MAY 22, 2023

AGENDA ITEM 1
ACTION ITEM

CALSAVERS RETIREMENT SAVINGS BOARD

Meeting Minutes for the February 27, 2023, CalSavers Retirement Savings Board Meeting

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Board members present:

- State Treasurer Fiona Ma
- State Controller Malia Cohen and David Oppenheim for State Controller Malia Cohen
- Gayle Miller for Director of Finance Joe Stephenshaw
- Michelle Gastelum
- Heather Hooper
- Nam Le
- Dave Low
- Stephen Prough
- William Sokol

Staff present:

- Kathleen Selenski, Executive Director
- Angela Duvane
- Sandy Guan
- Carolina Hernandez
- Jonathan Herrera
- Eric Lawyer
- Eric Lei
- Ariel Pickett
- Jacob Schafer
- Jessica Stroing
- Conner Van Vorhis

Others present:

- Theodore Ballmer, Counsel, State Treasurer's Office

Contractors present:

- Andrea Feirstein, AKF Consulting Group ("AKF")
- Mika Malone, Meketa Investment Group ("Meketa")

Troy Montigney, Ascensus College Savings Recordkeeping Services, LLC (“Ascensus”)
Paola Nealon, Meketa
Martha Nemecek, Ascensus
Elise Thiemann, State Street Global Advisors

CalSavers Retirement Savings Board (“Board”) Chair Fiona Ma called the meeting to order at 1:03 PM.

Agenda Item 1 – Approval of the Minutes of the December 15, 2022, Meeting of the CalSavers Retirement Savings Board (ACTION ITEM)

Public Comment
None

Board Action
Approval of the minutes of the December 15, 2022, meeting of the CalSavers Retirement Savings Board.

MOTION:
William Sokol

SECOND:
Heather Hooper

AYES:
Malia Cohen, Michelle Gastelum, Heather Hooper, Nam Le, Fiona Ma, Gayle Miller, Stephen Prough, William Sokol

NOES:
None

ABSTENTIONS:
David Low

ACTION:
Motion Passed

Agenda Item 2 – Executive Director’s Report (INFORMATION ITEM)

Executive Director Katie Selenski presented the item. Ms. Selenski welcomed the new State Controller, Malia Cohen, to her first meeting with the Board.

Ms. Selenski began her item with a staffing update. Ms. Selenski stated that former Manager of Administrative Operations for the CalSavers Retirement Savings Program (“Program”), Angela

Duvane, had transitioned to a new role as Manager of Data, Enforcement, and Reporting. Ms. Selenski then introduced Jessica Stroing who was to fill the role of Manager of Administrative Operations recently vacated by Ms. Duvane. Ms. Selenski stated that the hiring process for the remaining vacant positions in the Customer Service and Outreach unit was still ongoing.

Ms. Selenski discussed the January participation snapshot report, highlighting the strong investment performance during that period with a 13.5% asset value increase as well as highlighting the average funded account balance exceeded $1,000 for the first time in program history at an average of $1,050. Ms. Selenski also noted that the growth in numbers of registered employers had slowed slightly from recent months. Ms. Selenski credited this comparably slower growth to the registration deadlines in June and December of 2022 which drove employer action to enroll. Ms. Selenski also credited a delay in enforcement action relating to these deadlines as a possible cause for slower growth in the number of registered employers. Ms. Selenski stated that this delay was due to administrative issues as well as supply chain issues at the Office of State Publishing.

Ms. Selenski discussed efforts in planning to collect more demographic data, specifically data relating to race and gender of program participants. Ms. Selenski stated that, while demographic data on the uncovered population was available, collecting data on the current participants was previously not possible. Ms. Selenski stated that with the help of program administrator Ascensus, self-reported data could begin being collected on a voluntary basis potentially as early as the third quarter of 2023. Ms. Selenski noted that having the data would allow for a more informed program design and outreach strategy.

