To: Members of the California Secure Choice Retirement Savings Investment Board
From: Katie Selenski, Executive Director
Date: January 19, 2018
Re: Models for Staffing Customer Service Call Center

I. BACKGROUND

The enabling statute for the California Secure Choice Retirement Savings Investment Board requires that the Board adopt a third-party administrator (TPA) model to operate the California Secure Choice Program (Program)[1].

The scope of work of the draft request for proposals (RFP) for the third-party administrator currently includes customer service duties and the provision of call center representatives to handle calls from prospective and participating employees and employers.

Government Code Section 19130 defines the conditions that must be met for personal services to be contracted to private providers instead of being performed by state employees. (See Appendix A.) When contracting in order to achieve cost savings, several conditions must be met, including demonstrating that the contractor's wages are at industry levels and do not undercut the state's pay rates.

The law also allows work to be contracted under several different additional scenarios including "when the contract is for a new state function and the Legislature has specifically mandated or authorized the performance of the work by independent contractors."[2]

II. THE ISSUE

The Board must determine whether the customer service function will be contracted to the third-party administrator or handled by state employees at a state-run call center. In the near term, the Board needs to decide whether and, if so, how to include customer service duties in the scope of work for the RFP for the third-party administrator, which staff intend to bring to the Board for approval at the February Board meeting. Potential bidders will need to know whether and how to price the call center operations into their bids.

III. CONSIDERATIONS

Consistent with state law, general prudence, and Program strategy, the following factors should be considered. The comments and information below are provided briefly to frame the issues but require further analysis.

Cost

The cost component in particular requires further information and analysis. Generally, it is expected that utilizing call center staff provided by the TPA would allow the Program to flexibly leverage existing infrastructure, training programs, and staff familiar with the TPA's systems and

[1] Government Code Section 100043(b)(1)(D)
[2] Government Code Section 19130(b)(2)

the laws and procedures around call center operations. It would also be consistent with industry practice and allow firms to continue typical business models.

If the Board chose to establish a call center utilizing state staff, there would likely be substantial upfront costs associated with staffing and training. In addition to the salaries and benefits of the call center staff, building space would need to be established and technological infrastructure would need to be put in place to handle participant calls, thereby increasing the costs to the participants. Among the many issues to explore and analyze is the possibility of somehow partnering with or leveraging the existing call centers infrastructure established by Covered California (see description below). *In any case, the costs associated with a state employee center for the Program would, like every other cost of the Program, be funded by participant fees.*

Access to Third-party Administrator's Electronic Account Systems

In order to operate an effective call center, State staff would need to be granted access to the TPA's electronic systems holding the accounts. It is unknown whether potential bidders would be willing to accept such a condition. (See Appendix B for a summary of the rare instances (2.91% of college savings plans) in other states in which program administration is contracted out but the customer service function is kept internal to the state). If State staff were not provided access, and they were only allowed to provide basic Program information and not make changes to participant accounts, then two call centers would need to be maintained, adding cost and confusion for Program participants regarding which entity to contact for various needs.

State's and Third-Party Administrator's Liability

Statute requires that the State have no liability in relation to the Program. A scenario where state employees provide participants information on the Program and also make adjustments to participant accounts could pose substantial liability to the State. There may be additional risk to the State regarding employees' access to the private financial information contained in the retirement accounts of Program participants. In addition, this may increase liability for the TPA by providing access to internal systems to individuals outside the TPA's control. Another consideration is the ability to record customer calls as part of a risk mitigation strategy; this was one of the factors that drove the State's Savings Plus decision to contract out the customer service function (see Savings Plus section below).

Qualifications and Training

Recruiting and training a qualified staff to serve the call center would require time and coordination with the TPA. In addition, if there is a need or desire to have licensed or certified staff in the call center, then that recruitment, training, and retention would require additional time and cost to the Program participants. For reference, it is not uncommon for similar retirement program call centers to include a multi-tier staffing model that includes unlicensed base staff who may forward more technically challenging calls to licensed representatives. In addition, flexibility to fluctuate staffing levels around peak volume periods and in response to advancements of new technologies is an essential capability in the industry.

Timeline to Launch

Recruiting and training state employees to support the Program, establishing the physical infrastructure of the call center, and coordinating with the TPA would be time intensive and most likely delay the launch of the Program. The number of staff that would need to be hired to provide appropriate levels of support to participants is difficult to estimate at this time. For reference, staffing information the State's Covered California call centers is provided below.

IV. CALL CENTER SERVICES AT OTHER CALIFORNIA STATE AGENCIES

Savings Plus: contracted to third-party administrator

The State's Savings Plus program, which provides optional retirement savings accounts to state employees, includes call center services in its contract with its TPA. According to Savings Plus leadership, the work was originally carried out by state employees and then later transitioned to the contractor. Upon execution of the contract in January 2001, state employees ran the main call center and the TPA served as the back-up. However, during the term of the contract the program altered the arrangement and the TPA began serving as the main contact and the Savings Plus staff served as back-up. In 2006, the TPA took over the call center function for the plan.

