

## MINUTES

### SCHOLARSHARE INVESTMENT BOARD August 1, 2001 – 1:00 PM – 3:04 PM 915 Capitol Mall, Room 587 Sacramento, CA 95814

The meeting was called to order at 1:04 PM by Chair Cathy Calfo.

Present: Cathy Calfo for Philip Angelides, Chair  
Bob Spurlock for Kerry Mazzoni, Office of the Secretary for Education  
Annette Porini for Timothy Gage, Director of Finance  
Allison Jones  
Sabrina Kay  
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Allan Emkin, Pension Consulting Alliance (PCA)  
Paul Ramsey, State Treasurer's Office Counsel

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board May 18, 2001 meeting were approved as submitted.

#### Item #2

#### Staff Report

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Carrie Douglas Fong presented updated program statistics. The number of accounts currently opened is 43,129, total assets are approximately \$187.7 million and the average account balance is \$4,351.

Ms. Douglas Fong, along with a representative of Pension Consulting Alliance (PCA), traveled to New York to meet with TIAA-CREF fund managers. Of specific concern was the International Equity Fund because that fund's performance is more than 10% off benchmark as a result of additional risk undertaken by TIAA-CREF. Fund managers explained that recently, TIAA-CREF changed controls and has reduced risk. Staff will continue to monitor the situation.

At the May meeting, Chair Anne Stausboll asked TIAA-CREF to look into several questions related to investment performance and to perform an attribution analysis for the August 1 Board meeting. TIAA-CREF is still working on this request and will provide a draft of that report to PCA by Friday, August 3.

Ms. Douglas Fong noted that updated marketing statistics had not been available until just prior to the meeting. She provided a copy of the updated report to Board members. She also noted that although TIAA-CREF and its sub-vendor, BFDS, have not been able to track a broad range of data, their tracking abilities have improved. A written analysis of the marketing implementation plan will be available at the next meeting.

In September, Runyon, Saltzman and Einhorn will begin a media campaign centered on "Back-to-School." The campaign will consist of television and radio interviews, and in October, will focus on print media. The aggressive-age based option will be rolled out at that time. Originally, the new option roll-out was scheduled to begin in September, however, due to other changes that must be made to the enrollment materials, it was decided that it was more prudent to delay the

roll-out until October so that the materials can be changed once. New enrollment materials will be available in October and will feature information on the implications of the new federal tax bill, as well as a new look.

At the last Board meeting, Ms. Douglas Fong told the Board that SIB was exploring the possibility of hiring an additional staff member that would be devoted solely to marketing efforts. Staff is now actively pursuing hiring an additional person.

At the May meeting, staff indicated concern with regards to several back-office issues at Boston Financial Data Services (BFDS). Since then, Ms. Douglas Fong and a representative of PCA have traveled to Boston to meet with BFDS representatives, and have been assured that BFDS has taken decisive steps to improve service. However, Output Technologies (a BFDS sub-vendor) is still an area of concern. Staff will outline specific concerns in a letter to TIAA-CREF to be sent out next week. She noted that TIAA-CREF is very aware of the problems and has taken steps to remedy them, including trying to hire a company to benchmark industry standards.

Ms. Douglas Fong highlighted several of the changes to the program as a result of the new federal tax bill. Qualified withdrawals are now tax-free and room and board allowances have been increased. Staff is pleased with the changes.

There is nothing new to report on the legislation for a ScholarShare tax credit. Staff is exploring the possibility of a conformity bill that will make qualified withdrawals state tax-exempt.

Ms. Douglas Fong reported that over 70,000 of the 106,000 students identified as having qualifying scores have claimed their Governor's Scholarship Awards. The number of claims per week has decreased as anticipated because of the summer school break. Staff is actively pursuing ways to increase the claiming rate, not only this year, but throughout subsequent years.

Member Kay inquired about what plans are in place to help raise the claiming rate. Ms. Douglas Fong reported that letters were sent to schools that listed scholarship recipients that had not yet claimed. Staff will repeat the process in September. Temporary staff will also be hired to call schools with low claiming rates. Member Jones suggested that advertisements be placed in high school newsletters as a way to reach students. It was noted by staff that this option is being reviewed. Member Serna asked if there was a discernable pattern as to where the high-claiming schools were located. Ms. Douglas Fong replied that staff could not determine a pattern.

