

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

Members Present: Randall Edwards, Chair
 Lyn Hennion
 Scott Sandbo

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

Treasury Staff: Kate Richardson, Office of the Treasurer

Others Present: Kyla Doyle, MFS Investment Management
 Bill Finnegan, MFS Investment Management
 Tim Findlay, TGF Productions, Inc.
 R. Scott Gardner, Gardner Financial Group
 Dan Herrmann, OppenheimerFunds, Inc.
 Susan Kay, MFS Investment Management
 Amy Ream, M.D., Tax Fairness Oregon
 Katie Walther, Run Spot Run Media
 Robb Walther, Run Spot Run Media
 Senator Ben Westlund, Oregon Legislature

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

Scott Sandbo moved to adopt the January 24, 2008 meeting minutes, seconded by Lyn Hennion. All approved.

Private citizen Dr. Amy Ream of Tax Fairness Oregon commented to the Board regarding Oregon's 529 plans. She believes that the people who need to benefit most can't afford to invest in a 529 to the degree that the wealthy can. She feels that the State is allowing the wealthy to gain from the tax deduction provided by 529 plans for money invested towards college savings, while funds aren't being made available to help poor children get access to a college education. She also has concerns that the funds are allowed to be used at any college, which doesn't benefit Oregon colleges and universities.

Chair Randall Edwards stated that the Board has struggled with how the 529 program can be used to serve the broadest number of people, which is challenging for those who have less opportunity to save. The Board has also been working on how to better promote and make greater access available to Oregon's public universities. It is his understanding that 80-90% of Oregon's college-aged young people do attend instate colleges.

Michael Parker, Director of the 529 College Savings Network, stated that staff and Oppenheimer will make recommendations to the Board for portfolio changes in the Oppenheimer portfolios of the Oregon College Savings Plan (OCSP) at the July Board meeting. The changes will consist of adding more international funds to the portfolios to give them more equity exposure.

Mr. Parker introduced the Vanguard account fee issue. The accrued administrative fees and ongoing program liability for servicing the Vanguard accounts is currently at \$450,000. This is because the five basis points that Oppenheimer charges as an administrative fee is not covering the cost of administrating the accounts. Mr. Parker has been working with Oppenheimer to come

up with solutions, and he would like the Board's direction on how to proceed. Viable options include charging an annual account fee for Vanguard accounts, raising the wrapper around the Vanguard funds to cover the cost in a basis point charge, or replacing the Vanguard funds with different funds.

Dan Herrmann of Oppenheimer explained that with an outside fund manager like Vanguard, the costs of administering an account stand alone and are easy to isolate. There are no subsidies or offsets from Oppenheimer, because they aren't earning anything on the assets. Therefore, recordkeeping, administration, portfolio changes, fund accounting and Vanguard fees are all a portion of the cost, since Vanguard doesn't pay its way. Based upon the current average Vanguard account balance of \$4,800, Oppenheimer has determined that a \$35 annual account fee would be required for them to break even without charging anything to the State.

There was a discussion regarding the cause of the current situation with the Vanguard funds. Lyn Hennion noted that replacing the Vanguard funds with another index fund would be in the neighborhood of 60 basis points. However, in order for the shareholder to benefit from having a \$35 fee instead of increasing the basis point charge in the current Vanguard funds, the average account balance would need to be over \$11,000. Given the fact that the median account balance is only \$3,200, Ms. Hennion believed the Board should consider adding alternative index funds.

Mr. Herrmann stated that Oppenheimer's newly-launched index funds would be available all inclusive at 53 basis points, plus whatever the State chooses to charge in addition to that. This has been one of Oppenheimer's recommended proposals. They would forego the \$450,000, and there would be no annual account fee.

The wrapper that would need to be added to the current Vanguard funds to make both the State and Oppenheimer whole is between 30-35 basis points on top of the existing costs. This would bring the funds to between 51 and 77 basis points individually, averaging 61 basis points across the four Vanguard funds.

Scott Sandbo framed the options that the Board had discussed, both viable and not, as potentially going to a somewhat lower cost Oppenheimer solution that would mitigate the increase but wouldn't eliminate it, placing an account fee on all accounts in the OCSP, having the State subsidize the Vanguard funds, or placing a wrapper on the Vanguard funds to cover administrative costs.

Ms. Hennion felt it will be confusing to have an account fee for Vanguard accounts only, but it wouldn't be fair to charge an account fee across the board, either. The State shouldn't be subsidizing the Vanguard accounts, nor should Oppenheimer, and she wondered if the Vanguard name is worth this issue. She reminded the Board of a prior study that found the major reason people invested in Vanguard was the cost, not the name. Mr. Sandbo observed that even if the Board were to choose to go to the Oppenheimer index funds, there would be a significant increase from the current cost of the Vanguard funds, so the Board is going to need to figure out how to put through some cost increases either way.

