MEMORANDUM

TO:	**STEVE JUAREZ, CHAIRMAN**
	KATIE SELENSKI, EXECUTIVE DIRECTOR
	CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD
FROM:	**AKF CONSULTING GROUP**
DATE:	**FEBRUARY 9, 2018**
RE:	**RFP AND CALL CENTER CONCERNS**

I BACKGROUND

On behalf of the California Secure Choice Retirement Savings Investment Board (the "Board"), AKF Consulting has been drafting a Request for Proposals for Program Administration (the "RFP") of the Secure Choice Retirement Savings Program (the "Program" or "CalSavers") since mid-October 2017. As you know, a draft RFP was posted for public comment in late November 2017, and a draft of Exhibit E, which includes the Sample Standard Agreement for the Program, was posted for public comment in January 2018. Since mid-January we have worked to incorporate the public comments received, all with the goal of delivering for approval at the February 26 Board meeting a final RFP that would generate the broadest possible set of responses. We were on schedule to deliver the RFP until the January 22 Board meeting, when the Board's direction regarding call center management (a key component of Program Administration) took a somewhat different turn from what our draft contemplated. Our commitment to accommodate this change in direction compels us to write this memorandum.

Quite simply, in our professional judgment and based on industry feedback we have received, we believe the Board's interest in transitioning a fully operational call center from the Program Manager / Administrator to the State may complicate the industry's responses to the RFP at best and, at worst, might compromise the interest level overall. This memorandum outlines the importance of a high-quality call center, particularly at the inception of an investment program. It then summarizes the differences between a turnkey model and a purely state-run model. We also share the industry perception of the hybrid model that emerged from the January 22 Board discussion. Finally, we present for your consideration an alternative structure that would accommodate a State-run call center from the start and also increase the quality of potential responses to the RFP. We hope this approach leads to a consensus on structure at or prior to the February 26 Board meeting. This would enable us to finalize the RFP for the Board's February 26 approval, with an RFP release shortly thereafter.

II IMPORTANCE OF CALL CENTER STRUCTURES

Role of the Call Center. High quality call centers are the hallmark of successful qualified retirement plans and IRA platforms. Call centers and the professionals who serve as customer service representatives also play an integral role in the ongoing success of state-run investment plans such as 529 and ABLE. With the increased use of technology, and the reduced involvement of financial advisors, the value of these call centers becomes an even more important component to customer service. What may seem like a simple question or basic transaction to some may be more complicated to others and require interaction with a live representative.

While there are multiple models of delivering quality customer service, several factors go into the establishment and continued maintenance of a call center. Once a retirement program like CalSavers is offered to the public, especially in its early stages, the customer service component must be operational with highly trained, knowledgeable representatives to assist participants with questions regarding enrollment, investment and administrative aspects of the Program.[1] For Program participants who need help, the call center is likely to be the sole means through which they will access live information. Below we highlight two different approaches to the management and operation of a call center – one that is entirely run by a private sector program manager (the "Turnkey" model) and one that is entirely run by a state entity (the "State" model)

Turnkey Model. This call center is managed and operated entirely by the Program Manager / Administrator for the duration of the contract term. Financial services firms that serve as Program Managers typically manage call centers for retirement and other savings programs, including 529 Plans, as demonstrated by AKF Consulting's research showing that Program Managers are responsible for the call centers in 81 of the 89 different 529 Plans offered nationwide. Some of advantages of the Turnkey model include:

