# E. Financial Feasibility Study

## 1. Overview

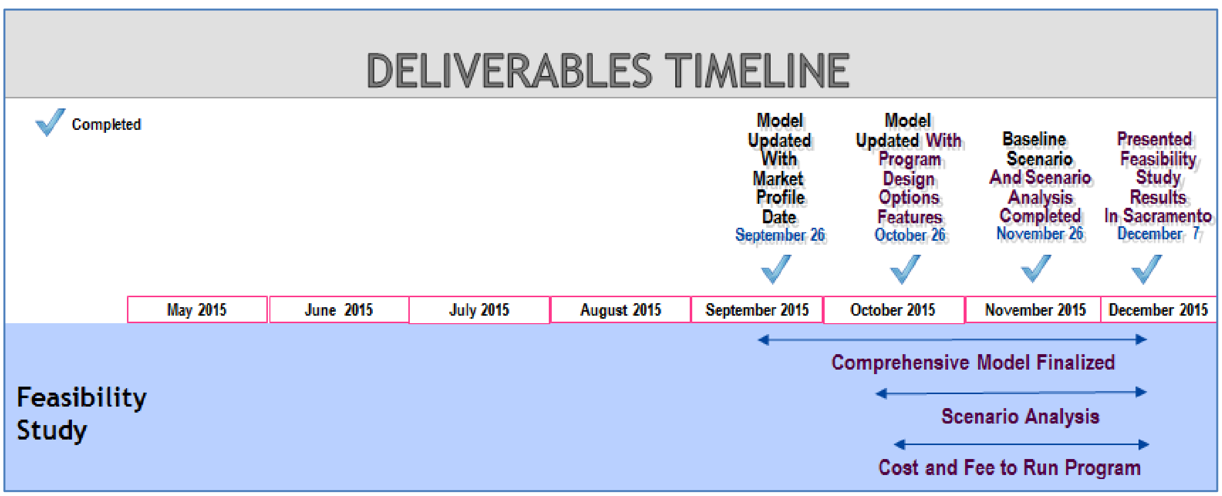
### i. Scope and Methodology

The Scope of Services under the Contract calls for the Financial Feasibility Study to:

- ✓ *Assess whether the Program will be self-sustaining.*
- ✓ *Recommend the amount of funds necessary to implement the Program and the best means of financing.*
- ✓ *Recommend a cost and fee structure that ensures the Program is self-sustaining, simple to administer, and low-cost to participants.*

The Financial Feasibility Study team in coordination with the Program Design and Market Analysis teams has delivered on the requirements for the Financial Feasbility Study element as described below.

### ii. Timeline



### iii. Key Findings

Our key findings are that

(1) **The Secure Choice Program is financially viable and self-sustaining even under adverse conditions with poor investment returns and high opt-outs rates**.
(2) Total fees to participants need not exceed 1% of invested assets and such fees can decline to significantly lower levels after the first 5 years of operation, making the Program very attractive for savers.
(3) Under the conservative assumptions of the Baseline Scenario, with a default contribution rate of 5% and an opt-out rate of 25%, the Program achieves significant scale by the first year of operation with 1.6 million participants and over US $3 billion in assets. It also achieves operational breakeven by the fourth year of operation. The total funding gap—cumulative operating deficits financed at 5% interest—is moderate at US $73 million, representing less than 2.5% of program assets at the end of the first year of operation. The funding gap can be paid off by Year 5.
(4) Even under the adverse conditions of the Pessimistic Scenario, program expenses fall below 1% of program assets by the fifth year of operation. The funding gap rises to a still manageable US $129 million representing 2.7% of program assets by Year 2, 1.7% by Year 3, 1.2% by Year 4 and 0.9% by Year 5.
(5) The sensitivity analysis we performed demonstrated that financing requirements and program expense ratios are very sensitive to the default contribution rate, but the opt-out rate has a small to moderate impact below 50% and even extreme opt-out rates exceeding 80% do not materially impact the financial sustainability of the Program.
(6) Because most Program operating expenses consist of employee and employer per unit costs, employer-level participation rates do not meaningfully impact Program financial feasibility.

### iv. Key Recommendations

Our main recommendations are to:

(1) Structure the California Secure Choice Program along the lines of the Baseline Scenario in terms of the default contribution rate (5%) and a recordkeeper direct service model. In particular, program financing requirements and expense ratios are highly sensitive to the default contribution rate. A lower default contribution rate entails significantly higher startup financing.
(2) Make provisions for obtaining US $129 in startup financing even though a lesser amount is likely to obtain. Startup financing can be secured through a line of credit or loan (best option), through vendor financing (less attractive option), through higher fees to participants (undesirable option) or as a combination of the above.