ScholarShare College Savings Plan: contracted to third-party administrator

Since 1999 when the program initially launched, the State has contracted out call center services to a TPA. Today, the TPA is responsible for all call center services for ScholarShare in its role as TPA and program manager. For details on call center management across 529 Plans nationwide, see Appendix B.

California ABLE Program: contracted to third-party administrator

The State's 529A program (California Achieving a Better Life Experience) has contracted with a TPA to provide call center services. The program is expected to launch in early spring of this year. The structure and design of California's Secure Choice Program will be most analogous to the State's ScholarShare and ABLE Programs.

Covered California: state employees with additional contractor surge capacity

Covered California, the State's Affordable Care Act health insurance program, provides customer service primarily via state employees with additional surge capacity provided by contractors. The FY 2017–18 budget for the service center was $86.8 million, including $50.1 million for personal services, $27.4 million for contracts, and $9.3 million for other expenses. Total service center staffing includes 837 positions of which 500 are dedicated to phone coverage at a cost of $27.9 million. The program's surge vendor, which is utilized to provide flexible staffing during heavier volume periods, ramps up to 600 FTEs at peak and maintains 250 FTEs for the remainder of the year. As of the latest reporting in September 2017, Covered California had 1.3 million enrollees.

One important distinction with Covered California is that once customers are enrolled with a health insurance company, they interact directly with their insurance company for most of their insurance needs. This is different than Secure Choice in that our TPA will be the only service provider.

Covered California's staff have committed to providing in the near future further information about the initial costs of establishing the call centers.

CalPERS and CalSTRS: both types of staffing models in place

Call center services for the defined benefit pension systems are provided by state employees. In addition, since 1995, CalPERS has provided a deferred compensation plan to public agency and school employers and their employees. This 457 plan contracts with a TPA and all participant contacts are made to the TPA directly and involve no state staff.

Since 1996, CalSTRS has provided a 403(b) and 457(b) program offering to covered employers and their employees, called Pension2. The Pension2 program contracts with a TPA to administer the program, and all participant contacts are made to the TPA directly and involve no state staff. The Pension2 program initially tried to operate dual call centers, but the workload redundancy, and the fact that state staff couldn't perform activities beyond providing general information, proved too confusing to the participants and the CalSTRS call center was closed and all calls are now handled directly by the TPA.

V. OPTIONS FOR RFP FOR PROGRAM ADMINISTRATOR

Any scenario requires additional research and analysis prior to final decision making.

a. **Retain call center services in the RFP for the TPA and maintain that scope of work for the duration of the contract term.**
   An analysis similar to that contained in this memorandum, with some degree of additional cost analysis, would likely be required as part of the approval process with the Department of General Services.

b. **Launch the Program with call center services in TPA contract and conduct a Board study and subsequent action by year three.**
   To allow for a timely roll-out and further study, issue the RFP for the TPA with call center services included at launch and include a required question for the bidders to state how they would respond to a scenario where the Board chose to bring the function internal with State employees. For the first three years of the Program operations, the Board would study the costs with the benefit of operational data through the complete three-year roll-out and issue analysis at the end of the third year.

   If the Board chose at that point to transition the work to public employees, a transition period would begin in year four, enabling the State time to establish the center, recruit and train employees, and collaborate with the third party administrator to transition the services and provide access to the account systems.

   Under this option, the third party administrator would be asked in the RFP to describe how they would approach such a transition, including a description of any changes in cost associated with the need to train state employees and transition infrastructure. A contract amendment may be necessary to allow for the additional costs of transition and training. Under this scenario there would be a period of time where participants would be charged fees to support the TPA call center staff and the training and onboarding of state staff.

c. Remove customer service functions from the RFP for the TPA; launch with state employee staffed call center from the outset

Further analysis would be required to fully assess the cost, liability, and strategic implications.

APPENDIX A

GOVERNMENT CODE - GOV

19130.
The purpose of this article is to establish standards for the use of personal services contracts.

(a) Personal services contracting is permissible to achieve cost savings when all the following conditions are met:

(1) The contracting agency clearly demonstrates that the proposed contract will result in actual overall cost savings to the state, provided that:

(A) In comparing costs, there shall be included the state's additional cost of providing the same service as proposed by a contractor. These additional costs shall include the salaries and benefits of additional staff that would be needed and the cost of additional space, equipment, and materials needed to perform the function.

(B) In comparing costs, there shall not be included the state's indirect overhead costs unless these costs can be attributed solely to the function in question and would not exist if that function was not performed in state service. Indirect overhead costs shall mean the pro rata share of existing administrative salaries and benefits, rent, equipment costs, utilities, and materials.

(C) In comparing costs, there shall be included in the cost of a contractor providing a service any continuing state costs that would be directly associated with the contracted function. These continuing state costs shall include, but not be limited to, those for inspection, supervision, and monitoring.

(2) Proposals to contract out work shall not be approved solely on the basis that savings will result from lower contractor pay rates or benefits. Proposals to contract out work shall be eligible for approval if the contractor's wages are at the industry's level and do not significantly undercut state pay rates.

