
SEPTEMBER 4, 2013

AGENDA ITEM 4
ACTION ITEM

SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Request for Information (RFI) from Financial Service Providers, Experts and Scholars (first reading)

Presenter

Grant Boyken

Recommendation

Secure Choice staff recommends the Board approve the attached Request for Information (RFI) as a first reading.

Because the Board has not yet had the opportunity to discuss the content of the RFI, or whether to release an RFI, the Board will have the opportunity to approve the RFI and direct staff to make minor revisions prior to release, or to approve the RFI as a first reading and direct staff to make revisions and present a revised RFI as a second reading at a subsequent meeting.

Background

Staff propose the RFI as a means of seeking input from financial service providers, experts and scholars on the structure, design, and administration of the Secure Choice Program as well as advice on how to proceed with the statutorily required market analysis and feasibility study.

After the deadline for submission has passed and all responses have been received, staff will analyze the information and prepare a summary report. It is anticipated the information gathered from the RFI will help to inform the market and feasibility study.

An RFI will not result in a contract with individuals or entities who respond. All costs associated with responding to the RFI are borne by respondents.

STO DRAFT RFI #13-01 – SB 1234/ California Secure Choice Retirement Savings Program

**Section I
California Secure Choice Request for Information**

1. INTRODUCTION

The California Secure Choice Retirement Savings Trust Act of 2012 propelled California ahead of other states in addressing the problem of retirement security for private sector employees. Nationwide, nearly half of private sector workers have no access to retirement savings plans at their workplace. The figure is higher in California where more than half of private sector workers have no access to employer-sponsored plans. Secure Choice seeks to enable these workers to assume more personal responsibility to get on the path to retirement security by establishing a supplement to Social Security that will give them a real chance to avoid retiring into poverty. Meeting that objective will also alleviate strain on California's safety net programs.

To help design the newly-created California Secure Choice Retirement Savings Program (Program), the California Secure Choice Retirement Savings Investment Board (Board) requests information from financial service providers, and scholars and other experts from university schools of management or business, institutes of labor studies and relevant research foundations. Financial service providers include registered investment companies and life insurance companies that provide retirement investment products and are qualified to do business in California. Financial service providers also include companies registered to do business in California that provide payroll services or recordkeeping services, and offer retirement plan or payroll deposit IRA arrangements using products of regulated investment companies and insurance companies qualified to do business in California.

2. DISCLAIMER

This Request for Information (RFI) is issued for information and planning purposes only and does not constitute a solicitation. Responses will not be returned. A response to this notice is not an offer and cannot be accepted by the Board to form a binding contract. Responders are solely responsible for all expenses associated with producing and submitting the response.

All information in RFI responses marked Proprietary will be handled accordingly and not made public. Information will be summarized in a report presented to the Board at a public meeting, but the names of individual respondents and the organizations they represent will not be identified without respondents' consent.

3. SECURE CHOICE BACKGROUND

Legislation enacted in 2012 (SB 1234, Chapter 734, 2012) authorizes consideration of the Program. If implemented, the Program would provide a voluntary, low-risk, automatic-enrollment retirement savings plan for an estimated 6.3 million California workers who currently lack access to retirement savings plans through their jobs. The Program would require private employers with five or more employees not currently offering a retirement savings plan to provide their employees access to, and payroll deductions for, Secure Choice retirement accounts. Implementation is contingent on enactment of subsequent legislation. The Program would be administered through the State Treasurer's Office with oversight from the nine-member California Secure Choice Retirement Savings Investment Board (Board).

Before the Legislature can consider further legislation to implement Secure Choice, SB 1234 requires the Board to conduct a market analysis and feasibility study to determine whether the legal and practical conditions for implementation can be met. Funding for the market and feasibility study must come from private nonprofit or for-profit entities, or from federal sources. The use of State funds for the study is prohibited. Upon completion of the study, the Board will provide the results and its recommendations to the Legislature, and await further authorizing legislation to implement the program.

The purpose of the study is to determine: (1) the design and structure of a retirement savings program best suited to the needs of the population of eligible California employees; (2) whether the program could be self-sustaining and create no liabilities for the employers or the State of California; and (3) whether the program would meet the necessary legal conditions specified by SB 1234.