## 2. Projection Model

*Overview:* A projection model was developed to determine whether the costs associated with implementing and running the California Secure Choice Program were within acceptable limits over a period of many years. The model projects outcomes for 15-year scenarios based on a flexible set of input parameters and assumptions. The specific results developed within the model are:

- The number of program participants at the start of each year, split between those who are actively contributing and those who are not contributing but still maintain an account within the program.
- The number of participants entering and leaving the program for each year.
- All cash flows into and out of the program for each year:
    - Contributions
    - Distributions of assets to exiting participants
    - Investment returns
    - Expenses, split into a number of sub-categories, for the program operation, recordkeeping, and investment of assets
- The total assets under investment within the program.
- Program **expenses as percentage of assets** under investment within the program.
- Funding requirements.

*Methodology:* The model uses data from the Current Population Survey (CPS) to determine the initial number of workers expected to meet the program's eligibility requirements, as well as their demographic make-up:

- Ages
- Part-time / full-time status
- Earnings

From this data, the model estimates the number of eligible workers who will actually enter the program each year, what their contributions will be, and how many might leave the program each year as the result of worker turnover. Full-time and part-time workers are modeled separately due to the significant differences in their demographics. Essentially, the model creates the expected payroll for participating workers, which then allows for a calculation of the expected contribution inflows. Additional assumptions are then used to develop all other cash flows expected for a particular scenario. The assumptions are discussed in more detail in the following sections. They can be divided into two major categories:

- Core assumptions, which are those related to participant behaviors (e.g. turnover, opt-out rates, cash out rates, etc.) as well as the primary economic assumptions (e.g. rate of wage growth, investment returns), and
- Scenario-specific assumptions, which cover the various expenses expected under any specific combination of an operational structure and an investment structure.

*Input Parameters and Core Assumptions:* To permit flexibility in running the model, many input parameters are used to specify the key assumptions. For core assumptions, there are over 25 different input parameters. For the scenario-specific assumptions related to program expenses, there are, for any given year, 33 different potential input parameters. These cover 11 different expense categories, and then allow the estimated expense to be input as some combination of a fixed dollar amount, a per participant charge, and/or a percentage of assets charge.

## 3. Core Assumptions

The following list highlights the values used for some of the key core assumption inputs. Sensitivity testing was performed for many of these input variables to test the sensitivity of output results to changes in the assumptions. As a general rule, we opted to make assumptions which we felt were "conservative" in nature – meaning that we purposely made an attempt to push program expenses (measured as a percentage of assets) more toward the upper end of the expected range, as opposed to the middle or lower end of the expected range.

- Eligible Worker Pool: The CPS data showed that 6.3 million were workers potentially available as eligible participants, 25% of them part-time and 75% of them full-time. We estimated that 10% of this number would not have a valid Social Security number and so would not participate. We also estimated (based on an analysis of hours worked per year) that at any single point in time, about 10% of full-time workers and 25% of part-time workers would be in between jobs and not represented on any employer payroll.

- Average Pay: Based on the CPS data on annual earnings, part-time/full-time status, and number of weeks worked during the calendar year, we assumed an average annual pay rate of $45,000 for full-time workers and $20,000 for part-time workers.

- Worker Turnover: The assumed turnover rates were developed by analyzing the job tenure data from responses to the marketing survey. We assumed a gross annual turnover rate of 18% for full-time workers and 30% for part-time workers. Of those assumed to change jobs in a year, we assumed that 50% of full-time and 60% of part-time workers would remain covered under the California Secure Choice Program with their new employer. Of the remaining workers who would exit from active participation, we assumed that 50% would elect a lump sum cash-out. Within the model, turnover rates are modeled in a way that reflects both the age and service characteristics of the workers.

- Employer Phase-in Schedule: There are approximately 285,000 employers of which 90% have fewer than 50 employees. Employers with less than 50 employees account for approximately 43% of the total eligible employee population. Starting with employers with more than 50 employees in the first year and following advice from Bridgepoint not to exceed roll-out to more than 100,000 employers per year, a four-year phase-in schedule would be required. In terms of the percentage of eligible workers, the phase-in assumption results in 46% entering in year one, 27% in year two, 17% in year three and 10% in year four.

- Base Economic Variables: We assumed that price inflation would scale from 1% in the first year, up to 2% in year three and later. We assumed general wage growth would scale from 0% in the first year, up to 2.5% in year four and later.

