

California Secure Choice

Secure Choice Retirement Savings Investment Board Meeting

Overture Financial Update

Sacramento, California

July 27th, 2015

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Program Design:

- A quantitative analysis for each of the potential program designs options has been completed.
- Several meetings were conducted with BridgePoint to design an operational model for the California Secure Choice Program. The first draft of the operational model has been completed.
- Two meetings were conducted with EDD to discuss their potential role in centralizing the enrollment and contribution submission process, which is critical for keeping account administration costs under control and minimizing the burden on employers.
- The program design team has compiled a list of legal questions and had a call with K&L Gates to address those questions.

Market Analysis:

- The Focus Groups report has been finalized.
- Work on the Online Questionnaire has started.
- Work on market profile is ongoing.

July Update (*Continued*)



Stakeholder Outreach

- **Business/Employers:** Interviews conducted with representatives of SF Chamber of Commerce, the California Chamber of Commerce, the Hispanic Chamber of Commerce, and Small Business Majority. Chinese Progressive Association (see Labor/Worker organizations below) also gave perspective as nonprofit employer. Interviews scheduled with two individual employers and the Golden Gate Restaurant Association. Ongoing outreach to recruit individual employers.
- **Labor/Worker Organizations:** Interviews conducted with Chinese Progressive Association (on Asian immigrant workers) and Restaurant Opportunity Center. Ongoing outreach to recruit service sector unions.
- **Other:** Interviews conducted with CA AARP and California Association for Retired Americans. Interviews scheduled with National Council of La Raza.

Key Takeaways of Worker Focus Groups



Findings from the six focus groups have been compiled. Key takeaways include:

1. Californians face several barriers to saving: Many Californians, especially low-income, feel they cannot afford to save for retirement. In addition, many are also held back by not having access to 401(k) plans, the inertia of never getting started, and a fear of where to put their money.
2. Most focus group participants say they want to save and would do so if given the opportunity.
3. Many have a strong mistrust of financial institutions, fearing not only market loss but that they cannot trust institutions to hold their money.
4. Views on government are more mixed. Some trust government and some do not. Most are at least mildly positive about California State government.
5. On balance, most are also risk averse. Much of their fear stems from a lack of knowledge about the investment world. These consumers do not understand realities that would ease their mind – that money is protected from fraud, the risk-return trade-off, that risk is reasonable for someone holding money for years, and that mutual fund money is diversified.
6. In general, respondents have a favorable reaction to the California Secure Choice program and its features, including automatic enrollment, a default contribution rate, and portability. Most importantly, many feel that automatic enrollment will get them to save more.
7. Focus groups suggest that a key challenge for the California Secure Choice program will be positioning and explaining the investment options to potential users, given distrust of financial institutions, lack of exposure to basic investment concepts, and resulting risk aversion.

Program Design Options



Design Options	Accumulation Phase	
	Investment Strategy	Variations
Balanced Fund	1st 5yrs SVF -> Balanced Fund	Rolling 5 years
Pooled IRA (Reserve Fund)	Liability matching	Aggressive, Moderate, Conservative
Target Date Fund	Glide Path Equity to FI	
Target Income Fund	Glide Path based on liability driven investment strategies	
Bank Deposit	100% Cash	
Deferred Fixed Annuity	Interest from insurance company	
Variable Annuity	Balanced with possible floor	
Variable Annuity with GMWB*	Balanced with guaranteed income base and annuitization interest rate	

*Guaranteed Minimum Withdrawal Benefits

Design Options	Decumulation Phase				
	Lump Sum	Systematic (e.g., 4%)	Annuity 2% Fixed COLA	Annuity Full COLA	Collective Payout
Balanced Fund	Yes	Yes	Yes	Yes	Yes
Pooled IRA (Reserve Fund)	Yes	Yes	Yes	Yes	Yes
Target Date Fund	Yes	Yes	Yes	Yes	Yes
Target Income Fund	Yes	Yes	Yes	Yes	
Bank Deposit	Yes	Yes	Yes	Yes	Yes
Deferred Fixed Annuity	Yes	Yes	Yes	Yes	
Variable Annuity	Yes	Yes	Yes	Yes	
Variable Annuity with GMWB*	Yes	Yes	Yes	Yes	

*Guaranteed Minimum Withdrawal Benefits

Operational Model

Key Challenge:

- The key question/definition of “feasibility” is “can this program/what type of program can be offered for a fully bundled cost of 100 bps or less on assets.” Fully bundled includes investment management, participant services/administration and recordkeeping fees in addition to any investment services fees.
- The core challenge is scale vs. cost vs. customer experience. For example, with an average annual wage of \$25k to \$30K, a 2% to 4% auto enrolled contribution, and a 93% passive opt-in rate (7% opt-out) phased in over 5 years, the recordkeeper will be challenged to manage start-up costs and transaction volume with very low account balances in the early years.

Core Assumptions:

- Volume will come in phases over a 3 – 5 year period
- We are solving for cost to serve/administer first, customer experience second. The entire “fully bundled expenses” – e.g. investment management, distribution, service, administration, trading control, communications and fulfillment – must be accomplished for 100 bps or less.

Next Steps

- Fine tune the quantitative analysis for all program design options and cut the list of options from 8 to potentially 3 options.
- Refine the operational model.
- Continue the discussion with EDD. EDD to come back with cost estimates for three base-case scenarios, depending on EDD's level of involvement in the operational workflow.
- Continue discussion and due diligence with vendors regarding their product offerings.
- Draft Online Questionnaire (Questionnaire to take place in mid-August 2015).
- Continue stakeholder outreach.

THANK YOU FOR YOUR TIME