



**Ohio Tuition Trust Authority  
Prepared Testimony for the Senate Finance Committee  
Presented Thursday, May 12<sup>th</sup>, 2011**

Chairman Widener, Ranking Minority Member Skindell, members of the Senate Finance & Financial Institutions Committee, I'm Richard Norman, Interim Executive Director of the Ohio Tuition Trust Authority. Thank you for the opportunity to speak with you today about the goals and priorities for Ohio's 529 college savings plan for the coming biennium.

The staff of the Ohio Tuition Trust Authority has undertaken a thorough review of the CollegeAdvantage Program, which encompasses the CollegeAdvantage 529 Savings Plan and the Guaranteed Savings Plan. This has resulted in the following non-GRF budget appropriation in substitute House Bill 153:

Ohio Tuition Trust Authority	FY11 Current	FY12 Proposes	FY13 Proposed
Totals	\$9,983,665	\$9,847,287	\$9,979,650

**Current Situation**

The mission of the Ohio Tuition Trust Authority is as follows:

**The Ohio Tuition Trust Authority offers a 529 qualified tuition program with affordable, innovative and tax advantaged investment options and services for families, employers and non-profit organizations to increase access to higher education.**

The Ohio Tuition Trust Authority (OTTA) has been helping Ohio families save for higher education since 1989. The agency currently serves over **728,000** beneficiaries/students with investments in CollegeAdvantage totaling more than **\$6.6** billion as of **March 31, 2011**.

On October 25, 2010 Morningstar, a nationally recognized mutual fund rating organization, released its new Analyst Rating system for 529 Plans. Ohio's CollegeAdvantage 529 Savings Plan was one of five of the top programs across the nation out of 82 plans reviewed. Morningstar has cited Ohio's direct program as a "Low-Cost All-Star Team" of investment options.

OTTA currently sponsors two 529 college savings plans, a direct and an advisor plan. The name 529 plan references Internal Revenue Service Code Section 529 which governs college savings plans. Contributions to state-sponsored 529 plans grow tax free at both the state and federal level, and earnings are withdrawn tax free when used for qualified higher education expenses. In addition, Ohio residents can deduct up to \$2000 a year, per beneficiary, in contributions on their Ohio income tax return and, beginning with tax year 2010, Ohioans were able to deposit their state income tax refund directly into their CollegeAdvantage account.

The agency also administers assets and services clients of the Guaranteed Savings Fund. This original prepaid option established in 1989 is secured by the Full, Faith and Credit of the State of Ohio, and new investments have been suspended since 2004. As of March 31, 2011, the funded status of the Guaranteed Savings Fund is 100.3%, up from 88.8% as of June 30, 2010. The investments of the Guaranteed Savings Fund continue to be invested in a well-diversified portfolio. The asset allocation is 50% bonds and 50% stocks and is structured to protect the principal of the program.

During the course of the FY10-FY11 biennium, program growth has supported the ongoing fulfillment of OTTA's mission and provided support to agency account owners and stakeholders.

The agency's strategic plan outlines goals and strategies which support increasing the number of students attending colleges and universities in Ohio. Towards that end, agency budget resources support the following:

1. Increase the number of participants and beneficiaries
2. Increase total contributions by investors
3. Increase access to the plan to all Ohio residents

The range of services OTTA offers via web, e-mail, and the customer service hotline has grown as well. Web functionality is designed to offer account owners a comparable level of service to that of private sector financial service providers. Historically, these features have been added in response to feedback from account owners, external stakeholders, staff and OTTA board members. As a result, over 70% of OTTA's contributions and distributions are completed online. This has allowed the agency to efficiently and effectively serve the needs of clients and increase the number of Ohio families who are saving for college with CollegeAdvantage.

Throughout the biennium, OTTA has acted aggressively to secure customer data and implement robust disaster recovery capabilities. In addition in September of 2010 OTTA received increased appropriation authority from the Controlling Board, allowing the agency to continue investing in IT security needs providing protection of client account data related to their children and their savings.

Currently, over 20% of all Ohio children aged 18 and younger have accounts with CollegeAdvantage. Over 335,000 Ohio children are enrolled in the direct plan. In addition, OTTA has over 370,000 account owners participating in CollegeAdvantage advisor program.