## 4. Baseline Scenario

The baseline scenario was constructed as a conservative scenario based on the results of the Market Analysis, the work of the Program Design team with regard to the Operational Model, Plan Rules and Procedures and Investment Options, our research into the various cost drivers, conservative market assumptions and a 1% cap of total fees charged to participants as a percentage of assets.

### i. Baseline Scenario Assumptions

- Participation
  - ✓ **Default contribution rate: 5%** based on Market Analysis Recommendations
  - ✓ **Opt-out rate: 25%** based on conservative Market Analysis Findings

- Leakage
  - ✓ In-service leakage rate (% of assets a year): 1%
  - ✓ Percent of job leavers taking lump sum: 50%
  - ✓ Total effective annual leakage from plan: 3.5%

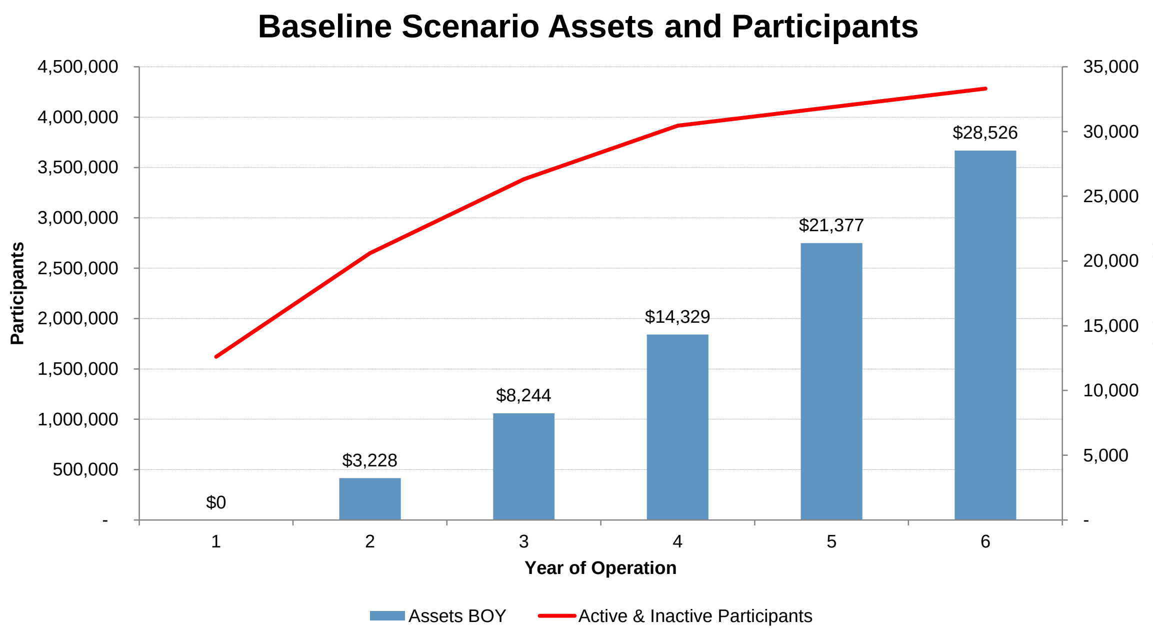
- Total Fees Charged to Participants: **1% of Assets**

- Program Expenses
  - ✓ Direct recordkeeper servicing model with EDD role limited to employer outreach, training and support
  - ✓ Description of expense items and assumptions included in Section (v) below.
  - ✓ Do not include enforcement costs

