

Education Trust of Alaska Semi-Annual Report

Presentation to: Audit Committee of the Board of Regents, February 21, 2014

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Chief Treasury Officer**

The Education Trust of Alaska

Background Information

- ▶ **Established by the Board of Regents in 2001;**
- ▶ **Engaged T. Rowe Price to serve as Program Manager;**
- ▶ **Alaska has the only Section 529 College Savings Plan that resides within a university;**
- ▶ **The Trust offers three plans:**
 - ▶ University of Alaska College Savings Plan (UA Plan)
 - ▶ T. Rowe Price College Savings Plan (TRP Plan)
 - ▶ John Hancock Freedom 529 (JH Plan)

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Section 529 Plan Features:

- ▶ **Earnings are tax deferred until paid out and tax exempt if used for qualified post secondary expenses;**
- ▶ **Contributions are completed gifts for gift and estate tax;**
- ▶ **Special 5-year averaging provision applies for gift tax exclusion (individual \$70,000, married couple \$140,000);**
- ▶ **Account Owner can retain control over account;**

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Section 529 Plan Features (continued):

- ▶ **No income limits on participation;**
- ▶ **Beneficiary can be changed at any time;**
- ▶ **Low minimum investment (Alaska, \$250 or \$50 per month);**
- ▶ **High maximum investment allowed (Alaska, \$400,000);**
- ▶ **Distributions are taxed to recipient.**

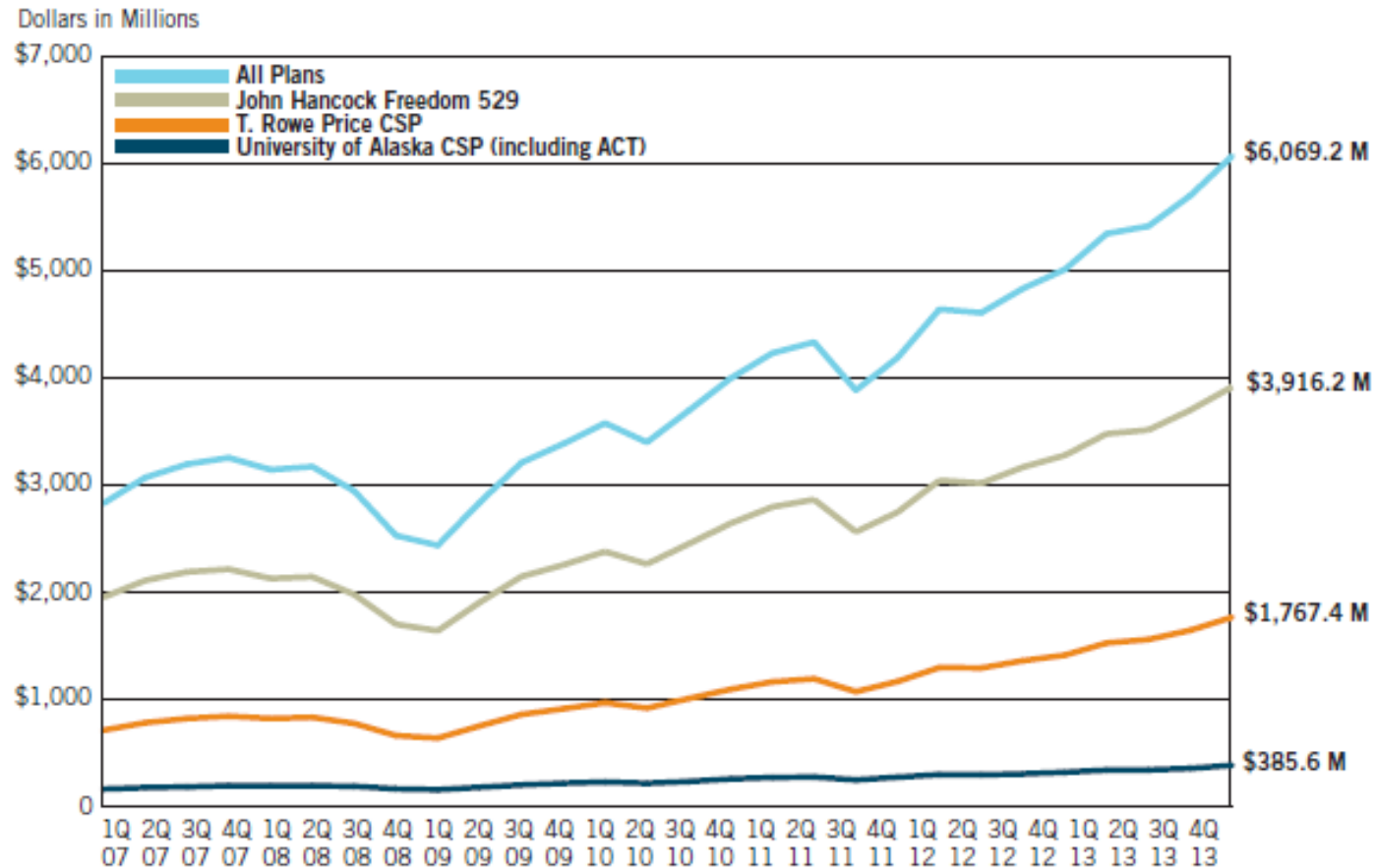
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ACT Portfolio Features:

