

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of May 20, 2013

The May 20, 2013 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 (Retired), University System of New Hampshire
Michael Cryans	Public Member, appointed by the Governor
Ross Gittell	Chancellor, Community College System of New Hampshire
Martha Gooze	Public Member, appointed by the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Catherine Provencher	State Treasurer

Members absent were:

Jeanie Forrester	State Senator
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Sylvia Larsen	State Senator
H. Robert Menear	State Representative
Lynne Ober	State Representative

Also present at the meeting were Keith Bernhardt, Kyla Doyle, and Matt Golden from Fidelity Investments (Fidelity), Richard Gustafson, Director of the Division of Higher Education, and Bill Dwyer from the State Treasury.

### **Review of Prior Meeting Minutes**

Minutes of the March 4, 2013 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mr. Cryans and seconded by Mr. Horgan. The motion passed unanimously.

### **Old Business**

There were no open issues to be addressed by the Advisory Commission.

### **UNIQUE 2013-14 Annual Allocation Program Scholarship Award Decisions**

Pursuant to Administrative Rule Csp 602.01, the Advisory Commission is required to establish annually, during the first meeting of the calendar year, certain student eligibility and award criteria for scholarships for the UNIQUE Annual Allocation Program for the upcoming academic year (2013 – 2014). The purpose of making these decisions at this time of year is so that the colleges are notified and can begin planning and communicating their financial aid programs for the next academic year, and initiate awards on a timely basis.

During the 2011-2012 academic year \$82,500 was reimbursed to three private colleges for Annual Award scholarships to 165 financially-challenged New Hampshire residents. Participating colleges and universities were notified in January 2012 and reminded in April 2013 that awards for the current academic year would be distributed on a “best efforts” reimbursement basis at a maximum of \$500 per student, to the extent earnings in the Endowment Trust Fund can support scholarships at that level. If Fund earnings are not adequate to provide individual scholarships at that level, there will be partial scholarship reimbursements to participating institutions at a reduced, uniform, per-scholarship amount. Any awards made by the institutions to qualified students during the academic year will be at the risk of each institution, with the Advisory Commission held harmless. In addition, only the private institutions are eligible to participate in the UAAP in the 2011-12 and 2012-13 academic years, with the fiscal year 2014-15 biennial budget currently being crafted by the Governor and legislature (described and discussed in detail following the 2012-13 academic year awards criteria listed below).

The criteria for the 2012-2013 academic year are as follows:

1. Initial Allocation Amount – No initial allocation amount disbursed to colleges in July 2012 due to legislative changes affecting the Endowment Trust Fund.
2. Expected Family Contribution (EFC) Cap – The EFC cap used for student eligibility was \$1,000.
3. Individual Scholarship Award – Individual scholarships were set at \$500 maximum per student on a reimbursement basis to participating institutions, as described above.
4. Guarantee for Reimbursement of Awards – Historically the Advisory Commission has informed the Program participants that they will be reimbursed for any awards made to eligible students in excess of the initial allocation made to them. As noted, there was no initial allocation and there is no guarantee of reimbursements for Annual awards.
5. Deadline for filing the federal Free Application For Student Aid (FAFSA) – To be eligible for a student award for the 2012-13 academic year, a FAFSA for the student had to be received on or before December 31, 2012.

Noting that the State of New Hampshire is the only state with no grant program currently in place, Dr. MacKay explained that the current version of the 2014-15 biennial budget for the use of 529 account management fee income is as follows:

1. Audit and administrative costs associated with the UNIQUE programs in the total annual amount of approximately \$300,000;
2. The allocation of funds for contributions to public and private university restricted endowments in the total annual amount of \$625,000 (with subsequent payouts from those endowments used solely to support needy New Hampshire students);
3. The reinstatement of the UNIQUE Annual Awards scholarship program, administered in the State Treasury, with an allotment of \$1 million in fiscal year 2014 and \$3 million in fiscal year 2015; and
4. Continued operating support to USNH and CCSNH using the remainder of management fee income, with an allocation of 70% to USNH and 30% to CCSNH.

