

**California Secure Choice
Retirement Savings Investment Board**

**Program Administrator and Investment Manager
Request for Proposal Discussion**

January 22, 2018



Today's Discussion

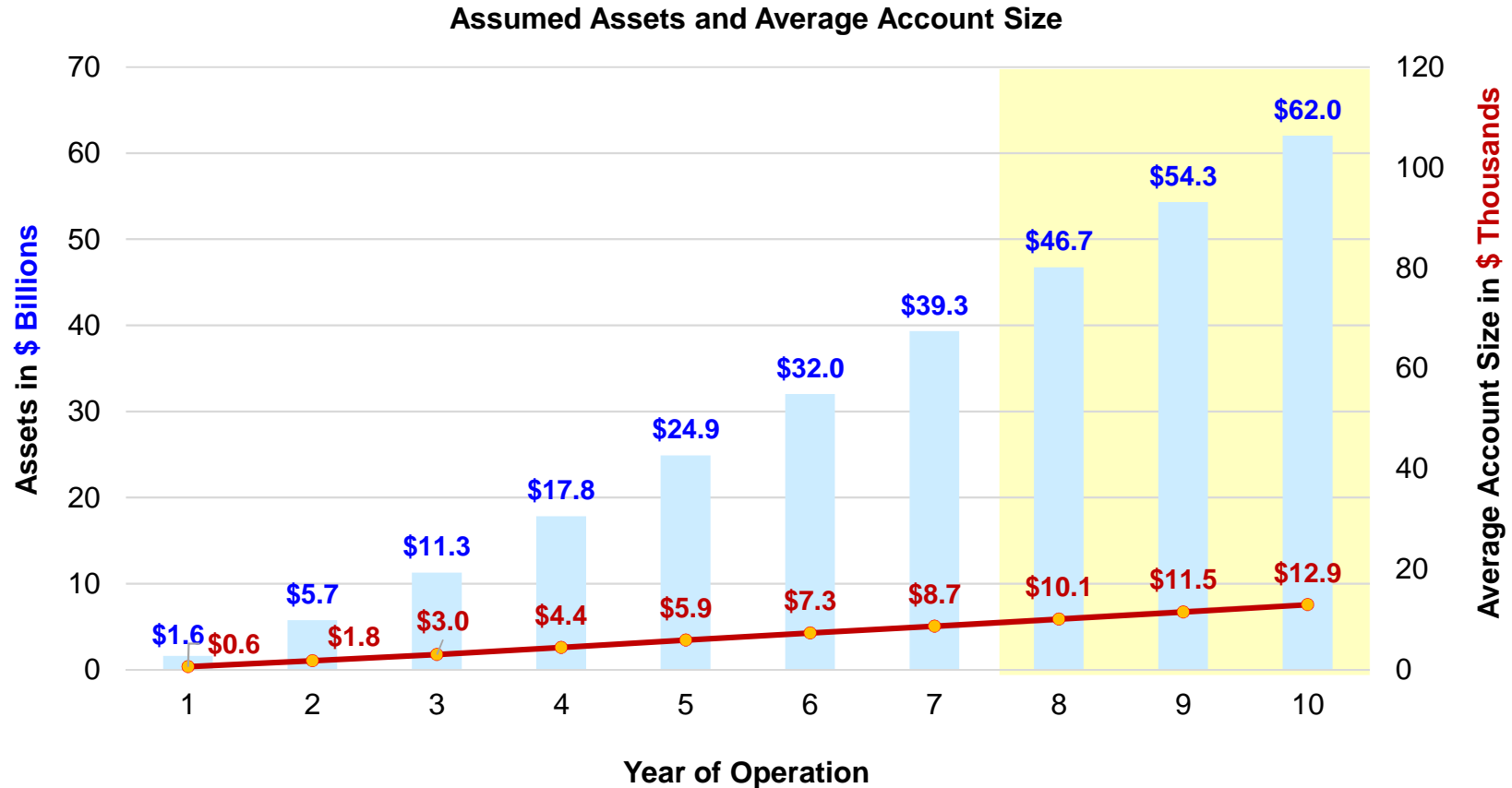
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Section 1.

