State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
DEFINED CONTRIBUTION PLAN COMMITTEE MEETING

Skagway-Yukon Boardroom – Anchorage Marriott Hotel
Anchorage, Alaska

April 22, 2015

ATTENDANCE

Committee Present: Sam Trivette, *chair*
Tom Brice
Sandi Ryan

Committee Absent: Commissioner Sheldon Fisher

Department of Revenue Staff Present:
Gary Bader (chief investment officer)
Pamela Leary (director, Treasury Division)
Bob Mitchell (senior investment officer)
Shane Carson (state investment officer)
Judy Hall (board liaison)

Department of Administration Staff Present:
John Boucher (deputy commissioner)
Kevin Worley (chief financial officer, Retirement & Benefits Division)
Kathy Lea (chief pension officer, Retirement & Benefits Division) *on-line*

Others Present: Gayle Harbo (ARMB Trustee)
Stuart Goering (Dept. of Law, ARMB legal counsel)
Charles Shriver (T. Rowe Price)
Toby Thompson (T. Rowe Price)
John Plowright (T. Rowe Price)

CALL TO ORDER
CHAIR SAM TRIVETTE called the meeting to order at 1:30 p.m. on Wednesday, April 22, 2015.

ROLL CALL
Three committee members were present at roll call to form a quorum.

PUBLIC MEETING NOTICE
MS. HALL confirmed that the meeting had been properly noticed.

APPROVAL OF AGENDA
<u>MS. RYAN moved to approve the agenda.</u> <u>MR. BRICE seconded</u>.

CHAIR TRIVETTE added Review of the Charter as Item G, saying that it had been more than a year since the last review.

Without objection, the motion passed unanimously.

APPROVAL OF MINUTES – September 17, 2014
No action was taken on the minutes.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES
There was no public participation, and MS. HALL reported that she had received no communications to the committee.

REPORTS

A. Overview of Defined Contribution Plan
[See slide presentation entitled "History of DC Plans, April 2015" on file at the ARMB office.]
Chief investment officer GARY BADER briefly reviewed the legislature's creation of the Alaska Retirement Management Board in 2005, and the establishment of the PERS/TRS defined contribution retirement systems for members hired after July 1, 2006. He noted that the state's relationship with T. Rowe Price, today's presenters, predates 2005. Prior to 2005, the Alaska State Pension Investment Board (ASPIB) was the fiduciary of the plans. That board was established as a response to some difficulties that occurred in the Supplemental Benefit System, where one-third of the assets of the system were in jeopardy, and the recordkeeping system that was in place at the time had not been updated by the Department of Administration for at least two years.

T. Rowe Price won a competitive process and was awarded the contract to provide both recordkeeping and investment services to the retirement funds. The T. Rowe Price investments were not menu-driven in the beginning, but the idea was that they would become menu-driven. Most members were invested in the Alaska Balanced Fund. Over time, ASPIB, working with the Alaska Department of Administration and T. Rowe Price, came up with investment options to offer beneficiaries. In 2005, the menu that had been provided for SBS and the Deferred Compensation Plan was essentially the menu that was offered in the new defined contribution plans, with adjustments (primarily stable value and interest income funds were not offered because of a legacy of benefit to being in those plans). A 2025 target date retirement fund was added. When the ARMB took over the retirement assets, Great-West was the recordkeeper, and Managed Accounts was the default option for defined contribution plan participants who did not make investment selections.

MR. BADER stated that part of establishing the defined contribution plan was also establishment of the Retiree Major Medical Account, the Health Reimbursement Account, and an Occupational

Disability Account, and these accounts were available for some defined contribution members. The ARMB invests those funds according to an asset allocation the Board sets.

In 2008, working with T. Rowe Price, target date funds were established that were age-based to go through retirement and not just up to the participant's retirement date. Also in 2008, all participant-directed plans were permitted to invest in the same investment options. In 2009, some target date funds were added, and the retirement date glide path was extended to 30 years.

In 2010, the 2010 target date fund was closed to new investment. Anyone who was still in the 2010 fund and did not make any other investment selection was mapped to the Treasury Money Market Fund. In 2013, enhancement to the building blocks used in constructing various investment options was approved. In 2014, the International Equity Fund was created, which was in response to trying to diversify some investments.

