
AUGUST 17, 2021

**AGENDA ITEM 2
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Enter Into Agreement No. SIB 05-21 with Highest Scoring Bidder for Program Management Services for ScholarShare 529

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2021-03 authorizing the Executive Director to enter into Agreement No. SIB 05-21 with the highest scoring bidder, TIAA-CREF Tuition Financing, Inc., for program management services for the ScholarShare 529 College Savings Plan.

Background

The current contract for program management services for ScholarShare 529 (Plan) expires in November 2021. In December 2020, the ScholarShare Investment Board (SIB or Board) authorized the Executive Director to release a competitive request for proposals (RFP) for program management services for the ScholarShare 529 College Savings Plan (Plan). The RFP was released on June 17, 2021, with proposals due by July 15, 2021. SIB received two compliant proposals for the Plan.

Evaluation Process

The RFP evaluation committee (Committee) included Julio Martinez, Executive Director of SIB, Stanley Zeto, Deputy Executive Director of SIB, and Ravinder Kapoor, Senior Attorney at the State Treasurer's Office. As specified in the RFP, the Committee evaluated the compliant proposals based on the following criteria:

- Firm Background and Organization
- Investment Services
- Recordkeeping, Administration, and Customer Service
- Marketing and Distribution
- Plan Fees
- Interview

Specific sections of the proposals were reviewed by SIB's 529 industry consultant and investment consultant. Members of the Committee and SIB's consultants also discussed particular components of the proposals. Interviews with each of the two bidders were conducted in late-July 2021, utilizing identical questions distributed to the bidders.

Summary of Proposals

SIB received two compliant proposals in response to the RFP. A brief summary of the two proposals evaluated by the Committee is outlined below.

Bidder 1: TIAA-CREF Tuition Financing, Inc.

TIAA-CREF Tuition Financing, Inc. (TFI) is a wholly-owned subsidiary of the Teachers Insurance and Annuity Association of America (TIAA) and has been in the 529 industry since 1998. TFI operates primarily as a provider of program management services to 529 plans and 529A ABLÉ plans.

- **Firm Background & Organization**

TFI has extensive background and experience in the 529 industry, currently managing more than \$30 billion in assets under management (AUM) and more than 1.2 million accounts across six direct-sold 529 plans and one advisor-sold 529 plan, including many highly rated by Morningstar. TFI also manages one 529A ABLÉ plan. TFI's identified key personnel has a breadth of experience in financial services in their respective areas, including extensive experience in the area of 529 plans. TFI has extensive experience in children's savings account (CSA) programs and matching grant programs in multiple state 529 plans. TFI sub-contracts with a reputable recordkeeping firm, Ascensus College Savings Recordkeeping (Ascensus), to provide recordkeeping services and other related services.

- **Investment Services**

The investment structure offered by TFI builds on industry practices and includes a number of enhancements to the existing Plan line-up, with portfolios comprised of underlying funds from TIAA, PIMCO, T. Rowe Price, MetWest, Dimensional Fund Advisors, and now Vanguard and Nuveen, maintaining a strong open architecture line-up. The proposal includes a wide variety of investment options that offer competitive fees and various management styles, and span a variety of asset classes. Notable investment highlights include strong underlying fund additions, the addition of new ESG portfolios, and consolidation of underutilized portfolios into those with similar investment strategies. TFI demonstrates solid internal processes and approaches to monitoring funds and fund managers, evaluating investment results and fund managers, and developing and analyzing glidepaths and asset allocation.

- **Recordkeeping, Administration, and Customer Service**

TFI has more than 20 years of experience in managing 529 plans and has retained Ascensus to provide the primary recordkeeping services. This includes a multi-faceted 529 technology platform developed specifically for 529 plan administration, which focuses on usability, flexibility and scalability, with nearly six million accounts on the platform representing a total value of \$168 billion. The platform handles standard and complex account items and inquiries, such as facilitating customer relationship management, compliance, workflow, and transaction processing. TFI demonstrates a comprehensive process and procedure for accounting and reconciliation, as well as to ensure compliance with applicable laws and regulations. TFI offers an intricate technical environment and strong security measures, along with sound business continuity and disaster recovery plans.

