

ITEM 2B.

MINUTES OF THE AUGUST 14, 2012 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

Illinois Student Assistance Commission
James R. Thompson Center
100 W. Randolph St.
Chicago, Illinois

August 14, 2012

COMMISSIONERS PRESENT: Kym Hubbard, Chair
Miguel del Valle
Mark Donovan
Kendall Griffin
Kevin Huber
Verett Mims

COMMISSIONERS ABSENT: Paul Roberts
Kim Savage

STAFF PRESENT: Eric Zarnikow, Executive Director
Debora Calcara, Commission Secretary
Anita Geter, Director, Internal Audit
Katharine Gricevich, Director, Government Relations
Shoba Nandhan, Chief Financial Officer
Annie Pike, General Counsel
Darla Puckel, Assistant Director, College Illinois! Operations
John Samuels, Chief Communications Officer
Joanne Tolbert-Wells, Deputy Executive Director

PUBLIC ATTENDANCE: Mary Patricia Burns, Burke Burns & Pinelli, Ltd
Paul Franks, FIICU

Item 1. Announcements

Chair Hubbard brought the August 14, 2012 special meeting of the Commission to order at 1:00 p.m. Chair Hubbard stated that at the direction of the Commission at its June 25 meeting, a subcommittee of the Commission was formed, which included herself, Mr. del Valle, and Executive Director Eric Zarnikow. She clarified that this subcommittee did not meet for the purpose of making decisions on the College Illinois!® Prepaid Tuition Program pricing for the 2012-2012 enrollment period.

Chair Hubbard asked that a roll call be taken, which established a quorum was present. Mr. Zarnikow stated he would cover his Executive Director's report at the end of the agenda.

Item 3. College Illinois! Prepaid Tuition Program Contract Prices and Fees for 2012-2013 Enrollment Period – Marketing Budget Adjustment

Mr. Zarnikow reminded the Commission that contract sales for the College Illinois! Prepaid Tuition Program were suspended September of 2011. He stated that today staff is requesting the Commission approve the reopening of contract sales to begin on October 1 and continue through December 31 at the same pricing level which was in effect in September 2011. He stated staff will then come back to the Commission at its November meeting with a new pricing structure to continue the enrollment period from January 1, 2013 through April 30, 2013.

Mr. Zarnikow stated robust discussions with the actuary, a 529 plan consultant, as well as some members of the General Assembly have taken place in order to come back to the Commission with a thoughtful recommendation that we feel will have the best chance of success moving forward. He stated several approaches were considered and he feels the recommendation presented to the Commission today will provide the best combination as the program reopens. He stated this approach will ensure there is enough time and visibility to create awareness about the plan and to maximize the potential contract sales while also serving as a call to action during the initial three-month enrollment period before a potential price increase in January.

Reviewing a slide presentation to the Commission, Mr. Zarnikow stated that it is important to keep in mind that the initial purpose of the College Illinois! Prepaid Tuition Program was to help Illinois families finance the cost of higher education through a program that provides a method of State tax-free and federally tax-exempt savings for higher education.

Mr. Zarnikow stated that during the first enrollment period in 1998, almost 12,000 contracts were sold and since its inception, 70,000 contracts have been purchased by over 40,000 families. He stated that the College Illinois! Prepaid Tuition Program has paid almost \$400 million in tuition and fees on behalf of almost 22,000 students to about 936 different institutions. Also, 58 percent of those dollars paid to tuition have gone to Illinois public universities or community colleges.

Mr. Zarnikow reminded the Commission that a lot has changed in order to restore the confidence in the program over the last year, which included the Governor appointing a new Chair and all new members of the Commission, a new Executive Director, all new members of the Investment Advisory Panel, and the establishment of the Investment and Audit Committees of the Commission. He stated that on the investment side of the program, a new Chief Investment Officer has been hired, the investment policy has been revised and updated, and a new investment advisor has also been secured.

