

# MINUTES

## SCHOLARSHARE INVESTMENT BOARD

March 14, 2000 – 1 PM-1:55 PM  
915 Capitol Mall, Room 587  
Sacramento, CA 95814

The meeting was called to order at 1:08 p.m. by Chair Philip Angelides.

Present: Philip Angelides, Chair  
Annette Porini for B. Timothy Gage, Department of Finance  
Sue Burr for Gary Hart, Department of Education

Staff: Sue Mapes, Acting Chief, ScholarShare Trust  
Susan Baltake, Assistant State Treasurer  
Jennifer DuCray-Morrill, Deputy State Treasurer  
Irene Tamura, Deputy Attorney General

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board December 2, 1999 meeting were approved as submitted.

### Item # 2

#### Staff Report

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Staff reported that as of March 10, 1999, the ScholarShare program had nearly \$38,000,000 in the trust with a total of almost 7,600 accounts. The average account balance was \$5,000.

Staff reported that it has been working with the State Controller's Office to set up payroll deduction for State employees. This has been a high priority as many agencies have expressed interest. It is expected that payroll deduction will be available by the end of the May pay period.

Staff discussed marketing materials associated with the ScholarShare campaign. Chair Angelides asked that each member be provided a copy of the ScholarShare television commercial in both English and Spanish. Member Kay asked if there are currently plans to provide materials in languages other than those already designed and how those languages were determined. Tim Lane, TIAA-CREF, noted that there is a legal obligation to provide appropriate disclosure information in any language that is advertised, which becomes cost prohibitive beyond a certain population exposure. The languages chosen were representative of the largest groups in the state. Currently, there are no plans to provide information in any language other than those already discussed. Mr. Lane did point out that the toll-free number supports nearly 150 languages. Member Kay inquired as to what type of research was done to determine the languages for marketing. Mr. Lane noted that there was some consideration given to languages that had daily/weekly publications. Chair Angelides asked that staff take a fuller look at the primary populations for whom communication in a language other than English is important and bring findings back to the Board at the next meeting so that expansion may be considered.

**Item # 3****Appointment of Executive Director**

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The Chair of the ScholarShare Investment Board recommended the approval of Ms. Susan Baltake as the new Executive Director of the ScholarShare Investment Board.

Member Porini moved that the Board accept the recommendation of the Chair to appoint Ms. Baltake as Executive Director. Member Serna seconded. The motion was passed by a unanimous vote.

**Item # 4****Approval of Permanent Program Regulations**

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Staff reminded the Board that the program regulations currently in effect are temporary "emergency" regulations. It had been hoped that permanent regulations would have been established, but there have been minor comments on some forms by the Office of Administrative Law (OAL). OAL requires an additional 15-day public comment period on those changes. Staff presented the modified emergency regulations to the Board for approval as permanent regulations.

Member Burr moved that the Board accept Staff's recommendation to approve the enclosed package of regulations as permanent ScholarShare regulations. Member Porini seconded. The motion was passed by a unanimous vote.

**Item # 5****Amendments to TIAA-CREF Contract**

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Staff explained that there had originally been three suggested amendments to the TIAA-CREF contract, however, after further discussion with the Attorney General's Office, the second and third amendment have been withdrawn. The remaining amendment would extend the contract termination date an additional six months from April 22, 2006 to October 21, 2006. This is necessary because the delayed launch of ScholarShare reduced the period of time TIAA-CREF had to recover its start-up costs.

Chair Angelides inquired as to why the withdrawn amendment regarding a \$500,000 letter of credit was not being considered. Staff noted that there was not enough information to bring to the Board for consideration. Staff is currently exploring other solutions to achieve the level of protection that the letter of credit provided.

Member Serna moved that the Board extend the TIAA-CREF contract termination date an additional six months. Member Kay seconded. The motion was passed by a unanimous vote.

**Item # 6****Adding Investment Options for ScholarShare Participants**

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Larry Rubin, Vice President of Finance and Administration at TIAA-CREF, presented three new investment options for ScholarShare participants that were developed under Board direction at the last meeting, noting that several other states have already added options. The options that TIAA-CREF suggested are Diversified 100% Equity, Social Choice 100% Equity, and Guaranteed. Mr. Rubin noted that there are no other states that currently offer the Social Choice option. The addition of the three options will add flexibility to the program and broaden appeal.

Member Burr inquired as to which of the options would be considered for the Governor's Merit Scholarship if enacted. Ms. Baltake responded that the recommendation would be the guaranteed option because the recipients of the scholarships would be entering the program at a much later stage of their education. Chair

Angelides suggested that staff amend the draft legislation directing the Board to place the Merit Scholarship accounts in the most secured investment option.

Chair Angelides noted that if participants choose the social choice option as presented, they are actually making two decisions, one to be in an all equities program, and the other, social choice. He asked if there had been consideration given to offering social choice in the age-banded option. Mr. Rubin explained that the social choice option within the age-banded option would be more expensive due to the multiple accounts. Chair Angelides asked about the percentage of TIAA-CREF's clientele that choose the social choice option. Mr. Rubin guessed that the answer was less than 10%, however, he noted that the majority of TIAA's clients are long term participants who don't pay attention to where their retirement funds are invested. Chair Angelides requested that staff explore the possibility of a balanced social choice option.

Chair Angelides asked if the ability to deliver the options to participants was contingent upon IRS approval. Christine Doyle, TIAA-CREF Senior Counsel, responded that proposed IRS regulations state that up to five options may be offered without IRS scrutiny.

Member Kay made a motion that the Board adopt the three new options as presented by staff to be offered July 1, 2000. Member Burr seconded the motion. The motion was passed by a unanimous vote.

## **Item # 7**

### **Approval of Contract with PCA as Advisor to the Board**

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Staff presented a recommendation by staff to award a three-year contract with Pension Consulting Alliance, Inc/Milliman & Robertson, Inc. (PCA/M&R) as investment advisor to the Board. The choice was made based on background, experience, responses to interview questions, and cost. Chair Angelides noted that PCA is the principal consultant to the State Teacher's Retirement System (STRS), and is also a consultant to the Public Employee's Retirement System (CalPERS).

Member Porini made a motion that the Board approve the Executive Director entering into a three-year contract with PCA/M&R to provide investment consultant services to the Board. Member Burr seconded the motion. The motion was passed by a unanimous vote.

## **Other Business**

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Chair Angelides called for public comment. There was none. Chair Angelides then asked if the Board had any concerns or issues. Member Serna asked if a marketing plan was in place to reach blue-collar families. Staff responded that the current marketing plan is being revised. Chair Angelides asked that each member be provided a copy of the plan so that they may comment on it. Staff explained that the addition of State payroll deduction will increase the number of potential participants, as would a state tax incentive.

Chair Angelides inquired about the possibility of making ScholarShare an official state benefit by offering it through CalPERS, STRS and the Department of Personnel Administration.

Staff, noted that a member of the audience, Mr. William Storm, President of the Capello Foundation in the San Juan Unified School District, has been working with TIAA-CREF to possibly market ScholarShare in the K-3 schools. Chair Angelides suggested that the possibility of raising awareness of the program through schools and parent/teacher organizations be explored. Mr. Lane stressed the importance of the involvement of organized workers associations to successfully raise awareness of the program.

Chair Angelides requested that staff make a presentation on the marketing plan at the next meeting.  
Member Kay requested that the plan be divided into two sections, indirect marketing, and direct marketing.

There being no further business before the Board, the Chair adjourned the meeting at 1:55 p.m.

Respectfully submitted by,

Susan Baltake  
Executive Director, ScholarShare Investment Board