More specifically, the study likely will include: (1) surveys of eligible participants and employers; (2) a review of academic literature on retirement savings participants' needs and behaviors, and on plan design elements that maximize participation and maximize retirement income replacement ratios; (3) legal analysis to determine how to structure the Program in a way that meets legal requirements set forth in SB 1234; and (4) an actuarial analysis to determine whether likely demand and participation would make the program self-sustaining.

Because the study's recommendations will guide development of the Program on which many California workers may rely for a source of secure retirement income, and because the Program could serve as a model for similar programs in other states, the research will need to be relevant, thorough, comprehensive and of the highest quality.

4. GOALS, OBJECTIVES AND GUIDING PRINCIPLES

The primary goals and objectives of the Program include the following:

- Create a self-sufficient retirement program for the estimated 6.3 million California workers who currently lack access to workplace retirement savings plans.
- Establish a process that makes it easy for employers to facilitate employee enrollment in the Program.

- Maximize worker participation while providing a simple opt-out method for employees who choose not to participate.
- Make appropriate investments for Program participants that protect principal and offer growth opportunities.
- Ensure that Program participants have portable benefits and minimize leakage to accumulate sufficient savings.
- In the long-term, facilitate the conversion of retirement savings to a reliable and lifelong stream of income to supplement Social Security.

Included below is a non-exhaustive list of guiding principles for the overall program design and administration:

- The Program shall include, as determined by the Board, one or more payroll deposit Individual Retirement Account (IRA) arrangements.
- Eligible participants will be automatically enrolled.
- The automatic, or “default,” contribution rate will be set at three percent of participants’ income for those who do not affirmatively choose a higher contribution level. The Board could, however, adjust the default contribution within a range of two to four percent of participants’ income.
- Maximum investment levels will be set in accordance with contribution limits set for IRAs by the Internal Revenue Code.
- The plan should be designed to preserve the safety of principal and provide a stable and low-risk rate of return.
- Risk to plan assets should be limited through the diversification of investments.
- Fees and costs should be low and transparent.
- Program retirement accounts must qualify for the favorable federal income tax treatment ordinarily granted Individual Retirement Accounts under the Internal Revenue Code.
- The Program must not be considered an employee benefit plan under the federal Employee Retirement Income Security Act of 1974 (ERISA).
- The Program must create no liability for the State of California or employers.

5. INFORMATION REQUESTED

Innovation and creative ideas are highly encouraged.

The Board is requesting information about how best to design and administer the Secure Choice Program.

The Board asks that the response contain:

- The name of the company, university, foundation or other organization

- The name of the individual(s) submitting the response
- The title(s) or position(s) of the individual(s)
- Indication of willingness to participate in a follow-up call or interview if necessary to clarify answers
- Contact information including a telephone number and email address
- Detailed responses to the questions found in Section II of this document [*Respondents are not necessarily required to answer all questions. Answer only questions relevant to your expertise and experience.*]

Respondents are invited to include additional information they feel would benefit the Board in its development of the RFP for the Secure Choice market analysis and feasibility study and for the design and implementation of the Program.

6. PROTESTS

Since this RFI is not a request for bids on goods and services, and no commitment is required of either party, protests are not appropriate and will not be considered by the Board.

7. DISPOSITION OF MATERIALS

All material submitted in response to this RFI will become the property of the State of California and will be returned only at the State's option and at the respondent's expense.

8. CONTACT INFORMATION

The contact for this RFI is:

Grant Boyken
California Secure Choice Retirement Savings Program
915 Capitol Mall, Room 110
Sacramento, CA 95814

Attn: Secure Choice RFI #13-01

Email address: grant.boyken@treasurer.ca.gov

9. KEY DATES

Questions regarding the RFI process or the intent or content of the RFI should be submitted to the contact identified above and clearly marked "Questions Relating to Secure Choice RFI 13-01." Questions must be received in writing or by email on xx-xx-2013 [two weeks from the date the Board approves the RFI].

Written responses to the RFI are to be received by the Board in writing on xx-xx-2013 [two months from the date the Board approves the RFI]. Suppliers are strongly encouraged to submit the RFI response prior to the due date. RFI responses should be delivered to the contact identified above.

Responses must be submitted in a digital format either as an attachment to an e-mail or some other digital format such as a compact disc or a thumb drive. Although not required, an additional hard copy response will be accepted.

