

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of October 25, 2010

The October 25, 2010 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, constituting a quorum, were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Harold Janeway	State Senator
Russell Ingram	State Representative
Robert Foose	State Representative
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor
Kathryn Dodge	Executive Director, Postsecondary Education Commission
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Amy Bourgault	Executive Director, CCSNH Foundation representing the Community College System of NH
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Catherine Provencher	State Treasurer

Members Absent were:

Amanda Merrill	State Senator
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Also present at the meeting were Joe Ciccariello, Jeff Troutman and Peter Mahoney from Fidelity Investments (Fidelity), Cynthia Capodestria from the Postsecondary Education Commission and Bill Dwyer and Brad Jacobson from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the July 26, 2010 regular meeting were reviewed. Approval of the minutes passed unanimously.

Old Business

The status of issues that have arisen in prior meetings and required further follow-up and resolution were reviewed and resolved as follows:

FDIC-Insured Portfolio: Treasurer Provencher reported that the Fourth Amendment to the Restated New Hampshire Higher Education Savings Plan Trust Agreement and the Third Amendment to the Restated Management and Administrative Services Agreements have been approved by the Governor and Executive Council and fully executed effective September 1, 2010. These amendments were necessary to establish the new FDIC-Insured Bank Deposit portfolio.

2011 Maximum Contribution

Mr. Mahoney provided the following factual information with respect to updating the maximum contribution limit, currently at \$330,000, for calendar year 2011:

1. New Hampshire is currently ranked as 18th in the highest maximum contribution limit nationwide.
2. Thirty states have maximum contributions set at over \$300,000 and thirteen states have maximum contribution limits of \$350,000 and over.
3. College costs nationwide have increased 5.9% and 4.3% annually, at public and private 4-year colleges, respectively.
4. The Dartmouth formula (used historically as a yardstick to determine the maximum contribution in New Hampshire) of \$52,275 representing tuition, room and board and mandatory fees for 2010-2011, equals \$366,000 for seven years of undergraduate and graduate study.
5. Only 20 participants in the UNIQUE Retail Plan and 7 participants in the Fidelity 529 Advisory Plan have account balances in excess of \$300,000.

Based on these facts, Fidelity recommended that the State raise its maximum contribution limit from \$330,000 to \$350,000 for calendar year 2011. It was moved by Senator Janeway and seconded by Ms. Hodgdon to accept this recommendation. After considerable discussion, the majority voted to accept the motion.

At the recommendation of the Advisory Commission, Fidelity agreed to contact each of the 27 participants with balances over \$300,000 to advise them of the change in the maximum contributions but to keep any other notifications, including media notifications, low profile.

New Hampshire's 529 Program Update

Mr. Ciccariello provided a business update of the 529 College Savings Plan industry and the New Hampshire 529 program as of June 30, 2010. Total 529 Plan market-valued industry assets at the end of the second quarter of 2010 decreased approximately 4.9% and the New Hampshire's UNIQUE and FA 529 plans together decreased by 4.2%. Total industry assets as of June 30, 2010 approximated \$117.4 billion at market value. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of June 30, 2010 with approximately \$ 8.4 billion in assets (at market value) and 7.1 % of the industry's market share. New

Hampshire followed Virginia (\$26.4 billion in assets) and New York (\$9.4 billion in assets) and was ahead of 4th place Rhode Island (\$6.9 billion in assets). None of the top ten states reported positive growth as of June 30, 2010.

Key program enhancements to both State plans, as summarized by Mr. Ciccariello, include ongoing reviews and improvements in the State's plan design, customer experience, FA 529 Advisor Plan automation and enhancements to investment products. Current customer experience enhancements include notification for the customer's annual balance sheet review, an awareness message concerning low earnings on money market portfolios, and continuing customer messaging on "BillPay," which was implemented earlier this year. Investment product enhancements, approved earlier this year, continue to be rolled out and include the FDIC-Insured Bank Deposit portfolio, the launch of the 2030 age-based portfolio, the closing of "B" Class shares in the FA 529 Advisor Plan, an increase in international equities to 30% of total equities and the change in the age-based roll-down to 20% equities by age 18.

