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FOR IMMEDIATE RELEASE
Jan. 22, 2009

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Oregon 529 College Savings Board terminates two bond funds, seeks bids for a program manager for the Oregon College Savings Plan, authorizes new age-based portfolio

Many Oregon plan participants saw declines in 2008 because of dismal securities markets; the State is investigating whether any impropriety made those losses worse

TIGARD – Acting on recommendations from State Treasurer Ben Westlund, the Oregon 529 College Savings Board on Thursday decided to withdraw all Plan assets from two funds -- the OppenheimerFunds Core Bond Fund and Limited Term Government Bond Fund -- and also advanced other changes that will restructure the program, increase oversight, and increase choices for Oregon families.

The five-member board also announced that it would solicit proposals to administer the popular Oregon College Savings Plan. The current contract with the program manager, OppenheimerFunds, runs through December.

“As an Oregonian and a parent, I want to make sure that our state has the best college savings program,” said Treasurer Westlund. “That means taking a hard look at the funds that are offered, increasing information and options for Oregon families, and surveying the marketplace to see if we are getting the best deal possible.”

The Oregon 529 College Savings Network is a tax-advantaged college savings program that allows families to set aside dollars for future college expenses.

Like many investments, the Oregon program saw declines in 2008 as the economy plummeted, and the aggregate value declined by 23 percent, to about \$770 million. However, the impact to participants in many portfolios was exacerbated by the poor performance of the OppenheimerFunds Core Bond Fund.

An analysis by a consulting firm hired by the Board to examine the Core Bond Fund identified concerns about the long-term stability and level of risk in the fund.

That inquiry also identified concerns with another fund, the Limited Term Government Bond Fund, which had the same investment management team and a similar underlying investment philosophy.

Board members expressed concerns Thursday to executives from OppenheimerFunds about how those funds severely underperformed compared to their benchmark funds.

The board decision to remove Plan assets from the two funds was unanimous.

The assets will transfer from the two funds in 30 to 60 days, following the selection of new replacement funds and after a required 30-day notice to plan participants. The replacement funds will be index funds that track specific bond sectors.

At the behest of the State Treasurer, the Oregon Attorney General is also investigating to determine whether any improprieties made the 2008 declines worse for plan participants. The Attorney General is working with counterparts in other states where college 529 plans were also invested into the OppenheimerFunds Core Bond Fund, including Illinois, New Mexico and Maine.

That investigation is not yet complete.

Among other decisions on Thursday, the Oregon 529 College Savings Board:

- Authorized the construction a new option of a new index-based, age-based portfolio in the Oregon College Savings Plan. The addition of that new option will give investors the ability to put their funds into a family of lower-cost index funds that closely track certain stock and bond markets.
- Agreed to meet monthly through the transition to increase oversight and to make timely decisions to help ensure Oregon families have the best-available college savings options. The Board now meets quarterly.
- Approved a resolution supporting the creation of a prepaid tuition option as a component of the Oregon College Savings Plan. State Treasurer Westlund and Senate President Peter Courtney, D-Salem, have proposed allowing families to purchase tuition at Oregon public and potentially private universities based on today's rates – and also avoid the uncertainties of the volatile stock market. The prepaid tuition plan would be eligible for the same tax advantages as the existing 529 plan.

Board member Kirby Dyess, who also sits as a member of the State Board of Higher Education, spoke in favor of the creation of a prepaid tuition option.

“The advantage of a prepaid plan is fairly obvious: It allows people other than parents to provide gifts for grandchildren, nieces and nephews,” she said. “The objective at the end of the day is for more Oregonians to be able to go to college.”

Carl Vance, the chief financial officer at Lewis and Clark College and the private college representative on the Board, said many people are not as comfortable investing in uncertain markets and would prefer a guarantee.

“We’re about trying to provide greater access to higher education of all forms, and there is a category of investors who would welcome and cling to a plan that would guarantee that tuition would be covered, if they provided a certain sum of money,” he said.

The Oregon 529 College Savings Network allows families to invest for college and receive Oregon tax deduction of as much as \$4,000 a year. The dollars and any investment gains can then be used tax-free for higher education expenses. Since first accepting investments in 2001, the 529 program has grown to roughly 100,000 accounts, which today represent about \$750 million in combined assets.

State Treasurer Westlund notes that investments can lose money, and families should weigh all options and risks before investing.

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