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NOVEMBER 27, 2017

AGENDA ITEM 1  
ACTION ITEM

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

*Meeting Minutes for the October 23, 2017 California Secure Choice Retirement Savings Investment Board Meeting*

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Board members present:

Steve Juarez for State Treasurer John Chiang  
Karen Greene Ross for State Controller Betty T. Yee  
Eraina Ortega for Director of Finance Michael Cohen  
Edward De La Rosa  
Yvonne Walker

Board members absent:

Heather Hooper  
Marty Morgenstern  
William Sokol

Secure Choice staff present:

Katie Selenski, Executive Director  
Brian Gould, Deputy Director  
Eric Lawyer  
Jonathan Herrera  
Alyssa Delacruz  
Robert Hedrick, Senior Attorney

Board Chair Steve Juarez called the meeting to order at 1:03 p.m.

**Agenda Item 1 – Approval of the Minutes of the September 25, 2017 Meeting of the California Secure Choice Retirement Savings Investment Board (ACTION ITEM)**

Chair Juarez asked for public comment; there were none.

Board Action

Motion to approve the minutes of the September 25, 2017 meeting of the California Secure Choice Retirement Savings Investment Board (“Board”).

MOTION:	Karen Greene Ross	SECONDED:	Edward De La Rosa
AYES:	Karen Greene Ross, Eraina Ortega, Yvonne Walker, Edward De La Rosa		

NOES:	None
ABSTAIN:	Steve Juarez
RECUSE:	None
ACTION	Motion Passes

**Agenda Item 2 – Executive Director’s Report (INFORMATION ITEM)**

Katie Selenski, Executive Director (ED), provided the Board an update on significant items.

Ms. Selenski discussed staffing efforts, noting Jonathan Herrera began working as a Program Analyst on October 9, 2017. A posting for another analyst position closed September 29, 2017 and staff is currently evaluating applicants.

Ms. Selenski discussed the Program’s budget change proposal for Fiscal year 2018-19, noting that staff will continue discussions with the Department of Finance throughout the autumn months.

Ms. Selenski discussed the contracts executed under delegated authority: RBG Marketing, Inc. dba Crescendo for branding services for an amount not to exceed \$49,999.00; and the Interagency Agreement with the State Treasurer’s Office for \$79,711.00 to cover rent and miscellaneous business services.

Ms. Selenski briefly discussed the next two Board meetings: November 27, 2017 and December 18, 2017. Staff expect both meetings to require more time than most meetings, as the Board will be asked to consider taking action on a number of substantive items at each meeting. Both meetings are scheduled to begin at the usual time of 1:00 p.m. and are expected to conclude around 5:00 p.m.

Ms. Selenski informed the Board that Secure Choice staff will include board education topics at most Board meetings. Today’s meeting will feature fiduciary training. Staff welcome Board Member requests for topics to be covered.

Ms. Selenski informed the Board that staff intend to provide the Board a set of regulations for its consideration at the November 27, 2017 Board meeting. Regardless of whether the Board takes action at the meeting, staff will hold two informal interested persons hearings on the draft regulations to allow the public an additional avenue of comments into the regulatory process. The meetings will be December 5<sup>th</sup> in Sacramento, California and December 7<sup>th</sup> in Los Angeles, CA.

Ms. Selenski discussed recent meetings staff held with our stakeholder working groups. On October 10<sup>th</sup> staff held an informal meeting with stakeholders on outreach and engagement hosted by SEIU and facilitated by the United Ways of California. On October 13<sup>th</sup>, staff convened a meeting of payroll providers to collect input from the payroll provider community on regulatory and plan design considerations.

Ms. Selenski discussed the agreement executed with Crescendo Agency executed October 18<sup>th</sup> for branding services. Secure Choice Staff and Crescendo have developed a work plan that will have the Board voting on the program name, logo, and other branding concepts at the December 18, 2017 Board meeting.

