

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

**Hammond Room – Centennial Hall**  
**101 Egan Drive**  
**Juneau, Alaska**

**February 17, 2016**

**ATTENDANCE**

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

**Department of Revenue Staff Present:**  
Gary Bader (chief investment officer)  
Pamela Leary (director, Treasury Division)  
Bob Mitchell (deputy chief 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)  
Roberto Aceveda (benefit and education counseling manager, DRB)

**Others Present:** Kris Erchinger (ARMB trustee)  
Joy Wilkinson (Office of Management & Budget)

**CALL TO ORDER**

CHAIR SAM TRIVETTE called the meeting to order at 9:30 a.m.

**ROLL CALL**

All four 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**

MR. BRICE moved to approve the agenda. MS. RYAN seconded.

MS. RYAN asked to add a discussion about this committee meeting regularly twice a year and putting the dates on the meeting calendar. CHAIR TRIVETTE made it Item D. The agenda, as amended, was approved.

## **APPROVAL OF MINUTES – September 23, 2015**

MR. BRICE moved to approve the minutes of the September 23, 2015 meeting. MS. RYAN seconded. Without objection, the minutes were approved as written.

## **PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES**

MS. HALL reported that the committee had not received any communications. No one present or on line indicated they wished to address the committee.

## **REPORTS**

### **A. Updates:**

#### **Update on Empower Surveys & DRB/Empower Education Outreach**

*[Slides of the Empower Distribution Survey Response Summary, and draft education material for plan members, are on file at the ARMB office.]*

Chief pension officer in the Department of Administration, Division of Retirement and Benefits, KATHY LEA, introduced Roberto Aceveda, the division's benefit and education counseling manager. Mr. Aceveda is responsible for all the seminars and individual counseling sessions, as well as the outreach to both employers and employees.

MS. LEA gave an update on the results of the latest survey over two months, shown in a spreadsheet format. Returns on the survey are still very small, so she asked whether the committee wished to see the results this often or wait for six-month or 12-month results.

CHAIR TRIVETTE remarked that there were only 19 DCR plan respondents, so he proposed looking at the results once a year, depending on what other committee members want.

MS. RYAN asked how many DCR plan participants had left the plan in that period, and what percentage the 19 survey respondents were of that total. MS. LEA said she asked the recordkeeper, Empower Retirement (formerly Great-West), that question but did not have the answer yet.

MS. RYAN added that she thought how frequently the committee looks at the survey results would be contingent upon the next discussion about incentives or mandatory completion of the survey.

MS. LEA reported that DRB is asking Empower for two follow-up questions to the survey question about why a participant is leaving the plan, where the responses are inflexibility of

the plan options or better perks with the new vendor. The follow-up questions would find out what the participants are talking about. DRB is also investigating ways to improve the response to the survey. They have contacted Empower about attaching the survey to the disbursement form, and they are also going to investigate ways to compel completion of the form in order to get more responses. The latter requires an inquiry to the Department of Law.

CHAIR TRIVETTE remarked that because there has been the same recordkeeper since the defined contribution plan was put in place in 2006, it ought to be fairly easy to get the information about distributions from the plan.

COMMISSIONER FISHER said that if the division and this committee want to see plan distribution survey results on a six-month rolling basis, on a 12-month rolling basis, or since inception, he believed they could get whatever information that Empower has. The issue is the relative low response rate to the survey today. The department and division staff will be working with the Department of Law on whether it is possible to make the survey response mandatory, so that plan participants have to complete the survey in order to withdraw money from the plan.

CHAIR TRIVETTE recommended setting aside any decision on a time frame for seeing the survey responses while the Department of Administration finds out if it can make it mandatory to complete the distribution survey.

MS. LEA next reported on the education for the new defined contribution plan members. The pension portion has been mostly in the form of Mr. Aceveda working with employers to encourage attendance of new DCR employees at the PERS and TRS informational seminars. There has been some success with that effort during the travel season. However, due to the current state travel restrictions, the counselors are not traveling. The division is exploring other ways to deliver that education to members. There are plans to put some seminars online. Empower worked with the division on a new employee orientation video for DCR members that will go on Empower Retirement's web site live on April 1. Empower worked with the division staff so that all aspects of the DCR plan are represented in that video, both the defined contribution side and the defined benefit side.

MS. RYAN asked about working with the labor organizations; for example, NEA (National Education Association) offers financial seminars for their members, which could dovetail nicely with the State's efforts. A person could tie into the webinar during one of those financial seminars.

MS. LEA said that was something the division could explore. The Empower staff is still traveling during this time, so they are doing the financial education seminars that are specific to the DCR plans. They have quite a heavy schedule for the next few months.

