

**Montana Family Education Savings Program (MFESP)**  
**January 13, 2010**  
**GSL Conference Room 201A - Helena, MT**  
**1:00 pm – 4:00 pm**

**In Attendance:**

**Board members in person:** Jon Satre (Chair), John Driscoll, Paul Christofferson, Todd Buchanan, Robert Minto, Lynne Egan

**Public:** Gil Johnson (College Savings Bank, CSB), Dan Davenport (CSB), Jason Thielman (CSB)

**GSL/OCHE Staff:** Bruce Marks, Mick Robinson, Robin Graham, Amy Berry, Sheila Newlun

**1. Welcome and Introductions:**

Jon welcomed everyone, and thanked everyone for making the trip, College Savings Bank (CSB) is here for the presentation, and all the Board members are present.

Robert Minto **Motioned:** to approve the minutes from the last meeting, John Driscoll seconded.

**Vote:** all in favor, none-opposed.

**2. College Savings Bank and Pacific Life updates (see presentation for more information):**

- Dan Davenport presented the updates (the presentation will be emailed to all in attendance).
  - a. Status reports
    - Most numbers are preliminary, and will be finalized in the Annual report later this year.
    - CSB total deposits (in dollars) for 2009 have increased 5% over last year. July is typically the largest deposit month, mainly attributed to the CollegeSureCD maturing that month and many clients choose to reinvest.
    - The number of new deposits were up 30% over last year, additional deposits were flat over 2008.
    - CollegeSureCD continues to dominate the deposits, however, the InvestorSure and fixed rate CD's are also performing well. The fixed rate product was just launched in May of 2009. Its interest rate fluctuates with the market.
  - b. CSB Marketing efforts
    - CSB expanded their Marketing department last year by adding marketing positions and designers, they have developed creative campaigns to reach out to potential investors.
    - Traffic to the website has grown the past year, CSB is using Search Engine Optimization to maintain high placement on Google, etc... They have also developed RSS feeds to help drive traffic to the site.
    - CSB is also working to grow in-state relationships with industry partners (Student Assistant Foundation, Montana Chamber of Commerce, Montana Professional Teaching Foundation, etc...). In addition to their normal advertising avenues (direct-mail, billboards, Alumni Newsletters) this year they also added 529 Nights at Ball Parks across the state. They also have a presence on Facebook, Twitter and other Social Networking sites. It was suggested that there may be a way to find parents of a high school students to "invite" them to be our "Friend" this may be a good way to reach potential investors. Dan will research this and other ways to increase the banks exposure on these types of sites.
    - It was also suggested that a good time to reach parents would be as their children enter kindergarten. At that time parents are relieved of the daycare expense, then this money may be available to put toward saving for College. CSB will look into ways to do this.
    - The bank currently works with the University of Montana mainly advertising in the Alumni Newsletter, they have also been discussing becoming involved with the athletic department. CSB will also consider ways to integrate with the other Universities throughout Montana.
    - College Savings Bank conducted a Customer Satisfaction Survey of 10% - 15% of their clients, their overall results were favorable.
  - c. Level of Investment from Montanans in 2009
    - CSB changed its focus a couple years ago, to put more emphasis on acquiring in-state deposits, almost ½ of the total accounts are now from Montana investors. This is a different model than most 529 plans across the nation.
  - d. Pacific Life Funds board meeting update
    - There is much more concrete information to present since the last Oversight meeting.
    - Pacific Life has committed (in writing) that the assets will transfer to the new Investment Manager as decided by the Board of Regents.

- In addition, Pacific Life has agreed to waive the Contingent Deferred Sales Charges; 67,386 in-state and 343,474 out-of-state, as long as the investors move to the new Montana 529 plan. Investors can transfer early, or at the decided time of asset reallocation.
- Montana individual investors (only) can still purchase Pacific Life funds up until the transfer takes place (November 2010), Brokers cannot.
- Pacific Life does still have some funds (that were frozen from further investment about 5 years ago), it appears these funds will be liquidated in the near future (July 2010). These are the funds in the top group on the slide titled “College Savings Bank: PL Assets by Investment”.
  - Todd asked if Pacific Life may be willing to wait to liquidate these funds to coincide with the transition in November to Vanguard? Dan will check with Pacific Life to see if this is a possibility.
  - The number of investors still remaining in these funds is relatively low, however, the Oversight Committee will need to recommend where these funds should be transferred.
  - This will have to take place quickly, the Oversight Committee will make a recommendation to the Board of Regents (BOR), who will ultimately make the determination. This recommendation should be presented at the March or May BOR meeting.
  - It was suggested that the letter to the investors should have a Default fund that their investment will roll into if they take no action, BUT offer them some additional options, with the understanding that some of the choices would require they use their once-a-year change (this limitation is a Federal requirement).
  - Dan and Amy will start to work on drafting the above mentioned letter, and it will be an Agenda item for the next Committee meeting so it can be done in time for the BOR meeting.
- Letters to brokers regarding Pacific Life’s move out of the 529 Program, were sent on Friday, individual letters have not been sent yet, however, they should go out soon, as people start to hear of it, there will be many questions.
  - Dan is requesting the Pacific Life mailing list tomorrow
  - Assuming the BOR approves the move to Vanguard Funds (at the BOR meeting tomorrow), this letter can go out directly, everyone agreed it should go out prior to the Pacific Life letter, to help alleviate investor panic. The letter will not mention specific Vanguard products because CSB will still be in final negotiations with them. Communication will be crucial as all these transitions take place, keeping investors well informed is a top priority.
  - There should also be a Press Release in Montana after the CSB letter, but before the Pacific Life letter if possible, in addition to disseminating good information, it produces a good marketing opportunity to push the new funds.
- Robin and Amy are issuing a Limited Solicitation this week for the Consultant and will hopefully have that person on board in early February. It will be beneficial to have someone looking at all these parts, ensuring that everything is being done in the proper order, and that each piece has been evaluated and manipulated to create the best outcome possible.
- The biggest concern in this whole process is if there is a “run of funds”, stemming from investors (or their Brokers) choosing to move out of the plan MT plan (if they do there could be a tax-recapture issue for investors). The investors need to be informed that their investments are best-served if they stay in the Montana Program. When Arizona investors had to choose, about ½ stayed with Fidelity, IF the trend is the same, CSB and Vanguard should be able to weather the storm, then start to rebuild. This trend may not be seen until after the transfer, CSB will monitor levels closely as we start these transitions.
- The servicing costs (Servicing, Custodial and Fund Accounting) are still an unknown component of this whole process, currently Pacific Life uses PNC for servicing, PNC has said they are interested in keeping the business by moving over to Vanguard Funds. They would charge a variable rate “with a floor” (we are at the “floor rate” until we reach around \$250 mil in deposits). Dan has had initial contact with UPromise as a possible servicer (they already work with Vanguard), and although there has been nothing formal, the hope is that their bid would be purely variable, which could dramatically reduce the risk to the bank, and lower the costs to the investor.

