
MARCH 28, 2022

**AGENDA ITEM 2
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve Investment Options for School-Age Beneficiaries for the California Kids Investment and Development Savings Program

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommend the Board adopt Resolution No. 2022-07 approving the investment portfolio options for the master holding account and distribution cohort account for school-age beneficiaries in the California Kids Investment and Development Savings Program (CaKIDS or Program).

Background

CaKIDS, California's statewide children's savings account (CSA) program, was established in July 2019. In July 2021, CaKIDS was significantly expanded and requires the Board to open CaKIDS accounts for eligible first through 12th grade public school students, as identified by the Local Control Funding Formula (LCFF) in fiscal year 2021-2022, and eligible first grade public school students as identified by LCFF in fiscal year 2022-2023 and each subsequent year. CaKIDS is currently in development and preparing for launch.

Statute authorizes the Board to invest funds held in CaKIDS accounts within ScholarShare 529 (Plan) or other savings plan options as determined by the Board. In evaluating the Program's account structure and investment options for the master holding account and distribution cohort account for the school-age beneficiaries, Meketa, SIB's independent investment consultant, reviewed the investment portfolio options, along with the goals and objectives of the Program, and provided its analysis (Exhibit A) of investment options for these CaKIDS accounts. In consultation with Meketa and following a review of Meketa's analysis, SIB staff proposes the investment portfolio options as listed below:

- Funds in the master holding account for school age beneficiaries, the CaKIDS account holding Program funds including expired or opt-out Program funds that may be redistributed, will be held in the funding agreement outside of the Plan and offered by TIAA-CREF Life Insurance Company (TCLIC).
- Funds in the distribution cohort account for school-age beneficiaries, the CaKIDS account holding all Program funds allocated to the cohort of school-age beneficiaries near distribution, specifically in grades 10 to 12, (and grade 9 at Program launch) will be held in the funding agreement outside of the Plan and offered by TCLIC.

Therefore, SIB staff recommends the Board adopt Resolution No. 2022-07, approving the investment portfolio options for the master holding account and distribution cohort account for the school-age beneficiaries in the Program.

Presenters

Julio Martinez, Executive Director, ScholarShare Investment Board
Noah Lightman, Manager, CSA Initiatives, ScholarShare Investment Board
Eric White, Principal, Meketa Investment Group, Inc.

RESOLUTION NO. 2022-07

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD RELATING TO THE APPROVAL OF THE INVESTMENT PORTFOLIO OPTIONS FOR THE SCHOOL-AGE BENEFICIARIES FOR THE CALIFORNIA KIDS INVESTMENT AND DEVELOPMENT SAVINGS PROGRAM

WHEREAS, the California Kids Investment and Development Savings Program (“CalKIDS” or the “Program”) and CalKIDS fund are established pursuant to Education Code sections 69996.1 and 69996.9, respectively;

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

WHEREAS, Section 69996.4(c) of the Education Code provides that the Board shall have the powers and authority to cause moneys in the program fund to be held and invested and reinvested;

WHEREAS, Section 69996.9 of the Education Code provides that the Board shall establish a KIDS Account, if not already established, for each eligible public school student and provide those students with one to three enhanced deposits of \$500 each, as applicable; and

WHEREAS, in consultation with the Board’s investment consultant (the “Consultant”), SIB staff reviewed the goals and objectives for the Program, the CalKIDS account structure, the Plan’s investment portfolios and other investment portfolio options, and recommend the funds held in the master holding account and distribution cohort account for school-age beneficiaries in CalKIDS be invested in the TIAA-CREF Life Funding Agreement.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the investment portfolio options for the master holding account and distribution cohort account for school-age beneficiaries in CalKIDS, as recommended by SIB staff, and as outlined in the Consultant’s memo dated March 28, 2022.

BE IT FURTHER RESOLVED, that this Resolution becomes effective upon its adoption by the Board.

Attest: _____
Chairperson

Date of Adoption: _____

MEMORANDUM

TO: ScholarShare Investment Board (SIB)
FROM: Meketa Investment Group (“Meketa”)
DATE: March 28, 2022
RE: CalKIDS Expansion Recommendation

Recommendation

Meketa has reviewed the California Kids Investment and Development Savings Program’s (CalKIDS or Program) investment structure as it relates to the July 2021 expansion to include eligible 1st through 12th grade public school students. It is our understanding that the funds for these participants may need to be held outside of ScholarShare in a non-529 account.

