
DECEMBER 18, 2017

AGENDA ITEM 1
ACTION ITEM

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

*Meeting Minutes for the November 27, 2017 California Secure Choice Retirement Savings
Investment Board Meeting*

Board members present:

Timothy Schaefer 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
Heather Hooper
William Sokol
Yvonne Walker

Staff present:

Katie Selenski, Executive Director
Brian Gould, Deputy Director
Alyssa Delacruz
Jonathan Herrera
Ruth Holton-Hodson
Eric Lawyer
Robert Hedrick, Senior Attorney, State Treasurer's Office

Consultants:

Andrea Feirstein, Managing Director, AKF Consulting Group ("AKF")
Mark Chapleau, Industry Consultant, AKF
David Morse, Partner, K&L Gates

Board Chair Timothy Schaefer called the meeting to order at 1:04 p.m.

**Agenda Item 1 – Approval of the Minutes of the October 23, 2017 Meeting of the California
Secure Choice Retirement Savings Investment Board (ACTION ITEM)**

California Secure Choice Retirement Savings Investment Board ("Board") member Karen Greene Ross made a motion to approve the minutes, seconded by Board Member Eraina Ortega. The Board discussed the inclusion of the sentence "The Board indicated general support for staff recommendations." Mr. Sokol asked that the record reflect that he was not present at the October

23, 2017 Board meeting and had not joined the Board in general support of staff recommendations and suggested the minutes be edited to remove the sentence.

Ms. Greene Ross agreed to amend her motion to approve the minutes with the line removed from the description of Agenda Item 5e.

Public Comment:

Chris Adams via phone noted the microphone picking up the noises of paper shuffling and requested we be attentive to the noise it creates to those trying to listen.

Board Action

Motion to approve the minutes of the October 23, 2017 meeting of the California Secure Choice Retirement Savings Investment Board (“Board”) with an amendment to remove from Agenda Item 5e the sentence “The Board expressed general support for the staff recommendations.”

MOTION:	Karen Greene Ross	SECONDED:	Eraina Ortega
AYES:	Edward De La Rosa, Karen Greene Ross, Eraina Ortega, Timothy Schaefer		
NOES:	Heather Hooper, William Sokol, Yvonne Walker		
ABSTAIN:	None		
RECUSE:	None		
ACTION	Motion Passes		

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

Katie Selenski, Executive Director, provided the Board an update on significant items including:

- The resignation of Board member Marty Morgenstern
- Efforts to hire staff, noting staff will seek to hire an analyst to focus on outreach and communications
- No contracts were executed under the authority delegated by the Board
- An update on efforts to hire an investment consultant
 - The Board discussed the procurement process for the investment consultant, including how the request for proposals (“RFP”) was distributed and whether the number and quality of the responses is sufficient; board member involvement on the selection committee; and state procurement laws.
- Board Governance Policy
 - The Board discussed the timing and importance of a board governance policy. Staff intends to provide the Board a draft governance policy by the end of 2017. The board discussed whether to hold a dedicated meeting or workshop to cover just the governance policy or incorporate it into a regular Board meeting.
- The upcoming RFP for the third-party administrator(s)
 - The board discussed selection committee best practices.
- Efforts to procure legal services due to the impending expiration of the existing legal services contract
- Promotional material on the Program funded by AARP

- Efforts to consider an alternative name for the Program, development of a logo, and other graphic design and branding services
- The development of a means to evaluate the success of the Program, including evaluation of the improvement in overall retirement security in addition to the performance of the Program.
- Recent events attended by Ms. Selenski and staff

Public Comment:

Sarah Zimmerman, with SEIU California and SEIU California’s Retirement Security for All, noted in regard to procurement that in the past scheduling conflicts for the program staff have caused as much delay those of the board. Regarding governance, Ms. Zimmerman noted SEIU is trying to clarify two sequencing issues. First, the investment policies and principals have to be developed before the investment manager comes on. Second, Ms. Zimmerman expressed SEIU believes the governance document should be presented in the next meeting before the board has to make decisions regarding the RFP for record keeping and investment managing.

Jonathan Karpf, California Faculty Association (“CFA”), commented on the process for evaluating the investment consultant RFP. Mr. Karpf noted he sits on the CFA investment committee and mentioned that when his organization conducted procurement efforts in the past they might get six or seven respondents which would be vetted by the committee. The top three would be presented to the board so they could make the decision in context.

Agenda Item 3 – Legal Analysis Update (INFORMATION ITEM)

David Morse of K&L Gates, the Board’s legal consulting firm had no report but was available for questions.

Board Member Sokol asked for an update on a no action letter from the Securities and Exchange Commission (“SEC”). Mr. Morse provided an overview of K&L Gate’s discussions with the SEC on securities law considerations. Mr. Sokol requested Mr. Morse draft a memo on the subject.

The Chair adjourned the meeting for recess at 2:40 p.m. and reconvened the meeting at 2:50 p.m.

Agenda Item 4 – Federal Securities Law Treatment of Certain State-run Investment Programs (Follow-up to Fiduciary Training) (INFORMATION ITEM)

Program consultants Andrea Feirstein and Mark Chapleau of AKF Consulting presented the Board with an overview of federal securities law treatment of certain investment programs. During the presentation, the Board discussed structural program elements common to 529 and ABLE programs; whether it would be appropriate to require in the RFP that the Administrator(s) to be fiduciaries of the Program; and whether it would be possible for third-party broker dealers to sell units in the trust and collect fees.

