

# Minutes of the Meeting of the College Savings Program Board

Held in the State Treasurer's Conference Room, Third Floor  
1 South Pinckney Street  
Madison, Wisconsin

November 8, 2010  
1:00 p.m.

MEMBERS PRESENT: *Adamski, Darling [arrived at 1:30], Durcan, Johnson, Oemichen, Sass, Sheehy [by phone], and Jerry Huffman for Dr. Wegenke.*

MEMBERS ABSENT: *Cook, Plale, and Rosen*

OTHERS PRESENT: Michael Wolff, DOA; Sarah Henriksen [by phone], Tom Biwer [by phone], and Shane Martwick, Wells Fargo Funds; Linda Schlissel [by phone], Evaluation Associates; Bill Sayles, Corporate Central Credit Union; Jessica Pautzke, Treasurer's Office; Connie Schulze, Sen. Darling's staff; Abigail Lynch, Sen. Plale's staff; and Jim DiUlio

**I. Call to Order and Roll Call** – The meeting was called to order with a quorum at approximately 1:05 p.m. by *Treasurer Sass*. (See above for attendance.)

**II. Approval of Agenda** – Staff reported that the meeting agenda was properly posted for the public. The Treasurer asked for approval of the Agenda. Motion by *Oemichen*, second by *Durcan* to approve. Motion carried by unanimous voice vote.

**III. Public Presentations** – There were none requested.

**IV. Approval of Minutes** – The minutes of the Board's regular meeting of September 13 and the special audit report meeting of October 13 were presented for approval. Motion by *Johnson*, second by *Adamski* to approve both. Motion carried by unanimous voice vote.

## **V. Administrative Reports**

**A. Board Chair Comments** – As the Chair was absent, *Sass* asked if either of the Vice Chairs have any comments? None today.

**B. State Treasurer Comments** – *Sass* reported on just finishing this year's 72-county tour. She added that the Higher Education Day contests are responding well with another large stack of entries arriving today. She presented EdVest checks to the winners of the Milwaukee Public Library's Summer Reading Program at a ceremony last Saturday, along with *DiUlio*. *Sass* then shared some experiences of her term on the Board, since this will be her final meeting following last week's election. She said she hoped her successor will continue her outreach efforts with Higher Education Day, public libraries, elementary schools, and UW sports.

*Johnson* then addressed the meeting, offering his thanks to *Treasurer Sass* for the enthusiasm she brought to the 529 program, with the 72-county outreach and other activities to bring new people into the system. He also acknowledged her support with the transition to the new Program Director. He read a statement from the

members: "A Resolution. The Wisconsin College Savings Program Board commends State Treasurer Dawn Marie Sass for her service as a member of the Board and in administering our program 2007-2010. Here in Wisconsin and at the national level, the initiatives you have taken along with the support you have provided have helped improve all college savings programs. As an advocate of financial literacy and savings, children and their families will enjoy future success in higher education thanks to your dedicated work. November 8, 2010."

- C. Program Director Comments** – *DiUlio* also thanked Treasurer Sass for her support and participation with the program's activities, and wished her good luck. Following a very tight timeline, the program, for the record, is in compliance with the new SEC Advisors rule. All of the players—KPMG, Wells Fargo, the attorneys, this Board, OST, along with the printers and mailers—worked well together and delivered the audit report(s) to account owners within the 120-day window we were given. The CSPN group is working to find some relief from the SEC for considerable added cost this rule creates for 529 plans. Both *DiUlio* and *Henriksen* are members of the national committee that will address this.

In the outreach area, *DiUlio* reported a number of recent benefits fairs staffed by Wells Fargo and OST. We have participated at three UW campuses, Kohl's Corporation in Menomonee Falls, and state office buildings here in Madison. An EdVest state payroll insert goes soon, along with an electronic version for paperless agencies such as DPI. We participated in both the WEAC and AFT-W conventions last week, promoting the kids contests, the elementary school kit, and the new continuing education piece for teachers and educational support professionals. We will also be participating in the Wisconsin School Board/Administrators/Business Officials convention, held in January, with the same emphasis.

Winter sports promotions started as well with Kids Day at the Kohl. We distributed materials to hundreds of children and parents, as with our spin-the-wheel events at UW basketball and hockey games. Other current events include last week's awards with the Milwaukee Public Library, at Madison Public Library next month, and wrapping up Money Smart Week, our collaboration with 26 communities, Wisconsin DFI, and the Federal Reserve Bank of Chicago.

