
JUNE 22, 2022

**AGENDA ITEM 8
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve Changes to the Board Administrative Fee for ScholarShare 529

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2022-13 approving changes to the Board Administrative Fee for ScholarShare 529 (Plan).

Background

SIB continually strives to provide Plan participants with an optimal, low-cost, and competitive college savings plan. SIB staff and the Board's 529 industry consultant, AKF Consulting Group (AKF), have reviewed the fee structure for the Plan, and determined that a fee reduction would provide an overall benefit to current and prospective Plan participants and make the Plan more competitive among 529 college savings plans nationwide. As outlined in the analysis provided by AKF (Exhibit A), SIB staff and AKF considered many factors and reviewed various fee reduction options. As a result, SIB staff recommends a reduction of the Board Administrative Fee (Fee) from 0.05% to 0.04% for the actively-managed ("active") and environmental, social and governance ("ESG") investment portfolio options in the Plan, as listed below, upon the Plan's asset under management (the "AUM") exceeding \$15 billion.

- Active Enrollment Year Investment Portfolios
- Active Diversified Equity Portfolio
- Active Growth Portfolio
- Active Conservative Portfolio
- Active International Equity Portfolio
- ESG Enrollment Year Investment Portfolios
- Social Choice Equity Portfolio
- ESG International Equity Portfolio
- ESG Bond Portfolio

In addition, SIB staff and AKF reviewed the Fee revenue projected to be collected in future years, following a Fee reduction upon the Plan's AUM exceeding \$15 billion, and are confident it will be sufficient for the Board's continued administration of the Plan by.

Presenters

Julio Martinez, Executive Director, ScholarShare Investment Board
Andrea Feirstein, Managing Director, AKF Consulting Group

RESOLUTION NO. 2022-13

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD RELATING TO THE APPROVAL OF CHANGES TO THE BOARD ADMINISTRATIVE FEE FOR SCHOLARSHARE 529

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, Section 69982(d) of the Act authorizes the Board to promulgate, impose, and collect administrative fees and charges in connection with transactions of the ScholarShare Trust, and provide for reasonable services charges;

WHEREAS, the SIB staff, in consultation with the Board’s 529 industry consultant, AKF Consulting Group (the “Consultant”), have reviewed the fee structure for the ScholarShare 529 College Savings Plan (the “Plan”), and determined that a fee reduction to the Plan would provide an overall benefit to current and prospective Plan participants and make the Plan more competitive among 529 college savings plans nationwide; and

WHEREAS, the SIB staff recommend a reduction of the Board Administrative Fee (the “Fee”) from 0.05% to 0.04% for the actively-managed (“active”) and environmental, social and governance (“ESG”) investment portfolio options in the Plan upon the Plan’s asset under management (the “AUM”) exceeding \$15 billion.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves a reduction of the Fee from 0.05% to 0.04% for the active and ESG investment portfolio options in the Plan, as listed below, upon the Plan’s AUM exceeding \$15 billion, as outlined in the Consultant’s analysis dated June 22, 2022.

- Active Enrollment Year Investment Portfolios
- Active Diversified Equity Portfolio
- Active Growth Portfolio
- Active Conservative Portfolio
- Active International Equity Portfolio
- ESG Enrollment Year Investment Portfolios
- Social Choice Equity Portfolio
- ESG International Equity Portfolio
- ESG Bond Portfolio

Attest: _____
Chairperson

Date of Adoption: _____

ScholarShare Investment Board

Administrative Fee Reduction Analysis

June 22, 2022

Overview of Projection Analysis

- **Background:**

- **Current Board Administrative Fees are unchanged since 2013:**
 - 0% for Passive options
 - 0.05% for ESG and Active options
- Program currently has excess reserves

- **Purpose:**

- Use excess reserves to reduce Board Administrative Fee
- Any fee reduction will not jeopardize operational integrity
- Lower fees will benefit participants

- **SIB Staff Recommendation:**

- SIB Staff recommends a 0.01% Board Administrative Fee reduction at \$15 billion in Program assets under management
- AKF analysis supports this recommendation

- **Implementation Benefits:**

- Save Participants a projected \$3.2 million over the next 13 years
- Enhance Program's fee competitiveness for ESG and active options
- Demonstrate good governance

Analysis Goals, Parameters and Assumptions

- **Goals:**

- Project the impact of Fee reductions on reserves across market environments
- Identify viable scenarios that maintain reserves above a desired cushion

- **Projection Parameters:**

- Projection period spans 13 years (FY 2022 to FY 2034)
- Multiple Fee reduction scenarios reviewed
- Program asset annual growth rates of 3% and 7%
- Projected reserves should never fall below the desired cushion

- **Key Assumptions:**

- ESG and Active options represent 31% of Program assets
- 0.25% earnings rate on reserves
- An estimated \$2.2 million in annual expenditures, which grow 2% annually as of FY 2023

Analysis Results and Recommendation

- **Projection analysis results:**
 - **Multiple viable scenarios presented to SIB Staff, including:**
 - **Multiple breakpoints versus single breakpoint**
 - **Immediate versus future breakpoint**
 - **SIB Staff determined that a 0.01% Fee reduction at \$15 billion is optimal**
- **AKF supports Staff recommendation based on the following:**
 - **Reserves expected to remain strong even in a conservative market**
 - *Reduced reserves should not impact Program operations*
 - **Single Fee breakpoint leaves flexibility for future reductions**
 - *Multiple breakpoints lock in future reductions today, removing flexibility to revisit for potential changes later*
 - **\$15 billion asset threshold considers cash infusion from CaKIDS**
 - *While not immediate, the recommended reduction contemplates a very near-term implementation*
 - **A 0.01% reduction strikes the right balance**
 - *0.01% is more impactful than a 0.005% and offers more safeguards to reserves than a 0.02% reduction*

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