Public Comment

Matt Nathanson, public health nurse and member of SEIU Local 521, testified that he is excited to see this program coming to fruition. Mr. Nathanson noted he works with the homeless and sees people who worked all their lives but have no savings so he sees the importance of the program and thanks everyone for working on it. Mr. Nathanson questioned whether the securities law considerations discussed in agenda items 3 and 4 affect the programs ability to provide secured structured investments as the program ramps up or a pooled IRA with a reserve fund as an investment option for participants. Ms. Feirstein stated that those options are not ruled out and, in fact, the RFP for the Program's investment consultant specifically asks the respondents to provide their thoughts on that matter.

Claudia Show, SEIU Local 521 retiree, asked the Board to clarify how Secure Choice would work for participants. Ms. Show asked if the Program will it work like her CalPERS pension plan or would it work more like her deferred compensation where the participant gets to pick their investment options? Ms. Selenski responded that, while the Board has not developed a written investment policy and statement of beliefs, the Program will be more like her defined contribution plan than the defined benefit pension, as Secure Choice is not a defined benefit pension program.

Agenda Item 5 – Review Draft of Request for Proposals for Program Administration and Investment Management Services (INFORMATION ITEM)

Ms. Selenski gave an overview of the process to review and release the RFP, and Ms. Feirstein discussed the open-ended structure of the RFP. The board discussed the minimum qualifications listed in the RFP; the fees, cost structure and duration of the contract; whether the contract could be terminated with or without cause; and whether to require the fiduciary language.

Public Comment

Jonathan Karpf, with CFA, addressed the board to state that he felt the term of the agreement recommended by staff is too long. Mr. Karpf noted he believes a shorter term would put the Board in a stronger fiduciary position, and that given the size of the program and range of incomes makes Secure Choice very lucrative for any firm to manage. Mr. Karpf recommended the contract term be for five years, with five optional one-year extensions.

Cynthia Landry, a social worker and Chair of Retirement Planning for SEIU Local 1021, commented on three points:

- 1) An unbundled approach would seem to lead to better audit control and greater transparency of cost.
- 2) She asked if the change in conflict of interest language to allow relationships between consultants would be used again in future RFPs and how the staff would assist the board in identifying conflicts of interest in future agreements.
- 3) She also believes the contract is too long and should include performance criteria.

Kristen Loomis, a retired member of SEIU Local 1021 stated that the December 4th date for public comment on the RFP is not enough given the audience the program is marketed to.

Jose Bautista a fast food restaurant maintenance worker (with translation assistance from Margaret Deverico of the National Fast Food Workers' Union) testified in support of the program. As a fast food worker aged toward the end of his working years and facing retirement insecurity and understanding that the youth lack the foresight to plan, he can see the value of this program for himself and people who work like him.

Agenda Item 6 – Review Draft of Emergency Regulations (INFORMATION ITEM)

Ms. Selenski provided an overview of the process for review of the draft regulations and the rulemaking process. Program staff Eric Lawyer and Program consultant Mark Chapleau presented the Board a summary of the draft regulations, prompting board discussion on the following items:

- Employer eligibility and the types of retirement plans that exempt employers from eligibility for the Program
- Employee eligibility, including temporary and seasonal workers and In-Home Supportive Services workers
- Whether individuals who are not working for an eligible employer can participate, including independent contractors and “gig” workers
- Employer registration with the Program
- How the Program will identify exempt employers
- Employer duties
- Employee enrollment
- Participant disclosures
- Contributions, including the default contribution rate and alternative elections
- The default Individual Retirement Account (“IRA”) type and IRA options available to participants. The Board requested additional materials comparing the types, including the findings from the survey and focus groups conducted by consultants hired by the Board to conduct a market analysis, program design, and financial feasibility study in 2016.
- Additional discussion on individual participation

Public Comment:

Mark Herbert of Small Business Majority thanked the Board and staff for having the conversation and including their input. Mr. Herbert noted small employers want simplicity regarding IRA choice even if it means offering a single IRA type. Mr. Herbert noted his organization appreciated the conversation around employer enrollment and that his organization appreciates the conversation regarding individual participation. Mr. Herbert noted he is looking forward to providing additional input in writing.

Nicole Rice from the California Manufacturers and Technology Association thanked the Board and expressed the importance of ease of participation for employers. The TPA will have a very important role by handling most of the administrative duties to ease the burden for employers. She will submit additional comments in writing.

Riana Jones, Bargaining Chair for unit 20 with SEIU Local 1000, asked questions relating to her concerns regarding the auto-escalation feature. Ms. Jones asked if it was necessary that use of auto-escalation be identified in regulations, whether the TPA could use an auto-escalation rate

below 1% without causing any additional costs for operation of the Program, and about the impacts on the financial viability of the Program that could arise if the Board chose not to adopt auto-escalation. Ms. Jones noted some of her members are concerned about the use of auto-escalation.

Sharlene VanKaren, a Security Officer, testified that a payroll deduction IRA is the best thing you can do for workers like herself. It will give them a sense of pride, belonging, and being able to control their futures.

Public Comment

None.

Other Business

None.

The meeting adjourned at 6:07 p.m.