

**MINUTES  
SCHOLARSHARE INVESTMENT BOARD**

**February 20, 2003, 2:20 - 4:00PM  
Teleconference**

Chair Anne Stausboll called the meeting to order at 2:20 PM

Present: Anne Stausboll for Philip Angelides, State Treasurer  
Jay Schenirer for Kerry Mazzoni, Office of the Secretary of Education  
Sean Miller for Kerry Mazzoni, Office of the Secretary of Education  
Robert Miyashiro for Steve Peace, Department of Finance  
Allison Jones, Governor's Appointee  
Maria Elena, Serna, Governor's Appointee  
Sabrina Kay, Governor's Appointee

Staff: Jennifer Ducray-Morill, Executive Director, ScholarShare Investment Board  
John Middlebrook, TIAA-CREF, Tuition Financing, Inc. (TFI)  
Carla Raffin, TFI  
David Copeland, TFI  
Tom Noguera, State Treasurer's Office Legal Counsel

The Chair declared a quorum present

**Board Agenda Item Number One  
Approval of Minutes of the December 16, 2002 Meeting**

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The approval of minutes from the ScholarShare Investment Board December 16, 2002 was postponed for passage later on during the meeting.

Board Action:

Members Kay and Jones had to leave the meeting early and therefore, the Board was unable to reach a quorum to vote on the minutes. Approval of the minutes will be included in the April 18 Board meeting.

**Board Agenda Item Number Two  
Executive Director's Report**

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Update on ScholarShare Program:

Ms. DuCray-Morrill started by providing updated figures for the ScholarShare Program. She reports that there have been 33,900 new accounts opened in 2002, which is past the benchmark of 32,000 established by the Board. The year-end asset growth

benchmark of \$84.4 million has been passed by an asset growth of \$294 million. Year-to-date figures for 2003 are at 4,405 applications as of February 19, 2003 which is on pace for 38,600 applications by year-end.

Ms. DuCray-Morrill informed the Board that there were 2 fund performance underachievers for 2002, the International Equity Fund and the Growth Equity Fund. These funds have performed below their benchmarks and may be considered for probation when the matter is discussed further in the next board meeting in April. Other than these two funds, TFI has been performing well in their other investments.

*New Disclosure Booklets:*

New disclosure booklets are now available. English language booklets were printed as of January 15, 2003 and Spanish language booklets will be available on February 24, 2003.

*RFP for Intermediate Distributor*

Third party RFP draft for the ScholarShare Advisor Program is to be developed on Monday, February 24, 2003 by Allan Emkin of PCA and third party distribution will be done no later than March 15, 2003.

*Update on Governor's Scholarship Program:*

There has been an 83% claim rate in 2000 up from 82% from 2001. Year 2002 claims are at 22,206 that are ahead of last year's schedule. The Governor's Scholarship Program FY 2002-03 is funded for scholarship applicants from 9th through the 11th grade. The Governor's budget proposal for FY 2003-04 will only fund successful applicants only when they reach the 11th grade. That deferral of funding together with the reduction in the processing of star tests and the elimination of certain math tests, projects a savings to the state of \$78 million. It was noted that the Legislative Analyst's Office proposal was to eliminate the program and remove all entitlements. Ms. Ducray-Morrill also stated that the SIB administrative budget would be reduced by \$21,000 in 2003 and \$42,000 in 2004. The TFI contract will also be reduced by \$150,000. SIB will send a memo to the Department of Finance to air concerns that a contract reduction with TFI may compromise the quality of service of the existing program.

*Discussion:*

*GSP Awards Claim Rate:*

Member Miyashiro inquired about activities undertaken to outreach students that have not claimed their Governor's scholarship and that it is important to understand the non-claimants' reason in order to raise the claim rate.

Ms. Ducray-Morrill responded by pointing out efforts to contact School Districts in order to reach non-claimants and to launch a direct mail notification that would go directly to the students' homes. Even if there were a 1 in 5 non-claim rate, it would be better to reach as many people as possible.

Member Miyashiro stated that direct mail or other broad based approaches might not be the best route. A more cost-effective approach, he says would be to employ a more focused approach to eliminate internal errors. He noted that if a portion of the failure rate is due to the failure of the districts, the way to spend money wisely might be to refocus on these failure points in order to gain more knowledge. That way SIB can better target limited resources.

