

**MINUTES OF THE  
OREGON 529 COLLEGE SAVINGS BOARD  
MEETING OF JANUARY 24, 2008**

Members Present:       Randall Edwards, Chair  
                              Kirby Dyess  
                              Lyn Hennion  
                              Scott Sandbo  
                              Carl Vance

Network Staff:         Michael Parker, Executive Director  
                              Stephanie Swetland, Executive Assistant  
                              Lynn Nagasako, Legal Counsel

Treasury Staff:        Andy Hayes, Office of the Treasurer  
                              Kate Richardson, Office of the Treasurer

Others Present:        Randy Choy, The Oregon Community Foundation  
                              Kyla Doyle, MFS Investment Management  
                              Tim Findlay, TGF Productions, Inc.  
                              R. Scott Gardner, Gardner Financial Group  
                              Raquel Granahan, OppenheimerFunds, Inc.  
                              Lisa Grove, Grove Insight  
                              Dan Herrmann, OppenheimerFunds, Inc.  
                              Jim Jessee, MFS Investment Management  
                              Matt Kittredge, Granite Transformations (private party)  
                              Sarah Stephan, Pyramid Communications  
                              Robb Walther, Run Spot Run Media  
                              Senator Ben Westlund, Oregon Legislature

Chair Randall Edwards convened the Board meeting at 1:20 p.m.

Lyn Hennion recommended two small changes to the November 15, 2007 Board meeting minutes. All approved as amended.

Matt Kittredge, a member of the public and small business owner in Portland, addressed some comments to the Board. His family moved from Kansas to the Portland area, and he began investing in the Oregon College Savings Plan (OCSP) in 2004. He has been very pleased with the program and its fee structure. However, he has some concern that the State continues to charge a 10 basis point administrative fee, although Oppenheimer dropped its fee to 5 basis points when assets reached \$500,000,000. He feels that the State should consider reducing its administrative fee as well. His understanding is that approximately 75% of the College Savings Network's budget goes towards professional services required to market the Plan. He believes marketing the Plan to Oregon residents is a noble thing, but he would prefer that his investment go towards accumulating earnings and paying for his children's education, not promoting the Plan. He would like to see the State's administrative fee be reduced to five basis points, or devise an asset-based schedule with benchmarks for the State's reduction of the fee. He also suggested approaching Oppenheimer to have them promote the Plan instead of the State. Mr. Kittredge feels that if the goal of the Oregon College Savings Board is to help Oregonians save money to put their children through college and other forms of higher education, then lower fees should be the first priority, ahead of marketing funded by investors' dollars.

Chair Randall Edwards commented that Mr. Kittredge's comments were very timely, since the Board's annual planning session was going to occur the same day, and program costs have always been important to the Board. The challenge has been that the Network is a self-funded program and receives no Legislative funds to run it, so a fee is necessary. The question is what the level of fee should be as the assets grow, and how to keep it balanced. Additionally, the Board is charged with making people aware of the OCSP, so balance is required when marketing it so it's not done completely on the backs of investors.

Board Member Carl Vance added that the Board's 529 partners do their own advertising of the plans as well, so all advertising dollars aren't spent by the State. It's a combined effort.

Board Member Scott Sandbo commented that the Board has evaluated fees and will need to continue to do so as assets increase. One of the benefits accrued through marketing is that with more awareness, more assets come into the plans. This allows the Board to drive reductions from the program managers when certain thresholds are reached, which in turn benefits all investors.

The next topic of discussion was the OppenheimerFunds 529 Plan (Opp529) portfolio changes. Network Director Michael Parker stated that at the last Board meeting, Oppenheimer proposed the Opp529 program changes, the biggest change being swapping out the Global Fund with the Baring Fund that was discussed. The Board agreed in principal, but wanted more due diligence done. Andy Hayes of the Investment Division of the Treasurer's Office approved the addition of the fund, after phone conversations with OppenheimerFunds and reviewing additional documentation provided by Baring. He wrote a memo regarding his recommendation on the Baring Fund, dated January 16, 2008 which is part of the Board packet for the January meeting.

Mr. Parker stated that the Baring Fund was tagged for approval to be added to the Opp529 product. The Board could choose to make another motion to approve it if they desired, but they had already approved it in principal with the prior approval contingent on the Investment Division's decision.

Randall inquired if another motion was necessary, Michael stated that it was not, and Randall asked the Board if they were satisfied. All were.

Mr. Parker summed up the Opp529 Plan changes as follows: The new Baring Fund will be coming in, all age bands are being reallocated in the Years to College Portfolio, and the International Diversified Fund has been added. Oppenheimer was in the process of setting up the portfolios, and the goal was to have them up and running by second quarter.

