DECEMBER 15, 2022

AGENDA ITEM 2
ACTION ITEM

CALSAVERS RETIREMENT SAVINGS BOARD

*Discussion and Possible Recommendation and Approval Regarding Amendments to Agreement No. CSCRSIB07-17A)*

Changes to the staff report provided for the corresponding item at the Board meeting on November 21, 2022, are shown throughout in underline and strike-through.


***Summary***
The executive director will present the results of the recent negotiation with program administrator Ascensus College Recordkeeping Services, LLC ("Ascensus") and the CalSavers Retirement Savings Board ("Board") will consider approving amendments to its contract.


***Background***
On August 16, 2018, the Board approved the selection of Ascensus to provide program administrator services for the CalSavers Retirement Savings Program ("Program") via agreement CSCRSIB07-17A. The term of the agreement is seven years through November 30, 2025, plus three one-year options to extend at the Board's discretion.

The agreement is considered a zero-dollar contract because the Board makes no payments to Ascensus. Ascensus earns revenue by collecting fees from each participant according to the terms of the agreement. Participant fees are calculated as a percentage of account balances, currently 0.75% of assets per year. The agreement specifies that participant fees will decline as the total program assets grow and reach defined breakpoints, as shown in the table below.

| Asset Level | Ascensus Annual Fee |
|---|---|
| \$0 - \$5 B | 0.75% |
| \$5 B - \$10 B | 0.60% |
| \$10 B - \$15 B | 0.45% |
| \$15 B - \$20 B | 0.35% |
| \$20 B - \$25 B | 0.25% |
| \$25 B - \$30 B | 0.23% |
| \$30 B - \$35 B | 0.18% |
| > \$35 B | 0.15% |

No flat dollar fees are imposed under the agreement. Savers pay the asset-based fee for Ascensus program administration services, in addition to investment fees that vary depending on the investment fund, and a small fee for state administration.

***Authority to Amend***
Exhibit E, Section 9.1(c) of the agreement allows the Board and Ascensus to consider fee changes annually, as follows:

> *The Board and the Contractor may review fees annually based on industry norms and national trends. In the event of a change in Applicable Law during the Term of this Agreement, which change materially impacts the duties of the Contractor hereunder (as mutually agreed upon by the Board and the Contractor), the Board and the Contractor shall consider a change to the application of the annual marketing commitment detailed in Section 7.1 of this Exhibit E, and then a change to allowable fees.*

Exhibit E, Section 8.2 of the agreement allows the Board and Ascensus to consider changes to the administrative performance criteria, as follows:

> *The Contractor will provide Administrative Services under this Agreement in accordance with Administrative Performance Criteria approved by the Board. Contractor may review and recommend to the Board modifications to such Criteria annually based on industry norms and national trends. Modifications shall be approved by the Board.*

Similarly, Exhibit E, Section 8.1(x) states:

> *The Contractor's performance will be measured by mutually agreed upon Administrative Performance Criteria ("Administrative Benchmarks"), and which will be incorporated by reference into this Agreement. The Board and/or the Contractor may review and recommend modifications to the Administrative Benchmarks on an annual basis based on industry norms and national trends; any modifications will require approval by the Board.*

***Initiation of Negotiation***
In late August 2022, a senior Ascensus representative requested a review and renegotiation of the participant fees noting that the asset-based fee without any flat dollar fee is no longer offered by providers in the marketplace for state-sponsored retirement savings programs.

On October 3, 2022, the Board authorized the executive director to negotiate with Ascensus and develop proposed modifications to the agreement. On November 21, 2022, the Board voted to table the item and reconvene for a vote after the Treasurer had time to review the proposed modifications. Subsequently, based on new information about paper delivery fees in other states, the executive director negotiated a further modification consistent with the Board's direction.

***National Fee Trend***
Each of the five states that have entered into an agreement with a program administrator to launch a state-sponsored retirement program since the Board hired Ascensus, including Oregon's conversion to a new administrator, have selected a hybrid fee structure with a combination of a

flat dollar fee and an asset-based fee. The table below summarizes the fees for all states that have selected a program administrator.

