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JANUARY 27, 2014

AGENDA ITEM 4  
INFORMATION ITEM

SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

*Discussion of the Responses to the Secure Choice Request for Information (RFI)*

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***Presenters***

Grant Boyken and Eric Lawyer

***Purpose***

The purpose of this agenda item is to summarize the submissions received in response to the California Secure Choice RFI. While the board encourages interested parties to read the individual responses (available on our web page at: <http://www.treasurer.ca.gov/scib/rfi/responses.asp>), a summary of what we consider to be the key themes and findings is provided below.

In addition to the narrative summary, two attachments are included that provide side-by-side comparisons of the responses to RFI questions.

***Background***

In September 2013, the California Secure Choice Retirement Savings Investment Board (Board) issued a Request for Information (RFI) to obtain advice about how to design and administer the California Secure Choice Retirement Savings Program (the Program) and how to best proceed with the statutorily-required market and feasibility study. Responses were submitted by a diverse array of financial service providers, academics, policy institutes, trade organizations, and industry groups.

***Could California Secure Choice Work?***

When we released the RFI, we had no idea how many responses we would receive or what those responses would say about the viability of the Program. We were pleased with the number, and diversity, of responses. We were also pleased with the general support for the concept of a state administered automatic enrollment retirement savings program as a policy solution to the problem of retirement security for California workers who do not have access to retirement savings plan through their employment. Leading companies in the financial services industry not only shared their opinions about the viability of the Program, they also shared ideas about the products and services they would compete to offer if California Secure Choice was to be implemented.

Support for the Program is not unanimous, however, and some respondents expressed concerns about potential impacts on employers, and about the state directly competing with businesses in California that already provide retirement plan products and services to employers and workers in California. Some also expressed doubts about the need for such a program, and doubts about the legal feasibility of Secure Choice.

These concerns and doubts are most readily apparent in the responses of the Association of California Life and Health Insurance Companies (ACLHIC) / American Council of Life Insurers (ACLI), the California Chamber of Commerce / California Manufacturers and Technology Association (CMTA), the Investment Company Institute, and the Securities Industry and Financial Markets Association (SIFMA).

***Plan Structure and Investment Options: Secure vs. Choice?***

One consistent theme in the RFI responses is the importance of prioritizing Program objectives.

*The process would be to define the objectives, considering them one at a time, to determine the best alternative and then prioritizing them. Then, explore a process of compromising those objectives that are low on the prioritization to determine how you would get closest to meeting the most important goals. In this way, we would anticipate the Board can determine if achieving the legislative goal is feasible.*

– Cheiron

*To the extent that the program has been talked about to date, it has appeared to be a single capital preservation oriented investment offering with a gain/loss reserve. Although the laws under which the Program was created permits a wide variety of investments, it is unclear whether there is an intent to offer options that diverge from the primary objective of capital preservation. The success of this program is dependent upon clearly aligned communications.*

– PAi

As the Board determines the overall structure and design of the Program, it will need to rely on the results of the market analysis to determine how to prioritize objectives and design a Program that is consistent with those objectives and consistent with the needs and preferences expressed by the target population of workers.

Of the 27 RFI responses received, only those submitted by representatives of the Center for American Progress, The New School, The Economic Policy Institute, The Pension Benefit Guarantee Corporation and the Pension Rights Center recommend something similar to the “single capital preservation oriented investment offering with a gain/loss reserve” referred to in the quote from PAi above.

In contrast, all of the responses submitted by companies in the financial services industry recommended a design that allows participants to choose among a small set of investment options. These recommendations usually included a lifecycle or target date fund that adjusts to a

more conservative asset allocation as participants approach retirement as the automatic, or “default,” option. Some also suggested including capital preservation options such as stable value funds, cash and/or annuities within the investment lineup.

The concern echoed most frequently by those who advise against a single minimum interest guarantee option is that participants would lose the potential to earn sufficient savings to maintain their standard of living in retirement.

*An approach that simply enrolls each 20 year-old participant in a pooled fund with a guaranteed interest credit may serve to eliminate investment risk, but it will fall materially short in generating the needed investment returns to address longevity risk.*

– Prudential

*Low income workers are already heavily invested in Social Security, meaning that a large component of their retirement income will drive from a program that is low risk, but pays a low return (similar to a bond). One advantage of additional retirement saving is that it provides these individuals the opportunity to diversify into riskier, but higher-returning, assets such as stocks.*

– American Enterprise Institute

On the other hand, respondents advising against offering investment choices within the Program cited the historically poor choices made by individual participants investing in the 401(k) system.

*There is little to be gained by giving participants investment choice, with or without fee transparency. It is well known that the vast majority of 401(k) participants fail to diversify and to rebalance their investments.*

– Economic Policy Institute

*In the 401(k) system, investment decisions are made by employers and individuals. Pooling individual assets allows investment decisions to be made, instead, by professional investment managers, who consistently outperform individual investors...Because new workers are constantly entering the pool as older workers retire, the fund’s investment managers can maximize returns over the long-term, not just over an individual worker’s life time. Of course, this comes at a cost, since people will not fully share in the upside of the market, since the guaranteed interest rate will be reduced in periods of strong market performance to create reserves.”*

– The New School

With respect to RFI questions about whether the Program should offer any type of insured minimum return or insured income products, 14 of the 19 who responded to the question answered with a yes. For example:

*While it is widely accepted that some exposure to equities over the long term can offer growth potential to offset inflation, we believe that the CSC must appeal to a broad group, some of whom may not trust investing in stocks.*

– TIAA-CREF

Lack of transparency and exposure to counterparty risk were among the top concerns voiced by respondents who recommend against insured products. For example:

*Insured interest or insured income products expose participants to counterparty risk of the insurance company and its ability to make good on its promises, and transparency is often lacking, particularly with respect to the true embedded cost to participants.*

– Retirement revolution

In general, there appeared to be more support among respondents for securing a lifetime stream of income upon retirement, or as the worker approaches retirement, than in providing insured products at earlier stages of workers' careers.

*Insured interest or insured income funds might be the right choice for a portion of a participant's portfolio at the time of retirement, but these funds are traditionally high-expense funds with low transparency, surrender charges, and are not very portable....Also, there are other inherent risks employees may not be aware of. Income stream may change versus what they thought they were promised. If the insurance company has financial trouble this can affect the solvency of the fund as well.*

– CapitalOne ShareBuilder 401(k)

*Though protecting the principle is always a valid concern, it is particularly important for older workers. The greatest risk of permanent loss in a defined contribution plan is taking a lump sum payout during or after a downturn in the market cycle. For younger workers it may not be worth the cost to guarantee investment return on a year-in, year-out basis. The appropriate risk to insure against is a large loss close to retirement.*

– New America Foundation

#### Additional RFI Comments about Plan Structure/Investment Options

- A majority of responses recommended that automatic enrollment was essential to maximizing participation, and that participants should be offered a small number of low cost investment choices.
- A significant majority of respondents recommended that the plans, specifically the default investment option, contain elements of a plan that restructures investments as participants age, shifting to less-risky investments as participants approach retirement.
- There is consensus that low fees are a necessity for any investment plan offered by the program. Most respondents expressed a belief that the Program can and should leverage

its potential size to achieve low fees. The level of costs and fees will ultimately be determined by the structure of the program and the services it provides.

- Most responses suggested that the Program at least provide the option to annuitize savings. However, there was a wide array of suggestions regarding the type of annuity features the plan should include and the extent that annuitization is automated.
- There was wide disagreement among respondents regarding the wisdom of establishing a means of guaranteeing a minimum rate of return.
- There appeared to be consensus that pre-retirement draw-downs, or “leakage”, is a significant problem and that the Program should be designed to minimize it. Almost all respondents suggested that pre-retirement draw-downs either be prohibited, or allowed only in rare circumstances.
- The responses to the RFI question regarding the establishment of an online retirement investments clearinghouse were mostly favorable and indicated there would likely be ample interest among plan providers.

### ***Contribution Levels: Balancing the objectives of maximizing participation and accumulation***

As one of the RFI respondents noted, designing a retirement savings plan for lower-income workers requires a careful balance between enabling these workers to accumulate adequate savings for the future and allowing them to maintain sufficient liquidity in the present.

*There is a tension between the goals of maximizing participation and maximizing income replacement ratios. A plan with a low default contribution rate that allows easy access to funds before retirement will maximize participation, but will mean participants will likely fall far short of maintaining their standard of living in retirement.*

– Economic Policy Institute

Additionally, some respondents noted concerns that participants might assume the automatic, or “default” contribution rate is sufficient, and would be less inclined to increase their contributions.