Mr. Parker explained that he had been talking with Oppenheimer regarding making the portfolios in the OCSP more aggressive. He stated that it is important to keep the Opp529 Plan and OCSP different, and the recommendations for the OCSP wouldn't be as aggressive as the new Opp529 Plan portfolios. He was going to work with Oppenheimer to determine how some of the portfolios could be reconfigured, adding more equity exposure in the early years. When researching other states' plans, Mr. Parker discovered that the current OCSP portfolios are quite conservative in comparison. Oppenheimer will present a portfolio change proposal at the April 24, 2008 Board meeting.

Mr. Parker provided a historical overview to introduce a discussion regarding Vanguard expenses that the OCSP is incurring. When Oppenheimer was originally hired in 2004, the Board was looking for good funds, good pricing and a clean record, due to the issues experienced with Strong Capital Management. The Board also wanted to include some index options in the Plan, and Oppenheimer agreed to include the current Vanguard portfolios. The Vanguard funds are purchased at institutional price, with the management and administrative fee wrapper added to the consumer's cost. They are some of the least expensive Vanguard options in the country.

However, Vanguard will not help pay for having its funds on the OCSP system. There is a large gap between what it costs to record keep the Vanguard accounts and what is made on them. Vanguard gets all fund management fees for the portfolios. Oppenheimer collects a 5 basis point management fee for maintaining the accounts. The Board agreed, by contract, to help offset the cost of having the four Vanguard portfolios on the OCSP system. Oppenheimer's transition from PFPC to an internal recordkeeping system has cut the yearly cost of keeping an account on the system from approximately \$40 down to \$20. Although this is a significant reduction, the 5 basis points collected for managing the accounts still doesn't equate to the \$20 it costs to maintain them.

There are almost 19,000 Vanguard accounts in the OCSP. After subtracting the first 1,000 accounts that Oppenheimer agreed to pay for and the \$100,000 the Board has already paid, the liability to the program is now \$440,000. Based on current growth in Vanguard accounts, the program's projected liability in 2012 would be \$1,368,400, which is not sustainable.

By contract, the Board is required to negotiate in good faith with Oppenheimer to pay part of this cost. Therefore, Mr. Parker is presenting the issue to the Board with the desire of discussing possible solutions. If the Board were to choose to keep Vanguard on the system and pay the excess cost, doing so would exhaust all of the Network's resources. Vanguard could be eliminated all together, or different index funds could put in the OCSP by a company that agrees to revenue share some of the costs. Another option would be to charge account owners an annual account fee. The Board cannot, however, raise the wrapper on Vanguard accounts to be different from that of the Oppenheimer funds in the plan.

Mr. Parker stated that the \$440,000 liability is manageable. The future years are the issue, and he is requesting the Board's direction on how to proceed.

There was discussion about replacing the Vanguard funds with index funds from a different company. The concern was whether a company could be found that would be willing to revenue share the cost without substantially raising the costs of the funds, since the margin on index funds is very small.

Mr. Sandbo wondered if the Vanguard name is as important as it used to be, or if index funds have become more of a commodity. Raquel Granahan of Oppenheimer referred to a survey that Oppenheimer conducted, where participants were asked about brand, price and what would make them purchase. Price was at the top of the list and brand was at the bottom. Dan Herrmann of Oppenheimer added that these results are indicative of the general public, and there are some Vanguard loyalists who will not be swayed.

Due to time constraints, the Vanguard discussion was set aside so Lisa Grove of Grove Insight could present the findings of her September 2007 survey. The survey participants were Oregonians with household incomes over \$50,000 who met certain other family criteria. Ms. Grove first touched on the results of a favorable/unfavorable question that was asked about Vanguard and Oppenheimer. What was discovered is that a large number of the respondents weren't aware of either institution, but both were well regarded. Oppenheimer had slightly better favorability ratings at 37% favorable, 2% unfavorable and 61% not having a lot of awareness. Vanguard was at 28% favorable, 2% unfavorable and 70% lack of awareness.

The purpose of the survey was to discover people's investment behavior and to talk about some strategic messaging. The results of the survey show that parents are much more committed to saving for college than grandparents, and most grandparents won't be helping pay for college. IRA's, 401-K's and 529 plans are the most popular college investment vehicles. Reminding people that the Oregon College Savings Plan is a good investment in the future is the message that resonates with them, and they're more likely to invest. The complete survey results are available for review in the Network's file for this Board meeting.

Returning to the Vanguard discussion, Mr. Parker stated that it wasn't expected that the Vanguard accounts would be as under funded as they are. He feels a workable solution can be reached with some direction from the Board.

Mr. Vance felt that imposing a yearly \$20 account fee would be more palatable to participants than raising basis points on the performance of their investments. Mr. Herrmann agreed that an account fee appears to be the most straight forward and understandable solution. After much discussion, the Board is open to investigating whether Oppenheimer index funds or possibly another company's index funds could be used to replace the Vanguard funds. If the Vanguard funds are kept, the Board is amenable to imposing a \$20 account fee. Another option could be giving people a choice to remain in Vanguard funds and pay the account fee or move into new index funds that would be added to the Plan and have no account fee.

