

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

October 11, 2011

Chair Patricia Wynne called the meeting to order at 1:00 PM.

Present:

Members: Patricia Wynne for Bill Lockyer, California State Treasurer
Diana Duca for Ana J. Matosantos, Director of Finance
Antoinette Chandler
Rhonda Johnson
Mark Vargas

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, SIB
Joyce Eriksson, SIB
Sue Lim, SIB
Mark Paxson, General Counsel, State Treasurer's Office (STO)

Consultants: Jeremy Thiessen, Principal, Pension Consulting Alliance, Inc. (PCA)
Eric White, Senior Analyst, PCA
Andrea Feirstein, Managing Director, AKF Consulting Group (AKF)

TFI: Doug Chittenden, President, TIAA-CREF Tuition Financing, Inc. (TFI)
Laura Moewe, Program Director, TFI
Don Wolf, Marketing Manager, TFI

Chair Wynne declared a quorum present.

Board Agenda Item Number One

Update on the ScholarShare Advisor Plan and Resolution to Approve Transfer of Existing Assets for the ScholarShare Advisor Plan

Ms. Zeny Agullana, SIB, presented background stating that the existing contract with Fidelity Investments for program management services for the ScholarShare Advisor College Savings Plan (Advisor Plan) expires in November 2011, and that SIB staff is in the process of amending the existing contract to extend the term to spring 2012, as approved by the Board at the September 2011 meeting. Ms. Agullana reported that due to a lack of response to the request for proposals (RFP) for program management services for the Advisor Plan, and after numerous discussions with the Board's consultants and with TFI, SIB staff concluded that it was not feasible for another firm, including TFI, to take

over the Advisor Plan. SIB staff, PCA, and AKF recommend that the existing assets for the Advisor Plan be transitioned to the ScholarShare College Savings Plan (Direct Plan).

Ms. Andrea Feirstein, AKF, provided a historical perspective of the Advisor Plan, reporting that approximately one-third of the 529 college savings plans are sold by advisors, but in the last five years there has been a dramatic change of the assets driven from advisor-sold plans from 70% to 50%, since most of the assets were accrued before 2003.

Member Chandler inquired if growth in assets was directly attributed to plans offering state tax benefits and whether the asset growth was mainly accrued prior to 2003. Ms. Feirstein noted that advisors have little incentive to sell the Advisor Plan because California does not offer a tax benefit to the participant. Member Chandler inquired whether the cost of the advisor-sold plan encouraged the sale of direct-sold plans. Ms. Feirstein noted that the current annual asset-based fees for the Advisor Plan portfolios are significantly higher than those for the Direct Plan portfolios to be managed by TFI. Ms. Feirstein stated that since 2003, advisors have been challenged in accruing assets in the advisor-sold plan and many have encouraged participants to buy from the direct-sold market.

Ms. Feirstein noted that the absence of responses for the RFP for the Advisor Plan confirmed the overall industry challenge of marketing in California, and added that with the proposed marketing budget for the TFI Direct Plan, the advisor-sold plan appears less important. Mr. Jeremy Thiessen, PCA, added that Advisor Plan participants will recognize a large reduction in fees when moved to the Direct Plan.

Mr. Doug Chittenden, TFI, presented an update on the upcoming program manager transition, noting the challenge of moving the assets from the Advisor Plan to the Direct Plan, and closely matching the assets to a similar fund in the Direct Plan portfolios. Mr. Chittenden also stressed the importance of a clear communication plan strategy with existing participants. Member Wynne inquired how that would translate to existing participants. Mr. Chittenden stated that the participant will receive the information directly from ScholarShare, not the advisor. Member Chandler asked what the projected loss might be of the participants that choose to remain with their advisors. Mr. Chittenden speculated that 30 percent of the accounts may stay with their advisors, however, clarified that the advisor would need some type of rational for selling the 529 plan through the advisor when it will be noticeably more expensive for the participant. Ms. Feirstein estimated that 75 percent of the Advisor Plan assets would be retained by the Direct Plan. Ms. Agullana reported that several states have closed their advisor-sold plans. Ms. Feirstein provided a brief overview of the five states that have closed their advisor-sold plans.

Member Wynne inquired about the status of the Board's existing contract with Fidelity and inquired whether the transition of the Advisor Plan to the Direct Plan could take place immediately. Ms. Agullana stated a transition now would not be recommended as the resources for both Fidelity and TFI are focused on the transition of the Direct Plan.

Additionally, Ms. Feirstein indicated that accelerating the transition of the Advisor Plan was not recommended as the advisors are not aware of the change. Mr. Chittenden also indicated that a number of factors prevented an accelerated transition of the Advisor Plan. He advised that a design plan including a communication strategy and an analysis of the Advisor Plan records must be completed.

Member Ducay inquired whether staff at the call center would be trained specialists capable of answering inquiries from participants. Mr. Chittenden assured the Board that a great deal of effort had been spent on anticipating questions and preparing the responses. Ms. Greene advised the Board that transition communication had also been posted on the ScholarShare and SIB websites.

Mr. Chittenden introduced TFI staff who would be working on the Direct Plan including Ms. Laura Moewe, Program Director and Mr. Don Wolf, Marketing Manager.

Board Action

Member Ducay moved to approve the item before the Board, Resolution No. 2011-11, approving the transition of the existing assets of the Advisor Plan to the Direct Plan. The motion was seconded by Member Johnson and approved by the Board.

Public Comment

Chair Wynne called for public comment. There was none.

There being no further business before the Board, the Chair adjourned the meeting at 2:05 PM.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board