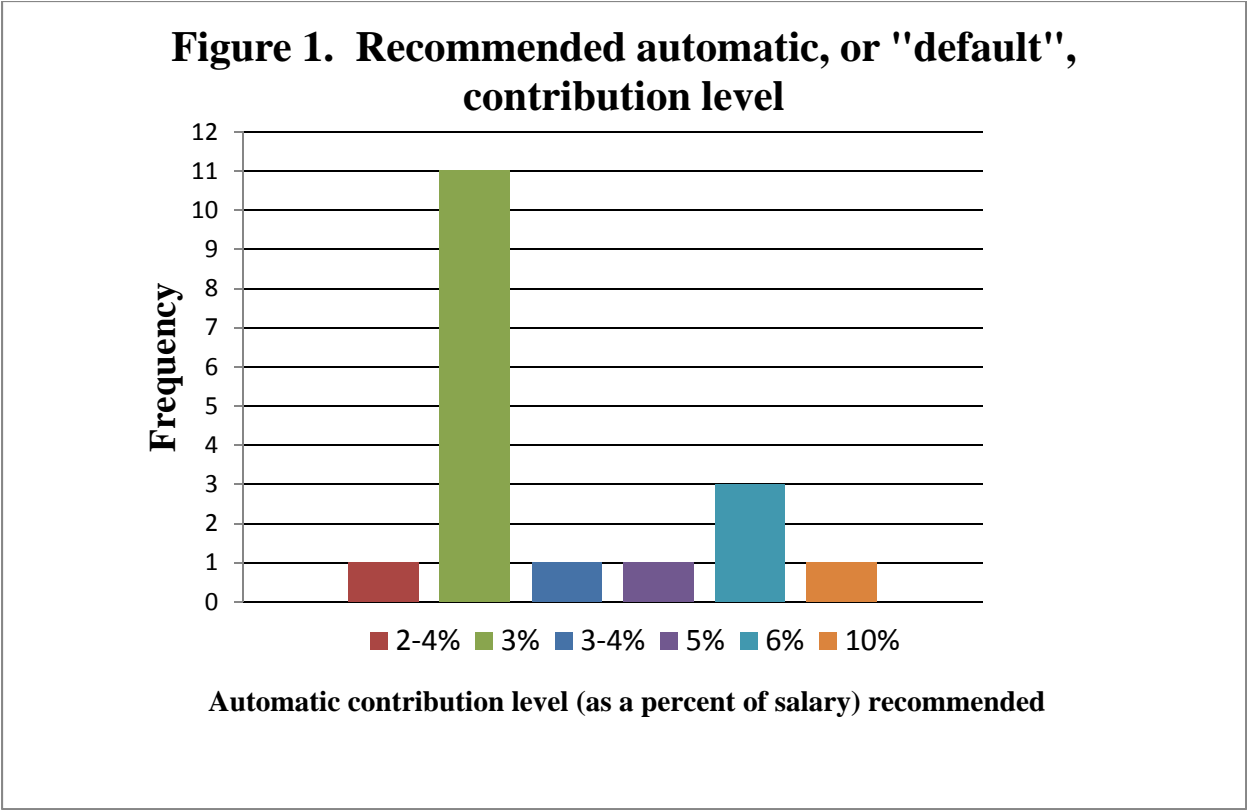
*Setting it low may increase participation, but may give participants a false sense of security that the default contribution will be sufficient for their retirement. Communication will be key.*

– Economic Policy Institute

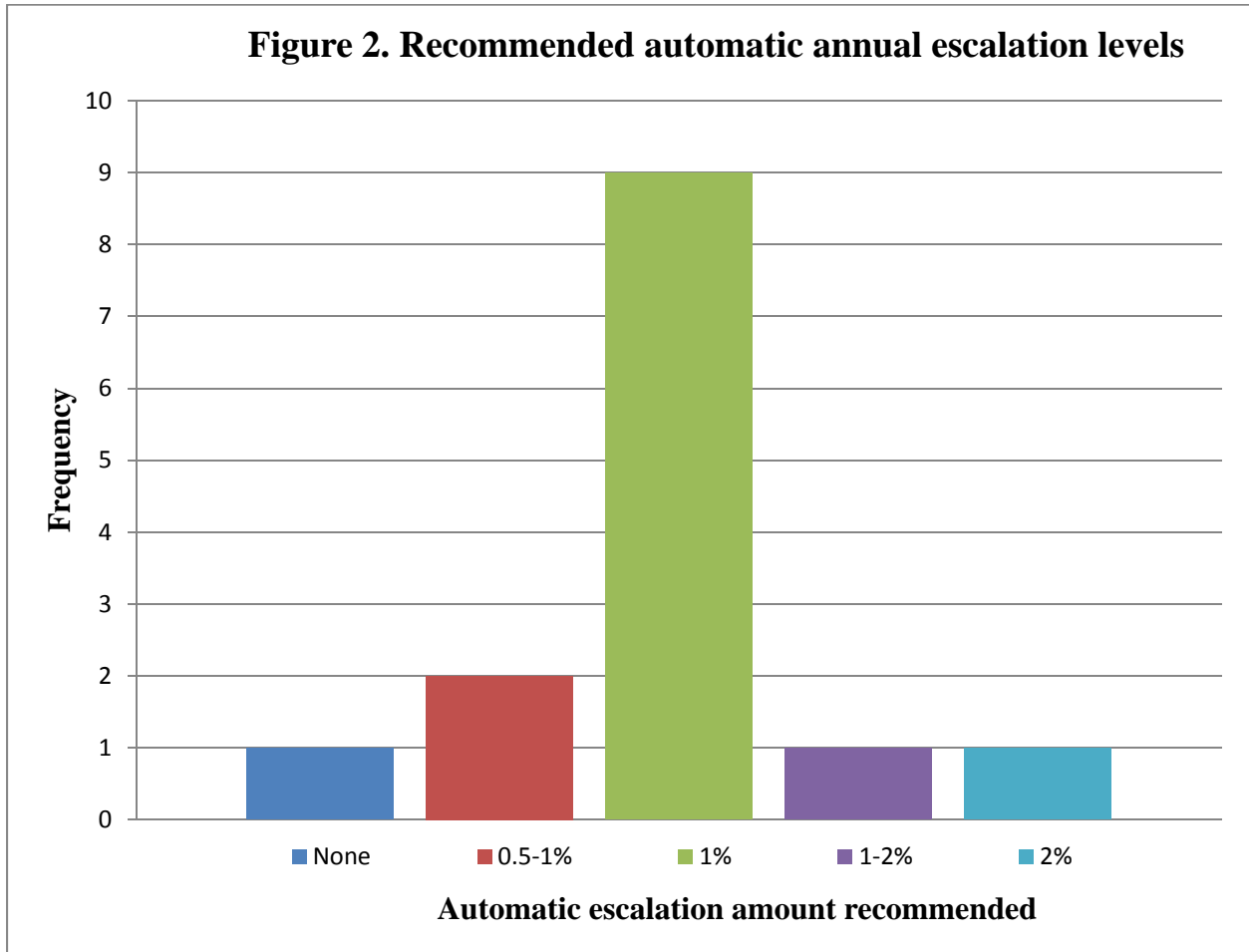
*One of CSC’s challenges is to create a program that is accessible to many, yet starts them on a path to real retirement security. One pitfall to avoid is creating the mistaken impression that minimal participation assures that retirement security.*

– TIAA-CREF

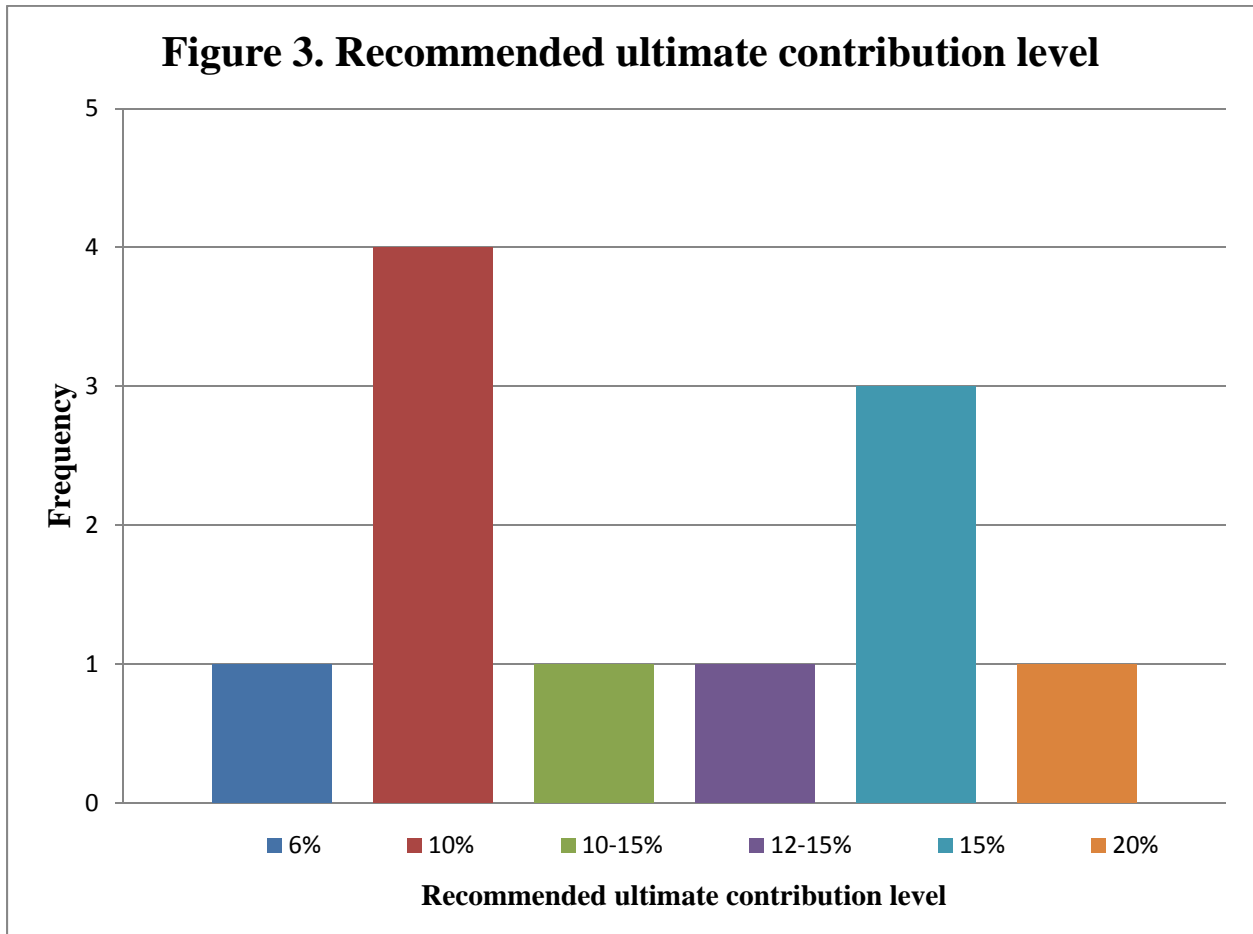
As is shown in Figure 1 below, of the 18 respondents who answered the question about where the automatic contribution rate should be set, the modal response (11 of 18) was three percent. But most acknowledged this is too low to generate adequate retirement savings.



