
OCTOBER 12, 2017

AGENDA ITEM 03
ACTION ITEM

CALIFORNIA ABLE ACT BOARD

Resolution No. 2017-06: Approval of the California ABLE Act Board to Enter Into Agreement No. ABLE 04-17 with Highest Scoring Bidder for Program/Plan Management Services for the California ABLE Program

Action Recommended

Adopt Resolution No. 2017-06 authorizing the Executive Director to enter into Agreement No. ABLE 04-17 with Nottingham for Program/Plan Management Services.

Background

The California ABLE Act Board (the “Board”) is tasked with developing and implementing the CalABLE Program (“CalABLE” or the “Program”), a new financial investment program for people with disabilities. This task requires the Board to contract with a program manager that will assist with providing program administration and recordkeeping, responsive customer support services for participants, competitive investment options, strategic marketing activities, and product distribution.

At its February 2017 meeting, the Board approved the issuance of a request for proposals (the “February RFP”) for Program/Plan Manager Services, which was issued on February 28, 2017 with a submission deadline of May 2, 2017. Two proposals were received; however, on May 17, 2017, the RFP evaluation committee determined that both proposals were nonresponsive. Thereafter, staff continued efforts to secure a program manager.

Throughout most of June, CalABLE staff, legal counsel, and the Board’s 529A program consultant held several conversations with potential bidders to identify and address any other issues that would potentially prevent bidders from responding.

Using the feedback received from potential bidders, staff revised the February RFP as follows:

- emphasized the importance of abiding by the non-negotiable procurement rules set by the Department of General Services (“DGS”) (e.g., Sample Standard Agreement);
- included a Bidders Conference/Pre-proposal Conference;
- clarified the scope of work to include banking services and transaction processing; and

- required marketing deliverables and milestones leading up to program launch.

On July 10, 2017, the revised RFP (the “July RFP”) was issued with a submission deadline of July 31, 2017. Staff received two proposals, only one of which was deemed responsive by the evaluation committee, the proposal submitted by the Nottingham Company, LLC (“Nottingham”).

As specified in the July RFP, the RFP Evaluation Committee (the “Committee”), which consisted of CalABLE staff and the State Treasurer’s Office General Counsel, evaluated the proposal based on the following criteria:

- Firm Background, Organization, and Compliance
- Investment Structure and Experience
- Administration, Recordkeeping, Banking and Customer Service
- Marketing and Outreach
- Fees

Additionally, the proposal from Nottingham was reviewed by both the Board’s 529A program consultant and investment consultant, who then provided their analyses to the Committee.

Summary of Nottingham Proposal

Firm Background, Organization and Compliance

Nottingham is the parent and principal company that responded to the July RFP for Program Manager Services for the CalABLE Program. The firm is privately owned and was organized as a C Corporation in 1988. It is headquartered in North Carolina. For almost two decades, it has provided fund accounting and transfer agency services for plans that are similar to 529/529A to multi-jurisdictional clients and to the states of Pennsylvania and Georgia, and currently has \$25 billion assets under management. It employs 36 full time employees. Six key personnel will work with the Board and its staff. The firm will use two subsidiaries to serve in the following roles:

- OBT Capital – provides services related to investment recommendations and investment program related issues.
- Nottingham Shareholder Services LLC – handles participant sign up, transaction processing, record keeping, portal access and reporting, and call center activities.

The firm’s California presence is strong. Two of its subcontractors, Envision and Gift of Independence, are local. Its portfolio managers – Aspiration, Western Asset Management, and Cavalier Investments – are all local. The firm uses Dimensional Fund Advisors (DFA) for its investment program, which is also local and employs 120 staff.

The firm proposes to use the following subcontractors:

- Envision Financial Systems – would be the software partner utilized for account processing, recordkeeping, reporting, and compliance monitoring. Envision is a market leader in 529 and 529A licensed software.
- Solix, Inc. – would provide call center and new participant support through the use of customer service representatives who are experienced in assisting people with disabilities.
- KF McGrath, LLC – would provide 529A industry expertise and experience in dealing with processing, client reporting, Board reporting, compliance monitoring, and other related services.
- Gift of Independence – would provide branded debit cards, gift cards, and e-gift cards for contributions.
- Ignite Social Media – would serve as marketing partner for the Program.
- Capital Investment Group, Inc. – would serve as broker dealer and distributor partner for executing investment transactions; would provide a framework for properly reviewing investment program marketing materials, both print and web content, for the Program.

Nottingham agrees to comply with Web Content Accessibility Guidelines and Section 508 of the Rehabilitation Act to provide an accessible platform for participants. The firm also agrees to use the expert services of KF McGrath LLC to ensure compliance with section 529 of the Internal Revenue Code and any other applicable laws. Additionally, the firm proposes using Envision Financial Systems for customizing the administration software for CalABLE.