> ***Existing Infrastructure.*** Large financial service firms have established call centers, which means that operations for a new program can begin in relatively short order. Additionally, multiple locations allow for call overflow and more extended service hours.
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> ***Program Manager Staffing.*** Ramping up a call center for a new program can be costly. A program manager that already runs a retirement call center or a center that services investment products, has ready access to customer service representatives who already are conversant in relevant retirement plan and investment issues.
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> ***Licensed Professionals.*** In a financial services firm, some portion of customer service representatives will have passed certain qualification exams and thus be licensed (typically by FINRA) to answer questions about investments. Please note that licensed professionals do not give investment advice to individuals, but they can answer investment-related questions. This can be important where potential participants may not have a deep understanding of the financial markets or the investment options available to them.
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> ***Allocation of Risk.*** The Program Manager / Administrator is fully responsible for training and monitoring the customer service representatives. To that end, large financial services firms have sophisticated processes in place that focus on training (and annual retraining) of customer service representatives as well as maintaining risk oversight to ensure ongoing compliance with regulatory, statutory and / or industry best practices. In the Turnkey model, the Program Manager / Administrator is fully responsible for strict enforcement of those processes.

Our initial RFP drafting assumed that the Turnkey model would be a component of Program Administration due to (i) the desire to launch the Program as quickly and efficiently as possible, (ii) the expected low start-up cost of the associated services, and (iii) the fact that this is industry standard across similarly structured retirement and investment programs. As an aside, we also note that if a California-based call center staffed by California residents were important to the Board, the RFP could ask for a bidder's willingness to accommodate that interest.

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[1] It is important to note that investment assistance is NOT to provide investment advice or recommendations for individuals but rather to answer basic factual questions about the range of investments offered. That said, licensed professionals (found in a Turnkey model) can discuss factual aspects regarding investments and financial markets.

State Model. This call center is managed and operated entirely by a State agency and staffed by public service employees for the duration of the contract term. We note that this is not what the Board suggested for CalSavers in the January 22 Board meeting, but it appears to be the model utilized by entities such as Covered California and the defined benefit pension plans at CalSTRS and CalPERS.[2] We also note that the key considerations associated with a State model would apply in the alternative structure introduced in Section IV of this memo. Some advantages of the State model include:

> ***State "Ownership".*** A dedicated State agency would be responsible for all aspects of the call center, including how best to hire, train and develop employees.
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> ***Existing Infrastructure and or Real Estate.*** The State may be able to leverage an existing call center (e.g., Covered California), which will shorten the time needed to develop one from scratch. Similarly, the State may have strategically located office space that can be transformed into a state-of-the-art call center. Ready access to infrastructure or office space would shorten the lead time required to make a center fully operational.

One of the key challenges in a State model is how best to determine its financial impact on Program participants prior to the launch. To that end, the State must complete a quick but thorough assessment of associated start-up and ongoing operating costs. Unless the State is willing to subsidize these costs, which we understand would require an amendment to the Program's authorizing statute, the burden will be borne by participants through State administration fees (as compared to program management fees). We also note that hiring and training management and customer service representatives can be a lengthy process, particularly where the training is related to both the software and substantive retirement-related information. As a final point, we note that the California-run call centers mentioned during the January 22 Board meeting do not provide services for the defined contribution-type product that would be offered by the Program.[3] In fact, Savings Plus is the most analogous program but its call center today represents the Turnkey model despite beginning under the State model.

III EMERGING HYBRID MODEL

During discussions at the January 22 Board meeting, another model emerged, which we characterize as "hybrid". In this structure – and as articulated by the Board – the Program's call center would be managed and operated by the Program Manager / Administrator until the first anniversary of the Program's launch. After that time, unless otherwise directed by the Board, responsibility for the call center would transition to the State during years two and three of Program operations. Based upon comments we have received from potential respondents to the RFP (some of which are excerpted below), this model could be problematic for several reasons.

First, it asks a Program Manager / Administrator to invest in and develop a call center operation of sufficient magnitude to handle the million-plus Program accounts projected for year one, "only to shut it down a year later." This essentially forces a firm to incur start-up costs without providing a long-term opportunity to recover those costs.

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[2] We note that Covered California engages a private sector vendor to provide additional staffing.
[3] The call centers for the several defined contribution plans offered by CalSTRS and CalPERS are managed and operated by private sector, third party administrators.