CHAIR TRIVETTE stated that this committee and the Board spent a lot of time with T. Rowe Price, changing and enhancing the investment options over the years. T. Rowe Price has always been there working with the boards and the State of Alaska to improve the products. That is part of the legacy that they bring. He said on behalf of all participants he appreciated them.

B. Overview of Defined Contribution Plan Health Benefit

JOHN BOUCHER, deputy commissioner of the Alaska Department of Administration, stated that one of the provisions of SB141 the legislature enacted in 2005 was closing the PERS and TRS defined benefit pension and health plans to new employees. Starting in July 1, 2006, all new PERS/TRS employees have been enrolled in the defined contribution retirement (DCR) system health plan. Statutes governing the DCR plan are different than those for the defined benefit health plan. While both plans provide some major medical coverage to retirees, they do differ significantly in some of the features that are contemplated.

For example, the defined benefit health plan provides 100% system-paid premiums on behalf of retirees, while the DCR health plan provides for sharing the cost of the premium with retirees based on a years-of-service model. The premium share ranges from 10% to 30%, depending upon the years of service the retiree has with the system. To assist retirees in paying for some of their share of premiums or other health costs, each defined contribution retiree has access to a health reimbursement account (HRA). The employers contribute to the active employees, which amounts to approximately 3% of total defined benefit/defined contribution payroll. These HRA accounts earn interest as determined by regulation. Members who terminate and then re-employ can have their HRA accounts reinstated. HRAs can be used to reimburse all or a portion of any out-of-pocket qualifying health expenses. However, an employee must have ten years of service to receive their HRA. An eligible retired participant can use their HRA, even if they are not participating in the retiree health plan, so there is some portability.

MR. BOUCHER said another important difference between the defined benefit and DCR health plans is the age of eligibility. For example, in PERS and TRS Tier I, the age of eligibility for normal retirement is 55, or in some cases 50. For PERS Tier II and III, and TRS Tier II, the normal retirement eligibility age is 60, although a PERS Tier III member must have 10 years of service credit to do that. In the DCR plan, the retiree must be Medicare-age eligible, which is currently at least age 65. In addition to meeting the age condition, the retiree must have 10 years of service. Other conditions of eligibility for the DCR plan include that they must retire directly from the plan, have a minimum of 10 years of service, and they must have worked at least 12 months immediately before retiring. If they are not currently age eligible, they must have at least 30 years of service if they are in any category other than peace officer/firefighter. Peace officer or firefighter, if under Medicare-age eligible, must have at least 25 years of service.

MR. BOUCHER stated that the Division of Retirement and Benefits had made multiple attempts over the last ten years to implement a DCR health plan but has not been able to do so to this point. A significant effort was put in by the previous administration to implement a DCR health plan, but it did not come to fruition. The recommended path forward had been to adopt a defined contribution retiree health plan that is very similar in structure to what the economy level plan is for active State of Alaska employees. This administration intends to leverage the work that was done in the previous administration in moving toward implementing a DCR health plan. At this time, the administration has not determined whether implementing the currently offered economy plan will be its recommendation or not. However, it is fair to characterize that it is the starting point from which the administration will begin that discussion.

MR. BOUCHER said that with the legislative session behind them, the administration is looking forward to having a robust conversation that they expect will result in a recommendation on a DCR health plan, as well as an implementation schedule. It is high on the commissioner's to-do list.

MR. BOUCHER mentioned that at the last ARMB meeting there was some discussion on the status of the HRA accounts, and Kevin Worley was prepared to make a full presentation at the board meeting this week. He asked if the committee wanted a status report now or to wait for the report to the board.

CHAIR TRIVETTE queried the other committee members and stated that the committee would wait for the report at the board meeting.

MR. BRICE asked if committee members could have a copy of Mr. Boucher's notes. MR. BOUCHER said sure.

MS. HARBO said she understood there were a few survivors of defined contribution plan participants who have access to the DCR health plan now, so she wondered if they paid the premium out of pocket or if the premium was paid out of the money that was accumulated for the person who passed away. MR. BOUCHER replied that he did not know but he would try to find out.

MR. WORLEY explained that there are nine people who are on occupational death and disability: seven are disability and two survivors are receiving benefits as the result of plan participant deaths.