Most respondents who answered the question about whether the Program should include an automatic annual escalation of contributions to gradually increase participants' contribution levels over time said it should. As Figure 2 below illustrates the recommended annual escalation amounts ranged from 0.5 percent of salary to two percent, with a modal response of one percent (9 of 14 responses).



Finally, Figure 3 indicates the maximum contributions to which respondents thought an automatic escalation feature should raise participants' contributions. Responses ranged from six percent to 20 percent of salary, with the most respondents advising 10 percent (4 of 11 responses) or 15 percent (3 of 11 responses) of salary.



One purpose of the Secure Choice market analysis will be to determine participants' ability, and desire, to save at various levels. The findings of the market analysis will guide the Board's decision about where to set the automatic contribution level in a manner that balances participation rates and savings rates that best fit the needs of California's workers who currently lack access to retirement savings plans in the workplace.

### ***Legal Issues***

According to California Government Code Section 100043, "The Board shall not implement the program if the IRA arrangements offered fail to qualify for the favorable federal income tax treatment ordinarily accorded to IRAs under the Internal Revenue Code, or if it is determined that the program is an employee benefit plan under the federal Employee Retirement Income Security Act (ERISA)."



The most common response to the ERISA and tax qualification questions is that the Program should be treated as tax qualified and should be considered exempt from ERISA provided it adheres to the terms under which payroll deduction accounts can be granted safe harbor, such as:

- Participation is voluntary;
- No employer contributions allowed; and
- Employer participation must be limited to collecting through payroll deductions and remitting those contributions to the plan sponsor.

Most respondents qualified their responses, however, noting that there is no precedence in federal laws for a state-sponsored retirement savings plan for private sector employees. There was fairly unanimous agreement among respondents, both those who thought the Program could meet these legal hurdles and those who thought it could not, that the Board would need to further define how the Program is to be structured and administered, then seek formal opinions from the U.S. Department of Labor and the U.S. Department of the Treasury before the Program can be implemented.

In addition, some respondents expressed concern that seeking exemption from ERISA, a provision of SB 1234 intended to safeguard employers from liability, would subject employees ERISA was designed to protect to real, or perceived, risk by exempting their benefits from protections afforded by federal legislation. For this reason, several respondents stressed the need for Secure Choice to create a structure that demonstrates the State of California has strong oversight over the program and any vendors associated with it.

Two respondents raised legal issues specific to the idea of the Board directing investments for a single pooled account, establishing a gain/loss reserve account, and determining how much interest to credit individuals' accounts annually. They indicated such an arrangement would not be consistent with the Internal Revenue Code's definition of individual accounts, and would be considered defined benefit plans subject to ERISA. In addition, both respondents suggested such an arrangement would make the program subject to federal securities law.

*As we noted earlier, we expect Treasury will find the program's reserve account inconsistent with a plan or arrangement with individual accounts under Chapter 1, Subchapter D, Part I, Subpart A of the Internal Revenue Code. In its filing with the IRS and Treasury, the Board should also confirm the extent to which the plan and parties to the plan are or are not exempt from the tax imposed on prohibited transactions under Internal Revenue Code §4975. The work of obtaining this confirmation should be addressed in the RFP.*

– ACLHIC/ACLI

*In an IRA, the account owner's balance consists of contributions made to the account and reflects any investment earnings or losses with respect to the individual's contributions. Under the Program, however, the account will not reflect the actual earnings or losses experienced by the individual's contributions, but instead will be credited with a state rate of interest determined by the Board each year. This formulaic benefit is akin to a cash balance plan, which is*

*considered a defined benefit pension plan under the Internal Revenue Code and ERISA, normally subject to minimum funding standards and Pension Benefit Guarantee insurance premiums.*

*– Investment Company Institute*

*No mention is made in the RFI of the application of federal securities and/or federal/state banking law to this plan and trust. The Board should determine the extent to which the California Secure Choice Retirement Savings Program is subject to registration with the Securities and Exchange Commission, what other requirements of federal securities law apply, as well as the application of banking law, if any, to the plan and trust. The work of examining this issue should be addressed in the RFP.*

*– ACLHIC/ACLI*

*The 1940 [Investment Company] Act provides for several exceptions from the definition of an “investment company,” ...It does not appear that the [Secure Choice] Trust would qualify for any of the exemptions... First, section 2(b) of the 1940 Act expressly provides that the 1940 Act does not apply to any agency, authority or instrumentality of a State. The Trust, however, is not likely to qualify for that exemption insofar as the State will not accept any liability for amounts to be owed or paid under the program.*

*– Investment Company Institute*

### ***Administrative Issues***

A number of RFI responses raised administrative issues that the Program will need to address. One common theme was the advice to reduce costs and complexity as much as possible by relying on electronic communications, facilitating automated contributions, and utilizing existing structures such as California’s existing tax collection system to handle contributions and other transactions made through employers.

Some respondents suggested determining eligibility for such a large population of participants might be difficult:

- Identifying eligible employees could be difficult, particularly for employees who work multiple jobs or for California employees who are residents of another state.
- It may be difficult to determine eligibility or ensure savings limits are not exceeded for individuals changing jobs, or holding multiple jobs.
- One challenge is to ensure that the chosen vendor receives all applicable employee demographic information. Having one central payroll submission at the state will be critical to this process.
- To allow participation by the self-employed and employees of very small employers, Secure Choice should facilitate automatic monthly (or bimonthly) contributions by automatic bank account debit.

Several respondents also pointed to the need to find ways to keep costs down in a program that will likely have a large number of accounts with relatively small balances:

- It is likely there will be many very small account balances in the Program. Keeping costs low for a large number or proportion of the total number of account holders will be critical.
- With automatic enrollment, there will likely be many participants with “low” balances, especially in the beginning stages of their savings. The vendor would be responsible for many items such as recordkeeping / administration / investment plan services and as such would likely propose a flat dollar cost structure versus an asset based fee structure to cover program costs.
- Our greatest concern is also what excites us – the size and scope of CSC and its ability to fundamentally contribute to the retirement security of so many. Due to the expected number of small accounts that will understandably be part of this program, the economics of CSC will be challenging. The program must be designed and implemented with a constant eye toward efficiency, managing the natural inclination to add on features that might be “nice to have,” but not “must have.”

### *Attachments*

- Appendix 1 - Summary of RFI responses provided by academic, policy, trade, and industry groups
- Appendix 2 - Summary of RFI responses provided by financial service providers (Completed by AKF Consulting)

Summary of California Secure Choice RFI responses by academic organizations, policy and trade groups, and industry representatives

| <b>About the respondents:</b>               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Academics/Policy</b>                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| American Enterprise Institute               | The American Enterprise Institute (AEI) is a community of scholars and supporters committed to expanding liberty, increasing individual opportunity and strengthening free enterprise.                                                                                                                                                                                                                                                                                                                           |
| Center for American Progress                | The Center for American Progress (CAP) is an independent nonpartisan educational institute dedicated to improving the lives of Americans through progressive ideas and action.                                                                                                                                                                                                                                                                                                                                   |
| Economic Policy Institute                   | The Economic Policy Institute (EPI), a non-profit, non-partisan think tank, was created in 1986 to broaden discussions about economic policy to include the needs of low- and middle-income workers.                                                                                                                                                                                                                                                                                                             |
| New America Foundation                      | The New America Foundation is a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States.                                                                                                                                                                                                                                                                                                                 |
| New School                                  | The New School is a university where design and social research drive approaches to studying issues of our time, such as democracy, urbanization, technological change, economic empowerment, sustainability, migration, and globalization.                                                                                                                                                                                                                                                                      |
| Pension Benefit Guaranty Corporation (PBGC) | PGBC is an agency created by the Employee Retirement Income Security Act ERISA to insure defined benefit plans. PGBC pays monthly retirement benefits, up to a guaranteed maximum, to nearly 744,000 retirees in 4,000 pension plans that ended. Including those who have not yet retired and participants in multiemployer plans receiving financial assistance, PBGC is responsible for the current and future pensions of about 1,476,000 people.                                                             |
| Pension Rights Center                       | Founded in 1976, the Pension Rights Center is a nonprofit consumer organization committed to protecting and promoting the retirement security of American workers, retirees, and their families.                                                                                                                                                                                                                                                                                                                 |
| <b>Trade/Industry</b>                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| ACLHIC & ACLI                               | The Association of California Life and Health Insurance Companies' (ACLHIC) main goals have been to advance the interests and well-being of the life and health insurance industry before legislative and administrative bodies.<br>The American Council of Life Insurers (ACLI) advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. |
| ASPPA                                       | The American Society of Pension Professionals & Actuaries (ASPPA) is a non-profit professional organization acting on behalf of its 15,000+ members to improve retirement income policy. ASPPA Government Affairs department keeps a close watch on all legislative and regulatory activities affecting retirement benefits and pension policy.                                                                                                                                                                  |

| <b><u>About the respondents:</u></b> |                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cal Chamber of Commerce & CMTA       | CalChamber of Commerce’s active Government Relations program works in tandem with business leaders throughout the state to promote policies providing greater certainty for employers.<br>The California Manufacturers & Technology Association (CMTA) works to improve and enhance a strong business climate for California's 30,000 manufacturing, processing and technology based companies. |
| Investment Company Institute         | The Investment Company Institute (ICI) is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs) and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. |
| SIFMA                                | The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. These companies are engaged in communities across the country to raise capital for businesses, promote job creation and lead economic growth.                                                                                 |

