Minutes of the Meeting
of the
College Savings Program Board

Held in the Monona Terrace Conference Center, Hall of Ideas Room
One John Nolen Drive
Madison, Wisconsin

July 9, 2008
10:00 a.m.

MEMBERS PRESENT: *Darling, Sass, Johnson, Wegenke, Durcan, Oemichen, Adamski, Cook, Sheehy*

MEMBERS ABSENT: Plale, Rosen

OTHERS PRESENT: Megan Perkins and Rich Janosik, EDVEST Program; Stephanie Wilson, Office of State Treasurer, Michael Wolff, DOA; Jay Risch, Sen. Darling's office; Sarah Henriksen, Wells Fargo Funds Management; Andrea Feirstein, AKF Consulting

I. Call to Order and Roll Call – The meeting was called to order at approximately 10:02 a.m. by Board Vice-Chair *Oemichen*. (See above for attendance.)

II. Approval of Agenda – *The Board did not approve the agenda*

III. Public Presentations – None

IV. Approval of Minutes for May 12, 2008 Meeting - *Johnson* moved, and *Durcan* seconded a motion to **approve the draft minutes from the May 12, 2008 meeting as distributed.** Motion passed unanimously by voice vote.

V. Administrative Reports - None

VI. Old Business - None

VII. New Business – Offsite Meeting Agenda

A. The State of Wisconsin's College Savings Program - *Henriksen* from Wells Fargo made a presentation regarding the current state of the Wisconsin College Savings Program. (*Sheehy* entered here) The presentation included the demographics of who invests in the 529 program (mainly EdVest). *Johnson* asked if the proportion of non-residents was rising. *Henriksen* responded that this was only true on the Tomorrow's Scholar side. *Cook* asked about the racial demographics in the state of Wisconsin vs. the participation in EdVest. The data is in the Year End report, and the racial groups where the program is lagging behind the Wisconsin statistics are with African Americans, Hispanics and Native Americans. (*Darling* entered here) The presentation also included a competitive overview comparing the Wisconsin program to the highest rated programs according to the Money magazine, Morningstar and SavingforCollege.com scales, and how market changes have affected investments. *Johnson* asked about reward systems like UPromise and FutureTrust.

Adamski asked if the Wisconsin rating was affected by the high range of portfolio expenses, and if there are one or two options that put programs into the top five on the Morningstar scale. *Henriksen* responded that a few of the Wisconsin portfolio's high prices do not help the ratings (particularly the Wisconsin Select portfolio), and that often the positive ratings come from the low fees. But on the low end, the portfolio expenses in Wisconsin are particularly low. She also stated that part of the problem with the Wisconsin plan's ratings may be a problem of public perception and media communication, because the program meets much of the criteria for a low-cost plan, but the rating system has inaccurate information, or does not rate certain successful portfolios. Wells Fargo will work to ensure that Morningstar and SavingforCollege.com are educated on the accuracy of their information and on the 2008 enhancements as well. *Henriksen* mentioned that if the EdVest voluntary waiver were to become permanent then it would stop having to get disclosed and would improve the ratings.

B. <u>College Savings Landscape Today</u> - *Feirstein,* from AKF Consulting gave a detailed presentation covering the 529 market today, program management trends, legislative, regulatory and program initiatives, rating 529 plans, and the Wisconsin plan. *Feirstein* was asked if there were other states that had a program manager that does not have an investment option alongside it. *Johnson* was interested if this enabled states to avoid a conflict of interest but *Feirstein* discussed how the fees get significantly higher because the program manager has to make up the money for not providing the investment options themselves. *Feirstein* addressed the current market concentration with program managers and the way that tax deductions keep the managers from being even more concentrated. Tax parity could potentially change that. A discussion ensued about multi-state program managers and their benefits and costs. *Wolff* asked what had happened to the parity proposal in the capitol. *Sen. Darling* responded that many legislators felt that it was a bad economic time to deal with a tax issue. The Board discussed matching grants and scholarships and attracting more low-and middle-income families to the program. *Feirstein* reported that fees are often over-valued in ratings. *Johnson* asked whether ratings agencies dealt with a weighted average of fees rather than the range of the highest and lowest fees. The Board discussed the temporary waiver on state fees for EdVest and whether to suspend it or create a zero cost option or do a flat fee to improve fee ratings. *Adamski* suggested that the board has to decide how important it is to be in the top 5 on the Morningstar list, as many investors look at the list as an indicator of the quality of the program. The Board discussed whether it is more important to look at EdVest and Tomorrow's Scholar as a whole or to focus more on an in-state presence. *Cook* stated that she didn't want to sacrifice overall quality in order to up ratings. After discussing the Morningstar rating and its importance to the public, the Board decided to try and improve relationships with Morningstar and SavingforCollege.com. *Feirstein* stated that consistency of performance is more important than having one or two portfolios that are highly rated. *Feirstein* identified some program considerations for Wisconsin going forward to finish her presentation. (*Oemichen* left the meeting at this point)