Ms. Selenski then discussed program enforcement. Ms. Selenski highlighted that, among the original 1,436 employers with a more than 100 employees whose deadline was September 30, 2020 (referred to as “Wave 1”) that were noncompliant in the fall of 2021, only 28 are still noncompliant; representing only 2% of the original number. Ms. Selenski noted that the Board’s efforts on enforcement and working in conjunction with the Franchise Tax Board were proving successful. Ms. Selenski also noted the enforcement efforts relating to employers with more than 50 employees whose deadline was June 30, 2021 (referred to as “Wave 2”) were still underway. Ms. Selenski also noted that employers with five or more employees and newly mandated employers whose deadlines were June 30, 2022, and December 31, 2022, (referred to as “Wave 3” and “Wave 2022”, respectively) would begin receiving enforcement notices in the coming spring.

Ms. Selenski discussed the renegotiated contract with Ascensus and a potential recommendation on changes to the state administrative fee. Ms. Selenski stated that the Board-approved contract amendments to its agreement with Ascensus were pending approval with the Department of General Services. Ms. Selenski noted that she had informed the Board during the fall of 2022 of her intent to provide a recommendation on changes to the state administrative fee from five basis points to a hybrid model but that she would make no recommendation at the time, as existing cash reserves allow for additional time to consider options. Ms. Selenski stated that a recommendation would likely not be made at the next meeting.

Ms. Selenski presented the quarterly risk monitoring summary, noting the addition of inflation as a risk factor per the Board's recommendation at the prior meeting. Ms. Selenski noted that, while inflation is currently high, the potential impact was low as no significant changes to participation or opt out rates had yet been measured due to inflation. Ms. Selenski noted that monitoring inflation as a risk was highly relevant to long term value of participant accounts and that monitoring inflation impact would continue. Ms. Selenski also noted that formatting changes of graphically oriented materials such as the risk report have been made to allow for greater document accessibility in alignment with state and federal guidelines, including those established by the Americans with Disabilities Act.

Ms. Selenski discussed contracts and highlighted two contracting efforts in progress, each of which falling under the Board's delegation of authority to the Executive Director due to having budgets not exceeding $300,000. Ms. Selenski stated that the recent Request for Qualifications for an External Legal Services Agreement had concluded with the selection of K&L Gates. Ms. Selenski also noted the Board's agreement with AKF Consulting was expiring in August and that several changes would be made to the Request for Proposals to better reflect how the services were being used, namely a reduction in dollar value to a maximum of $25,000 per year.

Ms. Selenski discussed legislation and policy, highlighting the fact that Senate Bill 1126 went into effect on January 1st. Ms. Selenski noted that the bill expanded the scope of the employer mandate to include employers who have fewer than five employees (referred to as "Wave 4") and established a registration deadline of December 31, 2025, for the newly mandated employers. Ms. Selenski also noted that CalSavers staff and staff within the State Treasurer's Office were providing technical feedback on Assembly Bill 1381, which would change the requirements for call center staff hired by contractors of public agencies. Ms. Selenski noted the bill would have a substantial impact on the program if passed as currently written.

Ms. Selenski provided a brief update on regulations efforts within the program and briefly updated the Board on federal rulemaking, noting U.S. Department of Labor rulemaking regarding consideration of environmental, social, and governance in retirement plans took effect on February 1, 2023.

Ms. Selenski discussed the customer service caseload of program staff and noted that staff were still working through the last public inquiries of 2022. Ms. Selenski stated that the same team of program staff, led by Jonathan Herrera, were also now conducting the informational webinars as opposed to sharing this duty with Ascensus, as had been done previously. Ms. Selenski highlighted that the webinars are popular and well-reviewed and thanked Ascensus for assistance in ensuring a smooth transition. Ms. Selenski noted that the number of outreach and stakeholder events had slowed in 2022 and stated this was due to the reallocation of resources to the customer service caseload.

Ms. Selenski highlighted the conference hosted by the Georgetown Center for Retirement Initiatives recent conference at UCLA and thanked Treasurer Ma for preparing a welcome video for conference participants and Board Member Michelle Gastelum for delivering introductory remarks at the conference.

