

## MINUTES

### SCHOLARSHARE INVESTMENT BOARD March 12, 2002 – 2:00 PM – 3:20 PM Teleconference

The meeting was called to order at 2:10 PM by Chair Anne Stausboll.

Present: Anne Stausboll for Philip Angelides, Chair  
Bob Spurlock for Kerry Mazzoni, Office of the Secretary for Education  
Annette Porini for Tim Gage, Department of Finance  
Allison Jones  
Sabrina Kay  
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Neil Rue, Pension Consulting Alliance (PCA)  
John Middlebrook, TIAA-CREF  
Carla Raffin, TIAA-CREF  
Tom Noguerola, State Treasurer's Office Counsel

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board November 29, 2001 meeting were approved as submitted. The Chair asked for public comment.

#### Item #2

#### Staff Report

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Ms. Douglas Fong presented updated program statistics. The number of accounts currently opened is 63,338, total assets are approximately \$340 million and the average account balance is \$5,366. Ms. Douglas Fong noted that the average account balance has risen steadily in the past few months.

Staff has been working on assembling customer service and investment benchmarks. Sample benchmarks have been difficult to obtain and Board members were asked for assistance.

TIAA-CREF, Tuition Financing Inc. (TFI) is currently reviewing the all of the marketing efforts underway and they have provided an update for the Board that they will present as the next item. TFI is also in the process of reviewing public relations and marketing contracts and will update the Board.

Ms. Douglas Fong drew the Board's attention to Exhibit G that was an update of some analysis proved by Cerulli Associates last August. Ohio and Rhode Island have seen their account growth and assets skyrocket and Ms. Douglas Fong noted that both states use intermediary distribution.

ScholarShare received a hiring freeze exemption from the Department of Finance for the manager position vacated by Sue Mapes. Staff has made an offer to an applicant contingent upon a background check and fingerprinting. Filling the vacant position has been a priority for staff.

In light of the current budget situation, the ScholarShare tax credit bill is not expected to move forward. In addition to SB 733, the bill that would provide tax-free withdrawals, there are two other pending legislative bills that would affect tax-free withdrawals: AB 1122 (Corbett) and SB

657 (Scott). Both of those bills are more comprehensive than SB 733 which only provides conformity for 529 programs.

Ms. Douglas Fong reported that Governor's Scholarship Programs claiming for test year 2000 has increased. To date, more than 81,000 Scholars Awards and 390 Math and Science Awards have been claimed. For the 2001 test year, 33,109 Governor's Awards and 80 Math and Science Awards have been claimed. It was noted that claiming has been slower for the 2001 test year. Staff made this determination by comparing actual number of claiming days from one year to the next. Harcourt Educational Measurement (Harcourt), the Department of Education's vendor, is responsible for shipping notification materials to the school districts. The districts are responsible for distributing the material to the students, either by sending the letters to the schools, or by mailing them directly to the students' homes. This year, Harcourt seems to have had some shipping difficulties. Materials have been mislabeled or incomplete. Harcourt has provided a contact name and telephone number for schools and districts to use to facilitate the process of obtaining replacement materials. Member Spurlock was instrumental in obtaining assistance from the Department of Education and Harcourt.

Member Serna asked about the methods of distribution for the Governor's Scholarship Awards. It was explained that schools received no funding to mail the award notices to the students homes. Distribution is at the schools discretion.

Member Jones inquired as to whether intermediary distribution will help ScholarShare achieve set goals for account generation, despite the economy. Mr. John Middlebrook, TFI, explained that during the previous year, only 56% of the marketing budget was spent. The resulting account generation was very good relative to the marketing expenditures. TFI is very confident that it will attain its 2002 goals. At this time TFI is 18% above its prorated new account target and assets are at 70% of its annual goal.

Chair Stausboll noted concern about the returns for Growth Equity funds, which trail the benchmark. Mr. Middlebrook stated that the returns have been disappointing, however during the fourth quarter, the returns have improved and the gap between the fund and the benchmark has narrowed. He also noted that TIAA-CREF's investment philosophy is to stay fully invested in the market, even during economic downturns. As a result the funds bear the full brunt of a down market and in an up market the returns are on target.

Mr. Neil Rue, PCA, noted that most of the funds have shown a modest improvement, however the Growth Equity fund is still behind the benchmark and that is cause for concern. Mr. Middlebrook noted that TFI has taken action to lessen the impact of this fund on accounts by diversifying the age-based options. Staff is working to develop investment benchmarks and hopes to bring them to the Board at the next meeting.