The final version of the budget is still being negotiated in the legislature, but preliminary indications are that the elements described above will remain intact, with the notion of increased funding for the UNIQUE programs still a possibility.

Dr. MacKay explained that the provisions of the 2012-13 budget are scheduled to sunset on June 30, and that it may be possible to utilize a small portion of the remaining \$3 million Endowment Trust balance to fund some amount of scholarships above and beyond the \$1 million proposed in the current draft of the State's budget for the 2014 fiscal year. However he also noted that if the Advisory Commission were to approve this measure it could generate some negative political feedback. In order to provide a more complete context for determining how the recalibration of scholarship award criteria---specifically, reducing the expected family contribution (EFC) to zero and accelerating the FAFSA filing deadline to August 31---would impact the ultimate scholarship payouts in the upcoming year, Dr. MacKay asked Ms. Payne to report on the most recent data available. Ms. Payne informed the Advisory Commission that the most recent data are from the 2011 academic year and are as follows: 8,500 students had an EFC of zero, an additional 1,500 students would become eligible if the EFC were reduced to \$500, and an additional 1,000 would be eligible if the EFC were maintained at \$1,000. Therefore nearly 80% of eligible students had an EFC of zero in the 2011 academic year.

Treasurer commented that during the 2007 academic year, which was the last time the EFC eligibility criteria were set at zero, only 613 students qualified for Annual Award scholarships. She noted that the growth rate of students with an EFC of zero was startling. Dr. MacKay pointed out that much of that growth is likely the result of the Great Recession during 2008 and 2009, and a substantive change in the federal calculation of EFC. He went on to say that based on the 5,900 Annual Award scholarships distributed during the 2010-11 academic year, there might possibly be in excess of 4,000 students eligible based on an EFC of zero. Dr. Gittell added that during the same academic year, 85% of Community College System of New Hampshire students had an EFC of zero and that approximately 3,000 of the 5,900 scholarships were awarded to students attending CCSNH.

Dr. MacKay offered some projections for the Advisory Commission to consider: 4,000 potential students, with an EFC of zero, receiving an Annual Award scholarship of \$300 each would mean \$1.2 million in total scholarships to be distributed, of which \$1 million would be covered in the current draft of the State budget. The remaining \$200,000 could likely be funded by the earnings generated by the Endowment Trust during the 2014 fiscal year, combined with earnings amounts remaining from the 2012 and 2013 fiscal years. Dr. Gustafson also noted that he has had conversations with members of the Senate regarding the restoration of UNIQUE scholarship funding without adversely impacting the appropriations to the University and Community College Systems that are funded by 529 account management fee income. Dr. Gittell remarked that the \$1 million and \$3 million proposed scholarship amounts in the biennial budget draft could also be revised higher in the final budget. Dr. MacKay responded that the planning of the Advisory Commission would have to be based on the budget provisions currently in place and that an ad hoc meeting of the Advisory Commission would be convened if the final budget varies. Dr. Gustafson commented that changing the FAFSA filing deadline from December 31 to August 31 would negatively impact too many students and his recommendation was not to change that criteria.

The Advisory Commission discussed these issues in greater detail, with Ms. Payne asking whether it would be advisable to establish a larger individual scholarship amount while narrowing the eligibility for such scholarships to first-time students. Dr. MacKay and Treasurer Provencher stated that it appears the Advisory Commission has the latitude to set that type of criteria. However Dr. Gittell said he would not support the discontinuance of awards to students who were previously eligible, as it would be too disruptive to those who have established momentum in completing their secondary education.