TFI offers customer service centers in five locations throughout the country and 24/7 online access in addition to access to its dedicated phone service center and representatives. TFI also offers additional functionality through the ReadySave 529 mobile application and Ugift gifting platform. In addition, TFI offers various resources and tools to assist participants with account openings and transactions, including customized employer/workplace resources.

- **Marketing and Distribution**

TFI demonstrates a strong track record in account and asset growth with data-driven and proven marketing strategies, showing collaborative efforts with the State. Their marketing plan includes a broad array of strategies that include new media types to prospects, inquirers, and existing account owners, in addition to paid advertising, social media, and public relations. TFI also outlines specific support and attention to the programs that reach low- to moderate-income families, such as the matching grant program and CSA programs. Other notable marketing efforts include enhancement and/or integration of financial education resources, a robust workplace savings program that reach employers and their employees, and efforts to reach benefit brokers and registered investment advisor firms.

The proposal includes a \$10 million annual marketing commitment for the next five years for a total of \$50 million. TFI has also committed an additional \$1.45 million annually to support efforts in engaging low- to moderate-income families which may include matching grant programs and CSA programs.

In addition to the annual marketing commitment, TFI is offering seven dedicated FINRA-registered field consultants, five of which are located in California (including two who are bilingual), to promote the Plan and support efforts to reach employers, local communities and financial influencers.

- **Plan Fees**

Overall, fees proposed by TFI show a decrease across the existing Plan portfolios. Of note, the total asset-based fees for the passive enrollment year portfolios would see a decrease and range from 0.05%-0.08%. Additionally, the range of total asset-based fees for the active and passive multi-fund portfolios would be 0.26%-0.40% and 0.05%-0.09%, respectively. TFI also proposes new ESG portfolios with total asset-based fees that range from 0.17%-0.46%.

Bidder 2: Franklin Advisers, Inc.

Franklin Advisers, Inc. (FAV) is a wholly-owned subsidiary of Franklin Resources, Inc. (Franklin Templeton) and has been managing 529 college savings plans for two decades.

- **Firm Background & Organization**

FAV has managed 529 college savings plans for two decades, currently managing more than \$6.4 billion in AUM and more than 344,000 accounts across one direct-sold 529 plan and one advisor-sold 529 plan, both in the state of New Jersey. FAV also has sub-advisory and service agreements (underlying fund presence) with multiple 529 plans nationwide. FAV's identified key personnel has a wide range of experience in financial services and various investment products, such as retirement programs, in their respective areas. FAV has extensive experience for its employer 529 program and matching program.

- **Investment Services**

FAV has constructed a wide variety of investment options to offer college savers to meet their investment goals. FAV's proposed investment lineup includes multiple age-based options, such as its hybrid strategy which includes a growth portfolio and a moderate portfolio in addition to a passive strategy portfolio, various static and individual options, a stable value option, and standalone ESG option. FAV offers portfolios that encompass various asset classes and include a broad array of underlying funds from Franklin Templeton, iShares, ClearBridge, Brandywine, Western Asset, PGIM, Vanguard, and Xtrackers. FAV demonstrates comprehensive and thorough investment processes for management and implementation, manager and asset class team research and analyses, risk management, and design of glidepaths and asset allocation.

- **Recordkeeping, Administration, and Customer Service**

Since 2008, FAV has sub-contracted with Franklin Templeton Investor Services (FTIS) to provide account administration and recordkeeping for its 529 plans. FTIS currently serves 250,000 accounts and more than \$6.5 billion in assets for the two 529 plans FAV manages, processing more than four million 529 transactions annually. FAV demonstrates sound recordkeeping and reconciliation systems and procedures for its 529-related plans, utilizing various applications that incorporate strong data protection, physical controls, and security control and monitoring. FAV also outlines the comprehensive business continuity and disaster recovery plans they have in place.

FAV offers account owners various online capabilities, including account access and transactions, 24x7 operation, a number of phone and processing agents, its Franklin Templeton mobile application, its Spryng gifting platform, wealth management tool, and workplace 529 program for employers and their employees. FAV's experience in plan conversion includes the 529 plan accounts converted back in 2008.

