

**Montana Family Education Savings Plan
Oversight Committee
May 20, 2008
GSL Conference Room - Helena, MT
10:00 am – 2:30 pm**

Attendance:

Committee members: Jon Satre, Paul Christofferson, John Driscoll , Kerra Melvin

Absent: Lynne Egan

Call in: Todd Buchanan

College Savings Bank: Jason Thielman **Call in:** Gil Johnson, Dan Davenport

GSL Staff: Bruce Marks, Ron Muffick, Robin Graham, Sue Mohr, Sheila Newlun

Acting Chair Jon Satre opened the meeting. Introductions of all attendees were done.

Approval of minutes: – Jon motioned to approve the minutes from March 4, 2008 Oversight Committee meeting. Kerra seconded, no objections.

Montana 529 Update: – Sue Mohr provided handouts and lead discussion.

The Market is still very volatile, “the nickel isn’t what it used to be”. Reviewed Morningstar reports of our Funds, they still look pretty good, considering the current market. Pacific Life will be presenting their Annual Report to the Board of Regents at the May meeting. Recent case decision, Davis vs. Kentucky, the State still has the right to provide a tax-savings to residents who invest in 529 Plans, good decision for us.

Jon – a couple states are offering tax parity, what happened to the Montana bill?

Todd and Kerra – the bill never made it out of committee, was “tabled”. Rumor was that the Department of Revenue thought it would be very hard to track, and there was a potential for lost revenue.

All – appreciate the information that Sue is providing to the members, it is very helpful.

College Savings Bank (CSB) Presentation: – Gil Johnson and Dan Davenport were unable to make their connecting flight, they are on Speaker phone, Jason Thielman conducted the Presentation.

Powerpoint presentation – history of the plan, CSB is the bank with the longest tenure in a 529 plan, their policy is to invest in conservative products. CSB is in New Jersey, Jason is in Denver. CSB will no longer be partnering with Pacific Life due to the recent sale of CSB, but the funds will remain intact. New owners cannot be named yet for legal reasons, they are a Boston based Student Lender, for profit, financial entity.

Todd – MT and AZ are the biggest revenue source for the bank? Yes

presentation continued – Montana’s 529 plan was adopted by AZ, WY, OK, WY, and HI. All bank investments are government backed (like Fanimae). No liquidity issues in the foreseeable future.

Gil – This is their investment policy, could move outside this area, but have no plans to do so.

Todd – about 10% of the investors are above the \$100,000 FDIC insured amount? Correct

Jason – looking at drop in investors in 2005, this may have occurred due to the fact that things were in limbo, so not much was spent on advertising during that time, effecting participation numbers.

All – lots of discussion about AZ, Fidelity has pulled out of AZ, the state is now having to work through that situation, lost many investors who moved over to the Montana Plan. CSB is one of 3 Program Managers in AZ. CSB does have some obligation to spend some dollars to market the AZ plan, but often finds that the Montana plan is more attractive, and more marketable overall.

John – would like to see in-state/out-of-state accounts compared to the Idaho plan. Also, Virginia is doing a CD series, would like to know more about that, maybe it would generate some ideas for us.

presentation continued – CSB is doing some ongoing research about adding some more choices, as the Committee asked at the last meeting. Some thoughts; adding mutual funds, finding another Mutual Fund partner. Upstart costs to bring on another fund around \$1 mil.

Todd – these costs seem somewhat high

CSB – the bank has been reaching out to some companies trying to generate interest. (list is in the presentation) American Funds cannot expand outside VA, per their contract.

Todd – can Montana's plan have its' own ticker on NYSE? Why can't investors pick any fund, that isn't specific to Montana?

Sue – believes it is a state regulation that they have to be 529 licensed.

Todd – can the State make that unnecessary? He will follow-up with Cathy Swift and/or Lynne Egan

Jason – investors cannot direct their own investments in 529 plans, the state has to control.

Todd – remembers that 5 years ago or so, investors had many more choices, maybe 15 or 20? What if we have to choose another besides Pacific Life? Due to the sale of CSB?

Dan & Gil – we can do an RFP to solicit for more. Our agreement with CSB is separate than their agreement with Pacific Life.

Todd – is not unhappy with Pacific Life fund performance, but MT citizens should have more choices. What suggestions does CSB have?

Jason – CSB is trying to get more contacts and ideas, so far Janus is most interested, but have not done 529 before. Not much interest from any other players yet.

Jon – we should continue this discussion later in the meeting as scheduled.

presentation continued – CSB continuing to spend \$600,000 on marketing, the contract only requires that they spend \$300,000. They have increased customer support, and focus on the website. Jason asked the Oversight committee to share ideas of PSA opportunities in the State. Many of their marketing goals came from the committee last meeting.