- ▶ **Conservative portfolio (Fixed Income 60%, Equities 40%);**
- ▶ **No program or account fees, the only cost is the underlying mutual fund expense ratio of 0.30%;**
- ▶ **Provides a Tuition-Value Guarantee that earnings will keep pace with tuition inflation at UA, if used at UA for tuition:**
 - Functions as a prepaid tuition program, if used for tuition at UA;
 - Functions as a savings program, if used for anything else;
 - The beneficiary is protected from market losses;
 - The beneficiary is protected from tuition inflation;
 - The beneficiary retains all of the up-side potential of the investments.

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Total Net Assets, December 31, 2013



Source: T. Rowe Price Associates

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Plan Participation, December 31, 2013

	<u>UA Plan</u>	<u>TRP Plan</u>	<u>JH Plan</u>	<u>Total</u>
Average Balance	\$11,575	\$22,072	\$19,235	\$19,147
Beneficiaries	29,918	71,767	156,725	258,410
Account Holders	26,097	47,122	96,727	169,946
Alaska Account Holders	20,032	273	705	21,010

Source: T. Rowe Price

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Performance Ranking, September 30, 2013

	<u>Ranking</u>				<u>Cap Rating</u>	
	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Resident</u>	<u>Non-Resident</u>
UA Plan	9 of 53	1 of 45	2 of 43	1 of 20	5.0	4.5
TRP Plan	11 of 53	2 of 45	4 of 43	3 of 20	4.5	4.5
JH Plan	19 of 29	13 of 24	2 of 18	1 of 11	4.5	4.5

Source: Savingforcollege.com (ranking net of fees)
 Not for use of the investing public

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Operating Controls

- ▶ **Premier program support:**
 - ▶ T. Rowe Price as program manager
 - ▶ Manulife Financial and John Hancock as distributor
 - ▶ PricewaterhouseCoopers as independent auditor
 - ▶ Milliman USA as actuary
 - ▶ Callan Associates as investment advisor
 - ▶ Wohlforth, Brecht, Cartledge & Brooking as outside counsel

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Due Diligence Processes

- ▶ **Daily:**

- ▶ Literature and document review and interaction with TRP and JH staff and management regarding operational issues.

- ▶ **Weekly:**

- ▶ Audio-conference with marketing staff regarding planning and implementation of initiatives.

- ▶ **Bi-weekly:**

- ▶ Audio-conferences with TRP staff from legal, IT, operations, and management regarding the status of projects and current issues.

- ▶ **Monthly:**

- ▶ Report on investment performance, changes in the asset allocation, and the TRP Asset Allocation Committee's recommendations.