Kyla Doyle of MFS presented the fourth quarter update for MFS. The report is part of the Network's records for this Board meeting. Plan contributions, assets, accounts, and beneficiary information were reviewed, as well as fund performance.

Jim Jessee of MFS explained enhancements that MFS is making to the MFS 529 Savings Plan. MFS aims to increase their 529 total sales by 20% in 2008. To this end, they have expanded their sales support and increased the MFS home office support for their Oregon 529 Plan. To create greater awareness about the Plan, they are increasing their national and local advertising efforts and participating in regional sponsorships. To become more competitive, Mr. Jessee is going before the MFS Fund Boards to propose that the MFS program fee be eliminated. He doesn't believe this will be an issue for the boards. In addition, the expense ratios in the asset allocation funds will be reduced by 10-18 basis points per fund. A reduction of 26% - 28% will be seen in the largest selling funds.

Dan Herrmann of Oppenheimer presented the OCSP and Opp529 Plan updates for the fourth quarter. The report is part of the Network's records for this Board meeting. Contributions, asset growth and allocation, accounts and beneficiary information were reviewed, as well as fund performance.

The Board broke for a break at 3:30 p.m. to reconvene for the annual planning session meeting.

**MINUTES OF THE  
OREGON 529 COLLEGE SAVINGS BOARD  
PLANNING SESSION  
JANUARY 24, 2008**

Members Present: Randall Edwards, Chair  
Kirby Dyess  
Lyn Hennion  
Scott Sandbo  
Carl Vance

Network Staff: Michael Parker, Executive Director  
Stephanie Swetland, Executive Assistant  
Lynn Nagasako, Legal Counsel

Treasury Staff: Kate Richardson, Office of the Treasurer

Others Present: Randy Choy, The Oregon Community Foundation  
Eric Dolan, Cogent Research (by phone)  
Kyla Doyle, MFS Investment Management  
R. Scott Gardner, Gardner Financial Group  
Raquel Granahan, OppenheimerFunds, Inc.  
Bruce Harrington, Cogent Research (by phone)  
Dan Herrmann, OppenheimerFunds, Inc.  
Jim Jessee, MFS Investment Management  
Sarah Stephan, Pyramid Communications

Chair Randall Edwards convened the planning session at 3:45 p.m.

Bruce Harrington and Eric Dolan of Cogent Research presented findings on research that was done for OppenheimerFunds and the national College Savings Plan Network. 500 Americans were surveyed, half who were current college savers and half who were future savers – people that planned so save in the next 12 months. Additionally, 300 Oregonians were surveyed. Oregonians tracked pretty closely to the national averages. Mr. Harrington stated that more marketing was needed to reach the full population of the State. It was found that current Oregon account holders have a significant knowledge gap, with 42% responding that they couldn't explain their plan to a friend. This presents an opportunity to better educate investors and reach more people, since word of mouth can be a very effective advertisement. Also, the 529 industry has led with a message of fear, when results show that efforts should be focused on building people's confidence that they can achieve their objective of saving for college. The lack of confidence is driving people to immobility.

Scott Sandbo suggested that the Board focus on solidifying some specific two-year goals. The main goal is to determine how to insure that the Oregon 529 plans remain leaders in the industry. Second is determining how the 529 program can be used in conjunction with one or two other agencies or programs to expand its reach and bring people in who are not currently participating. He believes it's critically important to have a plan in place prior to the Treasurer change in January, 2009.

Kirby Dyess explained how the Oregon Opportunity Grant works to help fund higher education expenses. A percentage of the expenses are paid by the parents, a percentage comes from the student through loans, the student working or both, and a percentage comes from the Grant. The

Grant is needs based to families with incomes of up to \$60,000. The 529 plan can be the parent portion of this equation.

The Board discussed incentives to get parents investing in 529's, and how the funding for that could be obtained. Possible partnerships with various foundations and private entities were suggested.

Director Michael Parker feels that the Board needs to form a structured group that would work on generating Legislative and private funds, as well as enacting the Board's goal of changing college savings behavior. Toward that end, he stated that he is currently working with a small group of people who share the Board's goals in this area.

Mr. Sandbo feels it's important for the Board to define in writing what it wants to accomplish by 2010, with a high-level goal of keeping Oregon's 529 plans as leaders in the industry. The Board requested that Michael draft a written statement to that effect, with a few benchmarks that the Board will use for tracking progress. The second major goal is to expand the reach of Oregon's 529 programs. A definition of what measures success will be necessary to determine if this goal has been met.

Carl Vance added that he, Kirby, Michael and Oppenheimer have also been working on a prepaid program. Although they weren't far enough along to discuss it much with the Board, he felt it was an important item to include in the Board's written goals. The Board agreed.

Chair Edwards adjourned the meeting at 5:04 p.m.