- Conservative Nominal Investment Returns: **0% Years 1-3, 3% Thereafter**

### ii. Baseline Scenario Assets and Participants

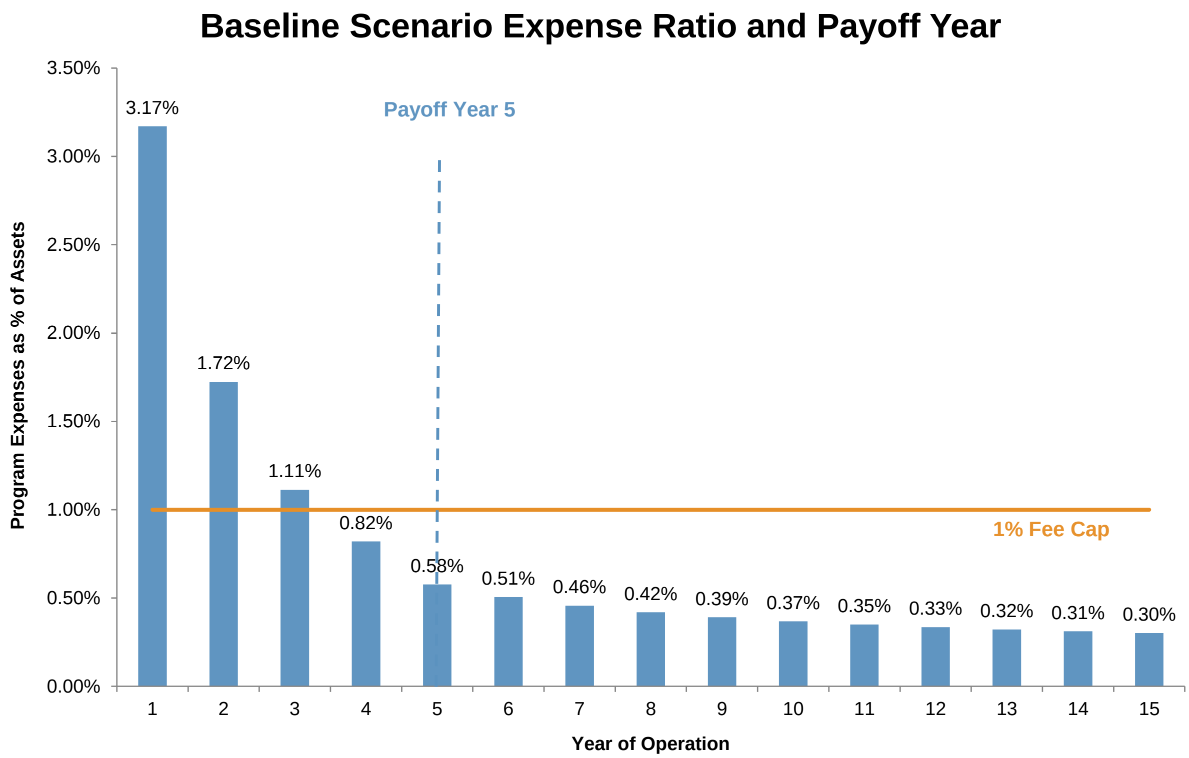
The chart below shows that significant scale is achieved by the first year of operation with 1.6 million participants and over $3 billion in assets.




First year enrollment is only for approximately 30,000 employers with more than 100 California employees.

### iii. Baseline Scenario Expenses

The chart shows all program expenses as a percent of asset over the years. The 1% Fee Cap line represents the highest level of fees that can be charged to participants in the Baseline Scenario.




The operating deficit during the first 3 years (blue bars above the 1% Fee Cap line) has to be financed from future surpluses (blue bars below the 1% Fee Cap line).

Assuming a **funding cost of 5% per year**, the funding gap can be paid off by Year 5.

### iv. Baseline Scenario Funding Requirements

The startup financing requirement for the Baseline Scenario is US $73 million. This is equivalent to the amount that the Program would have to borrow in order to cover the revenue shortfalls of the first 3 years, assuming 5% interest. The loan would be paid off during Year 5

There are <u>at least</u> four ways to finance the funding gap

(1) The Program secures a startup **loan** or
(2) Participants are initially charged **fees in excess of the 1% cap** or
(3) Key **vendors fund the gap** by absorbing the operating deficit until the shortfall is paid off. This would require 5+ year contracts and vendors with significant capital wherewithal or
(4) Combination of the above

The table below shows how higher participant fees reduce the need for financing, but shifting the startup fee structure toward account-based fees can be regressive.

| Fee on Assets | Monthly Account Fee | Required Financing |
|---|---|---|
| 1% | $0.5 | $44 million |
| 0.8% | $1 | $32 million |
| 1% | $1 | $15 million |
| 3% | $0 | $0 million |

## v. Baseline Scenario Expense Drivers

The table below breaks down the expense drivers under the Baseline Scenario.

| Expense Items | Real Growth Rate | Year 1 USD Millions | Year 1 Percent of Assets | Comment |
|---|---|---|---|---|
| Internal Staff | 10% | $3 | | Based on CA Savings Plus + 20% |
| Board Expenses | 10% | $0.20 | | Includes fiduciary insurance |
| External Legal Services | | $0.50 | | Goes down to $250,000 after Year 1 |
| OE&E | 10% | $3 | | Based on CA Savings Plus + 20% |
| Investment Consultants | | $0.35 | | Goes down to $250,000 after Year 1 |
| Investment Management | | | 0.18% | |
| Custodian/Trustee Services | | | 0.01% | |
| Non-Recordkeeping Startup Costs | | $0.75 | | For two years. Yr 1: System Architecture and RFP. Yr 2: Project Management |
| Recordkeeping and EDD | | | | See next set of tables |

- ✓ The Real Growth Rate column indicates the rate at which the line item will be increased every year (in addition to the inflationary adjustment described below).
- ✓ After Year 5, flat (i.e., non-percent) expense items are increased by 1.5% (i.e., 0.5% less than inflation assumption) every year.
- ✓ Enforcement costs are not included.