Member Jones expressed support for direct mailing and not going through the school districts. Member Serna is also in support of direct mail as a better way of communicating with students. She pointed out that efforts should be made to inform students that they have until age 30 to make use of their claim and that it may be used for trade and vocational education and not just a four-year institution.

### **Board Agenda Item Number Three** **ScholarShare Trust 2002 Third and Fourth Quarter Performances**

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#### Report by TFI:

Third and Fourth quarter benchmarks were established during the June 2002 meeting. Staff receives a quarterly report from TFI and reports to the Board on an annual basis.

Mr. John Middlebrook, TFI began his report by stating that the 4<sup>th</sup> quarter of 2002 was the most successful ever. Aside from the main transfer agent, Boston Financial, TFI has contracted with other call centers to provide added services. As a result phone abandonment rates have exceeded the benchmarks established in the June 2002 meeting. There has also been an improvement in the timeliness and accuracy in reporting from the transfer agent although the 4<sup>th</sup> quarter is traditionally a bottleneck.

#### Discussion:

#### *Audits and Deficiencies Report:*

Member Jones followed up on a previous item discussed during the December 16, 2002 meeting that a written notice of deficiencies is to be provided by TFI. Member Jones then made the motion to the board that deficiencies need to be placed in writing. Member Miyashiro seconded. Ms. Ducray-Morrill pointed out that the deficiencies are listed as part of the written recommendation at the bottom of the report.

Ms. Ducray-Morrill aired concerns about the timeliness of the reporting. There were some items reported in 3 days and some that took 7 days. Also there were statistics

reported for the first time period but not for the second period. She asked if it would be possible to show trend indications on a quarterly and annual basis. Chair Stausboll also asked for a report showing a gain or loss from the prior quarter.

Mr. Middlebrook, TFI proceeded to respond to the questions. Boston Financial can provide first period statistics but not second period because they do not have a reporting mechanism for step ratings. This mechanism is not yet in place during the 4<sup>th</sup> quarter but it should be in place by the next quarter's reporting period. A trend analysis template will be available in the next report. He added that the numbers in the report were un-audited for the sake of timeliness and that only applications by mail were accounted for. On-line application tracking would provide a more timely and accurate report.

*Marketing Outreach:*

Member Miyashiro had several questions. First, he asked what do the 3 factors in the marketing and outreach effort mean and how does this effort encourage savings. Second, he inquired if the marketing effort encourages existing account holders to maintain or increase their contributions once the new accounts were established.

Mr. Middlebrook proceeded to explain that the 3 marketing outreach factors were the meeting of annual goals for new accounts, second a satisfaction measurement of not having more than 2% of all new accounts close as specified by the Board, and third, meeting the asset goals for the year. New accounts and asset goals have been exceeded for the fourth quarter.

Mr. Middlebrook further explained that for the second marketing and outreach factor, there needs to be a better system of identifying the reasons for closures because they are categorized even if the reasons for closure are legitimate (i.e. funds used up or transfer accounts). He pointed out that because of the availability of transfer options in the accounts, the closure numbers might be artificially high. When asked a question by Chair Stausboll regarding the methods to identify reasons for closure, Mr. Middlebrook offered assigning transaction codes in the data reports to identify if closures were due to qualified withdrawals or transfers.

Regarding the role of marketing to encourage savings, Mr. Middlebrook pointed out the goals established by the hired marketing consultant. They have set the strategy for account and asset goals for SIB. These goals have been met for the year but efforts continue to highlight the high cost of college in the marketing materials that are mailed out to parents. As to the direct role of marketing for individual account growth, he points out that there are several factors that are out of the control of the marketing team in terms of fund performance such as 3 years of falling stock markets and the uncertainty of the federal government's policy on savings. Therefore, the marketing strategy has always emphasized new account goals.

Chair Stausboll asked if any data has to be changed to get more accurate numbers because they are not audited. Ms. Ducray-Morrill responded that the changes would not affect the meeting of the previous benchmarks. Mr. Middlebrook added that with the new meeting schedules, TFI would have more time to obtain audited numbers. It is expected that there will be no more inaccuracies in the next report.

Finally Ms. Ducray-Morrill reports that the written response notice will be sent out the week of February 25, 2003 and should be back by June 30. Chair Stausboll concluded that there should be other ways of independently investigating the self-audit function.

Board Action:

Motion to approve the quarterly format to measure against benchmarks and allow TFI to improve upon deficiencies carried unanimously.