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Due Diligence Processes (continued)

▶ Quarterly:

- ▶ Briefing on TRP/JH Investment Oversight Committee actions and recommendations regarding the JH Plan.
- ▶ Briefing on TRP/JH Business Oversight Committee regarding business strategy and implementation (actually, three times annually).
- ▶ Conduct an in-depth, in-person review of the three programs including investment performance, sales and distribution activity, service levels, legal and regulatory issues, sample email correspondence, all written participant complaints, and comments by call center staff regarding problems encountered by them and participants.

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Due Diligence Processes (continued)

- ▶ **Semi-Annually:**

- ▶ Callan Associates conducts independent review of each underlying mutual fund of all three plans including the JH Lifestyle Investment Portfolios.

- ▶ **Annually:**

- ▶ Milliman USA performs independent actuarial calculation of the ACT Portfolio Tuition-Value Guarantee Liability (periodically reviewed by PWC actuarial staff).
- ▶ PricewaterhouseCoopers conducts independent audit of the financial statements for each of the individual investment option for all three plans.

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Due Diligence Processes (continued)

▶ **Annually (continued):**

- ▶ UA staff review PricewaterhouseCoopers' SSAE 16 reports of the T. Rowe Price internal controls.
- ▶ UA staff review Annual Financial Reports for TRP and JH and discuss the financial health of the companies with management.

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Condensed Combined Statement of Net Assets
Year Ended June 30, 2013

	Operating Fund	Participant Accounts
Assets:		
Receivables	\$ 24,879	\$ 4,451,270
Due from participant accounts	244,940	
Investments	<u>15,129,848</u>	<u>5,420,146,297</u>
Total assets	<u>15,399,667</u>	<u>5,424,597,567</u>
Liabilities:		
Payables and accrued expenses	227,415	7,156,558
Due to operating fund		244,940
Tuition-Value Guarantee	<u>4,100,000</u>	
Total liabilities	<u>4,327,415</u>	<u>7,401,498</u>
Net assets	<u>\$ 11,072,252</u>	<u>\$ 5,417,196,069</u>

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Condensed Combined Statement of Operations and Changes in Net Assets
Year Ended June 30, 2013

	Operating Fund	Participant Accounts
Revenues and Other Additions:		
Dividend income	\$ 345,163	\$ 93,110,366
Program fees retained	2,708,004	
Provision for Tuition-Value Guarantee	740,000	
Total income	3,793,167	93,110,366
Expenses and Other Deductions:		
Guarantee payments	181,430	
Net program and admin. fees		34,343,020
Administrative expenses	1,334,069	
Net investment income	1,515,499	34,343,020
Net increase from operations	2,277,668	58,767,346
Net realized gain or loss	760,889	445,463,733
Net unit sales over redemptions	-	304,877,078
Increase in net assets from operations	3,038,557	809,108,157
Net assets Beginning of year	8,033,695	4,608,087,912
Net assets End of year	\$ 11,072,252	\$ 5,417,196,069

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Program Highlights for the Period

- ▶ **Governance and Investment Policy Adopted, Sept., 2013**
- ▶ **TRP Plan Earned Morningstar's Gold Rating, Oct., 2013**
- ▶ **Record participation through the PFD Check-Off, Oct., 2013**
- ▶ **UA Plan Won National & State Marketing Awards, Nov., 2013**
- ▶ **ETA Financials included in UA Annual Report, Dec., 2013**
- ▶ **Initiating a student recruitment effort consistent with
"Shaping Alaska's Future", ongoing**