Continuing, Mr. Zarnikow stated that the required annual certification letter to the Governor was issued in January 2012 stating that the plan has enough funds to meet its tuition and fees obligations for fiscal year 2013. Mr. Zarnikow stated the plan has the moral obligation of the State so that in the event there was a shortfall of plan assets, it would have to be reported to the Governor in order for him to include an appropriation in his budget to meet the plan's obligations. However, he stated that the actuarial report states that even if the plan does not sell more contracts, there are enough assets to pay tuition and fee obligations until 2022. He anticipates having the June 30, 2012 actuarial report by the end of September.

Chair Hubbard stated that the recommendation being presented today is a result of not only the due diligence of the executive staff, but also consultants and other instrumental third parties. She stated that several options had been discussed and it was agreed that once the contract sales were reopened that it be open for a significant amount of time. She reiterated what Mr. Zarnikow presented: there will be two pricing periods in the enrollment period, one from October 1 through December 31, 2012 and pricing will be re-evaluated for January 1 through April 30, 2013. She stated that it is likely that the prices may go up in January after the new actuarial report is completed, but there is no guarantee that they will.

Mr. Zarnikow stated that there are three main areas that the prepaid tuition program has the ability to potentially influence: the rate of return earned on assets; how fast tuition and mandatory fees increase in the future; and how many contracts are sold and at what price. To influence the rate of return on assets, Mr. Zarnikow feels the right approach is being taken with the investment policy and the asset allocation study. Regarding the future of tuition and mandatory fees, he stated discussions with the public universities and community colleges are taking place to bring them in as part of longer-term health of the plan and managing the liability side of the program. Regarding the contract pricing, he referred to the tables in the agenda book and noted that when the program halted sales in September of 2011 the program was in a year-round enrollment period with the prices of contracts changing monthly. He stated that he and his management team felt it appropriate to go back to the limited enrollment period with the pricing changing once during the enrollment period.

After the review of the pricing tables in the agenda book, Mr. Donovan suggested the pricing structure for the University of Illinois-Champaign-Urbana be reviewed as he felt the cost between the Chicago and Urbana schools is negligible unless attending a specialty program. Chair Hubbard stated that there is a significant difference between the University of Illinois and Northern Illinois University.

Mr. Zarnikow reminded the Commission that it is important to reopen enrollment, but that the design of the plan will continue to be refined to make sure it is achieving the desired results.

Mr. Huber expressed his continuing belief that the State of Illinois should step up and backstop the program in order for it to be successful. He stated his concern that should the program reopen enrollment, those purchasers "may" ultimately not get the pay off.

Responding to Mr. Huber, Mr. Zarnikow stated that the management team agreed that seeking a legislative solution was uncertain and time consuming and felt it important to reopen enrollment to establish the ability to sell contracts. Having the evidence of the ability to sell contracts will be beneficial should there be the need to seek a full faith and credit guarantee from the General Assembly. Additionally, he stated there is a trust fund set aside to pay the contract holders and also there is the moral obligation of the State of Illinois. He felt that with all that has been done to stabilize the program and the actions taken by the Commission and the management team, it was time to move forward with the program.

Chair Hubbard agreed with Mr. Zarnikow and felt it the Commission's fiduciary responsibility to move ahead given that the full faith and credit guarantee Mr. Huber referred to is outside of their control. She stated that the College Illinois! Prepaid Tuition Program is a vehicle of ISAC and given the research and diligence put into reviewing the options, it was agreed that the recommendation was to try to mend the program with 2,500 to 3,500 contracts being sold. She stated mending the program has the support of the Governor's office and general support from legislators.

Chair Hubbard stated it is uncertain what the appetite is for the program and that will not be known until enrollment is opened. She felt the media surrounding the program was related to the portfolio and the investments, not the program itself. She stated that due to the substantial steps taken to improve the portfolio, the management of the portfolio, the asset allocation of the portfolio and the glide path to where they thought the portfolio that supports the program should be is already on the mend, opening enrollment is the next step. She stated that the initial opening of the program will not have the same amount of funds spent on marketing as it will a year from now.