(3) The contract does not cause the displacement of civil service employees. The term "displacement" includes layoff, demotion, involuntary transfer to a new class, involuntary transfer to a new location requiring a change of residence, and time base reductions. Displacement does not include changes in shifts or days off, nor does it include reassignment to other positions within the same class and general location.

(4) The contract does not adversely affect the state's affirmative action efforts.

(5) The savings shall be large enough to ensure that they will not be eliminated by private sector and state cost fluctuations that could normally be expected during the contracting period.

(6) The amount of savings clearly justify the size and duration of the contracting agreement.

(7) The contract is awarded through a publicized, competitive bidding process.

(8) The contract includes specific provisions pertaining to the qualifications of the staff that will perform the work under the contract, as well as assurance that the

contractor’s hiring practices meet applicable nondiscrimination, affirmative action standards.

(9) The potential for future economic risk to the state from potential contractor rate increases is minimal.

(10) The contract is with a firm. A “firm” means a corporation, partnership, nonprofit organization, or sole proprietorship.

(11) The potential economic advantage of contracting is not outweighed by the public’s interest in having a particular function performed directly by state government.

(b) Personal services contracting also shall be permissible when any of the following conditions are met:

(1) The functions contracted are exempted from civil service by Section 4 of Article VII of the California Constitution, which describes exempt appointments.

(2) The contract is for a new state function and the Legislature has specifically mandated or authorized the performance of the work by independent contractors.

(3) The services contracted are not available within civil service, cannot be performed satisfactorily by civil service employees, or are of such a highly specialized or technical nature that the necessary expert knowledge, experience, and ability are not available through the civil service system.

(4) The services are incidental to a contract for the purchase or lease of real or personal property. Contracts under this criterion, known as “service agreements,” shall include, but not be limited to, agreements to service or maintain office equipment or computers that are leased or rented.

(5) The legislative, administrative, or legal goals and purposes cannot be accomplished through the utilization of persons selected pursuant to the regular civil service system. Contracts are permissible under this criterion to protect against a conflict of interest or to ensure independent and unbiased findings in cases where there is a clear need for a different, outside perspective. These contracts shall include, but not be limited to, obtaining expert witnesses in litigation.

(6) The nature of the work is such that the standards of this code for emergency appointments apply. These contracts shall conform with Article 8 (commencing with Section 19888) of Chapter 2.5 of Part 2.6.

(7) State agencies need private counsel because a conflict of interest on the part of the Attorney General’s office prevents it from representing the agency without compromising its position. These contracts shall require the written consent of the Attorney General, pursuant to Section 11040.

(8) The contractor will provide equipment, materials, facilities, or support services that could not feasibly be provided by the state in the location where the services are to be performed.

(9) The contractor will conduct training courses for which appropriately qualified civil service instructors are not available, provided that permanent instructor

positions in academies or similar settings shall be filled through civil service appointment.

(10) The services are of such an urgent, temporary, or occasional nature that the delay incumbent in their implementation under civil service would frustrate their very purpose.

(c) All persons who provide services to the state under conditions the board determines constitute an employment relationship shall, unless exempted from civil service by Section 4 of Article VII of the California Constitution, be retained under an appropriate civil service appointment.

(Amended by Stats. 2016, Ch. 86, Sec. 160. (SB 1171) Effective January 1, 2017.)

APPENDIX B

Provided by AKF Consulting

Summary of Call Center Staffing in state-sponsored college savings programs ("529")

Across the 529 Plan industry, state entities run customer call centers in only eight plans of 89 offered nationwide (8.99%), as shown in the following table. As of December 31, 2016, these eight plans represent approximately $23.187 billion in assets (9.21% of all 529 plan assets) and 1.142 million accounts (9.71% of all 529 plan accounts).

529 Savings Plan	Call Center Management	Responsible State Entity
Colorado Stable Value Plus	100% State-run program	CollegeInvest
Louisiana START	100% State-run program	Louisiana Office of Student Financial Assistance
North Carolina National College Savings Program	100% State-run program	North Carolina College Foundation
Ohio CollegeAdvantage	Internal call center utilizing TPA recordkeeping platform	Ohio Tuition Trust Authority
Pennsylvania Investment Plan	Internal call center utilizing TPA recordkeeping platform	State Treasurer's Office
Tennessee TNStars	Internal call center utilizing TPA recordkeeping platform	State Treasurer's Office
Utah Educational Savings Plan	100% State-run program	Utah Higher Education Assistance Authority
Virginia Invest529	100% State-run program	Virginia College Savings Plan

Only three of these eight plans (Ohio, Pennsylvania and Tennessee) utilize a third party administrative platform, which is the same model Secure Choice would implement if the Program were to outsource recordkeeping but run the call center internally. These three plans represent just 2.81% of all 529 plan assets and just 3.36% of all 529 plan accounts. In the other five plans, the state entity supports all administrative functions, including management of their own proprietary recordkeeping platforms.

An additional item to note is that six of the eight plans are run by separate state entities (e.g., North Carolina College Foundation, Ohio Tuition Trust Authority, Utah Higher Education Assistance Authority) and only two plans are managed directly by a State Treasurer's Office (Pennsylvania and Tennessee).