Summary of Program Administrator Fees in Active States

| | Provider | Asset-based fee & lowest fee at breakpoint, if any | Account fee & lowest fee at breakpoint, if any | Launch status | Funded Accounts |
|---|---|---|---|---|---|
| Colorado | Vestwell | 0.15% → 0.10% @ $4B | $22 → $18 @ 350k accounts | Pre-launch | 0 |
| Connecticut | Vestwell | 0.20% | $24* | 2022 | 5,455 |
| Illinois | Ascensus | 0.61% | $0** | 2018 | 113,430 |
| Maryland | Vestwell | 0.18% → 0.12% @ $4B | $24 → $18 @ 350k accounts | 2022 | 414 |
| Oregon | Vestwell*** | 0.15% | $14 | 2017 | 114,551 |
| Virginia | Vestwell | To be announced | To be announced | Pre-launch | 0 |

*Connecticut's breakpoints were not disclosed.
**Illinois makes an annual supplementary payment directly to their provider.
***Oregon converted from Ascensus to Vestwell in 2021, when the program had 112,272 funded accounts.

***Proposed Amendments***
The proposed amendments encompass five changes, as summarized in the table below and detailed in the following pages.

Summary of Proposed Amendments

| | Current | Proposed |
|---|---|---|
| 1. Core Participant Fees | 0.75% of assets, with breakpoint schedule shown on page 1 | 0.25% of assets + $18 annual account fee[1] → $17 at 550,000 accounts |
| 2. Customer Service Call Answer Time Standard | 85% calls answered within 30 seconds, measured monthly<br><br>2% abandon rate | 3 minute average speed to answer, measured quarterly<br><br>4% abandon rate |
| 3. Annual Marketing Commitment | $1,500,000 | $800,000 |
| 4. Fee for participants receiving annual paper statements, disclosures, and other confirmations and communications | None | $5~~10~~ per year (moving to $10 when both parties agree based on trends and market, requiring Board approval) |
| 5. Fee for paper checks | None | $5 |

[1] The $18 annualized account fee would be charged on a quarterly basis in arrears and no fee would be charged within the first 90 days of a participant's funding activity.

Participant Fees

Any consideration of new fee levels is oriented around the short- and long-term impact on participants, the Board's statutory duty to "seek to minimize participant fees" per Government Code Section 100002(e)(2), and its general fiduciary duty to act in the best interest of participants.

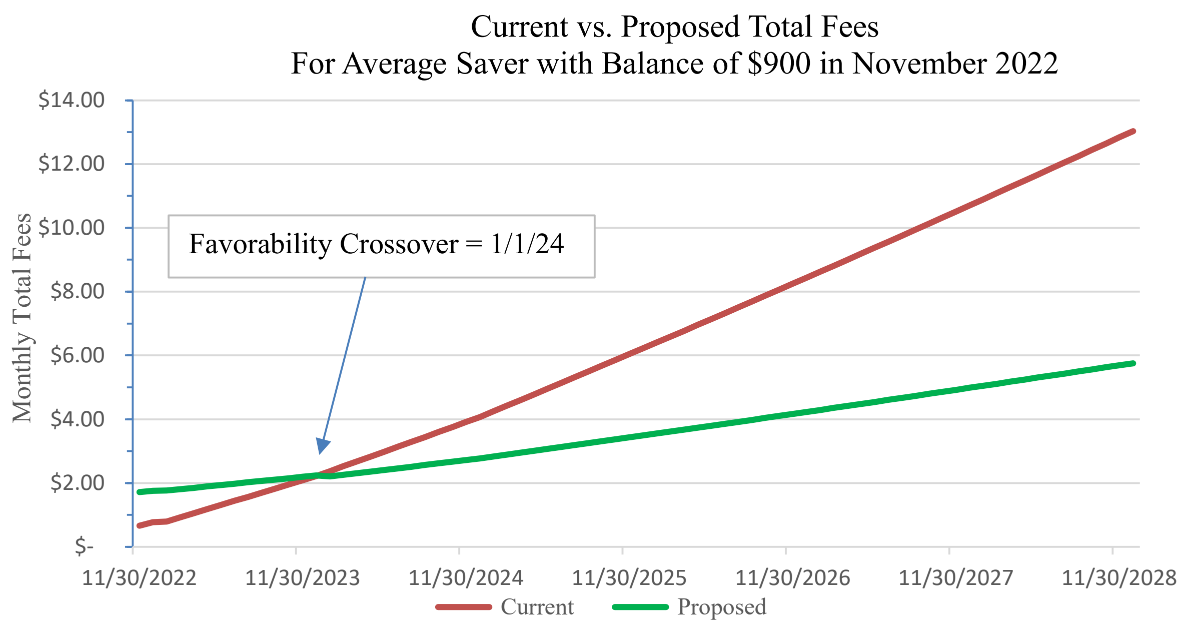
In general, the asset-based fee model is more favorable to participants when account balances are low, and the hybrid fee model (with a flat dollar component plus a lower asset-based component) becomes more favorable as account balances grow. The exact account balance crossover point beyond which the hybrid structure is favorable depends on the specific components of the asset-based and flat dollar fees.