The firm proposes an aggressive November 2017 launch which will likely be pushed to late-fall 2017 or early-winter 2018 to account for the procurement process.

Investment Structure and Experience

Nottingham proposes both actively managed portfolios and index funds, and a core investment program focused around DFA, including 25/75 and 60/40 asset allocation models to provide a broad range of options for participants with varying expertise in choosing investments for themselves. Stakeholders have shared with CalABLE staff a preference for a broad range of investment options.

For participants planning to use CalABLE accounts on a transactional basis, the firm proposes the following:

- FDIC-insured investment option
- An ultra-short fixed income option with stable net asset value as a primary investment objective
- No-cost debit card tied to the investment program
- A checking account option
 - Due to potential for fraud via checks versus the debit card, the firm defers to the Board to determine whether or not to also offer this feature with the Program.

The firm is agreeable to providing an open architecture investment program based on the needs of the CalABLE Program over time. Additionally, the firm agrees to comply with monthly and/or quarterly reporting requirements to the Board. These reports will be on performance, investments, marketing, and administration.

Administration, Recordkeeping, Banking and Customer Service

Nottingham proposes to use Envision Financial Systems for recordkeeping and will incorporate hardware systems for security (e.g., third-party and identify verification via LexisNexis), backup, disaster recovery, and business continuity. The firm agrees to comply with reporting requirements to the Social Security Administration, the Board, and program participants, as well as with partnering with a custodian bank to provide direct banking services. Participants will be able to access account information, view/manage asset allocation, request a debit card, etc. through the online web portal. The firm agrees to provide customer service through Solix from 8 a.m. to 7 p.m. Monday through Friday, and has reported an average wait and hold time of less than a minute.

Nottingham proposes a minimum contribution of \$25 to \$250 to open an account. Staff recommends this be specified at \$25.

Marketing and Outreach

Nottingham proposes a marketing commitment of \$805,000 over the course of five years, which includes a first-year marketing commitment of \$100,000 or 7.5% of the total revenue, whichever is greater, but no more than \$250,000 annually.

For in-state marketing, the firm a dedicated person in California with the option to add two additional field representatives in California for direct marketing engagement. Additionally, Nottingham identifies access to DFA staff in California to assist with financial education outreach at CalABLE events.

The firm proposes to partner with Ignite Social Media, a well-recognized and retained social media marketing firm experienced with managing large scale campaigns, including designing target-specific social media educational and promotional tools, to drive awareness, education, and participation with CalABLE stakeholders and potential participants. A marketing plan would be further developed and presented to the Board and CalABLE staff for consideration.

Fees

Nottingham proposes a three-layer fee structure: an asset-based program management fee, a monthly dollar-based account fee, and a one-time dollar-based onboarding fee.

- Program management fee of 25 basis points (bps), regardless of investment choice, per participant.
 - The exception is for the ANOVA Fund (10 bps) and Ultra Short Prime Fund (5 bps).
 - Overall Plan Investment fees range between 4 to 104 bps.
 - Total Investment Option fees range between 22 to 165 bps.

- Monthly account fee of \$3.00 per participant (\$36 annually) on a sliding scale, to \$2.10 per participant after the accumulation of 80,001 accounts.
- One-time \$10 per participant onboarding fee.

The fees make CalABLE a competitive program in the market. Per the Board's 529A program consultant's analysis, the firm's proposed annual account maintenance fee of \$36 aligns CalABLE closely with other states already offering plans. Overall, its proposed total fee makes CalABLE a low-cost option in comparison to Nebraska, Ohio (non-resident plan), Massachusetts, and Michigan, and a comparable option to the ABLE Alliance.

Conclusion

The firm's overall proposal was good. Although it lacks direct 529/529A experience, Nottingham demonstrates two decades of expertise in providing similar services to comparable plans. The firm has also bolstered its capacity for catering to a state the size of California by the inclusion of key subcontractors that are well versed in various areas—marketing to targeted groups, 529A expertise to ensure compliance, and customer service for quality service. CalABLE staff identified no conflicts or issues with the firm's proposal. Reference checks for the firm and its subcontractors were extremely positive and all were highly recommended by its clients. Finally, the program and features the firm offers closely aligns with the preferences that stakeholders expressed in the CalABLE Survey.

Attachments

- Attachment #1 – Resolution No. 2017-06
- Attachment #2 – AKF Summary of Responses
- Attachment #3 – PCA Summary of Investment Line Up
- Attachment #4 – AKF Industry Overview and RFP Results
- Attachment #5 – AKF ABLE Plan Compilation