CHAIR TRIVETTE remarked that sometimes teachers might be more willing to pay attention if NEA is offering something, and the State's education is tied into it. He added that Empower is still new to most people in the State of Alaska.

MS. LEA said the division would welcome working with the NEA, because one of the problems the state has in presenting information to teachers is that there is very low turnout if it is done in the evenings or weekends, but they are not allowed to be in the schools and have the teachers come out of the classrooms. Teachers present a unique challenge to DRB, so if they could work with NEA on that in order to get better attendance, that would be wonderful.

MR. BRICE asked if public employees have to fill out leave slips to attend education during the workday. MS. LEA said that at least State of Alaska employees are not supposed to have to fill out a leave slip to attend.

COMMISSIONER FISHER said he assumed the statement about whether public employees have to do a leave slip was probably employer specific. MS. LEA confirmed that, saying that most employers allow work release time to attend the seminars.

Continuing with the report on education, MS. LEA addressed the division's work on the retention of assets. The Managed Account "free look" from October 1 to December 31, 2015 provided members with an opportunity to enroll in the managed accounts for free. (Managed Account is done by Advised Assets, a subsidiary of Great-West.) One hundred ninety-one employees signed up for the "free look," and at the end of December 4, four continued to use the service. While 147 members tried the service and discontinued it, 191 members did receive more financial education than they would have gotten otherwise, because that was part of the package. Of note is that financial markets did not do well during that time.

For the asset retention campaign, MS. LEA said the first part was a "Stay In the Plan" article in the fourth quarter newsletter. Coming up, the "Stay In the Plan" banner will appear on the Empower web site on March 2. The meeting packet contained a copy of the new information flyers. A postcard will be mailed to members who are over 50 and have at least \$5,000 in their account, if they do not have an email address (about 8,300 people). The target group for either the email version or the postcard is about 19,000 people. The postcard and email talk not only about staying in the plan, but invite members to specific seminars that Empower is holding between now and the end of May. There are 21 "Stay In the Plan" seminars that are scheduled for Anchorage, Juneau and Fairbanks, and seven teleconference seminars to reach the outlying areas of the state. A new flyer will also go out that contains graphs showing the different fees for outside asset management compared to fees in the plan.

MS. LEA handed out the updated fees and expenses disclosure for recordkeeping, administrative services, and fund management. She said it is designed for an employee to take with them when they are talking to a private sector broker or investment advisor so that they can compare what they are going to pay. She said the division often hears members say they are not paying any fees with outside investments, and they are not aware of how they are paying somewhere in the process.

MS. RYAN asked if any research had been done on sending the postcard to everyone in the target group, instead of some members just getting an email that they might ignore or click to trash.

MS. LEA said that they learned during the open enrollment period for voluntary benefits (life insurance and disability benefits) last October that many state employees, at least, have directed the emails to the trash. Once they do that, the mechanism “gov delivery” will no longer deliver to them. So the “Stay In the Plan” email will come directly from Empower, in order to bypass the members trashing the messages right off the bat. She added that it is costly to send out the postcards, which is why the division is only sending it to the people who do not have an email address on file. That small group is costing nearly \$6,000.

MR. BRICE encouraged DRB to incorporate at least the bigger bargaining units on the education effort. He thought the division would find them very receptive, in terms of getting the information out in newsletters, etc.

CHAIR TRIVETTE suggested that DRB try to get on the agenda for the annual APA meeting in Anchorage in March to inform the union leaders of how low utilization has been and how few people are attending the seminars. It is for their members’ benefit, and the time to get them engaged is when they are young.

MS. LEA presented the projects update:

- (1) A meeting scheduled with Empower next month to talk about the logistics of bringing the Roth In-Plan Conversion online on July 1, 2016, and also the logistics of the active choice enrollment for the Deferred Compensation Plan. Many plans have found an uptick in enrollment by using this method.
- (2) The goal to expand the Deferred Compensation Plan to political subdivisions for 2017 is on track.
- (3) Reprogramming of the employer reporting tool is going along well and should be ready for testing by September. It will have the ability to accept a Deferred Comp election and report to DRB, so DRB can do consolidated reporting to Empower Retirement.
- (4) There is an employer education conference tentatively scheduled for October 2016. Education will be on the Deferred Compensation Plan, and participation agreements will be available for employers if they want to enroll.
- (5) The newsletters are being overhauled with a new look and feel. The division has requested that Empower change the reading comprehension level to an eighth grade level because many of the plan participants have stated that they do not understand what Empower is trying to communicate in the newsletter. That is the most important part of that change.
- (6) It was discussed at the last meeting about investigating the Empower distribution counseling service. If the State signed up for this service, Empower would talk to participants who are taking cash distributions or doing rollovers, including explaining fees and all the options available to them in the plan. Empower states that they have a 70% success rate in keeping assets in the plan. The one down-side is that at the very end of what Empower does they refer a person who is taking a cash distribution to a Great-