| <b><u>Question 1:</u></b><br><b>Recommended plan structure, including aspects such as: simplicity, ease of administration for employers and preservation of principal and portability of benefits:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Academics/Policy</b>                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                      |
| American Enterprise Institute                                                                                                                                                                          | The most important factor is investment costs-that is, the percentage of assets dedicated to management fees. A large DC plan, like the federal government’s Thrift Savings Plan, can have essentially zero management costs, which can significantly increase account balances and income generated at retirement.                                                                                                  |
| Center for American Progress                                                                                                                                                                           | Regular lifetime payments, professionally-managed, pooled investing, portable, 401(k)-IRA hybrid, where risk is spread among workers and retirees.                                                                                                                                                                                                                                                                   |
| Economic Policy Institute                                                                                                                                                                              | Pooled, professionally-managed fund that utilizes a gain-and-loss reserve account that offers a low guarantee of principal and a slightly-higher real target. An annuity option is essential.                                                                                                                                                                                                                        |
| New America Foundation                                                                                                                                                                                 | Pooled, single-plan, portable via clearinghouse mechanism.                                                                                                                                                                                                                                                                                                                                                           |
| New School                                                                                                                                                                                             | The California Secure Choice Retirement Savings Program (program) should be a not-for-profit, quasi-government agency. To ensure portability, all employers should be required to offer Secure Choice. Workers would be guaranteed a percentage of returns, perhaps 3%, with the pool assuming risk. At retirement, workers would convert all, or part, of their earnings to an annuity.                             |
| Pension Benefit Guaranty Corporation (PBGC)                                                                                                                                                            | Two options: <ul style="list-style-type: none"> <li>• A defined-benefit, multi-employer plan, with low costs, limited employer to responsibilities and liabilities, while retaining ERISA protection. The plan would guarantee a minimum rate of return or at least a guarantee against loss of principal.</li> <li>• A retirement product similar to a non-ERISA annuity, administered by a third party.</li> </ul> |

|                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pension Rights Center                                                                                                                                                     | Single, pooled, professionally-managed fund. A lifetime retirement stream is essential. Participants should not be given a choice of investment options. Support establishing an announced interest rate, potentially with something like the dividends offered by ScholarShare, and the development of asset reserves. Notional accounts is an idea worth exploring. |
| <b>Question 1:</b>                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Recommended plan structure, including aspects such as: simplicity, ease of administration for employers and preservation of principal and portability of benefits:</b> |                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Trade/Industry</b>                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                       |
| ACLHIC & ACLI                                                                                                                                                             | No plan structure recommended.                                                                                                                                                                                                                                                                                                                                        |
| ASPPA                                                                                                                                                                     | ASPPA recommends that the program be structured as a state-based automatic enrollment IRA arrangement similar to the federal auto-IRA proposal offered by Representative Richard Neal (D-MA, 1st), and included in the Obama Administration’s latest budget.                                                                                                          |
| Cal Chamber of Commerce & CMTA                                                                                                                                            | The Program must still be structured in a way so not to impose additional costs and liabilities on employers beyond what is required in the legislation. There must be no financial risk or liability to the employer and no fiduciary responsibility.                                                                                                                |
| Investment Company Institute                                                                                                                                              | The plan as described in the legislation does not resemble an IRA and would be subject to ERISA. No recommendations for plan structure provided.                                                                                                                                                                                                                      |
| SIFMA                                                                                                                                                                     | No plan structure recommended.                                                                                                                                                                                                                                                                                                                                        |

|                                             | <b>Question 2:<br/>Investment Options:</b>                                                                                                                               | <b>Question 3:<br/>Default Investment Option:</b>                                   | <b>Question 4:<br/>Insured Interest/Income Products:</b>                                                                                                                                                                                                                                                                              |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Academics/Policy</b>                     |                                                                                                                                                                          |                                                                                     |                                                                                                                                                                                                                                                                                                                                       |
| American Enterprise Institute               | Small number of funds, easily understood, that track market-existing indices. No active management options.                                                              | A “life cycle” fund that shifts from stocks to bonds.                               | Annuity might be limited to ensure that the annuity plus Social Security would reach the poverty threshold. Consider offering incentives for annuitization – a bonus or a period-certain payment.                                                                                                                                     |
| Center for American Progress                | Each member would have a “notional account”, a share of pooled investment.                                                                                               | 65% stocks, 35% bonds.                                                              | Plan should use a 0%-8% “collar” to smooth out underperformance. No guaranteed return.                                                                                                                                                                                                                                                |
| Economic Policy Institute                   | Low-cost, low-fee, passive. No individually-managed accounts. No mutual funds. Fee transparency is important, but doesn’t totally solve problems stemming from behavior. | Something similar to a Thrift Savings Plan lifecycle fund.                          | Would depend on ultimate plan structure, but insurance against loss could be achieved through investment strategy, purchasing derivatives, or via underwriting.                                                                                                                                                                       |
| New America Foundation                      | Choice of a small number of funds, such as a “G” fund for government securities and a riskier “I” fund, to invest in a range of stocks.                                  | Something similar to a Target Date Fund, index funds, and/or Exchange Traded Funds. | Appropriate “risk” to insure against is near-retirement. The market & feasibility study should address proper insurance against risk.                                                                                                                                                                                                 |
| New School                                  | Pooled investment in liquid and non-liquid assets.                                                                                                                       | No response given.                                                                  | At retirement, workers have the option of either converting their entire account balance to an inflation-indexed annuity or receiving a partial lump sum, limited to 10% of their balance.                                                                                                                                            |
| Pension Benefit Guaranty Corporation (PBGC) | Plan should use professional pension investors.                                                                                                                          | No response given.                                                                  | Plan may have to enter into hedging agreements, purchase annuities, or purchase an insurance contract.                                                                                                                                                                                                                                |
| Pension Rights Center                       | The cost of investment choice outweighs the benefits.                                                                                                                    | The investment portfolio should be chosen by dedicated investment managers.         | Some of the fund’s assets could be invested in low-cost annuity contracts. consideration should be given either to gradually shifting assets in the accounts of older employees to annuity contracts on a periodic basis after the employee reaches a certain age or to developing an alternative mechanism to smooth interest rates. |

Agenda Item 04 – Appendix 1

|                                | <b>Question 2:<br/>Investment Options:</b>                                                 | <b>Question 3:<br/>Default Investment Option:</b> | <b>Question 4:<br/>Insured Interest/Income Products:</b>                                                                                                                                                                                                                                                       |
|--------------------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Trade/Industry</b>          |                                                                                            |                                                   |                                                                                                                                                                                                                                                                                                                |
| ACLHIC & ACLI                  | No response given.                                                                         | No response given.                                | Crediting interest to participants is unusual and would not pass earnings directly to participants. Hedging against losses is difficult and expensive.                                                                                                                                                         |
| ASPPA                          | No response given.                                                                         | No response given.                                | No response given.                                                                                                                                                                                                                                                                                             |
| Cal Chamber of Commerce & CMTA | No response given.                                                                         | No response given.                                | No response given.                                                                                                                                                                                                                                                                                             |
| Investment Company Institute   | Any state direction of investments will leave the Program susceptible to ERISA preemption. | No response given.                                | No response given.                                                                                                                                                                                                                                                                                             |
| SIFMA                          | No response given.                                                                         | No response given.                                | Insured interest or insured income products may or may not be appropriate depending on the risk tolerance of individuals. The Secure Choice Retirement Savings Investment Board (Board) should also note that the nature of any guarantees is highly dependent on interest rate markets and actuarial factors. |



Agenda Item 04 – Appendix 1

|                                             | <b>Question 8:<br/>Default contribution level for participants:</b> | <b>Question 9:<br/>Automatic escalation on contributions:</b> | <b>Question 10:<br/>Other plan features:</b>                                                                                                        |
|---------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Academics/Policy</b>                     |                                                                     |                                                               |                                                                                                                                                     |
| American Enterprise Institute               | No response given.                                                  | No response given.                                            | No response given.                                                                                                                                  |
| Center for American Progress                | Does not specify default contribution level.                        | Yes, but does not specify escalation amount.                  | Lifetime payouts. Enrollees receive bonus checks if returns are good.                                                                               |
| Economic Policy Institute                   | 2-4%, despite being too low, is probably the best compromise        | Target population less likely to see wage increases.          | No response given.                                                                                                                                  |
| New America Foundation                      | 3-4%                                                                | 1%, perhaps 0.5% annual automatic escalation                  | The program should make an effort to include self-employed individuals.                                                                             |
| New School                                  | 3% or anywhere between 2-5%, depending on the board's direction     | No response given.                                            | An online system allowing contributions made outside of workplace.                                                                                  |
| Pension Benefit Guaranty Corporation (PBGC) | No response given.                                                  | No response given.                                            | <ul style="list-style-type: none"> <li>• Optional employer contributions</li> <li>• Employees get one-time chance to opt out of program.</li> </ul> |
| Pension Rights Center                       | No response given.                                                  | No response given.                                            | No response given.                                                                                                                                  |