The tables below break down recordkeeping cost drivers and EDD Cost Estimates.

**Recodkeeping Cost Drivers**

| Annual Cost Drivers | EDD Servicing Model | Direct Servicing Model |
|---|---|---|
| Flat Amount (Current USD) | $600,000 | $800,000 |
| Per New Employer | $120 | $240 |
| Per Existing (Non-New) Employer | $120 | $150 |
| Per Participant | $17 | $20 |

**EDD Cost Estimates**

| Cost Item | EDD Servicing Model<br>EDD acts as Intermediary between Recordleeper and Employers and Performs Employer Outreach, Support and Training Functions | | Direct Serving Model<br>EDD Only Performs Employer Outreach, Support and Training Functions | |
|---|---|---|---|---|
| | Startup | Ongoing | Startup | Ongoing |
| **Systems*** | $42,000,000 | $5,000,000 | | |
| **Legal** | | $150,000 | | |
| **Marketing** | $800,000 | $400,000 | $800,000 | $400,000 |
| **Contribution Processing** | $700,000 | $1,800,000 | | |
| **Call Center** | $1,200,000 | $700,000 | $1,200,000 | $700,000 |
| ***Reserve*** | *$300,000* | *$1,950,000* | *$100,000* | *$300,000* |
| **Total** | **$45,000,000** | **$10,000,000** | **$2,100,000** | **$1,400,000** |

**Assumes leveraging and upgrading of existing EDD ACES system. A new dedicated stand-alone system is estimated to cost $28 million more.*

- ✓ The recordkeeping cost drivers are based on the operational workflows presented in the Operational Model section under Program Design and are derived from a model proprietary to Bridgepoint.
- ✓ EDD data are derived from functional cost estimates provided by EDD with the following adjustments: exclusion of compliance auditing costs, reduction of legal costs to be consistent with our research and an additional 20% buffer in the Reserve line item.

## 5. Sensitivity Analysis

The table below shows the results of performing sensitivity analyses by adjusting one key assumption of the Baseline Scenario at a time.

| | Required Financing (USD Millions) | Payoff Year | Year 1 Program Expenses as % of Assets | Year 5 Program Expenses as % of Assets | Year 10 Program Expenses as % of Assets |
|---|---|---|---|---|---|
| **Baseline** *(5% Contribution; 25% opt-out)* | $73 | 5 | 3.17% | 0.58% | 0.37% |
| **3% Contribution Rate** | $129 | 7 | 4.78% | 0.79% | 0.47% |
| **10% Opt-out Rate** | $73 | 5 | 3.02% | 0.57% | 0.36% |
| **EDD Servicing Model** | $98 | 5 | 6.03% | 0.56% | 0.36% |
| **Adverse Investment Returns*** | $72 | 5 | 3.17% | 0.63% | 0.37% |
| **Reserve Fund Structure**** | $74 | 5 | 3.23% | 0.58% | 0.37% |
| *Extreme 80% Opt-out Rate* | *$79* | *5* | *5.49%* | *0.71%* | *0.43%* |
| *Extreme 95% Opt-out Rate* | *$90* | *14* | *12.59%* | *1.10%* | *0.61%* |

**Sequence of Annual Investment Returns as follows: 0%,0%,-10%,-10%,5%,5%,10%,10%,0%,-15%,5%,5%,5%,5%,5%.*
***Incremental $1 million in external legal startup expense.*

The sensitivity analysis shows that:

(1) **Financing requirements and program expense ratios are very sensitive to the default contribution rate**.

(2) Initial program expenses are higher under the EDD Servicing Model because of the higher startup cost estimate of $45 million.

(3) The opt-out rate has a small to moderate impact below 50% because key variable costs are tied to the number of participants and the program is large in scale. **Even extreme opt-out rates exceeding 80% do not materially impact the financial performance of the Program**.

(4) Because the Baseline Scenario assumes that participants are defaulted to very low risk investments during first three years, the impact of adverse investment returns is only seen in later year program expense ratios.

