

MINUTES

SCHOLARSHARE INVESTMENT BOARD June 26, 2002 – 2:00 PM – 2:55 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
Allison Okyle
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board
Senita Robinson, Manager, ScholarShare Investment Board
Allen Emkin, Pension Consulting Alliance (PCA)
John Middlebrook, TIAA-CREF
Tom Noguerola, State Treasurer's Office Counsel

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board March 12, 2002 meeting were approved as submitted. The Chair asked for public comment.

Item # 2

Staff Report

Ms. Douglas Fong introduced Senita Robinson, the new manager of the ScholarShare Investment Board. Ms. Douglas Fong presented updated program statistics. The number of accounts currently opened is 74,119, and total assets are approximately \$400 million and the average account balance is \$5,350. Staff is still working on the RFP for 3rd Party Distribution.

Ms. Douglas Fong reported that AB 3045, the ScholarShare technical corrections bill, is on its way to the Appropriations Committee. This bill includes amendments to the Memorial Scholarship Fund bill. This changes the requirement to notify recipients from ScholarShare's responsibility to that of another state agency. The Board will be given periodic updates on the program.

Ms. Douglas Fong reported that Governor's Scholarship Programs' claiming rate for test year 2000 has increased to 85,000 awards claimed, which is 80% of awards claimed. For the 2001 test year, 82,716 Governor's Awards have been claimed, which is 73%. It was noted that at this time last year, the claiming rate was 63%. The rise in claiming may be attributed to the fact that duplicate claiming materials for 2001 were mailed to districts and TFI followed up with phone calls to the schools with the lowest claiming rates.

Staff began advertising a position to replace Virginia Schoning and will begin advertising for a Student Assistant shortly, which will improve our staffing situation.

Chair Stausboll and Member Porini thanked staff and TIAA-CREF for the work that was done to increase the claiming rate for the Governor's Scholarship Awards.

Chair Stausboll confirmed that there was a consensus from the Board to continue moving forward with the RFP for 3rd Party Distribution.

Item # 3

Update on Calling Center Issues

At the March 12, 2002 meeting, the Board was informed that the number of phone calls that were abandoned (not picked up by a customer service representative before the customer hangs up) had increased significantly in the previous months. The Board requested that TFI provide an update on call center issues. Mr. John Middlebrook, TFI Western Regional Manager, outlined the steps that TFI has taken to improve the phone statistics. He noted that new phone consultants have been hired, and a new service center is being developed that will allow the existing call centers to focus on selling the product to potential customers. TFI has also established a relationship with National Quality Review to help TFI meet the Board's established service benchmarks.

Item # 4

Update Investment Policy to Reflect Change in Social Choice Option's Benchmark

TIAA-CREF's Investment Committee recently made changes to the "Social Choice" Funds managed by CREF Investments, which affect ScholarShare's 100% Social Choice Equity Option. This change will allow for greater diversification (investment in more companies) than is currently allowed, making a change in benchmark necessary. Pension Consulting Alliance agrees with this recommendation.

Member Jones moved that the Board change the benchmark from the S & P 500 Index to the Russell 3000 Index in the Investment Policy. Member Serna seconded. The motion was approved unanimously.

Item # 5

Permanent Regulations to Conform ScholarShare Regulations to 2001 Tax Act

In November 2001, the Board approved emergency regulations for ScholarShare to conform the program to changes made to Section 529 of the Internal Revenue Code by the Economic Growth and Tax Relief Reconciliation Act of 2001. Additionally, regulatory changes were made to streamline certain administrative activities so that ScholarShare could begin opening accounts online. The final regulations are identical to those received at the November meeting; no changes have been made.

Member Porini moved that the Board approve the permanent regulations package. Member Jones seconded. The motion was approved unanimously.

Item #6

Administrative Benchmarks

In 1999, the California Student Aid Commission (CSAC) set benchmarks for the ScholarShare program. Based on Board input, staff has been working to update those benchmarks. They have been separated into three portions as outlined in the contract with TFI. The administrative benchmarks consist primarily of customer service goals. Staff conducted extensive research into the benchmarks used by other State agencies and other 529 programs. Staff believes these benchmarks meet competitive industry standards and are realistic.

Member Spurlock inquired how the Board would determine if the benchmarks were being met. Staff asked TFI to provide quarterly updates. Chair Stausboll recommended an independent

review and asked staff to explore this suggestion and requested that staff report back at the next meeting. Member Jones asked if the Board would be reviewing the benchmarks annually and taking action if they were not achieved. Ms. Douglas Fong indicated that would be the case.

Member Jones moved that the Board adopt the administrative benchmarks. Member Okyle seconded. The motion was approved unanimously.

Item # 7

Marketing Benchmarks

Last October, Cerulli Associates recommended that the ScholarShare Investment Board set account and asset generation goals. Cerulli set goals for TFI by reviewing current account growth in California and nationwide within the direct sold market and projecting growth trends for the next five years.

Member Jones asked where TFI was in terms of the goals set. Mr. Middlebrook noted that they are above the target.

Member Serna moved that the Board adopt the marketing benchmarks. Member Spurlock 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