|                                | <b>Question 8:<br/>Default contribution level for participants:</b>                                                                                                                                                                                                                                             | <b>Question 9:<br/>Automatic escalation on contributions:</b>                                                                                                                           | <b>Question 10:<br/>Other plan features:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Trade/Industry</b>          |                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| ACLHIC & ACLI                  | No response given.                                                                                                                                                                                                                                                                                              | No response given.                                                                                                                                                                      | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| ASPPA                          | at least 3% of a participant’s compensation                                                                                                                                                                                                                                                                     | Annual increases of 1% to a maximum of 15% of compensation. A participant should have the ability to change this default rate at elected periods, but no less than four times per year. | <ul style="list-style-type: none"> <li>The auto-IRA design could include gradual increases in the minimum automatic enrollment contribution rates so that when the program first becomes effective, a participant is not surprised by any drastic changes in take home pay. For instance, the minimum automatic enrollment contribution rates could be gradually increased from 3% to 6% of compensation over the years immediately following the establishment of the Program.</li> <li>ASPPA recommends that the Program ensure the portability of the auto-IRA benefits by allowing participants to transfer their assets directly to another retirement savings vehicle at any time.</li> </ul> |
| Cal Chamber of Commerce & CMTA | No response given.                                                                                                                                                                                                                                                                                              | No response given.                                                                                                                                                                      | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Investment Company Institute   | No response given.                                                                                                                                                                                                                                                                                              | No response given.                                                                                                                                                                      | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| SIFMA                          | The appropriate default contribution level depends on whether the program is looking to replace individuals’ income, or just provide a small additional savings account. SIFMA’s members believe that a full 10% of income is the minimum contribution level necessary to accumulate adequate retirement funds. | No response given.                                                                                                                                                                      | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

|                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Question 11:</b>                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Plan design elements recommended to minimize pre-retirement “leakage”:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Academics/Policy</b>                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| American Enterprise Institute                                                 | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Center for American Progress                                                  | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Economic Policy Institute                                                     | Making it difficult or forbidden to access funds pre-retirement is the least-harmful policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| New America Foundation                                                        | Secure Choice could follow same rules as an IRA: ban loans, deter early withdrawals, and a 10% penalty without justifiable hardship.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| New School                                                                    | Limited only to death or disability.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Pension Benefit Guaranty Corporation (PBGC)                                   | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Pension Rights Center                                                         | Limited only to death or disability. An administrative procedure to limit withdrawals to certain events or hardship, or to make loans, would be expensive to maintain and might be perceived by participants as unfair or arbitrary in its results. (Also, loans from IRAs would violate rules in the Internal Revenue Code.)                                                                                                                                                                                                                                                                                                                           |
| <b>Question 11:</b>                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Plan design elements recommended to minimize pre-retirement “leakage”:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Trade/Industry</b>                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| ACLHC & ACLI                                                                  | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| ASPPA                                                                         | Other available IRA vehicles provide more flexibility, and because employers would bear the brunt of complaints from participating employees who are denied access to moneys in the accounts, such a prohibition may serve mainly to make the Program unattractive to employers and employees, and be counter-productive. Participant education should be provided on the advantages of saving for retirement, as well as the tax penalties incurred by early withdrawal, and that direct transfers to another retirement vehicle be available to avoid the need to take a cash distribution in order to move savings to another tax-preferred account. |
| Cal Chamber of Commerce & CMTA                                                | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Investment Company Institute                                                  | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| SIFMA                                                                         | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

Agenda Item 04 – Appendix 1

|                                             | <b>Question 12:</b><br><b>Estimated administrative costs and investment option fees:</b> | <b>Question 13:</b><br><b>How to cover start-up costs:</b>                                        |
|---------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| <b>Academics/Policy</b>                     |                                                                                          |                                                                                                   |
| American Enterprise Institute               | No response given.                                                                       | No response given.                                                                                |
| Center for American Progress                | 0.25%. Large size of fund would lead to lower fees.                                      | No response given.                                                                                |
| Economic Policy Institute                   | No response given.                                                                       | No response given.                                                                                |
| New America Foundation                      | Pooling will result in low fees.                                                         | No response given.                                                                                |
| New School                                  | No estimate given. Clearinghouse should cap administrative costs and investment fees.    | Participants would bear costs, taken from their contributions and earnings.                       |
| Pension Benefit Guaranty Corporation (PBGC) | No response given.                                                                       | A share of employee contributions and earnings and/or a tax-deductible contribution by employers. |
| Pension Rights Center                       | No response given.                                                                       | No response given.                                                                                |

|                                | <b>Question 12:<br/>Estimated administrative costs and investment option fees:</b>                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Question 13:<br/>How to cover start-up costs:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Trade/Industry</b>          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| ACLHIC & ACLI                  | The legislation caps administrative fees, but does not cap other costs and fees. Estimates costs and fees may exceed 2-3%.                                                                                                                                                                                                                                                                                                                                                                            | The purpose of the program is better served by privately run IRAs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| ASPPA                          | The majority of these accounts are expected to have small balances and it is critical that employee savings not be eaten up by fees. However, using collective investment and uniform administrative processes allows providers to keep fees low. ASPPA recommends that the Board require service providers of the auto-IRA Program to make reasonable fee disclosures to the Board and auto-IRA Program participants in order to be granted authority to provide services to the Program's auto-IRAs | No recommendation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Cal Chamber of Commerce & CMTA | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Investment Company Institute   | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| SIFMA                          | It is important to note that it will be challenging for the State to receive the benefits of economies of scale because the State would need to be connecting directly with many individual employers and each of their systems and employee mix.                                                                                                                                                                                                                                                     | While the bill sets aside one percent (1%) of the total program fund to administer the program trust, we believe it is highly likely that administrative, compliance, insurance, and other costs will materially exceed that amount. Fiduciary insurance alone is a necessary expense that by itself could exceed the 1% allocated for such expenses. A 2009 Washington State report estimated that a state sponsored basic IRA plan that provided retirement savings options to 20,000 participants would have start-up costs of \$1.9 million and annual on-going state costs of almost \$1.4 million. |

|                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Question 16:</b>                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Management of enrollment, receipt &amp; recordkeeping, rollovers; Role of Employment Development Department (EDD) or any other state agencies, departments, and/or private sector vendors:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Academics/Policy</b>                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| American Enterprise Institute                                                                                                                                                                     | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Center for American Progress                                                                                                                                                                      | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Economic Policy Institute                                                                                                                                                                         | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| New America Foundation                                                                                                                                                                            | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| New School                                                                                                                                                                                        | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Pension Benefit Guaranty Corporation (PBGC)                                                                                                                                                       | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Pension Rights Center                                                                                                                                                                             | There will also inevitably be participants who believe that their reported account balance is incorrect, and there should be a mechanism in which employees can query and appeal the amount credited to their account balance. The Pension Rights Center recommends that the Secure Choice board of trustees explore creating a position that would represent participant interests, act as an ombudsman, study problems as they arise, and make recommendations about improving the operation of the fund annually and as necessary. This position/office should be separately staffed and should be independent of other parts of the program so that it can perform its functions effectively.      |
| <b>Question 16:</b>                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Management of enrollment, receipt &amp; recordkeeping, rollovers; Role of Employment Development Department (EDD) or any other state agencies, departments, and/or private sector vendors:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Trade/Industry</b>                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| ACLHIC & ACLI                                                                                                                                                                                     | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| ASPPA                                                                                                                                                                                             | ASPPA strongly recommends that the private sector manage and administer the auto-IRA Program. An entire pension industry of record keepers, financial services companies, consulting firms, and other professional firms, is already in place and in some cases are already maintaining payroll deduction accounts that function exactly like the proposed auto-IRA arrangement.                                                                                                                                                                                                                                                                                                                       |
| Cal Chamber of Commerce & CMTA                                                                                                                                                                    | Employees enrolled in the program must have access to a point of contact that can explain the Program, answer questions and take complaints and that does not involve the employer. The employee must fully understand that this is not the employers' responsibility and that their investment decisions are their own. The employee information packet developed by the Board must be clear and concise regarding employee's exclusive responsibility for their investment decisions and that these responsibilities are not those of the employer. The specific language contained in Government Code section 100034 regarding employer's immunity under this Plan must be included in the employee |

Agenda Item 04 – Appendix 1

|                              |                                                                                                                           |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                              | information packet. This is especially necessary to avoid litigation against employers due to employee misunderstandings. |
| Investment Company Institute | No response given.                                                                                                        |
| SIFMA                        | No response given.                                                                                                        |

|                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Question 18:</b>                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Recommended approach for ERISA and IRA treatment:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Academics/Policy</b>                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| American Enterprise Institute                            | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Center for American Progress                             | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Economic Policy Institute                                | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| New America Foundation                                   | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| New School                                               | Because employer is not choosing a plan for its employees, the program would not be subject to ERISA. All vendors should adhere to ERISA to protect participants.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Pension Benefit Guaranty Corporation (PBGC)              | As long as there is no employer involvement, Secure Choice should not be preempted by ERISA. DOL may make ultimate determination. If Secure Choice uses multi-employer pension type plan, it would have to demonstrate that the participating employers have a “genuine organizational relationship” or “affinity” beyond having a common interest in providing quality retirement benefits. DOL might conclude that businesses within California could meet this geographic test.                                                                                                                                                                               |
| Pension Rights Center                                    | The Pension Rights Center does not believe that Secure Choice will be subject to ERISA. Secure Choice is not a plan established or maintained by an employer or employee organization. It is a state program for employees whose employers do not provide a retirement savings program. The Pension Rights Center is preparing a white paper addressing the issue in detail. An employer required by California law to remit an employee’s retirement contribution through payroll deduction to the California plan is not choosing an investment vehicle, nor determining the default rate of contribution, nor designing or endorsing any feature of the plan. |