# 6. Scenario Analysis

Three scenarios—Baseline Scenario, Optimistic Scenario and Pessimistic Scenario—were constructed to **gauge the range of variability of results and as means for contingency planning**.

## i. Scenario Assumptions

The table below shows the assumptions for the various scenarios.

| | Expenses Borne by Participants | Contribution Rate | Opt-out Rate | Employer Servicing Model | Investment Returns |
|---|---|---|---|---|---|
| **Baseline** | 1% of Assets | 5% | 25% | Direct Recordkeeper | Conservative<br>1st 3 Yrs: 0%; 3% Thereafter |
| **Pessimistic** | 1% of Assets | 3% | 30% | Direct Recordkeeper | Adverse:<br>*0%,0%,-10%,-10%,5%,5%,10%,10%,0%,-15%,5%,5%,5%,5%,5%* |
| **Optimistic** | 1% of Assets | 5% | 10% | Direct Recordkeeper | Average<br>1st 3 Yrs: 0%; 6% Thereafter |

## ii. Scenario Results

The table below breaks down the results under the various scenarios.

| | Required Financing (USD Millions) | Payoff Year | Year 1 Program Expenses as % of Assets | Year 5 Program Expenses as % of Assets | Year 10 Program Expenses as % of Assets |
|---|---|---|---|---|---|
| **Baseline** | $73 | 5 | 3.17% | 0.58% | 0.37% |
| **Pessimistic** | $129 | 8 | 4.88% | 0.87% | 0.47% |
| **Optimistic** | $73 | 5 | 3.02% | 0.56% | 0.35% |

The Scenario Analysis shows that:

(1) The default contribution rate is the primary driver as shown in the Sensitivity Analysis section and explains most of the difference in results between the Baseline and Pessimistic Scenarios.

(2) The Optimistic Scenario is close to the Baseline Scenario because it has the same contribution rate.

(3) Even under the Pessimistic Scenario, program expenses fall below the 1% Fee Cap by Year 5; while the funding gap rises to a manageable US $129 million representing 2.7% of program assets by Year 2, 1.7% by Year 3, 1.2% by Year 4 and 0.9% by Year 5.

## 7. Conclusions

The conservative assumptions encapsulated in the Baseline Scenario are based on the results of the Market Analysis, the work of the Program Design team with regard to the Operational Model and Investment Options, our research into the various cost drivers, conservative market assumptions and a 1% cap on total fees charged to participants as a percentage of assets.

Based on the results of the Baseline Scenario,

(1) The Program achieves significant scale by the first year of operation with 1.6 million participants and over US $3 billion in assets.
(2) The Program achieves operational breakeven by Year 4 with a moderate funding gap of US $73 million (assuming a 5% funding rate) that represents less than 2.5% of end of Year 1 program assets.
(3) The funding gap can be paid off in 5 years assuming a 5% interest rate and can be financed as a loan, through higher fees to participants, through vendor financing or as a combination of the above.
(4) The fees to participants can decline to very attractive levels after the first 5 years of operation.

The Sensitivity Analysis demonstrated that:

(1) Financing requirements and program expense ratios are very sensitive to the default contribution rate, but
(2) The opt-out rate has a small to moderate impact below 50% and even extreme opt-out rates exceeding 80% do not materially impact the financial performance of the Program.

(3) Because most Program operating expenses consist of employee and employer per unit costs, employer-level participation rates do not meaningfully impact Program financial feasibility.

The Scenario Analysis showed that even under the adverse conditions of the Pessimistic Scenario, program expenses fall below the 1% Fee Cap by Year 5; while the funding gap rises to a still manageable US $129 million representing 2.7% of program assets by Year 2, 1.7% by Year 3, 1.2% by Year 4 and 0.9% by Year 5.

Our main conclusions are that:

(1) The Secure Choice Program is financially viable and self-sustaining even under the adverse conditions of the Pessimistic Scenario.
(2) That total fees to participants need not exceed 1% on invested assets and that such fees can decline to very attractive levels after the first 5 years of operation.
(3) The startup costs (funding gap) are in the order of US $73 million under the Baseline Scenario and US $129 million under the Pessimistic Scenario.

Our main recommendations are to:

(1) Structure the California Secure Choice Program along the lines of the Baseline Scenario in terms of the default contribution rate (5%) and a recordkeeper direct service model. In particular, program financing requirements and expense ratios are highly sensitive to the default contribution rate. A lower default contribution rate entails significantly higher startup financing.
(2) Make provisions for obtaining US $129 in startup financing even though a lesser amount is likely to obtain. Startup financing can be secured through a line of credit or loan (best option), through vendor financing (less attractive option), through higher fees to participants (undesirable option) or as a combination of the above.