With all of these considerations in mind, Dr. MacKay solicited a motion for an Advisory Commission vote on the following criteria: 1) an initial allocation of Annual Award funding to participating institutions of \$1 million (contingent upon the approval of that item in the State budget), to be adjusted at the end of the fiscal year for any payments to the colleges that are not awarded to students; 2) an EFC of zero; 3) a per scholarship amount of \$300; 4) guaranteed reimbursement to participating colleges for any amounts awarded in excess of the original allocation, and; 5) a FAFSA filing deadline of December 31. Ms. Gooze made the motion and Mr. Cryans seconded. The motion passed with a unanimous vote of the Advisory Commission.

Therefore the following the criteria will be in effect for awarding Annual Award scholarships in the 2013-14 academic year:

1. Initial Allocation Amount - \$1 million (contingent upon this amount approved in the State budget for fiscal year 2014), with a refund to the Endowment Trust from any college that does not distribute its initial allocation amount;
2. Expected Family Contribution (EFC) Cap – the EFC cap is zero;
3. Individual Scholarship Award - \$300 maximum per full-time student;
4. Guarantee for Reimbursement of Awards – guaranteed reimbursement to participating institutions for any amounts awarded in excess of the original allocation; and

5. Deadline for filing the federal Free Application For Student Aid (FAFSA) – To be eligible for a student award for the 2013-14 academic year, a FAFSA for the student has to be received on or before December 31, 2013.

The State Treasurer will notify all participating institutions, in a communication dated late May, regarding the approved UNIQUE Annual Awards criteria.

### **Fiscal Year 2014 College Savings Program Budget Review**

Treasurer Provencher presented the proposed 2014 budget based on both asset growth projections presented by Fidelity at the previous Advisory Commission meeting and the current state budget provisions described above. Management fee income for the 2014 fiscal year is budgeted at \$11.95 million. Appropriations to USNH and CCSNH are budgeted at \$10.028 million, with USNH receiving 70% of that amount and CCSNH receiving 30%. The yearly UNIQUE Endowment Allocation is budgeted at \$625,000 and the UNIQUE Annual Award allocation is budgeted at \$1 million, with earnings in the Trust and a portion of the Trust balance used to fund any additional scholarship awards in excess of that amount. Audit fees are budgeted at \$250,000, and miscellaneous expenses, including the Treasury overhead allocation, Trust management fees, and association dues, are budgeted at \$47,000.

### **Update of Endowment Trust Fund and Scholarship Disbursements**

The Endowment Trust Fund and scholarship update report, for the quarter ended March 31, 2013, was submitted by Treasurer Provencher. The Endowment Trust Fund had a balance of \$3.042 million as of quarter-end, nearly the same as the \$3.043 million fund balance at the beginning of the fiscal year due to interest, dividend earnings, and net market gains/losses in the fund during the current fiscal year of approximately \$177,000 partially offset by Plan expenses described below. Fee revenues collected year-to-date totaled \$7.83 million and are on pace to surpass what was budgeted for the fiscal year. Year-to-date reimbursements to the General Fund (out of management fees received) for appropriation payments made to USNH and CCSNH totaled approximately \$7.24 million. As approved by the Commission at the July 25, 2011 meeting, a \$500,000 UNIQUE Endowment Allocation to the State's private colleges and universities was distributed on December 15, 2012. Year-to-date administrative expenses totaled approximately \$272,000, reflecting \$242,400 for the annual audit of the Plans by PricewaterhouseCoopers, Treasury overhead allocations of \$21,000, annual membership dues for the College Savings Plan Network and College Savings Foundation of \$6,500, and \$2,500 of net Endowment Trust Fund management fees.

### **New Hampshire's 529 Program & 529 Plan Industry Update**

Mr. Golden presented the first quarter 2013 program and industry update. Total 529 Plan market-valued industry assets as of March 31, 2013 increased 7% from the previous quarter and 14% year

over year, while New Hampshire's UNIQUE and FA 529 plans combined increased by 5.4% for the same quarter and 10.9% year over year. The rate at which state 529 plans grow or decline in any given quarter is largely determined by asset mix, which accounts for the varying growth rates among the top ten plans, and Mr. Golden explained that the slower growth in the NH Plan relative to other state plans was due to it's being a more mature plan with higher weightings in fixed income funds as well as higher volumes of redemptions for those beneficiaries now attending college. He went on to say that the State of Nevada is Vanguard's national plan, combined with 3 other plans (distributed by USAA, State Street, and Putnam) operating in that state, helped propel Nevada's plans to a faster growth rate in the quarter.