Ms. Selenski discussed events of the prior month in which staff had participated including:

- October 13<sup>th</sup> - Financial Planning Association of Northern California
- October 16<sup>th</sup> - Closing the Women's Wealth Gap presentation on their monthly national call
- October 19<sup>th</sup> - World Economic Forum Workshop in San Francisco, CA.

Upcoming events include:

- October 26<sup>th</sup> -panel presentation at the Aspen Institute in Washington, D.C. titled *Si Se Puede Building Financial Security for Latinos and the US*
- November 2<sup>nd</sup> panel presentation in Oakland, CA at the California Asset Building Coalition/Bay Area Funders Network Annual Symposium
- November 15<sup>th</sup> panel presentation in Washington, D.C. for the Bipartisan Policy Center, Aspen Institute, and the Pew Charitable Trusts.

Public Comment: Three In-Home Supportive Service (“IHSS”) workers Chris Bredo, Brenda Garner, and Travera Gates, and a fast food restaurant manager named Rosanna, testified in support of the Program.

### **Agenda Item 3 – Board Education: Fiduciary Training (INFORMATION ITEM)**

Andrea Feirstein and Diana Cantor from the program consultant, *AKF Consulting*, provided the Board with a presentation on fiduciary duties.

### **Agenda Item 4 – Resolution No. 2017-08: Resolution of the California Secure Choice Retirement Savings Investment Board Relating to Approval to Release of Request for Proposals for Investment Consulting Services (ACTION ITEM)**

Ms. Selenski and Ms. Feirstein discussed Request for Proposals no. CSCRSIB06-17 for investment consulting services. Ms. Feirstein notified the Board that staff recommended to amend Section B., the minimum qualifications for bidders, as:

“Bidder agrees that during the term of a contract that may be executed pursuant to this RFP, Bidder will not, without Board approval, have a contractual or other business relationship with any program management or administrative services contractor that provides services for the Trust or any investment manager directing funds in the Program, either on its own or in partnership, with other entities. Ownership of an account does not constitute a business relationship for the purposes of this minimum qualification. Nothing herein is intended to preclude a Bidder from responding to this RFP as long as any existing contractual or other business relationships are disclosed in Attachment 5.”

And amend Attachment 5 to add the following:

“If applicable, the firm further discloses that it has the following existing contractual or business relationships with administrative and / or investment management firms that, to the best of its knowledge, provide services to the Trust:”

Ms. Greene Ross motioned to vote on the request for proposals as amended.

MOTION:	Karen Greene Ross	SECONDED:	Eraina Ortega
AYES:	Karen Greene Ross, Steve Juarez, Eraina Ortega, Edward De La Rosa, Yvonne Walker		
NOES:	None		
ABSTAIN:	None		
RECUSE:	None		
ACTION	Motion Passes		

Public Comment: Claudia Show asked for more detail about conflicts of interest.

### **Agenda Item 5 – Options for Program Design and Regulations (INFORMATION ITEM)**

#### 5.a Operational Model: Direct Service vs Employment Development Department (“EDD”)

Brian Gould presented the Secure Choice Staff recommendation that the Program should use a direct service model where employers would send employee contributions directly to the Third-Party Administrator (“TPA”) rather than through EDD as an intermediary.

Board Chair Juarez asked if staff solicited input from EDD. Mr. Gould informed him that EDD supports staff recommendation for funds to flow directly from the employer to the TPA.

Ms. Walker noted IHSS worker inclusion could require significant systems change for the state agencies that process payments, including the State Controller’s Office (“SCO”).

Mr. De La Rosa asked if the IHSS workers received payment directly from the SCO or if the SCO sent the payments to the person receiving in home service to pay the worker. Ms. Greene Ross confirmed that IHSS workers receive payment directly from the SCO.

The Board indicated general support for the staff recommendations.

Chair Juarez requested staff continue to evaluate whether IHSS workers can be included in the Program.