Treasurer Ma thanked Ms. Selenski and program staff for their ongoing efforts. Board Member Gayle Miller thanked Ms. Selenski for the ongoing efforts regarding the fee structure and highlighted that while the program was operating under a loan, working to develop a fee structure would ensure long term fiscal sustainability.

<u>Public Comment</u>
None

Agenda Item 3 – Program Administrator's Report (INFORMATION ITEM)

Ascensus representative Troy Montigney presented the item. Mr. Montigney commented on the progress of Wave 2022, efforts at Ascensus to prepare for Wave 4, efforts to implement the new contract provisions and attempts to measure participant satisfaction for both employees and employers.

Mr. Montigney presented the fourth quarter marketing review. Mr. Montigney noted that Ascensus had completed the Wave 2022 registration campaign and stated that this was the first abbreviated registration campaign. Mr. Montigney stated that previous campaigns had benefited from years of outreach, but that with newly mandated employers there was a finite amount of time during which onboarding could take place and thus even further limited time for outreach. Mr. Montigney noted the development of an eligibility check template for newly mandated employers visiting the website to use before beginning the registration or exemption request process. Mr. Montigney noted changes to the marketing of webinars to be better suited to their new implementation under program staff led by Jonathan Herrera. Mr. Montigney highlighted ongoing efforts to update communications for the upcoming Wave 4 and efforts to draft communications relating to the fee change as outlined in the contract amendments.

Mr. Montigney discussed the client services annual summary. Mr. Montigney noted the contract amendments changes to the services level agreements (referred to as "SLA") and that all benchmarks in the second half of the year were met. Controller Malia Cohen inquired if website marketing materials were available in other languages to which Mr. Montigney answered in the affirmative. Mr. Montigney stated that most of the employer website were now available in ten languages, virtually every material was available in English and Spanish, and that most were also available in Mandarin. Mr. Montigney also stated that it is a constant goal to expand the number of languages materials are available in to better fit the needs of participants. Ms. Selenski answered that the board also contracts for translation services separate from Ascensus.

Mr. Montigney discussed the call center. Mr. Montigney noted that call volumes had decreased, especially since the Wave 3 deadline and noted that this was to be expected. Mr. Montigney stated that this change enabled Ascensus to shift focus to meet the new SLAs and provided a brief review of the changes as made in the contract amendments. Mr. Montigney also noted that SLA level is not always linked with participant satisfaction levels (referred to as "PSAT") as measured by a voluntary survey after an interaction with a client servicing representative. Mr. Montigney stated that, as the new SLAs come into effect, Ascensus will continue to update the board with more information about PSAT. Mr. Montigney noted that in the final quarter of 2022 as SLA level fell by 12%, PSAT still rose by 3%.

Ascensus representative Martha Nemecek presented the Ascensus outreach update. Ms. Nemecek noted that the majority of outreach conducted by Ascensus was one on one with individual employers but noted there were still some cohosted webinars conducted with Ascensus outreach staff during the final quarter of 2022. Ms. Nemecek highlighted that most of this outreach was related to the onboarding of new employers and compliance related inquiries associated with Wave 2022 and noted that these efforts significantly contributed to the number of employers reaching full compliance within the program.

Public Comment
None

Agenda Item 4 – Fourth Quarter Investment Performance Report & Follow-up on Target Date Funds Discussion from November 2022 Meeting (INFORMATION ITEM)

Meketa representatives Paola Nealon and Mika Malone, and State Street Global Advisors representative Elise Thiemann presented the item. Ms. Nealon provided a summary of the market and CalSavers Target Retirement Funds (referred to generally as target date funds or "TDF") performance over the last quarter of 2022 and noted that the equities market performed well over the last quarter which benefitted the later dated target date funds more due to their greater investments in equities. Ms. Nealon stated that 2022 overall was not a good year for many types of investments and that diversification did not lessen the impact of the down market. Ms. Nealon commented that the Board's measure of success for these funds is how they compare to the index and that the funds are tracking closely with the index.