| <b>Question 18:<br/>Recommended approach for ERISA and IRA treatment:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Trade/Industry</b>                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| ACLHIC & ACLI                                                             | The Board should request that the DOL opine as to whether the State of California, the Board, and those with Board appointment authority are fiduciaries of the plan. ACLHIC & ACLI expect Treasury will find the program’s reserve account inconsistent with a plan or arrangement with individual accounts under Chapter 1, Subchapter D, Part I, Subpart A of the Internal Revenue Code. In its filing with the IRS and Treasury, the Board should also confirm the extent to which the plan and parties to the plan are or are not exempt from the tax imposed on prohibited transactions under Internal Revenue Code §4975. The Board should determine the extent to which the California Secure Choice Retirement Savings Program is subject to registration with the Securities and Exchange Commission, what other requirements of federal securities law apply, as well as the application of banking law, if any, to the plan and trust. The work of obtaining this confirmation should be addressed in the RFP.                                                                                                                                                                           |
| ASPPA                                                                     | Demonstrating the Program is not subject to ERISA is dependent on assuring that the accounts are in fact IRAs, and following the guidance the DOL has provided for assuring payroll deduction IRA arrangements are not subject to Title I of ERISA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Cal Chamber of Commerce & CMTA                                            | If Secure Choice is subject to ERISA, employers will be exposed to significant administrative costs, liabilities and fiduciary responsibilities required by the laws and regulations that apply to ERISA plans. Cal Chamber of Commerce and CMTA continue to believe that ERISA’s requirements will apply to this Program and that the Program will not be the no-cost, no-risk alternative to providing retirement benefits to our employees, as presented to the Legislature. Because so much is at stake for employers regarding the ERISA determination, we urge the Board to obtain an advisory opinion from the United States Department of Labor at the earliest possible point in the study specifying that the Program, and all employers with employees in the Program, is fully exempt from the requirements of ERISA. This solicitation should be included as a required element in the RFP. They urge the Board to obtain a private letter ruling from the Internal Revenue Service (IRS) that states the IRA arrangements proposed by the Program qualify for the tax-deferred treatment afforded such plans. This solicitation should also be part of the RFP required scope of work. |
| Investment Company Institute                                              | Although the Department of Labor has not directly addressed the question of whether an <i>automatic enrollment</i> payroll deduction IRA program would be subject to ERISA, it is likely that the automatic enrollment of employees would result in ERISA preemption. If Secure Choice is not preempted by ERISA, then the benefits of the program are in question, as participants would be denied the consumer protection provided by ERISA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| SIFMA                                                                     | Given the legal framework of ERISA and the Department of Labor (DOL) Advisory Opinion 2012-01A3, it is likely not possible to implement a mandatory program through employers that is exempt from ERISA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |



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|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Question 20:</b>                                                                           |                                                                                                                                                                                                                                                                                                                                                               |
| <b>Interest level among vendors regarding an online retirement investments clearinghouse:</b> |                                                                                                                                                                                                                                                                                                                                                               |
| <b>Academics/Policy</b>                                                                       |                                                                                                                                                                                                                                                                                                                                                               |
| American Enterprise Institute                                                                 | No response given.                                                                                                                                                                                                                                                                                                                                            |
| Center for American Progress                                                                  | No response given.                                                                                                                                                                                                                                                                                                                                            |
| Economic Policy Institute                                                                     | No response given.                                                                                                                                                                                                                                                                                                                                            |
| New America Foundation                                                                        | Choice among IRA providers should be for employees only, not employers. Employees must have a minimum threshold of assets before switching IRA providers.                                                                                                                                                                                                     |
| New School                                                                                    | No response given.                                                                                                                                                                                                                                                                                                                                            |
| Pension Benefit Guaranty Corporation (PBGC)                                                   | The program could establish an annuity exchange, similar in principal to the health care exchanges established by the Affordable Care Act.                                                                                                                                                                                                                    |
| Pension Rights Center                                                                         | If implemented, the clearinghouse should hire an ombudsman to help monitor the accuracy and clarity of information displayed on the Retirement Investments Clearinghouse website, particularly with respect to fee disclosures, the provision of education or investment advice, and the identification of actual and potential conflicts of interest.        |
| <b>Question 20:</b>                                                                           |                                                                                                                                                                                                                                                                                                                                                               |
| <b>Interest level among vendors regarding an online retirement investments clearinghouse:</b> |                                                                                                                                                                                                                                                                                                                                                               |
| <b>Trade/Industry</b>                                                                         |                                                                                                                                                                                                                                                                                                                                                               |
| ACLHC & ACLI                                                                                  | No response given.                                                                                                                                                                                                                                                                                                                                            |
| ASPPA                                                                                         | The private sector is eager and willing to participate in providing retirement plan solutions for businesses that currently do not offer retirement plans for their employees. The Retirement Investment Clearinghouse provides a distribution tool for these private sector companies to use in order to increase retirement plan coverage in the workplace. |
| Cal Chamber of Commerce & CMTA                                                                | No response given.                                                                                                                                                                                                                                                                                                                                            |
| Investment Company Institute                                                                  | No response given.                                                                                                                                                                                                                                                                                                                                            |
| SIFMA                                                                                         | No response given.                                                                                                                                                                                                                                                                                                                                            |

|                                             | <b>Question 22:<br/>Market and Feasibility Study:</b>                                                                                                                                                                                                                                                                                                                             | <b>Question 27:<br/>Timeline for 2015 enrollment:</b> |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| <b>Academics/Policy</b>                     |                                                                                                                                                                                                                                                                                                                                                                                   |                                                       |
| American Enterprise Institute               | <ul style="list-style-type: none"> <li>• Use a team of policy researchers and industry for plan design.</li> <li>• Market research may require hiring one firm, such as Towers Watson.</li> </ul>                                                                                                                                                                                 | No response given.                                    |
| Center for American Progress                | No response given.                                                                                                                                                                                                                                                                                                                                                                | No response given.                                    |
| Economic Policy Institute                   | No response given.                                                                                                                                                                                                                                                                                                                                                                | No response given.                                    |
| New America Foundation                      | Both a non-financial industry consulting firm and a California institution of higher learning.                                                                                                                                                                                                                                                                                    | No response given.                                    |
| New School                                  | No response given.                                                                                                                                                                                                                                                                                                                                                                | No response given.                                    |
| Pension Benefit Guaranty Corporation (PBGC) | No response given.                                                                                                                                                                                                                                                                                                                                                                | No response given.                                    |
| Pension Rights Center                       | The Pension Rights Center recommends that the board study the desirability of mandating annuitization or partial annuitization for people at retirement to ensure that they do not run out of money during their lifetime. Study should also focus on the merits and drawbacks of purchasing annuity contracts to pool mortality risk versus other options for pooling such risk. | No response given.                                    |

|                                | <b>Question 22:<br/>Market and Feasibility Study:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Question 27:<br/>Timeline for 2015 enrollment:</b>                                                                                                                                                                                                                                                                                                     |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Trade/Industry</b>          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                           |
| ACLHIC & ACLI                  | The Board should specifically address in RFPs sent to potential vendors the expected work of preparing, submitting and obtaining an advisory opinion regarding Secure Choice’s standing under ERISA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | No response given.                                                                                                                                                                                                                                                                                                                                        |
| ASPPA                          | No response given.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | No response given.                                                                                                                                                                                                                                                                                                                                        |
| Cal Chamber of Commerce & CMTA | The design and development of the RFP and of the Program must engage employers in the process during the development of the RFP. They urge the Board to include in its scope of work a requirement for the vendor to also convene an advisory group of employers of various sizes and industry sectors to review and comment on the plan. Any potential Program design must be feasible and not unduly burden employers. The RFP must include a requirement for the vendor to provide scenarios of a typical investment in the Program compared to a typical investment in a traditional IRA from a commercial provider. These scenarios must include investor profiles, such as an employee with multiple jobs, a mobile employee moving from job to job, and various ages. | They would urge the Board to reconsider the proposed timeline, which only allows a month and a half for the review of RFI responses and the development of the RFP. The RFP must be thoughtfully prepared to include all relevant requirements for plan design and analysis in order to ensure employers and employees are not inadvertently put at risk. |
| Investment Company Institute   | ICI urges the board to undertake a comprehensive examination of the true costs and benefits that would be involved in establishing and maintaining a retirement savings plan for private sector employees.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | No response given.                                                                                                                                                                                                                                                                                                                                        |
| SIFMA                          | The State would need to take a look at the types of employees who would be investing in this plan and determine what type of plan best suits this group’s needs. The Board should consider the costs and risks of the program relative to these marginal levels of income replacement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | The Board would be well served to wait until they have received formal guidance from the DOL in the name of an advisory opinion, and from the IRS through a private letter ruling before taking any further steps.                                                                                                                                        |



**STO RFI #13-01 – SB 1234**

**Request for Information for  
Secure Choice Retirement Savings Program**

**California Secure Choice Retirement Savings Investment Board**

**Summary of Responses**

**January 22, 2014**



**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**  
**TABLE OF CONTENTS**

|                                                                                                      |           |
|------------------------------------------------------------------------------------------------------|-----------|
| • <b>OVERVIEW OF RESPONDENTS</b>                                                                     | <b>1</b>  |
| • <b>FINANCIAL SERVICES RESPONDENTS</b>                                                              | <b>2</b>  |
| • <b>SECTION 1. PLAN STRUCTURE (QUESTION 1)</b>                                                      | <b>4</b>  |
| • <b>SECTION 2. INVESTMENT OPTIONS (QUESTIONS 2, 3, 4)</b>                                           | <b>5</b>  |
| • <b>SECTION 3. PLAN DESIGN AND FEATURES (QUESTIONS 8, 9, 10)</b>                                    | <b>7</b>  |
| • <b>SECTION 4. COSTS AND FEES (QUESTIONS 12, 13)</b>                                                | <b>8</b>  |
| • <b>SECTION 5. ADMINISTRATIVE ISSUES (QUESTION 16)</b>                                              | <b>9</b>  |
| • <b>SECTION 6. LEGAL ISSUES (QUESTION 18)</b>                                                       | <b>10</b> |
| • <b>SECTION 7. ESTABLISHING A RETIREMENT INVESTMENTS CLEARINGHOUSE (QUESTION 20)</b>                | <b>11</b> |
| • <b>SECTION 8. STRATEGIES FOR FUNDING RESEARCH, DESIGN AND FEASIBILITY STUDY (QUESTIONS 25, 27)</b> | <b>12</b> |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION  
OVERVIEW OF RESPONDENTS**