Despite this success, the staff and board of OTTA recognize the need to continually grow our base and enhance the products and services the agency offers. These efforts will help more Ohio families save for college and allow Ohio to continue its leadership role in the 529 industry.

OTTA officials have partnered with investment consultants and advisors in recent years to determine the right approach to provide Ohioans with one of the best 529 plans in the country with access to high quality investment options and lower investment fees in both the direct and advisor sold product lineups.

In February 2009, to enhance and diversify the investment options in the direct program, OTTA added options from PIMCO, OppenheimerFunds and GE Asset Management. The new options provide diversified investment opportunities, generally at lower fees. OTTA continues to offer diversified, low-fee options in the direct program including low-cost index options from The Vanguard Group as well as banking options available through Fifth Third Bank.

OTTA also changed directions with its advisor plan in 2009. From October 2000 through September 2010, the advisor plan had been managed by Putnam Investments. After a thorough review and analysis, the OTTA Board of Directors voted to hire BlackRock to provide an additional advisor program in 2009. The Putnam contract expired in September 2010 and the OTTA Board of Directors voted to move forward with BlackRock as the exclusive provider of the CollegeAdvantage advisor plan throughout the nation. BlackRock is the world's largest money manager and an industry-leading investment firm.

As contracts with OTTA investment partners have approached expiration, staff has also aggressively negotiated with partners to provide the most competitive, low cost options for the CollegeAdvantage participants. The Fifth Third contract was renegotiated during the summer of 2010 and included a minimum 50% increase in revenue share received by OTTA for program administration. The BlackRock contract was also renegotiated, in the fall of 2010, at more

attractive revenue share, including tiered revenue that increases as assets increase and \$250,000 annually to be used for a scholarship program (see below).

The 529 marketplace is extremely competitive. Families can choose to invest in their own state plan or they can invest in plans offered by other states. Ohio has offered innovative, competitive services. Ohio offers many services through [www.CollegeAdvantage.com](http://www.CollegeAdvantage.com), such as on-line account management, electronic funds transfer (EFT) from bank accounts, payroll deduction contributions, on-line customer service and automated tuition payments.

The direct plan is highly rated by a number of nationally known analysts. Recently Morningstar issued its most comprehensive research and new analyst ratings of the largest 529 college savings plans. Ohio's CollegeAdvantage was named as one of the five Top plans across the country. "The 529 plans receiving a "Top" rating incorporate the industry's best practices, including solid investment choices at fair price." BankRate's [savingforcollege.com](http://savingforcollege.com) gives the direct plan their highest rating, 5 caps out of 5.

### **Challenges and Opportunities for 2012-2013 Fiscal Biennium**

With increasing college costs on the horizon and pressures on other forms of financial aid, saving for higher education is a necessity for most families. In addition, there is significant need to educate the public about benefits of attending college and developing a plan, which makes college more accessible and affordable for Ohio families. For the coming biennium, OTTA, its Board of Directors and staff will work to address the following priorities:

- Increase the number of Ohio families and current account contributions in CollegeAdvantage. Families that have not prepared financially for college expenses will find that obtaining a higher education a more challenging goal for their children.
- Increase accessibility by enabling families in every region of Ohio, at every income level, to participate in CollegeAdvantage while working in conjunction with various stakeholders to raise awareness of the value of higher education. OTTA's regional representatives work with local organizations, individuals and employers to make the plan available to all Ohio citizens, including low-to-moderate income families and first generation college students.
- Continue to make changes and improvements to CollegeAdvantage in order to remain competitive. Forty-nine states, the District of Columbia and an independent consortium each sponsor one or more 529 plans. An investor anywhere can invest in any 529 college savings plans nationwide. As a result, OTTA continues to change and improve its plan in order to attract and retain clients. Growing plan assets allows OTTA to negotiate fee reductions and pass them along to investors.
- While OTTA has focused considerable effort to educate parents about saving for the educational needs of their children, OTTA will also focus resources on informing adults about using 529 plans to begin college, complete a degree or obtain additional training and certification.
- New in FY11 is the pilot testing of a scholarship program. Our partner, BlackRock has pledged \$250,000 annually for a scholarship program. In addition, OTTA offered a \$250,000 match and, in September was granted unanimous Controlling Board approval for increased appropriation authority that includes the pilot scholarship program.
- Clarify in statute OTTA's ability to offer a default savings option for first-time savers. Simplifying the enrollment process would allow parents with limited incomes and limited investment experience to start saving prudently for their children. Statutory guidance to offer default options would also allow OTTA to assure compliance with the guidelines of Section 529 of the Internal Revenue Code. Statutory language supporting this effort is included in House Bill 153.