C. T. Rowe Price Update – Defined Contribution Plan Options

JOHN PLOWRIGHT, Alaska's client service contact at T. Rowe Price, introduced CHARLES SHRIVER, the head of the balanced strategies in portfolio management, and TOBY THOMPSON in portfolio management. He said T. Rowe Price is very mindful of the uniqueness of the relationship with the State of Alaska and that it has been sustained and grown over the years. Besides the length of time, and the size and importance of the mandate, it has been a partnership where T. Rowe Price has been able to create a product line they are quite proud of.

[T. Rowe Price's "Alaska Retirement Management Board Portfolio Review, April 2015" presentation slides are on file at the ARMB office]

MR. SHRIVER briefly referred to a chart of relationship milestones, saying that Mr. Bader covered most of it in his report. He emphasized the continued evolution from 1992, when they brought out the Alaska Balanced Fund, to 2014, when they introduced the enhancements to the Alaska International Equity Trust and the Bond Trust. It has been a process of enhancement and improvements to ensure that T. Rowe Price continues to offer state-of-the-art investment options to meet the challenges looking forward.

MR. SHRIVER reviewed the key attributes of the Alaska retirement plans. He said the key values T. Rowe Price has emphasized as they worked with the State over the last 23 years are:

- Designing custom portfolios to meet the investment needs of Alaska participants, beginning with the Alaska Balanced Trust, which had a lower equity allocation (35%) than many of its comparable peers to meet the risk profile of many Alaska investors at that time. That has served participants well over the last 23 years, earning 77% of the return of the S&P 500 Index with only 40% of the volatility. An Alaska Long-Term Balanced Trust was introduced in 1996 that had a 60% allocation to equities. Then there were the custom target-date funds, which beginning in 2009 extended the glide path 30 years into retirement. Morningstar, in 2015, continues to rate the proprietary T. Rowe Price target date funds as gold rated.
- Broad diversification has guided portfolio design. The recent enhancements to the international equity trust have expanded the breadth of diversification within the sectors.
- Strong emphasis on risk awareness, both in ongoing management and reporting to the State of Alaska as T. Rowe Price introduced the new enhancements. Risk considerations were an important element in the design of how much to allocate to these various sectors.

MR. SHRIVER explained the structure of the participant investment options – the Balanced Trust, the Long Term Balanced Trust, the suite of 10 Alaska Target Retirement Trusts between 2010 and 2055, and the building block trusts (U.S. equity, international equity, bonds, and money market). The trusts at the top of the chart invest in various blends of those building blocks to achieve the desired allocation and risk/return profile of the specific investment options.

MR. SHRIVER described how the glide path of the target retirement trusts adjusts automatically to a participant's risk profile in the time leading up to retirement and through the years past retirement, becoming more conservative as participants approach retirement. At retirement, the portfolios are invested 55% in equities and continue to adopt a more conservative profile into retirement such that 30 years into retirement the portfolios have 20% in equities. An important element that defines the success of the T. Rowe Price glide path is a higher equity allocation than many of its peers generally, which helps to support and sustain lifetime income over a potentially 30-plus-year investment horizon.

T. Rowe Price also enhanced the sectors that are represented within the stock offerings and within bonds. The idea was to improve the potential outcome under certain risk scenarios. MR. SHRIVER said that while there are four building block trusts, they really reflect a breadth of diversification in terms of underlying sectors. For example, stocks have U.S. equities, which include large cap, mid cap, and small cap stocks. For international equities, emerging markets were added as a result of the enhancements that were implemented in June 2014. So the international trust now includes both developed market and emerging market equities. Within the bond trust, there are government bonds, corporate mortgage bonds, and they have introduced elements such as short-term TIPS, floating rate notes, and long-term treasuries, to adjust the investment profile of the bond trust.

MR. SHRIVER listed the key risks that T. Rowe Price sought to address in these enhancements. They wanted to reduce the interest rate sensitivity of the trusts, and they did that by focusing the investments within the bond trust on intermediate maturity bonds. With regard to inflation risk, they sought to moderate the adverse impact of potentially rising inflation, and incorporated an allocation to TIPS. To moderate the potential impact of being more purely focused on domestic equities and the U.S. dollar, they increased the allocation to international equities from 20% to 30%. They also incorporated emerging markets investments that have the potential for longer-term growth opportunities. He said that interest rates, inflation, and a U.S. focus are elements that have been a tailwind to performance over recent years but, looking forward, could be potential headwinds. So T. Rowe Price wanted to adjust the portfolio profiles from a strategic basis to be able to improve performance in those outcomes.