West IRA. That has caused some concerns, both with the Administration and with the Alaska Retirement Management Board. DRB did some research for any guidance that governs this and found that the Financial Industry Regulatory Authority does provide some rather strict guidance to this. There are also some SEC (Securities & Exchange Commission) rules. DRB will be providing reports for those and an executive summary to the DC Plan Committee next month. One of the recommendations the division wants to make is that if the Callan best practices review is approved, that a review of the Empower distribution counseling service be included, in order to get an independent examination of this service and a recommendation of whether to engage Empower to do this.

- (7) DRB has been supplying the Empower quarterly activity report in full for the last three meetings. MS. LEA asked if the committee was getting some value from the report in this form or wished to get an executive summary of its contents.

CHAIR TRIVETTE said he preferred to get the report semi-annually, but having an executive summary would be good.

MS. RYAN asked a couple of questions on reading the data in the Empower quarterly activity report.

CHAIR TRIVETTE asked that the Empower report include the plan names in the headings, instead of just referring to the plans by plan number. Another suggestion was that the asset class "Lifetime" could indicate that those are the Target Date Funds, because it is not immediately apparent to the reader. A page of terms at the beginning of the report might also be helpful so that lay people can interpret the information more easily.

MS. LEA said she would convey those comments to Empower Retirement.

COMMISSIONER FISHER observed that the quarterly report includes a lot of data but not a lot of information that is relevant. He said he imagined that, after getting the Callan analysis that will help the committee better understand its duties and responsibilities, the committee should look at the collection of reports it gets to determine what is needed to fulfill its responsibilities.

MS. RYAN and COMMISSIONER FISHER indicated they were fine with getting the Empower quarterly activity report every six months for the time being.

MS. RYAN referred to the chart of quarterly contribution history by plan on page 14 of the Empower report and asked why contributions were noticeably higher in the June quarter. She would expect contributions to be fairly consistent if contributions were made regularly.

KEVIN WORLEY, chief financial officer in the Division of Retirement & Benefits, explained that some of the bump up is from the Teachers' Retirement System members getting contributions from three paychecks in June.

### **Health Reimbursement Arrangement Accounts – Participant Balances**

MR. WORLEY reported that this project came at a very busy time, as the division has been working on financial statements. Now, three accountants and two payroll staff are devoted to the Health Reimbursement Arrangement (HRA) account balances, as well as a contract programmer working on the project. They are looking at almost ten years of account history, pretty much by employee. He said the commissioner and deputy commissioner have made it clear that this project is a high priority. The division is aware that one defined contribution plan member is eligible for retirement in May 2016. He will have a much better update at the April meeting.

CHAIR TRIVETTE remarked that in a few months some employees will have been in the DCR plan for ten years. He was particularly interested in the HRA account balances of employees with five or more years in the plan.

### **B. Callan Associates Inc. Proposal: Defined Contribution Fiduciary Best Practice**

Chief investment officer, GARY BADER, stated that in 2005, when the legislature adopted SB141, it was not without a great deal of internal struggling. There were several pre-conference committees convened before a bill passed the legislature. Staff at the Division of Retirement & Benefits and Revenue Department staff were confronted with putting a defined contribution plan into place in fairly short order. Because there was already what they thought was a good menu of defined contribution options, that was adopted as the basis of the defined contribution retirement options, with some minor modifications related to stable value funds. Staff believed it was a good plan, and they believe it is a good plan now. However, it has been ten years and warrants a review by an outsider to pose other potential ideas, such as an investment policy statement for the plan.

MR. BADER said that Lori Lucas of Callan Associates Inc. addressed the committee at the September meeting. The committee asked Ms. Lucas what she would propose looking at if the committee were to engage in a review. He referred to Callan's October 16, 2015 letter in response to that question (*included in the meeting packet and on file at the ARMB office*). Ms. Lucas laid out priorities for the committee in the letter.

MR. BADER said Revenue staff conferred with Commissioner Fisher and staff at the Department of Administration and ultimately concluded that it would be a good idea to look at all of the items listed in the Callan letter, provided that an agreement could be reached on the terms for reviewing the defined contribution plans. He said Mr. Carson would likely be the primary source to negotiate this contract with Callan. There has been some concern about how this would be paid for: he conferred with Ms. Leary, and there is money in the ARMB budget to pay for whatever contract is ultimately agreed upon.

