



State Sponsored Retirement Programs

Considerations from a Potential Plan Administrator

Illinois Secure Choice Savings Board
July 20, 2016



Presentation Points

- Introduce our relevant corporate history and experience:
 - As a leading administrator of 529 College Savings Plans
 - As a leading retirements services firm, including 40 years of supplying IRA compliance to the financial services industry

- Share our vision for a “best-in-class” Secure Choice Program
 - Program Characteristics
 - Administrator Excellence
 - Efficient Technology Platform
 - Well-Designed Pilot Program

- Identify concerns of potential vendors

Similar Start Up Concerns in 529 Plans

- Early movers in 529 faced the prospect of starting from zero assets in a small account balance business
 - Most plans levied annual maintenance and enrollment fees
 - Many plans implemented high fees for rollovers out and non-qualified distributions
 - High asset-based fees relative to today
- States struggled with program structure
 - Structure of governing entities
 - Retail mutual funds vs. municipal “wrapped” products

Similarities to 529 Plans

- State-sponsored plans
- Limited investment menu with focus on low fees, emphasis on age-based / target funds
- State / board governance
- Consumer-facing interface and focus (not company / sponsor as traditional retirement plans)
- Small dollar accounts and contributions
 - Drives need for an efficient recordkeeping platform

Key Differences from 529 Plans

- Employer involvement in the enrollment / contribution processes
 - Creates significant costs for rollout & ongoing servicing
- IRA-specific rules and reporting
- Federal tax treatment
- Scale of Auto-IRA plans could dwarf 529 plans; requires recordkeeping and servicing model that will scale
- May be state mandated and / or have expense caps
- Customer base will likely be less investment-savvy

Our Vision for a Best-in-Class Program

- State program characteristics
 - Governance similar to 529: Dedicated Board, Program Administrator working with one to many Investment Managers
 - Wrapped investment vehicles issued by the State
 - Mainly target-date funds as vehicles
 - Default deferral rate of 5% or greater
 - Commitment to pilot program as part of phased rollout
- Program administrator excellence
 - Highly functional customer / employer websites
 - Frictionless signup process for employers
 - Highly efficient customer service
 - Scalable investment platform dedicated to these programs

Technology Platform Drives Level of Success

- Platform must work efficiently from Day 1
 - High level of customer-facing functionality on Web
 - High level of transaction automation
 - Efficient payroll processing capabilities
 - Highly flexible and scalable
- A custom system based on the leading retirement and 529 industry platform offers assurance that Day 1 requirements are met
- Key platform challenges:
 - Efficiently handling payroll volumes
 - Limiting employer interaction / frustration

Well-Designed Pilot Program is Key for Rollout

Recommendation: Start enrolling the first participants via a well-designed pilot program before a full program opening

- Utilize a <5% cross-section of employers (e.g., business names starting with the letter 'A', or some other random criteria)
- Ensure that businesses of all sizes / industries will submit payroll data
- Cover interfaces to all major payroll vendors

This approach allows the State to assess that:

- The program recordkeeper has a complete solution
- Payroll onboarding time estimates are adequate
- Call volume is adequately handled by staff
- Feedback is captured from employers and participants

Use of a pilot program will ensure that adjustments can be made early enough to provide a positive experience for participants and employers.

Key Concerns of Potential Vendors

- Handling payroll feeds for thousands of businesses requires significant upfront work and communication
- From a program design standpoint, offering multiple programs within a state is a potential barrier to entry, since having certainty of program scale is an important vendor bid factor
- The State's monitoring of employer participation, to include imposing effective measures for non-compliance
- Given the nature of the employer audience, our view is that the State should be heavily involved in endorsing or driving program communications, with the support of an administrator

Summary

- There are lessons learned from our 529 experience that are very applicable to this new market
- Our IRA expertise is well-known and respected in the industry
- A best-in-class Secure Choice Program will feature a highly efficient technology platform which can be fine-tuned for rollout through a well-designed pilot effort
- Ascensus is available to continue conversations with the Illinois Secure Choice Program as implementation questions arise