MR. SHRIVER went into more detail on the rationale and considerations behind the Alaska Bond Trust changes. Today, the bond trust has 70% in the U.S. Intermediate Aggregate Index. Prior to the enhancements, it was profiled to look like the Barclays U.S. Aggregate Bond Index. The Intermediate Aggregate Index has a shorter duration profile, roughly 3.8 years as opposed to 5.4 years for the U.S. Aggregate Bond Index, so it has less interest rate sensitivity. If, for example, interest rates were to move in a parallel fashion up 100 basis points, intermediate bonds would have a negative 3.8% return versus negative 5.4% for the U.S. Aggregate Bond Index. T. Rowe Price also included in the Alaska Bond Trust a 15% allocation to floating rate notes. These commonly have a quarterly reset on the coupons such that they have a potential for stronger returns when interest rates are rising. There is a 10% allocation to TIPS, where the principal value increases as inflation increases. T. Rowe Price has focused on short-term TIPS, those with a maturity of one to five years, given their lessened sensitivity to changes in real interest rates. So if interest rates were to go up, and there were not to be an increase in inflation expectations, the short-term TIPS would be less adversely impacted than the full maturity spectrum of TIPS. The last element in the Alaska Bond Trust is a 5% allocation to long-term treasuries. That may seem a little bit incongruous as they shorten the duration of the portfolio, but in a total portfolio context, particularly where there is a higher allocation to equities, longer-term treasuries offer a very efficient ballast to the volatility of equities, given their low to negative correlations between bonds and stocks. Additionally, if when interest rates rise, the long end stays anchored: if short-term rates rise more than the long end in what might be considered a bear flattening environment, this profile would be beneficial in that it takes advantage of the positive slope of the yield curve.

MR. SHRIVER stated that the Alaska Bond Trust has a low tracking error strategy; the manager has latitude to shade the allocations between the different segments and, additionally, to modestly overweight or underweight duration relative to the benchmark.

MR. SHRIVER drew attention to a graph of the U.S. yield curve at 12/31/2013 and at two points since then (page 12), saying that yields have continued to stay near historically low levels since T. Rowe Price first proposed the enhancements to the Alaska Bond Trust. As they have made the changes, the focus has been on a longer-term investment horizon of six to ten years. Given the low rates presently, they expect persistent upward pressure on U.S. interest rates over time. It depends on what the U.S. Federal Open Markets Committee does. The market, as reflected by Fed Funds futures, is expecting the rise in short-term rates to be a more gradual pace, at 2.5% over ten quarters. T. Rowe Price’s fixed income team places their figures at closer to 2% over ten quarters. Commonly, hiking cycles last about 12 months, but 2004 was an extended period of almost 2-1/2 years. T. Rowe Price expects a protracted cycle this time that will be less measured than the 2004-2006 experience when the Fed moved pretty much 25 basis points per meeting. This cycle will be more data-dependent and ultimately will end with a lower terminal Fed Funds rate closer to 3%.

MR. SHRIVER next explained the recent enhancements on the Alaska International Trust. T. Rowe Price increased the allocation of overall equities from 20% to 30%. One driving factor was that international equities currently represent over 50% of global equity market capitalization. Those countries also comprise 77% of global GDP. Emerging markets, even more dramatically, comprise closer to 40% of global GDP. T. Rowe Price believes that over time they should get upward migration of the market cap percentage to something that is more in line with GDP representation. It won’t get there ultimately, given different market structures, but will be higher than the current representation at 50% of global market cap. Making that change included exposure to potentially higher growth components, such as emerging markets. The Alaska International Trust was changed from an EAFE Index, which is developed markets, to the MSCI All Country World ex-US Index, which includes both developed and emerging markets. While correlations between U.S. stocks and international stocks have gone up over recent years, there are still very significant cycles between U.S. and international equities that can last from four to six years. From a contrarian perspective, T. Rowe Price believes it is not a bad time to be implementing these changes.