- **Marketing and Distribution**

FAV proposes a clear marketing plan and strategy that includes an initial study and brand development process. The marketing strategies proposed encompass a wide range of efforts in areas that include television/connect TV, public relations, podcasts, social media, online video/display and search and grassroots marketing, in addition to a financial wellness platform for financial professionals and their clients. FAV also offers its Spryng platform for crowdfunding contributions and utilization of its workplace 529 program. In addition, FAV proposes a dedicated marketing and distribution team and field team in-state, including bilingual support.

The proposal includes a \$10 million annual marketing commitment for the next five years for a total of \$50 million. FAV also recommends an increased amount dependent on new contribution growth in the Plan.

- **Plan Fees**

Fees for a number of the new portfolios proposed by FAV for investment mapping show a decrease, such as the passive age-based and multi-fund portfolios which show a total asset-based fee of 0.10%. Also, the range of total asset-based fees for the hybrid multi-fund portfolios would be 0.34%-0.87%. FAV also proposes a zero-cost stable value option.

Conclusion

The Committee evaluated the proposals, and interviewed the bidders. Great care was taken to ensure that the process was robust, fair, and thorough. Each Committee member worked independently and collectively, resulting in a number of common and consistent observations.

The two bidders have demonstrated experience in the 529 industry and currently manage nine direct- and advisor-sold plans collectively nationwide. They assembled management teams with relevant and various levels of experience in financial services and/or managing 529 plans. Both bidders invested company capital in terms of human resources and infrastructure (i.e. web capabilities and customer service centers) to sustain and grow their businesses. The two bidders also proposed generally lower investment fees compared to SIB's current offering, as well as an expanded and diverse investment line-up featuring innovative approaches for account owners to reach their college savings goals.

However, in evaluating the two proposals, the Committee determined that TFI earned the highest overall score demonstrating its strong response in all of evaluation criteria.

Presenter

Julio Martinez, Executive Director, ScholarShare Investment Board

RESOLUTION NO. 2021-03

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD RELATING TO THE APPROVAL TO ENTER INTO AGREEMENT NO. SIB 05-21 WITH THE HIGHEST SCORING BIDDER FOR PROGRAM MANAGEMENT SERVICES FOR THE SCHOLARSHARE 529 COLLEGE SAVINGS PLAN

WHEREAS, the ScholarShare Investment Board ("SIB" or the "Board") was created under Education Code section 69980 et seq. (the "Golden State ScholarShare Trust Act" or "Act");

WHEREAS, the Board, pursuant to Education Code Section 69982(b), has authority to contract for goods and services and engage personnel as necessary for the purpose of rendering professional, managerial, and technical assistance and advice to the Board;

WHEREAS, the Board, pursuant to Education Code Section 69981(c)(10), may authorize the Executive Director to enter into contracts on behalf of the Board or conduct any business necessary for the efficient operations of the Board;

WHEREAS, a program manager is needed to provide management services for ScholarShare 529, California's 529 college savings plan, (the "Plan"), which includes maintaining and managing investments, performing administration and customer service, and providing marketing; and

WHEREAS, the term of the Board's existing contract, Agreement No. SIB 15-10 (the "Agreement") for program management services for the Plan expires on November 6, 2021; and

WHEREAS, the Board, with Resolution No. 2020-07, authorized the Executive Director to issue a request for proposals for a program management services for the Plan at the December 10, 2020 Board meeting; and

WHEREAS, the Board issued Request for Proposals No. SIB 05-21 (the "RFP") on June 17, 2021 for program management services for the Plan; and

WHEREAS, in response to RFP, proposals were received on July 15, 2021 and evaluated by an evaluation committee; and

WHEREAS, the proposal submitted by TIAA-CREF Tuition Financing, Inc. ("TFI") earned the highest score.

NOW, THEREFORE, BE IT RESOLVED, that the Executive Director is hereby authorized to negotiate in good faith with TFI to reach a mutually acceptable agreement and enter into the Agreement for program management services for the Plan.

Attest: _____
Chairperson

Date of Adoption: _____