Second, it is "highly likely that any Administrator will need to do significant hiring to service employers and employees at the scale that the Secure Choice program may demand. Hiring would ramp up during early years to support the Program rollout but if call center operations were then transitioned to the State, those employees would likely need to be terminated."

Third, while some bidders may already have call center facilities in place, a hybrid structure would likely discourage interested bidders that do not yet have call center facilities but would otherwise be willing to commit to substantial infrastructure investments (e.g., the acquisition of office space, phones, computers, etc.). In this way, the hybrid structure may have the unintended consequence of discouraging bidders that might otherwise propose a Turnkey solution.

And fourth, the hybrid structure may present "some duplicative costs" as a Program Manager / Administrator might have to maintain some call center functionality for calls that would be "referred back" from the State (e.g., investment-related questions that do not rise to the level of investment advice or recommendations). In this same vein, "two full hiring and training cycles would need to occur within the time period of Program launch to service transition (one for the Administrator, one for the State), a full duplication of effort."

In short, "[T]he activities above would likely drive significant cost and complexity to the Program, which may be reflected in RFP responses that propose higher fees to Program participants." We also note the sentiment that "[I]f a firm were highly motivated to win the contract they would likely just accept the one-year assignment as a necessary cost of doing business, but it would not be viewed as a plus/incentive for bidding." It is important to add that at least one firm noted that having the State provide customer service tied to a private sector's proprietary recordkeeping system is more or less a "neutral factor for a bidder. The bidder will simply adjust their cost accordingly assuming either the expense of taking calls or the lack of that expense."

With these comments in mind and in recognition of the Board's direction to AKF during the January 22 meeting, we encourage the Board to consider including in the RFP the alternative structure described below.

IV ALTERNATIVE CALL CENTER STRUCTURE

We would like to include in the RFP a structure that achieves the goal of State management and operation but also takes advantage of the Program Manager / Administrator's hiring and training expertise from the start. Essentially, State employees would be hired or deployed to staff the call center from the launch. These State employees would be trained to work with the recordkeeping software provided and maintained by the Program Manager / Administrator. The Program Manager / Administrator also would be asked to assist with hiring qualified customer service staff and to provide training on all IRA compliance matters.

We acknowledge that several of the State-model challenges highlighted in Section II above also would apply to this alternative structure, including a possible Program launch delay. But this structure would minimize future business disruption for a Program Manager / Administrator, which we believe would lead to better-defined fee proposals. We also note that initial hiring could be incremental during a pilot period, which, depending on its duration, would allow sufficient time for a full roster of State employees by the actual Program launch. As a final point, while any State model would allocate to the State the operational risks associated with the call center, we believe one of the Program Manager / Administrator's responsibilities could be to assist with the development of risk oversight policies and procedures.

V PROPOSED CALL CENTER OPTIONS FOR THE RFP

Based on our understanding of the Board's discussion on January 22, we believe that the hybrid structure introduces a high degree of uncertainty into the RFP. And, in our general experience, we know that uncertainty often leads to less-than-optimal proposals from bidders. Recognizing the importance of the concept, however, if the Board wants to retain the hybrid structure in the RFP, then we would ask respondents to provide three different Program Manager / Program Administrator fee proposals:

- Fees assuming call center responsibility for the duration of the engagement (the Turnkey model)
- Fees assuming call center responsibility for at least the first year of the engagement (the hybrid model)
- Fees assuming call center responsibility limited solely to training and support (the alternative model)

In conclusion, we believe that providing these call center options will result in clearer proposals for the Board to consider without discouraging potential bidders.

VI BRIEF UPDATE ON BIDDER INDEMNIFICATION COMMENTS

It should be noted that a number of potential bidders have expressed concern over the broad scope of the indemnity provisions in California's standard contract terms. We are in communication with Counsel to the Board to see if these concerns can be addressed without sacrificing important protections that should inure to the Board and Program participants. We will update you further as soon as we receive feedback from bidders on our follow-up requests.