MR. SHRIVER stated that the international strategy seeks to match the sector and country profile of the MSCI All Country World ex-US Index, and they have the latitude to incorporate T. Rowe Price ratings on underlying equity securities where it makes sense.

MR. SHRIVER showed a slide of the asset allocation glide path for the Alaska Target Retirement Trusts in the years up to retirement and through the years of retirement.

CHAIR TRIVETTE said he recalled the early discussions with T. Rowe Price about the need to extend the glide path so that people could actually live once they retired.

TOBY THOMPSON referenced a chart of the underlying assets invested that total $3.5 billion, which he said is up roughly $300 million from this time last year. The number represents 16 investment options that T. Rowe Price manages for the Alaska retirement participants. He and Charles Shriver are responsible for managing 12 of those investment options, representing about $2.6 billion. He noted that the lion's share of that money (roughly 45%) is still invested in the Alaska Balanced Trust. There is 24% in the Long-Term Balanced Trust. The remaining 30% is spread across the target retirement strategies.

MR. THOMPSON showed a graph of the breadth of the risk/return profiles of the Target Retirement Trusts and the two Balanced Trusts (slide 22). He pointed out the 90% equity allocation at the beginning of the glide path that would stay at that level until a participant reached 25 years before retirement. He noted that the 2010 Trust continues to move down the glide path and in 2025 will actually have a 35% equity allocation: moving down the glide path it eventually will be 20% equity at the end and be more conservative than the Balanced Trust.

MR. THOMPSON briefly addressed the tactical positioning of assets in the Balanced Trust and Long-Term Balance Trust, broken out by U.S. equities, international equities, bonds, and money market. T. Rowe Price has been de-risking across their asset allocation portfolios over the past year and has been sitting at a neutral position to the target weights since July 2014. In the market equities have continued to drift a bit higher and so have valuations. They look at the balance of risk between stocks and bonds, and how much higher the probability is that there could be a bigger downturn in equities with seven years into this bull market. On the bond side of the equation, there is clearly opportunity with rates going higher, so a much smaller down side with bonds. As they look at the risk/return profile of the two, it is probably more fairly balanced today. But as equity valuations continue to go higher, there is more of a probability of a bigger downturn in equities. International equities are overweight roughly 70 basis points in the Balanced Trust and about 120 basis points in the Long-Term Balanced. Over the past year, they also have been moving to a higher international allocation. So, as Mr. Shriver talked about, the international allocation has been increased strategically, but tactically as well they have moved into international equities. Non-U.S. markets have also had a good run and are relatively more attractive, and there are a lot of tailwinds today in Europe, with quantitative easing and the lower euro being helpful to exporters in that region. Today, T. Rowe Price is almost 250 basis points overweight non-U.S. equities where a year ago they were roughly 1% overweight.

Turning to performance of the Balanced Trusts, MR. THOMPSON reported that the Balanced Trust was up 5.8% for the one-year period ended February 28, 2015. The Long-Term Balanced Trust was up 7.4%. The difference was principally the difference in the equity allocation between the funds. Equities were very strong over that year, with U.S. equities up 14% and non-U.S. markets nearly flat. The annualized longer period returns for three and five years were much higher than for the past year, due in part to the seven-year run in equities. Equities have delivered almost 16-18% a year, which is amazing, and T. Rowe Price does not look for those kinds of returns going forward. The marginal underperformance to the benchmark in the one-year return is because the non-U.S. equity overweight that they continue to build into was a negative as non-U.S. markets underperformed U.S. markets. However, looking at the year-to-date numbers, that has changed and there is a bit of a tailwind with non-U.S. markets beginning to outperform, both in local terms as well as in dollar-denominated terms, as the pace of the dollar appreciation has moderated a bit lately.

MR. THOMPSON next reviewed the performance of the Alaska Target Retirement Trusts and the Money Market Master Trust. He followed that by briefly presenting a chart of performance attribution for the Balanced Trusts and the Target Retirement Trusts (slide 27).

CHAIR TRIVETTE said he was struck by how much time T. Rowe Price spent working with the ARMB's staff on developing the custom indices. It is sometimes a challenge for the ARMB to figure out what is the right index for whatever investment fund it has. He asked if T. Rowe Price fine-tunes the custom indices occasionally.