Moving to the financials, our expenses are under budget four months into the year, even with the front loading of benefits in the October period. Current earnings on our state investment fund balance is now is about \$1,500 a month, compared to about \$2,300 last year. The participant asset charts show typical seasonality with withdrawals for college, and the other activity is due to market fluctuation. One concern, *DiUlio* said, is that gross numbers of accounts are increasing, but the rate of increase may be diminishing. This will need some further study.

Question from *Oemichen* regarding enrollment trends compared to other states. *DiUlio* responded that we seem to be in the middle, although some states have experienced consecutive negative quarters. *Johnson* thought that uncertainty in the economy is affecting this. *Schlissel* added that families may be just waiting because of job security and other worries. She added that since the market has had a good run recently, people may return and start chasing it.

As a last item, calls and emails regarding the Strong Funds legal actions have all but stopped. One anonymous caller was upset with the Board's action, even after *DiUlio* explained to him the SEC's limits on using the settlement money. The caller would

have preferred to get a check for \$1, even if it took \$10 to find him, and asked that his comment be shared with the Board.

**D. Manager [Wells Fargo] Comments** – *Martwick* began by relaying the news that *Henriksen* [on the phone today] injured her Achilles tendon, limiting her travel. He said that there were no new Federal issues to report for this quarter, other than the recently-completed audit requirements by the SEC. There are paper copies available at the meeting. Affecting our mutual fund lineup, a merger is underway between RiverSource and Columbia funds, with the resulting portfolios taking the Columbia name. He said the only changes are in the names, with no changes in managers or investment philosophy.

At the call center, he said that there is seasonal pickup in accounts. They are also seeing more investment change requests going from conservative portfolios to more aggressive ones, a reversal of activity earlier in the year. Some pickup in non-account owner activity, i.e. grandparent contributions, is also seen.

*Martwick* also filled in more details on Wells Fargo's outreach activities. Responding to comments from the September meeting, the updated fall media campaign will use additional social media. Another addition is an interactive online contest with Fox6 television in Milwaukee, and that the radio component will now be statewide instead of just the metro markets. He also explained our venture this year in Pennsylvania. He said they are one of the five equal footing states, offering tax advantages to any state's 529 plan. Pennsylvania is very generous, following gift tax guidelines of up to \$13,000 single taxpayer deductions or \$26,000 for married couples. A state-specific EdVest insert will be included in statements to Wells Fargo customers there, pointing out the deduction.

*Johnson* asked if the call center receives specific questions about the CD program. *Martwick* replied that he could not recall any, other than general questions about investment choices.

*Oemichen* asked what Wisconsin radio stations were added. *Martwick* replied that the Ideas Network of Wisconsin Public Radio and the commercial Wisconsin Radio Network will be the outlets. *Adamski* inquired about specific tracking of different radio markets for effectiveness. Radio is harder to track, *Martwick* said, because it is difficult to set specific phone numbers or URL reply links. However, they will watch new accounts by location to see if there are trends. Also, on the new client survey, 'radio' is now a choice to answer to how you found EdVest.

At this point, *Senator Darling* arrived, and asked *Treasurer Sass* to continue as Chair.

## **VI. Old Business**

**Strong Funds Settlement** – The only news to report is that the SEC will be releasing some settlement funds in November and we are near the top of the list.

## **VII. New Business**

### **Investment Committee Report**

**Contract Extension** *Johnson* said the committee covered a lot of territory at last week's meeting. He asked *Wolff* to update the Board on the program contract extension. *Wolff* apologized for the lengthy period that DOA and Wells Fargo took in the process, but it was important to be careful and deliberative on behalf of all the investors and our relationship with Wells Fargo. Working with consultant Andrea Feirstein, it was discovered that rather than extending the contract for the full three years from its May 2011 end, we would have better information about where we stood within the 529 spectrum of fees in a shorter period. It was decided that an 18-month extension would be appropriate. *Wolff* said that this is in no way a reflection of any dissatisfaction with the Wells Fargo companies' management of the program or performance. This is not a negative response, but rather timed to reflect other states' 529 contract dates and get a better picture of modern pricing. All the signatures are in place and this takes us to November 2012.

*Johnson* added that a number of investment additions were on hold, waiting for the process to be completed. As part of the agreement, the program will be allowed to add up to three index portfolios, and work on suggestions has begun. The committee has been looking for more low-cost passive funds. *Wolff* also noted that Wells Fargo's recent mergers with other mutual funds have resulted in about a basis point reduction in fees for us. Wells Fargo offered to absorb the current \$10 annual fee to service the remaining tuition unit accounts as part of the extension.