In working with staff on customer service benchmarks, Chair Stausboll has reviewed the telephone center statistics and has some concerns, especially with respect to the call abandonment rate, which is at 19%. TIAA-CREF tries to maintain an abandoned call rate of less than 5%. Tax law changes have created a great demand and the length of the calls has increased dramatically. In addition to the 29 full-time call center personnel, TIAA-CREF added 4 new consultants and took other steps to increase capacity. Demands exceeded expectations, which resulted in longer wait times and abandoned calls. Member Kay suggested hiring more part-time employees to assist during periods of high demand. Mr. Middlebrook responded that because call center employees must be licensed and registered with the National Association of Securities Dealers to take investment related calls, it is difficult to find qualified part-time staff. Mr. Middlebrook also mentioned that TIAA-CREF will be establishing a service unit that will take service related calls that require a lesser degree of investment knowledge. Member Kay also suggested that the Web site be enhanced to handle inquiries that would normally require service calls. Mr. Middlebrook noted that the ScholarShare Web site is in the process of being

redesigned and the suggestions will be taken into consideration. Staff will report on the call center statistics at the next Board meeting.

### **Item # 3**

#### **2002 Marketing Update**

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Last fall, Cerulli Associates (Cerulli) submitted a report on direct marketing, which outlined marketing goals and strategies for TFI. Mr. Middlebrook and Ms. Carla Raffin, TFI, presented TFI's response to Cerulli's report.

Mr. Middlebrook noted that asset and account generation has been outstanding despite the fact that only 56% of the marketing budget had been expended. The remainder of that budget will be carried over to the next year's marketing budget.

Online enrollments have had a significant impact on account generation. Through March 11, 2002, 744 new accounts have been opened online. Over 20% of all new accounts have been opened online despite the fact that there has been no promotion of the new online enrollment feature. Aggressive promotion of the online enrollment feature is planned for the second quarter.

TFI is in negotiations with a new public relations agency. Staff will update the Board at the next meeting. At Cerulli's suggestion, TFI is also in the process of hiring a new full-service advertising agency. It is anticipated that the relationship will begin early in the second quarter.

Member Serna inquired about enrollment materials in other languages. Mr. Middlebrook reported that materials in Spanish have been produced and other languages may be added as demand rises, acknowledging that demand is difficult to measure. Member Kay suggested that Korean and Chinese materials be added. Mr. Lane noted that if materials in those languages were added, TFI would also need to produce disclosure documents in those languages, which is cost prohibitive because of the necessary legal review.

Member Porini asked if investors that enrolled online have expressed concerns about privacy issues. Ms. Raffin reported that thus far, there have been no concerns raised about the security of the Web site. For investors that are concerned about exchanging banking information online, the option of printing out a voucher and sending in a check via mail is provided. It was noted that approximately 12% of the new online account holders do not send checks.

### **Item # 4**

#### **Sole Source Contract with TIAA-CREF for Program Management Services for Governor's Scholarship Programs for Fiscal Year 2002/2003**

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At the October 27, 2000 Board meeting, the Board approved a sole source contract amendment with TFI for program management services for the Governor's Scholarship Programs.

Compensation of TFI is calculated annually according to provisions in the contract as amended, and the total amount for each fiscal year cannot exceed the amount approved by the Department of Finance (DOF). The dollar amount of the contract will reflect service charges associated with the number of accounts to be opened and maintained, call center expenses and miscellaneous administrative services during FY 2002-2003.

This amendment is similar to the amendment that the Board approved last year and staff has been working with the DOF. Member Porini noted that DOF has reviewed the resolution for the contract amendment and has no concerns.

Member Porini moved that the Board allow the Executive Director to enter into a contract amendment with TFI for the costs of program management services for the Governor's

Scholarship Programs in FY 2002-2003. Member Serna seconded. The motion was approved unanimously.

**Item #5**

**Approval of Request for Proposal Release for Third Party (Intermediary) Distribution**

At the August 2001 Board meeting, Cerulli Associates (Cerulli) presented Phase I of the ScholarShare Business Plan at which time Cerulli recommended using intermediary distribution. At the October 2001 meeting Cerulli suggested that the ScholarShare Investment Board release a Request for Proposal (RFP) for an Investment Firm/Manager.

By voting on this item, the Board approves the release of an RFP for Intermediary Distribution. Member Spurlock clarified that by approving the release of the RFP, the Board makes no commitment to award a contract.

Member Jones moved that the Board approve release of an RFP for an Investment firm/Manager to perform third party distribution functions. Member Kay seconded. The motion was approved unanimously.

**Other Business**

Chair Stausboll called for public comment. There was none. There being no further business before the board, the Chair adjourned the meeting at 3:20 PM.

Respectfully submitted by,

Carrie Douglas Fong  
Executive Director, ScholarShare Investment Board