MR. SHRIVER stated that they have worked with Gary Bader and Shane Carson on what the portfolio would look like if they had no view so they have a reasonable point of comparison. So not just the benchmarks but so it is reflective of the strategic profile, and incorporating the best thinking of T. Rowe Price, as well as ensuring that they address the needs of Alaska participants.

Chief investment officer GARY BADER referred to the performance attribution page and asked how the impact from "cash flow and rebalancing" is measured. MR. SHRIVER explained that it was primarily rebalancing: it captures if there is a change to the investment profile at a period other than month end. So if they are trading a little bit into or a little bit before a month end when they are making an allocation change, that gets captured in cash flow and rebalancing. They would expect over a longer period of time that it would be a wash. In a volatile market, such as 2008 or 2009, the fluctuation can be more dramatic where there may be more significant rebalancing going on within a portfolio because the market has moved the portfolio away from its target allocation. But generally it is a lesser number.

Continuing on the performance attribution page, MR. BADER asked how the "cash flow and rebalancing" contrasted to "allocation effect." MR. SHRIVER said that T. Rowe Price takes tactical views in the Balanced and Long-Term Balanced Trusts, as Mr. Thompson explained. That cost them, where they overweighted international equities. In looking at some of the longer-dated trusts, if there is drift away from the target allocation (if equities are up and continue to run a bit, and there is a modest overweight where the manager has not rebalanced back to target), that would get captured within the allocation effect.

MR. BADER stated that the investment management fees tend to be greater for the longer-dated target funds. He asked if that was because of the international equity allocation. MR. SHRIVER said that within the trusts there is a fee schedule for the fixed income and for the equities. So whether it is U.S. or international equities, the investment management fee is comparable. In the longer-dated trusts there are more stocks than bonds, and so given the higher equity allocation, incrementally the investment management fee is a little bit higher. The weighted average is 10 basis points across that full suite. T. Rowe Price has included a breakout of some of the fixed and variable costs associated with custody and accounting, and those can be influenced by whether it is international or other aspects.

MR. BADER remarked that he liked the fee structure. He asked if there were any funds that T. Rowe Price offered that have a lower fee.

MR. SHRIVER said not for this structure. Across their suite of retirement funds, whether it is the retail fund or trust offerings for institutional investors, Alaska's is the most attractive.

MR. BADER said it was worth noting, because the Alaska participants are very advantaged: they would have a hard time going anyplace else and getting a better fee structure and performance. Callan Associates performance reports to the ARMB continually show that the funds are meeting their target allocations. When participants are getting that for 12-13 basis points or less in fees, he doubted they could go anywhere to match that. He congratulated T. Rowe Price for helping the ARMB do that.

State senior investment officer BOB MITCHELL asked if T. Rowe Price had the ability to hedge currency exposure in the international equity component, and if they did, how they used it.

MR. SHRIVER replied that it typically would be an unhedged profile, so the funds are getting the full exposure of the international market.

MR. MITCHELL asked if that was because of a restriction or due to the manager's management style. MR. SHRIVER said they did not have the ability to use derivatives within the strategies.

MR. PLOWRIGHT added that generally T. Rowe Price as a whole does not look at currency as a separate asset class. When they are looking at an individual stock name, they are assuming the companies already have a sense of where their currency is going and how that will impact their balance sheets. T. Rowe Price is getting news with the currency baked in. They have found that currency management is a place where funds can get hurt quite easily, so they avoid doing it.

MR. MITCHELL inquired of T. Rowe Price's position on the pace of Fed hikes relative to what is priced into the market.

MR. SHRIVER referred to the chart on slide 13 and said their expectation would be higher than the Fed Fund's futures. They believe it will take a while to get there and will be closer to 3% at the end of tightening.

MR. BADER asked for an explanation of the Stable Value and Interest Income options, which T. Rowe Price also offers to Alaska participants.

