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AUGUST 16, 2018

AGENDA ITEM 3  
ACTION ITEM

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

*Resolution Nos. 2018-06 and 2018-07: Authority to Execute Contracts for Program Administration and Investment Management Services*

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***Background***

State law<sup>1</sup> requires the California Secure Choice Retirement Savings Investment Board (“Board”) to adopt a third-party administrator model to operate the CalSavers Retirement Savings Program (“CalSavers” or the “Program”). Statute<sup>2</sup> further requires the Board to approve an investment management entity or entities, and regularly report on the Program’s investments and investment performance against benchmarks and industry standards.

The program administrator will (i) implement and manage a superior CalSavers Program for California employees who lack access to employer-provided, tax-favored retirement plans, (ii) design simple and efficient enrollment and opt-out processes, (iii) offer individual retirement account (“IRA”) expertise and resources, (iv) provide a comprehensive marketing strategy to reach employers and employees, (v) provide seamless administration, recordkeeping and compliance, and (vi) provide or otherwise enable the State to provide responsive, accessible, and culturally competent customer service, all at the lowest possible cost to participants.

The investment manager will provide investment options with attractive investment performance geared to the anticipated needs of participants, at the lowest possible cost to participants.

***Procurement Process***

During the May 21, 2018 meeting, the Board approved the release of request for proposals number CSCRSIB07-17 (the “RFP”) for Program Administrator and Investment Manager services. The RFP was published May 30, 2018. Proposals were due July 17, 2018.

The Executive Director formed an evaluation committee to carry out the review and scoring defined in the RFP. The evaluation committee consisted of five members:

- Brian Gould – Deputy Director
- Robert Hedrick – Senior Counsel, State Treasurer’s Office
- Heather Hooper – Board Member
- Katie Selenski – Executive Director
- Jacqueline Wong-Hernandez – Board Member

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<sup>1</sup> Government Code Section 100043(b)(1)(D)

<sup>2</sup> Government Code Section 100002(f)

Thirteen total responses were received for the RFP, including multiple responses for both program administration and investment management, but none for the program manager design that would have had one firm handling the responsibilities of both the program administrator and the investment manager.

The Board's investment consultant, Meketa Investment Group, and program consultant, AKF Consulting, each undertook a summary analysis of the bids, with Meketa reporting on the investment manager bids and AKF focused primarily on the program administrator bids with secondary summary of elements of the investment manager bids. While the consultants did not participate in committee deliberations or finalist interviews, their analysis, insights and expertise were invaluable to the process.

The evaluation committee completed its initial scoring of the qualified proposals July 26. Interviews were conducted with the finalists the week of July 30. The committee's analysis and recommendations are described in the sections below.

If the Board acts to approve the resolutions to execute contracts with the two recommended firms, staff estimate the contracts will be executed by the first week of September, 2018. However, that date is subject to change depending on the time necessary for internal and external review and approval of the contract by the Department of General Services.

### ***Contract Term and Cost***

The term of the two agreements would be seven (7) years from the date of the first eligible employee enrollment with options for three (3) one-year extensions, if desired by the Board, for possible total terms not to exceed ten (10) years from the first enrollment. These contracts are considered zero dollar contracts for the Program because the firms will be compensated by fees levied on participants. Additional information about fees is included in the analysis below.

### ***Committee Analysis – Program Administrator***

The committee reviewed the program administrator bids under a set of seven criteria, including responses under multiple call-center scenarios as required by the RFP. Bidders were also asked to provide an initial annual administrative fee that would be charged to participant accounts along with breakpoints that would reduce this fee as the Program assets grow. After reviewing all of the responsive proposals, the committee determined that *Ascensus College Savings Recordkeeping Services, LLC* ("*Ascensus*") had the strongest submission based on the firm's:

- Long track record administering retirement plans and other state-run investment plans (e.g., college savings plans) of all sizes, including those with tens of billions of dollars under management as well as start-up plans
- Unparalleled knowledge of and experience administering state-sponsored retirement savings programs, including both OregonSaves and the Illinois Secure Choice plans
- Aligned mission and demonstrated leadership
- State of the art technology including a dedicated platform (ASTRO) ready to launch with any necessary Program-requested modifications

- Flexible support model and ability to administer the Program under any of the call center scenarios
- IRA and compliance expertise
- Deep understanding of the need for robust marketing and outreach collaboration backed by a strong financial commitment in this area
- A very detailed project plan demonstrating keen awareness of the challenges facing the Program and simultaneously meeting the Board’s aggressive timeline for Pilot launch
- A fee structure that meets the Board’s requirement that fees decline over time and would, within the first few years of the contract, position CalSavers as the lowest fee program among peers across states, assuming feasibility study projections materialize

During the finalist interviews, the team from *Ascensus* expertly answered all the questions with great detail and conveyed deeply compelling passion for the CalSavers mission. Conversations with references only strengthened the committee’s opinion that *Ascensus* is the right recommendation to make to the Board.