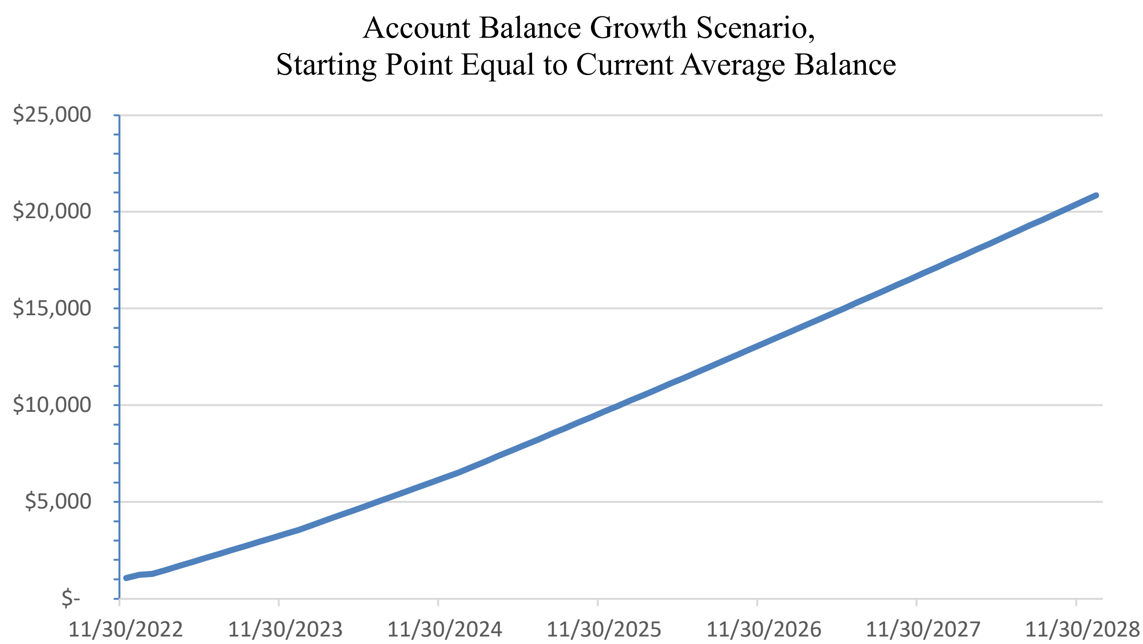
For the proposed fee level, the crossover point is $3,600, as depicted in the table below. As of this writing, 19,046, or five percent, of current funded account holders have balances of at least $3,600. This rate is expected to rise substantially as the large volume of new savers from the recent wave 3 employer deadline grow their balances. Based on the currently average monthly contribution rate of $169, the average saver is estimated to take 21 months to reach $3,600.

Current vs. Proposed Program Administration Fee at Various Account Balance Scenarios