MR. SHRIVER stated that the stable value accounts invest in shorter-term bond portfolios and are structured to have an insurance company wrapper around those. With book value accounting, they maintain a stable net asset value, but there is a higher than money market yield within those portfolios. Commonly, as rates are declining, there may be a lag before yield declines that is an advantage in the stable value portfolios, and as rates begin to increase there may be a similar lag before there is an uptick in yield in these portfolios. The key consideration is that stable value portfolios offer a stable net asset value. Tony Luna at T. Rowe Price manages those portfolios for the State of Alaska.

MR. BADER indicated that it would be appropriate to have Mr. Luna make a presentation in more detail at the next Defined Contribution Committee meeting.

D. Action Item – Add Target Date Fund 2060

State investment officer SHANE CARSON reviewed a staff memorandum in the packet outlining the rationale behind staff's recommendation to add an Alaska Target Retirement 2060 Trust to the current target date options *[short slide presentation and memo dated April 22, 2015 are on file at the ARMB office]*. He reviewed the current target date options, which are issued in five-year increments. He presented a chart of the State of Alaska 2014 employee workforce broken out by year of birth, drawing attention to the fact that the workforce has a representative amount of employees that would be defaulted to or would naturally profile into a Target 2060 Trust. A new hire in 2015 at age 20 would be 65 years old in 2060 when they retired.

MR. BADER reported that staff had conferred with Commissioner Fisher of the Department of Administration, as required by statute, and he is supportive of the recommendation to the full board.

MS. RYAN moved that the Defined Contribution Plan Committee recommend that the Alaska Retirement Management Board direct staff to add an Alaska Target Retirement 2060 Trust to the current target date options. MR. BRICE seconded. On a roll call vote, the motion passed unanimously, 3-0.

E. Explanation of Roth Deferred Compensation Legislation HB135/SB67

JOHN BOUCHER, deputy commissioner in the Department of Administration, and KATHY LEA, chief pension officer in the DOA Division of Retirement and Benefits, made a presentation on HB135 and SB67, which introduced a new option called a Roth 457 for people in the Deferred Compensation Plan. *[A copy of FAQs and the Alaska legislation are on file at the ARMB office.]*

MR. BOUCHER said the new option would allow an employee to be taxed on their deferred compensation contribution prior to it going into their account and, therefore, a qualified distribution later would be tax-free. He said the legislature enacted the Roth 457 option this session, and the idea had good support.

MR. BOUCHER referred to a list of frequently asked questions provided in the meeting packet.

F. Report on Reality Investing and Advice

MR. BOUCHER stated that Chair Trivette had requested information on a five-year history of disbursements, and Kevin Worley prepared that data and included it in the meeting packet.

He said the Division of Retirement & Benefits, working with Empower Retirement (the new name for Great-West Financial), gathered four months of survey data from recipients from October 1 to December 31, 2014. *[Detailed report from Great-West was provided in the meeting packet and is on file at the ARMB office.]* Included in the survey was a question that the ARMB requested regarding a brokerage window/self-directed account that allows participants to invest in individual securities.

MS. LEA said when Great-West did the survey they surveyed both defined benefit and defined contribution plan members, and the report is a combination of both. In future reports Great-West will separate the two plans. DRB believes the answers from the defined contribution members might be different than from the defined benefit members.

MS. LEA reported the disbursements were done between December and March, and the results indicated that the participants understand their plan. The participants knew that they could leave their money in the plan, and more of them knew that they could leave the money in than knew they could leave a partial amount so that they could roll back in later if they wanted. They understand the fees. The bulk of participants are using the money for personal use and sending it to a checking account, which was a surprise to DRB. Those participants who were using a rollover option used an IRA as the predominant option. Their stated reason was they felt the features in the state's plan were limited and there were more perks in the new plans.

On the two specific questions, DRB had one on guaranteed income for defined contribution products, and the ARMB asked about a brokerage window. There were more people who were not interested in those two options than were interested. She said the division felt that was a product of it being a defined benefit/defined contribution report.

CHAIR TRIVETTE asked if the division intended to continue the survey. MS. LEA said DRB would keep the survey going for the next year, with the DB and DCR members split. With a year's worth of data, the division will have a better idea of where to focus its efforts in order to retain the funds in the plans.

MS. RYAN inquired about how the survey was conducted. MS. LEA replied that Great-West sent out surveys by email to about 400 participants who were getting disbursements, and for whom they had email addresses. There were 117 responses, and Great-West did not track how many were DB participants or DCR participants. They have been asked to track that in the future. MS. LEA said she expected the survey would continue until April 2016 in order to collect a full year of data with responses split out between DB and DCR participants.