Mr. Huber asked that those purchasing a contract going forward have a clear understanding that the program does not have the full credit guarantee of the State, and do not feel misled in anyway. Mr. Zarnikow assured the Commission that it is his and his management's team commitment that a diligent review of all disclosure documents will be made by the 529 plan expert, as well as ISAC's general counsel and outside counsel.

Mr. del Valle stated that although there is no full faith and credit obligation, but the moral obligation of the State of Illinois has been there with the program since it began. He feels that this is being questioned now due to the negative publicity surrounding the program. He stated that College Illinois! Prepaid Tuition Program is a good program that if marketed properly, people will again have confidence in it and he as a Commissioner feels good about the changes that have been made. By reopening the program for seven months it is like a new beginning and it should be treated as if someone is hearing about it for the first time. He stated that even though it does not have the full guarantee of the state, having the moral obligation of the State is very close to it.

Chair Hubbard stated that the value proposition of the College Illinois! Prepaid Tuition Program is that a purchaser can put money aside today for college tuition and fees in the future.

Before presenting the marketing side of the program, Mr. Samuels introduced Ms. Liz Brohan and Mr. Mark Shevitz from the marketing firm of Colman, Brohan & Davis based in Chicago. He noted that Colman, Brohan & Davis are under contract as a third-party marketing agent, which is a statutory requirement. He stated their contract went into effect in 2010 for a three year period ending June 2013. Responding to Chair Hubbard, Mr. Samuels stated that the marketing contract is not an exclusive contract.

Continuing with his marketing report, Mr. Samuels stated that efforts will be focused single-mindedly on the value that is created for contract holders and prospective contract holders. He stated there continues to be a demand for the prepaid tuition product. Operationally, he stated that the program has the capability to begin enrollment October 1, 2012 and should they deem necessary, make any adjustments to pricing in January without interruption to the program.

Mr. Samuels stated that the obstacle they will be facing is the question surrounding the full faith and credit guarantee by the state, but he feels that with adequate disclosure it will be represented fairly and accurately. He feels an additional obstacle in opening enrollment beginning October 1 will be the active media events occurring through the end of the year such as the presidential elections, the General Assembly elections, and the holidays.

Mr. Samuels outlined the issues that have surrounded the program over the last year and a half, but stated that marketing will support the value proposition of the program and aggressively go forward. He stated the value to the program is payment of tuition and fees, and marketing will focus on that as a value creator. He stated the prepaid tuition will be presented as an attractive product in an uncertain financial world.

Mr. Samuels demonstrated that the value proposition during the October through December enrollment period will be that contracts can be purchased at 2011 prices for as low as \$42 a month, as a holiday gift, and as an end-of-the-year state and federal tax benefit. He believes the best advertising will come from current contract holders who have already seen the benefits when they used the product. He will focus marketing on how College Illinois! makes a difference; he used an example that the cost of a contract at the University of Illinois at Urbana-Champaign last September which was about \$61,000 for a newborn, and contrasted with the actuarial assumption the tuition and fees at that same university in 19 years will cost \$187,000.

Mr. Samuels explained that there are two types of personas to focus on, the astutes and the budgeteers. The astutes have an annual household income above \$100,000, they are 25 to 44 year old parents with children under six years of age, they plan ahead and have the propensity to purchase big ticket items. He feels the budgeteers who have been underserved by the program have an annual household income between \$50,000 and \$100,000, they are 25 to 44 year old parents with children under six years of age and commonly use installment payment plans.

Mr. Samuels reviewed with the Commission the weekly media consumption for the target audience.

In order to expand marketing efforts to the more diverse community, Mr. Samuels is asking for an increase in the marketing budget not to exceed \$800,000, which he feels will enable them to identify what message will be effective through the enrollment period and into future periods as well. He stated that historically the cost has steadily increased over the life of the program to about \$450 to acquire a new contract holder, which is not taking into account what damage has been done to the program with negative media over the last fourteen months.

Responding to Ms. Mims, Mr. Samuels stated that the marketing budget increase being sought today is to open the program and re-engage the target audience.