**2010 Morningstar Report on 529 Plans** *DiUlio* began with a brief overview of Morningstar's 51-page report on 529 plans, just released last week. This year, the report listed only 50 of the 82 savings plans offered. EdVest placed 'average' and Tomorrow's Scholar placed 'below average.' And by the quirk of the alphabet, we were placed at bottom of each section. Had all 82 been listed, we would have been in the middle or above, just like last year. Upon further reading, both we and Wells Fargo discovered data errors, illogical comparisons, errors of omission and the like. There has not been any sort of public press coverage, however, other than in one financial advisor trade publication. Perhaps the added cost to view this data as presented within Morningstar's Web subscription is preventing more coverage. *Johnson* added that during last week's committee meeting, it was the consensus that we should react to correct the record, but not to overreact, and allow Morningstar an opportunity to fix the mistakes.

*Henriksen* said that Wells Fargo has a drafted letter in review, pointing out Morningstar's data errors. She has also had phone conversations with their analyst who interviewed us for the report. Two key factual issues had significant impact on our ratings. Their Web performance information, which is the source for the 529 report, shows incorrect 2008 returns for all of the Tomorrow's Scholar portfolios and all but one of the EdVest portfolios, she said. Fourteen portfolios are understated, one by seven percentage points. The 2008 year was significant since the ratings were based on both three- and five-year performance. The second data errors, *Henriksen* said, are on the age-based tracks. Every one of the age-based tracks was also under-reported, the largest by five and one-half percentage points. Had they been reported correctly, we would have had four of the top ten age-based portfolios in the country. She said she respected right of Morningstar to offer an opinion, but not present errors regarding fact.

Comment by *Adamski*, thinking that Morningstar may see our numbers as the inaccurate ones. *Henriksen* said that after the letter is sent, there will be an opportunity to discuss

the data and calculations. *Martwick* added that Morningstar staff told him there were 'some challenges' with their own data. There appears to be a consistent 4 percentage points error over the performance between both number sets. *Darling* asked *Schlissel* for her take. She replied that the committee discussed this and Wells Fargo should respond first since they had the data. Two of her other state 529 clients also have issues with the report.

**Third Quarter Investment Performance, Watch List update** – *Schlissel* began her report by saying the quarter gave both strong absolute and relative returns. Almost all EdVest funds outperformed their benchmarks, very strong in all categories. The historical analysis on pages 4 through 6 show continued improvements as time goes on. The equity markets have done well through September with the rally and October and November have added more. The Tomorrow's Scholar portfolios also show above peer group. As a group, these could be the best historical numbers we have seen. As far as Watch List recommendations, there are no changes from EAI. The only fund remaining on the list, and scheduled to come off in March 2011, is the Wells Fargo International. *Johnson* said that *Schlissel* will be a large part of the February meetings, with year-end analysis and work on proposed new index funds within the menu. Wells Fargo will also be looking at some allocation adjustments within the age-based portfolios as part of regular analysis.

*Oemichen* told the Board that he was dismayed by Illinois campaign ads on the radio. There were commercials attacking their state treasurer for 'losing money in the Bright Star 529 program.' The point being that we as the Board are the fiduciaries, but the parents make the investment decisions. It is unfortunate that it was used this way, but it shows the risk that a board may face, being blamed for returns or lack thereof.

**Credit Union CD portfolio** – *DiUlio* began with welcoming *Bill Sayles*, of Corporate Central Credit Union, as a guest to today's meeting. As background, Members United FCU, who acts as our intermediary in placing share deposits with the individual credit unions, was conserved or taken over by the NCUA. Prior to that, there had been some concern among the CUs regarding Members United's financial situation, possibly affecting our ability to place money in Wisconsin institutions. This was relayed in the email to the Board the weekend we heard the news. The NCUA was slow to respond to us regarding our concerns about the relationship. *DiUlio* finally made contact with a capital markets manager at their Virginia headquarters. Our concerns about the marketing component first sent to the Texas NCUA regional office had not been passed along. He was surprised and when asked about the future of Members United—either to be resold or liquidated—he had no comment, other than their takeover staff was prepared to live in Chicago for up to two years.

The percentage of the \$6 million Credit Union CD portfolio, unplaced in cash, is becoming larger. 69.4% added *Henriksen*. Because of all the work on this project so far, *Henriksen* approached CCCU, who had once expressed an interest to take a look as an alternate partner.

*Sayles* briefed the Board on Corporate Central, a \$2 billion CU outside of Milwaukee. All the credit unions in Wisconsin but one are members. They also have relationships with another 200-300 CUs in the Midwest. They are the strongest corporate CU in the country in terms of capital. CCCU meets all the new NCUA regulation, since added after Members United and others were conserved. *Sayles* then detailed all the steps the Members United Bridge institution will have to take to become a freestanding business again.