#### 5.b Bundled vs Unbundled Servicing Approach

Ms. Selenski began the presentation with a description of the difference between a “bundled” third-party administrator service model, in which one firm would manage recordkeeping and investments for the Program, and an “unbundled” approach where separate firms would manage

recordkeeping and investments. Ms. Selenski began this presentation by explaining that the staff recommendation for this item had altered since the staff report was issued.

Instead of the written recommendation for an “unbundled” approach, the staff’s new recommendation is to issue an open ended Request for Proposals (“RFP”) that would allow bids for either administration, investments, or both. This method would give the Program the benefits of the unbundled approach but would also be open to what the market might bring. Ms. Selenski noted analysis and scoring of the bids would likely be more complicated, but noted similar procurements have been done by other state programs chaired by the State Treasurer in the past.

Ms. Greene Ross asked how the Program would compare a bid for one service to a bid for a bundle of services, and asked what the impact would be on fee transparency in the new approach, insisting fee transparency be required from bundled bids. Ms. Selenski concurred there should be total fee transparency regardless of the procurement method.

Ms. Feirstein explained that costs can vary based on the structure of a provider’s funds, as some record-keepers offer only in-house investment options, while others offer only third-party investment options. Ms. Feirstein noted some other state investment programs have used the procurement method recommended by staff and that those methods have demonstrated some cost subsidies associated with the method. Ms. Feirstein also noted true costs will depend on scale, as greater assets under management should be correlated with reduced costs.

Board Chair Juarez stated that he is generally supportive of the proposed method, but stressed that we will need to be very descriptive on how the Program would analyze and score these options.

Yvonne Walker directed staff to confirm the procurement strategy and present the strategy in greater detail. Ms. Selenski noted staff plan to present a draft RFP to the Board at the November 27, 2017 meeting and potentially again at the December 18, 2017 meeting.

The Board indicated general support for the recommendations.

#### 5.c Employer Eligibility

Eric Lawyer presented the staff recommendations for employer eligibility. Staff recommended the Program should use existing Unemployment Insurance Code Sections as part of the definition of eligible employer; that employers shall certify their exemption from the Program using a form prescribed by the program annually; the Program use data reported to EDD by employers on the DE 9C to determine the number of employees; for the purposes of employer outreach during implementation of the Program; and that employers of IHSS providers should be included as eligible employers if the Board determines it is legally and financially feasible per statutory requirements.

Ms. Ortega asked how the employer certification form would be collected and who would analyze the form of employers certifying their exemption. Board Chair Juarez suggested that the form would be collected the TPA. Mr. Lawyer and Ms. Selenski discussed options for various enforcement mechanisms and data we could use to cross-reference responses.

External legal counsel David Morse provided an overview of pending litigation against the OregonSaves program focused on the program's procedures for verifying employer eligibility for its program.

The Board indicated general support for the recommendations.

#### 5.d Employee Eligibility

Mr. Lawyer presented the staff recommendations for employee eligibility. Staff recommended the Program utilize existing Unemployment Insurance Code definitions to define employees, that employees must earn wages subject to California Unemployment Insurance taxes and receive a W-2 with California wages from their employer to be eligible; participation be limited to employees age eighteen and above; the Program should use either a Social Security Number or Individual Taxpayer Identification Number to verify an employee's identity; the TPA should resolve any identity verification issues directly with the employee; the program should not require a minimum number of hours worked; and the program should include IHSS providers if it is determined to be legally and practically feasible according to statute.

The Board indicated general support for the staff recommendations.

Board Chair Juarez moved to adjourn for a five-minute recess.

The Chair adjourned the meeting for recess at 3:20 p.m.

The Chair reconvened the meeting at 3:25 p.m.

#### 5.e Individual Retirement Account ("IRA") Type

Mr. Gould presented the staff recommendation regarding IRA Type. Staff recommended the Program offer a Roth IRA as the sole option at program launch and, if at any time the Program offers a traditional IRA, make the Roth IRA the default option. Mr. Gould recommended the Program should explore the feasibility of offering a Traditional IRA at a later date, as offering both could add to complexity for both employers, who would need to administer both pre- and post-tax contributions, and employees who would need to be educated on the different plan types.