MS. RYAN asked if the division was considering using anything other than a survey monkey by email to address potential response bias problems. MS. LEA responded that email is being used because it does not cost anything. The division would have to look into the cost for postage to send the survey by mail. The division has also asked Great-West for more information surrounding how they are choosing people to survey and not just going by whether those people have an email address. Further, the division wants to know for how many of the participants this is the primary account or supplementary account, because those distinctions change the interpretation of the answers.

MS. LEA said DRB staff was asked to provide information on financial advice usage, and that was provided in a handout entitled "Defined Contribution Financial Advice Usage." The information was based on the fourth quarter report of activity, and DRB should be receiving the first quarter 2015 report soon. She spent a minute explaining the columns. She pointed out that only 30% of SBS participants have not made an election and have been placed in the default investment. When DRB queried Great-West on this, they were told that about 50% of the participants moved from the Alaska Balanced Trust to the Alaska Long-Term Balanced Trust. So they have moved their money once, but they moved it from one default to another. She noted that a large percentage of PERS and TRS DCR participants have left their money in the default investment.

MR. BOUCHER said he assumed the survey was at the ARMB's request. If there was concern that the survey was not hitting the mark, staff would take any feedback and try to improve the product.

MR. BADER remarked that the survey showed that people who were rolling over were sending this money to an IRA account because the IRA offered a more robust menu of investment options. At the same time, people did not want a brokerage account, which would have an infinite number of investments to choose from. He thought the people responding to the survey might have found the wording confusing, because those two groups should have been consistent in their responses.

MS. LEA said the survey was developed by Great-West, and the division had input. It is a survey that has been used by other plans, and the division added two specific questions (about the brokerage window/self-directed account option and about guaranteed income).

CHAIR TRIVETTE referred to page 3 of the executive summary in the Great-West report and remarked that numbering the plans by 01, 03, 04 and 05 did not mean anything to the committee members without a legend to identify what plans those are. He asked Ms. Lea to provide that to Ms. Hall or him so they could distribute it to the others, and to let Great-West know to identify the plans by name somehow.

MS. LEA explained that Plan 01 is the Deferred Compensation Plan, Plan 03 is Supplemental Benefit System, Plan 04 is the PERS defined contribution, and Plan 05 is the TRS defined contribution.

CHAIR TRIVETTE invited anyone with further questions or comments to let him know and he would forward them to DRB staff when things were quieter after the legislature adjourned.

MS. LEA said the division gets the report every quarter, so they could provide it to the committee quarterly or annually if the members found it useful.

CHAIR TRIVETTE stated that it appeared the amount of money going out through defined contribution plan disbursements was increasing every quarter.

MS. LEA said that was correct, which is why DRB started doing the survey, to see why the participants are disbursing their money. The division wants to work with Great-West on different campaigns to retain the money.

CHAIR TRIVETTE thanked DRB staff for all the information provided and remarked that it probably provoked a few more questions to follow up on at future meetings. He felt carrying on the survey for a full year would provide a good baseline of data.

G. Committee Charter

CHAIR TRIVETTE said it had been over a year since the Defined Contribution Plan Committee had reviewed its charter. He proposed a minor change in #2 under Committee Responsibilities and Duties to reflect that there is no longer a director of the division of retirement and benefits. He suggested replacing it with "staff of the division of retirement and benefits."

MR. WORLEY said there is a plan administrator which he thought was designated to the deputy commissioner of the Department of Administration. So the charter could substitute that title for "director."

With no disagreement, the committee agreed with the chair's recommendation to use "staff of the division of retirement and benefits."

MS. HALL confirmed that the full Board had to review and act upon the proposed change to the charter.

OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

There were no other matters.

PUBLIC/COMMITTEE MEMBER COMMENTS

There were no comments.

ADJOURNMENT

The meeting adjourned at 3:11p.m., on a motion made by MS. RYAN.

Note: The summary minutes are extracted from staff's recording of the meeting and are prepared by an outside contractor. The digital recording, as well as the documents reviewed and discussed, are on file at the ARMB office.

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