**Board Agenda Item Number Four**  
**2002-Year End Results for ScholarShare College Savings Program**

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Report by TFI:

Ms. Carla Raffin, TFI opened by saying that in 2002 a new public relations agency (April) and a new ad agency (May) were hired and that new account and asset goals were achieved. There has been a 6% increase in new accounts over the benchmark and 348% increase in assets. She reports that on-line enrollment was launched in February 2002. Promotions such as offering Barnes & Noble gift certificates to on-line customers resulted in a 68% increase in on-line enrollment in November and 73% in December. She also stated that the marketing strategies that worked do well in 2002 will remain for 2003.

Member Kay asked for a 1 page marketing summary or spreadsheet that will illustrate the revenues generated for the advertising dollars spent. Ms. Raffin responded by saying that some of the sources are not all being tracked and that some of the data is inaccurate for the December figures.

**Board Agenda Item Number Five**  
**2003 Marketing Plan for ScholarShare College Savings Program**

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Report by TFI:

*New Strategies:*

Mr. David Copeland, TFI gave an overview of the marketing strategy for 2003. It proposes an on-line Internet oriented campaign that will be emphasized during the

more traditionally busy investment seasons (i.e. Back-to-school, Tax time etc.). Incorporated in this is a marketing dialogue feature that will be able to provide more feedback than direct mail.

TFI has brought on board as one of its clients the University of California system. TFI intends to do a large-scale promotion to UC employees, retirees and the entire population base of over 300,000 promoting ScholarShare plans in May 2003.

*Partnership Program:*

Mr. John Middlebrook, TFI continued that he would present before the Board proposals that SIB enter distribution partnerships. One example of this partnership is a program called "BabyMint". It is a customer loyalty company that partners with certain retailers. These participating retailers will offer rebates that get channeled to the customers existing 529 accounts. It is not meant to be a "spend your way to college savings" but a bonus program. This proposal will be brought before the Board for approval. Other proposals are voluntary credit cards that also offer rebates. These marketing strategies are part of the Cerulli report recommendations.

TFI is currently negotiating with a recognized firm into a medium for do-it-yourself investors to purchase from direct sellers. If an agreement is reached the identity of the firm will be revealed and the proposal brought before the board.

*Discussion:*

*Partnership Program:*

Member Miyashiro pointed out that the partnership program might not be a good idea because it departs from a message of savings. He notes that unsophisticated savers might be misled into believing that by spending more, they can finance college. Savings should not be pain-free.

Member Kay inquired about the cost to enter into these marketing partnerships. Mr. Middlebrook responded by saying that BabyMint should cost less than \$50,000, which is a small percentage of a \$3 million budget. The cost for the do-it-yourself partnership will be substantially higher. Companies like BabyMint must first establish the contract based on the guidelines of the program and offer a no-cost incentive to join up.

*Hispanic and Minority Outreach:*

The discussion then shifted to the topic of Hispanic outreach. TFI reports that there is a need to formalize the Hispanic Outreach Program with the PR firm. Ms. Raffin announced that Yvonne Jimenez, the marketing consultant in charge of Hispanic outreach, is scheduled to return from maternity leave this year. Within a few weeks there will be a radio tour and television public service announcements.

Member Serna suggested that the PR consultants and Yvonne Jimenez contact the Spanish networks such as Univision, Telemundo and Galavision for public service announcements. She also suggested contacting the National Council for La Raza their national publication. Other groups are found within the Department of Education such as the California Association of Bilingual Education and the Association of Mexican American Educators.

Finally, Member Schenirer suggested accessing the district newspapers across the state. He also suggested performing an outreach to non-Hispanic minorities like the Hmong thru the Pacific Institute for Community Organizing. Member Miller also suggested that in addition to print materials, if marketing can be done on the minority groups' websites. Member Schenirer suggested the ACSA site for the links.

**Board Agenda Item Number Six**  
**Proposed meeting Calendar for ScholarShare Investment Board**

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Board Action:

Members Kay and Jones had to leave the meeting early and therefore, the Board was unable to reach a quorum to vote on the minutes and meeting calendar.

The next meeting is scheduled for April 18, 2003 and will include these additional items.

The meeting adjourned at 3:50 PM.

Respectfully submitted by,

Francisco Lujano, Interim Executive Director  
ScholarShare Investment Board