Mr. Troutman of Fidelity provided the regulatory updates on two rules changes being proposed by the Securities and Exchange Commission:

1. 12B-1 Fees – These fees represent ongoing payments to financial advisors, paid from investor funds, as incentives for ongoing sales and marketing efforts of mutual funds. The intent of the proposed rule change is to increase transparency, to limit the lifetime accumulated fees paid to advisors and to reduce the current fees that investors pay. The proposed rule will be complex and difficult for the industry to implement and may impact the share classes of funds being offered, including those offered by the State's FA 529 Advisory Plan. The proposal, if adopted, would likely take several years for complete implementation.
2. 10B-10 Rule – This rule relates to fee disclosures and the proposal increases information to be disclosed to investors on their trade confirmation to include the amount of fees being paid, both in actual cost and percentages.

Mr. Ciccariello reported that credit card rebates for the quarter ended September 30, 2010 approximated \$5 million. \$145 million in cumulative credit card rebates have been earned and applied to participant accounts in both the UNIQUE and the FA529 Plans since inception.

During the recent market decline money market yields were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity, at their request, to waive their fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent money market funds from "breaking the buck." Total waived fees at calendar year-to-date September 30, 2010 were \$614,328.

Fidelity's Fourth Annual College Savings Indicator Survey

Fidelity's fourth annual College Savings Indicator survey has been published, as was announced at the last meeting, and details were provided to the Advisory Commission by Mr. Ciccariello. Respondents were selected by an independent survey firm and their profiles are:

	<u>National</u>	<u>New Hampshire</u>
Number of families surveyed	2,562	95
Married couples comprising the family	78%	77%
Average household income	\$86,000	\$80,000
Average number of children	2.3	2.2
Families with at least 2 children	75%	72%
Savings to cover percentage of college costs	16%	15%

The Survey indicates that college costs expected by all families (national) to be covered by savings are declining annually from 24% in 2007 to only 16% in 2010. Families working with financial advisors are expected to cover 28% of college costs, however. New Hampshire families are expecting to cover 15% of college costs which is a decline from 22% in 2007. The reason for the decline in college savings, Mr. Ciccariello explained, is the need for families following the recent economic decline to pay down debt, then increase retirement savings and finally to start savings again for college.

In New Hampshire, the Survey indicates the following key findings:

1. 40% of all families are aware of 529 plans and their tax advantages.
2. 57% of parents have started savings for college which is a reduction from 60% last year.
3. 29% of families have a member with a job loss in the last 18 months.

On a national level the survey shows that:

1. Awareness of 529 plans increased from 40% to 51% in the last year.
2. 67% of parents are saving for college compared with 63% last year.
3. 35% of parents are using a dedicated college savings account compared to 32% last year.
4. 72% of families are willing to find creative ways to finance college costs including having the child work part-time (60%), having the child live at home to save money (52%) and encouraging attendance at public school vs. private schools (43%).

Media coverage of the Union Leader of the College Savings Indicator Survey has been good over the last four years, both in print and online. Besides the College Savings Indicator, Fidelity has initiated other media announcements this quarter including the 2nd Annual High School Survey, the launch of the FDIC-Insured Bank Deposit portfolio and an article in "Fidelity Viewpoints" covering the establishment of and planning for college savings goals, including links to various Fidelity online calculation tools for parents.

UNIQUE College Investing Plan Review

Mr. Mahoney reported that as of September 30, 2010 UNIQUE retail plan assets approximated \$6.13 billion in market value and consisted of over 386,400 participant accounts. Average account size of a portfolio was \$17,586. Net contributions for the third quarter of 2010 totaled \$142 million and exceeded third quarter 2009 contributions by 3%. New accounts in the third quarter increased 14% over the third quarter of last year.

Fidelity launched a new “UNIQUE Peak into Books” program, reported at the last meeting, which focuses on children’s summer reading at select New Hampshire public libraries. This program will continue into October. Mr. Mahoney presented other marketing events for the UNIQUE retail plan, starting in September, which include the continuation of the online search advertising and advertising in hardcopy magazines and newspapers during September through November of 2010. Other key awareness initiatives include a “Back to School” campaign focusing on 529 plan owners, non-owners and owners of UTMA/UGMA account owners. In the fourth quarter Fidelity will begin new account and holiday gifting campaigns and will send out awareness emails relating to low yields of money market accounts and the new BillPay services.

At the end of the third quarter of 2010, 81% of the UNIQUE retail participant assets were held in age-based portfolios with 14% in static portfolios and the remaining 5% in individual portfolios. 91% of net flows for the quarter were into age-based portfolios, 8% into static portfolios and the remaining 1% into individual portfolios.

During the third quarter, the 2009 and College aged-based portfolios, both actively managed and index portfolios, experienced negative net cash flow as college costs were redeemed. The Money Market portfolio also experienced a 9.6% negative net flow, believed to be caused by investment confidence returning and funds moving to higher return investments.

