

# MINUTES

## SCHOLARSHARE INVESTMENT BOARD

March 15, 2001 – 1 PM-2:42 PM  
915 Capitol Mall, Room 587  
Sacramento, CA 95814

The meeting was called to order at 1:10 p.m. by Chair Cathy Calfo.

Present: Cathy Calfo for Philip Angelides, Chair  
Diana Fuentes-Michel for Kerry Mazzoni, Office of the Secretary for Education  
Allison Jones  
Sabrina Kay  
Allison Okyle

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Amelia Budd, Counsel, ScholarShare Investment Board

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board October 21, 2000 and November 14, 2001 meetings were approved as submitted.

### Item # 2

#### Staff Report

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Carrie Douglas Fong presented updated program statistics. The number of accounts currently opened is 33,559, total assets are \$137,187,490 and the average account balance is \$4,187. Ms. Fong noted that the assets and account balances will fluctuate due to recent market activity. She also noted that all TIAA-CREF funds have exceeded their benchmarks with the exception of the International Equity fund. Allan Emkin, Pension Consulting Alliance (PCA), will prepare a full detailed analysis that reviews the first year of the 100% Equity, Social Choice Equity and Guaranteed Options, and a year-to-date (approximately 18 months) analysis of the age-based option. The Board will be receiving these analyses in the fall.

Claiming for the Governor's Scholarship Programs is expected to begin in April. Postponed commencement of claiming is partially because the California Department of Education (CDE) had extended the deadline for schools to file their test results to the end of January. Also, Harcourt Brace, the testing entity, and the Department of Education had difficulty creating an accurate test file. To date, the final file has not been received by TIAA-CREF however, it is expected to be received on March 20<sup>th</sup> or 21<sup>st</sup> of 2001. One week after the receipt of the file, TIAA-CREF, along with SIB and OSE, will determine a schedule for claiming.

Member Michel stressed the need to establish a deadline in future years for file receipt with an appropriate grace period with CDE. She noted that OSE is interested in putting forth legislation that will outline these time frames. Chair Calfo expressed her concern that if this year's claiming were to begin after the tentative April 21<sup>st</sup> deadline, students won't be able to claim their award in time for the next school year. TIAA-CREF has assured staff that they will use whatever resources necessary to insure that the program is up and running in a timely manner, provided that the file received from Harcourt is usable. Harcourt has spent significant time insuring that the file is "clean," however, until TIAA-CREF receives it, there is no way to be certain.

The primary activity for the regular ScholarShare program has been dedicated to marketing efforts and the development of a marketing implementation plan. The plan presented to the Board at this meeting will be in place through July at which time the Board will be presented a two-year comprehensive business and marketing plan.

A legislative hearing for the ScholarShare Tax Incentive (SB 44 Alpert) will be held in early April. Until that time, staff will continue working with authors of similar bills [SB 782 (Brulte) and AB 26 (Nation)], the Governor's Office and community and business leaders to gain support for this incentive. Member Jones asked that staff provide in-depth analyses of the three bills and let the Board know of the likely outcome of those bills. The Legislative Director for the State Treasurer's Office will provide staff with a document to forward to the Board.

Member Michel asked about other states that provide tax incentives. Ms. Douglas Fong noted that all of the other states provide a tax deduction rather than a credit and that the amount of the deductions varies enormously. Staff will provide a summary of state tax incentives to the Board, along with an economic analysis of the proposed credit.

### **Item # 3**

#### **Approval of Contract Amendment with TIAA-CREF Tuition Financing, Inc. for Governor's Scholarship Programs**

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At the October 27, 2000 meeting, the Board approved a sole source contract amendment with TIAA-CREF Tuition Financing, Inc. (TFI) to provide program management services for the Governor's Scholarship Programs. Because compensation for TFI is calculated annually, the contract must be amended annually. Staff is requesting that the Board approve a resolution authorizing the Executive Director to execute a contract amendment with TFI for program management services for the Governor's Scholarship Programs.

Member Michel moved that the Board authorize the Executive Director to negotiate a contract amendment with TFI for FY 2001/2002. Member Kay seconded. The motion was approved unanimously.