### **Setting Priorities:**

OTTA's budget exclusively supports the marketing, recordkeeping, and servicing of the CollegeAdvantage direct program. Sales and new account projections for the FY12 and FY13

budget years are for the direct program. OTTA is projecting significant growth in both new CollegeAdvantage direct accounts and in sales revenue for the program over the biennium. A 10% annual growth rate is projected for FY12 and FY13.

The projected increases for the biennium are feasible based on recent history. The CollegeAdvantage direct program has a strong track record for growth in FY10 alone, with nearly 25,000 new accounts and \$528.8 million in new contributions. In addition, market acceptance of 529 plans as one of the best ways to save for college continues to gain momentum in Ohio and across the country.

Pursuing aggressive growth of the program also aligns with the long-term 2008-2017 Strategic Plan for Higher Education prepared by the Chancellor of the Board of Regents. The strategic plan for Ohio includes the goal of enrolling 230,000 more students and keeping more graduates in Ohio, ultimately increasing the overall educational attainment of the state.

By continuing to aggressively market the CollegeAdvantage program in Ohio and by encouraging current account owners to grow their accounts, OTTA will play a role in achieving these strategic goals, increasing the number of families who are financially prepared for higher education. Historically OTTA has helped over 80% of Ohio residents in the direct plan attend an Ohio college or university. In addition, of OTTA's direct plan participants, over 70% have attended an Ohio public college or university.

While the marketing efforts for CollegeAdvantage are primarily geared toward families with newborn children through high school, there is an opportunity to encourage adults 25 and older to start their own 529 account. OTTA routinely meets with Ohio employers about offering the CollegeAdvantage payroll deduction benefit for employees to save for their children. OTTA expanded that message to encourage dedicated saving for an employee's own educational benefit.

### **Marketing**

The FY12 and FY13 marketing budget will continue to establish the CollegeAdvantage brand, build awareness and preference for CollegeAdvantage in Ohio, create a strong call to action and most importantly work harder to convert leads to new account sales. The marketing budget for the FY12 and FY13 fiscal years is designed to achieve five key goals:

1. Increase public awareness of the CollegeAdvantage program to all Ohio families.
2. Meaningfully increase participation in the program in FY12 and in FY13.
3. Encourage current CollegeAdvantage account owners to increase their contributions and grow their college savings to improve preparedness for higher education.
4. Educate Ohioans on the value of higher education and the need to start an early saving program, as well as, support financial literacy outreach programs.
5. Develop corporate partnerships with Ohio employers to provide a payroll deduction employee benefit for CollegeAdvantage to make it easier for families to save.

Over 70% of the marketing budget is allocated for advertising, community relations and promotions. Advertising is a key investment to attract families, establish an emotional connection and create interest leading to action. Community outreach allows OTTA to develop relationships with the key stakeholders necessary to build support for promotional efforts. Promotional efforts drive traffic to the web and call center where families can obtain answers and become educated on the program benefits. The marketing budget provides for creative development of campaigns and messages, media buys to deliver the message and funds to support limited-time incentive offers to start saving. With the expanded appropriation authority approved by Controlling Board in September, OTTA has more opportunities to advertise throughout the year through radio, print, TV, direct mail, digital and social media.

The primary target audience is parents with children 18 and younger. Key target audiences also include African-American and Hispanic families as well as grandparents. These initiatives will also be supported by community outreach efforts aimed at local organizations to expand our reach to lower income families throughout Ohio. Ohio companies will also be targeted to increase corporate partners for the CollegeAdvantage payroll deduction benefit. Corporate outreach will also help to encourage adults (25 and older) to consider planning for their own continuing education needs. Over 750 Ohio companies offer payroll deduction.