# F. Addendum – Employer Costs

## 1. Introduction

There are two main components of potential employer cost related to implementing and supporting the California Secure Choice Program ("Program") under the recommended Direct Servicing of Employers by the Recordkeeper operational model and the proposed Plan Rules and Procedures: **startup costs** and **ongoing costs**. Furthermore, we distinguish **out-of-pocket costs** in the form of increased expenditures from **administrative burden,** which reflects time spent by existing full-time staff or by the business owner implementing and supporting the Program.

In this analysis, we estimate the impact of the Program on employers, differentiated by size. Estimates for small employers with fewer than 50 employees are based on the assumption that they do not use a full service payroll provider. However, a significant minority of employers in this group do use full service payroll providers. These employers will see their administrative burden reduced in a manner similar to larger firms.

## 2. Out-of-Pocket Costs

Out-of-pocket outlays consist of increases in spending on wages or vendor services to cover the extra work of implementing the Program. *Given the recommended rules, procedures and operational model of the Program—and what we learned from recordkeeper portal demonstrations, feedback from payroll service providers and interviews with the business community—out-of-pocket outlays are not likely to be very significant*.

- **For larger firms using full service payroll providers, there may be an incremental fee increase** associated with having these providers handle auto-enrollment mechanics, tracking of contribution rates and remission of contributions to the recordkeeper. This service is not typically available except where the payroll processor itself serves as a plan administrator, but the payroll industry is currently working with several states to create data transmission standards to enable such a process with third party administrators/recordkeepers. With such services in place, the incremental expense to employers is likely to be modest or negligible.
- **For small firms that are not large enough to have full-time HR or accounting staff** and that use either limited-service payroll providers or QuickBooks (or similar software) in tandem with a bookkeeper, **there may be extra outlays in the range of 2-4 hours of bookkeeper pay per month** depending on workforce size and turnover.
- **For micro-businesses, we anticipate little or no out-of-pocket costs**. In these firms, business owners typically handle payroll using bookkeeping software or a spreadsheet. Ongoing implementation of auto-enrollment will be minimal given the small size of the workforce, though small business owners are likely to require extra help understanding program requirements and getting set up with the recordkeeper.

## 3. Administrative Burden

***The biggest material concern about the Program is not increased expenditures but the increase in the administrative burden—especially on small employers.*** The administrative burden is represented by the amount of time that employers have to spend implementing the Program and navigating its requirements, which in turn is linked to complexity at the level of employer decision-making. ***We estimate the administrative burden in terms of labor time***. We strived to be conservative in our estimates although it is likely that employers will experience a lower administrative burden after a few a payroll cycles.

The two tables at the end of this section detail the startup and ongoing tasks, estimate labor hours for each, and identify the functions that can be automated through a full service payroll provider though at some cost. These estimates are drawn from our detailed knowledge of the recommended Program rules, procedures and operational model and our discussions with business groups, payroll processors and recordkeepers. The following is a summary of the in-house labor time burden (which may require extra employee or contract service provider hours or may be absorbed by existing staff or the business owner).

***Micro-Businesses (5-9 employees):***

- **We expect 6-8 hours to perform startup tasks**, including eligibility determination, registration with the recordkeeper, collection and submission of employee data, and the first round of payroll deductions and funds transfer. The administrative load for smaller employers is likely to be heaviest during the startup phase, given that they often lack professional HR support. However, recordkeepers specializing in small businesses have online portals that are relatively easy to navigate and that allow business owners to upload data easily using QuickBooks, an Excel spreadsheet template that they provide, or manual data entry directly into the website.
- **Thereafter, we estimate about 2 hours per month for ongoing administration**: updating contribution rates in their own payroll system, uploading new employee data and contribution data, and approving ACH debits to transfer employee contributions to the recordkeeper.

***Small Businesses (10-49 employees)*** assuming the use of either basic payroll services or bookkeeping software, plus a staff or contract bookkeeper:

- **We expect 7-10 hours to perform startup tasks.** Extra time may be spent exploring alternatives to the California Secure Choice Program, but since this would be voluntary on the part of the employer, we do not include this work in our estimates**.**
- **Thereafter, we estimate about 2-4 hours per month for ongoing administration, depending on workforce size, turnover and payroll frequency**.