Program Fees

Average Account Size

- Average account size will be a key driver of Program Administration Fees



Source: Overture Feasibility Study; average account size is based upon mid-year assets and accounts

Yellow shading represents a three-year optional renewal period assuming a seven-year contract



Fee Components

- **Total Fees charged to Program Participants typically include:**

Fee Component	Cost It Covers	Who It's Paid To
Investment Expense	Underlying investment	Investment Manager
Program Administration and/or Account Maintenance	Recordkeeping, customer service, marketing and other services associated with administering the Program	Program Administrator
State Administration	Program staff, consultants, lawyers, auditor, marketing and additional internal expenses Also includes repayment of any State loans	State

Options for Program Administration Fees

- **Asset-based Fees generate more dollars as account size increases**
- **Fixed Dollar Fees as a percentage of total account balance decline over time**
- **Impact of *purely hypothetical* Fees on Program Participants is shown below:**

Year	1	2	3	4	5	6	7	10
Average Account	\$609	\$1,826	\$3,045	\$4,429	\$5,920	\$7,310	\$8,680	\$12,947
Asset-based Fee (%)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Dollar Equivalent (\$)	\$6.09	\$18.26	\$30.45	\$44.29	\$59.20	\$73.10	\$86.80	\$129.47
Fixed Dollar Fee (\$)	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Percentage Equivalent (%)	8.21%	2.74%	1.64%	1.13%	0.84%	0.68%	0.58%	0.39%

Source: Overture Feasibility Study (Average Accounts only)

Asset-based and Fixed Dollar Fees are for illustrative purposes only

Another View of Program Administration Fees

- **Asset-based Fees generate more dollars from Large Accounts presumably for the same services delivered to Small Accounts**
- **Fixed Dollar Fees disproportionately impact Small Accounts**
- **Impact of *purely hypothetical* Fees on Small or Large Accounts is shown below:**

Fee Structure		Small Account \$1,000		Large Account \$20,000	
		Dollar Equivalent	Percentage Equivalent	Dollar Equivalent	Percentage Equivalent
Asset-based	1.00%	\$10	--	\$200	--
Fixed Dollar	\$50	--	5.00%	--	0.25%

Note: Asset-based and Fixed Dollar Fees are for illustrative purposes only

Board Considerations for the RFP

- **Allow Bidders to propose Asset-based or Fixed Dollar Fees**
 - RFP will solicit breakpoints for Fees
 - Notwithstanding different Fee structures, cost proposals will be evaluated on an equivalent basis
- **Possible RFP outcomes include:**
 - Select a winning bid and accept Program Administration Fees as proposed
 - Select a winning bid and elect to offset Program Administration Fees by utilizing State loan
 - Reject all bids if proposed Program Administration Fees are too high

Section 2.

Standard Agreement Comments

Consistency of Comments

- **Standard of Care**
 - **Concerns expressed about serving as a fiduciary to the Board, the Program, the Trust and Account Owners**
 - **Section 100002 (d) of the Secure Choice Act sets forth that the “Board, the program administrator and staff, including contracted administrators and consultants, shall discharge their duties as fiduciaries...”**
- **Indemnification by the Contractor**
 - **Concerns expressed about the breadth of the indemnification (e.g., no limitations set by a standard of care, negligence, willful misconduct or fraud, among others)**
 - **Current provision is generally consistent with the State’s General Terms and Conditions, which cannot be changed without DGS approval**
- **Liability of the Contractor**
 - **Concerns expressed about lack of limitations on costs associated with indemnification (e.g., costs due to the State’s negligence or willful misconduct, or for consequential, indirect or punitive damages)**
 - **Board may consider the concerns but any limitations would be subject to DGS approval**