| | **Account Balance Scenario** | **Current** | | | **Proposed** | | | **Amount Proposed is Over or (Under) Current** |
|---|---|---|---|---|---|---|---|---|
| *Notes* | | 0.75% | flat annual | **Total Annual** | 0.25% | flat annual | **Total Annual** | |
| | $ 500 | $ 3.75 | $ - | **$ 3.75** | $ 1.25 | $ 18.00 | **$ 19.25** | $ 15.50 |
| *Avg. CA Balance Nov 2022* | $ 900 | $ 6.75 | $ - | **$ 6.75** | $ 2.25 | $ 18.00 | **$ 20.25** | $ 13.50 |
| | $ 1,000 | $ 7.50 | $ - | **$ 7.50** | $ 2.50 | $ 18.00 | **$ 20.50** | $ 13.00 |
| | $ 2,000 | $ 15.00 | $ - | **$ 15.00** | $ 5.00 | $ 18.00 | **$ 23.00** | $ 8.00 |
| | $ 3,000 | $ 22.50 | $ - | **$ 22.50** | $ 7.50 | $ 18.00 | **$ 25.50** | $ 3.00 |
| *Favorability Crossover Point* | $ 3,600 | $ 27.00 | $ - | **$ 27.00** | $ 9.00 | $ 18.00 | **$ 27.00** | $ - |
| | $ 4,000 | $ 30.00 | $ - | **$ 30.00** | $ 10.00 | $ 18.00 | **$ 28.00** | $ (2.00) |
| | $ 5,000 | $ 37.50 | $ - | **$ 37.50** | $ 12.50 | $ 18.00 | **$ 30.50** | $ (7.00) |
| | $ 6,000 | $ 45.00 | $ - | **$ 45.00** | $ 15.00 | $ 18.00 | **$ 33.00** | $ (12.00) |
| | $ 7,000 | $ 52.50 | $ - | **$ 52.50** | $ 17.50 | $ 18.00 | **$ 35.50** | $ (17.00) |
| | $ 8,000 | $ 60.00 | $ - | **$ 60.00** | $ 20.00 | $ 18.00 | **$ 38.00** | $ (22.00) |
| | $ 9,000 | $ 67.50 | $ - | **$ 67.50** | $ 22.50 | $ 18.00 | **$ 40.50** | $ (27.00) |
| | $ 10,000 | $ 75.00 | $ - | **$ 75.00** | $ 25.00 | $ 18.00 | **$ 43.00** | $ (32.00) |
| | $ 20,000 | $ 150.00 | $ - | **$ 150.00** | $ 50.00 | $ 18.00 | **$ 68.00** | $ (82.00) |
| | $ 30,000 | $ 225.00 | $ - | **$ 225.00** | $ 75.00 | $ 18.00 | **$ 93.00** | $ (132.00) |
| | $ 40,000 | $ 300.00 | $ - | **$ 300.00** | $ 100.00 | $ 18.00 | **$ 118.00** | $ (182.00) |
| | $ 50,000 | $ 375.00 | $ - | **$ 375.00** | $ 125.00 | $ 18.00 | **$ 143.00** | $ (232.00) |
| *Highest Current CA Bal.* | $ 60,000 | $ 450.00 | $ - | **$ 450.00** | $ 150.00 | $ 18.00 | **$ 168.00** | $ (282.00) |
| | $ 70,000 | $ 525.00 | $ - | **$ 525.00** | $ 175.00 | $ 18.00 | **$ 193.00** | $ (332.00) |
| | $ 80,000 | $ 600.00 | $ - | **$ 600.00** | $ 200.00 | $ 18.00 | **$ 218.00** | $ (382.00) |

As shown in the table above, savers have an average account balance of $900 as of November 2022. The expected impact of the proposed fee change for the average saver with $900 today is depicted in the graph below, which includes all fees including program administration, investment fund fee (assumes default target date fund), and the state administrative fee. This hypothetical saver is expected to reach the $3,600 favorability crossover point in January 2024, based on the projection of that saver's account balance growth, depicted on the next page.




Assumptions for this account holder scenario:

- Starting point is the current average account balance, $900
- $169 contribution per month (based on current average monthly contributions)
- Accepts default automatic annual escalation of contribution rate by 1 percentage point beginning in January 2023 to a final rate of 8% in January 2025
- 3% annual investment rate of return, compounded monthly for this purpose
- No salary growth 2023-2028
- No withdrawals

- Fees: $18 + 0.25% of assets + 0.09% of assets for target date fund + 0.05% of assets for State; $17 applies beginning in April 2024, an estimation of the breakpoint of 550,000 funded accounts.

Call Answer Time

The proposed customer service call answer time standard would be an average speed to answer in three minutes or less, measured quarterly, compared to the current standard of 85% of calls answered in 30 seconds or less, measured monthly. While this is a substantial proportional increase in potential hold time for savers and employers into the customer service center, it would still represent a good customer experience compared to many other consumer call center experiences and would have no effect on the quality of the actual service provided by the service representatives, who consistently achieve strong customer satisfaction reviews.

In addition, a call back system will be in place soon, wherein callers will hear the average hold time and may choose to receive a call back from the service center when their position in line is ready for service. At least one of the new peer state programs is launching with a call answer time performance standard substantially longer than the historic rates among state-sponsored retirement savings programs, indicating there may be an emerging trend in this direction.

Annual Marketing Commitment

The proposal would decrease the annual marketing commitment from $1,500,000 to $800,000. This would amount to $12,580,000 across the life of the contract, if extended three times to ten years, compared to $16,500,000, as shown in the table below.