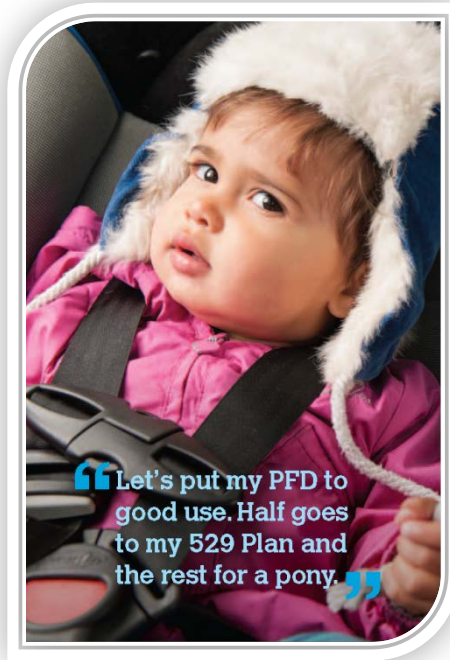
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Morningstar Ratings

- ▶ **The Alaska T. Rowe Price College Savings Plan was one of only four plans in the country to be awarded Morningstar's "Gold Rating" for 2013.**
- ▶ **The UA Plan was not rated due to its size, but provides the same high quality investments and service as the TRP Plan.**
- ▶ **The JH Plan received a neutral rating, due primarily to high fees.**

The UA Plan's Award Winning Marketing Campaign





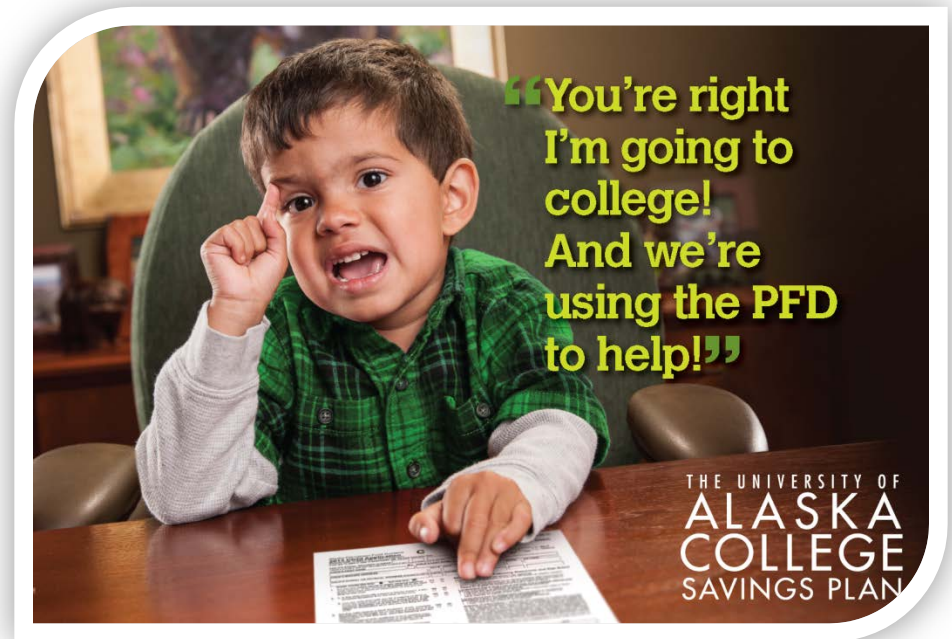
- ▶ New marketing campaign features Alaskan children urging their parents in unexpected ways to save for college!
- ▶ Campaign was nominated for, and WON, two marketing awards this fall.



*Mutual Funds Education Alliance (MEFA)
STAR AWARD "Retail Marketing Campaign"*



*American Marketing Association Alaska
Chapter
Prism Award "Marketing Campaign - Non
Profit"*



PFD promotion \$25K giveaway

- ▶ Listed on the 2013 PFD application
- ▶ Promoted in print, web, radio, and social media
- ▶ \$25K giveaway continues to be a successful campaign
- ▶ 7.5% total increase in number of contributions
- ▶ Over 12,000 PFD recipients checked YES!



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check it out!”**

www.uacollegesavings.com



Points of Interest

- ▶ Reduced the account fee from \$20 to \$10 per account per year;
- ▶ Maximum contribution limit increased from \$320k to \$400k.

THE UNIVERSITY OF ALASKA COLLEGE SAVINGS PLAN

The future is their frontier.