MR. BADER presented staff's recommendation to go forward in engaging Callan in discussions to contract to have the work proposed in the October 16, 2015 letter done, subject to reaching successful terms of the contract. He added that Ms. Lea's recommendation earlier would be part of the work as well (a review of the Empower Retirement distribution counseling service, and a recommendation of whether to engage that service).

**Action: Recommendation to Board**

COMMISSIONER FISHER moved that the Defined Contribution Plan Committee recommend that the Alaska Retirement Management Board direct staff to engage Callan for services as proposed in the memo from Callan Associates dated October 16, 2015. Engaging Callan is subject to successful fee negotiations. MS. RYAN seconded.

The motion passed unanimously, 3-0, on a roll call vote, with Fisher, Ryan and Trivette present.

CHAIR TRIVETTE mentioned that he was on the Board when the investment options for the defined contribution plans were discussed and selected in the 2005-2006 timeframe. He thought the Board did a good job and that it still held today, but it has been ten years and time to get an objective look at everything. He expected there would be recommended changes, and that was fine. His whole work history has been to make sure that the ARMB is doing things the best that it possibly can, and he wanted to be in the top five percent across the country.

MS. RYAN said that her concern, in looking at investment options for the plan members, is that maybe the plate is overfilled with potential options. She asked if priority #5 in Callan's letter was where they would look at what is actually on the plate and see if some things could be shifted so that there is not so much there. Speaking as an educator, they like to add things to their plate, but they are not very comfortable taking things off the plate. She believes there is a time for that.

MR. BADER said he expected that would be part of the recommendation. The general view he hears from people who talk about defined contribution plans – and Shlomo Benartzi, who was one of the speakers at the education conference is viewed nationally as an expert in this area – is that too many options confuse people, and what they ultimately end up doing is taking one of these, one of these, and one of these and believing they have it all covered, which may not be a coherent plan. On the other side of it, it is a balancing act. He expected that Callan would opine, to some degree, on that.

**C. Brokerage Window Investment Option**

MR. BADER indicated there was a very good write-up on the brokerage window investment option in the meeting packet (*the article by Callan Associates is on file at the ARMB office*).

He said many people look at defined contribution plans as a three-tiered approach. One tier is the “do-it-for-me” options, and Alaska's DCR plans have that tier: the Managed Accounts where people can engage the expert advice through Empower Retirement, or selecting the Target Date Funds that correspond to their anticipated date of retirement. The “do-it-myself” approach is selecting from the menu of investment options that the ARMB has made available to plan participants. Those investment options cover many asset classes, but there are people who feel that is not enough and they want to be able to invest in others assets, like gold. That request has come before the Board in the past, depending on the price of gold. Then tier 3 is specialty



options, one of which might be described as a self-directed brokerage option. A self-directed brokerage option can take many forms, and this committee and the ARMB have not thoroughly explored that yet. It could be making a particular brokerage house's mutual funds slate available for DCR participants to select from. Or a specialty option could go all the way and allow investments in anything that is traded on an exchange or over the counter, through what is called a brokerage window or self-directed investment account.

MR. BADER reported that Callan did a survey and found, in terms of using the self-directed brokerage accounts, "...that adoption by plan sponsors is far more frequent than it was several years ago, that larger plan sponsors tend to offer these options to their employees." In those large plans, the people who select these specialty options tend to have higher levels of education. Smaller plans generally have a lower percentage of brokerage windows within the plan. He said Alaska probably qualifies as a large plan, which is why the topic is being discussed today.

MR. BADER said fees are something the committee should know about a brokerage window. Callan's research found that account maintenance ranged from zero to \$100 annually, but he was not clear if that was equivalent to Alaska plans' administrative fee or if it was a fee over and above that type of expense. For many brokerage houses, there is an annual fee for an IRA account. A person who uses a brokerage window would have the option of doing it online, and the fee structure for trades, according to Callan's report, seems pretty attractive. In a brokerage window a user also can do online mutual fund transactions; there is a fee for some accounts, but other accounts charge nothing for purchases (although an expense fee is embedded in the returns of the fund).

MR. BADER posed the question of the legal climate on offering a brokerage window investment option to plan participants. At one time, the U.S. Department of Labor had said the employer may have discharged its responsibility, and as long as there was a good plan in place the employer would not be looking at the investments that a person makes. Later on, DOL seemed to equivocate in terms of an advisory. He thought there was always a risk if something like a brokerage window option is put into place, and the climate changes, in terms of what the employer's responsibilities are for monitoring the investments.