Following discussions with Staff, we jointly concluded the expansion results in one non-529 master holding account and two account cohorts with distinct risk-return profiles. One cohort consisting of CalKIDS account(s) for eligible school-age beneficiaries (school-age cohort) composed of students in 1st through 9th grades (grades 1st through 8th at launch) and an additional non-529 cohort consisting of CalKIDS account(s) for eligible school-age beneficiaries near distribution age (distribution cohort) consisting of students in the 10th through 12th grades (grades 9th through 12th at launch). ***Meketa recommends the SIB approve Staff’s recommendation to utilize the TIAA-CREF Life Funding Agreement for both the CalKIDS non-529 master holding account and the CalKIDS non-529 distribution cohort consisting of participant in the 10th through 12th grade (9th through 12th at launch). And to use a, yet to be identified, investment option(s) for participants in the 1st through 9th graders (1st through 8th at launch). We recommend that Staff, TIAA, and Meketa explore account investment options for this cohort with the desire to achieve a rate of return and risk profile consistent with this population.***

We believe this structure matches the corresponding risk-return profiles of the individual components of the Program. This structure emphasizes capital preservation for participants near distribution. While also exploring different investment options for the 1st through 9th graders (1st through 8th at launch) which will ideally provide modest capital appreciation while maintaining a risk profile consistent with that of the population cohort.

Background

In July 2021, CalKIDS was significantly expanded and requires the Board to open CalKIDS accounts for eligible 1st through 12th grade public school students. SIB Staff requested that Meketa review the Program’s structure as it relates to how the assets from the expansion should be invested. Following discussions with Staff, it was determined that these accounts may have to be held outside of the ScholarShare program and would need to be invested accordingly. Based on our review, we believe the majority of beneficiaries, those in the 1st through 9th grades (1st through 8th at launch), would be best served by being in an investment designed to generate principal growth in a manner consistent with their risk tolerance. However, specific investment options are still in the exploratory phase and will likely not be determined by the targeted Plan launch date.

Nevertheless, a certain segment of the beneficiary population is sufficiently close to distribution age that principal growth is not a realistic objective and instead principal preservation is of primary concern. As a result, the expansion results in two cohort populations with distinct risk-return profiles. One cohort consisting of CalKIDS

account(s) for school-age beneficiaries (grades 1st – 9th) and a specific cohort for school-age beneficiaries near distribution age (grades 10th – 12th).¹

CalKIDS Account	Grades	Primary Investment Objective	Recommended Investment
School-age Cohort(s)	1 st through 9 th	Principal growth consistent with risk tolerance	TBA investment option(s)
Distribution Cohort*	10 th through 12 th	Capital preservation	TIAA-CREF Life Funding Agreement (non-529)
Master Holding Account (non-529)	N/A	Capital preservation	TIAA-CREF Life Funding Agreement (non-529)

* At Program launch, eligible school-age beneficiaries in grades 9th through 12th will be included in the distribution cohort.

Based on our analysis, we believe the primary objective for the CalKIDS non-529 master holding account should be the preservation of capital as it holds Program funds, including expired or opt-out Program funds that may be redistributed. Similarly, we believe the primary objective for the distribution cohort (10th through 12th grades), should be the preservation of capital as there is minimal time until funds are distributed. We believe the TIAA-CREF Life Funding Agreement meets this objective as the assets are not subject to NAV (principal) volatility as it maintains a stable NAV while offering a crediting rate (interest rate) at yields similar to high quality short-to-intermediate fixed income securities.

For the school-age cohort (1st through 9th grades), we believe the primary objective should be to maintain tuition purchasing power over time. To maintain tuition purchasing power the corresponding investment option must have the ability to appreciate over time (principal growth) while being consistent with the risk tolerance of the population.

EW/KC/IH/mp

¹ At Program launch, eligible school-age beneficiaries in grades 9th through 12th will be included in the distribution cohort.