

October 21, 2010

ITEM 149-102-C1010

Montana Family Education Savings Program, Revision of Account Mapping

THAT

The Board of Regents of Higher Education hereby ratifies the commissioner of higher education's authorization for the Montana Family Education Savings Program to provide Pacific Life updated mapping instructions regarding the Pacific Life Optimization Conservative Fund.

EXPLANATION

The Pacific Life Portfolio Optimization Conservative Fund (Conservative Fund), which had been mapped to a bonus rate (or super) savings account at College Savings Bank (CSB), will now be mapped to the regular College Savings Bank savings account (i.e. no bonus interest rate will be paid).

Finding an appropriate product to map the Conservative Fund investors to has been a difficult process. Vanguard does not have a product with similar risk tolerance compared to the Conservative Fund. An initial option had the Conservative Fund mapped to the Vanguard LifeStrategy Conservative Growth Fund. That option would have doubled the investment risk compared to the Conservative Fund, so it was rejected. Consideration was next given to place these accounts into a CSB certificate of deposit with the early withdrawal penalties waived. Unfortunately CSB was unable to waive the penalties due to FDIC regulations. It was decided, therefore, to move these accounts to the CSB savings account and pay these particular accounts a higher rate which would be subsidized by the MFESP. This mapping to the bonus savings account was approved by the Board of Regents at its May 2010 meeting. At the time these decisions were made, Upromise Investment was not yet under contract with CSB. However, once Upromise became involved in the transfer, its legal counsel began expressing concerns that paying a subset of investors a bonus rate would create potential liability for the MFESP. The concern was one of the many issues that factored into the decision to delay our October conversion. The team (the State, CSB and Upromise) requested that all investors placed in the CSB savings account be paid the same (or regular) rate. By moving the Conservative Fund to the CSB regular Savings Account, it will help us to ensure the conversion happens this year, that the trust is protected, and that all legal requirements of our program manager and Upromise are satisfied.

CSB will proactively contact this group of Conservative investors once the transfer is complete to ensure the account owners are fully aware that their accounts have been mapped to the savings account. CSB will work to help the account owners understand the new investment options in order for the investors to make informed decisions regarding their current situations and future college savings goals.

Please see attached memo.