- How much of this administrative load will be absorbed internally or entail extra labor expenses (for instance, extra hours for a contract bookkeeper) depends on whether the firm is large enough to have in-house HR or accounting staff. Many firms find that as they approach 30 employees, they need full-time staff to handle some combination of accounting/bookkeeping and HR/payroll.

***Large Businesses (50+ employees)*** assuming the use of a full service payroll provider:

- **We expect approximately 12 hours total staff time to determine employer eligibility, read program requirements, register with the recordkeeper and make arrangements with the payroll service provider (see below).** Extra time may be spent exploring alternatives to the California Secure Choice Program.
- **The level of employer administrative load related to startup and ongoing enrollment and payroll deduction will be dependent on the capacity of the payroll service provider.**
  - Ideally, full service payroll firms would assume auto-enrollment, contribution rate updates, fund remittance and reporting functions directly with the recordkeeper (contingent on employer approval). The National Payroll Reporting Consortium is facilitating coordination between payroll firms and several states to create such a service, which is typically not available unless the payroll firm itself serves as the retirement plan administrator. Assuming that such services are in place by Program launch, the additional administrative load on employers will be minimal.
  - On the other hand, if the employer manages interactions with the recordkeeper internally rather than through the payroll service provider, the startup administrative work would be roughly consistent with the load for small businesses in proportion to workforce size adjusted for economies of scale.
- **Ultimately, we do not expect a significant ongoing in-house administrative load, in relation to firm size,** given the higher level of data management and automation in larger firms and the likely availability of payroll provider automation by the time the Program launches.

***Caution: Administrative work that is absorbed by the employer and that does not entail increased cash outlays incurs opportunity cost, but this should not be confused with actual expenses.*** Without a detailed study, it would be arbitrary to assign a dollar cost per hour, given differentials in compensation and the fact that many firms will simply absorb the extra time demand.

**Startup**
**Employer Functions, Estimated Labor Time Requirements and**
**Payroll Service Provider Roles**

| | **Using Full Service Payroll Provider**<br><br>*For Labor Time Estimate, Assume >=50 Employees* | **Not Using Payroll Service**<br><br>*For Labor Time Estimate, Assume 5-49 Employees, with Firms >=10 Employees Using Bookkeeping Software* |
|---|---|---|
| **Determine Employer Eligibility**<br>• >=5 employee average monthly count on Fall quarter DE-9 | <1 hour | <1 hour |
| **Read Program Participation Requirements** | 2 hours | 2 hours |
| **Determine Employee Eligibility**<br>• All employees reportable to EDD except for those under age cutoff | Payroll service provider | 1-2 hours |
| **Registration with Recordkeeper via Online Portal– Startup**<br>• Provide employer info<br>• Set up ACH debit | 1 hour or through payroll service provider | 1 hour |
| **Auto-Enrollment – Startup**<br>• Gather relevant information for all eligible employees<br>• Transmit employee data to recordkeeper, directly or via payroll service provider | Ideal: Employer makes arrangements with Payroll Service Provider to transmit initial enrollment data (8 hours)<br><br>Alternative: Employer uploads data directly to recordkeeper | 1-4 hours depending on number of employees |

**Ongoing**
**Employer Functions, Estimated Labor Time Requirements and**
**Payroll Service Provider Roles**

| | **Using Full Service Payroll Provider**<br><br>*For Labor Time Estimate, Assume >=50 Employees* | **Not Using Payroll Service**<br><br>*For Labor Time Estimate, Assume 5-49 Employees, with Firms >=10 Employees Using Bookkeeping Software* |
|---|---|---|
| **Auto-Enrollment – Ongoing** | Ideal: Payroll service provider transmits new employee data to recordkeeper<br><br>Alternative: Employer transmits data on new/terminated employees directly to recordkeeper | 0.5-1 hour/month depending on number of employees |
| **Payroll Deduction**<br>• Receive data file from recordkeeper with contribution rates<br>• Input into payroll system (incl. software or spreadsheet) | Ideal: Full service payroll providers receive contribution rate instructions directly from recordkeeper and execute with employer approval<br><br>Alternative: Employer receives contribution rate instructions from recordkeeper, updates deduction instructions to payroll provider – # hours contingent on workforce size | 0.5-1 hour/month<br><br>depending on number of employees |
| **Submit Payroll Deduction Report to Recordkeeper and Approve Remittance via ACH** | Ideal: Payroll service providers directly provide multi-employer batch reports to recordkeeper, like they do with EDD payroll tax reports.<br><br>Alternative: Employer approves ACH deduction; payroll service provider provides batch report for employer to submit to recordkeeper | 1-2 hours/month |