Mr. Herrmann explained that the fundamental problem is the average dollar per account. People are buying multiples of the individual Vanguard index funds, each of which have underlying fixed fees. If the proposed Oppenheimer or existing Vanguard index funds were bundled together into total market portfolios, the account balances would most likely increase, because the portfolios would strive to accomplish the mix people are currently doing on their own with the individual funds. Approximately half of current Vanguard investors have at least two Vanguard positions. Mixing the funds into a portfolio would most likely meet the majority of investors' needs and substantially reduce costs.

Per Mr. Sandbo's inquiry, the idea of subsidizing the Vanguard portion of the OCSP was discussed. It was concluded that this is not an option, since no funds are available. The State's

budget is tight and would be noticeably impacted, resulting in reduction of its public awareness campaign.

In running the numbers, Ms. Hennion noted that on the smaller accounts, even doubling the basis point charge would result in a charge of only \$1.50 annually for a \$250 account and \$6.00 annually for a \$1,000 account. She didn't believe this was unreasonable and felt it made much more sense than going to an account fee or trying to subsidize the accounts from somewhere else. She believed increasing the fee would make the Vanguard funds self-supporting and still equitable for small shareholders.

Mr. Sandbo agreed that the increase wouldn't feel that dramatic to small account holders. However, he was concerned that the larger account holders might drop out of the Vanguard funds because their costs would be significantly higher. This would put the Plan back in the same situation, since larger account holders basically subsidize the smaller account holders.

Mr. Sandbo had to leave the meeting early, but stated his position on the Vanguard issue before doing so. He believes the Board is in agreement that the Vanguard funds will have to become self funding. He's definitely in favor of exploring mixing the funds into portfolios to bring down the number of multiple Vanguard holdings per account holder, which would lower the cost. He feels both the Board and Oppenheimer are responsible for this issue, and it needs to be collectively solved without putting it purely on the backs of the investors. An increase is inevitable, which should probably be in the form of higher basis point charges to avoid wiping out the smaller accounts. Lastly, he urged the Board to make an attrition estimate based on larger accounts lost due to the increased fees, so the self-funding issue won't have to be revisited again.

Mr. Herrmann agreed that both the Board and Oppenheimer will need to give to resolve the Vanguard cost issues. Oppenheimer's give is the forbearance of the \$450,000 that has already accrued, and there would be downside protection and upside favorability if the funds were under Oppenheimer's umbrella, specifically the proposed Oppenheimer index funds. When working with Vanguard or another outside manager, Oppenheimer can't extend the same subsidies. When looking at the options from a fiduciary standpoint, the lowest cost option based on current expenses would be the Oppenheimer index fund option. It's the lowest basis point all inclusive option in terms of true expenses.

Mr. Parker stated that his goal is to have an acceptable proposal to present to the Board regarding the Vanguard situation at the July Board meeting. The proposal will also have a recommendation on the OCSP age-based portfolio changes to increase equity and international exposure, as well as adjusting the age bands.

Mr. Herrmann informed the Board that its recommended changes to the Oppenheimer funds 529 Plan (Opp529) have gone into effect. The age bands were adjusted in the Years to College Portfolio, the Global Fund was replaced with the Baring Private Fund to increase overall performance, and the Limited Term Government Fund was replaced with the Strategic Income Fund. The conversions went off without a hitch, and Oppenheimer was very pleased.

Kyla Doyle of MFS presented the MFS second quarter update. The report is part of the Network's records for this Board meeting. Assets, plan contributions, accounts and beneficiary information were reviewed.

Bill Finnegan of MFS updated the Board regarding revisions to the MFS plan, which involved reducing the underlying fund expenses for 80% of the sales. Most sales are in the MFS asset allocation funds, which have been reduced by 10-18% per fund. MFS has also eliminated its program management expense, which was an additional 15 basis points. This has resulted in a total reduction of 22-28 basis points per asset allocation fund.

Mr. Finnegan noted that over the course of the year, roughly 81% of the MFS funds were in the top half of their Morningstar category for performance, with 90% of the asset weighted being in the top half. The combination of the reduced expenses and a performance pick up has put MFS in a very competitive position nationwide among other 529 plans.

Dan Herrmann of Oppenheimer presented the second quarter OCSP and Opp529 Plan updates. The report is part of the Network's records for this Board meeting. Assets, plan contributions, accounts and beneficiary information were reviewed.

Tim Findlay of TGF Productions provided an update on the Network's marketing efforts. He stated that the upticks in new accounts were tracked during the time the television, radio and print advertising were running. New account numbers in the OCSP remained noticeably elevated during the advertising period, with peaks in late December '07 and April '08 that exceeded numbers for those months in previous years.

Mr. Parker touched on the Network's promotion for College Savings Month, which the Governor had proclaimed to be March. The Network held drawings for four \$4,000 scholarships, one for each week of March. The promotion generated a lot of interest and was a success.

Chair Edwards adjourned the meeting at 3:47 p.m.