The New Hampshire Programs remained the 3rd largest in the country in asset value as of March 31, 2013 with nearly \$12 billion in assets (at market value) and approximately 6.6% of the industry's market share. New Hampshire followed Virginia (\$40.4 billion in assets) and New York (\$15.5 billion in assets) and was ahead of 4<sup>th</sup> place Nevada (\$11 billion in assets). In the direct-sold segment, the UNIQUE Plan remains in second place with an 8.9% market share, trailing New York's 14% share and slightly ahead of Nevada's 8.7% share. On the advisor-sold side, the FA 529 Plan ranks fifth with a 4.3% market share, trailing Virginia, Rhode Island, Maine, and Ohio. The Nevada plan solidified its position in the overall rankings as a result of its low-cost, index plan administered by Vanguard. The State of Virginia College America 529 Plan's administrator, American Funds, holds a 43% market share in the advisor-sold niche and recently added target date funds to its asset mix, underscoring the importance of these funds in the Fidelity 529 lineup. The Virginia plan also benefits from very favorable in-state tax treatment.

Mr. Golden stated that as a result of low market interest rates, the money market portfolios' returns were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity, at its request, to waive certain fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent negative returns on each plan's money market portfolio. This practice has been in effect since late 2009 due to the historically low interest rate environment. Total waived fees for the first quarter of 2013 totaled \$191,000.

On the national regulatory front, Ms. Doyle explained that H.R. 529 (enhancing college savings plans in terms of investment flexibility, qualified expenses, and tax treatment) was assigned to a congressional committee in early February for consideration before possibly being referred to the entire House or Senate. It is estimated there is only a 2% chance that the bill will move beyond the committee and virtually no likelihood of its ultimate passage. "ABLE" Act legislation, which was reintroduced in the Senate in February, includes tax-advantaged savings accounts under Section 529 for individuals with disabilities and allows the savings to be used to fund both college-related expenses and "quality-of-life" support. This bill was also assigned to a congressional committee and faces a similar fate to H.R. 529. Ms. Doyle plans to present an update at the next Advisory Commission meeting on August 19.

Key program enhancements to the New Hampshire plans for the first quarter 2013, as summarized by Ms. Doyle, include ongoing industry and legislative/regulatory updates as described above. Improved customer experience initiatives are scheduled in the areas of FDIC service communication, standing check payment instructions (allowing account owners to phone Fidelity

to request redemptions for tuition payments by check). There were no changes to the investment product or fund lineups in the first quarter. Lastly, the FA 529 omnibus recordkeeping/networking initiative with Ameriprise is expected to launch in 2014, with the goal of having two partners in place by the end of next year.

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

Ms. Doyle informed the Advisory Commission that as of March 31, 2013 UNIQUE retail plan assets totaled \$8.19 billion in market value, consisting of 472,053 participant accounts and maintaining a 9% market share, second among plans in the direct-sold segment. She noted that the 50% share of industry assets in age-based portfolios registers significantly lower than Fidelity's 81% at the end of the first quarter. The UNIQUE Plan also exceeds the industry average at 57% of participant accounts enrolled in automatic contributions at year end, compared to 32% of industry accounts.

New accounts grew by 10,731 in the first quarter, with the number of new accounts increasing by 24% compared to the first quarter of 2012. The average account size of a UNIQUE portfolio was \$22,470 as of March 31, compared to the average account size in the industry of \$15,869. Contributions for the first quarter of 2013 totaled over \$259 million and exceeded first quarter 2012 contributions by 8%. The average monthly new account and existing account contributions in the first quarter were \$3,537 and \$162 respectively, with the same metrics for NH residents registering \$1,313 and \$269 respectively.