Todd – referred to a letter that was brought up last meeting regarding the use of the MFESP logo. He doesn't remember seeing the letter sent by GSL outlining the procedures that CSB will follow. (we will send him a copy of the letter, also send to the rest of the committee)

John – did we send any marketing out regarding the Stimulus Package? He didn't see it in the papers, maybe it was more National than in MT? (no response specifically addressed this question) He also would like to see the stats about how many people are in certain cohorts, do we have that kind of information?

Dan – has the age breakdown

Jon – would like to see a more formal Marketing plan including the actual budget, he would also like to see more info on PL.

CSB – their marketing is focused on trying to reach the parents and get them involved as early as possible

All – with the OK of CSB, we distributed the CSB financials to all the members at the meeting.

LUNCH

Jason Thielman left the meeting, and Dan and Gil are no longer on the Speaker phone

Monitoring and Audit Process – Sue lead the discussion

Was hoping to get some ideas from other states, but most don't have anything in place. Sue attending the Municipal Securities Rulemaking Board (MSRB) Seminar, they also did not lend much help or ideas in this area. Sue will continue to research options.

Status Reports – Sue

Pacific Life will present their Annual report at the Board of Regents meeting later this month, once we have their presentation, we will share it with the committee. They have a contractual obligation to report to the BOR annually regarding the performance of their investments. The Education and Local Government Interim Committee, Alan Puera, said they are addressing the same kinds of questions we are; more choices for investors, tax parity, and how to attract low income investors.

RFP for Program Manager – Jon Satre lead discussion

Sue provided a white paper that gives background and history of the Program, along with options to explore. If we want to move forward with this process, we would need to have it out to bid in the fall.

Jon – could/should we look at partnering with another state?

Sue – Sue has spoken briefly to 2 states, Utah and Oregon. Utah is low cost, they use Vanguard funds and act as their own Program Manager, and they provide statements to their investors, very labor intensive. WY did partner with CO, so it can be done. The main concern is what happened in AZ, we don't want to upset/confuse our current investors, if it gets too complicated, people may opt out all together.

Todd – are there other states that act as their own Program Manager?

Sue – they are very unique in this capacity

Sue was asked what her strategy/ideas might be – she would like to see Index funds added to the mix. If we did an RFP, Upromise (with Vanguard funds) might bid, might also end up with Fidelity – they handled the AZ situation very poorly, they are probably not a good choice of someone we want to work with. Partnering with another state is a good option.

Jon – what happens to our investors if we do a full RFP and CSB doesn't win the bid?

Sue – investors will get to decide (just like they did in AZ, when many chose the MT plan), they can stay with Pacific Life, or move over to the new funds. This provision is already written into the current contract.

Kerra – likes choice #3. Retain CSB as Program Manager, and do a limited scope RFP to look for additional investment managers who could provide low cost index funds to add to our mix.

Jon – would be interested to see what we would get back if we put out a full RFP, we might have some new players, that we didn't attract last time, or it might generate some ideas we haven't thought of yet. Some agencies use consultants to help write RFPs, who have more expertise than we might in this area, not sure how we would pay for that, but maybe it would help.

Kerra – thought that the CSB presentation made it look like they really don't want to find other investments, if we did get CSB again, maybe *then* we could do the limited RFP to expand our offerings.

Todd – thinks a full RFP is a good idea, Kerra, Jon, John and Paul all agreed. We are an advisory committee, BOR would have to implement and determine if/how we could pay for a consultant.

Bruce – maybe Todd or Kerra could bring this before the board at the Regent meeting?

Kerra – unlikely since it is not on the Agenda, and can't be added at this point.

Todd and Kerra – will look into presenting this at the meeting, or maybe through a separate conference call at a later date.

Jon – in the meantime, we could be looking into outside expertise, and maybe find out the possible costs.

Jon – motioned that we move forward to start the RFP process for a new Program Manager.

Kerra – seconded, none opposed.

Kerra – motioned that this Oversight Committee recommend to the BOR to look into funding for a consultant for an RFP and any research that may be a part of that process.

Jon – seconded, none opposed.

Bruce – to clarify, this does not directly relate to partnering with another state

All – after the RFP, then we will continue exploring this option, along with a possible limited RFP for more funds and more discussion on tax parity.

Bruce – how do they want GSL to proceed from here?

Todd – maybe a report from us that we are working toward these motions. Then Todd and Kerra can proceed when appropriate.

Jon – wants to reiterate, this is not implying anything negative regarding CSB, they are doing a good job, but the state has to look at all our options for the good of our citizens.

Election of new Committee Chair –

Ed Jasmin's tenure is up.

Kerra – nominated Jon Satre, Todd seconded all voted and approved. Jon accepted.

Jon – next steps from here. Todd and Kerra present to BOR, Jon will try to get some financial names to Sue, Sue will continue to talk to folks about partnering, we should put together a timeline with dates to have things accomplished.

Bruce – at what level does the Committee want to be involved in the RFP process?
Committee would like to evaluate the RFP before it is sent out to bid

Jon – any further comments, no. motioned to adjourned, Kerra seconded.
Adjourned 2:30