Board Member Stephen Prough asked Ms. Nealon why the 2065 TDF returned less than the 2060 TDF for the quarter given that the later fund would be likely to have greater exposure to the equities funds that performed so well in that quarter. Ms. Nealon responded that the two funds had very similar exposure to equities markets and this difference was likely due to a rounding issue. Ms. Thiemann confirmed that the asset exposure for the two funds is identical, and the difference was indeed due to a rounding difference.

Ms. Malone discussed how TDFs are designed for the program. Ms. Selenski clarified that this discussion was to answer questions asked by the board during the November meeting and thanked Ms. Thiemann for attending to provide the perspective of SSGA in this matter. Ms. Malone highlighted that most savers in the program are utilizing the TDFs as their primary investments for retirement and noted the importance of the asset allocation over time, or glidepath, of these funds. Ms. Malone noted that in TDF that has a later target retirement date assets will be allocated in more exposed markets like equities but that as the target retirement date approaches assets would instead be allocated into typically safer investments.

Ms. Malone discussed the different industry perspectives on a glidepath and described the strategies as "to" or "through" glidepaths. Ms. Malone described the differences in the glidepaths, noting that in the "to" glidepaths, asset allocation becomes most conservative at the target retirement date, whereas in the "through" glidepath asset allocation reaches its most conservative investment allocation (referred to as "landing point") after the target retirement date due to the increasingly longer life expectancy of savers. Ms. Malone stated SSGA TDFs utilize the "through" glidepath approach and that it was intended to allow for greater growth of investments over longer periods of time. Ms. Malone highlighted that there was no single correct approach as determined by the industry.

Ms. Thiemann discussed the approach SSGA took when constructing the glidepaths used for the TDFs. Ms. Thiemann stated that the TDFs tend to reduce risk as savers approach 30 years prior to retirement. Ms. Thiemann stated that the landing point for these TDFs is designed to be when the saver reaches approximately 70 years of age, noting their asset allocation would then be 35 percent growth-oriented assets and 65 percent bonds. Ms. Thiemann provided additional explanation for why SSGA designs their TDFs to be "through" retirement age, with a target de-risking age of 70. Ms. Thiemann noted the decision was based upon evidence showing most savers do not begin to withdraw funds until age 70.

Controller Cohen asked how TDFs are tailored to help older investors and not just younger investors. Ms. Malone discussed how TDFs are designed based on the estimated date that a saver will reach retirement age. Ms. Malone noted a TDF's asset allocation will vary depending on an individual's age.

Controller Cohen inquired about younger savers and what rates they tend to save at. Ms. Thiemann noted that auto enrollment and auto escalation significantly increase the number of younger savers and the amount they are saving and that younger savers do not typically make active adjustments to their retirement savings. Ms. Malone noted that savers can opt out, and Ms. Selenski noted that about a third of employees are opting out.

Controller Cohen inquired about the age metrics of savers. Ms. Selenski noted that the program had not historically been reporting to the board on the age of participants but that such reporting could be done going forward. Ms. Selenski stated that, by working backwards from the number of savers investing in each TDF, a breakout of saver age data could be presented. Ms. Malone stated that Meketa could begin to compile industry-wide data that would help to demonstrate the positive effects on saver retirement of beginning to save at an earlier age. Ms. Thiemann highlighted the ease of use of a TDF for a saver at a young age as it allows such a saver to get the benefits of a more growth focused portfolio without having to actively manage it.

Controller Cohen inquired about the minimum age for program participations. Ms. Selenski answered that a person must be at least 18 years of age to participate. Ms. Malone noted that there are other savings tools for parents of younger children. Treasurer Ma noted that during past visits to businesses, some employees communicated that they had entirely forgotten about their participation in the program and decided to increase their contribution.

Treasurer Ma inquired about what happens when a saver passes away. Ms. Selenski responded that the account balance would go to a beneficiary and that staff and Ascensus constantly encourage savers to set a beneficiary in communications to savers. Mr. Montigney confirmed that a saver would have to designate a beneficiary and that naming a beneficiary is always encouraged in communications and saver statements.