Current vs. Proposed Marketing Commitment

| Contract Year | Current | Proposed |
|---|---:|---:|
| 1 | $2,000,000 | $2,000,000 |
| 2 | $2,000,000 | $2,000,000 |
| 3 | $2,000,000 | $2,000,000 |
| 4 | $1,500,000 | $1,500,000 |
| 5 | $1,500,000 | $1,080,000* |
| 6 | $1,500,000 | $800,000 |
| 7 | $1,500,000 | $800,000 |
| 8 if extended | $1,500,000 | $800,000 |
| 9 if extended | $1,500,000 | $800,000 |
| 10 if extended | $1,500,000 | $800,000 |
| Total | $16,500,000 | $12,580,000 |

*$1,080,000 in Year 5 is an estimate. The actual Year 5 commitment will be prorated to reflect $1.5 million annualized for the portion of the year leading up to the date of contract amendment and $800,000 annualized for the remainder of the year.

The allocation of the marketing budget is determined at the discretion of the executive director and may be used to cover other expenses and activities. It currently covers digital advertising, field staff representatives, extra notices to employers beyond the core set included in the contract, and small amounts for testimonial videos and other services and materials. Based on the patterns of heavier spending during the initial rollout years, the availability of rolled-over funds from prior years, and targeted efficiencies that are in development already, the executive director believes that the proposed commitment will allow for continued sufficient marketing services and outputs.

Fee for Participants Receiving Paper Delivery

The proposal includes a new $~~10~~5 fee for paper delivery of annual account statements, ~~and~~ disclosure materials, confirmations, and other communications. This fee would be waived for participants who opt into receiving these ~~statements and disclosure~~ materials electronically. Currently, 25%-30% of savers have opted into electronic delivery. If the Board approves this proposal, staff would work with Ascensus to conduct an outreach campaign to urge savers to consider opting into electronic delivery in order to save $~~10~~5 in fees. The amendment further states that this fee will rise to $10 per year when the parties agree that $10 is more appropriate given national trends and the market, and the change would require Board approval.

Program consultant AKF Consulting provided important context about other state program practices and why the Board cannot assign savers to electronic delivery by default. First, it is a best practice in the securities industry to provide investors with paper materials until the investors affirmatively opt for electronic delivery. A summary of other ~~Every~~ state-sponsored ~~retirement~~ savings program's paper delivery fees ~~currently charges a $10 fee for paper delivery, except one program which charges $5.~~ is provided in Attachment 2C.

In the context of municipal fund securities, in accordance with Municipal Securities Rulemaking Board (MSRB) Rule G-32[2], regulated entities must provide paper documents (e.g., account statements and disclosures) unless and until an investor affirmatively opts to receive the materials electronically. While CalSavers is not technically subject to the MSRB's Rules, industry best practice across similarly structured programs (that is, 529 college savings programs, ABLE savings programs for individuals with disabilities, and state-sponsored retirement savings programs like CalSavers, that do not include entities regulated by the MSRB), is to have investors eliminate paper delivery fees by opting into e-delivery.

Fee for Paper Checks

The proposal includes a new $5 fee for the issuance of paper checks for withdrawals and distributions. Every state-sponsored retirement savings program currently charges a fee for paper checks. As of this writing, 85% of all withdrawals from CalSavers were full withdrawals and typically associated with a departure from the program.

***Conclusion***

The proposed amendments would allow savers to achieve lower fees in the medium- and long-term, continue to provide for a good customer service experience and sufficient marketing

[2] https://msrb.org/Rules-and-Interpretations/MSRB-Rules/General/Rule-G-32

resources, and support the Board's partner in sustaining their service to the Program and its savers.

***Recommendation***

Staff recommend the Board approve Resolution 2022-11 to authorize the executive director to amend agreement CSCRSIB07-17A with program administrator Ascensus College Savings Recordkeeping Services, LLC, in substantially the same form as presented on this date.

***Attachments***

- Attachment 2A: Agreement CSCRSIB07-17A with Proposed Amendments in Redline
- Attachment 2B: Administrative Benchmarks Amendments (incorporated by reference into Agreement CSCRSIB07-17A)
- Attachment 2C: AKF Consulting Comparison of Paper Statement Fees Across State-sponsored Savings Programs
- Attachment 2D: Resolution 2022-11