

**Montana Family Education Savings Program (MFESP)**  
**November 12, 2009**  
**GSL Conference Room 102A - Helena, MT**  
**1:00 pm – 4:00 pm**

**In Attendance:**

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

**On the phone:** Robert Minto

**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 the newest member of the Board, Robert Minto, also welcome to Amy Berry, the new Education Savings Analyst for the Montana Guaranteed Student Loan Program (MGSLP).

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

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

The order of Agenda items was adjusted by Jon Satre (Chair) as follows

**8. College Savings Bank update:**

- Dan Davenport presented the updates (specific numbers are included in the first handout).
- Assets under management and number of accounts have both increased since January of this year, these numbers reflect CSB and Pacific Life combined amounts.
- The number of visitors to the CSB website has again increased over last year. There was a slight decline in number of page views, this may be due to the revamp of the website, so consumers can find the information they are looking for without as many “clicks” or page views, this is ultimately the goal of a website.
- Dan will find out the number of new accounts that are Montana residents. Generally, MT residents make up 60% of the number of accounts, while providing 40% of the deposits.
- CSB has signed agreements with 2 bank chains in Montana, Stockman Bank and Glacier Bank, to sell the CD products. Combined they have over 40 branch locations across Montana.
- The second handout, gives examples of the Marketing being done by CSB including Newspaper, Billboards, and Direct Mail pieces. 30%-40% of the year’s deposits are typically collected in the last two months of the year, so there is a big push at this time to remind consumers to take advantage of the tax benefit.

**4. Pacific Life update:**

- Dan and Bruce have had multiple conversations with Pacific Life since the last Committee meeting. As of last week, they believed the letter explaining Pacific Life’s intentions would be available for this meeting. Unfortunately, a formal letter has not been received. In its place, Pacific Life sent an email to Dan to read verbatim at this meeting:
  - 1) Pacific Life is committed to the MFESP and intends to honor its contractual commitments through the end of the current contract period that expires June, 2011.
  - 2) Should the MFESP, in conjunction with the Program Manager, CSB decide to move in a different direction, such as by requesting that Pacific Life exit the Program early, Pacific Life is open to discussing this with us, (the State and Program Manager). As part of that discussion, Pacific Life would consider entering into an agreement to transition its Program assets to another investment and waive CDSC, under appropriate circumstances.
  - 3) Based on Pacific Life’s prior experience, any transition of Program assets would likely take at least 12 months to execute.
  - 4) The State and Program Manager should continue discussions regarding possible manager alternatives and open a dialogue with Pacific Life on the related matters surrounding any possible changes.

- Pacific Life expressed its intentions to move out of the program verbally to Bruce, Robin and Dan in various conversations, as discussed at the last meeting, and as late as last week. However, their Legal Department has concerns that once Pacific Life makes a formal statement that would trigger many legal requirements, including notifying their Brokers (within 5 days), freezing sales of the products, and may cause assets to transfer out of the program before there was a new Manger in place.
- CSB does feel they can proceed to look into other investments, currently Vanguard is interested in the Montana Plan IF the assets are able to be transferred. Their proposal will be discussed later in this meeting.
- The contract with Pacific Life is until June of 2011, with the possibility of one 2-year renewal, Beyond that it is month to month, either party would have to give 90 days notice to the other to terminate.
- It is necessary to obtain in writing Pacific Life's intentions, so CSB and the State can solicit other vendors and be prepared for the transition when necessary. A possible solution is to issue a Memorandum of Understanding with Pacific Life to start the process of negotiating this transition at the normal end of the contract, "unless the parties agree otherwise" may want to be included.
- CSB is the Program Manager, but cannot take action without the approval of the Board of Regents. This Committee is Oversight only, making recommendations to the Board of Regents (BOR), (historically the BOR has followed the advice of the committee).
- Dan will bring the estimated number of Early Termination Charges to the next meeting, so the committee knows how much is being discussed.
- If Pacific Life doesn't have a qualified 529 program, they still have to provide transition assistance. In the case of Arizona investors, they were able to switch to the Montana plan (any many did), however, MT is the last Pacific Life 529 program, so it is unclear what would happen in that situation. Investors may have to pay back taxes on the contributions? It was recognized around the room that it is the responsibility of this committee to make sure that doesn't happen.

