

Minutes of the Meeting of the College Savings Program Board

Held in the Monona Terrace Community and Conference Center
Wisconsin Room
1 John Nolen Drive
Madison, Wisconsin

June 16, 2005
9:00 a.m.

MEMBERS PRESENT: *Adamski (arrived at approx. 9:10), Darling, Johnson, Wegenke, Clumpner, Durcan, Reid, Voight, Wolff*

MEMBERS ABSENT: *Plale, Oemichen*

OTHERS PRESENT: Marty Olle and Rich Janosik, EDVEST Program; Tom Petri, Senator Darling's office. By conference phone, Andrea Feirstein, AKF Consulting.

I. Call to Order – The meeting was called to order at approximately 9:05 a.m. by Board Chair *Darling*.

II. Roll Call – See above.

III. Approval of Agenda – *Wegenki* moved and *Voight* seconded approval of the agenda as posted and distributed. Motion passed by voice vote without objection.

IV. Approval of Minutes – *Reid* moved and *Durcan* seconded a motion to approve the minutes of the April 25, 2005 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

V. Administrative Reports

A. Board Chair Comments – *Darling* thanked everyone for their service on the Board, and announced that this meeting's purpose is to look to the future, and to examine the program's strengths and weaknesses.

B. State Treasurer Comments – *Voight* updated the Board regarding the status of the \$175 million settlement between Strong Funds and the attorney general's offices in New York, Wisconsin and the SEC. An independent consultant has been working on a distribution plan, which is to be completed by June 30. On July 29, any objections to the plan are to be submitted by Strong and the SEC. August 29 is the deadline for agreement on the plan, and Sept. 13 is the date for final submission of the settlement plan.

Olle discussed his conversation with the attorney representing the Board's interests, who has spoken with Strong's attorney and has confirmed the deadlines. To date, no

fund family involved in a settlement has met the deadlines, and we expect that there will be some delay for the Strong plan beyond June 30. The Board will have an opportunity to comment on the plan after it is made public, and the comments will be considered by the SEC in deciding whether or not to approve the plan. Other class action lawsuits in these cases have not proceeded very far, but initial arguments in the actions have been scheduled for later this week. The cases may extend out for a long time.

Voight mentioned that it is possible the distribution to shareholders from the settlements may be taxed by the IRS. *Wolff* suggested that since the distribution would be to the State, that it would likely not be taxable.

C. Program Director Comments – *Olle* briefly reviewed program activity, revenues and expenditures to date for current fiscal year. The members discussed the current size of the program, and received national comparative data from Feirstein. *Darling* asked the staff to get comparative data regarding administrative overhead from other state 529 programs, and the members discussed the current expenses for the program relative to fee income. *Wegenke* asked to see if there are any “industry standards” available to be able to compare the program to.

VI. New Business

A. Future of the 529 “Industry” - Andrea Feirstein of AKF Consulting reported on the other state 529 programs by size of assets and number of accounts. Wisconsin ranked 12th in assets and 8th in terms of accounts as of 3/31/05. The Board discussed the relative position of Wisconsin compared to neighboring states. *Johnson* asked about other states that have separated the investment management function from the recordkeeping and administrative functions of the program. Feirstein commented that it is different in the direct-sold versus the advisor-sold market channels in the world of 529 plans. There are marketing, distribution/sales, administrative/record keeping and investment management functions that need to be handled by the programs. *Johnson* is concerned that all the investment options being offered by the program be given equal footing in terms of visibility, and he expressed concern that it may not happen if the investment manager is also performing so many of the other functions of the program. Further discussion was held regarding the structure of other state 529 programs and how they were evolving. Feirstein also discussed the transfer agency and recordkeeping functions in the mutual fund world, and how it relates to state 529 programs.

Darling inquired about state tax deductions for out-of-state 529 programs. Feirstein stated that she was not aware of any state offering a state tax deduction for programs outside their state. She did not see that situation changing, unless the Federal government made changes to national tax treatment, which she felt was unlikely. Extension of the Wisconsin EdVest tax deduction to other state 529 programs would be positive from the public policy standpoint of encouraging saving for college. However, we would be extending a precious state resource (the tax deduction) to out of state 529 programs which would benefit from that equal treatment. The cost of doing this would be an important factor to consider, given the current difficulty balancing the state budget.

The landscape of 529's as it exists today, according to Feirstein, is quite different from when they began prior to 2000. Factors that contribute to the status of 529's today; 1) volatile market and investment performance since 2001, 2) uncertainty about future federal tax treatment of the investments, as well as the Lifetime Savings

Accounts proposal, and 3) controversial conduct by program managers (vendors). Federal oversight of 529 plans is increasing, which is beneficial to investors.

More states and their consultants are monitoring vendor and investment performance. The new national uniform disclosure format will allow consumers to compare costs and performance of all portfolios offered by their state plan by looking at the plan's program description. This will also make it easier to choose between competing plans.

As for the plans themselves, there is increasing interest in bank products for conservative investors, programs are lowering fees wherever possible, and we may see some consolidation among states that have relatively small asset balances in their programs. We could be reaching a point of market saturation given the number of programs available.

Voight would like to see how we rank in terms of market penetration analysis. What percentage of our population is using our program? What is the data for other states? He added that we need to create incentives for lower income people to save.

Janosik suggested that the 70,000 newborns in Wisconsin each year is a great potential market for us. *Darling* added that our marketing could also reach out to people in more nontraditional settings that fit in with target audience lifestyles.

B. Past, Present and Vision for the Future of Wisconsin's 529 Plans – Clumpner

asked if we can demonstrate yet that we are getting additional students through college; students who would not have otherwise been able to attend. Can we add incentives to the program to reach more middle and lower income students? *Reid* asked if we know which institutions our beneficiaries are actually attending. [Technical schools vs. universities, in-state vs. out-of-state].

Adamski provided a brief update on the CD option, mentioning that Bankers Bank has had initial contact with Wells Fargo and there is optimism that the concept may work in our program. *Janosik* added that the FDIC recently announced a new policy clarifying that FDIC insurance will apply to accounts in 529 plans.

Darling expressed concern that Wisconsin ranks 30th in the percentage of adults having B.A. degrees, and wondered if this could fit within our mission. Many students are starting college but not finishing, partly due to financial hardship. *Wegenke* said part of it is a financial aid issue. Many Wisconsin students have so little resources that they have no expected family contribution as determined by federal criteria. *Durcan* said the UW system has seen a drop-off in students from lower income families over the past few years.

The group expressed interest in having the Outreach committee meet to further discuss these issues. *Durcan* suggested that if the committee develops a plan, it may have success going to the legislative higher education committees to explain the plan and its rationale.

VIII. Adjournment

At this point the members agreed that none of the agenda items other than VI.A. had received adequate discussion, and elected to continue the board retreat at another meeting. *Wolff* moved and *Johnson* seconded a motion to adjourn. Motion carried by voice vote and the Board adjourned at approximately 12:10 p.m.