Public Comment
None

Agenda Item 5 – Annual Review and Readoption of the Investment Policy Statement (ACTION ITEM)

Ms. Selenski noted that the remaining time in the meeting was running low. Treasurer Ma inquired if this item would be removed from the agenda to which Controller Cohen replied with a motion.

Public Comment
None

Board Action
Motion to table this item until the following meeting.

MOTION:
Malia Cohen

SECOND:
Fiona Ma

AYES:
Malia Cohen, Michelle Gastelum, Heather Hooper, Nam Le, David Low, Fiona Ma, Gayle Miller, Stephen Prough, William Sokol

NOES:
None

ABSTENTIONS:
None

ACTION:
Motion Passed

Agenda Item 6 – Summary of 'SECURE 2.0 Act of 2022' Included in the Consolidated Appropriations Act of 2023 (INFORMATION ITEM)

At this point Controller Cohen was relieved by designee David Oppenheim.

Program staff member Eric Lawyer presented the item. Mr. Lawyer discussed recent changes made to federal retirement law made through provisions included in the Consolidated Appropriations Act of 2023, referred to as the "Secure 2.0 Act." Mr. Lawyer noted that there was nothing in the law that directly regulated the program but stated that much of its provisions could be indirectly relevant to the program and savers.

Mr. Lawyer discussed the Saver's Match tax credit; the allowance of transfers of unused funds in a 529 account into an IRA retirement account; and changes made to emergency withdrawals. Treasurer Ma inquired what constituted an emergency under the law, Mr. Lawyer responded that a financial emergency was loosely defined intentionally and summarized the changes as making it simpler for plan sponsors to certify a financial hardship.

Mr. Lawyer discussed changes to rules for plan sponsorships by employers. Mr. Lawyer noted the creation of "Starter K" and Safe Harbor 403(b) plans that mimic state sponsored retirement plans. Mr. Lawyer noted that the law does not establish a compliance or enforcement function to ensure that employers who operate these plans follow the rules established.

Mr. Lawyer discussed the provisions and changes in the law pertaining to the employer plan startup tax credit. Mr. Lawyer noted the changes in the law that aimed to incentivize smaller employers to begin sponsoring a plan and making matching contributions. Mr. Lawyer stated that this change may lead to some employers who have previously been subject to the CalSavers mandate and have enrolled in the program to instead offer a more robust retirement savings plan for their employees, like a 401(k). Mr. Lawyer highlighted that this would still be meeting the mission of the program of increasing overall access to retirement savings solutions in the workplace.

Mr. Lawyer highlighted the law requires new plans to have automatic enrollment and automatic escalation. Mr. Lawyer stated that, in addition to encouraging participation by employees, these features being required in these new types of programs would have a potential positive impact on the amount of criticism that CalSavers sometime receives regarding this.

Mr. Lawyer discussed changes to rules regulating paper statements that may affect the program. Mr. Lawyer stated that law codified previous federal rulemakings that allowed plan sponsors to automatically enroll savers into electronic delivery if the workplace operates mostly with electronic systems. Mr. Lawyer noted that this provision allows for only one paper statement each year rather than one each quarter and that this would not take effect until 2026.

Treasurer Ma inquired if savers in the CalSavers program would also be eligible to receive the Saver's Match tax credit. Ms. Selenski confirmed that savers in the program would be eligible for that tax credit, but that there would be logistical problems that need to be addressed as the credit allows for deposit into pretax accounts and most savers with the program have post-tax accounts.

Mr. Oppenheim highlighted that the Secure 2.0 Act had just passed in the last two months and that California was already taking steps to create additional wealth and opportunity through investments and savings by implementing these new rules and programs. Mr. Oppenheim thanked Mr. Lawyer for the efforts being made to take full advantage of the Secure 2.0 Act and expressed intent to continue to work within the new rules and regulations help Californians to create as much wealth as they can and as fast as they can.

<u>Public Comment</u>
None

Agenda Item 7 – Public Comment

None.

The Board adjourned at 2:15 P.M.