Public Comment: Tara Brooks, a nurse with the California Department of Corrections, urged staff to communicate how certain types of funds could affect eligibility for other social programs. Jonathan Karpf, with the California Faculty Association, continued the line of questioning and asked if savings in a Roth IRA could disqualify someone from foodstamps or similar program.

#### 5.f Enrollment Periods and Contribution Change Frequency

Mr. Gould presented the staff recommendations regarding enrollment periods and contribution change frequency. Staff recommended the Program allow participants the opportunity to change their contribution rates no more frequently than once per month; changes to the contribution amount should be effective as soon as administratively possible, but should not exceed 30 days

from the receipt of the request; employees should be permitted the opportunity to enroll in the Program at any time; and participating employers should be distribute the information packet to their employees during open enrollment to provide employees the opportunity to participate or to recertify their request to opt out of the Program.

The Board indicated general support for the staff recommendations.

#### 5.g Default Contribution Rate and Alternative Contribution Elections

Mr. Lawyer presented the staff recommendations regarding the default contribution rate and alternative contribution elections. Staff recommended the default contribution rate should be set at 5%; participants be allowed to make non-payroll contributions to their account; and the Program should analyze the need for requiring a minimum contribution amount to ensure cost efficiency and financial feasibility.

Board Chair Juarez sought to clarify that while the default contribution rate would be 5%, participants would be able to adjust if needed.

Mr. Lawyer clarified non-payroll contributions would be allowed up to the maximum prescribed by the federal cap which is currently \$5,500 per year for individuals age 50 and below and \$6,500 for individuals age 50 and above.

The Board expressed general support for the staff recommendations.

#### 5h Automatic Escalation of Participant Contributions

Mr. Gould presented the staff recommendations regarding automatic escalation of contributions. Staff recommended the Program implement auto-escalation of the employee contribution rate, allowing the participant to opt-out anytime; that participants be prompted with a question on whether or not they would like to participate in auto-escalation whenever they make an alternate election; the auto-escalation rate should be set at 1% per year until the contribution rate is equal to 8%; the Program allow participants the option to select an alternative auto-escalation rate; and the Program should consider a legislative change to allow the cap on auto-escalation driven contribution rate to be increased to 10%.

The Board expressed general support for the staff recommendations.

Public Comment: Crystal McCray asked the Board if the Program could allow for auto-escalation rates lower than 1%. Jonathan Karpf, California Faculty Association, noted auto-escalation is a compelling concept and urged the Board to evaluate if using it would result in additional fees.

#### 5.i Communications

Mr. Lawyer presented the staff recommendation for Program communications. Staff recommended the Program utilize electronic communication methods to the maximum extent possible to ensure effectiveness and control costs, but should allow alternative methods such as direct mail; procurement for the third-party responsible for participant communications and customer service should include explicit requirements for an online platform, mobile

applications, direct mail, and a live customer service phone-line for employers and employees; and that essential information about the Program should be available in a wide variety of languages and should always be written in a culturally-appropriate manner.

Board Chair Juarez asked if there would be a separate third-party provider for communications. Ms. Selenski informed him that some communications would naturally come from the TPA, but staff expects that some specialized marketing may need to be handled by for another third party that has that expertise.

Ms. Greene Ross suggested the Program seek grant funding from non-profits for outreach.

### **Public Comment**

Raquel Welch, with SEIU 521, commended staff and asked about avenues available for public input. Ms. Selenski noted there will be two informal public hearings on draft regulations December 5<sup>th</sup> in Sacramento, CA and December 7<sup>th</sup> in Los Angeles. Ms. Selenski also noted there will be a formal public hearing during the formal regulatory process.

### **Other Business**

None.

The meeting adjourned at 4:09 p.m.