisor Emerging Markets Fund" and the "Advisor High Income Fund" (Advisor plan) to the age-based investment portfolios.

These proposed changes would be phased in gradually over the next 12 to 18 months and additional portfolio changes, to enhance the likelihood of consistent positive returns and to reduce investment volatility, are going to be considered by Fidelity for future implementation.

Senator Janeway moved, and Rep. Foose seconded, to approve the proposed investment changes to the age-based portfolios recommended by Mr. Sharpe. The motion passed unanimously.

### **New Hampshire's 529 Program Update**

Ms. Doyle provided an update of the 529 Program industry and the New Hampshire programs. 529 plan industry assets increased approximately 14.7% during the second quarter of 2009 which approximated the New Hampshire Plan asset market value increase of 14.1%. The New Hampshire plans retained their position as 3<sup>rd</sup> largest in the country in asset value as of June 30, 2009 with \$7.1 billion following Virginia and New York and ahead of Rhode Island with \$6.3 billion.

Credit card rebates in the third quarter of 2009 exceeded \$5 million which was about the same as the first two quarters of the year. Over \$122 million in cumulative credit card rebates have been earned and applied to participant accounts in both the retail and advisor plans since inception.

Ms. Doyle provided an update on the Obama Administration's "Middle Class Task Force" which is working with the Departments of the Treasury and Education to study 529 plans and identify ways to make college more affordable for lower income families. Recommendations made by the Task Force so far include:

1. Adoption of age-based index fund options
2. Elimination of home state bias created by state income tax benefits
3. Contributions limits established at the participant level rather than by state (in effect a national contribution limit)
4. Increased transparency and compliance

Additionally, the recently proposed Savings Enhancement for Education in College Act (H.R. 1351) included the following proposed tax law changes to 529 plans:

1. Expand qualified expenses to include technology-related expenses (e.g. computer);
2. Expand the number of investment changes to two per year rather than the current one annual exchange; and
3. Allow 529 contributions to qualify for the Savers Credit.

While it is uncertain if the federal government has the constitutional authority to eliminate the home state tax benefit advantage, the Advisory Commission and Fidelity believe that all of these proposals will ultimately benefit or be neutral for the New Hampshire plans.

### **UNIQUE College Investing Plan Review**

Ms. Doyle reported that as of September 30, 2009 the UNIQUE Plan market value of invested assets exceed \$5.4 billion with about 364,000 accounts. 81% of these assets are held in aged-based portfolios. New accounts of approximately 4,500 were added during the quarter but are still below the new accounts added during the same quarter of 2008 by about 25% but have increased over the second quarter of 2009, which is encouraging. Likewise, contributions in the third quarter of 2009 are lower that the third quarter of 2008 by approximately 16%.

As compared with other major firms managing 529 plans (T. Rowe Price, Alliance, Oppenheimer and Legg Mason) Fidelity's investment performance, for actively managed age-

based portfolios for one, three and five year periods, remains very competitive and Fidelity is either the top performer or within a few basis points of the top performer.

### **Fidelity Advisor 529 Plan Review**

Mr. Troutman reported that similar to the UNIQUE Plan, the Fidelity Advisor 529 Plan (Advisor Plan) had approximately 23% fewer new accounts (8,900) opened in the third quarter of 2009 than in the third quarter of 2008 and received approximately 15% fewer contributions. Third quarter results, however, exceeded the second quarter of this year. Total plan assets approximated \$2.53 billion as of September 30, 2009 with more than 215,000 total accounts. Approximately 74% of all assets are invested in age-based portfolios as of September 30, 2009

Mr. Troutman reported that currently three other state plans are utilizing Fidelity funds:  
Nebraska (Union Bank & Trust - \$186 million),  
Ohio (Putnam - \$25 million), and  
South Dakota (Allianz - \$46 million)

### **2008-09 Academic Year Scholarship Awards**

Ms. Knapp, on behalf of the Postsecondary Education Commission, provided a summary of scholarships awarded by participating colleges under the UNIQUE Annual and Endowment Allocation Programs for the 2008-09 academic year. Annual Allocation scholarships totaling \$3.3 million were awarded to 4,051 students during the year and 235 students received Endowment Allocation scholarship awards.

Annual Allocation awards increased significantly from the 924 awards in the previous year due to significantly increasing eligibility by the raising of the Expected Family Contribution amount from \$0 to \$1,000 and by liberalizing eligibility to all students rather than to entering freshmen and prior award recipients. An additional factor was the increase of individual awards to \$1,500. Ms. Knapp estimated that total Annual Allocation Program awards could exceed \$4.0 million in the current academic year even considering the lowering of the individual award to \$1,300. The Advisory Commission members agreed that this ongoing level of Annual Allocation Program awards may not be sustainable in the next few years and will be considered at the January 25<sup>th</sup> meeting when the award criteria will be established for the 2010-11 academic year.

The campus-based Endowment Allocation awards decreased in total from the 280 students in the previous year with colleges making fewer or no awards during 2008-09 due primarily to the significant decline in market values of their restricted UNIQUE endowment funds.

### **Trust Fund and Scholarship Disbursements**

The Trust Fund and scholarship update report prepared by Treasury for the period ended September 30, 2009 was briefly reviewed. The trust fund had a balance of \$17.5 million as of the end of the fiscal year which will likely be reduced considerably when reimbursement

requests for the UNIQUE Annual Allocation Program reimbursement requests are processed, possibly as much as an additional \$3 million.

**Other Business**

1. Dr. MacKay presented the quarterly meeting schedule for 2010. Following some discussion, the following meeting dates were agreed upon and all members were requested to post these dates on the calendars:

Monday January 25, 2010

Monday May 17, 2010

Monday July 26, 2010

Monday October 25, 2010

Monday January 24, 2011

(Note: The January and July meetings will be preceded by the Investment Committee meetings and are open to all Advisory Commission members.)

2. Dr. MacKay reminded the Advisory Commission members that their financial disclosure forms for calendar year 2010 need to be completed and filed no later than January 22, 2010. The forms, which are online at the Secretary of State's office, should be mailed directly to the Secretary of State. Any Advisory Commission member who has not filed their annual disclosure statement by that date cannot, under current statutes, perform their duties as a member (e.g. voting rights).
3. Mr. Ciccariello called attention to Fidelity's third annual College Savings Indicator survey results which was included in the meeting materials. Currently parents are saving for college at a pace that would cover only 15% of the college costs. Recent communication efforts have attempted to place that contribution rate in a more favorable light to encourage families to do whatever they can during these difficult economic times to continue to save for at least a partial portion college costs and to reduce the intimidation fears associated with worries about saving the entire amount of college costs. Other factors to be considered to pay for college would include work, loans and grants.
4. Ann Toomey of the Community College System of New Hampshire was recognized for her long and valuable contribution to the Advisory Commission and the New Hampshire college savings program. She acknowledged the efforts of her predecessor representative of the Community College System (Mary Milliken). A physical token of appreciation will be presented later to her by the Treasury.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:40 a.m.

NOTE: The next regular meeting is scheduled for January 25, 2010 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by an Investment Committee meeting, starting at 9:00, which is open to all members.