Section II Request for Information Questions

Plan Structure

1. What type of plan structure would you recommend to best meet the statutory goals and objectives for the Program, which include simplicity, ease of administration for employers, preservation of principal and portability of benefits (e.g., a pooled fund with guaranteed interest credited to individual accounts on a regular basis that utilizes a gain and loss reserve? Individually held IRA-type accounts with a variety of funds from which participants could choose? Something else altogether?)

Investment Options

2. What investments would you recommend to best meet the goals and objectives of the Program, both in terms of the types of funds and underlying assets, and the style of management (i.e., active vs. passive)?
3. If you recommend more than one investment option, what would you recommend as the “default,” or automatic, option that would be chosen for participants who do not make an affirmative decision?
4. Would you recommend including any insured interest or insured income products? Why or why not? What are the advantages and disadvantages of these products in terms of performance, risks, cost and transparency?
5. Would you recommend the Program provide a lifelong stream of guaranteed income? If so, how would you convert retirement savings into a lifelong retirement income stream, and what investment product would you recommend to accomplish this objective?
6. Would your recommendations require changes to the investment policy parameters in SB 1234? If so, what modifications to the statute would you recommended, and why?
7. What recommendations would you make to ensure an effective risk management system is in place to monitor risk levels of the Program and ensure risks taken are prudent and properly managed?

Plan Design and Features

8. What would you recommend as the automatic, or “default,” contribution level?

9. What options, if any, would you recommend for an automatic escalation feature that increases participants' contributions over time?
10. Are there any other plan design features that should be included (or eliminated) to ensure the plan meets the goals and objectives of the Program? Please explain.
11. What plan design elements would you recommend to minimize pre-retirement "leakage?"

Costs and fees

12. Provide an estimate of the ongoing administrative costs and fees of the investment options you recommend and identify the components of those costs and fees.
13. How would you propose to assess fees to cover the costs required to start up the plan? Please identify the components of those costs and fees.
14. How would you recommend the Board ensure transparency of fee and expense information available to the Board and Secure Choice participants including transparency of service providers' relationships or potential conflicts that may increase costs and/or conflict with the interests of plan participants?

Administrative issues

15. What are your recommendations for identifying, and disseminating information to, eligible employers and employees (including employees of nonparticipating employers)? Consider the potential roles that could be played by California's Employment Development Department, any other state agencies or departments, and/or private sector vendors.
16. What are your recommendations for managing enrollment, the receipt and recordkeeping of employee payroll contributions and transactions, and managing rollovers in and out of Program accounts, including potential roles for the Employment Development Department, any other state agencies or departments, and/or private sector vendors?
17. Do you have any particular concerns about, or anticipate any significant challenges with, administering the Program? If so, how would those concerns and challenges best be addressed?

Legal issues

18. What approach would you recommend to demonstrate the Program is not subject to ERISA and that Secure Choice accounts would qualify for favorable federal income tax treatment generally granted Individual Retirement Accounts?
19. What further statutes and/or regulations would you recommend be enacted in order to strengthen the legal basis for this retirement savings Program?

Establishing a Retirement Investments Clearinghouse

S.B. 1234 grants the Board the authority to establish an online clearinghouse, and to register for inclusion on the website, vendors who offer employer-sponsored retirement plans and payroll deduction plans and who meet specified requirements. The cost of establishing the registration process and the online clearinghouse would be borne equally by registered vendors.

20. Please provide your assessment as to whether there would, or would not, be sufficient interest from vendors to establish an online Retirement Investments Clearinghouse.
21. How would you recommend the Board establish a process to register participants and operate the clearinghouse effectively, efficiently, and in a manner that eliminates or reduces any liability on the part of the Board associated with registering participants and operating the clearinghouse?

Developing the Request for Proposal (RFP) for the market research, plan design and feasibility study

22. Do you have any recommendations for the type of firm, or firms, that would be most qualified and able to conduct the work necessary for the market research, feasibility and plan design study?
23. Are there firms that would be able to successfully conduct all aspects of the work, or is it likely the Board will have to contract with more than one firm?
24. Do you have recommendations about requirements that should be included in the RFP either in terms of the scope of work required or the qualifications of bidders?