Member Jones asked about the frequency of statements to account holders and if those statements included explanations as to why accounts seem to have declined in value recently. Mr. Tim Lane, TIAA-CREF, explained that statements were sent quarterly and an explanatory insert had been sent to New York account holders, but California has not requested one thus far. Mr. Lane explained that such inserts tend to raise negative awareness and activity. Staff will discuss options and bring suggestions to the Board at the next meeting.

### **Item # 3**

#### **Approval of Contract with State Treasurer's Office for Administrative Services**

Each year, the Boards, Authorities and Commissions that have operations at the State Treasurer's Office (STO) enter into a contract with the business services department of STO for administrative services for the upcoming fiscal year. The contract is for services that include, but are not limited to, accounting, budgeting, personnel, business services, and information technology support. The cost of the contract is determined each year by the Business Services division of STO and is based on the number of ScholarShare staff. The cost to ScholarShare for FY 2001-02 is \$89,473.

Member Jones moved that the Board authorize the Executive Director to enter into a contract with the State Treasurer's Office in the amount of \$89,473 for administrative services for fiscal year 2001-02. Member Kay seconded. The motion was approved unanimously.

#### **Item # 4**

#### **Presentation of ScholarShare Business Plan, Phase I**

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Mr. Peter Starr, Cerulli Associates (Cerulli), presented phase I of the initial recommendations to the Board based on analysis of the 529 college savings program industry and ScholarShare's products and distribution alternatives.

Cerulli recommended that ScholarShare and TIAA-CREF continue to market direct but also partner with a wholesale intermediary distributor. This approach will allow ScholarShare to reach a broader segment of the market.

Member Kay stated her agreement with Cerulli's recommendation, but noted that this suggestion had been raised during a previous Board meeting and past concerns had been that it was illegal, or that the fees were too high. She asked what had changed to make this plan feasible now when it hadn't been in the past. Mr. Starr noted that it's never been "illegal" to use direct marketing and wholesale intermediary distributors, and most states are now adopting some form of intermediary distribution. He suggested that the concern might have been with the cost to the consumer, rather than the State. Both Mr. Starr and Mr. Lane noted that 529 programs are still in their infancy and new information about how the programs are sold is evolving. Mr. Starr noted that many firms believed that if they built a good product, people would buy it though any means available. What wasn't factored in was the proliferation of products available to consumers.

Member Kay would like to see an execution plan for the recommendation presented, a plan for marketing direct and some research on lead costs and conversion rates, as well as recommendations on investment options and improving our product in phase II.

Chair Calfo stated that the Treasurer is supportive of the recommended approach, however he believes that ScholarShare must continue to market to special socio-economic groups. The Treasurer requested that Cerulli put forth recommendations on how ScholarShare might better market to the full diversity of the State, and make a recommendation for the use of the current direct marketing budget. The Treasurer is also feels that it is necessary for the final business plan to address the issue of risk management. Any partner chosen must have good procedures in place, as well as financial strength. Mr. Lane noted that all of the Treasurer's concerns would be addressed and assured the Board that a high level of diligence will be used when selecting a partner.

Member Porini stated her concern that ScholarShare's focus remains on the children of California if it becomes a nationally marketed program. She also expressed concern about having state staff running a program that invests money for residents of other states. Mr. Lane explained that TIAA-CREF is also concerned about the issue and will continue to work with Cerulli on a strategy so that marketing nationally will bring benefits to California, possibly in the form of a tax or tariff on broker-sold products to residents of other states whose programs are not managed by TIAA-CREF.

Member Jones inquired about the effects of higher fees on California families over time. He also asked about the advantages of the proposed expansion and the overall effects on the fund and if the proposed approach weakens or strengthens the product. Mr. Emkin explained that the main benefit of this approach would be that more Californians would be reached. Mr. Starr added that by expanding the trust, California would be able to draw from a larger pool of assets to create programs that will benefit all socio-economic groups.

Member Serna also expressed concern about marketing direct to families making under \$50,000 per year. Mr. Lane introduced the new ScholarShare program manager at TIAA-CREF, Carla Raffin. Ms. Raffin's responsibilities will include coordinating the direct marketing efforts.

**Other Business**

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Chair Calfo called for public comment. There was none. There being no further business before the board, the Chair adjourned the meeting at 3:04 PM.

Respectfully submitted by,

Carrie Douglas Fong  
Executive Director, ScholarShare Investment Board