| <b>Financial Services</b>    | <b>Academics/Policy</b>                            | <b>Trade/Industry</b>                                                                                                      |
|------------------------------|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | <b>American Enterprise Institute</b>               | <b>Association of California Life and Health Insurance Companies (ACLHIC) and American Council of Life Insurers (ACLI)</b> |
| <b>Cheiron</b>               | <b>Center for American Progress</b>                | <b>American Society of Pension Professionals &amp; Actuaries (ASPPA)</b>                                                   |
| <b>PAi</b>                   | <b>Economic Policy Institute</b>                   | <b>California Chamber of Commerce (Cal Chamber) and California Manufacturers and Technology Association (CMTA)</b>         |
| <b>PenServ</b>               | <b>New America Foundation</b>                      | <b>Investment Company Institute</b>                                                                                        |
| <b>Prudential</b>            | <b>New School</b>                                  | <b>Securities Industry and Financial Markets Association (SIFMA)</b>                                                       |
| <b>Retirement Revolution</b> | <b>Pension Benefit Guaranty Corporation (PBGC)</b> |                                                                                                                            |
| <b>SavedPlus</b>             | <b>Pension Rights Center</b>                       |                                                                                                                            |
| <b>The Online 401(k)</b>     |                                                    |                                                                                                                            |
| <b>TIAA-CREF</b>             |                                                    |                                                                                                                            |
| <b>9 Respondents</b>         | <b>7 Respondents</b>                               | <b>5 Respondents</b>                                                                                                       |
| <b>Total 21 Respondents</b>  |                                                    |                                                                                                                            |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION  
FINANCIAL SERVICES RESPONDENTS**

| <b>Respondent</b>            | <b>Principal Business</b>                                                                                |
|------------------------------|----------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | <b>Payroll systems provider</b>                                                                          |
| <b>Cheiron</b>               | <b>Actuarial and Pension Consulting Services</b>                                                         |
| <b>PAi</b>                   | <b>Retirement system provider (recordkeeping and administration) serving small businesses</b>            |
| <b>PenServ</b>               | <b>Defined Contribution plan administration</b>                                                          |
| <b>Prudential</b>            | <b>Investment Management</b>                                                                             |
| <b>Retirement Revolution</b> | <b>Recordkeeper and Custodial Service provider to third party administrators, RIAs and Plan Sponsors</b> |
| <b>SavedPlus</b>             | <b>Start-up bank “platform-agnostic micropayment capability”</b>                                         |
| <b>The Online 401(k)</b>     | <b>Workplace savings provider for small businesses</b>                                                   |
| <b>TIAA-CREF</b>             | <b>Investment Management</b>                                                                             |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**

**SUMMARY OF RESPONSES  
FROM FINANCIAL SERVICES FIRMS**



**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**  
**PLAN STRUCTURE**

|                              | <b>Question 1:<br/>Recommended Plan Structure, including aspects such as:<br/>Simplicity, Ease of Administration for Employers and Preservation of Principal and Portability of Benefits</b> |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | IRA-type arrangement paired with broad range of low-cost mutual funds and/or collective investment trusts.<br>Have to determine allocation of fiduciary responsibilities                     |
| <b>Cheiron</b>               | Special type of IRA that provides variable annuities with potential guarantees based on insurance-like assumptions                                                                           |
| <b>PAi</b>                   | Payroll deduction IRA                                                                                                                                                                        |
| <b>PenServ</b>               | Automatic Enrollment IRA that similar to what is being proposed under HR 2035 as “the Automatic IRA Act of 2013”                                                                             |
| <b>Prudential</b>            | 3 Tier system which combines the best practices of DB and DC Plans, while addressing relevant risks                                                                                          |
| <b>Retirement Revolution</b> | Similar to traditional IRA to ensure ease of administration and portability                                                                                                                  |
| <b>SavedPlus</b>             | FDIC-insured Cash IRA account through employer or employee checking account                                                                                                                  |
| <b>The Online 401(k)</b>     | Omnibus IRA – one account of pooled employee assets                                                                                                                                          |
| <b>TIAA-CREF</b>             | 529-like group plan sponsored by the State with individual accounts                                                                                                                          |

## CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION INVESTMENT OPTIONS

|                                           | <u>Question 2:</u><br>Investment Options                                                                                                                                                                                                                                                                                                                                                                        | <u>Question 3:</u><br>Default Investment Option                                           | <u>Question 4:</u><br>Insured Interest/Income Products                                             |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <b>ADP</b>                                | <ul style="list-style-type: none"> <li>• Open architecture</li> <li>• Passive and Active Management</li> <li>• Target Date Funds</li> <li>• Asset Allocation Portfolios</li> <li>• Collective Investment Trusts</li> </ul>                                                                                                                                                                                      | Target Date Funds or Balanced Portfolio                                                   | ADP does not offer proprietary insurance products so cannot comment on suitability for California  |
| <b>Cheiron</b>                            | Firm does not provide investment consulting                                                                                                                                                                                                                                                                                                                                                                     | Same                                                                                      | Yes, but the appropriate provider depends on the program's ability to create a self-insured system |
| <b>PAi</b>                                | Series of options for investors to choose based upon preference and lifestyle                                                                                                                                                                                                                                                                                                                                   | If program allows "choice", preference would be a portfolio appropriate to risk tolerance | Yes                                                                                                |
| <b>PenServ</b>                            | Did not respond because not an investment company                                                                                                                                                                                                                                                                                                                                                               | Response left blank                                                                       | Response left blank                                                                                |
| <b>Prudential</b>                         | 3 Tier System: <ul style="list-style-type: none"> <li>• Tier 1 "Do it for me": Target Date Funds (Passive and Active strategies, Diversified Asset Classes) paired with Guaranteed Retirement Income Option</li> <li>• Tier 2 "Customized investment mix": Personalized Retirement Strategy, Stable Value Option</li> <li>• Tier 3 "Do-it-yourself": Equity, Fixed Income and ETF Individual Options</li> </ul> | Target Date Funds with a Guaranteed Income benefit                                        | Yes – guaranteed lifetime withdrawal benefit in Tier 1; Stable Value in Tier 2                     |
| <b>Retirement Revolution <sup>1</sup></b> | <ul style="list-style-type: none"> <li>• Low-cost, Passive Target Maturity Funds</li> <li>• Passive, Index Funds with customizable exposure to asset classes</li> </ul>                                                                                                                                                                                                                                         | Target Maturity Funds                                                                     | No                                                                                                 |

<sup>1</sup> Note: Retirement Revolution responses refer to "Wilshire" recommendations. The relationship between Wilshire and Retirement Revolution is unclear

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**  
**INVESTMENT OPTIONS, CONTINUED**

|                          | <b><u>Question 2:</u></b><br><b>Investment Options</b>                                                                                                                     | <b><u>Question 3:</u></b><br><b>Default Investment Option</b>                                                                                                          | <b><u>Question 4:</u></b><br><b>Insured Interest/Income Products</b> |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>SavedPlus</b>         | <ul style="list-style-type: none"> <li>• Money Market Accounts</li> <li>• Certificate of Deposit</li> <li>• Precious Metals</li> <li>• Passive management</li> </ul>       | FDIC-insured Money Market Account                                                                                                                                      | No                                                                   |
| <b>The Online 401(k)</b> | <ul style="list-style-type: none"> <li>• Target Date Portfolios of ETFs</li> <li>• Passive Management</li> <li>• Cash Option (Treasuries, FDIC insured product)</li> </ul> | Conservative Portfolio of a Target Date Model Portfolio                                                                                                                | Yes – allow for annuitization at retirement                          |
| <b>TIAA-CREF</b>         | <ul style="list-style-type: none"> <li>• Long Term Guaranteed Account</li> <li>• Broad-based Equity Fund</li> <li>• Managed Allocation Account</li> </ul>                  | <ul style="list-style-type: none"> <li>• Long Term Guaranteed Account</li> <li>• 50/50 Allocation between LT Guaranteed Account and Broad-based Equity Fund</li> </ul> | Yes                                                                  |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION  
PLAN DESIGN AND FEATURES**

|                              | <b>Question 8:<br/>Default Contribution Level for<br/>Participants</b> | <b>Question 9:<br/>Automatic Escalation on Contributions</b>                                                                                          | <b>Question 10:<br/>Other Plan Features</b>                                                                                                |
|------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | Initial rate of 3% <sup>2</sup> with an automatic escalation feature   | 1-2% annually capped at 10-15%                                                                                                                        | <ul style="list-style-type: none"> <li>• Low eligibility requirements</li> <li>• Frequent entry dates</li> <li>• Employer match</li> </ul> |
| <b>Cheiron</b>               | This would vary depending on age, pay, retirement objectives           | Not possible to answer without knowing objectives                                                                                                     | Plan must provide “affordable annuitization of savings to provide the financial and longevity efficiencies that DB plans produce”          |
| <b>PAi</b>                   | 3%                                                                     | Investor choices, including event-based triggers (such as increase in salary); step-rate increases of 3%, 4%, 5%, etc.; or participant target setting | <ul style="list-style-type: none"> <li>• “Gamification and reward opportunities”</li> <li>• “Retirement forecast” app</li> </ul>           |
| <b>PenServ</b>               | 3%                                                                     | 1% annually capped at 10%                                                                                                                             | Include choice of traditional and Roth IRAs                                                                                                |
| <b>Prudential</b>            | 6%                                                                     | 1% annually capped at 10%                                                                                                                             | Portability                                                                                                                                |
| <b>Retirement Revolution</b> | 3%                                                                     | “An excellent idea” but no specifics provided                                                                                                         | Digital interface, not paper                                                                                                               |
| <b>SavedPlus</b>             | 3%                                                                     | None, but allow 5-20% annual optional additional contribution                                                                                         | No additional features                                                                                                                     |
| <b>The Online 401(k)</b>     | 3%                                                                     | 1% annually capped at 15%                                                                                                                             | Spanish language materials                                                                                                                 |
| <b>TIAA-CREF</b>             | 3%                                                                     | 0.5% to 1% annually                                                                                                                                   | Use a limited number of options at the launch to avoid complexity and to launch efficiently                                                |