MR. BADER mentioned that Callan found that the typical person using this investment option was male, was older than the average plan participant, contributed higher amounts to the plan if they could, and invested a very high percentage of their deferrals into the brokerage window.

MR. BADER stated that Callan summarized the pros and cons of having a self-directed brokerage account option. On the positive side, it adds flexibility to the defined contribution plans, it meets the needs of more investment savvy investors in the plan, and it may enhance the participant experience without adding additional monitoring responsibilities to the plan sponsor. The challenges are that the brokerage window investment option could go unused or facilitate poor investment habits by plan participants, that it involves additional cost to plan participants, and it may become the focus of the U.S. Department of Labor. The DOL does not monitor public plans, but Alaska has always used the Department of Labor standards as a good benchmark upon

which to judge whether the Alaska plans are doing a good job for people or not. He said it is still an open question whether or not a brokerage window is beneficial.

MR. BADER drew attention to page 8 of the Callan article, which included a graphic of the prevalence of funds in defined contribution plans, and the average allocation by plan participants if that option is offered. Target Date Funds are the most popular investment options in defined contribution plans. They are becoming more and more the selection of the plan sponsors to be the default option, which is the case in the Alaska defined contribution plans. Large cap investments are popular. Stable value is still a very popular option, despite the low yield in the current environment, because people do not expect to see losses there – they much more prefer avoiding a loss than they prefer seeing a gain. The use of the brokerage window option falls, surprisingly, ahead of people who select non-US equities. In Callan’s graph, 7% of participants used the brokerage window, and Callan points out in their article that not too many people use it.

MR. BADER stated that, having delivered an informational report to the committee, he thought that staff should do additional investigation of the brokerage window option. Staff was not ready to make a recommendation to the committee about going forward with it at this time.

CHAIR TRIVETTE referred to the first paragraph on page 6 of the Callan report and said he was curious if Callan could give information of how other defined contribution public plans fit into the picture. He added that if this proceeds further, a request for information (RFI) might be a way to look at this.

MR. BADER responded that it could be part of the question framed to Callan when they do the review of the defined contribution plans.

#### **D. Committee Schedule**

MS. RYAN said her suggestion was for this committee to hold regular meetings twice a year. September and February seemed to be the times when the committee had items to discuss, and she wanted the meetings to be on the ARMB meeting calendar.

CHAIR TRIVETTE commented that February meetings are held in Juneau, which is convenient for Division of Retirement & Benefit staff making their reports because they do not have to travel.

COMMISSIONER FISHER said that when the governor announced the travel restriction he invited all the boards and commissions to try and limit the amount of travel and in-person meetings. He asked if the ARMB was going to have that conversation, or if it related to this conversation.

MR. BADER indicated there would be some discussion of that as it relates to Board meetings. He said that Commissioner Hoffbeck communicated with the Governor’s Office, as did the Alaska Permanent Fund Corporation jointly, that board meetings are more effective face-to-face. The current plan related to board meetings is that they should be held face-to-face, which is not

saying where the meetings would be held or talking about staff and who attends. He understood that the Governor's Office had signed off on that.

### **OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE**

MR. BADER stated that he has been around the retirement systems about 25 years, and he really appreciated the report that Kathy Lea did today and the direction of things in the defined contribution plans. The Alaska defined contribution plans have been in existence for 10 years, and people have been trying to repeal them for 10 years. He has not heard any talk about that in the current legislative session. People are starting to approach retirement age in these plans. A couple of weaknesses of defined contribution plans that have been pointed out are that they do not successfully address mortality, that is, what if you outlive your money? Secondly, the plans do not give people the same peace of mind that comes from knowing the monthly income they can receive in retirement. He has asked Ms. Hall to join him in looking at ways that these issues might be addressed. They have also had this discussion with Ms. Lea. They are embarking on looking at some options that may fit within the DCR plan. There are some products that have been presented in the past to the committee and the board, which, at the time they were presented, appeared to be too expensive. Everyone would like certainty, but how much do you pay for it? As defined contribution plans go, the environment is far more competitive now than it was in the past. Some of the vendors are now offering products for defined contribution plan members that may fit within the needs of Alaska's plans. He hoped to have a report ready for the next regularly scheduled committee meeting.

CHAIR TRIVETTE thanked everyone for the work they are doing on the defined contribution plans.

### **PUBLIC/COMMITTEE MEMBER COMMENTS**

There were no comments.

### **ADJOURNMENT**

The meeting adjourned at 10:45 a.m., on a motion made by Commissioner Fisher and seconded by Ms. Ryan.

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

Confidential Office Services  
Karen Pearce Brown