## **2. College Savings Bank's Investment Alternatives:**

- Presented by Dan Davenport (handed out a Binder of information)
- CSB considered 5 different funds
  - Vanguard Funds – the 2<sup>nd</sup> largest provider of 529 programs, they have 25 billion in assets, in 25 states. In the most recent MorningStar report, 4 out of the 5 Best Funds were Vanguard funds.
  - Oppenheimer – has had some legal issues, including Class action lawsuits, not considered further
  - Fidelity – Arizona counterparts have had some poor experiences with Fidelity funds, not considered further
  - American Funds – largest 529 provider, however, they have an exclusive contract to only handle the Virginia 529 plan, could not consider further
  - TIAA-CREF – 5<sup>th</sup> largest, did seriously consider
- An in-depth list of pros and cons of Vanguard vs. TIAA-CREF is included in the binder. Ultimately CSB approached Vanguard (Utah uses these funds, they have a very good reputation)
- Dan's information includes a letter of interest from Vanguard along with 2 options for consideration, Vanguard is interested now, with the stipulation that CSB would handle deposits, mktg, etc...CSB does some of this now, and is getting bids from the company Pacific Life uses (PNC) to handle the other necessary functions.
- In the past, products were kept separately between CSB and Pacific Life, so was somewhat confusing to consumers, this would fix that problem, with all materials being under the CSB umbrella.
- Option 1 – Low cost equity funds (Utah uses these 2 funds along with an Asset allocation model)
- Option 2 – Asset allocation funds (binder includes detailed information for each of the proposed funds).  
Note: Option 2 includes Option 1
- Does the bank feel these funds will compete with the banks products? Possibly, however, they are different products, for a different type of investor (CD's are nice alternatives for investors still concerned about investing in the market)
- It was noted that Vanguard has around 200 funds, the proposal is only for 5? The more funds offered, the more administrative cost that is passed down to the investor. It is a goal of the committee to keep the cost as low as possible, while still offering a good variety of products. Looking at the whole spectrum of the Vanguard funds, along with the Bank products, they create lots of options for Montana investors.
- The Committee is very impressed and pleased with the Vanguard proposal, now what? Pacific Life would have to relinquish the assets to the BOR, then BOR would have to direct CSB to transfer to Vanguard. The whole process could take approximately 12 months to complete.
- Once the process is under way, maybe a preliminary letter can go out to investors with the exciting news of switching to Vanguard, before they receive the letter from Pacific Life? This will all have to be timed very carefully.

- The only investors that could have a disadvantage are those that have not held their investments for 3 years, they may lose some tax advantage.
- It was discussed that initially the reaction may be negative to having to make a switch, Brokers typically don't have a huge percentage of an investors' money in 529 programs, so probably wouldn't notice much movement from them either. Dan believes 60% of accounts are broker held rather than direct.
- This Committee is interested in proceeding with Vanguard – all agreed. CSB will take the necessary next steps, and will provide an update on the progress at the January meeting (Amy will set up in early January)
- Breakdown of steps that need to be taken:
  - CSB needs to obtain a written understanding with Pacific Life
  - Will need to notify the State of the intention to replace Pacific Life
  - MGSLP should hire a consultant to research all the possible implications, and provide this committee (at the next meeting?) with a recommendation of how to proceed
  - CSB should provide a schedule of milestones at the next meeting to keep everyone/everything on track
  - If CSB is unable to obtain a letter from Pacific Life by February 15<sup>th</sup>, 2010, then this Committee will need to issue the RFP for a Program Manager, that could provide Equity options.
- Jon and the rest of the committee appreciate the efforts of CSB.

**3. RFP Discussion:** has been done (above)

**5. Prepaid College Plans discussion:**

- Todd – the Board of Regents is exploring different approaches and funding models throughout the education system. It may be beneficial to look at different states to see what options they offer for prepaid savings plans, etc... Prepaid plans in particular are suffering across the country right now due to the economy, this may not be the direction we want to go. Amy will do some research and will explore what other states are doing to give us some good information to consider the options.

**6. Partnering with Utah:**

- This is still an intriguing idea, however, it has been pushed to the back burner as other, more pressing items have presented themselves. Important note: it was discovered in researching this option that there are some Statutory items that would need to be changed in order for this type of partnership to proceed. Since the next Legislative Session is coming up soon (and they only happen every 2 years), it would be beneficial to fix these items now, so this option would be available to us in the future. MGSLP will handle getting the Legislation cleaned up.

**7. Model Portfolios:**

- Presented by Amy Berry (specific numbers on the handout)

**9. Next Meeting:**

- Amy will circulate dates in Early January amongst members, then will determine the final date for the next meeting
- Explanation of Income Tax Code – it might be helpful to have someone come to our meeting to explain the ins and outs of this program. Robin may be able to have someone from the Revenue department do a presentation for the committee, she will look into it. Utah has a document that tells investors how to do their taxes, this may also be helpful.

**10. Additional Items:**

- Mick Robinson is no longer a Committee member (replaced by Todd Buchanan) since Mick was the Vice Chair, this would now fall to Todd. Todd and the Committee members agreed.
- Once again, thanks to all; Committee members, CSB and MGSLP, for their continued effort and participation.

Bob Minto **Motioned** to Adjourn, John seconded.

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