Participants residing in New Hampshire are 5<sup>th</sup> out of all states at 4.97% of total accounts in the retail Plan and follow Texas (12.28%), California (11.49%), New Jersey (7.95%), and Florida (5.92%). The average balance of a UNIQUE participant residing in New Hampshire is \$16,170. With respect to assets under management in the UNIQUE Plan, New Hampshire ranked 7<sup>th</sup>, trailing California, Texas, New Jersey, Florida, Illinois, and Pennsylvania.

At the end of the first quarter of 2013, nearly 81% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios, and the remaining 6% in individual and bank deposit portfolios. During the first quarter, 85% of net flows were into age-based portfolios (including 13% for multi-firm portfolios), 10% into static portfolios, and the remaining 5% into individual and bank deposit portfolios on a net basis. Through the first quarter of 2013, the College aged-based portfolio, both actively managed and index portfolios, experienced negative net cash flow at the rate of 19.02% and 1.09% of all portfolio cash flows respectively as funds were redeemed to pay college costs. This was also the case for the 2012 active age-based portfolio, with outflows constituting 14.04% of all cash flows. The Money Market portfolio experienced cash outflows at the rate of 1.11% of all portfolio cash flows, caused by investor confidence returning and funds moving to higher-return investments. In addition there were nominal declines in assets in both the active Conservative funds and 2012 multi-firm portfolio.

Ms. Doyle also presented both nationwide and local marketing efforts completed in the first quarter and planned for the second quarter of 2013, including television advertising on NH Public

Television, and print advertising in local newspapers and magazines with both local and national circulation such as Parenting Magazine. Outreach efforts to be pursued throughout the year include increased online advertising through Savingforcollege.com, WhatToExpect.com, Bankrate, Inc., and search engines Google, Bing, and Yahoo. There will also be an ongoing partnership with Jump \$tart, a financial literacy collaboration with elementary school students throughout New Hampshire, in addition to Fidelity's annual sponsorship day at Storyland on June 1. In addition, Fidelity recently issued a press release highlighting a survey of recent college graduate sentiment regarding college debt, with several quotes from Mr. Bernhardt. Lastly, a dynamic UNIQUE web banner add will emphasize the importance of saving for college.

Treasurer Provencher notified the Advisory Commission that Governor Hassan will issue a proclamation that May 29 is College Savings Day in New Hampshire. Ms. Doyle added that Fidelity will issue a press release in tandem with the proclamation and a UNIQUE seminar at noon at Fidelity's retail branch in Nashua. Dr. Gittell offered a proposal to promote a future public discussion of student debt with Advisory Commission members and potentially supported by the Governor's office, with possible participation by Governor Hassan.

Ms. Doyle reported that Fidelity Investments American Express credit card rebates for the first quarter 2013 once again totaled nearly \$5 million in rewards flows deposited into the UNIQUE Plan, with \$24.6 million in rewards to 529 participants and non-529 participants over the past 15 months.

### **Index Portfolio Proposal (Fidelity)**

Citing, RSA 91-A:3, II(j), RSA 91-A:3, III, and RSA 91-A:5, IV, Dr. MacKay explained that Fidelity and the Advisory Commission believe that the information to be discussed should be treated confidentially since both Fidelity and the State could possibly be competitively harmed by public disclosure of a thorough discussion of the proposed item.

A motion to enter into non-public session pursuant to RSA 91-A:3, II (j) was requested by Dr. MacKay. Treasurer Provencher moved for a non-public session, and the motion was seconded by Mr. Horgan. The motion passed unanimously. Minutes were recorded but, as described below and pursuant to RSA 91-A:3, III, will not be released until a contract amendment is presented to the Governor and Executive Council.