Community outreach efforts are a key component of the overall marketing and communications plan. Outreach efforts will be targeted to the general public, as well as current underserved audiences such as African-American, Hispanic and low and moderate income families. In addition, OTTA participates annually in events such as the Ohio State Fair, the Ohio Invention Convention, and many family and baby expos.

Continued investor education for CollegeAdvantage account owners also makes up a significant portion of the marketing budget due to the rapid growth of the program and anticipated new growth of the plan over the biennium. This includes the production, printing and distribution of quarterly account owner newsletters, and marketing mailings to encourage contributions and ongoing investor education. In addition to the customer mailings, OTTA will also send regular e-mails to account owners to continue investor education.

OTTA works closely with the Ohio Board of Regents on a variety of outreach programs including the Ohio State Fair, Ohio CollegeWeek Live and community events that support our common goals. OTTA also collaborates with Ohio college access programs on outreach efforts.

### **Information Technology**

The Information Technology (IT) department develops and supports client applications and provides the agency infrastructure to prevent system downtime within our production environments, especially agency critical areas including customer interfacing environments. As a financial services organization, the IT department must constantly align the technical infrastructure and technical environments with the need to protect sensitive data for both customers and OTTA. The IT department will work to ensure that applications can support and keep pace with client expectations, which correspond to those offered by private financial services firms. Our clients expect easy and clear interaction, accuracy, timeliness and the ability to manage their own accounts. In order to remain competitive, OTTA staff must understand and adapt to meet evolving client needs. Maintaining best practices with regard to protecting client data will take continuing focus and attention. With over 70% of customer contributions and disbursements being completed electronically, the IT department will need to implement ongoing changes that improve or enhance the functionality and appeal of customer support features available through the CollegeAdvantage website.

The IT department provides separate and distinct technical work environments that enable developers and testers the ability to have better change management, gain approvals and sign-off, protect data, and demo implemented functionality matched to functional and non-functional requirements. In addition, this budget will provide the agency the ability to re-design the technical database structure that houses customer data. It will provide the means that will allow the agency to better integrate knowledge and enhancements regarding database structure information from key staff.

The IT department will also work to expand disaster recovery services and enhance the protection of sensitive client data. They will also increase support for the Interactive Voice Recognition (IVR) system and for telecommunications services by adding network facilities that expand capacity and accommodate anticipated internet usage growth. As plan participation and services grow, network infrastructure must be able to accommodate additional demands for service.

### **Operations**

Over the current and past biennium periods, significant effort has been focused on improving service delivery to CollegeAdvantage clients, automation of agency processes and infrastructure improvements. We will continue to focus on these initiatives in the operations budget.

The operations budget relies heavily on projected sales volumes. These volumes have a direct impact on quarterly statement and welcome kit generation expenses, other miscellaneous customer mailings, as well as the annual 1099Q mailing. Included within the operations budget are the postage costs for these mailings.

The Operations Budget also includes all payout and withdrawal processing costs. This includes all letter generation regarding the withdrawal process as well as annual notification letters and updates as well as the associated postage costs for these communications.

During FY11, OTTA expanded the hours of the phone center from 8:30 am to 5:00 pm, to 8:30 am to 6:00 pm to provide greater customer service availability to our customers and added outbound calling, to open new accounts, increase contributions and gauge customer satisfaction. This has all been achieved within current staffing levels, through cross-training of existing operations staff. A number of non-operations staff are also cross-trained and routinely fill in during peak periods.

By the end of FY11 OTTA will accept responsibility for incoming calls into its call center environment on behalf of the Ohio Board of Regents. It is anticipated that this integration will continue to grow in both volume and scope.

In addition, OTTA has hired a leading national consulting firm to review, evaluate and enhance the record keeping system and operating processes for CollegeAdvantage. The consulting firm is taking a multi-phase approach to their account review with the ultimate goal of implementing leading industry practices for 529 plans.

During the initial review, some record keeping issues were discovered. The Tuition Trust is in the process of making necessary account adjustments which are currently scheduled to be completed on or before June 30, 2011.

### **Conclusion**

The product changes, service enhancements and program growth in FY10 and FY11 provide the platform for growth projections for FY12-13 that are ambitious yet attainable. OTTA will continue to help make higher education affordable and accessible for more Ohio families.

Thank you for this opportunity. I would be happy to answer any questions.