<sup>2</sup> 3% is the rate specified within the safe harbor provision of the Pension Protection Act of 2006

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**  
**COSTS AND FEES**

|                              | <b><u>Question 12:</u></b><br><b>Estimated Administrative Costs and Investment Option Fees</b>                                                                                                                                                                                                                                       | <b><u>Question 13:</u></b><br><b>How to cover Start-up Costs?</b><br><b>Allocation of Total fees</b>                                                                                                                                                                                                                                 |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | Unable to provide estimate. However, “leveraging technology and open architecture” should keep costs reasonable                                                                                                                                                                                                                      | Use of technology such as online enrollment and educational webinars will keep costs minimal or non-existent                                                                                                                                                                                                                         |
| <b>Cheiron</b>               | “Decline to respond”                                                                                                                                                                                                                                                                                                                 | Financed by State with repayment over time from plan assets                                                                                                                                                                                                                                                                          |
| <b>PAi</b>                   | Not specified, but costs will vary by participant choices                                                                                                                                                                                                                                                                            | Participating providers should bear start-up costs, which include: program design and strategy, communication & ad costs, call center staff costs                                                                                                                                                                                    |
| <b>PenServ</b>               | Maintenance fee would apply<br>(currently \$10 to 50 per account for Traditional and Roth IRA)                                                                                                                                                                                                                                       | Charge initial first year fee to participants at account set-up                                                                                                                                                                                                                                                                      |
| <b>Prudential</b>            | Fees include associated management fees, investment management fee and annual guarantee fee. 1% currently charged for in-plan guarantee                                                                                                                                                                                              | Per-participant fee charged to cover start-up                                                                                                                                                                                                                                                                                        |
| <b>Retirement Revolution</b> | Not specified, but fees include a per employee flat fee plus a transaction fee for employee distribution                                                                                                                                                                                                                             | Establish a non-profit organization of long-term insurance and investment shareholders to fund costs                                                                                                                                                                                                                                 |
| <b>SavedPlus</b>             | <ul style="list-style-type: none"> <li>• Administrative costs of \$20,000 per month for every 5,000 subscribers (equivalent to \$4 per month per user)</li> <li>• \$150 per year per user for administration of precious metals accounts</li> <li>• \$30-100 per year per user for administration of mutual fund accounts</li> </ul> | <ul style="list-style-type: none"> <li>• Include fees in automatic savings deductions</li> <li>• \$4 per month per user admin fee is to be paid by employer</li> <li>• Admin fees for precious metals and mutual fund accounts deducted from subscribers’ IRA accounts</li> </ul>                                                    |
| <b>The Online 401(k)</b>     | 0.25% Total Asset Fee includes: <ul style="list-style-type: none"> <li>• ETF costs of 0.09%</li> <li>• Third party fiduciary management cost of 0.10%</li> <li>• transaction and custodial costs of 0.06%</li> </ul>                                                                                                                 | Negligible since product and infrastructure already exists at The Online 401(k)                                                                                                                                                                                                                                                      |
| <b>TIAA-CREF</b>             | <ul style="list-style-type: none"> <li>• 0.1- 0.2% for Investment Management</li> <li>• Recordkeeping, Distribution and Customer Service could add 1-2%</li> </ul>                                                                                                                                                                   | Partner with a private provider who can share start-up costs. Cost components include: <ul style="list-style-type: none"> <li>• Legal compliance</li> <li>• Remittances and Reporting with Employers</li> <li>• Communications Outreach and Online Presence</li> <li>• Recordkeeping Systems</li> <li>• Program Promotion</li> </ul> |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**  
**ADMINISTRATIVE ISSUES**

|                              | <b>Question 16:</b><br><b>Management of Enrollment, Receipt &amp; Recordkeeping, Rollovers;</b><br><b>Role of Employment Development Department (“EDD”) or any other state agencies, departments and/or private sector vendors?</b>          |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | Partner with qualified retirement plan provider with experience in recordkeeping                                                                                                                                                             |
| <b>Cheiron</b>               | “Decline responding”                                                                                                                                                                                                                         |
| <b>PAi</b>                   | Use experienced providers in the retirement and payroll industry without intermediary agencies to minimize costs.<br>Allow participants to appoint “agents” who can manage their accounts for them                                           |
| <b>PenServ</b>               | Distribute enrollment guide and educational material to employers on employer website and EDD website.<br>Provide on-going assistance to employers                                                                                           |
| <b>Prudential</b>            | No response provided                                                                                                                                                                                                                         |
| <b>Retirement Revolution</b> | Use automated, electronic reports and alert system to keep track of contributions and enable diverse forms of distribution.<br>Simplify recordkeeping for change of employment by participant.<br>Collect contribution money via ACH and EBT |
| <b>SavedPlus</b>             | The SavedPlus web portal simplifies process of transferring to new employer accounts and adding new IRA providers to contribute to subscriber’s account                                                                                      |
| <b>The Online 401(k)</b>     | Dedicated plan management website that supplies employee information for employers.<br>Collect contribution money via ACH.<br>Employees can make changes to deferral amounts, investments, rollovers, disbursements online                   |
| <b>TIAA-CREF</b>             | EDD coordinates administration of transactions.<br>Private Provider handles records management, transactions and communication with participants                                                                                             |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION**  
**LEGAL ISSUES**

|                              | <b>Question 18:<br/>Recommended approach for ERISA and IRA treatment</b>                                                                                                                          |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | Request IRS and DOL guidance, which may not be successful.<br>Additional federal legislation may be required                                                                                      |
| <b>Cheiron</b>               | “Decline to respond”                                                                                                                                                                              |
| <b>PAi</b>                   | Workplace IRAs should serve the Program well.<br>“Does not require an exploration of legal options or new plan types”                                                                             |
| <b>PenServ</b>               | Automatic IRA is expressly not subject to ERISA.<br>May require a “determination letter from IRS”                                                                                                 |
| <b>Prudential</b>            | No response provided                                                                                                                                                                              |
| <b>Retirement Revolution</b> | Work with tax and legal professionals to ensure program is a grandfathered IRA                                                                                                                    |
| <b>SavedPlus</b>             | Traditional IRAs would present no legal issues                                                                                                                                                    |
| <b>The Online 401(k)</b>     | Not stated in their response to this Question 18, but the Question 10 response suggests that some federal legislative tweaking may be required to eliminate some IRA (securities-type) regulation |
| <b>TIAA-CREF</b>             | Contact DOL and IRS.<br>Federal legislation may be required                                                                                                                                       |

**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION  
ESTABLISHING A RETIREMENT INVESTMENTS CLEARINGHOUSE**

|                              | <b>Question 20:<br/>Interest Level among Vendors regarding Online Retirement Investments Clearinghouse</b>                                           |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADP</b>                   | Yes, as long as costs associated with establishing the Clearinghouse are low and vendors find the Clearinghouse effective in attracting new business |
| <b>Cheiron</b>               | "Decline to respond"                                                                                                                                 |
| <b>PAi</b>                   | Yes – "have direct knowledge that there is interest on behalf of many providers"                                                                     |
| <b>PenServ</b>               | Depends on whether there is one vendor that offers "platform" of investments or multiple vendors                                                     |
| <b>Prudential</b>            | No response provided                                                                                                                                 |
| <b>Retirement Revolution</b> | Yes, ample interest from investment and insurance providers                                                                                          |
| <b>SavedPlus</b>             | Clearinghouse would be beneficial                                                                                                                    |
| <b>The Online 401(k)</b>     | "Believe that many vendors" would be enthusiastic                                                                                                    |
| <b>TIAA-CREF</b>             | Yes, would anticipate interest from many vendors as a marketing tool, as long as Clearinghouse attracts enough participants                          |



**CALIFORNIA SECURE CHOICE REQUEST FOR INFORMATION  
STRATEGIES FOR FUNDING RESEARCH, DESIGN AND FEASIBILITY STUDY**

|                              | <b>Question 25:<br/>Possible Organizations</b>                                                                                                                                       | <b>Question 27:<br/>Timeline for 2015 Enrollment</b> |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| <b>ADP</b>                   | No recommendations                                                                                                                                                                   | No recommendations                                   |
| <b>Cheiron</b>               | “Decline to respond”                                                                                                                                                                 | Outside their expertise                              |
| <b>PAi</b>                   | Not aware of any federal funds that would be available.<br>Focus on “consumer impact groups rather than purely retirement focused organizations”                                     | Timeline is “quite good”                             |
| <b>PenServ</b>               | “No comments”                                                                                                                                                                        | Timeline is appropriate                              |
| <b>Prudential</b>            | No response provided                                                                                                                                                                 | No response provided                                 |
| <b>Retirement Revolution</b> | Financial services and investment product providers                                                                                                                                  | No recommendations at this time                      |
| <b>SavedPlus</b>             | Solicit donations from for-profit entities                                                                                                                                           | No comments on this                                  |
| <b>The Online 401(k)</b>     | Heritage, Brookings, Employee Benefit Research Institute (EBRI),<br>American Society of Pension Professionals & Actuaries (ASPPA),<br>American Association of Retired Persons (AARP) | January 2016 is realistic                            |
| <b>TIAA-CREF</b>             | No answer provided                                                                                                                                                                   | No answer provided                                   |