Upon completion of the discussion regarding the proposal, Mr. Horgan moved, Treasurer Provencher seconded, and the Advisory Commission unanimously approved the closing of the non-public session. Following the re-opening of the public session, the Advisory Commission moved and there was majority approval of the pursuit of a contract amendment with Fidelity in order to implement the new proposal. In addition, the Advisory Commission moved and approved the authorization of Treasurer Provencher to negotiate the resulting contract amendment and seek Governor and Executive Council approval on behalf of the Advisory Commission.



Lastly, Mr. Mahoney moved and Mr. Horgan seconded that the minutes pertaining to the proposal remain sealed until the amendment is approved by Governor and Executive Council. A roll call vote (with 2/3 consent required by statute) was as follows, with no members dissenting:

Dr. MacKay	Yes
Mr. Cryans	Yes
Dr. Gittell	Yes
Mr. Horgan	Yes
Mr. Mahoney	Yes
Ms. Payne	Yes
Treasurer Provencher	Yes

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

Mr. Golden reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had \$3.76 billion in market-valued assets under management at March 31, distributed over 199,000 participant accounts. Using the first quarter 2011 as a basis for comparison, 6.1% more new accounts were opened in the first quarter of 2013, with 7.3% more in relative contributions for these same periods. The metrics for the first quarter 2012 were inflated due to a large volume of one-time rollovers from other state plans, as noted in prior meetings.

New Hampshire residents maintained a ranking of 20<sup>th</sup> in the number of accounts in the advisor-sold plan at approximately 1.48% of all accounts. Residents from California (13.24%), Texas (7.86%), Massachusetts (6.98%), Pennsylvania (5.75%), and Florida (5.42%) constituted the top 5 in the plan at the end of the first quarter. The average account size in the advisor-sold plan was \$18,872, with New Hampshire residents averaging \$18,215 in account balances.

For the first quarter 2013, net outflows occurred in the age-based College Portfolio resulting in a drop of 3.6% from the prior quarter, as participants began and continued their redemptions for college expenses. Seventy-two percent of all FA 529 assets were held in age-based portfolios, with 20% in individual portfolios, and the remaining 8% in static portfolios. First quarter activity saw nearly 85% of net flows directed to the age-based segment, with nearly 12% of net flows into the individual portfolios and 3.4% into the static.

Mr. Golden submitted an overview of the anticipated integrated marketing efforts on the part of the FA 529 Plan throughout the year. The initiatives combine elements such as e-mail surveys and informational communications, statement stuffers, and back-to-school and holiday gifting outreach, with Fidelity sales support, website promotion, client meetings, marketing promotion, and sales interaction augmenting these efforts. The “Start the Conversation” e-mail campaign was launched in March and Mr. Golden presented detailed results. Over 37,000 e-mails were distributed to financial advisors, with 5,424 e-mails opened (14.6% open rate), and 220 “click-throughs” (4.1% click-through rate). An open rate of greater than 10% is considered successful for this type of campaign.

Other state plans continue to utilize Fidelity funds on an investment-only basis, with \$12.9 million in market-value assets as of March 31, 2013:

Nevada (Putnam - \$3.5 million since inception in October 2010)

South Carolina (Columbia - \$9.4 million since inception in October 2012)

### **Review of Other Items**

Dr. MacKay noted that the appointment terms for five members of the Advisory Commission, including his own term as USNH appointee, will expire on June 30 and asked that the following members arrange for their reappointment or replacement on the Advisory Commission: CCSNH appointee, NH College & University Council appointee, and NH Higher Education Assistance Foundation appointee. He explained to the Advisory Commission that the USNH has agreed to have him serve at least through the summer and he will be in attendance at the August 19 meeting. It is expected a permanent USNH Chancellor will be named by that time, and that person will select a new USNH representative.

He also indicated that the terms of the two public members appointed by the Governor will expire on September 4.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 12:10 p.m.

**NOTE:** The next regular meeting is scheduled for Monday, August 19, 2013 beginning 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 a.m. All Advisory Commission members are invited to attend.