In addition to receiving high marks for each of the review criteria, *Ascensus* also had a strong financial bid, providing a marketing commitment of \$16.5 million over the maximum ten year contract. In addition to the development and distribution of promotional materials, the \$16.5 million commitment includes a proposal to hire eight field representatives who will be California residents and provide on-the-ground support to assist with employer and employee outreach and education. The firm stated it would remain flexible with regard to the most effective allotment of the \$16.5 million to field representatives versus promotional material and would adjust in conjunction with strategic discussion with Program staff.

Throughout the evaluation, the committee was keenly aware of the Board’s goal to keep fees as low as possible while providing exceptional levels of customer service. The pricing structure provided by *Ascensus* meets the Board’s requirement that fees decline over time with asset growth. As shown in the table below, the fee breaks in multiple steps from an initial fee of 75 basis points per year to as low as 12 basis points after the program has more than \$35 billion in assets (the feasibility study projected this to occur in year seven of the Program).

<b>Breakpoint Schedule</b>			
<b>Asset Level</b>	<b>Total Annual Fee Scenario A</b>	<b>Total Annual Fee Scenario B</b>	<b>Total Annual Fee Scenario C</b>
\$0 - \$5 Billion	75 bps	75 bps	61 bps
\$5 Billion - \$10 Billion	60 bps	52 bps	48 bps
\$10 Billion - \$15 Billion	45 bps	39 bps	36 bps
\$15 Billion - \$20 Billion	35 bps	30 bps	28 bps
\$20 Billion - \$25 Billion	25 bps	22 bps	20 bps
\$25 Billion - \$30 Billion	23 bps	19 bps	19 bps
\$30 Billion - \$35 Billion	18 bps	14 bps	14 bps
Greater than \$35 Billion	15 bps	12 bps	12 bps

The final fee structure and breakpoints will vary depending on the call center scenario ultimately adopted by the Board. Consistent with the Board’s stated expectation to launch the Program expeditiously using the administrator’s call center services to start, Scenario A (administrator maintains the call center for the duration of the contract) or Scenario B (administrator transitions the call center function to the Program during years two and three of the contract), above, are possible paths forward. Scenario C (Program operates the call center from launch) information was collected to help inform analysis of call center pricing. The fee schedules for both Scenarios A and B will be contained in the contract and the one associated with the approach adopted by the Board by the end of the first year of the contract will apply going forward.

The table below provides the data assumed in projections contained in the feasibility study, which may be considered to estimate when each of the above breakpoints could be achieved.

	<b>BOY Projected Participants</b>	<b>BOY Assets (in \$millions)</b>	<b>Gross Contributions (in \$millions)</b>	<b>Lump Sum Distributions (in \$millions)</b>	<b>Average Assets (in \$millions)</b>	<b>Average Account Balance</b>
<b>Year 1</b>	1,620,800	\$0	\$3,345	\$66	\$1,614	\$609
<b>Year 2</b>	2,650,668	\$3,228	\$5,336	\$223	\$5,735	\$1,826
<b>Year 3</b>	3,384,948	\$8,243	\$6,611	\$405	\$11,277	\$3,045
<b>Year 4</b>	3,914,733	\$14,311	\$7,404	\$573	\$17,819	\$4,429
<b>Year 5</b>	4,099,996	\$21,327	\$7,493	\$709	\$24,878	\$5,920
<b>Year 6</b>	4,282,794	\$28,429	\$7,633	\$879	\$32,030	\$7,310
<b>Year 7</b>	4,463,275	\$35,630	\$7,806	\$1,039	\$39,304	\$8,680
<b>Year 8</b>	4,582,971	\$42,979	\$7,997	\$1,197	\$46,740	\$10,084
<b>Year 9</b>	4,680,307	\$50,501	\$8,197	\$1,440	\$54,311	\$11,502
<b>Year 10</b>	4,758,900	\$58,121	\$8,402	\$1,647	\$62,002	\$12,947
<b>Year 11</b>	4,816,062	\$65,883	\$8,612	\$1,873	\$69,830	\$14,442
<b>Year 12</b>	4,852,508	\$73,776	\$8,828	\$2,124	\$77,780	\$15,975
<b>Year 13</b>	4,883,474	\$81,783	\$9,048	\$2,286	\$85,891	\$17,541
<b>Year 14</b>	4,908,465	\$89,998	\$9,274	\$2,469	\$94,206	\$19,152
<b>Year 15</b>	4,928,517	\$98,413	\$9,506	\$2,682	\$102,709	\$20,840

***Committee Analysis – Investment Manager***

The majority of the investment manager bidders submitted proposals for only certain investment options as opposed to the entire lineup. The committee reviewed the investment manager bids under a set of three criteria, with the main focus on consistent risk-adjusted performance at the lowest cost to potential participants. After reviewing all of the responsive proposals, the committee determined that *State Street Global Advisors Trust Company* (“SSGA”) had the strongest submission based on the firm’s:

- Long track record of risk-adjusted performance on low cost funds provided to plans of all sizes, including those with tens of billions of dollars under management as well as start-up plans
- Lineup of passive index funds that matched the Board sentiment laid out in the Program’s Investment Policy Statement
- Experience in providing investment management services to the two existing state-run auto IRA programs in OregonSaves and the Illinois Secure Choice program
- Flexibility in terms of communication methods to their clients
- Thoughtful investment design and structure with a commitment to serving CalSavers and its participants

During the finalist interviews, the team from SSGA expounded on the firm’s support of the state run auto IRA programs and desire to be a partner in making the CalSavers Program successful. They provided clear and concise detail regarding all of the questions on the options put forth in the RFP response and instilled confidence that the performance and fees of the funds are and would remain competitive if not best in class.

Consistent with the Board’s Investment Policy Statement, the RFP asked proposers to provide investment options under five options. SSGA provided mutual funds for four of those options, with three of the four being the highest ranked in the category (and the fourth only 1 basis point above the lowest bidder in that category).

<b>Investment Option</b>	<b>Underlying Investment</b>	<b>Total Annual Fee</b>
Capital Preservation	State Street Institutional U.S. Government Money Market Fund (GVMXX)	12 basis points
High Quality Bond	State Street Aggregate Bond Index Fund (SSFEX)	2.5 basis points
Global Equity*	Proposing utilizing a combination of: State Street Equity 500 Index Fund (SSSYX), and; State Street Global Equity ex-US Index Fund (SSGLX)	2 basis points 6.5 basis points
Target Date	State Street Target Retirement Funds (multiple)	9 basis points

*\*The Program will utilize a domestic equity fund and an international equity fund blended together as a single investment offering to provide global exposure to interested participants.*

***Fees Summary***

Taking into account both the administration and investment management fees, an early (pre-break point) participant following the default settings would start by paying 87 basis points (or 0.87% of account balance) for the first \$1,000 in the capital preservation fund and then 84 basis points (0.84% of account balance) for subsequent contributions to the target date fund. As an example, using the feasibility study’s projection that the average account balance in year one would be \$609, the fee paid by this average participant would be \$5.30. Since this is a percentage fee structure instead of a flat dollar fee, the dollar amount paid would rise as account balances grow.

However, fee rates would decline once the breakpoints are reached, in different amounts depending on the call center scenario in place. When the final breakpoint is reached, the total fee for participants in the target date fund would be 21 basis points (0.21%) or 24 basis points (0.24%), depending on the call scenario in place. By the time this breakpoint is reached, estimated to be year seven, the average account balance estimated by the feasibility study is \$8,680, which would result in a fee of \$18.23 or \$20.83, depending on the call center scenario.

It is worth noting that CalSavers would have the most aggressively declining fees among peer state programs, as only one of the two other programs incorporates a declining fee model and that rate of decline is less aggressive. While at launch the proposed structure would position CalSavers in between the fees paid by participants in the two other state programs, once the first breakpoint on the administrator pricing schedule is achieved, CalSavers participants would pay the lowest fees nationally and those fees would continue to drop as the Program grows.

Note that this does not include a State administrative fee to cover the cost of Program staff and other start-up and ongoing expenses. Staff will recommend to the Board a State administrative fee prior to the pilot launch based on analysis of expected participation rates and in the context of requirements for repaying the legislative start-up loan. Each drawdown of the start-up loan has a five-year repayment period. Staff expect this fee to be between 1 and 5 basis points under call center scenario A, and a yet to be determined amount under call center scenario B.

### ***Environmental, Social, and Governance Investment Option***

In its investment beliefs included in the investment policy statement approved in February 2018, the Board stated that “socially and environmentally responsible investing is an issue important to some Participants, and an Investment Option reflecting that belief should be offered at some point.” The field of environmental, social, and governance (“ESG”) investing is evolving, and while the committee recognizes the Board’s interest in offering an investment option under this structure, the options provided through the procurement process were less than optimal with regard to fees. The lowest cost qualified proposal would charge 59 basis points. Therefore, the committee recommends launching the CalSavers Program with the four investment options listed in the above table and continuing to research and explore, in consultation with the investment consultant and the Program’s investment manager, options for the addition of an ESG fund at a later date.

### ***Recommendation***

- Approve resolution number 2018-06 to execute a contract with *Ascensus College Savings Recordkeeping Services, LLC* for program administration services.
- Approve resolution number 2018-07 to execute a contract with *State Street Global Advisors Trust Company* for investment management services.

### ***Attachments***

- Attachment #1: Resolution No. 2018-06
- Attachment #2: Resolution No. 2018-07