### **3. Vanguard update:**

- CSB would like to launch the Vanguard Funds as soon as possible, to have it up and running before the November transition date. Vanguard has said they are open to this with the 3 fund-to-fund options. The Index funds, however, will require a critical mass of \$10 mil before they can launch, so those will wait until November.
- It was noted that there are no “Value” funds in the Vanguard options, and some of the Pacific Life investors are in Value funds now, this may make it difficult to determine where their funds should be transferred.

Those specific investors are in the funds that have been “frozen” for 5 years, and even though the Vanguard funds are labeled as “growth” the criteria are very similar. These are the funds recommended by Vanguard as the most popular around the country, utilized in the Colorado plan, etc...

- It was also mentioned that there are no age-based options. This is true for now, however, Dan mentioned that there is an interesting possibility in the future to create an age-based product utilizing these funds along with the Banks products.
- During negotiations, Vanguard expressed a concern that the CSB contract is due to run out in about 18 months. They are not interested in entering into a contract with CSB under these circumstances. CSB proposed, getting the contract extended early to remedy this situation. Having the contract extended to June 2013, Vanguard would be comfortable to proceed.

John Driscoll **Motioned:** to approve the addition of the Vanguard products and launch schedule, with the minor change of sending the CSB letter prior to the Pacific Life letter, Todd Buchanan seconded.

**Discussion:** Bruce noted that this schedule will be followed as closely as possible, this will hinge on acquiring Pacific Life’s mailing list (*shouldn’t* be a problem).

**Vote:** all in favor, none-opposed.

For logistic purposes, Agenda item 5 was discussed prior to item 4.

#### **5. Pre-paid discussion:**

- Amy presented the Committee with handouts with overviews of other states’ 529 plans.
- John Driscoll is particularly interested in Alaska’s plan. Alaska has basically the same population as Montana, but over 3xs the amount of deposits. There was much speculation about why that may be; the Government may have contributed much of it, or the rebate checks that Alaska residents received in years’ past may have had a big impact, but ultimately it was decided that Amy (along with the new consultant) will research this further to be able to bring more details back to the committee.
- It was confirmed that the Committee can pursue options (such as pre-paid) without affecting the contract with CSB. Nothing in the contract prohibits the plan from having multiple Contract Managers, or from having CSB manage a different type of program for Montana such as this.
- There was interest from multiple Board members that all types of unique ideas should be investigated, and once the upcoming transitions are under control, the Program as a whole should start looking further into the future (maybe a 10 year plan) to start developing innovative and creative ideas.

#### **4. Extension of CSB contract:**

- Robert commented that he is fairly new to this Committee, but during this time, CSB has made a good impression on him, and has brought good ideas and options to the table, it would be in the plan’s best interest to consider this request.
- Jon Satre also commented that since he started on this committee approx 3 years ago, the bank has come a long way, and worked really hard to present the Committee with the options they have been requesting. The Committee appreciates all their hard work and effort.

Todd Buchanan **Motioned:** to approve the extension of the College Savings Bank Contract, Paul Christofferson seconded.

**Vote:** all in favor, none-opposed.

#### **6. Model Portfolios:**

- 4<sup>th</sup> quarter, all funds are slowly recovering, thoughts about the future among industry professionals are mixed as usual.

#### **7. Next Meeting:**

- CSB will have more information in February regarding the liquidation of the Pacific Life Funds. The committee will need to recommend where the funds will be transferred, so it can be presented at the BOR meeting.
- The Consultant should be on board by then.
- Amy will look at days the last ½ of February to schedule with the Committee.

**Adjourned 3:00**