Participants residing in New Hampshire are fifth out of all states at 5.3% and follow Texas (12.1%), California (10.3%), New Jersey (8.3%) and Florida (5.6%). New Hampshire participants increased 1.1% during the third quarter of 2010.

Fidelity Advisor 529 Plan Review

Mr. Troutman reported that the Fidelity Advisor 529 Plan (Advisor Plan) had approximately \$2.9 billion in market-valued assets as of the end of the third quarter 2010 spread over 228,200 participant accounts. 9.2% more new accounts were opened in the third quarter of 2010 than in the same quarter of 2009 and over 13.1% more contributions were made in these same periods.

As experienced during the second quarter of 2010, net outflows during the third quarter occurred primarily in the College Portfolio (25.9%) and the 2010 Portfolio (39.1%) as participants began their redemptions for college expenses. Other portfolios with net outflows included the 100% and the 70% Equity Portfolio, at 4.5% and 5.5% respectively, and the Money Market Portfolio at

5.3%. 74% of all FA 529 assets were held in age-based portfolios with 18% in individual portfolios and the remaining 8% in static portfolios.

Mr. Troutman briefly reviewed future marketing activities directed at both investors and the independent financial advisors in the third quarter and scheduled for the remainder of 2010. The campaign will focus on both direct mail and email messages and will include several new presentations and mailers. The majority of the marketing activity is focused on financial advisors and will occur in the September through November period.

The FA 529 Advisor Plan automation project, which Fidelity began in 2008, is scheduled for implementation in the 3rd quarter of 2011, assuming that the rest of the industry and broker/dealers cooperate and make their required system modifications to automate transactions and administrative processes. Mr. Troutman repeated Fidelity's commitment to be fully accountable for transactions and processes to be handled by broker/dealers under the new system.

Three other states' plans continue to utilize Fidelity funds with \$312 million in market-value assets as of September 30, 2010:

- Nebraska (Union Bank & Trust - \$234 million);
- Ohio (Putnam - \$28 million); and
- South Dakota (Allianz - \$50 million)

First National Bank is replacing Union Bank and Trust Company as the fund manager for the Nebraska plan and Putnam is being replaced by BlackRock as the manager of the Ohio plan. These changes are expected October 1, 2010 and Fidelity funds may or may not continue to be utilized by these new fund managers.

2009 – 2010 Academic Year Scholarship Awards

Ms. Capodestria from the Postsecondary Education Commission (PEC) presented the UNIQUE Allocation Program scholarship information for the 2009-2010 academic year as reported to PEC by the participating colleges and universities as follows:

	Amount <u>Awarded</u>	Number of Student <u>Awards</u>
UNIQUE Annual Allocation Program	\$4,410,056	4,953
UNIQUE Endowment Allocation Program	\$ 876,341	513

Treasury and PEC will now begin the reconciliation process between amounts awarded as reported by colleges and the amounts disbursed to colleges by the Treasury. Differences will be investigated and refunds, if any, will be requested.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended September 30, 2010, was presented by Treasurer Provencher. The Endowment Trust Fund had a balance of \$16.4 million as of September 30, 2010 which is slightly higher than the \$15.8 million fund balance at the beginning of the fiscal year. Fiscal year-to-date interest and dividend earnings and net market gains approximated \$1.4 million and fee revenues collected were \$2.5 million. Year-to-date scholarship-related disbursements were \$3.2 million for the UNIQUE Annual Allocation and the UNIQUE Endowment Allocation Program. Year-to-date administrative expenses totaled \$12,400.

Other Business

1. Proposed 2011 meeting dates were presented by Dr. MacKay. The dates of the 2011 meetings, all beginning at 10:00, will be:
 - Monday January 24 (scheduled last year)
 - Monday May 16 (deferred from April due to school vacation)
 - Monday July 25
 - Monday October 24
 - Monday January 23, 2012

The January and July meetings will be preceded by an Investment Committee meeting beginning at 9:00.

2. Advisory Commission members were reminded by Mr. Jacobson that their annual financial disclosures, pursuant to RSA 15-A, are due to the Secretary of State's office by Friday January 21, 2011. He will be sending out reminders by email, with a link to the Secretary of State's website, in early December.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:50 a.m.

NOTE: The next regular meeting is scheduled for January 24, 2011 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by the Investment Committee meeting beginning at 9:00. All Advisory Commission members are invited to attend.