### **Item # 4**

#### **Proposed New Investment Option**

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John Middlebrook, TIAA-CREF Western Regional Manager, requested that the Board allow staff to investigate a new aggressive managed allocation investment option. TIAA-CREF, Pension Consulting Alliance and Milliman & Robertson have worked with staff and held preliminary discussions about the possible addition of the new investment option in the middle of this year. It was noted that competition among states that do not offer tax incentives is strong and one way to remain competitive is with the addition of a new investment option to the ScholarShare menu.

Member Michel inquired about other states with similar options. Mr. Middlebrook answered that many states including New York (managed by TIAA-CREF) offer this option. Since its introduction in November 2000, 31% of all new accounts are opened under this option. This option would offer an alternative to the conservative aged-based option and the aggressive 100% Equity option, which carries more risk.

Member Kay moved that the Board authorize staff to proceed on investigation of an aggressive age-based option. Member Okyle seconded. The motion was approved unanimously.

### **Item # 5**

#### **Interim Marketing Plan for ScholarShare for Period Ending July 31, 2001**

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Michael Noetzel, Vice president of Marketing for TIAA-CREF, TFI, presented the interim marketing plan for the period ending July 31, 2001. He stated that this plan will employ television and print ads as well as direct marketing and field activities and will capitalize on a natural marketing period for 529 plans, the tax

season. This plan is very limited in scope and is intended to set a direction for the future and continue momentum. During this interim period, TIAA-CREF will be developing metrics for tracking and will try to measure the impact of media and other marketing tools used.

Member Okyle asked about the demographic profile of potential ScholarShare customers. Mr. Noetzel replied that participants are professionals, aged 35-54 with one or two children. Incomes range from \$65,000-150,000. Seventeen percent of participants are retired and 24% are saving for their grandchildren. The San Francisco area is considered a high potential area because it has the highest rate of participation per capita. He also noted that a tax deduction will attract a broader spectrum of participants.

Member Michel asked if marketing directed to state employees also included employees of the University of California and State University employees. It was explained that State University employees will receive marketing directed to state employees. Member Michel suggested that employees of private independent colleges also be targeted, as well as alumni associations. Member Kay suggested that TIAA-CREF target the graduating classes of 1970-1990 because it would be more cost effective than targeting the entire alumni association.

Member Jones asked if an insert targeting California could be included in the TIAA-CREF quarterly retirement statement mailing. Mr. Noetzel replied that since the quarterly mailing is national that it would be difficult, however there was an option of including a message in the mailing rather than a stuffer.

Chair Calfo passed on a suggestion from Treasurer Angelides that other ways be found to target state employees, for example through the Savings Plus Program through the Department of Administration and CalPERS.

Member Okyle stressed the need for better tracking and questioned the cost effectiveness of television advertising. Member Kay also expressed concern about the use of cable TV versus broadcast TV. It was explained that the target market was very likely to have cable service and watch such cable networks as CNN. The media buy will be occurring very soon. Galanty & Company has developed a tentative buying plan for two weeks prior to April 15<sup>th</sup> and 16<sup>th</sup> and two weeks after.

Mr. Noetzel stressed that the plan presented to the Board at this meeting was a very simple plan developed to take advantage of the tax season while staff worked on a comprehensive business and marketing plan. All members expressed that tracking and accountability are very important and that TIAA-CREF should explore the use of incentives such as incentives for tax professionals and a tell-a-friend program. Christine Doyle, TIAA-CREF, stated that there are legal issues associated with incentives for tax professionals but that there were other options available within the limits of the securities law.

Member Michel suggested that ScholarShare take advantage of the publicity and media-interest surrounding the Governor's Scholarship Programs. Member Okyle offered her community as a test market for this type of marketing activity.

Member Kay suggested making corporations such as McDonald's and Toys R Us active partners in a campaign to boost the corporations' images and create awareness of ScholarShare. It was noted that partnerships with entities such as the Sylvan Learning Center are being explored.

At Member Jones' request, TIAA-CREF explained the methods they would use for tracking the response to the marketing campaign. Member Jones expressed concern that the targeted audience is not who he feels will benefit the most from this program, which are middle-class families who deny themselves luxuries in order to save for college.

All of the ideas brought forth from the Board will be factored into the marketing plan that will be presented in July.

**Other Business**

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Chair Calfo called for public comment. There was none. There being no further business before the Board, the Chair adjourned the meeting at 2:42 p.m.

Respectfully submitted by,

Carrie Douglas Fong  
Executive Director, ScholarShare Investment Board