Chair Hubbard assumes the initial \$800,000 marketing budget is to focus on the value proposition, to let it be known that contract sales have resumed as broadly as possible through endorsements, media, radio, and our website. She feels once the initial rollout has happened, penetration downstate not just in the Chicago collar counties area, can be considered.

Responding to Mr. Donovan's inquiry as to what the next step will be if this is approved today, Mr. Samuels stated teases about the opening of sales sometime will begin in mid-September. He does not want to wait until October 1 to let the public know that the enrollment period is open. He indicated there would be a posting on the program's website, which will trigger current contract holders who are interested in purchasing. He indicated that in September there will be a more organized rollout that will start to leverage the third parties.

Mr. Zarnikow confirmed for Mr. Donovan that there will be a marketing update at the regularly scheduled September Commission meeting. Mr. Zarnikow recognized the good work of Darla Puckel, present at the meeting today, who is responsible for the operations side of the prepaid tuition program.

Chair Hubbard asked for a motion to approve the contract pricing and administrative fees incorporated in Tables A through D of the agenda book for the period of October 1, 2012 through December 31, 2012, based on the recommendation of staff. Mr. Griffin **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously.

Chair Hubbard then asked for a motion to approve a revised budget for marketing the prepaid tuition program in the amount not to exceed \$800,000 for fiscal year 2013 based on the recommendation of staff and after review by the contract pricing subcommittee. Mr. Griffin **SO MOVED**, Ms. Mims seconded the motion, which was approved unanimously.

Item 2. Executive Director's Report

Mr. Zarnikow informed the Commission they have received at the meeting today the June 30, 2012 financial statements and noted the statements are in line with what was presented at the June meeting. He noted that Commissioners are being provided additional information pertaining to the College Access Challenge Grant budget as requested at the June meeting.

Mr. Zarnikow stated that he and Chair Hubbard have been meeting with university presidents to engage them as stakeholders for a longer-term change to the prepaid tuition program. He personally also met with the proprietary school presidents which are MAP-eligible to give them an update also.

Continuing to the Monetary Award Program (MAP) Eligibility Task Force, Mr. Zarnikow stated the first of five meetings was held on July 26 where 17 members attended, including Mr. del Valle. He stated the members of the Task Force were chosen for their expertise, skill set and to ensure there was good racial, gender, geographic, and expertise diversity. Also present at the meeting were the Resolution sponsors, Representative Biss and Senator Maloney. Mr. Zarnikow stated the first meeting was focused on level setting and informing the Task Force members about what has been happening with college costs, how MAP works and the completion rate of the MAP recipients. Mr. Zarnikow informed the Commission that all information being given to the Task Force members is available on the agency's website.

Referring to the recently signed into law wage garnishment legislation, he stated the legislation gives ISAC the ability to garnish wages for State-backed loans. He recognized Governmental Relations Director Katharine Gricevich for her critical work in shepherding this legislation through both the House and the Senate.

Mr. Zarnikow reported to the Commission that the College Access Challenge Grant application was filed and approved for an award amount of \$4.5 million. He stated this grant funds the fourth year of the ISACorps program.

Mr. Zarnikow updated the Commission on the status of the Deerfield facility leasing space to the Department of Children and Family Services and anticipation that the Health and Family Services Child Support division will also be leasing space within the building soon.

Finally, he reported to the Commission on the recently held College Changes Everything Conference, which was held in July with over 400 attendees, including Mr. del Valle and Ms. Savage. He stated that there is already funding from the Lumina Foundation for the next conference to be held on July 11, 2013.

Chair Hubbard thanked those who attended the meeting today and seeing no further business to come to the Commission, asked for a motion to adjourn. Mr. Donovan **MOVED THAT** the August 14, 2012 special meeting of the Commission be adjourned. Mr. Griffin seconded the motion, which was approved unanimously. The Commission adjourned at 2:16 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Debora A. Calcara". The signature is written in black ink on a light-colored background.

Debora A. Calcara
Secretary to the Commission