C. <u>Wisconsin's 529 Program and DOA</u> – *Sheehy* invited *Wolff to* speak about the contingency fund in terms of provisions for outreach for the program and the DOA contract. *Wolff* explained that while using the $7 million dollars (which is a trust fund held for the benefit of the participants) is legally acceptable (they are the state's funds), it may not be a politically wise move due to the fact that the program would be using the funds in a different manner than they were collected. Using the fund would require an appropriation and maybe could be linked to the marketing appropriation in the future. *Wolff* suggested using out-of-state fees only or the earnings alone in the fund rather than the corpus for marketing use. He elaborated that another option would be to segregate the amount of money going backwards or forwards that's coming from the out-of-state fees and then using the corpus to pay for administrative fees for the office. The contingency fund was developed to be a litigation reserve. The Board discussed whether it would be enough money to defend itself and whether it would have the force of law. *Wolff* also discussed the marketing provision of the Wells Fargo contract. *Darling* stated the need for a more unified marketing process between Wells Fargo, the Treasurer's Office, and the Board. A discussion ensued regarding the Board's role in the contract process vs. DOA. *Wolff* stated that DOA is involved in the process because the program involves the sale of state securities.

D. Marketing and Outreach Presentation – The board engaged in a brainstorming session in order to come up with ideas for marketing. *Cook* stated that she would like to continue the relationship with Andrea Feirstein going forward. *Wegenke* suggested that there was a consensus that there be more targeted outreach to under-represented populations. *Sass* proposed reaching out to those groups through ethnic and local newspapers in order to reach populations that speak other languages. *Wegenke* would like to pursue the idea of a matching deposit/matching grant. *Wegenke* suggested that Wells Fargo should present their marketing plans, as well as their justification of those plans, before the Board in order to avoid micromanaging on the Board's end. *Durcan* wanted to pursue the idea of payroll workplace deductions (as well as company matching) in the future as well as lowering the minimum deposit required. *Johnson* thought that scholarships were a good thing to pursue to reach lower income people and also asked if the language on the website turned away potential investors due to its complexity. *Janosik* responded that the call center receives focused questions, suggesting that many callers had seen the website and were well informed. *Adamski* stated that the CD Option would be a good marketing tool to reach low- and moderate-income people and that local financial institutions would be a natural fit to display posters and brochures. *Darling* proposed putting advertisements in grocery stores to reach low-income target groups, as well as putting an emphasis on savings instead of tax-deductions. She also suggested setting goals and benchmarks for the marketing department, and setting up a specific campaign targeting state employees. *Wolff* advocated establishing benchmarks as well for moderate and lower income people, and also put forward the idea of altering the tax code so that $1.10 credit could be given for every $1 put into an account as a progressive system (revenue neutral). *Johnson* mentioned that many different organizations representing retirement groups often seek speakers and that would be a great venue to reach out to grandparents. *Janosik* warned against the matching grants and scholarships due to the administrative difficulties of requiring individuals to prove their levels of income.

E. College Savings Board Brainstorming Session– The Board discussed the state of the board structure, and specifically approached the issue of creating committees. *Adamski* advocated for the creation of committees for their ability to disperse the work load, but warned against creating too many, and therefore some should be temporary. Suggested committees were an investment committee, a marketing committee, and a competitiveness committee. *Sheehy* stated that the committees would not be put in place to usurp Board authority but are an opportunity for those interested parties to contribute more to the Board. *Perkins* suggested that the committees develop a charter as a guide, should have a chair, that they be made public, and that the method of staffing the committee occur through volunteering. The Board decided to have a structure in place by the August Board meeting at which time members would sign up for one of the three committees. The Board then discussed bylaws and a governing structure for the Board. *Perkins* suggested that a working group be created in order to create Board bylaws, and that they could use other 529 State Board's bylaws for a guide in terms of structure and content. It would help the board in terms of protecting them, as well as to give future members of the Board specific direction. After discussion regarding the necessity of by-laws and language, *Johnson* suggested that the idea be put on the agenda for the next meeting, and to send an e-mail to Bill Oemichen about heading up a working group on the wording for the potential bylaws. *Janosik* presented information on state statutes, the fiduciary role of the Board, and the administrative rule in place for the program. *Cook* asked about the specific statutes that related to the program manager contract and stated that there was a large grey area between the statutes and the actual responsibilities of the Board. *Darling* asked about liability insurance for the Board. *Wolff* responded that the Board was immune as a state board.

F. Investment Consultant Contract – *Sheehy* led a discussion about concerns over the watch list, how it was determined and the nature of information disclosure. There was agreement that clearer wording and parameters needed to be set forward to EAI in order to give a better sense of what the watch list should include. *Wegenke* suggested sending a directive to EAI to make sure all of the questions raised were answered.

XI. Announcements

A. Upcoming Conferences for Board Members – *Perkins* asked for all Board members to let her know soon if they would be able to make it to the August Board meeting.

X. Adjournment— The Chair adjourned the meeting at approximately 3:35 p.m.