When the original RFP for the 529 program's credit union services was open, *Sayles* said that CCCU was interested, but with the institution in the middle of their exam, it just didn't work out. In anticipation of renewing that interest, he had his sales people survey the current market. They found three barriers: credit union customers are very cautious, and now there is more money coming in through the doors than requested in loans, creating an imbalance. On the administrative side, many of the smaller CUs do not accept deposits from nonmembers. At the larger CUs, the program's \$250,000 cap on deposits should be raised to merit consideration. There may be, however, with the 250 CUs in Wisconsin, there could be some potential.

*Johnson* recapped the related discussion from the committee meeting, asking that if we make changes to the CU CDs, it could be wrapped into the larger fund lineup process.

*Sayles* added that Wisconsin's credit unions historically have had the largest loan to savings ratios in the country, about 90% and sometimes over 100% in a robust economy. The imbalance we experience now shows a cyclical period.

*Adamski* agreed, and said the same cycles affect banks, especially community banks. But in the long run, they all like to participate knowing that it is the right thing to do. He was pleased to see *Sayles* here at the meeting today, and related the work that Bankers Bank does in the bank channel. *Oemichen* said that Brett Thompson at the Credit Union League was looking at meeting with some of the larger CUs CEOs for input.

*Johnson* stated that the investor needs to clearly know what they are getting when they check the box that says credit union CD. To better get to that end, the committee discussed recommending to the Board that we move from Members United to CCCU to better place the assets.

Motion by *Adamski*, second by *Oemichen* to accept the committee's recommendation that we authorize Corporate Central Credit Union to perform services for the credit union CD portfolio. Motion carried by unanimous voice vote.

**Marketing Committee Update**—*Sheehy* deferred to *DiUlio* with handouts relating to the year-end media campaign. He thanked *Mary Cook* with her good comments at the September meeting, directing Wells Fargo's media people to broaden our presence. Today's list reflects many of those improvements, with increased focus on electronic media. Radio, as previously mentioned, will use Learfield's statewide WRN, including some of the same stations in their agricultural network and the Badger Sports network we currently use. We will also have messages on Wisconsin Public Radio's Ideas Network, and in the Milwaukee area the sports station affiliated with ESPN. Also in the southeast, we will be on Metro Network's traffic reports. Illinois' 529 programs have also had success using Metro Network in Chicago. Television buys are more strategic with morning news shows in Milwaukee and Madison, and buys in the Green Bay/Appleton market for the first time. New this year is a full schedule of digital billboards and expanded online advertising, with the ability to track by site and city. While some of these outlets and markets are new to the program, he is looking forward to the results. The Wells Fargo team has assembled a plan with a coordinated look, is trying new things, and responded to our concerns.

*Sheehy* added that doubling the size of the social media budget, using the digital signs, and moving into more targeted magazines should work well. Eliminating the large newspaper buy was a good move. He thanked the Wells Fargo creative team for both responding and coming up with an excellent plan. He also added that he and *DiUlio* are committed to reconstituting the Marketing Committee with quarterly meetings in 2011,

and is inviting members to participate. *Huffman* then volunteered to be part of the committee. He also saw success with digital billboards earlier this year, in promoting Private College Week.

Question was raised if we marketed directly to tax practitioners. *Martwick* replied that on occasion, Wells Fargo has worked with both their state and metro CPA groups.

*Darling* asked how we measure the outcomes of our advertising budget? With the electronic channels, we can better count and identify sources. But we should have some year-to-year expectations and results. *Huffman* said at the outset it is hard, but if you track something for 2-3 years, you can get to a cost per thousand or a baseline. Results from one or two years experience is not enough sometimes, so the goal is to get good numbers this year as a beginning. *Martwick* added that they have capability to track calls and responses by phones and URLs as well. *Adamski* suggested targeted surveys.

**Scheduling Board Meetings for 2011** The Investment Committee has scheduled their February meeting for the 7<sup>th</sup>. Consensus for the next Board meeting will be Monday, February 14. A list of suggested dates for the remainder of the year will be circulated before then.

*Darling* then expressed her thanks to *Treasurer Sass* for her service to the Board and program, with good wishes for the future.

**VIII. Other Announcements** – The Investment Advisory Committee will meet on Monday, February 7, 2011, and the full Board will meet on Monday, November 14, 2011. Both meetings will begin at 1:00 p.m. in the State Treasurer's Conference Room.

**IX. Adjournment** — Motion to adjourn the meeting by *Oemichen*, second by *Darling*.  
Motion passed by unanimous voice vote.

Adjourn at 2:40 p.m.