
OCTOBER 16, 2018

AGENDA ITEM 7
ACTION ITEM

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

State Administrative Fee

Summary

The Board will consider adopting an administrative fee to pay the State's share of costs necessary to administer the CalSavers Retirement Savings Program.

Background

Government Code 100004(a) established the California Secure Choice Retirement Savings Trust and requires that the trust be self-sustaining to operate the Program from fees assessed to the individual participants. Consistent with the belief that the Program should be as affordable and administratively efficient as possible, the Board has historically expressed a desire to limit the total annual fees to no more than 1%, or 100 basis points (bps). In addition, statute requires that transfers to cover administrative costs be limited to 1% by the beginning of the seventh year of the Program.

At the August 16, 2018 meeting, the Board authorized staff to execute a contract with Ascensus College Savings Recordkeeping Services, LLC (Ascensus) for program administration services. Ascensus will charge an initial fee of 0.75%, or 75 bps, to administer the Program. During the same meeting the Board authorized staff to execute a contract with State Street Global Advisors Trust Company (State Street) for investment management services. State Street will provide three funds and a suite of target date funds ranging in cost from 0.02% to 0.12% (2-12 bps).

Both of the above fees will be assessed on the individual account holders, resulting in a total fee of 0.77% (77 bps) to 0.87% (87 bps) annually depending on the investment option(s) they choose, not including the fee that will be charged by the State to cover costs for administration of the Program.

The Program has taken two general fund loans to date to cover the startup expenses for the Program totaling \$16.9 million, with approximately \$2.5 million spent to date. The first loan of \$1.9 million is due June 30, 2022, and the second loan of \$15 million is due June 30, 2023. The Program must pay back these loans from revenue received from fees charged to participant accounts. The fee charged must also cover ongoing operating expenses.

Analysis

The current operating budget for the Program is approximately \$3 million annually. With projected additional staff and associated increases in salaries and operating expenses, staff expect

the State's share of costs to rise to slightly over the next few years. Based on the projections in the feasibility study completed in 2016 for participation levels and assets under management, staff analyzed the fee necessary to cover the administrative costs of the Program as well as ensure that the loan is repaid.

Staff developed a financial model to enable scenario analysis based on a range of assumptions for several variables, including:

- Employee participation rate
- Average contribution rate
- Loan repayment timing
- Return on assets

Based on analysis of multiple different projections, staff determined that it would be prudent and necessary to charge a State administrative fee of 0.05% (5 bps) to cover repayment of the startup loan and to cover ongoing operating expenses to administer the CalSavers Program. This fee level would allow the Program to repay the loan and achieve net positive cash flow by year six even under a scenario in which only 25 percent of eligible employees participate and return on assets is only two percent over the first seven years of Program operations.

Program consultant AKF Consulting reviewed staff's financial model and concurs with the recommendation.

As the Program enrolls participants and gains assets under management, the State fee charged will be reevaluated and lowered as aggressively and expeditiously as possible. As soon as the Program has \$5 billion in assets under management, the Ascensus fee will drop from 75 bps to 60 bps, lowering the total participant fees. Further fee reductions will be triggered as assets reach Ascensus breakpoints.

The two other existing state sponsored retirement savings programs, in Oregon and Illinois, each launched with state administrative fees of 5 basis points.

Staff Recommendation

Staff recommends the Board adopt a State administrative fee of 0.05% (5 bps) to cover the State's costs to administer the CalSavers Program.